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November 23, 2015

Jeff Derouen
Executive Director
Public Service Commission
211 Sower Blvd.
Frankfort, KY 40601

Re: Atmos Energy Corporation
Case No. 2015-00343

Dear Mr. Derouen:

Atmos Energy Corporation submits its petition for adjustment of rates. I certify that the electronic documents are true and correct copies of the original documents.

If you have any questions about this filing, please contact me.

Submitted By:

Mark R. Hutchinson
Wilson, Hutchinson and Littlepage
611 Frederica St.
Owensboro, KY 42301
270 926 5011
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And

John N Hughes

John N. Hughes
124 West Todd St.
Frankfort, KY 40601
502 227 7270
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Attorneys for Atmos Energy Corporation

PETITION

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF:

Application of Atmos Energy Corporation)
for an Adjustment of Rates) Case No. 2015-0343
and Tariff Modifications)

APPLICATION FOR AN ADJUSTMENT OF RATES AND TARIFF MODIFICATIONS

1. Atmos Energy Corporation ("Atmos Energy"), by counsel, pursuant to KRS 278.180, KRS 278.190, 807 KAR 5:001(14) and (16) and 807 KAR 5:011 submits the attached revised tariffs and proposes that certain gas rates and revised tariff provisions for its Kentucky Division become effective on December 23, 2015. This Application and the attached supporting exhibits contain the facts on which the relief being requested is based, a request for the relief sought and references to the particular provisions of law requiring or providing for the relief sought as specified in 807 KAR 5:001. Correspondence and communications with respect to this Application should be directed to:

Mark A. Martin,
Atmos Energy Corporation,
3275 Highland Pointe Drive,
Owensboro, Kentucky
(270) 685-8024 Ph
(270) 685-8052 fax
(Mark.Martin@atmosenergy.com)

Mark R. Hutchinson,
Wilson, Hutchinson & Littlepage,
611 Frederica Street,
Owensboro, Kentucky 42301

270 926 5011 Ph
(270) 926-9394 fax
(randy@whplawfirm.com)

And

John N. Hughes
124 W. Todd St.
Frankfort, KY 40601
(502) 227 7270 Ph
(jnhughes@johnnhughespsc.com)

2. Atmos Energy is a utility as defined by KRS 278.010 (3)(b) and is subject to the jurisdiction of the Public Service Commission ("Commission"), pursuant to KRS 278.040. Atmos Energy delivers natural gas to approximately three million residential, commercial, industrial and public-authority customers in eight states. It has six gas utility operating divisions. They are located in Denver, Colorado (Colorado Kansas Division); Baton Rouge, Louisiana (Louisiana division); Jackson, Mississippi (Mississippi Division); Lubbock, Texas (West Texas Division); Dallas, Texas (Mid-Tex Division); and Franklin, Tennessee (Kentucky/Mid-States Division).

3. The President of the Atmos Energy Kentucky/Mid-States Division is J. Kevin Akers. The Vice President – Rates and Regulatory Affairs for the Kentucky/Mid-States Division is Mark Martin. Atmos Energy's corporate office address is:

Atmos Energy Corporation
5430 LBJ Freeway
1800 Three Lincoln Centre
Dallas, TX 75240
P.O. Box 650205
Dallas, Texas 75265-0205
www.atmosenergy.com

Atmos Energy' s Kentucky/Mid-States Division office location is:

3275 Highland Pointe Dr.
Owensboro, KY 42303
270 685 8000 Ph.
(270) 689-2076 fax
(Mark.Martin@Atmosenergy.com)

4. Atmos Energy was initially incorporated in Texas on February 6, 1981 and in Virginia on July 21, 1997. Its articles of incorporation were filed in Case No. 2013-00148. Applicant attests that it is a foreign corporation in good standing to operate in Kentucky. Atmos Energy does not operate under an assumed name in Kentucky.

5. Atmos Energy serves approximately 174,700 customers in central and western Kentucky. The customer base includes residential, commercial and industrial customers. Residential class customers account for the vast majority of meters at approximately 155,400. Atmos Energy's natural gas deliveries totaled 48.6 Bcf during the 12-month period ending September, 2015.

6. Atmos Energy's Annual Reports including the 2014 report are on file with the Commission as required by 807 KAR 5:006§4(1 and 2).

7. Notice of Intent to file a rate application was delivered to the Executive Director and the Attorney General on October 19, 2015. A copy of that notice is filed as FR 16(2)(c) in Volume 3.

8. In this Application, Atmos Energy proposes rates that will result in an overall approximate increase in the amount of $3.3 million annually or 1.98% with increases of approximately $1,958,550 or 2.04% for residential consumers, and $721,544 or 1.53% for commercial and public authority consumers, and

approximately $606,115 or 2.76% for industrial and transportation consumers. Charges from other gas revenue will increase $21,437 or 1.11%. The average monthly bill for residential consumers will increase approximately $1.05 or 2.04%. The average monthly bill for commercial and public authority consumers will increase approximately $3.19 or 1.53%. The average monthly bill for industrial and transportation customers will increase approximately $121.71 or 2.76%. The actual increases by amount and percentage for each customer class are listed in the schedule attached as FR 17(4)(a)(b) and (c) in Volume 9.

9. Pursuant to KRS 278.192(1), this filing is based upon a fully forecasted test year using a base period of March 1, 2015 through February, 29, 2016 and a forecasted period of June 1, 2016 through May 31, 2017. As required by KRS 278.192(2), within 45 days after the end of base period, the actual results for the estimated months will be filed.

10. The reasons for the proposed rate adjustment are declining return on equity and inadequate revenue to continue to provide the quality of service required by the Commission and demanded by our customers. Revised rates are necessary to allow Atmos Energy the opportunity to recover its reasonable operating costs and to earn a reasonable return on its investment. The rate increase is needed to provide sufficient revenue for Atmos Energy to maintain its facilities and provide the level of service mandated by the Commission and the public. This revenue is also necessary for the attraction of additional capital. The existing rates are inadequate for these purposes and thus fail to meet the fair, just and reasonable standard. A more detailed explanation of the need for the rate adjustment is provided in the testimony filed as FR 16(7)(a), Volumes 1, 2 and 3.

11. In addition to the adjustment of distribution rates, Atmos Energy is proposing certain rate design features which remove avoidable uncertainties for customers, shareholders and regulators inherent to our traditional rate structures. Atmos Energy's tariff and rate design proposals are as follows:

1) Maintain the general balance of fixed and variable elements in our distribution rates to reflect the underlying cost characteristics of our service; and better align the interests of the Company and customers.
2) Update the Company's Research & Development Rider (R&D) unit charge.
3) Update the time period used to weather normalize revenues and with the Company's Weather Normalization Adjustment (WNA) Rider.
4) Incorporate certain revisions into our transportation tariffs.
5) Update the term period for Economic Development Rider (EDR) contracts.

12. Atmos Energy is providing notice of this filing to its customers and interested parties by publication in newspapers of general circulation and posting in each of Atmos Energy local offices for public inspection as well as posting on its website. A copy of the notice is in contained in FR 17 (1)(a-c) Volume 9.

13. Atmos Energy requests that the Commission allow the proposed rate changes to take effect without delay.

14. Atmos Energy also requests a deviation pursuant to 807 KAR 5:006(22) from any rule, regulation or other requirement that might otherwise delay or impede the review and approval of this Application.

15. All filing requirements (FR) of 807 KAR 5:001 are listed in the table attached to this application.

16. Based on the information provided and in compliance with all filing requirements of KRS Chapter 278 and 807 KAR 5:001, Atmos Energy requests that the Commission issue an order approving the proposed rates and the proposed tariff revisions and granting all other appropriate relief.

Submitted by:

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Attorneys for Atmos Energy Corporation

CERTIFICATE

In accordance with the requirements of 807 KAR 5:001, I certify that this electronic filing is a true and accurate copy of the documents to be filed in paper medium; that the electronic filing has been transmitted to the Commission on November 23, 2015; that an original of the filing will be delivered to the Commission within two days of November 23, 2015; and that no party has been excused from participation by electronic means.

John N Hughes

Law/Regulation	Filing Requirement	Witness	Volume No.
Section 16(7)(a)	Prepared testimony of each witness supporting its application including testimony from chief officer in charge of Kentucky operations on the existing programs to achieve improvements in efficiency and productivity, including an explanation of the purpose of the program;	Martin, McDonald Raab, Schneider, Smith, Vander Weide, Waller, Watson	1, 2, 3
Section 14(2)	If a corporation, identify the state that applicant is incorporated, attest that it is currently in good standing in the state it is organized and if not a Kentucky corporation attest that it is authorized to do business in Kentucky.	Martin	3
Section 16(1)(b)(1)	A statement of the reason the adjustment is required.	Martin	3
Section 16(1)(b)(2)	A certified copy of a certificate of assumed name as required by KRS 365.015 or a statement that such a certificate is not necessary.	Martin	3
Section 16(1)(b)(3)	The proposed tariff in form complying with 807 KAR 5:011 with an effective date not less than thirty (30) days from the date the application is filed.	Martin	3
Section 16(1)(b)(4)	Proposed tariff changes shown either by providing present and proposed tariffs in comparative form or indicating additions by italicized inserts or underscoring and striking over deletions in a copy of the current tariff.	Martin	3
Section 16(1)(b)(5)	A statement that customer notice has been given in compliance with Section 17 with a copy of the notice.	Martin	3
Section 16(2)(a)-(c)	Notice of intent. A utility with gross annual revenues greater than $5,000,000 shall notify the commission in writing of intent to file a rate application at least thirty (30) days, but not more than sixty (60) days, prior to filing its application. (a) The notice of intent shall state if the rate application will be supported by a historical test period or a fully forecasted test period. (b) Upon filing the notice of intent, an application may be made to the commission for permission to use an abbreviated form of newspaper notice of proposed rate increases provided the notice includes a coupon that may be used to obtain a copy from the applicant of the full schedule of increases or rate changes. (c) The applicant shall also transmit by electronic mail a copy of the notice in a portable document format to the Attorney General's Office of Rate Intervention at rateintervention@ag.ky.gov.	Martin	3
Section 16(6)(a)	Financial data for forecasted period presented as pro forma adjustments to base period.	Waller	3
Section 16(6)(b)	Forecasted adjustments shall be limited to the 12 months immediately following the suspension period.	Waller	3
Section 16(6)(c)	Capitalization and net investment rate base shall be based on a 13 month average for the forecasted period.	Waller	3
Section 16(6)(f)	The utility shall provide a reconciliation of the rate base and capital used to determine its revenue requirements.	Waller	3
Section 16(7)(b)	Most recent capital construction budget containing at minimum 3 year forecast of construction expenditures	Waller	3
Section 16(7)(c)	Complete description, which may be in pre-filed testimony form, of all factors used to prepare forecast period. All econometric models, variables, assumptions, escalation factors, contingency provisions, and changes in activity	Smith, Waller	3

Law/Regulation	Filing Requirement	Witness	Volume No.
	levels shall be quantified, explained, and properly supported;		
Section 10(7)(d)	Annual and monthly budget for the 12 months preceding filing date, base period and forecasted period;	Waller	3
Section 16(7)(e)	Attestation signed by utility's chief officer in charge of Kentucky operations providing: 1. That forecast is reasonable, reliable, made in good faith and that all basic assumptions used have been identified and justified; and 2. That forecast contains same assumptions and methodologies used in forecast prepared for use by management, or an identification and explanation for any differences; and 3. That productivity and efficiency gains are included in the forecast;	Martin	3
Section 16(7)(f)	For each major construction project constituting 5% or more of annual construction budget within 3 year forecast, following information shall be filed: 1. Date project began or estimated starting date; 2. Estimated completion date; 3. Total estimated cost of construction by year exclusive and inclusive of Allowance for Funds Used During Construction ("AFUDC") or Interest During Construction Credit; and 4. Most recent available total costs incurred exclusive and inclusive of AFUDC or Interest During Construction Credit;	Waller	3
Section 16(7)(g)	For all construction projects constituting less than 5% of annual construction budget within 3 year forecast, file aggregate of information requested in paragraph (f) 3 and 4 of this subsection;	Waller	3
Section 16(7)(h)	Financial forecast for each of 3 forecasted years included in capital construction budget supported by underlying assumptions made in projecting results of operations and including the following information:		
	1. Operating income statement (exclusive of dividends per share or earnings per share);	Smith, Waller	3
	2. Balance sheet;	Waller	3
	3. Statement of cash flows;	Waller	3
	4. Revenue requirements necessary to support the forecasted rate of return;	Waller	3
	5. Load forecast including energy and demand (electric);	N/A	3
	6. Access line forecast (telephone);	N/A	3
	7. Mix of generation (electric);	N/A	3
	8. Mix of gas supply (gas);	Smith	3
	9. Employee level;	Waller	3
	10. Labor cost changes;	Waller	3
	11. Capital structure requirements;	Waller	3
	12. Rate base;	Waller	3
	13. Gallons of water projected to be sold (water);	N/A	3
	14. Customer forecast (gas, water);	Smith	3
	15. MCF sales forecasts (gas);	Smith	3
	16. Toll and access forecast of number of calls and number of minutes (telephone); and	N/A	3
	17. A detailed explanation of other information	N/A	3

Law/Regulation	Filing Requirement	Witness	Volume No.
	provided, if applicable;		
Section 16(7)(i)	Most recent FERC or FCC audit reports;	Waller	3
Section 16(7)(j)	Prospectuses of most recent stock or bond offerings;	Waller	4
Section 16(7)(k)	Most recent FERC Form 1 (electric), FERC Form 2 (gas), or the Automated Reporting Management Information System Report (telephone) and PSC Form T (telephone);	Schneider	4
Section 16(7)(l)	The annual report to shareholders or members and the statistical supplements covering the most recent two (2) years from the application filing date;	Schneider	4
Section 16(7)(m)	Current chart of accounts if more detailed than Uniform System of Accounts chart;	Schneider	5
Section 16(7)(n)	Latest 12 months of the monthly managerial reports providing financial results of operations in comparison to forecast;	Waller	5
Section 16(7)(o)	Complete monthly budget variance reports, with narrative explanations, for the 12 months prior to base period, each month of base period, and subsequent months, as available;	Waller	6
Section 16(7)(p)	SEC's annual report for most recent 2 years, Form 10-Ks and any Form 8-Ks issued during prior 2 years and any Form 10-Qs issued during past 6 quarters;	Schneider	6, 7, 8
Section 16(7)(q)	Independent auditor's annual opinion report, with any written communication which indicates the existence of a material weakness in internal controls;	Schneider	8
Section 16(7)(r)	Quarterly reports to the stockholders for the most recent 5 quarters;	Schneider	8
Section 16(7)(s)	Summary of latest depreciation study with schedules itemized by major plant accounts, except that telecommunications utilities adopting PSC's average depreciation rates shall identify current and base period depreciation rates used by major plant accounts. If information has been filed in another PSC case, refer to that case's number and style;	Watson	8
Section 16(7)(t)	List all commercial or in-house computer software, programs, and models used to develop schedules and work papers associated with application. Include each software, program, or model; its use; identify the supplier of each; briefly describe software, program, or model; specifications for computer hardware and operating system required to run program	Waller	8
Section 16(7)(u)	If the utility had any amounts charged or allocated to it by an affiliate or general or home office or paid any monies to an affiliate or general or home office during the base period or during the previous three (3) calendar years, the utility shall file: 1. Detailed description of method of calculation and amounts allocated or charged to utility by affiliate or general or home office for each allocation or payment; 2. Method and amounts allocated during base period and method and estimated amounts to be allocated during forecasted test period; 3. Explain how allocator for both base and forecasted test period was determined; and 4. All facts relied upon, including other regulatory approval, to demonstrate that each amount charged, allocated or paid during base period is reasonable.	Schneider	8

Law/Regulation	Filing Requirement	Witness	Volume No.
Section 16(7)(v)	If gas, electric or water utility with annual gross revenues greater than $5,000,000, cost of service study based on methodology generally accepted in industry and based on current and reliable data from single time period;	Raab	8
Section 16(7)(w)	Incumbent local exchange carriers with fewer than 50,000 access lines shall not be required to file cost of service studies, except as specifically directed by the commission. Local exchange carriers with more than 50,000 access lines shall file: 1. A jurisdictional separations study consistent with 47 C.F.R. Part 36; and 2. Service specific cost studies to support the pricing of all services that generate annual revenue greater than $1,000,000 except local exchange access: a. Based on current and reliable data from a single time period; and b. Using generally recognized fully allocated, embedded, or incremental cost principles.	N/A	8
Section 16(8)(a)	Jurisdictional financial summary for both base and forecasted periods detailing how utility derived amount of requested revenue increase;	Waller	8
Section 16(8)(b)	Jurisdictional rate base summary for both base and forecasted periods with supporting schedules which include detailed analyses of each component of the rate base;	Waller	9
Section 16(8)(c)	Jurisdictional operating income summary for both base and forecasted periods with supporting schedules which provide breakdowns by major account group and by individual account;	Smith, Waller	9
Section 16(8)(d)	Summary of jurisdictional adjustments to operating income by major account with supporting schedules for individual adjustments and jurisdictional factors;	Smith, Waller	9
Section 16(8)(e)	Jurisdictional federal and state income tax summary for both base and forecasted periods with all supporting schedules of the various components of jurisdictional income taxes;	Waller	9
Section 16(8)(f)	Summary schedules for both base and forecasted periods (utility may also provide summary segregating items it proposes to recover in rates) of organization membership dues; initiation fees; expenditures for country club; charitable contributions; marketing, sales, and advertising; professional services; civic and political activities; employee parties and outings; employee gifts; and rate cases;	Waller	9
Section 16(8)(g)	Analyses of payroll costs including schedules for wages and salaries, employees benefits, payroll taxes straight time and overtime hours, and executive compensation by title;	Waller	9
Section 16(8)(h)	Computation of gross revenue conversion factor for forecasted period;	Waller	9
Section 16(8)(i)	Comparative income statements (exclusive of dividends per share or earnings per share), revenue statistics and sales statistics for 5 calendar years prior to application filing date, base period, forecasted period, and 2 calendar years beyond forecast period;	Schneider, Smith, Waller	9

Law/Regulation	Filing Requirement	Witness	Volume No.
Section 16(8)(j)	Cost of capital summary for both base and forecasted periods with supporting schedules providing details on each component of the capital structure	Waller	9
Section 16(8)(k)	Comparative financial data and earnings measures for the 10 most recent calendar years, base period, and forecast period;	Schneider, Waller	9
Section 16(8)(l)	Narrative description and explanation of all proposed tariff changes;	Martin	9
Section 16(8)(m)	Revenue summary for both base and forecasted periods with supporting schedules which provide detailed billing analyses for all customer classes; and	Smith	9
Section 16(8)(n)	Typical bill comparison under present and proposed rates for all customer classes.	Martin	9
Section 16(10)	A request for waiver of provisions of these filing requirements shall establish the specific reasons for the request. The commission shall grant the request for waiver upon good cause shown by the utility. In determining if good cause has been shown, the commission shall consider: (a) If other information that the utility would provide if the waiver is granted is sufficient to allow the commission to effectively and efficiently review the rate application; (b) If the information that is the subject of the waiver request is normally maintained by the utility or reasonably available to it from the information that it maintains; and (c) The expense to the utility in providing the information that is the subject of the waiver request.	Martin	9
Section 17(1)(a)-(c)	Notice of General Rate Adjustment. Upon filing an application for a general rate adjustment, a utility shall provide notice as established in this section. (1) Public postings. (a) A utility shall post a sample copy of the required notification at its place of business no later than the date on which the application is filed. (b) A utility that maintains a public web site shall, within five (5) business days of filing an application, post a copy of the public notice as well as a hyperlink to its filed application on the commission's Web site. (c) The information required in paragraphs (a) and (b) of this subsection shall not be removed until the commission issues a final decision on the application.	Martin	9
Section 17(2)(b)(3)	Publish notice once a week for three (3) consecutive weeks in a prominent manner in a newspaper of general circulation in the utility's service area, the first publication to be made by the date the application is filed.	Martin	9
Section 17(3)(b)	If the notice is published, an affidavit from the publisher verifying the notice was published, including the dates of the publication with an attached copy of the published notice, shall be filed with the commission no later than forty-five (45) days of the filed date of the application.	Martin	9
Section 17(4)(a)-(j)	Notice Requirements. Each notice shall contain the following information: (a) The proposed effective date and the date the proposed rates are expected to be filed with the Commission;	Martin	9

Law/Regulation	Filing Requirement	Witness	Volume No.
	(b) The present rates and proposed rates for each customer class to which the proposed rates will apply; (c) The amount of the change requested in both dollar amounts and percentage change for customer classification to which the proposed rate change will apply; (d) The amount of the average usage and the effect upon the average bill for each customer class to which the proposed rate change will apply, except for local exchange companies, which shall include the effect upon the average bill for each customer class for the proposed rate change in basic local service; (e) A statement that a person may examine this application at the office of (utility name) located at (utility address); (f) A statement that a person may examine this application at the commission's offices located at 211 Sower Boulevard, Frankfort, Kentucky, Monday through Friday, 8:00 a.m. to 4:30 p.m., or through the commission's Web site at http://psc.ky.gov; (g) A statement that comments regarding this application may be submitted to the Public Service Commission through its Web site or my mail to Public Service Commission, Post Office Box 615, Frankfort, Kentucky 40602; (h) A statement that the rates contained in this notice are the rates proposed by (name of utility) but that the Public Service Commission may order rates to be charged that differ from the proposed rates contained in this notice; (i) A statement that a person may submit a timely written request for intervention to the Public Service Commission, Post Office Box 615, Frankfort, Kentucky 40602, establishing the grounds for the request including the status and interest of the party; and (j) A statement that if the commission does not receive a written request for intervention within thirty (30) days of the initial publication or mailing of the notice, the commission may take final action on the application.		

Commonwealth of Kentucky

County of Daviess

VERIFICATION

I, Mark Martin, after being duly sworn, state that I am Vice President of Rates & Regulatory Affairs of Kentucky/Mid-States, a division of Atmos Energy Corporation and that I am authorized to submit this application on behalf of the Company and that the information and statements contained in the Application are true of my own knowledge except as to those matters stated on information and belief, and as to those matters I believe them to be true.

Mark Martin

SUBSCRIBED, ACKNOWLEDGED AND SWORN to before me by

Mark Martin on this the 18 day of November, 2015

Notary Public # 462861

My Commission expires: March 19, 2016

FR 16(7)(a)

Case No. 2015-00343
Atmos Energy Corporation, Kentucky Division
Forecasted Test Period Filing Requirements
MFR FR 16(7)(a)
Page 1 of 1

REQUEST:

Section 16. Applications for General Adjustments of Existing Rates.

(7) Each application requesting a general adjustment in rates supported by a fully forecasted test period shall include the following or a statement explaining why the required information does not exist and is not applicable to the utility's application:

  (a) The written testimony of each witness the utility proposes to use to support its application, which shall include testimony from the utility's chief officer in charge of Kentucky operations on the existing programs to achieve improvements in efficiency and productivity, including an explanation of the purpose of the program;

RESPONSE:

Please see the Direct Testimony of witnesses Mark Martin, Pace McDonald, Paul Raab, Jason Schneider, Gary Smith, James Vander Weide, Greg Waller and Dane Watson.

Respondents: Mark Martin, Pace McDonald, Paul Raab, Jason Schneider, Gary Smith, James Vander Weide, Greg Waller and Dane Watson

TESTIMONY

MARTIN, M. A.

BEFORE THE PUBLIC SERVICE COMMISSION

COMMONWEALTH OF KENTUCKY

APPLICATION OF ATMOS ENERGY)
)
CORPORATION FOR AN ADJUSTMENT) Case No. 2015-00343
)
OF RATES AND TARIFF MODIFICATIONS)

TESTIMONY OF MARK A. MARTIN

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME, POSITION AND BUSINESS ADDRESS.

A. My name is Mark A. Martin. I am Vice President – Rates and Regulatory Affairs for the Kentucky/Mid-States Division of Atmos Energy Corporation ("Atmos Energy" or the "Company"). My business address is 3275 Highland Pointe Drive, Owensboro, Kentucky, 42303.

Q. PLEASE BRIEFLY DESCRIBE YOUR CURRENT RESPONSIBILITIES, AND PROFESSIONAL AND EDUCATIONAL BACKGROUND.

A. I am responsible for all rate and regulatory affairs matters in Kentucky. I graduated from Eastern Illinois University in 1995 with a degree in Accounting. I have been with United Cities Gas Company and subsequently Atmos Energy Corporation since September 1995. I have served in a variety of positions of increasing responsibility in both Gas Supply and Rates prior to assuming my current responsibility in 2007.

Q. HAVE YOUR EVER SUBMITTED TESTIMONY BEFORE THE KENTUCKY PUBLIC SERVICE COMMISSION?

A. Yes. I filed testimony in Case No. 2010-00146 and Case No. 2013-00148.

Q. HAVE YOU SUBMITTED TESTIMONY ON MATTERS BEFORE OTHER STATE REGULATORY COMMISSIONS?

A. Yes, I have filed testimony before the Georgia Public Service Commission, the Illinois Commerce Commission, the Missouri Public Service Commission, and South Carolina Public Service Commission.

Q. ARE YOU SPONSORING ANY OF THE FILING REQUIREMENTS IN THIS CASE, AND, IF SO, WHICH REQUIREMENTS?

A. Yes. I am sponsoring the following filing requirements:

FR 16(1)(a)(2)	Application Supported by a Fully Forecasted Test Period
FR 14(2)	Certified Copy of Articles of Incorporation
FR 16(1)(b)(1)	Statement of Reasons
FR 16(1)(b)(2)	Compliance with KRS 365.015
FR 16(1)(b)(3)	Proposed Tariffs
FR 16(1)(b)(4)	Proposed Tariff Changes
FR 16(1)(b)(5)	Statement on Customer Notice
FR 16(2)(a)-(c)	Notice of Intent
FR 16(7)(a)	Statement of Officer in Charge of Kentucky Operations
FR 16(7)(e)	Statement of Attestation
FR 16(8)(l)	Narrative of Proposed Tariff Changes
FR 16(8)(n)	Bill Comparison
FR 16(10)	Request for Waiver of Certain Filing Requirements
FR 17(1)(a)-(c)	Notice of General Rate Adjustment

FR 17(2)(b)3	Manner of Notification
FR 17(3)(b)	Publisher Affidavits
FR 17(4)(a)-(j)	Notice Requirements

Q. DO YOU ADOPT THESE FILING REQUIREMENTS AND MAKE THEM PART OF YOUR TESTIMONY?

A. Yes.

II. PURPOSE AND SUMMARY OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. My direct testimony has six primary purposes. First, I will briefly describe the Company's operations in Kentucky and the recent history of its rate proceedings before this Commission. Second, I will provide an overview of the Company's customer base and market trends since 2013. Third, I will describe the principal factors requiring the Company to file this rate application and address the Company's efforts to achieve improvements to its efficiency and productivity. Fourth, I will introduce the other witnesses who will be providing support for the requested rate increase. Fifth, I will present the rates and various tariff changes proposed by the Company. Finally, I will discuss Case No. 2013-00148, specifically in regards to the Company's WMR project.

III. ATMOS ENERGY'S OPERATIONS IN KENTUCKY

Q. CAN YOU PROVIDE THE COMMISSION WITH A GENERAL DESCRIPTION AND BACKGROUND OF THE COMPANY'S OPERATIONS IN KENTUCKY?

A. Yes. We have a Kentucky-based work force of approximately 218 employees providing safe and reliable service to a customer base of approximately 174,700 residential, commercial and industrial consumers. Our utility plant in Kentucky includes over 4,100 miles of transmission and distribution lines.

Q. PLEASE PROVIDE A BRIEF DESCRIPTION OF ATMOS ENERGY'S CORPORATE STRUCTURE AND HOW IT ENABLES THE COMPANY TO BE AN EFFICIENT, LOW COST PROVIDER OF NATURAL GAS.

A. Atmos Energy is the largest pure natural gas distribution company in the United States, delivering natural gas to approximately 3.0 million residential, commercial, industrial and public-authority customers in 8 states. Atmos Energy has six gas utility operating divisions. They are located in Denver, Colorado (Kansas and Colorado division); Baton Rouge, Louisiana (Louisiana division); Jackson, Mississippi (Mississippi division); Lubbock, Texas (West Texas division); Dallas, Texas (Mid-Tex division); and Owensboro, Kentucky and Franklin, Tennessee (Kentucky/Mid-States division). In addition, Atmos Energy has an operating division consisting of a regulated intrastate pipeline that functions only within the state of Texas.

Atmos Energy's corporate offices are located in Dallas, Texas and provide services such as accounting, legal, human resources, rate administration, procurement, information technology and customer service organizations. The Company also has two customer contact centers located in Amarillo and Waco, Texas. These centralized services are shared with the other Atmos Energy operating divisions in order to avoid having to staff and maintain these functions at each division level. These centralized services are the technical and administrative services that would be required if each division was a stand-alone company. Atmos Energy believes that this structure provides it with an economic advantage and enables it to be a low-cost, high-quality provider of natural gas.

IV. OVERVIEW OF SERVICE AREA AND CUSTOMER BASE

Q. WHAT ARE THE COMPANY'S PRIMARY OBJECTIVES IN ITS KENTUCKY OPERATIONS?

A. We strive to be the safest provider of natural gas service. The Company is very proud of its tradition as a low-cost, efficient provider of natural gas service. Our distribution charges, particularly for residential customers, are the lowest among the major utilities in Kentucky. And, our pass-through gas costs are also typically lowest or second lowest in the state.

Q. PLEASE DESCRIBE THE MAKEUP OF ATMOS ENERGY'S CURRENT CUSTOMER BASE IN KENTUCKY.

A. Atmos Energy currently serves 174,700 customers throughout its service area extending from western to central Kentucky. Residential class customers account for the vast majority of meters, at approximately 155,400. Atmos Energy's natural gas deliveries totaled 48.6 Bcf during the 12-month period ending September 2015.

The Company is somewhat unique in its level of throughput to industrial class customers, with industrial sales and transportation volumes accounting for more than 67% of Atmos Energy's annual throughput during that 12-month period. The region served by Atmos Energy is somewhat economically dependent on the well-being of these industries, as is Atmos Energy through its requirements for operating margin under current rate designs.

Q. HAS THE COMPANY EXPERIENCED GROWTH IN RECENT YEARS?

A. Yes, but only for residential sales. As discussed in more detail in Mr. Smith's testimony, the Company has experienced minor residential growth. Core markets of commercial and public authority sales have not exhibited growth in recent years.

V. PRINCIPAL FACTORS FOR THIS RATE APPLICATION

Q. WHY DID THE COMPANY FILE THIS CASE?

A. The Company is requesting that the Commission approve new distribution rates that will provide revenues equal to our cost of service, including a reasonable return on investment. As the Commission is aware, the actual costs of the natural gas consumed by our customers are collected through a gas cost adjustment mechanism. The purpose of this case is to establish new distribution rates which exclude those pass-through gas costs.

Q. WHEN DID THE COMPANY'S CURRENT RATES BECOME EFFECTIVE?

A. The Company's current base distribution rates were established by the Commission in Case No. 2013-00148 and became effective on January 24, 2014, by the Order dated April 22, 2014.

Q. ARE THE DISTRIBUTION RATES CURRENTLY IN EFFECT PROVIDING SUFFICIENT REVENUES?

A. No. Although Atmos Energy operates very efficiently and is proud to have the lowest distribution charges for residential customers of the major natural gas providers in Kentucky, our current rates are not providing a fair return on the Company's investments.

At current rates, the Company's calculated rate of return on rate base for the test year is only 7.52%. The decline in return is primarily due to capital investment not recovered through the PRP mechanism and the increase costs of doing business. Examples of capital investment that are not covered through the PRP mechanism would be capital investment related to system integrity, system improvements, structures, public improvements, information technology, growth, and equipment.

Q. WHAT RATE OF RETURN ON RATE BASE IS ATMOS ENERGY REQUESTING IN THIS RATE APPLICATION?

A. Atmos Energy is asking the Commission to approve new rate schedules that would increase revenues to provide an overall rate of return on rate base of 8.12% on the test year rate base of $335,832,639.

Q. WHAT IS THE AMOUNT OF THE RATE INCREASE THAT ATMOS ENERGY IS SEEKING IN THIS RATE APPLICATION?

A. Atmos Energy is seeking approval to increase its rates to recover approximately $3,307,688 in additional revenues. Please note that the rate notice is $39.00 lower than the revenue requirement model due to rounding and has no impact on the proposed rates. For an average residential customer, the total bill increase would be $1.05 per month.

Q. PURSUANT TO 807 KAR 5:001(16)(12)(e)(3), PLEASE EXPLAIN HOW THE COMPANY WORKS TO ACHIEVE IMPROVEMENTS IN ITS EFFICIENCY AND PRODUCTIVIY.

A. Since our most recent rate filing in 2013, Atmos Energy has undertaken substantial investments in technology and process improvements to ensure that it provides the best and most efficient customer service possible. Each of these investments will enable the Company to be more productive and provide the best possible service.

Q. HOW HAVE IMPROVEMENTS TO EFFICIENCY AND PRODUCTIVITY IMPACTED CUSTOMER BILLS?

A. On average, residential bills have remained steady since 2007. The Company estimates that the average residential bill for 2015 to be $52 which is the same average residential bill in 2009. Also, the Company estimates that average residential bills will be at or lower than those in 2007 through 2020. While the cost of gas is a large percentage of a residential bill, the Company has been extremely efficient in order to minimize the impact to customers. When compared to other utility bills, the value proposition for natural gas is excellent.

Q. PLEASE EXPLAIN ANY OTHER ADJUSTMENTS THAT THE COMPANY HAS MADE IN THIS FILING.

A. To respect recent Commission decisions in Case No. 2013-00148, the Company has removed for recovery in customer rates all incentive compensation costs and has included short term debt into the capital structure. While reserving the right to discuss alternative approaches in future proceedings, the Company has made those changes to simplify the regulatory review process in this Case.

VI. INTRODUCTION OF WITNESSES

Q. PLEASE IDENTIFY THE OTHER WITNESSES SPONSORING TESTIMONY IN THIS PROCEEDING?

A. In addition to my testimony, Atmos Energy will present the direct testimony and exhibits of 7 witnesses.

Pace McDonald, Vice President of Tax for Atmos Energy Corporation, is presenting testimony concerning taxes including the Net Operating Loss Carry-forward (NOLC) as well as the Company's Private Letter Ruling (PLR) from the Internal Revenue Service (IRS).

Gregory K. Waller, Manager of Rates and Regulatory Affairs for Atmos Energy Corporation, is presenting testimony concerning the Operating and Maintenance (O&M) expense budgeting process used by the Company; the control and the monitoring of O&M variances by the Company; the forecasted test year budget for O&M, the Company's capital budgeting process, capital expenses, depreciation expense, and taxes other than income taxes incurred directly by the Company's Kentucky operations as well as allocated to Kentucky from the Kentucky / Mid-States General Office and Shared Services Unit. Mr. Waller is also responsible for the calculation of Company's revenue deficiency and rate base, as well as he is sponsoring the Company's capital structure and cost of debt for use in setting rates in this proceeding.

Gary L. Smith, Director of Rates for Atmos Energy Corporation, is filing testimony regarding the Company's revenue budget, proposed rate design, the WNA study per the Final Order in Case No. 2013-00148, and the special contract study per the Final Order in Case No. 2013-00148.

Jason Schneider, Director of Accounting Services for Atmos Energy Corporation, is filing testimony regarding the historic books and records of the Company and the integrity of the financial information in this case. He also provides testimony concerning the Company's Cost Allocation Manual (CAM), which describes the methodology for shared services cost allocations.

Dr. James Vander Weide testifies regarding the Company's cost of capital and recommends a rate of return that is appropriate to be used in setting rates for Atmos Energy in this proceeding.

Paul Raab, of Paul H. Raab Economic Consulting, presents the Company's class cost of service study.

Dane Watson, of the Alliance Consulting Group, presents the Company's depreciation study and corresponding depreciation rates.

VII. PROPOSED RATES, RATE STRUCTURES AND TARIFF CHANGES

Q. WHAT ARE THE PRIMARY RATE DESIGN OBJECTIVES OF ATMOS ENERGY IN THIS CASE?

A. As stated earlier in my testimony, Atmos Energy's primary objective is to strive to be the safest provider of natural gas service. The Company is very proud of its tradition as a low-cost, efficient provider of natural gas service. Our rate design should support these objectives.

To that end, Atmos Energy is proposing certain rate design features which remove avoidable uncertainties for customers, shareholders and regulators inherent to our traditional rate structures.

Atmos Energy's tariff and rate design proposals are as follows:

1) Maintain the general balance of fixed and variable elements in our distribution rates to reflect the underlying cost characteristics of our service; mitigate the depletion in revenue caused by declining residential and commercial customer usage; and better align the interests of the Company and customers.
2) Update the Company's Research & Development Rider (R&D) unit charge.
3) Update the time period used to weather normalize revenues and with the Company's Weather Normalization Adjustment (WNA) Rider.
4) Incorporate certain revisions into our transportation tariffs.
5) Update the term period for Economic Development Rider (EDR) contracts.

Q. HOW DID YOU DETERMINE THE MANNER IN WHICH THE REVENUE DEFICIENCY WOULD BE SPREAD TO CLASSES AND TO FIXED AND VARIABLE BILLING COMPONENTS?

A. Company witness Raab provided a Class Cost of Service study required pursuant to the Minimum Filing Requirements in this Case. In his study, he determines that all classes contribute adequate amounts to the Company's cost of service with the lone exception being residential sales. While Mr. Raab's analysis is utilized as one point of reference, the Company believes that each class (commercial, public authority, industrial sales and transportation) should bear some portion of the requested increase.

With respect to the balance of the increase to be borne between the fixed or variable components, the Company has chosen to propose a slight decrease in the fixed monthly charges and an increase in the variable components when compared to the currents rates including the PRP surcharge.

Q. WHAT IS THE RESULTING EFFECT OF ATMOS ENERGY'S PROPOSED RATES COMPARED TO CURRENT RATES FOR THE AVERAGE RESIDENTIAL, COMMERCIAL AND INDUSTRIAL CUSTOMERS RESPECTIVELY?

A. Using the test year volumes and gas costs as the basis for comparison, the annual impact of Atmos Energy's proposed rates is as follows. The average monthly charges for a residential customer under G-1 service increases $1.05, a 2.04% increase over current rates. Commercial and public authority class customers' average monthly charges increase $3.19, a 1.53% increase over current rates, and the industrial sales and transportation class average monthly charges increase $121.71, a 2.76% increase over current rates. The test year revenues at proposed rates are summarized in the testimony of Mr. Smith. Please refer to Exhibit GLS-

6 (in a format comparable to Exhibit GLS-2) as well as Exhibit GLS-7 which provides the proposed monthly revenues (in a format comparable to Exhibit GLS-5).

Q. PLEASE DISCUSS THE HISTORY OF THE COMPANY'S R&D RIDER.

A. The Company proposed and the Commission approved the Company's R&D Rider in Case No. 99-070. The R&D unit charge applies to all customers with the exception of transportation customers. Prior to Case No. 99-070, interstate pipelines charged LDCs a R&D surcharge which ultimately flowed through the Gas Cost Adjustment (GCA) mechanism. At this point in time, the interstate pipelines began to phase out the surcharge with 2004 being the last year that it would have flowed through the GCA mechanism. In an effort to maintain the same level of funding, the Company planned to initially raise its R&D unit charge a corresponding amount on an annual basis to offset the reduction in pipeline charges. By 2004, the Company's R&D charge should have equaled $0.0174 per Mcf which would have mirrored the interstate pipeline rate prior to the phase-out.

Q. WHAT IS THE COMPANY'S CURRENT R&D UNIT CHARGE?

A. The Company's current R&D unit charge is $0.0035 per Mcf.

Q. HAS THE COMPANY EVER INCREASED ITS R&D UNIT CHARGE?

A. It does not appear so.

Q. WHY DID THE COMPANY NEVER INCREASE ITS R&D UNIT CHARGE?

A. While the Company did not ever increase its R&D unit charge, it did implement the appropriate rate at inception. The Company's proposal is for the future rather than the past.

Q. WHAT IS THE COMPANY'S PROPOSAL RELATED TO ITS R&D UNIT CHARGE?

A. The Company would like to match the spirit of the Order in Case No. 99-070 and increase the R&D unit charge to $0.0174 per Mcf.

Q. WHY IS THE COMPANY PROPOSING TO INCREASE THE R&D UNIT CHARGE NOW?

A. Upon investigating what the Company annually contributes to GTI on a company-wide base, it appeared the portion related to Kentucky was quite low. Upon further investigation, it was discovered that the initial R&D unit charge had not been updated. The Company is purely proposing to increase the R&D unit charge to what it should have been in 2004.

Q. WHAT IMPACT WOULD THIS HAVE ON CUSTOMERS?

A. With the current R&D unit charge of $0.0035 per Mcf and assuming sixteen (16) Bcf of annual sales, applicable customers contribute approximately $56,000 for R&D efforts. Increasing the R&D unit charge to $0.0174 per Mcf would increase funding by approximately $222,000 for a total annual contribution of approximately $278,000 ($56,000 + $222,000).

Q. DOES THE PROPOSED R&D UNIT CHARGE INCREASE CREATE ADDITIONAL REVENUES FOR THE COMPANY?

A. No. While the Company does not directly benefit financially from the R&D Rider, the Company does benefit by new technology and more efficient appliances that result from research funded by the R&D Rider. All funds collected under the R&D Rider would be remitted to the Gas Technology Institute (GTI), or similar research or commercialization organization. While the Company has flexibility on where it remits funds, all funds collected through the R&D unit charge have been remitted to GTI.

Q. ARE THERE ANY OTHER CONSIDERATIONS RELATED TO THE R&D UNIT CHARGE?

A. Yes. The genesis of the R&D unit charge was over fifteen (15) years ago. While the R&D Rider continues to benefit customers through research initiatives, the cost of conducting R&D initiatives continues to rise. While one could argue that the $278,000 which could have been billed and collected annually since 2004 is somewhat stale, the Company would prefer to initially increase the R&D unit charge to $0.0174 per Mcf and to seek any additional increases in future proceedings.

Q. PLEASE DISCUSS THE PROPOSED TARIFF CHANGE TO THE WEATHER NORMALIZATION ADJUSTMENT (WNA) RIDER.

A. Per the Commission's Final Order in Case No. 2013-00148, the Company's WNA tariff was to include language setting out the time period used to weather normalize revenues that was approved by the Commission.

Q. WHAT IS THE CURRENT PERIOD THAT THE COMPANY IS USING TO NORMALIZE REVENUES PER ITS WNA RIDER?

A. Currently, the Company utilizes the NOAA 30-year period of 1981-2010 in its WNA Rider.

Q. IS THE COMPANY PROPOSING A DIFFERENT PERIOD TO NORMALIZE REVENUES IN THIS CASE?

A. Yes. As discussed more thoroughly in Mr. Smith's direct testimony, the Company is proposing to use a more current period of time to normalize revenues.

Q. WHAT IS THE PERIOD THAT THE COMPANY IS PROPOSING TO USE TO NORMALIZE REVENUES IN THIS CASE?

A. The Company is proposing to use the ten year period ending August 2015, or stated another way, the period of September 2006 through August 2015.

Q. PLEASE DISCUSS THE PROPOSED TARIFF CHANGES TO THE CASHOUT METHODOLOGY RELATED TO TRANSPORTATION CUSTOMERS.

A. The Company is proposing to more appropriately reflect interstate pipeline tariff language and industry pricing within its cashout methodology. Currently, the Company's tariff indicates that a transportation customer's imbalance is cashed out using the pricing of the associated pipeline. While this has worked fine in the past when pipelines' cashout pricing was less complex, changes in pipeline tariffs require the Company to propose changes that are fairer for all parties. As such, the Company is proposing to adopt Natural Gas Week (NGW) indices for the cashout pricing. This proposed change improves the timeliness of available data and thus improves the timeliness of customer invoices. Also, this proposed change improves the consistency of the Company's tariffs within the

Kentucky/Mid-States (KMD) division. The Company utilizes NGW indices for cashout pricing in Tennessee and will be proposing the same change in Virginia as well. Finally, this proposed change improves the understandability of the cashout methodology. The Company is also proposing to add additional tiers to the cashout methodology. This proposed change improves consistency of KMD tariffs as the proposed tiers are already in place in Tennessee and Virginia as well as improves consistency with connecting pipelines' tiers as both Texas Gas and Tennessee Gas Pipeline have the same proposed tiers.

Q. DOES THE PROPOSED CASHOUT LANGUAGE INCREASE REVENUES FOR THE COMPANY?

A. No. All cashout revenues, positive and negative, flow through the Company's GCA mechanism as an adjustment to gas cost.

Q. WHY IS THE COMPANY PROPOSING TO ADJUST ITS CASHOUT LANGUAGE?

A. The Company believes that its proposed changes better reflect the upstream pipelines' tariffs, reduce the likelihood of gaming the system, create a clear and easy to understand as well as to administer process, and is fair for all classes of customers.

Q. PLEASE EXPLAIN THE COMPANY'S PROPOSED MODIFICATION TO ITS EDR RIDER.

A. The Company is proposing to add the term "at least" in between "period" and "twice" in Section 3 of Sheet No. 40.

Q. WHY IS THE COMPANY PROPOSING THIS MODIFICATION?

A. The Company wants to avoid any confusion in its tariff while also giving the Company and the customer flexibility. As the section reads today, one could infer that an EDR contract could only have a term of eight (8) years since the discount period is limited to four (4) years. The Company would like the option to offer a term longer that eight (8) years if the customer is amenable to such, but still maintain the four (4) year discount period. For example, if the Company and a customer entered into a ten year contract, the discount period would be for four (4) years and the customer would pay full tariff rates for the remaining six (6) years of the contract. As another example, if the Company and the customer entered into a fifteen year contract, the discount period would be for four (4) years and the customer would pay full tariff rates for the remaining eleven (11) years of the contract. The minimum term of an EDR contract would remain at eight (8) years. The Company believes that the Commission's Order in Administrative Case No. 327 had the intent of giving utilities the necessary flexibility that the Company is seeking with this proposed tariff modification.

Q. PLEASE EXPLAIN ANY OTHER ITEMS THAT THE COMPANY WOULD LIKE FOR THE COMMISSION TO CONSIDER.

A. While the Company is not proposing a specific tariff change related to rate stabilization, the Company would like for the Commission to consider the concept. The Company is willing to work with the Staff on an annual mechanism that the Commission would deem acceptable. In past cases, the Company has briefly discussed rate stabilization and the Company believes that such a mechanism would be successful in Kentucky. If the Commission prefers further discussion related to rate stabilization, the Company would be open to an annual review of rates similar to programs in Louisiana, Mississippi, Tennessee and Virginia in which the Company is a participant. The Company was also successful in seeking commission approval in Georgia for a rate stabilization mechanism prior to the asset sale. According to the American Gas Association (AGA), rate stabilization mechanisms appear to be most prevalent in the southeast and the Company has six such mechanisms in effect.

Q. HAVE SUCH MECHANISMS BEEN SUCCESSFUL IN THE JURISDICTIONS THAT THE COMPANY SERVES?

A. Yes. The process has become purely formulaic with prescribed information being filed and reviewed on an annual basis. The result is a rate stabilization factor which is adjusted to provide for additional revenue for the Company or to return additional revenue to the customer.

Q. DO YOU BELIEVE A RATE STABILIZATION MECHANISM WOULD BE APPROPRIATE FOR THE COMPANY'S KENTUCKY OPERATIONS?

A. Yes. A process similar to those utilized in some of the other jurisdictions where the Company operates would provide for a regularly scheduled rate review that will cost less and adjust the rates each year in a more expedited manner to actually achieve the result contemplated by the Commission's rate orders. We respectfully request that the Commission study and explore the relative merits of these mechanisms through a cooperative effort involving the Staff and the Company.

VIII. DISCUSSION OF COMMISSION'S ORDER IN CASE 2013-00148

Q. PLEASE DISCUSS THE FINAL ORDER IN CASE NO. 2013-00148.

A. Per Ordering Paragraph 10 of the Final Order in Case No. 2013-00148, the Commission ordered the Company to file additional information in its next application for an increase in its base rates.

Q. ARE YOU TESTIFYING TO ALL OF THE ADDITIONAL INFORMATION THAT THE COMMISSION ORDERED THE COMPANY TO FILE IN ITS NEXT BASE RATE APPLICATION?

A. No. As mentioned earlier, Mr. Smith will be testifying to the WNA and Special Contract studies and Mr. McDonald will be testifying to the IRS PLR. This portion of my testimony will discuss the wireless meter reading (WMR) analysis as referenced under Finding 14 on page 60 of the Final Order in Case No. 2013-00148.

Q. PLEASE PROVIDE WMR BACKGROUND INFORMATION THAT ORIGINATED IN CASE NO. 2013-00148.

A. In Case No. 2013-00148, Company witness Earnest Napier discussed the Company's WMR project which involved the installation of 20,000 endpoints in certain Company locations within Kentucky. The Company planned to implement installation by targeting locations where the Company was utilizing contract meter readers, locations where there will be a reduction in work force due to retirements and/or relocation, and areas where meter reading is costly due to time per read.

Q. DID THE COMPANY PROJECT ANY COST SAVINGS IN CASE NO. 2013-00148?

A. No; however, the Company stated that its implementation strategy aimed to reduce O&M expenses over time.

Q. PLEASE DISCUSS THE ANALYSIS SOUGHT IN CASE NO. 2013-00148 AND THE CORRESPONDING RESULTS.

A. Finding 14 on page 60 of the Final Order in Case No. 2013-00148 asked for the Company to submit an analysis of the costs incurred and savings realized due to the WMR project from its inception to a date within 90 days of the submission of the rate application. The Company has installed approximately 16,000 WMR devices in its footprint at a total cost of approximately $1.2 million. The simplest of savings can be calculated by the reduction of contract meter readers. For each contract meter reader position that is replaced by a WMR device, the savings equate to approximately $1 per meter per month. Also, there appears to be some cost savings and/or cost avoidance related to re-reading meters. WMR devices allow a re-read to occur without the need to dispatch personnel as well as rolling a truck. The Company quantifies the re-read savings at approximately $430 per month. All planned WMR devices were installed prior to January 2015. The Company then ran the WMR devices parallel with traditional manual meter reads to insure accuracy. The Company went live with the new WMR devices March 1, 2015. Assuming the $1 per meter per month premise and $430 per month in re-read savings, savings related to the WMR project would approximate $164,300

((16,000*$1*10) + ($430*10) = $164,300) from March 1, 2015 through December 31, 2015.

IX. CONCLUSION

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF)
RATE APPLICATION OF) Case No. 2015-00343
ATMOS ENERGY CORPORATION)

CERTIFICATE AND AFFIDAVIT

The Affiant, Mark A. Martin, being duly sworn, deposes and states that the prepared testimony attached hereto and made a part hereof, constitutes the prepared direct testimony of this affiant in Case No. 2015-00343, in the Matter of the Rate Application of Atmos Energy Corporation, and that if asked the questions propounded therein, this affiant would make the answers set forth in the attached prepared direct pre-filed testimony.

Mark A Martin
Mark A. Martin

STATE OF Kentucky
COUNTY OF Daviess

SUBSCRIBED AND SWORN to before me by Mark A. Martin on this the 16 day of November, 2015.

Jim Capps
Notary Public #462861
My Commission Expires: March, 19, 2016

McDONALD, P.

BEFORE THE PUBLIC SERVICE COMMISSION

COMMONWEALTH OF KENTUCKY

APPLICATION OF ATMOS ENERGY)
)
CORPORATION FOR AN ADJUSTMENT) Case No. 2015-00343
)
OF RATES AND TARIFF MODIFICATIONS)

DIRECT TESTIMONY OF PACE MCDONALD

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME, POSITION AND BUSINESS ADDRESS.

A. My name is Pace McDonald. I am Vice President of Taxes for the Atmos Energy Corporation and Subsidiaries ("Atmos Energy" or the "Company"). My business address is 5430 LBJ Freeway, Suite 700, Dallas, Texas 75240.

Q. WHAT ARE YOUR JOB RESPONSIBILITIES?

A. I am responsible for oversight and management of all income, property and sales tax matters for the Company. This oversight includes ensuring that the tax accounts recorded on the books and records accurately reflect the Company's tax filings and positions. I oversee a group of 23 tax professionals and clerical staff which undertake tax planning to minimize taxes, prepare the Company's tax filings, and defend those filings under audit. I am also responsible for the establishment and compliance with the Company's tax policies and controls.

Q. PLEASE OUTLINE YOUR EDUCATIONAL AND PROFESSIONAL QUALIFICATIONS.

A. I received my education at the University of Texas at Austin. In 1993, I concurrently received a Bachelor of Business Administration degree with a major in accounting and a Master of Professional Accounting degree with a specialization in tax. I am a licensed certified public accountant in the State of Texas.

I began working for the public accounting firm of Deloitte & Touche LLP in August 1993. In 1997, I left Deloitte & Touche LLP and joined the public accounting firm of Ernst and Young LLP. At both firms, I provided tax planning and compliance services to a client base of primarily large public companies. My client base was equally divided between large multinational manufacturers and regulated public utilities. One of my key responsibilities included reviewing and consulting with clients regarding the appropriate amount and manner in which to record accumulated deferred income taxes.

In April 2002, I joined Atmos Energy Corporation and assumed the oversight and management of all income, property and sales tax matters for the Company. I also serve as the Company's representative on the American Gas Association's Tax Committee.

Q. HAVE YOU TESTIFIED BEFORE THIS COMMISSION?

A. Yes. I provided testimony in Case No. 2013-00148.

Q. HAVE YOU TESTIFIED BEFORE ANY OTHER REGULATORY COMMISSIONS?

A. Yes. I testified before the Railroad Commission of Texas in GUD Nos. 9670, 9762, 9869, 10000 and 10170. I have also testified before the Public Service Commission of Mississippi in Docket No. 92 UN 0230.

Q. WHAT WAS THE SCOPE OF YOUR TESTIMONY IN THOSE PROCEEDING?

A. I provided rebuttal testimony regarding the Company's accumulated deferred income taxes and the appropriateness of including specific deferred tax items within the rate base as filed in those proceedings.

II. PURPOSE

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. I am providing testimony regarding the Private Letter Ruling that the Company was ordered to seek by this Commission.

Q. ARE YOU SPONSORING ANY EXHIBITS?

A. Yes, I am sponsoring Exhibit PM-1 and PM-2.

Q. WERE THESE EXHIBITS PREPARED BY YOU OR UNDER YOUR DIRECT SUPERVISION?

A. Yes.

III. PRIVATE LETTER RULING

Q. DID YOU PROVIDE REBUTTAL TESTIMONY FOR THE COMPANY IN CASE 2013-00148?

A. Yes.

Q. WHAT WAS THE PURPOSE OF YOUR TESTIMONY IN THAT CASE?

A. I provided rebuttal testimony regarding accumulated deferred income tax ("ADIT") for tax net operating loss carryforwards ("NOLC"). I described what gives rise to NOLC ADITs as well as the regulatory treatment of this item.

Q. WHAT ARGUMENTS WERE YOU REBUTTING?

A. In that case, the AG proposed to eliminate an increase to rate base associated with the Company's ADIT NOLC.[1] The AG supported reducing rate base for other ADIT items but opposed an increase to rate base for an ADIT NOLC debit.[2] In addition, based on a singular ruling, the AG opined that removing the ADIT NOLC from rate base would not result in a normalization violation under the Internal Revenue Code ("IRC").[3] The AG also recommended that the Company be ordered to seek a Private Letter Ruling from the IRS if there was substantial disagreement between the AG and the Company.[4]

Q. PLEASE SUMMARIZE YOUR REBUTTAL TESTIMONY.

A. It was my testimony that removing the ADIT NOLC from rate base would be inappropriate and inconsistent with sound ratemaking principles.[5] Inclusion of the ADIT NOLC in rate base is widely accepted by many commissions and the singular case cited by the AG in support of his position was based on unique facts and circumstances.[6] Furthermore, removing the NOLC from rate base would result in a tax normalization violation of the Internal Revenue Code and cause the

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[1] KY Office of the Attorney General's Pre-Filed Direct Testimony, Direct Testimony of Bion C. Ostrander, Kentucky Public Service Commission Case No. 2013-00148, 10/9/2013, at 48.

[2] *Id.* at 49.

[3] *Id.* at 52-54.

[4] *Id.* at 57-58.

[5] *See* Atmos Energy Corporation's Rebuttal Testimony and Exhibits, Rebuttal Testimony of Pace McDonald, Kentucky Public Service Commission Case No. 2013-00148, 11/19/2013, at 8-11.

[6] *Id.* at 16-21.

Company to lose accelerated depreciation, bonus depreciation, and other tax benefits.[7]

Q. WITH RESPECT TO DEFERRED TAXES, ARE YOU FAMILIAR WITH THE COMMISSION'S RULING IN THE CASE?

A. Yes.

Q. PLEASE SUMMARIZE THE COMMISSION'S RULING?

A. The Commission ruled the AG did not make a compelling argument for why, from a ratemaking perspective, it would be reasonable to adopt his recommendation.[8] The Commission was also not persuaded by the AG's argument regarding the normalization violation.[9] The Commission noted there was ambiguity in the Treasury regulations cited by the parties but overall they were unable to agree with the AG that a tax normalization violation would not result from a decision to remove the ADIT NOLC from rate base.[10] The Commission did however, as an acknowledgement of the ambiguity in the regulations and the parties significantly different interpretations of those regulations, order that the Company seek a Private Letter Ruling from the IRS for a more definitive assessment of the normalization issue.[11]

Q. PLEASE DESCRIBE IN SUMMARY THE REQUIREMENTS PLACED UPON A TAXPAYER SEEKING A PRIVATE LETTER RULING FROM THE IRS.

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[7] *Id.* at 21-30.

[8] Order, Kentucky Public Service Commission Case No. 2013-00148, 4/22/2014, at 7.

[9] *Id.* at 6.

[10] *Id.* at 6-7.

[11] *Id.* at 7.

A. There are numerous requirements for filing a ruling request. Some requirements are simply procedural or administrative in nature. There are more substantive requirements which place a burden on the taxpayer to disclose any and all information and statutory authority, supportive and contrary, related to the ruling requested. This information is provided under penalties of perjury and submitted to the IRS National Office. The first revenue procedure issued by the IRS each year outlines the requirements.

For example, a taxpayer must include a complete statement of facts, information, and copies of any documents pertinent to the ruling requested. The taxpayer must provide an analysis of material facts and provide statements regarding whether the issue has been previously included in an earlier tax return or previously ruled upon for the taxpayer. The taxpayer must provide any authoritative support in agreement with its requested ruling and contrary to its requested ruling. Finally, the taxpayer must identify information to be redacted from the public issuance of the ruling.

In addition, a letter ruling request that involves a question of whether a proposed or issued rate order will meet the normalization requirements must include a statement that the regulatory authority responsible for establishing or approving the taxpayer's rates has reviewed the request and believes that the request is adequate and complete.

Q. WHAT HAPPENS IF A TAXPAYER DOES NOT MEET THESE REQUIREMENTS?

A. The IRS can refuse to issue a ruling.

Q. DID THE COMPANY COMPLY WITH THE COMMISSION'S ORDER AND FILE A PRIVATE LETTER RULING REQUEST?

A. Yes. A copy of the ruling request is attached as Exhibit PM-1.

Q. WHAT RULINGS WERE REQUESTED BY THE COMPANY?

A. The Company requested two rulings:

Ruling #1 requested that the IRS rule that the reduction of the Company's rate base by the balance of its 282 and 283 ADIT accounts unreduced by its NOLC related ADIT in account 190 would be inconsistent and hence violative of the normalization provisions of the IRC and related Treasury regulations.[12]

Ruling #2 requested that the IRS rule that the balance of NOLC related ADIT for purposes of Ruling #1 be no less than the amount attributable to accelerated depreciation computed on a "last dollars deducted" basis. Inclusion of any amount less than this computation would be inconsistent with and hence violative of the normalization provisions of the IRC and related Treasury regulations.[13]

Q. DID THE PUBLIC SERVICE COMMISSION OF KENTUCKY REVIEW THE REQUEST AND EXPRESS AN OPINION THAT THE REQUEST WAS ADEQUATE AND COMPLETE?

A. Yes. In a letter dated December 15, 2014, the Commission affirmed that it had reviewed the request and believed the facts as stated and rulings requested were adequate and complete.

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[12] Exhibit PM-1 at 21 (P. 9 of 32 of Private Letter Ruling Request).

[13] *Id.*

Q. DID THE COMPANY PRESENT SUPPORT BOTH FOR AND AGAINST ITS REQUESTED RULING?

A. Yes. In the Discussion and Analysis section of the ruling request the Company presented any authority, whether supportive or contrary, of which it was aware. [14] Furthermore, on page 30 of the ruling request the Company affirmatively stated, under penalties of perjury, that all authority, supportive and contrary, of which it was aware were included in the ruling request.[15]

Q. HAS THE IRS ISSUED ITS RULING?

A. Yes. A copy of the Private Letter Ruling is attached as Exhibit PM-2.

Q. WHAT DID THE IRS RULE?

A. The IRS affirmed the Company's position on both issues. The IRS ruled the following:

The IRS confirmed that the ADIT NOLC must be taken into account and included in the calculation of rate base. To not do so would be a normalization violation as defined by the IRC and Treasury regulations.[16]

In addition, the IRS confirmed that including an ADIT NOLC in rate base equal to no less than that amount computed using the "last dollars deducted" method ensures that the NOLC is correctly taken into account and under the facts of this filing any other method would not provide the same level of certainty.[17]

---

[14] *Id.* at 24-41 (pp. 13-29 of Private Letter Ruling Request).

[15] *Id.* at 42 (P. 30 of Private Letter Ruling Request).

[16] Exhibit PM-2 at 5.

[17] *Id.* at 6.

The use of any other method would be deemed by the IRS to be a normalization violation as defined by the IRC and Treasury regulations.[18]

Q. DOES THE RULING ADDRESS THE AMBIGUITY CONCERNS RAISED BY THE COMMISSION IN CASE NO. 2013-00148?

A. Yes.

Q. DOES THE RULING SUPPORT THE COMPANY'S POSITION AND TREATMENT OF THE NOLC ADIT AS IT WAS FILED IN CASE NO. 2013-00148?

A. Yes.

Q. DID YOU PROVIDE COMPANY WITNESS MR. WALLER WITH THE FORECAST OF ADIT WHICH WAS INCLUDED AS AN ADJUSTMENT TO RATE BASE IN THIS CASE?

A. Yes.

Q. IN THIS CASE, HAS THE COMPANY COMPUTED AND INCLUDED AS AN ADJUSTMENT TO RATE BASE AN ADIT NOLC CONSISTENT WITH CASE NO. 2013-00148 AND THE PRIVATE LETTER RULING?

A. Yes.

IV. CONCLUSION

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

---

[18] *Id.*

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF)
RATE APPLICATION OF) Case No. 2015-00343
ATMOS ENERGY CORPORATION)

CERTIFICATE AND AFFIDAVIT

The Affiant, Pace McDonald, being duly sworn, deposes and states that the prepared testimony attached hereto and made a part hereof, constitutes the prepared direct testimony of this affiant in Case No. 2015-00343, in the Matter of the Rate Application of Atmos Energy Corporation, and that if asked the questions propounded therein, this affiant would make the answers set forth in the attached prepared direct pre-filed testimony.

Pace McDonald

STATE OF Texas
COUNTY OF Dallas

SUBSCRIBED AND SWORN to before me by Pace McDonald on this the 13th day of November, 2015.

PAMELA L. PERRY
My Commission Expires
October 29, 2016

Pamela L. Perry
Notary Public
My Commission Expires: 10-29-16

Exhibit PM-1

RECEIPT COPY

MILLER
CHEVALIER

James I. Warren
Member
(202) 626-5959
jwarren@milchev.com

January 9, 2015

VIA HAND DELIVERY

Associate Chief Counsel
Passthroughs & Special Industries
Courier's Desk
Internal Revenue Service
Attn: CC:PA:LPD:DRU, Room 5336
1111 Constitution Avenue, NW
Washington, DC 20224

2015 JAN -9 PM 12:40
INTERNAL REVENUE SERVICE

Re: Ruling Request for Atmos Energy Corporation (EIN# 75-1743247)

Dear Sir or Madam:

We represent Atmos Energy Corporation (EIN# 75-1743247) in connection with the submission of the enclosed Private Letter Ruling request relating to the application of the depreciation normalization rules of §168(i)(9) of the Internal Revenue Code of 1986, as amended ("Code"), and Treas. Reg. §1.167(l)-1. A check in the amount of $19,000 is enclosed which represents the user fee associated with this request.

Please do not hesitate to contact me at 202-626-5959 if you have any questions.

Sincerely

James I Warren

James I. Warren

Enclosures

Exhibit PM-1

MILLER
CHEVALIER

James I. Warren
Member
(202) 626-5959
jwarren@milchev.com

January 9, 2015

VIA HAND DELIVERY

Associate Chief Counsel
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Please do not hesitate to contact me at 202-626-5959 if you have any questions.

Sincerely

James I Warren

James I. Warren

Enclosures

Miller & Chevalier Chartered
655 Fifteenth Street, N.W., Suite 900 · Washington, D.C. 20005-5701 · 202-626-5800 · 202-626-5801 FAX · millerchevalier.com

Exhibit PM-1

Check for User Fee

AMARILLO NATIONAL BANK
Amarillo, TX

Exhibit PM-1

NO. 1402122

Atmos Energy Corporation
PO Box 650205
Dallas,TX 75265-0205

CHECK DATE	CHECK NUMBER	CHECK AMOUNT
07-Jan-15	1402122	***********19,000.00

Void After 90 Days

PAY: Nineteen Thousand Dollars And Zero Cents******************

TO THE ORDER OF
INTERNAL REVENUE SERVICE
1111 CONSTITUTION AVE NW
ATTN: CC:PA:LPD:DRU ROOM 5336
WASHINGTON,DC 20224
United States

AUTHORIZED SIGNATURE

⑈1402122⑈ ⑆111324219⑆ ⑈00 0531⑈

NO. 1402122

DATE: 06-Jan-15

VENDOR NAME: INTERNAL REVENUE SERVICE

VENDOR No: 209524

INVOICE No. DESCRIPTION	INVOICE DATE	AMOUNT	DISCOUNT AMOUNT	NET AMOUNT
412869660 SH Sarah Stojak - 2015 District Of Col	06-JAN-15	19,000.00	0.00	19,000.00
PLEASE DETACH AND RETAIN THIS STATEMENT AS YOUR RECORD OF PAYMENT.		19,000.00	0.00	19,000.00

Exhibit PM-1

Checklist

Exhibit PM-1

CHECKLIST

IS YOUR LETTER RULING REQUEST COMPLETE?

INSTRUCTIONS

The Service will be able to respond more quickly to your letter ruling request if it is carefully prepared and complete. Use this checklist to ensure that your request is in order. Complete the four items of information requested before the checklist. Answer each question by circling "Yes," "No," or "N/A." When a question contains a place for a page number, insert the page number (or numbers) of the request that gives the information called for by a "Yes" answer to a question. **Sign and date the checklist (as taxpayer or authorized representative) and place it on top of your request.**

If you are an authorized representative submitting a request for a taxpayer, you must include a completed checklist with the request or the request will either be returned to you or substantive consideration of it will be deferred until a completed checklist is submitted. **If you are a taxpayer preparing your own request without professional assistance, an incomplete checklist will not cause the return of your request or defer substantive consideration of your request.** You should still complete as much of the checklist as possible and submit it with your request.

TAXPAYER'S NAME Atmos Energy Corporation

TAXPAYER'S I.D. NO. 75-1743247

ATTORNEY/P.O.A. James I. Warren

PRIMARY CODE SECTION 168

CIRCLE ONE	ITEM
[✓ Yes] No	1. Does your request involve an issue under the jurisdiction of the Associate Chief Counsel (Corporate), the Associate Chief Counsel (Financial Institutions and Products), the Associate Chief Counsel (Income Tax and Accounting), the Associate Chief Counsel (International), the Associate Chief Counsel (Passthroughs and Special Industries), the Associate Chief Counsel (Procedure and Administration), or the Associate Chief Counsel (Tax Exempt and Government Entities)? *See* section 3 of Rev. Proc. 2015–1, this revenue procedure. For issues under the jurisdiction of other offices, *see* section 4 of Rev. Proc. 2015–1. (Hereafter, all references are to Rev. Proc. 2015–1 unless otherwise noted.)
[✓ Yes] No	2. Have you read Rev. Proc. 2015–3, 2015–1 and Rev. Proc. 2015–7, 2015–1, this bulletin, to see if part or all of the request involves a matter on which letter rulings are not issued or are ordinarily not issued?
Yes No [✓ N/A]	3. If your request involves a matter on which letter rulings are not ordinarily issued, have you given compelling reasons to justify the issuance of a letter ruling? Before preparing your request, you may want to call the branch in the Office of Associate Chief Counsel (Corporate), the Office of Associate Chief Counsel (Financial Institutions and Products), the Office of Associate Chief Counsel (Income Tax and Accounting), the Office of Associate Chief Counsel (International), the Office of Associate Chief Counsel (Passthroughs and Special Industries), the Office of Associate Chief Counsel (Procedure and Administration), or the Office of Associate Chief Counsel (Tax Exempt and Government Entities) responsible for substantive interpretations of the principal Internal Revenue Code section on which you are seeking a letter ruling to discuss the likelihood of an exception. For matters under the jurisdiction of— (a) the Office of Associate Chief Counsel (Corporate), the Office of Associate Chief Counsel (Financial Institutions and Products), the Office of Associate Chief Counsel (Income Tax and Accounting), the Office of Associate Chief Counsel (Passthroughs and Special Industries), or the Office of Associate Chief Counsel (Tax Exempt and Government Entities), the Office of the Associate Chief Counsel (Procedure and Administration), the appropriate branch to call may be obtained by calling (202) 317-5221 (not a toll-free call); (b) the Office of the Associate Chief Counsel (International), the appropriate branch to call may be obtained by calling (202) 317-6888 (not a toll-free call).

Exhibit PM-1

Yes No [✓ N/A] Page ____	4. If the request involves a retirement plan qualification matter under § 401(a), § 409, or § 4975(e)(7), have you demonstrated that the request satisfies the three criteria in section 4.02(12) of Rev. Proc. 2015–3, this Bulletin, for a ruling?
Yes No [✓ N/A] Page ____	5. If the request deals with a completed transaction, have you filed the return for the year in which the transaction was completed? *See* section 5.01.
Yes [✓ No]	6. Are you requesting the letter ruling on a hypothetical situation or question? *See* section 6.12.
Yes [✓ No]	7. Are you requesting the letter ruling on alternative plans of a proposed transaction? *See* section 6.12.
Yes [✓ No]	8. Are you requesting the letter ruling for only part of an integrated transaction?
Yes [✓ No]	9. Are you requesting a letter ruling under the jurisdiction of Associate Chief Counsel (Corporate) on a significant issue (within the meaning of section 3.01(48) of Rev. Proc. 2015–3, this Bulletin) with respect to a transaction described in § 332, 351, 355, or 1036 or a reorganization within the meaning of § 368? *See* section 6.03.
Yes [✓ No]	10. Are you requesting the letter ruling for a business, trade, industrial association, or similar group concerning the application of tax law to its members? *See* section 6.05.
Yes [✓ No]	11. Are you requesting the letter ruling for a foreign government or its political subdivision? *See* section 6.07.
[✓ Yes] No Pages 1-8	12. Have you included a complete statement of all the facts relevant to the transaction? *See* section 7.01(1).
Yes No [✓ N/A]	13. Have you submitted with the request true copies of all wills, deeds, and other documents relevant to the transaction, and labeled and attached them in alphabetical sequence? *See* section 7.01(2).
Yes No [✓ N/A]	14. Have you submitted with the request a copy of all applicable foreign laws, and certified English translations of documents that are in a language other than English or of foreign laws in cases where English is not the official language of the foreign country involved? *See* section 7.01(2).
[✓ Yes] No	15. Have you included an analysis of facts and their bearing on the issues? Have you included, rather than merely incorporated by reference, all material facts from the documents in the request? *See* section 7.01(3).
[✓ Yes] No Page 29	16. Have you included the required statement regarding whether any return of the taxpayer (or any return of a related taxpayer within the meaning of § 267 or of a member of an affiliated group of which the taxpayer is also a member within the meaning of § 1504) who would be affected by the requested letter ruling or determination letter is currently or was previously under examination, before Appeals, or before a Federal court? *See* section 7.01(4).
[✓ Yes] No Page 29	17. Have you included the required statement regarding whether the Service previously ruled on the same or similar issue for the taxpayer, a related taxpayer, or a predecessor? *See* section 7.01(5)(a).
[✓ Yes] No Page 29	18. Have you included the required statement regarding whether the taxpayer, a related taxpayer, a predecessor, or any representatives previously submitted a request (including an application for change in method of accounting) involving the same or similar issue but withdrew the request before the letter ruling or determination letter was issued? *See* section 7.01(5)(b).
[✓ Yes] No Page 30	19. Have you included the required statement regarding whether the taxpayer, a related taxpayer, or a predecessor previously submitted a request (including an application for change in method of accounting) involving the same or similar issue that is currently pending with the Service? *See* section 7.01(5)(c).
[✓ Yes] No Page 30	20. Have you included the required statement regarding whether, at the same time as this request, the taxpayer or a related taxpayer is presently submitting another request (including an application for change in method of accounting) involving the same or similar issue to the Service? *See* section 7.01(5)(d).
Yes No [✓ N/A] Page ____	21. If your request involves the interpretation of a substantive provision of an income or estate tax treaty, have you included the required statement regarding whether the tax authority of the treaty jurisdiction has issued a ruling on the same or similar issue for the taxpayer, a related taxpayer, or a predecessor; whether the same or similar issue is being examined, or has been settled, by the tax authority of the treaty jurisdiction or is otherwise the subject of a closing agreement in that jurisdiction; and whether the same or similar issue is being considered by the competent authority of the treaty jurisdiction? *See* section 7.01(6).
Yes No [✓ N/A] Page ____	22. If your request is for recognition of Indian tribal government status or status as a political subdivision of an Indian tribal government, does your request contain a letter from the Bureau of Indian Affairs regarding the tribe's status? *See* section 7.01(7), which states that taxpayers are encouraged to submit this letter with the request and provides the address for the Bureau of Indian Affairs.

Exhibit PM-1

[✓ Yes] No Page 9-13	23. Have you included the required statement of relevant authorities in support of your views? *See* section 7.01(8).
[✓ Yes] No Page 30	24. Have you included the required statement regarding whether the law in connection with the request is uncertain and whether the issue is adequately addressed by relevant authorities? *See* section 7.01(8).
[✓ Yes] No Page 13-29	25. Does your request discuss the implications of any legislation, tax treaties, court decisions, regulations, notices, revenue rulings, or revenue procedures that you determined to be contrary to the position advanced? *See* section 7.01(9), which states that taxpayers are encouraged to inform the Service of such authorities.
[✓ Yes] No Page 30	26. If you determined that there are no contrary authorities, have you included a statement to this effect in your request? *See* section 7.01(9).
[✓ Yes] No N/A Page 30	27. Have you included in your request a statement identifying any pending legislation that may affect the proposed transaction? *See* section 7.01(10).
[✓ Yes] No	28. Have you included the deletion statement required by § 6110 and placed it on top of the letter ruling request as required by section 7.01(11)(b)?
[✓ Yes] No Page 31	29. Have you (or your authorized representative) signed and dated the request? *See* section 7.01(12).
[✓ Yes] No N/A	30. If the request is signed by your representative or if your representative will appear before the Service in connection with the request, is the request accompanied by a properly prepared and signed power of attorney with the signatory's name typed or printed? *See* section 7.01(14).
[✓ Yes] No Page 32	31. Have you signed, dated, and included the penalties of perjury statement in the format required by section 7.01(15)?
[✓ Yes] No N/A	32. Are you submitting your request in duplicate if necessary? *See* section 7.01(16).
Yes No [✓ N/A] Page ____	33. If you are requesting separate letter rulings on different issues involving one factual situation, have you included a statement to that effect in each request? *See* section 7.02(1).
[✓ Yes] No N/A	34. If you want copies of the letter ruling sent to a representative, does the power of attorney contain a statement to that effect? *See* section 7.02(2).
Yes No [✓ N/A]	35. If you do not want a copy of the letter ruling to be sent to any representative, does the power of attorney contain a statement to that effect? *See* section 7.02(2).
Yes No [✓ N/A]	36. If you are making a two-part letter ruling request, have you included a summary statement of the facts you believe to be controlling? *See* section 7.02(3).
Yes No [✓ N/A] Page ____	37. If you want your letter ruling request to be processed ahead of the regular order or by a specific date, have you requested expedited handling in the manner required by section 7.02(4) and stated a compelling need for such action in the request? *See* section 7 .02(4) of this revenue procedure.
Yes No [✓ N/A] Page ____	38. If you are requesting a copy of any document related to the letter ruling request to be sent by facsimile (fax) transmission, have you included a statement to that effect? *See* section 7.02(5).
[✓ Yes] No N/A Page 31	39. If you want to have a conference on the issues involved in the request, have you included a request for conference in the letter ruling request? *See* section 7.02(6).
[✓ Yes] No	40. Have you included the correct user fee with the request and is your check or money order in U.S. dollars and payable to the Internal Revenue Service? *See* section 15 and Appendix A to determine the correct amount.
Yes No [✓ N/A] Page ____	41. If your request involves a personal, exempt organization, governmental entity, or business-related tax issue and you qualify for the reduced user fee because your gross income is less than $250,000, have you included the required certification? *See* paragraphs (A)(4)(a) and (B)(1) of Appendix A.
Yes No [✓ N/A] Page ____	42. If your request involves a personal, exempt organization, governmental entity, or business-related tax issue and you qualify for the reduced user fee because your gross income is less than $1 million, have you included the required certification? *See* paragraphs (A)(4)(b) and (B)(1) of Appendix A.

Exhibit PM-1

Yes No [✓ N/A] Page ____ 43. If you qualify for the user fee for substantially identical letter rulings, have you included the required information? *See* section 15.07(2) and paragraph (A)(5)(a) of Appendix A.

Yes No [✓ N/A] Page ____ 44. If you qualify for the user fee for a § 301.9100 request to extend the time for filing an identical change in method of accounting on a single Form 3115, *Application for Change in Accounting Method,* have you included the required information? *See* section 15.07(4) and paragraph (A)(5)(d) of Appendix A.

Yes No [✓ N/A] 45. If your request is covered by any of the checklists, guideline revenue procedures, notices, safe harbor revenue procedures, or other special requirements listed in Appendix E, have you complied with all of the requirements of the applicable revenue procedure or notice?

[✓ N/A] List other applicable revenue procedures or notices, including checklists, used or relied upon in the preparation of this letter ruling request (Cumulative Bulletin or Internal Revenue Bulletin citation not required).

Yes No [✓ N/A] Page ____ 46. If you are requesting relief under § 7805(b) (regarding retroactive effect), have you complied with all of the requirements in section 11.11?

Yes No [✓ N/A] 47. If you are requesting relief under § 301.9100 for a late entity classification election, have you included a statement that complies with section 4.04 of Rev. Proc. 2009-41, 2009-39 I.R.B. 439? *See* section 5.03(5) of this revenue procedure.

Yes No [✓ N/A] 48. If you are requesting relief under § 301.9100, and your request involves a year that is currently under examination or with appeals, have you included the required notification, which also provides the name and telephone number of the examining agent or appeals officer? *See* section 7.01(4) of this revenue procedure.

Yes No [✓ N/A] 49. If you are requesting relief under § 301.9100, have you included the affidavit(s) and declaration(s) required by § 301-9100-3(e)? See § 5.03(1) of this revenue procedure

Yes No [✓ N/A] 50. If you are requesting relief under § 301.9100–3, and the period of limitations on assessment under § 6501(a) will expire for any year affected by the requested relief before the anticipated receipt of a letter ruling, have you secured consent under § 6501(c)(4) to extend the period of limitations on assessment for the year(s) at issue? See § 5.03(2) of this revenue procedure.

[✓ Yes] No 51. Have you addressed your request to the attention of the Associate Chief Counsel (Corporate), the Associate Chief Counsel (Financial Institutions and Products), the Associate Chief Counsel (Income Tax and Accounting), the Associate Chief Counsel (International), the Associate Chief Counsel (Passthroughs and Special Industries), the Associate Chief Counsel (Procedure and Administration), or the Associate Chief Counsel (Tax Exempt and Government Entities), as appropriate? The mailing address is:

Internal Revenue Service
Attn: CC:PA:LPD:DRU
P.O. Box 7604
Ben Franklin Station
Washington, DC 20044

If a private delivery service is used, the address is:

Internal Revenue Service
Attn: CC:PA:LPD:DRU, Room 5336
1111 Constitution Ave., NW
Washington, DC 20224

The package should be marked: RULING REQUEST SUBMISSION. Improperly addressed requests may be delayed (sometimes for over a week) in reaching CC:PA:LPD:DRU for initial processing.

Signature ____ Attorney for Atmos Energy Company
Authorized Representative

Date: 1/8/15

Typed or printed name of person signing checklist James I. Warren

Exhibit PM-1

Deletion Statement

Exhibit PM-1

MILLER
CHEVALIER

DELETION STATEMENT

For purposes of Section 6110(c)(1) of the Internal Revenue Code of 1986, as amended, Taxpayer requests the deletion of all names, addresses, EINs, locations, dates, amounts, regulatory bodies and other taxpayer identifying information contained in the attached request for private letter ruling.

Taxpayer reserves the right to review, prior to disclosure to the public, any information related to this request for private letter ruling and to provide redacted copies of any documents to be released to the public.

Date: 1/9/15

James I. Warren

James I. Warren
Miller & Chevalier Chartered
Attorney for Atmos Energy Corporation

Exhibit PM-1

Private Letter Ruling Request

Exhibit PM-1

MILLER
CHEVALIER

James I. Warren
Partner
(202) 626-5959
jwarren@milchev.com

January 9, 2015

VIA HAND DELIVERY

Associate Chief Counsel
Passthroughs & Special Industries
Courier's Desk
Internal Revenue Service
Attn: CC:PA:LPD:DRU, Room 5336
1111 Constitution Avenue, NW
Washington, DC 20224

Re: Ruling Request for Atmos Energy Corporation (EIN# 75-1743247)

Dear Sir or Madam:

A ruling is respectfully requested on behalf of Atmos Energy Corporation ("Atmos Energy" or "Taxpayer") regarding the application of the depreciation normalization rules of §168(i)(9) of the Internal Revenue Code of 1986, as amended ("Code"), and Treas. Reg. §1.167(l)-1 (together, "Normalization Rules") to certain accounting and regulatory procedures which are described in detail hereafter.

STATEMENT OF FACTS

Taxpayer

Atmos Energy is incorporated under the laws of Texas and Virginia. Its principal place of business is located at Three Lincoln Center, Suite 1800, 5430 LBJ Freeway, Dallas, Texas 75240, its telephone number is (972) 934-9227 and its taxpayer identification number is 75-1743247. Taxpayer employs the accrual method of accounting and reports on the basis of a fiscal year ending September 30.

Exhibit PM-1

Atmos Energy is the common parent of an affiliated group of corporations that join in the filing of a consolidated federal income tax return. This return is filed with the Internal Revenue Service Center in Ogden, Utah and Taxpayer is under the audit jurisdiction of the Large Business and International Division of the Internal Revenue Service ("IRS" or "Service").

Taxpayer's Business

Atmos Energy is engaged primarily in the regulated natural gas distribution business, the regulated transmission and storage businesses and, through affiliates, in other non-regulated natural gas businesses. Its regulated natural gas distribution business delivers natural gas to approximately 3.1 million customers in Colorado, Kansas, Texas, Louisiana, Mississippi, Tennessee, Kentucky, and Virginia.

This ruling request stems from a recent rate case proceeding involving Atmos Energy's gas distribution business in Kentucky ("Atmos KY"). Taxpayer serves approximately 173,000 residential, commercial, and industrial customers in central and western Kentucky. Atmos KY is subject to regulation by the Kentucky Public Service Commission ("KPSC") with respect to the terms and conditions of service and particularly as to the rates it can charge for the provision of service. Its rates are established by the KPSC on a "rate of return" (*i.e.*, cost) basis.

Taxpayer's Accounting for Its Projected Net Operating Loss Carryforward

Taxpayer incurred net operating loss carryforwards ("NOLCs") during its tax years 2009, 2010, 2011 and 2012. In each of those years, Taxpayer claimed accelerated (including bonus) depreciation to the extent it was available. As of September 30, 2012, Taxpayer' regulated utility operations had produced a federal NOLC of approximately $960 million.

Where an excess of tax deductions over book expenses reduces Taxpayer's positive taxable income, such deductions reduce (*i.e.*, defer) the tax liability it would otherwise pay and, thereby, produce incremental cash flow for use by Taxpayer. For financial reporting purposes, the existence of this incremental cash is recorded in a set of entries which results in crediting (increasing) a reserve for deferred taxes. The following example illustrates the federal income tax-related accounting entries, given the following assumptions:[1]

ASSUMPTIONS	
Pre-tax book income	$1,000
Tax deductions in excess of book expenses	$1,000
Taxable income	$0
Tax rate	35%

ACCOUNTING ENTRIES		
	DR.	CR.
Current tax expense (a/c 409 – income)	$0	
Taxes payable (a/c 236 – balance sheet)		$0
Deferred tax expense (a/c 410 – income)	$350	
Accumulated deferred taxes (a/c 282 and 283 – balance sheet)		$350

---

[1] The designation "a/c" refers to the account number used by Taxpayer in its accounting records, including its regulated books of account. These account numbers are prescribed by the Federal Energy Regulatory Commission.

Exhibit PM-1

In the example, total tax expense is $350, all of which is deferred tax expense. The accumulated deferred income tax ("ADIT") accounts reflect a $350 balance.

However, when Taxpayer incurs a tax net operating loss that results in an NOLC, some portion of the deductions claimed in that period does not, in fact, defer tax. That portion merely creates or increases the NOLC. Thus, while this portion has the capacity to reduce Taxpayer's tax payments in the future, it has not yet done so. When an NOLC occurs, Taxpayer makes a set of accounting entries that reflect these economics. An example follows which illustrates the federal income tax-related accounting entries when an NOLC occurs, given the following assumptions:

ASSUMPTIONS	
Pre-tax book income	$1,000
Tax deductions in excess of book expenses	$2,500
Taxable loss/NOLC	($1,500)
Tax rate	35%

Exhibit PM-1

ACCOUNTING ENTRIES		
Basic entries before NOLC impact:	DR.	CR.
Current tax expense (a/c 409 – income)	$0	
Taxes payable (a/c 236 – balance sheet)		$0
Deferred tax expense (a/c 410 – income)	$875	
Accumulated deferred taxes (a/c 282 and 283 – balance sheet)		$875
Entries to reflect the impact of the NOLC:		
Deferred tax assets (a/c 190 – balance sheet)	$525	
Deferred tax expense (a/c 410 – income)		$525

When the two sets of entries described above are combined, the net entries are as follows:

COMBINED ACCOUNTING ENTRIES		
	DR.	CR.
Current tax expense (a/c 409 – income)	$0	
Taxes payable (a/c 236 – balance sheet)		$0
Deferred tax expense (a/c 410 – income)	$350	
Deferred tax assets (a/c 190 – balance sheet)	$525	
Accumulated deferred taxes (a/c 282 and 283 – balance sheet)		$875

In the example, total tax expense is again $350, all of which is deferred tax expense. The deferred income tax expense attributable to the tax deductions in excess of book expenses ($2,500 X 35% or $875) is reduced by the negative deferred income tax expense related to the NOLC ($1,500 X 35% or $525). The combined ADIT accounts reflect a net $350 balance which

Exhibit PM-1

consists of two components - $875 in a/c 282 and 283 (deferred tax liability or "DTL") and an offsetting $525 in a/c 190 (deferred tax asset or "DTA").

Taxpayer's Recent Kentucky Rate Case

On May 13, 2013, Taxpayer filed an application with the KPSC to change its rates (Case No. 2013-00148).[2] Its proposed increase was based on a fully forecasted test period consisting of the twelve months ending on November 30, 2014. Taxpayer derived its rate base by applying a 13-month average to its forecasted test period data. Taxpayer updated, amended and supplemented its data several times during the course of the proceedings. In computing its income tax expense element of cost of service, Taxpayer normalized the tax benefits attributable to accelerated depreciation. In the setting of utility rates in Kentucky, a utility's rate base is offset by its ADIT balance. In a Final Order dated April 22, 2014 ("Final Order"), the KPSC approved a rate adjustment for service rendered on or after January 24, 2014. A copy of the Final Order is appended as Attachment 1.

Ratemaking for Taxpayer's NOLCs

In its computation of jurisdictional rate base in the above-referenced rate filing, Taxpayer reflected a reduction of approximately $46 million on account of its projected ADIT balance. This balance included both federal and state ADIT. The amount reflected (1) an allocation of Taxpayer's total utility operation ADIT balance to its Kentucky gas distribution operations and

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[2] This filing was accepted as a complete filing on June 24, 2013.

(2) the application of the 13-month average convention used for all elements of rate base. The $46 million amount was comprised of two components: a DTL of approximately $66 million derived from Taxpayer's non-NOLC-related deferred tax items (primarily, its a/c 282 and 283 balances) and a DTA of approximately $20 million attributable to Taxpayer's federal and state NOLCs (reflected in its a/c 190).

In its rate case filing and throughout the proceeding, Taxpayer maintained that the proper amount of ADIT by which its test year rate base should be reduced was the net of its approximately $66 million DTL and its approximately $20 million NOLC-related DTA. It based this position on the fundamental economic fact that this net amount represented the true measure of income taxes actually deferred in connection with the Kentucky gas distribution operation and, hence, it represented the quantity of "cost-free" capital available to that business. Taxpayer further asserted that a failure to incorporate into its ADIT balance calculation the NOLC-related balance in a/c 190 would be inconsistent with the Normalization Rules (discussed in detail hereafter).

During the proceeding, the Kentucky Office of the Attorney General ("AG") argued that Taxpayer should not be permitted to incorporate the tax effect of its NOLC into its ADIT calculation and proposed to reduce rate base by approximately $66 million on account of ADIT instead of the $46 million proposed by Taxpayer. The AG supported its proposal by asserting:

1. The portion of Taxpayer's NOLC-related DTA are increasing over time;

2. If Taxpayer's NOLC expires unused then customers would be paying a return on a benefit that will never exist;
3. The Normalization Rules do not require the recognition of the NOLC-related DTA; and
4. One other regulatory jurisdiction (West Virginia) has ignored a utility's NOLC-related DTA in computing its ADIT balance.

In its Final Order, the KPSC described the disagreement between Taxpayer and the AG regarding the recognition of the NOLC-related DTA in the computation of rate base and concluded:

> The Commission is not persuaded by the AG's argument. While there is some ambiguity in the Treasury regulations cited by the AG and Atmos-Ky. on the subject of NOLCs, we are unable to agree with the AG that a tax normalization violation would not result from a decision to remove NOLCs from Atmos-Ky.'s rate base. The AG has not made a compelling argument for why, from a ratemaking perspective, it would be reasonable to adopt his recommendation.[3]

The KPSC further stated:

> Although we are rejecting the AG's proposal, the aforementioned ambiguity in the governing regulations and the significantly different interpretations of those regulations by the AG and Atmos-KY. cause the Commission to conclude that it would be beneficial to have a more definitive assessment of this issue. Therefore, we find that Atmos-KY. should seek a private-letter ruling from the IRS with the intent that such ruling be filed with the application in Atmos-KY.'s next general rate case.[4]

This request for a private letter ruling ("PLR") is being submitted pursuant to the Final Order.

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[3] Final Order at pages 6-7.
[4] Final Order at page 7.

RULINGS REQUESTED[5]

Taxpayer respectfully requests the following rulings:

1. *Under the circumstances described above, the reduction of Taxpayer's rate base by the balance of its ADIT accounts 282 and 283 unreduced by its NOLC-related deferred tax account (a/c 190) balance would be inconsistent with (and, hence, violative of) the requirements of Code §168(i)(9) and Treasury Regulations §1.167(l)-1.*

2. *For purposes of Ruling 1 above, the use of a balance of Taxpayer's NOLC-related deferred tax account (a/c 190) that is less than the amount attributable to accelerated depreciation computed on a "last dollars deducted" basis would be inconsistent with (and, hence, violative of) the requirements of Code §168(i)(9) and Treasury Regulations §1.167(l)-1.*

STATEMENT OF LAW

Former Code §38(c)(1) provided that an investment tax credit ("ITC") is allowed only to the extent its use is not limited by the taxpayer's tax liability.

Code §168(f)(2) provides that MACRS depreciation does not apply to any public utility property if the taxpayer does not use a normalization method of accounting.

Code §168(i)(9) provides that, in order to use a normalization method of accounting, if a taxpayer claims a depreciation deduction that differs from its regulatory depreciation, the

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[5] Taxpayer recognizes that the Normalization Rules apply only to the benefits of accelerated depreciation. With regard to a/c 283, none of the balance relates to accelerated depreciation and, hence, this portion of Taxpayer's ADIT balance is not subject to the normalization rules. With regard to a/c 282, some of the account balance relates to accelerated depreciation. Some relates to other items such as state taxes and repairs. Thus, some, but not all, of this balance will be subject to the Normalization Rules. With regard to a/c 190, only the portion of the account balance that is attributable to the federal NOLC produced by claiming accelerated depreciation is subject to the Normalization Rules. Henceforth in this ruling request, references to balances in a/c 282 and a/c 190 will denote the portion of those account balances that are subject to the Normalization Rules.

Exhibit PM-1

taxpayer must make an adjustment to a reserve to reflect the deferral of taxes resulting from such difference. It further provides that any procedure or adjustment that is used for tax expense, depreciation expense or the reserve for deferred taxes must be used with respect to the other two and with respect to rate base.

Treas. Reg. §1.46-6(g)(2) provides that the ITC normalization rules permit the ratable amortization only of ITC "allowed."

Treas. Reg. §1.167(l)-1(h)(1)(iii) provides that, if, in respect of any year, the use of other than regulatory depreciation for tax purposes results in an NOLC carryover (or an increase in an NOLC which would not have arisen had the taxpayer claimed only regulatory depreciation for tax purposes), then the amount and time of the deferral of tax liability shall be taken into account in such appropriate time and manner as is satisfactory to the district director.

Treas. Reg. §1.167(l)-1(h)(6)(i) provides that a taxpayer does not use a normalization method of accounting if the reserve by which rate base is reduced exceeds the amount of such reserve used in determining the taxpayer's expense in computing cost of service in such ratemaking.

PLRs 7836038 (June 8, 1978) and 7836048 (June 9, 1978) both addressed the use by California regulators of the "average annual adjustment method" ("AAAM") for setting rates. In each of the rulings, the Service held that the AAAM violated the Normalization Rules because it flowed through a portion of the reserve for deferred taxes to customers.

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PLR 8818040 (February 9, 1988) involved a taxpayer who generated NOLCs in 1985 and 1986 which it carried forward and used to offset taxable income in 1987. Accelerated depreciation claimed with respect to public utility property contributed to the NOLCs. The tax rate was 46% in both 1985 and 1986 and was 39.95% in 1987. The taxpayer recorded no deferred taxes applicable to the depreciation that produced the NOLCs in the years in which the deductions were claimed (1985 and 1986) but, instead, recorded the applicable deferred taxes in 1987 when the NOLCs were absorbed at the lower 39.95% tax rate in effect in that year. The Service held that this procedure complied with the Normalization Rules.

PLR 8903080 (October 26, 1988) addressed, *inter alia*, a situation in which the taxpayer generated an NOL which could be carried back to a year in which the tax rate was higher than the tax rate applicable to the year in which the NOL was generated. The Service ruled that the allocation of the benefit of the higher tax rate ratably to all book-tax timing differences, including accelerated depreciation, incurred in the NOL year complied with the Normalization Rules.

PLR 9309013 (December 1, 1992) involved a utility taxpayer who had made an election to treat its ITC pursuant to the requirements of former Code §46(f)(2). The taxpayer claimed ITC with respect to certain public utility property but was unable to use credit due to the limitation based on its tax liability of Code §38(c)(1). The unused ITC was carried forward. The Service ruled that the ITC normalization rules (of former Code §46(f)) would be violated if the

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ITC was used to reduce cost of service in a period before it was used as an offset against Federal income tax.

In PLR 9336010 (June 7, 1993) the Service again addressed a situation in which the taxpayer generated an NOL which could be carried back to a year in which the tax rate was higher than the tax rate applicable to the year in which the NOL was generated. The question raised was the extent to which the NOL carryback was attributable to accelerated depreciation and, hence, gave rise to excess deferred taxes. The Service held that, if no particular items caused the NOL, then an appropriate methodology would be the pro rata allocation of the excess deferred taxes to all timing differences for the year of the NOL.

In PLR 201418024 (May 2, 2014), the Service addressed the implications under the Normalization Rules of the treatment of a utility taxpayer's NOLC. In setting rates, the utility's regulators reduced the utility's rate base by its ADIT balance. The utility had an NOLC-related DTA that was attributable to accelerated depreciation deductions. The utility argued that the Normalization Rules required that its DTA be factored into the ADIT computation for this purpose. The regulators asserted that their process for setting rates already recognized the effects of the utility's NOLCs insofar as it included "a provision for deferred taxes based on the entire difference between accelerated tax and regulatory depreciation, including situations in which a utility has an NOLC . . ." The Service concluded that, if the regulators took the effect of the NOLC into account when establishing the tax expense element of cost of service, as they asserted they did, then the Normalization Rules did not require that the DTA to also be considered in the determination of rate base.

In PLRs 201436037, 201436038 (both September 5, 2014) and 201438003 (September 19, 2014) the Service addressed the treatment of NOLCs in ratemaking. In each of those rulings the Service concluded that (1) to the extent that the taxpayer's NOLC-related DTA is attributable to accelerated depreciation, it must reduce the ADIT balance by which rate base is reduced and (2) the NOLC is attributable to accelerated depreciation to the extent that the claiming of accelerated depreciation created or increased the NOLC in the taxable year (*i.e.*, a "last dollars deducted" computation).

DISCUSSION AND ANALYSIS

Requested Ruling #1.

As a result of Taxpayer's accumulated NOLCs, its ability to benefit from some of its accelerated depreciation tax deductions has been delayed until such time as the NOLCs can be used to offset future taxable income and thereby reduce a future tax liability. Treas. Reg. §1.167(l)-1(h)(1)(iii) is the only place in the normalization regulations in which an NOLC is mentioned. That subparagraph applies when a taxpayer produces an NOLC and claims depreciation deductions that exceed regulatory (*i.e.*, book) depreciation for the year. In such a situation, the section provides that the tax deferral shall be taken into account for regulatory purposes in such time and manner as is satisfactory to the district director.[6]

This provision indicates, at the very least, that the Normalization Rules factor into the timing of tax benefit recognition where there is an NOLC. In other words, it identifies an NOLC situation as one that is distinctive under the Normalization Rules. The very existence of this language indicates that the regulatory treatment of an NOLC has normalization implications. The involvement of the district director would, of course, be unnecessary unless the timing and manner of benefit recognition was important to compliance with the Normalization Rules. So, while this provision may not prescribe a definitive answer regarding what the Normalization Rules actually require, it indicates that they are implicated when a utility has both an NOLC and accelerated depreciation in the same year.

PLR 8818040 specifically addressed the application of the Normalization Rules in the context of an NOLC. In that ruling, the Service described the circumstances of a utility taxpayer with an NOLC as follows:

> However, the taxpayer did not realize the entire tax benefit from the ACRS depreciation claimed in 1985 and 1986 because the depreciation resulted in a NOL carryover to 1987. Therefore, in order to reflect the tax benefit of the NOL carryover to 1987, the taxpayer reduced its deferred Federal income tax expense and liability for 1985 and 1986 for financial reporting purposes. The net effect of this accounting in 1985 and 1986 was to record no deferred taxes applicable to the amount of ACRS depreciation that produced no current tax savings but rather

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[6] This regulation section employs a "last dollars deducted" measurement in order to determine whether the district director's discretion comes into play. That is, accelerated depreciation is deemed to be the last deduction claimed.

> caused or increased taxpayer's NOL carryover to 1987. The taxpayer only recorded deferred taxes applicable to ACRS when and to the extent that the use of ACRS produced an actual tax deferral.

The Service concluded that, where the utility produced NOLCs in years in which it claimed accelerated depreciation, its decision not to "book" deferred taxes in the years in which the deductions were claimed and its "booking" of deferred taxes in the year in which the NOLCs were eventually used was consistent with the Normalization Rules.[7] This PLR confirms that NOLCs must pass muster under the Normalization Rules.

Treas. Reg. §1.167(l)-1(h)(6)(i) is potentially much more directly relevant to Taxpayer's situation. This provision imposes a limitation on the extent to which a taxpayer can reduce its rate base by its ADIT reserve. The provision requires that any ADIT balance used to reduce rate base must have been reflected as deferred tax expense in computing cost of service. In other words, there is a necessary connection between deferred taxes in cost of service and the permissible ADIT balance by which rate base can be reduced. From an accounting as well as an economic perspective, such a connection clearly does exist. This provision of the regulations suggests that, as a condition of complying with the Normalization Rules, this connection must also exist in establishing rates.

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[7] Note, however, that the issue in PLR 8818040 was not the limitation on the amount by which rate base can be reduced. It was the computation of the tax expense element of cost of service. Therefore, though the situation was similar to Taxpayer's, the Service's holding is not directly relevant to this ruling request. Moreover, in that ruling the Service held that the taxpayer's delay in the booking of its deferred taxes was consistent with the Normalization Rules - not that to do otherwise would not be.

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The regulation itself offers no rationale for this rule. One can, however, surmise that it was intended to preclude the extraction of the benefits of accelerated depreciation by inflating an ADIT balance beyond the amount that is economically justified. In fact, this was the basis upon which the Service found the AAAM used by the regulators in California inconsistent with the Normalization Rules in PLRs 7836038 and 7836048. The "consistency rules" of Code §168(i)(9)(B) make (and were enacted to make) absolutely clear that identical ratemaking conventions must be applied to the computation of depreciation expense, tax expense, the ADIT reserve and rate base. In recognizing ADIT for purposes of computing rate base that has not been reflected in tax expense, two differing conventions are being applied and that contravenes the consistency rules.

The ITC normalization rules of former Code §46(f) address a situation possibly analogous to Taxpayer's. Under those rules, a taxpayer is not permitted to commence the amortization of its ITC until the credit is used to reduce its Federal income tax liability. See PLR 9309013. Thus, under this "other" branch of the normalization rules, utility taxpayers are prohibited from providing the benefit of a protected tax attribute (ITC) to ratepayers before they themselves receive the benefit. To do otherwise would violate the ITC normalization rules.

Because the "fronting" of a tax benefit in such a way diminishes the value of the benefit to the utility, the protection of the value of ITC to a utility taxpayer described above suggests a counterpart requirement in the case of accelerated depreciation. Providing ratepayers a benefit produced by accelerated depreciation before that deduction reduces a tax liability economically diminishes the value of accelerated depreciation. That is what occurs where the effect of an NOLC is not considered in ratemaking. In fact, and counterintuitively, a utility subject to such ratemaking (that is, ratemaking that ignores the ADIT impact of the NOLC) would be better off not claiming accelerated depreciation to the extent it creates or increases an NOLC. If the utility did not claim these additional depreciation deductions, the tax it paid would not be impacted – it would still be zero. However, absent the NOLC, the utility would not reflect additional and offsetting amounts in a/c 282 and a/c 190. As a result, its rate base would not be reduced by the incremental balance in a/c 282. In short, its rate base would not be reduced by the tax benefit of tax deferrals that have not yet occurred.

A review of the accounting entries on page 5 of this request demonstrates the Normalization Rule problem with the failure to recognize an NOLC-related DTA in the computation of rate base. Where there is an NOLC, the combined accounting entries are as follows:

	DR.	CR.
Current tax expense (a/c 409 – income)	$0	
Taxes payable (a/c 236 – balance sheet)		$0
Deferred tax expense (a/c 410 – income)	$350	
Deferred tax assets (a/c 190 – balance sheet)	$525	
Accumulated deferred taxes (a/c 282 – balance sheet)		$875

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The table indicates that, in the example, the deferred tax expense included in cost of service is $350. If the DTA (a/c 190) is ignored for purposes of determining the quantity of ADIT by which to offset rate base, that offset amount would be $875. Consequently, the rate base offset ($875) would exceed the deferred tax expense included in cost of service ($350), a situation that, on its face, conflicts with the Normalization Rule requirement of consistency.

Treas. Reg. §1.167(l)-1(h)(2) provides that no specific bookkeeping is necessary to record an ADIT reserve required by the Normalization Rules so long as the amount of the reserve is identifiable. There is no reference to a single account. The strong implication is that all relevant accounts must be included in its computation. In terms of the limitation imposed by Treas. Reg. §1.167(l)-1(h)(1)(iii), this means that the ADIT reserve subject to the limitation is not restricted to Taxpayer's a/c 282 balance only. The two accounts (a/c 282 and a/c 190) together constitute the ADIT reserve for this purpose. Alternatively, the balance in a/c 282 reflects an amount that exceeds the tax deferred by virtue of claiming accelerated depreciation. In computing the limitation on the amount by which rate base can be reduced, the ADIT balance must be adjusted to conform to the requirements of the Normalization Rules – that is, it must be reduced by an amount equal to the balance in a/c 190.

More directly on point was the Service's recent holding in PLR 201418024. In that ruling, the Service held that the Normalization Rules required that the utility's NOLC-related DTA be "taken into account" by the utility's regulators in establishing rates. The way in which the regulators asserted that they "took it into account" was by imposing on customers a deferred

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tax charge on the entire difference between book and tax depreciation whether or not the deduction created an NOLC. Under those circumstances, the Service ruled that the DTA did not have to be included in the ADIT calculation because it had already been "taken into account" in computing tax expense. The type of ratemaking for the DTA claimed by the regulators in PLR 201418024 is not practiced (or even claimed to be practiced) by the regulators in Kentucky. In Taxpayer's context, if the NOLC-related DTA is not included in the calculation of rate base, then it is not "taken into account" at all, a consequence of which is that the treatment will be inconsistent with the Normalization Rules.

And even more recently, the Service addressed exactly this issue in PLRs 201436037, 201436038 and 201438003. In each of these rulings the Service ruled that, to the extent that the taxpayer's NOLC-related DTA was attributable to accelerated depreciation, it must be reflected in the computation of the ADIT balance by which rate base is reduced.

Requested Ruling #2.

By design, the Normalization Rules operate to effectively limit the discretion that regulators have with regard to the treatment of the benefits of accelerated depreciation and investment tax credits. As indicated above, the normalization restrictions only apply to the extent that an NOLC is attributable to accelerated depreciation. Thus, a methodology for determining the amount of an NOLC that is attributable to accelerated depreciation will also determine the extent to which regulators do or do not have discretion with regard to the treatment

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of that NOLC. This is, obviously, of critical importance to all parties to Taxpayer's rate proceedings.

Treas. Reg. §1.167(l)-1(h)(1)(iii) appears to be the only authority that addresses attribution for purposes of the Normalization Rules. The structure of this provision bears close examination. The first sentence sets out a general rule that clearly requires a "last dollars deducted" measurement procedure for determining the tax deferred by virtue of claiming accelerated depreciation. Under this method, an NOLC is attributable to accelerated depreciation to the extent of the lesser of (1) the accelerated depreciation claimed or (2) the amount of the NOLC. In effect, all deductions other than accelerated depreciation are offset against available taxable income prior to considering accelerated depreciation. The second sentence of the regulation provides another general rule – this one a timing rule for "taking into account" the tax deferred and measured pursuant to the first sentence. The third sentence then prescribes a different rule where there is an NOLC. The question is whether this third sentence is intended to prescribe a different rule for the timing of recognition of the tax deferred or, alternatively, for the way in which the tax deferred is measured – or, perhaps, for both. All that can be said is that this sentence specifies no alternative measurement procedure. Further, it fails to describe why or under what circumstances the general rule's "last dollars deducted" measurement procedure would be inappropriate.

In determining the portion of its NOLC (and, hence, its a/c 190 balance) that is attributable to accelerated depreciation subject to the Normalization Rules, Taxpayer presumed the "last dollars deducted" measurement methodology described in Treas. Reg. §1.167(l)-1(h)(1)(iii). Note that, for purposes of attributing excess deferred taxes to the items of deduction comprising an NOL carryback, the Service has twice ruled that the ratable allocation of such excess to all of the book-tax timing differences occurring in the NOL year is permissible under the Normalization Rules. *See* PLRs 8903080 and 9336010. Notwithstanding these PLRs, since Taxpayer has an NOLC and not an NOL carryback, it has presumed the "last dollars deducted" technique described in the regulations rather than the ratable allocation approach described in the two PLRs. In all cases, the "last dollars deducted" measurement methodology will attribute a larger amount of an NOLC to accelerated depreciation than would a "ratable allocation" approach. Thus, Requested Ruling #2 asks the Service to rule that the use of any method other than the "last dollars deducted" method would be inconsistent with the Normalization Rules.

The one certain aspect of Treas. Reg. §1.167(l)-1(h)(1)(iii) is that the Service has discretion in this area. One of the factors that should be relevant to the Service's determination as to the appropriate allocation method is the relationship between the necessity to allocate the NOL and the Normalization Rules. The fundamental question is whether the NOL allocation methodology represents an element of the Normalization Rules or, alternatively, is external to them. If the NOL allocation process is itself an element of those rules, then it shares the specific Congressional purpose with those rules and should be viewed as a tool for accomplishing that purpose. Since the specific purpose of the Normalization Rules is to preserve the benefits of accelerated depreciation deductions to utilities, an allocation procedure that maximizes the

Exhibit PM-1

preservation of those benefits would further that Congressional purpose. Further, any procedure that does not maximize the preservation of those benefits would not further the purpose. By contrast, if the NOL allocation process is external to the Normalization Rules, then it does not share that Congressional purpose. If that were the case, the NOL allocation should take place under general tax principles and any portion attributed to accelerated depreciation under that allocation should then be subject to the protective provisions of the Normalization Rules.

The necessity to allocate an NOL to accelerated depreciation is occasioned by the Normalization Rules and only those rules. Taxpayer is aware of no other reason under the tax law to perform this allocation. Thus, "but for" the Normalization Rules, this allocation would not be necessary. Therefore, the allocation process appears to be an element of those rules. Further, Taxpayer is not aware of any general tax principles governing the attribution of an NOL to a specific deduction which could be used to determine the amount to which the Normalization Rules apply (though there are a number of statutory attribution directives applicable to specific deductions which will be identified and described below).

There appear to be three main options available to the Service: it can conclude that the Normalization Rules accommodate any allocation methodology, that they do not require any single methodology but do impose a standard of some type or that they require a single, specified methodology.

Concluding that the Normalization Rules do not require any particular allocation methodology would be tantamount to a determination that the Normalization Rules do not apply to NOLCs. As a practical matter, the only limit this approach imposes would be in a situation where a taxpayer claims accelerated depreciation deductions in excess of its taxable revenues. Only then would at least some portion of the NOLC ***have*** to be attributed to accelerated depreciation. In all other cases, the NOLC could be attributed to other deductions and the Normalization Rules rendered inapplicable. Such a result would seem inconsistent with the Service's conclusion that the Normalization Rules do, in fact, apply to NOLCs as was indicated in PLRs 8903080 and 9336010 (which concluded that there was not unfettered discretion in allocating an NOL for purposes of the normalization rules), PLR 8818040 and, most especially, PLR 201418024.

Concluding that, while the Normalization Rules do impose a limitation on the allocation method used, more than one method may be permissible would provide regulatory discretion – though not unfettered discretion. If this were the case, there would need to be some very specific parameters provided to enable companies and regulators to distinguish between those methods that are permissible and those that are not. A failure to provide such parameters would create a "We can't define it but we know it when we see it" situation. This would almost ensure that every allocation methodology proposed by a utility, its regulators or rate case intervenors would need to be vetted with the National Office before being implemented. A flood of PLR requests would likely result. The uncertainty inherent in this approach renders it a very undesirable solution and, ultimately, the IRS will still have to address the very same issue in a piecemeal fashion.

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The adoption of a single, mandated allocation methodology should, depending on the specific method selected, avoid uncertainty and inconsistency. There appear to be three main allocation approaches available to the Service – "last dollars deducted", "first dollars deducted"[8] or some type of ratable allocation. Both the "first dollars deducted" and the "last dollars deducted" methodologies are simple, specific, transparent and would produce uniformity among taxpayers. Nothing other than "book" and tax depreciation would need to be quantified so that these methodologies would operate independently of financial accounting concepts and rules (aside from the concept of "book" depreciation – a well understood concept). These two methodologies would be difficult to manipulate so that it is highly likely that all taxpayers would be similarly treated. Finally, because the bases of computation ("book" and tax depreciation) used in these methodologies are so well understood, they would be resistant to controversy.

By contrast, a ratable allocation methodology inherently involves uncertainty – starting with the question of "ratable with regard to what?" The two PLRs that applied a ratable allocation methodology (PLRs 8903080 and 9336010) used all timing differences as the basis for allocation. An allocation on this basis is subject to uncertainty, variability and is based on questionable logic. Among the issues are:

1. There is no logical basis on which to distinguish between timing and permanent differences insofar as both have the same effect on taxable income;

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[8] "First dollars deducted" refers to the method that treats accelerated depreciation deductions as being the first deductions applied against taxable income before considering any other deductions.

2. Since there are both timing differences that increase (unfavorable) as well as decrease (favorable) taxable income, an allocation that is based on all timing differences requires both positive and negative allocations of an NOL – something that doesn't make inherent sense;
3. Even if the allocation is based only on favorable timing difference, there are favorable timing differences that relate to income items rather than deductions. An allocation to such a favorable timing item would be questionable since the purpose of the allocation is to distinguish between accelerated depreciation and other deductions;
4. If the allocation is based only on favorable timing differences or even only on favorable timing differences produced by deductions, the way in which a taxpayer nets or fails to net related favorable and unfavorable timing items can have a material impact on the result of the allocation. In other words, the allocation can vary depending entirely on presentation – not economics – and different companies have different practices in this regard; and
5. If the financial or regulatory accounting rules change for an item, then the NOL allocation would change even though there is no change in the tax law.

Though an allocation based purely on tax deductions (rather than book/tax timing differences) would de-link completely from financial reporting concepts, it would come with its own set of issues. Among these are:

1. For a utility that generates electricity, many costs that would otherwise be deductions are, for tax purposes, reflected in cost of goods sold which, as a technical matter, is not a deduction but an offset against revenues in deriving gross income;[9] and
2. The Normalization Rules do not actually apply to a tax deduction but to a portion of a tax deduction - the excess of accelerated over regulatory depreciation. Thus, allocating an NOL between deductions will not, itself, produce an amount of the NOL that is subject to the Normalization Rules.

In short, a ratable allocation methodology is questionable from a simplicity, administrability and uniformity perspective.

Returning to an evaluation of the two simpler options, "first dollars deducted" and "last dollars deducted", the choice between the two is relatively stark.

The "first dollars deducted" methodology minimizes the portion of any year's NOLC that is attributed to accelerated depreciation. In fact, using that methodology, the only time the normalization rules would impact the treatment of an NOLC is where a company's accelerated depreciation exceeds its taxable revenue for the year. This approach would clearly be inconsistent with the legislative intent of protecting the benefits of accelerated depreciation which underlies the Normalization Rules. Further, there is no instance of which Taxpayer is

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[9] Though Taxpayer is a gas utility, presumably whatever rule is applicable to it would be equally applicable to such a utility.

Exhibit PM-1

aware where a "first dollars deducted" approach is or has been used in a statute, regulation, ruling or other authority to determine the portion of an NOL attributable to any particular deduction.

By contrast, the "last dollars deducted" methodology maximizes the portion of an NOLC that is attributed to accelerated depreciation and, thus, this methodology appears most aligned with the purpose of the Normalization Rules. The tax benefits of accelerated depreciation will be protected to the extent accelerated depreciation was claimed. In fact, it is not unusual for the Code to employ a "last dollars deducted" approach to allocating an NOL to a specific tax deduction both where the deduction has been identified for especially beneficial treatment and, in one instance, where it has been identified for especially unfavorable treatment. The following Code provisions all determine the portion of an NOL that is attributable to a specified deduction in this way:

1. Code §1212(a)(1)(C) – this section provides that the carryforward period for a capital loss carryover that is attributable to a foreign expropriation loss is 10 years instead of the normal 5 years;
2. Code §172(b)(1)(C) – this section provides that the carryback period for a specified liability loss is 10 years rather than the normal 2 years;
3. Code §172(b)(1)(D) – this section provides that the carryback period for the portion of an NOL that is attributable to the deduction for bad debts by a commercial bank is 10 years rather than the normal 2 years;

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4. Code §172(b)(1)(E) – this section provides that a corporate equity reduction interest loss may not be carried back to the year preceding the year is which the corporate equity reduction transaction occurs;

5. Code §172(b)(1)(G) – this section provides that the carryback period for a farming loss is 5 years rather than the normal 2 years; and

6. Code §172(b)(1)(J) – this section provides that the carryback period for a qualified disaster loss is 5 years rather than the normal 2 years.

The common feature in all of these provisions is that, in each case, the statutory allocation methodology maximizes the NOL attributable to the identified deduction. Taxpayer has not encountered a statutory provision that associates an NOL with specific deductions in any other way.

If, in fact, the NOL allocation is an element of the Normalization Rules, a "last dollars deducted" approach would be consistent with the policy underlying those rules. Further, the frequency - and uniformity - of Congress's use of a "last dollars deducted" approach whenever an NOL is to be allocated to a specific deduction strongly supports the propriety of that approach in a situation in which Congress has singled out accelerated depreciation for special treatment under the tax law. These considerations, coupled with the many positive administrative attributes of such an approach, support its application in this situation.

Finally, the Service addressed this very issue in PLRs 201436037, 201436038 and 201438003. In each of these rulings the Service ruled that, in determining the portion of an

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NOLC that is attributable to accelerated depreciation, any method other than the "with and without" method (the same as the "last dollars deducted" method) would be inconsistent with the Normalization Rules.

CONCLUSION

For the reasons set forth above, we respectfully request that the Service issue the rulings requested.

PROCEDURAL MATTERS

A. Statements required by Rev. Proc. 2014-1:

1. Section 7.01(4) –To the best of the knowledge of both Taxpayer and Taxpayer's representative, the issue that is the subject of this requested letter ruling is not addressed in any return of Taxpayer, a related taxpayer within the meaning of §267, or of a member of an affiliated group of which Taxpayer is also a member within the meaning of §1504 that is currently or was previously under examination, before Appeals, or before a Federal court.

2. Section 7.01(5)(a) – Taxpayer, a related party taxpayer within the meaning of §267, or a member of an affiliated group of which Taxpayer is also a member has not, to the best of the knowledge of both Taxpayer and Taxpayer's representative, received a ruling on the issue that is the subject of this requested letter ruling.

3. Section 7.01(5)(b) - To the best of the knowledge of Taxpayer and Taxpayer's representative, neither Taxpayer, a related taxpayer, a predecessor, nor any representatives

Exhibit PM-1

previously submitted a request involving the same or a similar issue to the Service but with respect to which no letter ruling or determination letter was issued.

4. Section 7.01(5)(c) - To the best of the knowledge of Taxpayer and Taxpayer's representative, neither Taxpayer, a related taxpayer, nor a predecessor, previously submitted a request (including an application for change in method of accounting) involving the same or a similar issue that is currently pending with the Service.

5. Section 7.01(5)(d) – To the best of the knowledge of Taxpayer and Taxpayer's representative, neither Taxpayer nor a related taxpayer are presently submitting additional requests involving the same or a similar issue.

6. Section 7.01(8) - The law in connection with this request is uncertain and the issue is not adequately addressed by relevant authorities.

7. Section 7.01(9) - Taxpayer has included all supportive as well as all contrary authorities of which it is aware.

8. Section 7.01(10) - Taxpayer is unaware of any pending legislation that may affect the proposed transaction.

9. Section 7.02(5) - Taxpayer hereby requests that a copy of the ruling and any written requests for additional information be sent by facsimile transmission (in addition to being mailed) and hereby waives any disclosure violation resulting from such facsimile transmission. Please fax the ruling and any written requests to James I. Warren at (202) 626-5801.

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10. Section 7.02(6) - Taxpayer respectfully requests a conference on the issues involved in this ruling request in the event the Service reaches a tentatively adverse conclusion.

11. Taxpayer will permit the KPSC to participate in any Associate office conference concerning this ruling request. Taxpayer has provided the KPSC with a copy of this ruling request prior to its being filed.

B. Administrative

1. The deletion statement and checklist required by Rev. Proc. 2014-1 are enclosed.

2. The required user fee of $19,000 is enclosed.

3. A Form 2848 Power of Attorney granting Taxpayer's representative the right to represent Taxpayer is enclosed.

If you have any questions or need additional information regarding this ruling request, pursuant to the enclosed Power of Attorney, please contact James I. Warren at (202) 626-5959.

Respectfully submitted,

James I. Warren

James I. Warren
Miller & Chevalier Chartered
Attorney for Atmos Energy Corporation

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PENALTIES OF PERJURY STATEMENT

Atmos Energy Corporation

Under penalties of perjury, I declare that I have examined this request, including accompanying documents, and, to the best of my knowledge and belief, the request contains all the relevant facts relating to the request, and such facts are true, correct, and complete.

ATMOS ENERGY CORPORATION

BY: ______________________

Printed Name: Pace McDonald

DATE: 1/7/15

Exhibit PM-1

Attachment

Exhibit PM-1

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF ATMOS ENERGY CORPORATION FOR AN ADJUSTMENT OF RATES AND TARIFF MODIFICATIONS	)))	CASE NO. 2013-00148

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COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF ATMOS ENERGY CORPORATION FOR AN ADJUSTMENT OF RATES AND TARIFF MODIFICATIONS	)))	CASE NO. 2013-00148

ORDER

Atmos Energy Corporation ("Atmos"), a gas distribution company operating in eight states, serves roughly 3.1 million customers. Its Kentucky/Mid-States division, one of six operating divisions, provides natural gas service in Kentucky, Tennessee and Virginia. Atmos's Kentucky unit ("Atmos-Ky.") serves approximately 173,000 customers in 38 central and western counties in Kentucky. The most recent adjustment of its Kentucky operating unit's base rates was in May 2010 in Case No. 2009-00354.[1]

BACKGROUND

On May 13, 2013, Atmos-Ky. submitted its application based on a forecasted test period ending November 30, 2014, seeking an increase in revenues of $13,367,575, or 8.6 percent, with a proposed effective date of June 13, 2013.

A review of the application revealed that it did not meet the minimum filing requirements of 807 KAR 5:001, Sections 4 and 16, and a notice of filing deficiencies was issued. Atmos-Ky. filed information on May 30, 2013, and June 3, 2013, to cure

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[1] Case No. 2009-00354, *Application of Atmos Energy Corporation for an Adjustment of Rates* (Ky. PSC May 28, 2010).

the noted filing deficiencies. Our June 24, 2013 Order found that this information satisfied all of the filing requirements cited in our deficiency notice except the requirement for Atmos-Ky. to post its application and other documents on its website. The Commission found that this deficiency would remain until Atmos-Ky. provided proof that it had posted its application and other documents filed with its application on its website. Atmos-Ky. responded to that Order that same day by providing a copy of the page that had been posted on its website listing the documents. A notice that Atmos-Ky.'s deficiencies had been cured was issued June 26, 2013, stating that that the application met the minimum filing requirements as of June 24, 2013. Based on a June 24, 2013 filing date, the earliest possible date Atmos-Ky.'s proposed rates could become effective was July 24, 2013.

The Commission found that an investigation would be necessary to determine the reasonableness of Atmos-Ky.'s proposed rates and suspended them for six months, from July 24, 2013, up to and including January 23, 2014, pursuant to KRS 278.190(2). The suspension Order included a procedural schedule which provided for discovery on the application, intervenor testimony, discovery on any intervenor testimony, rebuttal testimony by Atmos-Ky., a public hearing, and an opportunity to file post-hearing briefs.

Petitions to intervene were filed by the Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention ("AG"), Kentucky Industrial Utility Customers, Inc. ("KIUC"), and Stand Energy Corporation ("Stand").[2] The AG was granted full intervention and Stand was granted full intervention, limited to participation on the issues of Atmos-Ky.'s transportation threshold levels and any matters related

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[2] KIUC later withdrew its petition to intervene.

thereto. Discovery was conducted on Atmos-Ky.'s application by both the AG and the Commission Staff ("Staff"). The AG filed testimony on which discovery was conducted by both Atmos-Ky. and Staff. Atmos-Ky. filed rebuttal testimony and the AG filed supplemental testimony in response to which Atmos-Ky. filed surrebuttal testimony. Stand filed no testimony.

Pursuant to KRS 278.190(2), Atmos-Ky. gave notice on January 22, 2014, of its intent to place its proposed rates in effect for service rendered on and after January 24, 2014. In our January 28, 2014 Order, we acknowledged that Atmos-Ky. had complied with the statutory provisions for placing its proposed rates in effect. That Order required that Atmos-Ky. maintain its records so that, in the event a refund were to be required, the amount of refunds and the customers to whom the refunds should be applied could be determined.

The Commission held an evidentiary hearing on the proposed rate adjustment on December 3, 2013 and January 23, 2014, at its offices in Frankfort, Kentucky. Post-hearing briefs were filed by Atmos-Ky., the AG, and Stand. All information requested at the formal hearing has been filed and the case now stands submitted for a decision. As discussed more thoroughly throughout this Order, the Commission is granting Atmos-Ky. a base-rate increase of $8,550,134, which is roughly 64 percent of what it requested and which represents an increase in total revenues of approximately 5.5 percent.

TEST PERIOD

Atmos-Ky. proposed the 12 months ending November 30, 2014, as its forecasted test period to determine the reasonableness of its proposed rates. While the AG did not object to the proposed test period or suggest an alternative test period, he criticized

Atmos-Ky.'s development of certain items contained in its proposed test period. The AG raised concerns with Atmos-Ky.'s forecasted filing regarding its lack of documentation, methodology, and specific impacts on costs.[3] The AG stated that he did not agree with using a forecasted test period, but that Atmos-Ky. did not respond adequately to certain data requests he propounded to elicit information that would have permitted a more thorough review of the data supporting the forecasted test period.[4]

Atmos-Ky. stated that its development of a forecasted test period begins with its budget, which it prepares annually for its October 1 to September 30 fiscal year. It described the numerous approvals to which its budgets are subjected, including the final review by the Atmos Board of Directors. Atmos-Ky. noted that, along with its Kentucky operations, Atmos maintains a Division General Office ("DGO") that manages utility operations in the states, including Kentucky, which make up the Kentucky/Mid-States division. It further noted that Atmos has a Shared Services Unit ("SSU") which provides support services such as accounting, billing, tax, call center, collections, etc., to the various operating divisions. Atmos-Ky. stated that separate budgets are developed each year at the Kentucky, DGO, and SSU levels.

The Commission finds Atmos-Ky.'s forecasted test period to be reasonable and consistent with the provisions of KRS 278.192 and Kentucky Administrative Regulation

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[3] Direct Testimony of Bion C. Ostrander ("Ostrander Testimony") at 6.

[4] *Id.* at 7, 13, and 14.

5:001, Section 16 (6), (7), and (8). Therefore, we will accept the forecasted test period as proposed by Atmos-Ky. for use in this proceeding.[5]

VALUATION

Rate Base

Atmos-Ky. proposed a net investment rate base for its forecasted test period of $252,914,292 based on the 13-month average for that period.

The AG proposed to reduce Atmos-Ky.'s rate base to eliminate Net Operating Loss Carry-forwards ("NOLC") resulting from the losses reported by Atmos's regulated operations for tax purposes.[6] The AG stated that while he had no concerns with typical accumulated deferred income taxes ("ADIT") used to reduce rate base, an NOLC debit is an offset to the typical credit balance in ADIT, causing an increase in rate base.[7]

The AG opined that removing the NOLC from rate base would not cause a tax normalization violation.[8] In support of his recommendation, the AG cited a recent case before the West Virginia Commission in which Mountaineer Gas's proposal to include a NOLC in its rate base was denied.[9] If there was substantive disagreement by Atmos-

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[5] Contrary to his contentions, we find that the AG had adequate opportunity to conduct discovery for the purpose of analyzing the proposed test period and components thereof. The Commission notes that the use of a forecasted test period is provided for in 807 KAR 5:001, Section 16. We also note that the criticism by AG witness Ostrander to the use of a forecasted test period, as he has done in this case and the two recent rate cases of Big Rivers Electric Corporation, is not supported by law or regulation. The AG did not file any motions regarding discovery disputes until his motion on Nov. 21, 2013 requesting that the Dec. 3, 2013 Hearing be postponed, which the Commissioner granted.

[6] The amount the AG removed from rate base was $22,221,329, which was an estimate. Atmos-Ky. clarified that that the NOLC amount included in its rate base was $20,125,550.

[7] Ostrander Testimony at 49.

[8] *Id.* at 51.

[9] *Id.* at 55.

Ky. on the NOLC rate base issue, the AG recommended that Atmos-Ky. obtain a private-letter ruling from the Internal Revenue Service ("IRS") to resolve the issue.[10]

Atmos-Ky. claimed that removing the NOLC from rate base would result in a tax normalization violation of the Internal Revenue Code.[11] It stated that a violation would cause it to lose accelerated depreciation, bonus depreciation, and other tax benefits. Atmos-Ky. also claimed that removing NOLCs from its rate base is inappropriate and inconsistent with sound ratemaking principles, and that inclusion of NOLCs in rate base has been accepted by many commissions, including these in all other states in which Atmos's distribution companies operate.[12] It noted that the Mountaineer Gas case cited by the AG is the only instance in which a utility regulator ruled that NOLC should not be included in rate base.[13] Atmos-Ky. stated that if the Commission determined that its NOLC should remain in rate base, there was no need to involve the IRS with a private letter ruling request. However, if the Commission requires that it seek such a ruling, Atmos-Ky. asks to be allowed to create a regulatory asset to defer the costs related to such a request and seek recovery of them in its next general rate case.[14]

The Commission is not persuaded by the AG's argument. While there is some ambiguity in the Treasury regulations cited by the AG and Atmos-Ky. on the subject of NOLCs, we are unable to agree with the AG that a tax normalization violation would not

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[10] *Id.* at 57-58.

[11] Rebuttal Testimony of Pace McDonald at 4.

[12] *Id.* at 16-19 and 22.

[13] *Id.* at 21.

[14] Atmos-Ky.'s post-hearing brief at 17.

result from a decision to remove NOLCs from Atmos-Ky.'s rate base. The AG has not made a compelling argument for why, from a ratemaking perspective, it would be reasonable to adopt his recommendation.

Although we are rejecting the AG's proposal, the aforementioned ambiguity in the governing regulations and the significantly different interpretations of those regulations by the AG and Atmos-Ky. cause the Commission to conclude that it would be beneficial to have a more definitive assessment of this issue.[15] Therefore, we find that Atmos-Ky. should seek a private-letter ruling from the IRS with the intent that such ruling be filed with the application in Atmos-Ky.'s next general rate case. We also find that Atmos-Ky. should be permitted to create a regulatory asset to defer the costs related to its private-ruling request in order to seek their recovery in its next general rate case.

Having rejected the AG's proposal to exclude the NOLC, the Commission has determined that Atmos's net investment rate base is $252,737,721 as shown below. Cash working capital has been reduced to reflect the adjustments to operation and maintenance ("O&M") expenses discussed later in this Order.

Utility Plant in Service	$ 445,835,433
Construction Work In Progress	8,541,792
Total Utility Plant	$ 454,377,225
LESS:	
Accumulated Depreciation	$ 166,889,761
Net Utility Plant	$ 287,487,464
ADD:	
Gas Stored Underground	$ 9,415,216
Materials and Supplies	58,851
Prepayments	1,254,362
Working Capital	3,160,640

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[15] It is possible that the NOLC issue may be at issue in future Atmos-Ky. rate cases.

Subtotal	$ 13,889,069
DEDUCT:	
Customers Advances for Construction	$ 2,745,576
Accumulated Deferred Income Taxes And Investment Tax Credits	45,893,236
Subtotal	$ 48,638,812
NET INVESTMENT RATE BASE	$ 252,737,721

CAPITAL STRUCTURE

As a division of Atmos, Atmos-Ky. does not have a stand-alone capital structure. Using Atmos's capital balances, Atmos-Ky. proposed a test-period capital structure consisting of 51.83 percent common equity and 48.17 percent long-term debt. It also presented a second capital structure for informational purposes consisting of 49.16 percent common equity, 45.68 percent long-term debt, and 5.16 percent short-term debt.[16] Atmos-Ky. stated that the capital structure containing no short-term debt was appropriate for determining its revenue requirement in that Atmos-Ky. did not use short-term debt to finance the long-lived assets in its rate base.[17]

The Commission is not persuaded by Atmos-Ky.'s reasoning for not reflecting short-term debt in its capital structure. To the extent there is a connection between long-lived assets and long-term forms of capital, the Commission has recognized that a utility's rate base includes items other than long-lived plant assets that may be financed

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[16] The second capital structure reflected a short-term debt component based on the average short-term debt balance of Atmos for the 12 months ended March 31, 2013.

[17] Cross-examination of Gregory K. Waller, January 23, 2014 Hearing at 16:55:50 – 16:56:04.

with short-term debt.[18] Furthermore, while it is the intent of utilities, from a planning perspective, to finance long-lived assets with long-term forms of capital, from a practical perspective the Commission has long held the position that capital cannot be assigned directly to a particular state, jurisdiction or specific asset.[19]

In its last litigated case, Atmos-Ky., formerly Western Kentucky Gas, ("Western"), proposed a capital structure that contained no short-term debt. However, finding that "Western uses significant amounts of short-term debt on an ongoing basis..." the Commission approved a capital structure containing 8.47 percent short-term debt.[20] In the time since that case, the Commission has issued decisions in 14 litigated rate cases involving investor-owned gas or electric utilities, or combination gas and electric utilities. In 13 of those cases, the Commission authorized a capital structure containing a short-term debt component. The one exception occurred when the utility had used its short-term debt to reacquire bonds during the historical test period used in that case.[21]

Having considered Atmos-Ky.'s argument and the historical practice employed in Kentucky rate cases for more than two decades, we find that the appropriate capital structure in this matter should include a short-term debt component. Accordingly, based on the record evidence, the Commission will approve for ratemaking purposes a capital

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[18] Case No. 8738, *An Adjustment of Rates of Columbia Gas of Kentucky* (Ky. PSC July 5, 1983) at 21.

[19] Case No. 9678, *An Adjustment of Rates of General Telephone Company of the South* (Ky. PSC Apr. 16, 1987) at 9. Case No. 10117, *Adjustment of Rates of GTE South, Inc.* (Ky. PSC Sept. 1, 1988) at 11.

[20] Case No. 90-013, *Rate Adjustment of Western Kentucky Gas Company* (Ky. PSC Sept. 13, 1990) at 19.

[21] Case No. 2009-00549, *Application of Louisville Gas and Electric Company for an Adjustment of Electric and Gas Base Rates* (Ky. PSC July 30, 2010).

structure that contains 49.16 percent common equity, 45.68 percent long-term debt, and 5.16 percent short-term debt.

REVENUES AND EXPENSES

Atmos-Ky. developed an operating statement for its forecasted test period based on its budgets for fiscal years 2013 and 2014. As required by 807 KAR 5:001, Section 16(6)(a), the financial data for the forecasted test period was presented by Atmos-Ky. in the form of pro forma adjustments to its base period, the 12 months ending July 31, 2013.[22] Based on the assumptions built into its budgets, Atmos-Ky. calculated its test-year operating revenues and Operations and Maintenance ("O&M") expenses to be $155,374,969 and $141,914,890, respectively.[23] These test-year operating revenues included gas cost revenues of $90,265,243, based on Atmos-Ky.'s estimate of gas cost to be recovered through its Gas Cost Adjustment mechanism.[24]

Based on the adjusted revenues and O&M expenses stated above, Atmos-Ky.'s test-period operating income was $13,460,079, which, based on its proposed rate base, results in a 5.32 percent overall rate of return. Based on a proposed return on equity ("ROE") of 10.7 percent, Atmos-Ky. determined that it required a revenue increase of $13,367,575, which would produce an overall return on rate base of 8.53 percent.

The AG, based on a number of proposed adjustments to Atmos-Ky.'s test-period results, and a 7.63 percent overall return on rate base, calculated Atmos-Ky.'s operating

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[22] Application, Vol. 9 of 9, Schedules D.1 and D.2.

[23] *Id.* Schedule C-1.

[24] In response to Item 28 of Staff's Second Request for Information (Staff's Second Request"), Atmos-Ky. updated its estimate of gas cost revenues for the test period to $111,008,901.

revenue to be $16,831,319 and recommended an increase in revenues of $1,215,895.[25] The AG later revised his recommendation, and increased the amount of the revenue increase to $2,736,433.[26]

The Commission will accept most components of Atmos-Ky.'s test period and many of its proposed adjustments. We will also accept some of the AG's proposed adjustments. A discussion of the individual adjustments accepted, modified or rejected by the Commission and the impact of those adjustments on Atmos-Ky.'s revenue requirement follows.[27]

Revenue Normalization

In normalizing test period revenues, Atmos-Ky. increased its firm sales volumes by 2,189,876 Mcf to reflect its adjustment for weather normalization based on the National Oceanic and Atmospheric Administration's ("NOAA") normal Heating Degree Day ("HDD") data for the 30-year period ending 2010.[28] It further adjusted its firm sales volumes by (427,287) Mcf to reflect changes in consumption due to a long-standing trend in conservation and efficiency by its residential, commercial, and public authority customer classes. For other classes, Atmos-Ky. adjusted customer numbers and sales and transportation volumes for known and measurable changes in service contracts and

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[25] Ostrander Testimony, Exhibit BCO-2, Schedule A-1.

[26] Supplemental and Corrected Direct Testimony of Bion C. Ostrander ("Ostrander Corrected Testimony") at 2.

[27] Two AG adjustments to which Atmos-Ky. agreed on rebuttal were: a reduction in bad-debt expense of $25,048 and removal of duplicate billing systems' maintenance fees in the amount of $51,262.

[28] Direct Testimony of Mark A. Martin ("Martin Testimony"), Exhibit MAM-4.

customer usage, resulting in a decrease in interruptible sales volumes of approximately 330,000 Mcf and an increase in transportation volumes of approximately 500,000 Mcf.[29]

The Commission finds Atmos-Ky.'s adjustments to be reasonable and accepts its normalized base-rate revenues. With regard to weather normalization methodology to be used in future rate proceedings, the Commission finds that Atmos-Ky. should use the most recent temperature data available. In response to a Staff request for information, Atmos-Ky. stated its belief that there is a benefit to using NOAA's published 30-year temperature normal product, because NOAA thoroughly analyzes the data and smooths the average daily HDD to produce daily normals.[30] Because the Commission is aware that this is the case, and with the data's having been published in July 2011, it is reasonable to use the 30 years ended 2010 to weather normalize sales volumes and revenues in this case. The Commission does not believe it would be reasonable to continue to use the same 30-year period to weather normalize sales volumes and revenues in future rate proceedings brought prior to NOAA's next published 30-year temperature-normal product, and therefore, we will require that a more current time period be used. The Commission will also require that Atmos-Ky. file a comparison of weather normalization methodologies using time periods including, but not limited to, 20, 25, and 30 years in length. Along with its comparison of results, Atmos-Ky. should include support for the time period it proposes to use to normalize revenues, including the superiority of the chosen method in terms of its predictive value for future temperatures.

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[29] *Id.*, Exhibit MAM-3.

[30] Response to Staff's Second Request, Item 26.

Exhibit PM-1

Payroll and Benefits

Atmos-Ky.'s test period includes combined direct payroll and benefits expense of $8,865,683. It also includes allocated DGO and SSU payroll and benefits expenses of $7,570,803. The AG compared these amounts to the actual fiscal year 2012 payroll and benefits expenses incurred by Atmos-Ky. and the amounts allocated to it by DGO and SSU for that period and recommended an adjustment to reduce test-period payroll and benefits expenses by one-half of the difference, or $1,212,712.[31] The AG claimed that the levels proposed by Atmos-Ky. represented significant and unusual increases for which Atmos-Ky. had failed to meet a reasonable burden of proof.[32]

Atmos-Ky. asserted that the AG's adjustment ignores the guidelines set forth in 807 KAR 5:001, Section 16(6)(a), which require that test-period adjustments are to be made to the base period. It also asserted that the AG's adjustment is founded on an arbitrary and unsupported 50 percent reduction factor.[33] Atmos-Ky. explained that the sale of Atmos's Missouri, Illinois, Iowa, and Georgia operations, all of which were part of the Kentucky/Mid-States' division, increased its share of allocated costs from both DGO and SSU, which increased its test-year payroll and benefits expense levels.[34] It stated that the payroll and benefits amounts included in its forecasted test year are consistent

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[31] Ostrander Corrected Testimony at 37-38.

[32] *Id.* at 42.

[33] Surrebuttal Testimony of Joshua C. Densman ("Densman Surrebuttal") at 5-6.

[34] Rebuttal Testimony of Jason L. Schneider ("Schneider Rebuttal") at 4.

with the Commission's regulation for forecasted test periods and that said amounts are the most reasonable forecasts of payroll and benefits for the test year.[35]

The Commission does not accept the AG's recommended adjustment. While the increases in some items between Atmos-Ky.'s fiscal year 2012 and the forecasted test period are notable, it is clear that a major contributing factor was the sale of other Atmos properties, which increased the amounts allocated to Atmos-Ky. The provisions of 807 KAR 5:001, Section 16(6)(a), which dictate how an applicant utility is to present its test year when it uses a forecasted test period, do not govern nor limit an intervenor's analysis of the test year. However, the AG's use of Atmos-Ky.'s 2012 fiscal year as the benchmark to which he compared the test period is not persuasive. Furthermore, although there are instances in which a sharing by ratepayers and shareholders is the basis for reducing a cost by 50 percent for ratemaking purposes, in this instance it does not appear that such a sharing was the intent, but that the AG's use of 50 percent was arbitrary and unsupported, as Atmos-Ky. claimed. For these reasons, we reject the AG's adjustment to reduce Atmos-Ky.'s test year payroll and benefits expense.

Inflation Factor

To forecast "Other O&M" (operating expenses other than (1) labor, (2) benefits, (3) rent, maintenance and utilities, and (4) bad debt) for the test year, Atmos-Ky. applied an inflation factor of 2.7 percent using the approved expense levels in its fiscal year

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[35] Densman Surrebuttal at 8-9.

2013 as the starting point.[36] This inflation factor was the average inflation rate for the Midwest region for the last three years, as reported by the U.S. Department of Labor.[37]

The AG opposed Atmos-Ky.'s use of an inflation factor to forecast test-period expenses and proposed an adjustment of $496,907 to remove the impact of inflation. The AG stated that Atmos-Ky. had not met a reasonable burden of proof regarding this item and did not show that there was a proper correlation between its generic inflation factor and the actual historic changes in the expenses to which it applied the inflation factor.[38] He argued that use of the Consumer Price Index ("CPI") was inappropriate because the ". . . CPI basket of goods and services is not representative of Atmos' expenses" and that Atmos had not addressed or reconciled this inconsistency.[39] The AG noted that his proposed adjustment reflected his belief that Atmos-Ky. had applied the inflation factor to both test-period and base-period expenses.[40]

On rebuttal, Atmos-Ky. stated that it did not apply the inflation factor to its base-period expenses. It described an error in the AG's calculation of the amount to which he applied the percent inflation factor in the test year.[41] After adjusting for these items, the correct impact of Atmos-Ky.'s use of the inflation factor is an expense increase of

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[36] For insurance expense, Atmos-Ky. applied a 5 percent inflation factor reflect that to recent increases in insurance costs have been greater than increases in the other components of "Other O&M."

[37] Direct Testimony of Joshua C. Densman ("Densman Testimony") at 15.

[38] Ostrander Corrected Testimony at 12.

[39] *Id.* at 13.

[40] *Id.* at 16 and 22-23.

[41] Densman Rebuttal at 2-5.

Exhibit PM-1

$171,804.[42] Atmos-Ky. stated that use of an inflation factor for a forecasted test year is appropriate and that its methodology is consistent with what has been used in prior cases.[43]

While it has on occasion accepted inflation-related adjustments for individual expense items,[44] the Commission has not been, and is not now, inclined to accept an expense level based on application of a standard, or generic, inflation factor to a mix of approximately a dozen different cost categories ranging from Vehicles and Equipment to Travel and Entertainment. Commission orders in prior cases stated the Commission's view on this type of CPI-based proposal by finding that using the CPI relies "...upon too large and diverse a group of goods and services." In its decision involving the water rates of the city of Lawrenceburg, the Commission also stated that the adjustment proposal "...must provide an accurate measurement of changes in the cost of providing water service. It therefore should be based principally on those goods and services that are reasonably likely to be used to provide water service."[45] The Commission reasoned that a proper adjustment "...should reflect <u>all</u> changes in the cost of the inputs that are required to provide water service" (emphasis in original) and that

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[42] *Id.* at 5.

[43] *Id.*

[44] Case No. 2012-00520, *Application of Kentucky-American Water Company for an Adjustment of Rates Supported by a Fully Forecasted Test Year* (Ky. PSC Oct. 25, 2013) at 34-35.

[45] Case No. 2006-00067, *Proposed Adjustment of the Wholesale Water Rate of the City of Lawrenceburg, Kentucky* (Ky. PSC Nov. 21, 2006) at 3-4.

reliance on the CPI would "...not reflect any reductions in the cost of service, only increases."[46]

Finding no persuasive reason to depart from its previous decisions on the reasonableness of basing cost increases on a generic inflation factor, the Commission denies Atmos-Ky.'s proposal.[47] With the corrections to the AG's adjustment provided in Atmos-Ky.'s rebuttal, the result is a $171,804 reduction in test-year operating expenses.

DGO and SSU Allocated Expenses

Atmos-Ky. included $10,876,844 and $13,071,350 in allocated expenses from DGO and SSU in its base period and test period, respectively. It stated that the budget development procedures used to develop its Kentucky budget are also used to develop the budgets of DGO and SSU.[48] Atmos-Ky. explained that costs incurred at DGO and SSU are allocated according to the Cost Allocation Manual ("CAM"), which was developed by Atmos at the corporate level and which is applied uniformly for the allocation of common costs in all states in which Atmos has regulated utility operations.[49]

Based on the difference between the allocated expenses in the test year and the actual allocated expense of $10,086,333 incurred by Atmos-Ky. in its 2012 fiscal year, the AG proposed an adjustment to reduce the test-year amount by $1,492,500.[50] Citing

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[46] *Id.*

[47] To reiterate something brought out in the hearing, while Atmos-Ky.'s proposal is consistent with that used in prior cases, those cases were settled and did not require a Commission decision.

[48] Densman Testimony at 7.

[49] Direct Testimony of Jason L. Schneider ("Schneider Testimony") at 14.

[50] Ostrander Corrected Testimony at 25.

the increases in DGO and SSU allocated expenses from 2012 to the test period, after Atmos-Ky. experienced three consecutive years of decreases in these expenses, the AG characterized the increases as "significant and unusual" and claimed that Atmos-Ky. did not provide adequate explanation and documentation in support of such increases.[51]

On rebuttal Atmos-Ky. asserted that the overriding reason for the increases in its share of the expenses allocated from DGO and SSU are changes in the factors used in determining the allocations among Atmos's divisions and affiliates.[52] It explained that the principal driver of changes in the allocation factors and its increased levels of DGO and SSU expenses was the 2012 sale of Atmos's Missouri, Illinois, and Iowa operations and the 2013 sale of Atmos's Georgia operations.[53] Atmos-Ky. stated that the same cost allocation methodology had been applied consistently in accordance with its CAM since the 2001 inception of the CAM.[54] It also stated that use of that methodology had resulted in decreases in allocated DGO and SSU expenses in the past.[55]

The Commission does not find the AG's position to be persuasive and will not approve his proposed adjustment. It is unfortunate for its ratepayers that Atmos-Ky.'s share of expenses incurred at the DGO and SSU levels has been increasing; however, it has adequately explained that the sale of Atmos's operations in other states, all of which were in the Kentucky/Mid-States division, caused the increases. Furthermore, it

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[51] *Id.* at 30-32.

[52] Schneider Rebuttal at 6.

[53] *Id.* at 5-6.

[54] Schneider Testimony at 14.

[55] Schneider Rebuttal at 5.

has provided the revised allocation factors on which its current allocation is based, and these support its stated position. Accordingly, the AG's proposed adjustment is denied.

Employee Incentive Pay

Atmos-Ky. included $1,164,455 in employee incentive pay in its forecasted test-period operating expenses. The incentive pay reflects the following three plans under which different groups of employees are compensated: (1) Long-Term Incentive Plan; (2) Management Incentive Plan; and (3) Variable Pay Plan.[56]

The AG recommended an adjustment that would eliminate half, or $582,228, of the incentive pay expense from rate recovery.[57] As support for his recommendation, the AG noted that all three plans awarded incentives based on a measure of earnings per share ("EPS"), meaning they were tied to financial results of which shareholders were the primary beneficiary.[58] Because the plans are focused more on shareholder-driven goals, the AG recommended that the costs be shared equally between shareholders and ratepayers, with the shareholder portion being removed for ratemaking purposes.[59]

Atmos-Ky. opposed the AG's adjustment, stating that it was not unique in making incentive compensation part of the overall compensation package offered to employees, and that its total compensation package is designed to be in the middle of the job market in which it competes for talent.[60] Atmos-Ky. claimed that its incentive pay

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[56] Responses to AG-1, Items 58, 60, and 61.

[57] Ostrander Corrected Testimony at 43.

[58] *Id*. at 45.

[59] In his post-hearing brief the AG urged that we disallow any incentive compensation.

[60] Densman Rebuttal at 13.

Exhibit PM-1

criteria provide benefits to customers because, in order for the criteria to be met, all of its employees must work together to ensure that it operates efficiently and effectively, which translates into lower costs and lower rates for customers.[61]

The Commission is in general agreement with the AG on this matter. Incentive criteria based on a measure of EPS, with no measure of improvement in areas such as safety, service quality, call-center response, or other customer-focused criteria, are clearly shareholder-oriented. As noted in the hearing on this matter, the Commission has long held that ratepayers receive little, if any, benefit from these types of incentive plans.[62] Regarding Atmos-Ky.'s contention that customers benefit because its plans incentivize employees to work together to achieve efficiency and effectiveness, which translates into lower costs and lower rates, it is worth noting that Atmos-Ky.'s witness on this issue stated his belief that employees would strive to do what is right and do a "good job" without these additional incentives.[63] It has been the Commission's practice to disallow recovery of the cost of employee incentive plans that are tied to EPS or other earnings measures and we find Atmos-Ky.'s argument to the contrary unpersuasive. Accordingly, we will remove the full amount, $1,164,455, from test-period operating expenses for ratemaking purposes.

Customer Service System ("CSS") Costs

In 2013, Atmos implemented a new CSS to replace a legacy system that had been in service since the mid-1990s. The total cost of the new CSS is approximately

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[61] *Id.* at 14.

[62] Cross-examination of Joshua C. Densman, Jan. 23, 2014 Hearing at 16:24:54 – 16:28:09.

[63] *Id.* at 16:19:10 – 16:20:29.

$78.9 million, of which $4.5 million is allocated to Atmos-Ky.[64] The initial estimated cost of the system was $64 million, based on a planned two-phase implementation. Upon determining that a single-phase implementation was more favorable, Atmos revised its estimate to $72 million. Ultimately, the system's final installed cost was $78.9 million, with the additional $6.9 million largely due to the addition of internal resources needed to test the system prior to its implementation.[65]

The AG proposed an adjustment to reduce test-year expenses by $97,599 to recognize imputed cost savings related to implementing the new CSS.[66] The AG based the adjustment on estimated efficiencies and cost savings provided at Atmos Board of Director meetings, the increase in the cost of the CSS, and his belief that "Atmos must have anticipated certain quantitative and qualitative benefits related to implementation under the single stage approach (versus the 2-stage approach) and that these benefits should be shared with ratepayers. . . ."[67] The AG also proposed to reduce rate base by $426,751 to eliminate one-half of the increase in the CSS's capital cost.

Atmos-Ky. contested the AG's proposals, stating that Atmos's internal projections of potential savings made nearly four years ago should not be binding.[68] It claimed that the AG was incorrect in his assumption that the capital cost over and above the initial

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[64] Response to AG-2, Item 36.a.

[65] Response to AG-1, Item 97.

[66] Ostrander Corrected Testimony at 49.

[67] *Id.* at 50.

[68] Atmos-Ky.'s post-hearing brief at 36.

project estimate should generate a higher level of operational efficiencies.[69] Atmos-Ky. asserted that there were two primary drivers of the increase above the original estimate of capital investment: (1) changing the implementation approach from two-phase to single-phase; and (2) the increase in internal resources above those originally estimated for testing of the system prior to its "going live."[70] It stated that the decision to alter the implementation approach and invest more in testing the system was made to ensure that the implementation was successful and seamless for customers and was not made to increase the scope of the system or add functionality to it.[71]

The Commission agrees with Atmos-Ky. that nearly four-year-old internal savings projections of the new CCS should not be binding in this situation. We find Atmos-Ky.'s explanation of the changes to the CCS project (ensuring that the implementation was successful and seamless for customers), which caused the final capital cost to exceed the initial estimate, to be reasonable. Likewise, we also find that there is inadequate support for the assumptions on which the AG's proposed adjustments are based. Therefore, the Commission will not adopt the AG's proposed expense and rate-base adjustments related to the implementation of the new CSS.

PRO FORMA ADJUSTMENTS SUMMARY

The effect of the Commission's accepted adjustments on Atmos-Ky.'s pro forma test-period operations is as follows:

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[69] Rebuttal Testimony of Gregory K. Waller at 2.

[70] *Id.*

[71] *Id.*

	Atmos-Ky. Forecasted Test Period	Commission Accepted Adjustments	Commission Adjusted Test Period
Operating Revenues	$155,374,969	$ -0-	$ 155,374,969
Operating Expenses	141,914,891	(863,444)	141,914,447
Net Operating Income	$ 13,460,078	$ 863,444	$ 14,323,522

RATE OF RETURN

Cost of Debt

Atmos-Ky. proposed a cost of long-term debt for the test period of 6.19 percent, based on the forecast of total long-term debt expected to be in place on November 30, 2014.[72] Because Atmos-Ky. proposed to exclude short-term debt from its capital structure, it likewise did not propose to include the cost of short-term debt. Information provided in Atmos-Ky.'s application was sufficient to show that the average short-term debt for the test period is 1.25 percent.[73]

The Commission finds that the cost of long-term debt should be 6.19 percent. Consistent with its finding that short-term debt should be included in Atmos-Ky.'s capital structure, it further finds that the 1.25 percent average cost of short-term debt set out in the application should be used in calculating Atmos-Ky.'s rate of return.

Return on Equity

Atmos-Ky. recommends an ROE ranging from 10 percent to 11.3 percent, and specifically requests in its application an ROE of 10.7 percent based on its discounted cash flow model ("DCF"), the ex ante risk premium method, the ex post risk premium

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[72] Application, Schedule J-3.

[73] Application, Schedule J-2,

method, and Capital Asset Pricing Model ("CAPM").[74] In its response to Item 48 of Staff's Second Request, Atmos-Ky. recommended an updated ROE of 10.6 percent.

To perform the analysis in support of Atmos-Ky.'s recommendation, Dr. James H. Vander Weide employed two comparable risk proxy groups. The first group consists of nine natural gas companies. Each company is in the natural gas distribution business; paid quarterly dividends over the last two years; had not decreased dividends over the last two years; had an available I/B/E/S long-term earnings growth estimate;[75] and was not involved in an ongoing merger. Each also has an investment grade bond rating and a *Value Line Investment Survey* ("*Value Line*") Safety Rank of 1, 2 or 3.[76] The second proxy group consists of seven water companies included in *Value Line Standard and Plus Editions* that: pay dividends; did not decrease dividends during any quarter for the past two years; have an I/B/E/S long-term growth forecast; and are not part of an ongoing merger.[77] Dr. Vander Weide stated that water utilities are included as a proxy group because the sample size of natural gas utilities is relatively small; water utilities are a reasonable proxy for investing in natural gas utilities in terms of risk; natural gas

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[74] Direct Testimony of James H. Vander Weide at 3-4.

[75] *Id.* at 25. I/B/E/S, a division of Thomson Reuters, reports analysts' EPS growth forecasts for a broad group of companies. The I/B/E/S growth rates are widely circulated in the financial community, include the projections of reputable financial analysts who develop estimates of future EPS growth, are reported on a timely basis to investors, and are widely used by institutional and other investors.

[76] *Id.* at 25.

[77] *Id.* at 28.

utilities are frequently used as proxies for water utilities in water cases;[78] and that the cost-of-equity results for a group of similar-risk companies is useful to examine as a test for the reasonableness of the cost-of-equity results for natural gas utilities.

Dr. Vander Weide applied a quarterly DCF model to the gas and water proxy groups. His DCF study uses analysts' estimates of forecasted EPS growth reported by I/B/E/S and *Value Line* to compute the growth rate expected by investors. The initial DCF analysis filed in Exhibit JVW-1, Schedule I of the application sets out a "market-weighted average" for the gas proxy group utilities of 10 percent, including flotation cost. In response to a Staff information request, Atmos-Ky. stated that the simple average of the DCF analysis for the original proxy group, including flotation cost, is 9.7 percent; the market-weighted average, excluding flotation cost, is 9.7 percent; and that the simple average DCF ROE is 9.5 percent if flotation costs are excluded.[79] On November 15, 2013, Atmos-Ky. provided an update to its DCF analysis which showed a market-weighted average ROE of 9.9 percent, including flotation cost, for the eight gas proxy group utilities remaining after New Jersey Resources was excluded based on its DCF result's being so low that it failed Dr. Vander Weide's outlier test.[80] Model results for the individual companies are sufficient to show that the DCF analysis produces a simple

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[78] In the final Orders in Case Nos. 2010-00036, *Application of Kentucky-American Water Company for an Adjustment of Rates Supported by a Fully Forecasted Test Year* (Ky. PSC Dec. 14, 2010) and 2012-00520, *Application of Kentucky-American Water Company for an Adjustment of Rates Supported by a Fully Forecasted Test Year* (Ky. PSC Oct. 25, 2013) the Commission found the use of natural gas utilities as proxies for water utilities to be inappropriate.

[79] Response to Staff's Second Request, Item 44.

[80] Atmos-Ky. Responses to Hearing Discovery Request, Question 1-10.

average ROE of 9.56 percent, including flotation cost, as updated by Atmos-Ky. on November 15, 2013, after the exclusion of New Jersey Resources' DCF result.[81]

For the water utility group, the DCF analysis produced a simple average ROE of 10.6 percent, with flotation costs, and a market-weighted average ROE of 11 percent. Atmos-Ky.'s response to Item 44 of Staff's Second Request indicated that, without flotation costs, the DCF results produced a simple average ROE of 10.4 percent and a market-weighted average ROE of 10.8 percent. Atmos-Ky.'s November 15, 2013 update showed a simple average DCF of 9.9 percent, with flotation costs, for the water group, and a market-weighted average ROE of 10.8 percent, including flotation costs.

Dr. Vander Weide relied upon data of gas distribution utilities for the ex ante risk premium ROE estimation and used a forecasted yield to maturity ("YTM") on A-rated utility bonds. The cost of equity produced by the ex ante risk premium is 11.3 percent, using a forecasted 6.55 percent forecasted YTM on A-rated utility bonds. For the ex post risk premium ROE estimation, Dr. Vander Weide relied upon stock price and dividend data from Standard & Poor's ("S&P") 500 stock portfolio and from Moody's A-rated Utility Bonds bond yield data. Using this method, the expected ROE is 10.4 to 10.9 percent with a mid-point of 10.6 percent, to which Dr. Vander Weide added an allowance for flotation cost to achieve an ROE of 10.8 percent. This calculation also included a forecasted YTM on A-rated utility bonds of 6.55 percent. In response to Item 47 of Staff's Second Request, Dr. Vander Weide confirmed that the Moody's average A-rated utility bond yield as of February 2013 was 4.18 percent. Using the 4.18 percent

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[81] New Jersey Resources' DCF Model Result as shown in Exhibit JVW-1, Schedule 1, of the application is 8.3 percent.

YTM as opposed to the forecasted 6.55 percent YTM produced ROEs of 10.3 percent for the ex ante risk premium and 8.5 percent for the ex post risk premium. Dr. Vander Weide stated in his response to Item 47 that the use of the 4.18 percent bond yield produces an unreasonably low cost-of-equity estimate, and noted that as of August 14, 2013, the average utility bond yield had risen to approximately 4.9 percent. When Atmos-Ky. provided updated information to Staff's Second Request on November 15, 2013, the ROE produced by the ex ante risk premium remained unchanged at 11.3 percent, and the ROE produced by the ex post risk premium had risen to 10.9 percent, including flotation cost and using the forecasted 6.55 percent YTM.

Dr. Vander Weide performed both historical and DCF-based CAPM analyses, producing ROEs of 10.2 and 10.6 percent, respectively, using forecasts of long-term Treasury bond yields; market-weighted average betas; and including flotation cost. Atmos-Ky.'s November 15, 2013 update included CAPM analyses with more current data. The historical CAPM ROE from that updated information was 10.34 percent, while the updated DCF-based CAPM ROE was 10.8 percent, both using an updated market-weighted average beta of .74. That update included a calculation showing that the simple average beta was .69 percent. For comparison purposes, the Commission notes that substituting the simple average beta of .69 for the market-weighted average beta results in ROEs of 10.01 percent and 10.18 percent, respectively, including flotation cost, for the historical and DCF-based CAPM analyses. Dr. Vander Weide concludes in his direct testimony that the cost-of-equity model results derived from CAPM should be given less weight for purpose of estimating the cost of equity because it underestimates the cost of equity for companies with betas significantly less than 1.0.

Exhibit PM-1

In its post-hearing brief, Atmos-Ky. discussed the introduction of a Regulatory Research Associates ("RRA") report at the hearing which described average allowed ROE of all electric and gas utilities rate cases for 2013. It expressed concern regarding any "over reliance on a simple average return"; stated that the introduction of the report at the hearing implied that the average allowed return on equity could serve as a guide to the Commission; and enumerated the attendant problems if that were the case. Atmos-Ky. discussed in its brief the information it provided in response to Commission and Staff requests during the hearing, citing ROEs of Atmos's distribution companies on average, Atmos-Ky.'s current PRP program ROE resulting from the settlement of its last rate case, and Atmos Mississippi's ROE, all of which are currently over 10 percent.[82]

The AG's post-hearing brief referenced the ROE included in a recent settlement of an Atmos rate proceeding in Colorado, comparing the 9.72 percent ROE from that case to the 9.83 percent average ROE for gas utilities for the fourth quarter of 2013 and to the overall 2013 average ROE for gas utilities of 9.68 percent, as reported in the RRA report introduced at the hearing.[83] The AG concluded in his brief that, based on the national average allowed ROEs for gas utilities in 2013, an ROE of 9.68 percent, will provide more than a sufficient return to attract capital investment.

Having considered and weighed all the evidence in the record concerning the appropriate ROE for Atmos-Ky., the Commission finds a range of 9.3 percent to 10.3 percent to be reasonable. Within this range, an ROE of 9.8 percent will best allow Atmos-Ky. to attract capital at a reasonable cost, maintain its financial integrity to

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[82] Atmos-Ky.'s post-hearing brief at 43-44.

[83] AG's post-hearing brief at 27.

ensure continued service, provide for necessary expansion to meet future requirements, and result in the lowest possible cost to ratepayers. In reaching our finding, we have excluded adjustments for flotation cost and have placed greater emphasis on the DCF and the CAPM model results of the gas utility proxy group. While recognizing that historical data has some value for use in obtaining estimates, we have given considerable weight to analysts' projections regarding future growth in the application of the DCF model. Finally, in assessing market expectations, we have recognized the importance of present economic conditions.

With regard to Atmos-Ky.'s concern about the aforementioned RRA report, this Commission does not rely on returns awarded in other states in determining the appropriate ROE for Kentucky jurisdictional utilities. It is reasonable to expect that other commissions, each with its own attributes, are evaluating expert witness testimony which uses the same or similar cost-of-equity models and an array of proxy groups, and reaching conclusions based on the data provided in the records of individual cases. The conclusions reached by those commissions, as well as this Commission, as to reasonable ROEs for a constantly changing group of utilities during different time periods are summarized periodically by RRA with explanatory reference points and are available to investors. To the extent that investors' expectations are influenced by such information, we believe that our 9.8 ROE will not appear unreasonable.

Rate of Return Summary

Applying Atmos-Ky.'s rates of 6.19 percent for long-term debt, 1.25 percent for short-term debt, and 9.8 percent for common equity to the approved capital structure produces an overall cost of capital of 7.71 percent. The Commission finds this overall cost of capital to be fair, just, and reasonable.

REVENUE REQUIREMENTS

Based upon Atmos-Ky.'s rate base of $252,737,721 and an overall cost of capital of 7.71 percent, the net operating income that could be justified for Atmos-Ky. is $19,486,482. Recognizing the adjustments found reasonable herein, Atmos-Ky.'s pro forma net operating income for the test year is $14,323,522. Based on the difference in these two amounts, Atmos-Ky. would need additional annual operating income of $5,189,538. After recognizing the provision for uncollectible accounts, state and federal income taxes, and the PSC Assessment, Atmos-Ky.'s revenue deficiency would be $8,550,134. The calculation of the revenue deficiency is as shown below:

Net Operating Income Deficiency	$5,189,538
Divide By Gross Up Revenue Factor	0.606954
Overall Revenue Deficiency	$8,550,134

PRICING AND TARIFF ISSUES

Cost-of-Service Study

Atmos-Ky. presented a fully allocated class cost-of-service study ("COSS") for the purpose of distributing revenue requirements among rate classes and determining rates of return on rate base at present and proposed rates for the following rate classes: Residential, Commercial and Public Authority, Firm Industrial, and Interruptible and Transportation. Atmos-Ky. revised the COSS in response to Staff's Third Information Request ("Staff's Third Request") and again when it filed its rebuttal testimony.[84]

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[84] Rebuttal Testimony of Paul H. Raab ("Raab Rebuttal"), Exhibit PHR-3.

Atmos-Ky.'s revised COSS indicated that, at present rates, class rates of return on rate base are: 1.5627 percent for Residential, 10.1022 percent for Commercial and Public Authority, .6805 percent for Firm Industrial, and 26.3634 percent for Interruptible and Transportation.[85] The total company rate of return is 5.3220 percent.[86] The rates of return at Atmos-Ky.'s proposed rates would be: 4.3323 percent for Residential, 15.0922 percent for Commercial and Public Authority, 4.3633 percent for Firm Industrial, and 29.6414 percent for Interruptible and Transportation.[87] Total company rate of return on rate base would be 8.5299 percent.[88] At proposed rates, Atmos-Ky.'s COSS shows that its proposed revenue allocation results in the class rates of return moving closer to an equalized rate of return.

Atmos-Ky. filed a Customer/Demand COSS utilizing a combination of peak day demands and customer number in allocating the cost of distribution mains. Atmos-Ky. used design day demand, stating that it was the most appropriate allocation method since its "transmission plant is built to meet the highest simultaneous peak established by customers."[89] Using a zero-intercept method in developing its classification factor for distribution mains, Atmos-Ky. classified them as approximately 85 percent customer-

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[85] *Id.* at p. 1. The COSS filed with the application shows only the Residential class providing less than the system average return at present rates. The revised COSS filed as Exhibit PHR-3 shows both the Residential and Firm Industrial classes providing less than the system average return at present rates.

[86] *Id.*

[87] *Id.*

[88] *Id.*

[89] Direct Testimony of Paul H. Raab at 9.

related and 15 percent demand-related.[90] Atmos-Ky. states that this classification is consistent with classifications it proposed and the Commission accepted in its previous rate proceedings. It also states that the Commission approved a similar zero-intercept COSS used by Delta Natural Gas Company ("Delta") in Case No. 2010-00116.[91]

The AG submitted an alternate Peak and Average COSS in the testimony of witness Glen Watkins.[92] Although certain minor differences exist between the two COSSes, Atmos-Ky. and the AG agree that the primary difference lies in the treatment of distribution mains. The AG's COSS allocates distribution mains based on both peak day and annual throughput. The AG states that the Peak and Average method is the most equitable method for assigning the costs of natural gas distribution mains because it recognizes utilization of the facilities throughout the year, but also recognizes that some classes rely on the facilities more than others during peak periods. The AG argues that in Atmos-Ky.'s COSS, 87 percent of the costs of service are allocated based on the number of customers regardless of their utilization of the system and that this places an unfair burden on residential customers.[93]

On Rebuttal, Atmos-Ky. states that its COSS recognizes that some classes rely upon the facilities more than others during peak periods because it allocates a portion of distribution mains on the basis of customer class peak demand. Atmos-Ky. contends that "each class's utilization of the Company's facilities throughout the year" has no

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[90] *Id.* at 12.

[91] Case No. 2010-00116, *Application of Delta Natural Gas Company, Inc. for an Adjustment of Rates* (Ky. PSC Oct. 21, 2010).

[92] A Peak and Average COSS is sometimes referred to as a Demand/Commodity COSS.

[93] AG's post-hearing brief at 25.

bearing on the cost being allocated. It argues that it uses a network model to plan its system which considers only the number of customers to be served and their peak demands.[94] Finally, Atmos-Ky. makes reference to page 28 of the National Association of Regulatory Utility Commissioners Manual on Gas Rate Design dated August 6, 1981, and states that the only commodity-related costs identified are those related to the acquisition of natural gas, consistent with its COSS results. Atmos-Ky. concedes that ". . . there is no 'absolute' cost of service analysis that can be relied on by the Commission in all cases to guide the allocation of costs, and that whatever cost allocation methodologies are chosen should be used as a 'guide' rather than as an absolute prescription for rate design."[95] Atmos-Ky. states, however, that when making a determination on which set of results to use as a guide in rate design, the Commission should consider whether the COSS sponsor has a particular constituency for which it is advocating. Atmos-Ky. contends that, when choosing allocators, Mr. Watkins chose those that would benefit the residential class.[96] Atmos-Ky. argues that it must take a broader view of what is fair and reasonable when making allocation decisions.

Based upon its review of Atmos-Ky.'s and the AG's COSS, the Commission finds that a Peak and Average COSS such as the AG proposed reflects a reasonable methodology. However, we also find the methodology used by Atmos-Ky. to be reasonable and, with a greater amount of detail included so that the functionalization

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[94] Raab Rebuttal at 14.

[95] *Id.* at 4.

[96] *Id.* at 7.

and classification in its COSS could be seen, represents an acceptable starting point in determining rate design in this proceeding.

Other COSS-Related Issues

Atmos-Ky. acknowledged that there is support for the approach used by the AG in previously filed COSSes in other jurisdictions.[97] In addition, Atmos-Ky. stated that "[b]oth approaches utilize traditional and accepted classification and allocation methods and yet produce widely divergent results of the 'cost of service.'" It was for this reason that, in Case No. 10201,[98] the Commission encouraged Columbia to submit multiple-methodology COSSes in its future rate proceedings. The Commission reaffirmed this position in Case No. 90-013[99] when it encouraged Atmos-Ky.'s predecessor, Western, as well as other utility companies and intervenors, to file well-documented alternative and multiple-methodology COSSes to provide additional information for rate design. We continue to believe that such an approach to COSSes is appropriate and beneficial. Hence, the Commission strongly encourages Atmos-Ky. to file multiple-methodology COSSes in future rate cases in order to give the Commission a range of reasonable results for use in determining revenue allocation and rate design.[100]

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[97] *Id*. at 5.

[98] Case No. 10201, *An Adjustment of Rates of Columbia Gas of Kentucky, Inc.* (Ky. PSC Oct. 21, 1988).

[99] Case No. 90-013, *Rate Adjustment of Western Kentucky Gas Company* (Ky. PSC Sept 13, 1990) at page 50.

[100] In considering methodologies, Atmos is reminded the Commission voiced its concerns in the past with "methodologies that place all the emphasis on maximum design day as a way to allocate costs. This method may result in an inappropriate shift of costs to the residential customer class. For this reason, cost-of-service methodologies should give some consideration to volume of use." Administrative Case No. 297, *An Investigation of the Impact of Federal Policy on Natural Gas to Kentucky Consumers and Suppliers* ("Admin. 297") (Ky. PSC May 29, 1987), Order at 47.

The Commission notes that the AG's COSS in this proceeding failed to show the steps of functionalization and classification. When asked in an information request to provide the COSS electronically with all three steps shown separately, the AG provided an electronic copy that shows only the allocation step. When asked during the formal hearing to provide the COSS showing the omitted steps, Mr. Watkins stated that he had not performed the first two steps, and would not be able to provide it unless he was compensated.[101] As was stated in Admin. 297, the Commission prefers that COSS be disaggregated to the greatest extent possible[102] so that the functionalization and classification, as well as allocation, are available for review. Absent an analysis showing all steps of the COSS, the Commission is unable to fully analyze the COSS and therefore is unable to give it the same consideration as a study that includes an analysis of all three steps. With this Order, the Commission puts all parties to future rate proceedings on notice that we cannot give full consideration to a COSS that does not show separately each of the typical individual COSS steps of functionalization, classification, and allocation.

Revenue Allocation

According to Atmos-Ky., while the results of its COSS show that all customer classes except the residential class contribute adequately to its cost of service, it chose to allocate a portion of the requested revenue increase to each customer class.[103] It

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[101] January 23, 2014 hearing at 19:32:25.

[102] Admin. 297 (Ky. PSC May 29, 1987), Order at at 42-43.

[103] As stated previously, the revised COSS filed as Exhibit PHR-3 shows both the Residential and Firm Industrial classes providing less than the system average return at present rates.

proposed to increase the customer charges and volumetric rates of all classes with the exception of special contract customers, and to allocate greater increases to volumetric charges as opposed to fixed monthly customer charges.[104] Atmos-Ky.'s proposed allocation of its requested base-rate increase results in maintaining approximately the same percentage of total revenue responsibility among customer classes as exists at current rates.[105]

The AG recommended base-rate revenue increases for all customer classes as well, with lesser increases allocated to firm-sales customers, and with greater increases allocated to firm-transportation, and interruptible-sales and transportation customers. The AG recommended that revenue increases allocated to firm-sales customers be recovered via increases in volumetric rates only, with no increase in monthly customer charges for firm-G-1-sales customers.[106]

The AG also recommended imputing an approximately $3 million increase in base-rate revenues to special-contract customers or to Atmos shareholders.[107] The AG asserted that 50 percent of the tariff rate discounts attributable to 17 special contracts with 16 industrial customers subject to bypass threat should be borne by either those customers or shareholders, with the other 50 percent borne by other customers.[108] The AG stated in his post-hearing brief that it is possible some special contract customers

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[104] Martin Testimony at 24.

[105] January 23, 2014 hearing at 11:58:06.

[106] Direct Testimony of Glenn A. Watkins at 44-45.

[107] *Id.* at 45.

[108] AG's post-hearing brief at 11-12.

are legitimate bypass threats, but that "it is likely that some of these contracts are unreasonable and some of the special contract customers are not legitimate threats to bypass Atmos."[109] The AG also recommended that the Commission require Atmos-Ky. to provide an analysis of the reasonableness of the special contracts and whether they represent legitimate bypass threats. A similar analysis was a provision in the settlement agreement between the AG and Columbia Gas of Kentucky, Inc. ("Columbia") in Case No. 2013-00167[110] after the AG raised the same concern regarding the continued reasonableness of special contracts in that case. In the Commission's final Order approving the settlement agreement, we ordered Columbia to submit the results of its analyses on the threat of bypass by its special contract customers as part of its next application for an adjustment of its base rates.

Responding to the AG's proposal to impute $3 million of special-contract revenue discounts to special-contract customers or Atmos shareholders, Atmos-Ky. asserted in its post-hearing brief that all its special contracts were filed with the Commission; were supported by financial analysis demonstrating that they generated revenue sufficient to cover all variable costs and make a contribution to fixed costs; were reviewed, accepted and stamped by the Commission; and that the revenues generated were included in each subsequent rate case before the Commission. Atmos-Ky. claimed that physical bypass of its system remains a viable option for each special-contract customer, and

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[109] *Id.* at 12.

[110] Case No. 2013-00167, *Application of Columbia Gas of Kentucky, Inc. for an Adjustment of Rates for Gas Service* (Ky. PSC Dec. 13, 2013).

that it would be unwarranted and unjust to disallow the revenue discounts from its previously approved contracts.[111]

The Commission agrees with both Atmos-Ky. and the AG that increases should be allocated to all sales and transportation rate classes. We do not agree, however, that it is reasonable to impute a rate increase to special-contract customers. With regard to the AG's proposal to impute $3 million in revenue responsibility to special-contract customers, or to Atmos shareholders if Atmos-Ky. is not able to raise the rates of those customers, the Commission finds that there is no basis in the record of this proceeding to do so. Atmos-Ky. established to the Commission's satisfaction at the time of filing the special contracts that they generated revenue sufficient to cover the variable costs related to serving each customer and make contributions to fixed costs. However, the Commission also finds reasonable the AG's recommendation to require Atmos-Ky. to file analyses similar to that required of Columbia in its next base-rate application. The Commission will therefore require Atmos-Ky. to internally conduct and maintain studies, analyses, reports, quantifications, etc., that demonstrate the threat of bypass by each of its special-contract customers, and that the special contracts continue to generate sufficient revenue to cover variable costs and contribute to fixed costs. This information is to be provided in Atmos-Ky.'s next base-rate case application.

The Commission's revenue allocation as reflected in the rates found reasonable herein generally preserves the existing base-rate revenue responsibility among the classes, excluding gas cost.

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[111] Atmos-Ky.'s post-hearing brief at 47-48.

Exhibit PM-1

Rate Design

Atmos-Ky. proposed no change in rate design, maintaining its current monthly base customer charge and declining block volumetric rates for all rate schedules. It proposed to increase the G-1 Firm Sales Service base customer charge to $16.00 for residential customers and to $40.00 for non-residential customers. It also proposed to increase the base customer charge for G-2 Interruptible Sales Service and for T-4 and T-3 Firm and Interruptible Transportation Service customers to $350.00, which is supported by its COSS. Atmos-Ky. proposed to increase volumetric rates for all customer classes, with a greater relative increase allocated to the first block (0 – 300 Mcf) for G-1 firm sales customers and T-4 firm transportation customers.

As mentioned in the discussion on revenue allocation, the AG recommends that Atmos-Ky.'s residential base monthly customer charge not be increased above $14.28, the residential base customer charge, including the Pipe Replacement Program ("PRP") surcharge, in effect when Atmos-Ky. filed its application. The AG stated that any increase awarded to Atmos-Ky. should be allocated to the volumetric delivery charge to give customers the opportunity to lower their bills through conservation.[112] The Commission notes that, based on the $2.61 monthly residential PRP rate we approved effective October 1, 2013 in Case No. 2013-00304,[113] Atmos-Ky.'s residential customers are now paying $15.11 through the combination of the current $12.50 base customer charge and PRP surcharge.

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[112] AG's Post-Hearing Brief at 26.

[113] Case No. 2013-00304, *Application of Atmos Energy Corporation to Establish PRP Rider Rates for the 12-Month Period Beginning October 1, 2013* (Ky. PSC Sept. 17, 2013).

The Commission finds Atmos-Ky.'s proposed monthly base customer charges, including the $16.00 residential base customer charge, to be reasonable based on its COSS and the relatively minor increases from the level of monthly customer charges currently paid by all customer classes. Atmos-Ky.'s proposed rate design and customer charges for all customer classes should be approved, and the remainder of the revenue increase awarded herein should be recovered through higher volumetric rates. The volumetric rates approved herein are either identical to or approximate the volumetric rates proposed by Atmos-Ky. for the second and third rate blocks for G-1 firm sales and T-4 firm transportation rate classes; and for both blocks of G-2 interruptible sales and T-3 interruptible transportation customers. The remainder of the increase is recovered through the 0 – 300 Mcf block of firm sales and transportation customers, maintaining more closely the existing relationship between the first rate block and the second and third rate blocks than had been proposed by Atmos-Ky.

Weather Normalization Adjustment

Atmos-Ky. proposed that its Weather Normalization Adjustment ("WNA") be granted permanent approval. Atmos-Ky. points out that Columbia, Delta, and Louisville Gas and Electric Company have all received permanent approval from the Commission of their WNA mechanisms. Atmos-Ky.'s proposed WNA tariff defines normal billing cycle HDD as being based on NOAA's 30-year normal for the period of 1981-2010. In Atmos-Ky.'s post-hearing brief, it alluded to testimony that it is willing to use a different data set for calculating its WNA, but stated its concern that the same data set should be used for normalizing test-year revenues in its rate case as is used for its WNA.

The Commission finds that Atmos-Ky.'s proposal for permanent approval of its WNA is reasonable and should be granted. Atmos-Ky.'s WNA tariff should likewise be approved including the language concerning NOAA's 30-year normal for the period ending 2010. In Atmos-Ky.'s future rate proceedings, this WNA tariff language setting out the time period used should be updated to reflect the time period approved by the Commission to weather normalize revenues in those rate proceedings.

Margin Loss Rider and System Development Rider

Atmos-Ky. proposed to implement two new tariffs, a Margin Loss Rider ("MLR") and a System Development Rider ("SDR"), which it believes will help delay the time and cost associated with a general rate case.[114] Atmos-Ky. proposes the MLR to recover 50 percent of margins lost due to the Economic Development Rider ("EDR"), its Alternative Fuel Flex Provision, or negotiated rates with pipeline bypass candidates. It proposed the lost margin as half the difference between existing tariff rates and the negotiated special contract rates collected over estimated sales volumes of rate schedules G-1 and G-2 (firm and interruptible sales service rate schedules). The proposed MLR tariff contains a Balancing Adjustment provision to reconcile the difference between billed revenues and revenues that would have been billed absent the rider, plus interest at the average the 3-month Commercial Paper Rate for the immediately preceding 12-month period. In support of its proposal, Atmos-Ky. stated that the Commission approved an MLR tariff in a general rate proceeding of Atmos-Ky.'s predecessor company, Western,

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[114] Martin Testimony at 30.

in Case No. 1999-070.[115] That tariff resulted from a unanimous settlement agreement and provided for lost revenues to be shared equally by ratepayers and shareholders.

The SDR is proposed to recover investment related to economic development initiatives for overall system or reliability improvement that cannot be directly assigned to a customer or group of customers. Atmos-Ky. states that the SDR is intended to encourage industrial development, infrastructure investment and job growth within its service area. Atmos-Ky.'s proposed tariff describes the SDR revenue requirement as consisting of the following:

1. SDR-related Plant In-Service not included in base gas rates minus the associated SDR-related accumulated depreciation and accumulated deferred income taxes;
2. Retirement and removal of plant related to SDR construction;
3. The rate of return on the net rate base being the overall rate of return on capital authorized for the Company's Pipe Replacement Program Rider;
4. Depreciation expense on the SDR related Plant In-Service less retirements and removals; and
5. Adjustment for ad valorem taxes.

Atmos-Ky. proposed that the SDR rate be charged to the G-1 and G-2 rate classes in proportion to their relative base revenue shares approved in its most recent rate case.

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[115] Case No. 1999-070, *The Application of Western Kentucky Gas Company for an Adjustment of Rates* (Ky. PSC Dec. 21, 1999).

The Commission, in Administrative Case No. 327 ("Admin. 327"),[116] specifically stated that utilities with active EDR contracts should demonstrate through detailed cost-of-service analysis that nonparticipating ratepayers are not adversely affected by EDR customers, and that cost-recovery issues are to be held for general rate proceedings. Atmos-Ky. proposed these same riders in Case No. 2012-00066,[117] in which it stated that EDR promotes an important public purpose similar to pipe-replacement programs and, therefore, it should be permitted to recover its costs on a more current basis.[118] The Commission approved Atmos-Ky.'s EDR in Case No. 2012-00066, but did not approve the MLR and SDR riders. Atmos-Ky. states in its application in the instant proceeding that all customers will share in the benefits of increased industrial development and job creation and as a result should not be considered adversely affected by the proposed MLR and SDR riders. In spite of this claim, Atmos-Ky. stated in response to Item 177 of the AG's First Request for Information and in response to Item 27 of Staff's Third Request that transportation customers would not be expected to benefit as much from development, infrastructure investment, and job growth as G-1 and G-2 sales customers, which are the only customer classes proposed to be subject to the riders.

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[116] Administrative Case No. 327, *An Investigation into the Implementation of Economic Development Rates by Electric and Gas Utilities* (Ky. PSC Sept. 24, 1990).

[117] Case No. 2012-00066, *Application of Atmos Energy Corporation for an Order Approving Economic Development Riders* (Ky. PSC Aug. 27, 2012).

[118] The Commission acknowledged in the final Order in Case No. 2012-00066 that EDRs promote a public purpose, but stated that it was not persuaded that the purpose is similar to the issue of public safety that is promoted by the pipe replacement programs of Atmos and other gas utilities.

The AG recommended that the MLR not be approved, citing the fact that the MLR was previously approved in a black box settlement and not as a result of a litigated proceeding.[119] The AG stated in his post-hearing brief that Atmos-Ky. should not be awarded an MLR that would encourage future special contracts, which he is concerned would not be responsibly administered. If the Commission approves an MLR for Atmos-Ky., the AG recommends that we impose conditions and exercise ongoing supervision over such a mechanism.[120] The AG had no recommendation with regard to the SDR.

The Commission finds that the record in this proceeding does not support Atmos-Ky.'s need for an MLR or an SDR. In response to hearing requests for information concerning the MLR, Atmos-Ky. stated that, since 2009, it had revenue losses of only $3,543 due to fuel switching through its Alternative Fuel Flex Provision, no revenue losses from new special contracts, and that it has entered into no EDR contracts.[121] The Commission notes that if Atmos-Ky. were to enter into a special contract with an EDR customer, in most instances it should be to add incremental load and that revenue collected from that customer would be in addition to base-rate revenues approved in this rate case. Because Atmos-Ky.'s experience over the last five years does not support the likelihood of revenue losses that would indicate the need for such a revenue-stabilizing mechanism, the Commission finds that the addition of the proposed MLR to Atmos-Ky.'s tariffs is not warranted or reasonable.

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[119] AG's post-hearing brief at 13.

[120] *Id.* at 14.

[121] Atmos-Ky.'s Responses to Hearing Discovery Requests, Question 1-03.

Exhibit PM-1

Atmos-Ky.'s response to Item 5 of Staff's Third Request indicates no revenue loss in the last five years resulting from projects that would have qualified for recovery through the SDR if such a tariff rider had been in use during that time, and that no such projects are contemplated during the period 2014 through 2019. While we support economic development efforts that benefit jurisdictional utilities, their customers, their shareholders, and their service areas as evidenced by the findings in Admin. 327, the Commission finds that the SDR is not warranted or reasonable based on the record of this proceeding. The Commission further finds that its denial of the SDR should be without prejudice for Atmos-Ky. to request the SDR in the future if it experiences increasing opportunities for projects that would be subject to such a mechanism.

General Firm Sales (G-1) & Interruptible Sales (G-2) Natural Gas Vehicle Provisions

Atmos-Ky. proposed to add the same language to its G-1 and G-2 sales tariffs that is contained in its T-3 and T-4 Transportation Service tariffs to accommodate sales customers that would like to offer natural gas as a motor vehicle fuel. The additional language will permit sale of gas delivered to a customer for resale only if the gas is used as a motor vehicle fuel. Atmos-Ky.'s revision to its G-1 and G-2 sales tariffs to permit the sale of natural gas for resale as a motor vehicle fuel is reasonable, is in keeping with its transportation tariffs, and should be approved.

$10 Door Tag Fee

Atmos-Ky. proposed to implement a $10 Door Tag Fee to be charged after a customer's account becomes delinquent and it hangs a door tag at the customer's premises. Atmos-Ky. states that, at times, an employee will drive to the customer's premises and leave a door tag notifying the customer that gas service will be disconnected if the bill is not paid.[122] The purpose of the fee, according to Atmos-Ky., is to benefit customers by preventing disconnection and potentially eliminating more costly reconnection charges. This fee would be in addition to a $39 reconnect fee a customer is required to pay to re-establish service if the customer is disconnected for non-payment.[123] Atmos-Ky. did not provide any cost justification for the fee, but claimed the fee was nominal and would only help to offset the cost of the employee trip.

In response to a Commission Staff request for information, Atmos stated that it "does not plan on using [the door tags] often, but wanted to reinstitute the option since it was a past practice."[124] During testimony provided at the public hearing, however, Atmos-Ky. noted that it intended that the Door Tag Fee be implemented on a pilot basis, that its use will be discontinued if it proves to be unsuccessful,[125] and that the fee would be applied to all customers who received a disconnect notice.[126]

The AG took no position on the proposed fee.

Due to the lack of cost support and somewhat inconsistent information provided, the Commission will deny Atmos-Ky.'s request to implement the $10 door tag fee. The Commission is concerned by the fact that, while a customer could benefit by avoiding a more costly $39 reconnect fee, a customer not heeding the door tag would be required to pay $10 in addition to all other fees. Should Atmos-Ky. wish to propose a door tag

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[122] Martin Testimony at 31-32.

[123] January 23, 2014 hearing at 11:51:45.

[124] Response to Staff's Second Request, Item 27.

[125] January 23, 2014 hearing at 11:52:55.

[126] *Id.* at 11:53:35.

fee in a future application, it should file more supporting details for the fee, including but not limited to the fee's success as a deterrent to non-payment and disconnection in other jurisdictions; cost support justifying the proposed charge; an estimate of revenue to be collected by the fee; and the details of the proposed pilot program if it is to be implemented as a pilot.

Other Tariff Changes

Atmos-Ky. proposed changes to its tariffs to reflect revisions to the Commission's regulations. Through the process of discovery, Atmos-Ky. agreed to further revise its tariffs, and provided amended tariff sheets incorporating all revisions. Atmos-Ky.'s tariff revisions as proposed and as further developed through the process of discovery are reasonable and should be approved.

Gas Transportation Thresholds

In 2010, the Kentucky General Assembly adopted Joint Resolution 141, which directed the Commission to commence a collaborative study of natural gas retail competition programs and to prepare and submit a report to the Kentucky General Assembly and the Legislative Research Commission. Pursuant to that directive, the Commission established Case No. 2010-00146 to conduct an investigation of natural gas competition.[127] After developing a record that consisted of discovery responses, testimony, and public comments, and conducting a public hearing, the Commission concluded that the existing transportation thresholds of jurisdictional local distribution

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[127] Case No. 2010-00146, *An Investigation if Natural Gas Competition Programs* (Ky. PSC Dec. 28, 2010).

companies ("LDCs") should be further examined, and that each LDC's tariffs and rate design would be evaluated in its next general rate proceeding.

In its rate application in this proceeding, Atmos-Ky. discusses its transportation and pooling services and its 9,000 Mcf per year volumetric eligibility threshold. It stated its belief that its existing eligibility threshold is set at an appropriate level and proposed no changes to its transportation service. The issue of Atmos-Ky.'s transportation service and eligibility threshold was further developed through the process of discovery by Staff, and was addressed by Stand's March 13, 2014 Brief and by Atmos-Ky.'s March 21, 2014 Reply Brief. Atmos-Ky. established through testimony and responses to discovery that it has approximately 30 customers that qualify for transportation service but choose to stay on sales service;[128] that over the last five years it has received only four requests for transportation service from non-residential customers whose volumetric usage would make them ineligible for transportation service;[129] that up-front costs such as electronic flow metering, monthly administration fees and potential cash out obligations would make it difficult for lower-volume-usage customers to achieve savings;[130] and that its existing transportation service threshold is not an outlier compared to other Kentucky jurisdictional LDCs.[131]

Stand recommends that Atmos-Ky.'s volumetric transportation threshold be lowered to allow more customers to purchase natural gas in the market. Stand states

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[128] Martin Testimony at 33-34.

[129] Response to Staff's Second Request, Item 11.

[130] Martin Testimony at 33.

[131] Response to Staff's Third Request, Item 6.

that the Commission should require Atmos-Ky. to lower the threshold from 9,000 to 3,000 Mcf per year if Atmos-Ky. will not do so voluntarily.[132] According to Stand, its suggestion is based on general industry knowledge, the thresholds of other LDCs, and the record in this case and that of Case No. 2010-00146.[133] Stand states that utilities in Kentucky and other states have proven that any risks and dangers of gas transportation are resolved by properly drafted tariffs which are not unduly punitive, do not unduly benefit the utility, and which serve to control supplier behavior.[134] Stand also advises that if the transportation threshold is lowered, the Commission must guard against the risk that other provisions of Atmos-Ky.'s tariff would be made more punitive and restrictive.[135] Stand cites the following as reasons that Atmos-Ky. should be indifferent to whether it or another supplier is supplying gas to its customers: (1) Atmos-Ky. is not allowed to profit from providing sales gas; and (2) Atmos-Ky. charges fees to transportation customers to address system balancing issues. Stand states that these factors justify lowering the threshold to transport. Stand also contends that it is unclear why Atmos-Ky. or the Commission has not lowered the volumetric threshold to transport.[136] Stand referred to the record in 2010-00146 as containing evidence that every customer for whom it had provided information in response to Staff data requests

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[132] Stand's Brief at 6.

[133] *Id.*

[134] *Id. at* 7.

[135] *Id. at* 8.

[136] *Id.*

had saved money compared with what it would have been charged by its LDC.[137] It suggests that the fact that the 30 customers who qualify for transportation service choose to stay on sales service indicates a lack of information available to Atmos-Ky. customers regarding transportation tariff options and the relative costs and benefits of sales versus transportation service.[138]

In response to Stand's argument regarding the issue of the volumetric eligibility threshold for transportation service, Atmos-Ky. states that Stand provided no evidence supporting its recommendation to reduce the threshold from 9,000 to 3,000 Mcf per year, and that it provided only broad generalization concerning the issue.[139] Atmos-Ky. argues, in response to Stand's uncertainty as to why the Commission has not lowered its volumetric threshold for transportation service, that the reason is the lack of demand from customers for a lower threshold and that the Commission has no basis to arbitrarily impose a reduction. Atmos-Ky. submits that it is a lack of interest and economic benefit that causes sales customers otherwise eligible for transportation service to remain sales customers, and not a lack of information, as Stand claims.[140] Atmos-Ky. states the Commission should not accept Stand's apparent assumption that customers are incapable of obtaining information and making informed judgments.[141]

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[137] *Id.* at 9.

[138] *Id.* at 11.

[139] Atmos-Ky.'s reply brief at 4.

[140] *Id.*

[141] *Id.*

The information in the record in this case reflects a meaningful effort to address the Commission's directive in Case No. 2010-00146 that gas transportation thresholds be examined in each LDC's next rate case. We find that the exploration of Atmos-Ky.'s gas transportation services and issues surrounding the availability of such service to more customers satisfies the intent of our Order in that case. There is nothing in the record of this proceeding to indicate that sales customers are disadvantaged by Atmos-Ky.'s decision to maintain its existing 9,000 Mcf per year transportation threshold. In the almost 10 months that this rate case has been before the Commission, no customer filed comments in opposition to Atmos-Ky's existing 9,000 Mcf per year transportation threshold and no customer requested to intervene to challenge that threshold level. Atmos-Ky.'s volumetric threshold is not the lowest among Kentucky LDCs, nor is it the highest. The Commission will continue to monitor the issue of transportation thresholds in future base-rate proceedings, and Atmos-Ky. should anticipate further inquiry regarding sales customers' expressions of interest in transportation service.

OTHER ISSUES

Stand's Allegations

Stand alleged in its post-hearing brief that it has been denied due process in this matter on two grounds: 1) the Commission did not have the authority to limit the scope of Stand's intervention to the issue of Atmos-Ky.'s threshold for transportation service; and 2) Stand was denied the right to participate in discovery due to the timing of our Order granting intervention. We will address each of these allegations separately.

The Commission finds that the only person with a statutory right to intervene is the AG, pursuant to KRS 367.150(8)(b). Intervention by all others is permissive and is within the sound discretion of the Commission. In the unreported case of EnviroPower, LLC v. Public Service Commission of Kentucky, No. 2005-CA-001792-MR, 2007 WL 289328 (Ky. App. Feb. 2, 2007), the Court of Appeals ruled that this Commission retains power in its discretion to grant or deny a motion for intervention, but that discretion is not unlimited. The Court enumerated the statutory and regulatory limits on Commission discretion in ruling on motions to intervene. The statutory limitation, KRS 278.040(2), requires that the person seeking intervention have an interest in the rates or service of a utility, as those are the only two subjects under the jurisdiction of the Commission.

The issues presented in EnviroPower are analogous to the instant case with regard to Commission discretion in granting intervention.[142] Similar to EnviroPower's interest as a competitor in East Kentucky Power Company's ("EKPC") construction of a coal-fired generating plant, Stand's interest as a private natural gas marketer arguably places it in direct competition with Atmos-Ky. in its role as provider of the natural gas commodity to its sales customers. EnviroPower was neither a ratepayer of EKPC nor did it represent a ratepayer of EKPC. Stand is likewise not a ratepayer of Atmos-Ky. nor does it represent a ratepayer in this proceeding.

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[142] In *EnviroPower*, East Kentucky Power Cooperative Inc. ("EKPC") applied for a Certificate of Public Convenience and Necessity ("CPCN") to self-construct a 278-MW coal-fired generating plant at its Spurlock Station site in Maysville, Kentucky. Before making its application for a CPCN, EKPC had issued a "Request for Proposals" for various contractors to bid on supplying the necessary power. EnviroPower was one of 39 unsuccessful bidders. The Commission denied EnviroPower's request to intervene upon finding that it was not a ratepayer of EKPC, but a rejected bidder whose interests were not identical to ratepayers'; and that EnviroPower had a legal duty to its members to maximize profits; a far different goal from the protection of ratepayers. Although intervention was denied, EnviroPower was added to the service list so that it could monitor the proceedings, submit further information and comment upon the issues and in fact it filed extensive comments in the form of prepared testimony.

It is only because of an assurance made by the Commission in Case No. 2010-00146, An Investigation of Natural Gas Retail Competition Programs,[143] that Stand was granted intervenor status in this matter. The Commission, in its final report to the Kentucky General Assembly in Case No. 2010-00146, states, "The Commission believes that existing transportation thresholds bear further examination, and the Commission will evaluate each LDC's tariffs and rate design in each LDC's next general rate proceeding."[144] As this is Atmos-Ky.'s first general rate proceeding following the Commission's report, and consistent with the report, Stand was granted intervention in the current matter but its intervention was limited "to participation on the issues of Atmos Energy's transportation threshold levels and any other matters related thereto, but not to whether a Pilot Program for Schools or enhanced Standards of Conduct should be added." The Commission disagrees with Stand's argument that it should have been allowed to explore these other topics in the present case. We find both topics to be extraneous to our consideration of either transportation thresholds, as we agreed to consider in our final report in Case No. 2010-00146, or to our consideration of Atmos-Ky.'s application for an adjustment of rates in the present case. Stand contends that an amendment to the Commission's administrative regulations, which removed both the words "limited" and "full" pertaining to intervention, arguably grant Stand, as an intervenor in this case, the right to interject any topic it chooses into a proceeding before the Commission, regardless of either its relevance or applicability to the matter at hand.

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[143] Case No. 2010-00146, *An Investigation of Natural Gas Retail Competition Programs* (Ky. PSC Dec. 28, 2010).

[144] *Id.* at 23.

We find this position to be erroneous. Neither the Commission's former regulation pertaining to intervention,[145] nor as it was amended in 2013,[146] bestow upon any intervenor the right to introduce tangential issues into Commission proceedings, as Stand has attempted to do in this matter regarding a pilot program for Kentucky's school facilities and regarding its promotion of Commission-imposed Standards of Conduct against Atmos-Ky. Further, the prior provision in our regulations allowing for "limited intervention" had nothing to do with limiting the issues that could be addressed by an intervenor. Rather, the limitation in "limited intervention" extended only to the documents that other parties had to serve on the limited intervenor and the exclusion of the limited intervenor as a designated party for purposes of rehearing or judicial review.

Stand maintains that it was denied due process because the Commission did not rule on its motion to intervene for more than three months and then after the closure of discovery. The Commission finds Stand's position without merit on two separate grounds. First, 807 KAR 5:001, Section 4(11)(d), the amended regulation regarding intervention which Stand earlier touts, states, "Unless the commission finds good cause to order otherwise, a person granted leave to intervene in a case shall, as a condition of his intervention, be subject to the procedural schedule in existence in that case when the order granting the person's intervention is issued." Although Stand would seem to imply otherwise, there is nothing in this provision that conditions its applicability on when intervention is granted by the Commission. In addition, there is nothing in the record to indicate any effort by Stand to seek amendment of the procedural schedule in place at

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[145] 807 KAR 5:001, Section 3(8).

[146] 807 KAR 5:001, Section 4(11).

the time it was granted intervention. The initial language, "Unless the commission finds good cause to order otherwise. . ." would allow the Commission to amend the procedural schedule if "good cause" exists, but Stand never made such a request or brought its concern to the Commission while the evidentiary record was open. In fact, Stand never raised the claim of a denial to participate in discovery until it filed its post-hearing brief, which was over six months after it was granted intervention. Thus,its recent claim that it was denied due process is unconvincing.

The Commission also finds Stand's claim that it was denied the opportunity to participate in discovery disingenuous on a second level. At the time Stand was granted intervention on September 3, 2013, the only discovery deadline that had passed was the request for information to Atmos-Ky. due on August 14, 2013, to which Atmos-Ky. responded on August 28, 2013. After the Commission's September 3, 2013 Order granting its intervention, Stand had the opportunity to file supplemental requests for information to Atmos-Ky. by September 11, 2013; to file intervenor testimony by October 9, 2013; and to file requests for information to the AG by October 23, 2013. Stand had each of these opportunities as part of the original procedural schedule, which it accepted as a condition of its intervention,[147] and did not request be amended.

Stand's participation in this case has been minimal. Following the filing of its motion to intervene and memorandum in support of its motion, which primarily advocated that Atmos-Ky. be required to implement a pilot program for Kentucky School

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[147] 807 KAR 5:001, Section 4(11)(d).

Facilities[148] and that the Commission impose Standards of Conduct against Kentucky gas utilities with unregulated gas marketing affiliates,[149] both issues that are outside the scope of these proceedings, its participation has consisted of briefly questioning two of Atmos-Ky.'s ten witnesses at the January 23, 2014 hearing, each for less than five minutes,[150] and filing a post-hearing brief.[151]

Stand did not request that the procedural schedule be amended; did not file supplemental requests for information to Atmos-Ky.; did not request information from the other intervenor; did not file testimony on its own behalf or present any witnesses at the January 23, 2014 hearing; did not question eight of Atmos-Ky.'s ten witnesses who testified at the January 23, 2014 hearing; and did not question either of the Attorney General's two witnesses who testified at the January 23, 2014 hearing.

In summary, we find that Stand's choices regarding its level of participation in this case create no substantive or procedural due process violations by the Commission.

Depreciation Study

Atmos-Ky.'s depreciation rate study filed as part of its application[152] is the first depreciation rate study filed by Atmos-Ky. since its 2006 general rate case.[153] Based

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[148] Memorandum Supporting Motion of Stand Energy Corporation to Intervene at pp.5-6.

[149] *Id.* at 7.

[150] Cross-Examination of Mark Martin at 11:17:35–11:20:00 and Cross-Examination of Gary Smith at 5:59:41–6:04:21, January 23, 2014 hearing.

[151] By Order issued March 7, 2014, the Commission granted Stand's e-mail request for additional time to file a post hearing brief.

[152] Direct Testimony of Dane A. Watson.

[153] Case No. 2006-00464, *Application of Atmos Energy Corporation for an Adjustment of Rates* (Ky. PSC July 31, 2007).

on the current study's results, Atmos-Ky. proposed new depreciation rates that would increase its annual depreciation expense by approximately $1.1 million.

The Commission finds that Atmos-Ky.'s proposed depreciation rates are reasonable and should be approved for use by Atmos-Ky. on and after the effective date of the gas service rates approved herein. The Commission also finds that Atmos-Ky. should prepare a new depreciation rate study for Commission review by the earlier of five years from the date of this Order or the filing of Atmos-Ky.'s next application for an adjustment in its base rates.

Wireless Meter Reading

Atmos-Ky.'s application indicated that in fiscal year 2014 it would undertake a Wireless Meter Reading ("WMR") project.[154] It intends to install 20,000 WMR devices in areas where (1) it currently uses contract meter readers, (2) it expects to experience workforce reductions due to retirements and relocations, and (3) meter reading is costly due to the time required for individual reads.[155] While Atmos-Ky. does not expect significant savings in the near term, it indicates that, over time, company meter readers would be trained for other positions that become vacant due to retirements and would fill those positions, resulting in an overall reduction in the required number of operational employees.[156]

Although Atmos-Ky. did not reflect any decrease in expenses during the test year due to the WMR project, but expects to realize savings from the project in the long term.

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[154] Direct Testimony of Ernest B. Napier at 13.

[155] *Id.*

[156] *Id.* at 14.

Exhibit PM-1

The Commission is interested in the level of savings Atmos-Ky. will realize as a result of the WMR project on a long-term term basis. Accordingly, in conjunction with its next general rate application, we find that Atmos-Ky. should submit an analysis of the costs incurred and savings realized because of the WMR project from its inception to a date within 90 days of the submission of the rate application.

SUMMARY

The Commission, after consideration of the evidence of record and being otherwise sufficiently advised, finds that:

1. The rates set forth in the Appendix to this Order are the fair, just, and reasonable rates for Atmos-Ky. to charge for service rendered on and after January 24, 2014.

2. The rate of return granted herein is fair, just, and reasonable and will provide sufficient revenue for Atmos-Ky. to meet its financial obligations with a reasonable amount remaining for equity growth.

3. The rates proposed by Atmos-Ky. would produce revenue in excess of that found reasonable herein and should be denied.

4. Atmos-Ky.'s proposal to implement new depreciation rates based on the depreciation study it filed in this proceeding should be granted with the new depreciation rates to be effective as of the effective date of the gas service rates approved herein.

5. Atmos-Ky. should file a new depreciation study for Commission review by the earlier of five years from the date of this Order or the filing of its next general rate application.

6. The proposed MLR and SDR tariffs are not currently warranted and should be denied.

7. The proposed Door Tag Fee is not reasonable and should be denied.

8. Atmos-Ky.'s request for permanent approval of its WNA tariff and the proposed language concerning NOAA's 30-year normal for the period ending 2010, which should be updated with each base-rate proceeding, is reasonable and should be approved.

9. Atmos-Ky.'s proposal to revise its G-1 and G-2 sales tariffs to permit the resale of natural gas as a motor vehicle fuel is reasonable and should be approved

10. All other tariff modifications proposed by Atmos-Ky. or agreed to by Atmos-Ky. through the discovery process in this proceeding are reasonable and should be approved.

11. As part of its next application for an adjustment of its base rates for gas service, Atmos-Ky. should submit the IRS private-letter ruling required herein, and should defer the related cost in a regulatory asset account to be addressed in that rate proceeding.

12. As part of its next application for an adjustment of its base rates for gas service, Atmos-Ky. should submit the comparison required herein of weather-normalization methodologies along with support for the time period it proposes to use to normalize revenues, including the superiority of the chosen method in terms of its predictive value for future temperatures.

13. As part of its next application for an adjustment of its base rates for gas service, Atmos-Ky. should submit the results of its analyses required herein on the

Exhibit PM-1

threat of bypass posed by its special contract customers and on the sufficiency of the revenue generated by these customers to continue to cover variable cost and make a contribution to fixed cost.

14. As part of its next application for an adjustment of its base rates for gas service, Atmos-Ky. should submit an analysis of the costs incurred and savings realized due to the WMR project from its inception to a date within 90 days of the submission of the rate application.

15. As part of its next application for an adjustment of its base rates for gas service, Atmos-Ky. should submit multiple-methodology COSSes in order to give the Commission a range of reasonable results for use in determining rate design.

16. Future COSSes filed by any party should show separately each of the typical individual COSS steps of functionalization, classification, and allocation.

17. The record in this proceeding regarding Atmos-Ky.'s gas transportation services and issues surrounding the availability of such service satisfies the intent of our Order in Case No. 2010-00146.

IT IS THEREFORE ORDERED that:

1. The rates and charges proposed by Atmos-Ky. are denied.

2. The rates in the appendix to this Order are approved for service rendered by Atmos-Ky. on and after January 24, 2014.

3. The depreciation rates proposed by Atmos-Ky. are approved.

4. Atmos-Ky. shall submit a new depreciation study for Commission review by the earlier of five years from the date of this Order or the filing of its next general rate case.

Exhibit PM-1

5. Within 20 days of the date of this Order, Atmos-Ky. shall file with the Commission, using the Commission's Electronic Tariff Filing System, new tariff sheets setting forth the rates, charges, and revisions approved herein and reflecting their effective date and that they were authorized by this Order.

6. Within 60 days from the date of this Order, Atmos-Ky. shall refund with interest all amounts collected for service rendered from January 24, 2014, through the date of this Order that are in excess of the rates set out in the appendix to this Order. The amount refunded to each customer shall equal the amount paid by each customer during the refund period in excess of the rates approved herein.

7. Atmos-Ky. shall pay interest on the refunded amounts at the average of the 3-Month Commercial Paper Rate as reported in the Federal Reserve Bulletin and the Federal Reserve Statistical Release on the date of this Order.

8. Within 75 days from the date of this Order, Atmos-Ky. shall submit a written report to the Commission in which it describes its efforts to refund all monies collected in excess of the rates that are set forth in the appendix to this Order.

9. Any documents filed pursuant to ordering paragraph 8 of this Order shall reference the number of this case and shall be retained in the utility's post case reference file.

10. Atmos-Ky.'s next application for an increase in its base rates shall contain the information required in finding paragraphs 11 through 14.

Exhibit PM-1

By the Commission

ENTERED
APR 22 2014
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:

Executive Director

Case No. 2013-00148

Exhibit PM-1

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2013-00148 DATED APR 2 2 2014

The following rates and charges are prescribed for the customers served by Atmos Energy Corporation. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of this Commission prior to the effective date of this Order.

RATE G-1
GENERAL FIRM SALES SERVICE

Base Charge

$16.00	per meter per month for residential service
$40.00	per meter per month for non-residential service

Distribution Charge

First	300	Mcf	$ 1.3180 per Mcf
Next	14,700	Mcf	$ .8800 per Mcf
Over	15,000	Mcf	$ .6200 per Mcf

RATE G-2
INTERRUPTIBLE SALES SERVICE

Base Charge

$350.00	per delivery point per month

Distribution Charge

First	15,000	Mcf	$ .7900 per Mcf
Over	15,000	Mcf	$ .5300 per Mcf

Exhibit PM-1

RATE T-3
INTERRUPTIBLE TRANSPORTATION SERVICE

Base Charge

$350.00 per delivery point per month

Distribution Charge for Interruptible Service

First	15,000 Mcf	$	.7900 per Mcf
Over	15,000 Mcf	$	.5300 per Mcf

RATE T-4
FIRM TRANSPORTATON SERVICE

Base Charge

$350.00 per delivery point per month

Distribution Charge for Firm Service

First	300 Mcf	$	1.3180 per Mcf
Next	14,700 Mcf	$	.8800 per Mcf
Over	15,000 Mcf	$	.6200 per Mcf

Exhibit PM-1

Honorable John M Dosker
General Counsel
Stand Energy Corporation
1077 Celestial Street
Building 3, Suite 110
Cincinnati, OHIO 45202-1629

Gregory T Dutton
Assistant Attorney General
Office of the Attorney General Utility & Rate
1024 Capital Center Drive
Suite 200
Frankfort, KENTUCKY 40601-8204

Jennifer Black Hans
Assistant Attorney General
Office of the Attorney General Utility & Rate
1024 Capital Center Drive
Suite 200
Frankfort, KENTUCKY 40601-8204

Honorable Dennis G Howard II
Assistant Attorney General
Office of the Attorney General Utility & Rate
1024 Capital Center Drive
Suite 200
Frankfort, KENTUCKY 40601-8204

Honorable John N Hughes
Attorney at Law
124 West Todd Street
Frankfort, KENTUCKY 40601

Mark R Hutchinson
Wilson, Hutchinson & Poteat
611 Frederica Street
Owensboro, KENTUCKY 42301

Heather Napier
Office of the Attorney General Utility & Rate
1024 Capital Center Drive
Suite 200
Frankfort, KENTUCKY 40601-8204

Douglas Walther
5430 LBJ Freeway
1800 Three Lincoln Centre
Dallas, TEXAS 75240

Eric Wilen
Project Manager-Rates & Regulatory Affairs
Atmos Energy Corporation
5420 LBJ Freeway, Suite 1629
Dallas, TEXAS 75420

Exhibit PM-1

Power of Attorney

Exhibit PM-1

Form **2848**
(Rev. July 2014)
Department of the Treasury
Internal Revenue Service

Power of Attorney and Declaration of Representative

▶ **Information about Form 2848 and its instructions is at *www.irs.gov/form2848*.**

OMB No. 1545-0150

For IRS Use Only
Received by:
Name ____________
Telephone ____________
Function ____________
Date / /

Part I Power of Attorney

Caution: *A separate Form 2848 must be completed for each taxpayer. Form 2848 will not be honored for any purpose other than representation before the IRS.*

1 Taxpayer information. Taxpayer must sign and date this form on page 2, line 7.

Taxpayer name and address
Atmos Energy Corporation
Three Lincoln Center, Suite 1800
5430 LBJ Freeway
Dallas, Texas 75240

Taxpayer identification number(s): 75-1743247
Daytime telephone number: (972) 934-9227
Plan number (if applicable):

hereby appoints the following representative(s) as attorney(s)-in-fact:

2 Representative(s) must sign and date this form on page 2, Part II.

Name and address
James I. Warren
Miller & Chevalier Chartered
655 Fifteenth St., NW, Washington, DC 20005
Check if to be sent copies of notices and communications ☒

CAF No. 2000-05860R
PTIN
Telephone No. 202-626-5959
Fax No. 202-626-5801
Check if new: Address ☐ Telephone No. ☐ Fax No. ☐

Name and address
Alexander Zakupowsky, Jr.
Miller & Chevalier Chartered
655 Fifteenth St., NW, Washington, DC 20005
Check if to be sent copies of notices and communications ☐

CAF No. 5005-91220R
PTIN
Telephone No. 202-626-5950
Fax No. 202-626-5801
Check if new: Address ☐ Telephone No. ☐ Fax No. ☐

Name and address

(Note. IRS sends notices and communications to only two representatives.)

CAF No.
PTIN
Telephone No.
Fax No.
Check if new: Address ☐ Telephone No. ☐ Fax No. ☐

Name and address

(Note. IRS sends notices and communications to only two representatives.)

CAF No.
PTIN
Telephone No.
Fax No.
Check if new: Address ☐ Telephone No. ☐ Fax No. ☐

to represent the taxpayer before the Internal Revenue Service and perform the following acts:

3 Acts authorized (you are required to complete this line 3). With the exception of the acts described in line 5b, I authorize my representative(s) to receive and inspect my confidential tax information and to perform acts that I can perform with respect to the tax matters described below. For example, my representative(s) shall have the authority to sign any agreements, consents, or similar documents (see instructions for line 5a for authorizing a representative to sign a return).

Description of Matter (Income, Employment, Payroll, Excise, Estate, Gift, Whistleblower, Practitioner Discipline, PLR, FOIA, Civil Penalty, Sec. 5000A Shared Responsibility Payment, Sec. 4980H Shared Responsibility Payment, etc.) (see instructions)	Tax Form Number (1040, 941, 720, etc.) (if applicable)	Year(s) or Period(s) (if applicable) (see instructions)
PLR Request	1120	2014-2015

4 Specific use not recorded on Centralized Authorization File (CAF). If the power of attorney is for a specific use not recorded on CAF, check this box. See the instructions for **Line 4. Specific Use Not Recorded on CAF** . . . . ▶ ☐

5a Additional acts authorized. In addition to the acts listed on line 3 above, I authorize my representative(s) to perform the following acts (see instructions for line 5a for more information):

☐ Authorize disclosure to third parties; ☐ Substitute or add representative(s); ☐ Sign a return; ____________

☐ Other acts authorized: ____________

For Privacy Act and Paperwork Reduction Act Notice, see the instructions.

Exhibit PM-1

b **Specific acts not authorized.** My representative(s) is (are) not authorized to endorse or otherwise negotiate any check (including directing or accepting payment by any means, electronic or otherwise, into an account owned or controlled by the representative(s) or any firm or other entity with whom the representative(s) is (are) associated) issued by the government in respect of a federal tax liability.

List any specific deletions to the acts otherwise authorized in this power of attorney (see instructions for line 5b):

6 **Retention/revocation of prior power(s) of attorney.** The filing of this power of attorney automatically revokes all earlier power(s) of attorney on file with the Internal Revenue Service for the same matters and years or periods covered by this document. If you **do not** want to revoke a prior power of attorney, check here ▶ ☑

YOU MUST ATTACH A COPY OF ANY POWER OF ATTORNEY YOU WANT TO REMAIN IN EFFECT.

7 **Signature of taxpayer.** If a tax matter concerns a year in which a joint return was filed, each spouse must file a separate power of attorney even if they are appointing the same representative(s). If signed by a corporate officer, partner, guardian, tax matters partner, executor, receiver, administrator, or trustee on behalf of the taxpayer, I certify that I have the authority to execute this form on behalf of the taxpayer.

▶ IF NOT COMPLETED, SIGNED, AND DATED, THE IRS WILL RETURN THIS POWER OF ATTORNEY TO THE TAXPAYER.

	1/7/15	VP-Tax
Signature	Date	Title (if applicable)
Pace McDonald		Atmos Energy Corporation
Print Name		Print name of taxpayer from line 1 if other than individual

Part II Declaration of Representative

Under penalties of perjury, by my signature below I declare that:

- I am not currently suspended or disbarred from practice before the Internal Revenue Service;
- I am subject to regulations contained in Circular 230 (31 CFR, Subtitle A, Part 10), as amended, governing practice before the Internal Revenue Service;
- I am authorized to represent the taxpayer identified in Part I for the matter(s) specified there; and
- I am one of the following:

a Attorney—a member in good standing of the bar of the highest court of the jurisdiction shown below.

b Certified Public Accountant—duly qualified to practice as a certified public accountant in the jurisdiction shown below.

c Enrolled Agent—enrolled as an agent by the Internal Revenue Service per the requirements of Circular 230.

d Officer—a bona fide officer of the taxpayer organization.

e Full-Time Employee—a full-time employee of the taxpayer.

f Family Member—a member of the taxpayer's immediate family (for example, spouse, parent, child, grandparent, grandchild, step-parent, step-child, brother, or sister).

g Enrolled Actuary—enrolled as an actuary by the Joint Board for the Enrollment of Actuaries under 29 U.S.C. 1242 (the authority to practice before the Internal Revenue Service is limited by section 10.3(d) of Circular 230).

h Unenrolled Return Preparer—Your authority to practice before the Internal Revenue Service is limited. You must have been eligible to sign the return under examination and have prepared and signed the return. **See Notice 2011-6 and *Special rules for registered tax return preparers and unenrolled return preparers* in the instructions (PTIN required for designation h).**

i Registered Tax Return Preparer—registered as a tax return preparer under the requirements of section 10.4 of Circular 230. Your authority to practice before the Internal Revenue Service is limited. You must have been eligible to sign the return under examination and have prepared and signed the return. **See Notice 2011-6 and *Special rules for registered tax return preparers and unenrolled return preparers* in the instructions (PTIN required for designation i).**

k Student Attorney or CPA—receives permission to represent taxpayers before the IRS by virtue of his/her status as a law, business, or accounting student working in an LITC or STCP. See instructions for Part II for additional information and requirements.

r Enrolled Retirement Plan Agent—enrolled as a retirement plan agent under the requirements of Circular 230 (the authority to practice before the Internal Revenue Service is limited by section 10.3(e)).

▶ IF THIS DECLARATION OF REPRESENTATIVE IS NOT COMPLETED, SIGNED, AND DATED, THE IRS WILL RETURN THE POWER OF ATTORNEY. REPRESENTATIVES MUST SIGN IN THE ORDER LISTED IN PART I, LINE 2. See the instructions for Part II.

Note: For designations d-f, enter your title, position, or relationship to the taxpayer in the "Licensing jurisdiction" column. See the instructions for Part II for more information.

Designation—Insert above letter (a–r)	Licensing jurisdiction (state) or other licensing authority (if applicable)	Bar, license, certification, registration, or enrollment number (if applicable). See instructions for Part II for more information.	Signature	Date
a	DC	989415	James D Ware	1/8/15
a	DC	163329		1-8-15

Exhibit PM-1

Form **2848**
(Rev. March 2012)
Department of the Treasury
Internal Revenue Service

Power of Attorney and Declaration of Representative

► Type or print. ► See the separate instructions.

OMB No. 1545-0150

For IRS Use Only
Received by:
Name ________
Telephone ________
Function ________
Date / /

Part I **Power of Attorney**

Caution: *A separate Form 2848 should be completed for each taxpayer. Form 2848 will not be honored for any purpose other than representation before the IRS.*

1 Taxpayer information. Taxpayer must sign and date this form on page 2, line 7.

Taxpayer name and address Atmos Energy Holdings, Inc. 5430 LBJ Freeway, Suite 600 Dallas, TX 75240-2601	Taxpayer identification number(s) 75-2879833	
	Daytime telephone number 972-855-9951	Plan number (if applicable)

hereby appoints the following representative(s) as attorney(s)-in-fact:

2 Representative(s) must sign and date this form on page 2, Part II.

Name and address Jennifer Story 5430 LBJ Freeway, Suite 600 Dallas, TX 75240-2601	CAF No. PTIN Telephone No. 972-855-9905 Fax No. 214-550-5659
Check if to be sent notices and communications ☑	Check if new: Address ☐ Telephone No. ☐ Fax No. ☐
Name and address Sarah Stojak 5430 LBJ Freeway, Suite 600 Dallas, TX 75240-2601	CAF No. PTIN Telephone No. 972-855-3724 Fax No. 214-550-9209
Check if to be sent notices and communications ☑	Check if new: Address ☐ Telephone No. ☐ Fax No. ☐
Name and address	CAF No. PTIN Telephone No. Fax No.
	Check if new: Address ☐ Telephone No. ☐ Fax No. ☐

to represent the taxpayer before the Internal Revenue Service for the following matters:

3 Matters

Description of Matter (Income, Employment, Payroll, Excise, Estate, Gift, Whistleblower, Practitioner Discipline, PLR, FOIA, Civil Penalty, etc.) (see instructions for line 3)	Tax Form Number (1040, 941, 720, etc.) (if applicable)	Year(s) or Period(s) (if applicable) (see instructions for line 3)
Income Tax, Employment, Excise, Civil Penalty	1120, 990, 990-T, 3115, 941, 720	199909-201609

4 Specific use not recorded on Centralized Authorization File (CAF). If the power of attorney is for a specific use not recorded on CAF, check this box. See the Instructions for Line 4. **Specific Uses Not Recorded on CAF** . . . . ► ☐

5 Acts authorized. Unless otherwise provided below, the representatives generally are authorized to receive and inspect confidential tax information and to perform any and all acts that I can perform with respect to the tax matters described on line 3, for example, the authority to sign any agreements, consents, or other documents. The representative(s), however, is (are) not authorized to receive or negotiate any amounts paid to the client in connection with this representation (including refunds by either electronic means or paper checks). Additionally, unless the appropriate box(es) below are checked, the representative(s) is (are) not authorized to execute a request for disclosure of tax returns or return information to a third party, substitute another representative or add additional representatives, or sign certain tax returns.

☐ Disclosure to third parties; ☐ Substitute or add representative(s); ☐ Signing a return; ________

☐ Other acts authorized: ________

________ (see instructions for more information)

Exceptions. An unenrolled return preparer cannot sign any document for a taxpayer and may only represent taxpayers in limited situations. An enrolled actuary may only represent taxpayers to the extent provided in section 10.3(d) of Treasury Department Circular No. 230 (Circular 230). An enrolled retirement plan agent may only represent taxpayers to the extent provided in section 10.3(e) of Circular 230. A registered tax return preparer may only represent taxpayers to the extent provided in section 10.3(f) of Circular 230. See the line 5 instructions for restrictions on tax matters partners. In most cases, the student practitioner's (level k) authority is limited (for example, they may only practice under the supervision of another practitioner).

List any specific deletions to the acts otherwise authorized in this power of attorney: ________

For Privacy Act and Paperwork Reduction Act Notice, see the instructions. Cat. No. 11980J

Exhibit PM-1

6 **Retention/revocation of prior power(s) of attorney.** The filing of this power of attorney automatically revokes all earlier power(s) of attorney on file with the Internal Revenue Service for the same matters and years or periods covered by this document. If you do not want to revoke a prior power of attorney, check here . . . . ▶ ☒
YOU MUST ATTACH A COPY OF ANY POWER OF ATTORNEY YOU WANT TO REMAIN IN EFFECT.

7 **Signature of taxpayer.** If a tax matter concerns a year in which a joint return was filed, the husband and wife must each file a separate power of attorney even if the same representative(s) is (are) being appointed. If signed by a corporate officer, partner, guardian, tax matters partner, executor, receiver, administrator, or trustee on behalf of the taxpayer, I certify that I have the authority to execute this form on behalf of the taxpayer.

▶ **IF NOT SIGNED AND DATED, THIS POWER OF ATTORNEY WILL BE RETURNED TO THE TAXPAYER.**

Signature:
Date: 7/25/13
Title (if applicable): Vice President of Tax

Print Name: Pace McDonald
PIN Number: ☐☐☐☐☐
Print name of taxpayer from line 1 if other than individual: Atmos Energy Holdings, Inc.

Part II Declaration of Representative

Under penalties of perjury, I declare that:

- I am not currently under suspension or disbarment from practice before the Internal Revenue Service;
- I am aware of regulations contained in Circular 230 (31 CFR, Part 10), as amended, concerning practice before the Internal Revenue Service;
- I am authorized to represent the taxpayer identified in Part I for the matter(s) specified there; and
- I am one of the following:
  - a Attorney—a member in good standing of the bar of the highest court of the jurisdiction shown below.
  - b Certified Public Accountant—duly qualified to practice as a certified public accountant in the jurisdiction shown below.
  - c Enrolled Agent—enrolled as an agent under the requirements of Circular 230.
  - d Officer—a bona fide officer of the taxpayer's organization.
  - e Full-Time Employee—a full-time employee of the taxpayer.
  - f Family Member—a member of the taxpayer's immediate family (for example, spouse, parent, child, grandparent, grandchild, step-parent, step-child, brother, or sister).
  - g Enrolled Actuary—enrolled as an actuary by the Joint Board for the Enrollment of Actuaries under 29 U.S.C. 1242 (the authority to practice before the Internal Revenue Service is limited by section 10.3(d) of Circular 230).
  - h Unenrolled Return Preparer—Your authority to practice before the Internal Revenue Service is limited. You must have been eligible to sign the return under examination and have signed the return. **See Notice 2011-6 and Special rules for registered tax return preparers and unenrolled return preparers in the instructions.**
  - i Registered Tax Return Preparer—registered as a tax return preparer under the requirements of section 10.4 of Circular 230. Your authority to practice before the Internal Revenue Service is limited. You must have been eligible to sign the return under examination and have signed the return. **See Notice 2011-6 and Special rules for registered tax return preparers and unenrolled return preparers in the instructions.**
  - k Student Attorney or CPA—receives permission to practice before the IRS by virtue of his/her status as a law, business, or accounting student working in LITC or STCP under section 10.7(d) of Circular 230. See instructions for Part II for additional information and requirements.
  - r Enrolled Retirement Plan Agent—enrolled as a retirement plan agent under the requirements of Circular 230 (the authority to practice before the Internal Revenue Service is limited by section 10.3(e)).

▶ **IF THIS DECLARATION OF REPRESENTATIVE IS NOT SIGNED AND DATED, THE POWER OF ATTORNEY WILL BE RETURNED. REPRESENTATIVES MUST SIGN IN THE ORDER LISTED IN LINE 2 ABOVE.** See the instructions for Part II.

Note: For designations d–f, enter your title, position, or relationship to the taxpayer in the "Licensing jurisdiction" column. See the instructions for Part II for more information.

Designation—Insert above letter (a–r)	Licensing jurisdiction (state) or other licensing authority (if applicable)	Bar, license, certification, registration, or enrollment number (if applicable). See instructions for Part II for more information.	Signature	Date
e	Director Inc. Tax		Jennifer Story	7/25/13
e	Manager Inc. Tax		Laura Hogie	7-25-13

Exhibit PM-1

Form **2848**
(Rev. March 2012)
Department of the Treasury
Internal Revenue Service

Power of Attorney and Declaration of Representative

➤Type or print. ➤See the separate instructions.

OMB No. 1545-0150

For IRS Use Only
Received by:
Name
Telephone
Function
Date / /

Part I Power of Attorney

Caution: *A separate Form 2848 should be completed for each taxpayer. Form 2848 will not be honored for any purpose other than representation before the IRS.*

1 **Taxpayer information.** Taxpayer must sign and date this form on page 2, line 7.

Taxpayer name and address
Atmos Energy Corporation, Inc. and Subsidiaries
5430 LBJ Freeway, Suite 600
Dallas, TX 75240-2601

Taxpayer identification number(s) 75-1743247

Daytime telephone number 972-855-9951

Plan number (if applicable)

hereby appoints the following representative(s) as attorney(s)-in-fact:

2 **Representative(s) must sign and date this form on page 2, Part II.**

Name and address
Jennifer Story
5430 LBJ Freeway, Suite 600
Dallas, TX 75240-2601

CAF No.
PTIN
Telephone No. 972-855-9905
Fax No. 214-550-5659

Check if to be sent notices and communications ☑
Check if new: Address ☐ Telephone No. ☐ Fax No. ☐

Name and address
Sarah Stojak
5430 LBJ Freeway, Suite 600
Dallas, TX 75240-2601

CAF No.
PTIN
Telephone No. 972-855-3724
Fax No. 214-550-9209

Check if to be sent notices and communications ☑
Check if new: Address ☐ Telephone No. ☐ Fax No. ☐

Name and address

CAF No.
PTIN
Telephone No.
Fax No.

Check if new: Address ☐ Telephone No. ☐ Fax No. ☐

to represent the taxpayer before the Internal Revenue Service for the following matters:

3 **Matters**

Description of Matter (Income, Employment, Payroll, Excise, Estate, Gift, Whistleblower, Practitioner Discipline, PLR, FOIA, Civil Penalty, etc.) (see instructions for line 3)	Tax Form Number (1040, 941, 720, etc.) (if applicable)	Year(s) or Period(s) (if applicable) (see instructions for line 3)
Income Tax, Employment, Excise, Civil Penalty	1120, 990, 990-T, 3115, 941, 720	199909-201609

4 **Specific use not recorded on Centralized Authorization File (CAF).** If the power of attorney is for a specific use not recorded on CAF, check this box. See the Instructions for Line 4. **Specific Uses Not Recorded on CAF** . . . . ➤ ☐

5 **Acts authorized.** Unless otherwise provided below, the representatives generally are authorized to receive and inspect confidential tax information and to perform any and all acts that I can perform with respect to the tax matters described on line 3, for example, the authority to sign any agreements, consents, or other documents. The representative(s), however, is (are) not authorized to receive or negotiate any amounts paid to the client in connection with this representation (including refunds by either electronic means or paper checks). Additionally, unless the appropriate box(es) below are checked, the representative(s) is (are) not authorized to execute a request for disclosure of tax returns or return information to a third party, substitute another representative or add additional representatives, or sign certain tax returns.

☐ Disclosure to third parties; ☐ Substitute or add representative(s); ☐ Signing a return;

☐ Other acts authorized:

(see instructions for more information)

Exceptions. An unenrolled return preparer cannot sign any document for a taxpayer and may only represent taxpayers in limited situations. An enrolled actuary may only represent taxpayers to the extent provided in section 10.3(d) of Treasury Department Circular No. 230 (Circular 230). An enrolled retirement plan agent may only represent taxpayers to the extent provided in section 10.3(e) of Circular 230. A registered tax return preparer may only represent taxpayers to the extent provided in section 10.3(f) of Circular 230. See the line 5 instructions for restrictions on tax matters partners. In most cases, the student practitioner's (level k) authority is limited (for example, they may only practice under the supervision of another practitioner).

List any specific deletions to the acts otherwise authorized in this power of attorney:

For Privacy Act and Paperwork Reduction Act Notice, see the instructions. Cat. No. 11980J

Exhibit PM-1

6 **Retention/revocation of prior power(s) of attorney.** The filing of this power of attorney automatically revokes all earlier power(s) of attorney on file with the Internal Revenue Service for the same matters and years or periods covered by this document. If you do not want to revoke a prior power of attorney, check here . . . . . ▶ ☒

YOU MUST ATTACH A COPY OF ANY POWER OF ATTORNEY YOU WANT TO REMAIN IN EFFECT.

7 **Signature of taxpayer.** If a tax matter concerns a year in which a joint return was filed, the husband and wife must each file a separate power of attorney even if the same representative(s) is (are) being appointed. If signed by a corporate officer, partner, guardian, tax matters partner, executor, receiver, administrator, or trustee on behalf of the taxpayer, I certify that I have the authority to execute this form on behalf of the taxpayer.

▶ IF NOT SIGNED AND DATED, THIS POWER OF ATTORNEY WILL BE RETURNED TO THE TAXPAYER.

Signature	Date 7/25/13	Title (if applicable) Vice President of Tax

Print Name: Pace McDonald

PIN Number: ☐☐☐☐☐

Print name of taxpayer from line 1 if other than individual: Atmos Energy Corporation, Inc. and Subsidiaries

Part II Declaration of Representative

Under penalties of perjury, I declare that:

- I am not currently under suspension or disbarment from practice before the Internal Revenue Service;
- I am aware of regulations contained in Circular 230 (31 CFR, Part 10), as amended, concerning practice before the Internal Revenue Service;
- I am authorized to represent the taxpayer identified in Part I for the matter(s) specified there; and
- I am one of the following:

a Attorney—a member in good standing of the bar of the highest court of the jurisdiction shown below.

b Certified Public Accountant—duly qualified to practice as a certified public accountant in the jurisdiction shown below.

c Enrolled Agent—enrolled as an agent under the requirements of Circular 230.

d Officer—a bona fide officer of the taxpayer's organization.

e Full-Time Employee—a full-time employee of the taxpayer.

f Family Member—a member of the taxpayer's immediate family (for example, spouse, parent, child, grandparent, grandchild, step-parent, step-child, brother, or sister).

g Enrolled Actuary—enrolled as an actuary by the Joint Board for the Enrollment of Actuaries under 29 U.S.C. 1242 (the authority to practice before the Internal Revenue Service is limited by section 10.3(d) of Circular 230).

h Unenrolled Return Preparer—Your authority to practice before the Internal Revenue Service is limited. You must have been eligible to sign the return under examination and have signed the return. **See Notice 2011-6 and Special rules for registered tax return preparers and unenrolled return preparers in the instructions.**

i Registered Tax Return Preparer—registered as a tax return preparer under the requirements of section 10.4 of Circular 230. Your authority to practice before the Internal Revenue Service is limited. You must have been eligible to sign the return under examination and have signed the return. **See Notice 2011-6 and Special rules for registered tax return preparers and unenrolled return preparers in the instructions.**

k Student Attorney or CPA—receives permission to practice before the IRS by virtue of his/her status as a law, business, or accounting student working in LITC or STCP under section 10.7(d) of Circular 230. See instructions for Part II for additional information and requirements.

r Enrolled Retirement Plan Agent—enrolled as a retirement plan agent under the requirements of Circular 230 (the authority to practice before the Internal Revenue Service is limited by section 10.3(e)).

▶ IF THIS DECLARATION OF REPRESENTATIVE IS NOT SIGNED AND DATED, THE POWER OF ATTORNEY WILL BE RETURNED. REPRESENTATIVES MUST SIGN IN THE ORDER LISTED IN LINE 2 ABOVE. See the instructions for Part II.

Note: For designations d-f, enter your title, position, or relationship to the taxpayer in the "Licensing jurisdiction" column. See the instructions for Part II for more information.

Designation—Insert above letter (a–r)	Licensing jurisdiction (state) or other licensing authority (if applicable)	Bar, license, certification, registration, or enrollment number (if applicable). See instructions for Part II for more information.	Signature	Date
e	Director Inc. Tax		Jennifer Story	7/25/13
e	Manager Inc. Tax		Sarah Hogue	7-25-13

Exhibit PM-1

Form **2848**
(Rev. July 2014)
Department of the Treasury
Internal Revenue Service

Power of Attorney and Declaration of Representative

▶ **Information about Form 2848 and its instructions is at *www.irs.gov/form2848*.**

OMB No. 1545-0150

For IRS Use Only
Received by:
Name ____________
Telephone ____________
Function ____________
Date / /

Part I Power of Attorney

Caution: *A separate Form 2848 must be completed for each taxpayer. Form 2848 will not be honored for any purpose other than representation before the IRS.*

1 Taxpayer information. Taxpayer must sign and date this form on page 2, line 7.

Taxpayer name and address
Atmos Energy Corporation, Inc.and Subsidiaries
5430 LBJ Freeway, Suite 600
Dallas, TX 75240-2601

Taxpayer identification number(s) **75-1743247**

Daytime telephone number **972-855-9746**

Plan number (if applicable)

hereby appoints the following representative(s) as attorney(s)-in-fact:

2 Representative(s) must sign and date this form on page 2, Part II.

Name and address
Danielle Renfro
5430 LBJ Freeway, Suite 600
Dallas, TX 75240-2601

Check if to be sent copies of notices and communications ☑

CAF No. ____________
PTIN ____________
Telephone No. **972/855-9732**
Fax No. **214-550-5717**
Check if new: Address ☐ Telephone No. ☐ Fax No. ☐

Name and address
Julie Formanek
5430 LBJ Freeway , Ste 600
Dallas, TX 75240-2601

Check if to be sent copies of notices and communications ☐

CAF No. **2006-07328R**
PTIN ____________
Telephone No. **972/855-9746**
Fax No. **214-550-5714**
Check if new: Address ☐ Telephone No. ☐ Fax No. ☑

Name and address

(**Note.** IRS sends notices and communications to only two representatives.)

CAF No. ____________
PTIN ____________
Telephone No. ____________
Fax No. ____________
Check if new: Address ☐ Telephone No. ☐ Fax No. ☐

Name and address

(**Note.** IRS sends notices and communications to only two representatives.)

CAF No. ____________
PTIN ____________
Telephone No. ____________
Fax No. ____________
Check if new: Address ☐ Telephone No. ☐ Fax No. ☐

to represent the taxpayer before the Internal Revenue Service and perform the following acts:

3 Acts authorized (you are required to complete this line 3). With the exception of the acts described in line 5b, I authorize my representative(s) to receive and inspect my confidential tax information and to perform acts that I can perform with respect to the tax matters described below. For example, my representative(s) shall have the authority to sign any agreements, consents, or similar documents (see instructions for line 5a for authorizing a representative to sign a return).

Description of Matter (Income, Employment, Payroll, Excise, Estate, Gift, Whistleblower, Practitioner Discipline, PLR, FOIA, Civil Penalty, Sec. 5000A Shared Responsibility Payment, Sec. 4980H Shared Responsibility Payment, etc.) (see instructions)	Tax Form Number (1040, 941, 720, etc.) (if applicable)	Year(s) or Period(s) (if applicable) (see instructions)
Employment, Payroll	**F940, 941,941C, 941X**	**200609-201609**
Civil Penalties	**na**	**200609-201609**

4 Specific use not recorded on Centralized Authorization File (CAF). If the power of attorney is for a specific use not recorded on CAF, check this box. See the instructions for **Line 4. Specific Use Not Recorded on CAF** . . . . ▶ ☐

5a Additional acts authorized. In addition to the acts listed on line 3 above, I authorize my representative(s) to perform the following acts (see instructions for line 5a for more information):

☐ Authorize disclosure to third parties; ☐ Substitute or add representative(s); ☐ Sign a return; ____________

☐ Other acts authorized: ____________

For Privacy Act and Paperwork Reduction Act Notice, see the instructions. Cat. No. 11980J Form **2848** (Rev. 7-2014)

Exhibit PM-1

b **Specific acts not authorized.** My representative(s) is (are) not authorized to endorse or otherwise negotiate any check (including directing or accepting payment by any means, electronic or otherwise, into an account owned or controlled by the representative(s) or any firm or other entity with whom the representative(s) is (are) associated) issued by the government in respect of a federal tax liability.

List any specific deletions to the acts otherwise authorized in this power of attorney (see instructions for line 5b): ____________________

6 **Retention/revocation of prior power(s) of attorney.** The filing of this power of attorney automatically revokes all earlier power(s) of attorney on file with the Internal Revenue Service for the same matters and years or periods covered by this document. If you **do not** want to revoke a prior power of attorney, check here . . . . ▶ ☐

YOU MUST ATTACH A COPY OF ANY POWER OF ATTORNEY YOU WANT TO REMAIN IN EFFECT.

7 **Signature of taxpayer.** If a tax matter concerns a year in which a joint return was filed, each spouse must file a separate power of attorney even if they are appointing the same representative(s). If signed by a corporate officer, partner, guardian, tax matters partner, executor, receiver, administrator, or trustee on behalf of the taxpayer, I certify that I have the authority to execute this form on behalf of the taxpayer.

▶ IF NOT COMPLETED, SIGNED, AND DATED, THE IRS WILL RETURN THIS POWER OF ATTORNEY TO THE TAXPAYER.

Signature	Date	Title (if applicable)
P. McDonald	1/7/15	VP TAX

Print Name	Print name of taxpayer from line 1 if other than individual
Pace McDonald	Atmos Energy Corporation, Inc.and Subsidiaries

Part II Declaration of Representative

Under penalties of perjury, by my signature below I declare that:

- I am not currently suspended or disbarred from practice before the Internal Revenue Service;
- I am subject to regulations contained in Circular 230 (31 CFR, Subtitle A, Part 10), as amended, governing practice before the Internal Revenue Service;
- I am authorized to represent the taxpayer identified in Part I for the matter(s) specified there; and
- I am one of the following:

a Attorney—a member in good standing of the bar of the highest court of the jurisdiction shown below.

b Certified Public Accountant—duly qualified to practice as a certified public accountant in the jurisdiction shown below.

c Enrolled Agent—enrolled as an agent by the Internal Revenue Service per the requirements of Circular 230.

d Officer—a bona fide officer of the taxpayer organization.

e Full-Time Employee—a full-time employee of the taxpayer.

f Family Member—a member of the taxpayer's immediate family (for example, spouse, parent, child, grandparent, grandchild, step-parent, step-child, brother, or sister).

g Enrolled Actuary—enrolled as an actuary by the Joint Board for the Enrollment of Actuaries under 29 U.S.C. 1242 (the authority to practice before the Internal Revenue Service is limited by section 10.3(d) of Circular 230).

h Unenrolled Return Preparer—Your authority to practice before the Internal Revenue Service is limited. You must have been eligible to sign the return under examination and have prepared and signed the return. **See Notice 2011-6 and *Special rules for registered tax return preparers and unenrolled return preparers* in the instructions (PTIN required for designation h).**

i Registered Tax Return Preparer—registered as a tax return preparer under the requirements of section 10.4 of Circular 230. Your authority to practice before the Internal Revenue Service is limited. You must have been eligible to sign the return under examination and have prepared and signed the return. **See Notice 2011-6 and *Special rules for registered tax return preparers and unenrolled return preparers* in the instructions (PTIN required for designation i).**

k Student Attorney or CPA—receives permission to represent taxpayers before the IRS by virtue of his/her status as a law, business, or accounting student working in an LITC or STCP. See instructions for Part II for additional information and requirements.

r Enrolled Retirement Plan Agent—enrolled as a retirement plan agent under the requirements of Circular 230 (the authority to practice before the Internal Revenue Service is limited by section 10.3(e)).

▶ IF THIS DECLARATION OF REPRESENTATIVE IS NOT COMPLETED, SIGNED, AND DATED, THE IRS WILL RETURN THE POWER OF ATTORNEY. REPRESENTATIVES MUST SIGN IN THE ORDER LISTED IN PART I, LINE 2. See the instructions for Part II.

Note. For designations d-f, enter your title, position, or relationship to the taxpayer in the "Licensing jurisdiction" column. See the instructions for Part II for more information.

Designation—Insert above letter (a–r)	Licensing jurisdiction (state) or other licensing authority (if applicable)	Bar, license, certification, registration, or enrollment number (if applicable). See instructions for Part II for more information.	Signature	Date
e	Mgr Payroll		Danielle Renfro	1/7/15
e	Sr Payroll Tax Acct			1/7/15

Exhibit PM-1

Form **2848**
(Rev. July 2014)
Department of the Treasury
Internal Revenue Service

Power of Attorney and Declaration of Representative

► Information about Form 2848 and its instructions is at *www.irs.gov/form2848*.

OMB No. 1545-0150

For IRS Use Only
Received by:
Name
Telephone
Function
Date / /

Part I Power of Attorney

Caution: *A separate Form 2848 must be completed for each taxpayer. Form 2848 will not be honored for any purpose other than representation before the IRS.*

1 Taxpayer information. Taxpayer must sign and date this form on page 2, line 7.

Taxpayer name and address
Atmos Energy Holdings, Inc.
5430 LBJ Freeway, Suite 600
Dallas, TX 75240-2601

Taxpayer identification number(s): **75-2879833**
Daytime telephone number: **972-855-9746**
Plan number (if applicable):

hereby appoints the following representative(s) as attorney(s)-in-fact:

2 Representative(s) must sign and date this form on page 2, Part II.

Name and address
Danielle Renfro
5430 LBJ Freeway, Suite 600
Dallas, TX 75240-2601

Check if to be sent copies of notices and communications ☑

CAF No.
PTIN
Telephone No. **972/855-9732**
Fax No. **214-550-5717**
Check if new: Address ☐ Telephone No. ☐ Fax No. ☐

Name and address
Julie Formanek
5430 LBJ Freeway , Ste 600
Dallas, TX 75240-2601

Check if to be sent copies of notices and communications ☐

CAF No. **2006-07328R**
PTIN
Telephone No. **972/855-9746**
Fax No. **214-550-5714**
Check if new: Address ☐ Telephone No. ☐ Fax No. ☑

Name and address

(**Note.** IRS sends notices and communications to only two representatives.)

CAF No.
PTIN
Telephone No.
Fax No.
Check if new: Address ☐ Telephone No. ☐ Fax No. ☐

Name and address

(**Note.** IRS sends notices and communications to only two representatives.)

CAF No.
PTIN
Telephone No.
Fax No.
Check if new: Address ☐ Telephone No. ☐ Fax No. ☐

to represent the taxpayer before the Internal Revenue Service and perform the following acts:

3 Acts authorized (you are required to complete this line 3). With the exception of the acts described in line 5b, I authorize my representative(s) to receive and inspect my confidential tax information and to perform acts that I can perform with respect to the tax matters described below. For example, my representative(s) shall have the authority to sign any agreements, consents, or similar documents (see instructions for line 5a for authorizing a representative to sign a return).

Description of Matter (Income, Employment, Payroll, Excise, Estate, Gift, Whistleblower, Practitioner Discipline, PLR, FOIA, Civil Penalty, Sec. 5000A Shared Responsibility Payment, Sec. 4980H Shared Responsibility Payment, etc.) (see instructions)	Tax Form Number (1040, 941, 720, etc.) (if applicable)	Year(s) or Period(s) (if applicable) (see instructions)
Employment, Payroll	**F940, 941,941C, 941X**	**200609-201609**
Civil Penalties	**na**	**200609-201609**

4 Specific use not recorded on Centralized Authorization File (CAF). If the power of attorney is for a specific use not recorded on CAF, check this box. See the instructions for **Line 4. Specific Use Not Recorded on CAF** . . . . ► ☐

5a Additional acts authorized. In addition to the acts listed on line 3 above, I authorize my representative(s) to perform the following acts (see instructions for line 5a for more information):

☐ Authorize disclosure to third parties; ☐ Substitute or add representative(s); ☐ Sign a return;

☐ Other acts authorized:

Exhibit PM-1

b **Specific acts not authorized.** My representative(s) is (are) not authorized to endorse or otherwise negotiate any check (including directing or accepting payment by any means, electronic or otherwise, into an account owned or controlled by the representative(s) or any firm or other entity with whom the representative(s) is (are) associated) issued by the government in respect of a federal tax liability.

List any specific deletions to the acts otherwise authorized in this power of attorney (see instructions for line 5b): ____________

6 **Retention/revocation of prior power(s) of attorney.** The filing of this power of attorney automatically revokes all earlier power(s) of attorney on file with the Internal Revenue Service for the same matters and years or periods covered by this document. If you **do not** want to revoke a prior power of attorney, check here . . . . ▶ ☐

YOU MUST ATTACH A COPY OF ANY POWER OF ATTORNEY YOU WANT TO REMAIN IN EFFECT.

7 **Signature of taxpayer.** If a tax matter concerns a year in which a joint return was filed, each spouse must file a separate power of attorney even if they are appointing the same representative(s). If signed by a corporate officer, partner, guardian, tax matters partner, executor, receiver, administrator, or trustee on behalf of the taxpayer, I certify that I have the authority to execute this form on behalf of the taxpayer.

▶ IF NOT COMPLETED, SIGNED, AND DATED, THE IRS WILL RETURN THIS POWER OF ATTORNEY TO THE TAXPAYER.

Signature: ____________ Date: 1/7/15 Title (if applicable): VP TAX

Print Name: Pace McDonald

Print name of taxpayer from line 1 if other than individual: Atmos Energy Holdings, Inc.

Part II Declaration of Representative

Under penalties of perjury, by my signature below I declare that:

- I am not currently suspended or disbarred from practice before the Internal Revenue Service;
- I am subject to regulations contained in Circular 230 (31 CFR, Subtitle A, Part 10), as amended, governing practice before the Internal Revenue Service;
- I am authorized to represent the taxpayer identified in Part I for the matter(s) specified there; and
- I am one of the following:

a Attorney—a member in good standing of the bar of the highest court of the jurisdiction shown below.

b Certified Public Accountant—duly qualified to practice as a certified public accountant in the jurisdiction shown below.

c Enrolled Agent—enrolled as an agent by the Internal Revenue Service per the requirements of Circular 230.

d Officer—a bona fide officer of the taxpayer organization.

e Full-Time Employee—a full-time employee of the taxpayer.

f Family Member—a member of the taxpayer's immediate family (for example, spouse, parent, child, grandparent, grandchild, step-parent, step-child, brother, or sister).

g Enrolled Actuary—enrolled as an actuary by the Joint Board for the Enrollment of Actuaries under 29 U.S.C. 1242 (the authority to practice before the Internal Revenue Service is limited by section 10.3(d) of Circular 230).

h Unenrolled Return Preparer—Your authority to practice before the Internal Revenue Service is limited. You must have been eligible to sign the return under examination and have prepared and signed the return. **See Notice 2011-6 and *Special rules for registered tax return preparers and unenrolled return preparers* in the instructions (PTIN required for designation h).**

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r Enrolled Retirement Plan Agent—enrolled as a retirement plan agent under the requirements of Circular 230 (the authority to practice before the Internal Revenue Service is limited by section 10.3(e)).

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Note. For designations d-f, enter your title, position, or relationship to the taxpayer in the "Licensing jurisdiction" column. See the instructions for Part II for more information.

Designation—Insert above letter (a–r)	Licensing jurisdiction (state) or other licensing authority (if applicable)	Bar, license, certification, registration, or enrollment number (if applicable). See instructions for Part II for more information.	Signature	Date
e	Mgr Payroll		Danielle Renfro	1/7/15
e	Sr Payroll Tax Acct			1/7/15

Exhibit PM-1

State of Tennessee
Department of Labor and Workforce Development
Employer Services Unit
220 French Landing Drive, Floor 3-B
Nashville, Tennessee 37243-1002

DECLARATION OF REPRESENTATIVE

This is to certify that (Representative): Automatic Data Processing, Inc.

Located at: 400 West Covina Blve

City: San Dimas State: CA Zip Code: 91773

Phone: (866) 467-0523 Fax: (909) 394-8217

is authorized to represent (Employer): Atmos Energy Holdings, Inc.

Employer's Federal Employer Identification Number: 752879833 Applied For ☐

Employer's Tennessee Employer Account Number: 05516690 Applied For ☐

before the Tennessee Department of Labor and Workforce Development (TDLWD) for the item(s) checked below:

☑ for completing and filing quarterly Premium and Wage Reports	☐ for benefit charge management*

*Benefit Charge Management includes receiving and responding to any time sensitive request(s) for separation information and notice(s) of claim filed and, responding to any summary of benefits charged. It also includes representation for the purpose of filing appeals and appearance in connection with those appeals before Appeal Boards of the TDLWD.

Summaries of benefits charged are mailed to the primary address of record.

* * *

This authorization supersedes all similar authorizations. This form also authorizes the TDLWD to, in accordance with applicable law, release to the Representative any documentation relating to the Employer's account that it could release to the Employer.

Employer Name: Atmos Energy Holdings, Inc.

Trade Name: Atmos Energy Holdings, Inc.

Mailing Address: PO Box Box 650205
Dallas, TX 75265-0205

Required:

Authorized Employer Signature: Date: 01/01/15

Print Name of Signer: Pace McDonald Title: VP-Tax

Return to: Tennessee Department of Labor and Workforce Development
Employer Services Unit
220 French Landing Drive, Floor 3-B
Nashville, TN 37243

Phone: 615-741-2486
Fax: 615-741-7214

Exhibit PM-1

State of Tennessee
Department of Labor and Workforce Development
Employer Services Unit
220 French Landing Drive, Floor 3-B
Nashville, Tennessee 37243-1002

DECLARATION OF REPRESENTATIVE

This is to certify that (Representative): Automatic Data Processing, Inc.

Located at: 400 West Covina Blve

City: San Dimas State: CA Zip Code: 91773

Phone: (866) 467-0523 Fax: (909) 394-8217

is authorized to represent (Employer): Atmos Energy Corporation

Employer's Federal Employer Identification Number: 751743247 Applied For ☐

Employer's Tennessee Employer Account Number: 04556994 Applied For ☐

before the Tennessee Department of Labor and Workforce Development (TDLWD) for the item(s) checked below:

☑ for completing and filing quarterly Premium and Wage Reports	☐ for benefit charge management*

*Benefit Charge Management includes receiving and responding to any time sensitive request(s) for separation information and notice(s) of claim filed and, responding to any summary of benefits charged. It also includes representation for the purpose of filing appeals and appearance in connection with those appeals before Appeal Boards of the TDLWD.

Summaries of benefits charged are mailed to the primary address of record.

* * *

This authorization supersedes all similar authorizations. This form also authorizes the TDLWD to, in accordance with applicable law, release to the Representative any documentation relating to the Employer's account that it could release to the Employer.

Employer Name: Atmos Energy Corporation

Trade Name: United Cities Gas Co

Mailing Address: PO Box Box 650205
Dallas, TX 75265-0205

Required:

Authorized Employer Signature: Date: 01/01/15

Print Name of Signer: Pace McDonald Title: VP - Tax

Return to: Tennessee Department of Labor and Workforce Development
Employer Services Unit
220 French Landing Drive, Floor 3-B
Nashville, TN 37243

Phone: 615-741-2486

Fax: 615-741-7214

LB-0927 (Rev. 07-14) RDA 1559

Exhibit PM-2

Internal Revenue Service

Department of the Treasury
Washington, DC 20224

Index Number: 167.22-01

Third Party Communication: None
Date of Communication: Not Applicable

Mr. Pace McDonald, Vice President- Tax
Atmos Energy Corporation
Three Lincoln Center, Suite 1800
5430 LBJ Freeway
Dallas, Texas 75240

Person To Contact:
Patrick S. Kirwan, ID No. 1000219435
Telephone Number:
(202) 317-6853
Refer Reply To:
CC:PSI:B06
PLR-103300-15
Date:
May 13, 2015

LEGEND:

Taxpayer = Atmos Energy Corporation
EIN: 75-1743247
State A = Texas
State B = Virginia
State C = Kentucky
Commission = Kentucky Public Service Commission
Year A = 2009
Year B = 2012
Date A = May 13, 2013
Date B = November 30, 2014
Date C = April 22, 2014
Date D = January 24, 2014
Case = Case No. 2013-00148
Director = Industry Director, Natural Resources and Construction (LB&I:NRC)

Dear Mr. McDonald:

This letter responds to the request, dated January 9, 2015, submitted on behalf of Taxpayer for a ruling on the application of the normalization rules of the Internal Revenue Code to certain accounting and regulatory procedures, described below.

The representations set out in your letter follow.

Taxpayer is the common parent of an affiliated group of corporations and is incorporated under the laws of State A and State B. Taxpayer is engaged primarily in the businesses of regulated natural gas distribution, regulated natural gas transmission, and regulated natural gas storage. Taxpayer's regulated natural gas distribution business delivers gas to customers in several states, including State C. Taxpayer is

Exhibit PM-2

subject to, as relevant for this ruling, the regulatory jurisdiction of Commission with respect to terms and conditions of service and as to the rates it may charge for the provision of its gas distribution service in State C. Taxpayer's rates are established on a "rate of return" basis.

Taxpayer filed a rate case application on Date A (Case). In its filing, Taxpayer's application was based on a fully forecasted test period consisting of the twelve months ending on Date B. Taxpayer updated, amended, and supplemented its data several times during the course of the proceedings. In a final order dated Date C, rates were approved by Commission for service rendered on or after Date D.

In each year from Year A to Year B, Taxpayer incurred a net operating loss carryforward (NOLC). In each of these years, Taxpayer claimed accelerated depreciation, including "bonus depreciation" on its tax returns to the extent that such depreciation was available. On its regulatory books of account, Taxpayer "normalizes" the differences between regulatory depreciation and tax depreciation. This means that, where accelerated depreciation reduces taxable income, the taxes that a taxpayer would have paid if regulatory depreciation (instead of accelerated tax depreciation) were claimed constitute "cost-free capital" to the taxpayer. A taxpayer that normalizes these differences, like Taxpayer, maintains a reserve account showing the amount of tax liability that is deferred as a result of the accelerated depreciation. This reserve is the accumulated deferred income tax (ADIT) account. Taxpayer maintains an ADIT account. In addition, Taxpayer maintains an offsetting series of entries – a "deferred tax asset" and a "deferred tax expense" - that reflect that portion of those 'tax losses' which, while due to accelerated depreciation, did not actually defer tax because of the existence of an NOLC.

In the setting of utility rates in State C, a utility's rate base is offset by its ADIT balance. In its rate case filing and throughout the proceeding, Taxpayer maintained that the ADIT balance should be reduced by the amounts that Taxpayer calculates did not actually defer tax due to the presence of the NOLC, as represented in the deferred tax asset account. Thus, Taxpayer argued that the rate base should be reduced by its federal ADIT balance net of the deferred tax asset account attributable to the federal NOLC. It also asserted that the failure to reduce its rate base offset by the deferred tax asset attributable to the federal NOLC would be inconsistent with the normalization rules. The attorney general for State C argued against Taxpayer's proposed calculation of ADIT.

Commission, in its final order, agreed with Taxpayer but concluded that the ambiguity in the relevant normalization regulations warranted an assessment of the issue by the IRS and this ruling request followed.

Taxpayer requests that we rule as follows:

Exhibit PM-2

1. Under the circumstances described above, the reduction of Taxpayer's rate base by the full amount of its ADIT account balance unreduced by the balance of its NOLC-related account balance would be inconsistent with (and, hence, violative of) the requirements of § 168(i)(9) and § 1.167(l)-1 of the Income Tax regulations.
2. For purposes of Ruling 1 above, the use of a balance of Taxpayer's NOLC-related account that is less than the amount attributable to accelerated depreciation computed on a "last dollars deducted" basis would be inconsistent with (and, hence, violative of) the requirements of § 168(i)(9) and § 1.167(l)-1 of the Income Tax regulations.

Law and Analysis

Section 168(f)(2) of the Code provides that the depreciation deduction determined under section 168 shall not apply to any public utility property (within the meaning of section 168(i)(10)) if the taxpayer does not use a normalization method of accounting.

In order to use a normalization method of accounting, section 168(i)(9)(A)(i) of the Code requires the taxpayer, in computing its tax expense for establishing its cost of service for ratemaking purposes and reflecting operating results in its regulated books of account, to use a method of depreciation with respect to public utility property that is the same as, and a depreciation period for such property that is not shorter than, the method and period used to compute its depreciation expense for such purposes. Under section 168(i)(9)(A)(ii), if the amount allowable as a deduction under section 168 differs from the amount that-would be allowable as a deduction under section 167 using the method, period, first and last year convention, and salvage value used to compute regulated tax expense under section 168(i)(9)(A)(i), the taxpayer must make adjustments to a reserve to reflect the deferral of taxes resulting from such difference.

Section 168(i)(9)(B)(i) of the Code provides that one way the requirements of section 168(i)(9)(A) will not be satisfied is if the taxpayer, for ratemaking purposes, uses a procedure or adjustment which is inconsistent with such requirements. Under section 168(i)(9)(B)(ii), such inconsistent procedures and adjustments include the use of an estimate or projection of the taxpayer's tax expense, depreciation expense, or reserve for deferred taxes under section 168(i)(9)(A)(ii), unless such estimate or projection is also used, for ratemaking purposes, with respect to all three of these items and with respect to the rate base.

Former section 167(l) of the Code generally provided that public utilities were entitled to use accelerated methods for depreciation if they used a "normalization method of accounting." A normalization method of accounting was defined in former section 167(l)(3)(G) in a manner consistent with that found in section 168(i)(9)(A). Section 1.167(l)-1(a)(1) of the Income Tax Regulations provides that the normalization

Exhibit PM-2

requirements for public utility property pertain only to the deferral of federal income tax liability resulting from the use of an accelerated method of depreciation for computing the allowance for depreciation under section 167 and the use of straight-line depreciation for computing tax expense and depreciation expense for purposes of establishing cost of services and for reflecting operating results in regulated books of account. These regulations do not pertain to other book-tax timing differences with respect to state income taxes, F.I.C.A. taxes, construction costs, or any other taxes and items.

Section 1.167(l)-1(h)(1)(i) provides that the reserve established for public utility property should reflect the total amount of the deferral of federal income tax liability resulting from the taxpayer's use of different depreciation methods for tax and ratemaking purposes.

Section 1.167(l)-1(h)(1)(iii) provides that the amount of federal income tax liability deferred as a result of the use of different depreciation methods for tax and ratemaking purposes is the excess (computed without regard to credits) of the amount the tax liability would have been had the depreciation method for ratemaking purposes been used over the amount of the actual tax liability. This amount shall be taken into account for the taxable year in which the different methods of depreciation are used. If, however, in respect of any taxable year the use of a method of depreciation other than a subsection (1) method for purposes of determining the taxpayer's reasonable allowance under section 167(a) results in a net operating loss carryover to a year succeeding such taxable year which would not have arisen (or an increase in such carryover which would not have arisen) had the taxpayer determined his reasonable allowance under section 167(a) using a subsection (1) method, then the amount and time of the deferral of tax liability shall be taken into account in such appropriate time and manner as is satisfactory to the district director.

Section 1.167(l)-1(h)(2)(i) provides that the taxpayer must credit this amount of deferred taxes to a reserve for deferred taxes, a depreciation reserve, or other reserve account. This regulation further provides that, with respect to any account, the aggregate amount allocable to deferred tax under section 167(1) shall not be reduced except to reflect the amount for any taxable year by which Federal income taxes are greater by reason of the prior use of different methods of depreciation. That section also notes that the aggregate amount allocable to deferred taxes may be reduced to reflect the amount for any taxable year by which federal income taxes are greater by reason of the prior use of different methods of depreciation under section 1.167(l)-1(h)(1)(i) or to reflect asset retirements or the expiration of the period for depreciation used for determining the allowance for depreciation under section 167(a).

Section 1.167(l)-1(h)(6)(i) provides that, notwithstanding the provisions of subparagraph (1) of that paragraph, a taxpayer does not use a normalization method of regulated accounting if, for ratemaking purposes, the amount of the reserve for deferred

Exhibit PM-2

taxes under section 167(l) which is excluded from the base to which the taxpayer's rate of return is applied, or which is treated as no-cost capital in those rate cases in which the rate of return is based upon the cost of capital, exceeds the amount of such reserve for deferred taxes for the period used in determining the taxpayer's expense in computing cost of service in such ratemaking.

Section 1.167(l)-1(h)(6)(ii) provides that, for the purpose of determining the maximum amount of the reserve to be excluded from the rate base (or to be included as no-cost capital) under subdivision (i), above, if solely an historical period is used to determine depreciation for Federal income tax expense for ratemaking purposes, then the amount of the reserve account for that period is the amount of the reserve (determined under section 1.167(l)-1(h)(2)(i)) at the end of the historical period. If such determination is made by reference both to an historical portion and to a future portion of a period, the amount of the reserve account for the period is the amount of the reserve at the end of the historical portion of the period and a pro rata portion of the amount of any projected increase to be credited or decrease to be charged to the account during the future portion of the period.

Section 1.167(l)-1(h) requires that a utility must maintain a reserve reflecting the total amount of the deferral of federal income tax liability resulting from the taxpayer's use of different depreciation methods for tax and ratemaking purposes. Taxpayer has done so. Section 1.167(l)-1(h)(6)(i) provides that a taxpayer does not use a normalization method of regulated accounting if, for ratemaking purposes, the amount of the reserve for deferred taxes which is excluded from the base to which the taxpayer's rate of return is applied, or which is treated as no-cost capital in those rate cases in which the rate of return is based upon the cost of capital, exceeds the amount of such reserve for deferred taxes for the period used in determining the taxpayer's expense in computing cost of service in such ratemaking. Section 56(a)(1)(D) provides that, with respect to public utility property the Secretary shall prescribe the requirements of a normalization method of accounting for that section.

Regarding the first issue, § 1.167(l)-1(h)(6)(i) provides that a taxpayer does not use a normalization method of regulated accounting if, for ratemaking purposes, the amount of the reserve for deferred taxes which is excluded from the base to which the taxpayer's rate of return is applied, or which is treated as no-cost capital in those rate cases in which the rate of return is based upon the cost of capital, exceeds the amount of such reserve for deferred taxes for the period used in determining the taxpayer's expense in computing cost of service in such ratemaking. Because the ADIT account, the reserve account for deferred taxes, reduces rate base, it is clear that the portion of an NOLC that is attributable to accelerated depreciation must be taken into account in calculating the amount of the reserve for deferred taxes (ADIT). Thus, to reduce Taxpayer's rate base by the full amount of its ADIT account balance unreduced by the balance of its NOLC-related account balance would be inconsistent with the requirements of § 168(i)(9) and § 1.167(l)-1.

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Regarding the second issue, § 1.167(l)-1(h)(1)(iii) makes clear that the effects of an NOLC must be taken into account for normalization purposes. Section 1.167(l)-1(h)(1)(iii) provides generally that, if, in respect of any year, the use of other than regulatory depreciation for tax purposes results in an NOLC carryover (or an increase in an NOLC which would not have arisen had the taxpayer claimed only regulatory depreciation for tax purposes), then the amount and time of the deferral of tax liability shall be taken into account in such appropriate time and manner as is satisfactory to the district director. While that section provides no specific mandate on methods, it does provide that the Service has discretion to determine whether a particular method satisfies the normalization requirements. The "last dollars deducted" methodology employed by Taxpayer ensures that the portion of the NOLC attributable to accelerated depreciation is correctly taken into account by maximizing the amount of the NOLC attributable to accelerated depreciation. This methodology provides certainty and prevents the possibility of "flow through" of the benefits of accelerated depreciation to ratepayers. Under these specific facts, any method other than the "last dollars deducted" method would not provide the same level of certainty and therefore the use of any other methodology is inconsistent with the normalization rules.

This ruling is based on the representations submitted by Taxpayer and is only valid if those representations are accurate. The accuracy of these representations is subject to verification on audit.

Except as specifically determined above, no opinion is expressed or implied concerning the Federal income tax consequences of the matters described above.

This ruling is directed only to the taxpayer who requested it. Section 6110(k)(3) of the Code provides it may not be used or cited as precedent. In accordance with the power of attorney on file with this office, a copy of this letter is being sent to your authorized representative. We are also sending a copy of this letter ruling to the Director.

Sincerely,

Peter C. Friedman
Senior Technician Reviewer, Branch 6
Office of the Associate Chief Counsel
(Passthroughs & Special Industries)

Exhibit PM-2

cc:

WALLER, G. K.

BEFORE THE PUBLIC SERVICE COMMISSION

COMMONWEALTH OF KENTUCKY

APPLICATION OF ATMOS ENERGY)
)
CORPORATION FOR AN ADJUSTMENT) Case No. 2015-00343
)
OF RATES AND TARIFF MODIFICATIONS)

TESTIMONY OF GREGORY K. WALLER

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME, JOB TITLE AND BUSINESS ADDRESS.

A. My name is Gregory K. Waller. I am Manager, Rates and Regulatory Affairs with Atmos Energy Corporation ("Atmos Energy" or "Company"). My business address is 5420 LBJ Freeway, Ste. 1600, Dallas, Texas 75240.

Q. WHAT IS YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL EXPERIENCE?

A. I received a Bachelor of Arts degree in economics from Dartmouth College in 1994 and an MBA degree from the University of Texas in 2000. I worked as a management consultant from 1994 to 2003 at Harbor Research in Boston, MA (1994-1996) and Towers Perrin in Dallas, TX (1997-2003). I joined Atmos Energy in 2003 in the Planning and Budgeting Department in Dallas. In November of 2005 I became Vice President of Finance for the Kentucky/Mid-States Division, which includes the Company's regulated Kentucky operations. I assumed my current role in Dallas, TX in July 2012.

Q. HAVE YOU TESTIFIED BEFORE THIS OR ANY OTHER REGULATORY COMMISSION?

A. Yes. I testified before this Commission in 2014 in Case No. 2013-00148. I have also testified before the Tennessee Regulatory Authority in 2006 and the Georgia Public Service Commission in 2008, 2009 and 2011. I also submitted direct testimony in the Company's rate proceedings in Kentucky (2006 and 2009), Tennessee (2007, 2008, 2012 and 2014), and Virginia (2008, 2009 and 2014).

Q. WHAT IS THE SCOPE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. I am responsible for the calculation of the Company's revenue deficiency, rate base, operating & maintenance ("O&M") expenses, and proposed capital structure and embedded cost of debt in this rate proceeding and in that regard I am sponsoring the following Filing Requirements (FR):

FR 16(6)(a)	Forecasted financial data presented as pro forma adjustments to the base period;
FR 16(6)(b)	Forecasted adjustments limited to twelve (12) months immediately following the suspension period;
FR 16 (6)(c)	Capitalization and net investment rate base;
FR 16 (6)(f)	Reconciliation of the rate base and capitalization;
FR 16(7)(b)	Kentucky's most recent capital construction budget containing four fiscal years of construction expenditures;

FR 16(7)(c)	Description of all factors used in preparation of the forecast test period – income statement, operation and maintenance expenses, employee and labor expenses, capital construction budget;
FR 16(7)(d)	Annual and monthly budget for the 12 month period preceding filing date, the base period and the forecast period;
FR 16(7)(f)	Detailed information for each major construction project constituting more than five percent (5%) of the annual construction budget within the three (3) year forecast;
FR 16(7)(g)	Detailed information for the aggregate of construction projects constituting less than five percent (5%) of the annual construction budget within the three (3) year forecast;
FR 16 (7)(h)	(1) Operating Income Statement; (2) Balance Sheet; (3) Statement of Cash Flows; (4) Revenue Requirements; (9) Employee Level; (10) Labor cost changes (11) Capital Structure Requirements; and (12) Rate Base;
FR 16(7)(i)	Most Recent FERC or FCC Audit Reports;
FR 16(7)(j)	Prospectuses of Most Recent Stock or Bond Offerings;
FR 16(7)(n)	Latest 12 months of the monthly managerial reports providing financial results of operations in comparison to forecast;

FR 16(7)(o)	Complete monthly budget variance reports, with narrative explanations, for the twelve (12) months immediately prior to the base period, each month of the base period, and any subsequent months, as they become available;
FR 16(7)(t)	List all commercial or in-house computer software, programs, and models used to develop schedules and work papers associated with this application;
FR 16 (8)(a)	Derivation of the requested revenue increase;
FR 16 (8)(b)	Rate base summary for the base and test period;
FR 16(8)(c)	Jurisdictional operating income summary for both base and forecasted periods with supporting schedules which provide breakdowns by major account group and individual account;
FR 16(8)(d)	Summary of jurisdictional adjustments to operating income;
FR 16 (8)(e)	Jurisdictional federal and state income tax summaries;
FR 16(8)(f)	Summary schedules for the base and forecast periods of various expenses;
FR 16(8)(g)	Analysis of payroll costs;
FR 16(8)(h)	Computation of gross revenue conversion factor;
FR 16(8)(i)	Comparative income statements, revenue and sales statistics, base period, forecast period and two (2) years beyond;

FR 16 (8)(j)	Cost of capital summary; and
FR 16 (8)(k)	Comparative financial data.

Q. ARE YOU SPONSORING ANY EXHIBITS IN CONNECTION WITH YOUR TESTIMONY?

A. Yes, I am sponsoring Exhibits GKW-1 and GKW-2, both of which are attached to my testimony. Exhibit GKW-1 provides the composite factors used to allocate common costs for the purpose of the test period in this rate proceeding. Exhibit GKW-2 is an O&M comparison by cost element.

Q. DO YOU ADOPT THESE FILING REQUIREMENTS, AND THEIR ASSOCIATED SCHEDULES, AND MAKE THEM PART OF YOUR TESTIMONY?

A. Yes.

Q. WHAT IS THE SOURCE OF THE DATA USED TO COMPLETE THE FILING REQUIREMENTS THAT YOU ARE SPONSORING?

A. The source of the data includes the accounting books and records of the Company which are being sponsored by Company witness Mr. Jason Schneider along with information provided by the following witnesses to this proceeding: Mr. Gary Smith (revenues, gas cost and margin forecast; sales statistics); Mr. Pace McDonald (accumulated deferred income taxes); Mr. Dane Watson (proposed depreciation rates); and Dr. James Vander Weide (rate of return on equity).

The detail concerning how this information was derived is found in the testimony of these witnesses. The data and information provided by these witnesses is the best available information and was developed consistent with sound ratemaking practices. Further, the methods that I used to determine the Company's revenue requirement in this docket are consistent with the Company's approach in prior cases before this Commission while recognizing the Commission's findings in the Final Order of Case No. 2013-00148 on the topics of O&M inflation, incentive compensation and capital structure.

II. REVENUE DEFICIENCY

Q. WHAT IS THE AMOUNT OF ATMOS ENERGY'S REVENUE DEFICIENCY?

A. The amount of revenue deficiency Atmos Energy seeks to recover in its proposed rates is $3,307,688 as shown on line 8 of Schedule A. This deficiency is based on the forecasted test period twelve months ended May 31, 2017, an average rate base of $335,832,639 and a required rate of return on rate base of 8.12%. The required return and projected capital structure are presented in FR 16(8)(j).

Q. WHAT IS THE SOURCE OF FORECASTED TEST PERIOD ADJUSTED OPERATING INCOME OF $25,262,560 SHOWN ON SCHEDULE A, LINE 2?

A. The forecasted test period adjusted operating income is determined in Schedule C using inputs discussed in my testimony and the testimony of Company witness Gary Smith.

III. RATE BASE

Q. HOW DID YOU DETERMINE THE LEVEL OF RATE BASE FOR THE TEST PERIOD?

A. The test period rate base of $335,832,639 is summarized in Schedule B-1, and detailed in Schedules B-2 through B-6. Each component of the test period rate base is a thirteen month average forecasted amount, unless noted otherwise. The components of rate base are: net plant in service, construction work in progress, cash working capital calculated using the 1/8 O&M expense method, plus an allowance for other working capital items consisting of materials and supplies, gas stored underground, and prepayments, less customer advances for construction and deferred income taxes.

Q. HOW WAS THE TEST YEAR GROSS PLANT IN SERVICE PROJECTED?

A. I began with actual per books gross plant as of August 31, 2015 including allocations of shared plant as discussed by Mr. Schneider in his testimony. I used the capital spending projection for September 2015 and the recently approved fiscal year 2016 budget for the months in fiscal year 2016 (October 2015 through September 2016). For the months of October 2016 – May 2017, I added plant additions in monthly amounts 10% greater than the previous year's budget for Kentucky direct investment, and in monthly amounts equal to the previous year's budget for Shared Services and Division office investment. The increase in direct investment reflects expected growth consistent with the Company's five year plan. Projected plant retirements were based on the level of retirements recorded in the six months of actuals included in the Base Period (March – August 2015). Routine retirements in each forecasted month were projected to continue at the same level in the same month in future years. The notable exception to this methodology is the handling of retirements for the Company's Shared Services IT systems as a result of a non-recurring retirement.

Q. WHAT IS THE FORECASTED TEST PERIOD CAPITAL PROJECTION?

A. The forecasted test period capital investment projection is $46.07 million which is comprised of three components – the direct capital spending for Kentucky for the forecasted test period, the amount allocated to Kentucky resulting from capital spending by the Kentucky/Mid-States Division's general office and the amount allocated to Kentucky resulting from capital spending by the SSU during the forecasted test period.

Q. WHAT KEY PRIORITIES ARE MET THROUGH THE KENTUCKY DIRECT CAPITAL BUDGET?

A. System improvement, pipeline integrity, and system integrity investments focus on customer safety and system reliability and are our highest priorities for capital budgeting. The next priority is public improvements and state and local public works projects such as highway relocations. The next priority is customer growth. Atmos Energy continues to build good working relationships with developers, economic development boards, and growing communities to meet the needs of the customer and to accommodate customer growth on its system. Next in order of priority, a modern fleet of vehicles and equipment (backhoes, safety equipment, ditchers, first responder equipment, air compressors, welding machines, etc.) allows us to maintain our system and continue to provide a reliable and efficient level of service to our customers. To enhance the level of customer service provided in the field, we also continue to make investments in new technology. Technology is a strategic investment that will enable us to continue improving our business processes, hold down operating costs, and meet the changing expectations of our customers.

Q. HOW WAS KENTUCKY'S DIRECT CAPITAL BUDGET FOR THE FORECAST PERIOD DEVELOPED?

A. I relied upon the detailed FY2016 capital budget as a baseline for projecting FY2016 through FY2017 capital expenditures for purposes of the forecasted test period in this application. For September 2015 I relied upon the FY2015 capital projections.

Q. WHAT IS KENTUCKY'S FY2016 DIRECT CAPITAL BUDGET?

A. The FY2016 direct capital budget for Kentucky is $64.03 million.

Q. HOW DID YOU ADJUST KENTUCKY'S FY2016 CAPITAL BUDGET IN ORDER TO PREPARE THE FORECASTED TEST PERIOD CAPITAL BUDGET?

A. For the months of the forecasted test period that extend beyond the Company's FY2016 budget, I added ten percent to the corresponding FY2016 monthly capital budget. The increase in direct investment reflects expected growth consistent with the Company's five year plan.

Q. IS THE PIPE REPLACEMENT PROGRAM ("PRP") ESTABLISHED IN DOCKET NO. 2009-00354 COMPLETE?

A. No, it is not complete.

Q. PLEASE DESCRIBE THE RESULTS OF THE PRP SINCE ITS IMPLEMENTATION.

A. Since beginning the pipe replacement program in mid-2011, Atmos Energy has completed replacement of approximately 44 miles of high pressure main and 95 miles of distribution main and associated appurtenances. Additionally, Atmos Energy has retired or replaced over 7000 service lines and associated meter sets. These replacements target aging infrastructure and enhance the safety and reliability of gas supply for the communities Atmos Energy services. The meter sets have been replaced with new meters or regulators and relocated to accessible location for meter reading or emergency response. The new service lines have been installed with excess-flow devices which add an enhanced level of safety for our customers. In several instances, entire low pressure systems have been eliminated which improves service reliability. Atmos Energy has invested in new technology that allows detailed mapping of these replacement projects showing service detail and ensuring locatability using wireless marking devices. Atmos Energy has completed infrastructure renewal in many of our service territories including: Bowling Green, Russellville, Horse Cave, Cave City, Glasgow, Mayfield, Munfordville, Hopkinsville, Owensboro, Marion, Madisonville, Princeton, Campbellsville, Sebree, Dawson Springs, Crofton, Shelbyville, Harrodsburg and Lancaster. Our local operations have coordinated much of this work with our community beautification/enhancement programs to eliminate need for future maintenance. With a strong commitment to safety these construction activities have been incident free and with minimal disruption to the communities Atmos Energy services.

Q. IS THE PRP INCLUDED IN THE FY2016 KENTUCKY DIRECT CAPITAL BUDGET?

A. Yes.

Q. DID YOU INCLUDE CUMULATIVE PIPE REPLACEMENT PROGRAM (PRP) INVESTMENT IN THE TEST YEAR RATE BASE AND REVENUE REQUIREMENT?

A. Yes, as required by the PRP tariff, the impact of the Company's Pipe Replacement Program (PRP) investment is included throughout the filing and reflected in the total revenue requirement of $170,112,343 proposed by the Company.

Q. HOW DO YOU PROPOSE TO HANDLE THE AUGUST 2015 AND 2016 PRP FILINGS TO AVOID OVER-RECOVERY OF FISCAL YEAR 2016 AND 2017 PRP INVESTMENT?

A. The Company's annual August PRP filing normally includes PRP investment that is forecasted to be spent between October 1 and September 30 following the August filing. The forecasted test period rate base in this case includes actual and forecasted PRP investment that the Company will make through September 30, 2016. The amount of PRP investment forecasted to be spent from October 1, 2015 to September 30, 2016 is $30 million, which is built into the rate base and revenue requirement of this proceeding. This is the same $30 million of investment forecasted in Case No. 2015-00272, the Order for which was issued by the Commission on September 23, 2015. The PRP surcharge rate schedule that resulted from that filing became effective on October 1, 2015. Those rates will be replaced by the rate schedule that results from this proceeding at the time the Commission authorizes the Company to implement rates from this proceeding. Because the rates resulting from this proceeding are based upon the Company's cumulative cost of service, including the $30 million of forecasted PRP investment from October 1, 2015 – September 30, 2016, the Company ensures that it earns a return on that $30 million of PRP investment once and only once. Furthermore, by only including PRP investment through September 30, 2016 (eight months short of the end of the test period in this proceeding) the Company can make its August 2016 PRP filing (which will include PRP investment forecasted for October 1, 2016 to September 30, 2017) as scheduled and not disrupt the annual timeline for PRP filings.

Q. HOW WAS THE KENTUCKY/MID-STATES GENERAL OFFICE CAPITAL BUDGET DEVELOPED?

A. The capital budget for the Kentucky/Mid-States Division general office was developed in conjunction with Kentucky's capital budget as well as the capital budgets for all other rate divisions within the Division as part of the Division's total capital budget. The Division general office budget for the forecasted test period is $150,000, $73,635 of which is allocated to Kentucky for ratemaking purposes.

Q. WHAT IS THE SHARED SERVICES FORECASTED TEST PERIOD CAPITAL INVESTMENT PROJECTION FOR THIS PROCEEDING?

A. The Shared Service projection for the forecasted test period is $24.9 million, $1.3 million of which is allocated to Kentucky for ratemaking purposes.

Q. HOW WAS THE TEST YEAR ACCUMULATED DEPRECIATION PROJECTED?

A. I began with actual per books accumulated depreciation as of August 2015 including allocations as discussed by Mr. Schneider in his testimony. For the months of September 2015 through the end of the test year, I added projected depreciation expenses (described later in my testimony) and deducted the same retirements that were projected for gross plant.

Q. HOW DID YOU DETERMINE THE AMOUNT OF TEST YEAR CONSTRUCTION WORK IN PROGRESS TO INCLUDE IN RATE BASE?

A. I began with actual per books construction work in progress as of August 2015 including allocations. I reduced that amount to exclude the allowance for funds used during construction on projects on which it was recorded. I concluded that the August 2015 construction work in progress balances were reasonable estimates of future construction work in progress balances through the forecasted test year. By leaving the amount of construction work in progress level through the end of the test year I in effect assumed that projected capital projects would be closed to gross plant at the same rate at which capital costs were incurred and booked to construction work in progress. My methodology also ensures that the Company recovers these investments and associated return once and only once as the amount of forecasted capital expenditures will equal the amount of new gross plant additions by holding the level of CWIP constant throughout the forecasted test period.

Q. HOW WAS THE TEST YEAR AMOUNT OF MATERIAL AND SUPPLIES DETERMINED?

A. I calculated the 13 month average amount of materials and supplies in the forecasted test period using average actual balances recorded in the six months of actuals included in the Base Period (March – August 2015). The Company does not anticipate a significant change in the amount of materials and supplies in the test year. The calculation method maintains the historic level of materials and supplies while smoothing out any historic month to month fluctuations.

Q. HOW WAS THE AMOUNT OF GAS IN STORAGE DETERMINED?

A. The projected amount of gas in storage is discussed in Mr. Gary Smith's testimony.

Q. HOW WAS THE TEST YEAR AMOUNT OF PREPAYMENTS DETERMINED?

A. I calculated the 13 month average amount of prepayments in the forecasted period based using average actual balances recorded in the six months of actuals included in the Base Period (March – August 2015). The Company has no expectation that these amounts will change materially in the test year.

Q. HOW DID YOU PROJECT THE AMOUNT OF TEST YEAR CUSTOMER ADVANCES FOR CONSTRUCTION?

A. I calculated the amount of customer advances in the forecasted test period based on the average of actual amounts booked in the base period from March 2015 to

August 2015. The Company does not anticipate a significant change in the amount of customer advances in the test year. The calculation method maintains the historic level of customer advances while smoothing out any historic month to month fluctuations.

Q. DID YOU INCLUDE ADJUSTMENTS FOR ANY REGULATORY ASSETS?

A. Yes. I included the 13 month average of the projected unamortized balances of two regulatory assets. The first regulatory asset was authorized in the Final Order of Case No. 2013-00148 and relates to the expenses that the Company incurred in conjunction with seeking the Private Letter Ruling from the IRS that the Commission required in that Order.[1] The Company incurred $33,033 in expenses and I am proposing to amortize those costs over the 12 months of the test period in this case. I am proposing a second regulatory asset for the unamortized balance of projected rate case expenses that the Company projects to incur in the context of litigating this proceeding. The Company projects rate case expenses totaling $468,910 which is the same amount that the Company incurred in Case No. 2013-00148. I am proposing a two year amortization of these costs in anticipation of more frequent rate filings in the future. The amortization expense for both regulatory assets is included in O&M and the details concerning both regulatory assets are documented on Schedule F.6 in FR 16(8)(f).

Q. DOES THE COMPANY'S RATE FILING REFLECT A PROJECTION OF ACCUMULATED DEFERRED INCOME TAX (ADIT)?

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[1] Order, Kentucky Public Service Commission Case No. 2013-00148, 4/22/2014, at 7

A. Yes. Company witness Mr. Pace McDonald provided and is sponsoring the projection of ADIT for purposes of this filing.

Q. WERE ANY ITEMS EXCLUDED FROM THE ADIT PROJECTION?

A. Yes. The projection excludes any estimated amount for over/under recovery of gas cost in order to normalize the tax effect of over/under recovery of gas cost to zero. In addition, the base and test period forecast excludes the net operating loss carry forward balance attributable to the Company's unregulated business.

IV. <u>O&M BUDGETING PROCESS</u>

Q. WHAT ARE THE OBJECTIVES OF THE COMPANY'S O&M BUDGETING PROCESS?

A. The objectives of the Company's O&M budgeting process are to: (1) formalize the process of identifying the anticipated costs of operating and maintaining Atmos Energy's systems each year; (2) ensure that all policies and procedures associated with the annual budgeting process are consistently adhered to by the functional managers and officers; (3) assess the appropriateness of routine maintenance requirements and non-capital expenditures proposed by the functional managers and officers to ensure that the amounts are adequate to deliver safe, reliable and efficient natural gas service to the Company's customers; and (4) ensure that the O&M budget properly reflects our strategic operational and financial plans. These objectives are applicable to the Company as a whole as well as to its various division, state and local level operations.

Q. CAN YOU DESCRIBE THE COMPANY'S O&M BUDGETING

PROCESS?

A. Yes. O&M costs are budgeted on a fiscal year basis, which begins on October 1 of each year (consistent with the seasonal operations of our business) and runs through September 30 of the following year. Preparation of operating and construction budgets for a fiscal year formally begins in late May of each year and culminates with completion of final budgets in late August, just prior to the beginning of the fiscal year. Budget preparation is based on meeting the four objectives described above. Budgets are approved at multiple levels beginning with supervisors/managers up through division leadership. Additional reviews are performed by corporate executive operations management and their staff. High level reviews of the division budgets are also performed by the Company's senior executives who are presiding members of the Company's Management Committee. The Board of Directors must review and approve the total Company budget before finalization and implementation. This approval typically occurs in September of each year.

Q. WHAT ROLE DOES THE O&M BUDGETING PROCESS PLAY IN THE COMPANY'S FINANCIAL PLANNING?

A. Atmos Energy's Planning and Budgeting Department is responsible for financial planning at the enterprise level. That department receives direction from the Board of Directors concerning forward-looking financial objectives for the Company. Planning and Budgeting is responsible, with significant input and collaboration from division leadership, for translating those enterprise targets into a financial plan for each division and rate jurisdiction. It is the collaboration between Planning and Budgeting and division leadership that ensures that all four of the objectives described above are met each year. Spending targets are established as a result of this collaboration.

Q. SO FAR YOU HAVE DESCRIBED THE O&M BUDGETING PROCESS. CAN YOU EXPLAIN HOW THE BUDGET IS PREPARED WITHIN THE PARAMETERS OF THIS PROCESS?

A. Yes. The O&M budget is prepared by type of cost element, such as labor, benefits, transportation, rents, office supplies, etc. Within each cost element we budget expenses at the sub-account level. The prior year's actual costs, year-to-date actual costs and budgeted costs for the remainder of the fiscal year are used as guidelines for budgeting by functional managers and officers. The budgets are prepared using a web-based software tool called PlanIt. This tool allows cost center owners to enter their budgets and for management to review budgets using a number of standard and ad hoc reports.

Q. ARE THESE BUDGETS PREPARED BY FERC ACCOUNT?

A. No. In our experience, FERC accounts do not provide a sufficient level of detail to enable us to understand the costs within each account. For budgeting purposes (and subsequent managing of expenses), we need individualized expense types that relate to the operation of each cost center. FERC accounts do not provide that level of detail. However, when we spend, we do identify our expenditures by FERC account as well as expense type. This provides a timely analysis of the type of charges being expensed by FERC account.

Q. HOW DOES ATMOS ENERGY CONVERT ITS O&M BUDGET BY COST

ELEMENT INTO FERC ACCOUNTS?

A. To convert our budget and forecast to FERC accounts, prior year actual expenditures were downloaded from the general ledger by FERC account and cost element. A calculation was then made to determine within each cost element type the percentage of spending attributable to each FERC account. Each percentage factor was then applied to the fiscal year 2016 budget and test period forecast by cost type to develop a budget and test period forecast by FERC account.

V. CONTROL AND MONITORING PROCESSES

Q. DOES THE COMPANY EMPLOY ANY METHODOLOGY TO MONITOR AND CONTROL O&M ACCORDING TO BUDGETED LEVELS?

A. Yes. Atmos Energy utilizes variance monitoring to ensure financial quality control of O&M expenses by formalizing the analysis of variances by cost type and cost center. On a quarterly basis, the Division presents actual to budget variances with explanation to the Company's Management Committee, SSU department heads, select Board of Directors members and external auditors at a formal Quarterly Performance Review. The goal is to keep all levels of management informed of our O&M spending in comparison to budgeted amounts, in order to allow management to react to unanticipated events on a timely basis.

Q. ARE O&M VARIANCES EVALUATED MORE FREQUENTLY THAN ON A QUARTERLY BASIS?

A. Yes. The Kentucky Mid-States Division Finance Department conducts a thorough review of O&M actual to budget variances each month.

Q. PLEASE DESCRIBE YOUR MONTHLY VARIANCE REVIEW PROCESS.

A. The process begins by examining, at the Division level, significant variances by cost type (labor, benefits, materials, rents, etc.). Significant variances are researched until an explanation is found. Reasonable explanations could include events that affected the entire Division or a particular cost center or region. In some cases, clarifying information is sought from cost center owners to explain unusual variances or transactions. For some cost types, clarifying analysis is provided by SSU departments. If errors are found, they are most often corrected in the current month's business. Occasionally, however, errors are discovered after the books are closed, and, depending on materiality, they are corrected in the following month's business.

Q. DOES ANYONE ELSE WITHIN THE DIVISION HAVE THE ABILITY TO MONITOR OR REVIEW O&M VARIANCES?

A. In addition to the research conducted by the Division Finance Department, each cost center owner has the ability to run variance reports throughout the monthly closing process. Because cost center owners are held accountable for significant variances to budget, they conduct their own research and often contact the Division Finance Department when they find errors or have questions about the expenses that were charged to their cost centers.

Q. WHAT CONTROLS AND REPORTING ARE INVOLVED IN THE MONTHLY CLOSE PROCESS REGARDING O&M VARIANCES?

A. Once the monthly books are closed, the SSU Financial Reporting department in Dallas publishes (electronically) the monthly Atmos Energy Financial Package. This package details the financial performance for Atmos Energy at the corporate and division level. For each division, the report includes a comparative income statement, operating statistics (volumes, total spending), and other financial details. At the end of each quarter, narrative comments are provided by Division officers to describe quarterly and YTD variances. Once complete, this Financial Package is available to all Atmos Energy officers and Board members for review and is an official Sarbanes-Oxley control document of the Company. On a quarterly basis, once the package is complete, an online questionnaire generated by our Sarbanes-Oxley Compliance Tool is completed certifying that the Division Finance Department has conducted a thorough review of the Division's financial performance and the Financial Package and addressed all matters therein. The Company's external auditors look for this certification as evidence of Sarbanes-Oxley compliance.

After meeting the Financial Package control requirement, the Division Finance Department publishes (electronically) detailed O&M reports that include monthly and YTD variances for each cost center and these reports are then made available to each cost center owner and their respective managers (managers, Division Vice Presidents, and the Division President). This activity ensures that each cost center owner receives the same information in the same format each month in a timely fashion in order to make operational decisions and manage our operations effectively and efficiently.

Q. HAS THE O&M VARIANCE MONITORING AND CONTROL PROCESS YOU HAVE DESCRIBED ENABLED KENTUCKY TO OPERATE REASONABLY WITHIN ITS BUDGET EACH YEAR?

A. Yes. As the table below demonstrates, actual O&M expenditures over the past five years have tracked closely to overall budgeted amounts.

Dollars in thousands

Fiscal Year	Actual $	Budget $	Over/(Under) $	Variance %
2014	$26,515	$26,804	($289)	(1.1)%
2013	$25,509	24,913	$596	2.4%
2012	$23,540	$22,362	$1,178	5.3%
2011	$22,238	$21,635	$603	2.8%
2010	$21,311	$22,487	($1,176)	(5.2)%

Q. DO YOU HAVE AN OPINION REGARDING THE SIGNIFICANCE OF THE HISTORICAL DATA REFLECTED IN THE TABLE ABOVE?

A. Overall, I believe that these results indicate that we have been successful in our annual budgets in projecting and managing our O&M expense to the extent those expenses are within our control.

Q. WHY IS THAT IMPORTANT?

A. This data demonstrates that the Company's budgeting and control processes I have described form a reasonable basis for purposes of the Company's forecasted test period O&M budget in this rate proceeding.

Q. WHAT ARE THE GOALS OF THE COMPANY'S PROCESS OF CONTROLLING AND MONITORING CAPITAL EXPENDITURE VARIANCES?

A. Variances from budgeted amounts are inherent in the process of making capital expenditures. Our variance monitoring process exists to institute financial quality control by formalizing the analysis of variances by budget category and responsibility center in a process that identifies year-to-date spending variances. The goal is to keep all levels of management informed of spending by category and responsibility center relative to budgeted levels and to ensure that corrective action is initiated on a timely basis. This supports decision-making related to the cost and appropriate management of current and future capital projects.

Q. PLEASE DESCRIBE THE COMPANY'S PROCESS FOR CONTROLLING AND MONITORING CAPITAL EXPENDITURE VARIANCES.

A. The Company's process for controlling and monitoring capital expenditure variances is utilized by each operating division as well as by Shared Services. At the division level the Company's capital budgeting system maintains projects in two broad categories – Blanket Functionals and Specific Projects. The Blanket Functionals include total capital authorizations of a similar type such as new services, leak repair, short main replacements, small integrity/reliability projects, etc. Specific projects are uniquely identified such as a specific highway relocation project, replacement of work equipment, or some larger significant integrity/reliability project.

Once a project has been entered in the capital budget system a request for authorization is submitted. If during the course of a project, field management identifies that the costs of the project will exceed approved amounts, a request for supplemental funding may be submitted. All expenditures above authorized appropriation, as well as expenditures for unbudgeted projects or variances on budgeted and approved projects, must be approved at the appropriate levels within the Company.

Each month, project variance reports are published. Each cost center manager is responsible and held accountable for managing their overall approved capital budget. In addition, in FY2015 the Company began utilizing a monthly capital forecast module through its accounting system PowerPlan. The forecast module is updated throughout the month by Project Specialists, Operation Supervisors and Operation Managers as known and measurable changes occur. At the end of each month, the forecast for that specific month is updated with actuals and closed to future charges as part of the monthly closing process. Once current month actuals have posted, the Project Specialists, Operations Supervisors and Operations Managers are given two to three days to make final updates to their respective projects. Once complete, the forecasts are reviewed by the Operations Supervisors, Operations Managers and the VP Operations. A final review of the forecast is performed by the division Finance Department. The VP of Finance communicates to the corporate Plant Accounting Department that the forecast is approved. A snapshot of the forecast is then taken by Plant Accounting for archiving. Upon completion of the snapshot the forecast module is reopened for changes as they become known and measurable during the course of the new month.

VI. FORECASTED TEST PERIOD O&M BUDGET

Q. WHAT IS THE FORECASTED TEST PERIOD USED IN THIS RATE APPLICATION?

A. The forecasted test period is June 1, 2016 through May 31, 2017.

Q. HOW WAS THE FORECASTED TEST PERIOD BUDGET DEVELOPED?

A. The basis for the forecasted test period is our FY2016 budget. Consistent with our normal annual budgeting timelines, this budget was prepared during the summer of 2015 and approved by the Board of Directors in September of 2015. This budget was prepared in the manner I described earlier. The forecasted test period includes the last four months of FY2016 and the first eight months of FY2017. I will describe the methodology used for the projection period in detail below. The FY2016 O&M budget and forecasted test period projection were converted into FERC account detail using the method described above.

Q. WHAT ARE THE COMPONENTS OF O&M FOR THE FORECASTED TEST PERIOD?

A. The forecasted test period O&M is comprised of three parts: expenses incurred and booked directly in Kentucky (rate division 009), allocated expenses from the Division General Office (rate division 091), and allocated expenses from SSU (comprised of rate divisions 002 and 012). I will describe the methodology used for the projection for each of the three components.

Q. WHAT COMPRISES THE BASE PERIOD LEVEL OF COST FILED IN THIS RATE APPLICATION?

A. The base period level of cost is March 1, 2015 through February 29, 2016. It is composed of six months of actual results up through August 2015 and six months of our FY2015 and FY2016 budgets.

Q. WHAT IS THE DIRECT O&M FOR THE BASE PERIOD?

A. $13,577,226

Q. WHAT IS THE DIRECT O&M BUDGET FOR THE FORECASTED TEST PERIOD?

A. $12,826,009.

Q. WHAT IS THE DIFFERENCE BETWEEN THE BASE PERIOD O&M AND TEST PERIOD O&M?

A. The difference is a decrease of $751,217 and reflects adjustments I have made for labor and benefits, rent, other O&M and bad debt.

Q. PLEASE EXPLAIN YOUR ADJUSTMENT FOR LABOR AND BENEFITS.

A. The labor forecast for the forecasted test period is based on the Company's approved FY2016 budget. As part of the normal budgeting process, each employee's total salary, expected capital / expense ratio and expected standby and overtime amounts are included. While there is always a normal level of position vacancy at any given point in time, we strive to fill open positions in a timely manner when and if filling the position is justified by current workload. The base period level of total labor expenditures represents a fully staffed level minus the normal level of vacancies and employee levels are projected to remain relatively constant from the base period to the test period. Base pay increases go into effect each October 1 and averaged 3.0% for the increases that went into effect October 1, 2015. These increases are captured as part of the FY2016 budget. An adjustment was made as part of the forecast to account for an average wage increase of 3.0% to become effective October 1, 2016. The 3.0% is consistent with the average level of increases from the past several years. Overall, labor expense is projected to decrease $1,974 from the base period to the test period.

Benefits are projected as a fixed benefit load percentage of labor expense plus an amount for workers' comp insurance. The test period benefits expense of $2,114,994 is $21,817 higher than the base period.

Q. PLEASE EXPLAIN YOUR ADJUSTMENT RELATING TO RENT.

A. Unlike other O&M categories that are likely to increase with normal inflation, our building rents are driven by leases already in place and can therefore be projected with a high level of accuracy. The rent portion of the O&M category "Rent, Utilities and Maintenance" was budgeted by reviewing actual lease amounts. Overall, direct Rent, Utilities and Maintenance is projected to decrease $56,859 from the base period.

Q. PLEASE EXPLAIN YOUR ADJUSTMENT RELATING TO OTHER O&M.

A. Other O&M consists of all expenses except labor, benefits, rent and bad debt. In filings involving forward looking test years, the Company normally includes in O&M its most recent budget without adjustments for the months where the budget and test year overlap and applies an inflation factor to these O&M categories for months when the forward looking test year extends beyond the Company's budget. However, recognizing the Commission's findings in Case No. 2013-00148,[2] I have not inflated these O&M categories above budgeted levels in this proceeding for the sole purpose of expediting the rate case process.

Q. PLEASE EXPLAIN YOUR ADJUSTMENT RELATING TO BAD DEBT.

A. Our goal is to keep bad debt no higher than 0.50% of residential, commercial and public authority margin during any given year. We work vigorously to collect bad debts and reduce the impact of bad debt expense on customers. To arrive at the bad debt projection of $313,426 I calculated 0.50% of residential, commercial and public authority margin from the revenue projection in the direct testimony of Company witness Mr. Gary Smith. This projection is $250,896 lower than the base period.

Q. WHAT IS THE AMOUNT OF THE DIVISION'S GENERAL OFFICE O&M ALLOCATED TO KENTUCKY FOR THE BASE PERIOD?

A. $5,497,869.

Q. WHAT IS THE AMOUNT OF THE DIVISION'S GENERAL OFFICE O&M BUDGET ALLOCATED TO KENTUCKY FOR THE FORECASTED TEST PERIOD?

A. $6,070,057.

Q. PLEASE DISCUSS THE DIFFERENCES BETWEEN THE GENERAL OFFICE BASE PERIOD AND FORECASTED TEST PERIOD AMOUNTS.

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[2] *See* Order, Kentucky Public Service Commission Case No. 2013-00148, 4/22/2014, at 16-17.

A. The difference is $572,188 and reflects adjustments I have made for labor and benefits, rent and other O&M. The budgeting process and forecast methodologies are identical for both direct O&M and General Office O&M. Therefore, the categories of adjustments made to forecast General Office O&M are also the same as direct.

Q. WHAT IS THE AMOUNT OF SHARED SERVICES O&M ALLOCATED TO KENTUCKY FOR THE BASE PERIOD?

A. $7,572,350.

Q. WHAT IS THE AMOUNT OF THE SHARED SERVICES O&M BUDGET ALLOCATED TO KENTUCKY FOR THE FORECASTED TEST PERIOD?

A. $7,955,221.

Q. PLEASE DISCUSS THE DIFFERENCES BETWEEN THE SHARED SERVICES BASE PERIOD AND FORECASTED TEST PERIOD AMOUNTS.

A. The difference is $382,870. The SSU budget is prepared in a fashion consistent with that of the Division. Once the SSU department heads complete, submit and get approval for their budgets, the appropriate level of expenses are allocated to the Kentucky rate jurisdiction per the methodologies described in Mr. Jason Schneider's testimony.

Q. HOW DO YOU MONITOR SHARED SERVICES BILLINGS TO THE DIVISION?

A. Shared Services expense billings are reviewed as part of our monthly close process described earlier. The Division Finance Department is then responsible to contact Accounting in Dallas and obtain an explanation for any significant variances.

Q. WHAT IS THE TOTAL FORECASTED TEST PERIOD O&M THAT RESULTS FROM THE SUM OF THE DIRECT, GENERAL OFFICE AND SSU COMPONENTS?

A. $26,851,286.

Q. DO THE FORECASTED O&M AMOUNTS DISCUSSED IN YOUR TESTIMONY INCLUDE THE RATEMAKING ADJUSTMENTS QUANTIFIED ON SCHEDULE C-2?

A. No. Schedule C-2 contains five ratemaking adjustments.

<u>Adjustment for Sales and Promotional Advertising Expenses</u>

The first adjustment removes $45,796 of sales and promotional advertising from test year sales expense. It is quantified on Schedule F.4.

<u>Adjustment for Regulatory Asset Amortization Expenses</u>

The second adjustment adds $267,488 to test year administrative and general expense to account for the first year's expense of a proposed two-year amortization of the expected costs pertaining to this case as well as a proposed one-year amortization of the actual expenses incurred in seeking a private letter ruling from the IRS as required in Case No. 2013-00148.[3] The amounts are quantified on Schedule F.6.

Adjustment for Expense Report Exclusion

The third adjustment removes $54,420 of certain expense report items from test year administrative and general expense. The Company's goal is to ensure that its Kentucky rates rest upon a sound foundation of unquestionable costs. The Company is committed to achieving that goal even if it means foregoing recovery of a certain amount of legitimate business expense in an effort to ensure that there can be no question about what remains. The expense report exclusion adjustment is made to exclude certain cost items of which the Company does not intend to seek recovery from its customers in this case. The excluded amounts are quantified on Schedule F.8 and occur in Kentucky as well as the Division General Office and SSU.

Adjustment for Rental Expense

The fourth adjustment removes certain lease expenses related to properties in Danville and Glasgow, Kentucky due to the fact the Company will be purchasing properties in these areas moving forward. These expenses are quantified on Schedule F.9.

Adjustment for Incentive Compensation

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[3] Order, Kentucky Public Service Commission Case No. 2013-00148, 4/22/2014, at 7.

The fifth adjustment removes incentive compensation expenses associated with all of its employees. This adjustment is $1,521,219. The Company believes incentive compensation is a critical part of the ability to attract and retain employees at competitive market rates, and should be included as a recoverable O&M expense. Atmos Energy is not unique in making incentive compensation part of the overall compensation package that it provides to its employees. The Company designs its total compensation package to be in the middle of the job market in which we compete for talent. This means that there are as many companies offering total compensation above Atmos Energy's package as below for comparable jobs. It is important to understand that "total compensation" does not represent only base salary, but also includes bonuses, benefits, retirement, etc. Because Atmos Energy falls in the middle of the job market in terms of the overall compensation packages, the Company believes the incentive compensation costs that are a component of this overall compensation package are reasonable and should be recovered as part of revenue requirement. In order to meet the Company's incentive pay criteria, Company employees must work together to ensure that the Company operates efficiently and effectively. Efficient and effective operations translate into lower costs and therefore lower rates for customers. Strong financial performance for the Company and lower rates for customers are, therefore, not mutually exclusive. However, recognizing the Commission's findings in Case No. 2013-00148,[4] I have removed this expense in

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[4] *See* Order, Kentucky Public Service Commission Case No. 2013-00148, 4/22/2014, at 19-20.

this proceeding for the sole purpose of expediting the rate case process. This adjustment is quantified on Schedule F.10.

Q. DO YOU BELIEVE THAT THE FORECASTED TEST PERIOD O&M BUDGET YOU HAVE PRESENTED IS THE MOST REASONABLE ESTIMATE OF COSTS FOR THE TEST PERIOD USED IN THIS PROCEEDING?

A. Yes. It is the best estimate we have of the Kentucky jurisdiction's future operating and maintenance expenses.

VII. DEPRECIATION EXPENSE AND TAXES OTHER THAN INCOME TAXES

Q. WHAT IS THE DEPRECIATION EXPENSE FOR THE BASE PERIOD?

A. The amount of depreciation expense for the base period is $18,252,730.

Q. WHAT IS THE DEPRECIATION EXPENSE FOR THE FORECASTED TEST PERIOD?

A. The amount of depreciation expense for the forecasted test period is $19,444,466.

Q. PLEASE DISCUSS THE DIFFERENCES BETWEEN THE BASE PERIOD AND FORECASTED TEST PERIOD DEPRECIATION AMOUNTS.

A. Depreciation Rates for the forecasted period are those determined by Company Witness Mr. Dane Watson. For depreciation methodology please refer to Mr. Watson's testimony. The depreciation rates are applied to the applicable categories of plant for the Kentucky jurisdiction as well as the General Office and Shared Services division, resulting in total depreciation expense of $19,444,466.

The amounts allocated from the General Office and SSU to Kentucky are based upon the cost allocation methodology more fully described in Mr. Jason Schneider's testimony.

Q. WHAT IS THE EXPENSE LEVEL FOR TAXES, OTHER THAN INCOME TAXES FOR THE BASE PERIOD?

A. $6,437,545.

Q. WHAT IS THE LEVEL OF TAXES, OTHER THAN INCOME TAXES FOR THE FORECASTED TEST PERIOD?

A. $6,100,220.

Q. PLEASE DISCUSS THE DIFFERENCES BETWEEN THE BASE PERIOD AND FORECASTED TEST PERIOD.

A. The difference is a decrease of $337,325. The components are itemized by type of tax on Schedule C.2.3 F. For all months of the forecasted period (June 1, 2016 – May 31, 2017) payroll taxes have been escalated from the base period to account for base pay increases consistent with my labor forecast. The monthly accrual for the Public Service Commission Assessment is based on the assessment rate and projected test period revenues. The monthly ad valorem accrual for the test period reflects the most recent budgeted accrual. The DOT transmission user tax has been held constant from the base period. The amount of taxes allocated from the Division General Office and SSU is based on the allocation methodologies discussed in the Cost Allocation Manual.

VIII. CAPITAL STRUCTURE AND COST OF DEBT

Q. HOW IS ATMOS ENERGY ORGANIZED?

A. Atmos Energy conducts its utility operations in eight states through unincorporated operating divisions. The Company division for which rates are sought to be adjusted in this proceeding is commonly referred to as the Kentucky/Mid-States Division.

Q. DO THE COMPANY'S UNINCORPORATED DIVISIONS ISSUE THEIR OWN DEBT OR EQUITY?

A. No. These divisions, including the Kentucky/Mid-States Division, are not separate legal entities. Instead, these unincorporated divisions collectively comprise the legal entity that is Atmos Energy Corporation. Therefore, all debt or equity funding of the operations performed by the utility divisions must be (and is) issued by Atmos Energy Corporation as a whole, on a consolidated basis.

Q. WHAT CAPITAL STRUCTURE SHOULD BE USED IN THIS PROCEEDING?

A. Although this proceeding only affects the rates which may be charged by the Company for its regulated utility operations in Kentucky, the appropriate capital structure for each of the Atmos utility operating divisions, including its Kentucky/Mid-States Division, is equivalent to the consolidated capital structure for Atmos as a whole. This is because Atmos provides the debt and equity capital that supports the assets serving Kentucky customers. The capital structure that is appropriate for the Company's Kentucky operations in this proceeding is set forth in FR 16(8)(j). As shown in that FR, short term debt comprises 6.5%, long-term debt comprises 38.2% and equity is 55.3% of the Company's 13-month average capital structure for the forward looking test period.

Q. HOW DOES THIS RECOMMENDED CAPITAL STRUCTURE COMPARE TO THE ACTUAL CAPITAL RATIOS AS OF JUNE 30, 2015?

A. As reported on the Company's quarterly report on Form 10-Q filed with the Securities and Exchange Commission for the quarter ended June 30, 2015, Atmos Energy's capital structure and ratios were as follows ($ in thousands):

Short-Term-Debt	Long-Term Debt	Shareholders' Equity	Total
$251,977	$2,455,303	$3,238,255	$5,693,558
4.2%	41.3%	54.5%	100%

Q. PLEASE SUMMARIZE YOUR DISCUSSION ON CAPITAL STRUCTURE.

A. Atmos Energy's actual capital structure as of June 30, 2015 consisted of 4.2% short term debt, 41.3% long-term debt and 54.5% shareholders' equity. The total debt percentage is projected to fall for the forward-looking test period because the Company will continue to increase shareholders' equity by issuing common stock from its various stock plans and by generating earnings in excess of dividends paid.

Q. WHAT RATES DO YOU PROPOSE FOR THE EMBEDDED COST OF DEBT CAPITAL IN SETTING RATES IN THIS CASE?

A. As shown in FR 16(8)(j), the Company's weighted average cost of long-term debt for the base period in this case is 5.90%. Because no long-term debt refinancings are planned prior to the end of the test period in this case, I project this to remain the weighted average cost of long-term debt for the test period and recommend that the Commission adopt that as the weighted average cost of long-term debt capital for use in this proceeding. Also shown in FR 16(8)(j), the Company's weighted average cost of short-term debt for the base period in this case is 0.94%. I have projected the same amount and cost for short-term debt for the test period in this case. These rates will permit Atmos Energy to raise the required debt capital to support its operations and to continue to provide safe, reliable and efficient natural gas service to its Kentucky customers.

IX. CONCLUSION

Q. DID YOU PREPARE A RECONCILIATION OF TEST YEAR RATE BASE AND CAPITALIZATION?

A. Yes. To comply with section 16(6)(f) of 807 KAR 5001, I prepared the reconciliation in Schedule FR 16(6)(f). It shows the differences between the test year average rate base and test year end capital that result from using 13 month averages in rate base, certain balance sheet items not being included in rate base and amounts included in rate base for particular categories that differ from the amount included on the balance sheet.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF)
RATE APPLICATION OF) Case No. 2015-00343
ATMOS ENERGY CORPORATION)

CERTIFICATE AND AFFIDAVIT

The Affiant, Gregory K. Waller, being duly sworn, deposes and states that the prepared testimony attached hereto and made a part hereof, constitutes the prepared direct testimony of this affiant in Case No. 2015-00343, in the Matter of the Rate Application of Atmos Energy Corporation, and that if asked the questions propounded therein, this affiant would make the answers set forth in the attached prepared direct pre-filed testimony.

GWaller
Gregory K. Waller

STATE OF Texas
COUNTY OF Dallas

SUBSCRIBED AND SWORN to before me by Gregory K. Waller on this the 19th day of November, 2015.

PAMELA L. PERRY
My Commission Expires
October 29, 2016

Pamela L. Perry
Notary Public
My Commission Expires: 10-29-16

Exhibit GKW-1
Case No. 2015-00343

ATMOS ENERGY CORPORATION

Allocation of Atmos Corporate (Co. # 10) Cost Based on 12 Month Period Ended 9/30/14

A. Composite Allocation Factor:		Total	West Tex Div	CO/KS Div	LA Div 007	LA Div 077	Kentucky/ MidStates Div	Mississippi Div	Mid-Tex Div	Atmos P/L
Gross Direct PP&E	$	**8,527,002,426**	588,658,574	522,666,022	196,802,776	532,048,476	946,876,781	494,873,746	3,393,212,543	1,757,100,641
Average Number of Customers	#	**3,061,941**	299,553	243,084	74,693	272,260	332,626	250,173	1,588,126	347
Total O&M Expense *	$	**373,655,056**	30,013,523	24,974,685	8,753,909	22,587,103	38,004,205	33,429,741	109,826,806	81,576,653
(* w/o Allocation)										
Total Composite Factor										
Gross Direct PP&E	%	**100.00%**	**6.91%**	**6.13%**	**2.31%**	**6.24%**	**11.10%**	**5.80%**	**39.79%**	**20.61%**
Average Number of Customers	%	**100.00%**	**9.79%**	**7.94%**	**2.44%**	**8.89%**	**10.86%**	**8.17%**	**51.87%**	**0.01%**
Total O&M Expense	%	**100.00%**	**8.05%**	**6.68%**	**2.34%**	**6.04%**	**10.17%**	**8.95%**	**29.39%**	**21.83%**
Total Composite Factor for FY 2015	%	**100.00%**	**8.25%**	**6.92%**	**2.36%**	**7.06%**	**10.71%**	**7.64%**	**40.35%**	**14.15%**

	AEM	UCG Storage	WKG Storage	TLGP	Remaining non reg
Gross Direct PP&E	36,175,456	8,579,774	14,517,166	24,532,139	10,958,332
Average Number of Customers	1,064			15	-
Total O&M Expense *	24,247,740	512,520	758,107	1,132,882	(2,162,819)
(* w/o Allocation)					
Total Composite Factor					
Gross Direct PP&E	**0.42%**	**0.10%**	**0.17%**	**0.29%**	**0.13%**
Average Number of Customers	**0.03%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**
Total O&M Expense	**6.49%**	**0.14%**	**0.20%**	**0.30%**	**-0.58%**
Total Composite Factor for FY 2015	**2.31%**	**0.08%**	**0.12%**	**0.20%**	**-0.15%**

Exhibit GKW-1
Case No. 2015-00343

Atmos Energy Corporation
Atmos Energy Mid States Div
Development of Allocation Factors
For Fiscal Year 2015

Div #	Division Name	Sept ' 14 Direct Property Plant & Equipment (1)	Percent of MidStates Property (2)	YE Sept '14 Total O &M w/o 922 (3)	Percent of MidStates O & M (4)	YE Sept '14 Avg Number of Customers (5)	Percent of MidStates Customers (6)	**MidStates Allocation Percent (7)**
09	KENTUCKY	424,189,446	45.04%	14,546,900	49.63%	174,958	52.60%	**49.09%**
93	TENNESSEE	439,670,059	46.68%	10,204,309	34.82%	134,946	40.57%	**40.69%**
96	VIRGINIA	77,963,001	8.28%	4,557,634	15.55%	22,722	6.83%	**10.22%**
	Total	941,822,505.68	100.00%	29,308,843.07	100.00%	332,626	100.00%	100.00%

O&M by Cost Element

Exhibit GKW-2

	Kentucky			SSU			Division General Office			Total		
	Base	Test	Difference	Base	Test	Difference	Base	Test	Difference	Base	Test	Difference
Labor	$ 4,929,597	$ 4,927,623	$ (1,974)	$ 4,000,050	$ 4,213,831	$ 213,781	$ 1,167,648	$ 1,309,002	$ 141,354	$ 10,097,294	$ 10,450,456	$ 353,162
Benefits	2,093,177	2,114,994	21,817	1,458,383	1,528,659	70,276	542,525	735,823	193,298	4,094,085	4,379,476	285,391
Employee Welfare	115,989	82,354	(33,635)	1,894,915	1,698,936	(195,979)	889,407	584,207	(305,200)	2,900,310	2,365,497	(534,813)
Insurance	89,947	8,633	(81,314)	1,040,013	1,076,439	36,426	121,590	215,431	93,841	1,251,550	1,300,503	48,953
Rent, Maint., & Utilities	621,710	564,851	(56,859)	437,291	431,037	(6,253)	180,109	192,091	11,982	1,239,110	1,187,979	(51,131)
Vehicles & Equip	999,843	1,063,545	63,702	8,133	9,228	1,095	37,855	39,270	1,415	1,045,831	1,112,042	66,211
Materials & Supplies	773,592	708,551	(65,041)	50,143	56,580	6,437	106,612	136,815	30,204	930,347	901,946	(28,401)
Information Technologies	50	-	(50)	877,722	863,784	(13,938)	54,539	50,941	(3,598)	932,311	914,724	(17,587)
Telecom	165,305	77,443	(87,862)	170,627	150,224	(20,403)	232,458	305,605	73,147	568,390	533,271	(35,119)
Marketing	130,354	126,741	(3,612)	18,242	15,187	(3,055)	179,954	213,260	33,305	328,549	355,188	26,639
Directors & Shareholders &PR	-	-	-	264,517	295,264	30,747	1,043	2,504	1,460	265,560	297,768	32,207
Dues & Donations	61,617	44,701	(16,916)	29,169	29,477	309	77,660	93,301	15,641	168,446	167,480	(966)
Print & Postages	10,070	11,279	1,208	12,790	14,973	2,183	6,015	6,051	35	28,875	32,302	3,427
Travel & Entertainment	434,611	398,831	(35,780)	152,621	154,903	2,282	267,183	291,375	24,192	854,414	845,109	(9,306)
Training	8,310	10,216	1,906	81,384	73,742	(7,642)	32,541	43,467	10,927	122,235	127,426	5,191
Outside Services	2,553,017	2,367,320	(185,697)	688,397	656,921	(31,476)	1,615,040	1,853,658	238,618	4,856,454	4,877,899	21,445
Provision for Bad Debt	564,322	313,426	(250,896)	-	-	-	-	-	-	564,322	313,426	(250,896)
Miscellaneous	25,714	5,500	(20,214)	(3,612,045)	(3,313,964)	298,081	(14,309)	(2,743)	11,567	(3,600,640)	(3,311,207)	289,433
Total O&M Expenses	**$ 13,577,226**	**$ 12,826,009**	**$ (751,217)**	**$ 7,572,350**	**$ 7,955,221**	**$ 382,870**	**$ 5,497,869**	**$ 6,070,057**	**$ 572,188**	**$ 26,647,445**	**$ 26,851,286**	**$ 203,841**
RateMaking Adjustments:												
Advertising Adjustments		(32,917)	(32,917)		(5,172)	(5,172)		(7,707)	(7,707)		(45,796)	(45,796)
Club Expenses		-	-								-	-
Expense Report Exclusions		(14,795)	(14,795)		(23,130)	(23,130)		(16,495)	(16,495)		(54,420)	(54,420)
Leases		(22,750)	(22,750)								(22,750)	(22,750)
Regulatory Asset Amortizations		267,488	267,488			-			-		267,488	267,488
Incentive Compensation		(29,769)	(29,769)		(978,286)	(978,286)		(513,164)	(513,164)		(1,521,219)	(1,521,219)
Grand Total	**$ 13,577,226**	**$ 12,993,266**	**$ (583,960)**	**$ 7,572,350**	**$ 6,948,633**	**$ (623,718)**	**$ 5,497,869**	**$ 5,532,690**	**$ 34,821**	**$ 26,647,445**	**$ 25,474,589**	**$ (1,172,856)**

SMITH, G. L.

BEFORE THE PUBLIC SERVICE COMMISSION

COMMONWEALTH OF KENTUCKY

APPLICATION OF ATMOS ENERGY)
)
CORPORATION FOR AN ADJUSTMENT) Case No. 2015-00343
)
OF RATES AND TARIFF MODIFICATIONS)

DIRECT TESTIMONY OF GARY L. SMITH

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME, POSITION AND BUSINESS ADDRESS.

A. My name is Gary L. Smith. I am Director of Rates and Regulatory Affairs for Atmos Energy Corporation ("Atmos Energy" or "the Company"). My business address is 5420 LBJ Freeway, Dallas, Texas 75240.

Q. PLEASE BRIEFLY DESCRIBE YOUR CURRENT RESPONSIBILITIES, PROFESSIONAL AND EDUCATIONAL BACKGROUND.

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

Previously, I served briefly as Director of Customer Revenue Management in Dallas. Prior to that, through May 2007, I served as Vice President-Marketing and Regulatory Affairs for the Company's Kentucky/Mid-States operations, where I was responsible for rates and regulatory affairs, as well as for directing the marketing plans and strategies for natural gas utility markets in Kentucky.

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

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE KENTUCKY PUBLIC SERVICE COMMISSION ("COMMISSION")?

A. Yes, I have served as witness in a number of cases, including the Kentucky division's most recent comprehensive rate case, Case No. 2013-00148. In that matter, I served as a rebuttal witness responding to questions related to special contracts between Atmos Energy and several of its industrial customers. Prior to that Case, I served as witness responsible for revenues and rate design in Case Nos. 2009-00354 and 2006-00464. Other Kentucky cases included an application for approval of a third party gas supply agreement (Case No. 2006-00194), an extension of the Company's performance based ratemaking tariff (Case No. 2005-00321), an extension of the Company's WNA mechanism (Case No. 2005-00268), an extension of a demand-side management program (Case No. 2005-00515), annual hedging plans (Case Nos. 2006-00177, 2005-00175 and 2004-00142), and an extension of the margin loss recovery mechanism (Case No. 2003-00305).

In 1999, I served as the witness responsible for revenues and rate design in Case No. 1999-070. In 1997, I participated as a witness in a hearing on the matter of "Petitions of Western Kentucky Gas Company for Approval and Confidential

Treatment of a Special Contract Submitted to the Kentucky Public Service Commission", Case Numbers 1996-096, 1996-113, 1996-185, 1996-278, 1996-295 and 1996-424.

Q. HAVE YOU TESTIFIED IN JURISDICTIONS OUTSIDE OF KENTUCKY?

A. Yes, I have testified in dockets involving Atmos Energy before the Georgia Public Service Commission, the Kansas Corporation Commission, the Missouri Public Service Commission, the Tennessee Regulatory Authority and the Railroad Commission of Texas.

Q. ARE YOU SPONSORING ANY OF THE FILING REQUIREMENTS IN THIS CASE, AND, IF SO, WHICH REQUIREMENTS?

A. Yes. I am sponsoring the following filing requirements:

FR 16(7)(c)	Factors Used in Preparing the Utility's Forecast Period (Revenues/ Volumes)
FR 16(7)(h)	Financial Forecast (Revenues)
FR 16(7)(h)1	Operating Income Statement (Revenues)
FR 16(7)(h)8	Mix of Gas Supply
FR 16(7)(h)14	Customer Forecast
FR 16(7)(h)15	Mcf Sales Volume Forecast
FR 16(8)(c)	Jurisdictional operating income summary for both base and forecast period with supporting schedules which provide breakdowns by major account group and individual account
FR 16(8)(d)	Summary of jurisdictional adjustments to operating income
FR 16(8)(i)	Comparative income statements, revenue and sales statistics, base period, forecast period and two (2) years beyond

FR 16(8)(m) Revenue Summary for Both the Base Period and Forecasted Period

Q. DO YOU ADOPT THESE FILING REQUIREMENTS AND MAKE THEM PART OF YOUR TESTIMONY?

A. Yes.

II. PURPOSE AND SUMMARY OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. My testimony has three primary purposes: (1) to describe the methods used to normalize and forecast Atmos Energy's revenues and volumes as they relate to the base period and test period in this case; (2) to discuss the internal study required by the Commission in Case No. 2013-00148 to assess the threat of bypass by each of the Company's special contract customers,[1] and (3) provide a comparison of timeframe alternatives considered for establishing the normal weather basis also required by the Commission in Case No. 2013-00148.[2]

III. PROCESS OF FORECASTING OF REVENUES AND VOLUMES

Q. PLEASE DESCRIBE THE GOALS OF FORECASTING REVENUE AND VOLUMES.

A. The goal of revenue forecasting, fundamentally, is to determine expected revenues for business planning purposes. The primary emphasis of the "revenue" forecasting process is the estimate of the Company's gross margin, which is that portion of revenues excluding purchased gas costs. Purchased gas costs, which

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[1] Order, Kentucky Public Service Commission Case No. 2013-00148, 4/22/2014, at 38.

[2] *Id.* at 12.

are recovered through the Company's Gas Cost Adjustment ("GCA") mechanism, are calculated only as a final step in the process, to forecast gross revenues.

Revenue forecasting is an essential element of Atmos Energy's financial planning and affects our level of operating and maintenance expenses, capital investment, and cash flow requirements.

Q. WHAT TYPES OF FACTORS ARE CONSIDERED IN ATMOS ENERGY'S REVENUE AND GROWTH FORECASTING PROCESS?

A. The forecast process can be segregated into two primary steps. The first step is an analysis of revenue trends over recent years to determine a baseline reference. The second step is consideration of factors and issues expected to affect the budget period.

First, the analysis of historical revenue trends quantifies the net customer additions and Mcf requirements, by customer class. Using heating degree day ("HDD") data for the respective periods, the Mcf requirements are "weather-normalized" for each customer class. The HDD is a measure of the difference between average daily temperature and a 65 degree Fahrenheit base. Upon completing the analysis of historic data, customer growth and class usage trends may be identified.

Second, consideration is given to any factors that could either continue or alter historical trends. These factors include, but are not limited to: gas supply price outlook and consideration of its impact on the market, changing local economic conditions that could influence customer growth and major industrial additions or plant closings.

Considered individually, these factors may have either a positive or negative effect upon forecasted revenue streams.

Q. WHAT TIME PERIOD TYPICALLY FORMS THE BASIS FOR REVENUE AND VOLUME FORECASTS?

A. Forecasts are typically prepared for Atmos Energy's fiscal year, which runs from October 1 to the following September 30.

Q. WHAT IS THE BASE PERIOD FOR THIS CASE?

A. The base period is March 2015 through February 2016.

Q. WHAT IS THE FORECASTED TEST PERIOD FOR THIS CASE?

A. The forecasted test period for this case is June 1, 2016 to May 31, 2017. This period is largely determined by the date of our filing.

Q. DID THE COMPANY UTILIZE ITS TYPICAL REVENUE BUDGETING PROCESS TO DEVELOP THE BASE PERIOD AND FORECASTED TEST PERIOD REVENUES?

A. No. Although the simple two-step process of historical review and consideration of forward-looking factors is the same, the annual budget process is not developed at the level necessary for determining rate design billing determinants. For example, the typical annual revenue budget is based upon financial statistics reported to the customer class level; not to the rate classification / billing block level of detail. In order to build rate case quality billing data, Atmos Energy produced bill frequency reports to isolate correct determinants of bills rendered and volumes delivered by customer class as well as by rate classification for the 12-month period ending August 31, 2015. This 12-month period serves as a "reference period" to be normalized and upon which forward-looking adjustments may be applied, ultimately resulting in a forecast of billing determinants for the test year period of June 1, 2016 to May 31, 2017.

Q. IS THE PROCESS FOR DEVELOPING THE BASE PERIOD AND FORECASTED TEST PERIOD REVENUES THE SAME AS PRIOR RATE CASE FILINGS?

A. Yes. And it is notable that the Commission found the Company's revenue forecast in Case No. 2013-00148 to be reasonable and accepted the normalized base-rate revenues without adjustment.[3]

Q. HOW WAS THE DATA FOR THE REFERENCE PERIOD GATHERED?

A. The unadjusted data for the reference period reflects the actual billing units and margins for all services during the twelve months ending August 31, 2015. This data was gathered from billing system reports for that period. Exhibit GLS-1

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[3] *Id.*

attached hereto provides the actual monthly billing units and volumes by class of service for the reference period ending August 31, 2015.

Q. WHAT STEPS WERE TAKEN TO FORECAST THE FUTURE TEST YEAR FROM THE BASELINE REFERENCE PERIOD?

A. First, the Company assessed appropriate pro-forma adjustments to the reference period to: 1) reflect known and measurable service contract changes, load changes, new industries and industry closings, and 2) adjust firm residential, commercial and public authority volumes to correlate to normal HDD's.

Then, forward-looking adjustments were considered to account for: 1) net customer growth or losses, and 2) changes in firm residential, commercial and public authority classes attributable to long-standing conservation and energy efficiency trends.

A summary of annualized adjustments for each of these steps is shown on Exhibit GLS-2 attached hereto.

Q. PLEASE DESCRIBE THE ADJUSTMENTS TO THE REFERENCE PERIOD, INCLUDING KEY ASSUMPTIONS, FOR INDUSTRIAL SALES AND TRANSPORTATION SERVICES.

A. Historical volume requirements for each transportation customer were reviewed, with adjustments made to account for expected changes by service type for future periods. For example, usage for a new industrial customer added midway through the reference period would not be representative of its forecast test period requirements. In this case, the customer's volumes would need to be "annualized" to reflect usage throughout the full twelve months. Adjustments were also made for industry closings, expansions or reductions, and contract changes altering a customer's service type or rate schedule. These adjustments ensured that known and measurable changes in industrial sales and transportation were reflected in our test period forecast. Exhibit GLS-3 attached hereto summarizes the annualized impact of industrial contract and volume changes, by service type.

Q. PLEASE DESCRIBE THE PROCESS EMPLOYED TO DETERMINE THE ADJUSTMENT FOR WEATHER VARIANCES DURING THE REFERENCE PERIOD.

A. Adjusting for variances from normal weather is a common practice. The methodology for determining composite degree days was based on a process instituted originally in Case No. 1999-070, with the composite calculated weighting weather data from Paducah, Lexington and Louisville, KY, Evansville, IN and Nashville, TN. The composite normal heating degree days were based upon the same weighting of the five weather stations, applying the National Oceanic and Atmospheric Administration ("NOAA") HDD data averages for the ten-year period ending August 31, 2015. Traditionally, the Company has employed 30-year NOAA HDDs as the basis for normal weather. In this Case, however, the Company has chosen a 10-year average HDD basis based on analysis required in the Commission Order in Case No. 2013-00148.[4] Later, my testimony will describe this analysis. Exhibit GLS-4 attached hereto summarizes the monthly weather adjustment to the reference period resulting from the 8.2% colder than normal period. Exhibit GLS-4 also provides details of the calculations of the respective weather adjustment for the weather sensitive residential, commercial and public authority classes.

Q. HOW ARE WEATHER NORMALIZATION ADJUSTMENT ("WNA") TARIFF REVENUES FACTORED INTO THE WEATHER ADJUSTMENT?

A. For this purpose, WNA revenues are ignored. The weather adjustment calculates the normalized volumes associated with normal weather, which will be priced out to demonstrate weather normalized revenues. Actual WNA revenues compensate for only a portion of those variances; those occurring during the WNA billing months of November 1 through April 30 each winter. The weather adjustment in this Case is intended to normalize the entire 12 month period.

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[4] *See id.*

Q. PLEASE DESCRIBE IN DETAIL THE HISTORICAL DATA CONSIDERED IN THE REVENUE AND VOLUME FORECASTING PROCESS.

A. To assess key historical trends necessary for the forecast, financial statistics for ten years were analyzed, noting the numbers of active customers served during that time and the total volumetric requirements by customer class. Actual sales volumes each year were adjusted for variances from normal weather, based on the current HDD composite and normal basis.

Based on the historical data, trends were noted for the customer count, net annual growth and weather normalized adjusted volumes per customer for residential, commercial and public authority classes.

Q. PLEASE DISCUSS THE HISTORICAL TRENDS OBSERVED AND THE ASSUMPTIONS USED IN THE DEVELOPMENT OF THE FORECAST TEST PERIOD BUDGET STARTING WITH NET CUSTOMER GROWTH.

A. Based on the net average annual customer growth over the past three years, I forecasted residential customer growth of 400 per year. Based on the same analysis of commercial and public authority classes, I forecasted zero net commercial and public authority customer changes from the reference period to the test year.

Q. WHAT IS THE ASSUMPTION FOR FUTURE DECLINING USE TRENDS AS IT RELATES TO THE TEST YEAR?

A. In Case 1999-070 and in subsequent cases, Atmos Energy noted the long-standing trend of declining customer usage. The trend-line for the past ten years, however, shows no apparent further decline in average customer usage. Therefore, I have not forecasted a decline in residential, commercial or public authority sales usage in this Case.

Q. WHAT WERE THE ASSUMPTIONS FOR SERVICE CHARGES AND THE LATE PAYMENT FEES?

A. I forecasted the transaction-based service charges to remain flat, equal to the experience in the twelve month reference period ending August 2015.

Late payment fees were first adopted in Case No. 1999-070, beginning in mid-2000. Since that time, I have observed that late payment fee revenue is proportionate to the total revenues billed for residential, commercial and public authority classes. Based upon the correlation for the past few years, I estimated late payment fees at a ratio equal to 0.80% of the total projected residential, commercial and public authority class revenues.

Q. HOW WERE GAS COSTS PROJECTED FOR THE TEST YEAR?

A. Based upon the sales volumes projected, projected gas supply prices as stated in current NYMEX futures, and applying the Company's seasonal plans for storage injections and withdrawals, I modeled the forward periods to estimate the gas costs to be recovered through future GCAs. This method was first created in conjunction with Case No. 1999-070, and has been refined over time to simulate interstate pipeline demand and commodity costs, retention and other items recoverable through the GCA. This model was also utilized in the determination of storage cost balances for forward periods.

Q. IS THE FORECASTING PROCESS YOU HAVE DESCRIBED THE BEST METHOD TO USE FOR THE DEVELOPMENT OF THE TEST YEAR VOLUME AND REVENUE FORECAST IN THIS CASE?

A. Yes. The method of developing the forecast ensures a solid bridge of logical and measurable adjustments, building upon the actual performance of a recent, reference period. This forecasting process has been employed in prior Kentucky cases and, in Case No. 2013-00148, was found by the Commission to be reasonable and accepted the normalized base-rate revenues without adjustment.[5]

Exhibit GLS-2 attached hereto summarizes each step of the process and applies current rates to the derived billing determinants. Exhibit GLS-5 summarizes the billing determinants for each month of the test year.

Q. PLEASE DESCRIBE EXHIBITS GLS-6 AND GLS-7.

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[5] *Id.*

A. Company witness Mark A. Martin designed the tariff rates to produce the revenue requirement sought by the Company in this Case. Exhibit GLS-6 replicates Exhibit GLS-2, walking forward each set of adjustments from reference period billing determinants to those forecast for the test period, except at the Company's proposed tariff rates. Exhibit GLS-7 summarizes the billing determinants for each month of the test year, and applies the proposed rates.

IV. EVALUATION OF SPECIAL CONTRACT RATES

Q. PLEASE DESCRIBE THE COMMISSION'S REQUIRED ANALYSIS OF EXISTING SPECIAL CONTRACTS.

A. In Case No. 2013-00148, the Commission required that Atmos Energy internally conduct and maintain studies, analyses and quantifications that demonstrate the threat of bypass by each of its special-contract customers.[6] Further, the Company should verify that the special contract rates continue to generate sufficient revenue to cover variable costs and contribute to fixed costs.[7]

Q. HAS THE COMPANY COMPLETED THE REQUIRED INTERNAL ANALYSIS OF THESE SPECIAL CONTRACTS?

A. Yes.

Q. BEFORE DISCUSSION OF THE RESULTS OF THE COMPANY'S INTERNAL ANALYSIS, PLEASE REVIEW THE ORIGINS OF THESE SPECIAL CONTRACTS.

A. Beginning in the mid-1980's, the Federal Energy Regulatory Commission ("FERC") began to direct interstate pipelines to transform from their traditional bundled merchant sales role toward unbundled transport common carriers. A consequence of these FERC Orders created an opportunity for large industrial

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[6] *Id.* at 38.
[7] *Id.*

customers to bypass their local utility and receive service directly from the interstate pipeline.

The Company, then known as Western Kentucky Gas, began to receive threats from certain customers that they were strongly considering construction of facilities to bypass our transportation service. As the Company worked with these few initial customer inquiries, we found that their avoidance of our tariff transportation rates could fund the complete bypass facilities with a payback of well less than one year in several instances. By the end of the decade, the Company had entered into its first special contracts with negotiated rates under which the customers agreed not to bypass the Company's service throughout the term of the Service Agreement. Since these rates varied from the Company's published tariff, Commission approval was required before the special contracts could become effective.

The threat of bypass in certain instances remains today, and the Company now has 17 special contracts in effect.

Q. WHAT WAS YOUR ROLE WITH THE COMPANY DURING THE MID- TO LATE 1990's?

A. From 1991 to 1997, I directed the industrial marketing efforts for Kentucky operations and, thereafter I served in the role of Vice President of Marketing.

Q. DESCRIBE HOW THE COMPANY DETERMINED THE PRICING IN THE SPECIAL CONTRACTS.

A. In all of these negotiations, the Company strived to maximize the revenue that can reasonably be derived under each contract. Through discussions with the customer and with internal analysis of their unique circumstances, we could assess the economic viability of their threat. It was important to understand the economic viability of bypass in each instance, but that did not alter our desire to maximize the revenue we could achieve in exchange for their commitment to continue to exclusively utilize our transportation services.

Q. DESPITE THE EFFORTS TO RETAIN THESE COMPETITIVELY SITUATED CUSTOMERS, HAS THERE BEEN ANY INSTANCES OF BYPASS OF THE COMPANY'S SYSTEM?

A. Yes. I am aware of at least two instances where we were unable to dissuade customers from constructing facilities to bypass our system. Additionally, I am aware of one prospective customer that was constructing a new facility near our system that chose to construct bypass facilities prior to initiating their new operation.

Q. HAS THE COMPANY BEEN ABLE TO ATTRACT ANY OF THOSE BYPASS CUSTOMERS BACK TO ITS TRANSPORTATION SERVICE?

A. No. Once bypass facilities are installed, it is very difficult to compete to restore the Company's transportation services to those former customers and the revenues associated with those customers.

Q. PLEASE DESCRIBE THE PROCESS EMPLOYED TO GAIN COMMISSION ACCEPTANCE OF THE SPECIAL CONTRACTS.

A. As stated previously the special contracts required Commission approval and became effective only with the review and acceptance by the Commission.

Each special contract was filed with the Commission, along with supporting information to enable the review and determination that the special contract was reasonable. Due to the highly sensitive competitive information contained in the contract, the Company filed a Petition for Confidentiality in each instance with the confidential information redacted in the public copy. Typically, confirmation of Commission acceptance was in the form of a stamped acceptance and often an accompanying letter from the Tariff Branch of the Commission. These are in essence tariffs accepted by the Commission unique to each of these customers.

Q. PLEASE DESCRIBE THE COMPANY'S INTERNAL ANALYSIS OF THESE SPECIAL CONTRACTS?

A. For each of the 17 existing special contract customers, the Company verified that special contract rates continue to generate sufficient revenue to cover variable costs and contribute to fixed system costs that would otherwise be borne by tariff customers.

Additionally, the Company developed an estimate for the cost of facilities the customer would encounter to bypass Atmos Energy's distribution system. A reasonable pipeline route and interstate pipeline tap location was developed. Construction costs were estimated based upon recent Company projects. Based merely upon these higher installed cost estimates, the Company determined that, in most cases, a higher than current rate could be justified and still dissuade their financial motivation to bypass our services and charges. The Company has provided contract termination notice to several special contract customers to open negotiations of a renewal rate for a potential replacement contract.

Q. HAS THE COMPANY PROVIDED SUCH TERMINATION NOTICE TO ALL OF THE SPECIAL CONTRACT CUSTOMERS?

A. No. Each contract has unique notice periods for either party to suspend the year-to-year extension under terms of the Service Agreement between the Company and the customer. In those cases where our bypass facilities estimates indicate a potential opportunity for a rate increase and where the notice window has been available, the Company has provided termination notice to open rate negotiations.

Q. WHAT HAVE BEEN THE RESULTS OF THESE INDIVIDUAL CUSTOMER NEGOTIATIONS?

A. In two instances, we believe the competitive option for the customer to justify bypass of our service, at rates lower than tariff, no longer exists. For both of these customers, their current operations have dramatically reduced natural gas requirements compared to the past. These customers will revert to tariff rate.

In other cases, we have presented the customer with our information related to the costs of constructing bypass facilities and have actively engaged with the customer to negotiate a mutually agreeable rate and terms of service.

Q. ARE THERE SOME SPECIAL CONTRACT CUSTOMERS THAT HAVE NOT BEEN SERVED A TERMINATION NOTICE?

A. Yes. The Company has determined that there is insufficient cause to re-open the special contract rates with four customers. With another four customers, either the Company is awaiting the next notice window to open in their Service Agreement or meaningful negotiations have not yet commenced.

Q. HOW HAS THE COMPANY ACCOUNTED FOR POTENTIAL RATE INCREASES TO SPECIAL CONTRACT CUSTOMERS IN THIS RATE CASE FILING?

A. I have estimated revenue for "Special Contract Reformations", as shown on Line 26 on Exhibits GLS-2 and GLS-6, to reflect annualized increases for affected Special Contracts. On an individual customer basis, I have estimated a renewal rate. In many cases, the estimated renewal rate is based upon ongoing negotiations with the specific customer. In other cases, where negotiations are inconclusive or not yet underway, my estimate is based upon experiences gained thus far with other customer negotiations.

I am also proposing to update and refine the estimate for "Special Contract Reformations" during this Case as replacement contracts are implemented.

VI. COMPARISON OF NORMAL WEATHER BASES

Q. PLEASE DESCRIBE THE COMMISSION'S REQUIRED COMPARISON OF NORMAL WEATHER BASIS TIME PERIODS.

A. In Case No. 2013-00148, the Commission required the Company, in its next rate case, to file a comparison of weather normalization methodologies using time periods including, but not limited to, 20, 25, and 30 years in length.[8] Furthermore, along with its comparison of results, the Company should include support for the time period it proposes to use to normalize revenues.[9]

The Order also stated that, with regard to weather normalization methodology to be used in future rate proceedings, the Commission finds that Atmos Energy should use the most recent temperature data available.[10]

Q. HAS THE COMPANY COMPLETED THE REQUIRED COMPARISON OF NORMAL WEATHER BASES?

A. Yes. The summary of the comparison of alternative normal HDD bases is attached as Exhibit GLS-8.

Q. PLEASE DESCRIBE THE ANALYSIS PERFORMED BY THE COMPANY.

A. I compiled sixty years of HDD data from NOAA for weather stations used in rate cases for weather normalization of billing determinants and in the WNA tariff.

Then, I took the last ten years (2005-2014) and modeled "what-if" we had employed various means of calculating normal HDDs entering into that decade. If we had defined normal HDDs as the average of the prior 10 years (1995-2004), 20 years (1985-2004), 25 years (1980-2004) or 30 years (1975-2004), which basis

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[8] *Id.* at 12.
[9] *Id.*
[10] *Id.*

would have been most "predictive" of the period from 2005-2014. This same exercise was performed for the periods of 1995-2004 and 1985-1994.

Q. WHAT WAS THE RESULT OF THE ANALYSIS OF NORMAL WEATHER DEFINITION ALTERNATIVES?

A. I observed that use of a ten-year average for defining normal HDDs produced the best overall results. Further, as mentioned previously in my testimony, the Company is employing the ten-year average of actual HDDs as the definition of normal HDDs in this Case and in its WNA tariff going forward.

Q. DOES THE COMPANY USE THE TEN YEAR AVERAGE OF ACTUAL HDDs AS ITS BASIS FOR NORMAL HDDs IN ANY OTHER JURISDICTIONS?

A. Yes. The Company employs the 10-year average method throughout its Texas divisions, which represents more than half of Atmos Energy's entire customer base.

VI. CONCLUSION

Q. DO YOU BELIEVE THAT THE FORECASTS YOU HAVE PREPARED AND PRESENTED FOR TEST PERIOD REVENUE REPRESENT THE MOST REASONABLE BASIS FOR THE SETTING OF RATES IN THIS PROCEEDING?

A. Yes. These are the best estimates we have of Atmos Energy's future revenues and volumes and I believe these are the projections to be relied upon in the setting of rates.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF)
RATE APPLICATION OF) Case No. 2015-00343
ATMOS ENERGY CORPORATION)

CERTIFICATE AND AFFIDAVIT

The Affiant, Gary L. Smith, being duly sworn, deposes and states that the prepared testimony attached hereto and made a part hereof, constitutes the prepared direct testimony of this affiant in Case No. 2015-00343, in the Matter of the Rate Application of Atmos Energy Corporation, and that if asked the questions propounded therein, this affiant would make the answers set forth in the attached prepared direct pre-filed testimony.

Gary L. Smith

STATE OF Texas
COUNTY OF Dallas

SUBSCRIBED AND SWORN to before me by Gary L. Smith on this the 16th day of November, 2015.

Pamela L. Perry
Notary Public
My Commission Expires: 10-29-16

PAMELA L. PERRY
My Commission Expires
October 29, 2016

EXHIBIT GLS-1

ATMOS ENERGY CORPORATION - KENTUCKY
BILL FREQUENCY DATA
Reference Period - Twelve Months Ending 08/31/2015

Line No.	Class of Customers	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Number Of Bills	Mcf	Rate	Total Revenue
		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(n)	(o)	(p)
1	RESIDENTIAL (Rate G-1)																
2	FIRM BILLS	151,012	152,519	152,394	157,920	157,873	141,181	175,369	158,239	156,709	156,293	154,293	151,835	1,865,637		$18.65	$34,794,130
3	Sales: 1-300	172,952	237,170	872,329	1,632,377	2,213,489	1,817,295	2,409,615	840,794	329,076	196,517	157,912	174,979		11,054,506	1.3180	14,569,839
4	Sales: 301-15000	52	1,321	313	91	223	210	152	110	0	0	271	0		2,743	0.8800	2,414
5	Sales: Over 15000	0	0	0	0	0	0	0	0	0	0	0	0		0	0.6200	0
6	CLASS TOTAL (Mcf/month)	173,004	238,492	872,642	1,632,468	2,213,712	1,817,504	2,409,768	840,904	329,076	196,517	158,183	174,979	1,865,637	11,057,249		$49,366,383
7																	
8	FIRM COMMERCIAL (Rate G-1)																
9	FIRM BILLS	16,763	16,900	16,920	17,698	17,809	16,330	19,213	17,745	17,372	17,239	17,099	16,768	207,856		48.44	$10,068,545
10	Sales: 1-300	144,788	166,489	350,892	624,545	846,416	737,312	874,770	354,979	173,190	137,404	129,448	140,182		4,680,415	1.3180	6,168,787
11	Sales: 301-15000	37,810	72,797	39,604	77,850	126,411	104,750	129,382	45,142	24,770	12,567	11,533	20,636		703,252	0.8800	618,861
12	Sales: Over 15000	0	0	0	0	0	0	0	0	0	0	0	0		0	0.6200	0
13	CLASS TOTAL (Mcf/month)	182,599	239,286	390,496	702,395	972,827	842,062	1,004,152	400,122	197,960	149,971	140,981	160,817	207,856	5,383,667		$16,856,193
14																	
15	FIRM INDUSTRIAL (Rate G-1)																
16	FIRM BILLS	189	195	181	200	201	169	234	197	193	205	193	211	2,368		$48.44	$114,706
17	Sales: 1-300	10,402	11,649	22,690	36,089	42,580	34,344	51,216	24,163	13,009	9,590	8,582	11,303		275,616	1.3180	363,262
18	Sales: 301-15000	9,910	7,278	19,648	46,087	66,501	54,557	81,451	20,128	5,983	5,630	4,040	10,301		331,513	0.8800	291,732
19	Sales: Over 15000	0	0	0	0	0	0	0	0	0	0	0	0		0	0.6200	0
20	CLASS TOTAL (Mcf/month)	20,311	18,927	42,338	82,176	109,081	88,901	132,667	44,291	18,993	15,220	12,622	21,603	2,368	607,130		$769,700
21																	
22	FIRM PUBLIC AUTHORITY (Rate G-1)																
23	FIRM BILLS	1,544	1,572	1,520	1,559	1,567	1,378	1,769	1,555	1,550	1,563	1,563	1,507	18,647		$48.44	$903,261
24	Sales: 1-300	28,081	34,565	73,109	123,433	153,800	130,234	166,998	74,352	39,503	25,577	21,534	22,693		893,878	1.3180	1,178,131
25	Sales: 301-15000	6,164	9,210	12,694	30,471	55,794	46,472	59,830	13,558	10,528	5,196	4,330	6,313		260,560	0.8800	229,292
26	Sales: Over 15000	0	0	0	0	0	0	0	0	0	0	0	0		0	0.6200	0
27	CLASS TOTAL (Mcf/month)	34,244	43,775	85,803	153,904	209,594	176,706	226,829	87,909	50,031	30,773	25,864	29,006	18,647	1,154,437		$2,310,684
28																	
29	INTERRUPTIBLE COMMERCIAL (G-2)																
30	INT BILLS	2	2	2	3	4	3	3	4	2	2	2	2	31		395.56	$12,262
31	Sales: 1-15000	29	70	230	2,682	2,691	2,484	3,118	1,729	52	21	8	26		13,140	0.8077	10,613
32	Sales: Over 15000	0	0	0	0	0	0	0	0	0	0	0	0		0	0.5419	0
33	CLASS TOTAL (Mcf/month)	29	70	230	2,682	2,691	2,484	3,118	1,729	52	21	8	26	31	13,140		$22,876
34																	
35	INTERRUPTIBLE INDUSTRIAL (G-2)																
36	INT BILLS	6	9	9	7	10	8	8	9	7	7	7	7	94		395.56	$37,183
37	Sales: 1-15000	15,017	31,795	16,457	22,605	27,711	20,932	36,094	24,263	36,729	34,982	17,219	19,609		303,412	0.8077	245,066
38	Sales: Over 15000	7,136	8,448	8,601	19,200	21,796	14,010	27,298	13,323	18,015	11,102	7,297	0		156,226	0.5419	84,659
39	CLASS TOTAL (Mcf/month)	22,153	40,243	25,058	41,805	49,507	34,942	63,392	37,586	54,744	46,084	24,516	19,609	94	459,638		$366,907
40																	
41	TRANSPORTATION (T-4)																
42	TRANSPORTATION BILLS	120	120	121	121	121	121	121	121	121	121	121	122	1,451		390.12	$566,064
43	Trans Admin Fee	$5,900	$5,900	$5,950	$5,950	$5,950	$5,950	$5,950	$5,950	$5,950	$5,950	$5,950	$6,000				71,350
44	EFM Fee	$5,800	$5,800	$5,900	$5,900	$5,900	$5,900	$5,900	$5,925	$5,925	$6,025	$6,025	$6,125				71,125
45	Parking Fee	$40	$42	$116	$143	$174	$183	$70	$23	$26	$31	$34	$31				913
46	Firm Transport: 1-300	33,711	35,271	36,144	36,130	36,300	36,300	36,300	35,371	34,654	33,536	33,219	33,887		420,823	1.4401	606,027
47	Firm Transport: 301-15000	377,286	435,433	539,586	547,372	630,421	627,283	545,221	424,456	394,775	377,983	365,566	381,547		5,646,929	0.9615	5,429,522
48	Firm Transport: Over 15000	82,133	100,216	114,550	118,547	159,398	147,487	114,386	79,183	68,092	65,829	74,931	67,026		1,191,778	0.6774	807,310
49	CLASS TOTAL (Mcf/month)	493,130	570,920	690,280	702,049	826,119	811,070	695,907	539,010	497,521	477,348	473,716	482,460	1,451	7,259,530		$7,552,312
50																	
51	ECONOMIC DEV RIDER (EDR)																
52	Firm Transport: 1-300	0	0	0	0	0	0	0	0	0	0	0	0		0	0.9885	$0
53	Firm Transport: 301-15000	0	0	0	0	0	0	0	0	0	0	0	0		0	0.6600	0
54	Firm Transport: Over 15000	0	0	0	0	11,941	7,797	12,256	14,323	13,135	11,917	10,559	10,845		92773	0.4650	43,139
55	CLASS TOTAL (Mcf/month)	0	0	0	0	11,941	7,797	12,256	14,323	13,135	11,917	10,559	10,845		92773		$43,139
56																	

57	TRANSPORTATION (T-3)																
58	TRANSPORTATION BILLS	69	69	69	69	69	70	70	70	70	69	69	70	833		388.79	$323,862
59	Trans Admin Fee	$3,450	$3,450	$3,450	$3,450	$3,450	$3,500	$3,500	$3,500	$3,500	$3,450	$3,450	$3,500				41,650
60	EFM Fee	$3,050	$3,150	$3,150	$3,150	$3,150	$3,250	$3,250	$3,250	$3,525	$3,350	$3,500	$3,600				39,375
61	Parking Fee	$346	$318	$282	$379	$323	$227	$303	$315	$248	$402	$230	$311				3,684
62	Interrupt Transport: 1-15000	383,113	438,287	453,188	456,921	457,478	443,700	443,522	429,100	416,119	406,060	369,087	397,892		5,094,467	0.8770	4,467,848
63	Interrupt Transport: Over 15000	180,121	225,209	234,740	232,537	282,676	241,360	262,807	188,680	193,844	172,643	173,313	210,564		2,598,494	0.5884	1,528,954
64	CLASS TOTAL (Mcf/month)	563,234	663,496	687,928	689,458	740,154	685,060	706,329	617,780	609,963	578,703	542,400	608,456	833	7,692,961		$6,405,372
65																	
66	SPECIAL CONTRACTS	$120,409															
67	TRANSPORTATION BILLS	17	17	17	17	17	17	17	17	17	17	17	17	204		350.00	$71,400
68	Trans Admin Fee	$850	$850	$850	$850	$850	$850	$850	$850	$850	$850	$850	$850				10,200
69	EFM Fee	$850	$850	$850	$850	$850	$850	$850	$850	$850	$850	$850	$850				10,200
70	Parking / Pooling Fees	$5,303	$4,010	$11,880	$13,348	$9,688	$7,008	$8,231	$4,601	$8,005	$7,315	$4,248	$8,167				91,803
71	Transported Volumes	1,163,394	1,252,290	1,301,966	1,320,251	1,381,425	1,291,172	1,364,999	1,289,881	1,279,436	1,147,590	1,255,199	1,330,081		15,377,684	Various	
72	Charges for Transport Volumes	$113,406	$121,788	$127,479	$127,889	$138,552	$134,255	$133,160	$127,851	$122,523	$113,788	$119,249	$123,501				1,503,442
73	CLASS TOTAL (Mcf/month)	1,163,394	1,252,290	1,301,966	1,320,251	1,381,425	1,291,172	1,364,999	1,289,881	1,279,436	1,147,590	1,255,199	1,330,081	204	15,377,684		$1,687,045

EXHIBIT GLS-2

ATMOS ENERGY CORPORATION - KENTUCKY
SUMMARY OF REVENUE AT PRESENT RATES
TEST YEAR ENDING MAY, 31 2017

			Reference Period - Twelve Months Ending 08/31/2015					Forward-looking Adjustments To Test Year				
Line No.	Description	Block (Mcf)	Number of Bills, Units	Volumes As Metered	Contract Adj. Bills and Volumes	Weather Adj. Volumes (NOAA 2005-2015)	Total Volumes	Customer Growth Forecast	Conservation & Efficiency Adjustments	Total Test Year Volumes	Present Margin	Present Revenue
			(a)	(b)	(c)	(d)	(e)	(f)	(g)	(i)	(j)	(k)
1	Sales											
2	Firm Sales (G-1)	Customer Chrg	1,865,637					8,400			$18.65	$34,950,790
3		Customer Chrg	228,871		(2)						48.44	11,086,414
4		0 - 300		16,904,416	2,143	(1,064,447)	15,842,112	51,505	0	15,893,617	1.3180	20,947,787
5		301 - 15,000		1,298,067	(3,225)	(68,733)	1,226,109	0	0	1,226,109	0.8800	1,078,976
6		Over 15,000		0	0	0	0	0	0	-	0.6200	0
7	Interruptible Sales (G-2)	Customer Chrg	125		12						395.56	54,192
8		0 - 15,000		316,552	(11,394)		305,158			305,158	0.8077	246,476
9		Over 15,000		156,226	(132,606)		23,620			23,620	0.5419	12,800
10												
11	Transportation											
12	Customer Charges (T-4)	Customer Chrg	1,451		25						390.12	575,817
13	Customer Charges (T-3)	Customer Chrg	833		19						388.79	331,249
14	Customer Charges (SpK)	Customer Chrg	204		(24)						350.00	63,000
15	Transp. Adm. Fee	Customer Chrg	2,464		20						50.00	124,200
16	Parked Volumes [1]			963,991	0						0.10	96,399
17	EFM Charges										Various	122,200
18	Firm Transportation (T-4)	0 - 300		420,823	7,787		428,610			428,610	1.4401	617,241
19		301 - 15,000		5,646,929	154,293		5,801,222			5,801,222	0.9615	5,577,875
20		Over 15,000		1,191,778	(49,741)		1,142,037			1,142,037	0.6774	773,616
21	Economic Dev Rider (EDR)	301 - 15,000		0	13,254		13,254			13,254	0.6600	8,748
22		Over 15,000		92,773	97,741		190,514			190,514	0.4650	88,589
23	Interruptible Transportation (T-3)	0 - 15,000		5,094,467	287,624		5,382,091			5,382,091	0.8770	4,720,094
24		Over 15,000		2,598,494	64,284		2,662,778			2,662,778	0.5884	1,566,779
25	Total Special Contracts [2]			15,377,684	(996,628)		14,381,056			14,381,056	Various	1,456,880
26	Special Contract Reformations										Various	989,646
27	Total Tariff		2,097,121	49,098,209	(566,468)	(1,133,180)	47,398,561	59,905	0	47,450,066		85,489,767
28												
29	Other Revenues											795,825
30	Late Payment Fees											1,140,887
31	Total Gross Profit											87,426,480
32												
33	Gas Costs											79,378,177
34												
35	Total Revenue											$ 166,804,656
36												
37	[1] Parked Volumes not included in Total Deliveries.											
38	[2] Based on confidential information.											

EXHIBIT GLS-3

ATMOS ENERGY CORPORATION - KENTUCKY
VOLUME AND CONTRACT ADJUSTMENTS
Reference Period - Twelve Months Ending 08/31/2015

Line No.	Class of Customers	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Number Of Bills	Mcf	Rate	Total Revenue
		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(n)	(o)	(p)
1	RESIDENTIAL (Rate G-1)																
2	FIRM BILLS													0		$18.65	$0
3	Sales: 1-300	52	1,321	313	91	223	210	152	110	0	0	271	0		2,743	1.3180	3,615
4	Sales: 301-15000	(52)	(1,321)	(313)	(91)	(223)	(210)	(152)	(110)	0	0	(271)	0		(2,743)	0.8800	(2,414)
5	Sales: Over 15000						0								0	0.6200	0
6	CLASS TOTAL (Mcf/month)	0	0	0	0	0	0	0	0	0	0	0	0	0	0		$1,201
7																	
8	FIRM COMMERCIAL (Rate G-1)																
9	FIRM BILLS															48.44	$0
10	Sales: 1-300															1.3180	0
11	Sales: 301-15000															0.8800	0
12	Sales: Over 15000															0.6200	0
13	CLASS TOTAL (Mcf/month)	0	0	0	0	0	0	0	0	0	0	0	0	0	0		$0
14																	
15	FIRM INDUSTRIAL (Rate G-1)																
16	FIRM BILLS	(1)	(1)	0	0	0	0	0	0	0	0	0	0	(2)		48.44	($97)
17	Sales: 1-300	(300)	(300)	0	0	0	0	0	0	0	0	0	0		(600)	1.3180	(791)
18	Sales: 301-15000	(294)	(188)	0	0	0	0	0	0	0	0	0	0		(482)	0.8800	(424)
19	Sales: Over 15000	0	0	0	0	0	0	0	0	0	0	0	0		0	0.6200	0
20	CLASS TOTAL (Mcf/month)	(594)	(488)	0	0	0	0	0	0	0	0	0	0	(2)	(1,082)		($1,312)
21																	
22	FIRM PUBLIC AUTHORITY (Rate G-1)																
23	FIRM BILLS													0		48.44	$0
24	Sales: 1-300														0	1.3180	0
25	Sales: 301-15000														0	0.8800	0
26	Sales: Over 15000														0	0.6200	0
27	CLASS TOTAL (Mcf/month)	0	0	0	0	0	0	0	0	0	0	0	0	0	0		$0
28																	
29	INTERRUPTIBLE COMMERCIAL (G-2)																
30	INT BILLS													0		395.56	$0
31	Sales: 1-15000														0	0.8077	0
32	Sales: Over 15000														0	0.5419	0
33	CLASS TOTAL (Mcf/month)	0	0	0	0	0	0	0	0	0	0	0	0	0	0		$0
34																	
35	INTERRUPTIBLE INDUSTRIAL (G-2)																
36	INT BILLS	1	1	1	1	1	1	1	1	1	1	1	1	12		395.56	$4,747
37	Sales: 1-15000	(3,864)	(3,552)	(3,399)	0	0	(990)	(1,311)	(677)	3,000	1,102	(703)	(1,000)		(11,394)	0.8077	(9,203)
38	Sales: Over 15000	(7,136)	(8,448)	(8,601)	(17,000)	(18,000)	(14,010)	(11,689)	(13,323)	(16,000)	(11,102)	(7,297)	0		(132,606)	0.5419	(71,869)
39	CLASS TOTAL (Mcf/month)	(11,000)	(12,000)	(12,000)	(17,000)	(18,000)	(15,000)	(13,000)	(14,000)	(13,000)	(10,000)	(8,000)	(1,000)	12	(144,000)		($76,315)

EXHIBIT GLS-3

ATMOS ENERGY CORPORATION - KENTUCKY
VOLUME AND CONTRACT ADJUSTMENTS
Reference Period - Twelve Months Ending 08/31/2015

Line No.	Class of Customers	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Number Of Bills	Mcf	Rate	Total Revenue
		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(n)	(o)	(p)
40																	
41	TRANSPORTATION (T-4)																
42	TRANSPORTATION BILLS	3	3	2	2	2	2	2	2	2	2	2	1	25		390.12	$9,753
43	Trans Admin Fee	$150	$150	$100	$100	$100	$100	$100	$100	$100	$100	$100	$50				1,250
44	EFM Fee	$225	$225	$150	$150	$150	$150	$150	$150	$150	$150	$150	$75				1,875
45	Parking Fee	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0				0
46	Firm Transport: 1-300	900	900	600	600	600	600	600	600	600	600	600	587		7,787	1.4401	11,214
47	Firm Transport: 301-15000	15,174	13,871	9,699	11,315	9,265	8,799	10,200	14,333	15,096	14,813	16,028	15,700		154,293	0.9615	148,353
48	Firm Transport: Over 1500	(8,932)	(9,935)	(12,096)	(8,868)	(4,899)	(5,011)	0	0	0	0	0	0		(49,741)	0.6774	(33,695)
49	CLASS TOTAL (Mcf/month)	7,142	4,836	(1,797)	3,047	4,966	4,388	10,800	14,933	15,696	15,413	16,628	16,287	25	112,339		$138,750
50																	
51	ECONOMIC DEV RIDER (EDR)																
52	Firm Transport: 1-300	0	0	0	0	0	0	0	0	0	0	0	0		0	0.9885	$0
53	Firm Transport: 301-15000	0	0	2,728	2,728	2,728	2,728	2,342	0	0	0	0	0		13,254	0.6600	8,748
54	Firm Transport: Over 15000	12,932	13,935	16,096	12,868	8,899	9,011	4,000	4,000	4,000	4,000	4,000	4,000		97,741	0.4650	45,450
55	CLASS TOTAL (Mcf/month)	12,932	13,935	18,824	15,596	11,627	11,739	6,342	4,000	4,000	4,000	4,000	4,000		110,995		$54,197
56																	
57	TRANSPORTATION (T-3)																
58	TRANSPORTATION BILLS	2	2	2	2	2	1	1	1	1	2	2	1	19		388.79	$7,387
59	Trans Admin Fee	$100	$100	$100	$100	$100	$50	$50	$50	$50	$100	$100	$50				950
60	EFM Fee	$150	$150	$150	$150	$150	$75	$75	$75	$75	$150	$150	$75				1,425
61	Parking Fee	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0				0
62	Interrupt Transport: 1-15000	25,677	28,569	30,520	25,026	27,239	27,316	22,120	22,977	19,912	23,415	19,292	15,561		287,624	0.8770	252,246
63	Interrupt Transport: Over 15000	15,000	4,007	4,000	4,000	4,864	6,136	6,277	4,000	4,000	4,000	4,000	4,000		64,284	0.5884	37,825
64	CLASS TOTAL (Mcf/month)	40,677	32,576	34,520	29,026	32,103	33,452	28,397	26,977	23,912	27,415	23,292	19,561	19	351,908		$299,833
65																	
66	SPECIAL CONTRACTS																
67	TRANSPORTATION BILLS	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(24)		350.00	($8,400)
68	Trans Admin Fee	($100)	($100)	($100)	($100)	($100)	($100)	($100)	($100)	($100)	($100)	($100)	($100)				(1,200)
69	EFM Fee	($150)	($150)	($150)	($150)	($150)	($150)	($150)	($150)	($150)	($150)	($150)	($150)				(1,800)
70	Parking Fee	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0				0
71	Transported Volumes	(42,677)	(90,569)	(88,766)	(55,671)	(24,910)	38,229	(83,077)	(125,001)	(160,917)	(38,416)	(129,292)	(195,561)		(996,628)	Various	
72	Charges for Transport Volumes	71,948	81,005	79,499	87,613	97,349	93,848	79,766	75,807	68,239	70,441	68,484	69,086				943,083
73	CLASS TOTAL (Mcf/month)	(42,677)	(90,569)	(88,766)	(55,671)	(24,910)	38,229	(83,077)	(125,001)	(160,917)	(38,416)	(129,292)	(195,561)	(24)	(996,628)		$931,683

EXHIBIT GLS-4

ATMOS ENERGY CORPORATION - KENTUCKY
WEATHER ADJUSTMENT - BASE NOAA 2005-2015
Reference Period - Twelve Months Ending 08/31/2015

Line No.	Class of Customers	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Number Of Bills	Mcf	Rate	Total Revenue
		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(n)	(o)	(p)
1	RESIDENTIAL (Rate G-1)																
2	FIRM BILLS													0		$18.65	$0
3	Sales: 1-300	(2,812)	98,516	57,252	(19,582)	(318,476)	33,832	(788,181)	61,440	85,860	19,904	9,735	(9,735)		(772,247)	1.3180	(1,017,822)
4	Sales: 301-15000														0	0.8800	0
5	Sales: Over 15000														0	0.6200	0
6	CLASS TOTAL (Mcf/month)	(2,812)	98,516	57,252	(19,582)	(318,476)	33,832	(788,181)	61,440	85,860	19,904	9,735	(9,735)	0	(772,247)		($1,017,822)
7																	
8	FIRM COMMERCIAL (Rate G-1)																
9	FIRM BILLS													0		48.44	$0
10	Sales: 1-300	(24,544)	(15,645)	50,884	17,319	(117,432)	(9,245)	(248,595)	39,066	45,046	19,702	10,461	(9,931)		(242,914)	1.3180	(320,161)
11	Sales: 301-15000	(6,410)	(6,841)	5,743	2,159	(17,538)	(1,313)	(36,768)	4,968	6,442	1,802	932	(1,462)		(48,286)	0.8800	(42,491)
12	Sales: Over 15000														0	0.6200	0
13	CLASS TOTAL (Mcf/month)	(30,954)	(22,486)	56,627	19,478	(134,970)	(10,558)	(285,363)	44,034	51,488	21,504	11,393	(11,393)	0	(291,200)		($362,652)
14																	
15	FIRM PUBLIC AUTHORITY (Rate G-1)																
16	FIRM BILLS													0		-	$0
17	Sales: 1-300	(5,003)	400	9,663	3,680	(17,985)	58	(46,154)	4,877	(104)	1,178	1,724	(1,620)		(49,285)	0.0000	0
18	Sales: 301-15000	(1,098)	107	1,678	909	(6,525)	21	(16,535)	889	(28)	239	347	(451)		(20,448)	0.0000	0
19	Sales: Over 15000														0	0.0000	0
20	CLASS TOTAL (Mcf/month)	(6,101)	507	11,341	4,589	(24,510)	79	(62,689)	5,766	(132)	1,417	2,071	(2,071)	0	(69,733)		$0

EXHIBIT GLS-4

Atmos Energy - Kentucky
Normalization Of Volumes For Weather
Reference Period - Twelve Months Ending 08/31/2015
(Weather Basis: 10-years ending 2015)

Line	Month	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15
		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)
1	Lagged Actual HDDs	8	75	456	723	936	877	902	307	123	31	0	0
2	Lagged Normal HDDs	3	87	389	708	847	933	633	358	121	23	0	0
3	Calendar Normal HDDs	23	235	534	801	923	801	505	216	63	1	0	0
4													
5	<u>RESIDENTIAL (Rate G-1)</u>												
6													
7	Annual Customer Growth												
8	Annual Base Load Decline												
9	Annual Total Load Decline												
10													
11	Actual Constand Load	164,348	165,988	165,852	171,866	171,815	153,649	190,856	172,213	170,548	170,095	167,919	165,244
12	Actual Heat Load	8,656	72,504	706,790	1,460,602	2,041,897	1,663,856	2,218,912	668,691	158,528	26,422	(9,735)	9,735
13	Heat Load / Customer	0.057	0.475	4.638	9.249	12.934	11.785	12.653	4.226	1.012	0.169	(0.063)	0.064
14	Actual X Coefficient	0.0129	0.0129	0.0129	0.0129	0.0129	0.0129	0.0129	0.0129	0.0129	0.0129	0.0129	0.0129
15	Product	0.0387	1.1213	5.0136	9.125	10.9165	12.0249	8.1584	4.6141	1.5595	0.2964	0	0
16	Base Load	1.0883	1.0883	1.0883	1.0883	1.0883	1.0883	1.0883	1.0883	1.0883	1.0883	1.0883	1.0883
17	Normal Usage / Customer	1.1270	2.2096	6.1019	10.2133	12.0048	13.1132	9.2467	5.7024	2.6478	1.3847	1.0883	1.0883
18	No. of Customers	151,012	152,519	152,394	157,920	157,873	141,181	175,369	158,239	156,709	156,293	154,293	151,835
19	Normalized Volumes	170,192	337,008	929,895	1,612,886	1,895,235	1,851,336	1,621,586	902,344	414,936	216,421	167,919	165,244
20	Actual Volumes	173,004	238,492	872,642	1,632,468	2,213,712	1,817,504	2,409,768	840,904	329,076	196,517	158,183	174,979
21	Normalized Volume Including Unbilled	209,113	627,936	1,214,694	1,802,178	2,049,880	1,611,153	1,332,275	612,736	297,792	172,110	167,919	165,244
22	Normalized Calendar Volumes	209,561	629,280	1,217,295	1,806,036	2,054,268	1,614,602	1,335,128	614,048	298,429	172,478	168,278	165,597
23													
24	Weather Adjustment	(2,812)	98,516	57,252	(19,582)	(318,476)	33,832	(788,181)	61,440	85,860	19,904	9,735	(9,735)
25													
26	Tier 1	(2,812)	98,516	57,252	(19,582)	(318,476)	33,832	(788,181)	61,440	85,860	19,904	9,735	(9,735)
27	Tier 2												
28	Tier 3												
29	Total	(2,812)	98,516	57,252	(19,582)	(318,476)	33,832	(788,181)	61,440	85,860	19,904	9,735	(9,735)
30													
31													

EXHIBIT GLS-4

Atmos Energy - Kentucky
Normalization Of Volumes For Weather
Reference Period - Twelve Months Ending 08/31/2015
(Weather Basis: 10-years ending 2015)

Line	Month	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15
		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)
1	Lagged Actual HDDs	8	75	456	723	936	877	902	307	123	31	0	0
2	Lagged Normal HDDs	3	87	389	708	847	933	633	358	121	23	0	0
3	Calendar Normal HDDs	23	235	534	801	923	801	505	216	63	1	0	0
4													
32	FIRM COMMERCIAL (Rate G-1)												
33													
34	Annual Customer Growth												
35	Annual Base Load Decline												
36	Annual Total Load Decline												
37													
38	Actual Constand Load	149,380	150,601	150,779	157,712	158,701	145,521	171,213	158,131	154,807	153,622	152,374	149,425
39	Actual Heat Load	33,219	88,685	239,717	544,683	814,126	696,540	832,939	241,991	43,153	(3,651)	(11,393)	11,393
40	Heat Load / Customer	1.982	5.248	14.168	30.777	45.714	42.654	43.353	13.637	2.484	(0.212)	(0.666)	0.679
41	Actual X Coefficient	0.0450	0.0450	0.0450	0.0450	0.0450	0.0450	0.0450	0.0450	0.0450	0.0450	0.0450	0.0450
42	Product	0.1351	3.9171	17.5144	31.8771	38.1355	42.0075	28.5003	16.1186	5.4479	1.0356	0	0
43	Base Load	8.9113	8.9113	8.9113	8.9113	8.9113	8.9113	8.9113	8.9113	8.9113	8.9113	8.9113	8.9113
44	Normal Usage / Customer	9.0464	12.8284	26.4257	40.7884	47.0468	50.9188	37.4116	25.0299	14.3592	9.9469	8.9113	8.9113
45	No. of Customers	16,763	16,900	16,920	17,698	17,809	16,330	19,213	17,745	17,372	17,239	17,099	16,768
46	Normalized Volumes	151,645	216,800	447,123	721,873	837,856	831,504	718,789	444,155	249,448	171,475	152,374	149,425
47	Actual Volumes	182,599	239,286	390,496	702,395	972,827	842,062	1,004,152	400,122	197,960	149,971	140,981	160,817
48	Normalized Volume Including Unbilled	166,739	329,414	557,585	795,979	898,795	734,452	608,062	330,705	204,083	154,398	152,374	149,425
49	Normalized Calendar Volumes	167,082	330,092	558,732	797,616	900,644	735,963	609,313	331,385	204,503	154,716	152,688	149,732
50													
51	Weather Adjustment	(30,954)	(22,486)	56,627	19,478	(134,970)	(10,558)	(285,363)	44,034	51,488	21,504	11,393	(11,393)
52													
53	Tier 1	(24,544)	(15,645)	50,884	17,319	(117,432)	(9,245)	(248,595)	39,066	45,046	19,702	10,461	(9,931)
54	Tier 2	(6,410)	(6,841)	5,743	2,159	(17,538)	(1,313)	(36,768)	4,968	6,442	1,802	932	(1,462)
55	Tier 3	-	-	-	-	-	-	-	-	-	-	-	-
56	Total	(30,954)	(22,486)	56,627	19,478	(134,970)	(10,558)	(285,363)	44,034	51,488	21,504	11,393	(11,393)
57													
58													

EXHIBIT GLS-4

Atmos Energy - Kentucky
Normalization Of Volumes For Weather
Reference Period - Twelve Months Ending 08/31/2015
(Weather Basis: 10-years ending 2015)

Line	Month	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15
		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)
1	Lagged Actual HDDs	8	75	456	723	936	877	902	307	123	31	0	0
2	Lagged Normal HDDs	3	87	389	708	847	933	633	358	121	23	0	0
3	Calendar Normal HDDs	23	235	534	801	923	801	505	216	63	1	0	0
4													
59	<u>FIRM PUBLIC AUTHORITY (Rate G-1)</u>												
60													
61	Annual Customer Growth												
62	Annual Base Load Decline												
63	Annual Total Load Decline												
64													
65	Actual Constand Load	27,596	28,096	27,167	27,864	28,007	24,629	31,617	27,792	27,703	27,935	27,935	26,934
66	Actual Heat Load	6,649	15,679	58,636	126,040	181,587	152,077	195,212	60,117	22,328	2,838	(2,071)	2,071
67	Heat Load / Customer	4.306	9.974	38.576	80.847	115.882	110.361	110.351	38.660	14.405	1.815	(1.325)	1.374
68	Actual X Coefficient	0.1183	0.1183	0.1183	0.1183	0.1183	0.1183	0.1183	0.1183	0.1183	0.1183	0.1183	0.1183
69	Product	0.355	10.2962	46.0373	83.7902	100.2405	110.4184	74.9141	42.3685	14.3201	2.722	0	0
70	Base Load	17.8729	17.8729	17.8729	17.8729	17.8729	17.8729	17.8729	17.8729	17.8729	17.8729	17.8729	17.8729
71	Normal Usage / Customer	18.2279	28.1691	63.9102	101.6631	118.1134	128.2913	92.7870	60.2414	32.1930	20.5949	17.8729	17.8729
72	No. of Customers	1,544	1,572	1,520	1,559	1,567	1,378	1,769	1,555	1,550	1,563	1,563	1,507
73	Normalized Volumes	28,144	44,282	97,143	158,493	185,084	176,785	164,140	93,675	49,899	32,190	27,935	26,934
74	Actual Volumes	34,244	43,775	85,803	153,904	209,594	176,706	226,829	87,909	50,031	30,773	25,864	29,006
75	Normalized Volume Including Unbilled	31,799	71,816	123,227	175,652	199,178	155,258	137,342	67,543	39,260	28,120	27,935	26,934
76	Normalized Calendar Volumes	31,817	71,859	123,300	175,755	199,296	155,350	137,424	67,583	39,283	28,137	27,952	26,950
77													
78	Weather Adjustment	(6,101)	507	11,341	4,589	(24,510)	79	(62,689)	5,766	(132)	1,417	2,071	(2,071)
79													
80	Tier 1	(5,003)	400	9,663	3,680	(17,985)	58	(46,154)	4,877	(104)	1,178	1,724	(1,620)
81	Tier 2	(1,098)	107	1,678	909	(6,525)	21	(16,535)	889	(28)	239	347	(451)
82	Tier 3	-	-	-	-	-	-	-	-	-	-	-	-
83	Total	(6,101)	507	11,341	4,589	(24,510)	79	(62,689)	5,766	(132)	1,417	2,071	(2,071)

EXHIBIT GLS-5

ATMOS ENERGY CORPORATION - KENTUCKY
BILL FREQUENCY WITH KNOWN & MEASURABLE ADJUSTMENTS
TEST YEAR ENDING MAY, 31 2017
CURRENT RATES

Line No.	Class of Customers	Rate	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Total Billing Units
			(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(l)	(j)	(k)	(l)	(m)
1	RESIDENTIAL (Rate G-1)														
2	FIRM BILLS	$18.65	156,693	154,693	152,235	151,812	153,319	153,194	158,720	158,673	141,981	176,169	159,039	157,509	1,874,037
3	Sales: 1-300	1.3180	216,974	168,354	165,679	171,094	338,775	934,791	1,621,088	1,904,887	1,861,869	1,629,019	906,922	417,054	10,336,507
4	Sales: 301-15000	0.8800	0	0	0	0	0	0	0	0	0	0	0	0	0
5	Sales: Over 15000	0.6200	0	0	0	0	0	0	0	0	0	0	0	0	0
6	CLASS TOTAL (Mcf/month)		216,974	168,354	165,679	171,094	338,775	934,791	1,621,088	1,904,887	1,861,869	1,629,019	906,922	417,054	10,336,507
7	Gas Charge per Mcf		$4.58	$4.58	$4.61	$4.61	$4.61	$4.55	$4.55	$4.55	$4.56	$4.56	$4.56	$4.83	
8	Gas Costs		$992,972	$770,463	$763,593	$788,549	$1,561,372	$4,256,583	$7,381,644	$8,673,924	$8,485,723	$7,424,476	$4,133,419	$2,016,006	$47,248,724
9															
10	FIRM COMMERCIAL (Rate G-1)														
11	FIRM BILLS	48.44	17,239	17,099	16,768	16,763	16,900	16,920	17,698	17,809	16,330	19,213	17,745	17,372	207,856
12	Sales: 1-300	1.3180	157,106	139,909	130,251	120,244	150,844	401,776	641,864	728,984	728,067	626,175	394,045	218,235	4,437,501
13	Sales: 301-15000	0.8800	14,369	12,465	19,174	31,401	65,956	45,347	80,009	108,873	103,436	92,614	50,110	31,212	654,966
14	Sales: Over 15000	0.6200	0	0	0	0	0	0	0	0	0	0	0	0	0
15	CLASS TOTAL (Mcf/month)		171,475	152,374	149,424	151,645	216,800	447,123	721,873	837,857	831,504	718,789	444,156	249,448	5,092,467
16	Gas Charge per Mcf		$4.58	$4.58	$4.61	$4.61	$4.61	$4.55	$4.55	$4.55	$4.56	$4.56	$4.56	$4.83	
17	Gas Costs		$784,744	$697,333	$688,678	$698,911	$999,202	$2,035,978	$3,287,058	$3,815,190	$3,789,691	$3,275,979	$2,024,300	$1,205,811	$23,302,876
18															
19	FIRM INDUSTRIAL (Rate G-1)														
20	FIRM BILLS	$48.44	205	193	211	188	194	181	200	201	169	234	197	193	2,366
21	Sales: 1-300	1.3180	9,590	8,582	11,303	10,102	11,349	22,690	36,089	42,580	34,344	51,216	24,163	13,009	275,016
22	Sales: 301-15000	0.8800	5,630	4,040	10,301	9,615	7,090	19,648	46,087	66,501	54,557	81,451	20,128	5,983	331,031
23	Sales: Over 15000	0.6200	0	0	0	0	0	0	0	0	0	0	0	0	0
24	CLASS TOTAL (Mcf/month)		15,220	12,622	21,603	19,717	18,439	42,338	82,176	109,081	88,901	132,667	44,291	18,993	606,048
25	Gas Charge per Mcf		$4.58	$4.58	$4.61	$4.61	$4.61	$4.55	$4.55	$4.55	$4.56	$4.56	$4.56	$4.83	
26	Gas Costs		$69,653	$57,762	$99,568	$90,873	$84,984	$192,787	$374,190	$496,701	$405,176	$604,648	$201,863	$91,809	$2,770,014
27															
28	FIRM PUBLIC AUTHORITY (Rate G-1)														
29	FIRM BILLS	$48.44	1,563	1,563	1,507	1,544	1,572	1,520	1,559	1,567	1,378	1,769	1,555	1,550	18,647
30	Sales: 1-300	1.3180	26,755	23,259	21,072	23,078	34,966	82,772	127,113	135,814	130,292	120,845	79,228	39,399	844,592
31	Sales: 301-15000	0.8800	5,435	4,677	5,862	5,066	9,316	14,372	31,380	49,270	46,493	43,295	14,447	10,500	240,112
32	Sales: Over 15000	0.6200	0	0	0	0	0	0	0	0	0	0	0	0	0
33	CLASS TOTAL (Mcf/month)		32,190	27,935	26,935	28,143	44,282	97,144	158,493	185,084	176,785	164,140	93,675	49,899	1,084,704
34	Gas Charge per Mcf		$4.58	$4.58	$4.61	$4.61	$4.61	$4.55	$4.55	$4.55	$4.56	$4.56	$4.56	$4.83	
35	Gas Costs		$147,315	$127,844	$124,138	$129,710	$204,091	$442,345	$721,698	$842,781	$805,722	$748,089	$426,938	$241,206	$4,961,877
36															
37	INTERRUPTIBLE COMMERCIAL (G-2)														
38	INT BILLS	395.56	2	2	2	2	2	2	3	4	3	3	4	2	31
39	Sales: 1-15000	0.8077	21	8	26	29	70	230	2,682	2,691	2,484	3,118	1,729	52	13,141
40	Sales: Over 15000	0.5419	0	0	0	0	0	0	0	0	0	0	0	0	1
41	CLASS TOTAL (Mcf/month)		21	8	26	29	70	230	2,682	2,691	2,484	3,118	1,729	52	13,142
42	Gas Charge per Mcf		$3.30	$3.30	$3.33	$3.33	$3.33	$3.28	$3.28	$3.28	$3.28	$3.28	$3.28	$3.56	
43	Gas Costs		$69	$27	$85	$98	$232	$755	$8,798	$8,825	$8,159	$10,240	$5,678	$186	$43,152
44															

EXHIBIT GLS-5

ATMOS ENERGY CORPORATION - KENTUCKY
BILL FREQUENCY WITH KNOWN & MEASURABLE ADJUSTMENTS
TEST YEAR ENDING MAY, 31 2017
CURRENT RATES

Line No.	Class of Customers	Rate	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Total Billing Units
			(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)
45	INTERRUPTIBLE INDUSTRIAL (G-2)														
46	INT BILLS	395.56	8	8	8	7	10	10	8	11	9	9	10	8	106
47	Sales: 1-15000	0.8077	36,084	16,516	18,609	11,153	28,243	13,058	22,605	27,711	19,942	34,783	23,586	39,729	292,018
48	Sales: Over 15000	0.5419	0	0	0	0	0	0	2,200	3,796	0	15,609	0	2,015	23,621
49	CLASS TOTAL (Mcf/month)		36,084	16,516	18,609	11,153	28,243	13,058	24,805	31,507	19,942	50,392	23,586	41,744	315,639
50	Gas Charge per Mcf		$3.30	$3.30	$3.33	$3.33	$3.33	$3.28	$3.28	$3.28	$3.28	$3.28	$3.28	$3.56	
51	Gas Costs		$119,097	$54,511	$62,023	$37,172	$94,132	$42,829	$81,359	$103,341	$65,492	$165,493	$77,457	$148,626	$1,051,533
52															
53	TRANSPORTATION (T-4)														
54	TRANSPORTATION BILLS	$390.12	123	123	123	123	123	123	123	123	123	123	123	123	1,476
55	Trans Admin Fee		6,050	6,050	6,050	6,050	6,050	6,050	6,050	6,050	6,050	6,050	6,050	6,050	$72,600
56	EFM Fee		6,175	6,175	6,200	6,025	6,025	6,050	6,050	6,050	6,050	6,050	6,075	6,075	$73,000
57	Parking Fee		31	34	31	40	42	116	143	174	183	70	23	26	$913
58	Firm Transport: 1-300	1.4401	34,136	33,819	34,474	34,611	36,171	36,744	36,730	36,900	36,900	36,900	35,971	35,254	428,610
59	Firm Transport: 301-15000	0.9615	392,796	381,594	397,247	392,460	449,304	549,285	558,687	639,686	636,082	555,421	438,789	409,871	5,801,222
60	Firm Transport: Over 1500	0.6774	65,829	74,931	67,026	73,201	90,281	102,454	109,679	154,499	142,476	114,386	79,183	68,092	1,142,037
61	CLASS TOTAL (Mcf/month)		492,761	490,344	498,747	500,272	575,756	688,483	705,096	831,085	815,458	706,707	553,943	513,217	7,371,869
62															
63	ECONOMIC DEV RIDER (EDR)														
64	Firm Transport: 1-300	0.9885	0	0	0	0	0	0	0	0	0	0	0	0	0
65	Firm Transport: 301-15000	0.6600	0	0	0	0	0	2,728	2,728	2,728	2,728	2,342	0	0	13,254
66	Firm Transport: Over 15000	0.4650	15,917	14,559	14,845	12,932	13,935	16,096	12,868	20,840	16,808	16,256	18,323	17,135	190,514
67	CLASS TOTAL (Mcf/month)		15,917	14,559	14,845	12,932	13,935	18,824	15,596	23,568	19,536	18,598	18,323	17,135	203,768
68															
69	TRANSPORTATION (T-3)														
70	TRANSPORTATION BILLS	388.79	71	71	71	71	71	71	71	71	71	71	71	71	852
71	Trans Admin Fee		3,550	3,550	3,550	3,550	3,550	3,550	3,550	3,550	3,550	3,550	3,550	3,550	$42,600
72	EFM Fee		3,500	3,650	3,675	3,200	3,300	3,300	3,300	3,300	3,325	3,325	3,325	3,600	$40,800
73	Parking Fee		402	230	311	346	318	282	379	323	227	303	315	248	$3,684
74	Interrupt Transport: 1-15000	0.8770	429,475	388,379	413,453	408,790	466,856	483,708	481,947	484,717	471,016	465,642	452,077	436,031	5,382,092
75	Interrupt Transport: Over 15000	0.5884	176,643	177,313	214,564	195,121	229,216	238,740	236,537	287,540	247,496	269,084	192,680	197,844	2,662,779
76	CLASS TOTAL (Mcf/month)		606,118	565,692	628,017	603,911	696,072	722,448	718,484	772,257	718,512	734,726	644,757	633,875	8,044,870
77															
78	SPECIAL CONTRACTS														
79	TRANSPORTATION BILLS	350.00	15	15	15	15	15	15	15	15	15	15	15	15	180
80	Trans Admin Fee		750	750	750	750	750	750	750	750	750	750	750	750	$9,000
81	EFM Fee		700	700	700	700	700	700	700	700	700	700	700	700	$8,400
82	Parking Fee		7,315	4,248	8,167	5,303	4,010	11,880	13,348	9,688	7,008	8,231	4,601	8,005	$91,803
83	Transported Volumes	Various	1,109,174	1,125,907	1,134,520	1,120,717	1,161,721	1,213,200	1,264,580	1,356,515	1,329,401	1,281,922	1,164,880	1,118,519	14,381,056
84	Charges for Transport Volumes		184,229	187,733	192,587	185,354	202,793	206,978	215,502	235,901	228,103	212,926	203,658	190,762	$2,446,525
85	CLASS TOTAL (Mcf/month)		1,109,174	1,125,907	1,134,520	1,120,717	1,161,721	1,213,200	1,264,580	1,356,515	1,329,401	1,281,922	1,164,880	1,118,519	14,381,056
86															
87	OTHER REVENUE														
88	Service Charges		$53,147	$52,352	$49,875	$61,445	$120,749	$125,695	$56,798	$53,861	$48,764	$61,274	$55,115	$56,750	$795,825
89	Late Payment Fees		$64,359	$50,431	$46,693	$45,925	$46,254	$58,212	$99,268	$148,252	$168,155	$162,432	$152,013	$98,892	$1,140,887
90															
91	**TOTAL GROSS PROFIT**		$5,809,922	$5,597,374	$5,589,634	$5,563,687	$6,141,450	$7,473,814	$8,985,520	$9,772,427	$9,230,515	$9,534,436	$7,424,680	$6,303,020	$87,426,479
92	Gas Costs		$2,113,850	$1,707,941	$1,738,085	$1,745,312	$2,944,013	$6,971,277	$11,854,748	$13,940,763	$13,559,964	$12,228,925	$6,869,655	$3,703,645	$79,378,177
93	**TOTAL REVENUE**		$7,923,772	$7,305,315	$7,327,719	$7,308,999	$9,085,463	$14,445,091	$20,840,268	$23,713,190	$22,790,478	$21,763,361	$14,294,335	$10,006,665	$166,804,655

EXHIBIT GLS-6

ATMOS ENERGY CORPORATION - KENTUCKY
SUMMARY OF REVENUE AT PROPOSED RATES
TEST YEAR ENDING MAY, 31 2017

			Reference Period - Twelve Months Ending 08/31/2015					Forward-looking Adjustments To Test Year				
Line No.	Description	Block (Mcf)	Number of Bills, Units	Volumes As Metered	Contract Adj. Bills and Volumes	Weather Adj. Volumes (NOAA 2005-2015)	Total Volumes	Customer Growth Forecast	Conservation & Efficiency Adjustments	Total Test Year Volumes	Proposed Margin	Proposed Revenue
			(a)	(b)	(c)	(d)	(e)	(f)	(g)	(i)	(j)	(k)
1	Sales											
2	Firm Sales (G-1)	Customer Chrg	1,865,637					8,400			$18.25	$34,201,175
3		Customer Chrg	228,871		(2)						45.00	10,299,105
4		0 - 300		16,904,416	2,143	(1,064,447)	15,842,112	51,505	0	15,893,617	1.5800	25,111,914
5		301 - 15,000		1,298,067	(3,225)	(68,733)	1,226,109		0	1,226,109	1.0100	1,238,370
6		Over 15,000		0	0	0	0		0	0	0.7228	0
7	Interruptible Sales (G-2)	Customer Chrg	125		12						375.00	51,375
8		0 - 15,000		316,552	(11,394)		305,158			305,158	0.8900	271,591
9		Over 15,000		156,226	(132,606)		23,620			23,620	0.6000	14,172
10												
11	Transportation											
12	Customer Charges (T-4)	Customer Chrg	1,451		25						375.00	553,500
13	Customer Charges (T-3)	Customer Chrg	833		19						375.00	319,500
14	Customer Charges (SpK)	Customer Chrg	204		(24)						350.00	63,000
15	Transp. Adm. Fee	Customer Chrg	2,464		20						50.00	124,200
16	Parked Volumes [1]			963,991	0						0.10	96,399
17	EFM Charges										Various	122,200
18	Firm Transportation (T-4)	0 - 300		420,823	7,787		428,610			428,610	1.5800	677,204
19		301 - 15,000		5,646,929	154,293		5,801,222			5,801,222	1.0100	5,859,234
20		Over 15,000		1,191,778	(49,741)		1,142,037			1,142,037	0.7228	825,464
21	Economic Dev Rider (EDR)	301 - 15,000		0	13,254		13,254			13,254	0.7575	10,040
22		Over 15,000		92,773	97,741		190,514			190,514	0.5421	103,278
23	Interruptible Transportation (T-3)	0 - 15,000		5,094,467	287,624		5,382,091			5,382,091	0.8900	4,790,061
24		Over 15,000		2,598,494	64,284		2,662,778			2,662,778	0.6000	1,597,667
25	Total Special Contracts [2]			15,377,684	(996,628)		14,381,056			14,381,056	Various	1,456,880
26	Special Contract Reformations											989,646
27	Total Tariff		2,097,121	49,098,209	(566,468)	(1,133,180)	47,398,561	59,905	0	47,450,066		88,775,974
28												
29	Other Revenues											795,825
30	Late Payment Fees											1,162,324
31	Total Gross Profit											90,734,124
32												
33	Gas Costs											79,378,177
34												
35	Total Revenue											$ 170,112,301
36												
37	[1] Parked Volumes not included in Total Deliveries.											
38	[2] Based on confidential information.											

EXHIBIT GLS-7

ATMOS ENERGY CORPORATION - KENTUCKY
BILL FREQUENCY WITH KNOWN & MEASURABLE ADJUSTMENTS
TEST YEAR ENDING MAY, 31 2017
PROPOSED RATES

Line No.	Class of Customers	Rate	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Total Billing Units
			(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)
1	RESIDENTIAL (Rate G-1)														
2	FIRM BILLS	$18.25	156,693	154,693	152,235	151,812	153,319	153,194	158,720	158,673	141,981	176,169	159,039	157,509	1,874,037
3	Sales: 1-300	1.5800	216,974	168,354	165,679	171,094	338,775	934,791	1,621,088	1,904,887	1,861,869	1,629,019	906,922	417,054	10,336,507
4	Sales: 301-15000	1.0100	0	0	0	0	0	0	0	0	0	0	0	0	0
5	Sales: Over 15000	0.7228	0	0	0	0	0	0	0	0	0	0	0	0	0
6	CLASS TOTAL (Mcf/month)		216,974	168,354	165,679	171,094	338,775	934,791	1,621,088	1,904,887	1,861,869	1,629,019	906,922	417,054	10,336,507
7	Gas Charge per Mcf		$4.58	$4.58	$4.61	$4.61	$4.61	$4.55	$4.55	$4.55	$4.56	$4.56	$4.56	$4.83	
8	Gas Costs		$992,972	$770,463	$763,593	$788,549	$1,561,372	$4,256,583	$7,381,644	$8,673,924	$8,485,723	$7,424,476	$4,133,419	$2,016,006	$47,248,724
9															
10	FIRM COMMERCIAL (Rate G-1)														
11	FIRM BILLS	45.00	17,239	17,099	16,768	16,763	16,900	16,920	17,698	17,809	16,330	19,213	17,745	17,372	207,856
12	Sales: 1-300	1.5800	157,106	139,909	130,251	120,244	150,844	401,776	641,864	728,984	728,067	626,175	394,045	218,235	4,437,501
13	Sales: 301-15000	1.0100	14,369	12,465	19,174	31,401	65,956	45,347	80,009	108,873	103,436	92,614	50,110	31,212	654,966
14	Sales: Over 15000	0.7228	0	0	0	0	0	0	0	0	0	0	0	0	0
15	CLASS TOTAL (Mcf/month)		171,475	152,374	149,424	151,645	216,800	447,123	721,873	837,857	831,504	718,789	444,156	249,448	5,092,467
16	Gas Charge per Mcf		$4.58	$4.58	$4.61	$4.61	$4.61	$4.55	$4.55	$4.55	$4.56	$4.56	$4.56	$4.83	
17	Gas Costs		$784,744	$697,333	$688,678	$698,911	$999,202	$2,035,978	$3,287,058	$3,815,190	$3,789,691	$3,275,979	$2,024,300	$1,205,811	$23,302,876
18															
19	FIRM INDUSTRIAL (Rate G-1)														
20	FIRM BILLS	$45.00	205	193	211	188	194	181	200	201	169	234	197	193	2,366
21	Sales: 1-300	1.5800	9,590	8,582	11,303	10,102	11,349	22,690	36,089	42,580	34,344	51,216	24,163	13,009	275,016
22	Sales: 301-15000	1.0100	5,630	4,040	10,301	9,615	7,090	19,648	46,087	66,501	54,557	81,451	20,128	5,983	331,031
23	Sales: Over 15000	0.7228	0	0	0	0	0	0	0	0	0	0	0	0	0
24	CLASS TOTAL (Mcf/month)		15,220	12,622	21,603	19,717	18,439	42,338	82,176	109,081	88,901	132,667	44,291	18,993	606,048
25	Gas Charge per Mcf		$4.58	$4.58	$4.61	$4.61	$4.61	$4.55	$4.55	$4.55	$4.56	$4.56	$4.56	$4.83	
26	Gas Costs		$69,653	$57,762	$99,568	$90,873	$84,984	$192,787	$374,190	$496,701	$405,176	$604,648	$201,863	$91,809	$2,770,014
27															
28	FIRM PUBLIC AUTHORITY (Rate G-1)														
29	FIRM BILLS	$45.00	1,563	1,563	1,507	1,544	1,572	1,520	1,559	1,567	1,378	1,769	1,555	1,550	18,647
30	Sales: 1-300	1.5800	26,755	23,259	21,072	23,078	34,966	82,772	127,113	135,814	130,292	120,845	79,228	39,399	844,592
31	Sales: 301-15000	1.0100	5,435	4,677	5,862	5,066	9,316	14,372	31,380	49,270	46,493	43,295	14,447	10,500	240,112
32	Sales: Over 15000	0.7228	0	0	0	0	0	0	0	0	0	0	0	0	0
33	CLASS TOTAL (Mcf/month)		32,190	27,935	26,935	28,143	44,282	97,144	158,493	185,084	176,785	164,140	93,675	49,899	1,084,704
34	Gas Charge per Mcf		$4.58	$4.58	$4.61	$4.61	$4.61	$4.55	$4.55	$4.55	$4.56	$4.56	$4.56	$4.83	
35	Gas Costs		$147,315	$127,844	$124,138	$129,710	$204,091	$442,345	$721,698	$842,781	$805,722	$748,089	$426,938	$241,206	$4,961,877
36															
37	INTERRUPTIBLE COMMERCIAL (G-2)														
38	INT BILLS	375.00	2	2	2	2	2	2	3	4	3	3	4	2	31
39	Sales: 1-15000	0.8900	21	8	26	29	70	230	2,682	2,691	2,484	3,118	1,729	52	13,141
40	Sales: Over 15000	0.6000	0	0	0	0	0	0	0	0	0	0	0	0	1
41	CLASS TOTAL (Mcf/month)		21	8	26	29	70	230	2,682	2,691	2,484	3,118	1,729	52	13,142
42	Gas Charge per Mcf		$3.30	$3.30	$3.33	$3.33	$3.33	$3.28	$3.28	$3.28	$3.28	$3.28	$3.28	$3.56	
43	Gas Costs		$69	$27	$85	$98	$232	$755	$8,798	$8,825	$8,159	$10,240	$5,678	$186	$43,152
44															

EXHIBIT GLS-7

ATMOS ENERGY CORPORATION - KENTUCKY
BILL FREQUENCY WITH KNOWN & MEASURABLE ADJUSTMENTS
TEST YEAR ENDING MAY, 31 2017
PROPOSED RATES

Line No.	Class of Customers	Rate	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Total Billing Units
			(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)
45	INTERRUPTIBLE INDUSTRIAL (G-2)														
46	INT BILLS	375.00	8	8	8	7	10	10	8	11	9	9	10	8	106
47	Sales: 1-15000	0.8900	36,084	16,516	18,609	11,153	28,243	13,058	22,605	27,711	19,942	34,783	23,586	39,729	292,019
48	Sales: Over 15000	0.6000	0	0	0	0	0	0	2,200	3,796	0	15,609	0	2,015	23,621
49	CLASS TOTAL (Mcf/month)		36,084	16,516	18,609	11,153	28,243	13,058	24,805	31,507	19,942	50,392	23,586	41,744	315,639
50	Gas Charge per Mcf		$3.30	$3.30	$3.33	$3.33	$3.33	$3.28	$3.28	$3.28	$3.28	$3.28	$3.28	$3.56	
51	Gas Costs		$119,097	$54,511	$62,023	$37,172	$94,132	$42,829	$81,359	$103,341	$65,492	$165,493	$77,457	$148,626	$1,051,533
52															
53	TRANSPORTATION (T-4)														
54	TRANSPORTATION BILLS	375.00	123	123	123	123	123	123	123	123	123	123	123	123	1,476
55	Trans Admin Fee		6,050	6,050	6,050	6,050	6,050	6,050	6,050	6,050	6,050	6,050	6,050	6,050	$72,600
56	EFM Fee		6,175	6,175	6,200	6,025	6,025	6,050	6,050	6,050	6,050	6,050	6,075	6,075	$73,000
57	Parking Fee		31	34	31	40	42	116	143	174	183	70	23	26	$913
58	Firm Transport: 1-300	1.5800	34,136	33,819	34,474	34,611	36,171	36,744	36,730	36,900	36,900	36,900	35,971	35,254	428,610
59	Firm Transport: 301-15000	1.0100	392,796	381,594	397,247	392,460	449,304	549,285	558,687	639,686	636,082	555,421	438,789	409,871	5,801,222
60	Firm Transport: Over 1500	0.7228	65,829	74,931	67,026	73,201	90,281	102,454	109,679	154,499	142,476	114,386	79,183	68,092	1,142,037
61	CLASS TOTAL (Mcf/month)		492,761	490,344	498,747	500,272	575,756	688,483	705,096	831,085	815,458	706,707	553,943	513,217	7,371,869
62															
63	ECONOMIC DEV RIDER (EDR)														
64	Firm Transport: 1-300	1.1850	0	0	0	0	0	0	0	0	0	0	0	0	0
65	Firm Transport: 301-15000	0.7575	0	0	0	0	0	2,728	2,728	2,728	2,728	2,342	0	0	13,254
66	Firm Transport: Over 15000	0.5421	15,917	14,559	14,845	12,932	13,935	16,096	12,868	20,840	16,808	16,256	18,323	17,135	190,514
67	CLASS TOTAL (Mcf/month)		15,917	14,559	14,845	12,932	13,935	18,824	15,596	23,568	19,536	18,598	18,323	17,135	203,768
68															
69	TRANSPORTATION (T-3)														
70	TRANSPORTATION BILLS	375.00	71	71	71	71	71	71	71	71	71	71	71	71	852
71	Trans Admin Fee		3,550	3,550	3,550	3,550	3,550	3,550	3,550	3,550	3,550	3,550	3,550	3,550	$42,600
72	EFM Fee		3,500	3,650	3,675	3,200	3,300	3,300	3,300	3,300	3,325	3,325	3,325	3,600	$40,800
73	Parking Fee		402	230	311	346	318	282	379	323	227	303	315	248	$3,684
74	Interrupt Transport: 1-15000	0.8900	429,475	388,379	413,453	408,790	466,856	483,708	481,947	484,717	471,016	465,642	452,077	436,031	5,382,092
75	Interrupt Transport: Over 15000	0.6000	176,643	177,313	214,564	195,121	229,216	238,740	236,537	287,540	247,496	269,084	192,680	197,844	2,662,779
76	CLASS TOTAL (Mcf/month)		606,118	565,692	628,017	603,911	696,072	722,448	718,484	772,257	718,512	734,726	644,757	633,875	8,044,870
77															
78	SPECIAL CONTRACTS														
79	TRANSPORTATION BILLS	350.00	15	15	15	15	15	15	15	15	15	15	15	15	180
80	Trans Admin Fee		750	750	750	750	750	750	750	750	750	750	750	750	$9,000
81	EFM Fee		700	700	700	700	700	700	700	700	700	700	700	700	$8,400
82	Parking Fee		7,315	4,248	8,167	5,303	4,010	11,880	13,348	9,688	7,008	8,231	4,601	8,005	$91,803
83	Transported Volumes	Various	1,109,174	1,125,907	1,134,520	1,120,717	1,161,721	1,213,200	1,264,580	1,356,515	1,329,401	1,281,922	1,164,880	1,118,519	14,381,056
84	Charges for Transport Volumes		184,229	187,733	192,587	185,354	202,793	206,978	215,502	235,901	228,103	212,926	203,658	190,762	$2,446,525
85	CLASS TOTAL (Mcf/month)		1,109,174	1,125,907	1,134,520	1,120,717	1,161,721	1,213,200	1,264,580	1,356,515	1,329,401	1,281,922	1,164,880	1,118,519	14,381,056
86															
87	OTHER REVENUE														
88	Service Charges		$53,147	$52,352	$49,875	$61,445	$120,749	$125,695	$56,798	$53,861	$48,764	$61,274	$55,115	$56,750	$795,825
89	Late Payment Fees		$64,201	$50,135	$46,394	$45,633	$46,433	$60,251	$103,355	$153,180	$173,071	$166,413	$153,933	$99,325	$1,162,324
90															
91	**TOTAL GROSS PROFIT**		$5,828,142	$5,595,385	$5,590,088	$5,563,731	$6,207,209	$7,783,653	$9,561,937	$10,466,845	$9,917,219	$10,108,054	$7,713,256	$6,398,604	$90,734,124
92	Gas Costs		$2,113,850	$1,707,941	$1,738,085	$1,745,312	$2,944,013	$6,971,277	$11,854,748	$13,940,763	$13,559,964	$12,228,925	$6,869,655	$3,703,645	$79,378,177
93	**TOTAL REVENUE**		$7,941,992	$7,303,326	$7,328,173	$7,309,043	$9,151,222	$14,754,930	$21,416,685	$24,407,608	$23,477,183	$22,336,979	$14,582,910	$10,102,249	$170,112,301

Exhibit GLS-8

Analysis of Basis for Normal Heating Degree Days For Purposes of Weather Normalization

(November 16, 2015)

Purpose:

Atmos Energy has conducted a weather normalization study in accordance with page 12, paragraph 1 of the final order in KPSC Case No. 2013-00148 which states "The Commission will also require that Atmos-Ky. file a comparison of weather normalization methodologies using time periods including, but not limited to, 20, 25, and 30 years in length. "

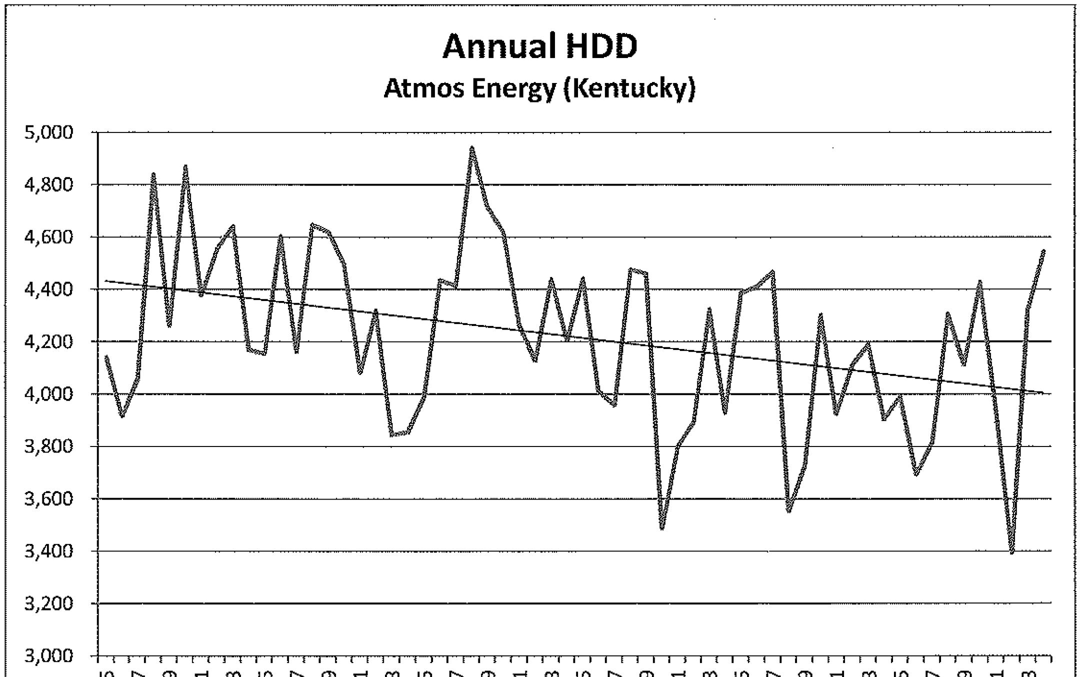
Process:

Atmos Energy collected monthly Heating Degree Days (HDDs) from 1951 to 2014 for Evansville Regional Airport, Lexington Bluegrass Airport, Nashville International Airport, Louisville International Airport, and Paducah Barkley Regional Airport from the National Oceanic and Atmospheric Administration (NOAA). The Company then compiled that data into annual figures to build the annual HDDs for the Composite Weather Station which is weighted based on the total Residential, Commercial and Public Authority customer percentages at each weather station.

In order to compare the "predictive" value for alternative bases for "normal" HDDs, we broke the study into three different calendar year decades which are 1985-1994, 1995-2004, and 2005-2014. For each of these decades we compared the predictive value of the prior 10, 20, 25, and 30 year simple average normals.

Results:

First, plotting the 60 years of annual HDDs reveals an interesting trendline.



Although there is significant variation in HDDs from year to year, the long term trendline shows a warming trend during this 60 year period. The Commission expressed a concern in KPSC Case No. 2013-00148 that Atmos Energy could propose to use NOAA published Normal HDDs (NHDDs) for the period 1981-2010 in its next Case. The Commission would be inclined to require that a more current time period be used for establishing NHDDs.

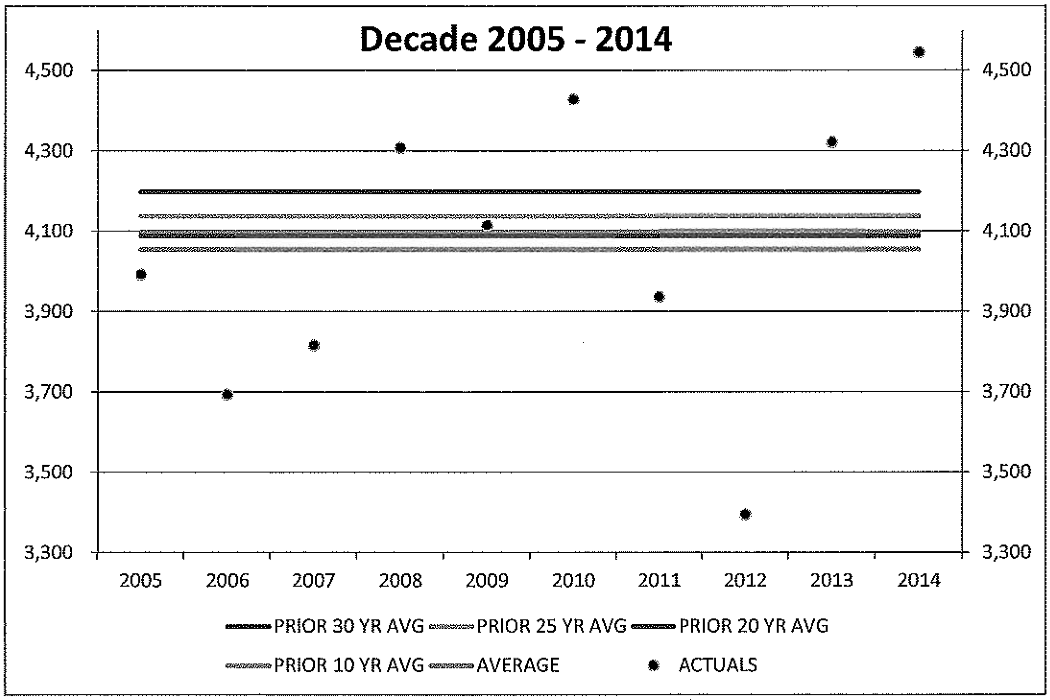
Analysis of Basis for Normal Heating Degree Days
For Purposes of Weather Normalization
(November 16, 2015)

Based upon the noted decrease in HDDs, the Commission's suggestion for a more current time period seems quite appropriate.

Next, the Company analyzed the ten-year period of 2005-2014. If, entering into that decade, the Company considered alternatives methods of calculating the NHDD basis; average HDDs for the prior 10, 20, 25, and 30 year periods, NHDDs would have set as follows:

Basis:	NHDDs
Average of 10 years (1995-2004)	4,099
Average of 20 years (1985-2004)	4,089
Average of 25 years (1980-2004)	4,138
Average of 30 years (1975-2004)	4,198

Compared to these alternative NHDD bases, the following graph plots actual annual HDDs for the ten year period of 2005-2014:



Basis:		Percent Variance	# of Years Warmer	Colder
10 years (1995-2004)		1.1%	5	5
20 years (1985-2004)		0.8%	5	5
25 years (1980-2004)		2.0%	6	4
30 years (1975-2004)		3.5%	6	4
Actual Average HDDs for 2005-2014:	4,055			

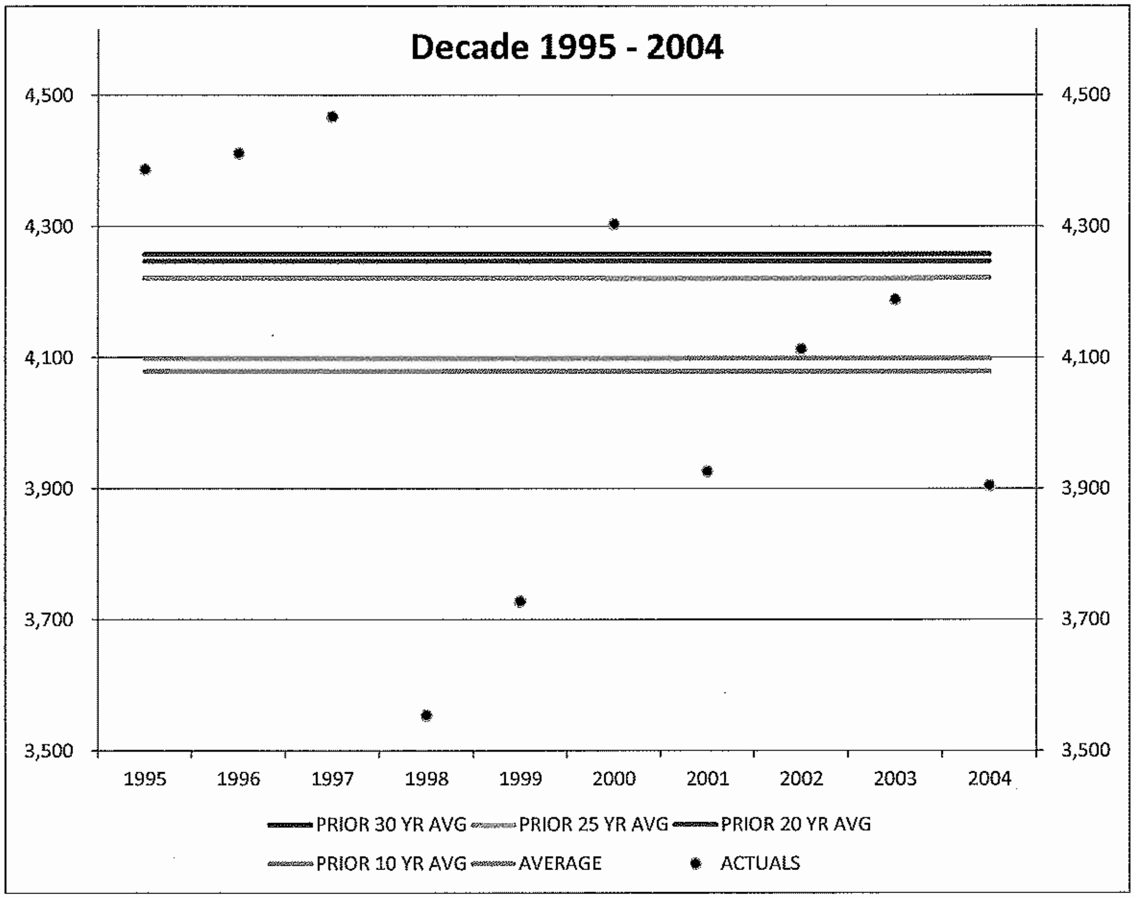
Exhibit GLS-8
Page 3

Analysis of Basis for Normal Heating Degree Days
For Purposes of Weather Normalization
(November 16, 2015)

Then, the Company analyzed the ten-year period of 1995-2004 in the same manner. The NHDDs would have been:

Basis:	NHDDs
Average of 10 years (1985-1994)	4,079
Average of 20 years (1975-1994)	4,247
Average of 25 years (1970-1994)	4,222
Average of 30 years (1965-1994)	4,258

Compared to these alternative NHDD bases, the following graph plots actual annual HDDs for the ten year period of 1995-2004:



Basis:		Percent Variance	# of Years Warmer	Colder
10 years (1985-1994)		-0.5%	4	6
20 years (1975-1994)		3.6%	6	4
25 years (1970-1994)		3.0%	6	4
30 years (1965-1994)		3.9%	6	4
Actual Average HDDs for 1995-2004:	4,099			

Analysis of Basis for Normal Heating Degree Days
For Purposes of Weather Normalization
(November 16, 2015)

Finally, the Company analyzed the ten-year period of 1985-1994 in the same manner. The actual HDDs experienced during this decade were, on average, far warmer than any of the alternative NHDD methods. The summary table states the results for the analysis of that decade:

Basis:		Percent Variance	# of Years Warmer	Colder
10 years (1975-1984)		8.2%	7	3
20 years (1965-1984)		6.6%	7	3
25 years (1960-1984)		7.4%	7	3
30 years (1955-1984)		6.9%	7	3
Actual Average HDDs for 1985-1994:	4,079			

Conclusion:

Based on the past twenty years experience, the Company believes that a 10-year average of actual NOAA HDDs provides the best predictive basis for NHDDs. The Company will utilize a 10-year average of HDDs for purposes of weather adjusting its billing determinants in KPSC Case No. 2015-00343 and for the computation of the WNA tariff upon and if approved by the Commission in this Case.

SCHNEIDER, J. L.

BEFORE THE PUBLIC SERVICE COMMISSION

COMMONWEALTH OF KENTUCKY

APPLICATION OF ATMOS ENERGY	)	
	)	
CORPORATION FOR AN ADJUSTMENT	)	**Case No. 2015-00343**
	)	
OF RATES AND TARIFF MODIFICATIONS	)	

DIRECT TESTIMONY OF JASON L. SCHNEIDER

I. POSITION AND QUALIFICATIONS

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Jason L. Schneider. My business address is 5430 LBJ Freeway, Suite 600, Dallas, Texas 75240.

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

A. I am the Director of Accounting Services for Atmos Energy Corporation (hereinafter "Atmos" or the "Company").

Q. WHAT ARE YOUR JOB RESPONSIBILITIES?

A. I am primarily responsible for directing various accounting activities and policies within the Company. My main duties include the oversight of general accounting, fixed assets accounting, accounts payable, payroll, and cost allocations. I also serve on an internal committee which is responsible for the oversight and monitoring of Sarbanes-Oxley (SOX) compliance. In addition, I work with both our internal and external auditors on implementing, testing, maintaining and modifying the Company's accounting controls, as well as interfacing between the auditors and the Company.

I am also responsible for ensuring effective financial and internal controls for the Company's accounting processes, system and procedures. I have knowledge of the Company's accounting activities, which include compiling, processing, reporting and analyzing financial information to satisfy the requirements of internal management, internal independent auditors, external independent auditors and regulatory agencies.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL EXPERIENCE.

A. I earned a Bachelor of Science degree in Accounting Control Systems from the University of North Texas in 2000. I also earned a Master of Business Administration degree in Accounting from the University of North Texas in 2003. I have worked in various industries for over 18 years in a variety of accounting and finance staff and management roles.

I have worked in the energy industry for more than 11 years in various accounting and finance positions. I joined Atmos Energy in 2004 in the Plant Accounting group and assumed my current role in March 2011. Before assuming my current role, I was the Manager of Plant Accounting and reported directly to the previous Director of Accounting Services. In addition to my other duties as Manager of Plant Accounting, I worked closely with the Director of Accounting Services in maintaining the Company's Cost Allocation Manual ("CAM") to ensure it was aligned with Atmos' recordkeeping practices.

Q. ARE YOU A MEMBER OF ANY PROFESSIONAL ORGANIZATIONS?

A. Yes. I am licensed by the State of Texas as a Certified Public Accountant ("CPA").

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE KENTUCKY PUBLIC SERVICE COMMISSION OR OTHER REGULATORY ENTITIES?

A. Yes, I have testified before the Kentucky Public Service Commission in Case No. 2013-00148. I have also submitted testimony to the Tennessee Regulatory Authority in Docket No. 12-00064 and Docket No. 14-00146, the Kansas Corporation Commission in Docket No. 12-ATMG-564-RTS and Docket No. 14-ATMG-320-RTS, the Public Utilities Commission of the State of Colorado in Docket No. 13AL-0496G and Docket No. 14AL-0300G, and the Mississippi Public Service Commission in Docket No. 2015-UN-049.

II. PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to authenticate the historical books and records of the Company and demonstrate the integrity of the financial information that has been filed in this case. I am also providing testimony concerning the CAM which describes the methodology for shared services cost allocations.

Q. ARE YOU SPONSORING ANY OF THE FILING REQUIREMENT IN THIS CASE, AND, IF SO WHICH REQUIREMENTS?

A. Yes, I am sponsoring the following specific filing requirements of Section 16 of 807 K.A.R. 5:001[1]:

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[1] This regulation prescribes numerous filing requirements (FRs). The FR abbreviations used are to the applicable subparts of Section 10 of 807 K.A.R. 5:001.

FR 16(7)(k)	Most recent FERC Form 1 (electric), FERC Form 2, or the Automated Reporting Management Information System Report (telephone) and PSC Form T (telephone);
FR 16(7)(l)	The annual report to shareholders or members and the statistical supplements covering the most recent two (2) years from the application filing date;
FR 16(7)(m)	Current chart of accounts if more detailed than Uniform System of Accounts chart;
FR 16(7)(p)	SEC's annual report for most recent 2 years, Form 10-Ks and any Form 8-Ks issued during prior 2 years and any Form 10-Qs issued during past 6 quarters;
FR 16(7)(q)	Independent auditors annual opinion report, with any written communication which indicates the existence of a material weakness in internal controls; and
FR 16(7)(r)	Quarterly reports to stockholders for the most recent five quarters.[2]
FR 16(7)(u)	Detailed description of method of calculation and amounts allocated or charged to utility by affiliate or general or home office for each allocation or payment;

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[2] Other than its quarterly report on Form 10-Q filed with the Securities and Exchange Commission, the Company does not publish quarterly reports to shareholders. Accordingly, no information is actually provided pursuant to FR 16(7)(r) because the Forms 10-Q are provided pursuant to FR 16(7)(p).

	Method and amounts allocated during base period and method and estimated amounts to be allocated during forecasted test period;
	Explain how allocator for both base and forecasted test period was determined; and
	All facts relied upon, including other regulatory approval, to demonstrate that each amount charged, allocated or paid during base period is reasonable;
FR 16(8)(i)	Comparative income statements, revenue and sales statistics most recent five years, base period, forecast period and two (2) years beyond
FR 16(8)(k)	Comparative financial data and earnings

Q. DO YOU ADOPT THESE FILING REQUIREMENTS AND MAKE THEM PART OF YOUR TESTIMONY?

A. Yes.

III. <u>AUTHENTICATION OF BOOKS AND RECORDS</u>

Q. ARE THE BOOKS AND RECORDS OF THE COMPANY PREPARED UNDER YOUR DIRECTION?

A. Yes, for the areas under my direction (which do not include gas accounting or taxation).

Q. HOW DOES ATMOS MAINTAIN AND UTILIZE ITS BOOKS AND RECORDS IN THE REGULAR COURSE OF BUSINESS?

A. Atmos maintains its books and records in accordance with the Federal Energy Regulatory Commission's (FERC) Uniform System of Accounts (USOA) and Generally Accepted Accounting Principles (GAAP). The USOA is the prescribed methodology for maintaining utility records in all of the state jurisdictions which regulate the Company's natural gas utility operations, which currently include Colorado, Kansas, Kentucky, Louisiana, Mississippi, Tennessee, Texas and Virginia. Atmos' accounting organization utilizes integrated computerized business systems to efficiently process, record and maintain transactions generated in the regular course of business. Financial transactions are created and entered into the system at or near the time of the transaction by the responsible personnel in various divisions having personal knowledge, or acting in reliance on information transmitted by persons having personal knowledge of the transactions, as well as of the applicable accounting procedures and requirements. Reports are generated by the system in the regular course of business to assist in management's review of the results of operations and to assist in the analysis of the cost data of gas operations.

Q. AS DIRECTOR OF ACCOUNTING SERVICES, HOW DO YOU ASSURE YOURSELF THAT TRANSACTIONS ARE RECORDED PROPERLY?

A. As Director of Accounting Services, I have personal knowledge of the organizational business processes and staffing in the Controllership function. The Controller's organization is staffed with highly qualified accounting managers and staff, with many accounting positions filled by CPAs. The managers in the organization are charged with the responsibility to inspect, review and revise, if appropriate, the work of the accountants they supervise. To fill certain management positions, an individual is required to have an accounting degree as well as significant accounting experience. We have established and maintained controls that ensure the accuracy of our books and records. These controls help identify any necessary adjustments to accounting entries which are then recorded to the original books and records in a timely manner. Additionally, Atmos contracts with KPMG LLP ("KPMG") for internal audit services. This group periodically performs reviews of those controls.

Q. WHAT TYPES OF REGULAR AUDITS ARE CONDUCTED TO AUTHENTICATE ATMOS ENERGY'S BOOKS AND RECORDS?

A. Atmos' books and records are audited annually by the independent public accounting firm of Ernst & Young LLP ("EY"). In addition, EY also performs reviews of Atmos' quarterly financial statements. These audits and reviews are conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States).

Q. ARE THE COSTS RECORDED ON THE COMPANY'S BOOKS AND RECORDS SUPPORTED BY UNDERLYING INVOICES OR OTHER RECORDS?

A. Yes. In order for an item to be recorded in the Company's general ledger, there must be an invoice or other underlying supporting documentation. The former, for example, may be in the form of a billing invoice received from a vendor. The latter, for example, may be in the form of an employee's timesheet. The manager of a specific cost center or project is responsible for reviewing, coding and approving invoices or other underlying supporting documentation that are charged to that particular manager's cost center or project.

Q. WHAT DO YOU MEAN BY COST CENTERS?

A. As described in the Company's CAM, a cost center is a designation generally utilized for the assignment of departmental cost responsibility and internal management reporting. Employees with responsibility for these functional areas are delegated a certain level of authority to conduct the business of the Company.

Q. HOW ARE THESE AUTHORITY LEVELS DETERMINED OR DELEGATED WITHIN THE COMPANY?

A. The Board of Directors initially delegates authority to the chief executive officer of the Company who then authorizes the controller to further delegate authority to others throughout the Company as necessary. The Controller's approval of authority limits is generally based on a review of the needs and recommendations from those requesting authority limit changes. Approved authority limits are maintained in a secure table within the Company's accounting system.

Q. DOES THE COMPANY HAVE IN PLACE ANY PROCESS OR SYSTEM FOR THE REVIEW AND VALIDATION OF INVOICES?

A. Yes. Most invoices are scanned into an accounts payable processing system called "Markview" when they are received by the Company. Once scanned, an image of the invoice is routed electronically to the appropriate cost center owner. The cost center owner reviews and electronically codes and approves the invoice within the established approval hierarchy. As a part of this process, the cost center owner is responsible for ensuring the cost is valid, just, and reasonable. If the amount of the invoice exceeds the authority limit of the initial approver, it is automatically escalated through the approval hierarchy to a person with the appropriate level of authority. A similar review process is performed at each level within the approval hierarchy. Once final approval has been obtained, the invoice is submitted to the accounts payable department for final payment.

Q. DOES THE COMPANY HAVE IN PLACE ANY PROCESS OR SYSTEM FOR THE REVIEW AND VALIDATION OF COSTS THAT ARE NOT PROCESSED THOUGH MARKVIEW?

A. Yes. Certain invoices and other requests for payment that are not presented as an invoice are processed outside of Markview. Examples of these types of documents include, but are not limited to, tax returns, contracts for certain outside services, or certain wire transfer requests. The process for the review, coding and approval of these costs is the same, except that the process may be manual in nature rather than electronic. The Company employee in charge of this documentation is responsible for ensuring the cost is valid, just, and reasonable. Coding and approvals are performed within the approval hierarchy. Once final approval has been obtained, the documentation is submitted to the accounts payable department for final payment.

Q. ARE THERE ANY OTHER ACCOUNTING CONTROLS OR PROCESSES IN PLACE TO ENSURE THE ACCURACY OF THE COMPANY'S BOOKS AND RECORDS?

A. Yes. The Company executes a series of detective monitoring controls designed to identify and explain material and/or unusual costs that have been recorded in the general ledger. Occasionally, errors are found and they are typically corrected in the following month's reporting period, unless they are material. If material, these errors are corrected in the current month.

Additionally, the Chief Executive Officer and Chief Financial Officer must certify the Company's annual and quarterly financial statements and must attest to and report on the Company's system of internal control. To facilitate this effort, the Company outsources its internal audit function to KPMG to conduct tests of the Company's system of internal control. These tests are developed to ensure the system of internal control has been designed effectively and that the controls are functioning as designed as of the end of the Company's fiscal year.

Q. PLEASE DESCRIBE THE PROCESS USED TO TEST INTERNAL CONTROLS.

A. The Company maintains a SOX steering committee, which is responsible for the oversight and monitoring of Sarbanes-Oxley compliance. This committee is comprised of myself, the Vice President and Controller, the Director of Financial Reporting, the Director of Information Security and the Vice President of Finance for the Company's non-regulated activities.

During the first quarter of the fiscal year, the Director of Financial Reporting and I meet with the internal auditors to review our listing of key controls to assess whether changes to that list should be made based upon changes in the risk profile or organization of the company. A key control is defined as a control necessary to mitigate the risks and ensure financial reporting is reasonable and materially correct. The internal audit group will develop a testing plan based upon these key controls that is reviewed and approved by the SOX steering committee. The key controls are tested throughout the year. If issues arise, they are individually addressed by a steering committee member who has knowledge of the affected areas. The SOX steering committee meets regularly to assess the progress and review the results of the testing. During this process, all findings are discussed and the steering committee will determine whether the finding should be considered a control deficiency, a significant deficiency or a material weakness. A control deficiency exists when the design or operation of a control does not allow management or employees to prevent or detect misstatements in financial reporting on a timely basis. A significant deficiency is a control deficiency which adversely affects the Company's ability to report external financial data reliably, with more than a remote likelihood that an inconsequential misstatement of the Company's financial statements will not be prevented or detected. A material weakness is a significant deficiency that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected.

At the end of the fiscal year, the steering committee makes recommendations regarding the effectiveness of the Company's internal control structure to be included in the internal auditor's final report to the audit committee.

Q. PLEASE SUMMARIZE THE RESULTS OF TESTING FOR THE MOST RECENTLY COMPLETED FISCAL YEAR.

A. The most recent fiscal year available is fiscal 2015. A total of 209 key controls related to the Company's natural gas distribution operations were tested. Two control deficiencies were identified. No significant deficiencies or material weaknesses were identified. The two deficiencies plan to be remediated early in fiscal 2016.

Q. ARE THESE CONTROL DEFICIENCIES THE SAME DEFICIENCIES THAT WERE IDENTIFIED IN YOUR TESTIMONY BEFORE THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2013-00148?

A. No. The deficiencies identified in fiscal 2015 are not the same deficiencies identified before the Kentucky Public Service Commission in Case No. 2013-00148.

Q. ARE THE COMPANY'S TESTS OF INTERNAL CONTROL SUBJECT TO EXAMINATION BY AN INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM?

A. Yes. As a publicly traded company, Atmos is required to have an independent registered public accounting firm audit management's public assertions regarding the Company's system of internal control. EY serves as the Company's independent registered public accounting firm.

Q. CAN YOU SUMMARIZE THE PROCESS USED BY EY TO PERFORM ITS ATTEST FUNCTION?

A. Yes. EY will perform independent tests regarding the design of the Company's internal control function and the effectiveness of the controls as of the end of the fiscal year. They will rely, in part, on the work performed by the internal auditors in completing their audit procedures. Upon completion of their work, EY will issue an audit report summarizing their findings, which is included in the Company's annual report on Form 10-K.

Q. DID EY'S MOST RECENT REPORT DIFFER FROM THE FINDINGS OF MANAGEMENT?

A. No. EY issued an unqualified audit report for fiscal 2014, which means that they agreed with management's assertions.

Q. ARE THERE OTHER TYPES OF REGULAR AUDITS AND REVIEWS THAT ARE CONDUCTED OF ATMOS' BOOKS AND RECORDS?

A. In addition to the audit of internal control, EY also conducts an annual audit of Atmos' books and records. In addition, EY performs reviews of Atmos' quarterly financial statements. These audits and reviews are conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States).

Q. HOW DOES THE ACCOUNTING SYSTEM ALLOW FOR THE SEPARATE RECORDING AND TRACKING OF COSTS FOR ATMOS' UTILITY DIVISIONS?

A. Direct costs are charged directly to the natural gas distribution division which has incurred the costs. In addition, technical and support services are provided to the distribution divisions by centralized shared services departments primarily located at the Atmos headquarters in Dallas. These centralized functions include, but are not limited to, accounting, human resources, legal, treasury, risk management, etc. The costs for these shared services are allocated to the operating divisions.

Q. WERE THE BOOKS AND RECORDS OF THE COMPANY PROVIDED TO COMPANY WITNESSES FOR UTILIZATION IN THEIR ANALYSIS FOR RATEMAKING PURPOSES?

A. Yes.

IV. COST ALLOCATION MANUAL

Q. WHAT IS THE COST ALLOCATION MANUAL?

A. The Cost Allocation Manual (CAM), contained in Exhibit JLS-1, describes and documents the process whereby allocations are made within the books and records of the Company. These include allocations of various common expenses which are incurred for the benefit of two or more of the Company's rate divisions and are therefore allocable to those rate divisions. Additionally, the CAM also describes and documents the processes whereby allocations are made between Atmos and its affiliates and between affiliates.

Q. ARE YOU RESPONSIBLE FOR OVERSIGHT OF THE CAM?

A. Yes. I coordinate and oversee the updating and filing of the CAM.

Q. PLEASE DESCRIBE THE HISTORY OF THE CAM.

A. Although the Company had been utilizing the allocation methodology described in the CAM for many years prior, the CAM was formally documented in response to 807 K.A.R. 5:080, and was first filed with the Commission in April of 2001. Atmos is required to update the CAM each year. The Company has used the CAM to document its allocation processes in the regular course of business since it was first filed.

Q. ARE THE ALLOCATIONS DESCRIBED IN THE CAM USED IN EVERY JURISDICTION IN WHICH ATMOS ENERGY OPERATES?

A. Yes. The CAM is uniformly applied in all eight states in which Atmos has regulated utility operations for the allocation of common costs among Atmos' various operating divisions, including Kentucky.

Q. DOES THE CAM DESCRIBE HOW TO ALLOCATE BALANCE SHEET AMOUNTS?

A. No. The CAM describes how to allocate expense items from Atmos' income statement. Investment or balance sheet items are not allocated within Atmos Energy's books and records. Investment amounts are allocated only for ratemaking purposes in the context of a rate filing or certain regulatory reports.

Q. IN YOUR OPINION, DOES THE COMPANY'S ALLOCATION PROCESS UNIFORMLY AND CONSISTENTLY ALLOCATE COMMON OR SHARED SERVICES COSTS?

A. Yes, the allocation process described in the CAM operates fairly and reasonably in allocating those costs on a uniform basis, both as between Atmos' various operating divisions and affiliates and between the various regulatory jurisdictions in which the Company operates.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF)
RATE APPLICATION OF) Case No. 2015-00343
ATMOS ENERGY CORPORATION)

CERTIFICATE AND AFFIDAVIT

The Affiant, Jason L. Schneider, being duly sworn, deposes and states that the prepared testimony attached hereto and made a part hereof, constitutes the prepared direct testimony of this affiant in Case No. 2015-00343, in the Matter of the Rate Application of Atmos Energy Corporation, and that if asked the questions propounded therein, this affiant would make the answers set forth in the attached prepared direct pre-filed testimony.

Jason L. Schneider
Jason L. Schneider

STATE OF Texas
COUNTY OF Dallas

SUBSCRIBED AND SWORN to before me by Jason L. Schneider on this the 12 day of November, 2015.

KATHERINE E. PARKS
My Commission Expires
July 16, 2018

Katherine E. Parks
Notary Public
My Commission Expires: 7/16/18

Exhibit JLS-1

ATMOS ENERGY CORPORATION
COST ALLOCATION MANUAL
April 1, 2015

Exhibit JLS-1

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Exhibit JLS-1

1. Introduction:

a. Corporate Structure

Atmos Energy Corporation (Atmos or the Company) operates its Regulated Operations through seven operating divisions in 8 states. The seven operating divisions and their service areas are:

Division	Service Area
Atmos Energy Colorado-Kansas Division	Colorado, Kansas
Atmos Energy Kentucky/Mid-States Division	Kentucky, Tennessee, Virginia
Atmos Energy Louisiana Division	Louisiana
Atmos Energy Mid-Tex Division	Texas, including the Dallas/Fort Worth metropolitan area
Atmos Energy Mississippi Division	Mississippi
Atmos Energy West Texas Division	West Texas
Atmos Pipeline – Texas Division	Intrastate pipeline business in Texas

These operating divisions are not subsidiaries or separate legal entities. Therefore, by definition, they cannot be considered affiliates of Atmos.

Technical and support services are provided to the operating divisions by centralized shared services departments primarily located at the Atmos headquarters in Dallas. These centralized functions currently include, but are not limited to, accounting, gas supply, human resources, information technology, legal, rates and customer support. The costs for these shared services are allocated to the operating divisions. In addition, for operating divisions that operate in more than one rate jurisdiction, costs from an operating division's general office are allocated to separate rate divisions within the operating division.

In addition to its regulated businesses, Atmos also has Nonregulated Operations, which are operated through Atmos Energy Holdings, Inc., a wholly-owned subsidiary of Atmos, and its various wholly-owned subsidiaries. These subsidiaries are separate legal entities and are considered affiliates of Atmos.

The Company's current legal entity organization chart is contained in Appendix A.

Note that the descriptions contained herein do not address tariffed services.

b. Accounting:

Atmos' account coding structure enables it to capture the costs for allocable activities. Expenses, assets, and liabilities for Atmos' shared services and other operating division general office divisions are coded to applicable location codes and cost centers as necessary, and are then allocated to the appropriate rate divisions based upon the methodologies described herein. Allocations recorded in the books and records of the Company are primarily for management control purposes and may not reflect the allocation methodology used for rate making purposes.

Atmos' account coding structure is as follows:

Exhibit JLS-1

XXX.	XXXX.	XXXX.	XXXXX.	XXXXXX.	XXXX
Company	Cost Center	FERC Account	Sub-Account	Service Area	Future Use
3 digit	4 digit	4 digits	5 digits	6 digits	4 digits

Within the above coding structure, "Company" and "Cost Center" are primarily utilized for internal management responsibility reporting purposes for Atmos' operating divisions. The terms "Company" and "Cost Center" are defined in the glossary beginning below. Utilization of the "Company" or "Cost Center" fields is not suitable for meaningful financial or regulatory reporting purposes.

The FERC account field contains the three-digit FERC USOA account plus one extension digit which in some cases is utilized by the FERC USOA.

The first three digits of the Service Area field are the primary coding utilized for cost allocations within Atmos and is generally referred to as "rate division number". This portion of the field denotes Atmos' various rate divisions as well as the Company's various shared services and operating division general office divisions. These codes are the primary source of information for regulatory reporting and rate activity. The remaining three digits represent "town" location which is utilized only for some accounts. Atmos Pipeline-Texas uses the final three digits of the service area to represent the actual storage or compressor facility; however, this is used for O&M expenses only.

c. Glossary of Terms:

The following terms are defined for purposes of this document only:

Affiliate - One or more of Atmos' subsidiaries.

Below the Line - Amounts which are generally not included in an analysis of costs from which gas service rates are derived.

Company - In general terms, it refers to Atmos Energy Corporation. Within the context of the account coding string, this term represents an operating division, wholly-owned subsidiary or other legal entity controlled by Atmos.

Composite Factor - The Company's general allocation factor which is derived for each applicable area based upon the simple average of gross plant in service, average number of customers and direct operation and maintenance expenses for each applicable area.

Corporate Headquarters - The headquarters of Atmos Energy Corporation located in Dallas, Texas.

Cost Centers - Account coding which denotes an area of cost responsibility. This coding is used primarily for management purposes.

Customer Factor - The Company's general allocation factor which is derived based on the average number of customers of the Operating Divisions that receive allocable costs for the services provided.

Direct Charges - Those charges which may originate in a shared services department or operating division general office division or a rate division which are booked directly to the applicable rate division.

FERC USOA - The Uniform System of Accounts as prescribed by the Federal Energy Regulatory Commission.

Municipal Jurisdiction - For Atmos' operations in Texas, each municipality which it serves has original jurisdiction over rates.

Non-regulated Operations – Represents the Company's natural gas marketing and nonregulated pipeline, storage and midstream operations controlled by Atmos Energy Holdings, Inc., a wholly-owned subsidiary of Atmos Energy Corporation.

Operating Division - An unincorporated division of Atmos Energy Corporation that contains at least one rate division that is responsible for the management of the Company's Regulated Operations. Operating divisions are not subsidiaries or separate legal entities. As such, they do not have separate equity or debt structures. Additionally, the divisions do not keep separate books and records.

Operating divisions with multiple rate divisions have one operating division general office rate division in addition to rate divisions corresponding to regulatory jurisdictional areas.

Operating Division General Office - Administrative offices that are located outside of shared service offices which serve as the base of operations and central office for each "operating division."

Rate Division – Often referred to as an operating rate division, it denotes Atmos' regulatory jurisdictions that are defined by state boundaries, geographic boundaries within states or municipal boundaries within the State of Texas. The term also denotes Atmos' various shared services and operating division general office divisions. These divisions are the primary source for regulatory reporting and rate activity for an area in which rates have been set by a regulatory authority such as the Colorado Public Utilities Commission. Rate divisions are identifiable in the Company's account coding string. As such, costs are accumulated within the general ledger and represent the sum of direct costs plus costs allocated to the rate division.

Regulated Operations – Represents the Company's six regulated natural gas distribution operating divisions operating in 8 states and the Company's regulated intrastate pipeline operations in the State of Texas.

Service Area - The portion of the Company's account coding structure of which the first three digits denote rate division. The last three digits of this code denote "town" which is used only in certain instances. Atmos Pipeline-Texas uses the final three digits of the service area to represent the actual storage or compressor facility; however, this is used for O&M expenses only.

Shared Services - The Company's functions that serve multiple rate divisions. These services include departments such as legal, billing, call center, accounting, information technology, human resources, gas supply, rates administration among others. Shared Services is comprised of Shared Services – General Office and Shared Services – Customer Support

Shared Services – Customer Support – Shared Services functions that include billing, customer call center functions and customer support related services.

Shared Services – General Office – Shared Services functions that include all other functions not encompassed by Shared Services – Customer Support.

The following are divisions of Atmos Energy Corporation:

Atmos Energy Colorado-Kansas Division is a regulated operating division that serves approximately 170 communities throughout Colorado and Kansas, including the cities of Olathe, Kansas, a suburb of Kansas City and Greeley, Colorado, located near Denver.

Atmos Energy Kentucky/Mid-States Division is a regulated operating division that operates Kentucky, Tennessee and Virginia. The service areas in these states are primarily rural; however, this division serves Franklin, Tennessee, and other suburban areas of Nashville.

Atmos Energy Louisiana Division is a regulated operating division that serves nearly 300 communities, including the suburban areas of New Orleans, the metropolitan area of Monroe and western Louisiana. Direct sales of natural gas to industrial customers in Louisiana, who use gas for fuel or in manufacturing processes, and sales of natural gas for vehicle fuel are exempt from regulation and are recognized in our natural gas marketing segment.

Atmos Energy Mid-Tex Division is a regulated operating division that serves approximately 550 incorporated and unincorporated communities in the north-central, eastern and western parts of Texas, including the Dallas/Fort Worth Metroplex. The governing body of each municipality we serve has original jurisdiction over all gas distribution rates, operations and services within its city limits, except with respect to sales of natural gas for vehicle fuel and agricultural use. The Railroad Commission of Texas (RRC) has exclusive appellate jurisdiction over all rate and regulatory orders and ordinances of the municipalities and exclusive original jurisdiction over rates and services to customers not located within the limits of a municipality.

Atmos Energy Mississippi Division is a regulated operating division that serves about 110 communities throughout the northern half of the state, including the Jackson metropolitan area.

Atmos Energy West Texas Division is a regulated operating division that serves approximately 80 communities in West Texas, including the Amarillo, Lubbock and Midland areas. Like our Mid-Tex Division, each municipality we serve has original jurisdiction over all gas distribution rates, operations and services within its city limits, with the RRC having exclusive appellate jurisdiction over the municipalities and exclusive original jurisdiction over rates and services provided to customers not located within the limits of a municipality.

Atmos Pipeline – Texas Division is a regulated pipeline and storage division that transports natural gas to our Mid-Tex Division, transports natural gas for third parties and manages five underground storage reservoirs in Texas. These operations include one of the largest intrastate pipeline operations in Texas with a heavy concentration in the established natural gas-producing areas of central, northern and eastern Texas, extending into or near the major producing areas of the Texas Gulf Coast and the Delaware and Val Verde Basins of West Texas. Nine basins located in Texas are believed to contain a substantial portion of the nation's remaining onshore natural gas reserves. This pipeline system provides access to all of these basins.

The following are affiliates of Atmos Energy Corporation:

Blueflame Insurance Services, LTD is a wholly-owned subsidiary of Atmos Energy Corporation that was created to provide cost-effective property insurance coverage for Atmos Energy and its subsidiaries. It was chartered in Bermuda effective December 16, 2003, and became operational as of January 1, 2004. It is incorporated under Bermuda's insurance law and regulations and is fully capitalized under the requirements of applicable Bermuda law.

Atmos Energy Services, LLC was established on April 1, 2004 to provide natural gas management services to Atmos Energy's natural gas distribution operations, other than the Mid-Tex Division. These services include aggregating and purchasing gas supply, arranging transportation and storage logistics and ultimately delivering the gas to Atmos Energy's natural gas distribution service areas at competitive prices. AES provided these services through December 31, 2006. Effective January 1, 2007, the gas supply department within shared services began providing these services. However, AES continues to provide limited services to the natural gas distribution operations of Atmos Energy.

Phoenix Gas Gathering Company is a wholly owned subsidiary of Atmos Gathering Company, LLC, and was created to develop, own and operate a non-regulated natural gas gathering system located in Kentucky.

Atmos Gathering Company, LLC is a wholly owned subsidiary of Atmos Pipeline and Storage, LLC and was created to conduct our non-regulated natural gas gathering operations.

Atmos Energy Holdings, Inc. is the parent company of Atmos Energy Corporation's non-utility operations.

Atmos Energy Marketing, LLC provides a variety of non-regulated natural gas marketing services to municipalities, natural gas utility systems and industrial natural gas customers in 22 states primarily located in the southeastern and Midwestern states and to our Kentucky, Louisiana and Mid-States utility divisions.

Atmos Exploration and Production, Inc. holds some insignificant Kentucky production interests which the Company succeeded to when it acquired Western Kentucky Gas Company in 1989. This subsidiary is functionally inactive as the Company does not actively engage in the exploration and production business.

Atmos Pipeline and Storage, LLC owns or has an interest in underground storage fields in Kentucky and Louisiana. The utility divisions of Atmos Energy also use these storage facilities to reduce the need to contract for additional pipeline capacity to meet customer demand during peak periods.

Atmos Power Systems, Inc. constructs gas-fired electric peaking power generating plant and associated facilities and may enter into agreements to either lease or sell these plants. Since 2001, 2 sales-type lease transactions have been executed.

Egasco, LLC was, several years ago, engaged in the marketing and sale of natural gas to large-volume commercial and agricultural customers in West Texas. Egasco no longer serves any customers.

Fort Necessity Gas Storage, LLC is a wholly owned subsidiary of Atmos Pipeline and Storage, LLC, and was created in 2009 to construct and operate a non-regulated salt-cavern gas storage project in Louisiana. In March 2011, we recorded a $19.3 million charge to substantially write off our investment in Fort Necessity.

Trans Louisiana Gas Storage, Inc. owns a minority interest in a salt dome storage facility in Louisiana. This facility is used to serve utility and non-utility customers.

Trans Louisiana Gas Pipeline, Inc. owns and operates an intrastate pipeline system in Louisiana. This facility is used to serve utility and non-utility customers.

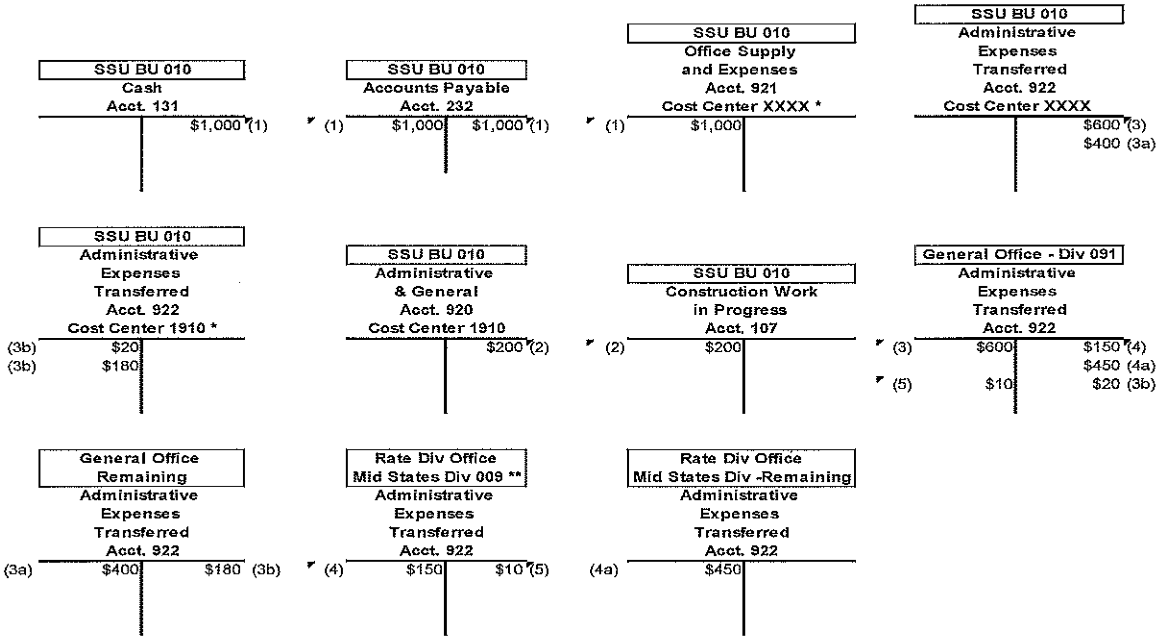
UCG Storage, Inc. owns certain storage field interests in Kentucky which are used to serve utility customers.

WKG Storage, Inc. owns certain storage field interests in Kentucky which are used to serve utility and non-utility customers.

Exhibit JLS-1

Service:	**Capitalized overhead (general)**
Description:	Overhead related to capital expenditures
Current Provider of Service	Shared Services Atmos Pipeline – Texas Division Louisiana Division operating division general office Kentucky/Mid-States Division operating division general office Colorado-Kansas Division operating division general office Mid-Tex Division Mississippi Division West Texas Division
Current Use of Service	Rate divisions
Basis for allocation	Capitalized overhead costs are accumulated by operating division (and state level for multiple state divisions). Each operating division (and state) sets an application rate at the beginning of the year based on projected expenditures. As expenditures for CWIP and RWIP are recorded overhead is applied at the application rate. Periodically, the application rate is reviewed. Shared services overhead is allocated to operating divisions based on operating division capital expenditures. At the end of each quarter, the amount that has accumulated in the OH project is cleared to all eligible projects that incurred charges during that quarter, on a pro rata basis

General Ledger Entries: Example Only



* Cap rate = 20%

** Many rate division offices exist within Mid-States in addition to Div 009.

Flow of Activity

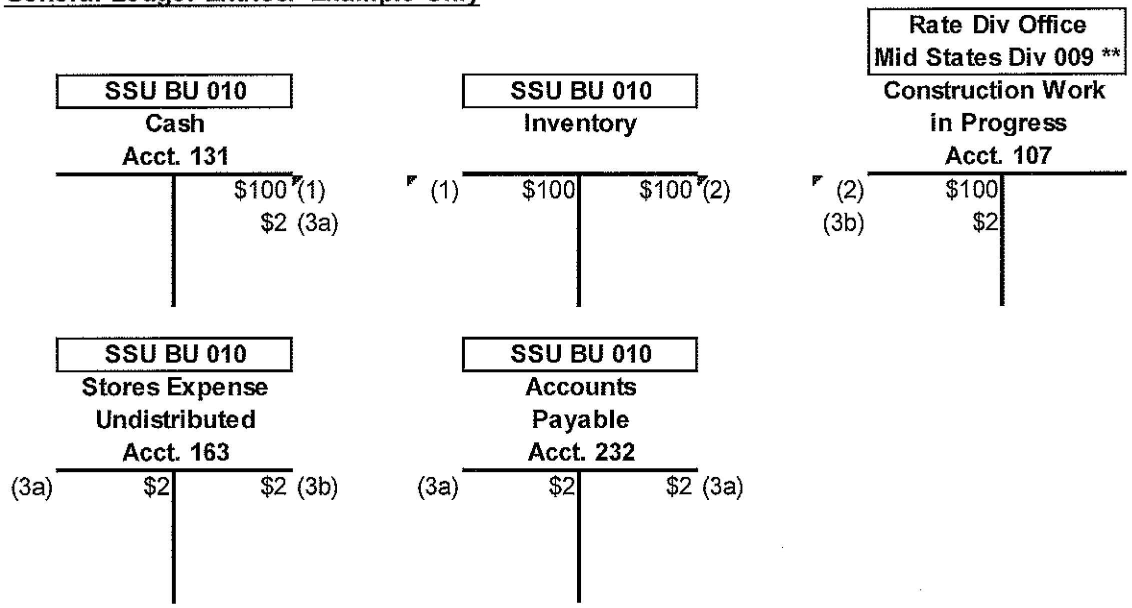
(1) Purchase Office Supplies
(2) Capitalize Overhead is calculated based on cost center capitalization percentage
(3) Allocating Shared Services Expenses to General Offices - 60% Allocation rate for illustration purposes only
(3a) Allocation to remaining general offices
(3b) Allocate capitalization credits to business units
(4) Allocating Shared Services Expenses to Rate Division Office - 25% Allocation rate for illustration purposes only
(4a) Allocation to remaining division offices
(5) Allocating Shared Services Capitalization Credit to Rate Division Office - 50% Allocation rate for illustration purposes only

Note: Please see the allocation of expenses from General Office to State Regional Office to Rate Division on the following pages:
West Texas - 17, Colorado/Kansas - 19, Louisiana - 23

Exhibit JLS-1

Service:	**Stores overhead**
Description:	Overhead related to inventory warehousing is allocated to materials as issued.
Current Provider of Service	Shared Services Operating division general office
Current Use of Service	Atmos Pipeline – Texas Division West Texas Division rate divisions Louisiana Division rate divisions Kentucky/Mid-States Division rate divisions Mid-Tex Division rate division Colorado-Kansas Division rate divisions Mississippi Division rate division
Basis for allocation	Overhead costs associated with inventory items, including rent, labor and supervision are accumulated by operating division. Each operating division sets an application rate at the beginning of the year based on projected overhead and materials activity. As materials are issued from the warehouse, the overhead assigned is also allocated to the same account. Periodically, the balance in the undistributed stores overhead account is compared to the materials on hand balance and a new rate is determined. Shared Services stores overhead is allocated monthly to the operating divisions based on number of meters.

General Ledger Entries: Example Only



** Many rate division offices exist within Mid-States in addition to Div 009.

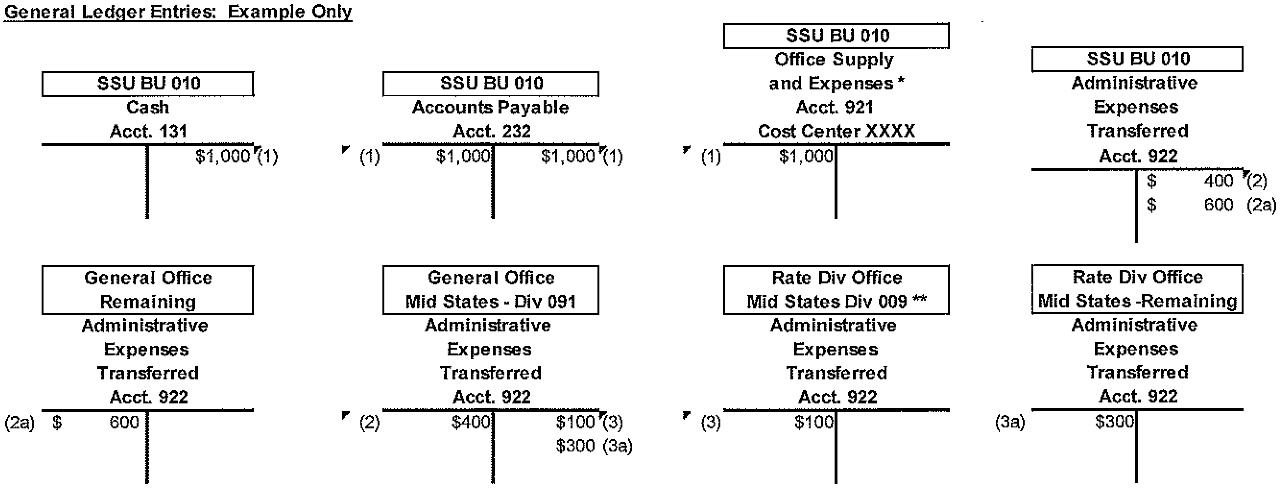
Flow of Activity

1 Purchase Inventory - Material
2 Issue Inventory to Capital Project
3a Incurring Inventory Expense
3b Apply Inventory Storage Rate
Assume 2%

Exhibit JLS-1

Service:	**O&M Expenses in Shared Services – Customer Support cost centers**
Description:	Includes all expenses for Customer Support. (Division 012)
Current Provider Of Service	Shared Services
Current Use of Service	West Texas Rate Divisions Mid-Tex Division Louisiana Rate Divisions Kentucky/Mid-States Rate Divisions Colorado-Kansas Rate Divisions Mississippi Division
Basis for allocation	Costs are allocated to the applicable operating division general office in total based on the average number of customers in each operating division as a percentage of the total number of customers in all of the operating divisions. From the operating division general office Divisions Customer Support charges are allocated to rate divisions using the average number of customers in each rate division.

General Ledger Entries: Example Only



* Many O&M expense accounts exist in addition to 921 that get cleared out of account 922.

** Many rate division offices exist within Mid-States in addition to Div 009.

Flow of Activity

(1) Purchase Office Supplies - Shared Services

(2) Allocating Shared Services Expenses to General Offices - 40% Allocation rate for illustration purposes only

(2a) Allocation to remaining general offices

(3) Allocating Shared Services Expenses to Rate Division Office - 25% Allocation rate for illustration purposes only

(3a) Allocation to remaining division offices

Note: Please see the allocation of expenses from General Office to State Regional Office to Rate Division on the following pages:
West Texas - 17, Colorado/Kansas - 19, Louisiana - 23

Exhibit JLS-1

Service: **O&M Expenses in Shared Services – General Office cost centers**

Description: Includes O&M expenses in Shared Services – General Office. (Division 002)

Current Provider Of Service: Shared Services

Current Use of Service:

Atmos Energy Marketing, LLC
Trans Louisiana Gas Pipeline
Atmos Gathering Company, LLC
WKG StorageWest Texas Division
Mid-Tex Division
Atmos Pipeline – Texas Division
Louisiana Division
Kentucky/Mid-States Division
Colorado-Kansas Division
Mississippi Division
Trans Louisiana Gas Storage
Atmos Power Systems, Inc

Basis for allocation: Costs are allocated to affiliates and operating divisions based on a composite factor applied to the Shared Services departments. Shared Services departments which provide services to the Company's affiliates utilize a composite factor which includes the affiliates.

Shared Service departments that do not provide services to the Company's affiliates utilize a composite factor which does not include the Company's affiliates.

Other allocation methods used as appropriate include composite not including affiliates or Atmos Pipeline –Texas, composite not including affiliates, Atmos Pipeline-Texas or Mid States, composite using only West Texas, COKS, and MS utility divisions, composite using West Texas, Mid Tex, and Atmos Pipeline-Texas and Overhead rate.

From each operating division general office charges are allocated to rate divisions using the composite rate for each rate division.

See page 12 for General Ledger Entries: Example Only.

Exhibit JLS-1

General Ledger Entries: Example Only

SSU BU 010
Cash
Acct. 131

		$1,000	✓(1)

SSU BU 010
Accounts Payable
Acct. 232

✓(1)	$1,000	$1,000	✓(1)

SSU BU 010
Office Supply
and Expenses *
Acct. 921
Cost Center XXXX

✓(1)	$1,000		

SSU BU 010
Administrative
Expenses
Transferred
Acct. 922

		$ 300	✓(2)
		$ 700	(2a)

General Office
Remaining
Administrative
Expenses
Transferred
Acct. 922

(2a)	$ 700		

General Office
Mid States - Div 091
Administrative
Expenses
Transferred
Acct. 922

✓(2)	$300	$150	✓(3)
		$150	(3a)

Rate Div Office
Mid States Div 009 **
Administrative
Expenses
Transferred
Acct. 922

✓(3)	$150		

Rate Div Office
Mid States -Remaining
Administrative
Expenses
Transferred
Acct. 922

(3a)	$150		

* Many O&M expense accounts exist in addition to 921 that get cleared out of account 922.
** Many rate division offices exist within Mid-States in addition to Div 009.

Flow of Activity
✓ (1) Purchase Office Supplies - Shared Services
✓ (2) Allocating Shared Services Expenses to General Offices - 30% Allocation rate for illustration purposes only
(2a) Allocation to remaining general offices
✓ (3) Allocating Shared Services Expenses to Rate Division Office - 50% Allocation rate for illustration purposes only
(3a) Allocation to remaining division offices

Note: Operating Divisions Mississippi, Mid-Tex and Atmos Pipeline – Texas have 1 rate division. There is no allocation to remaining division offices (3a).

Note: Please see the allocation of expenses from General Office to State Regional Office to Rate Division on the following pages:
West Texas - 17, Colorado/Kansas - 19, Louisiana - 23

Exhibit JLS-1

Service:	**SSU – Customer Support taxes other than income taxes**
Description:	Includes all taxes other than income tax charged in Shared Services – Customer Support.
Current Provider Of Services	Shared Services
Current Use of Service	West Texas Rate Divisions Louisiana Rate Divisions Kentucky/Mid-States Rate Divisions Mid-Tex Division Colorado-Kansas Rate Divisions Mississippi Division
Basis for allocation	Costs are allocated to the applicable rate division level in total based on the average number of customers in each operating division as a percentage of the total number of customers in all of the operating divisions. If needed number of customers in rate divisions is used to allocated from the operation division general office to rate divisions.

General Ledger Entries: Example Only

SSU BU 010
Cash
Acct. 131

		$1,000 (1)

SSU BU 010
Accounts Payable
Acct. 232

(1)	$1,000	$1,000 (1)

SSU BU 010
Taxes Other than
Income Taxes
Acct. 408.1

(1)	$1,000	$400 (2) $600 (2a)

General Office
Remaining
Taxes Other than
Income Taxes
Acct. 408.1

(2a)	$600	

General Office
Mid States -Div 091
Taxes Other than
Income Taxes
Acct. 408.1

(2)	$400	$100 (3) $300 (3a)

Rate Div Office
Mid States -Div 009**
Taxes Other than
Income Taxes
Acct. 408.1

(3)	$100	

Rate Div Office
Mid States - Remaining
Taxes Other than
Income Taxes
Acct. 408.1

(3a)	$300	

** Many rate division offices exist in addtion to Div 009.

Flow of Activity

(1) Taxes Other than Income Taxes incurred
(2) Allocating Shared Services Expenses to General Offices - 40% to Mid States BU - for illustration purposes
(2a) Allocating to remaining division offices
(3) Allocating Shared Services Expenses to Rate Division Office - 25% for Kentucky Rate Division Office - for illustration purposes only
(3a) Allocating Shared Services Expenses to remaining Rate Division Offices

Note: Please see the allocation of expenses from General Office to State Regional Office to Rate Division on the following pages:
West Texas - 17, Colorado/Kansas - 19, Louisiana - 23

Exhibit JLS-1

Service: **SSU – General Office taxes other than income taxes**

Description: Includes all taxes other than income tax charged in Shared Services – General Office.

Current Provider Of Services: Shared Services

Current Use of Service:

- Atmos Energy Marketing, LLC
- Atmos Power Systems, Inc.
- WKG Storage, Inc.
- Atmos Gathering Company, LLC
- Trans Louisiana Gas Pipeline, Inc.
- West Texas Division
- Mid-Tex Division
- Atmos Pipeline – Texas Division
- Louisiana Division
- Kentucky/Mid-States Division
- Colorado-Kansas Division
- Mississippi Division

Basis for allocation: Costs are allocated to the applicable operating divisions in total based on the Composite Factor. The Composite Factor is the simple average of three percentages:

The percentage of Gross Direct Property Plant and Equipment in each operating division unit as a percentage of the total Direct Property Plant and Equipment in all of the operating divisions.

The number of customers in each operating division as a percentage of the total number of customers in all of the operating divisions.

The total direct O&M expense in each operating division as a percentage of the total direct O&M expense in all operating divisions.

If needed, allocation from operating division general offices to rate division uses the composite rate.

See page 13 for General Ledger Entry – Example Only.

Exhibit JLS-1

Service:	**SSU – Customer Support depreciation**
Description:	Includes all depreciation charged in Shared Services – Customer Support.
Current Provider Of Services	Shared Services
Current Use of Service	West Texas Rate Divisions Louisiana Rate Divisions Kentucky/Mid-States Rate Divisions Mid-Tex Division Colorado-Kansas Rate Divisions Mississippi Division
Basis for allocation	Costs are allocated to the applicable rate division level in total based on the average number of customers in each operating division as a percentage of the total number of customers in all of the operating divisions. If needed number of customers in rate divisions is used to allocated from the operation division general office to rate divisions.

General Ledger Entries: Example Only

SSU BU 010
Depreciation Exp
Acct. 403

◤ (1)	$5,000	$200◤	(2)
		$4,800	(2a)

SSU BU 010
Depreciation Exp
Acct. 108

	$5,000◤	(1)

Rate Div Office
Mid States -Div 009**
Depreciation Exp
Acct. 403

◤ (2)	$200	
(2a)	$4,800	

** Many rate division offices exist in addtion to Div 009.

Flow of Activity

◤ (1) Monthly Depreciation Expense is booked through Powerplant and interfaces with the Oracle general ledger.
◤ (2) Current Month Depreciation Expense is allocated to the various utility rate divisions using the following allocation factors:
  i. For SSU division 002 - General - Allocated using the composite factor
  ii. For SSU division 012 - Call Center - Allocated using the customer factor.
(2a) Allocation to remaining Rate Divisions

Note: Please see the allocation of expenses from General Office to State Regional Office to Rate Division on the following pages:
West Texas - 17, Colorado/Kansas - 19, Louisiana - 23

Exhibit JLS-1

Service:	**SSU – General Office depreciation**
Description:	Includes all depreciation charged in Shared Services – General Office.
Current Provider Of Services	Shared Services
Current Use of Service	Atmos Energy Marketing, LLC Atmos Power Systems, Inc. WKG Storage, Inc. Atmos Gathering Company, LLC Trans Louisiana Gas Pipeline, Inc. West Texas Division Mid-Tex Division Atmos Pipeline – Texas Division Louisiana Division Kentucky/Mid-States Division Colorado-Kansas Division Mississippi Division
Basis for allocation	Costs are allocated to the applicable operating divisions in total based on the Composite Factor. The Composite Factor is the simple average of three percentages: (1) The percentage of Gross Direct Property Plant and Equipment in each operating division unit as a percentage of the total Direct Property Plant and Equipment in all of the operating divisions. (2) The number of customers in each operating division as a percentage of the total number of customers in all of the operating divisions. (3) The total direct O&M expense in each operating division as a percentage of the total direct O&M expense in all operating divisions. If needed, allocation from operating division general offices to rate division uses the composite rate.

See page 15 for General Ledger Entry – Example Only.

Exhibit JLS-1

Service:	**West Texas Division operating division general office O&M, depreciation and taxes other than income taxes, to rate division level**
Description:	Allocation of operating division general office expenses to rate division levels
Current Provider of Service	West Texas Division operating division general office
Current Use of Service	West Texas Division rate divisions
Basis for allocation	Costs are allocated to the applicable operating divisions in total based on the Composite Factor. The Composite Factor is the simple average of three percentages: (1) The percentage of Gross Direct Property Plant and Equipment in each division as a percentage of the total Direct Property Plant and Equipment in the West Texas Division rate divisions. (2) The number of customers in each rate division as a percentage of the total number of customers in the West Texas Division rate divisions. (3) The total direct O&M expense in each municipal rate division as a percentage of the total direct O&M expense in the West Texas Division rate divisions.

See Page 18 for General Ledger Entries: Example Only.

Exhibit JLS-1

General Ledger Entries: Example Only

General Office
SSU – Div 002
Cash
Acct. 131

		$500◤	(1)
		$400◤	(5)

General Office
SSU – Div 002
Accounts Payable
Acct. 232

◤ (1)	$500	$500◤	(1)
◤ (5)	$400	$400◤	(5)

General Office
West Texas - Div 010
Office Supply
and Expenses *
Acct. 921

◤ (1)	$500		

General Office
West Texas - Div 010
Administrative
Expenses
Transferred
Acct. 922

		$200◤	(2)
		$300	(2a)

Rate Div Office
West Texas Div 020**
Administrative
Expenses
Transferred
Acct. 922

◤ (2)	$200		

Rate Div Office
West Texas -Remaining
Administrative
Expenses
Transferred
Acct. 922

(2a)	$300		

General Office
West Texas - Div 010
Depreciation Exp
Acct. 403

◤ (3)	$100	$15◤	(4)
		$85	(4a)

West Texas - Div 010
Accumulated Depreciation
Acct. 108

		$100◤	(3)

Rate Div Office
West Texas Div 020**
Depreciation Exp
Acct. 403

◤ (4)	$15		

General Office
West Texas - Div 010
Taxes Other than
Income Taxes
Acct. 408.1

◤ (5)	$400	$100◤	(6)
		$300	(6a)

Rate Div Office
West Texas Div 020**
Taxes Other than
Income Taxes
Acct. 408.1

◤ (6)	$ 100		

Rate Div Office
West Texas -Remaining
Taxes Other and
Depreciation
Acct. 408.1 and 403

(4a)	$85		
(6a)	$300		

* Many O&M expense accounts exist in addition to 921 that get cleared out of account 922.
** Many rate division offices exist in addition to Div 020.

Flow of Activity

◤ (1) Purchase Office Supplies - West Texas Division General Office
◤ (2) Allocating General Office Expenses to Rate Division Office - 40% Allocation rate for illustration purposes only
(2a) Allocation to remaining division offices
◤ (3) Monthly Depreciation Expense is booked through Powerplant and interfaces with the Oracle general ledger.
◤ (4) Allocation from Division 010 - West Texas General Office to West Texas Rate Divisions
(4a) Allocation to remaining division offices
◤ (5) Taxes Other than Income Taxes incurred
◤ (6) Allocating General Office Expenses to Rate Division Office - 25% to West Texas Rate Division Office - for illustration purposes only
(6a) Allocation to remaining division offices

Exhibit JLS-1

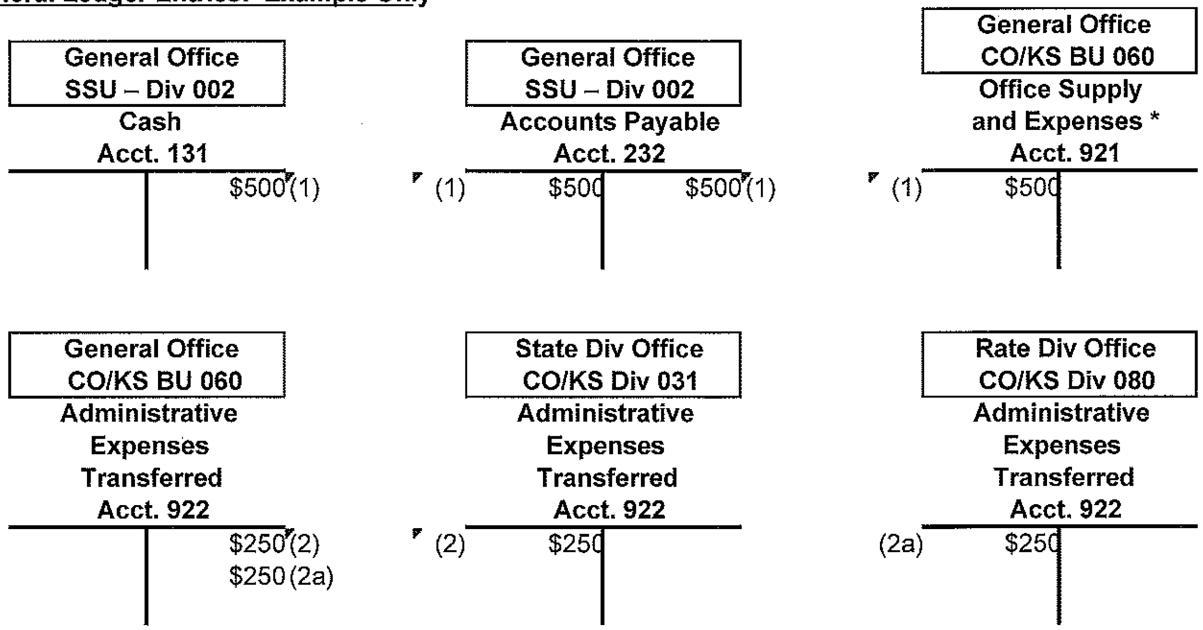
Service:	**Colorado-Kansas Division operating division general office expenses to state regional office division level.**
Description:	Allocation of division general office expenses to state regional office division levels.
Current Provider of Service	Colorado-Kansas Division operating division general office
Current Use of Service	Colorado-Kansas Operating Division state office divisions.
Basis for allocation	Costs are allocated to the applicable state regional office divisions in total based on the Composite Factor. The Composite Factor is the simple average of three percentages:

(1) The percentage of Gross Direct Property Plant and Equipment in each state as a percentage of the total Direct Property Plant and Equipment in Colorado-Kansas Division.

(2) The number of customers in each state as a percentage of the total number of customers in Colorado-Kansas Division.

(3) The total direct O&M expense in each state as a percentage of the total direct O&M expense in Colorado-Kansas Division.

General Ledger Entries: Example Only



* Many O&M expense accounts exist in addition to 921 that get cleared out of account 922.

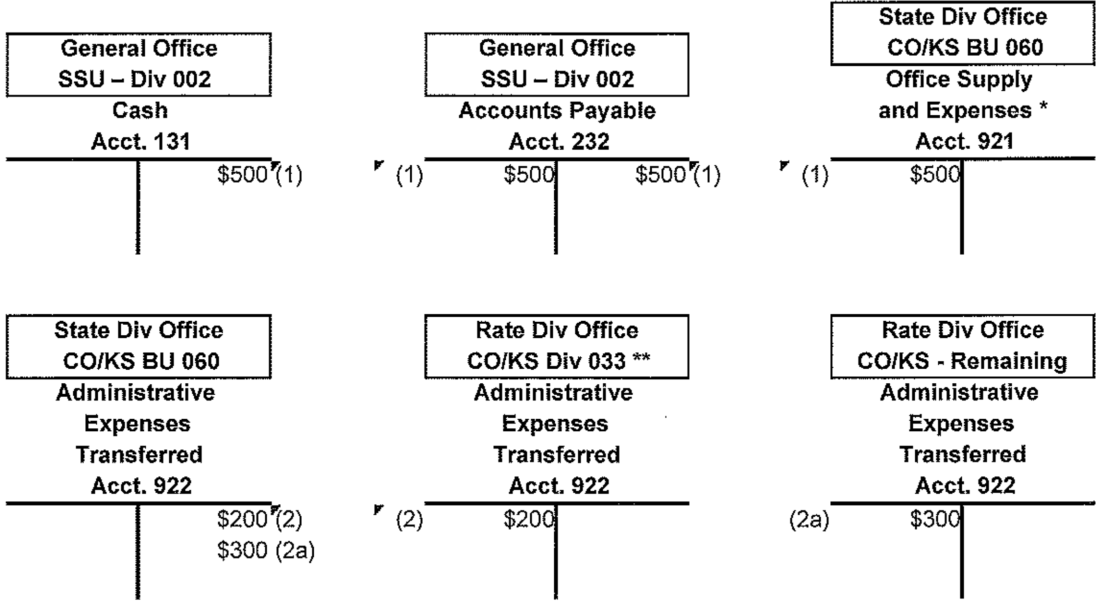
Flow of Activity

(1) Purchase Office Supplies - Colorado/Kansas Division General Office
(2) Allocating General Office Expenses to State Division Office - 50% Allocation rate for illustration purposes only
(2a) Allocation to remaining state office

Exhibit JLS-1

Service:	**Colorado-Kansas Division state regional office division level expenses to rate division level**
Description:	Allocation of state regional office division level expenses to rate division levels.
Current Provider of Service	Colorado-Kansas Division regional division office
Current Use of Service	Colorado-Kansas Division rate divisions
Basis for allocation	Costs are allocated to the applicable rate divisions in total based on the Composite Factor. The Composite Factor is the simple average of three percentages: (1) The percentage of Gross Direct Property Plant and Equipment in each state rate division as a percentage of the total Direct Property Plant and Equipment in each state. (2) The number of customers in each state rate division as a percentage of the total number of customers in each state. (3) The total direct O&M expense in each state rate division as a percentage of the total direct O&M expense in each state.

General Ledger Entries: Example Only



* Many O&M expense accounts exist in addition to 921 that get cleared out of account 922.

** Many rate division offices exist within the state in addition to Div 033.

Flow of Activity

(1) Purchase Office Supplies - Colorado/Kansas State Division Office
(2) Allocating State Divisoin Office Expenses to Rate Division Office - 40% Allocation rate for illustration purposes only
(2a) Allocation to remaining division offices

Exhibit JLS-1

Service:	**Kentucky/Mid-States Division operating division general office O&M, depreciation and taxes other than income taxes, to rate division level**
Description:	Allocation of operating division general office expenses to rate division levels
Current Provider Of Service	Kentucky/Mid-States Division operating division general office
Current Use of Service	Kentucky/Mid-States Division rate divisions
Basis for allocation	Costs are allocated to the applicable rate divisions in total based on the Composite Factor. The Composite Factor is the simple average of three percentages:

(1) The percentage of Gross Direct Property Plant and Equipment in each rate division as a percentage of the total Direct Property Plant and Equipment in Kentucky/Mid-States Division.

(2) The number of customers in each rate division as a percentage of the total number of customers in Kentucky/Mid-States Division.

(3) The total direct O&M expense in each rate division as a percentage of the total direct O&M expense in Kentucky/Mid-States Division.

See Page 22 for General Ledger Entries: Example Only.

Exhibit JLS-1

General Ledger Entries: Example Only

General Office
SSU – Div 002
Cash
Acct. 131

		$500	(1)
		$400	(5)

General Office
SSU – Div 002
Accounts Payable
Acct. 232

(1)	$500	$500	(1)
(5)	$400	$400	(5)

General Office
Mid States - Div 091
Office Supply
and Expenses *
Acct. 921

(1)	$500		

General Office
Mid States - Div 091
Administrative
Expenses
Transferred
Acct. 922

		$200	(2)
		$300	(2a)

Rate Div Office
Mid States Div 009 **
Administrative
Expenses
Transferred
Acct. 922

(2)	$200		

Rate Div Office
Mid States -Remaining
Administrative
Expenses
Transferred
Acct. 922

(2a)	$300		

General Office
Mid States - Div 091
Depreciation Exp
Acct. 403

(3)	$100	$15	(4)
		$85	(4a)

Mid States - Div 091
Accumulated Depreciation
Acct. 108

		$100	(3)

Rate Div Office
Mid States Div 009 **
Depreciation Exp
Acct. 403

(4)	$15		

General Office
Mid States - Div 091
Taxes Other than
Income Taxes
Acct. 408.1

(5)	$400	$100	(6)
		$300	(6a)

Rate Div Office
Mid States Div 009 **
Taxes Other than
Income Taxes
Acct. 408.1

(6)	$ 100		

Rate Div Office
Mid States -Remaining
Taxes Other and
Depreciation
Acct. 408.1 and 403

(4a)	$85		
(6a)	$300		

* Many O&M expense accounts exist in addition to 921 that get cleared out of account 922.
** Many rate division offices exist in addition to Div 009.

Flow of Activity

(1) Purchase Office Supplies - Mid States Division General Office
(2) Allocating General Office Expenses to Rate Division Office - 40% Allocation rate for illustration purposes only
(2a) Allocation to remaining division offices
(3) Monthly Depreciation Expense is booked through Powerplant and interfaces with the Oracle general ledger.
(4) Allocation from Division 091 - Mid States General Office to Mid States Rate Divisions - Allocated using the composite factor.
(4a) Allocation to remaining division offices
(5) Taxes Other than Income Taxes incurred
(6) Allocating General Office Expenses to Rate Division Office - 25% to Mid States Rate Division Office - for illustration purposes only
(6a) Allocation to remaining division offices

Exhibit JLS-1

Service:	**Louisiana Division operating division general office O&M, depreciation and taxes other than income taxes, to rate division level**
Description:	Allocation of operating division general office expenses to rate division levels
Current Provider of Service	Louisiana Division operating division general office
Current Use of Service	Louisiana Division rate divisions
Basis for allocation	Costs are allocated to the applicable rate divisions in total based on the Composite Factor. The Composite Factor is the simple average of three percentages: (1) The percentage of Gross Direct Property Plant and Equipment in each rate division as a percentage of the total Direct Property Plant and Equipment in Louisiana Division. (2) The number of customers in each rate division as a percentage of the total number of customers in Louisiana Division. (3) The total direct O&M expense in each rate division as a percentage of the total direct O&M expense in Louisiana Division.

See Page 24 for General Ledger Entries: Example Only.

Exhibit JLS-1

General Ledger Entries: Example Only

General Office
SSU – Div 002
Cash
Acct. 131

		$500	◤(1)
		$400	◤(5)

General Office
SSU – Div 002
Accounts Payable
Acct. 232

◤ (1)	$500	$500	◤(1)
◤ (5)	$400	$400	◤(5)

General Office
LA - Div 107
Office Supply
and Expenses *
Acct. 921

◤ (1)	$500		

General Office
LA - Div 107
Administrative
Expenses
Transferred
Acct. 922

		$200	◤(2)
		$300	(2a)

Rate Div Office
LA Div 007
Administrative
Expenses
Transferred
Acct. 922

◤ (2)	$200		

Rate Div Office
LA Div 007
Administrative
Expenses
Transferred
Acct. 922

(2a)	$300		

General Office
LA - Div 107
Depreciation Exp
Acct. 403

◤ (3)	$100	$15	◤(4)
		$85	(4a)

LA - Div 107
Accumulated Depreciation
Acct. 108

		$100	◤(3)

Rate Div Office
LA Div 007
Depreciation Exp
Acct. 403

◤ (4)	$15		
(4a)	$85		

General Office
LA - Div 107
Taxes Other than
Income Taxes
Acct. 408.1

◤ (5)	$400.00	$100	◤(6)
		$300	(6a)

Rate Div Office
LA Div 007
Taxes Other than
Income Taxes
Acct. 408.1

◤ (6)	$ 100		

Rate Div Office
LA Div 007
Taxes Other and
Depreciation
Acct. 408.1 and 403

(4a)	$85		
(6a)	$300		

* Many O&M expense accounts exist in addition to 921 that get cleared out of account 922.

Flow of Activity

◤ (1) Purchase Office Supplies - LA Division General Office
◤ (2) Allocating General Office Expenses to Rate Division Office - 40% Allocation rate for illustration purposes only
(2a) Allocation to remaining division offices
◤ (3) Monthly Depreciation Expense is booked through Powerplant and interfaces with the Oracle general ledger.
◤ (4) Allocation from Division 107 - LA General Office to LA Rate Divisions - Allocated using the composite factor.
(4a) Allocation to remaining division offices
◤ (5) Taxes Other than Income Taxes incurred
◤ (6) Allocating General Office Expenses to Rate Division Office - 25% to LA Rate Division Office - for illustration purposes only
(6a) Allocation to remaining division offices

Exhibit JLS-1

Description of Relationship between Mid-Tex and Atmos Pipeline – Texas:

Mid-Tex performs operations and maintenance and capital services for the Atmos Pipeline – Texas ("APT") Division.

Services are provided on an ongoing basis throughout the Mid-Tex and APT service areas. The field operations include, but are not limited to, services related to pipeline integrity, measurement, compliance work, painting, right of way mowing and reclamation, leak surveys, patrolling, regulator maintenance, fence replacements, line repairs and line replacements. Additionally, Technical and Support Services are provided to APT by centralized departments primarily located at the Mid-Tex headquarters in Dallas. These centralized functions include, but are not limited to, compliance monitoring and reporting, engineering, gas measurement, finance, marketing and human resources.

APT employs outside contractor labor services and purchases materials and supplies for field operations and construction in addition to the services provided by Mid-Tex. These services and materials are direct charged to APT and are not allocated from Mid-Tex.

APT employs some pipeline only personnel. This labor and the related benefit cost is primarily charged directly to APT and not allocated from Mid-Tex.

Service:	**Mid-Tex/Atmos Pipeline – Texas Division - Intracompany Labor**
Description:	Mid-Tex employees' labor supporting APT operations
Current Provider Of Service	Mid-Tex
Current Use of Service	Atmos Pipeline – Texas
Basis for allocation	Mid-Tex direct Company and/or contractor actual labor Mid-Tex Non Supervisory employees who charge time to APT generally record their time through the time reporting system. Mid-Tex Supervisory employees who charge time to APT generally record their time using the operational split through the time reporting system. The Operational Split is calculated annually based on the expected allocation of Mid-Tex Non Supervisory labor and contractor labor between the Mid-Tex and APT divisions.

Exhibit JLS-1

General Ledger Entry: Supervisory employee (Example Only)

SSU – Div 002
Cash
Acct. 131

	$1,000 (1)

SSU – Div 002
Accounts Payable
Acct. 232

(1) $1,000	$1,000 (2)

Mid-Tex BU 080
O&M Labor
Acct. 853
Cost Center 4XXX

(2) $200	

Mid-Tex BU 080
Construction work
In Progress
Acct. 107
Cost Center 4XXX

(2) $ 400	

APT BU 180
Construction work
In Progress
Acct. 107
Cost Center 9XXX

(2) $ 250	

APT BU 180
O&M Labor
Acct. 853
Cost Center 9XXX

(2) $150	

Flow of Activity:
(1) Pay Mid-Tex Supervisory employee
(2) Allocate labor to Mid-Tex and APT – for illustration purposes, this employee's time is charged 60% to Mid-Tex and 40% to APT. The APT portion is 63% capital.

General Ledger Entry: Non Supervisory employee (Example Only)

SSU – Div 002
Cash
Acct. 131

	$800 (1)

SSU – Div 002
Accounts Payable
Acct. 232

(1) $800	$800 (2)

Mid-Tex BU 080
O&M Labor
Acct. 853
Cost Center 4XXX

(2) $400	

APT BU 180
Construction work
In Progress
Acct. 107
Cost Center 9XXX

(2) $ 100	

APT BU 180
O&M Labor
Acct. 853
Cost Center 9XXX

(2) $300	

Flow of Activity:
(1) Pay Mid-Tex employee labor
(2) Direct charge labor to Mid-Tex and APT – for illustration purposes, this employee's time for this payroll cycle was 50% Mid-Tex and 50% APT. The APT portion was 25% capital and 75% expense.

Exhibit JLS-1

Service:	**Mid-Tex/Atmos Pipeline – Texas Division - Non Labor Expenses**
Description:	Allocation includes but is not limited to rents, heavy equipment, utilities, telecom, transportation (vehicles), uniforms, insurance, printing and postage.
Current Provider Of Service	Mid-Tex
Current Use of Service	Atmos Pipeline – Texas Division
Basis for allocation	Factors are primarily based on direct employee labor and contractor labor. The vehicle allocation is based on Company labor only. Allocations vary based on the cost center and sub account.

General Ledger Entries: Transportation Expense (Example Only)

SSU – Div 002
Cash
Acct. 131

	$1,000 (1)

SSU – Div 002
Accounts Payable
Acct. 232

(1) $1,000	$1,000 (1)

Mid Tex BU 080
O&M Transportation
Acct. 853
Cost Center 4XXX

(1) $1,000	$780 (2)

APT BU 180
CWIP
Acct. 107
Cost Center 9XXX

(3) $220	

APT BU 180
O&M Transportation
Acct. 853
Cost Center 4XXX

(2) $780	$220 (3)

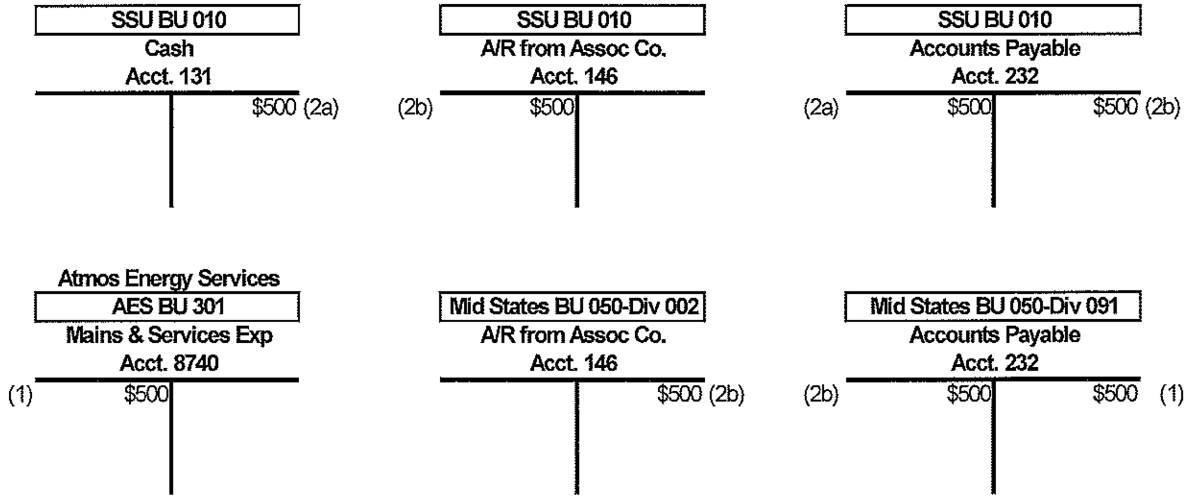
Flow of Activity

(1) $1000 in transportation expense
(2) $780 is allocated from Mid-Tex O&M to APT O&M
(3) A portion of the cost is capitalized, for illustration purposes only (22%)

Exhibit JLS-1

Service:	**Intercompany labor**
Description:	To the extent operating division employees provide labor services to an affiliate, the labor costs for the services will be charged to the appropriate affiliate.
Current Provider of Service	Atmos Pipeline – Texas Division Louisiana Division Colorado-Kansas Division Kentucky/Mid-States Division Mid-Tex Division Mississippi Division West Texas Division
Current Use of Service	UCG Storage, Inc. Atmos Energy Marketing, LLC WKG Storage, Inc. Trans Louisiana Gas Pipeline, Inc. Trans Louisiana Gas Storage, Inc.
Basis for allocation	Labor charges are captured through direct time sheet entries and transferred to the appropriate subsidiary receiving the labor services.

General Ledger Entries: Example Only



Flow of Activity

(1) Employee X is a Kentucky Employee. He worked on a special project in March for Atmos subsidiary, AES (Atmos Energy Services). Time is captured through a direct time sheet entry.

(2a) Salary is paid to employee x

(2b) JE is made to relieve payable in operating division.
Intercompany Entry generated by Oracle to keep Operating Divisions in sync.

Exhibit JLS-1

Service:	**Adjustments to Uncollectible Accounts Expense**
Description:	Allocation of additional expense amounts booked to adjust the Provision for Uncollectibles (Account 144)
Current Provider of Service	West Texas Division rate divisions Louisiana Division rate divisions Kentucky/Mid-States Division rate divisions Colorado-Kansas Division rate divisions Mid-Tex Division rate division Mississippi Division rate division
Current Use of Service	West Texas Division rate divisions Louisiana Division rate divisions Kentucky/Mid-States Division rate divisions Colorado-Kansas Division rate divisions Mid-Tex Division rate division Mississippi Division rate division
Basis of Intra-company Allocations	Costs are allocated to the rate divisions in total based on Sales Revenue.

General Ledger Entries: Example Only

Rate Division *
Accumulated Provision for Uncollectible Accounts
Acct. 144 sub xxxxx

(2) $ 250	$ 1,000 (1)

Rate Division
Customer Accounts - Uncollectible Accounts
Acct. 904

(1) $ 1,000	

Rate Division
Customer Accounts Receivable
Acct. 142 sub xxxxx

	$ 250 (2)

* Each rate division has a different allocation rate.

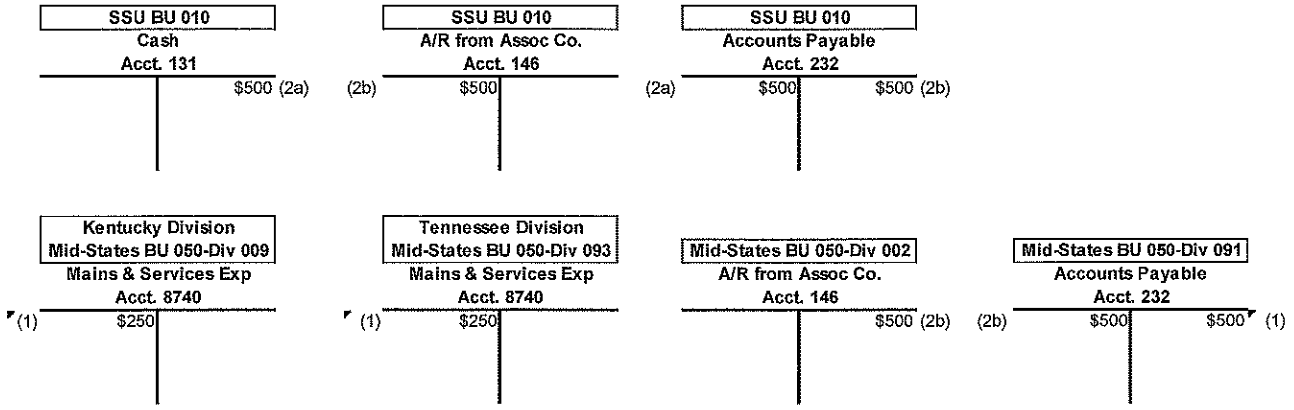
Flow of Activity

(1) Monthly allocated costs.
(2) Write off of uncollectible accounts as needed.

Exhibit JLS-1

Service:	**Intra-company labor allocation – other than operating division general office labor**
Description:	Certain employee activities cross multiple rate divisions within an operating division. The costs associated with such activities include labor, benefits and associated taxes.
Current Provider of Service	Atmos Pipeline – Texas Division West Texas Division Louisiana Division Kentucky/Mid-States Division Mid-Tex Division Colorado-Kansas Division Mississippi Division
Current Use of Service	Atmos Pipeline – Texas Division West Texas Division Louisiana Division Kentucky/Mid-States Division Mid-Tex Division Colorado-Kansas Division Mississippi Division
Basis of Intra-company Allocations	Labor associated with cross-jurisdictional activities is charged to each jurisdiction based on the level of employee activity. The costs are captured either through direct time sheet entries or fixed labor distribution percentages.

General Ledger Entries: Example Only



Flow of Activity

(1) Employee x lives in Kentucky and works 50% in Kentucky and 50% in Tennessee every month.
Time is captured through fixed labor distribution
(2a) Salary is paid to employee x
(2b) JE is made to relieve payable in operating division.
Intercompany Entry generated by Oracle to keep Operating Divisions in sync

Exhibit JLS-1

Service:	**Other income and interest expense (All below the line accounts)**
Description:	Allocation of Shared Services' other income and interest expense (All below the line accounts)
Current Provider of Service	Shared Services
Current Use of Service	West Texas Division Louisiana Division Kentucky/Mid-States Division Mid-Tex Division Colorado-Kansas Division Mississippi Division Atmos Pipeline – Texas Division
Basis for allocation	Interest Expense, Interest Income and Other Non-Operating Income in shared services are allocated to each utility division based on the budget allocation percentages. The budget allocation is based on projected average net investment by rate division for the budget year. For this purpose, 'net investment' is defined as regulatory rate base + goodwill. These allocation factors are the same throughout the fiscal year. The allocation stays in the account the charge was originally booked in. Headquarter allocation of below the line accounts to rate divisions follows the same process as described above.

See page 33 for General Ledger Entries: Example Only.

Exhibit JLS-1

General Ledger Entries: Example Only

SSU BU 010
Cash
Acct. 131

	$1,000		

SSU BU 010
Accounts Receivable
Acct. 143

(1)	$1,000	$1,000	(1)

SSU BU 010
Interest and
Dividend Income
Acct. 419

(2)	$20	$1,000	(1)

Div 033
Interest and
Dividend Income
Acct. 419

		$20	

SSU BU 010
Cash
Acct. 131

		$2,000	(3)

SSU BU 010
Accounts Receivable
Acct. 143

(3)	$2,000	$2,000	(3)

SSU BU 010
Other Deductions *
Acct. 426.5

(3)	$2,000	$40	(4)

Div 033
Other Deductions
Acct. 426.5

(4)	$40		

SSU BU 010
Cash
Acct. 131

		$3,000	(5)

SSU BU 010
Accounts Receivable
Acct. 143

(5)	$3,000	$3,000	(5)

SSU BU 010
Interest Expense
Acct. 431
(Short Term)

(5)	$600	$12	(6)

Div 033
Interest Expense
Acct. 431
(Short Term)

(6)	$ 12		

SSU BU 010
Interest Expense
Acct. 431
(Long Term)

(5)	$2,400	$48	(6)

Div 033
Interest Expense
Acct. 431
(Long Term)

(6)	$ 48		

* Includes various accounts but cleared out of account 426.5

Flow of Activity

(1) Interest and Dividend Income generated
(2) Allocating Shared Services Income and Dividend Income to Div 33 only - Assume 2% allocation rate
(3) Other Income and Expenses generated
(4) Allocating Shared Services Other Deductions to Div 33 only - Assume 2% allocation rate
(5) Interest Expense generated
(6) Allocating Shared Services Interest Expense to Div 33 only - Assume 2% allocation rate

Exhibit JLS-1

Service:	**Gas cost between state jurisdictions for contiguous systems**
Description:	Gas costs that apply to contiguous systems that cross state jurisdictional boundaries are allocated between those rate jurisdictions.
Current Provider of Service	West Texas Division Colorado-Kansas Division Kentucky/Mid-States Division
Current Use of Service	West Texas Division Colorado-Kansas Division Kentucky/Mid-States Division
Basis of Allocations	Allocations are based upon throughput for the West Texas Division and the Colorado-Kansas Division's Southeast Colorado/Southwest Kansas operations. For the Colorado-Kansas Division's Kansas system and for the Kentucky/Mid-States Division, demand costs are allocated based on peak-day requirements. Commodity costs are allocated based upon throughput.

Atmos Energy Corporation
General Ledger Entries: Gas Costs between state jurisdictions for contiguous systems (Example Only)

SSU BU 010
Cash
Acct. 131

		$1,000	(1)

SSU BU 010
Accounts Payable
Acct. 232

(1)	$1,000	$1,000	(2)

Various BU's & Svc Areas
Natural Gas City Gate Purchase
Acct. 804

(2)	$1,000		

(1) Gas cost incurred
(2) Gas cost paid

Exhibit JLS-1

Service:	**Gas storage services between an operating division and an affiliate**
Description:	To the extent an operating division stores gas in a storage field owned by an affiliate, a rental fee for the use of the storage field shall be charged by the affiliate.
Current Provider of Service	UCG Storage, Inc. WKG Storage, Inc.
Current Use of Service	Kentucky/Mid-States Division
Basis for allocation	The annual demand charge between UCG Storage, Inc. and Atmos Energy Corporation (Tennessee operations only) is calculated based on fiscal year plant in service, gas inventory, actual operational costs incurred, and application of revenue and cost of capital conversion factors based on prior regulatory approval. In the calculation of the demand charge, costs not specifically related to a designated area are allocated to each affiliate based on the percentage of total plant servicing that affiliate. The annual demand charge between WKG Storage, Inc. and Atmos Energy Corporation (Kentucky operation only) is based on services provided at actual cost, market rate or as otherwise provided under tariff or contract.

General Ledger Entries: Example Only

WKG Storage BU 233
Other Gas Revenues
Acct. 495

		$100	(1)

KY/Mid-State BU 050, Div 009
Transportation to City Gate
Acct. 8580

(1)	$100		

WKG Storage BU 233, Div 002
A/R from Assoc Co.
Acct. 146

(2)	$100		

KY/Mid-State BU 050, Div 002
A/R from Assoc Co.
Acct. 146

		$100	(2)

Flow of Activity - East Diamond Storage Facility

1 Monthly demand charge for the East Diamond Storage Facility
2 Intercompany Entry generated by Oracle to keep Operating Divisions in sync

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UCG Storage BU 232
Other Gas Revenues
Acct. 495

		$100	(1)

KY/Mid-State BU 050, Div 009
Other gas supply expenses
Acct. 813

(1)	$100		

WKG Storage BU 232, Div 002
A/R from Assoc Co.
Acct. 146

(2)	$100		

KY/Mid-State BU 050, Div 002
A/R from Assoc Co.
Acct. 146

		$100	(2)

Flow of Activity - Barnsley Storage Facility

1 Monthly demand charge for the Barnsley Storage Facility
2 Intercompany Entry generated by Oracle to keep Operating Divisions in sync

Exhibit JLS-1

Service: **Working capital funds management (Intercompany account)**

Description: Funds are invested on behalf of or provided to affiliates based on operations.

Current Provider of Service:	Atmos Energy Corporation	Atmos Energy Holdings, Inc.	Atmos Energy Holdings, Inc.
Current Use of Service:	Atmos Energy Holdings, Inc.	Atmos Energy Marketing Services, LLC	Atmos Energy Corporation
Interest Income/Expense Calculation (See Below)	A	B	C

Basis for allocation

Interest income or expense is recognized each month at the subsidiaries' level based on the total average outstanding balance of all intercompany receivable/payable balances using the following rates:

A (AEH is the borrower)
Expense – One month LIBOR (last day of the month) plus 300 basis points
Income – One month LIBOR (last day of the month)

B (AEM is the borrower)
Expense – One month LIBOR (last day of the month) plus 300 basis points
Income – One month LIBOR (last day of the month)

C (AEC is the borrower)
Expense – The lowest outstanding CP rate or the Eurodollar rate under the AEC Credit Facility (RBS), which is LIBOR plus 100
Income – One month LIBOR (last day of the month)

Atmos Energy Corporation
General Ledger Entries: Working Capital Funds Management (Example Only)

SSU BU 010
Interest and Dividend Income
Acct. 419

		$1,000 (1)

AEH BU 312
Other Interest Expense
Acct. 431

(1)	$1,000	

(1) Interest Income and/or expense is recognized each month at the subsidiaries' level

Exhibit JLS-1

Service:	**Gas storage services provided between affiliates**
Description:	To the extent an affiliate stores gas in a storage field owned by another affiliate, a fee for the use of the storage field shall be charged.
Current Provider of Service	Trans Louisiana Gas Storage, Inc.
Current Use of Service	Trans Louisiana Gas Pipeline, Inc.
Basis for allocation	The fee to the affiliate utilizing the storage service is based on services provided at actual cost, market rate or as otherwise provided under tariff.

General Ledger Entries: Example Only

BU 234

Accounts Receivable from Associated Company Acct. 146

$100	

BU 234

Revenue Transportation - Industrial Acct. 4896

	$100

BU 303

Accounts Receivable from Associated Company Acct. 146

	$100

BU 303

Other Gas Supply Expense Acct. 813

$100	

Exhibit JLS-1

Service:	**AEM – Salaries and FICA Cost Allocation**
Description:	Salaries and FICA cost allocations between affiliates.
Current Provider of Service	Atmos Energy Marketing, LLC
Current Use of Service	Atmos Energy Services, LLC Atmos Energy Marketing, LLC Trans Louisiana Gas Pipeline, Inc. Atmos Power Systems, Inc.
Basis for allocation	Costs are allocated based on each individual employee's calculated allocation rate between companies. The individual employee's calculated allocation rates are then added up to arrive at a Company-wide allocation rate.

Atmos Energy Corporation
General Ledger Entries: AEM - Salaries & Fica Cost Allocation (Example Only)

Atmos Energy Marketing, LLC BU 212
Cash
Acct. 131

			$200	(3)
			$200	(3)
			$600	(4)

Atmos Energy Marketing, LLC BU 212
Accounts Payable
Net Payroll Accrual
Acct. 232

	(2)	$200	$800	(1)
	(4)	$600		

Atmos Energy Marketing, LLC BU 212
A&G-Administrative & general salaries
Non-project Labor
Acct. 920

	(1)	$800	$800	(6)
Alloc to Var. States	(6)	$500		
Alloc to TLGP	(6)	$100		
Alloc to New Orleans I	(6)	$50		
Alloc to AES	(6)	$50		

Atmos Energy Marketing, LLC BU 212
Clearing Account
Employer FICA Clearing
Acct 184

	(2)	$200	$200	(5)

Atmos Energy Marketing, LLC BU 212
Accounts Payable
Empr Fica-Accrual
Acct. 236

	(3)	$200	$200	(2)

Atmos Energy Marketing, LLC BU 212
Accounts Payable
Emp Fica-Accrual
Acct. 241

	(3)	$200	$200	(2)

Atmos Energy Marketing, LLC BU 212
Taxes other than Income Taxes
Fica Load
Acct. 408

	(5)	$200	$200	(6)
Alloc to Var. States	(6)	$40		
Alloc to TLGP	(6)	$40		
Alloc to New Orleans I	(6)	$40		
Alloc to AES	(6)	$40		

BU 303 (TLGP), 221(APS)
A&G-Administrative & general salaries
Non-project Labor
Acct. 920

	(6)	$100		

BU 303 (TLGP), 221(APS)
Taxes other than Income Taxes
Fica Load
Acct. 408

	(6)	$40		

(1) Payroll Accrual
(2) Fica Accrual
(3) Payment of Fica (Employer and Employee)
(4) Payment of Payroll
(5) Employer Fica Tax Load
(6) Allocation of Payroll and Fica

Exhibit JLS-1

Service:	**AEM – Operation and Maintenance cost allocation**
Description:	O&M expense cost allocations between affiliates.
Current Provider of Service	Atmos Energy Marketing, LLC
Current Use of Service	Atmos Energy Services, LLC
Basis for allocation	Costs are allocated based on each individual employee's calculated allocation rate between companies. The individual employee's calculated allocation rates are then added up to arrive at a Company-wide allocation rate.

Atmos Energy Corporation

General Ledger Entries: Affiliates - O&M Expense Allocation (Example Only)

Labor & Benefits

Atmos Energy Marketing, LLC BU 212
Administrative Expenses Transferred - CR
Acct. 922

		$1,000	(1)

Atmos Energy Holdings, Inc. BU 312
Administrative Expenses Transferred - CR
Acct. 922

(1)	$1,000	$1,000	(1)

Atmos Energy Services, LLC BU 301
Administrative Expenses Transferred - CR
Acct. 922 - Multiple Svc Areas for different states

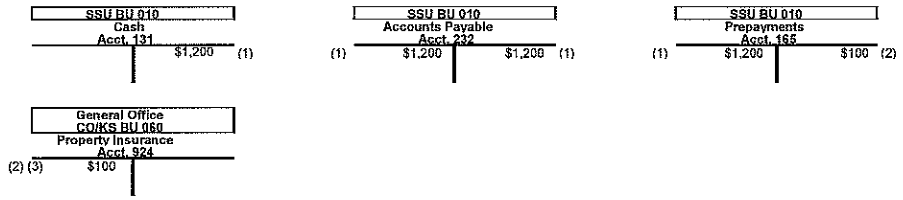
(1)	$1,000		

(1) Labor and Benefits Billing from AEM (212) to AES (301)

Exhibit JLS-1

Service:	**Property Insurance**
Description:	Blueflame Insurance Services, LTD provides a direct property insurance policy. The policy covers the property against all risks of direct physical loss or damage.
Current Provider of Service	Blueflame Insurance Services, LTD
Current Use of Service	Kentucky/Mid-States Division Colorado-Kansas Division Shared Services Louisiana Division Mississippi Division Mid-Tex Division West Texas Division Atmos Pipeline – Texas Division Atmos Energy Marketing, LLC Atmos Exploration & Production, Inc. Atmos Energy Services, LLC Atmos Power Systems, Inc. Trans Louisiana Gas Pipeline, Inc. Trans Louisiana Gas Storage, Inc. UCG Storage, Inc. WKG Storage, Inc. Atmos Gathering Company, LLC
Basis for allocation	Atmos Energy Corporation is invoiced by Blueflame Insurance Services. Costs are allocated based on the gross property, plant and equipment and gas stored underground balances of each affiliate at a rate division level.

General Ledger Entries: Example Only



Flow of Activity

(1) Purchase of property insurance

(2) Monthly amortization to rate divisions

(3) Amounts remaining in SSU cost centers are allocated to the divisions using the method described on pages 11 and 12.

Exhibit JLS-1

Service:	**AES Retail Services**
Description:	AES Retail services monthly revenue
Current Provider Of Services	Atmos Energy Services, LLC
Current Use of Service	West Texas Rate Divisions Kentucky/Mid-States Rate Divisions Colorado-Kansas Rate Divisions
Basis for allocation	1. Revenue for retail services is tracked in Atmos Energy Services, LLC by service areas which represent corresponding service areas at the utility level. Some of the revenue is reclassed to utility levels on a one to one basis. I.e. Colorado retail services post to service area 813 within Atmos Energy Services, LLC books and is simply reclassed to Colorado/Kansas Division, service area 030 (Colorado operating division general office). 2. Revenue balance in Atmos Energy Services, LLC service area 055001 (Retail – AES) is allocated to the above referenced divisions based on the net income of Atmos Energy Services, LLC service areas 811-813 as a percentage of their combined net income.

General Ledger Entries: Example Only

BU 301
Service areas 811-813

Revenues from Non-utility Operations Acct. 417

(1)	$600	$600	(1)
(1)	$300	$300	(1)
(1)	$100	$100	(1)

General Office

Revenues from Non-utility Operations Acct. 417

		$600	(1)
		$300	(1)
		$100	(1)

BU 301
Service area 055

Revenues from Non-utility Operations Acct. 417

(2)	$2,000	$2,000	(2)

General Office

Revenues from Non-utility Operations Acct. 417

(2)	$1,000		West Texas
(2)	$750		Colorado
(2)	$250		Kansas

Flow of Activity

(1) Revenues from Non-utility Operations incurred and reclassed to General Offices
(2) Revenues from Non-utility Operations incurred are allocated to General Offices

Exhibit JLS-1

Service:	**Intercompany Interest on Notes Payable**
Description:	Intercompany Interest on Notes Payable
Current Provider Of Services	Shared Services
Current Use of Service	Atmos Energy Holdings, Inc.

Current Provider of Service:	Atmos Energy Corporation	Atmos Energy Holdings, Inc.	Atmos Energy Holdings, Inc.
Current Use of Service:	Atmos Energy Holdings, Inc.	Atmos Energy Marketing Services, LLC	Atmos Energy Corporation
Interest Income/Expense Calculation (See Below)	A	B	C

Basis for allocation

Interest income and expense is recognized each month at the subsidiaries' level using the following rates:

A (AEH is the borrower)
Expense – One month LIBOR (last day of the month) plus 300 basis points
Income – One month LIBOR (last day of the month)

B (AEM is the borrower)
Expense – One month LIBOR (last day of the month) plus 300 basis points
Income – One month LIBOR (last day of the month)

C (AEC is the borrower)
Expense – The lowest outstanding CP rate or the Eurodollar rate under the AEC Credit Facility (RBS), which is LIBOR plus 100
Income – One month LIBOR (last day of the month)

General Ledger Entries: Example Only

Shared Services

Accounts Receivable from Associated Company
Acct. 146

		$1,000	(1)

Shared Services

Interest on Debt to Associated Companies
Acct. 431

(1)	$1,000		

Atmos Energy Holdings, Inc.

Accounts Receivable from Associated Company
Acct. 146

(1)	$1,000		

Atmos Energy Holdings, Inc.

Interest and Dividend Income
Acct. 419

		$1,000	(1)

Flow of Activity

(1) Intercompany Interest on Notes Payable is recognized each month at the subsidiary level.

Exhibit JLS-1

Appendix A

Exhibit JLS-1