RAILROAD COMMISSION OF TEXAS

HEARINGS DIVISION

GUD NOS. 10359, 10361 & 10368

PETITION FOR DE NOVO REVIEW OF THE DENIAL OF THE RATE REVIEW MECHANISM TARIFF FILED BY ATMOS ENERGY CORP., MID-TEX DIVISION BY THE CITIES OF ABILENE, ADDISON, ALLEN, ET AL.

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PROCEDURAL HISTORY:

Docket Established:	May 30, 2014
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Heard By:	Gene Montes, Hearings Examiner Christina Poole, Technical Examiner
Record Closed:	April 15, 2015
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STATEMENT OF THE CASE

These consolidated proceedings arise from an appeal made by Atmos Energy related to its Atmos Mid-Tex Division. Appeals from municipal actions are to be decided *de novo*. Atmos Energy made a filing related to a proposed rate change requested by Atmos Energy for its Atmos Mid-Tex Division pursuant to a municipally-approved tariff, referred to as the Rate Review Mechanism (RRM) Tariff. All affected cities in this proceeding adopted the RRM Tariff. The City of Dallas, which is also served by the Atmos Mid-Tex Division did not adopt the RRM Tariff. It is the only municipality within the Atmos Mid-Tex Division that has not adopted the RRM Tariff. As a result this case does not involve the City of Dallas. Furthermore, these consolidated cases do not involve the areas within the original jurisdiction of the Railroad Commission. (Commission). The Commission has not adopted the RRM Tariff for areas within its original jurisdiction.

The municipalities denied the requested rate change and this appeal was initiated. The RRM Tariff filing is not a *Statement of Intent* proceeding filed pursuant to TEX. UTIL. CODE § 104.102. The RRM Tariff filing is governed by the terms of the RRM Tariff itself. On the other hand, *Statement of Intent* proceedings are **not** governed or controlled by an RRM Tariff. In this *de novo*-appellate proceeding, the Commission is asked to ensure proper application of the municipally-approved RRM Tariff. While this is not a *Statement of Intent* proceeding, the RRM Tariff does not abrogate the jurisdiction of the municipalities to initiate a rate proceeding at any time to review whether rates charged are just and reasonable. The prospective rates set in such a proceeding would not be controlled by the RRM Tariff.

The underlying filing made at the municipality pursuant to the municipally-approved RRM Tariff was made on March 1, 2014. The RRM Tariff requires that the filing be based upon a system-wide calculation of the company's revenue requirement. Initially, the company estimated an increase to its system-wide revenues of $45,732,838 million. The municipalities denied the request and on May 10, 2014, Atmos Energy filed the first of these consolidated appeal proceedings. Several municipalities intervened and aligned themselves as part of two large groups: Atmos Cities Steering Committee (ACSC) and Atmos Texas Municipalities (ATM). On appeal, the company reduced its requested increase to $43,818,888 million. The requested increase in the appeal filing was based upon a calculated base cost revenue requirement of $512,758,465.

In this proceeding the Intervenors have proposed twenty-five adjustments to the request made by Atmos Energy pursuant to the RRM Tariff. In some cases the parties have proposed adjustments that may be considered alternative adjustments. For example, ACSC and ATM proposed adjustments to the calculation of incentive compensation and expenses to a customer service and billing system that may only be considered in the alternative. These alternative adjustments are considered as a single adjustment in the overall count of twenty-five proposed adjustments. On the other hand, the parties have sometimes included, as a separate adjustment, a flow-through impact that is an extension of another requested change to the company's calculation of the revenue requirement. For example, ACSC proposed certain adjustments to incentive compensation that ACSC asserted resulted in an impact on rate base. The alleged flow-through impacts have been counted as a separate adjustment in the overall all count of twenty-five proposed adjustments.

Many of the issues disputed, in this proceeding, center around the interpretation and application of the provisions of the RRM Tariff. The reasonableness of test-year expenses are at issue in all RRM Tariff filings. Thus, for example, Atmos Energy must establish that the expenditure for the Customer Service and Billing System is just and reasonable. The RRM Tariff requires that the rate-making treatments approved in GUD No. 10170 be applied in this RRM Tariff proceeding. The RRM Tariff also requires the calculation of a reduction to the overall cost-of-service calculation. In some instances, the Intervenors have raised issues that are resolved by either the express language of the RRM Tariff or the rate-making treatment applied in GUD No. 10170. In other cases, the Intervenors have raised multiple issues regarding an expenditure. Some issues are resolved by applying the rate-making treatments adopted in GUD No. 10170. In certain cases the proposed adjustment is not impacted by either the express language of the RRM Tariff or the applicability of the rate-making treatments approved in GUD No. 10170.

The Examiners recommend seven adjustments to the company's requested revenue increase calculation. Additionally, the Examiners recommend that the Commission clarify a portion of Rule 8.209 related to the calculation of interest. As to the adjustments, first, the Examiners find that the company has not established that its calculation of expenses associated with SSU Cost Center 1205 complied with the requirements of the RRM Tariff. Second, the Examiners find that the company has not established that miscellaneous expenses related to AtmoSpirit and service award banquets is just and reasonable. Third, the Examiners conclude that the calculation of depreciation and amortization expenses included the recovery of costs that were not just, reasonable, or necessary to the provision of natural gas service. Fourth, the Examiners find that Atmos Energy has not correctly calculated its intended adjustment to incentive compensation. Atmos Energy asserted that it reduced the achieved payout percentage from 200% to 150%. The modification proposed by Atmos Energy did not completely accomplish the asserted goal. The goal represents a just and reasonable reduction to the test-year incentive compensation expenses. The Examiners recommend that the company's proposed adjustment be corrected to accomplish that goal. Fifth, the Examiners recommend a minor adjustment to account for the flow-through effect of the adjustment to incentive compensation just noted. Sixth, the Examiners recommend that an unopposed correction to the ADIT NOL Carryforward calculation be made. Seventh, the Examiners recommend ACSC's proposed adjustment to the forfeited revenue calculation be adopted. Additionally, the Examiners recommend that the Commission clarify that in future filings the interest rate on the Rule 8.209 regulatory assets be calculated based upon the company's pre-tax rate of return calculated on a simple annual basis.

The parties all agree that Atmos Energy has established the need for a revenue increase, and thus a rate increase, in this proceeding. The dispute centers on the amount of the increase. The parties' proposals result in a revenue increase that is summarized at Table 2, below:

Table 2
Comparison of Revenue Increase Proposed
Including Revenue Related Taxes, Franchise Fees, and RRM Reduction

	Atmos (RRM Filing)	Atmos (Appeal)	ACSC	ATM
Revenue Increase	$45,732,838	$43,818,888	$28,641,762	$29,134,199

The Examiners recommend that the revenue increase be limited to $42,958,631. This recommendation, compared to the company's original filing at the municipal level, which included a proposed system-wide increase of $45,732,838, results in a decrease of $2,774,207 from the company's original request.

As has been the practice in prior proceedings, attached to this *Proposal for Decision,* is the Examiners' Cost-of-Service Model used to analyze all adjustments and the impact on the revenue requirement of the company, the increase requested, and the proposed rates. The Examiners' Model is attached as Attachment 2. An electronic version of the Examiners' Model accompanies the *Proposal for Decision*. The schedule entitled Examiner 1 provides a summary of all issues raised. The proposed adjustments made by the parties are enumerated in the first column. The relevant section of the *Proposal for Decision* is referenced and a brief description of the issue is provided. In the electronic version each adjustment may be turned on or off allowing the calculation and impact of the adjustment to be evaluated in isolation, or in conjunction with other adjustments. For the convenience of the parties, the Commissioners, and in the interest of transparency, each schedule impacted by an adjustment, and the specific Excel cell, is identified and a link is provided. The impact of the proposed adjustment on the calculated revenue requirement is provided. This impact is without taking into account franchise fees, State of Texas revenue related, and the RRM Adjustment.

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PROPOSAL FOR DECISION

1. Procedural History

On May 10, 2014, Atmos Energy Corp., Mid-Tex Division ("Atmos Energy" or "company") filed its *Petition for De Novo Review of the Denial of the Rate Review Mechanism Tariff filed by Atmos Energy Corp., Mid-Tex Division by the Cities of Abilene, Addison, Allen, et al*. The case was docketed as GUD No. 10359. On June 12, 2014, Atmos Energy filed its *Petition for De Novo Review of the Denial of the Rate Review Mechanism Tariff filed by Atmos Energy Corp., by the cities of Benbrook, Eastland, McKinney, Point, Sansom Park, Southlake, Terrell and the Colony*. That case was docketed as GUD No. 10361 and was subsequently consolidated into GUD No. 10359. On July 11, 2014, Atmos Energy filed its *Petition for De Novo Review of the Denial of the Rate Review Mechanism Tariff filed by Atmos Energy Corp by the Cities of Aubrey, Lakeside, and Ponder*. That case was docketed as GUD No. 10368 and was subsequently consolidated into GUD No. 10359.

These consolidated cases relate to service provided by the Atmos Energy Mid-Tex Division (Atmos Mid-Tex) and seek review of the denial of the company's 2014 Rate Review Mechanism RRM tariff (RRM Tariff) filing with the municipalities that approved the tariff. The company's last rate proceeding was GUD No. 10170, *Statement of Intent filed by Atmos Energy Corporation to Increase Gas Utility Rates within the Unincorporated Areas served by the Mid-Tex Division*. A final order was issued in that case on December 4, 2012. Subsequently, Atmos Mid-Tex and the cities where Atmos Mid-Tex provides service developed the RRM Tariff. That tariff is applicable within 441 municipalities served by Atmos Mid-Tex. The municipalities are referred to herein as the "Affected Cities" or "RRM Tariff Municipalities." The RRM Tariff was approved by the RRM Tariff Municipalities in July of 2013.

The first filing pursuant to the RRM Tariff was made on July 15, 2013. The test year in that case was the twelve-month period ended December 31, 2012. The second filing was made on March 1, 2014. The test year in that case the twelve-month period ended December 31, 2013. Notice of the filing made March 1, 2014, complied with the requirements of the RRM Tariff. Specifically, notice of the filing was sent to the incorporated area residential and commercial customers by bill insert beginning March 7, 2014, and ending on April 4, 2014. Notice to industrial, other non-residential, and non-commercial customers was sent by certified mail, to the billing address of each directly affected incorporated customer on April 7, 2014.

The following municipalities denied the requested rate adjustment that was made pursuant to that tariff: Abilene, Addison, Allen, Alvarado, Angus, Anna, Argyle Arlington, Aubrey, Austin, Balch Springs, Bandera, Bartlett, Bedford, Bellmead, Belton, Benbrock, Beverly Hills, Blooming Grove, Blue Ridge, Blossom, Bowie, Boyd, Bridgeport, Brownwood, Bryan, Buffalo, Burkburnett, Burleson, Caddo Mills, Cameron, Canton, Carrollton, Cedar Hill, Cedar Park, Celeste, Celina, Centerville, Cisco, Clarksville, Cleburne, Clifton, Clyde, College Station, Colleyville, Colorado City, Comanche, Commerce, Coolidge, Coppell, Crandall, Copperas Cove, Corral City, Corsicana, Crowley, Denison, Dalworthington Garden, Denton, Eastland, Edgecliff Village, Euless, Electra, Everman, Euless, Fairview, Farmers Branch, Farmersville, Fate, Flower Mound, Forest Hill, Fort Worth, Fredericksburg, Frisco, Frost, Gainesville, Garland, Garrett, Gatesville, Georgetown, Glen Rose, Goldthwaite, Granbury, Grand Prairie, Grapevine, Greenville, Groesbeck, Granger, Gunter, Haltom City, Hamilton, Harker Heights, Haskell, Haslet, Heath, Henrietta, Hewitt, Hico, Highland Park, Highland Village, Hillsboro, Hickory Creek, Honey Grove, Hurst, Hutto, Iowa Park, Irving, Justin, Kaufman, Keene, Keller, Kemp, Kennedale, Kerens, Kerrville, Killeen, Krum, Lake Worth, Lakeside, Lampasas, Lancaster, Leander, Lewisville, Lincoln Park, Little Elm, Lometa, Longview, Lorena, Madisonville, Malakoff, Mansfield, Marble Falls, Mart, McKinney, Melissa, Mesquite, Mexia, Midlothian, Murphy, Newark, Nocona, Northlake, Oak Leaf, Olney, Ovilla, Palestine, Palmer, Pantego, Paris, Parker, Pecan Hill, Petrolia, Pflugerville, Plano, Point, Ponder, Pottsboro, Princeton, Prosper, Quitman, Ranger, Red Oak, Reno (Parker Co.), Rice, Richardson, Richland, Richland Hills, Riesel, River Oaks, Roanaoke, Robinson, Rockdale, Rockwall, Rogers, Roscoe, Round Rock, Rowlett, Royse City, Sachse, Saginaw, San Angelo, Sanger, Sansom Park, Seagoville, Sherman, Snyder, Somerville, Southlake, Springtown, Stamford, Star Harbor, Stephenville, Sulpher Springs, Sweetwater, Temple, Terrell, The Colony, Trinidad, Trophy Club, Tyler, University Park, Venus, Vernon, Waco, Waxahachie, Walnut Springs, Watauga, Westlake, White Settlement, Whitesboro, Whitney, Wichita Falls, Woodway, and Wylie. Atmos Energy filed these consolidated appeals of the actions taken by those municipalities.

Various cities intervened in these proceedings as part of two separate coalitions. On June 4, 2014, the Atmos Cities Steering Committee (ACSC) and the Atmos Texas Municipalities (ATM) intervened. **ACSC** is a coalition that includes the following municipalities: Abilene, Addison, Allen, Alvarado, Angus, Anna, Argyle Arlington, Aubrey, Bedford, Bellmead, Benbrock, Beverly Hills, Blossom, Blue Ridge, Bowie, Boyd, Bridgeport, Brownwood, Buffalo, Burkburnett, Burleson, Caddo Mills, Canton, Carrollton, Cedar Hill, Celeste, Celina, Centerville, Cisco, Clarksville, Cleburne, Clyde, College Station, Colleyville, Colorado City, Comanche, Commerce, Coolidge, Coppell, Copperas Cove, Corinth, Corral City, Crandel, Crowley, Dalworthington Garden, Denison, DeSoto, Duncanville, Eastland, Edgecliff Village, Emory, Ennis, Euless, Everman, Fairview, Farmers Branch, Farmersville, Fate, Flower Mound, Forest Hill, Fort Worth, Frisco, Frost, Gainesville, Garland, Garrett, Grand Prairie, Grapevine, Gunter, Haltom City, Harker Heights, Haskell, Haslet, Hewitt, Highland Park, Highland Village, Honey Grove, Hurst, Hutto, Iowa Park, Irving, Justin, Kaufman, Keene, Keller, Kemp, Kennedale, Kerens, Kerrville, Killeen, Krum, Lake Worth, Lakeside, Lancaster, Lewisville, Lincoln Park, Little Elm, Lorena, Madisonville, Malakoff, Mansfield, McKinney, Melissa, Mesquite, Midlothian, Murphy, Newark, Nocona, North Richland Hills, Northlake, Oak Leaf, Ovilla, Palestine, Pantego, Paris, Parker, Pecan Hill, Petrolia, Plano, Ponder, Pottsboro, Prosper, Quitman, Red Oak, Reno (Parker Co.), Richardson, Richland, Richland Hills, River Oaks, Roanoke, Robinson, Rockwall, Roscoe, Rowlett, Royse City, Sachse, Saginaw, Sansom Park, Seagoville, Sherman, Snyder, Southlake, Springtown, Stamford, Stephenville, Sulpher Springs, Sweetwater, Temple, Terrell, The Colony, Trophy Club, Tyler, University Park, Venus, Vernon, Waco, Watauga, Waxahachie, Westlake, White Settlement, Whitesboro, Whitney, Wichita Falls, Woodway, and Wylie. **ATM** is a coalition of cities that includes the following cities: Austin, Balch Springs, Banderal Bartless, Belton, Blooming Grove, Bryan, Burnet, Cameron, Cedar Park, Clifton, Commerce, Copperas Cove, Corsicana, Denton, Electra, Fredericksburg, Gatesville, Georgetown, Glen Rose, Goldwiate, Granbury, Greenville, Groesbeck, Hamilton, Heath, Henrietta, Hickory Creek, Hico, Hillsboro, Hutto, Jacksboro, Kerens, Lampasas, Lancaster, Leander, Lometa, Longview, Marble Falls, Mart, Mexia, Olney, Point, Pflugerville, Princeton, Ranger, Rice, Riesel, Rockdale, Rogers, Round Rock, San Angelo, Sanger, Somerville, Star Harbor, Trinidad, and Whitney.

On June 12, 2014, Atmos Mid-Tex filed a *Motion to Limit Issues*. The company argued that the issue in these consolidated appeals is limited to whether the utility has calculated its annual RRM Tariff adjustment consistent with the terms of the RRM Tariff and the Commission precedent in GUD No. 10170. ACSC and ATM filed a response on June 17, 2014. On June 24, 2014, the Examiners issued a ruling granting the *Motion to Limit Issues*.

The parties requested approval of a procedural schedule and several motions were subsequently filed. On June 16, 2014, the parties filed a *Joint Proposed Procedural Schedule* and the hearing was scheduled for September 3, 2014. On August 13, 2014, Atmos Energy filed a Motion to Strike testimony. Replies were filed, a response to the replies was filed, and the motion was ultimately denied. On August 28, 2014, Atmos Energy filed a *Motion for Official Notice*. Atmos Energy requested that the Commission take official notice of the Commission's publicly available deliberations and discussions related to the publication and adoption of 16 *TEX. ADMIN. CODE* § 8.209, and also requested that the Commission take official notice of the evidentiary record, *Proposal for Decision* and Commission Final Order in GUD No. 10170 (consolidated), *Statement of Intent filed by Atmos Energy Corp., to Increase Gas Utility Rates within the Unincorporated Areas Served by the Atmos Energy Corp., Mid-Tex Division.* The motion was subsequently granted. ACSC filed an *Unopposed Motion to Admit Late Filed Exhibits* on September 12, 2014, and the motion was subsequently granted. A protest was received on September 28, 2014, by a customer in Rockwall, Texas. A letter describing the various levels of participation was subsequently issued. The customer did not seek to intervene in this proceeding. On June 23, 2014, the parties requested that the rate-case expenses be severed into a separate docket. The request was granted on June 24, 2014, and GUD No. 10365, *Rate Case Expenses Severed from GUD No. 10359* was established.

The Notice of Hearing in this proceeding was issued on August 7, 2014. A notice of hearing was issued to various counties on August 11, 2014. The hearing was held on September 3, 2014. Atmos Energy presented direct testimony from the following witnesses Christopher Felan, Vice President of Rates and Regulatory Affairs and Barbara W. Myers. The following witnesses testified on behalf of ACSC: Karl J. Nalepa and Constance T. Cannady. Michael L. Brosch and Steven C. Carver. The following individuals testified on behalf of Atmos Energy as rebuttal witness: Mr. Felan, Ms. Myers, Jeffrey Knights and Pace McDonald.

2. Jurisdiction

The Commission has jurisdiction over the applicant, associated affiliates and over the matters at issue in this proceeding pursuant to TEX. UTIL. CODE ANN. §§ 102.001, 103.003, 103.051, 104.001, 121.051, 121.052, and 121.151 (Vernon 2007 and Supp. 2010). The statutes and rules involved in this proceeding include, but are not limited to TEX. UTIL. CODE ANN. §§ 104.101, 104.102, 104.103, 104.105, 104.106, 104.107, 104.110, 104.301, and 16 TEX. ADMIN. CODE CHAPTER 7.

3. The RRM Tariff

a. *Introduction*

Atmos Energy delivers natural gas to approximately 3.2 million residential, commercial, industrial, and public-authority customers in eight states. Atmos Energy has seven unincorporated gas utility operating divisions. There are two operating unincorporated gas utility operating divisions in Texas: Atmos Mid-Tex and Atmos West Texas Division. A map of the Atmos Mid-Tex service area is attached as Attachment 3.[1] In addition to these operating divisions, Atmos Energy operates a regulated intrastate pipeline division within Texas, the Atmos Pipeline – Texas Division.[2]

Prior to the last full rate proceeding filed by Atmos Energy for the Atmos Mid-Tex Division, GUD No. 10170, the Affected Cities, all municipalities except the City of Dallas within Atmos Mid-Tex service area, and the company agreed to adjust rates annually under a tariff similar to the current RRM Tariff. After the Final Order was issued in GUD No. 10170, the Affected Cities worked with Atmos Energy and adopted the current RRM Tariff. The current RRM Tariff was approved by the Affected Cities in July of 2013.[3] Pursuant to the terms of the RRM Tariff, the company may make annual filings each year requesting a rate adjustment based upon the expenses incurred in the prior calendar year. The resulting rate adjustment takes effect on June 1st of the year the filing is made.[4] The RRM Tariff provides that the rate calculations and adjustments required by the tariff are to be determined on a system-wide cost basis. Additionally, key to most issues raised in this proceeding, and discussed in further detail throughout this *Proposal for Decision*, the RRM Tariff requires that the format and rate-making treatment adopted in GUD No. 10170 be applied in each filing made pursuant to the RRM Tariff.[5]

b. *Timing and Implementation of RRM Tariff*

Pursuant to the terms of the RRM Tariff, every year the company may request an adjustment (RRM Adjustment) based upon a filing made no later than March 1st of each year. The date of the filing is referred to as the *Filing Date*. The adjustment is based upon data reflected in company's books and records during the period identified in the RRM Tariff as the *Test Period*. The *Test Period* is defined as the twelve months ending December 31st of each preceding calendar year.[6] The effective date of the adjustment, referred to as *Effective Date* within the RRM Tariff, is June 1st of each year. Figure 3.1 below sets out the relevant timeline for a hypothetical RRM adjustment occurring at the end of a *Test Period* year.

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[1] GUD No. 10170 Atmos Energy Ex. 5, Direct Testimony of David J. Park, Exhibit DJP – 2.

[2] Atmos Energy Ex. 4, Direct Testimony of Barbara W. Myers, Exhibit BWM – 1, p. 1.

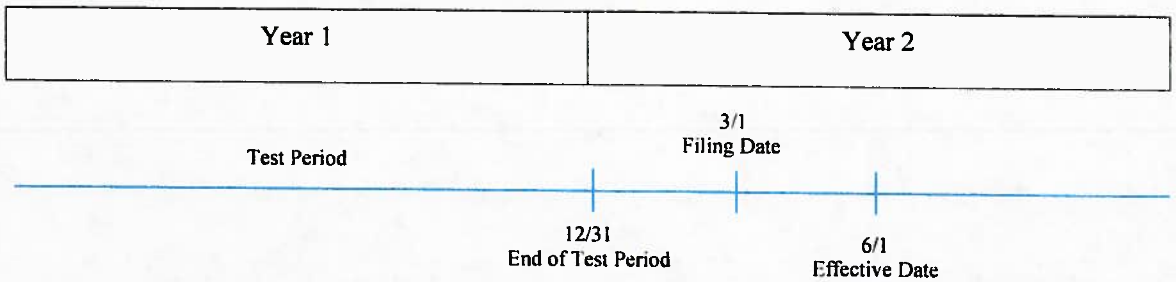
[3] A copy of the applicable RRM Tariff is attached as Attachment 4.

[4] Atmos Energy Ex. 3, Direct Testimony of Christopher Felan, p. 5, lns. 11 – 21.

[5] Due to the significance of the Final Order in GUD No. 10170, a copy of the Final Order (without accompanying exhibits) is attached as Attachment 5.

[6] The term "Test Period" and "Test Year" are used herein interchangeably.

Figure 3.1
RRM Timeline



c. *Calculation of Rates Pursuant to RRM Tariff and elements challenged.*

The RRM Tariff sets forth the following applicable formula for the calculation of the overall cost of service used in calculating the RRM Adjustment:

$$COS = OM + DEP + RI + TAX + CD - ADJ$$

The RRM Tariff defines each variable. The Intervenors challenged the calculations of Operations and Maintenance (OM), Depreciation (DEP), Return (RI) and the RRM Tariff adjustment (ADJ). These variables may have flow-through impacts on other variables such as taxes (TAX) included in the overall cost of service (COS) calculation. The applicable tax factors have not been challenged. No party has challenged the calculation of the interest on customer deposits (CD). The definition set out in the RRM Tariff for each of the challenged categories is set out below.

Before reviewing those definitions, it should be noted that the Intervenors have also challenged another aspect of the rate adjustment included in the RRM Tariff filing. Once the cost of service is calculated the rate to recover that cost of service may be established. In establishing those rates, the regulatory authority must take into account the revenues generated from operations that are indirectly related to the delivery of natural gas to the end use customer, referred to as Other Revenues. These Other Revenues include, for example, late payment penalties and revenues for other miscellaneous charges. The Intervenors have also challenged the calculation of revenues associated with Other Revenues.

d. *Operation and Maintenance Expenses (OM)*

OM expenses entries are subject to certain limitations and conditions by the RRM Tariff. Except for known and measurable changes that occur prior to the filing date, the underlying expense must be an expense that is reflected on the books and records at the end of the *Test Period*. The expense must be reasonable and necessary. The entry in the books and records and the accounting treatment of the expense entry must be prepared consistent with the rate-making treatments approved in the Final Order issued in GUD No. 10170. The result is that, the reasonableness and necessity of an expense category included in GUD No. 10170 is presumed to be reasonable in an RRM Tariff proceeding. Furthermore, specific test-year expenditures in all expense categories may be reviewed for reasonableness in this proceeding. OM expenses may be adjusted for atypical and non-recurring items. The RRM Tariff addressed one category of OM expenses further – Shared Services Expenses. Namely, Shared Services allocation factors shall be recalculated each year based on the latest component factors used during the *Test Period.* These limitations and conditions are summarized in Table 3.1, below.

Table 3.1

Limitations and Condition Imposed by RRM Tariff on OM	
1	The OM expense entry must be reflected in the books and records during the *Test Period.*
2	Specific test-year expenditure must be just and reasonable.
3	The OM expense entry, the accounting treatment of the expense entry, adjustments, must be prepared in a manner consistent with the rate-making treatments approved in the Final Order in GUD No. 10170.
4	Post-test-period entries are considered if they are known, measurable and occurred prior to the Filing Date.
5	OM may be adjusted for atypical and non-recurring items.
6	Shared Services allocation factors must be recalculated each year based on test-period component factors.

The Intervenors challenge several components of OM included in the RRM Tariff adjustment requested by Atmos Energy: Employee pension and benefits, expenses related to mains and services, medical and dental expenses, miscellaneous expenses, injuries and damages, incentive compensation, amortization of disallowed expenses and disallowed discretionary promotional expenses.

One issue that must be determined is whether the RRM Tariff requires that atypical and non-recurring items to be removed. The Intervenors appear to take this position. The RRM Tariff only states that OM "***may*** be adjusted for atypical and non-recurring items."[7] Further, the RRM Tariff provides that the RRM Adjustment filing include a brief narrative explanation of any "changes to corporate structure, accounting methodologies, allocation of common costs, or atypical or non-recurring items included in the filing."[8] It does not *require* the exclusion of atypical of non-recurring items. Inclusion of those items is consistent with the regulatory structure created by the RRM Tariff approved by the municipalities that allows the utility to make changes to its rates based upon fluctuations in its operating costs.

e. *Depreciation Expense (DEP)*

The RRM Tariff requires that DEP be calculated based upon the depreciation rates approved in the Final Order issued in GUD No. 10170. This is consistent with the other terms of the RRM Tariff that defer to the rate-making methodologies adopted in GUD No. 10170; depreciation rates are a rate-making treatment. The rate-making treatment was found to be just and reasonable in that case and, pursuant to the RRM Tariff adopted by the RRM Tariff Municipalities, is not to be set aside.

The RRM Tariff does not specifically address whether the underlying entries to which the depreciation rates apply must be just and reasonable. The RRM Tariff requires, however, that the provision of the tariff be implemented in harmony of the Gas Utility Regulatory Act. The provisions of the GURA require that rates be set upon operating expenses which are found to be

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[7] RRM Tariff, p. 19 (emphasis added).
[8] RRM Tariff, p. 20.

just and reasonable.[9] The Intevernors have raised one issue with regards to the calculation of depreciation expense, contending that the underlying test-year-operating expense upon which the depreciation rates are applied was not just and reasonable.

f. Return on investment (RI)

Return on investment is the product of *pretax return* and *rate base* at *Test Period* end. The terms *pretax return* and *rate base* are defined further in the RRM Tariff. *Pretax return* is the company's *weighted average cost of capital* before income taxes. The *weighted average cost of capital* is to be calculated using the treatment from the Final Order issued in GUD No. 10170 and is to include the company's actual capital structure and long term cost of debt as of the end of the test period. In the context of RI the Intervenors have raised issues related to the cost of debt.

Rate base is to be prepared consistent with the rate-making treatments approved in the Final Order issued in GUD No. 10170. Generally, the following components are included in the calculation of rate base: net plant, materials and supplies, prepayments, pension and other postemployment benefits, customer deposits, injuries and damages reserve, accumulated deferred income taxes, rate base adjustments, and cash working capital. Net plant investment must be shown to have been prudently incurred. No adjustment may be made to rate base, or any of its components, for changes that occur after the *Test Period*. Regulatory adjustments due to prior regulatory disallowances must be maintained.

The RRM Tariff imposes additional requirements on two rate-base components. Cash working capital must be calculated using the lead/lag days approved in the Final Order approved in GUD No. 10170. Pension and other postemployment benefits must be recorded as a regulatory asset or liability until the costs associated with the amounts are included in the next annual rate adjustment. As to pension and other postemployment benefits, the company's filing must clearly state the level of pension and other postemployment benefits recovered in rates.

The Intervenors have raised several issues in the context of rate base. The calculation of ADIT, NOL calculations, adjustments related to the accounting of capital projects undertaken pursuant to Rule 8.209, post-test year reimbursements, software related investments and injuries and damages have been challenged. The Intervenors challenged one component of the calculation of the rate of return – the cost of debt.

g. Adjustment (ADJ)

The RRM Tariff provides that the cost of service calculation shall include an adjustment composed of two parts. First, the cost of service calculation shall be adjusted downward by an amount totaling $3,000,000. Second, the cost of service calculation shall be adjusted by a

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[9] *See*, TEX. UTIL. CODE ANN. § 104.051 (Rates shall be based upon "the utility's invested capital used and useful in providing service to the public in excess of its reasonable and necessary operating expenses."); TEX. UTIL. CODE ANN. § 104.052 (The municipalities or the Commission may not "establish a rate that yields more than a fair return on the adjusted value of the invested capital used and useful in providing service to the public.")

percentage equal to the total percentage increase in base-rate revenue sought. The Intervenors have challenged the method used to calculate the RRM Adjustment.

h. Appeal

The RRM Tariff provides that during the review period, the utility and the municipalities must work collaboratively and seek agreement on the level of rate adjustments. If an agreement is not reached the municipalities must take action to modify or deny the proposed rate adjustments. Further, the tariff, consistent with Sections 102.001(b) and 103.021 of the Texas Utility Code, provides that the company shall have the right to appeal the municipalities' action to the Commission. The tariff provides that the utility may implement the proposed rate while the proceeding is pending at the Commission subject to refund. Any refund shall be limited to and determined based on the resolution of the disputed adjustment(s) in a final non-appealable order issued in the appeal proceeding by the Commission.

4. Motion to Limit Issues: Scope of Proceeding Limited by RRM Tariff

a. Introduction

On June 12, 2014, Atmos Energy filed a *Motion to Limit Issues*. The company requested that the scope of the proceeding be limited to the issue of whether Atmos Energy correctly calculated the RRM rate adjustment consistent with the requirements of the RRM Tariff and the Commission's precedent in GUD No. 10170. Thus, the company requested that the Examiners limit the proceeding by ruling that no modifications of the terms of the RRM Tariff or the methodologies approved by the Commission in GUD No. 10170 would be litigated in this proceeding.

b. Legal Standard Applicable to Proceeding

The legal effect of a filed tariff is well settled.[10] Regulated entities may not charge rates or provide services other than those properly filed with the appropriate regulatory authority.[11] As a corollary to that regulatory construct, a utility's obligation to its customers cannot exceed its duties under a filed tariff.[12] Filed tariffs govern the relationship of the utility with its customers.[13] Utilities may not vary a tariff's terms with individual customers, discriminate in

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[10] CenterPoint Energy Entex v. R.R.Comm'n of Tex, 208 S.W.3rd 608 (Tex. App. – Austin 2006, pet. dism'd)

[11] Entex v. R.R.Comm'n of Tex, 18 S.W.3rd 858, 862-63 (Tex. App., – Austin 2000, pet denied); Southwestern Bell Tell. Co. v. Metro-Link Telecom, Inc., 919 S.W.2d 687, 692 (Tex. App. – Houston [14th Dist.] 1996, writ denied).

[12] Arkansas La. Gas Co. v. Hall, 101 S. Ct. 2925 (1981); Texaco, Inc. v. Central Power & Light Co., 955 S.W.3rd 373, 377 (Tex. App. – San Antonio 1997, pet. denied); Central Power & Light Co., v. Romero, 948 S.W. 2d 764, 767 (Tex. App. – San Antonio 1996, writ denied).

[13] *See*, Keogh v. Chicago & Northwestern Ry., 43 S. Ct. 47 (1922) (Holding that the legal right of shipper as against carrier in respect to a rate are measured by the published tariff. Unless and until suspended or set aside, this rate is made, for all purposes, the legal rate as between carrier and shipper. The rights as defined by the tariff cannot be varied or enlarged by either contract or tort of the carrier.); Carter v. AT & T Co., 365 F.2d 486, 496 (5th Cir. 1966) (Holding that a tariff, required by law to be filed, is not a mere contract – it is the law.); Southern Elec. Power Co. v. Grant, 73 S.W.3rd 211, 217. (Tex. 2002) (Discussing the filed rate doctrine and holding that filed tariffs govern a utility's relationship with its customers and have the force and effect of law until suspended or set aside.); Southwestern Bell Tell. Co., 919 S.W.2d at 692 (Discussing the filed rate doctrine, noting that the doctrine was created because of the unique nature of tariffs filed with the appropriate agency, and holding that filed tariffs govern a utility's relationship with its customers.).

providing services, or charge rates other than those included in properly filed tariffs.[14] The filed tariff and the constraints related to those tariffs provide predictability and certainty for all the utility and its customers.[15]

c. Intervenors' Position

ACSC filed a reply arguing that the motion should be denied as the motion was vague and unnecessary. ACSC contended that the formula specified in the RRM Tariff is essentially the same as the statutory formula that describes a *Statement of Intent* proceeding. The only exceptions were the downward adjustment to the overall, system-wide test year cost of service, the return on equity and depreciation rates. ACSC agreed that those items may not be litigated in this proceeding. On the other hand, all OM expenses and rate-base items that were incurred during the test year are subject to a full evaluation.

ATM disputed the underlying premise of the company's motion. As stated by ATM the issue was not whether Atmos Energy has calculated its annual RRM Adjustment consistent with the terms of the RRM Tariff. ATM argued that the issue on appeal is whether the change in rates proposed by Atmos Energy conforms to GURA in general and specifically with Chapter 104 of GURA, the Commission's Rules, and relevant Commission precedent. Similar to ACSC, ATM argued that the only cost-of-service elements held constant in GUD No. 10170 are the return on equity (ROE) and depreciation. Otherwise, and contrary to the assertion of Atmos Energy, ATM argued that the RRM Tariff contemplated a full cost-of-service inquiry.

d. Atmos Energy's Response

Atmos Mid-Texas conceded that its burden in this proceeding is to demonstrate that the company has complied with the terms of the RRM Tariff and Commission precedent in GUD No. 10170 to calculate the proposed RRM Adjustment. The company argued that the case does not warrant the compilation of a list of cost-of-service issues that should, or should not, be examined in this proceeding. The company argued that the Commission is limited, in this *de novo* appeal, to a review of the rate formula approved in the RRM Tariff to determine the appropriate RRM Adjustment. Accordingly, Atmos Energy requested that the Commission limit the scope of the proceeding to whether Atmos Energy calculated the annual RRM Adjustment consistent with the terms of the RRM Tarff and the Commission's preceding in GUD No. 10170.

e. Examiners' Recommendation

The Examiners granted the *Motion to Limit Issues* filed by Atmos Energy. As an initial matter it should be noted that this proceeding is an appeal of a municipal rate decision taken pursuant to an existing tariff that governs the rates to be charged within the municipal jurisdiction. This is not an appeal from a municipal rate decision taken after a full *Statement of Intent* proceeding.

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[14] *See*, CenterPoint Energy Entex, 208 S.W.3rd at 622 (Holding that regulated utilities may not vary a tariff's terms with individual customers, discriminate in providing services, or charge rates other than those properly filed with the appropriate regulatory authority).

[15] *Id.*

While ACSC opposed the motion filed by Atmos Energy, ACSC conceded that the appeal is governed by the terms of the RRM Tariff. ACSC specifically stated that "there is no dispute among the parties that the purpose of this proceeding is to determine what the cities should have ordered in terms of new rates for the Company based upon the RRM tariff approved by the cities."[16] ATM, on the other hand, argued that this proceeding is akin to a "full cost-of-service inquiry."[17]

As this is an appeal from the municipal action taken pursuant to the RRM Tariff, the appeal is governed by that tariff. Atmos Energy correctly noted that the RRM Tariff is analogous to the Cost of Service Adjustment (COSA) tariff recently considered by the Supreme Court in *Texas Coast Utilities Coalition v. Railroad Commission of Texas.*[18] Additionally, Atmos Energy correctly noted in its motion that its request is consistent with the request made in GUD No. 10006. In GUD 10006, the company made a similar request which was granted.

The RRM Tariff is a municipal-approved rate mechanism analogous to the Commission-approved COSA tariff approved adopted in GUD No. 9791. The RRM Tariff establishes the rates to be charged by the company by determining the fundamental rate components included in the cost-of-service calculation. In the case of the RRM Tariff, those rate components are the components established by the Commission in GUD No. 10170. The references to GUD No. 10170 in the RRM Tariff include, but are not limited to, the following:

- Operations and maintenance shall be prepared consistent with the rate-making treatment approved in GUD No. 10170.
- Shared Services allocation factors shall be recalculated based on component factors that were approved in GUD No. 10170.
- Depreciation rates shall be based upon depreciation rates approved in GUD No. 10170.
- Rate base is to be prepared in a manner that is consistent with the rate-making treatment of GUD No. 10170.
- Capital structure and return on equity is based upon the treatment approved in GUD No. 10170.
- Cash working capital shall be calculated in accordance with the treatment approved in GUD No. 10170.
- Income tax and taxes other than income shall be calculated in accordance with GUD No. 10170.
- Schedules and work papers must be provided in the manner accepted in GUD No. 10170.
- The revenue requirement is to be apportioned among customer classes in the manner approved in GUD No. 10170 and consistent with the results of the class cost of service approved in that case.
- The rate design shall be consistent with the rate design approved in GUD No. 10170.
- The billing determinants shall be consistent with the billing determinants set out in GUD No. 10170.

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[16] ACSC's Reply to Atmos Energy's Motion to Limit Issues, p. 1.
[17] ATM's Reply to Atmos Energy's Motion to Limit Issues, p. 2.
[18] *Texas Coast Utilities Coalition v. Railroad Commission of Texas* 423 S.W 3rd 355 (Tex. 2014).

- The tariff includes a global reference to GUD No. 10170 and states that to the extent possible, the provisions of the Final Order in GUD No. 10170 shall be applied by the regulatory authority in determining whether to approve a rate adjustment.

The Examiners found, however, that there were limitations set forth in the RRM Tariff. For example, to the extent that Atmos Energy seeks the inclusion of operations and maintenance expenses that are inconsistent with the precedent of GUD No. 10170, the municipalities may seek their exclusion. Similarly, the treatment of net plant provides another example. Namely, net plant not prudently incurred during the test period may be excluded.

5. Motion for Official Notice

On August 28, 2014, Atmos Mid-Tex filed a *Motion for Official Notice*. Atmos Energy requested that the Commission take official notice of the Commission's publicly available deliberations and discussions related to the publication and adoption of 16 *TEX. ADMIN. CODE* § 8.209, *Requirements for Natural Gas Pipelines Only relating to Distribution Facilities Replacements* as well as the related Texas Register submissions dated September 10, 2010, March 11, 2011, September 9, 2011 and November 11, 2011. The relevant Texas Register sections are more particularly identified as follows: 35 *Tex. Reg.* 8220 – 8225, 36 *Tex. Reg.* 1659-1669; 36 *Tex. Reg.* 5775 – 5778; and, 36 *Tex. Reg.* 7663 – 7665. The public Open Meeting discussions were conducted on August 10, 2011, August 24, 2010, August 30, 2010 and February 22, 2011. ACSC and ATM opposed the motion arguing that the motion lacked specificity and that Commission's interpretation of Rule 8.209 should be limited to the rule itself.

The company's request that judicial notice be taken of the Texas Register and the deliberations that occurred on the enumerated dates was granted. The Intervenors correctly argued that where a rule is unambiguous the rule should be interpreted according to the plain meaning without resort to rules of construction or extrinsic aids. On the other hand, where an ambiguity exists, it is appropriate to turn to the administrative history of a rule. Thus, the administrative history of the rule is appropriate and Atmos Energy identified the relevant documents and dates of the Commission's deliberations. Those materials are available to the parties and all members the public.

The *Motion for Official Notice* also requested that the Commission take official notice of the evidentiary record, Proposal for Decision and Commission Final Order in GUD No. 10170 (consolidated), *Statement of Intent filed by Atmos Energy Corp., to Increase Gas Utility Rates within the Unincorporated Areas Served by the Atmos Energy Corp., Mid-Tex Division.* ACSC and ATM opposed the motion arguing that the only relevant material is the Final Order in GUD No. 10170 and the Proposal for Decision. ACSC contended that "nothing in the RRM Tariff obligates any party to rely upon, be guided by or remotely consider the evidentiary record in that case."[19] Atmos Energy contended that GUD No. 10170 sets the foundation for the methodologies to be used to calculate the annual RRM Adjustment. In requesting official notice of the evidentiary record, the company seeks to have the evidence that was admitted into that record and determined to be relevant to the Commission's determination equally recognized here.

[19] *ACSC Reply and Objection to Atmos Energy Corp., Mid-Tex Division's Motion for Official Notice*, p. 2.

The *Motion for Official Notice* as to the evidentiary record, Proposal for Decision and Commission Final Order in GUD No. 10170 was ultimately granted. The Intervenors correctly pointed out that the definition of "Final Order" as set out in the RRM Tariff refers to the Final Order issued by the Commission in GUD No. 10170. The language in the RRM Tariff, however, makes clear that the RRM Tariff is guided by more than the four corners of the Final Order.

For example, the RRM Tariff specifically provides that the schedules filed by the utility shall be in the same general format as the "cost of service model and relied-upon files upon which the Final Order was based."[20] First, the cost of service model is both a hard-copy document and an electronic spreadsheet. It is unambiguous that the sentence intends to capture not simply the hard copy but also the "model" or spreadsheet. Second, the relied-upon referenced in that sentence are simply not part of the four corners of the Final Order issued by the Commission in GUD No. 10170. Thus, the tariff itself expresses a clear intent to capture the underlying documents included in the evidentiary record of GUD No. 10170.

The RRM Tariff also states that the Company shall provide schedules and work papers supporting the filing's revenue deficiency/sufficiency calculation "using the methodology accepted in the Final Order."[21] By referring to the methodology accepted rather than the methodology explicitly ordered, the RRM Tariff requires that the underlying methodology, that may or may not be explicitly referenced in the Final Order, guides the filing made pursuant to the RRM Tariff.

The RRM Tariff also provides that while no testimony is to be filed with the annual RRM filing, the filing must include a brief narrative explanation of any changes to corporate structure, accounting methodologies, allocation of common costs or atypical or non-recurring items included in the filing. In order to assess some of these potential changes, such as accounting methodologies, evidence of the underlying accounting methodologies in GUD No. 10170 must be available to all parties.

Thus, the specific language in the RRM Tariff makes the underlying evidentiary record in GUD No. 10170 relevant to this proceeding. Additionally, as noted by Atmos Energy, the Final Order and the Proposal for Decision cannot capture each and every nuance that is included in a rate component calculation. The underlying evidence that was considered and admitted in GUD No. 10170 is relevant to this proceeding. Accordingly, the Examiners granted the *Motion for Official Notice* of the evidentiary record, Proposal for Decision and Commission Final Order in GUD No. 10170 (consolidated), *Statement of Intent filed by Atmos Energy Corp., to Increase Gas Utility Rates within the Unincorporated Areas Served by the Atmos Energy Corp., Mid-Tex Division.*

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[20] RRM Tariff, p. 20.
[21] RRM Tariff Section IV.

6. Motion to Strike Testimony

Atmos Energy filed a *Motion to Strike* portions of the direct testimony of three witnesses.[22] The Examiners denied the *Motion to Strike* testimony as the issues raised address a central issue in this case. Namely, the interpretation of the provisions in the RRM Tariff require that operation and maintenance expenses and adjustments and rate base be calculated in a manner that is consistent with the "rate-making methodology" adopted by the Commission in its Final Order issued in GUD No. 10170. At the time of the ruling, the Examiners expressed the opinion that, to the extent the Commission disagreed with the determination of the Examiners on this threshold issue, it was necessary that the Commission have all the evidence in the record to decide the issue.

Many issues raised in this proceeding depend upon an interpretation of whether the matter raised is a matter that falls within the definition of a "rate-making treatment." The company sought to strike testimony regarding proposed adjustments in the following areas:

- Plant Reimbursement
- Medical & Dental Benefits
- Adjustments to ADIT to Net Operating Loss (NOL)
- Cost of Debt
- Amortization of Projects Disallowed in GUD No. 9670
- Injuries and Damages Reserve Related to Blueflame

As set forth in detail below, the Examiners conclude that the proposed adjustments related to Plant Reimbursement, Medical & Dental Benefits, Adjustments to ADIT to NOL, Cost of Debt, and Injuries and Damages Reserve Related to Blueflame are all matters that depend upon the issue of whether the adjustment proposed by the Intervenors related to a rate-making treatment previously adopted by the Commission. On the other hand, the Examiner find that the proposed adjustment to the Amortization of Projects Disallowed in GUD No. 9670 did not relate to a rate-making treatment.

7. Books and Records

Barbara W. Myers, Manager of Rates and Regulatory Affairs for Atmos, testified that Atmos Mid-Tex maintains its books and records in accordance with the Commission's regulations.[23] Namely, Rule 7.310 requires that each gas utility utilize the Federal Energy Regulatory Commission's (FERC) Uniform System of Accounts prescribed for Natural Gas Companies subject to the provision of the Natural Gas Act for all operating and reporting purposes. The FERC Uniform System of Accounts is applicable to all gas utility and gas utility related operations. Additionally, Rule 8.209 provides that an operator, who uses the provisions of that rule to account for an investment or expense incurred in order to comply with that rule, may use the presumption set forth in Rule 7.503 with respect to the investment and expense incurred by the gas utility for distribution facilities replacement made pursuant to Rule 8.209.

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[22] Atmos Energy Corp., Mid-Tex Division's Motion to Strike the Direct Testimony of Constance T. Cannady, Steven C. Carver and Michael L. Brosch, ACSC's Response (related to the Testimony of Constance T. Cannady), and ATM's Response (related to the testimony of Steven C. Carver and Michael L. Brosch).

[23] Atmos Energy Ex. 4, Direct Testimony of Barbara W. Myers, pp. 5-14.

Ms. Myers asserted that the company maintains its books and records in accordance with Commission Rule 7.310 and the amounts included therein are therefore subject to the presumption that they are reasonable and necessary. No evidence was presented to the contrary. Atmos Mid-Tex established that it has fully complied with the requirements of Rule 7.310 and the Examiners find that the amounts noted therein are subject to the presumption encapsulated in Rule 7.503.

As a result, any challenge to the company's requested revenue requirement must be specifically and precisely described. To that end, the Examiners' issued the rate model that would be used in this case and requested that the parties identify all proposed changes. As noted in the Proposal for Decision in GUD NO. 10170, failure to precisely identify the proposed adjustment necessarily implies that the presumption encapsulated in Rule 7.503 has not been rebutted and raises due process considerations.

In *Railroad Commission v. Lone Star Gas Company*, the Austin Court of Appeals considered an appeal of a natural gas ratemaking proceeding.[24] In that case, the Examiners established the rate of return based upon a calculation made by the Examiners. The trial court set aside the order of the Commission and the Court of Appeals affirmed the trial court ruling. The Court of Appeals held that the order of the Commission may not be based upon the application of agency expertise as a substitute for evidence and as a basis for making factual findings as to matters not supported by record evidence.[25] Failure to precisely identify a specific adjustment as directed by the Examiners is indicative of a record that may lack a firm evidentiary foundation.

Finally, aside from the legal issues raised, failure to specifically and precisely describe a proposed adjustment results in added transactional expense incurred by all parties in evaluating proposed changes. Accordingly, under such circumstances, the Examiners recommend that the proposed adjustment be rejected.

8. Overview of the Company's Rate Request

On February 28, 2014, Atmos filed its RRM Adjustment request with the various municipalities. The company made an errata filing on April 2, 2014, which included a proposed increase to its annual revenues totaling \$45,739,921.[26] On appeal, the company has reduced that request and seeks an increase, including franchise fees and associated taxes, of \$43,822,574. The overall revenue request included in this appeal is \$512,768,465.[27]

Residential rates within the municipality at the time of the RRM filing were composed of a customer charge of \$17.70 and a volumetric rate of \$0.0583 per Ccf. Thus, residential rates within the affected municipalities were governed by the following formula:

Formula 8.1

$$17.70 + \$0.0583(Volume\ [Ccf]Consumed) = Rate$$

[24] *Railroad Commission v. Lone Star Gas Company*, 611 S.W. 2d at 908 (Tex. App. – Austin 1981, writ refused n.r.e.).
[25] *Railroad Commission v. Lone Star Gas Company*, 611 S.W.2d at 911 (Tex. App. – Austin 1981, writ refused n.r.e.).
[26] Atmos Energy Ex. 3, Direct Testimony of Christopher A. Felan, Ex. CAF – 2, p. 1.
[27] Atmos Energy Ex. 1, Appeal Update Filing Dated September 4, 2012, Schedule A, ln. 20, col. (d).

The proposed rates for residential customers include a proposed customer charge of \$18.20 and a volumetric rate of \$0.08819 per Ccf. Thus, the company seeks approval of the following rate structure:

Formula 8.2

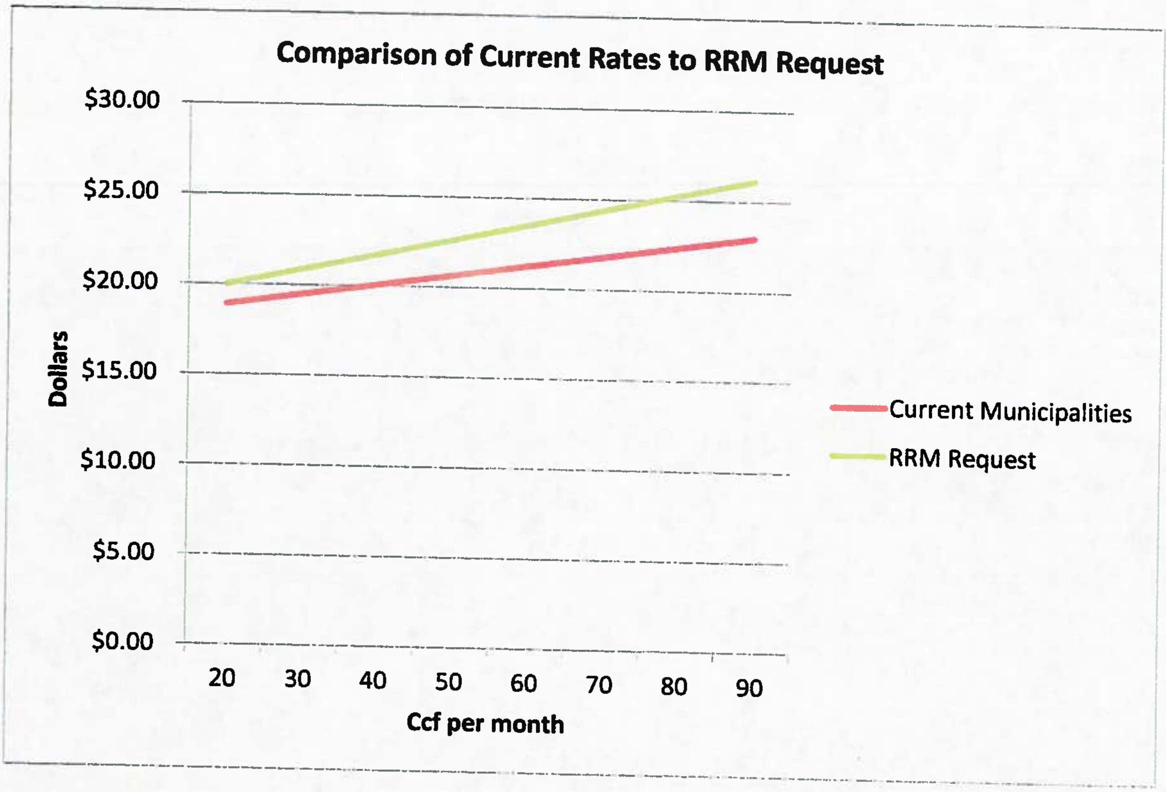
$$18.20 + \$0.08819\ (Volume\ [Ccf] Consumed) = Rate$$

The company included a rate comparison in its filing for all customer classes impacted by the proposed change. For residential customers, that comparison was based upon an the company's experienced average consumption level of 44.4 Ccf. Based upon the company's request, the average residential customer who consumes 44.4 Ccf will experience a rate increase of 9.033%, excluding gas costs. Another point of comparison may be gleaned from the underlying assumption of average bill comparison for the State of Texas published annually by the Commission entitled, "Six Mcf Residential Gas Analysis." This comparison is based upon the assumption of a consumption level of 60 Ccf per month. Based upon that consumption level, a residential customer within the municipalities will experienced a rate increase of 10.81%. Table 8.1 below summarizes the impact of the proposed rate change at various consumption levels and Figure 8.1 provides a visual comparison of the same data.

Table 8.1
Rate Impact for Residential Customers

Ccf/Month	Increase
20	5.82%
30	7.18%
40	8.46%
50	9.67%
60	10.81%
70	11.90%
80	12.92%
90	13.89%

Figure 8.1



In addition, the average commercial customer who consumes 346.9 Ccf per month will experience a rate increase of 9.19%; the average industrial and transportation customer who consumes 4265 MMBTU per month will experience an increase of 9.20%.[28] Tables and figures summarizing the impact of the proposed rates are included in Examiners Schedules 2, 3, and 4. These schedules are part of the Examiners' Cost of Service Schedules, included in the Examiners' Revenue Requirement Schedules, attached as Attachment 2.

Christopher Felan, Vice President of Rates and Regulatory Affairs, testified that a key driver behind the proposed increase relates to investment in safety and reliability made during the test period. Increasing levels of capital investment have been made to replace aging infrastructure and to respond to the demands of customer growth. Since 2008, Mr. Felan explained that the company has increased its annual capital investment in the system from $183.8 million to $238.8 Million in 2013. He asserted that those investments have been guided in part by programs such as the federal Distribution Integrity Management Program, the Steel Service Line Replacement Program, and the Railroad Commission of Texas Facility Replacement Rule (Rule 8.209).[29] As to OM Expenses, Mr. Felan contended that the company made efforts to hold operation and management expenses down and that the RRM filing at issue in this case reflects a level of expense that is similar to the level experienced in 2008.[30] Mr. Felan provided a figure that contrasted the increasing levels of capital investment with the

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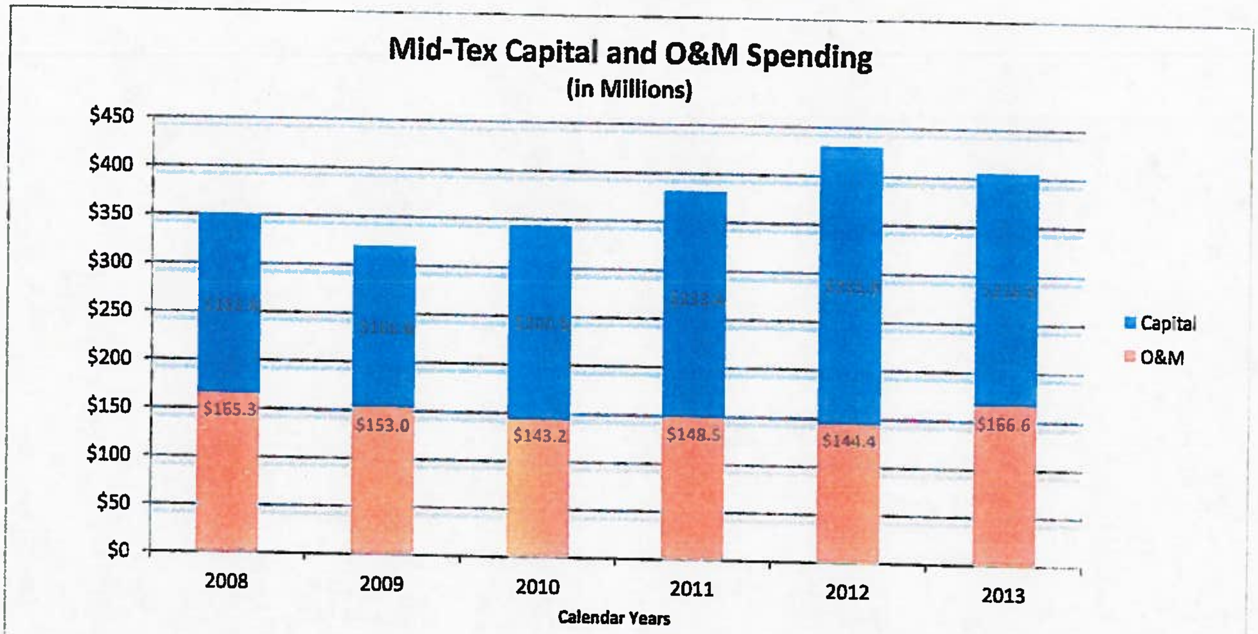
[28] Atmos Energy Ex. 1, Petition p. 4.
[29] Atmos Energy Ex. 3, Direct Testimony of Christopher A. Felan, p. 15, lns 3 – 22.
[30] Atmos Energy Ex. 3, Direct Testimony of Christopher A. Felan, p. 16, lns. 9 – 19.

declining levels of operation and maintenance expense. That figure is reproduced below as Figure 8.2.

Figure 8.2
OM Expense and Capital Investment 2008 - 2013[31]



In summary, the company's filing in this proceeding is centered upon an overall base revenue requirement calculation, excluding gas costs, totaling $512,768,465. This results in an overall calculated revenue increase of $43,818,888. The cost-of-service elements contained in the company's request are summarized in Table 8.2 below:

Table 8.2
Summary of Cost-of-Service Analysis Excluding Gas Costs

Description		Cost
Operation and Maintenance		$163,331,251
Taxes Other than Income Taxes		$28,349,978
Depreciation and Amortization Expense		$106,393,770
Interest on Customer Deposits		$18,924
Return		
Rate Base	$1,793,764,627	
Rate of Return	8.58%	
		$153,853,911[32]
Income Taxes		$60,820,630
Revenue Requirement:[33]		$512,768,464

[31] Atmos Energy Ex. 3, Direct Testimony of Christopher A. Felan, Exhibit CAF – 3.
[32] Product does not balance due to rounding in the rate of return.
[33] When compared to the calculation contained in the attached Schedule A, this figure is off by one dollar due to rounding.

When compared to current revenues, the cost-of-service analysis results in an increase over current rates of $47,085,059. The RRM Tariff requires the application of two automatic adjustments to the requested revenue increase. Once those adjustments are made the proposed revenue increase is $43,818,888, including taxes other than income taxes and municipal franchise fees.

9. Intervenors' Position on the Overall Revenue Requirement

In the context of the cost-of-service calculation, the Intervenors have challenged the calculation of the company's operation and maintenance expense, depreciation and amortization expenses, rate base, and rate of return. These figures have a flow through effect on the other elements in the cost of service calculation. Otherwise, those figures are not challenged. The Intervenors have also challenged the calculation of other revenues and the calculation of the RRM Tariff adjustment. As to the cost of service calculation, the various positions of the parties are summarized in Table 9.1 below:

Table 9.1
Comparison of the Cost of Service Calculation of the Parties

	Atmos	ACSC	ATM
Operation and Maintenance Expense	$ 163,331,251.32	$ 157,524,512.00	$ 159,995,292.00
Taxes Other than Income Taxes	$ 28,349,978.07	$ 28,322,895.00	$ 28,327,456.00
Depreciation and Amortization Expense	$ 106,393,769.53	$ 104,998,175.00	$ 105,756,383.00
Interest on Customer Deposits	$ 18,924.00	$ 18,924.00	$ 18,924.00
Return	$ 153,853,911.43	$ 150,373,694.00	$ 149,409,105.00
Income Taxes	$ 60,820,630.16	$ 59,438,517.00	$ 59,108,107.00
Revenue Requirement	$ 512,768,464.52	$ 500,676,717.00	$ 502,615,267.00

It should be noted that ACSC and ATM propose several adjustments that are not mutually exclusive. Table 9.1, summarizes the impact of the proposed adjustments of each party. All three parties acknowledge that an increase in revenues is required. And the revenue requirement calculation of each of the parties, reflected in Table 9.1 above, results in an increase in rates over current revenues. The overall increases presented by the parties are set forth in Table 9.2. The table includes the original revenue increase requested at the municipal level.

Table 9.2
Comparison of Revenue Increase Proposed
Including Revenue Related Taxes, Franchise Fees, and RRM Adjustment

	Atmos (RRM Filing)	Atmos (Appeal)	ACSC	ATM
Revenue Increase	$45,732,838	$43,818,888	$28,641,762	$29,134,199

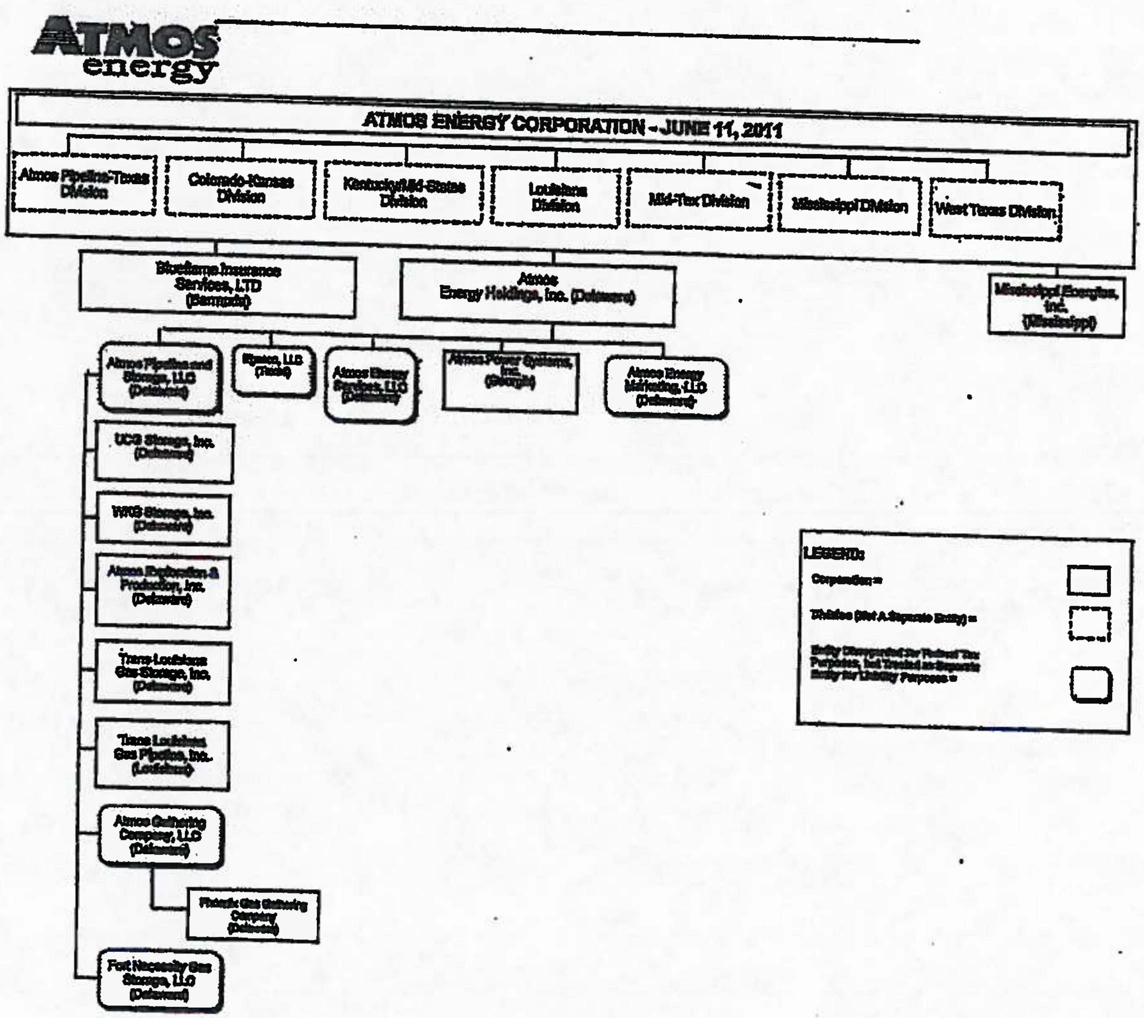
The Examiners recommend that the revenue increase be limited to $42,958,631. This recommendation, compared to the company's original filing at the municipal level, which included a proposed system-wide increase of $45,732,838, results in a decrease of $2,774,207 from the company's original request.

10. Shared Services Unit Allocation

a. Introduction

Atmos Energy Corporation consists of seven distribution utilities, a regulated pipeline and various subsidiaries. The company conducts its unregulated operations through its subsidiaries. A chart, showing the corporate structure is reproduced in Figure 10.1 below.[34]

Figure 10.1
Atmos Energy Corporate Structure



Technical and support services are provided to the operating divisions by centralized shared services departments primarily located at the Atmos headquarters in Dallas. As in GUD No. 10170, in this proceeding, the collective shared services departments are referred to as the "Shared Services Unit" (SSU). The centralized functions provided by SSU include, but are not

[34] Atmos Ex. 4, Barbara W. Myers Direct, p.23, lns. 1-3, Exhibit BWM-1, Appendix A.

limited to, accounting, gas supply, human resources, information, technology, legal, rates and customer support.[35] The SSU is comprised of two divisions:

- Shared Services – Customer Support (sometimes referred to as SSU Customer Support). This division provides functions that include billing, customer call functions and customer support related functions.
- Shared Services – General Office (sometimes referred to as SSU General Office). This division provides functions that include accounting, human resources, legal, rates, risk management and others.

Section 7.5252(b) requires that in any rate proceeding where items of plant, revenues, expenses, taxes, or reserves are shared by or are common to the service area in question and any other service area, those items must be allocated fairly and justly apportioned between the area in question and any other service area of the utility.[36] Atmos Energy complies with the provisions of this rule as follows. *Direct costs*, that is, costs that are directly attributable and incurred for the sole purpose of operations related to the Atmos Mid-Tex Division are allocated directly to that division.[37] For example, the SSU, Dallas Supply Planning (SSU Cost Center 1832) is allocated entirely to the Atmos Mid-Tex Division. On the other hand, in order to *allocate shared costs* in compliance with Commission regulations, and the regulations of other jurisdictions where Atmos Energy provides natural gas service, the company developed a Cost Allocation Manual (CAM). The CAM was evaluated, and found to be just and reasonable, in GUD No. 10170.

The CAM allocates two broad categories of costs. First, direct operation and maintenance expenses, depreciation, and taxes, other than income taxes, related to shared services are allocated on the company's general ledger utilizing the allocation methodologies described in detail in the CAM. Second, shared services that are not allocated on the company's general ledger are allocated based upon a *composite factor* (Composite Factor) or *customer factor* (Customer Factor). Examples of this latter category of cost include plant in service, accumulated deferred income taxes, and other general rate base items.[38]

The Composite Factor was derived based upon a four-factor formula comprised of the simple average of the relative percentage of gross plant in service, the relative percentages of the average number of customers, the relative percentages of direct operating and maintenance expense for each of the company's operating divisions, and operating income. These factors are summarized as follows:

- Gross Direct Property Plant and Equipment
- Number of Customers
- Operating Expenses
- Operating Income

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[35] Atmos Energy Ex. 4, Barbara W. Myers Direct, Exhibit BWM-1, p.2.
[36] 16 TEX. ADMIN. CODE § 7.5252(b).
[37] Atmos Energy Ex. 3, Appeal Update Filing Dated September 4, 2012, Schedule WP_F-2.7, ln. 80.
[38] Atmos Energy Ex. 4, Barbara W. Myers Direct, p. 28, lns. 1 – 20.

The use of the four-factor formula was first required by the Commission in GUD No. 9670 and its use was affirmed in GUD Nos. 9762, 9869, 10000, and 10170.

The Customer Factor is derived based on the average number of customers in each operating division that receives allocable costs for services provided. The Customer Factor was proposed by the company and subsequently approved by the Commission in GUD Nos. 9670, 9762, 9869, 10000 and 10170.

b. Summary of Proposed Adjustment and Applicable Standard

Expenditures for shared services are capitalized and expensed. Capitalized expenses are included in rate base whereas expensed costs are included in operations and maintenance expenses. ACSC proposed four adjustments to the SSU expenditures included in this filing.

- Remove the costs related to SSU Cost Center 1131, Dallas Media Relations
- Remove the costs related to SSU Cost Center 1954, Dallas Culture Council
- Adjust the four-factor allocation factor for SSU Cost Center 1205, Dallas Senior Vice President (SVP) Utility Operations, and
- Adjust the overhead capitalization ratio for Cost Center 1227

These proposed adjustments are addressed below.

Because shared services expenditures are both capitalized to rate base and expensed to operations and maintenance expenses the provisions of the RRM Tariff applicable to rate base (RB) and operations and maintenance expense (OM) apply. As noted in Section 3 above, operation and maintenance expenses must be reflected in the books and records during the test year as required by the RRM Tariff. If an expense category was not previously approved in GUD No. 10170, the company must establish that it is just and reasonable. As with all expenses, it is subject to the presumption embodied in Rule 7.503. Specific test-year expenditures must be just and reasonable and, again, those expenditures are subject to the presumption embodied in Rule 7.503. Rate base and operation and maintenance expense entries, the accounting treatment of the entries or any adjustment to those entries, must be prepared in a manner consistent with the rate-making treatments approved in the Final Order issued in GUD No. 10170. Post-test-period entries may be considered if they are known and measurable and occurred prior to the Filing Date. Further the entry must be typical and recurring. Finally, Shared Services allocation factors must be recalculated each year based on the latest component factors during the test year.

c. SSU Cost Center 1131 – Dallas Media Relations

i. Introduction

This cost center tracks costs that are associated with communicating customer service and safety messages to the media, business, and industry leaders. Costs included in SSU Cost Center 1131 are associated with crisis communications functions including training staff on media relations; interviews, press conferences, and press queries to better inform the public and customers in a crisis. Costs that are tracked in this cost center are also associated with video creation and dissemination to the public to educate customers and stakeholders on the environmental, safety and reliability benefits of natural gas. The total per book expense associated with this cost center during the test year was $182,855. Of that amount, $72,209 was allocated to Atmos Mid-Tex.[39] ACSC proposed an adjustment that would remove expenses related to this cost center. This reduces the revenue requirement by $76,661.

ii. Intervenors' Position

ACSC argued that all expenses associated with this cost center should be disallowed. Ms. Cannady asserted that the company did not justify that the additional service was necessary for the provision of safe and reliable natural gas service. She contended that it appears from the description of the activities that a significant portion of the job responsibilities was promoting the use of natural gas and training staff to effectively become public speakers.[40]

iii. Atmos Energy's Response

Ms. Myers, who testified on behalf of Atmos Energy argued that Ms. Cannady's representation of this cost center misconstrued the function that this cost center performed. Ms. Myers maintained that the expenses in this cost center are associated with crisis communications functions including training staff on media relations, interviews, press conferences, and press queries to better inform the public and customers in a crisis. She noted that costs are also associated with video creation and dissemination of information to the public to educate customers and stakeholders on the environmental, safety, and reliability benefits of natural gas. Ms. Myers concluded that the enumerated activities play an integral role in the safe use of natural gas and responding to a crisis, if an incident occurs.[41]

iv. Examiners' Recommendation

ACSC's challenge is that this category of expense is not just and reasonable. Expenses from this cost center were not included in GUD No. 10170 and have been specifically challenged. The company must establish that these expenses are just and reasonable. The Examiners find that the expenses associated with Cost Center 1131 are just and reasonable.

As outlined by the company the cost center expenses are for expenses associated with communicating *customer service and safety messages* to the media, business, and industry leaders. Further, the company asserted that the costs are associated with training in the context of *crisis communications*. These costs appear to be reasonable and necessary expenses for a utility that provides natural gas service. In the large area served by Atmos Mid-Tex there may be a weather related crises, a crisis occasioned by a third-party, or communications to the public and customers that are necessitated by repairs, relocations or replacement of infrastructure.

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[39] ACSC Ex. 2, Redacted Direct Testimony of Constance T. Cannady, p. 49, lns. 1 – 9.
[40] ACSC Ex. 2, Redacted Direct Testimony of Constance T. Cannady, p. 49, lns. 10 – 15.
[41] Atmos Energy Ex. 7, Rebuttal Testimony of Barbara W. Myers, p. 27, lns. 9 – 17.

d. Cost Center 1205 – Senior Vice President (SVP) Utility Operations

i. Introduction

Expenses related to the SVP of Utility Operations are recorded in SSU Cost Center 1205. The SVP of Utility Operations is responsible for the operations of the utility operations of the company. Prior to this filing, expenses of the SVP of Utility Operations were recorded in SSU Cost Center 1201, Dallas President and CEO. The company began using Cost Center 1205 in October 2013 to separately track costs related to the SVP of Utility Operations. The company maintained SSU Cost Center 1205 and continued to apply the four-factor allocation formula intended to allocate expenses across all divisions of Atmos Energy. Consequently, 38.26% of the expenses related to SSU Cost Center 1201 were allocated to Atmos Mid-Tex. On the other hand, the company applied a different allocation formula to new Cost Center 1205. The company applied a four-factor allocation formula that would apply the expenses recorded in Cost Center 1205 to the utility divisions of Atmos Energy. Consequently, 47.34% of the expenses associated with Cost Center 1205 were allocated to Atmos Energy Mid-Tex.

The total per book expense associated with this cost center during the test year was $935,378. Of that amount, $442,808 was allocated to Atmos Mid-Tex.[42] Of the allocated amount, $304,104 was capitalized, and included as rate base, and $138,664 was expensed, and included in the operations and maintenance expense calculation. ACSC proposed an adjustment that would reduce expenses related to this cost center and reduce the revenue requirement by $23,983.

ii. Intervenors' Position

Ms. Cannady, who testified on behalf of ACSC contended that the disparate treatment between SSU Cost Center 1201 and new SSU Cost Center 1205 resulted in a change in the treatment of expenses related to the SVP of Utility Operations. Namely, Atmos Energy proposed increasing the four-factor allocation to Atmos Mid-Tex from the previous allocation factor applicable to those expenses. Ms. Cannady observed that this resulted in an increase from 38.26% to 47.34%. She concluded that the company has not justified the increase in the allocation of these expenses when compared to the treatment of these in GUD No. 10170.[43]

She recommended that the four-factor allocation be changed from the company's proposed allocation to the Mid-Tex Division of 47.34% to the allocation used for a similar SSU Cost Center 1229 established in 2012 for the Vice President of Pipeline Safety of 39.49%. She reasoned that the Vice President for Pipeline Safety reports directly to the SVP of Utility Operations. Thus, it was logical that the same four-factor allocation factor be applied to the newly created SSU Cost Center.[44]

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[42] ACSC Ex. 2, Redacted Direct Testimony of Constance T. Cannady, p. 49, lns. 1 – 9.

[43] ACSC Ex. 2, Redacted Direct Testimony of Constance T. Cannady, p. 50, ln. 8 – p. 51, ln. 8.

[44] ACSC Ex. 2, Redacted Direct Testimony of Constance T. Cannady, p. 49, ln. 16 – p. 50, ln. 7.

iii. Atmos Energy's Response

Ms. Myers, who testified on behalf of Atmos Energy, argued that it was reasonable to track these expenses separately. The President and CEO, whose expenses continue to be tracked in SSU Cost Center 1201, are ultimately responsible for the operations of the entire company. On the other hand, the responsibilities of the SVP of Utility Operations, whose expenses are now tracked in new SSU Cost Center 1205, are limited to Utility operations of the company. Further, she contended that Ms. Cannady's proposed adjustment was inappropriate because ACSC adopted an allocation formula for the newly created cost center that was unsuitable. She contended that the functions of the Vice President for Pipeline Operations, whose expenses are recorded in SSU Cost Center 1229, are separate and distinct from the functions of the SVP of Utility Operations. Thus, she concluded, it was incorrect to apply the allocation factor applicable to SSU Cost Center 1229 to SSU Cost Center 1205.[45]

iv. Examiners' Recommendation

The Examiners find that the company has not established that the proposed treatment of this cost center is just and reasonable. The issue raised is whether the proposed treatment of this new cost center is consistent with the rate-making treatment applied in GUD No. 10170. Although SSU Cost Center 1205 is new, the expenses associated with the activities of the new cost center were previously included in SSU Cost Center 1201. The company merely created a new cost center for a previously approved expense and changed the rate-making treatment of those expenses. The RRM Tariff does not permit the proposed change.

In GUD No. 10170, the expenses of the SVP of Utility Operations were treated the same as the expenses of the President and CEO. Neither party has proposed that the equal treatment be maintained. The RRM Tariff does not contemplate the change proposed by either party. Accordingly, the Examiners recommend that the allocation factor applied to the newly created SSU Cost Center 1201 be the same as the allocation factor applied to the cost center applicable to expenses of the President and CEO, i.e. 38.26%. The recommended adjustment would reduce expenses related to this cost center and reduce the revenue requirement by $27,748.

e. Cost Center 1954 – Dallas Culture Council

i. Introduction

SSU Cost Center 1954 is intended to capture expenses incurred by the Culture Council. The purpose of the Culture Council is to sustain and strengthen a unified culture at Atmos Energy that promotes appreciation and respect for the differences among Atmos Energy employees. Prior to 2011, the Culture Council was called the Diversity Council. The Diversity Council was started in 1998 and the costs of the Diversity Council were included in SSU Cost Center 1401, Dallas Employment & Employee Relations. Costs associated with the predecessor entity, the Diversity Council have been recovered in rates approved in GUD Nos. 9670, 9762, 9869, 10000, and 10170.[46]

[45] Atmos Ex. 7, Rebuttal Testimony of Barbara W. Myers, p. 29, ln. 6 – p. 30, ln. 15.
[46] Atmos Ex. 7, Rebuttal Testimony of Barbara W. Myers, p. 27, ln. 18 – p. 28, ln. 6.

In this filing, expenses related to the functions of the Culture Council, previously recorded in Cost Center 1401, were removed from that cost center and were recorded in a separate cost center, entitled Dallas Culture Council. The total per-book expense associated with Cost Center 1954 during the test year was $3,248. Of that amount, $1,243 was allocated to the Mid-Tex Division of Atmos Energy.[47] ACSC proposed an adjustment that would remove expenses related to this cost center and reduce the revenue requirement by $1,263.

ii. Intervenors' Position

ACSC contended that the entire amount included in this proceeding should be disallowed. Ms. Cannady, took issue with the fact that expenses of SSU Cost Center 1401 increased by 22% over the amount included for that cost center in GUD No. 10170. This increase was in addition to the fact that certain costs, those expenses related to the Culture Council, were now removed from Cost Center 1401. She concluded that the company has not justified receiving the allocated amounts of both the 22% increase in a cost center that purportedly housed the activities now conducted in SSU Cost Center 1954 and the additional amounts requested in SSU Cost Center 1954.[48]

iii. Atmos Energy's Response

Ms. Myers, who testified on behalf of Atmos Energy, outlined the functions of the Cost Center 1954. She argued that promoting a strong and unified culture is an important component to building teamwork among employees who are expected to work together to provide excellent customers service as well as safe and reliable natural gas service. Many of these employees work directly with customers either through the call center or in the field.[49] Finally, she explained that this category of expenses have previously been included in rates approved in GUD Nos. 9670, 9762, 9869, 10000, and 10170.[50]

iv. Examiners' Recommendation

ACSC has raised a generalized challenge to the level of expense associated with this cost center and has not identified a specific expenditure that was not just and reasonable. The category of expense was reviewed in the last five proceedings at the Commission, including GUD No. 10170. Although the expenses related to the Culture Council have been removed from one account and placed into a separate entry, the accounting treatment of those dollars is the same. Accordingly, the RRM Tariff requires no further evaluation of this expense and the Intervenors have not presented any evidence that those expenses are not just and reasonable. Nevertheless, Atmos Energy has presented evidence in this proceeding that expenses associated with SSU Cost Center 1954 are, in fact, just and reasonable.

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[47] Atmos Ex. 1, Cost of Service Schedules, Schedule WP_F-2.7, ln. 98.
[48] ACSC Ex. 2, Redacted Direct Testimony of Constance T. Cannady, p. 49, ln. 15 – p. 50, ln. 7.
[49] Atmos Ex. 7, Rebuttal Testimony of Barbara W. Myers, p. 28, lns. 12 – 13.
[50] Atmos Ex. 7, Rebuttal Testimony of Barbara W. Myers, p. 27, ln. 18 – p. 28, ln. 15.

f. Shared Services Cost Center 1227 Customer Program Management.

i. Introduction

ACSC contended that the capitalization ratio for this cost center should be changed. The capitalization ratio was lower in this case than in GUD No. 10170 and the previous RRM Tariff filing. A comparison of the ratios is set out below in Table 10.2 below:

Table 10.2
Capitalization Ratio for SSU Cost Center 1227

	Labor	Non-Labor
Current Proceeding	3.38%	22.49%
GUD No. 10170	41.07%	41.07%
2013 RRM Filing	34.86%	65.94%

ii. Intervenors' Position

Ms. Cannady, who testified on behalf of ACSC, argued that when a capitalization ratio shows such a significant reduction in expected capitalized overhead, the utility should be required to provide a definitive justification for the change.[51] As Ms. Cannady concluded that the company failed to provide an explanation for the change, she recommended a capitalization ratio equal to the capitalization ratio applied in GUD No. 10170 should be adopted in this case.

iii. Atmos Energy's Response

Ms. Myers, who testified on behalf of Atmos Energy, stated that Ms. Cannady's assertion that the company failed to perform a study of the actual activities conducted within this cost center is not correct. On the contrary, the capitalization rates are calculated in the capitalization study issued annually, prior to the beginning of the company's fiscal year.[52] Ms. Myers asserted that the decline in the capitalization ratio for this cost center was due, in part, to the decrease in capital support of activities related to the Customer Service and Billing System project, which was placed in service in May 2013. Once the project was placed in service, the employees in Cost Center 1227 returned their focus to operations and maintenance activities that are not directly related to capital projects.[53] Finally, she affirmed that the methodology employed by the company to determine the capitalization ratio is the same method that was applied, and approved, in GUD No. 10170.

iv. Examiners' Recommendation

The Examiners find that the capitalization ratio for this cost center was established using the methodology approved in GUD No. 10170. The Commission's approval of that methodology is set out in Findings of Fact Nos. 38 through 59 in the Final Order issued in GUD

[51] ACSC Ex. 2, Redacted Direct Testimony of Constance T. Cannady, p. 52, lns. 11 – 20.
[52] Atmos Ex. 7, Rebuttal Testimony of Barbary W. Myers, p. 30, ln. 23 – p. 31, ln. 3 and p. 32, ln. 23 – p. 33, ln. 11.
[53] Atmos Ex. 7, Rebuttal Testimony of Barbara W. Myers, p. 32, lns. 2 – 5.

No. 10170. The RRM Tariff does not contemplate any further inquiry and the Examiners recommend that the company's proposed capitalization ratio be approved.

11. Expenses

a. Incentive Compensation

i. Overview of Incentive Compensation Plans

The company provides short-term incentive compensation packages to two broad categories of employees: (1) Executive employees and management employees; and (2) all others. Executive and management employees are eligible for Variable Pay Plans (VPP). This plan provides eligible employees an opportunity to earn a cash-based incentive award based upon the company achieving a specified financial objective such as a return on equity (ROE) or earnings-per-share (EPS).[54] Management Incentive Plan (MIP) is an extension of VPP but is limited to a select group of executives and senior management employees responsible for directing and overseeing the day-to-day operations of the company. As in the case of VPP, MIP provides the management team an opportunity to earn a cash-based incentive award based upon the company achieving the same VPP financial objective, expressed as EPS for fiscal year 2013.[55] In prior proceedings issues involving a third program, Long-Term Incentive Plan (LTIP), have been raised.[56] Except for one issue noted in Subsection ix below, LTIP does not appear to be an issue in this proceeding. Table 11.1 provides a summary of the compensation plans at issue in this proceeding and the applicability of those plans to Atmos Mid-Tex employees.

Table 11.1
Summary of Short-Term Incentive Compensation Plans

Employee Group	Employee Grade	Incentive Compensation Plan
Non-management Employees	Grades 1 through 7	Variable Pay Plans (VPP)
Management and Executive	Grades 8 through 14	Management Incentive Plan (MIP)

These plans are available to employees in the Shared Services Unit and to direct employees of the Atmos Mid-Tex Division. The total payout to eligible employees pursuant to these plans is added to the employee's base salary and becomes a part of the employee's total compensation. Employees undergo a performance evaluation annually to determine if they are eligible to receive an award under either plan. Ultimately, as noted above, any payout pursuant to these plans is dependent upon whether Atmos Energy achieves certain financial goals.[57]

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[54] ATM Ex. 2, Direct Testimony of Steven C. Carver, p. 26, lns. 16– 8.
[55] *Id.*
[56] GUD No. 10170, Proposal for Decision, pp. 32 – 43.
[57] ACSC Ex. 2, Redacted Direct Testimony of Constance T. Cannady, p. 8, lns. 12 – 14 and Atmos Ex. 5, Rebuttal Testimony of Christopher A. Felan, p. 22, lns. 11 – 16.

ii. Description of Payout Pursuant to the Plans

The payout to eligible employees pursuant to the company's short-term incentive plans is determined based upon a two-step process. The first step requires that each employee level, or grade, be assigned a target percentage (Target Percentage).[58] The product of an employee's base salary and the Target Percentage determines the potential payout quantity. This is illustrated by the following formula (Formula 11.1):

Formula 11.1

$$Potential\ MIP/VPP\ Payout = base\ salary\ x\ target\ percentage$$

For example, during the test period Grade 1 employees were assigned a Target Percentage of 2% of base salary. The potential payout quantity for that employee is the product of the employee's base salary and the Target Percentage of 2%. The calculation is set out below (Formula 11.2):

Formula 11.2

$$Potential\ MIP/VPP\ Payout = base\ salary\ x\ 2\%$$

The second step requires the calculation of the total MIP/VPP Payout. This is determined by applying a payout percentage (Payout Percentage) to the potential MIP/VPP payout.[59] For the test year the Payout Percentage could have ranged from 50% to 200%. Thus, the total MIP/VPP payout is calculated as follows (Formula 11.3):

Formula 11.3

$$Total\ MIP/VPP\ Payout = Payout\ Percentage * Potential\ MIP/VPP\ Payout$$
$$Total\ MIP/VPP\ Payout = Payout\ Percentage * (base\ salary * Target\ Percentage)$$

As is evident from the range of the Payout Percentage, total MIP/VPP payout may be less than, equal to, or **exceed** the potential MIP/VPP payout.

The Payout Percentage is based upon the earnings per share (EPS) target established by Atmos Energy. For fiscal year 2013, Atmos Energy set an EPS range that included three levels: threshold, target, and maximum. The threshold level was set at an EPS of $2.35. The Payout Percentage that corresponded with the threshold level was 50%. The target level was set at an EPS of $2.47. The Payout Percentage related to the target level was 100%. Finally, the maximum level was set at an EPS of $2.59. The Payout Percentage associated with the maximum level was 200%. Therefore, if actual EPS fell within the range of $2.35 and $2.59 eligible employees enrolled in short-term incentive plans would receive incentive payout ranging

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[58] ACSC Ex. 2, Redacted Direct Testimony of Constance T. Cannady, p. 9, lns. 1 – 9, Table 3; ATM Ex. 2, Direct Testimony of Steven C. Carver, p. 27, lns. 1 – 7; Atmos Energy Ex. 5, Rebuttal Testimony of Christopher A. Felan, p. 26, lns. 17 – 20.

[59] ACSC Ex. 2, Redacted Direct Testimony of Constance T. Cannady, p. 10, ln. 1 – p. 14, ln. 11, Table 3; ATM Ex. 2, Direct Testimony of Steven C. Carver, p. 27, lns. 1 – p. 28, ln. 2; Atmos Energy Ex. 5, Rebuttal Testimony of Christopher A. Felan, p. 22, lns. 9-12 & p. 23, ln. 13 – p. 27, ln. 3.

from 50% to 200% of the Target Percentage. Table 11.2 below provides a summary of the various Payout Percentages applicable during the test year.

Table 11.2.
Test Year Payout Percentage Levels

EPS	Payout Percentage
$2.35	50%
$2.47	100%
$2.59	200%

Table 11.2 is limited to three Payout Percentage thresholds. The company has various thresholds in between those levels. The table is intended to provide a representative range. For example, during the test year an EPS of $2.53 would have resulted in a Payout Percentage of 150%. Table 11.2 is only representative of three points on the Payout Percentage matrix.

Although the specific EPS target changed and the Target Percentage for certain employee levels changed, the overall structure of the company's compensation plan was the same in GUD No. 10170. Namely, the ultimate payout depended upon both the Target Percentage and the Payout Percentage.

iii. Commission Precedent

There are no specific regulatory provisions in either the Gas Utility Regulatory Act or Commission regulations related to expenses for incentive compensation. The expenses related to incentive compensation have been evaluated in several full *Statement of Intent* proceedings on a case-by-case basis. In each case the Commission must determine whether the evidence in the record is sufficient to determine that the rates are just and reasonable.

In GUD No. 9670, the Commission addressed issues related to SSU Cost Center 1904 and 1908:

> Atmos Mid-Tex has not established that the allocation of costs related to Cost Center 1904 Dallas Supplemental Executive Benefit Plan and Cost Center 1908 Dallas Supplemental Employee Benefits, is just and reasonable. The goal, as set out by the benefit plan is to advance the interest of shareholders, and the incentive compensation plans are driven by Company earnings. None of the costs of Cost Center 1904 and Cost Center 1908 should be allocated to Atmos Mid-Tex.[60]

In GUD No. 9762, the Commission addressed issues related to SSU Cost Center 1904. The Commission determined as follows:

> Atmos Mid-Tex has not established that the allocation of costs related to Cost Center 1904-Performance Plan is just and reasonable. Evidence was not presented that the costs that are included in this cost center are reasonable and

[60] GUD No. 9670, Findings of Fact No. 66.

> necessary to the provision of natural gas services. It is not appropriate to allocate any of the costs associated with this cost center to Atmos Mid-Tex and an adjustment to the proposed SSU expense and payroll related taxes is necessary to remove all expenses associated with this cost center.[61]

In GUD No. 9869, the Commission addressed issues related to the recovery of incentive compensation programs:

> Atmos' proposal to include $5,062,755 in Shared Services Unit incentive compensation in this request, consisting of $1,989,982 in SSU incentive compensation capitalized and $3,072,774 of SSU incentive compensation expensed, is unreasonable because the Shared Service Unit incentive compensation is not tied to public safety, and therefore it is more appropriate that shareholders bear incentive compensation expenses as customers do not benefit from Atmos' incentive compensation plan.[62]

In GUD No. 10000 the Commission made the following findings of fact:

> Customers and shareholders of Atmos Pipeline – Texas derive a benefit from the incentive compensation programs offered by the company and it is appropriate that the expenses for incentive compensation of direct employees be included in the cost of service calculation as they are just and reasonable expenses.[63]
>
> It is also appropriate that shareholders bear the burden of expenses for incentive compensation programs of the division that provide services to other divisions of Atmos Energy Corporation.[64]

[61] GUD No. 9762, Findings of Fact No. 76.
[62] GUD No. 9868, Findings of Fact No. 34.
[63] GUD No. 10000, Findings of Fact No. 66.
[64] GUD No. 10000, Findings of Fact No. 67.

In this case, the company's treatment of incentive compensation must be consistent with the rate-making treatment approved in GUD No. 10170. Generally, Findings of Fact Nos. 132 – 170 are relevant to issues related to incentive compensation and are reproduced here:

Table 11.3
GUD No. 10170, Findings Related to the Incentive Comp Rate-Making Treatment

132. The company provides incentive compensation packages to two broad categories of employees: (a) Executive and management employees, and (b) all other employees.
135. MIP, VPP, and LTIP are available to employees in the Shared Services Unit and to direct employees of the Atmos Mid-Tex Division.
136. The MIP and VPP plans provide eligible employees an opportunity to earn a cash-based incentive reward.
138. The company has excluded from its cost of service calculation expenses related to VPP and MIP costs allocated to the Mid-Tex Division.
139. Atmos has included the Mid-Tex direct costs for VPP and MIP, as well as, the Mid-Tex direct and SSU allocated LTIP costs.
140. The company's filing is consistent with Commission precedent related to divisions of Atmos Energy Corporation that are subject to the jurisdiction of the Commission: GUD Nos., 9670, 9762, 9869, and 10000.
141. The company's incentive compensation plans have not changed since GUD No. 10000.
142. Removal of all incentive compensation programs will hamper the retention and requirement of qualified employees.
143. The company's incentive compensation program is compatible with industry standards.
144. The company's incentive compensation programs are directly tied to improvements in performance, productivity, service, expense management, and other performance factors that directly impact earnings per share.
145. The plans encourage top management to motivate, recognize, and reward employee performance.
146. The vast majority of investor-owned gas distribution utilities have adopted incentive compensation plans as an integral element of their compensation programs.
147. The record in this case established the incentive compensation plans of Atmos include metrics that are directly relevant to customer satisfaction.
148. The record in this case established that financial metrics in the incentive compensation plan provide a benefit to customers and shareholders.
149. Positive financial performance requires the achievement of rate-based revenues while at the same time controlling operating expense levels.
150. Positive financial performance requires increased employee productivity, customer retention and satisfaction, adherence to safety and environmental concerns, control of operations and maintenance expenses minimizing operating expense levels to maximize earnings per share.
153. Evidence in the record established that Atmos' calculation of the billing lag has changed from 4.47 days in a prior proceeding to 1.74 days. This evidences an improvement that provides financial returns to the company, reduces the OM expenses included in the cost of service calculation, and provides timely consumption information to consumers.
154. Atmos and the City of Dallas acknowledged that improved practices at Atmos extend the service life of the company's assets. This evidences that actions by all employees directly impact safety, reduce costs included in the cost of service by extending the service life of company assets, and improve the financial returns of the company.
156. The company's incentive compensation plan benefits all constituents of Atmos: customers, shareholders, and employees.
157. Atmos established that its treatment of incentive compensation is consistent with Commission precedent applicable to Atmos in general, and Atmos Mid-Tex, in particular.
158. The company's treatment of incentive compensation expenses is just and reasonable and Atmos has established that expenses for incentive compensation included in the attached Schedules F-1 are just and reasonable.
159. It is reasonable to balance the burden of the expenses related to incentive compensation between shareholders and customers as both benefit from incentive compensation programs.
160. Removal of all MIP, VPP, and LTIP expenses from the revenue requirement would require the shareholders to bear all expenses related to incentive compensation programs that benefit shareholders and customers.
161. Previous decisions balanced the burden of the expenses related to incentive compensation by including expenses related to Shared Services LTIP plans and expenses related to the MIP, VPP, and LTIP plans of the Atmos Energy Corporation Divisions that are subject to the jurisdiction of the Commission.
162. MIP and VPP expenses related to the Shared Services totaled $5,569,561 and 37.60% of those expenses, totaling $2,094,154 ($5,569,561 x 37.60%), would have been allocable to the operation of maintenance expenses of the Atmos Mid-Tex Division.
163. Pursuant to Commission precedent, the company excluded those amounts from the revenue requirement of the company.
164. LTIP expenses related to the Shared Services that were allocated to the Atmos Mid-Tex Division as part of the revenue requirement calculation totaled $1,241,636.
165. MIP, VPP, and LTIP expenses for employees of the Atmos Mid-Tex Division totaled $825,291.
166. MIP, VIP, and LTIP operation and maintenance expenses totaled $4,161,081; Pursuant to precedent, the company has only included $2,066,927 of those expenses in the revenue requirement or 49.67%.
167. The company's proposed treatment of incentive compensation is consistent with prior precedent that balances the burden of the recovery of this expense between shareholders and customers by allowing recovery of the Atmos Mid-Tex Division and disallowing recovery of the Shared Services Unit Expense.
168. Consistent treatment provides regulatory certainty and it is reasonable that the expenses be apportioned by applying the methodology approved in prior proceedings.
169. Continued balancing of this expense by allowing recovery of the Atmos Mid-Tex Division VPP, MIP, and LTIP expenses, Shared Services Unit LTIP expenses and disallowing recovery of Shared Services Unit expense VPP and MIP may not be reasonable in future proceedings.
170. It is reasonable that the company not be bound by prior precedent in allocating the burden of MIP, VPP, and LTIP expenses and it is reasonable that the company explore a balanced and transparent apportionment of the burden of this expense.

As noted above, there are no specific regulatory provisions in either the Gas Utility Regulatory Act or Commission regulations related to expenses for incentive compensation. Recovery of these expenses is evaluated on a case-by-case basis and may be revisited in full *Statement of Intent* proceedings, as noted by the Commission in Findings of Fact No. 170 of the Final Order in GUD No. 10170. In this case, however, the parties are constrained by the RRM Tariff provisions. Those provisions require that the filing in this case be consistent with the rate-making treatments approved in GUD No. 10170.

iv. Rate-making Treatment of the Short-Term Incentive Expense

In order to conform with Commission precedent, the company has excluded from its cost of service calculation expenses related to the Shared Services Unit MIP/VPP plans that would otherwise have been allocated to the Atmos Mid-Tex Division. On the other hand, Atmos has included the expenses for MIP/VPP plans for employees of the Atmos Mid-Tex Division. Table 11.4 below summarizes the company's approach in this proceeding:

Table 11.4[65]
Company Treatment of MIP/VPP Expenses in Revenue Requirement Calculation

	SSU	Mid-Tex Division
VPP	Excluded	Included
MIP	Excluded	Included

Additionally, consistent with prior precedent, a portion of expenses associated with short-term incentive compensation to employees are capitalized, and included in rate base, and a portion is expensed and included in the operations and maintenance expense calculation. In this case, the total expenses associated with the short-term incentive programs during the test year throughout all of the Atmos Energy Divisions were $6,456,996. Of that amount, $4,629,666 was allocated to the Atmos Mid-Tex. Consistent with prior proceedings, including GUD No. 10170, the company proposed including a portion of these expenditures as an expense item in the operations and maintenance expense calculation. The difference would be included as part of the calculation of rate base. As a result, Atmos Energy proposed including 22.08% of that amount as OM expense and 77.92% as a capitalized portion of rate base.

[65] Atmos Energy Ex. 7, Rebuttal Testimony of Barbara W. Myers, p. 15.

v. Overview of Issues Raised

The Intervenors have raised several issues regarding the company's incentive compensation plans:

- ACSC asserted that the Target Percentage for employees participating in MIP should be set at 2%.
- ACSC asserted that the Payout Percentage for employees participating in VPP should be set at 100%.
- ACSC asserted that the Payout Percentage for employees participating in MIP should be set at 100%.
- ATM contended that MIP/VPP expenses should be normalized to reflect a lower payout.
- ACSC argued that the operations and maintenance expense factor should be changed to 25% and the capitalization factor should be changed to 75%.
- ACSC argued expenses related to SSU MIP/VPP should be removed in total: The operations and maintenance expense portion and the portion that is capitalized.
- ACSC argued that the ADIT calculation should be adjusted.

As noted above, the RRM Tariff requires that the rate-making treatment of operations and maintenance expense and amounts included in rate base be consistent with the rate-making treatment of those elements included in GUD No. 10170. On the other hand, specific expenditure items included in the test year are subject to evaluation and Atmos Energy must establish in this proceeding that test-year expenditures are just and reasonable. Therefore, in order to evaluate the requested adjustment a determination must be made as to whether the requested adjustment relates to a rate-making treatment or test-year expenditure.

ACSC's proposal to change the capitalization ratio and to remove a portion of SSU MIP/VPP that was excluded from the filing directly relate to the rate-making treatment approved in GUD No. 10170. On the other hand, ACSC's and ATM's proposal to limit the short-term incentive compensation calculation by reducing either the Target Percentage or the Payout Percentage relates to the company's decision to increase those expense levels for the test-year period. These issues directly address the underlying causes for the increase of this expense.

In GUD No. 10170, the utility paid $2,549,338 in short-term incentive compensation awards to Atmos Mid-Tex employees. The short-term incentive compensation awarded in that case was 3.00% of base salary.[66] In this proceeding, the utility paid $6,456,991 in short-term incentive compensation. Thus, the short-term incentive compensation awarded in this case is approximately 7.11%.[67] The primary reasons for this increase appears to be the change in the

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[66] ACSC Redacted Direct Testimony of Constance T. Cannady, p. 21, lns. 25 – 26. Ms. Cannady noted that the total expenditure for base salary in GUD No. 10170 was $84,883,392: $2,549,338/$84,883,392 = 3.00%.

[67] ACSC Redacted Direct Testimony of Constance T. Cannady, p. 22, lns. 1 – 4. Ms. Cannady noted that the total expenditure for base salary in this proceeding was $90,830,331: $6,456,991/$90,830,331 = 7.11%.

overall increase in base salary,[68] the change in Target Percentage, and the change in the Payout Percentage.

vi. Proposed Changes to Rate-Making Treatments of Incentive Compensation

ACSC proposed two adjustments that seek to alter the rate-making treatments of incentive compensation. First, Ms. Cannady, who testified on behalf of ACSC, contended that the capitalization ratio should be changed. Second, she contended that the company should remove the capitalized portion of SSU MIP and VPP.

(A) The Capitalization Factor

As to the adjustment of the capitalization ratio, as explained by Ms. Myers, who testified on behalf of Atmos Energy, the company determined the capitalization ratio as follows. The company records a monthly accrual related to incentive compensation. The capitalization factor was based on the amounts recorded. As noted, those amounts were recorded using an accrual accounting method based upon the annual fiscal year results as of September 30th. The company records a true-up in anticipation of the incentive compensation payout in November of each year. The resulting expense factor was 22.08% with a corresponding capitalization factor of 77.92%. Ms. Cannady urged that the capitalization ratio be calculated based upon the December 2013 expense ratio of 25% with a resulting capitalization ratio of 75%. The reason offered for the proposed change was the fact that Atmos Mid-Tex short-term-incentive pay was actually paid at the end of November 2013.[69]

Ms. Myers responded by first observing that Ms. Cannady proposed changing the capitalization factor from the amount calculated for the test year to the amount calculated for December. She explained that the amounts recorded from October through December 2013 would primarily represent an accrual amount for the next fiscal year (as October through December 2012 would represent accrual amounts related to the November 2013 payout). As a result, in the test year, the amount recorded in December would include an accrual for fiscal year 2015 potential payout, some amount attributable to the payout amount above 150%, and an amount related to increases in the target percentages for employee Grades 1 – 7 (non-MIP). She concluded that the percentage calculated at December is no more representative of the November 2013 payout than the average for the year or the end of the fiscal year on which the payout is based.

As an initial matter, the Examiners note that no party disputes that the rate-making treatment for calculating the capitalization ratio is the same in this case as in GUD No. 10170. Application of the provisions of RRM Tariff ends the inquiry into the proposed capitalization ratio there. Assuming for the sake of discussion that the inquiry proceeds further, ACSC has not explained why the capitalization ratio determined by the company is not just and reasonable. Further, ACSC has not provided an adjustment to implement this change. Accordingly the

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68 ACSC Redacted Direct Testimony of Constance T. Cannady, p. 23, lns. 11 – 13. ("Of course, with the base salary increases that have also occurred in GUD No. 10170, applying the STI percentages adopted in that proceeding does result in higher STI pay than was approved.")

69 ACSC Redacted Direct Testimony of Constance T. Cannady, p. 31, lns. 9 – 20 and Atmos Ex. 8, Rebuttal Testimony of Barbara W. Myers, p. 20, ln. 5 – p. 25, ln. 5.

Examiners find that the proposed operations and maintenance expense factor of 22.08% with a corresponding capitalization factor of 77.92% to be just and reasonable.

(B) Adjustment to Company Treatment of MIP/VPP

In order to conform to Commission precedent in GUD No. 10170, the company asserted that it excluded from its cost of service calculation expenses related to the Shared Services Unit VPP and MIP plans that would otherwise have been allocated to the Atmos Mid-Tex Division. On the other hand, Atmos Energy has included the expenses for MIP/VPP plans for employees of Atmos Mid-Tex. Table 11.4 is reproduced below as Table 11.5 to summarize the company's asserted approach to these expenses in this proceeding:

Table 11.5
Company Asserted Treatment of MIP/VPP Expenses in Revenue Requirement Calculation

	SSU	Mid-Tex Division
VPP	Excluded	Included
MIP	Excluded	Included

ACSC contended that the utility has not, in fact, removed all SSU expenses associated with MIP/VPP. Ms. Cannady observed that the Final Order in GUD No. 10170 required the removal of all SSU expenses related to MIP/VPP. Specifically, Findings of Fact Nos. 138, 163, and 167 in GUD No. 10170 mandated that the appropriate sharing of the incentive pay burden between ratepayers and shareholders is met by excluding short-term incentive expenses associated with SSU from the cost of service calculation. If the amount of short-term incentive compensation expenses paid to SSU employees that is capitalized into overhead and then ultimately assigned to Atmos Mid-Tex projects is not removed from rate base, the cost of service unavoidably includes a return on those expenses.[70] Ms. Cannady calculated that the total amount of SSU MIP/VPP expenses that were capitalized and included in the cost-of-service calculation was $1,213,019.[71]

In its response the company explained that the operation and maintenance expense portion of expenses related to MIP/VPP for SSU employees have been removed. Ms. Myers conceded, however, that no adjustment had been made for Shared Services MIP/VPP amounts recorded to capital.[72] Ms. Myers asserted that the Final Orders in GUD Nos. 9670, 9762, 9869, 10000, and 10170 demonstrate that the Commission has never made an adjustment to capital for SSU incentive compensation expenses. The only adjustment the Commission has ever made was to Shared Services expense.[73]

The Examiners find the company's filing is consistent with the Final Order in GUD No. 10170. While there may be some ambiguity in the provisions of Findings of Fact 138, 163, and 167 all of those provisions refer to the cost-of-service "expense" related to SSU short-term

[70] ACSC Ex. 2, Redacted Direct Testimony of Constance Cannady, p, 17, lns. 5 – p. 8, ln. 2 (Table 7) and p. 32, lns. 7 – 19.
[71] ACSC Ex. 2, Redacted Direct Testimony of Constance Cannady, p. 32, ln. 20 – p. 36, ln. 7.
[72] Atmos Ex. 7, Rebuttal Testimony of Barbara W. Myers, p. 15, lns. 1 – 9.
[73] Atmos Ex. 7, Rebuttal Testimony of Barbara W. Myers, p. 16, lns. 1 – 11.

incentive compensations costs. The capitalized portion of those expenses is not addressed. Furthermore, the Commission specifically adopted the incentive compensation expenses as set out in the schedules attached to those orders. No adjustment was made to remove the capitalized portion of those short term incentive compensation costs in GUD No. 10170 nor in any of the prior cases. Finally, the Commission found that the allocation of expenses in that case between shareholders and customers was reasonable. That allocation, therefore, is a rate-making treatment that may not be set aside in this case. As already noted, however, the Final Order in GUD No. 10170 invites reconsideration of the balancing of those expenses in a future *Statement of Intent* proceeding. Accordingly, the Examiners recommend that the proposed adjustment to remove $1,213,019 from rate base be rejected.

vii. Reasonableness of Increases to the Target Percentage

The company revised the Target Percentage for Grade 5 and 6 employees from 2% for employees in Grades 5 and 6 to 5%. The Target Percentage for Grades 7 was changed from 2% to 7.5%. Ms. Cannady, who testified on behalf of ACSC, contended that these higher percentages were not litigated during GUD No. 10170 and, therefore, there are no findings from that docket with respect to the reasonableness of those Target Percentage levels.[74] She was also critical of the compensation studies that the company used to support the change to the Target Percentages.[75] Although ATM did not specifically challenge the Target Percentage, ATM contended that the total short-term incentive compensation payout during the test period in this case required a downward adjustment. Thus, ATM indirectly challenged the Target Percentage.

The company asserted that it aims for a compensation package that falls within the 50th percentile of similarly situated companies. This is the same goal that was approved and found to be reasonable in GUD No. 10170.[76] Mr. Felan asserted that the Target Percentage of pay grades 5 through 7 were adjusted to better align these grades with external market competitive practices.[77] Mr. Felan explained that compensation surveys, reviewed in GUD No. 10170 informed the company's decision regarding compensation levels for lower-level employees.[78] Ms. Myers noted that the company changed its target percentages for Grades 5 – 7 based upon input from its compensation consultants, who were the same consultants that provided rebuttal testimony in GUD No. 10170. The consultants recommended the change in order for Atmos Energy to continue to be competitive in the marketplace.[79]

The Examiners find that Atmos Energy has established that the Target Percentages applicable during the test year are just and reasonable. The company established that the change in the Target Percentage was based on compensation studies previously reviewed by the Commission. While the studies have been updated, reliance on those studies is consistent with Commission precedent. The evidence in this case established that, taking into account the incentive compensation package and base salaries, employees of Atmos Energy are within the 50th percentile of comparable employees. By engaging in these incentive compensation

[74] ACSC Ex. 2, Redacted Direct Testimony of Constance T. Cannady, p. 12, Table 4 and p. 15, lns. 3 – 11.
[75] ACSC Ex. 2, Redacted Direct Testimony of Constance T. Cannady, p. 26, ln. 7 -
[76] Atmos Energy Ex. 5, Rebuttal Testimony of Christopher A. Felan, p. 24, lns. 14 – 17.
[77] Atmos Energy Ex. 5, Rebuttal Testimony of Christopher A. Felan, p. 26, lns. 17 – 20.
[78] Atmos Energy Ex. 5, Rebuttal Testimony of Christopher A. Felan, p. 31, lns. 5 – 10.
[79] Atmos Energy Ex. 7, Rebuttal Testimony of Barbara W. Myers, p. 19, ln. 20 – p. 20, ln. 3.

programs and maintaining overall compensation levels, including payments from incentive compensation programs, at the 50th percentile employees are incentivized to develop efficiencies that benefit rate-payers and shareholders alike.

viii. Reasonableness of the Payout Percentage of 200%

The actual EPS reported during the test year was $2.53. Based upon the Payout Percentage scale in effect at the time, the Payout Percentage would have been 150%. Nevertheless, the company elected to apply a Payout Percentage of 200%.[80] ACSC and ATM recommended an adjustment that would have limited the incentive compensation payout to the levels awarded during the twelve-month period ending on September 30, 2011. That period is the test year applicable in GUD No. 10170. Essentially, ACSC and ATM seek to limit the Payout Percentage to 100%, the Payout Percentage applicable in GUD No. 10170. The issue raised by ACSC and ATM is the appropriate Payout Percentage applicable in this case. The three options presented by the evidentiary record are 200%, 150%, or 100%.

ATM contends that 200% and 150% Payout Percentages result in an expense level for short-term incentive compensation that is atypical and is not recurring.[81] ACSC argues those levels are not just and reasonable and Atmos Energy has provided insufficient evidentiary support to justify those Payout Percentages. Ms. Cannady also reviewed several of the compensation studies identified by Atmos Energy to evaluate the company's Payout Percentages that ranged from 150% to 200%. She concluded that a Payout Percentage of 150% was considerably higher than the averages paid participants in the compensation studies.[82] She also noted that in FY 2012, the Board of Directors awarded a higher Payout Percentage than was recommended by Atmos staff.[83]

While not conceding that a Payout Percentage of 200% is reasonable, Ms. Myers alleged that Atmos Energy reduced the Payout Percentage to an achieved Payout Percentage of 150%.[84] A point repeated twice by Ms. Myers and echoed by Mr. Felan.[85] ACSC contended that the proposed adjustment did not accurately capture the reduction alleged. As for the Payout Percentage range, up to 200%, Ms. Myers and Mr. Felan stated that the range was previously evaluated and approved by the Commission in GUD No. 10170.

The Examiners find that the company has not established that a Payout Percentage of 200% in this case is just and reasonable. Evidence in the record indicates that the company disregarded the Percentage Payout that corresponded in the pre-established matrix award based simply upon the following determination: "Due to the extraordinary company and employee performance in 2013, we recommend funding the VPP at 200% of target."[86] Pursuant to the

[80] ACSC Ex. 2, Redacted Direct Testimony of Constance T. Cannady, p. 10, lns. 1 – 11 and ATM Ex. 2, Direct Testimony of Steven C. Carver, p. 25, ln. 21 – p. 26, ln. 5.
[81] ATM Ex. 2, Direct Testimony of Steven C. Carver, p. 23, ln. 16 – p. 28, ln. 2.
[82] ACSC Ex. 2, Redacted Direct Testimony of Constance T. Cannady, p. 36, ln. 11 – p. 37, ln. 3.
[83] ACSC Ex. 2, Redacted Direct Testimony of Constance T. Cannady, p. 24, lns. 14 – 16.
[84] Atmos Ex. 7, Rebuttal Testimony of Barbara Myers, p. 15, lns. 1 – 9 and p. 16, lns. 19 – 20; .
[85] Atmos Ex. 5, Rebuttal Testimony of Christopher A. Felan, p. 27, lns. 1-3.
[86] ACSC Ex. 2, Redacted Direct Testimony of Constance Cannady, Attachment 3, p. 63; ATM Ex 2, Direct Testimony of Steven C. Carver, p. 25, ln. 25 – p. 26, ln. 2.

established matrix the company had determined that an EPS of $2.53 corresponded to a Payout Percentage of 150%. The company offered no basis for deviating from the previously approved matrix and plan that was evaluated in GUD No. 10170. Furthermore, based upon the evidence in the record, it is clear that the adjustment proposed by Atmos Energy failed to reduce the actual Payout Percentage of 200% to an achieved Payout Percentage of 150%. In order to accomplish the goal asserted by Atmos Energy an adjustment must be made to both the operations and maintenance expense and to rate base. The Examiners recommend that the adjustment to rate base be made in the amount of $713,141.[87] This adjustment will achieve the asserted goal of Atmos Energy to reduce the effective Payout Percentage of 150%. This adjustment will reduce the overall revenue request of the company by approximately $84,555.

ix. ACSC Matching ADIT Adjustment

ACSC recommended an adjustment to the ADIT calculation for the Mid-Tex Division MIP/VPP accrual as a matching adjustment to ACSC's recommended level of Mid-Tex MIP/VPP short-term incentive pay. The proposed adjustment results in a reduction to the revenue requirement requested of $19.[88] As the Examiners recommend that ACSC's proposed adjustment to short-term incentive compensation be rejected, the Examiners recommend that ACSC's proposed adjustment to ADIT also be rejected.

The Examiners note that based upon the Examiners' recommended adjustment to short-term incentive compensation, the impact on the overall revenue requirement is *de minimums* and totals less than $10 and the adjustment has no measurable impact on the proposed rates. Nevertheless it is appropriate to make this ADIT adjustment based upon the methodology presented by ACSC's witness. Accordingly, the Examiners recommend that the $277 ADIT balance on Schedule WP_B-6 proposed by Atmos Energy be adjusted by $54 to $223.

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[87] It does not appear that Atmos Energy takes the position that a lump-sum adjustment for the portion of this expense is confidential. *See*, correspondence from Atmos Energy dated February 18, 2015, clarifying that the total adjustment is not confidential. Out of an abundance of caution, the Examiners have calculated this adjustment based upon the Redacted Direct Testimony of Constance T. Cannady, at Table 6:

Excerpt from Table 6

Total Incentive	$6,456,996
Allocation MTX	71.70%
MTX Exclusive	$4,629,666
O&M Factor	22.08%
Incentive Pay	$1,022,175
Capitalized Incentive Pay	$3,607,492

Based upon the redacted testimony that the O&M portion of the adjustment resulted in a reduction of $202,081, the Examiners have simply calculated the rate base portion algebraically using the non-confidential information provided by the parties.

[88] ACSC Ex. 2, Redacted Direct Testimony of Constance Cannady, p. 40, lns. 3 – 11.

x. Premium for MIP Conversion

Ms. Cannady, who testified on behalf of ACSC, noted that beginning in 2013, employees receiving both MIP awards and awards for the company's long-term incentive (LTIP) plan could receive a 20% premium for converting all or some of their MIP cash award into company stock. ACSC did not provide a specific adjustment related to this issue. Instead, it appears that ACSC raised the issue in support of its overall recommendation to adjust the incentive compensation calculation included in the company's RRM Tariff Adjustment.

Mr. Felan, who testified on behalf of Atmos Energy, explained that the cash stock conversion option is not a new component to the company's MIP plan. He testified that this option has been in place since 1998 and is designed to incentivize eligible employees to have a vested interest in the results of the company and to retain their services for longer periods. He noted that in GUD No. 10170, the conversion percentages applicable to this option offered up to 10% for the immediate stock conversion and up to 50% for the three-year vesting option. These percentages were reduced to 5% and 20%, respectively, beginning in FY2012 to better align with competitive practices.[89]

The Examiners find that the conversion program was part of the company's incentive compensation program considered in GUD No. 10170. Other than the general assertion of Ms. Cannady that this represented a change, no specific evidence was presented to challenge the reasonableness of the company's change. Furthermore, no specific adjustment was proposed. Accordingly, based on the evidence in the record that the change was made to align with competitive practices, and the failure to propose a specific adjustment, the Examiners find that the company's stock conversion program is just and reasonable.

b. Mains and Services Expenses

i. Introduction

The company has included in its cost of service calculation a total operating expense totaling $163,331,251. Included in that amount is an expense component for FERC Account 874 related to Mains and Services of $38,076,811. ACSC recommended an adjustment to that account of $4,034,935. The proposed adjustment reduces the requested revenue increase by $4,098,713.

ii. Intervenors' Position

ACSC contended that there were certain atypical and non-recurring expenses included in the Mains and Services expense category. Ms. Cannady first observed that the company's proposed test-year-adjusted expense is $7,971,274, or 26.47% greater than in GUD No. 10170 test year ended September 30, 2011. She observed that it was an increase that occurred in the space of just over two years. She asserted that $1,691,000 of the increase was due to training, partly due to the new customer service system that was adopted by Atmos Energy during the test year. She also identified increases in expenditures of nearly $2,960,127 due to additional line

[89] Atmos Ex. 5, Rebuttal Testimony of Christopher A. Felan, p. 27, lns. 5 – 13.

locates, additional expense in painting equipment (including meters and regulatory stations), high pressure, maintenance of service centers, additional expense for right-of-way reclamation, pipeline integrity expenses, and a line-locate adjustment. Table 11.6 bellow summarizes the test-year expenses which Ms. Cannady considered to be atypical.[90]

Table 11.6
Summary of Miscellaneous Expenses Challenged by ACSC

Description	Amount
Training	$1,691,000
Line Locates	$665,523
Painting equipment, meters, and regulators	$862,781
High Pressure Line Cleaning	$559,810
Maintenance of Service Centers	$490,827
Right-of-way reclamation	$237,502
Pipeline Integrity	$143,684
Line Locate Adjustment	$2,530,561
Total	$7,038,004

Ms. Cannady proposed that the expenditures recorded in this account be normalized. Her calculation was based upon an average of the expenditure included in three filings: GUD No. 10170, the 2013 RRM filing, and the 2014 RRM filing. The 2013 RRM entry would be adjusted to reflect a 2012 Line Locate adjustment that was included in the current 2014 RRM filing. The current to 2014 RRM entry would be adjusted to remove the alleged non-recurring entry for training. Ms. Cannady attempted to ensure that expenses relevant to safety operations of the company were not considered as part of her normalization calculation. Ms. Cannady's proposed adjustment is reproduced below in Table 11.7.

[90] There is an inconsistency with the testimony offered by Ms. Cannady. At page 44 of her testimony, she contended that the total of these changes account for approximately "$7.2 million of the $7.7 million increase between the 2013 RRM filing and currently filing per book amounts in FERC account 874." ACSC Ex. 2, Redacted Direct Testimony of Constance T. Cannady, p. 44, lns. 5 – 19. As enumerated in Table 11.6. above the Examiners have been able to identify only $7,038,004.

Table 11.7
ACSC FERC Account 874 Adjustment

Calculation	GUD No. 10170	2013 RRM	2014 RRM	Adjustment
Per Books FERC Account 874 Expense [1]	$ 29,885,480	$ 30,024,254	$ 37,795,944	
Adjustment for 2012 Line Locates [3]		2,530,561		
Adjustment for Non-Recurring/Abnormal Expenses [2]	-	-	(1,691,248)	
Expense Net of Non-Recurring/Abnormal Expense	29,885,480	32,554,815	36,104,696	
Adjustment for Safety Related Expenses in Test Year [3]	-	-	(1,369,017)	
Adjusted Annual Expense for Averaging	$ 29,885,480	$ 32,554,815	$ 34,735,679	
3 year average				$ 32,391,991
Add Back Safety Related Expense				1,369,017
ACSC Recommended FERC Account 874 Book Exp.				$ 33,761,008
Per Books FERC Account 874 Expense				$ 37,795,944
ACSC Adjustment				$ (4,034,936)

1. Per Books Expense in Noted Proceedings (Schedule F-1)
2. Response to ACSC City-level RFI 1-22 (See Attachment 35)
3. Add back full amount for line locates, pipeline integrity and high pressure line cleaning

The proposed adjustment reduced the operations and maintenance expense component included in the cost-of-service calculation by $4,034,936. The overall impact is to reduce the requested revenue requirement by $4,098,713.

iii. Atmos Energy's Response

Ms. Myers, who responded on behalf of Atmos Energy, contended that Ms. Cannady misinterpreted the information provided by the company as it relates to training expenses. Ms. Myers asserted that some of the $1,691,000 increase in labor related expenses was attributable to training activities to the Customer Service System and Billing project. The company did not have a precise value for the training associated with that project. She noted that the $1,691,000 includes training related to other operation and maintenance expenses including operational qualification, occupational safety and health administration, first aid, meter reading and corrosion training.

As to the other components in Ms. Cannady's proposed adjustment, such as increased expenses due to line locates, painting, etc., Ms. Myers and Mr. Knights explained that these expenses may vary naturally from year to year. Other than the variation in amount, Ms. Cannady presented no evidence that the expenses related to these expenditures were atypical, non-recurring, or not just and reasonable.

Finally, Ms. Myers raised an issue that was directly relevant to the RRM Tariff itself. Namely, the RRM Tariff is designed to capture annual changes in utility operations using a historic test period; it is not designed to normalize expenses.

iv. Examiners' Recommendation

The issue raised by ACSC relates to a proposed adjustment intended to remove amounts recorded during the test year that may not be typical or recurring. As discussed in more detail below the Examiners find that portions of the challenged expenses are, in fact, typical and recurring. As to the portion that is atypical and non-recurring, there is no challenge to the reasonableness and necessity of those expenses. The sole basis for the proposed adjustment is that the expenses were atypical and non-recurring. But atypical and non-recurring expenses may be included by the terms of the RRM Tariff. Based on the RRM Tariff language, the fact that the expenditure is atypical and non-recurring may not be the sole basis for an adjustment.

As to OM expenses the RRM Tariff provides as follows: "OM may be adjusted for atypical and non-recurring items."[91] While from an accounting perspective the term "adjusted" implies removal, the RRM Tariff specifically provides later that the RRM adjustment filing include a brief narrative explanation of "atypical or non-recurring items included in the filing."[92] It does not require that atypical and non-recurring items be removed. Finally, the tariff specifically contemplates annual filings to capture fluctuating operation and maintenance expenses. It is inconsistent to require that "atypical and non-recurring expenses" be normalized or removed.

The Examiners find that Atmos Energy established that its proposed expenditure related to Account 874 is just and reasonable. Except for training expenses, all expenses were typical and recurring. The test-year training expenses were reasonable and necessary. To the extent the Commission determines that the atypical and non-recurring training expenses are to be removed the Examiners offer the following analysis.

(A) Training Expenses

As an initial matter, the issue is not the entire labor expense included in this account. The total labor expense recorded during the test year for this account is \$9,531,807.[93] The only dollars at issue are the difference between the labor expense recorded for the test year included in the 2012 RRM Tariff Adjustment calculation and the labor expense recorded for the test year included in the 2013 RRM Tariff Adjustment. That difference is \$1,691,248. Disallowance of this amount will not remove all labor expense, or training expenses embedded therein, that was incurred during the test year. The undisputed labor dollars for this account total \$7,840,559.

The company has not established that training during the test period related to the Customer Service and Billing System project is recurring. Atmos Energy installed a new Customer Service and Billing System effective May 2013.[94] The Customer Service and Billing System is a comprehensive large-scale customer service system.[95] Due to the size and complexity of the change, training of employees on the new system was required and Ms. Myers does not dispute that some of the training included in the test-year entries relates to the Customer Service and Billing System. Installation of the Customer Service and Billing System was a multi-year project that replaced a system that had been used for several years. It is expected that certain training that is atypical and non-recurring would occur once the project is completed.

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91 RRM Tariff, p. 19.
92 RRM Tariff0, p. 20.

93 Atmos Energy Ex. 1, Relied Upon Schedule F-1 OM, Worksheet Labor, Excel Cell B12.
94 ACSC Ex. 1, Redacted Direct Testimony of Karl J. Nalepa, p. 29, lns. 4 – 8.
95 Atmos Energy Ex. 6, Rebuttal Testimony of Jeffrey Knights, p. 29, lns. 1 – 7.

ACSC had expressed concern regarding expenses related to this training and repeatedly asked the company to isolate those expenses. The company has been unable to identify those expenses and unwilling to provide an estimate of expenses attributable to the training related to the Customer Service and Billing System.[96] Rather than proposing to disallow the entire entry related to this account, $9,531,807, and rather than normalizing the expense as proposed by ACSC, to the extent that the Commission finds that an adjustment is required, it would be reasonable to simply remove the increase in this account from one year to the next in this filing. This adjustment would be focused upon the activity in this account that caused the non-recurring expense and would result in a decrease to the overall revenue requirement of $171,923. This is in contrast to ASCS's proposed adjustment which would result in a decrease to the revenue requirement of $4,098,713.

(B) Painting, Line Locates, etc.

The company established that the expenses related to the following categories were typical and recurring: Additional line locates, additional expense in painting equipment (including meters and regulatory stations), high pressure, maintenance of service centers, additional expense for right-of-way reclamation, pipeline integrity expenses, and a line locate adjustment. The Intervenors presented no evidence to the contrary. Accordingly, the Examiners recommend no further adjustment to this account.

c. Medical and Dental Costs

i. Introduction

The company's cost of service calculation included a total medical and dental benefit expense of $27,688,242. This included an actual test-year expense of $24,777,741 plus an adjustment of $2,910,501.[97] ATM does not dispute the actual test-year expense levels. Instead, ATM disputes the calculation of the $2,910,501 adjustment. ATM argued that this adjustment should be lower. ATM's primary position is that the adjustment should total $125,133. This reduces the operations and maintenance expense calculation by $2,798,110 and results in a reduction to the revenue requirement calculation of $2,829,395.

The company's calculation of medical and dental benefits expense was calculated in the same manner as it was calculated in GUD No. 10170. This fact is not disputed and is confirmed by comparing the data presented in each case. Table 11.8 below presents Schedule WP_F-2.2, presented in GUD No. 10170, which sets out the calculation of the proposed adjustment in that case. Table 11.9 below presents Schedule WP_F-2.2, presented in this case, which sets out the calculation of the proposed adjustment in this case.

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[96] Redacted Initial Brief of ACSC, p. 44.

[97] Atmos Ex. 1, Petition for De Novo Review of the Denial of the Rate Review Mechanism Tariff filed by Atmos Energy Corp., Mid-Tex Division by the Cities of Abilene, Addison, Allan, et al Filed May 20, 2014, Cost of Service, WP_F.2.2. Atmos Energy identified a test-year expense attributable to Shared Services of $9,413,391 and a test-year expense of $15,364,351 attributable to the Atmos Mid-Tex Division. The total test-year expense recorded is $24,777,741.

Table 11.8
Medical and Dental Benefits Adjustment in GUD No. 10170

GUD No 10170
Final Order
Issued December 04 2012

ATMOS ENERGY CORP., MID-TEX DIVISION
MEDICAL AND DENTAL BENEFITS ADJUSTMENT
TEST YEAR ENDING SEPTEMBER 30, 2011

Line No.	Description (a)	Shared Services (b)	Mid-Tex Direct (c)	Total Adjustment (d)
1	FY12 Projected Expense per Employee (1)	$ 10,985	$ 10,985	
2				
3	Number of Employees at End of Test Period	1,042	1,669	
4				
5	Sub-Total (Ln 1 times Ln 3)	$ 11,446,306	$ 18,333,862	
6				
7	Test Year Medical and Dental Cost	10,520,669	16,350,395	
8				
9	Medical and Dental Cost Adjustment (Ln 5 minus Ln 7)	$ 925,637	$ 1,983,467	
10				
11	Mid-Tex Allocation Factor (2)	45.23%	84.58%	
12				
13	Allocated Medical and Dental Cost Adjustment (Ln 9 times Ln 11)	$ 418,698	$ 1,677,572	
14				
15	Labor Expense Factor (2)	92.44%	46.73%	
16				
17	Test Year Medical and Dental Expense Adjustment (Ln 13 times Ln 15)	$ 387,054	$ 783,919	
18				
19	Adjustment Summary			
20	Account 922	$ 387,054	$	$ 387,054
21	Account 926	-	783,919	783,919
22	Total (Ln 20 plus Ln 21)	$ 387,054	$ 783,919	$ 1,170,973

Table 11.9
Medical and Dental Benefits Adjustment in Current Proceeding

Schedule B
MEDICAL AND DENTAL BENEFITS ADJUSTMENT
TEST YEAR ENDING DECEMBER 31, 2013

Examiner 1

Line No.	Description (a)	Shared Services (b)	Mid-Tex Direct (c)	Total Adjustment (d)
1	FY14 Projected Expense per Employee (1)	$ 11,975	$ 11,975	
2				
3	Number of Employees at End of Test Period (3)	1,042	1,703	
4				
5	Sub-Total (Ln 1 times Ln 3)	$ 12,478,364	$ 20,394,102	
6				
7	Test Year Medical and Dental Cost (3)	9,413,391	15,364,351	
8				
9	Medical and Dental Cost Adjustment Ln5 mi[illegible]	$ [illegible]064,974	$ 5,029,751	
10				
		$ -	$ -	
11	Mid-Tex Allocation Factor (2)	46.26%	71.70%	
12				
13	Allocated Medical and Dental Cost Adjustment (Ln 9 times Ln 11)	$ 1,417,777	$ 3,606,424	
14				
15	Labor Expense Factor (2)	95.82%	43.03%	
16				
17	Test Year Medical and Dental Expense Adjustment (Ln 13 times Ln 15)	$ 1,358,555	$ 1,551,946	
18				
19	Adjustment Summary			
20	Account 922	$ 1,358,555	$ -	$ 1,358,555
21	Account 926	-	1,551,946	1,551,946
22	Total (Ln 20 plus Ln 21)	$ 1,358,555	$ 1,551,946	$ 2,910,501

ii. Intervenors' Position

ATM disputes the amount of the adjustment and requests that the adjustment be calculated on a different basis. Mr. Carver's primary request is set out in Table 11.10. below:

Table 11.10
ATM Adjustment to Medical and Dental Benefits

Schedule B
MEDICAL AND DENTAL BENEFITS ADJUSTMENT
TEST YEAR ENDING DECEMBER 31, 2013

Examiner 1

Line No.	Description (a)	Shared Services (b)	Mid-Tex Direct (c)	Total Adjustment (d)
1	Test Year Medical and Dental Cost	$ 9,413,391	$ 15,364,351	
2				
3	Average Number of Employees for Test Period	1,024	1,685	
4				
5	Test Year Medical and Dental Cost per Average Employee	$ 9,196	$ 9,118	
6				
7	Number of Employees and End of Test Period	1,042	1,703	
8				
9	Anualized Test Year Medical and Dental Costs	$ 9,581,980	$ 15,527,712	
10				
10a	Less Test Year Medical and Dental Cost	$ 168,589	$ 163,382	
11	Mid-Tex Allocation Factor (2)	46.26%	71.70%	
12				
13	Allocated Medical and Dental Cost Adjustment (Ln 9 times Ln 11)	$ 77,985	$ 117,133	
14				
15	Labor Expense Factor (2)	95.82%	43.03%	
16				
17	Test Year Medical and Dental Expense Adjustment (Ln 13 times Ln 15)	$ 74,727	$ 50,406	
18				
19	Adjustment Summary:			
20	Account 922	$ 74,727	$ -	$ 74,727
21	Account 926	-	50,406	50,406
22	Total (Ln 20 plus Ln 21)	$ 74,727	$ 50,406	$ 125,133
23				

This adjustment would annualize the actual costs for the test period by the actual number of employees. The requested adjustment outlined in Table 11.10 above would annualize actual costs for the test period by the actual number of employees. It would allow an adjustment to the test-year level of expense of $125,133. This would reduce the company's calculated operations and maintenance expense by $2,798,110 and result in a reduction to the proposed revenue requirement of $2,829,395.

Mr. Carver's alternative request would limit the adjustment to $690,323. The calculation of the alternative adjustment is set forth in Table 11.11, below.

Table 11.11
ATM Alternative Adjustment to Medical and Dental Benefits Expense

SCC-Exhibit 4A
Page 1 of 1

ATMOS ENERGY CORP., MID-TEX DIVISION
MEDICAL AND DENTAL BENEFITS ADJUSTMENT - ALTERNATE 2
TEST YEAR ENDING DECEMBER 31, 2013

Line No.	Description (a)	Ref (b)	Shared Services (c)	Mid-Tex Direct (d)	Total Adjustment (e)
1	Average FY 2012 & FY 2013 Medical and Dental Cost per Average Employee	SCC-Exh 4	$ 9,727	$ 9,727	
2					
3	Number of Employees at End of Test Period	Notes (a)(b)	1,042	1,703	
4					
5	Annualized Test Year Medical and Dental Costs	Line 1 * Line 3	$ 10,135,262	$ 16,564,636	
6					
7	Less: Test Year Medical and Dental Cost	SCC-Exh 4	(9,413,391)	(15,364,351)	
8					
9	ATM Medical and Dental Cost Adjustment'	Line 5 + Line 7	$ 721,871	$ 1,200,285	
10					
11	Mid-Tex Allocation Factor	Note (a)	46.26%	71.70%	
12					
13	Allocated Medical and Dental Cost Adjustment (Ln 9 times Ln 11)	Line 9*Line 11	$ 333,919	$ 860,626	
14					
15	Labor Expense Factor (2)	Note (a)	95.82%	43.03%	
16					
17	Test Year Medical and Dental Expense Adjustment (Ln 13 times Ln 15)	Line 13*Line 15	$ 319,971	$ 370,352	
18					
19	Adjustment Summary:				
20	Account 922		$ 319,971	$ -	$ 319,971
21	Account 926		-	370,352	370,352
22	Total		$ 319,971	$ 370,352	$ 690,323

This option would calculate an average of 2012 and 2013 actual costs. This average would be applied to the actual number of employees at the end of the test period. ATM's proposed alternative would allow an adjustment to the test-year level of expense of $690,323. This would reduce the company's calculated operations and maintenance expense by $2,230,335 and result in a reduction to the proposed revenue requirement of $2,255,271.

Mr. Carver, who testified on behalf of ATM, contended that company calculated the medical and dental expense in a manner that was inconsistent with the provisions of the RRM Tariff. Namely, he alleged that the adjustment violated two conditions set out in the RRM Tariff. First, all operations and maintenance expenses must be just and reasonable. As to this issue, Mr. Carver asserted that the company's historical experience did not match the result that is generated by applying the company's methodology to calculate the adjustment. In support of his contention, Mr. Carver provided historical data that is summarized in Table 11.12. and Figure 11.1 below:

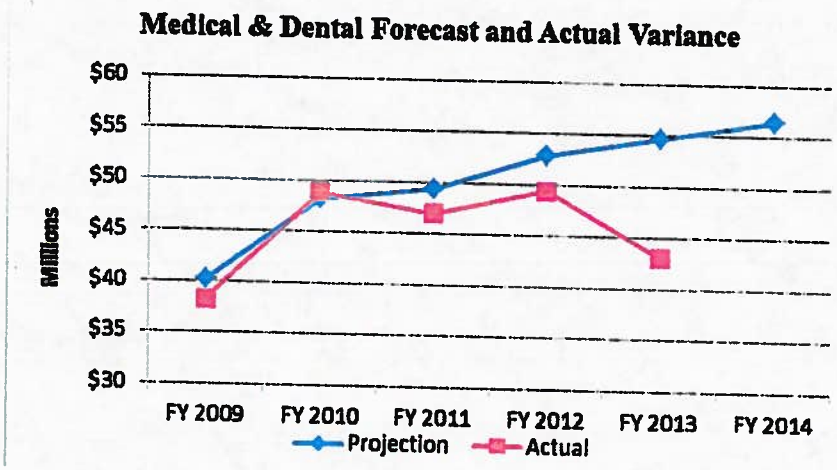
Table 11.12
ATM Calculation of Medical and Dental Expense Over Recovery

Medical & Dental Forecast and Actual Variance

	Projection	Actual	Over/ (Under) Forecast	Variance %
FY 2009	$ 40,192,156	$ 38,198,034	$ (1,994,122)	-5.0%
FY 2010	48,289,165	48,805,310	516,145	1.1%
FY 2011	49,378,300	46,933,075	(2,445,225)	-5.0%
FY 2012	52,876,000	49,333,586	(3,542,414)	-6.7%
FY 2013	54,675,000	43,050,977	(11,624,023)	-21.3%
FY 2014	56,464,000			

Sources: Mid-Tex responses to ATM RFIs 3-03 and 3-04 and ACSC RFI 2-28 (City Level review).

Figure 11.1
ATM Calculation of Medical and Dental Expense Over Recovery



Second, the RRM Tariff provides that known and measurable adjustments shall be limited to those changes that occurred prior to the filing date. As to this issue, Mr. Carver asserted two infirmities. He argued that the company's calculation leads to an unreasonable result. He also asserted that the adjustment included by the company was not a known and measurable adjustment that occurred prior to the filing date.

iii. Atmos Energy's Response

Ms. Myers, who testified on behalf of Atmos Energy, explained that the company's calculation of medical and dental benefits reflected on Schedule WP_F-2.2 is based upon the same methodology that was used and approved in GUD Nos. 9762, 9869, and 10170. Ms. Myers referenced specific findings in the Final Order in GUD No. 10170:

73. The company provided a post-test-year adjustment to medical and dental benefits expense in order to align the benefits expense at the most current benefit rates available.
74. The company used the actuarial data prepared by Holmes Murphy to calculate the proposed adjustment and used employee data and claims information provided by health care providers.
75. Atmos has removed expenses for SSU employees in cost center that are not allocable to the Atmos Mid-Tex Division.
76. Atmos has established that its proposed level of medical and dental benefits expenses are reasonable and the medical and dental benefits expenses included in the attached Schedules F-1 and WP_F-2.2 are just and reasonable.

Namely, the company's cost of service includes the projected FY2014 actuarial expense as prepared by the company's actuary, Holmes Murphy. This amount is used to calculate the adjusted medical and dental expense for the test period based on the number of employees at the end of the year. The adjusted amount is compared to the actual recorded expense and the difference is the adjustment in the current RRM filing. The FY2014 Holmes Murphy actuarial expense is for the period of October 2013 through September 2014, with three months of the 2014 fiscal year occurring in the current test year.

iv. Examiners Recommendation

Expenses related to medical and dental benefits were reflected in the books and records during the test year. No party disputes that the adjustment to medical and dental benefits expenses was calculated in the same manner as it was calculated in GUD No. 10170. Furthermore, ATM does not dispute that an adjustment must be made to the test year level of medical and dental Benefits. Indeed, ATM proposed an adjustment of either $125,133 or $690,323. The only issue disputed is whether the adjustment to medical and dental benefits is just and reasonable. That issue, however, is precluded by the RRM Tariff approved by the municipalities. The RRM Tariff requires that the OM expense be prepared in a manner consistent with the rate-making treatments approved in GUD No. 10170. The calculation of an adjustment, and all parties agree that an adjustment is necessary, must be accomplished by applying a rate-making treatment. Pursuant to the RRM Tariff the only applicable treatment is the one adopted in GUD No. 10170. It is undisputed that the medical and dental benefits expense adjustment was computed in a manner consistent with the methodology explicitly approved in GUD No. 10170.

The Examiners observe that in addition, the company's proposed adjustment to medical and dental benefits is consistent with Commission precedent in GUD Nos. 9762, 9869, and 10170. The issue raised by ATM is similar to the issue raised by the Intervenors in GUD No. 10170 and, based upon the evidence raised in that case, it was rejected there. ATM's arguments regarding the application of the methodology may be relevant to a full *Statement of Intent* proceeding. The arguments are not, however, contemplated by the applicable tariff approved by the municipalities.

Accordingly, the Examiners find that the adjustment proposed by Atmos Energy to medical and dental benefit expenses is just and reasonable.

d. Miscellaneous Expenses

i. Introduction

Atmos Energy's cost-of-service calculation included several miscellaneous expenses that are summarized in Table 11.13 below.

Table 11.13
Miscellaneous Expenses

Company – Division	Account Series	Description	Amount
010-002	900	Service Awards	$20,454
010-012	900	AtmoSpirit Program & Service Awards	$14,927
080	5400	AtmoSpirit Program & Service Awards	$156,729
010-002	5400	AtmoSpirit Program	$1,570
		Total	$193,680

ii. Intervenors' Position

Mr. Nalepa, who testified on behalf of ACSC, proposed that these miscellaneous expenses be removed from the company's request. He asserted that the company has not shown that the programs are necessary to provide utility service to the public.[98] In addition, he argued that if Atmos management believes these programs are valuable to the employees of Atmos Energy, then shareholders can fund those types of programs.[99] Mr. Nalepa acknowledged that that, the cost-of-service model in GUD No. 10170 was based on the company's model and may have included some of these expenses. But neither the *Proposal for Decision* nor the *Final Order* specifically addressed whether the company's expenses related to Atmos Spirit Programs were reasonable and necessary.[100]

[98] Redacted Direct Testimony of Karl J. Nalepa, p. 42 lns. 13-15.
[99] Redacted Direct Testimony of Karl J. Nalepa, p. 42 lns. 15-17.
[100] Redacted Direct Testimony of Karl J. Nalepa, p. 42 lns. 7-10.

iii. Atmos Energy's Response

Ms. Myers asserted that the company excluded controversial items from its cost-of-service calculation that may have been imbedded in these expenses. The excluded expenses encompassed, but were not limited to, costs of meals greater than $25 per person, lodging greater than $150 per person and alcohol.[101] Otherwise, these program expenses were included in the filing. She contended that this was consistent with the filing in GUD No. 10170 and expenses for these programs were embedded in that case in Schedule F-1 to the Final Order.[102]

Mr. Knights, described the nature of the AtmoSpirit training program and Service Award banquets. The training is designed to encourage principles that are value based such as honesty, integrity, open communication, safety, customer service, team work and enterprise thinking.[103] And the workshops are foundational to the training of employees.[104] The workshop activities focus on expected behavior related to customer service, maintaining a safe work environment and a common set of best practices. He concluded that, the AtmoSpirit Program provides a direct benefit to customers, as it enhanced the utility's ability to provide safe and reliable service.[105]

Mr. Knights explained that the Service Award banquets are to recognize employees who have reached a milestone anniversary date and recognize the commitment and dedication of the employees who ensure Atmos Energy is able to continue to provide safe and reliable service. The banquets are a tool to retain high quality employees through the recognition of an employee's tenure. He concluded that these programs are necessary to retain employees.[106]

iv. Examiners' Recommendation

The Examiners find that Atmos Energy has not established that its inclusion of these expenses is just and reasonable. It is reasonable to exclude these expenses and reduce the requested revenue requirement by $196,741. Atmos Energy argued that these expenses are required to recognize employees that achieve certain milestones. As discussed in subsection a, of Section 11 above, rate-payers already contribute to the company's short-term incentive compensation expenses and these programs already recognize and incentivize employees by providing an opportunity for additional compensation. As to the argument that the programs encourage values such as honesty, integrity, open communication, safety, customer service, team work and enterprise thinking. These fundamental principles are a baseline to any organization and employees. A reasonably prudent manager would dismiss employees who do not exhibit these principles.

As to the argument that these expenses have been previously embedded in rates, the Examiners find that in light of the large increase to the payout to employees pursuant to the short-term incentive programs, discussed above, it is not reasonable to burden ratepayers further

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101 Atmos Energy Corp., Mid-Tex Division Rebuttal Testimony, Barbara W. Myers, p. 10, lns. 17-22.
102 Atmos Energy Ex. 7, Rebuttal Testimony of Barbara W. Myers, p. 10, lns. 5-7.
103 Atmos Energy Ex. 7, Rebuttal Testimony of Jeffrey Knights, p. 46, lns. 17-19.
104 Atmos Energy Ex. 6, Rebuttal Testimony of Jeffrey Knights, p. 46, lns. 20-21.
105 Atmos Energy Ex. 6, Rebuttal Testimony of Jeffrey Knights, p. 46, lns. 20-22 and p. 47, lns. 1-5.
106 Atmos Energy Ex. 6, Rebuttal Testimony, Jeffrey Knights, p. 47, lns. 8-17.

by including these expenses in rates. As established in this proceeding, during the test period employees of Atmos Energy have been the beneficiary of higher levels of incentive compensation than in previous years. In light of those increases, it is not just and reasonable to require that additional expenses to incentivize employees be included in rates.

e. Injuries and Damages

i. Introduction

Atmos Energy seeks recovery of insurance deductibles. The deductibles were paid as a result of three separate events that occurred. Each event required payment of three separate one million dollar deductibles. Atmos Energy seeks recovery, over a five year period, of those deductibles through the rates approved in this case. Thus, Atmos Energy seeks to include an adjustment to its cost-of-service calculation in the amount of $600,000 in amortized costs for injuries and damages in excess of insurance coverage.[107] The company's calculation of the adjustment is set out below in Table 11.14

Table 11.14
Injuries and Damages Adjustment in GUD No. 10359

ATMOS ENERGY CORP., MID-TEX DIVISION
INJURIES AND DAMAGES ADJUSTMENT
TEST YEAR ENDING DECEMBER 31, 2013

Line No.	Description (a)	FERC Account (b)	Per Book Amount (c)	Amortized Amount (1) (d)	Adjustment Amount (e) = (d)-(c)
1	Mid-Tex				
2	Reserve accrual for Lutrell incident		$ -	$ 200 000	
3	Reserve for Irving 1 incident		-	200 000	
4	Reserve for Oak Cliff incident		-	200 000	
5	Mid-Tex Total (Sum Ln 2 through Ln 4)	925	$ -	$ 600 000	$ 600 000
6					
7	Shared Services				
8	No Adjustment Required	922	$ -	$ -	$ -
9					
10	Total Adjustment to Non-Labor O&M (Ln 5 plus Ln 8)				$ 600 000
11					
12					
13	Note				
14	1 Lutrell, Irving 1 and Oak Cliff incidents are amortized over 5 years				

A similar adjustment was approved in GUD No. 10170. The calculation of that adjustment is set out in Table 11.15 below.

Table 11.15
Injuries and Damages Adjustment in GUD No. 10170

ATMOS ENERGY CORP., MID-TEX DIVISION
INJURIES AND DAMAGES ADJUSTMENT
TEST YEAR ENDING SEPTEMBER 30, 2011

Line No.	Description (a)	FERC Account (b)	Per Book Amount (c)	Amortized Amount (1) (d)	Adjustment Amount (e) = (d)-(c)
1	Mid-Tex				
2	Reserve accrual for Cleburne incident		$ -	$ 200,000	
3	Reserve accrual for Wylie incident		-	$ 200,000	
4	Reserve accrual for Lutrell incident		-	$ 200,000	
5	Mid-Tex Total (Sum Ln 2 through Ln 4)	925	$ -	$ 600,000	$ 600,000
6					
7	Shared Services:				
8	No Adjustment Required	922	$ -	$ -	$ -
9					
10	Total Adjustment to Non-Labor O&M (Ln 5 plus Ln 8)				$ 600,000
11					
12					
13	Note				
14	1 Cleburne Wylie and Lutrell incidents are amortized over 5 years				

[107] Atmos Ex. No. 1, Appeal Filing of May 30, 2014, Cost of Service, WP_F-2.5.

ACSC contended that the proposed adjustment should be reduced by $400,000 to remove the amortized amounts related to the Wylie and Lutrell incidents. ACSC also contended that all expenses related to the Oak Cliff Incident Expense and any reserve liability should be removed. The net impact of those adjustments is to reduce the miscellaneous adjustments to the operations and maintenance expense calculation by an additional $250,356. These adjustments to the company's cost-of-service calculation reduce the operations and maintenance expense calculation by $401,830 and results in a reduction to the revenue requirement calculation of $406,323.

ii. Intervenors' Position

ACSC argued that amortized amounts related to the deductibles paid for the incidents identified as Irving and Oak Cliff should not be included in the company's cost-of-service calculation. The Irving incident was an explosion that was caused by a natural gas leak on a service line.[108] The explosion resulted in one death and one injury. The Oak Cliff incident was due to a natural gas leak on a six-inch cast-iron main. The natural gas leak is claimed to have resulted in a house fire that injured three people.[109]

Mr. Nalepa contended that the amounts related to these separate events should be excluded because these were accidents that were caused by facilities operated and maintained by Atmos Energy. He concluded that the likely contributor to the incidents were leaks on pipelines in the vicinity of the incidents. Additionally, Mr. Nalepa asserted that the company has little risk by agreeing to payments of at least one million dollars to each of the families, if the company believed that it would simply pass the expenses of settlement on to the ratepayers. He concluded that ratepayers should not be responsible for any amounts associated with the company's failure to maintain the system.

iii. Atmos Energy's Response

Mr. Knights testified that the inclusion of insurance deductibles in the cost-of-service calculation is just and reasonable. He noted that the Commission appropriately investigated the incidents and ultimately resolved each investigation without further action.[110] He opined that, regrettably, tragic events occur and a prudent operator must maintain insurance coverage to appropriately limit the financial risk associated with unexpected events. He concluded that this is a reasonable and necessary expense that the company incurs during the course of its business and which it should be allowed to recover through rates.[111] Ms. Myers testified that the methodology applied in GUD No. 10170 is the same methodology applied to the deductible expenses in this case. She concluded that Mr. Nalepa's proposed adjustment should be rejected because the Commission found the methodology regarding the treatment of these expenses to be a reasonable methodology in GUD No. 10170.[112]

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108 ACSC Ex. 1, Redacted Direct Testimony of Karl J. Nalepa, p. 37, lns. 3 – 8, Attachment 19, p. 115.
109 ACSC Ex. 1, Redacted Direct Testimony of Karl J. Nalepa, p. 37, lns 3 – 8, Attachment 19, p. 163.
110 Atmos Ex. 6, Rebuttal Testimony of Jeffrey Knights, p. 44, lns. 15 – 22.
111 Atmos Ex. 6, Rebuttal Testimony of Jeffrey Knights, p. 45, lns. 1 – 19.
112 Atmos Ex. 8, Rebuttal Testimony of Barbara W. Myers, p. 12, ln. 18 – p. 14, ln. 17.

iv. Examiners' Recommendation

Mr. Nalepa appeared to raise two criticisms regarding the deductible. First, he appears to contend that including a deductible in the cost of service is unreasonable for rate-making purposes. Inclusion of this category of expense is consistent with GUD No. 10170 and other prior proceedings. Inclusion of these types expenses is consistent with the Commission's prior determinations in GUD Nos. 9400, 9762, and 9869. Furthermore, the Examiners concur that, unfortunately, tragic events can occur and a prudent operator must maintain insurance coverage to appropriately limit the financial risk associated with unexpected events. Part of prudent risk mitigation in the context of insurance is the appropriate deductible.

Second, Mr. Nalepa specifically challenged whether the expenditures related to the Irving incident and the Oak Hill incident are just and reasonable. This challenge is within the scope of this proceeding. Mr. Nalepa correctly noted that in each case the investigation initially resulted in a notice of violation. Mr. Knights, however, countered that each investigation was ultimately resolved without further action. Based on the record in this case it appears that the investigation regarding the Irving incident was closed by a letter dated April 11, 2011. In that letter the Acting Director, Pipeline Safety disagreed with the company assertion that the actions taken regarding this incident met or exceed all applicable code requirements. Based upon corrective actions taken, however she concluded that actions taken to date are acceptable and no further information is required.[113] As to the Oak Hill incident, all enforcement actions were ultimately closed administratively.[114] As no further action was taken, the Examiners find that it would be unreasonable to exclude the recovery of these expenses from the cost of service.

f. Discretionary Promotional Expenses

i. Introduction

Rule 7.5414 provides that actual expenditures for advertising shall be allowed as a cost of service for rate-making purposes provided that the total sum of such expenditures shall not exceed one-half of 1.0% of the gross receipts of the utility for utility services rendered to the public. Certain exceptions are provided in Rule 7.5414. No funds for legislative or political activities shall be included in the cost of service. Additionally, funds for membership in social, recreational, fraternal, or religious clubs may not be included. Finally, funds expended for contributions to charitable, religious, or other non-profit organizations or institutions must be excluded.

ATM proposed an adjustment to certain expenses that it alleged fell outside the scope of Rule 7.5414. The proposed adjustment totaled $210,460 and the overall impact on the company's requested revenue requirement is a reduction totaling $213,787.

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[113] ACSC Ex. 1, Redacted Direct Testimony of Karl J. Nalepa, Attachment 19, p. 108.
[114] ACSC Ex. 1, Redacted Direct Testimony of Karl J. Nalepa, Attachment19, p. 162.

ii. Intervenors' Position

Mr. Brosch, who testified on behalf of ATM, identified several transactions that he asserted were not reasonable and necessary expenses. The challenged expenses included expenditure to the American Gas Association for participation at the International Builders' Show in Las Vegas, Nevada, American Life Homes and Ben Johnson, Legendary Lighting, and Bob Lily Professional Promotions. He argued that these expenses were discretionary and should not be included in the cost of service. He concluded that the expenses were not advertising as contemplated by Rule 7.5414. Instead, he categorized the expenses as event sponsorships, the purchase of promotional merchandise and reimbursement of installed gas-burning devices. This was not the purchase of advertising.[115]

iii. Atmos Energy's Response

Ms. Myers testified that inclusion of these expenses was consistent with GUD No. 10170.[116] Mr. Knights argued that each of the challenged expenditures relates to the advertising and promotion of natural gas service.

Mr. Knights, asserted that the International Builders' show is the annual meeting of every Home Builders Association throughout the United States, including areas served by Atmos Mid-Tex. Homebuilders are the company's primary market for new customers and home builders attend this meeting and trade show. Atmos Energy participates with the AGA to sponsor a booth. Mr. Knights argued that the company's participation exposes builders to the most recent advances for gas use in the home. The goal is to ensure that builders in turn, provide these innovations in new homes assuring that natural gas is the choice selected by homebuyers.[117] He employed a similar analysis regarding expenditures to American Life Homes and Ben Johnson and Legendary Lighting which resulted in model homes being fitted with appliances that highlight the features of natural gas service in a home and installation of gas cooking appliance in an apartment complex. As to the expenditures for Bob Lilly Professional Promotions, Mr. Knights concluded that the specialty items are promotional in nature.

Finally, regarding the Customer Loyalty Program Coupons, Mr. Knights explained that this program was used to promote the continued use of natural gas appliances when customers have experienced a meter turn-off as a result of a safety issue. He observed that these customers will sometimes elect to not correct the issue and convert to another energy source, or do without gas entirely. He argued that loyalty program coupons are paid only when the customer repairs the issue and continues to use Atmos Energy's services. The coupon covers only a portion of the repair costs. He noted that door hanger flyers and web-site references are the primary advertising mechanism to notice these customers and promote their continued use of gas.[118]

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[115] ATM Ex. 1, Redacted Direct Testimony of Michael L. Brosch, p. 10, lns. 19 – 25.

[116] Atmos Energy Ex. 7, Rebuttal Testimony of Barbara Myers, p. 11, ln. 12 – p. 12, ln. 16.

[117] Atmos Energy Ex. 6, Rebuttal Testimony of Jeffrey Knights, p. 52, ln. 16 – p. 53, ln. 6.

[118] Atmos Energy Ex. 6, Rebuttal Testimony of Jeffery Knights, p. 54, lns. 3 – 11.

iv. Examiners' Recommendation

The Examiners find that Atmos Energy has established that these expenses are properly within the scope of Rule 7.5414. They are properly considered to be advertising and allowed by the application of Rule 7.5414.

12. Depreciation and Amortization Expense

a. Introduction

As part of its calculation of the cost of service the company calculated an annual depreciation and amortization expense of $106,393,770. The Intervenors raised only one issue in the context of the depreciation and amortization expense. Depreciation and amortization expense is intended to recover through revenues the investment of costs of the physical plant used to produce utility service. Depreciation and amortization expense is typically based upon investment expenditures that are included in the books and records. The expense is intended to allow for the recovery of those costs.

ATM recommended that the company not be allowed to recover a depreciation or amortization expense for capital expenditures that have previously been found to be not just and reasonable. The proposed adjustment reduces the depreciation and amortization expense by $344, 895. The overall effect is to reduce the revenue requirement by $349,906.

In GUD No. 9670, the Commission disallowed certain investment from the calculation of rate base. The disallowance totaled $21,286,067 and was divided into two broad categories. First, the Commission ordered a disallowance of $10,640,002 because Atmos Energy failed to establish that those expenditures were just and reasonable. Those expenses included, but were not limited to, artwork, office equipment, and expenses of an affiliate. Second, an adjustment totaling $10,646,065, was made to the calculation of accumulated depreciation to reflect a previous adjustment to Poly 1 pipe.[119]

b. Intervenors' Position

ATM explained that inclusion of the disallowed projects in the calculation of the depreciation and amortization expense allows a recovery of those same project costs. The Commission's prior adjustment in GUD No. 9670 disallowed those costs from rate base and thus denied the utility a return on those expenses. Nevertheless, inclusion of those same costs in the calculation of depreciation and amortization expense allows a recovery of those costs through rates.

[119] GUD No. 9670, Final Order Findings of Fact Nos. 77 – 115.

c. Atmos Energy's Response

The fact that the costs of disallowed expense have been included in the calculation of the company's annual depreciation and amortization expense is not disputed. The company unequivocally stated that it continues to record depreciation related to the disallowed projects.[120] Ms. Myers responded by noting that there was no adjustment made to the depreciation and amortization expense in GUD No. 9670. Furthermore, the company has not removed these costs from its calculation of depreciation and amortization expense in GUD Nos. 9762, 9869, and 10170. She concluded that the company's rate-making treatment of this expenditure is consistent throughout all four previous proceeding.[121] Thus, its inclusion in this case is reasonable.

d. Examiners' Recommendation

The Examiners find that the treatment of depreciation and amortization expense has been consistent. The determination of the annual depreciation and amortization expense, however, must be based upon test-year expenditures that are just, reasonable, and necessary to the provision of safe and reliable natural gas service. Test-year expenditures are subject to evaluation pursuant to the RRM Tariff and must be found to be just and reasonable in order for expenditures related to those items to be included in the calculation of the RRM Adjustment. The Commission has previously found the underlying expenditures related to artwork, certain office equipment, and affiliate expenditures are not just, reasonable, and necessary to the provision of safe and reliable natural gas service. Therefore, it is not reasonable to include those expenditures in the calculation of the depreciation and amortization expense.

The issue here is not whether a depreciation rate should be applied. Depreciation rates are rate-making treatments and, pursuant to the RRM Tariff, are not subject to further evaluation in this proceeding. The issue is whether it is reasonable to include a depreciation expense designed to recover the costs of items that are not just, reasonable, or necessary to the provision of natural gas supplied to the customer during the test year. The Examiners find that it is not reasonable. As noted previously, and as set out in the RRM Tariff itself, the provisions of the RRM Tariff must be applied in harmony with GURA. It is not reasonable to include a recovery, through depreciation and amortization, of an expense that is not necessary to the provision of natural gas service.

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[120] ATM Ex. 2, Direct Testimony of Steven C. Carver, SCC Ex. 8, Atmos Response to RFI Question No. 1-18.

[121] Atmos Ex. 8, Rebuttal Testimony of Barbara W. Myers, p. 36, ln. 9 – p. 37, ln. 6.

13. Rate Base

a. Overview of Company's Rate Base Calculation

The company's cost of service calculation, reproduced as Table 13.1 below, includes a return amount totaling $153,853,911.43. The return amount is the product of the company's calculated rate base, totaling $1,793,764,827 and the requested rate of return of 8.58%.[122]

Table 13.1
Summary of Atmos Energy Cost-of-Service Calculation

Description	Amount
Operation and Maintenance Expense	**$163,331,251**
Taxes Other than Income Taxes	**$28,349,978**
Depreciation and Amortization Expense	**$106,393,770**
Interest on Customer Deposits	**$18,924**
Return	**$153,853,911**
Income Taxes	**$60,820,630**
Revenue Requirement	**$512,768,464**

Rate base is the sum of four basic elements: Net plant, Additions, Deductions, and Cash Working Capital. The company's calculation of rate base is summarized below at Table 13.2.

Table 13.2
ATMOS ENERGY CORP., MID-TEX DIVISION
RATE BASE
AS OF DECEMBER 31, 2013

Line No.	Description		Total Requested
1	Net Plant (1):		
2	Gross Plant	$	3,268,385,916
3	Accumulated Depreciation		1,104,487,489
4	Total Net Plant (Ln 2 minus Ln 3)	$	2,163,898,428
5			
6	Additions:		
7	Materials & Supplies	$	1,525,711
8	Prepayments		13,040,468
9	Pension and Other Postemployment Benefits Regulatory Asset		10,257,378
10	Total Additions (Sum Ln 7 through Ln 9)	$	24,823,557
11			
12	Deductions:		
13	Customer Deposits	$	21,026,122
14	Injuries and Damages Reserve		1,723,672
15	Accumulated Deferred Income Taxes		342,579,156
16	Rate Base Adjustments		10,526,826
17	Total Deductions (Sum of Ln 13 through Ln 16)	$	375,855,776
18			
19	Total Cash Working Capital	$	(19,101,582)
20			
21	Rate Base (Ln 4 plus Ln 10 minus Ln 17 plus Ln 19)	$	1,793,764,627

[122] The rate of return is rounded down to 8.58%. Thus, the return calculation (1,793,764,627 x 8.58% = $153,905,004) results in a difference of $51,093 that is due to rounding.

b. Adjustment to Atmos Mid-Tex Capitalized Expenses

This rate-base issue was addressed in Section 11(a)(vi)(A) above in the context of the incentive compensation adjustment.

c. Flow-through impact of ACSC's proposed adjustment to Incentive Compensation

As discussed in Section 11 above, the Examiners recommend that ACSC's adjustment to incentive compensation be rejected. Accordingly, the Examiners recommend that ACSC's adjustment of $19 be rejected. As the Examines have recommended an adjustment, however, the Examiners recommend that a flow-through adjustment be made. The effect of that change is six dollars on the company's cost-of-service calculation.

d. Company's adjustment to Reduce Incentive Compensation

As discussed in Section 11(viii) above, the company indicated that it intended to make an adjustment to reduce the effective Payout Percentage to 150%. As discussed in that section, in order to properly make this adjustment the company must make an adjustment to operations and maintenance expense and rate base. The company properly made the adjustment to operations and maintenance expense. The company failed, however, to make an adjustment to rate base. As noted above, in order to properly make the adjustment the amount capitalized to rate base must also be removed.

e. Accumulated Deferred Income Taxes (ADIT)

i. Introduction

Deferred taxes arise because of timing differences between recognition of certain items for book purposes or tax purposes and ADIT may result in a credit or debit.[123] As seen in Table 13.2 above, Atmos Energy calculated an ADIT credit of $342,579,156. The detail of the ADIT balance is set forth in Schedule WP_B-6. A portion of that schedule is set forth below in Table 13.3.

[123] ATM Ex. 1, Redacted Direct Testimony of Michael L. Brosch, p. 14, ln. 11 – p. 15, ln. 10.

Table 13.3

ATMOS ENERGY CORP., MID-TEX DIVISION
ACCUMULATED DEFERRED INCOME TAXES-ACCOUNTS 190/282/283 (1)
TEST YEAR ENDING DECEMBER 31, 2013

Line No.	Description (a)	Assets / (Liabilities) - Per Book Balances (b)	Adjustments (c)	Assets / (Liabilities) - Adjusted Balances (d) = (b)+(c)
1	Mid-Tex:			
2	Ad Valorem Taxes	$ (975,881)	$ -	$ (975,881)
11	CWIP	1,974,702	(1,974,702)	-
12	RWIP	(2,614,559)	-	(2,614,559)
13	Fixed Asset Cost Adjustment	(603,814,118)	-	(603,814,118)
14	Depreciation Adjustment	121,573,433	-	121,573,433
15	Deferred Gas Costs	445,517	(445,517)	-
16	Over Recoveries of PGA	(22,910,594)	22,910,594	-
34				
35	SSU - Customer Support (Div 12):			
36	MIP/VPP Accrual	$ (294,129)	$ 294,129	$ -
41	RWIP	(792)	-	(792)
42	Fixed Asset Cost Adjustment	(41,977,226)	-	(41,977,226)
43	Depreciation Adjustment	13,565,418	-	13,565,418
44	Clearing Account-Adjustment	264	-	264
51				
53	SSU - General Office (Div 002):			
54	Director's Deferred Bonus	$ 156,501	$ -	$ 156,501
55	MIP/VPP Accrual	2,137,901	(2,137,901)	-
57	Self Insurance - Adjustment	2,660,182	(2,660,182)	-
80	VA Charitable Contributions	(1,085,318)	1,085,318	-
83	FD - NOL Credit Carryforward - Utility	395,636,604	-	395,636,604
84	FD - NOL Credit Carryforward - Non Reg	(207,097,743)	207,097,743	-
86	FD - FAS 115 Adjustment	(4,667,609)	-	(4,667,609)
88	FD - Treasury Lock Adjustment - Realized	17,067,546	-	17,067,546
89	FD - Treasury Lock Adjustment - Unrealized	(46,869,745)	46,869,745	-

Table 13.3 is for illustrative purposes only and illustrates that the ADIT balance is determined by examining the differences between income tax accounting and book accounting for various categories of expenses. The table does not include a list of every category examined and included in the ADIT calculation. In this case, Atmos Energy included an analysis for 82 groups of accounts. Once each ADIT liability and credit was added the company concluded that the ADIT calculation resulted in a credit of $342,579,156.

An ADIT credit operates to reduce the overall rate base. One element in the overall ADIT calculation is the Net Operating Loss (NOL) Carryforward and the NOL Carryforward is recorded as an ADIT asset or liability. In this case, it is an ADIT asset and represents a future cash flow from the government that will be realized when the utility has sufficient taxable income and a tax liability to reduce.[124] The company's calculation of the NOL Carryforward resulted in an ADIT debit of $395,636,604.

The company tax's deduction can produce a net operating loss, or NOL. A NOL is realized when the company's tax deductions exceed its earned income and all tax has been offset. Tax in future periods may be offset by the unused deductions. These unused deductions are reflected on the company's tax returns and its books and records as a carryforward of the NOL. These carryfowards are used in future periods to offset tax. Thus, a NOL Carryfoward represents a compilation of all tax deductions that have not yet been used to offset tax.[125]

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[124] Atmos Energy Ex. 8, Rebuttal Testimony of Pace McDonald, p. 8, lns. 1 – 5.

[125] Atoms Energy Ex. 8, Rebuttal Testimony of Pace McDonald, p. 4, lns. 13 – 21; ATM Ex. 1, Redacted Direct Testimony of Michael L. Brosch, p. 11, lns. 17- 26.

Atmos Energy does not file separate federal income tax returns for the utility and non-utility part of its business. In other words, there are no separately filed utility or Atmos Mid-Tex tax returns. Instead, the company disaggregates what is actually a singling consolidated NOL Carryfoward through a special study that attempts to replicate a standalone taxable income. This study is the basis for the segregated amounts.[126] All parties concede that this process is consistent with the process adopted in GUD No. 10170.[127]

ACSC and ATM argued that the company's NOL Carryforward calculation should be adjusted. ACSC contended that the NOL Carryfoward debit should be $394,831,013. This would operate to increase the ADIT credit balance and decrease the resulting rate-base calculation to $1,793,456,450. The overall impact is to reduce the revenue requirement by $36,545. ATM contended that the NOL Carryforward debit should be $296,825,480. This would operate to increase the ADIT balance and decrease the resulting rate base calculation to $1,755,964,734. The overall impact is to reduce the revenue requirement requested by $4,482,394.[128]

ii. Intervenors' Position

Ms. Cannady testified that in response to a request for information issued by ACSC municipalities the company confirmed that an error had been made in assignment of the 2005 IRS Audit adjustment between the utility and non-utility operations. She argued that correcting for the error reduces the utility's ADIT NOL Carryfoward before allocation to Atmos Mid-Tex by $805,591 for an adjusted utility ADIT NOL Carryfoward of $364,831,013.[129] The effect of this adjustment is to reduce the revenue requirement by $36,545. The company has not contested the adjustment and the Examiners recommend that the ADIT calculation be corrected.

Mr. Brosch proposed an adjustment to the NOL Credit Carryforward calculation that would reduce the NOL Credit Carryforward ADIT balance by $98,811,124. This adjustment would increase the ADIT credit by $37,805,136. The result is a reduction to the calculation of the company's rate base of $37,799,893.[130] The overall impact on the company's revenue requirement is a reduction totaling $4,482,394.

Mr. Brosch, who testified on behalf of ATM, declared that the cumulative size of the utility's tax NOLs have exhausted the company's ability to carry back the losses and claim refunds of prior taxes paid, leaving a large tax loss carryforward position for the company.[131]

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126 ATM Ex. 1, Redacted Direct Testimony of Michael L. Brosch, p. 12, ln. 11 – p. 13, ln. 9; Atmos Energy Ex. 8, Rebuttal Testimony of Pace McDonald, p. 7, ln. 16 – p. 8, ln. 20.

127 ATM Ex. 8, Redacted Direct Testimony of Michael L. Brosch, p. 13, lns. 13 – 14 (Q: Did the Commission approve the company's segregation of NOL Carryfoward tax asset balances between utility and non-utility operations in GUD No. 10170? A: Yes. In GUD No. 10170, the Commission found that the Company established that the ADIT amounts related to the State and Federal NOL was just and reasonable.).

128 ACSC Ex. 2, Redacted Direct Testimony of Constance T. Cannady, p. 40, lns. 13 – 20.

129 ACSC Ex. 2, Redacted Direct Testimony of Constance T. Cannady, p. 40.

130 The impact on rate base is slightly higher due to a flow-through impact to the calculation of the Cash Working Capital. Constance T. Cannady, p. 40, lns. 13 – 20.

130 ACSC Ex. 2, Redacted Direct Testimony of Constance T. Cannady, p. 40.

130 The impact on rate base is slightly higher due to a flow

131 ATM Ex. 1, Redacted Direct Testimony of Michael L. Brosch, p. 12, lns. 1 – 10.

The essence of Mr. Brosch's position is that components used in the NOL Carryforward calculation should match the components in the ADIT calculation. If, for example, a component is removed from the ADIT calculation, the NOL Carryforward calculation should not include any NOL Carryforward based upon the component that was removed from the ADIT calculation.

Mr. Brosch provided two examples. He noted that CWIP results in an ADIT debit of $1,974,701. The ADIT balance related to CWIP, however, was removed from the overall ADIT calculation. He also discussed an adjustment related to the item labeled, "Over Recoveries of PGA." The ADIT credit associated with this amount was $22,910,594. This credit, however, was adjusted out of the calculation of ADIT.[132] This is illustrated on Line 11, Column (b), of Table 13.4, below, which illustrates a portion of the company's ADIT calculation.

Table 13.4
Excerpt from Atmos Energy ADIT Calculation

ATMOS ENERGY CORP., MID-TEX DIVISION
ACCUMULATED DEFERRED INCOME TAXES-ACCOUNTS 190/282/283 (1)
TEST YEAR ENDING DECEMBER 31, 2013

Line No.	Description (a)	Assets / (Liabilities) - Per Book Balances (b)	Adjustments (c)	Assets / (Liabilities) - Adjusted Balances (d) = (b)+(c)
1	Mid-Tex:			
2	Ad Valorem Taxes	$ (975,881)	$ -	$ (975,881)
11	CWIP	1,974,702	(1,974,702)	-
12	RWIP	(2,614,559)	-	(2,614,559)
13	Fixed Asset Cost Adjustment	(603,814,118)	-	(603,814,118)
14	Depreciation Adjustment	121,573,433	-	121,573,433
15	Deferred Gas Costs	445,517	(445,517)	-
16	Over Recoveries of PGA	(22,910,594)	22,910,594	-

Mr. Brosch argued, that for consistency, the portion of the NOL Carryforward calculation that is related to CWIP should be removed as well. Otherwise, there is a mismatch between the calculation of ADIT and the company's NOL Carryforward balance. For example, he contended that the same income tax deduction for purchased gas costs that created the negative "Over Recoveries of PGA" ADIT balances on WP_B-6 also caused the utility's operations of Atmos Energy to experience a lower taxable income in 2013. As a result, the NOL Carryforward was higher than it would have been but for the under recovered gas costs. He concluded that there is a severe inconsistency when tax deductions for gas costs (in excess of PGA recoveries) and the related ADIT balances are excluded from rate base and at the same time the amount of the NOL Credit Carryforward is increased because of the same tax purchased gas cost deductions.

iii. Atmos Energy's Response

Mr. McDonald, who testified on behalf of Atmos Energy, contended that the treatment of the NOL Carryfoward is consistent with GUD No. 10170.[133] He also opined that the entire utility NOL Carryforward ADIT asset must be included in rate base to accurately reflect the reality of the company's tax return filings.[134] He argued that ATM's proposal is flawed because Mr. Brosch seeks to disallow a portion of the NOL Carryfoward ADIT asset created by fixed

[132] ATM Ex. 1, Redacted Direct Testimony of Michael L. Brosch, p. 14, lns. 1 – 9.
[133] Atmos Energy Ex. 8, Rebuttal Testimony of Pace McDonald, p. 7, ln. 19 – p. 9, ln. 11 and p. 11, ln. 1 – p. 16, ln. 11.
[134] Atmos Energy Ex. 8, Rebuttal Testimony of Pace McDonald, p. 4, lns. 21 – 23.

asset related deductions for items that do not currently, and have not historically created the company's NOLs. Instead, the company's NOLs were created by bonus deprecation, allowed for tax purposes, and tax deductions for repairs.[135]

Mr. McDonald argued that it was not possible to isolate a particular tax deduction as generating a NOL, as suggested by Mr. Brosch. Any attempt by the company or Mr. Brosch to recompute the NOL Carryforward and related NOL Carryforward ADIT asset would require the re-computation of taxable income in all previous years to which NOLs were carried back.[136] Mr. McDonald also argued that Mr. Brosch's assumption is based upon an arbitrary assumption that a particular item of income or deduction, not included in the ADIT balance for ratemaking purposes, ultimately resulted in a tax loss. He concluded that any assumption regarding the ordering of deductions in an attempt to determine which deduction caused a tax loss is arbitrary and meaningless.[137]

In sum, Mr. McDonald contended that the result of Mr. Brosch's proposed adjustment would be to include a fictitious and inaccurate NOL Carryforward ADIT asset in the RRM Adjustment calculation. The adjustment would have the following effect. First, it would not reflect the company's actual tax filings. Second, the adjustment would be premised on unsupported assumptions. Third, the result of the adjustment is a mismatched between the Atmos Mid-Tex direct ADIT items and the allocation NOL ADIT asset. Fourth, the proposed adjustment is contrary to the rate-making methodology approved in GUD No. 10170.[138]

Finally, Mr. McDonald noted that Mr. Brosch used the incorrect tax rate. According to Mr. McDonald, Mr. Brosch based his adjustment on a federal tax rate of 36.5% not the federal tax rate of 35%.[139]

iv. Examiners' Recommendation

As regards the correction noted by ACSC, the Examiners find that the ADIT calculation should be corrected. As to the additional adjustments proposed by the Intervenors, the Examiners observe that the calculation of the ADIT balance is subject to several rate-making decisions that were reviewed and evaluated in GUD No. 10170. As noted above, Atmos Energy does not file separate federal income tax returns for the utility and non-utility's part of its business. In other words, there are no separately filed utility or Atmos Mid-Tex tax returns. Instead, the company disaggregates what is actually a single consolidated NOL credit Carryfoward to determine the NOL Carryforward balance to be included in the ADIT calculation. All parties concede that the rate-making methodology for determining this balance is consistent GUD No. 10170. Any refinement or change to the rate-making treatment adopted in GUD No. 10170 is beyond the scope of the municipally-approved RRM Tariff.

Furthermore, and directly related to the NOL Carryforward calculation, the Final Order in GUD No. 10170 includes the following Findings of Fact:

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[135] Atmos Energy Ex. 8, Rebuttal Testimony of Pace McDonald, p. 10, lns. 8 – 19.
[136] Atmos Energy Ex. 8, Rebuttal Testimony of Pace McDonald, p. 17, lns. 12 – 21.
[137] Atmos Energy Ex. 8, Rebuttal Testimony of Pace McDonald, p. 18, lns. 1 – 10 18.
[138] Atmos Energy Ex. 8, Rebuttal Testimony of Pace McDonald, p. 19, lns. 6 – 16.
[139] Atmos Energy Ex. 8, Rebuttal Testimony of Pace McDonald, p. 19, ln. 18 – p. 20, ln. 22.

> Atmos has established that its calculation of the ADIT asset related to NOLs was just and reasonable.[140]

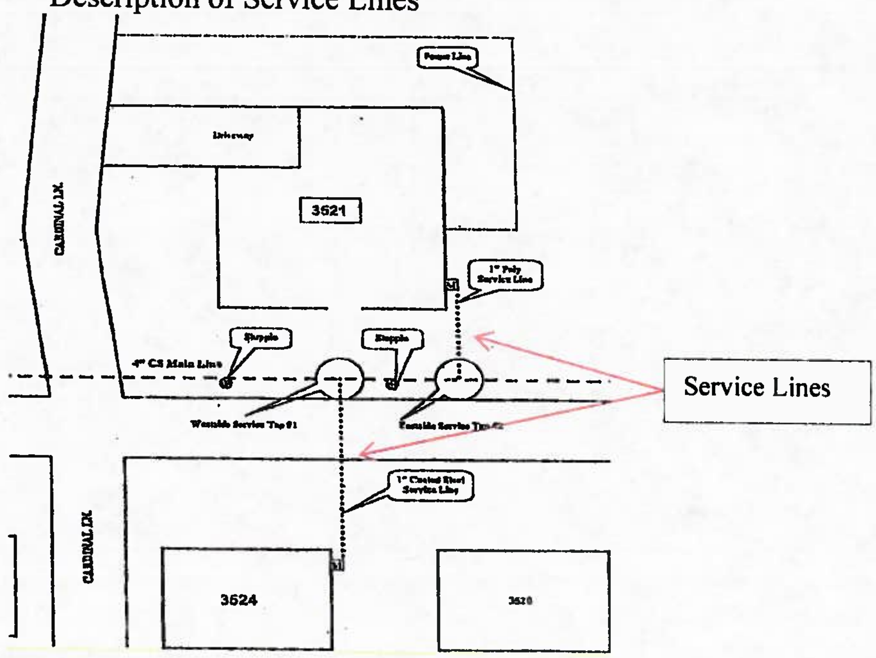
No evidence was presented in this proceeding that the company's calculation of the NOL Carryforward was based upon a different treatment other than the treatment applied in GUD No. 10170. The Commission may find in a future proceeding that the calculation of the NOL Carryforward requires modification. Such modification, however, is beyond the scope of the RRM Tariff at issue in this case as the municipally approved tariff requires application of the same rate-making treatment that was adopted in GUD No. 10170.

f. Rule 8.209 Regulatory Asset

i. Introduction

Rule 8.209, *Distribution Facilities Replacement*, became effective on March 14, 2011.[141] The rule addresses safety concerns related to distribution facilities including, but not limited to, steel service lines.[142] Generally, service lines connect the end-use customer's meter to the company's distribution lines that are under neighborhood streets. Service lines are relatively short segments of small diameter pipe which lead from the distribution line to the end-use customer's meter. Figure 13.1 below illustrates the typical location of service lines.

Figure 13.1
Description of Service Lines[143]



[140] Findings of Fact No. 210.
[141] 36 Tex. Reg. 1669.
[142] *See*. 36 Tex. Reg. 1658, 1660 – 1661 (Entities commenting on the proposed rule recognized that failure of services lines have occurred in Texas.).
[143] ACSC Ex. 1, Redacted Direct Testimony of Karl J. Nalepa. Attachment 19, p. 138, reproduced here for illustrative purposes only of the location of service lines.

As originally drafted the rule was intended to address the mandatory replacement of steel service lines and other facilities in natural gas distribution systems.[144] As set out in Rule 8.209(a), the rule prescribes the minimum requirements by which all operators develop and implement a risk-based program for the removal or replacement of distribution facilities, including steel service lines. The rule also provides an incentive to replace service lines by allowing special accounting treatment for expenses related to any replacement undertaken pursuant to that rule.

Specifically, the rule allows an operator of a system, who undertakes a capital improvement project that is undertaken pursuant to Rule 8.209, to establish one or more designated regulatory asset accounts (Rule 8.209 Regulatory Asset) in which to record capital costs incurred and any expenses incurred by the operator in connection with the acquisition, installation, or operation of facilities. The operator may then record interest on the balance in the designated distribution. The utility must reduce balances in the designated distribution facility replacement accounts by the amounts that are included in and recovered through rates established in a subsequent *Statement of Intent* filing or other rate adjustment mechanism.[145]

Absent Rule 8.209, a utility may not begin to recover a return on its investment until after the facility is placed in service and the cost is included in rates. Thus, for example, and in the context of the RRM Tariff, if Atmos Mid-Tex made a capital improvement in 2013 and the project was completed and placed in service in 2014, the utility would not be able to include expenses related to that project in its calculation of rates until the effective date of the 2015 RRM tariff.

Rule 8.209(c) required that by August 1, 2011, an operator must create and submit a written plan to the Commission's Pipeline Safety Division which includes the operator's procedures for implementing the requirements of the rule. Once submitted the Pipeline Safety Division would evaluate the plan and approve or direct that the plan be modified to comply with Commission Requirements. On July 19, 2011, Atmos Energy submitted its Distribution Facilities' Replacement Plan ("Written Plan"). The Written Plan was approved by the Commission on October 7, 2011.[146] Rule 8.209(i) also requires the utility to file a list, by System ID, of the distribution facilities replaced during the prior calendar year; proposed revisions of the operator's written plan; and, proposed work plan for removal for replacement for the current calendar year. Atmos Energy made the required annual filings on March 13, 2012, March 15, 2013, and March 15, 2014. Those filings have been accepted by the Commission without modification.[147] The timeline of relevant dates is set forth in Table 13.5, below:

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[144] The rulemaking was initiated on July 6, 2010. 35 TEX. REG. 8220 (9/10/2010)
[145] 16 TEX. ADMIN. CODE § 8.209(j); ATM Ex. 2, Direct Testimony of Steven C. Carver, p. 20, lns. 12 – 17.
[146] Atmos Ex. 6, Jeffrey Knights Rebuttal, p. 9, lns. 4 – 16, Exhibit JSK – R – 1.
[147] Atmos Ex. 6, Jeffrey Knights Rebuttal, p. 9, lns. 4 – 15.

Table 13.5

Rule 8.209 Timeline	
March 4, 2011	Rule 8.209 effective
July 19, 2011	Atmos Energy written plan submitted.
September 30, 2011	End of Test Year in GUD No. 10170
March 13, 2012	Rule 8.209(i) first filing made (1st 8.209(i) Filing)
December 4, 2012	Final Order GUD No. 10170
July 15, 2013	2013 RRM Adjustment Request filed.
October 15, 2013	2013 RRM Adjustment effective
March 15, 2013	Atmos Energy filing: Rule 8.209(i) second filing made (2nd 8.209(i) Filing)
March 1, 2014	2014 RRM Adjustment Request filed.
March 15, 2014	Atmos Energy filing: Rule 8.209(i) third filing made (3rd 8.209(i) Filing)
May 30, 2014	Current RRM Appeal filed.

Atmos Energy included a regulatory asset account which totaled $27,844,950.69 in its cost-of-service calculation. This represents the deferred cost of the company claimed Rule 8.209 projects placed in service between October of 2011 and February of 2013.[148] ACSC and ATM challenged the amount included in the account.

ii. Intervenors' Position

ACSC acknowledged that Atmos Energy included a regulatory asset for activities taken pursuant to this rule in GUD No. 10170. Mr. Nalepa noted that neither the *Proposal for Decision*, nor the Final Order, addressed the issue of whether Atmos Energy properly adhered to the rule.[149] In other words, he was not able to identify any specific language in the Final Order issued in GUD No. 10170 that approved the regulatory asset.[150] He observed that the regulatory asset account has grown from $610,014, in the test year applied in GUD No. 10170, to $27,844,951 in this case.[151]

Generally, Mr. Nalepa asserted five flaws in the company's treatment of the Rule 8.209 Regulatory Asset. First, he contended that Atmos Energy has included *system upgrades* that are beyond the scope of the rule. Second, he contended that Atmos Energy has included *transmission lines* in the company's Rule 8.209 program. He argued that Rule 8.209 applicability is limited to distribution lines. Third, he disputed the alleged company practice of including *line relocates* as part of the Rule 8.209 program. Fourth, he argued that Atmos Energy was unable to provide the risk-ranking for specific line segments as prescribed under Rule 8.209. This issue was raised in the context of projects identified by the company as *blanket projects* or *blanket accounts*. Fifth, he maintained that Atmos Energy was unable to identify the number of line segments removed or replaced during recent years.[152] Thus, Mr. Nalepa challenged four categories of projects included within the Rule 8.209 program:

148 ACSC Ex. 1, Redacted Direct Testimony of Karl J. Nalepa, p. 20, lns. 15 – 16.
149 ACSC Ex. 1, Redacted Direct Testimony of Karl J. Nalepa, p. 19, lns. 10 – 22.
150 ACSC Ex. 1, Redacted Direct Testimony of Karl J. Nalepa, p. 20, lns. 9 – 10.
151 ACSC Ex. 1, Redacted Direct Testimony of Karl J. Nalepa, p. 19, lns. 12 – 13; p. 20, lns. 1 – 4; and p. 20, Table 2.
152 ACSC Ex. 1, Redacted Direct Testimony of Karl J. Nalepa, p. 21, lns. 7 – 17 & p. 23, ln. 1 – p. 27, ln. 13.

- ➢ Blanket Accounts
- ➢ System Upgrades
- ➢ Relocations, and
- ➢ Transmission Lines

Mr. Nalepa concluded that Atmos Energy failed to meet the requirements of Rule 8.209. Although he is not challenging, nor does he propose to disallow the expenses related to the underlying asset, he is recommending that the entire amount, totaling $27,844,950.69 of the regulatory asset be removed.[153] The impact of his proposal is to reduce the calculation of rate base by $27.8 million and the overall revenue requirement by $4,162,665.

Mr. Carver, who testified on behalf of ATM, observed that Rule 8.209 allows Atmos Energy to defer as a regulatory asset interest, depreciation and property taxes. He took issue with the company's treatment of deferred interest.[154] Mr. Carver was satisfied that the pre-tax cost of capital rates, the interest rate of 11.49% that Atmos Energy applied to the regulatory asset account, although high, was in compliance with Rule 8.209.[155] He contended, however, that the company's practice to compound interest on a monthly basis was unreasonable.

ATM's adjustment removes all compounded interest from the regulatory asset included in rate base. The adjustment would allow Atmos Energy to recover all previously deferred interest, except for the compounded interest, and to continue to defer deprecation and related carrying costs on qualifying Rule 8.209 projects. This would reduce the Rule 8.209 regulatory asset by $1,863,288. This has an impact upon the depreciation expense calculation and impacts the company's ADIT balance.[156] This results in an overall revenue requirement reduction of $197,915.

iii. Atmos Energy's Response

Ms. Myers and Mr. Knights testified that the company's rate-making treatment of expenses of the Rule 8.209 regulatory asset is consistent with GUD No. 10170.[157] Ms. Myers acknowledged that the asset has grown from $610,014 in GUD No. 10170 to $27,844,950 in this case. Nevertheless, the rate-making treatment is the same in this case as in GUD No. 10170.

Mr. Knights provided an overview of Rule 8.209 and testified as to the main impetus for the rule. He explained that the impetus for Rule 8.209 stemmed from concerns generated by several incidents attributable to gas distribution facilities throughout the country, as well as the passage of Commission Rule 8.206, which addressed the Risk-Based Leak Survey Program and Rule 8.208 provisions that established a Mandatory Removal and Replacement Program targeting compression couplings. He asserted that Rule 8.209 was also influenced by the

[153] ACSC Ex. 1, Redacted Direct Testimony of Karl J. Nalepa, p. 27, lns. 14 – 23.
[154] ATM Ex. 2, Direct Testimony of Steven C. Carver, p. 21, lns. 13 – 14.
[155] ATM Ex. 2, Direct Testimony of Steven C. Carver, p. 22, lns. 9 – 12.
[156] ATM Ex. 2, Direct Testimony of Steven C. Carver, p. 22, lns. 13 – p. 23, ln. 15.
[157] Atmos Energy Ex. 7, Rebuttal Testimony of Barbara W. Myers, p. 39, lns. 1 – 11 and Atmos Energy Ex. 6, Rebuttal Testimony of Jeffrey Knights, p. 15, lns. 5 – 6 & p. 17, ln. 16 – p. 18, ln. 3.

Commission's efforts to develop a program that would allow the company to replace the highest relative risk service lines within the area served by Atmos Mid-Tex.[158]

Mr. Knights testified that Atmos Energy has filed its Written Plan, that the plan was approved by the Commission on October 7, 2011, and that the company has made its required annual filings on March 13, 2012, March 15, 2013, and March 15, 2014. Those annual filings detail all distribution facilities replaced during the prior calendar year.[159]

He explained that it is the company's practice to replace rather than repair steel service lines. Subsections (c) and (d) of Rule 8.209 make clear that portion of subsections (d), (f) and (g) apply only to operators for whom steel service lines pose the greatest risk. Therefore, he concluded the risk ranking and prioritization concepts of Rule 8.209 are not applicable to Atmos Energy. On the other hand, subsection (e) and the Written Plan apply. He explained that, pursuant to that subsection and the Written Plan, the company adopted the practice of replacement because replacement provides additional safety and reliability benefits and requires only minimal additional cost compared to repair activities.[160]

As to Mr. Nalepa's specific arguments, Mr. Knights addressed them as follows. First, as to system upgrades, he argued that Mr. Nalepa suggests that a project loses its eligibility for Rule 8.209 treatment when the company replaces a risk-posing facility with larger pipe. He contended that the rule does not support his position. Once a system is identified as posing a risk the replacement is dictated by the operational needs of the company.[161] Second, as to transmission lines, Mr. Knights argued that as long as the line is part of the overall distribution system, it could be included in Rule 8.209 projects.[162]

Third, as to relocation projects, Mr. Knights contended that an activity of a governmental entity performing construction work that requires relocation of the company's facilities is engaging in construction activity near the pipeline that poses a risk of safety hazard to the operation of the facilities.[163] He contended that such activities fall squarely within the following provision of Rule 8.209(e)(5):

> [A]ny other condition known to the operator that has significant potential to initiate a leak or to permit leaking gas to migrate to an area where it could result in a hazard, including construction activity near the pipeline, wall-to-wall pavement, trenchless excavation activities (e.g. boring), blasting, large earth-moving equipment, heavy traffic, increase in operating pressure, and other similar activity.[164]

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[158] Atmos Energy Ex. 6, Rebuttal Testimony of Jeffrey Knights, p. 7, lns. 1 – 14.
[159] Atmos Energy Ex. 6, Rebuttal Testimony of Jeffrey Knights, p. 9, lns. 4 – 16, Exhibit JSK – R – 1.
[160] Atmos Energy Ex. 6, Rebuttal Testimony of Jeffrey Knights, p. 10, lns. 13 – 24.
[161] Atmos Energy Ex. 6, Rebuttal Testimony of Jeffrey Knights, p. 20, ln. 12 – p. 22, ln. 21.
[162] Atmos Energy Ex. 6, Rebuttal Testimony of Jeffrey Knights, p. 25, ln. 15 – p. 28, ln. 15.
[163] Atmos Energy Ex. 6, Rebuttal Testimony of Jeffrey Knights, p. 23, ln. 1 – p. 25, ln. 13.
[164] 16 TEX. ADMIN. CODE § 8.209(e)(5).

Fourth, contrary to Mr. Nalepa's contention that the company failed to assess the risk for each facility it replaces, Mr. Knights explained that the company's risk assessments fall into two distinct categories: (1) an annual forward-looking risk assessment that is possible for known risks (Known Risks); and (2) a risk assessment that is performed for specific facilities the company discovers are in need of replacement during the course of routine work in the field (Unknown Risks). The treatment for Known Risks and Unknown Risks is specifically addressed in the company's written plan.[165] Addressing Unknown Risks in the field is accounted for by use of "blanket projects".

A blanket project is an accounting designation that has been employed by the company for several decades. Mr. Knights described it as an accounting project number that captures small capital projects with relatively short construction duration, including small sections of main replacement, individual service line replacements, new service lines, and new meters and regulators. He explained that these small capital projects are not typically known at the time of the annual budgeting process or annual risk ranking analysis. Blanket projects capture replacement activities that are discovered in the field as part of the company's daily operations. He clarified that by definition these projects are not known in advance and therefore, it is not possible to rank them for priority replacement.[166] He also noted that the company's Written Plan contemplates the use of blanket projects in order to comply with the requirements of Rule 8.209.[167]

As to the treatment of interest, Ms. Myers asserted that a strict interpretation of Rule 8.209 allows for such treatment. Namely, subsection (j)(1)(C) provides that the company may "record interest in the designated distribution facilities replacement accounts."[168] She claims further support in Paragraph 57, of FAS 34 which provides as follows:

> One of the issues raised in the Discussion Memorandum was whether capitalized interest should be compounded. The Board concluded that compounding is conceptually consistent with its conclusion that interest on expenditures for the asset is a cost of acquiring the asset. Admittedly, some portion of the interest incurred during an accounting period may be unpaid at the end of the period, but that complication usually may be ignored to simplify practical application.[169]

iv. Examiners' Recommendation

All of the issues raised by the Intervenors relate to the rate-making treatment of this asset. The rate-making treatment is consistent with GUD No. 10170. Further, the classification of projects outlined by Atmos Energy is consistent with the classification of projects adopted in GUD No. 10170. These facts are not disputed. While both issues may be revisited in a full *Statement of Intent* proceeding, it is outside the scope of this proceeding which is limited by the terms of the municipally-adopted RRM Tariff. Furthermore, ACSC agrees that the underlying

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165 Atmos Energy Ex. 6, Rebuttal Testimony of Jeffrey Knights, p. 11, ln. 16 – p. 15, ln. 15.
166 Atmos Energy Ex. 6, Rebuttal Testimony of Jeffrey Knights, p. 14, ln. 1 – p. 15, ln. 22.
167 Atmos Energy Ex. 6, Rebuttal Testimony of Jeffrey Knights, p. 16, lns. 5 – 12.
168 16 Tex. Admin. Code § 8.209(j)(I)(C).
169 Atmos Energy Ex. 7, Rebuttal Testimony of Barbara Myers, p. 38, lns. 1 – 20.

expenditure was just and reasonable. Mr. Nalepa unequivocally stated that he was not challenging any specific project included under Rule 8.209.[170] Thus, there is no evidence that any of the underlying expenditures are not just and reasonable. Pursuant to the provisions of the RRM Tariff the inquiry ends there.

The growth of this account – between the applicable test year in GUD No. 10170 and the test year in this case – is not surprising. The test year in GUD No. 10170 included the twelve-month period ending September 2011. Rule 8.209 became effective March 4, 2011. Thus, the regulatory asset was in existence for only a portion of that test year. At the time the rule was adopted, it was known that replacement of high-risk infrastructure would, while improving the safety of gas distribution infrastructure, result in increased capital cost.[171] The provision for the regulatory asset in the rule was intended to address the significant capital expenditure necessitated by the safety program and encourage investment in safety.[172] It is not surprising that the regulatory asset would grow over time. And it is reasonable that since the effective date of the rule the asset would have grown substantially for a company with a service area that extends as broadly as the area served by Atmos Mid-Tex.

Even setting the limitations of the municipally-approved RRM Tariff aside, Atmos Energy has established that its treatment of the Rule 8.209 asset is just and reasonable. The company reasonably replaced segments of pipeline undertaken under the accounting rubric, "Blanket Accounts," that posed a risk. Those activities are consistent with Rule 8.209, and more importantly the company's Written Plan. The Written Plan appears to have been prepared in consultation with all affected regulatory authorities including the RRC, ACSC and ATM.[173] The Examiners further find that the Rule 8.209 projects characterized by the Intervenors as system upgrades, relocations, and transmission line replacement are consistent with Rule 8.209.

Atmos Energy reasonably concluded that interest on the Rule 8.209 accounts may be compounded. To date, the Commission has not had the opportunity to interpret the appropriate methodology to record interest on Rule 8.209 accounts. Atmos Energy relied on its prior treatment of interest in GUD No. 10170, the treatment applied in the first RRM Tariff filing previously approved by the municipalities, and the treatment applied in its interim rate adjustments at the Commission.[174] The municipally approved RRM Tariff requires that that methodology be applied in a future proceeding. In the absence of any regulatory guidance or interpretation to the contrary, the RRM Tariff requires application of that methodology to the Rule 8.209 assets during the test period in this case.

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[170] ACSC Ex. 1, Direct Testimony of Karl J. Nalepa, p. 27, lns. 10 – 13 (Q: Are you recommending the disallowance of any plant additions related to Rule 8.209 projects? A: No. I am not challenging, nor do I propose to disallow, any specific projects included under Rule 8.209.).

[171] 35 Tex. Reg 8222 ("Ms. McDaniel [Director of Pipeline Safety] estimates that for operators of all gas distribution systems, both municipally owned and investor owned, there is likely to be an increased capital cost because of the requirement to replace segments sooner than they might otherwise be replaced within system.").

[172] 36 Tex. Reg. 1665. ("Clearly, cost is a significant factor whenever an operator undertakes the replacement of distribution system infrastructure and the TGA commends the Commission for considering this issue and including the accounting treatment provision contained in subsection (j).").

[173] ACSC Ex. 1, Attachment 19, p. 110.

[174] Tex. R.R. Comm'n, Application of Atmos Energy., Mid-Tex Division for the Mid-Tex Division for the Test Year 2013 Annual Interim Rate Adjustment Program for the Environs Area, Docket No. 10342, (Gas Utils. Div. May 22, 2014) (Final Order), Workpaper/Schedule A, ln. 64.

The Commission may, however, conclude that monthly compound interest in these accounts is inconsistent with other rate-making principles. As correctly noted by ATM, when a utility files a rate case, the pre-tax return allowed on the utility's net rate base investment is not compounded in the manner adopted by Atmos Energy. A finding by this Commission on this issue is an issue of first impression and would apply prospectively to future RRM Tariff filings after the effective date of this order. The RRM Tariff requires that it be implemented in harmony with GURA. Any interpretation of a rule, promulgated pursuant to GURA, articulated in this case would require that future RRM Tariff filings comply with that interpretation. The Examiners find that it is reasonable to limit the recovery of interest on Rule 8.209 accounts to a simple annual average percentage rate, as articulated by ATM, in future filings. The Examiners recommend that the Commission clarify that in future filings Atmos Energy apply simple interest based upon its pre-tax return applied on a monthly basis. For example, as noted by ATM if the pre-tax return is 11.49% simple interest would be applied to the allowable Rule 8.209 investment at about 0.96% (i.e, 11.49% divided by 12) each month. This application would be consistent with the intent of Rule 8.209 which was intended to keep the utility whole on these regulatory mandated projects.

g. Adjustments for Reimbursement of Plant in Service Costs

The test period in this case is the twelve-month period ending December 31, 2013. After the test period, during January and February 2014, the company received $1,295,911 in reimbursements for projects placed in service as of December 31, 2013.[175] ACSC seeks to include this amount as a reduction to rate base. Ms. Cannady, who proposed this adjustment on behalf of ACSC, argued that this was not a post-test year adjustment. The proposed adjustment neither relates to the addition of assets beyond the test year, or the retirement of assets beyond the test year end. She recognized that either would classify as post-test year adjustment. Instead, she argued that the proposed adjustment reflected the actual investor-supplied cost of assets in service at the test-year end. This, she concluded, was not in violation of the RRM Tariff that precludes post-test-year adjustments to rate base.[176]

Ms. Myers explained that the company accounts for plant reimbursements is consistent with FERC, Gas Plant Instruction, Number 2, which states: "Gas plant is to be recorded at cost."[177] Section D provides further as follows:

> The gas plant accounts shall not include the cost or other value of gas plant contributed by the company. Contributions in the form of money or its equivalent toward the construction of gas plant shall be credited to the accounts charged with the cost of such construction.

She explained that, consistent with the RRM Tariff limitations, any reimbursement received subsequent to the test-year end will be included in the next RRM filing.[178]

[175] ACSC Ex. 2, Redacted Direct Testimony of Constance T. Cannady, p. 41, lns. 7 – 9.
[176] ACSC Ex. 2, Redacted Direct Testimony of Constance T. Cannady, p. 41, ln. 1 – p. 42, ln. 7.
[177] 18 CFR pt 201, Gas Plant Instructions § 2 (2013).
[178] Atmos Energy Ex. 8, Rebuttal Testimony of Barbary W. Myers, p. 43, ln. 17 – p. 45, ln. 14.

As to rate base, the RRM Tariff is unequivocal: "Rate base is prepared consistent with the rate making treatments approved in the Final Order, except that no post Test Period adjustment will be permitted."[179] The proposed adjustment is based upon payments that occurred after the Test Period. Additionally, as noted by Atmos Energy, consistent with the RRM Tariff limitations, any reimbursements received subsequent to the test-year end will be included in the next RRM filing. Accordingly, the Examiners recommend that the proposed adjustment be rejected.

h. Customer Service and Billing System

i. Introduction

Atmos Energy installed a new Customer Service and Billing System (CSS) effective May 2013. The CSS replaced the existing customer information system. There seems to be no dispute that this was a large-scale project intended to address several specific needs. It included a customer relationship management and billing system for utilities; it encompassed a scheduling system used to schedule all work order and dispatch orders to service technicians; it also contained an application to assist in managing field work; and it also included a comprehensive financial and customer information reporting tool.[180]

The parties do not dispute the general description of the CSS system. The new system had greater functionality than the original system and modernized the company's customer service system. The parties agree that the new system was necessary and do not dispute the prudence of the decision to acquire the new system. It is not disputed that there were no CSS-related costs included in GUD No. 10170.[181] All parties agree that the initial estimate to complete the project was $64 million and the ultimate cost to complete the project was $78.9 million.[182] Of that amount, $40,897,273 was allocated to Atmos Mid-Tex.[183] No party suggests that the original cost estimate is unreasonable. Thus, all parties concur that $64 million of the CSS investment is just and reasonable.

One final area of agreement appears to be the main reason for the cost overrun: The company made a decision to change the implementation of the CSS system from a two-stage conversion to a single-stage conversion. Pursuant to the two-stage approach Atmos Mid-Tex would go-live in October 2012, and the rest of the divisions would go-live by April 2013. This would allow the company to release the vendor sooner, learn from the first implementation, and manage the stabilization period in which the company transitioned from the legacy systems to the new CSS in two parts.[184] A single-phase approach could be completed in twenty-eight months, whereas the two-phase approach resulted in a time horizon that totaled forty-eight months.[185]

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179 Atmos Energy Ex. 1, RRM Tariff Section III, Definition of RI.
180 Atmos Energy Ex. 6, Rebuttal Testimony of Jeffrey Knights, p. 29, lns. 8 – 16.
181 ACSC Ex. 2, Redacted Direct Testimony of Karl J. Nalepa, p. 29, lns. 5 – 17.
182 ACSC Ex. 2, Redacted Direct Testimony of Karl J. Nalepa, p. 32, ln. 8 – 33, ln. 2; ATM Ex. 1, Redacted Direct Testimony of Michael L. Brosch, 20, ln. 17, lns. 21 – 22 & p. 20, lns. 23 – 25.
183 Atmos Energy Ex. 6, Rebuttal Testimony of Jeffrey Knights, p. 41, lns. 10 – 14.
184 Atmos Energy Ex. 6, Rebuttal Testimony of Jeffrey Knights, p. 36, lns. 1 – 10.
185 Atmos Energy Ex. 6, Rebuttal Testimony of Jeffrey Knights, p. 37, lns. 5 – 10.

ii. The Issue and the Standard of Review

Not surprisingly, the dispute centers on the cost overrun of $14.9 million – nearly 23% over the original budgeted amount. The RRM Tariff provides that the regulatory authority may disallow any net plant investment that is not shown to be prudently incurred. The Intervenors question the prudence of the additional $14.9 expenditure. The courts have defined "prudence" in the context of utility expenditures as follows:

> The exercise of that judgment and the choosing of that select range of options which a reasonable utility manager would exercise or choose in the same or similar circumstances given the information or alternative at the point in time such judgment is exercised.[186]

The court further clarified that prudence may be established in one of two ways. First, prudence may be established through contemporaneous documentation of the decision-making process, thereby enabling the Commission to review the actual investigations and analysis leading to the utility's decision. Second, in the absence of contemporaneous documentation, prudence may be established through a retrospective analysis. Through independent retrospective analysis, the utility must demonstrate that a reasonable utility manager, having investigated all relevant factors and alternatives as they existed at the time the decision was made, would have found the utility's actual decision a reasonably prudent course.[187]

iii. Intervenor's Position

The key issue for ACSC and ATM is the company's decision to move from a two-phase implementation to a single-phase implementation. The Intervenors contended that the company failed to provide sufficient documentation to establish the prudence of that decision and the resulting expenditure in excess of the original budget estimate.

Mr. Brosch contended that an adjustment reducing rate base by approximately $6.92 million should be implemented. He argued that it would be reasonable to limit rate base recovery of the CSS project budget because of the absence of any documentation showing the prudence of the company's change to a single go-live deployment plan. In the interest of conservatism, however, he proposed a smaller adjustment that would limit the project costs to $72 million.[188]

Mr. Nalepa contended that the company changed its implementation approach in 2012.[189] The $14.9 million in additional capital costs should be removed as it was the result of Atmos Energy's late decision to change its implementation approach and change the project without any substantive analysis, support, or documentation.

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[186] Gulf States Utilities Co. v. Public Utility Comm'n of Texas, 841 S.W. 2d 459, 474 -476 (Tex. App. – Austin 1992, writ denied).

[187] *Id.*

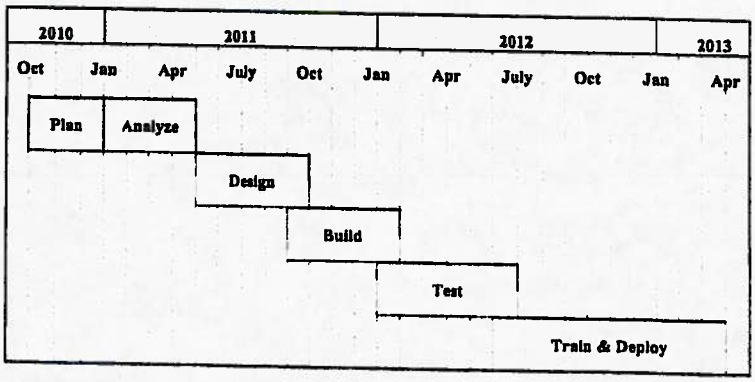
[188] ATM Ex. 1, Redacted Direct Testimony of Michael L. Brosch, p. 20, lns. 17 – 24.

[189] ACSC Ex. 1, Redacted Direct Testimony of Karl J. Nalepa, p. 32, lns. 1 – 7.

iv. Atmos Energy's Response

Mr. Knights described the CSS implementation process. Atmos Energy identified a CSS Leadership Team made up of a CSS Process Council and a CSS Steering Committee.[190] There were two project managers assigned to the day-to-day management of the project. The CSS Process Council and the CSS Steering Committee managed various aspects of the project. Additionally, all the same company process related to individual expense reviews and approvals for capital or operations and maintenance processes were followed.[191] In order to implement the project Atmos Energy developed a project management schedule illustrated in Figure 13.2 below:

Figure 13.2[192]
CSS Project Management Timeline



Mr. Knights testified that the decision to move from a two-phase implementation to a single-phase implementation occurred in the summer of 2011 during the "analyze and design" phase.[193] The decision was memorialized in a memo dated September 8, 2011.[194] He asserted that the decision was made because it resulted in a greater likelihood of successful implementation while reducing the impact to the customer decision. He argued that the company's ultimate focus was reducing the impact customers would experience during and immediately following implementation of the new CSS.[195] Finally, Mr. Knights observed that ACSC conceded that the concerns expressed by the company were realistic. He concludes that it would have been unreasonable for the company to be aware of the need to revise the implementation plan and not take proactive steps to adopt a new approach.[196]

He also argued that the company analyzed the issue and contended that Atmos Energy had contemporaneous detailed cost information.[197] Furthermore, he asserted that Atmos Energy followed its established process for managing the costs and activities for a project.[198]

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[190] Atmos Energy Ex. 6, Rebuttal Testimony of Jeffrey Knights, p. 31, lns. 1 – 8.
[191] Atmos Energy Ex. 6, Rebuttal Testimony of Jeffrey Knights, p. 31, ln. 1 – p. 32, ln. 2
[192] Atmos Energy Ex. 6, Rebuttal Testimony of Jeffrey Knights, p. 33.
[193] Atmos Energy Ex. 6, Rebuttal Testimony of Jeffrey Knights, p. 35, ln. 1 – 7; p. 37, lns. 1 – 5 and lns. 21 – 23.
[194] Atmos Energy Ex. 6, Rebuttal Testimony of Jeffrey Knights, p. 37, lns. 1 – 15.
[195] Atmos Energy Ex. 6, Rebuttal Testimony of Jeffrey Knights, p. 36, ln. 21 – p. 37, ln. 1 and p. 38, lns. 16 – 19.
[196] Atmos Energy Ex. 6, Rebuttal Testimony of Jeffrey Knights, p. 43, lns. 14 – 18.
[197] Atmos Energy Ex. 6, Rebuttal Testimony of Jeffrey Knights, p. 41, lns. 1 – 2.
[198] Atmos Energy Ex. 6, Rebuttal Testimony of Jeffrey Knights, p. 41, lns. 5 – 8.

v. Examiners' Recommendation

The Examiners find that the company established that expenditures related to implementation of the CSS were prudent, just and reasonable. In considering the overall cost of the CSS project the size of Atmos Energy and Atmos Mid-Tex provides relevant context. At the time of the filing in GUD No. 10170, the company delivered natural gas to approximately 3.2 million residential, commercial, industrial, and public authority customers. At that time, the Atmos Mid-Tex Division alone served approximately 1.5 million customers. And Atmos Mid-Tex alone included more than 29,000 miles of mains and greater than 320 miles of transmission pipeline in over 440 cities, towns and unincorporated areas.[199]

The company established the prudence of the increased expenditure through the production of contemporaneous documentation. The company provided documentation that established that the decision was made in the early phases of project development. Specifically, the decision was documented in a memo dated September 2011. The company provided documentation that an analysis was done in 2011 and a reasonably prudent manager would have taken steps necessary to ensure successful implementation of CSS. Furthermore, the decision to move to a single-phase implementation would minimize the impact felt by customers and minimize related regulatory and operational issues.

Even assuming, that the documentation produced is insufficient to satisfy the prudence standard using the first approach outlined above, the company may establish the prudence of the expenditure though retrospective analysis. As discussed above, through independent retrospective analysis, the utility must demonstrative that a reasonable utility manager, having investigated all relevant factors and alternatives as they existed at the time the decision was made, would have found the utility's actual decision a reasonably prudent course. The company established that the original two-phased approach was less likely to lead to successful implementation. A point conceded by ACSC as Mr. Nalepa stated that the concerns expressed by Atmos Energy in its decision to change the project implementation were realistic.[200] Thus, it was reasonable and prudent to change to a single-phase implementation.

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[199] GUD No. 10170, Proposal for Decision, p. 6.
[200] ACSC Ex. 1, Redacted Direct Testimony of Karl J. Nalepa.

i. Injuries and Damages Reserves Held at Blueflame

i. *Introduction*

Property insurance coverage is provided to Atmos Mid-Tex by an affiliate, Blueflame Insurance Services Ltd ("Blueflame"), which was formed for the purpose of providing Atmos Energy's operating units consistent property rate over a long-term horizon, as well as a continuity of insurance product, at a cost that is lower than what Atmos Energy is able to achieve if it sought insurance on its own through the general property insurance marketplace.[201] As described by Atmos Energy, and as found in several prior proceedings, Blueflame allows Atmos Mid-Tex and other operating units to access reinsurance markets directly without going through the general property insurance markets. The Commission has previously found, and Atmos Energy has established in this case, that the costs of property insurance provided by Blueflame are reasonable and necessary and less than the coverage that could be purchased directly through a third-party insurer. Additionally, the prices charged to Atmos Mid-Tex by Blueflame are no higher than the prices Blueflame charges to other affiliates or divisions or to a nonaffiliated person for the same item or class of items.[202]

ii. *Intervenors' Position*

ATM proposed that a portion of Blueflame's insurance reserve surplus be assigned to Atmos Mid-Tex. As described by Mr. Brosch, injuries and damages reserves result from accounting accruals recorded on the utility's books to recognize and provide for claims that may later result in the payment of damages by the utility. These accruals are included in the revenue requirement, but are actually paid at later dates. He explained that these reserves are typically treated as a deduction from Rate Base. This is because they represent money that has been collected from ratepayers through approved utility rates in advance of the time when such amounts are actually paid out in cash.[203]

Mr. Brosch asserted that Blueflame, whose returns are earned solely through its transactions with affiliated entities of Atmos Energy, generates a return for Atmos Energy that ranged from 17.56% to 24.56% between 2011 and 2013. Further, he rebuts the company's contention that Blueflame does not generate profits by stating that Blueflame consistently reports large annual net income on its books and this income is fully reflected in the public financial statements of Atmos Energy. In response to the company's assertion that the income is held in reserve, Mr. Brosch noted that the reserve has grown to $23.2 million as of September 30, 2013. These reserves have never been used to satisfy an Atmos Mid-Tex claim. He contended that a portion of this reserve should be included in the calculation of injuries and damages reserve to reduce rate base.[204]

Mr. Brosch proposed that a portion of the $23.2 million reserve, totaling $8,972,478, be allocated to Atmos Mid-Tex. This amount would be calculated by developing an allocation

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[201] Atmos Energy Ex. 3, Direct Testimony of Christopher A. Felan, CAF – 4.
[202] *Id.*
[203] ATM Ex. 1, Redacted Direct Testimony of Michael L. Brosch, p. 21, ln. 4 – p. 22, ln. 16.
[204] ATM Ex. 1, Redacted Direct Testimony of Michael L. Brosch, p. 23, ln. 12 – p. 25, ln. 7.

factor based upon the company's allocation of premium charges to Blueflame. He calculated that factor to be 38.69%. The allocated reserve is then deducted from the company's calculation of Atmos Mid-Tex of rate base. The impact of the proposed adjustment is a reduction to the requested revenue requirement totaling $1,063,828.[205]

iii. Atmos Energy's Response

Atmos Energy responded by noting that the treatment of Blueflame in this proceeding is consistent with the rate-making treatment of this expense reflected in the Final Order issued in GUD No. 10170. Mr. Felan contended that the argument raised in this proceeding is a variant of the imputed dividend argument that Mr. Brosch presented in GUD No. 10170. This an argument that was ultimately not adopted in the Final Order.

Mr. Felan argued that the Injuries and Damages reserve that ATM proposes to credit is not intended for dollars that have not been assigned to specific events. That reserve is intended to capture expenses that have been paid for incidents that have occurred on the Atmos Mid-Tex system, but which have not been recovered through rates. On the other hand, the Blueflame insurance reserve is an amount that is statutorily required to be maintained. Insurance companies, like Blueflame, must have a statutory surplus in order to take on risk of a loss and provide coverage to policyholders. As a result, Mr. Felan concluded it was inappropriate to assign any portion of the reserve to Atmos Mid-Tex. As a practical matter, Blueflame must have the reserve available to meet any potential claim.[206]

iv. Examiners' Recommendation

The Examiners find that the company's rate-making treatment of the reserves related to Blueflame Insurance in this proceeding is identical to its treatment in GUD No. 10170. The Examiners recommend that ATM's proposed adjustment be rejected. The scope of the inquiry, mandated by the municipally-approved RRM Tariff, ends there. The Examiners observe that to the extent a further inquiry is mandated the reasoning of the Examiners reflected in the Proposal for Decision in that case applies equally in this case:

> The Examiners find that the proposed revenue sharing adjustment is not just and reasonable. It is not reasonable that the insurance reserve be returned to the Atmos Energy Corporation affiliates. Rather, Atmos has established that the reserve is necessary to protect the company against unforeseen events. The testimony in the record on this point is clear: The reserves are held inside Blueflame in order to pay for future claims as well as to maintain continuity of the insurance product at the lowest possible price. In fact, the evidence established that after Hurricane Katrina and Rita, Blueflame became insolvent because its reinsurers failed and Atmos was required to inject $1.4 million into Blueflame. It would be unreasonable to remove the reserves from Blueflame and return it to its affiliates. The result of that action would be to leave Blueflame underfunded.[207]

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[205] ATM Ex. 1, Redacted Direct Testimony of Michael L. Brosch, p. 25, lns. 8 – 23.
[206] Atmos Energy Ex. 5, Rebuttal Testimony of Christopher A. Felan, p. 15, ln. 9 – p. 17, ln. 10.
[207] GUD No. 10170, Proposal for Decision, p. 51.

14. Rate of Return

a. Introduction

Atmos Mid-Tex included an overall rate of return of 8.58% in its RRM Tariff adjustment request. Table 14.1 below is the rate of return calculation included in the RRM Filing.

Table 14.1

ATMOS ENERGY CORP., MID-TEX DIVISION
SUMMARY OF RETURN
TEST YEAR ENDING DECEMBER 31, 2013

xaminer 1

Line No.	Description (a)	Proposed Rates (1) (b)	Proposed Amounts (c)
1	Net Operating Income/Return		
2			
3	Cost of Debt	6.23%	$ 50,264,004
4	Cost of Equity	10.50%	103,589,907
5			
6	Total Return on Invested Capital		$ 153,853,911
7			
8	Rate Base - Capitalization Structure		
9			
10	Debt	45.00%	$ 807,194,082
11	Equity	55.00%	986,570,545
12			
13	Total Invested Capital		$ 1,793,764,627
14			
15	Percent Return - After Tax		
16			
17	Cost of Debt	2.80%	
18	Return on Equity	5.78%	
19			
20	Percent Return - After Tax	8.58%	
21			
22	Note:		
23	1 Capital Structure and Cost of Debt are December 31, 2013 balances		
24	adjusted for the public offering of stock made February 10, 2014.		

As shown in Table 14.1, the overall rate of return is based upon a capital structure that includes 45% long-term debt and 55% common equity. The rate of return calculation also includes a return on equity of 10.50%. The capital structure and the return on equity calculation are not challenged by the ACSC or ATM. The Intervenors challenge, however, the cost of debt component that was used to calculate the overall rate of return.

b. Issue and Applicable Standard

The issue is whether certain changes that took effect after the Test Period should impact the cost of debt calculation included in the RRM filing. The applicable standard for calculating the company's return is set forth in the RRM Tariff. Specifically, the RRM Tariff provides that return on investment is calculated as the company's *pretax return* multiplied by rate base at Test Period end. The *pretax return* is the company's *weighted average cost of capital* before income taxes. The company's weighted average cost of capital is calculated using the methodology from the Final Order in GUD No. 10170, including the company's actual capital structure and long term cost of debt as of the Test Period end, adjusted for known and measurable changes, and the return on equity from the Final Order in GUD No. 10170.

c. Intervenors' Position

Atmos Mid-Tex proposed a cost of debt of 6.23%. Mr. Brosch who testified on behalf of ATM, argued that the cost of debt should be set at 5.97%. Mr. Nalepa, who testified on behalf of ACSC, argued that the cost of debt should be set at 5.86%. Mr. Nalepa stated that he agreed with ATM's arguments regarding the cost of debt.[208] Although he provided no additional basis of the calculation in the RRM Appeal, the ACSC analysis is contained in the report filed at the municipal level, which is in evidence in this case.[209] In any case, in post-hearing briefing, ACSC indicated that it deferred to ATM and adopts the recommendation of ATM witness Mr. Brosch to adjust the cost of debt from 6.23% to 5.97%.[210]

ATM contended that there are two known and measurable changes that occurred after the test year. The test year ended on December 31, 2013. First, Atmos Energy issued additional common equity capital in February of 2014 that Mr. Brosch asserted impacted the capital structure ratios. Second, Atmos Energy must refinance its currently outstanding 4.95% Senior Notes that were due for repayment on October 15, 2014. He argued that the common stock issuance has the effect of significantly increasing the pretax cost of capital included in the company's revenue requirement, while refinance of the long-term debt will significantly reduce the pretax cost of capital. Mr. Brosch and Mr. Nalepa contended that these were known and measurable changes that should be included in the cost of debt calculation.

Mr. Brosch observed that Atmos Energy included only the common stock issuance into its calculation of the cost of debt. This has the effect of increasing the pretax cost of capital. On the other hand, Atmos Energy has ignored the debt refinancing. ACSC and ATM contended that the effect of the debt refinance should be included.

d. Atmos Energy's Response

Mr. Felan contended that it was clear from a reading of the RRM Tariff that adjustments for known and measurable changes were intended to be limited to those that have occurred as of the RRM filing. Mr. Brosch's proposed adjustment to the cost of debt attempts to capture an event that occurred ten months beyond the test period, and subsequent to the effective date of the annual RRM rate adjustment.

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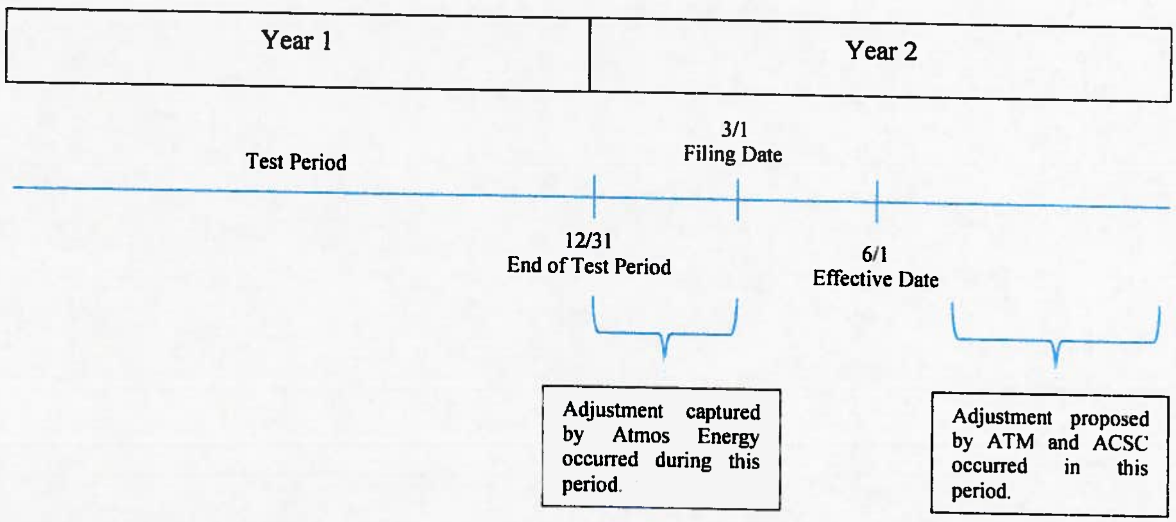
208 ACSC Ex. 1, Redacted Direct Testimony of Karl J. Nalepa, p. 6.
209 Atmos Energy Ex. 4, Direct Testimony of Christopher A. Felan, Exhibit CAF-2, p. 4.
210 ACSC Initial Brief, p. 57.

e. Examiners' Recommendation

The Examiners find that the proposed adjustment is not contemplated by the RRM Tariff. Figure 14.2, is a copy of the RRM timeline discussed in Section 3 above. For illustrative purposes the relative timing of the proposed adjustments has been added to the timeline. As is illustrated therein, the adjustment that was captured by Atmos Energy occurred prior to the Filing Date, as that term is defined in the RRM Tariff. The adjustment proposed by ATM and ACSC occurred after the filing date, four months after the effective date, and two months before the end of the Test Period for the next RRM Tariff filing. It occurred well into the test year of the next RRM filing, the 2015 RRM filing and will operate to reduce the cost of debt in that proceeding.

Figure 14.3



The RRM Tariff was intended to capture changes from one year to the next year. It is contrary to the intent of the RRM Tariff to allow an adjustment that would be captured in the subsequent RRM filing.

15. Other Revenues

a. Introduction

Other Revenues are generated by the following types of activities: service connection fees, returned check charges, tampering charges, and other service-order-related activities. The term, "Other Revenues" is intended to distinguish these revenues from revenues generated by rates charged to residential, commercial, and other regulated customers. Other Revenues are revenues that are available to support the overall revenue requirement. Once the overall cost of service is calculated these other revenues are deducted from the cost of service. The difference is the amount that must be recovered through rates charged to customers. While adjustments to the calculation of other revenues will not impact the overall revenue request of the company, the changes to the calculation of other revenues have an impact on the calculated rates. Thus, the higher the revenues generated by these activities, the lower the rate charged to the various customer classes.

b. Forfeited Discount Adjustments

After the implementation of the new Customer Service and Billing System (CSS) the company began charging a one-time five percent penalty on the late payment of the original amount of deferred payment plans. As an initial point all parties to this proceeding agree that the penalty is allowed pursuant to 16 *TEX. ADMIN. CODE* § 7.45(2)(D)(iv). As the parties to this proceeding stipulate to this fact, and this case is an appeal of a municipal proceeding, the Commission need not address the issue of compliance at this time. The Examiners recommend, however, that the issue of compliance with 16 *TEX. ADMIN. CODE* § 7.45(2)(D)(iv) be reserved for a future *Statement of Intent* proceeding involving areas within the Commission's original jurisdiction at which time Staff of the Railroad Commission may fully evaluate whether the penalty program adopted by Atmos Energy, and stipulated by the municipalities, complies with Rule 7.45(2)(D)(iv).

Mr. Nalepa contended that the company revenues from this program were not accurately captured in the cost of service filing in this proceeding. He proposed a method of annualizing the deferred payment penalty to take into consideration the relationship between monthly sales revenue and late payments.[211] The company does not object to Mr. Nalepa's calculation.[212] Accordingly, the Examiners recommend that the proposed adjustment be adopted.

c. Normalize Service Order Revenues

Service order revenues are miscellaneous revenues received by the company for the connection of service, field read of meter, returned check charges and tampering charges (Service Order Revenues).[213] All parties agree than an adjustment to those revenues should be made. The issue is the methodology that should be applied to calculate the adjustment. The parties agree that GUD No. 10170 is not controlling as those revenues were based upon the unadjusted test-year amount in that case.[214]

ATM proposed a simple three-year average of actual Service Order Revenues recorded by Atmos in 2011, 2012, and 2013 to be used for rate-making purposes. Mr. Brosch argued that this methodology is consistent with the three-year average of actual net charge-offs being used by Atmos Energy to normalize uncollectible expense.

Mr. Felan, who testified on behalf of Atmos Energy, posited four flaws with the approach proposed by ATM. First, Mr. Brosch's alleged an averaging approach captures the test period, which all parties agree does not reflect ongoing operations. Second, the years 2011 and 2012 captured in Mr. Brosch's average include revenues other than connection fees, such as field read of meters, returned check charges and tampering charges, and therefor do not accurate reflect the

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[211] ACSC Ex. 1, Redacted Direct Testimony of Karl J. Nalepa, p. 18, lns. 9 – 11.
[212] Atmos Energy Ex. 5, Rebuttal Testimony of Christopher A. Felan, p. 20, lns. 18 – 22.
[213] Atmos Energy Ex. 5, Rebuttal Testimony of Christopher A. Felan, p. 18, lns. 22 – 26.
[214] ATM Ex. 1, Redacted Direct Testimony of Michael L. Brosch, p. 5, lns. 2 – 15 and Atmos Energy Ex. 5, Rebuttal Testimony of Christopher A. Felan, p. 19, lns. 8 – 10.

revenue adjustment that must be captured. Third, Mr. Brosch's alleged average includes the months of January through April and October through December for each of the three years. These months do not mirror the months actually impacted by the CSS implementation (mid-April through September). Mr. Felan contended that it is precisely these months that must be captured. Fourth, he asserted that Mr. Brosch's recommendation that this adjustment should be based upon the company's adjustment of bad debt using a three-year average is flawed because bad debt charge-offs are not related to connection fees.[215]

The Examiners find that Atmos Energy has established that its proposed adjustment is just and reasonable. Accordingly, the proposed ATM adjustment should be rejected. The company's proposed adjustment is focused upon the Other Revenues impacted by the implementation of CSS.[216]

16. Adjustment

As noted above, the RRM Tariff provides that the annual COS of service will be calculated based upon the following formula:

$$COS = OM + DEP + RI + TAX + CD - ADJ$$

ADJ is defined as a downward adjustment to the overall, system-wide test-year cost of service in the amount of $3,000,000.00, reduced by a percentage equal to the total percentage increase in base-rate revenue sought pursuant to the RRM Tariff.

As filed, Atmos Energy made the adjustment in two parts as follows. The first adjustment was to deduct $3,000,000 off of the proposed system-wide increase to rates.[217] The second adjustment was calculated by first determining the percentage increase, not including taxes, to base rates and then multiplying that percentage to $3,000,000.[218] Thus, the total adjustment made was in the amount of $3,266,171.[219]

Mr. Brosch, who testified on behalf of ATM, contended that Atmos Energy misapplied the adjustment. Specifically, Mr. Brosch contended that Atmos Energy incorrectly calculated the second part of the adjustment. Mr. Brosch observed that the company had calculated the percentage adjustment on the base revenue increase being proposed in the current filing. He argued that this was incorrect. He contended that Atmos Energy should have accounted for the base revenue increase that was sought and received by the company in its 2013 RRM Tariff filing. The company's base revenue increase approved for implementation in that filing was

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215 Atmos Energy, Ex. 5, Rebuttal Testimony of Christopher A. Felan, p. 20, lns. 1 – 16.
216 Atmos Ex. 1, COS Schedule WP_J-2, Notes.
217 Atmos Ex. No. 1, COS Schedule A, ln. 26.
218 Thus, in the initial filing, Atmos Mid-Tex calculated a percentage increase to base rates in the current RRM filing of approximately 8.8724%. This figure was multiplied to $3,000,000 to arrive at the adjustment of $266,171. Atmos Ex. No. 1, COS Schedule A, ln. 30.
219 Atmos Ex. No. 1, COS Schedule A, ln. 26, col. (g) added to Atmos Ex. No. 1, COS Schedule A, ln. 30, col. (g).

$15,547,604. Mr. Brosch argued this amount should be added to the proposed revenue increase. The sum of those two figures should be used to calculate percentage increase.[220]

Mr. Felan, who responded on behalf of Atmos Energy, explained that the RRM Tariff provides for an annual rate adjustment designed to reflect changes in the cost of service from one test year period over the previous test period. Mr. Felan contended that the RRM Tariff does not provide for an adjustment to revenues, investment or expenses based on multiyear, cumulative averages. Mr. Felan also contended that the approach advocated by ATM is also contrary to the rate-setting process applied in GUD No. 10170 and outlined in the Commission's Natural Gas Rate Review Handbook.

The Examiners find that a plain reading of the RRM Tariff requires that the adjustment be calculated based upon a percentage increase in the base-rate revenue sought in the test year. The term adjustment is defined as follows:

> Downward adjustment to the overall, System-wide *test year* cost of service in the amount of $3,000,000, adjusted by a percentage equal to the total percentage increase in base-rate revenue sought pursuant to this tariff.[221]

First, the definition refers to the "test year." Second, no reference is made to take the cumulative changes over several years in the definition. The discussion, in ACSC's Initial Brief, on this point is instructive. While ACSC correctly quotes the RRM Tariff's reference to "total percentage increase," the brief asserted that this was intended to capture a change on a "cumulative basis."[222] The term "cumulative" is not found in the RRM Tariff. Third, the ATM methodology calculates a ratio of two cumulative changes to the current test-year revenue. This methodology is not reflective of any rate-setting principle articulated by the Intervenors. Fourth, it is not a ratio that provides any reference to a change in base rates. Such a ratio would have as part of the calculation the initial revenues included in the 2013 RRM. Accordingly, the Examiners find that the calculation of the downward adjustment proposed by Atmos Energy in its RRM filing is just and reasonable.

17. Tariffs

No issues have been raised regarding the form of the tariffs. The Examiners recommend only that the tariffs be revised to reflect the rates that result from the recommendations herein. The tariffs are attached as part of Attachment A.

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220 Based upon the filing made by Atmos Mid-Tex in this case, the proposed increase, excluding taxes, of $41,556,725 should be added to the increase of $15,547,604 approved in the 2013 RRM filing. This amount, totaling $57,104,329 should be used to impute a percentage increase of approximately 12.1918%. The percentage increase would be applied to the adjustment of 3,000,000. This would result in an additional adjustment of $365,753 instead of $266,171 calculated by Atmos Mid-Tex.

221 Atmos Ex. 3, Direct Testimony of Christopher A. Felan, Ex CAF – 1, RRM Tariff, p. 19, (emphasis added.)

222 ACSC Initial Brief, p. 60.

18. Conclusion

In conclusion, the Examiners find that, subject to the adjustment provided herein, Atmos Energy has established that its proposed RRM Tariff Adjustment is just and reasonable. The Examiners recommend seven adjustments to the company's requested revenue increase calculation. Additionally, the Examiners recommend that the Commission clarify a portion of Rule 8.209 related to the calculation of interest. As to the adjustments, first, the Examiners find that the company has not established that its calculation of expenses associated with SSU Cost Center 1205 complied with the requirements of the RRM Tariff. Second, the Examiners find that the company has not established that miscellaneous expenses related to AtmoSpirit and service award banquets is just and reasonable. Third, the Examiners conclude that the calculation of depreciation and amortization expenses included the recovery of costs that were not just, reasonable, or necessary to the provision of natural gas service. Fourth, the Examiners find that Atmos Energy has not correctly calculated its intended adjustment to incentive compensation. Atmos Energy asserted that it reduced the achieved payout percentage from 200% to 150%. The modification proposed by Atmos Energy did not completely accomplish the asserted goal. The goal represents a just and reasonable reduction to the test-year incentive compensation expenses. The Examiners recommend that the company's proposed adjustment be corrected to accomplish that goal. Fifth, the Examiners recommend a minor adjustment to account for the flow-through effect of the adjustment to incentive compensation just noted. Sixth, the Examiners recommend that an unopposed correction to the ADIT NOL Carryforward calculation be made. Seventh, the Examiners recommend ACSC's proposed adjustment to the forfeited revenue calculation be adopted. Additionally, the Examiners recommend that the Commission clarify that in future filings the interest rate on the Rule 8.209 regulatory assets be calculated based upon the company's pre-tax rate of return calculated on a simple annual basis.

The Examiners recommend that the revenue increase be limited to $42,958,631. As compared to the appellate filing, the Examiners' recommendation represents a reduction to the increase in revenues requested totaling $860,257. The company's original filing at the municipal level included a proposed system-wide increase of $45,732,838. The Examiners recommended proposed reduction, combined with the company's reduction to the revenue request results in a decrease of $2,774,207.

Respectfully submitted,

Gene Montes	Christina Poole	Rose A. Ruiz Rose Ruiz
Hearings Examiner	Technical Examiner	Technical Examiner

ATTACHMENT 1

PROPOSED ORDER AND PROPOSED TARIFFS

BEFORE THE
RAILROAD COMMISSION OF TEXAS

PETITION FOR DE NOVO REVIEW OF THE DENIAL OF THE RATE REVIEW MECHANISM TARIFF FILED BY ATMOS ENERGY CORP., MID-TEX DIVISION BY THE CITIES OF ABILENE, ADDISON, ALLEN, ET AL.	§ § § § § §	**GAS UTILITIES DOCKET NO. 10359 AND CONSOLIDATED CASES**

PROPOSED FINAL ORDER

Notice of Open Meeting to consider this Order was duly posted with the Secretary of State within the time period provided by law pursuant to TEX. GOV'T CODE ANN. Chapter 551, *et seq*. (Vernon 2008 & Supp. 2014). The Railroad Commission of Texas adopts the following findings of fact and conclusions of law and orders as follows:

FINDINGS OF FACT

1. Atmos Energy Corp., Mid-Tex Division, (Atmos Energy, Atmos, or company) is a gas utility as that term is defined in the Texas Utility Code and is subject to the jurisdiction of the Railroad Commission of Texas (Commission).

2. Atmos Energy delivers natural gas to approximately 3.2 million residential, commercial, industrial, and public-authority customers in eight states.

3. Atmos Energy has seven unincorporated gas utility operating divisions. There are two gas utility operating divisions in Texas: Atmos Mid-Tex and Atmos West Texas Division. In addition to these operating divisions, Atmos Energy operates a regulated intrastate pipeline division within Texas, the Atmos Pipeline – Texas Division.

4. These consolidated proceeding relate to the natural gas service provided by the Atmos Mid-Tex Division of Atmos Energy.

5. On May 10, 2014, Atmos Energy filed its *Petition for De Novo Review of the Denial of the Rate Review Mechanism Tariff filed by Atmos Energy Corp., Mid-Tex Division by the Cities of Abilene, Addison, Allen, et al*. The case was docketed as GUD No. 10359.

6. On June 12, 2014, Atmos Energy filed its *Petition for De Novo Review of the Denial of the Rate Review Mechanism Tariff filed by Atmos Energy Corp., by the cities of*

Benbrook, Eastland, McKinney, Point, Sansom Park, Southlake, Terrell and the Colony. That case was docketed as GUD No. 10361 and was subsequently consolidated into GUD No. 10359.

7. On July 11, 2014, Atmos Energy filed its *Petition for De Novo Review of the Denial of the Rate Review Mechanism Tariff filed by Atmos Energy Corp by the Cities of Aubrey, Lakeside, and Ponder.* That case was docketed as GUD No. 10368 and was subsequently consolidated into GUD No. 10359

8. The company's last full *Statement of Intent* proceeding for the Atmos Mid-Tex Division was GUD No. 10170, *Statement of Intent filed by Atmos Energy Corporation to Increase Gas Utility Rates within the Unincorporated Areas served by the Mid-Tex Division* (GUD No. 10170).

9. A Final Order was issued in GUD No. 10170 on December 4, 2012.

10. After the Final Order was approved in GUD No. 10170, several municipalities within the area served by the Atmos Mid-Tex Division approved a Rate Review Mechanism (RRM) Tariff in July of 2013 and the RRM Tariff became effective October 15, 2013. These municipalities are referred to herein as the RRM Tariff Municipalities.

11. Pursuant to the terms of the RRM Tariff, the company may make an annual filing requesting a rate adjustment.

12. The resulting rate adjustment takes effect on June 1st of the year the filing is made.

13. The first filing made pursuant to the RRM Tariff was approved at the municipal level.

14. The second filing made by Atmos Energy, for the Atmos Mid-Tex Division, pursuant to the RRM Tariff was made on March 1, 2014 and was not approved at the municipal level.

15. The test-year included in the March 1, 2014 filing is the twelve month period ended December 31, 2013 (Test Year).

16. Notice of the filing made March 1, 2014, complied with the requirements of the RRM Tariff and notice of the filing was sent to the incorporated area residential and commercial customers by bill insert beginning March 7, 2014, and ending on April 4, 2014. Notice to industrial, other non-residential, and non-commercial customers was sent by certified mail, to the billing address of each directly affected incorporated customer on April 7, 2014.

17. Several municipalities denied the requested rate adjustment that was made pursuant to that tariff: Abilene, Addison, Allen, Alvarado, Angus, Anna, Argyle Arlington, Aubrey, Austin, Balch Springs, Bandera, Bartlett, Bedford, Bellmead, Belton, Benbrock, Beverly Hills, Blooming Grove, Blue Ridge, Blossom, Bowie, Boyd, Bridgeport, Brownwood, Bryan, Buffalo, Burkburnett, Burleson, Caddo Mills, Cameron, Canton, Carrollton, Cedar

Hill, Cedar Park, Celeste, Celina, Centerville, Cisco, Clarksville, Cleburne, Clifton, Clyde, College Station, Colleyville, Colorado City, Comanche, Commerce, Coolidge, Coppell, Crandall, Copperas Cove, Corral City, Corsicana, Crowley, Denison, Dalworthington Garden, Denton, Eastland, Edgecliff Village, Euless, Electra, Everman, Euless, Fairview, Farmers Branch, Farmersville, Fate, Flower Mound, Forest Hill, Fort Worth, Fredericksburg, Frisco, Frost, Gainesville, Garland, Garrett, Gatesville, Georgetown, Glen Rose, Goldthwaite, Granbury, Grand Prairie, Grapevine, Greenville, Groesbeck, Granger, Gunter, Haltom City, Hamilton, Harker Heights, Haskell, Haslet, Heath, Henrietta, Hewitt, Hico, Highland Park, Highland Village, Hillsboro, Hickory Creek, Honey Grove, Hurst, Hutto, Iowa Park, Irving, Justin, Kaufman, Keene, Keller, Kemp, Kennedale, Kerens, Kerrville, Killeen, Krum, Lake Worth, Lakeside, Lampasas, Lancaster, Leander, Lewisville, Lincoln Park, Little Elm, Lometa, Longview, Lorena, Madisonville, Malakoff, Mansfield, Marble Falls, Mart, McKinney, Melissa, Mesquite, Mexia, Midlothian, Murphy, Newark, Nocona, Northlake, Oak Leaf, Olney, Ovilla, Palestine, Palmer, Pantego, Paris, Parker, Pecan Hill, Petrolia, Pflugerville, Plano, Point, Ponder, Pottsboro, Princeton, Prosper, Quitman, Ranger, Red Oak, Reno (Parker Co.), Rice, Richardson, Richland, Richland Hills, Riesel, River Oaks, Roanaoke, Robinson, Rockdale, Rockwall, Rogers, Roscoe, Round Rock, Rowlett, Royse City, Sachse, Saginaw, San Angelo, Sanger, Sansom Park, Seagoville, Sherman, Snyder, Somerville, Southlake, Springtown, Stamford, Star Harbor, Stephenville, Sulpher Springs, Sweetwater, Temple, Terrell, The Colony, Trinidad, Trophy Club, Tyler, University Park, Venus, Vernon, Waco, Waxahachie, Walnut Springs, Watauga, Westlake, White Settlement, Whitesboro, Whitney, Wichita Falls, Woodway, and Wylie.

18. The RRM Tariff provides that pending any appeal from the denial of an RRM rate adjustment request Atmos Energy may implement the proposed rates subject to refund.

19. Atmos Energy implemented the proposed rates June 1, 2013.

20. Atmos Mid-Tex filed these consolidated appeals of the actions taken by those municipalities.

21. Various cities intervened in these proceedings as part of two separate coalitions: The Atmos Cities Steering Committee (ACSC) and the Atmos Texas Municipalities (ATM) intervened.

22. ACSC is a coalition that includes the following municipalities: Abilene, Addison, Allen, Alvarado, Angus, Anna, Argyle Arlington, Aubrey, Bedford, Bellmead, Benbrock, Beverly Hills, Blossom, Blue Ridge, Bowie, Boyd, Bridgeport, Brownwood, Buffalo, Burkburnett, Burleson, Caddo Mills, Canton, Carrollton, Cedar Hill, Celeste, Celina, Centerville, Cisco, Clarksville, Cleburne, Clyde, College Station, Colleyville, Colorado City, Comanche, Commerce, Coolidge, Coppell, Copperas Cove, Corinth, Corral City, Crandel, Crowley, Dalworthington Garden, Denison, DeSoto, Duncanville, Eastland, Edgecliff Village, Emory, Ennis, Euless, Everman, Fairview, Farmers Branch, Farmersville, Fate, Flower Mound, Forest Hill, Fort Worth, Frisco, Frost, Gainesville, Garland, Garrett, Grand Prairie, Grapevine, Gunter, Haltom City, Harker Heights,

Haskell, Haslet, Hewitt, Highland Park, Highland Village, Honey Grove, Hurst, Hutto, Iowa Park, Irving, Justin, Kaufman, Keene, Keller, Kemp, Kennedale, Kerens, Kerrville, Killeen, Krum, Lake Worth, Lakeside, Lancaster, Lewisville, Lincoln Park, Little Elm, Lorena, Madisonville, Malakoff, Mansfield, McKinney, Melissa, Mesquite, Midlothian, Murphy, Newark, Nocona, North Richland Hills, Northlake, Oak Leaf, Ovilla, Palestine, Pantego, Paris, Parker, Pecan Hill, Petrolia, Plano, Ponder, Pottsboro, Prosper, Quitman, Red Oak, Reno (Parker Co.), Richardson, Richland, Richland Hills, River Oaks, Roanoke, Robinson, Rockwall, Roscoe, Rowlett, Royse City, Sachse, Saginaw, Sansom Park, Seagoville, Sherman, Snyder, Southlake, Springtown, Stamford, Stephenville, Sulpher Springs, Sweetwater, Temple, Terrell, The Colony, Trophy Club, Tyler, University Park, Venus, Vernon, Waco, Watauga, Waxahachie, Westlake, White Settlement, Whitesboro, Whitney, Wichita Falls, Woodway, and Wylie.

23. ATM is a coalition of cities that includes the following cities: Austin, Balch Springs, Banderal Bartless, Belton, Blooming Grove, Bryan, Burnet, Cameron, Cedar Park, Clifton, Commerce, Copperas Cove, Corsicana, Denton, Electra, Fredericksburg, Gatesville, Georgetown, Glen Rose, Goldwiate, Granbury, Greenville, Groesbeck, Hamilton, Heath, Henrietta, Hickory Creek, Hico, Hillsboro, Hutto, Jacksboro, Kerens, Lampasas, Lancaster, Leander, Lometa, Longview, Marble Falls, Mart, Mexia, Olney, Point, Pflugerville, Princeton, Ranger, Rice, Riesel, Rockdale, Rogers, Round Rock, San Angelo, Sanger, Somerville, Star Harbor, Trinidad, and Whitney.

24. On June 23, 2014, the parties requested that the rate-case expenses be severed into a separate docket. The request was granted on June 24, 2014, and GUD No. 10365, *Rate Case Expenses Severed from GUD No. 10359* was established.

<u>*Hearing*</u>

25. The Notice of Hearing in this proceeding was issued to the various parties on August 7, 2014 and was issued to various counties on August 11, 2014.

26. The hearing was held on September 3, 2014.

27. As part of the record in this case the Commission takes judicial notice of the Commission's publicly available deliberations and discussions that occurred at Public Open Meeting held by the Commission on August 24, 2010, August 30, 2010, August 10, 2011, and February 22, 2011 related to the publication and adoption of 16 Tex. Admin. Code § 8.209, *Requirements for Natural Gas Pipeline Only Relating to Distribution Facilities and Replacements* as well as related Texas Register submissions dated September 10, 2010, March 11, 2011, September 9, 2011, and November 11, 2011: 35 *Tex. Reg.* 8220 – 8225, 36 *Tex. Reg.* 1659 – 1669; 36 *Tex. Reg.* 5775 – 5778; and, 36 *Tex. Reg.* 7663 – 7665.

28. As part of the record in this case the Commission takes judicial notice of the evidentiary record, Proposal for Decision and Commission Final Order in GUD No. 10170 (and consolidated cases), *Statement of Intent filed by Atmos Energy Corp., to Increase Gas*

Utility Rates within the Unincorporated Areas Served by the Atmos Energy Corp., Mid-Tex Division.

29. The record in this proceeding was closed on April 15, 2015.

RRM Tariff

30. Pursuant to the terms of the RRM Tariff, every year the company may request an adjustment (RRM Adjustment) based upon a filing made no later than March 1st of each year. The date of the filing is referred to as the *Filing Date*.

31. The RRM Adjustment is based upon data reflected in company's books and records during the period identified in the RRM Tariff as the *Test Period*. The *Test Period* is defined as the twelve-months ending December 31st of each preceding calendar year. It is synonymous with the term Test Year used in this case and defined in **Finding of Fact No. 14.**

32. The effective date of the adjustment, referred to as *Effective Date* within the RRM Tariff, is June 1st of each year.

33. The RRM Tariff requires that the RRM Adjustment be based upon a system-wide cost of service (System – Wide COS).

34. The RRM tariff requires that the RRM Adjustment be based upon the following formula:

$$System - Wide\ COS = OM + DEP + RI + TAX + CD + ADJ$$

35. The RRM Tariff defines OM as all reasonable and necessary *operation and maintenance expenses* from the Test Period adjusted for known and measurable items and prepared consistent with the rate making treatments approved in the Final Order issued in GUD No. 10170. Known and measurable adjustments shall be limited to those changes that have occurred prior to the filing date March 1, 2013. OM may be adjusted for atypical and non-recurring items. Shared Services allocation factors shall be recalculated each year based on the latest component factors used during the Test Year, but the methodology will be that approved in the Final Order issued in GUD No. 10170.

36. The RRM Tariff defines DEP as *depreciation* expense calculated at depreciation rates approved in the Final Order issued in GUD No. 10170.

37. The RRM Tariff defines RI as *return on investment* calculated by the pretax return of the company multiplied by rate base at Test Year end.

A. The RRM Tariff requires that rate base be prepared consistent with the rate making treatments approved in the Final Order issued in GUD No. 10170, except that no post Test Year adjustments will be permitted. Regulatory adjustments due to prior regulatory rate base adjustment disallowances are to be maintained. Cash working capital will be calculated using the lead/lag days approved in the Final Order issued in GUD No. 10170. With respect to pension and other post-employment benefits, the company will record a regulatory asset or liability for these costs until the amounts are included in the next annual rate adjustment implemented under the RRM Tariff. The RRM Tariff requires that each year the utility's filing will clearly state the level of pension and other postemployment benefits recovered in rates.

B. Pretax return is the company's weighted average cost of capital before income taxes. The company's weighted average cost of capital is calculated using the methodology from the Final Order in GUD No. 10170 including the company's actual capital structure and long term cost of debt as of the Test Year end (adjusted for any known and measurable changes) and the return on equity from the Final order. In no event will the percent of equity exceed 55%.

38. The RRM Tariff defines TAX as *income tax and taxes other than income tax* from the Test Period adjusted for known and measurable changes occurring after the Test Year and before March 1, 2014, and prepared consistent with the rate making treatment approved in the Final Order of GUD No. 10170.

39. The RRM Tariff defines CD as interest on *customer deposits*.

40. The RRM Tariff defines ADJ as downward adjustment to the overall, System-Wide test year cost of service in the amount of $3,000,000 and adjusted by a percentage equal to the total percentage increase in base-rate revenue sought pursuant to the RRM Tariff.

Books and Records

41. Atmos Energy established that the utility maintains its books and records in accordance with the Federal Energy Regulatory Commission's (FERC) Uniform System of Accounts prescribed for Natural Gas Companies.

42. Atmos Energy has established that the utility has fully complied with the books and records requirements of Rule 7.310 and the amounts included therein are therefore subject to the presumption encapsulated in Rule 7.503 that these amounts are reasonable and necessary.

Shared Services Unit Allocation

43. Atmos Energy Corporation consists of seven distribution utilities, a regulated pipeline and various subsidiaries.

44. Atmos Energy has an operating division, Atmos Pipeline – Texas, which consists of a regulated intrastate pipeline that operates only within Texas.

45. Each of Atmos Energy's utility divisions has its own divisional office that is responsible for the day-to-day operations that are unique to that division.

46. The company's corporate office is located in Dallas, Texas, and provides services such as accounting, legal, human resources, rates administration, procurement, gas supply, information technology, and customer care.

47. Several functions that are shared among the divisions are handled by the company's Shared Services Unit (SSU).

48. These centralized services, or Shared Services, include customer support call centers and are located in Amarillo and Waco, Texas, which are shared by the company's distribution operating divisions.

49. The utility operations in the Mid-Tex Division operates in over 440 cities, towns, and unincorporated areas.

50. Technical and support services are provided to the operating divisions by centralized shared services departments primarily located at the Atmos headquarters in Dallas.

51. The collective shared services departments are referred to as the Shared Services Unit (SSU).

52. The centralized functions provided by the Shared Services Unit include, but are not limited to, accounting, gas supply, human resources, information, technology, legal, rates and customer support.

53. The Shared Services Unit is comprised of two divisions, as follows: (a) Shared Services – Customer Support (sometimes referred to as "SSU Customer Support"), which provides functions that include billing, customer call functions and customer support related functions; and (b) Shared Services – General Office (sometimes referred to as "SSU General Office"), which provides functions that include accounting, human resources, legal, rates, risk management and others.

54. The company's Cost Allocation Manual establishes a reasoned methodology for the allocation of costs among the company's divisions.

55. The company's Cost Allocation Manual has been approved in several of the jurisdictions where Atmos Energy provides service and ensures a fair and proportionate allocation of costs.

56. The cost allocation manual requires that certain costs be allocated on the company's general ledger utilizing the allocation methodologies described in detail in the manual.

57. Shared services that are not allocated on the company's general ledger are allocated based upon a Composite Factor (Composite Factor) or Customer Factor (Customer Factor).

58. The Composite Factor was derived based upon a four-factor formula comprised of the simple average of the relative percentage of gross plant in service, the relative percentages of the average number of customers, the relative percentages of direct operating and maintenance expenses for each of the company's operating divisions, and operating income.

59. The use of the four-factor formula was first required by the Commission in GUD No. 9670 and its use was affirmed in GUD Nos. 9762, 9869, 10000, and 10170.

60. The Customer Factor is derived based on the average number of customers in each operating division that receives allocable costs for services provided.

Operation and Maintenance Expenses

61. The overall operation and maintenance expense requested by Atmos in this case was $163,331,251.

62. Atmos has not established that the operation and maintenance request was just and reasonable.

63. The operation and maintenance request reflected in the attached Schedule F-1 is just and reasonable.

Shared Services

64. The allocation of the shared services reflected in the attached Schedule WP_F-5.2 is just and reasonable

65. SSU Cost Center 1131 – Dallas Media Relations, tracks costs that are associated with communicating customer service and safety messages to the media, business, and industry leaders. Costs included in SSU Cost Center 1131 are associated with crisis communications functions including training staff on media relations; interviews, press conferences, and press queries to better inform the public and customers in a crisis. Costs that are tracked in this cost center are also associated with video creation and dissemination to the public to educate customers and stakeholders on the environmental, safety and reliability benefits of natural gas.

66. The company the cost center expenses incurred in relation to communicating customer service and safety messages to the media, business, and industry leaders. Furthermore, the costs included in SSU Cost Center 1131 are associated with training in the context of crisis communications.

67. In the large area served by Atmos Energy, Mid-Tex Division there may be a weather related crises, a crisis from occasioned by a third-party, or communications to the public and customers that are necessitated by repairs, relocations or replacement of infrastructure.

68. The costs included in SSU Cost Center 1131 are reasonable and necessary expenses for a utility that provides natural gas service.

69. <u>SSU Cost Center 1205 – Senior Vice-President (SVP) Utility Operations</u> tracks expenses of the SVP of Utility Operations. The company began using Cost Center 1205 in October 2013 to separately track costs related to the SVP of Utility Operations

70. Atmos Energy has changed the rate-making treatment of the expense of the SVP of Utility Operations. Prior to this filing, expenses of the SVP of Utility Operations were treated the same as the expenses of the President and CEO.

71. The company changed the rate-making treatment applicable to the expenses of the SVP by treating those expenses differently than the expenses of the President and CEO.

72. In order to maintain the same rate-making treatment that was approved in GUD No. 10170, Atmos Energy must allocate the expenses of the SVP of Utility Operations in the same manner as the allocation of expenses of the President and CEO.

73. <u>SSU Cost Center 1227 – Customer Program Management</u> captures the costs of managing ongoing customer service measurement, quality assurance, continuous improvements and resolution of escalated customer complaints. This includes the cost of ongoing customer surveys and user acceptance testing.

74. The capitalization ratio for Cost Center 1227 – Customer Program Management was established using the methodology approved in GUD No. 10170.

75. Changes in the capitalization ratio were due, in part, to the decrease in capital support activities related to the Customer Service and Billing System project that was placed in service in May 2013. The evidence in the record established that the capitalization ratio for this account is just and reasonable.

76. <u>SSU Cost Center 1954 – Dallas Culture Council</u> captures expenses incurred by the Culture Council, whose purpose it is to sustain and strengthen a unified culture at Atmos Energy that promotes appreciation and respect for differences among Atmos Energy employees.

77. Prior to 2011, the Culture Council was called the Diversity Council. The Diversity Council was started in 1998 and the costs of the Diversity Council were included in SSU Cost Center 1401, Dallas Employment & Employee Relations.

78. Expenses related to the functions of the Culture Council, previously recorded in Cost Center 1401, were removed from that cost center and were recorded in a separate cost center, entitled Dallas Culture Council.

79. This category of expense has previously been included in rates in GUD Nos. 9670, 9762, 9869, 10000, and 10170.

80. The accounting treatment of this category of expense is the same as approved in the Final Order in GUD No. 10170.

81. Atmos Energy has established that expenses of the SSU Cost Center 1954 – Dallas Culture Council are just and reasonable as promoting a strong and unified culture is an important component of building teamwork among employees.

Short-Term Incentive Compensation

82. The company provides short-term incentive compensation packages to all employees.

83. The company offers two short-term incentive plans: Variable Pay Plans (VPP) and Management Incentive Plans (MIP).

84. Employees undergo a performance evaluation annually to determine if they are eligible to receive an additional compensation pursuant to the short-term incentive compensation plans.

85. Executive and management employees are eligible for VPP. This plan provides eligible employees an opportunity to earn a cash-based incentive award based upon the company achieving a specified financial objective such as a return on equity (ROE) or earnings-per-share (EPS).

86. MIP is an extension of VPP but is limited to a select group of executives and senior management employees responsible for directing and overseeing the day-to-day operations of the company. MIP provides the management team an opportunity to earn a cash-based incentive award based upon the company achieving the same VPP financial objective, expressed as EPS for fiscal year 2013.

87. VPP and MIP are available to employees in the Shared Services Unit and to direct employees of the Atmos Mid-Tex Division.

88. The total payout to eligible employees pursuant to these plans is added to the employee's base salary and becomes a part of the employee's total compensation.

89. The payout to eligible employees pursuant to the company's short-term incentive plans is determined based upon a two-step process. The first step requires that each employee level, or grade, be assigned a target percentage (Target Percentage).

90. The product of an employee's base salary and the Target Percentage determines the potential payout quantity.

91. The second step requires the calculation of the total MIP or VPP Payout. This is determined by applying a payout percentage (Payout Percentage) to the potential MIP or VPP payout.

92. As is evident from the range of the Payout Percentage, total MIP or VPP payout may be less than, equal to, or exceed the potential MIP or VPP payout.

93. The Payout Percentage is based upon the earnings per share (EPS) target established by Atmos Energy. For fiscal year 2013, Atmos Energy set an EPS range that included three levels: Threshold, Target, and Maximum. The Threshold level was set at an EPS of $2.35. The Payout Percentage that corresponded with the threshold level was 50%. The Target level was set at an EPS of $2.47. The Payout Percentage related to the Target level was 100%. The Maximum level was set at an EPS of $2.59. The Payout Percentage associated with the Maximum level was 200%.

94. The overall structure of the company's compensation plan was the same in GUD No. 10170; the ultimate payout depended upon both the Target Percentage and the Payout Percentage.

95. All costs related to incentive compensation are either *expensed* and included in the calculation of the operations and maintenance expense calculation of the company, or *capitalized* and included in the calculation of rate base

96. The capitalization ratio applied to incentive compensation expenses was calculated using the methodology applied in GUD No. 10170 and resulted in a test year capitalization ratio of 77.92% which is just and reasonable.

97. Consistent with Commission precedent in GUD No. 10170, Atmos Energy excluded the *expensed* portion of VPP and MIP expenses from the calculation of the cost of service in the RRM filing.

98. Consistent with Commission precedent in GUD No. 10170, Atmos Energy included the *capitalized* portion of VPP and MIP expenses in the calculation of the cost of service in the RRM filing.

99. In GUD No. 10170 the Commission found that the company's treatment of incentive compensation is consistent with prior precedent that balances the burden of the recovery of this expense between shareholders and customers by allowing recovery of the Atmos Mid-Tex Division and disallowing recovery of the Shared Services Unit expenses.

100. In GUD No. 10170 the Commission found that consistent treatment provides regulatory certainty and it is reasonable that the expenses be apportioned by applying the methodology approved in prior proceedings.

101. In GUD No. 10170, the Commission found that continued balancing of this expense by allowing recovery of Atmos Mid-Tex Division VPP, MIP, and Long Term Incentive Plan (LTIP) expense, Shared Services Unit LTIP expenses and disallowing recovery of Shared Services Unit expense VPP and MIP may not be reasonable in future proceedings.

102. This proceeding is limited by terms of the RRM Tariff that require application of the rate-making treatment's applied in GUD No. 10170. Nevertheless, as found in GUD No. 10170, it is reasonable that the company not be bound by prior proceeding in allocating the burdened of MIP, VPP, and LTIP expenses and it is reasonable that the company explore a balanced and transparent apportionment of the burden of these expenses in future Statement of Intent proceedings.

103. The company Target Percentage for Grade 5, 6, and 7 employees was 5% during the test year. The Target Percentage for Grades 6 and 7 was 7.5% during the test year.

104. Overall employee compensation remained within the 50th percentile of similarly situated companies.

105. The Target Percentage rates were based upon input from the company's compensation consultants.

106. The Target Percentages included in the incentive compensation program of the company is just and reasonable.

107. The actual EPS reported during the test year was $2.53. Based upon the Payout Percentage scale in effect at the time, the Payout Percentage would have been 150%.

108. The company instead elected to apply a Payout Percentage of 200%.

109. The application of a Payout Percentage of 200% is not just and reasonable and deviate from the company's incentive compensation program.

110. Evidence in the record indicates that the company disregarded the Percentage Payout that corresponded in the pre-established matrix.

111. Pursuant to the established matrix the company had determined that an EPS of $2.53 corresponded to a Payout Percentage of 150%.

112. The company offered no basis for deviating from the previously approved matrix and plan that was evaluated in GUD No. 10170.

113. It is reasonable to limit the incentive compensation Payout Percentage of 150% by adjusting the calculation of operations and maintenance expenses by $202,081 and adjusting rate base by $713,141.

114. It is reasonable to adjust the ADIT calculation included in the cost of service calculation if the overall incentive compensation proposed by Atmos Energy is adjusted and the adjustment reflected in the attached schedules is just and reasonable.

115. The evidence in the record established that the company's stock conversion program is just and reasonable.

Mains and Services Expenses

116. Atmos Energy established that test-year miscellaneous expenses for line locates, painting equipment, meters, and regulator, high pressure line cleaning, maintenance of service centers, right-of-way reclamation, pipeline integrity, and line locate adjustments were typical, recurring, just and reasonable.

117. Atmos Energy established that training expenses were just, reasonable and necessary.

118. The record established that the level of expenses related to training were higher during the test year than in prior years.

119. The RRM Tariff allows the inclusion of just and reasonable expenses that may be atypical.

Medical and Dental Benefits

120. The company's cost of service calculation included a total medical and dental benefit expense of $27,688,242. This included an actual test-year expense of $24,777,741 plus an adjustment of $2,910,501.

121. No party disputes the actual test-year level of expense.

122. All parties agree that an adjustment to the test-year level of expense must be made.

123. The $2,910,501 adjustment was calculated using the same rate-making methodology that was applied in GUD No. 10170.

Miscellaneous Expenses

124. The cost-of-service calculation included several miscellaneous expenses for service awards and the AtmoSpirit Program totaling $193,680.

125. The service award banquets are to recognize employees who have reached a milestone anniversary date and recognize the commitment and dedication of employees.

126. The AtmoSpirit training program is designed to encourage principles that are value based such as honesty, integrity, open communication, safety, customer service, and team work.

127. Rate-payers already contribute to the company's short-term incentive compensation expenses and these programs recognize and incentivize employees.

128. The expenses for the AtmoSpirit Program and service award banquets is duplicative.

129. The fundamental principles supported by AtmoSpirit Program are a baseline to any organization and employees and a reasonably prudent manager would dismiss employees who do not exhibit these principles.

Injuries and Damages

130. The cost-of-service calculation included an amount for annual recovery of portions of insurance deductibles for three events entitled as follows: Lutrell, Irving, and Oak Cliff.

131. The Commission investigated each incident and ultimately resolved each investigation without further action.

132. Inclusion of insurance deductibles in the cost-of-service calculation is just and reasonable.

133. It is just and reasonable for a prudent operator to maintain insurance coverage to appropriately limit the financial risk associated with unexpected events.

Discretionary Promotional Expenses

134. Expenses for participation in the International Builders' show, American Life Homes, Ben Johns and Legendary Lighting, and Bon Lilly Professional Promotions were advertising expenses and within the scope of rules of the Commission.

<u>Depreciation and Amortization Expenses</u>

135. Depreciation and amortization expense is typically based upon investment expenditures, determined to be just and reasonable, and included in the books and records of the company.

136. The company included in the calculation of depreciation and amortization expenses the costs of expenses that have been disallowed and previously been found to be not just, reasonable, or necessary to the provision of safe and reliable natural gas service.

137. It is unreasonable to recover depreciation or amortization expenses for expenses that are not just, reasonable, or necessary to the provision of safe and reliable natural gas service.

<u>Rate Base</u>

138. Atmos included a request for rate base totaling $1,793,764,627.

139. Atmos Energy has not established that the requested rate base was just and reasonable.

140. The rate base reflected in the attached Schedule B is just and reasonable.

Accumulated Deferred Income Taxes

141. Atmos Energy included a credit for accumulated deferred income taxes (ADIT) in its calculation of the cost of service totaling $342,579,156.

142. Atmos Energy included in its ADIT calculation a Net Operating Loss (NOL) Carryfoward debit totaling $395,636,604.

143. The ADIT calculation included in the filing continued an error regarding assignment of the 2005 IRS Audit adjustment between the utility and non-utility operations.

144. It is reasonable to correct the error. Correcting for the error reduces the utility's ADIT NOL Carryfowared before allocation to Atmos Mid-Tex by $805,591 for an adjusted utility ADIT NOL Carryfowared of $364,831,013.

145. The company's rate making treatment in this case of ADIT, including the NOL Carryforward component, is consistent with the methodology applied in GUD No. 10170.

146. Atmos Energy has established that its calculation of the ADIT asset related to NOLs is just and reasonable.

Rule 8.209 Regulatory Asset

147. On March 4, 2011, 16 Tex. Admin. Code § 8.209 (Rule 8.209) became effective.

148. On July 19, 2011, Atmos Energy submitted its Distribution Facilities' Replacement Plant ("Written Plan").

149. The Written Plan was approved the Commission on October 7, 2011.

150. Atmo Energy made filings pursuant to Rule 8.209(i) that included a list, by System ID, of the distribution facilities replaced during the prior calendar year; proposed revisions ot the Written Plan; and, proposed work plan for removal for replacement for the calendar year in which the filing was made. Those filings were made on March 13, 2012, March 15, 2013, and March 15, 2014. The filings were accepted by the Commission without modification.

151. The current filing includes a Rule 8.209 regulatory asset totaling $27,944,950.69 and it represents the deferred cost of the company claimed Rule 8.209 projects placed in service between October of 2011 and February of 2013.

152. The rate-making treatment of the Rule 8.209 regulatory asset is consistent with the treatment of the asset in GUD No. 10170.

153. The classification of projects outlined by Atmos Energy is consistent with the classification of projects adopted in GUD No. 10170.

154. No party challenged the reasonableness of the underlying assets included in the Rule 8.209 Regulatory asset and Atmos Energy has established that those purchases are just and reasonable.

155. Atmos Energy established that its treatment of the Rule 8.209 regulatory asset is just and reasonable.

156. Atmos Energy established that its replacement activities were consistent with Rule 8.209 and the company's Written Plan.

157. Atmos Energy compounded interest on the Rule 8.209 regulatory asset and this treatment is consistent with the filing made in GUD NO. 10170, the treatment applied in the first RRM Tariff filing previously approved by the municipalities, and the treatment applied in its interim rate adjustments at the Commission (GUD No. 10342).

158. There is no explicit regulatory guidance or interpretation that requires that interest on a regulatory asset account is calculated based upon simple interest.

159. Applying compound interest to the Rule 8.209 Regulatory Asset is inconsistent with other rate-making calculation; in other rate-case filing the utility applies a pre-tax return allowed on the utility's net rate-base investment.

160. It is reasonable, that in future filings Atmos Energy apply a simple interest rate to the Rule 8.209 Regulatory Asset.

Reimbursements for Plant in Service

161. Atmos Energy received $1,295,911 for relocations after the test period in this proceeding; the reimbursement was received during January and February 2014.

162. The RRM Tariff provides that rate base is to be prepared consistent with the rate-making treatments approved in the Final Order issued in GUD No. 10170, except that no post-test period adjustments are permitted.

163. The reimbursements for relocations totaling $1,295,911 occurred after the test-period in this proceeding and based upon the terms of the RRM Tariff it was reasonable for Atmos Energy to exclude them in the calculation of the cost of service in this proceeding.

164. The reimbursement will be captured in the next RRM filing.

Customer Service and Billing System

165. Atmos Energy installed a new Customer Service and Billing System (CSS) effective May 2013.

166. The CSS included a customer relationship management and billing system for utilities; it encompassed a scheduling system used to schedule all work order and dispatch orders to service technicians; it contained an application to assist in managing field work; and it also included a comprehensive financial and customer information reporting tool.

167. All parties agree that acquisition of the CSS was necessary and all parties agree that the initial cost estimate of $64 million dollars was just and reasonable.

168. The ultimate cost to complete and implement the CSS system was $78.9 million and of that amount $40,897,273 was allocated to Atmos Mid-Tex.

169. The final cost was $14.9 million dollars over the original estimate and was driven, in part, by the decision to change the implementation of the CSS system from a two-stage conversion to a single-stage conversion.

170. The decision to move from a two-phase implementation to a single-phase implementation occurred in the summer of 2011 during the design and analyze phase and the decision was memorialized in a memo dated September 8, 2011.

171. Atmos Energy has established that the a single-phase implementation resulted in a greater likelihood of successful implementation while reducing the impact to the customer.

Affiliate Expenses of Blueflame

172. Property insurance coverage is provided to Atmos Mid-Tex by an affiliate, Blueflame Insurance Services, Ltd ("Blueflame").

173. Blueflame allows Atmos Mid-Tex and other operating units to access reinsurance markets directly without going through the general property insurance markets.

174. The Commission has previously found, and Atmos Energy has established in this case, that the costs of property insurance provided by Blueflame are reasonable and necessary and less than the coverage that could be purchased directly through a third-party insurer. Additionally, the prices charged to Atmos Mid-Tex by Blueflame are no higher than the prices Blueflame charges to other affiliates or divisions or to a nonaffiliated person for the same item or class of items.

175. The treatment of Blueflame in this proceeding is consistent with the rate-making treatment of this expense reflected in the Final Order issued in GUD No. 10170.

176. Atmos Energy has established that the insurance reserve held by Blueflame is necessary to protect the company against unforeseen events.

177. The record in this case established that an overall rate of return of 8.8% is just and reasonable.

178. Atmos Energy established that an overall capital structure that includes 45% long-term debt and 55% common equity is just and reasonable.

Rate of Return

179. The record in this case established that a return on equity of 10.5% and a cost of debt of 6.23% is just and reasonable.

180. The calculation of the cost of debt properly included the impact of the issuance of additional common equity capital in February of 2014, prior to the filing date in this proceeding.

181. The calculation of the cost of debt properly excluded the refinance of the company's currently outstanding 4.95% Senior Notes the were due for repayment October 15, 2014.

Other Revenues

182. It is reasonable to annualize the deferred payment penalty to take into consideration the relationship between monthly sales revenue and late payments in the calculation of revenues from forfeited discounts.

183. The company has established that its calculation of service order revenues is just and reasonable.

184. The company has established that the methodology for calculating the downward adjustment is just and reasonable and the adjustment reflected in the attached schedules is just and reasonable.

Overall System-wide Revenue Requirement and Rates

185. The record in this case established that an overall system-wide revenue requirement of $512,072,965 is just and reasonable.

186. The rates set out below are just and reasonable:

Atmos Mid-Tex Rate
(Incorporated Areas – Excluding City of Dallas

Customer Class	*Customer Charge*	*Consumption Charge*
Residential	*$18.20*	*$0.08738*
Commercial	*$38.50*	*$0.07650*
Industrial and Transportation	*$675.00*	*$0.27970* *$0.20490* *$0.04400*

CONCLUSIONS OF LAW

1. Atmos Energy Corp., Mid-Tex Division, (Atmos Energy, Atmos, or company) is a Gas Utility as defined in TEX. UTIL. CODE ANN. §101.003(7) (Vernon 2007 and Supp. 2014) and §121.001(Vernon 2007) and is therefore subject to the jurisdiction of the Railroad Commission (Commission) of Texas.

2. The Commission has jurisdiction over this proceeding pursuant to TEX. UTIL. CODE ANN. §§ 102.001, 103.022, 103.054, & 103.055, 104.001, 104.001 and 104.201 (Vernon 2007 and Supp. 2014).

3. This proceeding was conducted in accordance with the requirements of the Gas Utility Regulatory Act (GURA), and the Administrative Procedure Act, TEX. GOV'T CODE ANN. §§ 2001.001 *et seq*. (Vernon 2008 and Supp. 2014) (APA).

4. In accordance with TEX. UTIL. CODE ANN. §104.103 (Vernon 2007 and Supp. 2014), 16 TEX. ADMIN. CODE ANN. §§ 7.230 and 7.235, and the provisions of the RRM Tariff, adequate notice was properly provided.

5. Atmos has established that the company's books and records conform with 16 TEX. ADMIN. CODE § 7.310 to utilize the Federal Energy Regulatory Commission's (FERC) Uniform System of Accounts (USOA) prescribed for natural gas companies and Atmos is thus entitled to the presumption that the amounts included therein are reasonable and necessary in accordance with Commission Rule 7.503.

6. In this proceeding, Atmos has the burden of proof under TEX. UTIL. CODE ANN. §104.008 (Vernon 2007 and Supp. 2014) to show that the proposed rate changes are just and reasonable.

7. A utility must comply with the terms of the filed tariff. Utilities may not charge rates or provide services other than those properly filed with the appropriate regulatory authority. The published tariffs and the constraints related to those tariffs govern the obligations of a utility and provide predictability and certainty. *CenterPoint Energy Entex v. R.R. Comm'n of Tex.*, 208 S.W.3rd 608 (Tex. – Austin 206, pet. dism'd).

8. The municipally-approved RRM Tariff applies to the filing made by Atmos Energy.

9. The RRM Tariff is analogous to the Cost of Service Adjustment (COSA) tariff considered by the Supreme Court in *Texas Coast Utilities Coalition v. Railroad Commission of Texas,* 423 S.W.3rd 355 (Tex. 2014).

10. In general, the RRM Tariff requires that any adjustment request filed pursuant to that tariff be consistent with the rate-making treatments approved in GUD No. 10170. The RRM Tariff requires that the filing be made in the same general format as the cost of service model and relied-upon files upon which the Final Order in GUD No. 10170 was based. The pronouncement of the RRM Tariff with regards to the precedent in GUD No.

10170 requires consideration of both hard copies of schedules submitted and electronic copies of the schedules submitted in GUD No. 10170. The underlying evidence that was considered and admitted in GUD No. 10170 is, therefore, relevant to this proceeding.

11. The RRM Tariff requires that operations and maintenance expenses be prepared consistent with the Final Order in GUD No. 10170 and that those expenses may be adjusted for known and measurable changes that occur prior to the filing date. Furthermore, the RRM Tariff does not necessarily require that atypical and non-recurring items be removed from the calculation of the operation and maintenance expenses.

12. The RRM Tariff requires that rate base be prepared consistent with the rate-making treatments approved in the Final Order in GUD No. 10170. The RRM Tariff precludes any post-test-year adjustments to rate base.

13. The RRM Tariff provides that the company shall have the right to appeal the municipality's action to the Commission. Upon the filing of an appeal of the municipal order relating to an annual RRM filing with the Commission, the municipality may not oppose the implementation of the Company's proposed rates. The rates are subject to refund and the RRM Tariff provides that the refund shall be limited to and determined based upon the resolution of the disputed adjustment in a final order issued in the appeal filed by Atmos Energy.

14. Rule 8.209, entitled *Distribution Facilities Replacement*, addresses safety concerns related to distribution facilities, including, but no limited to, steel service lines. The rule prescribes the minimum requirements by which all operators develop and implement a risk-based program for the removal or replacement of distribution facilities, including steel service lines. 16 *Tex. Admin. Code* § 8.209.

15. Rule 8.209 allows the creation of a regulatory asset for expenses related to any replacements undertaken pursuant to the rule. An operator who undertakes a capital improvement project pursuant to Rule 8.209 may establish one or more designated regulatory asset accounts in which to record capital costs incurred and any expenses incurred by the operator in connection with the acquisition, installation, or operation of facilities. 16 *Tex. Admin. Code* § 8.209.

16. The operator may then record interest on the balance in the designated distribution facility replacement accounts based on the pretax cost of capital last approved for the utility. It is reasonable that interest on the regulatory asset account be on a simple annual basis and not compounded monthly. 16 *Tex. Admin. Code* § 8.209.

17. The utility must reduce balances in the designated distribution facility replacement accounts by the amounts that are included in and recovered through rates established in *Statement of Intent* filings or other rate adjustment mechanism. 16 *Tex. Admin. Code* § 8.209.

18. Rule 8.209(c) required that by August 1, 2011, an operator must create and submit a written plan to the Commission's Pipeline Safety Division which includes the operator's procedures for implementing the requirements of the rule. 16 *Tex. Admin. Code* § 8.209.

19. Replacement activities undertaken by Atmos Energy were consistent with the company's written plan and Rule 8.209. System upgrades, relocations, and transmission line replacement are consistent with Rule 8.209. 16 *Tex. Admin. Code* § 8.209.

20. Rule 8.209(i) requires the utility to file a list, by System ID, of the distribution facilities replaced during the prior calendar year; proposed revisions of the operator's written plan; and, proposed work plan for removal for replacement for the current calendar year. 16 *Tex. Admin. Code* § 8.209.

21. The courts have defined "prudent" in the context of utility expenditures as follows: The exercise of that judgment and the choosing of that select range of options which a reasonable utility manager would exercise or choose in the same or similar circumstances given the information or alternative at the point in time such judgment is exercised. *Gulf States Utilities v. Public Utility Comm'n of Texas*, 841 S.W.2d 459 (Tex. App. – Austin 1992, writ denied).

22. Prudence may be established in one of two ways. First, prudence may be established through contemporaneous documentation of the decision-making process, thereby enabling the Commission to review the actual investigations and analysis leading to the utility's decision. Second, in the absence of contemporaneous documentation, prudence may be established through a retrospective analysis. Through independent retrospective analysis, the utility must demonstrate that a reasonable utility manager, having investigated all relevant factors and alternatives as they existed at the time the decision was made, would have found the utility's actual decision a reasonably prudent course. *Gulf States Utilities v. Public Utility Comm'n of Texas*, 841 S.W.2d 459 (Tex. App. – Austin 1992, writ denied)

23. Atmos failed to meet its burden of proof in accordance with the provisions of TEX. UTIL. CODE ANN. §104.008 (Vernon 2007 and Supp. 2014) on the elements of its requested rate increase identified in this order.

24. The revenue, rates, rate design, and service charges proposed by Atmos are not found to be just and reasonable, not unreasonably preferential, prejudicial, or discriminatory, and are not sufficient, equitable, and consistent in application to each class of consumer, as required by TEX. UTIL. CODE ANN. §104.003 (Vernon 2007 and Supp. 2014).

25. The revenue, rates, rate design, and service charges proposed by Atmos, as amended by the Commission and identified in the schedules attached to this order, are just and reasonable, are not unreasonably preferential, prejudicial, or discriminatory, and are sufficient, equitable, and consistent in application to each class of consumer, as required by TEX. UTIL. CODE ANN. (Vernon 2007 and Supp. 2014) and comply with the provisions of the municipally-approved RRM Tariff.

26. The Commission has assured that the rates, operations, and services established in this docket are just and reasonable to customers and to the utilities in accordance with the stated purpose of the Texas Utilities Code, Subtitle A, expressed under TEX. UTIL. CODE ANN. §101.002 (Vernon 2007) and comply with the provisions of the municipally-approved RRM Tariff.

27. The overall revenues as established by the findings of fact and attached schedules are reasonable; fix an overall level of revenues for Atmos that will permit the company a reasonable opportunity to earn a reasonable return on its invested capital used and useful in providing service to the public over and above its reasonable and necessary operating expenses, as required by TEX. UTIL. CODE ANN. § 104.051 (Vernon 2007 and Supp. 2012); and otherwise comply with Chapter 104 of the Texas Utilities Code Annotated.

28. The revenue, rates, rate design, and service charges proposed will not yield to Atmos more than a fair return on the adjusted value of the invested capital used and useful in rendering service to the public, as required by TEX. UTIL. CODE ANN. § 104.052 (Vernon 2007 and Supp. 2012) and comply with the provisions of the municipally-approved RRM Tariff.

29. The rates established in this docket comport with the requirements of TEX. UTIL. CODE ANN. §104.053 (Vernon 2007 and Supp. 2014), comply with the municipally-approved RRM Tariff, and are based upon the adjusted value of invested capital used and useful, where the adjusted value is a reasonable balance between the original cost, less depreciation, and current cost, less adjustment for present age and condition.

30. The rates established in this case comply with the affiliate transaction standard set out in TEX. UTIL. CODE ANN. § 104.055 (Vernon 2007 and Supp. 2014). Namely, in establishing a gas utility's rates, the regulatory authority may not allow a gas utility's payment to an affiliate for the cost of a service, property, right or other item or for an interest expense to be included as capital cost or an expense related to gas utility service expect to the extent that the regulatory authority finds the payment is reasonable and necessary for each item or class of items as determined by the regulatory authority. That finding must include (1) a specific finding of reasonableness and necessity to each class of items allowed; and (2) a finding that the price to the gas utility is not higher than the prices charged by the supplying affiliate to its other affiliates or divisions or to a nonaffiliated person for the same item or class of items.

31. Rate case expenses for these consolidated proceedings will be considered by the Commission in accordance with TEX. UTIL. CODE ANN. §104.008 (Vernon 2007 and Supp. 2014), and 16 TEX. ADMIN. CODE §7.5530 (2013), in a separate proceeding in GUD No. 10365, *Rate Case Expenses Severed from GUD No. 10359.*

32. Atmos is required by 16 TEX. ADMIN. CODE §7.315 to file electronic tariffs incorporating rates consistent with this Order within thirty days of the date of this Order.

IT IS THEREFORE ORDERED that Atmos' proposed schedule of rates is hereby **DENIED.**

IT IS FURTHER ORDERED that the rates, rate design, and service charges established in the findings of fact and conclusions of law and shown on the attached Schedules for Atmos are **APPROVED.**

IT IS FURTHER ORDERED that, in accordance with 16 TEX. ADMIN. CODE §7.315, within 30 days of the date this Order is signed, Atmos shall electronically file tariffs and rate schedules with the Gas Services Division. The tariffs shall incorporate rates, rate design, and service charges consistent with this Order, as stated in the findings of fact and conclusions of law and shown on the attached Schedules.

IT IS FURTHER ORDERED that in accordance with the provisions of the RRM Tariff Atmos Energy shall calculate refund to the Atmos Mid-Tex customers within the Affected Cities in accordance with the adjustments set forth herein no later than thirty days from the effective date of this order.

IT IS FURTHER ORDERED that within ninety days of calculating the refund amount Atmos Energy shall apply the refund as a one-time reduction to the affected customer bills.

IT IS FURTHER ORDERED that upon completion of the refund Atmos Energy shall file with each regulatory authority documentation evidencing the calculation and payment of the refund.

IT IS FURTHER ORDERED that all proposed findings of fact and conclusions of law not specifically adopted in this Order are hereby **DENIED.**

IT IS ALSO ORDERED that all pending motions and requests for relief not previously granted or granted herein are hereby **DENIED.**

This Order will not be final and effective until 20 days after a party is notified of the Commission's order. A party is presumed to have been notified of the Commission's order three days after the date on which the notice is actually mailed. If a timely motion for rehearing is filed by any party at interest, this order shall not become final and effective until such motion is overruled, or if such motion is granted, this order shall be subject to further action by the Commission. Pursuant to TEX. GOV'T CODE ANN. §2001.146(e), the time allotted for Commission action on a motion for rehearing in this case prior to its being overruled by operation of law, is hereby extended until 90 days from the date the order is served on the parties.

SIGNED this ____ day of June, 2015.

RAILROAD COMMISSION OF TEXAS

____
CHAIRMAN CHRISTI CRADDICK

____
COMMISSIONER DAVID PORTER

____
COMMISSIONER RYAN SITTON

ATTEST:

____
SECRETARY

RATE SCHEDULE:	R – RESIDENTIAL SALES	
APPLICABLE TO:	ALL CUSTOMERS IN THE MID-TEX DIVISION EXCEPT THE CITY OF DALLAS AND UNINCORPORATED AREAS	
EFFECTIVE DATE:	Bills Rendered on or after 06/01/2014	PAGE: 12

Application
Applicable to Residential Customers for all natural gas provided at one Point of Delivery and measured through one meter.

Type of Service
Where service of the type desired by Customer is not already available at the Point of Delivery, additional charges and special contract arrangements between Company and Customer may be required prior to service being furnished.

Monthly Rate
Customer's monthly bill will be calculated by adding the following Customer and Ccf charges to the amounts due under the riders listed below:

Charge	Amount
Customer Charge per Bill	$ 18.20 per month
Rider CEE Surcharge	$ 0.02 per month[1]
Total Customer Charge	$ 18.22 per month
Commodity Charge – All Ccf	$0.08738 per Ccf

Gas Cost Recovery: Plus an amount for gas costs and upstream transportation costs calculated in accordance with Part (a) and Part (b), respectively, of Rider GCR.

Weather Normalization Adjustment: Plus or Minus an amount for weather normalization calculated in accordance with Rider WNA.

Franchise Fee Adjustment: Plus an amount for franchise fees calculated in accordance with Rider FF. Rider FF is only applicable to customers inside the corporate limits of any incorporated municipality.

Tax Adjustment: Plus an amount for tax calculated in accordance with Rider TAX.

Surcharges: Plus an amount for surcharges calculated in accordance with the applicable rider(s).

Agreement
An Agreement for Gas Service may be required.

Notice
Service hereunder and the rates for services provided are subject to the orders of regulatory bodies having jurisdiction and to the Company's Tariff for Gas Service.

1 Reference Rider CEE - Conservation And Energy Efficiency as approved in GUD 10170. Surcharge billing effective July 1, 2013.

RATE SCHEDULE:	C – COMMERCIAL SALES	
APPLICABLE TO:	ALL CUSTOMERS IN THE MID-TEX DIVISION EXCEPT THE CITY OF DALLAS AND UNINCORPORATED AREAS	
EFFECTIVE DATE:	Bills Rendered on or after 06/01/2014	PAGE: 13

Application
Applicable to Commercial Customers for all natural gas provided at one Point of Delivery and measured through one meter and to Industrial Customers with an average annual usage of less than 30,000 Ccf.

Type of Service
Where service of the type desired by Customer is not already available at the Point of Delivery, additional charges and special contract arrangements between Company and Customer may be required prior to service being furnished.

Monthly Rate
Customer's monthly bill will be calculated by adding the following Customer and Ccf charges to the amounts due under the riders listed below:

Charge	Amount
Customer Charge per Bill	$ 38.50 per month
Rider CEE Surcharge	$ 0.10 per month[1]
Total Customer Charge	$ 38.60 per month
Commodity Charge – All Ccf	$ 0..07650 per Ccf

Gas Cost Recovery: Plus an amount for gas costs and upstream transportation costs calculated in accordance with Part (a) and Part (b), respectively, of Rider GCR.

Weather Normalization Adjustment: Plus or Minus an amount for weather normalization calculated in accordance with Rider WNA.

Franchise Fee Adjustment: Plus an amount for franchise fees calculated in accordance with Rider FF. Rider FF is only applicable to customers inside the corporate limits of any incorporated municipality.

Tax Adjustment: Plus an amount for tax calculated in accordance with Rider TAX.

Surcharges: Plus an amount for surcharges calculated in accordance with the applicable rider(s).

Agreement
An Agreement for Gas Service may be required.

Notice
Service hereunder and the rates for services provided are subject to the orders of regulatory bodies having jurisdiction and to the Company's Tariff for Gas Service.

1 Reference Rider CEE - Conservation And Energy Efficiency as approved in GUD 10170. Surcharge billing effective July 1, 2013.

RATE SCHEDULE:	T – TRANSPORTATION	
APPLICABLE TO:	ALL CUSTOMERS IN THE MID-TEX DIVISION EXCEPT THE CITY OF DALLAS AND UNINCORPORATED AREAS	
EFFECTIVE DATE:	Bills Rendered on or after 06/01/2014	PAGE: 16

Application
Applicable, in the event that Company has entered into a Transportation Agreement, to a customer directly connected to the Atmos Energy Corp., Mid-Tex Division Distribution System (Customer) for the transportation of all natural gas supplied by Customer or Customer's agent at one Point of Delivery for use in Customer's facility.

Type of Service
Where service of the type desired by Customer is not already available at the Point of Delivery, additional charges and special contract arrangements between Company and Customer may be required prior to service being furnished.

Monthly Rate
Customer's bill will be calculated by adding the following Customer and MMBtu charges to the amounts and quantities due under the riders listed below:

Charge	Amount
Customer Charge per Meter	$ 675.00 per month
First 0 MMBtu to 1,500 MMBtu	$ 0.27970 per MMBtu
Next 3,500 MMBtu	$ 0.20490 per MMBtu
All MMBtu over 5,000 MMBtu	$ 0.04400 per MMBtu

Upstream Transportation Cost Recovery: Plus an amount for upstream transportation costs in accordance with Part (b) of Rider GCR.

Retention Adjustment: Plus a quantity of gas as calculated in accordance with Rider RA.

Franchise Fee Adjustment: Plus an amount for franchise fees calculated in accordance with Rider FF. Rider FF is only applicable to customers inside the corporate limits of any incorporated municipality.

Tax Adjustment: Plus an amount for tax calculated in accordance with Rider TAX.

Surcharges: Plus an amount for surcharges calculated in accordance with the applicable rider(s).

Imbalance Fees
All fees charged to Customer under this Rate Schedule will be charged based on the quantities determined under the applicable Transportation Agreement and quantities will not be aggregated for any Customer with multiple Transportation Agreements for the purposes of such fees.

Monthly Imbalance Fees
Customer shall pay Company the greater of (i) $0.10 per MMBtu, or (ii) 150% of the difference per MMBtu between the highest and lowest "midpoint" price for the Katy point listed in *Platts Gas Daily* in the table entitled "Daily Price Survey" during such month, for the MMBtu of Customer's monthly Cumulative Imbalance, as defined in the applicable Transportation Agreement, at the end of each month that exceeds 10% of Customer's receipt quantities for the month.

RATE SCHEDULE:	T – TRANSPORTATION	
APPLICABLE TO:	ALL CUSTOMERS IN THE MID-TEX DIVISION EXCEPT THE CITY OF DALLAS AND UNINCORPORATED AREAS	
EFFECTIVE DATE:	Bills Rendered on or after 06/01/2014	PAGE: 17

Curtailment Overpull Fee
Upon notification by Company of an event of curtailment or interruption of Customer's deliveries, Customer will, for each MMBtu delivered in excess of the stated level of curtailment or interruption, pay Company 200% of the midpoint price for the Katy point listed in *Platts Gas Daily* published for the applicable Gas Day in the table entitled "Daily Price Survey."

Replacement Index
In the event the "midpoint" or "common" price for the Katy point listed in *Platts Gas Daily* in the table entitled "Daily Price Survey" is no longer published, Company will calculate the applicable imbalance fees utilizing a daily price index recognized as authoritative by the natural gas industry and most closely approximating the applicable index.

Agreement
A transportation agreement is required.

Notice
Service hereunder and the rates for services provided are subject to the orders of regulatory bodies having jurisdiction and to the Company's Tariff for Gas Service.

Special Conditions
In order to receive service under Rate T, customer must have the type of meter required by Company. Customer must pay Company all costs associated with the acquisition and installation of the meter.

RATE SCHEDULE:	I – INDUSTRIAL SALES	
APPLICABLE TO:	ALL CUSTOMERS IN THE MID-TEX DIVISION EXCEPT THE CITY OF DALLAS AND UNINCORPORATED AREAS	
EFFECTIVE DATE:	Bills Rendered on or after 06/01/2014	PAGE: 14

Application
Applicable to Industrial Customers with a maximum daily usage (MDU) of less than 3,500 MMBtu per day for all natural gas provided at one Point of Delivery and measured through one meter. Service for Industrial Customers with an MDU equal to or greater than 3,500 MMBtu per day will be provided at Company's sole option and will require special contract arrangements between Company and Customer.

Type of Service
Where service of the type desired by Customer is not already available at the Point of Delivery, additional charges and special contract arrangements between Company and Customer may be required prior to service being furnished.

Monthly Rate
Customer's monthly bill will be calculated by adding the following Customer and MMBtu charges to the amounts due under the riders listed below:

Charge	Amount
Customer Charge per Meter	$ 675.00 per month
First 0 MMBtu to 1,500 MMBtu	$ 0.27970 per MMBtu
Next 3,500 MMBtu	$ 0.20490 per MMBtu
All MMBtu over 5,000 MMBtu	$ 0.04400 per MMBtu

Gas Cost Recovery: Plus an amount for gas costs and upstream transportation costs calculated in accordance with Part (a) and Part (b), respectively, of Rider GCR.

Franchise Fee Adjustment: Plus an amount for franchise fees calculated in accordance with Rider FF. Rider FF is only applicable to customers inside the corporate limits of any incorporated municipality.

Tax Adjustment: Plus an amount for tax calculated in accordance with Rider TAX.

Surcharges: Plus an amount for surcharges calculated in accordance with the applicable rider(s).

Curtailment Overpull Fee
Upon notification by Company of an event of curtailment or interruption of Customer's deliveries, Customer will, for each MMBtu delivered in excess of the stated level of curtailment or interruption, pay Company 200% of the midpoint price for the Katy point listed in *Platts Gas Daily* published for the applicable Gas Day in the table entitled "Daily Price Survey."

Replacement Index
In the event the "midpoint" or "common" price for the Katy point listed in *Platts Gas Daily* in the table entitled "Daily Price Survey" is no longer published, Company will calculate the applicable imbalance fees utilizing a daily price index recognized as authoritative by the natural gas industry and most closely approximating the applicable index.

RATE SCHEDULE:	I – INDUSTRIAL SALES	
APPLICABLE TO:	ALL CUSTOMERS IN THE MID-TEX DIVISION EXCEPT THE CITY OF DALLAS AND UNINCORPORATED AREAS	
EFFECTIVE DATE:	Bills Rendered on or after 06/01/2014	PAGE: 15

Agreement
An Agreement for Gas Service may be required.

Notice
Service hereunder and the rates for services provided are subject to the orders of regulatory bodies having jurisdiction and to the Company's Tariff for Gas Service.

Special Conditions
In order to receive service under Rate I, Customer must have the type of meter required by Company. Customer must pay Company all costs associated with the acquisition and installation of the meter.

ATTACHMENT 2

EXAMINERS' MODEL

File Date: May 30, 2014

GUD No. 10359 et al. Rate Schedules

based upon

ATMOS ENERGY CORP., MID-TEX DIVISION
RATE REVIEW MECHANISM TARIFF APPEAL
TEST YEAR ENDING DECEMBER 31, 2013

Totals may vary due to rounding.

Atmos Energy Corporation, Mid-Tex Division
2014 RRM - Summary of Adjustments - Original Filing to Appeal
Test Year Ending December 31, 2013

Line No.	Adjustment Description (a)	Amount (b)
1	**February 28, 2014 RRM Filing Amount with Affected Cities**	$ 45,732,838
2		
3	Correction of calculation error on 4-factor formula for SSU allocations on Schedule C, WP_F-2.7 and WP_F-2.8	212,974
4	Removed negative margin non-tariffed customers included in Other Revenue on WP_J-2.1	(16,364)
5	Removed additional FERC Account 880 O&M expense on WP_F-2.8	(2,859)
6	Updated the Mid-Tex direct employee expense report adjustment to use December 2013 actuals which were estimated in original filing on WP_B-1 and WP_F-2.6	(9,423)
7	Corrected Rate I on WP_J-1 and WP_J-4 as the GCR Part A converted MCF to MMBTU twice	(172,985)
8	Removed additional employee expense report amounts on WP_B-1 and WP_F-2.6	(51,276)
9	Removed Boardroom Furniture purchased on SSU project 010.21028 from Plant in Service on Schedule C and Schedule D	(4,785)
10	Removed Fatigue Mitigation Equipment purchased on SSU projects 010.15591, 010.16824 and 010.18585 from Plant in Service on Schedule C and Schedule D	(3,403)
11	Removed Mid-Tex direct VPP awarded above payout matrix (i.e. Grades 1-4 from 4 to 3%; Grades 5-6 from 10 to 7.5%; Grade 7 from 15 to 11.25%) from expense on WP_F-2.8	(216,449)
12	Adjusted Rate Case Expense ADIT to separate into component amounts not previously identified (i.e. TX Rule 8.209 Deferral and Regulatory Asset Benefit Accrual); separated amounts not removed from ADIT on WP_B-6	(1,648,062)
13	Removed University of Oklahoma Foundation Membership on WP_F-2.10	(1,318)
14		
15	**May 30, 2014 Appeal Amount to the Railroad Commission of Texas**	$ 43,818,888

File Date: May 30, 2014

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File Date: May 30, 2014

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7	MATERIALS & SUPPLIES-ACCOUNTS 154 & 163	WP B-3
8	PREPAYMENTS-ACCOUNT 165	WP B-4
9	CUSTOMER DEPOSITS AND CUSTOMER ADVANCES FOR CONSTRUCTION	WP B-5
10	ACCUMULATED DEFERRED INCOME TAXES-ACCOUNTS 190/282/283 (1)	WP B-6
11	PENSION AND OTHER POSTEMPLOYMENT BENEFITS REGULATORY ASSET	WP B-7
12	PENSION AND OTHER POSTEMPLOYMENT BENEFITS REGULATORY ASSET	WP B-7.1
13	PENSION AND OTHER POSTEMPLOYMENT BENEFITS REGULATORY ASSET	WP B-7.2
14	PENSION AND OTHER POSTEMPLOYMENT BENEFITS REGULATORY ASSET	WP B-7.3
15	PENSION AND OTHER POSTEMPLOYMENT BENEFITS REGULATORY ASSET	WP B-7.4
16	PENSION AND OTHER POSTEMPLOYMENT BENEFITS REGULATORY ASSET	WP B-7.5
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18	BEGINNING BALANCE ACCUMULATED DEFERRED INCOME TAXES-ACCOUNTS 190/282/283 (1)	WP E-1
19	BASE LABOR ADJUSTMENT	WP F-2.1
20	MEDICAL AND DENTAL BENEFITS ADJUSTMENT	WP F-2.2
21	PENSIONS AND RETIREE MEDICAL BENEFITS ADJUSTMENT	WP F-2.3
22	PENSIONS AND RETIREE MEDICAL BENEFITS FOR CITIES APPROVAL	WP F-2.3.1
23	PROPERTY INSURANCE ADJUSTMENT	WP F-2.4
24	INJURIES AND DAMAGES ADJUSTMENT	WP F-2.5
25	EMPLOYEE EXPENSE ADJUSTMENT	WP F-2.6
26	SHARED SERVICES ("SSU") SERVICE-LEVEL FACTORS ADJUSTMENT	WP F-2.7
27	SHARED SERVICES ("SSU") COST CENTER FUNCTIONS	WP F-2.7.1
28	MISCELLANEOUS ADJUSTMENTS	WP F-2.8

ATMOS ENERGY CORP., MID-TEX DIVISION
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TEST YEAR ENDING DECEMBER 31, 2013

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30	RULE COMPLIANCE ADJUSTMENT	WP F-2.10
31	CUSTOMER CONSERVATION PROGRAM ADJUSTMENT	WP F-2.11
32	TAXES OTHER THAN INCOME TAX WORKPAPER	WP F-5.1
33	SHARED SERVICES ("SSU") ADJUSTED TOTAL LABOR ALLOCATED TO MID-TEX FOR PAYROLL TAX CALCULATION	WP F-5.2
34	SUMMARY PROOF OF REVENUE AT CURRENT RATES - BASE RATES	WP J-1
35	CALCULATION OF CURRENT REVENUES BY AREA - RATE R - BASE RATES	WP J-1.1
36	CALCULATION OF CURRENT REVENUES BY AREA - RATE C - BASE RATES	WP J-1.2
37	CALCULATION OF CURRENT REVENUES BY AREA - RATE I&T - BASE RATES	WP J-1.3
38	OTHER REVENUES	WP J-2
39	NON-STANDARD CONTRACT MARGINS	WP J-2.1
40	TYPICAL BILL COMPARISON - BASE RATES	WP J-3
41	AVERAGE BILL COMPARISON - BASE RATES	WP J-3.1
42	SUMMARY PROOF OF REVENUE AT PROPOSED RATES - BASE RATES	WP J-4
43	CALCULATION OF PROPOSED REVENUES BY AREA - RATE R - BASE RATES	WP J-4.1
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45	CALCULATION OF PROPOSED REVENUES BY AREA - RATE I&T - BASE RATES	WP J-4.3
46	PROPOSED TARIFF STRUCTURE	WP J-5

Decision Summary - GUD No. 10359

Revenue Requirement Requested: (Excluding FF and Rev Rel. Taxes - before RRM Adj)	$ 512,768,465	Revenue Requirement: (Excluding FF and Rev Rel. Taxes - before RRM Adj)	$512,072,965
		Total Adjustment to Revenue Requirment Calculation	$695,500
Increase in Revenues Requested (Including FF, Rev. Rel. Tax, & RRM Adj)	$ 43,818,888	Total Increase in Revenues Recommended (Including FF, Rev. Rel. Tax, & RRM Adj)	$42,958,631
		Total Adjustment to Increase Requested	$860,257

Comparison of Proposed and Recommend Rates

	Residential	Commercial	Industrial & Transportation
Proposed Customer Charge	$ 18.20	$ 38.50	$ 675.00
Recommended Customer Charge	$ 18.20	$ 38.50	$ 675.00
Proposed Consumption Charge	$ 0.08819	$ 0.07681	$ 0.28070 $ 0.20560 $ 0.04410
Recommended Consumption Charge	$ 0.08738	$ 0.07650	$ 0.27970 $ 0.20490 $ 0.04400

Adj. No.	PFD §	Description of Issue	Recommendation Adopt = 1, Deny =0	Schedule Impacted	Element Impacted	Revenue Requirement	Revenue Requirement Impact
		SSU Allocation (ACSC-Canady)					
1	10c	Cost Center 1131	0	WP F-2.7	I32	$ 512,691,804	$ 76,661
2	10d	Cost Center 1205 -39.49% (ACSC)	0	WP F-2.7	I54	$ 512,744,475	$ 23,990
		OR					
		Cost Center 1205 - 38.26% (Examiners' Alternative)	1	WP F-2.7	I54	$ 512,740,717	$ 27,748
3	10f	Cost Center 1227	0	WP F-2.7	G63, H63	$ 512,285,529	$ 482,935
4	10e	Cost Center 1954	0	WP F-2.7	I107	$ 512,767,203	$ 1,262
		O&M Expense Adjustment					
5	11a	Incentive Comp (ACSC-Canady)	0	Sch F-2	O53	$ 512,437,928	$ 330,537
		OR					
		Incentive Comp (ATM-Carver)	0	WP F-2.8 Sch F-5 WP F-2.8.1	E19, added row 10a E11 added worksheet	$ 512,446,523	$ 321,941
6	11b	Mains & Svc Expenses (ACSC-Canady)	0	Sch F-2	O15	$ 508,669,752	$ 4,098,713
		OR					
		Training Expense (Examiners' Alternative)	0	Sch F-2	O15	$ 512,596,542	$ 171,923

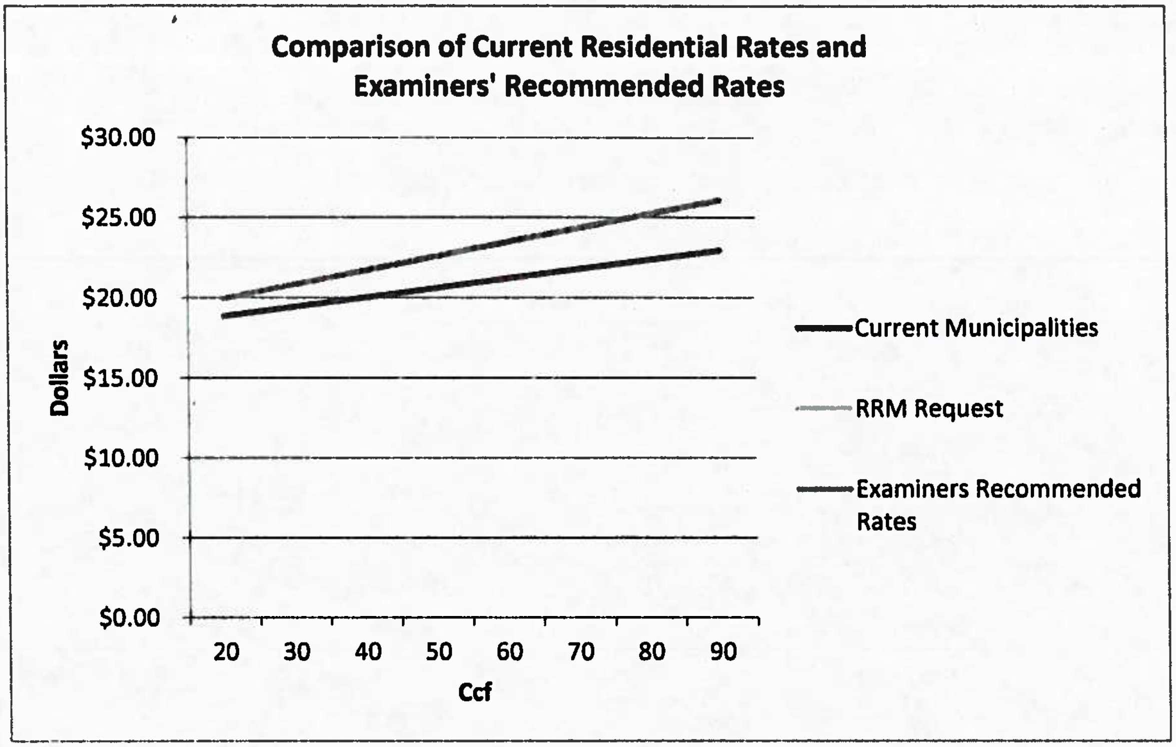
7	11c	Medical & Dental Benefits ATM Alternative 1 (ATM- Carver)	0	WP F-2.2	C9-C17	$	509,939,070	$	2,829,395
		OR							
		Medical & Dental Benefits ATM Alternative 2 (ATM- Carver)	0	Sch F-2	E49 & E53				
8	11d	Misc. Exp Adjustment (ACSC-Nalepa)	1	WP F-2.8 WP F-2.10	E10-E11, E36, E40-E42 E43-E49,F10-F16	$	512,571,724	$	196,741
9	11e	Injuries & Damages (ACSC-Nalepa)	0	WP F-2.5 WP -2.8	E11, E12 E10 & E11	$	512,107,829	$	660,635
10	11f	Discretionary Promotional Expenses (ATM-Brosch)	0	WP F-2.8	new row 36a	$	512,554,678	$	213,787
		Depreciation and Amortization Expense							
11	12	Amortization of Disallowed Project Costs (ATM-Carver)	1	Sch F-3 WP F-3.1	H49 added row 43	$	512,418,558	$	349,906
		Rate Base							
12	13c	Capitalized ACSC Incentive Comp. Flow-through (ACSC-Canady)	0	WP B-1	F16	$	512,516,719	$	251,746
					added row 8a and 8b				
13	13c	SSU Capitalized Portion of Removed Incentive Comp. (ACSC-Canady)	0	WP B-1	F17	$	512,624,642	$	143,823
14	13d	Adj. Incentive Comp. to 150% (Atmos)	1	WP B-1	F18	$	512,683,910	$	84,555
15	13e	ADIT - Flow-through impact related to inc. comp. adj. (ACSC-Canady)	0	WP B-6	D13	$	512,768,446	$	19
		OR							
		ADIT - Flowthrough impact related to inc. comp. adj. (Examiner Alternative)	1	WP B-6	D13	$	512,768,458	$	6
16	13e	ADIT NOL Carryforward Corrections (ACSC-Canady)	1	WP B-6	D93	$	512,731,920	$	36,545
17	13e	ADIT NOL Carryforward -Synchronization (ATM-Brosch)	0	WP B-6	D93 and new column (e)	$	508,286,070	$	4,482,394
18	13f	8.209 Adjustment - Removal of Reg. Asset (ACSC-Nalepa)	0	Sch C	F15-F23	$	508,605,800	$	4,162,665
		OR							
19	13f	Rule 8.209 Compound Interest (ATM-Carver)	0	Sch C WP C-1 WP B-6	F13-F24 D36	$	512,570,550	$	197,915
20	13g	Post TY Reimbursements (ACSC-Canady)	0	Sch C	F13, F24	$	512,575,754	$	192,711

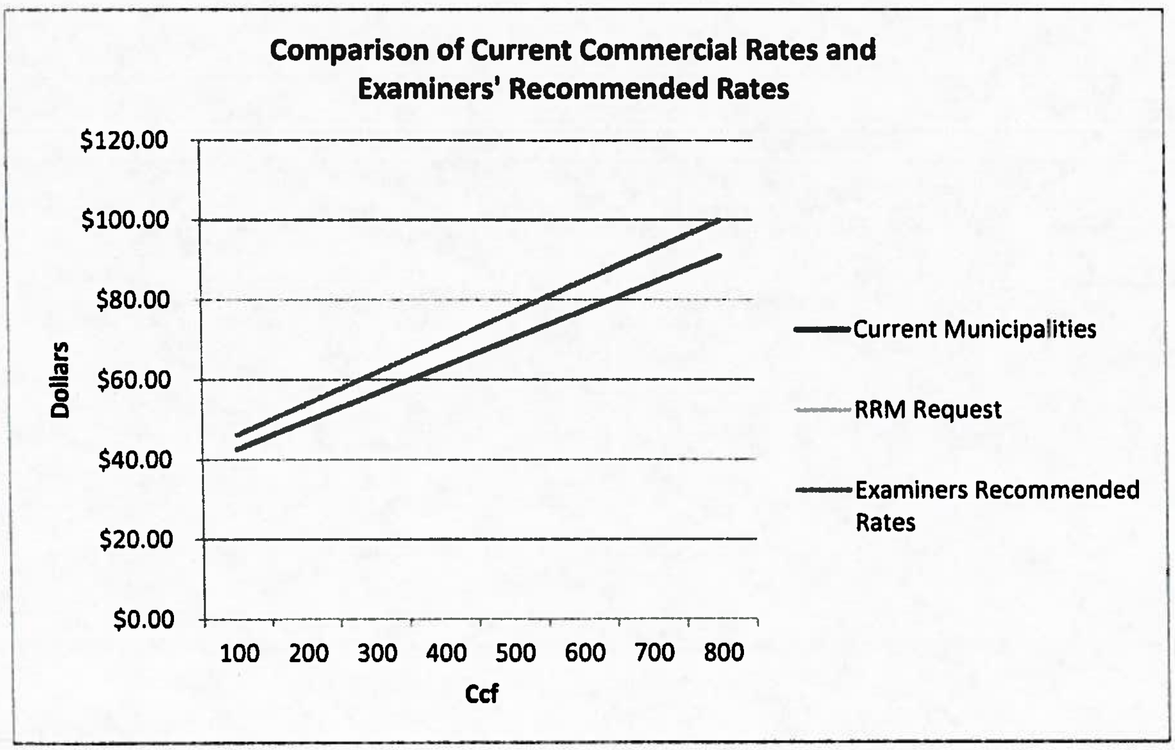
21	13h	Customer Service Software (ACSC-Nalepa)		0	Sch C	F74	$	511,335,701	$	1,432,764			
		OR											
		Customer Service Software (ATM-Brosch)		0	Sch C	F74	$	512,104,019	$	664,446			
22	13i	Injuries and Damages Reserves Held at Blueflame (ATM-Brosch)		0	WP B-2 WP F-2.4	C51-G51, C54-G54 and row 51 G6-G17	$	511,704,636	$	1,063,828			
		Rate of Return											
		Capital Structure											
		Long-Term Debt (Undisputed Atmos)		45.00%									
		Common Equity (Undisputed - Atmos		55.00%									
23	14	*Cost Debt*											6.23%
		Atmos -	6.23%	6.23%	Sch G								
		ATM & ACSC Brosch/Nalepa	5.97%				$	510,662,942	$	2,105,523			
		Return on Equity											
		Atmos	10.50%	10.50%	Sch G								
		Overall Rate of Return		8.58%									
		Other Revenues											
24	15b	Forfeited Discount Adj. (ACSC-Nalepa)		1	WP J-2	D9	$	512,768,465	$	-	$	122,668	
							$	512,768,465	$	-	$	871,675	
25	15c	Normalize Service Order Revenues (ATM-Brosch)		0	WP J-2	D10, D11							
		RRM Tariff Adjustments											
26	16	RRM ADJ Adjustment (ACSC-Nalepa)		0	Sch A	N38	$	512,768,465	$	-	$	130,500	
		OR											
		RRM ADJ Adjustment (ATM-Brosch)		0	Sch A	N38	$	512,768,465	$	-	$	100,858	

	A	B	C	D	E	F	G	H	I	J	K	L
1						RATE COMPARISON						
2						(excluding gas cost)						
3	**Residential Rates**	**Customer**	**Volumetric**					**Ccf**				
4		**Charge**	**Charge**	20	30	40	50	60	70	80	90	
5	Current - Municipalities	$17.70	$0.05831	$18.87	$19.45	$20.03	$20.62	$21.20	$21.78	$22.36	$22.95	
6	RRM Request	$ 18.20	$0.08819	$19.96	$20.85	$21.73	$22.61	$23.49	$24.37	$25.26	$26.14	
7	Examiners' Proposed rates	$ 18.20	$0.08738	$19.95	$20.82	$21.70	$22.57	$23.44	$24.32	$25.19	$26.06	
8												
9								**Ccf**				
10	**Commercial Rates**	**Customer**	**Volumetric**	100	200	300	400	500	600	700	800	
11		**Charge**	**Charge**	$42.64	$49.54	$56.43	$63.32	$70.22	$77.11	$84.00	$90.89	
12	Current - Municipalities	$35.75	$0.06893	$46.18	$53.86	$61.54	$69.22	$76.91	$84.59	$92.27	$99.95	
13	RRM Request	$ 38.50	$0.07681	$46.15	$53.80	$61.45	$69.10	$76.75	$84.40	$92.05	$99.70	
14	Examiners' Proposed rates	$ 38.50	$0.07650									
15												
16								**MMBtu**				
17	**Industrial & Transportation**	**Customer**	**Volumetric**	1000	1500	2000	2500	3000	3500	4000	4500	5000
18	**Rates**	**Charge**	**Charge**									
19	Current - Municipalities											
20	First 1,500 MMBTU	$ 620.00	$0.25650	$876.50	$1,004.75	$1,098.70	$1,192.65	$1,286.60	$1,380.55	$1,474.50	$1,568.45	$1,662.40
21	Next 3,500 MMBTU		$0.18790									
22	Over 5,000 MMBTU		$0.04030									
23												
24	RRM Request											
25	First 1,500 MMBTU	$ 675.00	$0.28070	$955.70	$1,096.05	$1,198.85	$1,301.65	$1,404.45	$1,507.25	$1,610.05	$1,712.85	$1,815.65
26	Next 3,500 MMBTU		$0.20560									
27	Over 5,000 MMBTU		$0.04410									
28												
29	Examiners' Proposed rates											
30	First 1,500 MMBTU	$ 675.00	$0.27970	$954.70	$1,094.55	$1,197.35	$1,300.15	$1,402.95	$1,505.75	$1,608.55	$1,711.35	$1,814.15
31	Next 3,500 MMBTU		$0.20490									
32	Over 5,000 MMBTU		$0.04400									

Examiner 2

	A	B	C	D	E	F	G	H
1	**Comparison of Current Rates to Examiners' Recommended Rates (Excluding Cost of Gas)**							
2	**Residential**							
3	Ccf	Current Municipalities	RRM Request	Examiners Recommended Rates	Change RRM Request to Municipalities	% change Municipalities to RRM Request	Change Municipalities - Examiners' Recommended Rates	% change Municipalities Examiners' Recommended Rates
4	20	$18.87	$19.964	$19.948	$1.10	5.8178%	$1.08	5.7319%
5	30	$19.45	$20.85	$20.82	$1.40	7.1797%	$1.37	7.0548%
6	40	$20.03	$21.73	$21.70	$1.70	8.4623%	$1.66	8.3006%
7	50	$20.62	$22.61	$22.57	$1.99	9.6723%	$1.95	9.4759%
8	60	$21.20	$23.49	$23.44	$2.29	10.8158%	$2.24	10.5865%
9	70	$21.78	$24.37	$24.32	$2.59	11.8981%	$2.53	11.6378%
10	80	$22.36	$25.26	$25.19	$2.89	12.9239%	$2.83	12.6341%
11	90	$22.95	$26.14	$26.06	$3.19	13.8976%	$3.12	13.5799%
12								
13	**Commercial**							
14	Ccf	Current Municipalities	RRM Request	Examiners Recommended Rates	Change RRM Request to Municipalities	% change Municipalities to RRM Request	Change Municipalities - Examiners' Recommended Rates	% change Municipalities Examiners' Recommended Rates
15	100	$42.64	$46.18	$46.15	$3.54	8.2968%	$3.51	8.2241%
16	200	$49.54	$53.86	$53.80	$4.33	8.7330%	$4.26	8.6079%
17	300	$56.43	$61.54	$61.45	$5.11	9.0627%	$5.02	8.8979%
18	400	$63.32	$69.22	$69.10	$5.90	9.3206%	$5.78	9.1248%
19	500	$70.22	$76.91	$76.75	$6.69	9.5279%	$6.54	9.3071%
20	600	$77.11	$84.59	$84.40	$7.48	9.6981%	$7.29	9.4569%
21	700	$84.00	$92.27	$92.05	$8.27	9.8404%	$8.05	9.5820%
22	800	$90.89	$99.95	$99.70	$9.05	9.9611%	$8.81	9.6882%
23								
24								
25	**Industrial and Transportation**							
26	MMBtu	Current Municipalities	RRM Request	Examiners Recommended Rates	Change RRM Request to Municipalities	% change Municipalities to RRM Request	Change Municipalities - Examiners' Recommended Rates	% change Municipalities Examiners' Recommended Rates
27	1000	$876.50	$955.70	$954.70	$79.20	9.0359%	$78.20	8.9218%
28	1500	$1,004.75	$1,096.05	$1,094.55	$91.30	9.0868%	$89.80	8.9375%
29	2000	$1,098.70	$1,198.85	$1,197.35	$100.15	9.1153%	$98.65	8.9788%
30	2500	$1,192.65	$1,301.65	$1,300.15	$109.00	9.1393%	$107.50	9.0135%
31	3000	$1,286.60	$1,404.45	$1,402.95	$117.85	9.1598%	$116.35	9.0432%
32	3500	$1,380.55	$1,507.25	$1,505.75	$126.70	9.1775%	$125.20	9.0688%
33	4000	$1,474.50	$1,610.05	$1,608.55	$135.55	9.1929%	$134.05	9.0912%
34	4500	$1,568.45	$1,712.85	$1,711.35	$144.40	9.2065%	$142.90	9.1109%
35	5000	$1,662.40	$1,815.65	$1,814.15	$153.25	9.2186%	$151.75	9.1284%
36								


Comparison of Current Residential Rates and
Examiners' Recommended Rates
Dollars
$30.00
$25.00
$20.00
$15.00
$10.00
$5.00
$0.00
20
30
40
50
60
70
80
90
Ccf
Current Municipalities
RRM Request
Examiners Recommended Rates


Comparison of Current Commercial Rates and
Examiners' Recommended Rates
Dollars
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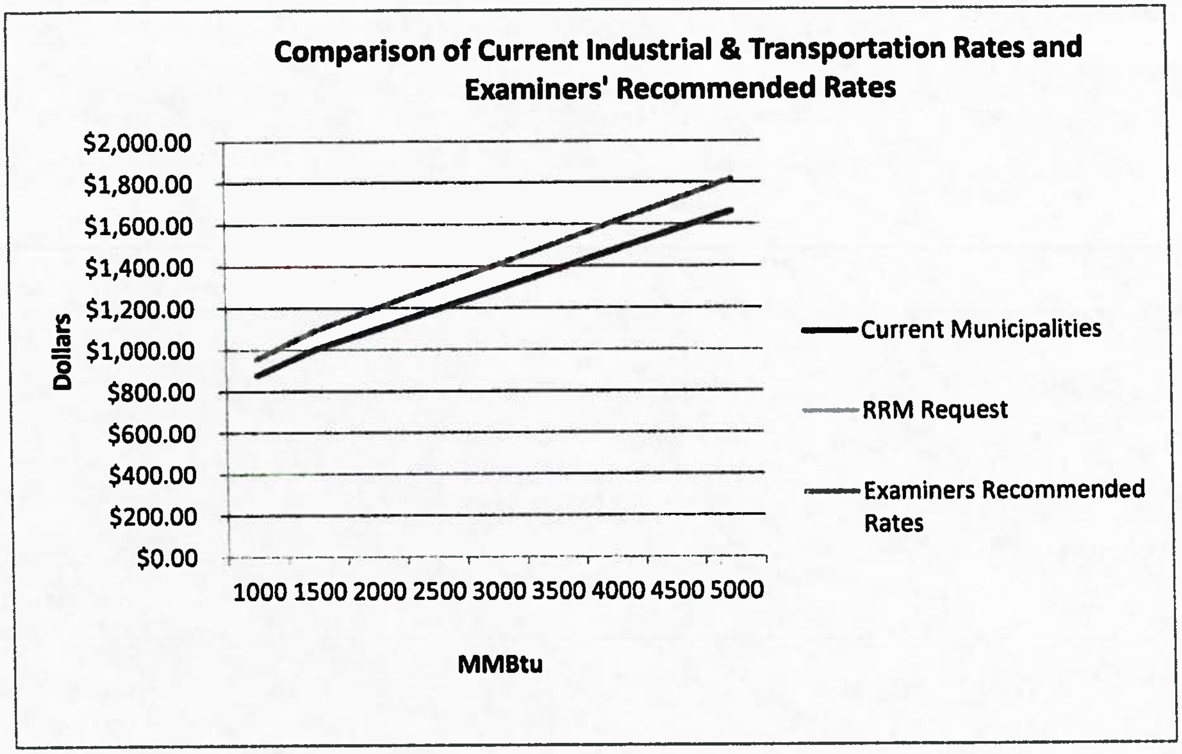
$100.00
$80.00
$60.00
$40.00
$20.00
$0.00
100
200
300
400
500
600
700
800
Ccf
Current Municipalities
RRM Request
Examiners Recommended Rates


Comparison of Current Industrial & Transportation Rates and Examiners' Recommended Rates
$2,000.00
$1,800.00
$1,600.00
$1,400.00
$1,200.00
$1,000.00
$800.00
$600.00
$400.00
$200.00
$0.00
Dollars
1000 1500 2000 2500 3000 3500 4000 4500 5000
MMBtu
Current Municipalities
RRM Request
Examiners Recommended Rates

		Current Base Rate Revenues	Proposed Base Rate Revenues	Proposed Change
R	Affected Cities	$296,055,624.18	$321,813,275.54	$25,757,651.37
	Unincorporated	$10,467,577.38	$11,313,903.10	$846,325.72
	Dallas ICL	$50,733,660.63	$55,698,245.92	$4,964,585.29
	Subtotal	$357,256,862.18	$388,825,424.56	$31,568,562.38
C	Affected Cities	$68,885,540.26	$75,048,627.66	$6,163,087.40
	Unincorporated	$1,527,161.14	$1,663,151.67	$135,990.53
	Dallas ICL	$16,771,528.31	$18,328,436.69	$1,556,908.39
	Subtotal	$87,184,229.71	$95,040,216.02	$7,855,986.31
I	Affected Cities	$9,443,454.93	$10,289,710.32	$846,255.39
	Unincorporated	$540,169.90	$588,630.47	$48,460.57
	Dallas ICL	$1,976,308.14	$2,153,767.39	$177,459.26
	Subtotal	$11,959,932.97	$13,032,108.18	$1,072,175.22

Note Sum of Subtotal R, Subtotal C, Subtotal I balance to Schedule A, page 5, Proposed Base Revenue, Line 22, plus other revenues:

Sum Proposed Subtotals	Other Revnues	Base Revenues
$496,897,749	$12,103,179	$509,000,928

	Proposed **Revenue for each area** (without revenue tax)	
Affected Cities	$25,757,651	
	$6,163,087	
	$846,255	
Subtotal	$32,766,994	
Unincorporated	$846,326	
	$135,991	
	$48,461	
Subtotal	$1,030,777	
Dallas ICL	$4,964,585	
	$1,556,908	
	$177,459	
Subtotal	$6,698,953	
Total Revenue Increase Requested	$40,496,724	Note

Note: Balance to proposed change, Schedule A, page 15, ln. 22,

ATMOS ENERGY CORP., MID-TEX DIVISION
REVENUE REQUIREMENTS BY SERVICE CLASS
TEST YEAR ENDING DECEMBER 31, 2013

Examiner 1

Line No.	Description (a)	Current Revenues (b)	Proposed Revenues[1] (c)	Proposed Change (d)	Percent Change (e)
1					
2	Residential (Base Revenue)	$ 357,256,862	$ 388,825,425	$ 31,568,562	8.84%
3	Residential (Rider GCR)	441,678,137	441,678,137	-	0.00%
4	Residential (Rider FF & Rider TAX)	48,607,656	50,528,305	1,920,649	3.95%
5	Total Residential Revenue	$ 847,542,655	$ 881,031,866	$ 33,489,212	3.95%
6					
7	Commercial (Base Revenue)	$ 87,184,230	$ 95,040,216	$ 7,855,986	9.01%
8	Commercial (Rider GCR)	263,878,213	263,878,213	-	0.00%
9	Commercial (Rider FF & Rider TAX)	21,358,837	21,836,800	477,963	2.24%
10	Total Commercial Revenue	$ 372,421,279	$ 380,755,228	$ 8,333,949	2.24%
11					
12	Industrial/Transportation (Base Revenue)	$ 11,959,933	$ 13,032,108	$ 1,072,175	8.96%
13	Industrial/Transportation (Rider GCR)	18,438,781	18,438,781	-	0.00%
14	Industrial/Transportation (Rider FF & Rider TAX)	1,849,475	1,914,707	65,232	3.53%
15	Total Industrial/Transportation Revenue	$ 32,248,189	$ 33,385,596	$ 1,137,407	3.53%
16					
17	Other Revenue (Base Revenue)	$ 12,103,179	$ 12,103,179	$ -	0.00%
18	Other Revenue (Rider GCR)	-	-	-	0.00%
19	Other Revenue (Rider FF & Rider TAX)	736,364	736,364	-	0.00%
20	Total Other Revenue	$ 12,839,543	$ 12,839,543	$ -	0.00%
21					
22	Base Revenue	$ 468,504,204	$ 509,000,928	$ 40,496,724	8.64%
23	Rider GCR	723,995,131	723,995,131	-	0.00%
24	Rider FF & Rider TAX	72,552,332	75,016,175	2,463,844	3.40%
25	Total Operating Revenues	$ 1,265,051,667	$ 1,308,012,234	$ 42,960,567	3.40%
26					
27					
28	Note:				
29					
30	[1] Proposed Revenues are the result of the application of the proposed prospective rates to billing determinants.				

ATMOS ENERGY CORP., MID-TEX DIVISION
REVENUE REQUIREMENTS
TEST YEAR ENDING DECEMBER 31, 2013

Examiner 1

Line No.	Description (a)	Reference (b)	(c)	Base Revenue (d)	Rider GCR (e)	Rider FF & Rider TAX (f)	Total (g)
1							
2	Rider GCR Part A	Schedule H		$ -	$ 520,339,930	$ -	$ 520,339,930
3	Rider GCR Part B	Schedule I			203,655,201		203,655,201
4	Total Rider GCR			$ -	$ 723,995,131	$ -	$ 723,995,131
5							
6	Operation and Maintenance Expenses	Schedule F-1		$ 163,107,843	$ -	$ -	$ 163,107,843
7							
8	Taxes Other than Income Taxes	Schedule F-5		28,349,277		75,203,080	103,552,357
9							
10	Depreciation and Amortization Expense	Schedule F-3		106,048,875			106,048,875
11							
12	Interest on Customer Deposits	Schedule F-7		18,924			18,924
13							
14	Rate Base	Schedule B	$ 1,792,741,482				
15	Rate of Return	Schedule G	8.58%	153,766,155			153,766,155
16							
17							
18	Income Taxes	Schedule F-6		60,781,891			60,781,891
19							
20	**Revenue Requirements**			$ 512,072,965	$ 723,995,131	$ 75,203,080	$ 1,311,271,176
21							
22	Current Revenues	Schedule A					$ 1,265,051,667
23							
24	Cost of Service Prior to Tariff RRM Adjustment						$ 46,219,509
25							
26	Preliminary Adjustment per RRM Tariff (Section III, ADJ, p. 2 of 6)						$ (3,000,000)
27							
28	Cost of Service Prior to Percentage Adjustment						$ 43,219,509
29							
30	Percentage Adjustment (Section III, ADJ, p. 2 of 6)						$ (260,878)
31							
32	Proposed Cost of Service - Prospective Rates Systemwide						$ 42,958,631
33							
34	Proposed Cost of Service - Affected Cities						$ 34,760,557

ATMOS ENERGY CORP., MID-TEX DIVISION
RATE BASE
AS OF DECEMBER 31, 2013

Line No.	Description (a)	Reference (b)	Amount per Books (c)	Adjustment (d)	Total Requested (e)=(c)+(d)
1	Net Plant (1):				
2	Gross Plant	Schedule C	$ 3,329,581,601	$ (61,195,685)	$ 3,268,385,916
3	Accumulated Depreciation	Schedule D	1,182,115,204	(77,627,716)	1,104,487,489
4	Total Net Plant (Ln 2 minus Ln 3)		$ 2,147,466,397	$ 16,432,031	$ 2,163,898,428
5					
6	Additions:				
7	Materials & Supplies	WP_B-3	$ 1,716,266	$ (190,555)	$ 1,525,711
8	Prepayments	WP_B-4	10,709,520	2,330,948	13,040,468
9	Pension and Other Postemployment Benefits Regulatory Asset	WP_B-7	10,251,121	6,257	10,257,378
10	Total Additions (Sum Ln 7 through Ln 9)		$ 22,676,906	$ 2,146,651	$ 24,823,557
11					
12	Deductions:				
13	Customer Deposits	WP_B-5	$ 21,026,122	$ -	$ 21,026,122
14	Injuries and Damages Reserve	WP_B-2	4,512,126	(2,788,454)	1,723,672
15	Accumulated Deferred Income Taxes	WP_B-6	523,654,946	(180,767,517)	342,887,429
16	Rate Base Adjustments	WP_B-1	-	11,239,967	11,239,967
17	Total Deductions (Sum of Ln 13 through Ln 16)		$ 549,193,193	$ (172,316,003)	$ 376,877,190
18					
19	Total Cash Working Capital	Schedule E	$ -	$ (19,103,313)	$ (19,103,313)
20					
21	Rate Base (Ln 4 plus Ln 10 minus Ln 17 plus Ln 19)		$ 1,620,950,110	$ 171,791,372	$ 1,792,741,482
22					
23	Note:				
24	(1) Rate base excludes Poly 1 previously disallowed and includes other known and measurable rate base adjustments.				

ATMOS ENERGY CORP., MID-TEX DIVISION
RATE BASE ADJUSTMENTS
TEST YEAR ENDING DECEMBER 31, 2013

Examiner 1

Line No.	Description (a)	Amounts (b)
1	GUD 9670 Amortization of Disallowed Projects, OH, etc. (WP_B-1.1)	$ 7,880,844
2	GUD 9762 Amortization of Employee Expenses (WP_B-1.2)	194,918
3	GUD 9869 Amortization of Employee Expenses (WP_B-1.3)	239,647
4	GUD 10170 Amortization of Employee Expenses (WP_B-1.4) (3)	112,849
5	Adjustment to Pension and Other Post Employment Benefits	
6	to the benchmark level approved in GUD 10170 and previous RRM (2)	2,058,506
7	Employee Expense Adjustment, TYE December 31, 2012 (3)	25,427
8	Employee Expense Adjustment, TYE December 31, 2013 (1)	14,636
		-
		-
	Adj. to Incentive Comp to 150%	713,141
9		
10	Total (Sum of Ln 1 through Ln 8)	$ 11,239,967
11		
12		
13	Note:	
14	1. See Page 2, Col (e), Ln 15.	
15	2. To align O&M and Capital, see WP_F-2.8.	
16	3. The adjustment on Line 4 includes amounts for Shared Services Divisions 002 and 012 and Mid-Tex through March 31, 2012. The	
17	adjustment on Line 7 includes amounts for Shared Services Divisions 002 and 012 and Mid-Tex for the period April 1	
18	through December 31, 2012.	

ATMOS ENERGY CORP., MID-TEX DIVISION
EMPLOYEE EXPENSE ADJUSTMENT TO CAPITAL
TEST YEAR ENDING DECEMBER 31, 2013

Line No.	Description (a)	Shared Services - Customer Support (012) (b)	Shared Services - General Office (002) (c)	Mid-Tex Direct (d)	Total Adjustment (e)
1	Twelve Months Ended December 31, 2013:				
2	Employee Expense Adjustment (3)	$ 96,646	$ 434,819	$ 241,300	
3	Mid-Tex Allocation Factor (1) (2)	51.84%	38.26%	100.00%	
4					
5	Allocated Employee Expense Totals (Ln 2 times Ln 3)	$ 50,101	$ 166,362	$ 241,300	
6	Capitalization Factor (1)	5.87%	0.88%	0.00%	
7	Subtotal (Ln 5 times Ln 6)	$ 2,943	$ 1,469	$ -	
8					
9	Add Charges Direct to Capital:				
10	Employee Expense Adjustment (3)	$ 9,008	$ 6,887	$ 2,919	
11	Mid-Tex Allocation Factor (1) (2)	51.84%	38.26%	100.00%	
12					
13	Allocated Employee Expense Charged Direct to Capital (Ln 10 times Ln 11)	$ 4,670	$ 2,635	$ 2,919	
14					
15	Total TY Ending December 31, 2013 Employee Expense Report Charges (Ln 7 plus Ln 13)	$ 7,613	$ 4,104	$ 2,919	$ 14,636
16					
17	Notes:				
18	1. See WP_F-2.1, Col (b) and Col (c) Lns 7 and 11, for the Shared Services factors, as adjusted.				
19	2. Mid-Tex costs are directly charged and not allocated.				
20	3. Shared Services - General Office amounts have been adjusted to remove amounts in cost centers which do not				
21	allocate to Mid-Tex.				

ATMOS ENERGY CORP., MID-TEX DIVISION
RATE BASE ADJUSTMENTS
TEST YEAR ENDING DECEMBER 31, 2013
GUD 9670 RATE BASE ADJUSTMENTS - AMORTIZATION SCHEDULE

Line No.	Year Ended Dec. 31	Beginning of Year Rate Base Adjustment Amount	Annual Amortization (1)	End of Year Rate Base Adjustment Amount (2)	Balance as of December 31, 2013
	(a)	(b)	(c)	(d)	(e)
1	2005			$ 10,640,002	
2	2006	$ 10,640,002	$ 344,895	10,295,107	
3	2007	10,295,107	344,895	9,950,212	
4	2008	9,950,212	344,895	9,605,318	
5	2009	9,605,318	344,895	9,260,423	
6	2010	9,260,423	344,895	8,915,528	
7	2011	8,915,528	344,895	8,570,633	
8	2012	8,570,633	344,895	8,225,739	
9	2013	8,225,739	344,895	7,880,844	$ 7,880,844
10	2014	7,880,844	344,895	7,535,949	
11	2015	7,535,949	344,895	7,191,055	
12	2016	7,191,055	344,895	6,846,160	
13	2017	6,846,160	344,895	6,501,265	
14	2018	6,501,265	344,895	6,156,371	
15	2019	6,156,371	344,895	5,811,476	
16	2020	5,811,476	344,895	5,466,581	
17	2021	5,466,581	344,895	5,121,686	
18	2022	5,121,686	344,895	4,776,792	
19	2023	4,776,792	344,895	4,431,897	
20	2024	4,431,897	344,895	4,087,002	
21	2025	4,087,002	344,895	3,742,108	
22	2026	3,742,108	344,895	3,397,213	
23	2027	3,397,213	344,895	3,052,318	
24	2028	3,052,318	344,895	2,707,424	
25	2029	2,707,424	344,895	2,362,529	
26	2030	2,362,529	344,895	2,017,634	
27	2031	2,017,634	344,895	1,672,739	
28	2032	1,672,739	344,895	1,327,845	
29	2033	1,327,845	344,895	982,950	
30	2034	982,950	344,895	638,055	
31	2035	638,055	344,895	293,161	
32	2036	293,161	293,161	-	
33					

34 Notes:
35 1. The annual amortization is calculated based upon the period specified in
36 GUD 9670 Final Order, Schedule B, Page 2, Footnote 1.
37 2. The December 31, 2005 amount is per GUD 9670 Final Order, Schedule B,
38 Page 2, Ln 14.
39 * Totals may vary due to rounding.

ATMOS ENERGY CORP., MID-TEX DIVISION
RATE BASE ADJUSTMENTS
TEST YEAR ENDING DECEMBER 31, 2013
GUD 9762 RATE BASE ADJUSTMENTS - AMORTIZATION SCHEDULE

Line No.	Year Ended June 30	Beginning of Year Rate Base Adjustment Amount	Annual Amortization (1)	End of Year Rate Base Adjustment Amount (2)	Balance as of December 31, 2013
	(a)	(b)	(c)	(d)	(e)
1	2007			$ 246,949	
2	2008	$ 246,949	$ 8,005	238,944	
3	2009	238,944	8,005	230,939	
4	2010	230,939	8,005	222,935	
5	2011	222,935	8,005	214,930	
6	2012	214,930	8,005	206,925	
7	2013	206,925	8,005	198,920	$ 194,918
8	2014	198,920	8,005	190,915	
9	2015	190,915	8,005	182,910	
10	2016	182,910	8,005	174,906	
11	2017	174,906	8,005	166,901	
12	2018	166,901	8,005	158,896	
13	2019	158,896	8,005	150,891	
14	2020	150,891	8,005	142,886	
15	2021	142,886	8,005	134,881	
16	2022	134,881	8,005	126,877	
17	2023	126,877	8,005	118,872	
18	2024	118,872	8,005	110,867	
19	2025	110,867	8,005	102,862	
20	2026	102,862	8,005	94,857	
21	2027	94,857	8,005	86,852	
22	2028	86,852	8,005	78,848	
23	2029	78,848	8,005	70,843	
24	2030	70,843	8,005	62,838	
25	2031	62,838	8,005	54,833	
26	2032	54,833	8,005	46,828	
27	2033	46,828	8,005	38,824	
28	2034	38,824	8,005	30,819	
29	2035	30,819	8,005	22,814	
30	2036	22,814	8,005	14,809	
31	2037	14,809	8,005	6,804	
32	2038	6,804	6,804	-	

33
34 Notes:
35 1. The annual amortization is calculated based upon the period specified in GUD 9670 Final Order,
36 Schedule B, Page 2, Footnote 1.
37 2. The June 30, 2007 amount is per GUD 9762 Final Order, WP_B-1, Page 1, Ln 2 + Ln 3.
38
39 * Totals may vary due to rounding.

ATMOS ENERGY CORP., MID-TEX DIVISION
RATE BASE ADJUSTMENTS
TEST YEAR ENDING DECEMBER 31, 2013
GUD 9869 RATE BASE ADJUSTMENTS - AMORTIZATION SCHEDULE

Line No.	Year Ended Dec. 31 (a)	Beginning of Year Rate Base Adjustment Amount Employee Expense (1) (b)	Annual Amortization (2) (c)	End of Year Rate Base Adjustment Amount (d)	Balance as of December 31, 2013 (e)
1	2008			$ 286,001	
2	2009	$ 286,001	$ 9,271	276,730	
3	2010	276,730	9,271	267,460	
4	2011	267,460	9,271	258,189	
5	2012	258,189	9,271	248,918	
6	2013	248,918	9,271	239,647	$ 239,647
7	2014	239,647	9,271	230,377	
8	2015	230,377	9,271	221,106	
9	2016	221,106	9,271	211,835	
10	2017	211,835	9,271	202,565	
11	2018	202,565	9,271	193,294	
12	2019	193,294	9,271	184,023	
13	2020	184,023	9,271	174,753	
14	2021	174,753	9,271	165,482	
15	2022	165,482	9,271	156,211	
16	2023	156,211	9,271	146,941	
17	2024	146,941	9,271	137,670	
18	2025	137,670	9,271	128,399	
19	2026	128,399	9,271	119,128	
20	2027	119,128	9,271	109,858	
21	2028	109,858	9,271	100,587	
22	2029	100,587	9,271	91,316	
23	2030	91,316	9,271	82,046	
24	2031	82,046	9,271	72,775	
25	2032	72,775	9,271	63,504	
26	2033	63,504	9,271	54,234	
27	2034	54,234	9,271	44,963	
28	2035	44,963	9,271	35,692	
29	2036	35,692	9,271	26,421	
30	2037	26,421	9,271	17,151	
31	2038	17,151	9,271	7,880	
32	2039	7,880	7,880	-	

33

34 Notes:
35 1. The 2008 amount in Col. (b) is from GUD 9869 WP_B-1, Col (e), Ln 29. The other
36 disallowances from GUD 9869 have been removed on Schedule C.
37 2. The annual amortization is calculated based upon the period specified in GUD 9670
38 Final Order, Schedule B, Page 2, Footnote 1.
39 * Totals may vary due to rounding.

ATMOS ENERGY CORP., MID-TEX DIVISION
RATE BASE ADJUSTMENTS
TEST YEAR ENDING DECEMBER 31, 2013
GUD 10170 RATE BASE ADJUSTMENTS - AMORTIZATION SCHEDULE

Line No.	Year Ended Mar. 31	Beginning of Year Rate Base Adjustment Amount Employee Expense (1)	Annual Amortization (2)	End of Year Rate Base Adjustment Amount	Balance as of December 31, 2013
	(a)	(b)	(c)	(d)	(e)
1	2012			$ 119,635	
2	2013	$ 119,635	$ 3,878	115,757	
3	2014	115,757	3,878	111,879	$ 112,849
4	2015	111,879	3,878	108,001	
5	2016	108,001	3,878	104,123	
6	2017	104,123	3,878	100,245	
7	2018	100,245	3,878	96,367	
8	2019	96,367	3,878	92,489	
9	2020	92,489	3,878	88,611	
10	2021	88,611	3,878	84,733	
11	2022	84,733	3,878	80,855	
12	2023	80,855	3,878	76,977	
13	2024	76,977	3,878	73,100	
14	2025	73,100	3,878	69,222	
15	2026	69,222	3,878	65,344	
16	2027	65,344	3,878	61,466	
17	2028	61,466	3,878	57,588	
18	2029	57,588	3,878	53,710	
19	2030	53,710	3,878	49,832	
20	2031	49,832	3,878	45,954	
21	2032	45,954	3,878	42,076	
22	2033	42,076	3,878	38,198	
23	2034	38,198	3,878	34,320	
24	2035	34,320	3,878	30,442	
25	2036	30,442	3,878	26,564	
26	2037	26,564	3,878	22,686	
27	2038	22,686	3,878	18,808	
28	2039	18,808	3,878	14,930	
29	2040	14,930	3,878	11,052	
30	2041	11,052	3,878	7,174	
31	2042	7,174	3,878	3,296	
32	2043	3,296	3,296	-	
33					

34 Notes:
35 1. The 2012 amount in Col (b) is from GUD 10170 WP_B-1, Col (b), Lns 4 through 6.
36 2. The annual amortization is calculated based upon the period specified in GUD 9670
37 Final Order, Schedule B, Page 2, Footnote 1.
38 * Totals may vary due to rounding.

ATMOS ENERGY CORP., MID-TEX DIVISION
INJURIES AND DAMAGES AND WORKERS COMP RESERVES (1)
TEST YEAR ENDING DECEMBER 31, 2013

Examiner 1

Line No.	Month Ending	Per Book Amount	Adjustments	Adjusted Amount	Allocation Factor	Allocated Amount
	(a)	(b)	(c)	(d) = (b)+(c)	(e)	(f) = (d)*(e)
1	Mid-Tex					
2	December 31, 2012	$ 2,463,340	$ -	$ 2,463,340	100.00%	$ 2,463,340
3	January 31, 2013	2,383,447	-	2,383,447	100.00%	2,383,447
4	February 28, 2013	2,421,911	-	2,421,911	100.00%	2,421,911
5	March 31, 2013	2,450,422	-	2,450,422	100.00%	2,450,422
6	April 30, 2013	2,480,832	-	2,480,832	100.00%	2,480,832
7	May 31, 2013	2,456,007	-	2,456,007	100.00%	2,456,007
8	June 30, 2013	2,483,189	-	2,483,189	100.00%	2,483,189
9	July 31, 2013	2,144,032	-	2,144,032	100.00%	2,144,032
10	August 31, 2013	2,173,211	-	2,173,211	100.00%	2,173,211
11	September 30, 2013	1,636,837	-	1,636,837	100.00%	1,636,837
12	October 31, 2013	1,648,755	-	1,648,755	100.00%	1,648,755
13	November 30, 2013	1,658,032	-	1,658,032	100.00%	1,658,032
14	December 31, 2013	1,666,504	-	1,666,504	100.00%	1,666,504

ATMOS ENERGY CORP., MID-TEX DIVISION
INJURIES AND DAMAGES AND WORKERS COMP RESERVES (1)
TEST YEAR ENDING DECEMBER 31, 2013

Examiner 1

Line No.	Month Ending	Per Book Amount	Adjustments	Adjusted Amount	Allocation Factor	Allocated Amount
	(a)	(b)	(c)	(d) = (b)+(c)	(e)	(f) = (d)*(e)
15						
16	Shared Services - General Office (Div 002) (2)					
17	December 31, 2012	$ 6,231,839	$ (6,238,170)	$ (6,331)	38.26%	$ (2,422)
18	January 31, 2013	5,208,433	(5,238,170)	(29,737)	38.26%	(11,377)
19	February 28, 2013	5,191,071	(5,238,170)	(47,099)	38.26%	(18,020)
20	March 31, 2013	6,466,386	(6,538,170)	(71,784)	38.26%	(27,465)
21	April 30, 2013	6,450,780	(6,538,170)	(87,390)	38.26%	(33,435)
22	May 31, 2013	6,429,307	(6,538,170)	(108,863)	38.26%	(41,651)
23	June 30, 2013	6,402,113	(6,538,170)	(136,057)	38.26%	(52,055)
24	July 31, 2013	6,358,790	(6,538,170)	(179,380)	38.26%	(68,631)
25	August 31, 2013	6,332,538	(6,538,170)	(205,632)	38.26%	(78,675)
26	September 30, 2013	7,502,406	(7,288,170)	214,237	38.26%	81,967
27	October 31, 2013	7,486,798	(7,288,170)	198,628	38.26%	75,995
28	November 30, 2013	7,462,816	(7,288,170)	174,646	38.26%	66,819
29	December 31, 2013	7,437,591	(7,288,170)	149,421	38.26%	57,169
30						
31	Shared Services - Customer Support (Div 12)					
32	December 31, 2012	$ -	$ -	$ -	51.84%	$ -
33	January 31, 2013	-	-	-	51.84%	-
34	February 28, 2013	-	-	-	51.84%	-
35	March 31, 2013	-	-	-	51.84%	-
36	April 30, 2013	-	-	-	51.84%	-
37	May 31, 2013	-	-	-	51.84%	-
38	June 30, 2013	-	-	-	51.84%	-
39	July 31, 2013	-	-	-	51.84%	-
40	August 31, 2013	-	-	-	51.84%	-
41	September 30, 2013	-	-	-	51.84%	-
42	October 31, 2013	-	-	-	51.84%	-
43	November 30, 2013	-	-	-	51.84%	-
44	December 31, 2013	-	-	-	51.84%	-
45	Total at December 31, 2013 (Col (f) = Sum Ln 14 plus Ln 29 plus Ln 44)	$ 4,512,126				$ 1,723,672
46						

47 Notes:
48 1. Account 228.2 and Sub-accounts 28102 and 28101.
49 2. The adjustment in Column (c) removes reserves not allocated to the divisions, subaccount 28101.
50 Please refer to Cost Center 1903.

ATMOS ENERGY CORP., MID-TEX DIVISION
INJURIES AND DAMAGES AND WORKERS COMP RESERVES (1)
TEST YEAR ENDING DECEMBER 31, 2013

Examiner 1

Line No.	Month Ending (a)	Per Book Amount (b)	Adjustments (c)	Adjusted Amount (d) = (b)+(c)	Allocation Factor (e)	Allocated Amount (f) = (d)*(e)

Data Source:
WP_B-2 Inj and Damages.xls

ATMOS ENERGY CORP., MID-TEX DIVISION
MATERIALS & SUPPLIES-ACCOUNTS 154 & 163
TEST YEAR ENDING DECEMBER 31, 2013

Line No.	Month/Year Ending (a)		Amount (b)
1	December 31, 2012	$	1,234,726
2	January 31, 2013		1,299,968
3	February 28, 2013		1,312,383
4	March 31, 2013		1,378,126
5	April 30, 2013		1,457,112
6	May 31, 2013		1,564,037
7	June 30, 2013		1,612,922
8	July 31, 2013		1,678,968
9	August 31, 2013		1,648,515
10	September 30, 2013		1,586,448
11	October 31, 2013		1,656,343
12	November 30, 2013		1,688,432
13	December 31, 2013		1,716,266
14			
15	13-Month Average	$	1,525,711

ATMOS ENERGY CORP., MID-TEX DIVISION
PREPAYMENTS-ACCOUNT 165
TEST YEAR ENDING DECEMBER 31, 2013

Examiner 1

Line No.	Month/Year Ending (a)	Amount (b)	Adjustments (1), (2) (c)	Adjusted Total (d) = (b)+(c)	Allocation % (e)	Allocation to Mid-Tex (f) = (d)x(e)
	Mid-Tex					
1	December 31, 2012	$ 421,529	$ (8)	$ 421,522		
2	January 31, 2013	7,339,623	(388,750)	6,950,873		
3	February 28, 2013	5,582,627	(148,868)	5,433,759		
4	March 31, 2013	5,230,265	(329,453)	4,900,812		
5	April 30, 2013	9,621,383	(466,652)	9,154,731		
6	May 31, 2013	9,274,730	(480,111)	8,794,619		
7	June 30, 2013	4,190,901	(225,780)	3,965,121		
8	July 31, 2013	7,456,043	(345,185)	7,110,858		
9	August 31, 2013	6,372,225	(313,156)	6,059,069		
10	September 30, 2013	3,333,158	(166,221)	3,166,937		
11	October 31, 2013	5,243,304	(231,328)	5,011,976		
12	November 30, 2013	4,172,379	(187,984)	3,984,396		
13	December 31, 2013	526,890	(9)	526,881		
14						
15	13-Month Average	$ 5,289,620		$ 5,037,043	100%	$ 5,037,043
16						
17	**Shared Services-General Office (Div 002)**					
18	December 31, 2012	$ 15,443,310	$ 4,097,292	$ 19,540,601		
19	January 31, 2013	15,902,692	4,255,068	20,157,760		
20	February 28, 2013	13,384,482	4,385,738	17,770,220		
21	March 31, 2013	11,051,822	4,533,726	15,585,548		
22	April 30, 2013	20,897,219	-	20,897,219		
23	May 31, 2013	22,242,557	-	22,242,557		
24	June 30, 2013	20,090,422	-	20,090,422		
25	July 31, 2013	19,001,526	-	19,001,526		
26	August 31, 2013	17,956,835	-	17,956,835		
27	September 30, 2013	16,150,349	-	16,150,349		
28	October 31, 2013	26,210,684	-	26,210,684		
29	November 30, 2013	27,370,033	-	27,370,033		
30	December 31, 2013	26,572,053	-	26,572,053		
31						
32	13-Month Average	$ 19,405,691		$ 20,734,293	38.26%	$ 7,932,940

ATMOS ENERGY CORP., MID-TEX DIVISION
PREPAYMENTS-ACCOUNT 165
TEST YEAR ENDING DECEMBER 31, 2013

Examiner 1

Line No.	Month/Year Ending (a)	Amount (b)	Adjustments (1), (2) (c)	Adjusted Total (d) = (b)+(c)	Allocation % (e)	Allocation to Mid-Tex (f) = (d)x(e)
33						
34	**Shared Services-Customer Support (Div 12)**					
35	December 31, 2012	$ 4,145,255	$ (3,806,109)	$ 339,146		
36	January 31, 2013	4,205,998	(3,931,302)	274,696		
37	February 28, 2013	4,242,331	(4,009,211)	233,120		
38	March 31, 2013	4,291,456	(4,092,695)	198,761		
39	April 30, 2013	136,024	28,378	164,402		
40	May 31, 2013	(22,600)	162,435	139,835		
41	June 30, 2013	115,268	-	115,268		
42	July 31, 2013	90,701	-	90,701		
43	August 31, 2013	66,135	-	66,135		
44	September 30, 2013	41,568	-	41,568		
45	October 31, 2013	38,104	-	38,104		
46	November 30, 2013	34,640	-	34,640		
47	December 31, 2013	31,176	-	31,176		
48						
49	13-Month Average	$ 1,339,697		$ 135,965	51.84%	$ 70,484
50						
51	Total Prepayments December 31	$ 10,709,520				
52						
53	Total Prepayments 13-Month Average (Ln 15 plus Ln 32 plus Ln 49)					$ 13,040,468
54						

55 Note:
56 (1) The Mid-Tex adjustment is to remove franchise fee prepayments for those cities that are handled as payment in arrears for ratemaking
57 purposes. The adjustment amount is based on the factors calculated in the GUD 10170 Prepayment Study.
58 (2) The Company is no longer prepaying the bill print vendor for supplies. Therefore, the per book amounts in SSU have been adjusted to
59 reflect the current process. The expense is booked to FERC Account 903.

ATMOS ENERGY CORP., MID-TEX DIVISION
CUSTOMER DEPOSITS AND CUSTOMER ADVANCES FOR CONSTRUCTION
TEST YEAR ENDING DECEMBER 31, 2013

Line No.	Month/Year Ending (a)		Amount (b)
1	**Customer Deposits - Acct 235**		
2	December 31, 2012	$	22,782,269
3	January 31, 2013		22,542,977
4	February 28, 2013		22,554,322
5	March 31, 2013		22,539,798
6	April 30, 2013		22,181,494
7	May 31, 2013		21,058,852
8	June 30, 2013		20,875,471
9	July 31, 2013		20,770,434
10	August 31, 2013		20,655,670
11	September 30, 2013		20,648,682
12	October 31, 2013		20,679,627
13	November 30, 2013		20,784,405
14	December 31, 2013		21,026,122
15			
16	**Customer Advances - Acct 252**		
17	December 31, 2012	$	-
18	January 31, 2013		-
19	February 28, 2013		-
20	March 31, 2013		-
21	April 30, 2013		-
22	May 31, 2013		-
23	June 30, 2013		-
24	July 31, 2013		-
25	August 31, 2013		-
26	September 30, 2013		-
27	October 31, 2013		-
28	November 30, 2013		-
29	December 31, 2013		-

ATMOS ENERGY CORP., MID-TEX DIVISION
ACCUMULATED DEFERRED INCOME TAXES-ACCOUNTS 190/282/283 (1)
TEST YEAR ENDING DECEMBER 31, 2013

Examiner 1

Line No.	Description (a)	Assets / (Liabilities) - Per Book Balances (b)	Adjustments (c)	Assets / (Liabilities) - Adjusted Balances (d) = (b)+(c)
1	Mid-Tex:			
2	Ad Valorem Taxes	$ (975,881)	$ -	$ (975,881)
3	MIP/VPP Accrual	277	(54)	223
4	Miscellaneous Accrued	-	-	-
5	Self Insurance - Adjustment	-	-	-
6	Vacation Accrual	-	-	-
7	Worker's Comp Insurance Reserve	401,172	-	401,172
8	SEBP Adjustment	493,456	-	493,456
9	Pension Expense	-	-	-
10	FAS 106 Adjustment	23,841,052	-	23,841,052
11	CWIP	1,974,702	(1,974,702)	-
12	RWIP	(2,614,559)	-	(2,614,559)
13	Fixed Asset Cost Adjustment	(603,814,118)	-	(603,814,118)
14	Depreciation Adjustment	121,573,433	-	121,573,433
15	Deferred Gas Costs	445,517	(445,517)	-
16	Over Recoveries of PGA	(22,910,594)	22,910,594	-
17	TXU Goodwill Amortization	(79,941,693)	79,941,693	-
18	Deferred Expense Projects	(819,868)	-	(819,868)
19	Deferred Projects - TXU Acquistion	-	-	-
20	Unicap Section 263A Costs	1,980,946	(1,980,946)	-
21	Allowance for Doubtful Accounts	2,609,155	(2,609,155)	-
22	Clearing Account-Adjustment	1,352	-	1,352
23	Charitable Contribution Carryover	45,844	(45,844)	-
24	Prepayments	(1,216,602)	-	(1,216,602)
25	Rate Case Accrual	(10,677)	10,677	-
26	TX Rule 8.209 Deferral	(9,375,967)	-	(9,375,967)
27	Reg Asset Benefit Accrual	(3,806,431)	-	(3,806,431)
28	WACOG to FIFO Adjustment	(5,064,458)	5,064,458	-
29	Regulatory Liability-Mid-Tex	-	-	-
30	Intra Period Tax Allocation	272,711	(272,711)	-
31	State Net Operating Loss	907,710	-	907,710
32	Federal Tax on State NOL	(317,699)	-	(317,699)
33	Total Mid-Tex Direct (Sum Ln 2 through Ln 32)	$ (576,321,220)	$ 100,598,494	$ (475,722,726)
34				

ATMOS ENERGY CORP., MID-TEX DIVISION
ACCUMULATED DEFERRED INCOME TAXES-ACCOUNTS 190/282/283 (1)
TEST YEAR ENDING DECEMBER 31, 2013

Examiner 1

Line No.	Description (a)	Assets / (Liabilities) - Per Book Balances (b)	Adjustments (c)	Assets / (Liabilities) - Adjusted Balances (d) = (b)+(c)
35	SSU - Customer Support (Div 12):			
36	MIP/VPP Accrual	$ (294,129)	$ 294,129	$ -
37	Vacation Accrual	-	-	-
38	Worker's Comp Insurance Reserve	51	-	51
39	FAS 106 Adjustment	-	-	-
40	CWIP	(1,953,986)	1,953,986	-
41	RWIP	(792)	-	(792)
42	Fixed Asset Cost Adjustment	(41,977,226)	-	(41,977,226)
43	Depreciation Adjustment	13,565,418	-	13,565,418
44	Clearing Account-Adjustment	264	-	264
45	Charitable Contribution Carryover	-	-	-
46	Prepayments	0	-	0
47	Intra Period Tax Allocation	-	-	-
48	Total Customer Support (Sum Ln 36 through Ln 47)	$ (30,660,400)	$ 2,248,115	$ (28,412,285)
49	Allocation to Mid-Tex	51.84%	51.84%	51.84%
50	SSU Customer Support Allocated to Mid-Tex (Ln 48 times Ln 49)	$ (15,894,351)	$ 1,165,423	$ (14,728,929)
51				
52				
53	SSU - General Office (Div 002):			
54	Director's Deferred Bonus	$ 156,501	$ -	$ 156,501
55	MIP/VPP Accrual	2,137,901	(2,137,901)	-
56	Miscellaneous Accrued	14,445	-	14,445
57	Self Insurance - Adjustment	2,660,182	(2,660,182)	-
58	Vacation Accrual	-	-	-
59	Worker's Comp Insurance Reserve	75,266	-	75,266
60	SEBP Adjustment	22,115,576	(22,115,576)	-
61	Restricted Stock Grant Plan	8,010,583	-	8,010,583
62	Rabbi Trust	1,471,695	(1,471,695)	-
63	Restricted Stock - MIP	7,822,725	(7,822,725)	-
64	Director's Stock Awards	3,466,064	-	3,466,064
65	Pension Expense	(22,636,640)	-	(22,636,640)
66	FAS 106 Adjustment	7,695,717	-	7,695,717
67	CWIP	92,568	(92,568)	-
68	RWIP	(3,931)	-	(3,931)
69	Fixed Asset Cost Adjustment	(34,474,534)	-	(34,474,534)
70	Depreciation Adjustment	8,402,905	-	8,402,905

ATMOS ENERGY CORP., MID-TEX DIVISION
ACCUMULATED DEFERRED INCOME TAXES-ACCOUNTS 190/282/283 (1)
TEST YEAR ENDING DECEMBER 31, 2013

Examiner 1

Line No.	Description (a)	Assets / (Liabilities) - Per Book Balances (b)	Adjustments (c)	Assets / (Liabilities) - Adjusted Balances (d) = (b)+(c)
71	Section 481(a) Cushion Gas	549,284	(549,284)	-
72	Section 481(a) Line Pack Gas	66,648	(66,648)	-
73	Deferred Expense Projects	(5,600)	-	(5,600)
74	Allowance for Doubtful Accounts	(35)	35	-
75	Clearing Account-Adjustment	143,055	-	143,055
76	Charitable Contribution Carryover	10,238,356	(10,238,356)	-
77	Prepayments	(2,734,850)	-	(2,734,850)
78	Stock Option Expense	327,592	-	327,592
79	Federal & State Tax Interest	(79,205)	-	(79,205)
80	VA Charitable Contributions	(1,085,318)	1,085,318	-
81	Regulatory Liability-Atmos 109	386	-	386
82	Intra Period Tax Allocation	-	-	-
83	FD - NOL Credit Carryforward - Utility	395,636,604	(805,591)	394,831,013
84	FD - NOL Credit Carryforward - Non Reg	(207,097,743)	207,097,743	-
85	ST - State Net Operating Loss	-	-	-
86	FD - FAS 115 Adjustment	(4,667,609)	-	(4,667,609)
87	FD - Federal Tax on State NOL	-	-	-
88	FD - Treasury Lock Adjustment - Realized	17,067,546	-	17,067,546
89	FD - Treasury Lock Adjustment - Unrealized	(46,869,745)	46,869,745	-
90	FD - FAS 158 Measure Date Change	-	-	-
91	ST - Enterprise Zone ITC	600,941	(600,941)	-
92	FD - AMT Minimum Tax Credit	10,099,286	-	10,099,286
93	Total SSU General Office (Sum Ln 54 through Ln 92)	$ 179,196,616	$ 206,491,376	$ 385,687,992
94	Allocation to Mid-Tex	38.26%	38.26%	38.26%
95	SSU General Office Allocated to Mid-Tex (Ln 93 times Ln 94)	$ 68,560,625	$ 79,003,600	$ 147,564,226
96				
97	Total SSU ADIT Allocated to Mid-Tex (Ln 50 plus Ln 95)	$ 52,666,274	$ 80,169,023	$ 132,835,297
98				
99	Total ADIT Direct and Allocated (Ln 33 plus Ln 97)	$ (523,654,946)	$ 180,767,517	$ (342,887,429)
100				

101 Notes:
102 1. Credit amounts are in parentheses.
103 2. Adjustments are for those items not included in rate base for ratemaking purposes.
Data Source:

ATMOS ENERGY CORP., MID-TEX DIVISION
ACCUMULATED DEFERRED INCOME TAXES-ACCOUNTS 190/282/283 (1)
TEST YEAR ENDING DECEMBER 31, 2013

Examiner 1

Line No.	Description (a)	Assets / (Liabilities) - Per Book Balances (b)	Adjustments (c)	Assets / (Liabilities) - Adjusted Balances (d) = (b)+(c)
	WP_B-6 ADIT Original.xlsx			
	WP_B-6 ADIT Appeal.xlsx			

ATMOS ENERGY CORP., MID-TEX DIVISION
PENSION AND OTHER POSTEMPLOYMENT BENEFITS REGULATORY ASSET SUMMARY
TEST YEAR ENDING DECEMBER 31, 2013

Line No.	Description (a)		Amounts (b)
1	**Summarization of Pension and Other Postemployment Benefits Regulatory Asset**		
2	GUD 10170 Increment (as of March 31, 2012) (WP_B-7.1)	$	1,759,420
3	FY 2012 April-September Increment (WP_B-7.2)		3,899,828
4	FY 2013 October-December Increment (WP_B-7.3)		2,638,796
5	FY 2013 January-September Increment (WP_B-7.4)		2,185,319
6	FY 2014 October Increment (WP_B-7.5)		47,541
7	FY 2014 November-December Increment (WP_B-7.6)		(273,525)
8	Total Pension and Other Postemployment Benefits Regulatory Asset Net of Amortization (Sum Ln 2 through Ln 7)	$	10,257,378
9			
10	**Summarization of Pension and Other Postemployment Benefits Asset Amortization Adjustment**		
11	GUD 10170 Increment (as of March 31, 2012) (WP_B-7.1) (1)	$	-
12	FY 2012 April-September Increment (WP_B-7.2) (2)		330,494
13	FY 2013 October-December Increment (WP_B-7.3) (2)		223,627
14	FY 2013 January-September Increment (WP_B-7.4) (3)		218,532
15	FY 2014 October Increment (WP_B-7.5) (3)		4,754
16	FY 2014 November-December Increment (WP_B-7.6) (3)		(27,353)
17	Total Pension and Other Postemployment Benefits Regulatory Asset Amortization Adjustment (Sum Ln 11 through Ln 16)	$	750,054
18			
19	Notes:		
20	1. Calendar year 2013 actual O&M contains a full year of amortization of this asset.		
21	2. Calendar year 2013 actual O&M contains 2 months of amortization of this asset.		
22	3. Amortization will begin on June 1, 2014 when rates for this RRM go into effect.		

ATMOS ENERGY CORP., MID-TEX DIVISION
PENSION AND OTHER POSTEMPLOYMENT BENEFITS REGULATORY ASSET
TEST YEAR ENDING DECEMBER 31, 2013
AMORTIZATION SCHEDULE *

Line No.	Year Ended March 31	Beginning of Year Rate Base Adjustment Amount	Annual Amortization (1)	End of Year Rate Base Adjustment Amount (2)	Balance as of December 31, 2013
	(a)	(b)	(c)	(d)	(e)
1	2012			$ 1,954,911	
2	2013	$ 1,954,911	$ 195,491	1,759,420	$ 1,759,420
3	2014	1,759,420	195,491	1,563,929	
4	2015	1,563,929	195,491	1,368,438	
5	2016	1,368,438	195,491	1,172,947	
6	2017	1,172,947	195,491	977,455	
7	2018	977,455	195,491	781,964	
8	2019	781,964	195,491	586,473	
9	2020	586,473	195,491	390,982	
10	2021	390,982	195,491	195,491	
11	2022	195,491	195,491	0	
12					
13					

14 Notes:
15 1. The annual amortization of the Pension and Other Postemployment Benefits Regulatory Asset
16 cost is included in O&M expense on Schedule F-1. The annual amortization is based
17 on a ten year amortization period.
18 2. The Company has included in rate base, as a regulatory asset, the Company's calculated
19 Pension and Other Postemployment Benefits cost in accordance with
20 TEX. UTILITIES CODE, SECTION 104.059.
21 3. The regulatory asset on this workpaper is per the Final Order in GUD 10170.
22 4. The amortization period started in January, 2013 when the GUD 10170 rates
23 became effective. Please see excerpts from the GUD 10170 Final Order which
24 support these amounts.
25 * Totals may vary due to rounding.

ATMOS ENERGY CORP., MID-TEX DIVISION
PENSION AND OTHER POSTEMPLOYMENT BENEFITS REGULATORY ASSET
TEST YEAR ENDING DECEMBER 31, 2013
AMORTIZATION SCHEDULE *

Examiner 1

Line No.	Year Ended September 30	Beginning of Year Rate Base Adjustment Amount	Annual Amortization (1)	End of Year Rate Base Adjustment Amount (2)	Balance as of December 31, 2013
	(a)	(b)	(c)	(d)	(e)
1	2012			$ 3,965,927	
2	2013	$ 3,965,927	$ 66,099	3,899,828	$ 3,899,828
3	2014	3,899,828	396,593	3,503,235	
4	2015	3,503,235	396,593	3,106,642	
5	2016	3,106,642	396,593	2,710,050	
6	2017	2,710,050	396,593	2,313,457	
7	2018	2,313,457	396,593	1,916,864	
8	2019	1,916,864	396,593	1,520,272	
9	2020	1,520,272	396,593	1,123,679	
10	2021	1,123,679	396,593	727,087	
11	2022	727,087	396,593	330,494	
12	2023	330,494	330,494	-	
13					

14 Notes:
15 1. The prorated annual amortization of the Pension and Other Postemployment Benefits Regulatory Asset
16 cost has been included in O&M expense on WP_F-2.8. The annual amortization is based
17 on a ten year amortization period.
18 2. The Company has included in rate base, as a regulatory asset, the Company's calculated
19 Pension and Other Postemployment Benefits cost in accordance with
20 TEX. UTILITIES CODE, SECTION 104.059.
21 3. The calculation of the asset on this workpaper represents the fiscal year 2012
22 Towers Watson report versus the expense level approved in GUD 9869 for the period
23 April 1, 2012 to September 30, 2012. Please see the Relied Upons for documentation
24 supporting this calculation.
25 4. The amortization of this asset began on November 1, 2013 when the rates for the
26 CY2012 RRM went into effect.
27 * Totals may vary due to rounding.

ATMOS ENERGY CORP., MID-TEX DIVISION
PENSION AND OTHER POSTEMPLOYMENT BENEFITS REGULATORY ASSET
TEST YEAR ENDING DECEMBER 31, 2013
AMORTIZATION SCHEDULE *

Line No.	Year Ended December 31	Beginning of Year Rate Base Adjustment Amount	Annual Amortization (1)	End of Year Rate Base Adjustment Amount (2)	Balance as of December 31, 2013
	(a)	(b)	(c)	(d)	(e)
1	2012			$ 2,683,521	
2	2013	$ 2,683,521	$ 44,725	2,638,796	$ 2,638,796
3	2014	2,638,796	268,352	2,370,444	
4	2015	2,370,444	268,352	2,102,091	
5	2016	2,102,091	268,352	1,833,739	
6	2017	1,833,739	268,352	1,565,387	
7	2018	1,565,387	268,352	1,297,035	
8	2019	1,297,035	268,352	1,028,683	
9	2020	1,028,683	268,352	760,331	
10	2021	760,331	268,352	491,979	
11	2022	491,979	268,352	223,627	
12	2023	223,627	223,627	-	

13
14 Notes:
15 1. The prorated annual amortization of the Pension and Other Postemployment Benefits Regulatory Asset
16 cost has been included in O&M expense on WP_F-2.8. The annual amortization is based
17 on a ten year amortization period.
18 2. The Company has included in rate base, as a regulatory asset, the Company's calculated
19 Pension and Other Postemployment Benefits cost in accordance with
20 TEX. UTILITIES CODE, SECTION 104.059.
21 3. The calculation of the asset on this workpaper represents the fiscal year 2013
22 Towers Watson report versus the expense level approved in GUD 9869 for the period
23 October 1, 2012 to December 31, 2012. Please see the Relied Upons for documentation
24 supporting this calculation.
25 4. The amortization of this asset began on November 1, 2013 when the rates for the
26 CY2012 RRM went into effect.
27 * Totals may vary due to rounding.

ATMOS ENERGY CORP., MID-TEX DIVISION
PENSION AND OTHER POSTEMPLOYMENT BENEFITS REGULATORY ASSET
TEST YEAR ENDING DECEMBER 31, 2013
AMORTIZATION SCHEDULE *

Line No.	Year Ended December 31 (a)	Beginning of Year Rate Base Adjustment Amount (b)	Annual Amortization (1) (c)	End of Year Rate Base Adjustment Amount (2) (d)	Balance as of December 31, 2013 (e)
1	2013			$ 2,185,319	$ 2,185,319
2	2014	$ 2,185,319	$ 109,266	2,076,053	
3	2015	2,076,053	218,532	1,857,521	
4	2016	1,857,521	218,532	1,638,989	
5	2017	1,638,989	218,532	1,420,457	
6	2018	1,420,457	218,532	1,201,925	
7	2019	1,201,925	218,532	983,393	
8	2020	983,393	218,532	764,861	
9	2021	764,861	218,532	546,330	
10	2022	546,330	218,532	327,798	
11	2023	327,798	218,532	109,266	
12	2024	109,266	109,266	-	

Notes:

1. The annual amortization of the Pension and Other Postemployment Benefits Regulatory Asset cost has been included in O&M expense on WP_F-2.8. The annual amortization is based on a ten year amortization period.
2. The Company has included in rate base, as a regulatory asset, the Company's calculated Pension and Other Postemployment Benefits cost in accordance with TEX. UTILITIES CODE, SECTION 104.059.
3. The calculation of the asset on this workpaper represents the fiscal year 2013 Towers Watson report versus the expense level approved in GUD 10170 for the period January 1, 2013 to September 30, 2013. Please see the Relied Upons for documentation supporting this calculation.
4. The amortization of this asset will begin on June 1, 2014 when the rates for this RRM go into effect.

* Totals may vary due to rounding.

ATMOS ENERGY CORP., MID-TEX DIVISION
PENSION AND OTHER POSTEMPLOYMENT BENEFITS REGULATORY ASSET
TEST YEAR ENDING DECEMBER 31, 2013
AMORTIZATION SCHEDULE *

Line No.	Year Ended December 31	Beginning of Year Rate Base Adjustment Amount	Annual Amortization (1)	End of Year Rate Base Adjustment Amount (2)	Balance as of December 31, 2013
	(a)	(b)	(c)	(d)	(e)
1	2013			$ 47,541	$ 47,541
2	2014	$ 47,541	$ 2,377	45,164	
3	2015	45,164	4,754	40,410	
4	2016	40,410	4,754	35,656	
5	2017	35,656	4,754	30,902	
6	2018	30,902	4,754	26,148	
7	2019	26,148	4,754	21,394	
8	2020	21,394	4,754	16,640	
9	2021	16,640	4,754	11,885	
10	2022	11,885	4,754	7,131	
11	2023	7,131	4,754	2,377	
12	2024	2,377	2,377	-	

13
14 Notes:
15 1. The annual amortization of the Pension and Other Postemployment Benefits Regulatory Asset
16 cost has been included in O&M expense on WP_F-2.8. The annual amortization is based
17 on a ten year amortization period.
18 2. The Company has included in rate base, as a regulatory asset, the Company's calculated
19 Pension and Other Postemployment Benefits cost in accordance with
20 TEX. UTILITIES CODE, SECTION 104.059.
21 3. The calculation of the asset on this workpaper represents the fiscal year 2014
22 Towers Watson report versus the expense level approved in GUD 10170 for October 2013.
23 Please see the relied upons for documentation supporting this calculation.
24 4. The amortization of this asset will begin on June 1, 2014 when the rates for
25 this RRM go into effect.
26 * Totals may vary due to rounding.

ATMOS ENERGY CORP., MID-TEX DIVISION
PENSION AND OTHER POSTEMPLOYMENT BENEFITS REGULATORY ASSET
TEST YEAR ENDING DECEMBER 31, 2013
AMORTIZATION SCHEDULE *

Line No.	Year Ended December 31	Beginning of Year Rate Base Adjustment Amount	Annual Amortization (1)	End of Year Rate Base Adjustment Amount (2)	Balance as of December 31, 2013
	(a)	(b)	(c)	(d)	(e)
1	2013			$ (273,525)	$ (273,525)
2	2014	$ (273,525)	$ (13,676)	(259,849)	
3	2015	(259,849)	(27,353)	(232,496)	
4	2016	(232,496)	(27,353)	(205,144)	
5	2017	(205,144)	(27,353)	(177,791)	
6	2018	(177,791)	(27,353)	(150,439)	
7	2019	(150,439)	(27,353)	(123,086)	
8	2020	(123,086)	(27,353)	(95,734)	
9	2021	(95,734)	(27,353)	(68,381)	
10	2022	(68,381)	(27,353)	(41,029)	
11	2023	(41,029)	(27,353)	(13,676)	
12	2024	(13,676)	(13,676)	-	
13					

14 Notes:
15 1. The annual amortization of the Pension and Other Postemployment Benefits Regulatory Asset
16 cost has been included in O&M expense on WP_F-2.8. The annual amortization is based
17 on a ten year amortization period.
18 2. The Company has included in rate base, as a regulatory asset, the Company's calculated
19 Pension and Other Postemployment Benefits cost in accordance with
20 TEX. UTILITIES CODE, SECTION 104.059.
21 3. The calculation of the asset on this workpaper represents the fiscal year 2014
22 Towers Watson report versus the expense level approved in the CY2012 RRM for November and
23 December 2013. Please see the relied upons for documentation supporting this calculation.
24 4. The amortization of this asset will begin on June 1, 2014 when the rates for
25 this RRM go into effect.
26 * Totals may vary due to rounding.

ATMOS ENERGY CORP., MID-TEX DIVISION
COMPONENTS OF RATE BASE- GROSS PLANT
AS OF DECEMBER 31, 2013

Examiner 1

Line No.	Account (a)	Account Description (b)	Reference (c)	Amount Per Books (d)	Adjustments (1) (e)	Adjusted Balance (f)=(d)+(e)
1	Mid-Tex:					
2	Distribution Plant					
3	374	Land		$ 852,672	$ -	$ 852,672
4	374	Land Rights		3,430,946	-	3,430,946
5	374	Land & Land Rights		-	(291)	(291)
6	375	Structures & Improvements		1,530,179	-	1,530,179
7	376.00	Mains-Cathodic Protection		207,037,570	(48,608,058)	158,429,512
8	376.01	Mains-Steel		453,819,397	5,405,236	459,224,633
9	376.02	Mains-Plastic		1,053,683,561	12,374,734	1,066,058,295
10	378	M&R Station Equipment - General		49,029,302	318,293	49,347,595
11	379	M&R Station Equipment - City Gate		5,513,898	(0)	5,513,898
12	380	Services		931,698,533	(30,329,128)	901,369,405
13	381	Meters		190,947,401	130,681	191,078,083
14	382	Meter Installations		110,659,582	372,914	111,032,496
15	383	House Regulators		67,980,622	73,266	68,053,888
16	385	Industrial M&R Station Equipment		2,139,967	49,249	2,189,217
17		Total (Sum of Ln 3 through Ln 16)		$ 3,078,323,631	$ (60,213,104)	$ 3,018,110,527
18						
19	General Plant					
20	302	Franchises & Consents		$ 18,896	$ -	$ 18,896
21	303	Computer Software		3,598,424	(212,093)	3,386,331
22	389	Land		4,099,851	-	4,099,851
23	390	Structures & Improvements		35,654,250	-	35,654,250
24	390	Air Conditioning Equipment		180,268	-	180,268
25	391	Office Furniture & Equipment		14,058,404	(50,584)	14,007,820
26	392	Transportation Equipment		3,386,584	(66,384)	3,320,200
27	393	Stores Equipment		136,912	-	136,912
28	394	Tools, Shop, and Garage Equipment		14,001,750	-	14,001,750
29	395	Laboratory Equipment		365,279	-	365,279
30	396	Power Oper. Tool & Work Equipment		2,503,496	-	2,503,496
31	397	Radio Communication Equipment		5,242,788	-	5,242,788
32	398	Miscellaneous Equipment		1,846,979	-	1,846,979
33	399	Other Tangible Property		112,200	-	112,200
34	399.01	Other Tangible Property-Servers Hardware		539,315	-	539,315
35	399.02	Other Tangible Property-Servers Software		69,173	-	69,173
36	399.03	Other Tangible Property-Network-Hardware		543,001	-	543,001
37	399.06	Other Tangible Property-PC Hardware		10,066,546	-	10,066,546
38	399.07	Other Tangible Property-PC Software		691,056	-	691,056
39	399.08	Other Tangible Property-Application Software		3,658,987	-	3,658,987
40		Total (Sum of Ln 20 through Ln 39)		$ 100,774,159	$ (329,060)	$ 100,445,098
41						
42		Total Mid-Tex Direct (Ln 17 plus Ln 40)		$ 3,179,097,789	$ (60,542,164)	$ 3,118,555,625
43						
44						

ATMOS ENERGY CORP., MID-TEX DIVISION
COMPONENTS OF RATE BASE- GROSS PLANT
AS OF DECEMBER 31, 2013

Examiner 1

Line No.	Account (a)	Account Description (b)	Reference (c)	Amount Per Books (d)	Adjustments (1) (e)	Adjusted Balance (f)=(d)+(e)
45	SSU - Customer Support (Div 012):					
46	General Plant					
47	389	Land & Land Rights		$ 2,874,240	$ -	$ 2,874,240
48	390	Structures & Improvements		12,556,050	19,982	12,576,032
49	390.09	Improvements to Leased Premises		4,298,434	(12,528)	4,285,907
50	391	Office Furniture & Equipment		2,268,664	(44,156)	2,224,508
51	391.02	Remittance Processing Equipment		-	-	-
52	391.03	Office Furniture & Equipment		-	-	-
53	392	Transportation Equipment		-	-	-
54	393	Stores Equipment		-	-	-
55	394	Tools & Work Equipment		-	-	-
56	397	Communication Equipment - Telephone		1,962,785	-	1,962,785
57	398	Miscellaneous Equipment		25,439	-	25,439
58	399	Other Tangible Property		629,166	-	629,166
59	399.01	Other Tangible Property-Servers Hardware		7,682,644	242,072	7,924,716
60	399.02	Other Tangible Property-Servers Software		1,786,302	-	1,786,302
61	399.03	Other Tangible Property-Network-Hardware		494,406	-	494,406
62	399.04	Other Tangible Property-CPU		-	-	-
63	399.05	Other Tangible Property-MF Hardware		-	-	-
64	399.06	Other Tangible Property-PC Hardware		864,718	-	864,718
65	399.07	Other Tangible Property-PC Software		499,710	-	499,710
66	399.08	Other Tangible Property-Application Software		107,327,365	751,048	108,078,413
67	399.09	Other Tangible Property-System Software		-	-	-
68	399.24	Other Tangible Property-GenStartupCost		-	-	-
69		Total (Sum of Ln 47 through Ln 68)		$ 143,269,925	$ 956,418	$ 144,226,343
70		Allocation to Mid-Tex		51.84%	51.84%	51.84%
71		Customer Support Allocated to Mid-Tex (Ln 69 times Ln 70)		$ 74,271,129	$ 495,807	$ 74,766,936
72	SSU - Customer Support (Div 012):					
73	General Plant					
74	Charles K. Vaughn Center					
75	389	Land & Land Rights		$ 1,887,123	$ -	$ 1,887,123
76	390.10	Structures & Improvements		10,414,663	-	10,414,663
77	397.10	Communication Equipment		271,621	-	271,621
78	399.10	Other Tangible Equipment		91,992	-	91,992
79	399.16	PC Hardware		194,015	-	194,015
80	399.17	PC Software		90,541	-	90,541
81		Total (Sum of Ln 75 through Ln 80)		$ 12,949,956	$ -	$ 12,949,956
82		Allocation to Mid-Tex		80.67%	80.67%	80.67%
83		Customer Support: Charles K. Vaughn Center Allocated to Mid-Tex (Ln 81 times Ln 82)		$ 10,446,515	$ -	$ 10,446,515
84		Total Customer Support Allocated to Mid-Tex (Ln 71 plus Ln 83)		$ 84,717,644	$ 495,807	$ 85,213,452
85						
86						

ATMOS ENERGY CORP., MID-TEX DIVISION
COMPONENTS OF RATE BASE- GROSS PLANT
AS OF DECEMBER 31, 2013

Examiner 1

Line No.	Account (a)	Account Description (b)	Reference (c)	Amount Per Books (d)	Adjustments (1) (e)	Adjusted Balance (f)=(d)+(e)
87	SSU - General Office (Div 002):					
88	General Plant					
89	390	Structures & Improvements		$ 486,269	$ -	$ 486,269
90	390	Improvements to Leased Premises		8,856,029	(528,237)	8,327,793
91	391	Office Furniture & Equipment		9,298,222	(422,046)	8,876,176
92	391.02	Remittance Processing Equipment		-	-	-
93	391.03	Office Furniture & Equipment		-	-	-
94	392	Transportation Equipment		99,143	-	99,143
95	393	Stores Equipment		-	-	-
96	394	Tools & Work Equipment		252,397	-	252,397
97	395	Laboratory Equipment		23,632	-	23,632
98	397	Communication Equipment - Telephone		2,448,692	-	2,448,692
99	398	Miscellaneous Equipment		466,272	-	466,272
100	399	Other Tangible Property		162,268	-	162,268
101	399.01	Other Tangible Property-Servers Hardware		29,080,621	(242,072)	28,838,549
102	399.02	Other Tangible Property-Servers Software		14,345,090	-	14,345,090
103	399.03	Other Tangible Property-Network-Hardware		3,559,602	-	3,559,602
104	399.04	Other Tangible Property-CPU		-	-	-
105	399.05	Other Tangible Property-MF Hardware		-	-	-
106	399.06	Other Tangible Property-PC Hardware		2,621,505	-	2,621,505
107	399.07	Other Tangible Property-PC Software		1,019,047	-	1,019,047
108	399.08	Other Tangible Property-Application Software		94,850,996	(1,787,781)	93,063,215
109	399.09	Other Tangible Property-System Software		1,010,232	-	1,010,232
110	399.24	Other Tangible Property-GenStartupCost		-	-	-
111		Total (Sum of Ln 89 through Ln 110)		$ 168,580,018	$ (2,980,136)	$ 165,599,882
112		Allocation to Mid-Tex		38.26%	38.26%	38.26%
113		General Office Allocated to Mid-Tex (Ln 111 times Ln 112)		$ 64,498,715	$ (1,140,200)	$ 63,358,515
114	SSU - General Office (Div 002):					
115	General Plant					
116	Greenville Data Center (010.11520)					
117	390.05	G-Structures & Improvements		$ 9,154,286	$ (66,386)	$ 9,087,900
118	391.04	G-Office Furniture & Equip.		63,741	-	63,741
119		Total (Sum of Ln 117 through Ln 118)		$ 9,218,027	$ (66,386)	$ 9,151,641
120		Allocation to Mid-Tex		13.75%	13.75%	13.75%
121		General Office: Greenville Data Center Allocated to Mid-Tex (Ln 119 times Ln 120)		$ 1,267,453	$ (9,128)	$ 1,258,325
122						
123		Total General Office Allocated to Mid-Tex (Ln 113 plus Ln 121)		$ 65,766,168	$ (1,149,328)	$ 64,616,840
124						
125		Total SSU Plant Allocated to Mid-Tex (Ln 84 plus Ln 123)		$ 150,483,812	$ (653,521)	$ 149,830,291
126						
127		Total Mid-Tex Gross Plant (Ln 42 plus Ln 125)		$ 3,329,581,601	$ (61,195,685)	$ 3,268,385,916

128 Note:
129 1. Please see relied upon "Schedule C Adjustment.xlsx" for details related to adjustments shown in Col (e). The adjustments include removal of
130 Poly 1 previously disallowed and other known and measurable adjustments to gross plant. Additionally, the Company has chosen to
131 voluntarily remove projects related to fatigue mitigation and Boardroom furniture.

PAGE INTENTIONALLY LEFT BLANK - NO ADJUSTMENT

Examiner 1

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ATMOS ENERGY CORP., MID-TEX DIVISION
COMPONENTS OF RATE BASE- ACCUMULATED DEPRECIATION
AS OF DECEMBER 31, 2013

Line No.	Account	Account Description	Reference	Amount Per Books	Adjustments	Adjusted Balance
	(a)	(b)	(c)	(d)	(e)	(f)=(d)+(e)
1	Mid-Tex:					
2	Distribution Plant					
3	374	Land		$ 90	$ -	$ 90
4	374	Land Rights		1,345,061	-	1,345,061
5	374	Land & Land Rights		0		0
6	375	Structures & Improvements		913,042	-	913,042
7	376	Mains-Cathodic Protection		87,222,232	(42,925,432)	44,296,800
8	376	Mains-Steel		219,572,469	-	219,572,469
9	376	Mains-Plastic		326,608,276	(12,369)	326,595,907
10	378	M&R Station Equipment - General		19,517,206	-	19,517,206
11	379	M&R Station Equipment - City Gate		2,690,482	-	2,690,482
12	380	Services		320,262,049	(34,343,146)	285,918,903
13	381	Meters		65,528,227	-	65,528,227
14	382	Meter Installations		31,774,814	-	31,774,814
15	383	House Regulators		18,303,833	-	18,303,833
16	385	Industrial M&R Station Equipment		361,047	-	361,047
17		Total (Sum of Ln 3 through Ln 16)		$ 1,094,098,827	$ (77,280,947)	$ 1,016,817,880
18						
19	General Plant					
20	302	Franchises & Consents		$ 7,231	$ -	$ 7,231
21	303	Computer Software		3,598,424	(123,721)	3,474,703
22	389	Land		(7,055)	-	(7,055)
23	390	Structures & Improvements		10,016,606	-	10,016,606
24	390	Air Conditioning Equipment		26,699	-	26,699
25	391	Office Furniture & Equipment		3,618,809	(4,006)	3,614,803
26	392	Transportation Equipment		524,511	(6,001)	518,510
27	393	Stores Equipment		20,429	-	20,429
28	394	Tools, Shop, and Garage Equipment		2,569,565	-	2,569,565
29	395	Laboratory Equipment		61,213	-	61,213
30	396	Power Oper. Tool & Work Equipment		556,017	-	556,017
31	397	Radio Communication Equipment		2,060,208	-	2,060,208
32	398	Miscellaneous Equipment		266,683	-	266,683
33	399	Other Tangible Property		16,907	-	16,907
34	399.01	Other Tangible Property-Servers Hardware		305,559	-	305,559
35	399.02	Other Tangible Property-Servers Software		30,558	-	30,558
36	399.03	Other Tangible Property-Network-Hardware		181,764	-	181,764
37	399.06	Other Tangible Property-PC Hardware		4,278,650	-	4,278,650
38	399.07	Other Tangible Property-PC Software		175,662	-	175,662
39	399.08	Other Tangible Property-Application Software		1,083,609	-	1,083,609
40	RWIP	Retirement Work in Progress		(1,748,918)	-	(1,748,918)
41		Total (Sum of Ln 20 through Ln 40)		$ 27,643,127	$ (133,728)	$ 27,509,399
42						
43		Total Mid-Tex Direct (Ln 17 plus Ln 41)		$ 1,121,741,954	$ (77,414,675)	$ 1,044,327,279
44						
45						

ATMOS ENERGY CORP., MID-TEX DIVISION
COMPONENTS OF RATE BASE- ACCUMULATED DEPRECIATION
AS OF DECEMBER 31, 2013

Line No.	Account (a)	Account Description (b)	Reference (c)	Amount Per Books (d)	Adjustments (e)	Adjusted Balance (f)=(d)+(e)
46	SSU - Customer Support (Div 012):					
47	General Plant					
48	390	Structures & Improvements		$ 2,416,998	$ -	$ 2,416,998
49	390.09	Improvements to Leased Premises		3,324,344	(4,784)	3,319,560
50	391	Office Furniture & Equipment		177,881	(2,001)	175,880
51	391.02	Remittance Processing Equipment		-	-	-
52	391.03	Office Furniture & Equipment		-	-	-
53	392	Transportation Equipment		-	-	-
54	393	Stores Equipment		-	-	-
55	394	Tools & Work Equipment		-	-	-
56	397	Communication Equipment - Telephone		(6,289,146)	-	(6,289,146)
57	398	Miscellaneous Equipment		555	-	555
58	399	Other Tangible Property		59,127	-	59,127
59	399.01	Other Tangible Property-Servers Hardware		1,750,034	-	1,750,034
60	399.02	Other Tangible Property-Servers Software		614,636	-	614,636
61	399.03	Other Tangible Property-Network-Hardware		(13,652)	-	(13,652)
62	399.04	Other Tangible Property-CPU		-	-	-
63	399.05	Other Tangible Property-MF Hardware		-	-	-
64	399.06	Other Tangible Property-PC Hardware		(138,408)	-	(138,408)
65	399.07	Other Tangible Property-PC Software		247,749	-	247,749
66	399.08	Other Tangible Property-Application Software		33,134,096	-	33,134,096
67	399.09	Other Tangible Property-System Software		-	-	-
68	399.24	Other Tangible Property-GenStartupCost		0	-	0
69	RWIP	Retirement Work in Progress		-	-	-
70		Total (Sum of Ln 48 through Ln 69)		$ 35,284,213	$ (6,785)	$ 35,277,429
71		Allocation to Mid-Tex		51.84%	51.84%	51.84%
72		Customer Support Allocated to Mid-Tex (Ln 70 times Ln 71)		$ 18,291,336	$ (3,517)	$ 18,287,819
73	SSU - Customer Support (Div 012):					
74	General Plant					
75	Charles K. Vaughn Center					
76	389	Land & Land Rights		$ -	$ -	$ -
77	390.10	Structures & Improvements		2,402,350	-	2,402,350
78	397.10	Communication Equipment		67,196	-	67,196
79	399.10	Other Tangible Equipment		25,435	-	25,435
80	399.16	PC Hardware		86,500	-	86,500
81	399.17	PC Software		25,134	-	25,134
82		Total (Sum of Ln 76 through Ln 81)		$ 2,606,616	$ -	$ 2,606,616
83		Allocation to Mid-Tex		80.67%	80.67%	80.67%
84		Customer Support: Charles K. Vaughn Center Allocated to Mid-Tex (Ln 82 times Ln 83)		$ 2,102,714	$ -	$ 2,102,714
85						
86		Total Customer Support Allocated to Mid-Tex (Ln 72 plus Ln 84)		$ 20,394,050	$ (3,517)	$ 20,390,533
87						
88						

ATMOS ENERGY CORP., MID-TEX DIVISION
COMPONENTS OF RATE BASE- ACCUMULATED DEPRECIATION
AS OF DECEMBER 31, 2013

Line No.	Account (a)	Account Description (b)	Reference (c)	Amount Per Books (d)	Adjustments (e)	Adjusted Balance (f)=(d)+(e)
89	SSU - General Office (Div 002):					
90	General Plant					
91	390	Structures & Improvements		$ 16,702	$ -	$ 16,702
92	390	Improvements to Leased Premises		8,853,591	(123,837)	8,729,754
93	391	Office Furniture & Equipment		5,699,136	(39,309)	5,659,827
94	391.02	Remittance Processing Equipment		5,860	-	5,860
95	391.03	Office Furn. - Copiers & Type		2,888	-	2,888
96	392	Transportation Equipment		58,897	-	58,897
97	393	Stores Equipment		758	-	758
98	394	Tools & Work Equipment		56,590	-	56,590
99	395	Laboratory Equipment		4,086	-	4,086
100	397	Communication Equipment - Telephone		1,042,817	-	1,042,817
101	398	Miscellaneous Equipment		97,649	-	97,649
102	399	Other Tangible Property		76,268	-	76,268
103	399.01	Other Tangible Property-Servers Hardware		9,692,078	-	9,692,078
104	399.02	Other Tangible Property-Servers Software		5,083,843	-	5,083,843
105	399.03	Other Tangible Property-Network-Hardware		1,975,435	-	1,975,435
106	399.04	Other Tangible Property-CPU		17,152	-	17,152
107	399.05	Other Tangible Property-MF Hardware		15,410	-	15,410
108	399.06	Other Tangible Property-PC Hardware		2,413,120	-	2,413,120
109	399.07	Other Tangible Property-PC Software		991,225	-	991,225
110	399.08	Other Tangible Property-Application Software		66,266,886	(377,719)	65,889,167
111	399.09	Other Tangible Property-System Software		1,124,774	-	1,124,774
112	399.24	Other Tangible Property-GenStartupCost		0	-	0
113		Retirement Work in Progress		(408)	-	(408)
114		Total (Sum of Ln 91 through Ln 113)		$ 103,494,759	$ (540,865)	$ 102,953,894
115		Allocation to Mid-Tex		38.26%	38.26%	38.26%
116		General Office Allocated to Mid-Tex (Ln 114 times Ln 115)		$ 39,597,095	$ (206,935)	$ 39,390,160
117	SSU - General Office (Div 002):					
118	General Plant					
119	Greenville Data Center (010.11520)					
120	390.05	G-Structures & Improvements		$ 2,771,970	$ (18,830)	$ 2,753,139
121	391.04	G-Office Furniture & Equip.		7,043	-	7,043
122		Total (Sum of Ln 120 through Ln 121)		$ 2,779,013	$ (18,830)	$ 2,760,182
123		Allocation to Mid-Tex		13.75%	13.75%	13.75%
124		General Office: Greenville Data Center Allocated to Mid-Tex (Ln 122 times Ln 123)		$ 382,106	$ (2,589)	$ 379,517
125						
126		Total General Office Allocated to Mid-Tex (Ln 116 plus Ln 124)		$ 39,979,201	$ (209,524)	$ 39,769,677
127						
128		Total SSU Accumulated Depreciation Allocated to Mid-Tex (Ln 86 plus Ln 126)		$ 60,373,251	$ (213,041)	$ 60,160,210
129						
130		Total Mid-Tex Accumulated Depreciation (Ln 43 plus Ln 128)		$ 1,182,115,204	$ (77,627,716)	$ 1,104,487,489
131						

132 Note:
133 1. Please see relied upon "Schedule D Adjustment.xlsx" for details related to adjustments shown in Col (e). The adjustments include removal of Poly 1
134 previously disallowed and other known and measurable adjustments to accumulated depreciation.

ATMOS ENERGY CORP., MID-TEX DIVISION
CASH WORKING CAPITAL
TEST YEAR ENDING DECEMBER 31, 2013

Examiner 1

Line No.	Description (a)	Test Year Expenses (b)	Reference (c)	Avg. Daily Expense (d)=(b)/365	Revenue Lag (e)	Expense Lag (f)	Net Lag (g)=(e)-(f)	Working Capital Requirement (h)=(d)x(g)
1	Gas Supply Expense							
2	Rider GCR Part A	$ 520,339,930	Schedule H	$ 1,425,589	36.17	40.40	(4.23)	$ (6,029,632)
3	Rider GCR Part B	203,655,201	Schedule I	557,959	36.17	38.20	(2.03)	(1,132,658)
4	Total Gas Supply Expense	$ 723,995,131	Sum Ln 2 through Ln 3					$ (7,162,290)
5								
6	Operation & Maintenance							
7	Other O&M - Labor (1)	$ 58,671,864	(2)	$ 160,745	36.17	25.71	10.46	$ 1,681,391
8	Other O&M - Non-Labor	104,435,979	Ln 9 minus Ln 7	286,126	36.17	32.24	3.93	1,124,475
9	Total Operation & Maintenance	$ 163,107,843	Schedule F-1					$ 2,805,866
10								
11	Taxes Other Than Income							
12	Ad Valorem	$ 23,476,504	Schedule F-5	$ 64,319	36.17	213.50	(177.33)	$ (11,405,722)
13	Payroll Taxes	2,302,081	Schedule F-5	6,307	36.17	31.61	4.56	28,760
14	Franchise Fees (3)	24,885,110	Schedule F-5 x CWC factor	68,178	36.17	99.24	(63.07)	(4,300,175)
15	Railroad Commission Fee	59,543	Schedule F-5	163	36.17	94.84	(58.67)	(9,571)
16								
17	Allocated Taxes-Shared Services:							
18	Ad Valorem	446,917	WP_F-5.1,Col (b), Ln 61	$ 1,224	36.17	213.50	(177.33)	(217,128)
19	Payroll Taxes	2,008,529	WP_F-5.1,Col (b), Ln 50	5,503	36.17	31.61	4.56	25,093
20	Total Taxes Other Than Income Taxes	$ 53,178,684	Sum Ln 12 through Ln 19					$ (15,878,742)
21								
22	State Income Tax ("Gross Margin")	$ 5,034,526	Schedule F-6	$ 13,793	36.17	(47.00)	83.17	$ 1,147,182
23								
24	Current Federal Income Tax	$ -	(4)	$ -	36.17	36.75	(0.58)	$ -
25								
26	Interest on Customer Deposits	$ 18,924	Schedule F-7	$ 52	36.17	331.83	(295.66)	$ (15,329)
27								
28	Total Cash Working Capital Requirement		Sum Lns 4,9,20,22,24,26					$ (19,103,313)
29								
30	Note:							
31	1. Includes Mid-Tex and SSU Labor and Mid-Tex Direct MIP/VIP (excludes SSU MIP/VPP)							
32	2. WP_F-5.1, Col (b), Ln 45 + WP_F-2.1, Col (e) Ln 17 + WP_F-2.1 Page 2, Col (c) Ln 31+ Mid-Tex per book MIP/VPP							
33	3. Paid in Arrears portion of Franchise Fees is per the GUD 10170 CWC study							
34	4. Schedule F-6, page 1, Col (b), Ln 1 plus WP_B-6 Col (d), Ln 97 minus WP_E-1 Col (d), Ln 97 is less than zero so zero is used.							

ATMOS ENERGY CORP., MID-TEX DIVISION
BEGINNING BALANCE ACCUMULATED DEFERRED INCOME TAXES-ACCOUNTS 190/282/283 (1)
TEST YEAR ENDING DECEMBER 31, 2013

Line No.	Description (a)	Assets / (Liabilities) - Per Book Balances at 12/31/12 (b)	Adjustments (c)	Assets / (Liabilities) - Adjusted Balances at 12/31/12 (d) = (b)+(c)
1	Mid-Tex:			
2	Ad Valorem Taxes	$ (1,430,739)	$ -	$ (1,430,739)
3	MIP/VPP Accrual	595,202	-	595,202
4	Miscellaneous Accrued	3,976	-	3,976
5	Self Insurance - Adjustment	174,378	(174,378)	-
6	Vacation Accrual	4,191	-	4,191
7	Worker's Comp Insurance Reserve	626,918	-	626,918
8	SEBP Adjustment	434,017	-	434,017
9	Pension Expense	-	-	-
10	FAS 106 Adjustment	22,936,833	-	22,936,833
11	CWIP	2,992,688	(2,992,688)	-
12	Fixed Asset Cost Adjustment	(541,918,787)	-	(541,918,787)
13	Depreciation Adjustment	147,705,874	-	147,705,874
14	Deferred Gas Costs	(15,885,451)	15,885,451	-
15	Over Recoveries of PGA	(3,555,514)	3,555,514	-
16	TXU Goodwill Amortization	(71,050,182)	71,050,182	-
17	Deferred Expense Projects	(519,355)	-	(519,355)
18	Deferred Projects - TXU Acquistion	-	-	-
19	Unicap Section 263A Costs	2,139,744	(2,139,744)	-
20	Allowance for Doubtful Accounts	1,195,530	(1,195,530)	-
21	Clearing Account-Adjustment	1,352	-	1,352
22	Charitable Contribution Carryover	1,835,607	(1,835,607)	-
23	Prepayments	(585,754)	-	(585,754)
24	Rate Case Accrual	(5,645,692)	5,645,692	-
25	WACOG to FIFO Adjustment	(3,772,046)	3,772,046	-
26	Regulatory Liability-Mid-Tex	-	-	-
27	Intra Period Tax Allocation	2,117,961	(2,117,961)	-
28	State Net Operating Loss	907,710	-	907,710
29	Federal Tax on State NOL	(317,699)	-	(317,699)
30	Total Mid-Tex Direct (Sum Ln 2 through Ln 29)	$ (461,009,238)	$ 89,452,977	$ (371,556,260)
31				

ATMOS ENERGY CORP., MID-TEX DIVISION
BEGINNING BALANCE ACCUMULATED DEFERRED INCOME TAXES-ACCOUNTS 190/282/283 (1)
TEST YEAR ENDING DECEMBER 31, 2013

Line No.	Description (a)	Assets / (Liabilities) - Per Book Balances at 12/31/12 (b)	Adjustments (c)	Assets / (Liabilities) - Adjusted Balances at 12/31/12 (d) = (b)+(c)
32	SSU - Customer Support:			
33	MIP/VPP Accrual	$ (171,475)	$ 171,475	$ -
34	Vacation Accrual	(89,728)	-	(89,728)
35	Worker's Comp Insurance Reserve	-	-	-
36	FAS 106 Adjustment	(834)	-	(834)
37	CWIP	(15,264,555)	15,264,555	-
38	Fixed Asset Cost Adjustment	(37,322,078)	-	(37,322,078)
39	Depreciation Adjustment	26,306,713	-	26,306,713
40	Clearing Account-Adjustment	264	-	264
41	Charitable Contribution Carryover	16,325	(16,325)	-
42	Prepayments	(1,376,000)	-	(1,376,000)
43	Intra Period Tax Allocation	-	-	-
44	Total Customer Support (Sum Ln 33 through Ln 43)	$ (27,901,369)	$ 15,419,705	$ (12,481,664)
45	Allocation to Mid-Tex	51.84%	51.84%	51.84%
46	SSU Customer Support Allocated to Mid-Tex (Ln 44 times Ln 45)	$ (14,464,070)	$ 7,993,575	$ (6,470,495)
47				
48				
49	SSU - General Office:			
50	Director's Deferred Bonus	$ 186,744	$ -	$ 186,744
51	MIP/VPP Accrual	1,887,068	(1,887,068)	-
52	Miscellaneous Accrued	14,445	-	14,445
53	Self Insurance - Adjustment	2,276,932	(2,276,932)	-
54	Vacation Accrual	95,162	-	95,162
55	Worker's Comp Insurance Reserve	17,875	-	17,875
56	Rabbi Trust - True Up	-	-	-
57	SEBP Adjustment	26,151,981	(26,151,981)	-
58	Restricted Stock Grant Plan	7,061,014	-	7,061,014
59	Rabbi Trust	1,650,300	(1,650,300)	-
60	Restricted Stock - MIP	5,675,325	(5,675,325)	-
61	Director's Stock Awards	2,843,211	-	2,843,211
62	Director's Stock - Temp	-	-	-
63	Pension Expense	(33,362,509)	-	(33,362,509)
64	FAS 106 Adjustment	7,089,844	-	7,089,844
65	CWIP	(354,579)	354,579	-
66	Fixed Asset Cost Adjustment	(28,871,903)	-	(28,871,903)
67	Depreciation Adjustment	413,439	-	413,439

ATMOS ENERGY CORP., MID-TEX DIVISION
BEGINNING BALANCE ACCUMULATED DEFERRED INCOME TAXES-ACCOUNTS 190/282/283 (1)
TEST YEAR ENDING DECEMBER 31, 2013

Line No.	Description	Assets / (Liabilities) - Per Book Balances at 12/31/12	Adjustments	Assets / (Liabilities) - Adjusted Balances at 12/31/12
	(a)	(b)	(c)	(d) = (b)+(c)
68	Section 481(a) Cushion Gas	549,284	(549,284)	-
69	Section 481(a) Line Pack Gas	66,648	(66,648)	-
70	IRS Audit Assessment - Cost	-	-	-
71	IRS Audit Assessment - Accum	-	-	-
72	Deferred Expense Projects	(1,701)	-	(1,701)
73	Allowance for Doubtful Accounts	2	(2)	-
74	Clearing Account-Adjustment	51,621	-	51,621
75	Charitable Contribution Carryover	3,901,046	(3,901,046)	-
76	Prepayments	(435,312)	-	(435,312)
77	Stock Option Expense	327,592	-	327,592
78	Federal & State Tax Interest	(87,252)	-	(87,252)
79	Regulatory Liability-Atmos 109	5,022	-	5,022
80	Intra Period Tax Allocation	-	-	-
81	FD - NOL Credit Carryforward - Utility	356,963,785	-	356,963,785
82	FD - NOL Credit Carryforward - Non Reg	(198,618,785)	198,618,785	-
83	ST - State Net Operating Loss	1	-	1
84	FD - FAS 115 Adjustment	(3,110,269)	-	(3,110,269)
85	FD - Federal Tax on State NOL	2	-	2
86	FD - Treasury Lock Adjustment-Realized	(5,774,625)	-	(5,774,625)
87	FD - Treasury Lock Adjustment-Unrealized	24,173,617	(24,173,617)	-
88	FD - FAS 158 Measure Date Change	(61,451)	-	(61,451)
89	ST - Enterprise Zone ITC	484,812	(484,812)	-
90	FD - AMT Minimum Tax Credit	10,099,286	-	10,099,286
91	Total SSU General Office (Sum Ln 50 through Ln 90)	$ 181,307,672	$ 132,156,348	$ 313,464,021
92	Allocation to Mid-Tex	38.26%	38.26%	38.26%
93	SSU General Office Allocated to Mid-Tex (Ln 91 times Ln 92)	$ 69,368,315	$ 50,563,019	$ 119,931,334
94				
95	Total SSU ADIT Allocated to Mid-Tex (Ln 46 plus Ln 93)	$ 54,904,246	$ 58,556,594	$ 113,460,840
96				
97	Total ADIT Direct and Allocated (Ln 30 plus Ln 95)	$ (406,104,992)	$ 148,009,571	$ (258,095,421)

98 Note:
99 1: Credit amounts are in parentheses.

ATMOS ENERGY CORP., MID-TEX DIVISION
OPERATION AND MAINTENANCE EXPENSES
TEST YEAR ENDING DECEMBER 31, 2013

Line No.	FERC Acct	Description	Per Book Amount	Adjustments	Adjusted Amount
	(a)	(b)	(c)	(d)	(e)=(c)+(d)
1	840	Other Storage - Operation Supervision and Engineering	$ 69	$ (69)	$ -
2	870	Operation Supervision and Engineering	2,827,680	26,166	2,853,846
3	871	Distribution Load Dispatching	1,047,162	-	1,047,162
4	872	Compressor Station Labor and Expenses	-	-	-
5	874	Mains and Services Expenses	37,795,944	280,868	38,076,811
6	875	Measuring and Regulating Station Expenses - General	31,171	818	31,989
7	876	Measuring and Regulating Station Expenses - Industrial	21,804	-	21,804
8	877	Measuring and Regulating Station Exp. - City Gate Chk. Sta.	1,660	49	1,709
9	878	Meter and House Regulator Expenses	3,117,473	91,083	3,208,556
10	879	Customer Installations Expenses	620,719	18,246	638,965
11	880	Other Expenses	5,457,455	5,565	5,463,021
12	881	Rents	68,230	-	68,230
13	885	Maintenance Supervision and Engineering	-	-	-
14	886	Maintenance of Structures and Improvements	18,140	-	18,140
15	887	Maintenance of Mains	1,372,312	20,976	1,393,288
16	888	Maintenance of compressor station equipment	1,673	(200)	1,473
17	889	Maint. of Measuring and Regulating Station Equip. - General	2,043,411	51,543	2,094,954
18	890	Maint. of Measuring and Regulating Station Equip. - Industrial	3,633	108	3,741
19	891	Maint. of Measuring and Regulating Station Equip. - City Gate	-	-	-
20	892	Maintenance of Services	160,425	4,020	164,445
21	893	Maintenance of Meters and House Regulators	203,489	5,859	209,348
22	894	Maintenance of Other Equipment	951,169	6,909	958,078
23	895	Maintenance of Other Equipment	-	-	-
24	901	Supervision	-	-	-
25	902	Meter Reading Expense	8,244,351	218,454	8,462,805
26	903	Customer Records and Collection Expenses	12,331,581	24,993	12,356,574
27	904	Uncollectible Accounts	6,401,277	(3,043,562)	3,357,715
28	905	Miscellaneous Customer Accounts Expenses	-	-	-
29	907	Supervision	-	-	-
30	908	Customer Assistance Expenses	369,990	(286,293)	83,697
31	909	Informational and Instructional Advertising Expenses	-	-	-

ATMOS ENERGY CORP., MID-TEX DIVISION
OPERATION AND MAINTENANCE EXPENSES
TEST YEAR ENDING DECEMBER 31, 2013

Line No.	FERC Acct (a)	Description (b)	Per Book Amount (c)	Adjustments (d)	Adjusted Amount (e)=(c)+(d)
32	910	Miscellaneous Customer Service and Informational Expenses	2,746,033	(161,010)	2,585,023
33	911	Supervision	3,910	-	3,910
34	912	Demonstrating and Selling Expenses	39,234	(49)	39,185
35	913	Advertising Expenses	2,054,408	(891)	2,053,517
36	916	Miscellaneous Sales Expenses	237	-	237
37	920	Administrative and General Salaries	2,894,036	96,187	2,990,223
38	921	Office Supplies and Expenses	247,723	(247,904)	(181)
39	922	Administrative Expenses Transferred - Credit	56,998,033	(3,966,672)	53,031,361
40	923	Outside Services Employed	752,536	1,249,407	2,001,943
41	924	Property Insurance	580,600	(28,885)	551,715
42	925	Injuries and Damages	2,259,785	(400,000)	1,859,785
43	926	Employee Pensions and Benefits	13,743,155	2,839,211	16,582,365
44	928	Regulatory Commission Expenses	-	-	-
45	929	Duplicate Charges - Credit	-	-	-
46	930.1	General Advertising Expenses	-	-	-
47	930.2	Miscellaneous General Expense	532,243	(275,284)	256,959
48	931	Rents	627,419	(146)	627,274
49	932	Maintenance of General Plant	8,177	-	8,177
50					
51		Total Operation and Maintenance Expenses (Sum Ln 1 through Ln 49)	$ 166,578,346	$ (3,470,503)	$ 163,107,843

ATMOS ENERGY CORP., MID-TEX DIVISION
ADJUSTMENTS TO OPERATION AND MAINTENANCE EXPENSES
TEST YEAR ENDING DECEMBER 31, 2013

Examiner 1

Line No.	FERC Account (a)	Account Description (b)	Base Labor (c)	Medical and Dental Benefits (d)	Pensions and Retiree Medical Benefits (e)	Property Insurance (f)	Injuries and Damages (g)	Employee Expense (h)
1	840	Other Storage - Operation Supervision and Engineering	$ -	$ -	$ -	$ -	$ -	$ -
2	870	Operation Supervision and Engineering	27,968	-	-	-	-	-
3	871	Distribution Load Dispatching	-	-	-	-	-	-
4	872	Compressor Station Labor and Expenses	-	-	-	-	-	-
5	874	Mains and Services Expenses	282,543	-	-	-	-	-
6	875	Measuring and Regulating Station Expenses - General	818	-	-	-	-	-
7	876	Measuring and Regulating Station Expenses - Industrial	-	-	-	-	-	-
8	877	Measuring and Regulating Station Exp. - City Gate Chk. Sta.	49	-	-	-	-	-
9	878	Meter and House Regulator Expenses	91,083	-	-	-	-	-
10	879	Customer Installations Expenses	18,246	-	-	-	-	-
11	880	Other Expenses	15,125	-	-	-	-	-
12	881	Rents	-	-	-	-	-	-
13	885	Maintenance Supervision and Engineering	-	-	-	-	-	-
14	886	Maintenance of Structures and Improvements	-	-	-	-	-	-
15	887	Maintenance of Mains	25,976	-	-	-	-	-
16	888	Maintenance of compressor station equipment	-	-	-	-	-	-
17	889	Maint. of Measuring and Regulating Station Equip. - General	51,543	-	-	-	-	-
18	890	Maint. of Measuring and Regulating Station Equip. - Industrial	108	-	-	-	-	-
19	891	Maint. of Measuring and Regulating Station Equip. - City Gate	-	-	-	-	-	-
20	892	Maintenance of Services	4,020	-	-	-	-	-
21	893	Maintenance of Meters and House Regulators	5,859	-	-	-	-	-
22	894	Maintenance of Other Equipment	6,909	-	-	-	-	-
23	895	Maintenance of Other Equipment	-	-	-	-	-	-
24	901	Supervision	-	-	-	-	-	-
25	902	Meter Reading Expense	221,322	-	-	-	-	-
26	903	Customer Records and Collection Expenses	26,273	-	-	-	-	-
27	904	Uncollectible Accounts	-	-	-	-	-	-
28	905	Miscellaneous Customer Accounts Expenses	-	-	-	-	-	-
29	907	Supervision	-	-	-	-	-	-
30	908	Customer Assistance Expenses	-	-	-	-	-	-
31	909	Informational and Instructional Advertising Expenses	-	-	-	-	-	-
32	910	Miscellaneous Customer Service and Informational Expenses	64,105	-	-	-	-	-
33	911	Supervision	-	-	-	-	-	-
34	912	Demonstrating and Selling Expenses	-	-	-	-	-	-
35	913	Advertising Expenses	39,060	-	-	-	-	-
36	916	Miscellaneous Sales Expenses	-	-	-	-	-	-
37	920	Administrative and General Salaries	96,187	-	-	-	-	-
38	921	Office Supplies and Expenses	-	-	-	-	-	-
39	922	Administrative Expenses Transferred - Credit	1,341,458	1,358,555	431,184	(12,357)	-	(212,051)
40	923	Outside Services Employed	-	-	-	-	-	-
41	924	Property Insurance	-	-	-	(28,885)	-	-
42	925	Injuries and Damages	-	-	-	-	600,000	-
43	926	Employee Pensions and Benefits	-	1,551,946	(1,313,482)	-	-	-
44	928	Regulatory Commission Expenses	-	-	-	-	-	-
45	929	Duplicate Charges - Credit	-	-	-	-	-	-
46	930.1	General Advertising Expenses	-	-	-	-	-	-
47	930.2	Miscellaneous General Expense	-	-	-	-	-	(241,300)
48	931	Rents	-	-	-	-	-	-
49	932	Maintenance of General Plant	-	-	-	-	-	-
50								
51		Total Adjustments to Operation and Maintenance Expenses	$ 2,318,652	$ 2,910,501	$ (882,298)	$ (41,242)	$ 600,000	$ (453,351)
52								
53		Adjustment Reference:	WP_F-2.1	WP_F-2.2	WP_F-2.3	WP_F-2.4	WP_F-2.5	WP_F-2.6

ATMOS ENERGY CORP., MID-TEX DIVISION
ADJUSTMENTS TO OPERATION AND MAINTENANCE EXPENSES
TEST YEAR ENDING DECEMBER 31, 2013

Examiner 1

Line No.	FERC Account (a)	Account Description (b)	SSU Service-Level Factors (i)	Miscellaneous Adjustments (j)	Uncollectible Expense (k)	Rule Compliance (l)	Customer Conservation Program (m)	Total Adjustments (n)
1	840	Other Storage - Operation Supervision and Engineering	$ -	$ (69)	$ -	$ -	$ -	$ (69)
2	870	Operation Supervision and Engineering	-	(1,802)	-	-	-	26,166
3	871	Distribution Load Dispatching	-	-	-	-	-	-
4	872	Compressor Station Labor and Expenses	-	-	-	-	-	-
5	874	Mains and Services Expenses	-	(1,623)	-	(52)		280,868
6	875	Measuring and Regulating Station Expenses - General	-	-	-	-	-	818
7	876	Measuring and Regulating Station Expenses - Industrial	-	-	-	-	-	-
8	877	Measuring and Regulating Station Exp. - City Gate Chk. Sta.	-	-	-	-	-	49
9	878	Meter and House Regulator Expenses	-	-	-	-	-	91,083
10	879	Customer Installations Expenses	-	-	-	-	-	18,246
11	880	Other Expenses	-	(9,217)	-	(343)	-	5,565
12	881	Rents	-	-	-	-	-	-
13	885	Maintenance Supervision and Engineering	-	-	-	-	-	-
14	886	Maintenance of Structures and Improvements	-	-	-	-	-	-
15	887	Maintenance of Mains	-	-	-	(5,000)	-	20,976
16	888	Maintenance of compressor station equipment	-	(200)	-	-	-	(200)
17	889	Maint. of Measuring and Regulating Station Equip. - General	-	-	-	-	-	51,543
18	890	Maint. of Measuring and Regulating Station Equip. - Industrial	-	-	-	-	-	108
19	891	Maint. of Measuring and Regulating Station Equip. - City Gate	-	-	-	-	-	-
20	892	Maintenance of Services	-	-	-	-	-	4,020
21	893	Maintenance of Meters and House Regulators	-	-	-	-	-	5,859
22	894	Maintenance of Other Equipment	-	-	-	-	-	6,909
23	895	Maintenance of Other Equipment	-	-	-	-	-	-
24	901	Supervision	-	-	-	-	-	-
25	902	Meter Reading Expense	-	(2,868)	-	-	-	218,454
26	903	Customer Records and Collection Expenses	-	(1,280)	-	-	-	24,993
27	904	Uncollectible Accounts	-	-	(3,043,562)	-	-	(3,043,562)
28	905	Miscellaneous Customer Accounts Expenses	-	-	-	-	-	-
29	907	Supervision	-	-	-	-	-	-
30	908	Customer Assistance Expenses	-	-	-	-	(286,293)	(286,293)
31	909	Informational and Instructional Advertising Expenses	-	-	-	-	-	-
32	910	Miscellaneous Customer Service and Informational Expenses	-	(215,542)	-	(9,573)	-	(161,010)
33	911	Supervision	-	-	-	-	-	-
34	912	Demonstrating and Selling Expenses	-	(49)	-	-	-	(49)
35	913	Advertising Expenses	-	(39,951)	-	-	-	(891)
36	916	Miscellaneous Sales Expenses	-	-	-	-	-	-
37	920	Administrative and General Salaries	-	-	-	-	-	96,187
38	921	Office Supplies and Expenses	-	(247,354)	-	(550)	-	(247,904)
39	922	Administrative Expenses Transferred - Credit	(6,740,561)	(130,900)	-	(2,000)	-	(3,966,672)
40	923	Outside Services Employed	-	1,249,407	-	-	-	1,249,407
41	924	Property Insurance	-	-	-	-	-	(28,885)
42	925	Injuries and Damages	-	(1,000,000)	-	-	-	(400,000)
43	926	Employee Pensions and Benefits	-	2,600,747	-	-		2,839,211
44	928	Regulatory Commission Expenses	-	-	-	-	-	-
45	929	Duplicate Charges - Credit	-	-	-	-	-	-
46	930.1	General Advertising Expenses	-	-	-	-	-	-
47	930.2	Miscellaneous General Expense	-	(780)	-	(33,204)	-	(275,284)
48	931	Rents	-	(146)	-	-	-	(146)
49	932	Maintenance of General Plant	-	-	-	-	-	-
50								
51		Total Adjustments to Operation and Maintenance Expenses	$ (6,740,561)	$ 2,198,373	$ (3,043,562)	$ (50,722)	$ (286,293)	$ (3,470,503)
52								
53		Adjustment Reference:	WP_F-2.7	WP_F-2.8	WP_F-2.9	WP_F-2.10	WP_F-2.11	

ATMOS ENERGY CORP., MID-TEX DIVISION
BASE LABOR ADJUSTMENT
TEST YEAR ENDING DECEMBER 31, 2013

Line No.	Description (a)	Shared Services - Customer Support Employees (b)	Shared Services - General Office Employees (c)	Shared Services - Total (3) (d)	Mid-Tex Direct Employees (e)	Total Adjustment (f)
1	Annualized December 2013 Employee Salaries (1), (5)	$ 29,448,383	$ 38,715,075	$ 68,163,458	$ 93,997,348	
2						
3	Test Year Base Labor adjusted for excluded cost centers (5)	27,666,107	37,470,950	65,137,057	90,830,331	
4						
5	Base Labor Adjustment Total (Ln 1 minus Ln 3)	$ 1,782,277	$ 1,244,124	$ 3,026,401	$ 3,167,017	
6						
7	Allocation to Mid-Tex (2)	51.84%	38.26%	46.26%	71.70%	
8						
9	Allocated Base Labor Adjustment (Ln 5 times Ln 7)	$ 923,932	$ 476,002	$ 1,399,934	$ 2,270,809	
10						
11	O&M Expense Factor (2)	94.13%	99.12%	95.82%	43.03%	
12						
13	Test Year Base Labor O&M Expense Adjustment (Ln 9 times Ln 11)	$ 869,659	$ 471,799	$ 1,341,458	$ 977,194	
14						
15	Adjustment Summary:					
16	Account 922	$ 869,659	$ 471,799	$ 1,341,458	$ -	$ 1,341,458
17	Other O&M Accounts (4)	-	-	-	977,194	977,194
18	Total (Ln 16 plus Ln 17)	$ 869,659	$ 471,799	$ 1,341,458	$ 977,194	$ 2,318,652
19						

20 Notes:
21 1. Annual salaries are base labor only and do not include items such as overtime and bonuses.
22 2. Shared Services based on FY14 factors, adjusted to the four-factor formula including Operating Income.
23 Mid-Tex factors are based upon actual test year ratios.
24 3. The factors in Col (d) are a calculation derived from the totals of Customer Support and General Office and are only used in the calculation
25 of other employee-related adjustments.
26 4. Distribution by account is based upon per book O&M test year labor (See Page 2).
27 5. SSU amounts exclude cost centers which do not allocate to Mid-Tex and employee time charged below the line for rate making purposes.

ATMOS ENERGY CORP., MID-TEX DIVISION
BASE LABOR ADJUSTMENT - DISTRIBUTION OF MID-TEX DIRECT BY FERC ACCOUNT
TEST YEAR ENDING DECEMBER 31, 2013

Line No.	FERC Account	Account Description	Per Book O&M Labor	Ratio of Labor by Account	Base Labor Adjustment Allocated by Account (4)
	(a)	(b)	(c)	(d)	(e)=(c)x(d)
1	840	Other Storage - Operation Supervision and Engineering	$ 69	0.0002%	$ -
2	870	Operation Supervision and Engineering	943,526	2.8621%	27,968
3	871	Distribution Load Dispatching	14	0.0000%	-
4	872	Compressor Station Labor and Expenses	-	0.0000%	-
5	874	Mains and Services Expenses	9,531,807	28.9136%	282,543
6	875	Measuring and Regulating Station Expenses - General	27,593	0.0837%	818
7	876	Measuring and Regulating Station Expenses - Industrial	-	0.0000%	-
8	877	Measuring and Regulating Station Exp. - City Gate Chk. Sta.	1,660	0.0050%	49
9	878	Meter and House Regulator Expenses	3,072,763	9.3209%	91,083
10	879	Customer Installations Expenses	615,549	1.8672%	18,246
11	880	Other Expenses	510,248	1.5478%	15,125
12	887	Maintenance of Mains	876,331	2.6582%	25,976
13	889	Maint. of Meas. and Reg. Sta. Equip. - Gen.	1,738,855	5.2746%	51,543
14	890	Maint. of Meas. and Reg. Sta. Equip. - Ind.	3,633	0.0110%	108
15	891	Maint. of Meas. and Reg. Sta. Equip. - City Gate	-	0.0000%	-
16	892	Maintenance of Services	135,608	0.4114%	4,020
17	893	Maintenance of Meters and House Regulators	197,647	0.5995%	5,859
18	894	Maintenance of Other Equipment	233,076	0.7070%	6,909
19	901	Supervision	-	0.0000%	-
20	902	Meter Reading Expense	7,466,495	22.6487%	221,322
21	903	Customer Records and Collection Expenses	886,360	2.6887%	26,273
22	905	Miscellaneous Customer Accounts Expenses	-	0.0000%	-
23	908	Customer Serivce and Informational - Customer Assistance Expenses	-	0.0000%	-
24	910	Miscellaneous Customer Service and Informational Expenses	2,162,632	6.5601%	64,105
25	911	Supervision	-	0.0000%	-
26	912	Demonstrating and Selling Expenses	-	0.0000%	-
27	913	Advertising Expenses	1,317,716	3.9971%	39,060
28	920	Administrative and General Salaries	3,244,950	9.8432%	96,187
29	921	Office Supplies and Expenses	-	0.0000%	-
30	923	Outside Services	-	0.0000%	-
31	Total	(Sum Ln 1 through Ln 30)	$ 32,966,533	100.00%	$ 977,194

Schedule B
MEDICAL AND DENTAL BENEFITS ADJUSTMENT
TEST YEAR ENDING DECEMBER 31, 2013

Examiner 1

Line No.	Description (a)	Shared Services (b)	Mid-Tex Direct (c)	Total Adjustment (d)
1	FY14 Projected Expense per Employee (1)	$ 11,975	$ 11,975	
2				
3	Number of Employees at End of Test Period (3)	1,042	1,703	
4				
5	Sub-Total (Ln 1 times Ln 3)	$ 12,478,364	$ 20,394,102	
6				
7	Test Year Medical and Dental Cost (3)	9,413,391	15,364,351	
8				
9	Medical and Dental Cost Adjustment Ln5 minus Ln7	$ 3,064,974	$ 5,029,751	
10		$ -	$ -	
11	Mid-Tex Allocation Factor (2)	46.26%	71.70%	
12				
13	Allocated Medical and Dental Cost Adjustment (Ln 9 times Ln 11)	$ 1,417,777	$ 3,606,424	
14				
15	Labor Expense Factor (2)	95.82%	43.03%	
16				
17	Test Year Medical and Dental Expense Adjustment (Ln 13 times Ln 15)	$ 1,358,555	$ 1,551,946	
18				
19	Adjustment Summary:			
20	Account 922	$ 1,358,555	$ -	$ 1,358,555
21	Account 926	-	1,551,946	1,551,946
22	Total (Ln 20 plus Ln 21)	$ 1,358,555	$ 1,551,946	$ 2,910,501
23				
24				

25 Notes:
26 1. Costs are based on the projected Fiscal Year 2014 expense per employee.
27 2. Shared Services based on FY14 factors, adjusted to the four-factor formula including Operating Income.
28 Mid-Tex factors are based upon actual test year ratios.
29 3. SSU amounts exclude cost centers which do not allocate to Mid-Tex for rate making purposes.

ATMOS ENERGY CORP., MID-TEX DIVISION
PENSIONS AND RETIREE MEDICAL BENEFITS ADJUSTMENT
TEST YEAR ENDING DECEMBER 31, 2013

Line No.	Description	Shared Services		Mid-Tex Direct			
		Pension Account Plan ("PAP")	Post-Retirement Medical Plan ("FAS 106")	Pension Account Plan ("PAP")	Supplemental Executive Benefit Plan ("SERP")	Post-Retirement Medical Plan ("FAS 106")	Adjustment Total
	(a)	(b)	(c)	(d)	(e)	(f)	(g)
1	Fiscal Year 2014 Towers Watson Report as adjusted (1), (3)	$ 6,388,826	$ 4,542,023	$ 9,481,670	$ 165,758	$ 8,736,645	
2	O&M Expense Factor (2)	95.82%	95.82%	43.03%	21.00%	43.03%	
3	Fiscal Year 2014 Actuarially Determined O&M Benefits (Ln 1 x Ln 2)	$ 6,121,960	$ 4,352,299	$ 4,080,231	$ 34,809	$ 3,759,626	
4	Allocation to Mid-Tex (2)	46.26%	46.26%	71.70%	100.00%	71.70%	
5	**Mid-Tex Benefits Expense Included in Rates - Proposed** (Ln 3 x Ln 4)	$ 2,831,859	$ 2,013,260	$ 2,925,600	$ 34,809	$ 2,695,721	$ 10,501,250
6							
7	**Mid-Tex Benefits Expense per GUD 10170 and RRM Benchmark (4)**	$ 2,586,097	$ 1,827,838	$ 3,688,263	$ 50,004	$ 3,231,346	$ 11,383,548
8							
9	**Test Year Adjustment (Line 5 minus Line 7)**	$ 245,762	$ 185,422	$ (762,662)	$ (15,195)	$ (535,625)	$ (882,298)
10							
11	Adjustment Summary:						
12	Account 922	$ 245,762	$ 185,422	$ -	$ -	$ -	$ 431,184
13	Account 926	-	-	(762,662)	(15,195)	(535,625)	(1,313,482)
14	Total (Ln 12 plus Ln 13)	$ 245,762	$ 185,422	$ (762,662)	$ (15,195)	$ (535,625)	$ (882,298)
15							
16							

17 Notes:
18 1. Studies not applicable to Mid-Tex or Shared Services are omitted.
19 2. Shared Services' ratios in Columns (b) and (c) are based upon FY14 factors as adjusted for the 4-Factor method including Operating Income;
20 Mid-Tex factors are based upon actual test year ratios
21 3. SSU amounts exclude cost centers which do not allocate to Mid-Tex for rate making purposes.
22 4. GUD 10170 is the benchmark for January-October 2013. Last year's RRM is the benchmark for November-December 2013.

ATMOS ENERGY CORP., MID-TEX DIVISION
PENSIONS AND RETIREE MEDICAL BENEFITS FOR CITIES APPROVAL
TEST YEAR ENDING DECEMBER 31, 2013

Line No.	Description	Shared Services		Mid-Tex Direct			
		Pension Account Plan ("PAP")	Post-Retirement Medical Plan ("FAS 106")	Pension Account Plan ("PAP")	Supplemental Executive Benefit Plan ("SERP")	Post-Retirement Medical Plan ("FAS 106")	Adjustment Total
	(a)	(b)	(c)	(d)	(e)	(f)	(g)
1	Fiscal Year 2014 Towers Watson Report (excluding Removed Cost Centers)	$ 6,388,826	$ 4,542,023	$ 9,481,670	$ 165,758	$ 8,736,645	
2	Allocation to Mid-Tex	46.26%	46.26%	71.70%	100.00%	71.70%	
3	FY14 Towers Watson Benefit Costs (excluding Removed Cost Centers) Allocated to MTX (Ln 1 x Ln 2)	$ 2,955,304	$ 2,101,021	$ 6,798,531	$ 165,758	$ 6,264,334	
4	O&M and Capital Allocation Factor	100.00%	100.00%	100.00%	100.00%	100.00%	
5	FY14 Towers Watson Benefit Costs To Approve (excluding Removed Cost Centers) (Ln 3 x Ln 4)	$ 2,955,304	$ 2,101,021	$ 6,798,531	$ 165,758	$ 6,264,334	$ 18,284,949
6							
7							
8	**Summary of Costs to Approve:**						
9							
10	Total Pension Account Plan ("PAP")	$ 2,955,304		$ 6,798,531			$ 9,753,835
11	Total Post-Retirement Medical Plan ("FAS 106")		$ 2,101,021			$ 6,264,334	8,365,356
12	Total Supplemental Executive Retirement Plan ("SERP")				$ 165,758		165,758
13	Total (Ln 10 + Ln 11 + Ln 12)	$ 2,955,304	$ 2,101,021	$ 6,798,531	$ 165,758	$ 6,264,334	$ 18,284,949
14							
15							
16	O&M Expense Factor	95.82%	95.82%	43.03%	21.00%	43.03%	
17							
18	Expense Portion (Ln 13 x Ln 16)	$ 2,831,859	$ 2,013,260	$ 2,925,600	$ 34,809	$ 2,695,721	$ 10,501,250
19							
20	Capital Factor	4.18%	4.18%	56.97%	79.00%	56.97%	
21							
22	Capital Portion (Ln 13 x Ln 20)	$ 123,445	$ 87,761	$ 3,872,930	$ 130,949	$ 3,568,614	$ 7,783,699
23							
24	Total (Ln 18 + Ln 22)	$ 2,955,304	$ 2,101,021	$ 6,798,531	$ 165,758	$ 6,264,334	$ 18,284,949

ATMOS ENERGY CORP., MID-TEX DIVISION
PROPERTY INSURANCE ADJUSTMENT
TEST YEAR ENDING DECEMBER 31, 2013

Examiner 1

Line No.	Description	Shared Services General Office	Shared Services Customer Support	Mid-Tex Direct	Total Adjustment	Mid-Tex Share of Total BFI Premium
	(a)	(b)	(c)	(d)	(e)	(f)
1	Premium Adjustment:					
2	Annual Premium - Current Policy (TME Mar 2014) (1)	$ 149,569	$ 136,124	$ 2,551,772		$ 6,924,906
3	Less: Test Year Premium Amount	203,634	150,794	2,689,334		
4	Subtotal (Ln 2 minus Ln 3)	$ (54,065)	$ (14,670)	$ (137,561)		$ 2,551,772
5	Allocation to Mid-Tex (2)	38.26%	51.84%	100.00%		$ 57,225
6	Allocated Total Adjustment (Ln 4 times Ln 5)	$ (20,685)	$ (7,605)	$ (137,561)		$ 70,567
7	O&M Expense Factor (2)	31.31%	77.31%	21.00%		$ 2,679,564
8	Premium Adjustment (Ln 6 times Ln 7)	$ (6,478)	$ (5,879)	$ (28,885)		
9						38.69%
10	Summary by Account:					
11	Account 922	$ (6,478)	$ (5,879)	$ -	$ (12,357)	
12	Account 924	-	-	(28,885)	(28,885)	
13	Totals (Ln 11 plus Ln 12)	$ (6,478)	$ (5,879)	$ (28,885)	$ (41,242)	
14						
15						

16 Notes:
17 1. Annual premiums have been adjusted for CWIP allocation in compliance with GUD 10170.
18 2. Shared Services' ratios are based upon Cost Center factors 1212 for Customer Support and 1915 for General
19 Office, as adjusted for the 4-Factor method including Operating Income (see WP_F-2.7).
20 Mid-Tex factors are based upon actual test year ratios.

Data Sources:
Schedule F-1 O&M.xlsx
WP_F-2.4 blueflame prem.xlsx
WP_F-2.4 blueflame act.xlsx

ATMOS ENERGY CORP., MID-TEX DIVISION
INJURIES AND DAMAGES ADJUSTMENT
TEST YEAR ENDING DECEMBER 31, 2013

Examiner 1

Line No.	Description	FERC Account	Per Book Amount	Amortized Amount (1)	Adjustment Amount
	(a)	(b)	(c)	(d)	(e) = (d)-(c)
1	Mid-Tex:				
2	Reserve accrual for Lutrell incident		$ -	$ 200,000	
3	Reserve for Irving 1 incident		-	200,000	
4	Reserve for Oak Cliff incident		-	200,000	
5	Mid-Tex Total (Sum Ln 2 through Ln 4)	925	$ -	$ 600,000	$ 600,000
6					
7	Shared Services:				
8	No Adjustment Required	922	$ -	$ -	$ -
9					
10	Total Adjustment to Non-Labor O&M (Ln 5 plus Ln 8)				$ 600,000
11					
12					
13	Note:				
14	1. Lutrell, Irving 1 and Oak Cliff incidents are amortized over 5 years.				

ATMOS ENERGY CORP., MID-TEX DIVISION
EMPLOYEE EXPENSE ADJUSTMENT
TEST YEAR ENDING DECEMBER 31, 2013

Line No.	Description	Shared Services - Customer Support	Shared Services - General Office	Mid-Tex Direct	Total Adjustment
	(a)	(b)	(c)	(d)	(e)
1	Fiscal Year Ending December 31, 2013:				
2	Employee Expense Adjustment (3)	$ 96,646	$ 434,819	$ 241,300	
3	Mid-Tex Allocation Factor (1) (2)	51.84%	38.26%	100.00%	
4					
5	Allocated Employee Expense Totals (Ln 2 times Ln 3)	$ 50,101	$ 166,362	$ 241,300	
6	Expense Factor (1) (2)	94.13%	99.12%	100.00%	
7	Total Employee Expense Removal, CY 2013 (Ln 5 times Ln 6)	$ 47,158	$ 164,893	$ 241,300	$ 453,351
8					
9	Summary by Account				
10	Account 922	$ (47,158)	$ (164,893)	$ -	$ (212,051)
11	Account 930.2	-	-	(241,300)	(241,300)
12	Total (Ln 10 plus Ln 11)	$ (47,158)	$ (164,893)	$ (241,300)	$ (453,351)
13					
14	Notes:				
15	1. See WP_F-2.1, Col (b) and Col (c), Ln 7 and Ln 11, as applicable, for the Shared Services factors, as adjusted.				
16	2. Mid-Tex costs are directly charged and not allocated.				
17	3. Shared Services - General Office amounts have been adjusted to remove amounts in cost centers which do not allocate to Mid-Tex.				

File Date: May 30, 2014

GUD No. 10359
Proposal For Decision

ATMOS ENERGY CORP., MID-TEX DIVISION
SHARED SERVICES ("SSU") SERVICE-LEVEL FACTORS ADJUSTMENT
TEST YEAR ENDING DECEMBER 31, 2013

caminer 1

Line No.	Description (a)	Per Book SSU O&M (Labor) (b)	Per Book SSU O&M (Non-Labor) (c)	Total Per Book SSU O&M Exp (d) = (b) + (c)	FY14 Capitalization Rate (Labor Exp) (e)	FY14 Capitalization Rate (Non-Labor Exp) (f)	Four-Factor Allocation Factor (2), (3) (g)	Total (h) = (d) * (g)	SSU Allocated to Capital (4) (i) = sum(b*g*e) + sum(c*g*f)	Expense Allocated to Mid-Tex (j) = (h) - (i)
1	1001 SS Dallas Executive Chairman	$ 197,055	$ 481,578	$ 678,633	61.90%	61.90%	38.26%	$ 259,645	$ 160,711	$ 98,934
2	1101 SS Dallas Chief Financial Officer	441,012	880,397	1,321,409	68.69%	68.69%	38.26%	505,571	347,253	158,318
3	1105 SS Dallas Audit	-	4,129,573	4,129,573	0.00%	0.00%	38.26%	1,579,975	-	1,579,975
4	1106 SS Dallas Treasurer	306,132	401,872	708,004	58.69%	58.69%	38.26%	270,882	158,969	111,914
5	1107 SS Dallas Treasury	391,882	912,311	1,304,193	68.69%	68.69%	38.26%	498,984	342,729	156,255
6	1108 SS Dallas Risk Management	337,565	399,386	736,951	80.00%	80.00%	38.26%	281,958	225,566	56,392
7	1110 SS Dallas Procurement	95,295	106,128	201,424	45.06%	54.94%	39.49%	79,542	39,982	39,560
8	1111 SS Dallas Purchasing	-	202	202	0.00%	0.00%	39.49%	80	-	80
9	1112 SS Dallas Mail & Supply	76,296	412,103	488,398	16.41%	18.12%	39.49%	192,869	34,429	158,440
10	1114 SS Dallas Vice Pres & Controller	291,304	406,702	698,005	29.99%	29.99%	38.26%	267,057	80,080	186,977
11	1116 SS Dallas Taxation	195,114	589,928	785,042	2.62%	2.62%	38.26%	300,357	7,854	292,503
12	1117 SS Dallas Acctg Services	126,857	269,840	396,696	58.57%	58.57%	38.26%	151,776	88,898	62,878
13	1118 SS Dallas Supply Chain	396,583	279,455	676,039	43.46%	43.46%	39.49%	266,968	116,024	150,943
14	1119 SS Dallas General Accounting	512,792	302,190	814,982	68.69%	68.69%	38.26%	311,812	214,169	97,643
15	1120 SS Dallas Accounts Payable	550,134	388,155	938,289	21.12%	21.12%	38.26%	358,989	75,815	283,175
16	1121 SS Dallas Plant Accounting	546,001	309,229	855,230	90.63%	90.63%	38.26%	327,211	296,548	30,663
17	1123 SS Dallas Gas Accounting	308,363	255,280	563,643	0.00%	0.00%	39.49%	222,583	-	222,583
18	1125 SS Dallas Financial Reporting	699,542	577,208	1,276,750	0.00%	0.00%	38.26%	488,484	-	488,484
19	1126 SS Dallas Payroll	531,619	340,511	872,129	68.69%	68.69%	38.26%	333,677	229,187	104,490
20	1128 SS Dallas Property & Sales Tax	1,109,443	890,569	2,000,012	2.81%	2.81%	38.26%	765,205	21,521	743,683
21	1129 SS Dallas Income Tax	430,529	248,536	679,065	2.00%	2.00%	38.26%	259,810	5,196	254,614
22	1130 SS Dallas Business Planning and Analysis	558,261	363,608	921,868	55.21%	55.21%	38.26%	352,707	194,724	157,983
23	1131 SS Dallas Media Relations	104,979	77,876	182,855	0.00%	0.00%	39.49%	72,209	-	72,209
24	1132 SS Dallas Investor Relations (5)	386,449	682,452	1,068,901	0.00%	0.00%	0.00%	-	-	-
25	1133 SS Dallas Corporate Communications	661,368	1,726,572	2,387,940	0.00%	0.00%	38.26%	913,626	-	913,626
26	1134 SS Dallas IT	1,183,317	1,466,748	2,650,065	35.71%	35.71%	38.26%	1,013,915	362,112	651,802
27	1135 SS Dallas IT Application Support	1,881,609	5,448,182	7,329,791	26.76%	42.37%	38.26%	2,804,378	1,075,775	1,728,603
28	1137 SS Dallas IT Operations	2,647,786	7,951,049	10,598,834	28.29%	31.88%	38.26%	4,055,114	1,256,245	2,798,869
29	1139 SS Dallas IT Telecommunications	-	99	99	0.00%	0.00%	38.26%	38	-	38
30	1141 SS Dallas Gas Purchase Accounting	471,645	220,011	691,656	0.00%	0.00%	47.34%	327,430	-	327,430
31	1144 SS Dallas Rate Administration	621,734	308,872	930,606	0.00%	0.00%	47.34%	440,549	-	440,549
32	1145 SS Dallas Revenue Accounting	235,719	178,068	413,787	0.00%	0.00%	47.34%	195,887	-	195,887
33	1146 SS Dallas IT Enterprise Solutions	-	-	-	0.00%	0.00%	38.26%	-	-	-
34	1150 SS Dallas Strategic Planning	368,575	628,871	997,446	55.56%	55.56%	38.26%	381,623	212,013	169,610
35	1153 SS Dallas Distribution Acctg	562,538	289,553	852,091	0.00%	0.00%	47.34%	403,380	-	403,380

ATMOS ENERGY CORP., MID-TEX DIVISION
SHARED SERVICES ("SSU") SERVICE-LEVEL FACTORS ADJUSTMENT
TEST YEAR ENDING DECEMBER 31, 2013

caminer 1

Line No.	Description (a)	Per Book SSU O&M (Labor) (b)	Per Book SSU O&M (Non-Labor) (c)	Total Per Book SSU O&M Exp (d) = (b) + (c)	FY14 Capitalization Rate (Labor Exp) (e)	FY14 Capitalization Rate (Non-Labor Exp) (f)	Four-Factor Allocation Factor (2), (3) (g)	Total (h) = (d) * (g)	SSU Allocated to Capital (4) (i) = sum(b*g*e) + sum(c*g*f)	Expense Allocated to Mid-Tex (j) = (h) - (i)
36	1154 SS Dallas Rates & Regulatory	1,548,964	1,227,191	2,776,154	70.02%	70.02%	39.49%	1,096,303	767,669	328,635
37	1155 SS Dallas Texas Gas Pipeline Accounting	-	1,234	1,234	0.00%	0.00%	0.00%	-	-	-
38	1156 SS Dal - IT Customer Svc Support	1,364,714	5,029,395	6,394,109	13.33%	35.00%	51.84%	3,314,706	1,006,862	2,307,844
39	1158 SS CCC IT Support	-	1,424,697	1,424,697	0.00%	0.00%	51.84%	738,563	-	738,563
40	1159 SS Dallas Director Technical Training	223,727	660,478	884,205	0.00%	0.00%	39.49%	349,173	-	349,173
41	1161 SS Dallas Benefits and Payroll Accounting	255,068	107,230	362,299	68.69%	68.69%	38.26%	138,615	95,208	43,407
42	1165 SS Dallas IT Production Services & Support	1,918,880	3,087,415	5,006,295	4.17%	32.92%	38.26%	1,915,408	419,417	1,495,992
43	1171 SS Regulatory Accounting Services	165,894	74,495	240,389	70.02%	70.02%	39.49%	94,930	66,473	28,457
44	1201 SS Dallas President & CEO	939,361	3,861,550	4,800,911	68.69%	68.69%	38.26%	1,836,829	1,261,632	575,197
45	1205 SS Dallas SVP Utility Operations	322,169	613,209	935,378	68.69%	68.69%	38.26%	357,875	245,808	112,068
46	1209 SS Dallas Safety & Compliance	194,271	966,327	1,160,598	0.00%	0.00%	39.49%	458,320	-	458,320
47	1212 SS CSC-Customer Contact Management	13,897,504	10,003,042	23,900,546	22.69%	22.69%	51.84%	12,390,043	2,811,628	9,578,415
48	1213 SS Dallas Quality Assurance	1,195,910	552,452	1,748,362	0.00%	0.00%	51.84%	906,351	-	906,351
49	1214 SS Dallas Workforce Management	525,388	241,192	766,581	0.00%	0.00%	51.84%	397,395	-	397,395
50	1215 SS Dispatch Operations	3,423,910	1,662,841	5,086,751	0.00%	0.00%	51.84%	2,636,972	-	2,636,972
51	1224 SS Dallas CSO Human Resources	365,876	176,964	542,840	0.00%	0.00%	51.84%	281,408	-	281,408
52	1225 SS Dallas Regulated Operations	161,881	119,133	281,014	71.02%	71.02%	39.49%	110,972	78,816	32,157
53	1226 SS Dallas Customer Service	1,081,211	1,346,063	2,427,274	0.00%	0.00%	51.84%	1,258,299	-	1,258,299
54	1227 SS Dallas Customer Program Management	1,559,166	1,524,358	3,083,524	3.38%	22.49%	51.84%	1,598,499	205,029	1,393,469
55	1228 SS Dallas Customer Revenue Management	4,116,731	3,377,150	7,493,881	0.00%	0.00%	51.84%	3,884,828	-	3,884,828
56	1229 SS Dallas Pipeline Safety	186,113	181,852	367,965	20.00%	20.00%	39.49%	145,309	29,062	116,247
57	1401 SS Dallas Employment & Employee Relations	742,073	648,853	1,390,926	0.00%	0.00%	39.49%	549,277	-	549,277
58	1402 SS Dallas Executive Compensation	-	306,310	306,310	0.00%	0.00%	38.26%	117,194	-	117,194
59	1403 SS Dallas Human Resources - Vice Pres	553,519	999,842	1,553,361	68.69%	68.69%	38.26%	594,316	408,208	186,108
60	1405 SS Dallas Compensation & Benefits	1,047,441	902,349	1,949,790	0.00%	0.00%	39.49%	769,972	-	769,972
61	1407 SS Dallas Facilities	555,003	1,025,248	1,580,251	29.29%	29.29%	38.26%	604,604	177,063	427,541
62	1408 SS Dallas Employee Development	783,003	1,158,407	1,941,411	0.00%	0.00%	38.26%	742,784	-	742,784
63	1414 SS Tech Training Delivery	761,869	879,082	1,640,951	0.00%	0.00%	39.49%	648,011	-	648,011
64	1415 SS Tech Training Prog & Curriculum	224,525	98,980	323,505	0.00%	0.00%	39.49%	127,752	-	127,752
65	1420 SS Dallas EAPC	-	36,737	36,737	0.00%	0.00%	38.26%	14,055	-	14,055
66	1463 SS HR Benefit Variance	-	(2,121,648)	(2,121,648)	16.41%	18.12%	38.26%	(811,742)	(147,077)	(664,666)
67	1501 SS Corporate Legal	2,191,022	2,555,898	4,746,920	47.44%	47.44%	38.26%	1,816,172	861,620	954,552
68	1502 SS Corporate Secretary	-	1,612,604	1,612,604	0.00%	0.00%	38.26%	616,982	-	616,982
69	1503 SS Corporate Governmental Affairs	330,329	423,759	754,089	0.00%	0.00%	39.49%	297,790	-	297,790
70	1504 SS Corporate Central Records	157,378	487,627	645,004	68.69%	68.69%	39.49%	254,712	174,950	79,762

ATMOS ENERGY CORP., MID-TEX DIVISION
SHARED SERVICES ("SSU") SERVICE-LEVEL FACTORS ADJUSTMENT
TEST YEAR ENDING DECEMBER 31, 2013

Line No.	Description (a)	Per Book SSU O&M (Labor) (b)	Per Book SSU O&M (Non-Labor) (c)	Total Per Book SSU O&M Exp (d) = (b) + (c)	FY14 Capitalization Rate (Labor Exp) (e)	FY14 Capitalization Rate (Non-Labor Exp) (f)	Four-Factor Allocation Factor (2), (3) (g)	Total (h) = (d) * (g)	SSU Allocated to Capital (4) (i) = sum(b*g*e) + sum(c*g*f)	Expense Allocated to Mid-Tex (j) = (h) - (i)
71	1505 SS Corporate Gas Contract Administration	120,745	69,267	190,012	0.00%	0.00%	39.49%	75,036	-	75,036
72	1508 SS Corporate Energy Assistance	400,513	414,417	814,930	0.00%	0.00%	47.34%	385,788	-	385,788
73	1821 SS Gas Supply Executive	301,326	397,428	698,754	0.00%	0.00%	39.28%	274,470	-	274,470
74	1822 SS Dallas-Regional Gas Supply	185,854	118,501	304,355	0.00%	0.00%	83.44%	253,954	-	253,954
75	1823 SS Dallas Gas Contract Admin	313,596	166,023	479,620	0.00%	0.00%	39.49%	189,402	-	189,402
76	1825 SS Franklin-Gas Control & Storage	239,496	172,088	411,584	0.00%	0.00%	0.00%	-	-	-
77	1826 SS New Orleans Gas Supply & Service	131,818	314,616	446,434	0.00%	0.00%	47.34%	211,342	-	211,342
78	1827 SS Regional Supply Planning	214,398	144,595	358,993	0.00%	0.00%	0.00%	-	-	-
79	1828 SS Jackson-West Region Gas Supply & Services	108,688	73,759	182,448	0.00%	0.00%	0.00%	-	-	-
80	1829 SS Franklin-East Region Gas Supply & Services	2,037	52,989	55,026	0.00%	0.00%	0.00%	-	-	-
81	1831 SS Dallas Gas Supply	-	42,566	42,566	0.00%	0.00%	100.00%	42,566	-	42,566
82	1832 SS Dallas-Supply Planning	49,022	46,004	95,026	0.00%	0.00%	100.00%	95,026	-	95,026
83	1833 SS Dallas-Corporate Gas Supply Risk Mgmt	95,978	90,778	186,756	0.00%	0.00%	47.34%	88,410	-	88,410
84	1835 SS Franklin Gas Control	719,398	503,995	1,223,392	0.00%	0.00%	0.00%	-	-	-
85	1836 SS TBS-System Support	171,483	138,202	309,685	0.00%	0.00%	39.28%	121,644	-	121,644
86	1837 SS TBS-Application Support	691,900	339,552	1,031,453	0.00%	0.00%	39.28%	405,155	-	405,155
87	1838 SS TBS-Technical Support	530,491	314,016	844,506	0.00%	0.00%	39.28%	331,722	-	331,722
88	1839 SS TBS-Transportation & Scheduling	200,303	91,668	291,971	0.00%	0.00%	39.28%	114,686	-	114,686
89	1901 SS Dallas Employee Relocation Exp (Div 02) (6)	61,567	161,445	223,012	0.00%	0.00%	38.26%	85,324	-	85,324
90	1901 SS Dallas Employee Relocation Exp (Div 12) (6)	57,150	22,082	79,232	0.00%	0.00%	51.84%	41,074	-	41,074
91	1903 SS Dallas Controller - Miscellaneous (1)	-	-	-	0.00%	0.00%	0.00%	-	-	-
92	1904 SS Dallas Performance Plan (5)	-	12,301,756	12,301,756	32.67%	32.67%	0.00%	-	-	-
93	1905 SS Outside Director Retirement Cost	-	1,702,374	1,702,374	0.00%	0.00%	38.26%	651,328	-	651,328
94	1908 SS Dallas SEBP (5)	-	11,227,741	11,227,741	0.00%	68.69%	0.00%	-	-	-
95	1910 SS Dallas Overhead Capitalized (4)	-	(54,813,321)	(54,813,321)	0.00%	0.00%	41.96%	-	-	-
96	1913 SS Dallas Fleet Management	503,101	178,695	681,796	46.30%	46.30%	39.49%	269,241	124,662	144,579
97	1915 SS Dallas Insurance	-	15,156,673	15,156,673	0.00%	68.69%	38.26%	5,798,943	3,983,022	1,815,921
98	1954 SS Dallas Culture Council	-	3,248	3,248	0.00%	0.00%	38.26%	1,243	-	1,243
99	TOTAL (Sum Ln 1 through Ln 98)	$ 63,119,265	$ 66,606,584	$ 129,725,849				$ 68,373,324	$ 18,115,851	$ 50,257,472
100										
101	Allocated Shared Services O&M to Mid-Tex Division									56,998,033
102										
103	Total Adjustment to Account 922 (Ln 99 minus Ln 101)									$ (6,740,561)

104

105 Notes:
106 1. None of the costs in Cost Center 1903 were allocated during the test year. The per book amount to allocate has been decreased by $1,036,903.
107 2. Factors are displayed only if applicable to Mid-Tex.
108 3. Based on FY14 factors, adjusted to the four-factor formula including Operating Income.
109 4. The Total represents the amount that would be credited from Cost Center 1910. Cost center 1350 is no longer active. All costs in cost center 1507 are below the line.
110 5. Allocation percentages have been set to zero to align with GUD 10170 for cost centers 1132, 1904 and 1908. Cost center 1350 is no longer active. All costs in cost center 1507 are below the line.
111 6. Cost center 1901 expenses have been divided between General Office (Div 002) and Customer Support (Div 012) and separately allocated.
112 7. Cost Centers 1224 and 1954 have been added since the last RRM. Cost centers 1203 and 1210 were combined into 1212. Cost center 1410 is no longer active.

File Date: May 30, 2014

ATMOS ENERGY CORP., MID-TEX DIVISION
SHARED SERVICES ("SSU") COST CENTER FUNCTIONS
TEST YEAR ENDING DECEMBER 31, 2013

Line No	Division (1) (a)	Cost Center/Description (b)	Cost Center Function (c)
1	002	1001 SS Dallas Chairman & CEO	Costs associated with the Executive Chairman
2	002	1101 SS Dallas Chief Financial Officer	Costs associated with the CFO
3	002	1105 SS Dallas Audit	Costs associated with Internal Audit services provided by KPMG
4	002	1106 SS Dallas Treasurer	Costs associated with the VP, Treasurer who manages Treasury, Procurement and Risk Management. The Treasurer supports the overall financing needs of the Company for both O&M and capital projects.
5	002	1107 SS Dallas Treasury	Costs associated with treasury operations
6	002	1108 SS Dallas Risk Management	Costs associated with insurance and risk management
7	002	1110 SS Dallas Procurement	Costs with associated with purchasing and mail room activities
8	002	1111 SS Dallas Purchasing	Costs associated with procurement activities
9	002	1112 SS Dallas Mail & Supply	Costs associated with mail services at the Dallas corporate office
10	002	1114 SS Dallas Vice Pres & Controller	Costs associated with the VP, Controller
11	002	1116 SS Dallas Taxation	Costs associated with management of Income Tax and Property & Sales Tax departments
12	002	1117 SS Dallas Acctg Services	Costs associated with management of General Accounting, Accounts Payable, Plant Accounting and Payroll departments
13	002	1118 SS Dallas Supply Chain	Costs associated with inventory management
14	002	1119 SS Dallas General Accounting	Costs associated with maintaining the general books and records of the Company
15	002	1120 SS Dallas Accounts Payable	Costs associated with the processing and payment of the Company's bills
16	002	1121 SS Dallas Plant Accounting	Costs associated with the recordkeeping for the Company's fixed assets
17	002	1123 SS Dallas Gas Accounting	Costs associated with the management of Gas Purchase Accounting, Revenue Accounting and Rate Administration departments
18	002	1125 SS Dallas Financial Reporting	Costs associated with the preparation and distribution of both internal and external reporting
19	002	1126 SS Dallas Payroll	Costs associated with paying the Company's employees
20	002	1128 SS Dallas Property & Sales Tax	Costs associated with the management and handling of the Company's property and sales tax activities
21	002	1129 SS Dallas Income Tax	Costs associated with the processing of the Company's income taxes
22	002	1130 SS Dallas Business Planning and Analysis	Costs associated with the planning and budgeting activities of the Company
23	002	1131 SS Dallas Media Relations	Costs associated with communicating Company positions to the media, business and industry leaders
24	002	1132 SS Dallas Investor Relations	Performs a number of significant activities directly related to attracting capital investment and maintaining important relationships with the investing community. Such activities include, but are not limited to: 1.) Accompanying executive management at all discussions with the investing public and financial press to maintain compliance with SEC Regulation FD, applicable to all publicly trade companies. 2.) Initiating, building and maintaining relationships with the financial analyst community and individual investors, as well as serving as the first point of contact between the Company and institutional and individual investors. 3.) Preparing and presenting financial presentations throughout the year as needed and overseeing the issuance of financial press releases at least four times per year to report and explain the financial performance of the Company. 4.) Keeping executive management apprised of investor opinions and concerns. 5.) Reviewing research reports submitted by analysts and providing accurate feedback to foster reporting accuracy. 6.) Maintaining knowledge of other companies that are considered to be Atmos Energy's peers. 7.) Providing management and the Company's Board of Directors with information regarding developments in the financial markets and perceptions of investors that may have use in formulating the Company's long and short-term practices and policies. 8.) Serving on the Company's 7-member Financial Information Committee to review all SEC filings to ensure appropriate and accurate disclosures are made. 9.) Providing input and guidance on the design and production of the annual report to shareholders. 10.) Overseeing the Stock Transfer Agent's administration of the Company's Direct Stock Purchase Plan and Dividend Reinvestment Plan, as well as ongoing plan redesign to ensure best practices. Providing investors with reliable, comprehensive information about the Company is a critical step in attracting equity investment capital. This information may be especially important in attracting non-institutional equity investors who do not have access to the range of analysts' reports, and attracting such investment has both near-term and longer-term direct benefits to the Company. The near-term benefits result from rising equity prices, which immediately translate to lower cost common equity, and ultimately ratemaking benefits through lower rates. For example, increased investment and higher equity prices lowers the yield calculation, as shown in the common Discounted Cash Flow formulation of the cost of capital. In a similar vein, the longer-term benefits derive from providing lower cost equity to maintain and expand the utility system.
25	002	1133 SS Dallas Corporate Communications	Costs associated with internal and external corporate communications including the annual report to shareholders
26	002	1134 SS Dallas IT	Costs associated with the VP, CIO who manages all IT functions
27	002	1135 SS Dallas IT E&O, Corporate Systems	Costs associated with the maintenance and support of the Company's information systems (software)
28	002	1137 SS Dallas IT Operations	Costs associated with the maintenance and support of the Company's data center. Purpose is to provide operational services including the network operations center, data center operations, helpdesk, desktop support and security administration. The cost center supports hardware maintenance and software maintenance (for infrastructure items).

ATMOS ENERGY CORP., MID-TEX DIVISION
SHARED SERVICES ("SSU") COST CENTER FUNCTIONS
TEST YEAR ENDING DECEMBER 31, 2013

Line No	Division (1) (a)	Cost Center/Description (b)	Cost Center Function (c)
29	002	1139 SS Dallas IT Telecommunications	Costs associated with the negotiation and management of Telcom contracts and services including data and voice networks, long distance, maintenance of phone switches, cell phones, and management of radio licenses. This cost center was created to provide greater visibility into the costs of telecommunication services. This cost center tracks activities related to the management of office phones and mobile phones as well as fees to service providers such as AT&T. These activities were previously performed in each departments individual cost centers.
30	002	1141 SS Dallas Gas Purchase Accounting	Costs associated with the accounting for the utility's gas purchases
31	002	1144 SS Dallas Rate Administration	Costs associated with filing PGA, tariffs and recovering gas costs
32	002	1145 SS Dallas Revenue Accounting	Costs associated with the accounting for the utility's revenues
33	002	1148 SS Dallas IT Enterprise Solutions	Project management office for IT projects. To develop and deploy new software technical solutions to the Company. Costs in this center include internal and contractor labor, business systems projects, planning and overseeing development of IT projects and hardware and software.
34	002	1150 SS Dallas Strategic Planning	Costs associated with the VP, Strategic Planning who manages Business Planning & Analysis and Rates
35	002	1153 SS Dallas Distribution Acctg	For costs associated with Distribution Revenue Accounting
36	002	1154 SS Dallas Rates & Regulatory	Costs associated with rate case and regulatory work. Purpose is to manage the Company's rate strategy for regulated rates as well as the rate and regulatory activity for Atmos' eight state operating area. The primary activity is the establishment of base rates through rate cases or formula ratemaking mechanisms. The department currently has approximately twenty base rate case filings or formula mechanisms to manage in order to effect rate changes in its various jurisdictions as well as numerous monthly, quarterly and annual reports to meet reporting requirements.
37	002	1155 SS Dallas Texas Gas Pipeline Acctg	Costs associated with accounting for the Texas Gas Pipeline System
38	012	1156 SS Dal-IT Customer Svc Support	Costs associated with resources focusing on supporting Customer Service technologies
39	012	1158 SS CCC IT Support	Costs associated with supporting the IT activities in the Customer Contact Centers. Supports both the Amarillo and Waco customer contact centers, providing telephone and IT support for our contact centers. Costs in this center include labor and related expenses, hardware maintenance and software maintenance for call center equipment and software, and telephone access charges (not long distance).
40	002	1159 SS Dallas Director Technical Training	Costs associated with the planning, development and management of the Company's technical training activities. Provides oversight of technical training for the regulated divisions of the Company. Costs in this center include labor and related expenses plus the technical training materials given to students. The new Technical Training Organization provides safety training including the recent DOT mandated Operator Qualification training to all of the utility employees for Atmos Energy. The technical training for all Atmos utility divisions, including Mid-Tex, is now managed from the Shared Services organization.
41	002	1161 SS Dallas Benefits & Payroll Acctg	Costs associated with management of payroll and benefits departments
42	002	1165 SS Dal-IT Common Services	Costs associated with providing direction for the production and support of all enterprise systems including supporting apps like the Oracle Financial / HR system. This cost center was created to provide greater visibility into the costs of supporting existing computer applications. This cost center tracks activities related to management and quality assurance.
43	002	1171 SS Dallas Regulatory Accounting	Costs associated with regulatory accounting work on rate cases, special studies and other Commission requests. This cost center was created to clearly identify personnel who devote their time to working on the regulatory accounting side of the business on rate cases, special studies, and other commission requests such as documenting the Company's cost allocation methodologies.
44	002	1201 SS Dallas President & CEO	Costs associated with the President and CEO
45	002	1205 SS SVP Utility Operations	Costs associated with the Senior Vice President of Utility Operations
46	002	1209 SS Dallas Safety & Compliance	Costs associated with the VP, Security & Compliance
47	012	1212 SS CSC-Customer Contact Management	Costs associated with both the Waco and Amarillo Customer Support Centers.
48	012	1213 SS Dallas Quality Assurance	Costs associated with monitoring calls to ensure customers are given correct information and that the correct processes and procedures are followed.
49	012	1214 SS Dallas Workforce Management	Costs associated with forecasting call volume and scheduling agents to ensure we have people available to answer calls
50	012	1215 SS Dispatch Operations	Service Orders to Service techs for emergency calls and same day service. To alert first responders of emergency situations and to communicate service order information to the approximately 750 service technicians throughout the regulated divisions. Costs in this center include the labor and related expenses to staff the dispatch function twenty-four hours a day as well as building maintenance and telecom costs.
51	012	1224 SS Dallas CSO Human Resources	Costs associated with Human Resources and Employee Development in the Customer Service Organization.
52	012	1225 SS Dallas Regulated Operations	Costs of management for coordination of enterprise-wide utility operations projects
53	012	1226 SS Dallas Customer Service	Costs of management and administration of customer service organization (revenue management, customer contact and program development). Includes overall CSO management and administration (excluding Human Resources which is included in CC1224) and Regulated Operations initiatives. CSO management provides support to the contact centers as well as other CSO departments.
54	012	1227 SS Dallas Customer Program Management	Costs of managing ongoing customer service measurement, quality assurance, continuous improvements and resolution of escalated customer complaints. Purpose is the continuous improvement function within customer service. The group monitors customer satisfaction including the ongoing customer survey to identify opportunities for improvement. The Customer Program Management group also performs user acceptance testing on changes to customer systems to help ensure functional requirements are met.

File Date: May 30, 2014

ATMOS ENERGY CORP., MID-TEX DIVISION
SHARED SERVICES ("SSU") COST CENTER FUNCTIONS
TEST YEAR ENDING DECEMBER 31, 2013

Line No	Division (1) (a)	Cost Center/Description (b)	Cost Center Function (c)
55	012	1228 SS Dallas Customer Revenue Management	Costs associated with managing customer revenue functions of Payment Applications, Billing, Billing Systems and Collections. This cost center is for the Director of Revenue Management and the Energy Assistance Program Specialist. The director is responsible for the centers of Payment Applications (1109), Billing Services (1115), Revenue System Support (1148) and Collections (1200). These centers provide day-to-day support and transaction processing for customers in all states served by Atmos. Also, the coordination in all 8 states of Atmos' energy assistance programs is overseen in this area.
56	002	1229 SS Dallas Pipeline Safety	Costs associated with the VP, Pipeline Safety and oversight of pipeline safety, employee safety and technical training activities.
57	002	1401 SS Dallas Employment & Employee Relations	Costs associated with recruiting, union negotiations, and maintenance of HR employee data base. Purpose is to develop, implement and administer employment related activities for the enterprise including: employee relations, labor relations, human resource management systems, corporate compliance, AA/EEO and all other components of employment. Costs charged to this cost center include labor and related expenses, software maintenance, professional association dues, contract labor, legal fees and professional reference books. These costs are a necessary component to providing human resource services to our employees and as such are reasonable and necessary to the provision of safe and reliable service.
58	002	1402 SS Dallas Executive Compensation	Costs associated with the compensation committee of the Board of Directors. Costs incurred for executive compensation work for the Human Resources Committee of the Atmos Energy Board of Directors. Also included are costs related to corporate officer annual physical exams paid by the Company. These costs are a necessary component of providing human resource services to the corporate officers that are necessary for the provision of safe and reliable service.
59	002	1403 SS Dallas Human Resources - Vice Pres	Costs associated with the VP, Human Resources
60	002	1405 SS Dallas Compensation & Benefits	Costs associated with the management of the Company's compensation and benefit plans. The purpose is to ensure Atmos provides its employees the most cost effective pay and benefit plans that are 1) competitive within the utility sector and general industry overall, and 2) consistently applied to all nonunion employees regardless of where they work, unless the union has bargained for these benefits. Specifically, this cost center is accountable for: Group Medical Plan and Retiree Medical Plan; Group Dental Plan; Employee Assistance Plan; Group Life Insurance Plan; Optional Life Insurance Coverage (Group Variable Universal Life, Dependent Spouse and Child(ren)); Flexible Benefits Plan; Business Travel & Accident Insurance; Service Awards Program; Two Defined Contribution Plans (DC); Two Defined Benefit Plans (DB); The Master Trust (holds assets of the two DB plans); Taxable and Tax Exempt VEBA Trusts; Pension Payments to 1,500 retirees; Collection of Retiree Medical Contributions; Workers' Compensation; Group Long-Term Disability Plan; Short-Term Disability; Family Medical Leave; and Compensation Administration (Executive and Non-Executive). Costs specifically charged to this cost center are: Compensation and Benefits Costs for employees assigned to this cost center; Service Awards Program for Shared Services; Compensation Consulting Costs and Compensation Surveys; Training Costs for assigned employees, and Business Travel and Accident Insurance Policy for all of Atmos. These costs are a necessary component to providing human resource services to our employees and as such are reasonable and necessary to the provision of safe and reliable service.
61	002	1407 SS Dallas Facilities	Costs associated with the management of the Company's facilities (offices)
62	002	1408 SS Dallas Employee Development	Costs associated with designing, developing and implementing training and development opportunities for all employees in areas of customer service, leadership, culture shaping and communication. All training and development costs including those that go into the development and delivery of training programs or participant manuals go into this cost center. This cost center also provides training and development support to both customer support centers and all divisions.
63	002	1414 SS Tech Training Delivery	Costs associated with technical training delivery
64	002	1415 SS Tech Training Prog & Curriculum	Costs associated with the technical training curriculum and program development
65	002	1420 SS Dallas EAPC	Costs associated with the Shared Services Employee Activities Planning Committee (EAPC). This committee organizes various Dallas employee-related team building activities throughout the year, including the Company's Lincoln Center United Way campaign. This includes meals incurred by the EAPC as well as office supplies and materials. This does not include employee compensation for their work on the EAPC. These costs are a necessary component to providing human resource services to our employees and as such are reasonable and necessary to the provision of safe and reliable service.
66	002	1463 SS HR Benefit Variance	Used to accumulate the differences between the actual cost of employee benefits and the budgeted benefits rate
67	002	1501 SS Dallas Legal	Costs associated with the VP, General Counsel
68	002	1502 SS Dallas Corporate Secretary	Costs associated with the Corporate Secretary and the Board of Directors. Costs such as Director's fees, board meeting expenses, proxy solicitation expenses and NYSE fees are recorded in this cost center.
69	002	1503 SS Dallas Governmental Affairs	Costs associated with governmental relations

ATMOS ENERGY CORP., MID-TEX DIVISION
SHARED SERVICES ("SSU") COST CENTER FUNCTIONS
TEST YEAR ENDING DECEMBER 31, 2013

Line No	Division (1) (a)	Cost Center/Description (b)	Cost Center Function (c)
70	002	1504 SS Dallas Central Records	Costs associated with the storage and maintenance of Company records
71	002	1505 SS Dallas Gas Contract Admin	Costs associated with maintaining and administrating the Company's gas contracts
72	002	1508 SS Corporate Energy Assistance	Planning, organizing, developing, monitoring and overseeing all aspects of the company's new Energy Assistance and Customer Advocacy Program. The focus of the program will be on meeting the needs of the company's low-income, elderly and disabled customers by working with help agencies across the enterprise to secure federal and state funding for bill payments and home weatherization
73	002	1821 SS Gas Supply Executive	Costs associated with the VP, Gas Supply
74	002	1822 SS Dallas-Regional Gas Supply	Costs associated with the management of the Regional Supply department
75	002	1823 SS Dallas Gas Contract Admin	Costs associated with maintaining and administrating the Company's gas contracts
76	002	1825 SS Franklin-Gas Control & Storage	Costs associated with the Manager of Gas Control for all areas excluding Mid-Tex
77	002	1826 SS New Orleans Gas Supply & Services	Costs associated with the Director of all the Gas Supply, Planning & Hedging departments.
78	002	1827 SS Regional Supply Planning	Costs associated with the management of the Regional Supply Planning department except for Mid-Tex
79	002	1828 SS Jackson-West Region Gas Supply & Services	Costs associated with the management of the Jackson Gas Supply and Services department
80	002	1829 SS Franklin-East Region Gas Supply & Services	Costs associated with the management of the Franklin Gas Supply and Services department. Region includes KY/Mid-States
81	002	1831 SS Dallas Gas Supply	Costs associated with the management of the Gas Supply department
82	002	1832 SS Dallas-Supply Planning	Costs associated with the management of the Gas Supply Planning department
83	002	1833 SS Dallas-Corporate Gas Supply Risk Mgmt	Costs associated with the management of the Company's hedging program. The timing of the fixed physical purchases, and support for fixed purchase plans are services provided by this cost center.
84	002	1835 SS Franklin Gas Control	Costs associated with operating the gas control system in Franklin Tennessee for all areas excluding Mid-Tex
85	002	1836 SS TBS-System Support	Software platform organization utilized to capture gas supply transactions including purchases and transportation activities. To provide support for the Transportation Billing System ("TBS") applications and related processes. The TBS Suite enables divisions to perform gas scheduling and complex billing functions for transportation and industrial sales customers, and provides support for those systems. Cost Center 1836 is the overall management of the TBS group. Costs in these centers include Company labor and related expenses as well as software maintenance fees, contract labor and tools to support the TBS system application.
86	002	1837 SS TBS-Application Support	User interface support including training for the TBS system. To provide support for the Transportation Billing System ("TBS") applications and related processes. The TBS Suite enables divisions to perform gas scheduling and complex billing functions for transportation and industrial sales customers, and provides support for those systems. Cost Center 1837 is the application support group that works with end users and is also responsible for loading contract change data into the application. Costs in these centers include Company labor and related expenses as well as software maintenance fees, contract labor and tools to support the TBS system application.
87	002	1838 SS TBS-Technical Support	Provide technical support for the TBS suite. To provide support for the Transportation Billing System ("TBS") applications and related processes. The TBS Suite enables divisions to perform gas scheduling and complex billing functions for transportation and industrial sales customers, and provides support for those systems. Cost Center 1838 is the Technical Support group which is responsible for polling all of the electronic meters as well as providing programming support to the TBS application. Costs in these centers include Company labor and related expenses as well as software maintenance fees, contract labor and tools to support the TBS system application.
88	002	1839 SS TBS-Transportation & Scheduling	Provide transportation, nomination & scheduling services to the divisions using TBS; to provide support for the Transportation Billing System ("TBS") applications and related processes. The TBS Suite enables divisions to perform gas scheduling and complex billing functions for transportation and industrial sales customers, and provides support for those systems. Cost Center 1839 is the Scheduling Group for the Atmos Utility Divisions. Costs in these centers include Company labor and related expenses as well as software maintenance fees, contract labor and tools to support the TBS system application.
89	002/012	1901 SS Dallas Employee Relocation Exp	Used to accumulate costs associated with the relocation of employees to Shared Services. Charges include transportation of household goods, closing costs, incidentals, etc.
90	002	1903 SS Dallas Controller – Misc.	Used to accumulate costs which do not specifically relate to another SS Cost Center
91	002	1904 SS Dallas Performance Plan	Costs of the Management Incentive Plan ("MIP") and Variable Payment Plan ("VPP") for individuals in Shared Service Cost Centers. The two plans are intended to provide the Company a means by which it can engender and sustain a sense of personal commitment on the part of its employees (through the VPP) and its executives and senior managers (through the MIP) in the continued growth, development, and financial success of the Company and encourage them to remain with and devote their best efforts to the business of the Company, thereby advancing the interests of the Company and its shareholders. Accordingly, the Company may award to employees, executives and senior managers the respective annual incentive compensation.
92	002	1905 SS Outside Director Retirement	Cost Accrued retirement costs for the non-employee members of the Board of Directors. Cost associated with the annual grant of share units to non-employee directors for their service on the Board of Directors. Like all publicly held corporations, Atmos has a board of directors, and the activties of the board benefit the Company and its customers as a whole. These directors require compensation. Part of the compensation package includes annual grants of shares of the Company's stock. The expense recorded in this cost center is not invoiced from a third-party. Rather, it is calculated in accordance with the provisions of Statement of Financial Accounting Standard No. 123(R), Accounting for Stock-Based Compensation. Essentially, this standard requires shared-based compensation to be recognized over the requisite service period. The amount of the compensation cost recorded in this cost center is based upon the number of shares granted and the grant date fair value of the stock award.

ATMOS ENERGY CORP., MID-TEX DIVISION
SHARED SERVICES ("SSU") COST CENTER FUNCTIONS
TEST YEAR ENDING DECEMBER 31, 2013

Line No	Division (1) (a)	Cost Center/Description (b)	Cost Center Function (c)
93	002	1908 SS Dallas SEBP	Atmos Energy Corporation has implemented and maintained over the past years a supplemental executive retirement plan as an integral part of its executive compensation program. There are currently three SERP plans in which active corporate officers participate. The SEBP is currently closed to new membership; only employees promoted to or directly appointed to a Management Committee level job are eligible to join the SERP. An account based SERP is now in place to which newly appointed corporate officers are eligible. The SERP has been instrumental in helping the Company to attract, motivate, and retain a high quality senior management team responsible for the leadership of the Atmos organization.
			To capture the cost associated with these plans, Cost Center 1908 has been established. Annuity benefits from the SEBP and SERP are funded through Rabbi Trusts maintained at State Street Trust and lump sum benefits from the SEBP, SERP and Account Based SERP are paid from Corporate assets. Atmos Energy's Company-Owned Life Insurance (COLI) which is a funding vehicle for benefits paid to former officers who receive an annuity benefit paid out of Corporate assets. The COLI reimburses Atmos for these annuity benefits. The SFAS 87 expense related to these annuity benefits is charged to the respective division where the former Corporate officer retired. The SFAS 87 expense for current retired SEBP and SERP participants, the management committee and current active Corporate officers is also accounted for in Cost Center 1908. The SFAS 87 expense for the SEBP and SERP is actuarially determined by an independent third-party actuary in accordance with SFAS 87.
			The COLI policies were executed on certain executives (now retired) in prior years and are being phased out. Currently, no new policies are being executed. Finally, this Cost Center is used to record the independent actuary's cost to perform the annual SFAS 87 and SFAS 106 calculations required for Atmos Energy's SEC filings. This includes third-party costs associated with the administration of the SEBP (Haynes Boone, State Street, Towers Watson, LCG Associates). These costs are part of the overall executive compensation plan and are not incentive compensation.
94	002	1910 SS Dallas Overhead Capitalized	Represents the portion of Shared Services that is capitalized through the overhead pool throughout the year. Capitalization rates are based on estimated support of capital activities by each cost center.
95	002	1913 SS Dallas Fleet Management	Costs associated with managing Atmos' vehicle fleet
96	002	1915 SS Dallas Insurance	Used for booking property insurance costs related to Shared Services.
97	002	1954 SS Dallas Culture Council	Used to record expenses related to the company's Culture Council.

98
99 Note
100 1. Division 002 represents the General Office and Division 012 represents Customer Support.

ATMOS ENERGY CORP., MID-TEX DIVISION
MISCELLANEOUS ADJUSTMENTS
TEST YEAR ENDING DECEMBER 31, 2013

Examiner 1

Line No.	Description	Footnote Reference	FERC Account	Amounts	Adjustment Amount
	(a)	(b)	(c)	(d)	(e)
1	Miscellaneous Adjustments Mid-Tex				
2	Remove Oak Cliff Insurance Deductible Reserve Liability	(1)	925	$ (1,000,000)	
3	Oak Cliff Incident Expenses	(2)	923	1,250,356	
4	Remove Rate Case Expenses	(3)	923	(949)	
5	Correct account coding	(4)	840	(69)	
6	Correct account coding	(4)	870	69	
7	Pension and Other Postemployment Benefits Regulatory Asset Amortization	(5)	926	750,054	
8	Test Year Pension and Other Postemployment Benefits O&M adjustment to benchmark	(6)	926	2,058,506	
9	880 Account Expense Removal	(11)	880	(2,670)	
10	Remove Mid-Tex direct VPP to the Achieved Payout Percent	(12)	926	(202,081)	
				-	
11	900 Account Review	(7)	902	(2,868)	
12	900 Account Review	(7)	903	(1,280)	
13	900 Account Review	(7)	910	(209,592)	
14	900 Account Review	(7)	912	(49)	
15	900 Account Review	(7)	913	(25,444)	
16	900 Account Review	(7)	921	(5,477)	
17	900 Account Review	(7)	926	(5,731)	
18	900 Account Review	(7)	930.2	(780)	
19	900 Account Review	(7)	931	(146)	
20	5400 Sub-Account Review	(8)	870	(1,871)	
21	5400 Sub-Account Review	(8)	874	(1,623)	
22	5400 Sub-Account Review	(8)	880	(6,547)	
23	5400 Sub-Account Review	(8)	887	-	
24	5400 Sub-Account Review	(8)	888	(200)	
25	5400 Sub-Account Review	(8)	910	(5,950)	
26	5400 Sub-Account Review	(8)	913	(14,507)	
27	5400 Sub-Account Review	(8)	921	(241,877)	
28	Total (Sum Ln 2 through Ln 27)			$ 2,329,273	
29					

ATMOS ENERGY CORP., MID-TEX DIVISION
MISCELLANEOUS ADJUSTMENTS
TEST YEAR ENDING DECEMBER 31, 2013

Examiner 1

Line No.	Description (a)	Footnote Reference (b)	FERC Account (c)	Amounts (d)	Adjustment Amount (e)
30	Miscellaneous Adjustments Shared Services				
31	900 Account Review General Office	(7)	922	$ (64,775)	
32	900 Account Review Customer Support	(7)	922	(21,427)	
33	5400 Sub-Account Review General Office	(8)	922	(13,956)	
34	5400 Sub-Account Review Customer Service	(8)	922	(12,546)	
35	SSU MIP/VPP in cost centers other than 1904	(9)	922	(18,196)	
36	SEBP in cost center 1402	(10)	922	-	
37	Total (Sum Ln 31 through Ln 36)			$ (130,900)	
38					
39	Total Miscellaneous Adjustments (Ln 28 plus Ln 37)				$ 2,198,373
40					

41 Notes:
42 1. The recording of the Oak Cliff incident $1 million liability and the expenses that exceed the $1 million liability, which are subject
43 to insurance recovery.
44 2. Remove expenses related to the Oak Cliff incident.
45 3. Expenses related to Company rate proceedings the Company reasonably expects to be recovered in other proceedings or
46 did not seek recovery.
47 4. Correct expenses that were coded to the wrong FERC Account.
48 5. Adjustment to include the annual amortization of the Pension and Other Postemployment Benefits Regulatory Asset. Please see WP_B-7.
49 6. Adjustment to set Pension and Other Postemployment Benefits O&M expense at the benchmark approved in GUD 10170 and prior RRM.
50 7. O&M expenses recorded to FERC accounts 902, 905, 907-913, 916, 921-926, 928, 930.1, 930.2 and 932 that are being voluntarily
51 removed by the Company and include items such as meals greater the $25, alcohol and other controversial items.
52 8. O&M expenses recorded in sub accounts 05400-05499 and 7590 that are being voluntarily removed by the Company, and include items
53 such as alcohol and meals greater than $25. Any adjustments in sub accounts 05415, 05416, 05417 and 07510 are shown on WP_F-2.10.
54 9. Remove MIP/VPP expense recorded to Cost Centers other than 1904 which is removed on WP_F-2.7.
55 10. During Calendar Year 2013, no SEBP expenses were booked to Cost Centers other than 1908.
56 11. O&M expenses recorded to FERC account 880 that are being voluntarily removed by the Company (see ATM 1-10).
57 12. Actual Mid-Tex Direct VPP payout voluntarily removed by Company above achieved payout percentage.

PAGE INTENTIONALLY LEFT BLANK - NO ADJUSTMENT

Examiner 1

ATMOS ENERGY CORP., MID-TEX DIVISION
UNCOLLECTIBLE EXPENSE ADJUSTMENT
TEST YEAR ENDING DECEMBER 31, 2013

Line No.	Description (a)	FERC Account (b)	Per Books Amount (c)	Adjusted Cost (1) (d)	Adjustment Amount (e)
1	Total Uncollectible Expense	904	$ 6,401,277	$ 3,357,715	$ (3,043,562)
2					
3					
4	Note:				
5	1. The calculation of the adjusted uncollectible expense is shown on Page 2.				

ATMOS ENERGY CORP., MID-TEX DIVISION
UNCOLLECTIBLE EXPENSE ADJUSTMENT CALCULATION FOR RIDER GCR PART A
TEST YEAR ENDING DECEMBER 31, 2013

Line No.	Description (a)	Calculated Amounts (b)
1	Proposed Total Revenue Requirement - Schedule A	$ 1,311,271,176
2	Per Book Uncollectible Experience Rate (1)	0.425%
3	Estimated Total Uncollectible Expense (Ln 1 times Ln 2) (2)	$ 5,566,697
4		
5	Proposed Revenue Requirement - Rider GCR Part A (3)	$ 520,339,930
6	Per Book Uncollectible Experience Rate (1)	0.425%
7	Estimated Uncollectible Expense - Rider GCR Part A (Ln 5 times Ln 6)	$ 2,208,982
8		
9	Proposed Uncollectible Expense excluding Rider GCR Part A Component (Ln 3 minus Ln 7)	$ 3,357,715
10		
11		
12	Notes:	
13	1. The experience rate was calculated using the 3-year average of actual net charge-offs, calendar years 2011 through	
14	2013, the method established in GUD 9670 and used in GUD 10170. The experience rate in Fiscal Year 2013 was	
15	impacted by the implementation of the new Customer Service System due to the suspension of collection activities	
16	for several months.	
17	2. The estimated Uncollectible Expense on Ln 3 has been calculated using the method established in GUD 9670.	
18	3. The amount is from Cost of Service Schedule A, Page 2 of 2, Col. (e) Ln 2.	

ATMOS ENERGY CORP., MID-TEX DIVISION
RULE COMPLIANCE ADJUSTMENT
TEST YEAR ENDING DECEMBER 31, 2013

Examiner 1

Line No.	Description (a)	Rule (1) (b)	FERC Account (c)	Cost Center (d)	Amount (e)	Allocation Factor (f)	Expense Factor (g)	Total Adjustment (h)
1	Mid-Tex:							
2	Nondeductible Dues/Donations	7.5414	870		$ -	100%		$ -
3	Nondeductible Dues/Donations	7.5414	874		(52)	100%		(52)
4	Nondeductible Dues/Donations	7.5414	880		(343)	100%		(343)
5	Nondeductible Dues/Donations	7.5414	887		(5,000)	100%		(5,000)
6	Nondeductible Dues/Donations	7.5414	910		(9,573)	100%		(9,573)
7	Nondeductible Dues/Donations	7.5414	913			100%		-
8	Nondeductible Dues/Donations	7.5414	921		(550)	100%		(550)
9	Nondeductible Dues/Donations	7.5414	930.2		(33,204)	100%		(33,204)
10	Nondeductible Dues/Donations	7.5414	931			100%		-
11	Total (Sum Ln 2 to Ln 10)				$ (48,722)			$ (48,722)
12								
13	Shared Services:							
14	Nondeductible Dues/Donations	7.5414	922	1150	$ (2,000)	38.26%	44.44%	$ (765)
15	Nondeductible Dues/Donations	7.5414	922	1134	(5,000)	38.26%	64.29%	(1,230)
16	Nondeductible Dues/Donations	7.5414	922	1401	(13)	39.49%	100.00%	(5)
17	Total (Sum Ln 14 to Ln 16)				$ (7,013)			$ (2,000)
18								
19	Total Rule Compliance (Ln 11 plus Ln 17)							$ (50,722)
20								

21 Notes:
22 1. Expenses in the test year related to sub-accounts 05415, 05416, 05417 and 07510.
23 2. In compliance with Rule No. 7.501, the Company advises that $586,222 expenses for Legislative Advocacy were recorded in Account 426.4 during
24 test year, and $542,007 was recorded in fiscal year 2011.

ATMOS ENERGY CORP., MID-TEX DIVISION
RULE COMPLIANCE, 7.5414, ADJUSTMENT CALCULATION FOR ADVERTISING LIMITATION
TEST YEAR ENDING DECEMBER 31, 2013

Line No.	Description (a)	FERC Account (b)	Per Book Amount (1) (c)	Adjustment Amount (d)
1	Supervision	907	$ -	$ -
2	Customer Assistance Expenses	908	369,990	-
3	Informational and Instructional Advertising Expenses	909	-	-
4	Miscellaneous Customer Service and Informational Expenses	910	583,401	-
5	Supervision	911	3,910	-
6	Demonstrating and Selling Expenses	912	39,234	-
7	Advertising Expenses	913	736,691	-
8	Miscellaneous Sales Expenses	916	237	-
9	General Advertising Expenses	930.1	-	-
10				
11	Total Advertising (Sum of Ln 1 through Ln 9)		$ 1,733,463	$ -
12				
13	Total Operating Revenue	480-495	$ 1,300,702,940	
14	Less: Uncollectible Accounts	904	6,401,277	
15				
16	Total Gross Receipts (Ln 13 minus Ln 14)		$ 1,294,301,663	
17				
18	Allowable Percentage for Advertising per Substantive Rule 7.5414		0.500%	
19				
20	Calculated Allowable Advertising Expense (Ln 16 times Ln 18)		$ 6,471,508	
21				
22	Total Advertising Expense Per Book (Ln 11)		$ 1,733,463	
23				
24	Adjustment Amount (2)			$ -
25				
26				

27 Note:
28 1. Per Book amount is net of per book labor.
29 2. The above information is provided per Substantive Rule 7.5414. The advertising expense included in the rate filing
30 is below the allowable level; consequently, an adjustment to expense is not required.

ATMOS ENERGY CORP., MID-TEX DIVISION
CUSTOMER CONSERVATION PROGRAM ADJUSTMENT
TEST YEAR ENDING DECEMBER 31, 2013

Line No.	Description (a)	Per Books Amount (b)	Adjusted Costs (c)	Adjustment Amount (d)
1	Total Conservation Program Costs	$ -	$ -	
2				
3	Less: Shareholder funding - Account 426.5 (1)	-	-	
4				
5	Customer Funded Program Costs - Account 908	$ 286,293	$ -	$ (286,293)
6				
7	Note:			
8	1. The Conservation program is collected through Rider CEE and is not part of the revenue requirement.			

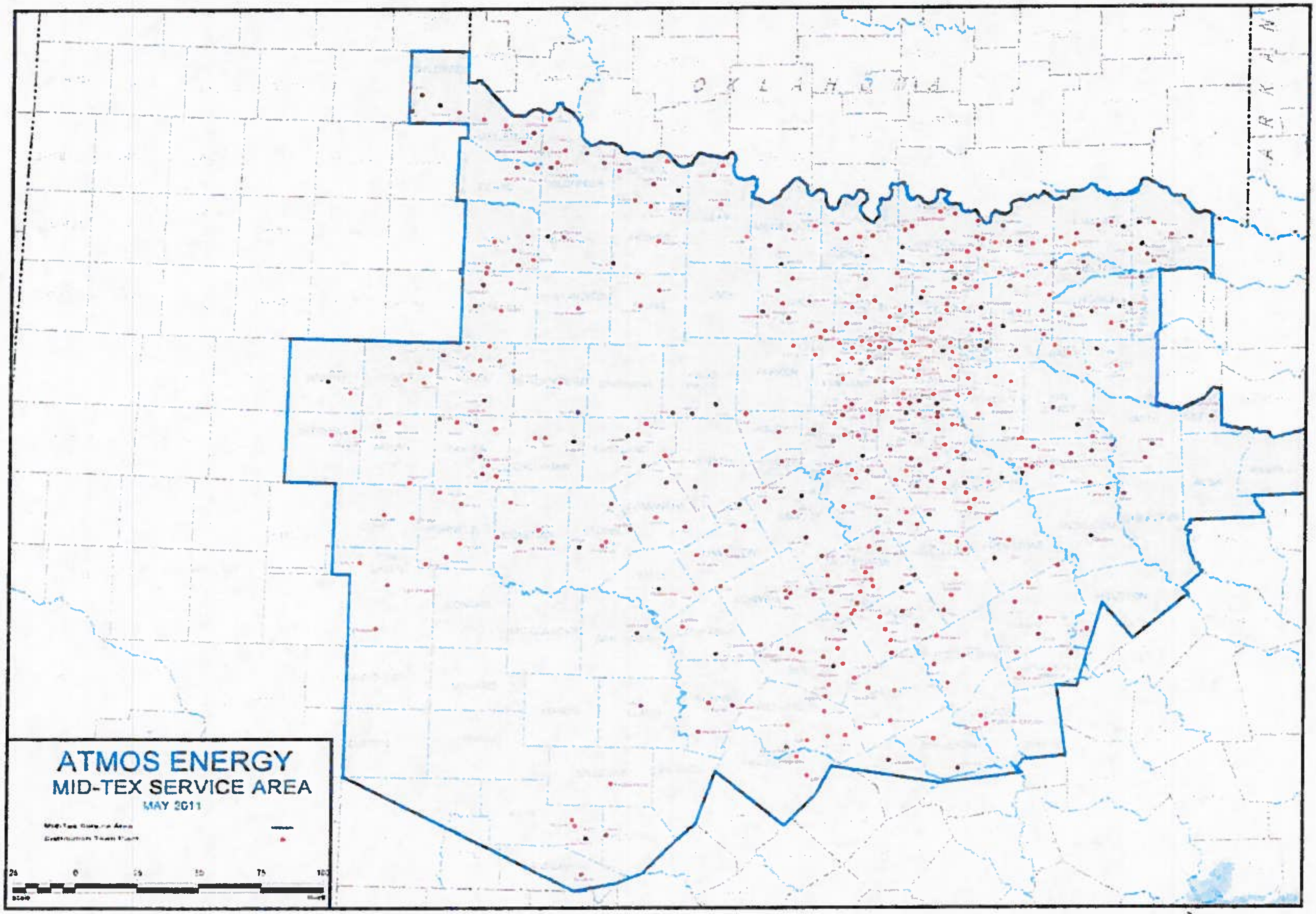
ATMOS ENERGY CORP., MID-TEX DIVISION
DEPRECIATION AND AMORTIZATION EXPENSE
BASED ON PLANT IN SERVICE AS OF DECEMBER 31, 2013

Line No.	Acct.	Description	Adjusted Total Plant	Non-depreciable and Fully Depreciated Plant	Depreciable Plant	Rate	Proposed Depreciation Expense Total	Depreciation Expense Cleared to Capital
	(a)	(b)	(c)	(d)	(e)=(c)-(d)	(f)	(g)=(e)x(f)-(h)	(h)=(e)*(f)*cap rate
1	Mid-Tex:							
2		Distribution Plant						
3	374	Land	$ 852,672	$ 852,672	$ -	0.00%	$ -	
4	374	Land Rights	3,430,946		3,430,946	0.98%	33,623	
5	374	Land & Land Rights	(291)		(291)	1.15%	(3)	
6	375	Structures & Improvements	1,530,179		1,530,179	1.71%	26,166	
7	376.00	Mains-Cathodic Protection	158,429,512		158,429,512	1.85%	2,930,946	
8	376.01	Mains-Steel	459,224,633		459,224,633	3.97%	18,231,218	
9	376.02	Mains-Plastic	1,066,058,295		1,066,058,295	2.21%	23,559,888	
10	378	M&R Station Equipment - General	49,347,595		49,347,595	3.09%	1,524,841	
11	379	M&R Station Equipment - City Gate	5,513,898		5,513,898	1.88%	103,661	
12	380	Services	901,369,405		901,369,405	3.67%	33,080,257	
13	381	Meters	191,078,083		191,078,083	3.31%	6,324,685	
14	382	Meter Installations	111,032,496		111,032,496	3.66%	4,063,789	
15	383	House Regulators	68,053,888		68,053,888	3.50%	2,381,886	
16	385	Industrial M&R Station Equipment	2,189,217		2,189,217	2.80%	61,298	
17		Test Year End Plant Balance (Sum of Ln 3 through Ln 16)	$ 3,018,110,527	$ 852,672	$ 3,017,257,855	3.06%	$ 92,322,255	
18								
19		General Plant						
20	302	Franchises & Consents	$ 18,896	$ 18,896	$ -	0.00%	$ -	
21	303	Computer Software	3,386,331	3,386,331	-	0.00%	-	
22	389	Land	4,099,851	4,099,851	-	0.00%	-	
23	390	Structures & Improvements	35,654,250	-	35,654,250	2.54%	905,618	
24	390	Air Conditioning Equipment	180,268	-	180,268	2.75%	4,957	
25	391	Office Furniture & Equipment	14,007,820	-	14,007,820	4.00%	560,313	
26	392	Transportation Equipment	3,320,200	-	3,320,200	9.04%	63,031	$ 237,115
27	393	Stores Equipment	136,912	-	136,912	4.00%	1,150	4,326
28	394	Tools, Shop, and Garage Equipment	14,001,750	-	14,001,750	5.00%	147,018	553,069
29	395	Laboratory Equipment	365,279	-	365,279	10.00%	7,671	28,857
30	396	Power Oper. Tool & Work Equipment	2,503,496	-	2,503,496	7.24%	3,625	177,628
31	397	Radio Communication Equipment	5,242,788	-	5,242,788	6.67%	349,694	
32	398	Miscellaneous Equipment	1,846,979	-	1,846,979	2.50%	46,174	
33	399	Other Tangible Property	112,200	-	112,200	14.29%	16,033	
34	399.01	Other Tangible Property-Servers Hardware	539,315	-	539,315	14.29%	77,068	
35	399.02	Other Tangible Property-Servers Software	69,173	-	69,173	14.29%	9,885	
36	399.03	Other Tangible Property-Network-Hardware	543,001	-	543,001	11.11%	60,327	
37	399.06	Other Tangible Property-PC Hardware	10,066,546	-	10,066,546	14.29%	1,438,509	
38	399.07	Other Tangible Property-PC Software	691,056	-	691,056	14.29%	98,752	
39	399.08	Other Tangible Property-Application Software	3,658,987	-	3,658,987	14.29%	522,869	
40		Subtotal (Sum of Ln 20 through Ln 39)	$ 100,445,098	$ 7,505,079	$ 92,940,019	4.64%	$ 4,312,696	$ 1,000,996
41								
42		Accrual for Reserve Deficiency					$ 511,486	
43		Remove Amortization of Disallowed Plant (WP_F-3.1)					$ (344,895)	
44		Total Mid-Tex Direct (Ln 17 plus Ln 40 plus Ln 42)					$ 96,801,542	

ATMOS ENERGY CORP., MID-TEX DIVISION
DEPRECIATION AND AMORTIZATION EXPENSE
BASED ON PLANT IN SERVICE AS OF DECEMBER 31, 2013

Line No.	Acct. (a)	Description (b)	Adjusted Total Plant (c)	Non-depreciable and Fully Depreciated Plant (d)	Depreciable Plant (e)=(c)-(d)	Rate (f)	Proposed Depreciation Expense Total (g)=(e)x(f)-(h)	Depreciation Expense Cleared to Capital (h)=(e)*(f)*cap rate
45								
46								
47		SSU - Customer Support (Div 012):						
48		General Plant						
49	389	Land & Land Rights (1)	$ 2,874,240	$ 2,874,240	$ -	0.00%	$ -	
50	390	Structures & Improvements	12,576,032	-	12,576,032	3.34%	420,039	
51	390.09	Improvements to Leased Premises	4,285,907	-	4,285,907	4.06%	174,008	
52	391	Office Furniture & Equipment	2,224,508	-	2,224,508	4.03%	89,648	
53	391.02	Remittance Processing Equipment	-	-	-	4.03%	-	
54	391.03	Office Furniture & Equipment	-	-	-	4.03%	-	
55	392	Transportation Equipment	-	-	-	28.96%	-	
56	393	Stores Equipment	-	-	-	10.00%	-	
57	394	Tools & Work Equipment	-	-	-	8.88%	-	
58	397	Communication Equipment - Telephone	1,962,785	-	1,962,785	5.54%	108,738	
59	398	Miscellaneous Equipment	25,439	-	25,439	1.72%	438	
60	399	Other Tangible Property	629,166	-	629,166	13.84%	87,077	
61	399.01	Other Tangible Property-Servers Hardware	7,924,716	-	7,924,716	8.62%	683,111	
62	399.02	Other Tangible Property-Servers Software	1,786,302	-	1,786,302	8.78%	156,837	
63	399.03	Other Tangible Property-Network-Hardware	494,406	-	494,406	8.72%	43,112	
64	399.04	Other Tangible Property-CPU	-	-	-	26.26%	-	
65	399.05	Other Tangible Property-MF Hardware	-	-	-	15.76%	-	
66	399.06	Other Tangible Property-PC Hardware	864,718	-	864,718	8.78%	75,922	
67	399.07	Other Tangible Property-PC Software	499,710	-	499,710	6.64%	33,181	
68	399.08	Other Tangible Property-Application Software	108,078,413	-	108,078,413	6.57%	7,100,752	
69	399.09	Other Tangible Property-System Software	-	-	-	6.21%	-	
70	399.24	Other Tangible Property-GenStartupCost	-	-	-	15.89%	-	
71		Total (Sum of Ln 49 through Ln 70)	$ 144,226,343	$ 2,874,240	$ 141,352,103		$ 8,972,862	
72		Allocation to Mid-Tex					51.84%	
73		Customer Support Allocated to Mid-Tex (Ln 71 times Ln 72)					$ 4,651,532	
74		SSU - Customer Support (Div 012):						
75		General Plant						
76		Charles K. Vaughn Center						
77	389	Land & Land Rights (1)	$ 1,887,123	$ 1,887,123	$ -	0.00%	$ -	
78	390.10	Structures & Improvements	10,414,663	-	10,414,663	3.34%	347,850	
79	397.10	Communication Equipment	271,621	-	271,621	5.54%	15,048	
80	399.10	Other Tangible Equipment	91,992	-	91,992	13.84%	12,732	
81	399.16	PC Hardware	194,015	-	194,015	8.78%	17,035	
82	399.17	PC Software	90,541	-	90,541	6.64%	6,012	
83		Total (Sum of Ln 77 through Ln 82)	$ 12,949,956	$ 1,887,123	$ 11,062,833		$ 398,676	
84		Allocation to Mid-Tex					80.67%	
85		Customer Support: Charles K. Vaughn Center Allocated to Mid-Tex (Ln 83 times Ln 84)					$ 321,605	
86		Total Customer Support Depreciation Expense Allocated to Mid-Tex (Ln 73 plus Ln 85)					$ 4,973,137	

Exhibit DJP-2



ATTACHMENT 4

RRM TARIFF

ATMOS ENERGY CORPORATION
MID-TEX DIVISION

RATE SCHEDULE:	**RRM – Rate Review Mechanism**	
APPLICABLE TO:	**ALL AREAS IN THE MID-TEX DIVISION EXCEPT THE CITY OF DALLAS CUSTOMERS AND UNINCORPORATED**	
EFFECTIVE DATE:	**Bills Rendered on and after 10/15/2013**	**PAGE: 18**

I. Applicability

Applicable to Residential, Commercial, Industrial, and Transportation tariff customers in the Mid-Tex Division of Atmos Energy Corporation ("Company") except such customers within the City of Dallas. This Rate Review Mechanism ("RRM") provides for an annual adjustment to the Company's Rate Schedules R, C, I and T ("Applicable Rate Schedules"). Rate calculations and adjustments required by this tariff shall be determined on a System-Wide cost basis.

II. Definitions

"Test Period" is defined as the twelve months ending December 31 of each preceding calendar year.

The "Effective Date" is the date that adjustments required by this tariff are applied to customer bills. The annual Effective Date is June 1. The 2013 filing Effective Date is October 15, 2013.

Unless otherwise noted in this tariff, the term "Final Order" refers the final order issued by the Railroad Commission of Texas in GUD 10170.

The term "System-Wide" means all incorporated and unincorporated areas served by the Company.

"Review Period" is defined as the period from the Filing Date until the Effective Date.

The "Filing Date" is as early as practicable but no later than March 1 of each year with the exception of 2013, which shall have a Filing Date of July 15, 2013. The last annual Effective Date is June 1, 2017.

III. Calculation

The RRM shall calculate an annual, System-Wide cost of service ("COS") that will be used to adjust applicable rate schedules prospectively as of the Effective Date. The annual cost of service will be calculated according to the following formula:

$$COS = OM + DEP + RI + TAX + CD - ADJ$$

Where:

OM = all reasonable and necessary operation and maintenance expenses from the Test Period adjusted for known and measurable items and prepared consistent with the rate making treatments approved in the Final Order. Known and measurable adjustments shall be limited to those changes that have occurred prior to the Filing Date. OM may be adjusted for atypical and non-recurring items. Shared Services allocation factors shall be recalculated each year based on the latest component factors used during the Test Period, but the methodology used will be that approved in the Final Order.

DEP = depreciation expense calculated at depreciation rates approved by the Final Order.

RI = return on investment calculated as the Company's pretax return multiplied by rate base at Test Period end. Rate base is prepared consistent with the rate making treatments approved in the Final Order, except that no post Test Period adjustments will be permitted. Pretax return is the Company's weighted average cost of capital before income taxes. The Company's weighted average cost of capital is calculated using the methodology from the Final Order including the Company's actual capital structure and long term cost of debt as of the Test Period end (adjusted for any known and measurable changes) and the return on equity from the Final Order. However, in no event will the percentage of equity exceed 55%. Regulatory adjustments due to prior regulatory rate base adjustment disallowances will be maintained. Cash working capital will be calculated using the lead/lag days approved in the Final Order. With respect to pension and other postemployment benefits, the Company will record a regulatory asset or liability for these costs until the amounts are included in the next annual rate adjustment implemented under this tariff. Each year, the Company's filing under this Rider RRM will clearly state the level of pension and other postemployment benefits recovered in rates.

TAX = income tax and taxes other than income tax from the Test Period adjusted for known and measurable changes occurring after the Test Period and before the Filing Date, and prepared consistent with the rate making treatments approved in the Final Order.

CD = interest on customer deposits.

ADJ = Downward adjustment to the overall, System-Wide test year cost of service in the amount of $3,000,000.00, adjusted by a percentage equal to the total percentage increase in base-rate revenue sought pursuant to this tariff.

RATE SCHEDULE:	RRM – Rate Review Mechanism	
APPLICABLE TO:	ALL AREAS IN THE MID-TEX DIVISION EXCEPT THE CITY OF DALLAS CUSTOMERS AND UNINCORPORATED	
EFFECTIVE DATE:	Bills Rendered on and after 10/15/2013	PAGE: 20

IV. Annual Rate Adjustment

The Company shall provide schedules and work papers supporting the Filing's revenue deficiency/sufficiency calculations using the methodology accepted in the Final Order. The result shall be reflected in the proposed new rates to be established for the effective period. The Revenue Requirement will be apportioned to customer classes in the same manner that Company's Revenue Requirement was apportioned in the Final Order. For the Residential Class, 40% of the increase may be recovered in the customer charge. The increase to the Residential customer charge shall not exceed $0.50 per month in any given year. The remainder of the Residential Class increase not collected in the customer charge will be recovered in the usage charge. The Company will forgo any change in the Residential customer charge with the first proposed rate adjustment pursuant to this tariff. For all other classes, the change in rates will be apportioned between the customer charge and the usage charge, consistent with the Final Order. Test Period billing determinants shall be adjusted and normalized according to the methodology utilized in the Final Order.

V. Filing

The Company shall file schedules annually with the regulatory authority having original jurisdiction over the Company's rates on or before the Filing Date that support the proposed rate adjustments. The schedules shall be in the same general format as the cost of service model and relied-upon files upon which the Final Order was based. A proof of rates and a copy of current and proposed tariffs shall also be included with the filing. The filing shall be made in electronic form where practical. The Company's filing shall conform to Minimum Filing Requirements (to be agreed upon by the parties), which will contain a minimum amount of information that will assist the regulatory authority in its review and analysis of the filing. The Company and regulatory authority will endeavor to hold a technical conference regarding the filing within ten (10) calendar days after the Filing Date.

The 2013 Filing Date will be July 15, 2013.

A sworn statement shall be filed by an Officer of the Company affirming that the filed schedules are in compliance with the provisions of this Rate Review Mechanism and are true and correct to the best of his/her knowledge, information, and belief. No testimony shall be filed, but a brief narrative explanation shall be provided of any changes to corporate structure, accounting methodologies, allocation of common costs, or atypical or non- recurring items included in the filing.

EXHIBIT A

ATMOS ENERGY CORPORATION
MID-TEX DIVISION

RATE SCHEDULE:	RRM – Rate Review Mechanism	
APPLICABLE TO:	ALL AREAS IN THE MID-TEX DIVISION EXCEPT THE CITY OF DALLAS CUSTOMERS AND UNINCORPORATED	
EFFECTIVE DATE:	Bills Rendered on and after 10/15/2013	PAGE: 21

VI. Evaluation Procedures

The regulatory authority having original jurisdiction over the Company's rates shall review and render a decision on the Company's proposed rate adjustment prior to the Effective Date. The Company shall provide all supplemental information requested to ensure an opportunity for adequate review by the relevant regulatory authority. The Company shall not unilaterally impose any limits upon the provision of supplemental information and such information shall be provided within seven (7) working days of the original request. The regulatory authority may propose any adjustments it determines to be required to bring the proposed rate adjustment into compliance with the provisions of this tariff.

The regulatory authority may disallow any net plant investment that is not shown to be prudently incurred. Approval by the regulatory authority of net plant investment pursuant to the provisions of this tariff shall constitute a finding that such net plant investment was prudently incurred. Such finding of prudence shall not be subject to further review in a subsequent RRM or Statement of Intent filing.

During the Review Period, the Company and the regulatory authority will work collaboratively and seek agreement on the level of rate adjustments. If, at the end of the Review Period, the Company and the regulatory authority have not reached agreement, the regulatory authority shall take action to modify or deny the proposed rate adjustments. The Company shall have the right to appeal the regulatory authority's action to the Railroad Commission of Texas. Upon the filing of an appeal of the regulatory authority's order relating to an annual RRM filing with the Railroad Commission of Texas, the regulatory authority having original jurisdiction over the Company's rates shall not oppose the implementation of the Company's proposed rates subject to refund, nor will the regulatory authority advocate for the imposition of a third party surety bond by the Company. Any refund shall be limited to and determined based on the resolution of the disputed adjustment(s) in a final, non-appealable order issued in the appeal filed by the Company at the Railroad Commission of Texas.

In the event that the regulatory authority and Company agree to a rate adjustment(s) that is different from the adjustment(s) requested in the Company's filing, the Company shall file compliance tariffs consistent with the agreement. No action on the part of the regulatory authority shall be required to allow the rate adjustment(s) to become effective on June 1. To the extent that the regulatory authority does not take action on the Company's RRM filing by May 31, the rates proposed in the Company's filing shall be deemed approved effective June 1. (2013 filing RRM rate will be effective October 15, 2013 if no action is taken). Notwithstanding the preceding sentence, a regulatory authority may choose to take affirmative action to approve a rate adjustment under this tariff. In those instances where such approval cannot reasonably occur by May 31, the rates finally approved by the regulatory authority shall be deemed effective as of June 1.

To defray the cost, if any, of regulatory authorities conducting a review of the Company's annual RRM filing, the Company shall reimburse the regulatory authorities on a monthly basis for their reasonable expenses incurred upon submission of invoices for such review. Any reimbursement contemplated hereunder shall be deemed a reasonable and necessary operating expense of the Company in the year in which the reimbursement is made. A regulatory authority seeking reimbursement under this provision shall submit its request for reimbursement to the Company no later than August 1 of the year in which the RRM filing is made and the Company shall reimburse regulatory authorities in accordance with this provision on or before August 30 of the year the RRM filing is made.

To the extent possible, the provisions of the Final Order shall be applied by the regulatory authority in determining whether to approve or disapprove of Company's proposed rate adjustment.

This Rider RRM does not limit the legal rights and duties of a regulatory authority. Nothing herein shall abrogate the jurisdiction of the regulatory authority to initiate a rate proceeding at any time to review whether rates charged are just and reasonable. Similarly, the Company retains its right to utilize the provisions of Texas Utilities Code, Chapter 104, Subchapter C to request a change in rates. The provisions of this Rider RRM are implemented in harmony with the Gas Utility Regulatory Act (Texas Utilities Code, Chapters 101-105).

The annual rate adjustment process set forth in this tariff shall remain in effect during the pendency of any Statement of Intent rate filing.

VII. Reconsideration, Appeal and Unresolved Items

Orders issued pursuant to this mechanism are ratemaking orders and shall be subject to appeal under Sections 102.001(b) and 103.021, et seq., of the Texas Utilities Code (Vernon 2007).

VIII. Notice

Notice of each annual RRM filing shall be provided by including the notice, in conspicuous form, in the bill of each directly affected customer no later than forty-five (45) days after the Company makes its annual filing pursuant to this tariff. The notice to customers shall include the following information:

RATE SCHEDULE:	RRM – Rate Review Mechanism
APPLICABLE TO:	ALL AREAS IN THE MID-TEX DIVISION EXCEPT THE CITY OF DALLAS CUSTOMERS AND UNINCORPORATED
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a) a description of the proposed revision of rates and schedules;

b) the effect the proposed revision of rates is expected to have on the rates applicable to each customer class and on an average bill for each affected customer;

c) the service area or areas in which the proposed rates would apply;

d) the date the annual RRM filing was made with the regulatory authority; and

e) the Company's address, telephone number and website where information concerning the proposed rate adjustment be obtained.

ATTACHMENT 5

FINAL ORDER ISSUED IN GUD NO. 10170

BEFORE THE
RAILROAD COMMISSION OF TEXAS

STATEMENT OF INTENT FILED BY ATMOS ENERGY CORP., TO INCREASE GAS UTILITY RATES WITHIN THE UNINCORPORATED AREAS SERVED BY THE ATMOS ENERGY CORP., MID-TEX DIVISION	§ § § § § § §	GAS UTILITIES DOCKET NO. 10170 AND CONSOLIDATED CASES

FINAL ORDER

Notice of Open Meeting to consider this Order was duly posted with the Secretary of State within the time period provided by law pursuant to TEX. GOV'T CODE ANN. Chapter 551, *et seq*. (Vernon 2008 & Supp. 2012). The Railroad Commission of Texas adopts the following findings of fact and conclusions of law and orders as follows:

FINDINGS OF FACT

1. Atmos Energy Corp., Mid-Tex Division, (Atmos Energy, Atmos, or company) is a gas utility as that term is defined in the Texas Utility Code and is subject to the jurisdiction of the Railroad Commission of Texas (Commission).

2. On May 31, 2012, Atmos filed a *Statement of Intent* to increase gas utility rates in the unincorporated areas of the Atmos Energy Corp., Mid-Tex Division. The filing was docketed as GUD No. 10170.

3. Atmos proposed that the increased rates become effective on July 5, 2012.

4. On June 26, 2012, the Commission suspended the implementation of Atmos' proposed rates for up to 150 days.

5. Atmos subsequently extended the proposed effective date of the proposed rates, thereby extending the statutory deadline to December 20, 2012.

6. Atmos filed a municipal rate proceeding with 441 cities (Affected Cities) served by Atmos Mid-Tex on January 31, 2012.

7. Atmos Mid-Tex filed the following *Petitions for De Novo Review* of the denial of the *Statement of Intent* by various municipalities that denied that rate request:

   A. GUD No. 10171, Petition for De Novo Review of the Denial of the Statement of Intent Filed by Atmos Energy Corp., Mid-Tex Division by the Cities of Abilene, Alba, Albany, et al. on May 31, 2012. These cities include the following: Abilene, Alba, Albany, Allen, Alvarado, Alvord, Angus, Anna, Anson, Arlington, Aubrey, Avery, Azle, Baird, Bangs, Barry, Bartonville, Bedford, Bellevue, Benbrook, Benjamin, Beverly Hills, Blanket, Blum, Bogata, Bonham, Bowie, Brazos Bend, Bridgeport, Bronte, Brownsboro, Brownwood, Bruceville-Eddy, Buckholts, Buffalo Gap, Burleson, Byers, Caddo Mills, Caldwell, Calvert, Cameron, Campbell, Canton, Cashion Community, Celina, Centerville, Childress, Chillicothe, Cisco, Clarksville, Cleburne, Clifton, Clyde, Coleman, Colleyville, Collinsville, Colorado City, Comanche, Commerce, Coolidge, Cooper, Copper Canyon, Copperas Cove, Corral City, Covington, Crawford, Crowley, Dalworthington Gardens, Decatur, DeLeon, Denison, Desoto, Dodd City, Double Oak, Duncanville, Dublin, Ector, Edgecliff Village, Edom, Emhouse, Emory, Ennis, Euless, Everman, Fairfield, Farmers Branch, Farmersville, Ferris, Forest Hill, Fort Worth, Franklin, Frankston, Frisco, Frost, Gainesville, Glen Rose, Glenn Heights, Godley, Goodlow, Gordon, Goree, Gorman, Grandview, Granger, Gunter, Gustine, Haltom City, Hamilton, Harker Heights, Haskell, Hawley, Henrietta, Hewitt, Hico, Highland Village, Holland, Holliday, Honey Grove, Howe, Hubbard, Hurst, Hutchins, Iowa Park, Iredell, Irving, Italy, Itasca, Jewitt, Josephine, Joshua, Justin, Kaufman, Keene, Kemp, Kennedale, Killeen, Knollwood, Ladonia, Lake Worth, Lakeport, Leona, Leonard, Lewisville, Lindsay, Lipan, Little Elm, Little River Academy, Lometa, Lone Oak, Longview, Lorena, Lott, Mabank, Madisonville, Malakoff, Malone, Mansfield, Marble Falls, Maypearl, McGregor, McKinney, Melissa, Meridian, Merkel, Mesquite, Mexia, Midlothian, Miles, Moran, Morgan, Murchison, Murphy, Newcastle, Nocona, Nolanville, Northlake, Novice, Oak Leaf, Oakwood, O'Brien, Oglesby, Olney, Ovilla, Palestine, Palmer, Paradise, Pecan Gap, Pecan Hill, Penelope, Petrolia, Pilot Point, Pleasant Valley, Ponder, Pottsboro, Poynor, Princeton, Putnam, Quanah, Quitman, Ranger, Ravenna, Red Oak, Reno (Lamar County), Retreat, Richland, Richland Hills, River Oaks, Roanaoke, Robert Leek, Rochester, Rockwall, Roscoe, Rosebud, Ross, Rotan, Runaway Bay, Sachse, Saginaw, San Angelo, Sansom Park, Santa Anna, Savoy, Scurry, Seagoville, Sherman, Snyder, Suothmayd, Stamford, Stephenville, Strawn, Streetman, Sweetwater, . Talty, Teague, Tehuacana, Thorndale, Thornton, Throckmorton, Tioga, Tom Bean, Trent, Trinidad, Troy, University Park, Valley View, Van Alstyne, Walnut Springs, Westlake, White Settlement, Whitesboro, Wichita Falls, Woodway, Wortham, Wylie, Venus and Yantis.

B. GUD No. 10176, Petition for De Novo Review of the Denial of the Statement of Intent Filed by Atmos Energy Corp., Mid-Tex Division by the Cities of Deport, Detroit, and Lakeside on June 8, 2012.

C. GUD No. 10177, Petition for De Novo Review of the Denial of the Statement of Intent Filed by Atmos Energy Corp., Mid-Tex Division by the Cities of Addison, Alma, Archer City, et al. on June 13, 2012. These cities include the following: The cities of Addison, Alma, Archer City, Argyle, Aurora, Ballinger, Bandera, Bardwell, Bartlett, Bells, Bertram, Blackwell, Blooming Grove, Blossom, Blue Mound, Blue Ridge, Boyd, Bremond, Bryan, Buffalo, Burkburnett, Burnet, Carbon, Carrollton, Cedar Hill, Cedar Park, Chico, College Station, Como, Coppell, Corinth, Corsicana, Crandall, Cross Roads, Dawson, Denton, Early, Eastland, Eustace, Evant, Fairview, Fate, Flower Mound, Forney, Fredericksburg, Garland, Georgetown, Goldthwaite, Granbury, Grand Prairie, Grapevine, Hamlin, Haslet, Hearne, Heath, Hebron, Hickory Creek, Highland Park, Hillsboro, Hutto, Impact, Keller, Kerrville, Knox City, Kosse, Krum, Kurten, Lacy-Lakeview, Lake Dallas, Lampasas, Lancaster, Lavon, Lawn, Leander, Lincoln Park, Llano, Lorain, Lueders, Manor, Mart, Mclendon-Chisholm, Megargel, Milford, Midway, Mobile City, Moody, Muenster, Newark, Nevada, New Chapel Hill, Normangee, North Richland Hills, Paris, Parker, Pflugerville, Plano, Powell, Prosper, Quinlan, Rhome, Robinson, Roby, Rogers, Round Rock, Rowlett, Roxton, Royse City, Rule, Sadler, Saint Jo, Sanctuary, Sanger, Seymour, Shady Shores, South Mountain, Southlake, Springtown, Sulphur Springs, Taylor, Temple, Terrell, The Colony, Thrall, Toco, Trenton, Trophy Club, Tye, Tyler, Valley Mills, Vernon, Waco, Watauga, Waxahachie, Weinert, West, Westworth Village, Whitehouse, Whitewright, Whitney, Wilmer, Windom, Winters, and Wolfe City.

D. GUD No. 10184, Petition for De Novo Review of the Denial of the Statement of Intent Filed by Atmos Energy Corporation, West Texas Division by the Cities of Big Spring, Earth, Edmonson, et al. on July 5, 2012. These cities include the following: Abbott, Annona, Athens, Austin, Balch Springs, Bellmead, Belton, Celeste, Chandler, Cockrell Hill, Coyote Flats, Cumby, Electra Garrett, Gatesville, Greenville, Groesbeck, Kerens, Lexington, Marlin, Millsap, Munday, Pantego, Point, Reno (Parker County), Post Oak Bend, Rice, Richardson, Riesel, Rio Vista, Rockdale, San Saba, Somerville, Star Harbor, Sun Valley, Sunnyvale, Tuscola, Westover Hills, and Wixon Valley.

8. On March 13, 2012, Atmos filed an *Application of Atmos Energy Corp. to Revise Certain Depreciation Rates* and it was docketed as GUD No. 10147.

9. On June 19, 2012, Atmos filed a *Motion to Consolidate* [depreciation issues for Atmos Mid-Tex from GUD No. 10147] *and Motion to Dismiss as to Atmos Pipeline-Texas.*

10. On June 22, 2012, the depreciation issues for Atmos' Mid-Tex Division from GUD No. 10147 were severed into GUD No. 10179.

11. On June 22, 2012, GUD No. 10179 was consolidated into GUD No. 10170.

12. On June 14, 2012, Staff of the Railroad Commission of Texas (Staff) and the State of Texas Agencies and Institutions of Higher Education (State Agencies) intervened in this proceeding.

13. On June 14, 2012, Atmos Texas Municipalities (ATM) intervened in this proceeding on behalf of the following cities: Austin, Balch Springs, Bandera, Barlett, Belton, Blooming

Grove, Bryan, Cameron, Cedar Park, Celeste, Clifton, Commerce, Copperas Cove, Corsicana, Denton, Electra, Fredericksburg, Garrett, Gatesville, Georgetown, Goldthwaite, Granbury, Greenville, Groesbeck, Hamilton, Henrietta, Hickory Creek, Hico, Hillsboro, Hutto, Kerens, Lampasas, Leander, Lometa, Longview, Mart, Mexia, Olney, Pantego, Pflugerville, Ranger, Reno (Parker County), Rice, Richardson, Riesel, Round Rock, San Angelo, Sanger, Somerville, Star Harbor, Trinidad, Trophy Club, and Whitney.

14. On June 22, 2012, Atmos Cities Steering Committee (ACSC) intervened in this proceeding on behalf of the following cities: Abilene, Addison, Allen, Alvarado, Angus, Anna, Argyle, Arlington, Bedford, Bellevue, Benbrook, Beverly Hills, Blossom, Blue Ridge, Bowie, Bridgeport, Brownwood, Burkburnett, Burleson, Caddo Mills, Carrollton, Cedar Hill, Celina, Cisco, Cleburne, Clyde, College Station, Colleyville, Colorado City, Comanche, Coolidge, Coppell, Corinth, Corral City, Crandall, Crowley, Dalworthington Gardens, Denison, DeSoto, Duncanville, Eastland, Edgecliff Village, Emory, Ennis, Euless, Everman, Fairview, Farmers Branch, Farmersville, Fate, Flower Mound, Forest Hill, Fort Worth, Frisco, Frost, Gainsville, Garland, Grand Prairie, Grapevine, Gunter, Haltom City, Harker Heights, Haskell, Haslett, Hewitt, Highland Park, Highland Village, Honey Grove, Hurst, Iowa Park, Irving, Justin, Kaufman, Keene, Keller, Kemp, Kennedale, Kerrville, Killeen, Krum, Lakeside, Lake Worth, Lancaster, Lewisville, Lincoln Park, Little Elm, Lorena, Madisonville, Malakoff, Mansfield, McKinney, Melissa, Mesquite, Midlothian, Murphy, Newark, Nocona, North Richland Hills, Northlake, Oak Leaf, Ovilla, Palestine, Paris, Parker, Pecan Hill, Plano, Ponder, Pottsboro, Prosper, Quitman, Red Oak, Richland, Richland Hills, River Oaks, Roanoke, Robinson, Rockwall, Roscoe, Rowlett, Royse City, Sachse, Saginaw, Seagoville, Sherman, Snyder, Southlake, Springtown, Stamford, Stephenville, Sulphur Springs, Sweetwater, Temple, Terrell, The Colony, Trophy Club, Tyler, University Park, Venus, Waco, Watauga, Waxahachie, Westlake, Whitesboro, White Settlement, Wichita Falls, Woodway, and Wylie.

15. On July 27, 2012, The City of Dallas intervened in this proceeding and on July 31, 2012, CoServ Gas, Ltd., intervened in this docket.

Notice

16. Atmos Mid-Tex published notice of the proposed rate changes once a week for four or more consecutive weeks, beginning the week of February 6, 2012 and running through the week of March 5, 2012, in newspapers of general circulation in each city affected by the proposed increase.

17. Notice of the filing in this proceeding was accomplished for unincorporated area residential and commercial customers by bill insert beginning on July 20, 2012 and ending on August 20, 2012.

18. Notice to industrial and other non-residential and non-commercial customers was accomplished by mailing the notice to the billing addresses of each directly affected unincorporated customer on July 24, 2012.

19. The publication of notice meets the statutory and rule requirements of notice and provides sufficient information to ratepayers about the statement of intent.

Atmos Energy Corporation Mid-Tex Division

20. Atmos Energy delivers natural gas to approximately 3.2 million residential, commercial, industrial, and public authority customers in twelve states.

21. Atmos Energy has the following six unincorporated gas utility operating divisions located in the respective cities: Dallas, Texas (Mid-Tex Division); Denver, Colorado (Colorado/Kansas Division); Baton Rouge, Louisiana (Louisiana Division); Jackson, Mississippi (Mississippi Division); Lubbock, Texas (West Texas Division); and Franklin, Tennessee and Owensboro, Kentucky (Kentucky/Mid-States Division).

22. Atmos Energy has an operating division, Atmos Pipeline – Texas, which consists of a regulated intrastate pipeline that operates only within Texas.

23. Each of Atmos Energy's utility divisions has its own divisional office that is responsible for the day-to-day operations that are unique to that division.

24. The company's corporate office is located in Dallas, Texas, and provides services such as accounting, legal, human resources, rates administration, procurement, gas supply, information technology, and customer care.

25. Several functions that are shared among the divisions are handled by the company's Shared Services Unit (SSU).

26. These centralized services, or Shared Services, include customer support call centers and are located in Amarillo and Waco, Texas, which are shared by the company's distribution operating divisions.

27. The utility operations in the Mid-Tex Division operates in over 440 cities, towns, and unincorporated areas.

28. The Mid-Tex Division has approximately 350 employees and serves approximately 1.5 million customers in 442 incorporated and unincorporated areas in north and central Texas.

Test Year

29. The test year in this case was the 12-month period ending September 30, 2011.

Books and Records

30. Atmos Mid-Tex established that the utility maintains its books and records in accordance with the Federal Energy Regulatory Commission's (FERC) Uniform System of Accounts prescribed for Natural Gas Companies.

31. Atmos has established that the utility has fully complied with the books and records requirements of Rule 7.310 and the amounts included therein are therefore subject to the presumption encapsulated in Rule 7.503 that these amounts are reasonable and necessary.

Scope of Proceeding

32. Atmos Energy Corporation and Staff of the Railroad Commission each filed a motion to limit issues identifying nineteen issues ripe for issue preclusion due to prior review and determination of methodology.

33. Continued use of the following methodology was found to be reasonable in this case and therefore, precluded from further litigation:

> Continued use of the three-year average uncollectibles expense as approved in GUD Nos. 9762 and 9869 (Mid-Tex).
>
> Continued use of an income tax factor of 0.5385 to the dollar return on equity included in the revenue requirements computed based on the statutory income tax rate of 35 percent as approved in GUD Nos. 9670, 9762, and 9869 (Mid-Tex); GUD Nos. 10041, 10084, and 10085 (West Texas Division; and GUD No. 10000 (APT).
>
> Continued use of the equal life group (ELG) method for calculating depreciation expenses as approved in GUD Nos. 9762 and 9670 (Mid-Tex); GUD Nos. 10041, 10084, and 10085 (West Texas Division); and GUD No. 10000 (APT).
>
> Continued exclusion of sales, transfers of property, outliers and reimbursed retirements from the life and salvage analysis used to calculate depreciation as approved in GUD No. 9762 and 9670 (Mid-Tex).
>
> Continued use of preferred customer sample methodology as discussed in GUD Nos. 9762 and 9869 (Mid-Tex) to determine collection lag in the lead-lag study.
>
> Continued use of the four-factor formula approved by the Commission as part of the cost allocation methodology for Shared Service Unit expenses approved in GUD Nos. 9762 and 9869 (Mid-Tex); GUD Nos. 10041, 10084 and 10085 (West Texas Division); and GUD No. 10000 (APT).

(Excluding, calculation of the individual components used in the methodology.)

Continued use of 13-month averages for materials and supplies and prepayments as approved in GUD Nos. 9670, 9762, and 9869 (Mid-Tex); GUD Nos. 10041, 10084 and 10085 (West Texas Division), and GUD No. 10000 (APT). (Excluding the actual unadjusted amounts included in the calculation).

Continued use of a minimum distribution system of 2-inch pipe for allocation purposes. (Excluding issues related to the input values).

Continued use of system-wide rates for the Atmos Mid-Tex Division.

Continuing to cease accrual of depreciation expense once an account is fully accrued as in GUD Nos. 9762 and 9670 (Mid-Tex).

Inclusion of prepayment as an "other" rate base item in the lead-lag study as required in GUD Nos. 9869 and 9762.

The affiliate standard encompassed in Tex. Util. Code Ann § 104.055(b) shall not apply to intracompany transactions.

Elimination of certain shared services categories, or cost centers, the cost of service as required in GUD Nos. 9762 and 9869 (Mid-Tex); GUD Nos. 10041, 10084, and 10085 (West Texas Division); and GUD No. 10000 (APT). These include preclusion of the re-litigation of the following cost centers: 1132 (Investor Relations), 1350 (Dallas Non-Utility Operations), 1507 (Dallas Texas Lobbying), 1904 (Dallas Supplemental Executive Benefit Plan), and 1908 (Dallas Supplemental Employee Benefits). This limitation shall apply to any successor cost center in the event that one of the specifically identified cost center has been renamed or its function reassigned.

Rate Case Expenses

34. Rate case expenses were severed into a separate docket, GUD No. 10194, upon the request of the parties.

Hearing

35. A notice of hearing was issued on July 12, 2012.

36. The hearing on the merits in this matter was conducted from September 12, 2012 through September 21, 2012.

37. The evidentiary record was closed on November 13, 2012.

Shared Services Unit Allocation

38. Atmos Energy Corporation consists of seven distribution utilities, a regulated pipeline and various subsidiaries.

39. Technical and support services are provided to the operating divisions by centralized shared services departments primarily located at the Atmos headquarters in Dallas.

40. The collective shared services departments are referred to as the Shared Services Unit (SSU).

41. The centralized functions provided by the Shared Services Unit include, but are not limited to, accounting, gas supply, human resources, information, technology, legal, rates and customer support.

42. The Shared Services Unit is comprised of two divisions, as follows: (a) Shared Services – Customer Support (sometimes referred to as "SSU Customer Support"), which provides functions that include billing, customer call functions and customer support related functions; and (b) Shared Services – General Office (sometimes referred to as "SSU General Office"), which provides functions that include accounting, human resources, legal, rates, risk management and others.

43. The company's Cost Allocation Manual establishes a reasoned methodology for the allocation of costs among the company's divisions.

44. The company's Cost Allocation Manual has been approved in several of the jurisdictions where Atmos Energy provides service and ensures a uniform allocation of costs.

45. The cost allocation manual requires that certain costs be allocated on the company's general ledger utilizing the allocation methodologies described in detail in the manual.

46. Shared services that are not allocated on the company's general ledger are allocated based upon a Composite Factor (Composite Factor) or Customer Factor (Customer Factor).

47. The Composite Factor was derived based upon a four-factor formula comprised of the simple average of the relative percentage of gross plant in service, the relative percentages of the average number of customers, the relative percentages of direct operating and maintenance expenses for each of the company's operating divisions, and operating income.

48. The use of the four-factor formula was first required by the Commission in GUD No. 9670 and its use was affirmed in GUD Nos. 9762, 9869, and 10000.

49. The Customer Factor is derived based on the average number of customers in each operating division that receives allocable costs for services provided.

50. The Customer Factor was proposed by the company and subsequently approved by the Commission in GUD Nos. 9670, 9762, and 9869.

51. Prior to August 1, 2012, the Atmos Energy Kentucky/Mid-States Division was an operating division that operated in more than 420 communities across Georgia, Illinois, Iowa, Kentucky, Missouri, Tennessee and Virginia.

52. On May 12, 2011, Atmos entered into an agreement to sell all of its natural gas distribution assets located in Missouri, Illinois, and Iowa to Liberty Energy (Midstates) Corporation (Liberty Energy), an affiliate of Algonquin Power & Utilities Corp.

53. Any interim transactional agreement between the company and Liberty Energy is temporary.

54. The fact of this transaction was known by May 12, 2011, before the end of the test year in this case.

55. The transaction closed August 1, 2012.

56. The company has not eliminated a division, it has only reduced the service area of the affected division, the Kentucky/Mid-States Division.

57. There have been no changes to the Shared Service Unit attributable to the transaction, the staffing level of the Shared Services Unit has not changed, no changes to the staffing level of the Shared Services Unit are anticipated and future staffing level changes are not known and measurable.

58. The factors used in this case were calculated excluding data from the operations in Illinois, Iowa and Missouri that were sold.

59. The company applied the same methodology that was previously approved to calculate the composite allocation factors.

Operation and Maintenance Expenses

60. The overall operation and maintenance expense requested by Atmos in the *Statement of Intent* as filed was $152,490,153.

61. Atmos has not established that the operation and maintenance request was just and reasonable.

62. The operation and maintenance request reflected in the attached Schedule F-1 is just and reasonable.

63. Several issues related to the calculation of the company's operation and maintenance expense have previously been considered by the Commission and judicial notice of the following Final Orders is hereby taken:

A. Tex. R.R. Comm'n, *Petition for De Novo Review of the Reduction of the Gas Utility Rates of Atmos Energy Corp., Mid-Tex Division, by the Cities of Blue Ridge, Caddo Mills et al; Atmos Energy Corporation Statement of Intent to Change Rates in the Atmos Energy Corp., Mid-Tex Division Gas Utility System; Petition for Review from the Actions of Municipalities Denying Rate Request,* Docket No. 9670 (Gas Utils. Div. June 13, 2007) (Final Order) (GUD No. 9670).

B. Tex. R.R. Comm'n, *Statement of Intent filed by Atmos Energy Corporation to Increase Utility Rates within the Unincorporated Areas Served by the Atmos Energy Corp., Mid-Tex Division and Petition for De Novo Review of the Denial of the Statement of Intent filed by Atmos in Various Municipalities*, Docket No. 9762 (Gas Utils. Div. June 24, 2008) (Final Order) (GUD No. 9762)

C. Tex. R.R. Comm'n, *Petition for De Novo Review of the Denial of the Statement of Intent filed by Atmos Energy Corp., Mid-Tex Division by the City of Dallas; Statement of Intent to Increase Gas Utility Rates in the Unincorporated Areas Served by the Mid-Tex Division*, Docket No. 9869 (Gas Utils. Div. February 23, 2010) (Final Order Nunc Pro Tunc) (GUD No. 9869).

D. Tex. R.R. Comm'n, *Statement of Intent to Change the Rate CGS and Rate PT of Atmos Pipeline – Texas*, Docket No. 10000 (Gas Utils. Div. April 18, 2011) (Final Order) (GUD No. 10000).

Base Payroll

64. The test-year level of base payroll was not contested by the parties.

65. Atmos proposed a post-test year adjustment to the test-year level of base payroll based upon the level of employee expense as of October 2011.

66. The base payroll adjustment was consistent with the methodology approved in GUD No. 9869.

67. Expenses for compensation to employees in SSU cost centers that are not allocable to Mid-Tex have been removed and salaries below the line have been removed.

68. The company's post-test-year adjustment to base labor is just and reasonable and the base labor amounts included in the attached schedules are reasonable.

69. The O&M expense factor applied to SSU Customer Support post-test-year base labor adjustment was 89.60% and the O&M factor applied to post-test-year base labor adjustment SSU General Services was 97.72%.

70. The factor was based upon the capitalization ratios experienced by the company during the test year.

71. The proposed O&M expense factors based upon the capitalization ratios experienced by the company are just and reasonable.

72. Atmos has established that its proposed base payroll is just and reasonable and the attached Schedule WP_F-2.1 is just and reasonable.

Medical and Dental Benefits

73. The company provided a post-test-year adjustment to medical and dental benefit expenses in order to align the benefits expense at the most current benefit rates available.

74. The company used the actuarial data prepared by Holmes Murphy to calculate the proposed adjustment and used employee data and claims information provided by health care providers.

75. Atmos has removed expenses for SSU employees in cost centers that are not allocable to the Atmos Mid-Tex Division.

76. Atmos has established that its proposed level of Medical and Dental benefits expenses are reasonable and the medical and dental benefits expenses included in the attached Schedules F-1 and WP_F-2.2 are just and reasonable.

Pension Expense

77. The company included an adjustment to the test-year level of pension expenses in its revenue requirement calculation.

78. The adjustment calculated the benefit expense at the most current benefit rates available.

79. The adjustment was calculated based upon the fiscal year 2012 Towers Watson (Towers Watson) actuarial data for the Atmos Mid-Tex Division and SSU.

80. The methodology employed was consistent with the methodology applied in GUD No. 9869 and GUD No. 10000.

81. Accounting standards require that the pension and OPEB asset value be calculated as of the fiscal year-end.

82. The fiscal year-end for Atmos is September 30th of each year.

83. The company moved to an account-based pension plan in that year and eliminated pension benefit accruals based on final average pay.

84. In 2010, the company evaluated alternatives to offering a Pension Account Plan to new employees and effective October 1, 2010, the company closed the plan to new employees.

85. This history of the company's management of its pension accounts established the prudent management of the pension account plans by the company.

86. The key factor determining the pension account expense is the discount rate.

87. The discount rate is a market factor outside the control of the company.

88. The calculation of the post-test-year adjustment for the pension account plan is consistent with the calculation applied in GUD No. 9869 and GUD No. 10000.

89. Atmos has established that its proposed level of pension expense is reasonable and the pension expense included in the attached Schedule F-1 and WP_F-2.3 is just and reasonable.

Supplemental Executive Pension and Benefits

90. The company calculated an adjustment to the test-year level of expenses for Supplemental Executive Benefit Plans (SEBP) and Supplemental Employee Retirement plans (SERP).

91. SEBP and SERP are nonqualified, deferred compensation plans which provide supplemental retirement income, death and disability benefits for certain executive employees of Atmos.

92. Atmos maintains three separate plans: (1) a Supplemental Executive Benefit Plan for officers, division presidents and certain other employees employed on or before August 12, 1998; (2) a supplemental Executive Retirement Plan for eligible employees who become officers or division presidents after August 12, 1998; and (3) a SERP effective August 4, 2009 for corporate officers, division presidents or other employees selected by the board of directors.

93. SERP and SEBP are necessary for the recruitment and retention of talented employees and provide a benefit to both shareholders and customers.

94. Removal of the SERP for employees of the Atmos Mid-Tex Division would disadvantage Atmos executives and will impact the company's recruitment and retention of talented employees.

95. It is reasonable to balance the burden of the recovery of the expense for SERP and SEBP among shareholders and customers.

96. Shared Services Unit corporate officers, division directors and other employees selected by the board of directors may be eligible for SEBP and SERP.

97. Atmos Mid-Tex corporate officers, division directors and other employees are selected by the board of directors.

98. The post-test-year adjustment was intended to calculate benefits expenses at the most current benefit rates available at the time the rates approved by this Final Order are effective.

99. The post-test-year adjustment was calculated based upon an actuarial report prepared by Towers Watson.

100. Atmos removed all expenses related for SEBP and SERP for the Shared Services Unit.

101. Atmos included expenses related to those plans for employees of the Atmos Mid-Tex Division.

102. The company's treatment of SEBP and SERP was consistent with the treatment approved in GUD No. 9762, GUD No. 9869 and GUD No. 10000.

103. The burden of the recovery of expenses related to SEBP and SERP is balanced by including Atmos Mid-Tex Direct employees in the calculation of rate base and excluding expenses for SEBP and SERP related to Shared Services Employees.

104. The company's proposal in this case is consistent with prior precedent.

105. Based upon the record in this case, the total adjusted expenses for SEBP and SERP by the Shared Services Unit was $7,585,854 and the allocable portion of this expense, based upon a 45.23% composite allocation, was $3,431,082 ($7,585,854 x. 43.23%).

106. The operation and maintenance expense factor of the Shared Services Unit SEBP and SERP plans is 41.51%.

107. The updated operation and maintenance expense portion for SEBP and SERP for the Shared Services Unit, based upon an operations and maintenance expense factor of 41.51% was $1,424,242 ($3,431,082 x 41.51%). Atmos has not included this amount in the revenue requirement calculation.

108. The SERP updated expense for the employees of the Atmos Mid-Tex Division is $143,390.

109. The updated operation and maintenance expense portion for SERP, based upon an expense factor of 33.42% was $47,921 ($143,390 x 33.42%). Atmos has included this amount in the revenue requirement calculation.

110. The total updated operation and maintenance expenses for SERP/SEBP was $1,472,163.

111. The company has included only 3.25% of the SERP and SEBP expenses, totaling $47,921, of this expense in the revenue requirement calculation.

112. The company's proposed treatment of SERP and SEBP is consistent with prior precedent that balances the burden of the recovery of this expense between shareholders and customers by allowing recovery of the Atmos Mid-Tex Division and disallowing recovery of the Shared Services Unit Expenses.

113. Atmos has established that its proposed level of SERP and SEBP is just and reasonable and the expenses included for SERP in the attached Schedule F-1 and WP_F-2.3 are just and reasonable.

114. Consistent treatment provides regulatory certainty and it is reasonable that SERP and SEBP be apportioned by applying the methodology approved in prior proceedings.

115. Continued balancing of this expense by allowing recovery of the Atmos Mid-Tex Division SERP and disallowing recovery of Shared Services Unit expense for SEBP and SERP may not be reasonable in future proceedings.

116. It is reasonable that the company not be bound by prior precedent in allocating the burden of SERP and SEBP expenses and it is reasonable that the company explore a more balanced and transparent apportionment of the burden of this expense in future proceedings.

FAS 106 Expense

117. Atmos provided a post-test-year adjustment to FAS 106 expenses intended to calculate benefits expenses at the most current benefit rates available.

118. The treatment of FAS 106 expenses and the proposed post-test-year adjustment is consistent with the treatment of this expense in GUD No. 9869 and GUD No. 10000.

119. The adjustment was calculated based upon the fiscal year 2012 Towers Watson actuarial data for Mid-Tex and the Shared Services Unit.

120. In GUD No. 10000 the Commission ordered that a division of Atmos Energy Corporation, the Atmos Pipeline Division, establish an external fund for FAS 106 expenses.

121. An external fund limits the use of those funds to the payment of benefits to or on behalf of retirees and the company does not have access to those funds for other purposes

122. The creation of an external fund was consistent with the treatment of that fund in other jurisdictions where Atmos provided service: Colorado, Iowa, Kansas, Mississippi, Missouri, Tennessee, and Virginia.

123. Pursuant to the requirements of the Final Order in GUD No. 10000 Atmos established an external fund for the Atmos Pipeline – Texas Division.

124. An external fund was subsequently established for the Atmos Mid-Tex Division and the first contribution made to the external fund for the Atmos Mid-Tex Division was on April 6, 2012.

125. In the past, the company's shareholders have had to fund the difference between the FAS 106 expense included in rates and the accrual on the company's books when there has been a shortfall in the amounts collected through rates.

126. The amount of any accumulated customer contribution that might be applicable to a fund is not readily known and measurable.

127. The Final Order in GUD No. 10000 was issued on June 27, 2011. The company established a separate fund for FAS 106 for the Atmos Mid-Tex Division in April 2012.

128. The payment made to that fund, $1,474,249 related to the fiscal period from January 1, 2012 through March 31, 2012.

129. The record in this case does not establish that the timing of that payment, seven months after the issuance of the Final Order in GUD No. 10000, was unreasonable.

130. The record in this case does not establish that ratepayer-provided funds were available to make an earlier payment into the external fund.

131. Atmos has established that FAS 106 expense included in the attached Schedules F-2 and WP_F-2.3 are just and reasonable.

Incentive Compensation

132. The company provides incentive compensation packages to two broad categories of employees: (a) Executive and management employees, and (b) all other employees.

133. Management and executive employees are eligible to participate in a short term management incentive plan (MIP) and all other employees are eligible to participate in variable pay plans (VPP).

134. Management and executive employees are also eligible to participate in long-term incentive plans (LTIP).

135. MIP, VPP, and LTIP are available to employees in the Shared Services Unit and to direct employees of the Atmos Mid-Tex Division.

136. The MIP and VPP plans provide eligible employees an opportunity to earn a cash-based incentive reward.

137. The LTIP incentive has historically been in two forms: Time-lapse restricted shares and performance-based restricted share units.

138. The company has excluded from its cost of service calculation expenses related to VPP and MIP costs allocated to the Mid-Tex Division.

139. Atmos has included the Mid-Tex direct costs for VPP and MIP, as well as, the Mid-Tex direct and SSU allocated LTIP costs.

140. The company's filing is consistent with Commission precedent related to divisions of Atmos Energy Corporation that are subject to the jurisdiction of the Commission: GUD Nos., 9670, 9762, 9869, and 10000.

141. The company's incentive compensation plans have not changed since GUD No. 10000.

142. Removal of all incentive compensation programs will hamper the retention and requirement of qualified employees.

143. The company's incentive compensation program is compatible with industry standards.

144. The company's incentive compensation programs are directly tied to improvements in performance, productivity, service, expense management, and other performance factors that directly impact earnings per share.

145. The plans encourage top management to motivate, recognize, and reward employee performance.

146. The vast majority of investor-owned gas distribution utilities have adopted incentive compensation plans as an integral element of their compensation programs.

147. The record in this case established the incentive compensation plans of Atmos include metrics that are directly relevant to customer satisfaction.

148. The record in this case established that financial metrics in the incentive compensation plan provide a benefit to customers and shareholders.

149. Positive financial performance requires the achievement of rate-based revenues while at the same time controlling operating expense levels.

150. Positive financial performance requires increased employee productivity, customer retention and satisfaction, adherence to safety and environmental concerns, control of operations and maintenance expenses minimizing operating expense levels to maximize earnings per share.

151. In an effort to keep medical and dental benefit expenses in check the company instituted programs to improve the health of employees.

152. The company has experienced a declining level of medical and dental benefits expenses.

153. Evidence in the record established that Atmos' calculation of the billing lag has changed from 4.47 days in a prior proceeding to 1.74 days. This evidences an improvement that provides financial returns to the company, reduces the O&M expenses included in the cost of service calculation, and provides timely consumption information to consumers.

154. Atmos and the City of Dallas acknowledged that improved practices at Atmos extend the service life of the company's assets. This evidences that actions by all employees directly impact safety, reduce costs included in the cost of service by extending the service life of company assets, and improve the financial returns of the company.

155. The company's operations and maintenance expenses have remained stable since 2008.

156. The company's incentive compensation plan benefits all constituents of Atmos: customers, shareholders, and employees.

157. Atmos established that its treatment of incentive compensation is consistent with Commission precedent applicable to Atmos in general, and Atmos Mid-Tex, in particular.

158. The company's treatment of incentive compensation expenses is just and reasonable and Atmos has established that expenses for incentive compensation included in the attached Schedules F-1 are just and reasonable.

159. It is reasonable to balance the burden of the expenses related to incentive compensation between shareholders and customers as both benefit from incentive compensation programs.

160. Removal of all MIP, VPP, and LTIP expenses from the revenue requirement would require the shareholders to bear all expenses related to incentive compensation programs that benefit shareholders and customers.

161. Previous decisions balanced the burden of the expenses related to incentive compensation by including expenses related to Shared Services LTIP plans and expenses related to the

MIP, VPP, and LTIP plans of the Atmos Energy Corporation Divisions that are subject to the jurisdiction of the Commission.

162. MIP and VPP expenses related to the Shared Services totaled $5,569,561 and 37.60% of those expenses, totaling $2,094,154 ($5,569,561 x 37.60%), would have been allocable to the operation of maintenance expenses of the Atmos Mid-Tex Division.

163. Pursuant to Commission precedent, the company excluded those amounts from the revenue requirement of the company.

164. LTIP expenses related to the Shared Services that were allocated to the Atmos Mid-Tex Division as part of the revenue requirement calculation totaled $1,241,636.

165. MIP, VPP, and LTIP expenses for employees of the Atmos Mid-Tex Division totaled $825,291.

166. MIP, VIP, and LTIP operation and maintenance expenses totaled $4,161,081; Pursuant to precedent, the company has only included $2,066,927 of those expenses in the revenue requirement or 49.67%.

167. The company's proposed treatment of incentive compensation is consistent with prior precedent that balances the burden of the recovery of this expense between shareholders and customers by allowing recovery of the Atmos Mid-Tex Division and disallowing recovery of the Shared Services Unit Expense.

168. Consistent treatment provides regulatory certainty and it is reasonable that the expenses be apportioned by applying the methodology approved in prior proceedings.

169. Continued balancing of this expense by allowing recovery of the Atmos Mid-Tex Division VPP, MIP, and LTIP expenses, Shared Services Unit LTIP expenses and disallowing recovery of Shared Services Unit expense VPP and MIP may not be reasonable in future proceedings.

170. It is reasonable that the company not be bound by prior precedent in allocating the burden of MIP, VPP, and LTIP expenses and it is reasonable that the company explore a balanced and transparent apportionment of the burden of this expense.

Amortized Injuries and Damages

171. Atmos seeks an adjustment to the cost of service in this case in the amount of $600,000 in amortized costs for injuries and damages in excess of insurance coverage for damages and injuries associated with the three incidents in Wylie, Cleburne and Lutrell.

172. Atmos is responsible for a $1 million insurance deductible per incident and the insurance generally covers the settlement and litigation costs of this type of loss.

173. The incidents in Cleburne and Wylie were included in the approved level of expense in GUD Nos. 9762 and 9869 and an adjustment allowed a five-year amortization of $200,000 per incident per year to recover the $1 million insurance deductibles.

174. The $600,000 adjustment proposed by Atmos in this proceeding included (a) an amortization of the prior two incidents in the amount of $200,000 per incident per year; and (b) a $200,000 adjustment per year for five years for the incident in Lutrell.

175. A five (5) year amortization period for the Lutrell incident is the same period that was previously approved for the incidents in Cleburne and Wylie and is just and reasonable.

176. The recovery of the amortized amounts for the incidents in Wylie and Cleburne will end June 2013 and an over-recovery is likely as the rates in this case will not go into effect until December 2012.

177. It is just and reasonable for Atmos to reimburse ratepayers for any over-recovery of these amounts during the next IRA, RRM, or Statement of Intent proceeding, whichever occurs first.

Affiliate Expenses: Blueflame Insurance Expense

178. Insurance services required by Atmos Energy are acquired from Blueflame.

179. Blueflame is a wholly owned subsidiary of Atmos Energy that provides insurance for all of the company's divisions.

180. The day-to-day management of Blueflame is conducted by Aon Insurance Managers, Ltd., (Aon) a third-party captive manager.

181. Aon provides Atmos Energy with consultation services.

182. All of the Atmos Mid-Tex Division property, plant, and equipment are covered through property insurance provided by Blueflame.

183. Insurance services provided by Blueflame are at cost and without markup.

184. The cost of insurance coverage is allocated among the Atmos Energy divisions and subsidiaries based upon the annual plant balance.

185. The rate of rate of insurance was $0.085 per $100 of gross plant.

186. Atmos has established that the expenses for Blueflame are (a) reasonable and necessary and (b) the price charged to the Atmos Mid-Tex Division is not higher than the prices charged by the supplying affiliate to its other affiliates or division or to a non-affiliated person for the same item or class of items.

187. The services provided by Blueflame have been found to be reasonable and necessary in the following prior proceedings: GUD Nos. 9670, 9762, 9869, 10000, 10041, 10084 and 10085.

188. There have been no changes in the management of Blueflame since the approval of the expenses related to Blueflame in GUD Nos. 9670, 9762, 9869, 10000, 10041, 10084 and 10085.

189. The company also included an adjustment to include the amortization of a Cancellation Fee approved in GUD No. 9762.

190. Atmos is entitled to recovery of the Cancellation Fee expense, however, it expires in June 2013.

191. It is just and reasonable for Atmos to reimburse any over-recovery of the Cancellation Fee amounts during the next IRA, RRM or Statement of Intent proceeding, whichever occurs first.

192. The company has not established that insurance expenses for construction work in progress (CWIP) have been excluded from the revenue requirement calculation.

193. An adjustment totaling $11,865 to remove insurance related expenses for CWIP is just and reasonable.

Rate Base

194. The company's test year in this proceeding is the twelve-month period ending September 31, 2011 and the company adjusted the plant balances through March 31, 2012.

195. The adjustment to plant was identified in the original *Statement of Intent* proceeding that was filed on May 31, 2012, and the adjustment was also reflected in the appeal filings.

196. All changes to net plant, including changes to accumulated deferred income taxes were known and measurable and the company provided a detailed listing of all plant additions through March 31, 2012.

197. A rate-base calculation founded upon a test year ending September 31, 2011, as adjusted for known and measurable changes through March 31, 2012, is just and reasonable.

198. The Commission has previously allowed an update to plant balances through a period that ended six months after the end of the test year.

199. A utility may establish a reserve for pensions paid to retirees and other post-employment benefits (OPEB) that related to retiree health care, dental care, and other post-employment health benefits.

200. Based upon an actuarial analysis of the pension costs, the Atmos Mid-Tex Division has established that that a shortage exists in the funding of pensions and OPEB and that a regulatory asset of $1,954,911, in rate base is reasonable and a corresponding amortized amount, totaling $195,491 to the company's operating and maintenance expense is also just and reasonable.

201. It is reasonable that the pension expense established in the last general rate case, GUD No. 9869, be applied to determine the appropriate baseline for the measure for calculating the regulatory account asset associated with pensions and OPEB.

202. The company's calculation of the reserve calculation mandated by Section 104.059 of the Texas Utilities Code was consistent because the allocation factors applied to determine the baseline were the same as the allocation factors applied to the updated expenses for purposes of calculating the regulatory asset.

203. It is reasonable to update the regulatory asset by applying and flowing through all corrections applicable to the calculation of the current pension expense.

204. The base year level of pension expense requested is just and reasonable and the expense level requested was calculated pursuant to GAAP and applicable statutes.

205. Accordingly, following pension expense, as reflected on the attached Examiners' Schedule 6, are hereby adopted:

Section 104.059 Benchmarks

	PAP (FAS 87)	Post-Retirement Medical Plans (FAS 106)	SERP
SSU Allocated to Mid-Tex	$2,756,682	$1,971,341	
Mid-Tex Direct	$8,087,526	$7,092,975	$143,390
Total	$10,844,208	$9,064,316	$143,390

Accumulated Deferred Income Taxes

206. Deferred taxes arise because of timing differences between recognition of certain items for book purposes versus tax purposes.

207. The company's calculation of ADIT related to NOL matches the ADIT liabilities to the ADIT NOL asset created by those deductions.

208. Inclusion of the consolidated ADIT asset for tax NOLs results in the inclusion of non-regulated tax matters in rates.

209. In order to ensure that rates reflect only the NOL attributable to the company's regulated utility operations, the effect of the non-regulated ADIT asset for income tax NOLs must be excluded.

210. Atmos has established that its calculation of the ADIT asset related to NOLs was just and reasonable.

211. Atmos is required to pay an Alternative Minimum Tax (AMT) amount if the company's regular tax is less than the calculated AMT.

212. The AMT credit reflects a cash disbursement to the government that will be realized in the future when the company reduces regular tax. Accordingly, it represents cash that the company has on deposit with the government that it is unable to use.

213. Atmos has established the AMT ADIT asset is just and reasonable.

214. Atmos has not included a component for construction work in progress (CWIP) accordingly it is reasonable to exclude the associated ADIT balance.

215. Atmos has included an ADIT asset, totaling $1,390,603, associated with uncollectible accounts.

216. Atmos did not recognize the accrued reserve for uncollectible accounts in rate base and it is not reasonable to include the ADIT associated with this reserve in rate base.

217. Uncollectible expenses were included in the company's expenses for purposes of calculating the revenue requirement and it was included in the cash working capital analysis for purposes of calculating the cash working capital requirement of the company.

218. Accordingly, ratepayers provided funds are available to address any tax liability incurred from uncollectibles.

219. Atmos included ADIT amounts associated with a State Net Operating Loss (NOL) tax asset and related Federal Tax on the State NOL and the company has established that the ADIT amounts related to the State and Federal Tax NOL is just and reasonable.

220. The company calculates an annual effective tax rate for income tax expenses and in order to properly record income tax expenses, an ADIT entry is made to record the difference between actual expense and projected expense.

221. Atmos has established that its ADIT entry associated with this transaction is just and reasonable.

FAS 106 Liability

222. Atmos included an ADIT balance for FAS 106 Liability.

223. Atmos Mid-Tex established an external fund for its FAS 106 reserves and although FAS 106 is not included in rate base, the company has established a regulatory asset related to these expenses that is included in rate base.

224. The external fund was established before the creation and recognition of the regulatory asset authorized by Section 104.059, and it is reasonable that in future proceedings the company be allowed to reexamine the efficacy of an external fund.

225. The FAS 106 funds are governed by strict accounting standards (GAAP) and financial reporting requirements under Accounting Standards Codification (ASC) 960.

226. The evidence in this proceeding was insufficient to establish that the FAS 106 reserve represents a source of zero-cost capital.

227. Company shareholders have had to fund the FAS 106 account as well as customers.

228. Atmos has established that its treatment of the FAS 106 reserve is just and reasonable and the inclusion of an ADIT balance related to FAS 106 is just and reasonable.

Cash Working Capital

229. The Atmos Mid-Tex Division prepared a lead-lag study to determine the cash working capital needs of the division for the test year ending September 30, 2011.

230. Atmos has established that its proposed cash working capital is just and reasonable.

231. In GUD No. 9762, the Commission ordered the use of a one-day billing lag.

232. An average billing lag of one business day produces a 1.4 calendar day lag.

233. Detailed evidence was provided regarding the billing process and the evidence in this case supports a billing lag of 1.74 days.

234. The company has improved its billing process and reduced the billing lag from 4.47 days requested in GUD No. 9670 and 2.72 days requested in GUD No. 9762 to 1.74 days requested in this case.

235. The calculation of the O&M – Non-labor expense lag adjustment in the cash working capital study is consistent with Commission precedent for Atmos and its various divisions.

236. There is insufficient evidence to support segregating categories of O&M – Non-labor expense for individual treatment.

237. Grouping O&M – Non-labor expenses for purposes of calculating a cash working capital study is just and reasonable.

238. Atmos established that the data used in calculating the O&M – Non Labor Expense lag, as adjusted to dampen the effect of disproportionate units in the sample, is just and reasonable.

239. Uncollectible expenses impose a financial requirement on the utility and is properly included in the calculation.

Depreciation

240. The company prepared a depreciation study for its Atmos Mid-Tex Division and Shared Services Unit.

241. Functional level depreciation rates are being applied to determine the annual accrual for depreciation expense for the Atmos Mid-Tex Division.

242. Transition to an account-specific accounting based upon a theoretical reserve will achieve the most accurate depreciation rates.

243. The proposed reallocation methodology is consistent with GUD Nos. 9902, 10000, 10038, and 10041.

244. There is an insufficient evidentiary basis upon which to apply a book reserve depreciation methodology in this case.

245. The company has not established that the average service life calculation for Mid-Tex Account 374.02 is just and reasonable.

246. In the 100-year history of this account there has been less than 1%, $17,000 out of $23 million dollars that has been retired.

247. Land rights should not retire prior to the mains associated with the land right and an adjustment of the average service life for Account 374.02 is necessary to avoid this result.

248. An average service life for Account 374.02 of 100R4 is just and reasonable.

249. Atmos has established that the average service life for Mid-Tex Account 375, Structures, of 54R1.5 is just and reasonable.

250. Atmos has established that the average service life for Mid-Tex Account 376, Cathodic Protection Mains of 60R3 is just and reasonable.

251. Atmos has established that the average service life for Mid-Tex Account 376.01, Mains Steel, of 70R0.5 is just and reasonable.

252. Atmos has established that the net salvage calculation for Mid-Tex Account 376.01, of a negative 105% is just and reasonable.

253. Atmos has not established that the average service life for Mid-Tex Account 376.02, Mains Plastic, is just and reasonable.

254. Atmos has established that the net salvage calculation for Mid-Tex Account 376.02, Mains Plastic, of a negative 40% is just and reasonable.

255. The weight of the evidence in this case indicates that the placement bands used by Atmos in its analysis of this account requires an estimate of approximately 94% of the unknown balance of the survivor curve.

256. A 1962 placement band provides more credible statistical results upon which to determine the average service life for Mid-Tex Account 376.02.

257. Atmos has established that the average service life for Mid-Tex Account 378, Measuring and Regulating Station Equipment, Account 379, City Gate Equipment, and Account 385, Industrial Measuring and Regulating Equipment of 57R1 is just and reasonable.

258. Atmos has established that the average service life for Mid-Tex Account 380, Distribution Services, is just and reasonable.

259. Atmos has established that the average service life for Mid-Tex Account 381, Meters, Account 382, Meter Installations, and Account 383, House Regulators of 37R1is just and reasonable.

260. Atmos has established that the average service life for Mid-Tex Account 390, General Plant Structures and Improvements of 45R2.5 is just and reasonable.

261. Atmos has established that the net salvage calculation for Mid-Tex Account 390, General Plant Structures and Improvements of a negative 5% is just and reasonable.

262. Atmos has established that the average service life for SSU Account 390, Structures and Improvements of 40R2 is just and reasonable.

263. Atmos has established that the net salvage calculation for SSU Account 390, Structures and Improvements of zero is just and reasonable.

264. Atmos has established that the proposed average service life for SSU Account 399.08, Application Software is just and reasonable.

265. Atmos has established that an increase from the current 10-year average service life to a 12-year average service life is just and reasonable.

266. The GAP guidance for software (AICPA-SOP 98-1) shows that the history of rapid changes in technology software often has relatively short useful life.

267. AICPA guidance provides the input of company personnel involved in retiring and replacing software dictates the average service life assessment.

268. An average service life for SSU Account 399.08, Application Software of 12R5 is just and reasonable.

Rate of Return

269. It is reasonable to use Atmos' actual, consolidated capital structure composed of 48.31 percent long-term debt and 51.69 percent common equity as reported on the company's quarterly Form 10-Q filed with the Securities and Exchange Commission, as of March 31, 2012.

270. Atmos' capital structure of 48.31 percent long-term debt and 51.69 percent common equity is within the range of the average calculated capital structure of the comparable, proxy groupings of companies selected by Atmos and Staff of the Railroad Commission of Texas.

271. Atmos' short-term debt is properly excluded from the capital structure of the company because it is utilized to finance seasonal gas costs and is not a permanent element of the company's capital structure.

272. It is not reasonable to include the company's goodwill, or acquisition adjustments in Atmos' capital structure because Atmos has removed goodwill from rate base in accordance with the principle that utility rates be set based on original cost.

273. A cost of debt of 6.50 percent for Atmos for purposes of determining Atmos' weighted average cost of capital and allowable rate of return is just and reasonable.

274. Atmos established that the treasury lock transaction is just and reasonable as the company updated its filing to differentiate between realized and unrealized treasury instruments in its ADIT calculation.

275. The gain from the treasury lock transaction is not related to the operations of the Atmos Mid-Tex Division and it would be inappropriate to include the effect of the transaction in the revenue requirement.

276. The preponderance of the credible evidence in this docket does not establish use of the Quarterly Dividend DCF model because it overstates the cost of equity.

277. In the Constant Growth DCF model, the preponderance of the credible evidence in this case demonstrates that use of a growth rate utilizing analyst estimates of future earnings

per share (EPS) for the individual companies in the proxy study are reliable, accurate and capable of forecasting the future earnings growth with accuracy and reliability.

278. The results of the CAPM model utilized by Staff of the Railroad Commission of Texas is reasonable, utilizing a 10-year Treasury bond average yield for the six-month period added to the product of the mean Beta value and calculated *ex-ante* risk premium, resulting in a range of values from 5.97 percent to 9.84 percent, with a mean Beta value cost of equity estimate of 7.87%.

279. It is reasonable to use a cost of equity of 10.50 percent for purposes of determining Atmos' weighted average cost of capital and allowable rate of return to reflect the recent precedent regarding this utility and the cost of equity range proposed by the applicant.

280. An overall rate of return of 8.57 percent based on Atmos' weighted average cost of capital is just and reasonable.

Interim Rate Adjustment Review

281. Atmos Mid-Tex has established that the interim rate adjustments made from 2010, 2011 and 2012 were just and reasonable.

282. Atmos Mid-Tex established that the interim rate adjustment requests made in 2010, 2011 and 2012 were carefully scrutinized to include only appropriate expenses.

Classification of Costs and Allocations Among Customer Classes

283. It is reasonable to allocate the overall cost of service to three classes of customers: (1) residential, (2) commercial, and (3) industrial and transportation.

284. Allocation of costs to the different customer classes in three steps: (1) functionalization, (2) classification, and (3) allocation.

285. In order to classify costs the company applied a minimum system study to classify costs as either customer related or capacity related.

286. The use of a minimum system study is just and reasonable.

287. Atmos filed with the U.S. Department of Transportation ("DOT") records established that Atmos had 153,690,240 feet of mains in the system.

288. The last three Mid-Tex minimum system studies reflect 147,761,265 feet of main, in GUD Nos. 9400, 9670 and 9869.

289. The company applied a new accounting methodology, based upon retirement units, to measure the number of feet of mains.

290. The company has not established that its revised accounting methodology produced a just and reasonable result.

291. The record in this case established that, for purposes of the minimum system study the appropriate measure is 153,690,240.

292. The most reliable evidence of the quantity of 2 inch main is the U.S. DOT records that Atmos had 153,690,240 feet of mains in the system for calendar year 2011.

Rate Design

293. Billing determinants are units of service to which the company's distribution rates are applied.

294. The company prepared a billing determinants study to establish its billing determinants.

295. The billing determinants proposed by the company were weather normalized.

296. The billing determinant study incorporated future changes in billing units beyond September 30, 2011.

297. Atmos has established that the proposed billing determinants are just and reasonable.

298. Atmos established that the test-year data was adjusted for future growth.

299. It is reasonable that rates are designed to balance the fixed and variable elements in the distribution rates to reflect the underlying cost characteristics of the service.

300. Atmos established the fixed and variable elements through a class cost of service study.

301. The fixed cost for residential customers was $21.09 per month, the fixed costs for commercial customers was $53.41 per month and the fixed cost for the industrial and transportation customers was $907.93 per month.

302. Atmos proposed to dampen the effect of a rate design based exclusively upon the results of the class cost of service study.

303. Atmos proposed a customer charge of $18.00 per month for residential customers, a customer charge of $35.00 per month for commercial customers, and a customer charge of $600 per month for industrial and transportation customers.

304. No evidence was presented that the company's calculation or methodology for determining its fixed costs was flawed.

305. The company's proposed rate design is consistent with Commission precedent in GUD Nos. 9762, 9869, and 10000.

306. The proposed customer charges were not modified to reflect changes to the cost of service in updated filings.

307. It is reasonable to reduce (1) the customer charge to $17.70 for residential customers and (2) the customer charge for commercial customers to $34.72 to reflect adjustments made by the company after the case was filed and adjustments reflected in this Final Order.

308. Administrative costs of the Conservation Energy Efficiency (CEE) Program shall not exceed 15 percent of the total CEE program costs.

309. The proposed rates set out below are just and reasonable:

Mid-Tex Rate Jurisdiction, Excluding Dallas
(Incorporated and Unincorporated Areas)

Customer Class	Customer Charge	Consumption Charge
Residential	$17.70	$0.04172 per Ccf
Commercial	$34.72	$0.06589 per Ccf
Industrial & Transportation	$600.00	Tier One $0.2473 per MMBtu
		Tier Two $0.1812 per MMBtu
		Tier Three $0.0389 per MMBtu

CONCLUSIONS OF LAW

1. Atmos Energy Corp., Mid-Tex Division, (Atmos Energy, Atmos, or company) is a Gas Utility as defined in TEX. UTIL. CODE ANN. §101.003(7) (Vernon 2007 and Supp. 2012) and §121.001(Vernon 2007) and is therefore subject to the jurisdiction of the Railroad Commission (Commission) of Texas.

2. The Commission has jurisdiction over Atmos and Atmos' Statement of Intent under TEX. UTIL. CODE ANN. §§ 102.001, 103.022, 103.054, & 103.055, 104.001, 104.001 and 104.201 (Vernon 2007 and Supp. 2012).

3. Under TEX. UTIL. CODE ANN. §102.001 (Vernon 2007 and Supp. 2012), the Commission has exclusive original jurisdiction over the rates and services of a gas utility that distributes natural gas in areas outside of a municipality and over the rates and services of a gas utility that transmits, transports, delivers, or sells natural gas to a gas utility that distributes the gas to the public.

4. This proceeding was conducted in accordance with the requirements of the Gas Utility Regulatory Act (GURA), and the Administrative Procedure Act, TEX. GOV'T CODE ANN. §§ 2001.001 *et seq*. (Vernon 2008 and Supp. 2012) (APA).

5. TEX. UTIL. CODE ANN. §104.107 (Vernon 2007 and Supp. 2012) provides the Commission's authority to suspend the operation of the schedule of proposed rates for 150 days from the date the schedule would otherwise go into effect.

6. The proposed rates constitute a major change as defined by TEX. UTIL. CODE ANN. §104.101 (Vernon 2007 and Supp. 2012).

7. In accordance with TEX. UTIL. CODE ANN. §104.103 (Vernon 2007 and Supp. 2012), 16 TEX. ADMIN. CODE ANN. §§ 7.230 and 7.235, adequate notice was properly provided.

8. In accordance with TEX. UTIL. CODE ANN. §104.102 (Vernon 2007 and Supp. 2012), 16 TEX. ADMIN. CODE ANN. §§ 7.205 and 7.210, Atmos filed its Statement of Intent to change gas distribution rates.

9. Atmos has established that the company's books and records conform with 16 TEX. ADMIN. CODE § 7.310 to utilize the Federal Energy Regulatory Commission's (FERC) Uniform System of Accounts (USOA) prescribed for natural gas companies and Atmos is thus entitled to the presumption that the amounts included therein are reasonable and necessary in accordance with Commission Rule 7.503.

10. In this proceeding, Atmos has the burden of proof under TEX. UTIL. CODE ANN. §104.008 (Vernon 2007 and Supp. 2012) to show that the proposed rate changes are just and reasonable.

11. Atmos failed to meet its burden of proof in accordance with the provisions of TEX. UTIL. CODE ANN. §104.008 (Vernon 2007 and Supp. 2012) on the elements of its requested rate increase identified in this order.

12. The revenue, rates, rate design, and service charges proposed by Atmos are not found to be just and reasonable, not unreasonably preferential, prejudicial, or discriminatory, and are not sufficient, equitable, and consistent in application to each class of consumer, as required by TEX. UTIL. CODE ANN. §104.003 (Vernon 2007 and Supp. 2012).

13. The revenue, rates, rate design, and service charges proposed by Atmos, as amended by the Commission and identified in the schedules attached to this order, are just and reasonable, are not unreasonably preferential, prejudicial, or discriminatory, and are sufficient, equitable, and consistent in application to each class of consumer, as required by TEX. UTIL. CODE ANN. (Vernon 2007 and Supp. 2012).

14. The Commission has assured that the rates, operations, and services established in this docket are just and reasonable to customers and to the utilities in accordance with the stated purpose of the Texas Utilities Code, Subtitle A, expressed under TEX. UTIL. CODE ANN. §101.002 (Vernon 2007).

15. The overall revenues as established by the findings of fact and attached schedules are reasonable; fix an overall level of revenues for Atmos that will permit the company a reasonable opportunity to earn a reasonable return on its invested capital used and useful in providing service to the public over and above its reasonable and necessary operating expenses, as required by TEX. UTIL. CODE ANN. § 104.051 (Vernon 2007 and Supp. 2012); and otherwise comply with Chapter 104 of the Texas Utilities Code Annotated.

16. The revenue, rates, rate design, and service charges proposed will not yield to Atmos more than a fair return on the adjusted value of the invested capital used and useful in rendering service to the public, as required by TEX. UTIL. CODE ANN. § 104.052 (Vernon 2007 and Supp. 2012).

17. The rates established in this docket comport with the requirements of TEX. UTIL. CODE ANN. §104.053 (Vernon 2007 and Supp. 2012) and are based upon the adjusted value of invested capital used and useful, where the adjusted value is a reasonable balance between the original cost, less depreciation, and current cost, less adjustment for present age and condition.

18. The rates established in this case comply with the affiliate transaction standard set out in TEX. UTIL. CODE ANN. § 104.055 (Vernon 2007 and Supp. 2012). Namely, in establishing a gas utility's rates, the regulatory authority may not allow a gas utility's payment to an affiliate for the cost of a service, property, right or other item or for an interest expense to be included as capital cost or an expense related to gas utility service expect to the extent that the regulatory authority finds the payment is reasonable and necessary for each item or class of items as determined by the regulatory authority. That finding must include (1) a specific finding of reasonableness and necessity to each class of items allowed; and (2) a finding that the price to the gas utility is not higher than the prices charged by the supplying affiliate to its other affiliates or divisions or to a nonaffiliated person for the same item or class of items.

19. In accordance with TEX. UTIL. CODE ANN. §104.054 (Vernon 2007 and Supp. 2012) and TEX. ADMIN. CODE §7.5252, book depreciation and amortization was calculated on a straight line basis over the useful life expectancy of Atmos' property and facilities.

20. Rate case expenses for GUD Nos. 10170 and 10194 will be considered by the Commission in accordance with TEX. UTIL. CODE ANN. §104.008 (Vernon 2007 and Supp. 2012), and 16 TEX. ADMIN. CODE §7.5530 (2008), in a separate proceeding.

21. Atmos Mid-Tex established that the interim rate adjustments made from 2010, 2011 and 2012 were just and reasonable, in accordance with GURA §104.301 and TEX. ADMIN. CODE §7.7101.

22. Atmos Mid-Tex established that the interim rate adjustment requests made in 2010, 2011 and 2012 were carefully scrutinized to include only appropriate expenses, in accordance with GURA §104.301 and TEX. ADMIN. CODE § 7.7101.

23. It is reasonable for the Commission to allow Atmos to include a Purchased Gas Adjustment Clause in its rates to provide for the recovery of all of its gas costs, in accordance with 16 TEX. ADMIN. CODE § 7.5519.

24. Atmos is required by 16 TEX. ADMIN. CODE §7.315 to file electronic tariffs incorporating rates consistent with this Order within thirty days of the date of this Order.

IT IS THEREFORE ORDERED that Atmos' proposed schedule of rates is hereby **DENIED.**

IT IS FURTHER ORDERED that the rates, rate design, and service charges established in the findings of fact and conclusions of law and shown on the attached Schedules for Atmos are **APPROVED.**

IT IS FURTHER ORDERED that Atmos set up a reserve fund and reimburse ratepayers for any over-recovery of amounts from adjustments related to the Wylie and Cleburne incidents, during the next IRA, RRM, or Statement of Intent proceeding, whichever occurs first.

IT IS FURTHER ORDERED that Atmos set up a reserve fund and reimburse ratepayers for any over-recovery of amounts from adjustments related to the Cancellation Fee during the next IRA, RRM or Statement of Intent proceeding, whichever occurs first.

IT IS FURTHER ORDERED that, in accordance with 16 TEX. ADMIN. CODE §7.315, within 30 days of the date this Order is signed, Atmos shall electronically file tariffs and rate schedules with the Gas Services Division. The tariffs shall incorporate rates, rate design, and service charges consistent with this Order, as stated in the findings of fact and conclusions of law and shown on the attached Schedules.

IT IS FURTHER ORDERED that on or before June 1 of each year, the company posts on its website and also files a copy with the Gas Services Division Director of the Commission, the annual Weather Normalization Report (WNA) in spreadsheet format demonstrating how the company calculated the WNA as set out in the attached tariffs.

IT IS FURTHER ORDERED that on or before March 1 of each year, the company posts on its website and also files a copy with the Gas Services Division Director of the Commission, the annual Conservation and Energy Efficiency (CEE) report in spreadsheet format demonstrating how the company calculated the CEE as set out in the attached tariffs, including: detailed calculations of the CRC, Balancing Adjustments, total cost of the CEE Program, each individual rate program, and detailed tracking of reporting program administrative costs.

IT IS FURTHER ORDERED that administrative costs of the CEE Program shall not exceed 15 percent of the total CEE program costs.

IT IS FURTHER ORDERED that all proposed findings of fact and conclusions of law not specifically adopted in this Order are hereby **DENIED.**

IT IS ALSO ORDERED that all pending motions and requests for relief not previously granted or granted herein are hereby **DENIED.**

This Order will not be final and effective until 20 days after a party is notified of the Commission's order. A party is presumed to have been notified of the Commission's order three days after the date on which the notice is actually mailed. If a timely motion for rehearing is filed by any party at interest, this order shall not become final and effective until such motion is overruled, or if such motion is granted, this order shall be subject to further action by the

Commission. Pursuant to TEX. GOV'T CODE ANN. §2001.146(e), the time allotted for Commission action on a motion for rehearing in this case prior to its being overruled by operation of law, is hereby extended until 90 days from the date the order is served on the parties.

SIGNED this 4th day of December, 2012.

RAILROAD COMMISSION OF TEXAS

B. T. Smitherman

CHAIRMAN BARRY T. SMITHERMAN

Buddy Garcia

COMMISSIONER BUDDY GARCIA

While I join in approving this order, I respectfully dissent on Finding of Fact No. 279, which approves a return on equity of 10.5%.

David Porter

COMMISSIONER DAVID PORTER

ATTEST:

Kathy Way

SECRETARY