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RYAN SITTON, *COMMISSIONER*  
WAYNE CHRISTIAN, *COMMISSIONER*



DANA AVANT LEWIS, *DIRECTOR*

# RAILROAD COMMISSION OF TEXAS

## HEARINGS DIVISION

**GUD NO. 10779, *Consolidated***  
**Proposal for Decision**

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**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 BALCH SPRINGS, BANDERA, BELTON, ET AL.**

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**Administrative Law Judge: John Dodson**  
**Technical Examiners: James Currier, Rose Ruiz**

### **PARTIES**

**APPLICANT:**       **Atmos Energy Corp., Mid-Tex Division (Atmos)**  
Ann M. Coffin, Esq.  
Wendy K. L. Harvel, Esq.  
Coffin Renner LLP  
*Counsel for Atmos*

**INTERVENOR:**   **Atmos Texas Municipalities (ATM)**  
Alfred R. Herrera, Esq.  
Brennan Foley, Esq.  
Sergio E. Herrera, Esq.  
Herrera Law & Associates, PLLC  
*Counsel for ATM*

**PROCEDURAL HISTORY:**

GUD No. 10779 Appeal Filed:	October 11, 2018
GUD No. 10788 Appeal Filed:	November 2, 2018
GUD No. 10794 Appeal Filed:	November 27, 2018
Consolidation of GUD Nos. 10788 and 10794 Appeals:	December 4, 2018
Rate Case Expenses Severed:	December 4, 2018
Partial Settlement Filed:	February 22, 2019
Hearing on the Merits:	March 7, 2019
Heard By:	John Dodson, Administrative Law Judge James Currier, Technical Examiner Rose Ruiz, Technical Examiner
Evidentiary Record Closed:	March 13, 2019
PFD Issued:	April 24, 2019
Deadline for Commission Action:	May 31, 2019

## **STATEMENT OF THE CASE**

This docket is to consider several appeals filed by Atmos Energy Corporation, Mid-Tex Division (Atmos), to review the municipal decisions of 47 total cities that denied Atmos's proposed rate increases at the city level.

Atmos Texas Municipalities (ATM), a coalition of the 47 cities whose municipal actions now are being appealed, intervened and participated throughout this docket. Atmos and ATM ultimately reached a partial settlement, which resolved all issues except one: whether short-term debt should be included or excluded from Atmos's capital structure.

Because this docket is comprised solely of appeals of city actions, the Commission has appellate jurisdiction only. The legal standard for purely appellate review is different than typical rate cases for environs customers. Here, there is a single legal standard for all issues: the Commission must determine rates that each municipality "should have set in the ordinance to which the appeal applies." Accordingly, all issues resolved in the partial settlement—approved and agreed to by each of these affected cities—should not be disturbed by the Commission.

Included in this consolidated docket are Atmos municipal appeals docketed as GUD Nos. 10779, 10788, and 10794.

## **RECOMMENDATION**

The Administrative Law Judge and Technical Examiners recommend that the Commission approve all terms of the parties' partial settlement, as well as find that Atmos met its burden on the sole litigated issue of excluding short-term debt from its capital structure.

**The deadline for Commission action is May 31, 2019.**

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## PROPOSAL FOR DECISION

### I. INTRODUCTION

Atmos Energy Corporation, Mid-Tex Division (“Atmos”), filed with the Railroad Commission of Texas (“Commission”) three related appeals of municipal actions of 47 total cities that denied Atmos’s proposed rate increases at the city level (collectively, the “Appeal”). Atmos filed its Appeal pursuant to Subtitle A (Gas Utility Regulatory Act) (“GURA”) of the Texas Utilities Code, Chapter 103 (Jurisdiction and Powers of Municipality), Subchapter C (Appeal of Municipal Order).

Atmos Texas Municipalities (ATM), a coalition of the 47 cities<sup>1</sup> whose municipal actions now are being appealed, intervened and participated throughout this docket. Atmos and ATM ultimately reached a partial settlement, which resolved all issues except one: whether short-term debt should be included or excluded from Atmos’s capital structure.

As treated below, the Administrative Law Judge (“ALJ”) and Technical Examiners (together with the ALJ, the “Examiners”) recommend that the Commission approve all terms of the parties’ partial settlement, as well as find that Atmos met its burden on the sole litigated issue of excluding short-term debt from its capital structure.

### II. PARTIES

Petitioner Atmos is a “gas utility” under GURA Section 101.003 (Definitions)<sup>2</sup> and a provider of natural gas utility service to customers located within its Mid-Tex Division. Intervenor ATM is a coalition of the 47 cities whose municipal actions now are being appealed.

Commission Staff did not participate.

### III. PROCEDURAL BACKGROUND

On October 11, 2018, Atmos filed with the Commission its first appeal, docketed as GUD No. 10779.<sup>3</sup> Subsequently, Atmos filed its second and third appeals, respectively docketed as GUD Nos. 10788<sup>4</sup> and 10794.<sup>5</sup>

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<sup>1</sup> Austin, Balch Springs, Bandera, Belton, Blooming Grove, Burnet, Cameron, Cedar Park, Clifton, Commerce, Copperas Cove, Corsicana, Electra, Fredericksburg, Gatesville, Goldthwaite, Granbury, Greenville, Groesbeck, Hamilton, Heath, Henrietta, Hickory Creek, Hico, Hillsboro, Lampasas, Leander, Longview, Marble Falls, Mart, Mexia, Olney, Pflugerville, Point, Princeton, Ranger, Rice, Riesel, Rockdale, Rogers, Round Rock, San Angelo, Sanger, Somerville, Star Harbor, Trinidad, and Whitney.

<sup>2</sup> Tex. Util. Code § 101.003(7) (Definitions) (defining “gas utility” as “a person or river authority that owns or operates for compensation in this state equipment or facilities to transmit or distribute combustible hydrocarbon natural gas or synthetic natural gas for sale or resale in a manner not subject to the jurisdiction of the Federal Energy Regulatory Commission under the Natural Gas Act (15 U.S.C. Section 717 et seq.). The term includes a lessee, trustee, or receiver of a gas utility.”).

<sup>3</sup> Atmos Ex. 1 (GUD 10779 Appeal).

<sup>4</sup> Atmos Ex. 2 (GUD 10788 Appeal), filed Nov. 2, 2018.

<sup>5</sup> Atmos Ex. 3 (GUD 10794 Appeal), filed Nov. 27, 2018.

On October 23, 2018, the ALJ granted ATM's timely motion to intervene.<sup>6</sup> On December 4, 2018, the ALJ consolidated the three appeals,<sup>7</sup> aligned all municipal parties for purposes of discovery,<sup>8</sup> and severed rate case expenses into a separate docket.<sup>9</sup>

On February 12, 2019, the Notice of Hearing was issued, setting the hearing on the merits to commence on March 7, 2019 ("Notice of Hearing").<sup>10</sup> On February 15, 2019, the Commission published the Notice of Hearing in *Gas Utilities Information Bulletin No. 1101*.<sup>11</sup>

On February 22, 2019, Atmos and ATM filed a partial settlement, resolving all issues except whether short-term debt should be included or excluded from Atmos's capital structure (the "Partial Settlement").<sup>12</sup> On February 25, 2019, the ALJ granted the parties' joint motion to establish temporary rates from March 1 2019, through May 31, 2019.<sup>13</sup>

The hearing on the merits was held on March 7, 2019 (the "Hearing"). The evidentiary exhibit list is attached to this PFD as Attachment 1.

On March 13, 2019, the ALJ closed the evidentiary record.<sup>14</sup>

#### **IV. JURISDICTION, BURDEN OF PROOF, AND NOTICE**

##### ***Jurisdiction***

The Commission has jurisdiction over all matters at issue in this proceeding. The Commission has jurisdiction over Atmos, which is a gas utility as defined in GURA Section 101.003(7). Pursuant to GURA Section 102.001(b), the Commission has exclusive appellate jurisdiction to review the municipal actions of the 47 cities that denied Atmos's proposed rate increases at the city level.

##### ***Burden of Proof***

Atmos carries the burden of proving the rates each of these 47 cities should have set in their ordinances that Atmos now appeals.<sup>15</sup>

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<sup>6</sup> Hearings Letter No. 2 (ATM Motion to Intervene Granted), issued Oct. 23, 2018.

<sup>7</sup> Hearings Letter No. 5 (Consolidation of GUD Nos. 10788 and 10794 Appeals), issued Dec. 4, 2018.

<sup>8</sup> Hearings Letter No. 6 (Alignment of Municipal Parties), issued Dec. 4, 2018.

<sup>9</sup> Hearings Letter No. 7 (Rate Case Expenses Docket), issued Dec. 4, 2018 (severing the rate case expenses portion of this consolidated Appeal into a separate docket, GUD No. 10796).

<sup>10</sup> See Hearings Letter No. 8 (Notices of Hearing and Prehearing Conference), issued February 12, 2019 (attaching the Notice of Hearing).

<sup>11</sup> See *Gas Utilities Information Bulletin No. 1101*, published by the Railroad Commission of Texas Oversight and Safety Division on February 15, 2019 ("Bulletin"), pp. 7-9.

<sup>12</sup> Letter to the ALJ from counsel for Atmos, filed Feb. 22, 2019 (attaching the Partial Settlement).

<sup>13</sup> Hearings Letter No. 10 (Temporary Rates), issued Feb. 25, 2019 (attaching the Order Establishing Temporary Rates).

<sup>14</sup> Hearings Letter No. 13 (Close of Evidentiary Record), issued March 13, 2019.

<sup>15</sup> Tex. Util. Code §§ 103.055 (Hearing and Order), and 104.008 (Burden of Proof).

## **Notice**

Proper notice has been issued in this proceeding in accordance with all applicable statutory and regulatory requirements.

On February 12, 2019, the ALJ issued the Notice of Hearing, which complied with Chapter 2001 (Administrative Procedure) of the Texas Government Code, Part 1 (Railroad Commission of Texas) of Title 16 (Economic Regulation) of the Texas Administrative Code, and other applicable authority. On February 15, 2019, the Commission published the Notice of Hearing in *Gas Utilities Information Bulletin No. 1101*, in compliance with Commission Rule § 7.235 (Publication and Service of Notice).<sup>16</sup> The ALJ provided a copy of the Notice of Hearing to each of the 47 cities whose ordinances now are being appealed by Atmos.<sup>17</sup>

## **V. BOOKS AND RECORDS**

Atmos presented evidence that it maintains its books and records in accordance with Commission requirements.<sup>18</sup> Atmos maintains its books and records in accordance with Commission Rule § 7.310 (System of Accounts), which requires each gas utility to “utilize the Federal Energy Regulatory Commission’s (FERC) Uniform System of Accounts (USOA) prescribed for Natural Gas Companies subject to the Provisions of the Natural Gas Act (as amended from time to time) (FERC USOA) for all operating and reporting purposes.”<sup>19</sup> The information contained within Atmos’s books and records, as well as the summaries and excerpts therefrom, qualify for the presumption set forth in Commission Rule § 7.503 (Evidentiary Treatment of Uncontroverted Books and Records of Gas Utilities).<sup>20</sup>

Considering the evidence, the Examiners find that Atmos has established that it complied with these Commission rules. Accordingly, Atmos is entitled to the presumption set forth in Commission Rule § 7.503 (Evidentiary Treatment of Uncontroverted Books and Records of Gas Utilities) that the unchallenged amounts shown in its books and records are presumed to have been reasonably and necessarily incurred.<sup>21</sup>

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<sup>16</sup> See Bulletin, pp. 7-9 (containing the GUD No. 10779 Notice of Hearing); see also 16 Tex. Admin. Code § 7.235(a)(1)(A) (Publication and Service of Notice) (“The Commission shall publish the notice of hearing in the next Bulletin published after the date of issuance of the notice of hearing.”).

<sup>17</sup> Hearings Letter No. 8 (Notices of Hearing and Prehearing Conference), issued Feb. 12, 2019 (issuing the Notice of Hearing to ATM’s counsel).

<sup>18</sup> See Atmos Ex. 10 (Myers Test.) at 8-20.

<sup>19</sup> *Id.*; see 16 Tex. Admin. Code § 7.310(a) (System of Accounts).

<sup>20</sup> Atmos Ex. 10 (Myers Test.) at 16; see 16 Tex. Admin. Code § 7.503(a) (Evidentiary Treatment of Uncontroverted Books and Records of Gas Utilities).

<sup>21</sup> See 16 Tex. Admin. Code § 7.503(a) (Evidentiary Treatment of Uncontroverted Books and Records of Gas Utilities) (“In any proceeding before the Commission involving a gas utility that keeps its books and records in accordance with Commission rules, the amounts shown on its books and records as well as summaries and excerpts therefrom shall be considered prima facie evidence of the amount of investment or expense reflected when introduced into evidence, and such amounts shall be presumed to have been reasonably and necessarily incurred; provided, however, that if any evidence is introduced that an investment or expense item has been unreasonably incurred, then the presumption as to that specific investment or expense shall no longer exist and the gas utility shall have the burden of introducing probative evidence that the challenged item has been reasonably and necessarily incurred.”).

## VI. PARTIAL SETTLEMENT

The parties' Partial Settlement resolves all issues except short-term debt, which is treated separately below. A copy of the Partial Settlement is attached to this PFD as Attachment 2.

Among the issues resolved between Atmos and these 47 cities in the Partial Settlement are:

- return on equity set at 9.8 percent;
- capital structure components and system-wide rate revenue requirement, should the Commission decide to exclude short-term debt;
- interim rate adjustment ("IRA") filing factors;
- system-wide affiliate expenses totaling \$453,877 are recoverable by Atmos and consistent with GURA Section 104.055 (Net Income; Allowable Expenses);
- pension-related and other post-employment benefits amounts;
- reduction of the corporate income tax rate from 35 percent to 21 percent to recognize changes to the Federal Tax Code due to the Tax Cuts and Jobs Act of 2017;
- treatment of excess deferred income taxes ("EDIT");
- establishment of temporary rates for the period March 1, 2019, through May 31, 2019;
- rates set by the Commission in this docket will be effective for bills rendered on or after June 1, 2019; and
- rate case expenses will be addressed and considered in a separate docket, GUD No. 10796.<sup>22</sup>

### ***Findings and Recommendation***

The legal standard for purely appellate review is different than environs rate cases where the Commission exercises original jurisdiction. Here, there is a single legal standard for all issues: the Commission must determine rates that each municipality "should have set in the ordinance to which the appeal applies."<sup>23</sup>

Cities have complete dominion over the content of their own ordinances. Accordingly, all issues resolved in the Partial Settlement—approved and agreed to by Atmos and all 47 affected cities—reflect ratemaking actions that Atmos and these cities agree should have been in the appealed ordinances. These resolved issues, therefore, satisfy the appellate legal standard and should not be disturbed. Satisfaction of this broader appellate legal standard for the settled issues necessarily satisfies all lesser standards for individual ratemaking components under GURA Chapter 104 (Rates and Services), as they pertain to these 47 cities in this Appeal. Accordingly, all settled terms are just and reasonable, supported by the weight of reliable and probative evidence, consistent with the public interest, and proper under applicable local and/or Texas law.

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<sup>22</sup> See Atmos Ex. 22 (Partial Settlement) ¶¶ 1-13.

<sup>23</sup> Tex. Util. Code § 103.055(b) ("The railroad commission shall enter a final order establishing the rates the railroad commission determines the municipality should have set in the ordinance to which the appeal applies.").

## VII. SHORT-TERM DEBT

The only issue not settled is whether short-term debt should be included or excluded from Atmos's capital structure.<sup>24</sup> Atmos wants it excluded, and ATM wants it included. The Commission must determine how the ATM cities should have decided this issue based on the test year presented to the municipalities, "adjusted for known changes and conditions that are measurable with reasonable accuracy."<sup>25</sup> Atmos carries the burden of proof.

### A. Atmos's Evidence and Arguments

Atmos wants to exclude short-term debt from its capital structure. In support, Atmos argues that (1) excluding short-term debt from Atmos's ratemaking capital structure is appropriate because short-term debt only funds daily operations and projects on which Atmos does not earn a rate of return; (2) Atmos Energy finances the long-term assets on which it earns a rate of return through a combination of long-term debt and equity, not short-term debt; and (3) the Commission's decision in this case should be based on the evidence in this case, rather than GUD No. 10580.<sup>26</sup>

1. *Excluding short-term debt from Atmos's ratemaking capital structure is appropriate because short-term debt only funds daily operations and projects on which Atmos does not earn a rate of return.*

Atmos states that its proposed capital structure, which excludes short-term debt, reflects its on-going operations and the manner in which Atmos permanently finances the long-term assets that are included in rate base for which Atmos earns a return on its investment.<sup>27</sup> Atmos states that since the end of the test year, there has been no material change in the equity and long-term debt ratios used by Atmos to finance its operations.<sup>28</sup> The quarter ending December 31, 2018, shows that Atmos's capital structure is 59.4 percent equity and 40.6 percent long-term debt with no short-term debt.<sup>29</sup> Atmos also has experienced a continual decline in its short-term debt balance since the end of the test year, with its short-term debt ratio at 2.48 percent during 2018 and falling to zero at year-end.<sup>30</sup>

Atmos argues that from a financing perspective, it does not use short-term debt to permanently finance its assets because it would run the risk of having to refinance during a period of high interest rates.<sup>31</sup> Atmos explains that fluctuations in its short-term debt balance confirm that Atmos uses short-term debt funding to finance daily activities, such as payroll, purchased gas costs, and construction work

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<sup>24</sup> Atmos Ex. 22 (Partial Settlement) ¶ 1.

<sup>25</sup> Tex. Util. Code § 103.055(a)-(b).

<sup>26</sup> GUD No. 10580, Statement of Intent to Change the Rates of City Gate Service and Rate Pipeline Transportation Rates of Atmos Pipeline – Texas (Final Order, August 1, 2017).

<sup>27</sup> Initial Brief of Atmos Energy Corp., Mid-Tex Division, filed March 15, 2019 ("Atmos Br.") at 2-3.

<sup>28</sup> *Id.* at 3.

<sup>29</sup> Atmos Ex. No. 21 (Schneider Rebuttal) at 6-9, and at Exhibit JLS-R-1.

<sup>30</sup> *Id.* at 9; Atmos Ex. No. 19 (Hevert Rebuttal) at 16-17.

<sup>31</sup> Atmos Ex. No. 21 (Schneider Rebuttal) at 6-9, and at Exhibit JLS-R-1.

in progress (“CWIP”), rather than long-term assets.<sup>32</sup> Atmos also explains that short-term borrowings are primarily affected by the seasonal nature of the natural gas business and that such borrowings reach their highest levels during winter months.<sup>33</sup>

Atmos also states that its short-term debt balances were shown to regularly decrease after issuing long-term securities.<sup>34</sup> Atmos used the net proceeds from its \$600 million long-term debt offering of 30-year notes and \$500 million equity issuance in 2018 to pay down short-term debt and to fund capital spending.<sup>35</sup> Atmos explains that these financings were shown to be consistent with Atmos’s objective of financing long-term assets with equity and long-term debt, along with its practice of extinguishing short-term debt through a mix of permanent refinancing comprised of long-term debt and equity offerings.<sup>36</sup>

Atmos notes that its proposed treatment of short-term debt and capital structure in this docket is consistent with the Commission approvals in two recent settled rate cases, GUD Nos. 10742 and 10743.<sup>37</sup> Atmos explains that those cases both involved the same company and the same test-year.<sup>38</sup>

*2. Atmos Energy finances the long-term assets on which it earns a rate of return through a combination of long-term debt and equity, not short-term debt.*

Atmos states that it finances its long-term assets using a combination of long-term debt and equity, not short-term debt.<sup>39</sup> Atmos explains that the purpose of establishing a ratemaking capital structure is to determine the rate of return that Atmos will have the opportunity to earn on its rate base and thus it is essential that the capital structure accurately reflect how Atmos finances the long-term assets included in its rate base.<sup>40</sup>

According to Atmos, including short-term debt in its capital structure ignores the purpose of a ratemaking capital structure and fails to recognize that Atmos already accounts for the impact of short-term debt through its inclusion in Allowance for Funds Used During Construction (“AFUDC”), which is assigned to Atmos’s CWIP balances.<sup>41</sup> Atmos explains that the rate base on which it requests a fair return on its investment excludes CWIP, purchased gas costs, or other daily funding expenditures.<sup>42</sup>

Atmos argues that the capital structure for ratemaking purposes should reflect the long-term mix of debt and equity that a utility uses as its permanent source of

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<sup>32</sup> Atmos Ex. No. 21 (Schneider Rebuttal) at 13.

<sup>33</sup> *Id.* at 10, and at Exhibit JLS-R-2.

<sup>34</sup> *Id.* at 11, and at Exhibit JLS-R-1.

<sup>35</sup> *Id.* at 11-12, and at Exhibit JLS-R-2.

<sup>36</sup> *Id.*; Atmos Ex. No. 19 (Hevert Rebuttal) at 16.

<sup>37</sup> Atmos Br. at 2.

<sup>38</sup> Atmos Ex. No. 21 (Schneider Rebuttal) at 5.

<sup>39</sup> Atmos Br. at 4-5.

<sup>40</sup> *Id.* at 4.

<sup>41</sup> *Id.* at 5; Atmos Ex. No. 19 (Hevert Rebuttal) at 30-34; Atmos Ex. No. 21 (Schneider Rebuttal) at 13.

<sup>42</sup> Atmos Ex. No. 19 (Hevert Rebuttal) at 29-34; Atmos Ex. No. 21 (Schneider rebuttal) at 13; Atmos Ex. No. 10 (Myers Direct) at 31; Atmos Ex. No. 1 (GUD 10779 Appeal) at Schedule WP\_B-6.

capital to reflect the utility's actual financing practices during the time between rate filings.<sup>43</sup> Atmos further argues that if short-term debt, which fluctuates daily, is imputed, then the its ratemaking capital structure becomes distorted because the resulting interest rates can quickly diverge from the actual financing practices in the time between rate case filings.<sup>44</sup>

*3. The Commission's decision in this case should be based on the evidence in this case, rather than GUD No. 10580.*

Atmos argues that this case is distinguishable from GUD No. 10580, in which the Commission included short-term debt in Atmos Energy's capital structure, and that GUD No. 10580 carries no precedent here. The GUD No. 10580 Final Order expressly states that the capital structure decision was based on "the facts and evidence unique to this case."<sup>45</sup> Atmos explains that Atmos Energy's test year short-term debt balance in GUD No. 10580 was atypical of its short-term debt balances—\$830 million, 12 percent of the combined short-term debt, long-term debt, and common equity balance. Since then, Atmos Energy's short-term debt balance has declined significantly—2.48 percent for calendar year 2018 and zero percent by December 31, 2018.<sup>46</sup>

Atmos argues that ATM's argument is undermined by the testimony of ATM's own witness, who stated that the Commission should not use the GUD No. 10580 methodology because it does not accurately reflect Atmos Energy's current use of short-term debt.<sup>47</sup> According to Atmos, the evidence in this case does not support using the capital structure methodology adopted in GUD No. 10580.<sup>48</sup>

Atmos similarly argues that other states' ratemaking statutes, rules, and rate setting policies are not binding on this Commission, are not in the record, and should not serve as an evidentiary basis for the capital structure adopted by the Commission in this case.<sup>49</sup>

## **B. Opposition by ATM**

ATM proposes to include short-term debt, either explicitly or using a method similar to the Commission's approach in GUD No. 10580. For the former, ATM recommends a capital structure of 53.81 percent equity, 39.98 percent long-term debt, and 7.21 percent short-term debt based on Atmos's test-year ending 13-month average.<sup>50</sup> For the latter, ATM recommends a capital structure of 57.66 percent equity and 42.34 percent long-term debt.

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<sup>43</sup> Atmos Ex. No. 21 at 13. (Schneider Rebuttal); Atmos Br. at 5-6.

<sup>44</sup> Atmos Br. at 5-6.

<sup>45</sup> *Id.* at 7.

<sup>46</sup> Atmos Ex. No. 19 (Hevert Rebuttal) at 14, 16-17; Atmos Ex. No. 21 (Schneider Rebuttal) at 6-9, and at Exhibit JLS-R-1.

<sup>47</sup> Atmos Br. at 7; ATM Ex. No. 1 (Woolridge Test.) at 19.

<sup>48</sup> Atmos Br. at 7; Atmos Ex. No. 19 (Hevert Rebuttal) at 17.

<sup>49</sup> Atmos Reply Br. at 12.

<sup>50</sup> ATM Ex. 1, (Woolridge Test.) at 3.

In support, ATM argues: (1) Atmos's proposed equity ratio of 60.18 percent is an outlier compared to its own proxy group and to the industry;<sup>51</sup> (2) in its 10-K and 10-Q reports, Atmos Energy admitted to its investors that it uses short-term debt to finance capital expenditures, which it later converts to long-term debt;<sup>52</sup> (3) excluding short-term debt violates GURA Section 104.052 (Establishing Fair Rate of Return), which directs the Commission to set a utility's rates at a level that will allow the utility to earn no more than a fair return on its rate base;<sup>53</sup> (4) GUD No. 10580 establishes the precedent to include short-term debt in Atmos Energy's capital structure;<sup>54</sup> and (5) it is not reasonable to treat Texas ratepayers differently from Atmos Energy's ratepayers in other states (e.g., Kentucky) that have lower equity ratios due to the inclusion of short-term debt in its ratemaking capital structure.<sup>55</sup>

According to ATM, Atmos Energy's 10-K and 10-Q Reports establish that Atmos uses short-term debt to finance all types of capital assets and converts the short-term debt into long-term debt. Thus, what may start as CWIP is later converted into a long-life asset.<sup>56</sup> ATM shows that Atmos Energy had short-term debt in its capital structure for 20 consecutive quarters<sup>57</sup> with amounts ranging from 3.58 percent to 20.49 percent of total capital, and an average quarterly amount of 9.55 percent.<sup>58</sup> ATM further argues that during the test year, Atmos did not need short-term debt to finance its daily operations or its gas-supply expenses because its cash-working capital balance was negative, which indicates that the working capital is funded by ratepayers and not investors.<sup>59</sup> Finally, while Atmos may use short-term debt for CWIP, the fungibility of its cash means Atmos also uses long-term debt and equity to finance its capital expenditures, including CWIP.<sup>60</sup>

ATM argues that the Commission in GUD No. 10580 established precedent to include short-term debt in Atmos Energy's capital structure.<sup>61</sup> ATM argues that Atmos Energy remains the same entity now as it was in GUD No. 10580 and uses short-term debt in the same manner to finance its operation.<sup>62</sup> If the Commission now does not explicitly include short-term debt as ATM primarily recommends, then ATM proposes including short-term debt implicitly, similar to the method used in GUD No. 10580, with a capital structure of 57.66 percent equity and 42.34 percent long-term debt. According to ATM, this approach mirrors the treatment of short-term debt GUD No. 10580, which ATM argues is appropriate here, as well.<sup>63</sup>

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<sup>51</sup> *Id.* at JRW-2.

<sup>52</sup> ATM Ex. 10 (Atmos 10-K 2018), at Bates pp. 35, 36, and 58-59.

<sup>53</sup> ATM's Initial Post-Hearing Brief, filed March 15, 2019 ("ATM Br."), at 14.

<sup>54</sup> *Id.* at 6.

<sup>55</sup> *Id.* at 7-10; ATM Ex. 19 (Kentucky PSC Case) at 6, 20, 30; ATM Ex. 10 (Atmos 10-K 2018) at 2; ATM Ex. 15 (Atmos 10-K 2013) at 2; ATM Ex. 11 (Atmos 10-K 2017) at 2; ATM Ex. 12 (Atmos 10-K 2016) at 2; ATM Ex. 13 (Atmos 10-K 2015) at 2; ATM Ex 14 (Atmos 10-K 2014) at 2.

<sup>56</sup> ATM's Post-Hearing Reply Brief, filed March 29, 2019 ("ATM Reply Br."), at 4-6; ATM Ex. 10 (Atmos 10-K 2018) at 26, 32, 33; ATM Ex. 16A (Atmos 10-Q Report Dec. 31, 2018) at 24, 29, 30.

<sup>57</sup> Beginning with the quarter ending December 31, 2013, and ending with the quarter ending September 30, 2018.

<sup>58</sup> ATM Ex. 1 (Woolridge Test.) at 17, and at Exhibit JRW-3, p. 4.

<sup>59</sup> ATM Reply Br. at 7-8.

<sup>60</sup> ATM Reply Br. at 9; ATM Ex. 10 (Atmos 10-K 2018) at 32; Atmos Ex. 19 (Hevert Rebuttal) at 28.

<sup>61</sup> ATM Br. at 6.

<sup>62</sup> *Id.*; Atmos Ex. 21 (Schneider Rebuttal) at 4.

<sup>63</sup> ATM Ex. 1 (Woolridge Test.) at 3-4, 18.

### C. Findings and Recommendation

The Examiners find that Atmos met its burden of proving that short-term debt should be excluded from its capital structure. The weight of credible evidence based on the test year presented to these 47 cities, adjusted for known changes and conditions that are measurable with reasonable accuracy, supports that Atmos uses short-term debt to fund working capital and CWIP, not long-term assets. Therefore, the ordinances of these 47 cities should have approved rates reflecting an exclusion of Atmos's short-term debt.

The weight of evidence supports that Atmos has a seasonal pattern of working capital requirements, owing to the seasonal nature of gas inventories and customer receivables. Atmos showed that this seasonal pattern, which is repeated in the short-term debt balance used to fund those working capital requirements, supports that its short-term debt is not permanent capital. The evidence further supports that Atmos does not rely on short-term debt to finance its assets in rate base. Atmos's residual short-term debt—which is short-term debt less working capital and CWIP—averaged negative \$51 million for the three-year period for the calendar years 2016 through 2018. Atmos demonstrated that while short-term debt is used as a source of interim financing, it is not used to finance long-lived assets.

The treatment of short-term debt by regulators in other states or by the Commission in GUD No. 10580 was given very little weight because those cases involved different facts and do not bind the Commission here. As Atmos points out, Kentucky has different regulations and rate treatment than Texas, specifically forward-looking test years and the inclusion of CWIP in rate base. Atmos also correctly notes that the Commission's treatment of short-term debt in GUD No. 10580 was based on facts unique to that case and does not require similar treatment in future cases. Here, the evidence shows that Atmos Energy's short-term debt balance declined significantly since GUD No. 10580, with a 2.8 percent short-term debt ratio during 2018 and zero percent by December 31, 2018.

#### ***Capital Structure***

The Partial Settlement contemplates an agreed capital structure, should the Commission decide to exclude short-term debt:

<b>Class of Capital</b>	<b>Percent</b>	<b>Cost</b>	<b>Weighted Average Cost of Capital</b>	<b>Pre-Tax Return (ROR)</b>
Long Term Debt	39.82%	5.2%	2.07%	2.07%
Common Equity	60.18%	9.8%	5.90%	7.47%
Weighted Average Cost of Capital	100.00%		7.97%	9.54%

Despite ATM's later characterization to the contrary, the plain language of the Partial Settlement evidences a clear intent by Atmos and these 47 cities to settle on the above capital structure, should the Commission decide to exclude short-term debt. Accordingly, this capital structure and a system-wide base rate revenue requirement totaling \$594,158,976, consistent with the terms of the Partial Settlement, reflect ratemaking actions that should have been in the appealed ordinances. As with the other terms in the Partial Settlement, these resolved issues satisfy the appellate legal standard and should not be disturbed.

### VIII. CONCLUSION

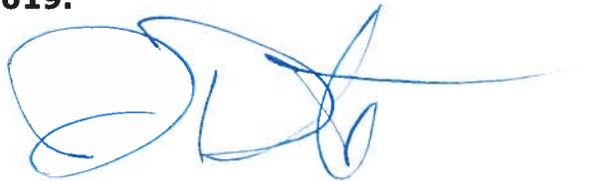
The Examiners find that Atmos met its burden in establishing that all the parties' settled issues reflect ratemaking actions that these 47 cities should have set in their ordinances, and that short-term debt should be excluded from Atmos's capital structure. Accordingly, the Examiners respectfully recommend that the Commission issue the attached Proposed Final Order that is consistent with this PFD. The recommendations contained herein are just and reasonable, supported by the weight of reliable and probative evidence, consistent with the public interest, and proper under applicable local and/or Texas law.

### IX. FINDINGS OF FACT AND CONCLUSIONS OF LAW

The Findings of Fact and Conclusions of Law contained in the Proposed Final Order, appended to this PFD as Attachment 3, are incorporated herein by reference.

The Proposed Final Order will append as a single attachment the parties' full Partial Settlement.

**Signed on April 24, 2019.**



John Dodson  
Administrative Law Judge



James Currier  
Technical Examiner



Rose Ruiz  
Technical Examiner

Proposal for Decision  
GUD No. 10779

**ATTACHMENT 1**

(Evidentiary Exhibit Lists)

GUD No. 10779

Petition for De Novo Review of the Denial of the Statement of Intent  
filed by Atmos Energy Corp., Mid-Tex Division (Atmos), by the  
Cities of Balch Springs, Bandera, Belton, et al.

ATMOS EXHIBITS

Ex. No.	Description	Offered	Admitted
1	GUD 10779, consolidated – Petition for De Novo Review of the Denial of the Statement of Intent filed by Atmos Energy Corp., Mid-Tex Division (Atmos), by the Cities of Balch Springs, Bandera, Belton, et al. filed on Oct. 11, 2018 (Includes all attachments, electronic files and non-confidential workpapers. Also includes errata filings dated Dec. 7, 2018 and Feb. 7, 2019. Direct testimony, exhibits and testimony workpapers provided separately.)	✓	✓
1a	APT Confidential Schedule Workpapers and Relied Upons	✓	✓
2	GUD 10788 – Petition for De Novo Review of the Denial of the Statement of Intent filed by Atmos Energy Corp., Mid-Tex Division (Atmos), by the Cities of Hico, Rogers, and Trinidad filed Nov. 2, 2018 and consolidated with GUD No. 10779 by Hearings Letter No. 05 on December 4, 2018	✓	✓
3	GUD 10794 – Petition for De Novo Review of the Denial of the Statement of Intent filed by Atmos Energy Corp., Mid-Tex Division (Atmos), by the City of Clifton filed Nov. 27, 2018 and consolidated with GUD 10779 by Hearings Letter No. 05 on December 4, 2018	✓	✓
4	Amended Ordinance of the City of Point, Texas filed Oct. 16, 2018	✓	✓
5	Supplemental Ordinances of the Cities of Austin, Blooming Grove, Cameron, Corsicana, Fredericksburg, Rice and Somerville filed on Oct. 24, 2018	✓	✓
6	Supplemental Ordinance of the City of Whitney filed on Dec. 3, 2018	✓	✓
7	Supplemental Ordinance of the City of Trinidad filed on Dec. 3, 2018	✓	✓
8	Affidavit of Completion of Notice of Christopher A. Felan	✓	✓
9	Direct Testimony, Exhibits and Workpapers of Christopher A. Felan includes errata	✓	✓
9a	Confidential Exhibits to the Direct Testimony of Christopher A. Felan	✓	✓
10	Direct Testimony, Exhibits and Workpapers of Barbara W. Myers includes errata	✓	✓
11	Direct Testimony of Jennifer K. Story	✓	✓
12	Direct Testimony, Exhibits and Workpapers of Christian L. Paige	✓	✓
13	Direct Testimony and Workpapers of Travis C. Cooper	✓	✓
14	Direct Testimony, Exhibits and Workpapers of Robert B. Hevert	✓	✓
14a	Confidential Workpapers to the Direct Testimony of Robert B. Hevert	✓	✓
15	Direct Testimony, Exhibits and Workpapers of Paul H. Raab	✓	✓
16	Rebuttal Testimony and Exhibits of Christopher A. Felan	✓	✓
17	Rebuttal Testimony and Exhibits of Barbara W. Myers	✓	✓
18	Rebuttal Testimony and Exhibits of Jennifer K. Story	✓	✓
19	Rebuttal Testimony and Exhibits of Robert B. Hevert	✓	✓
19a	Confidential Rebuttal Testimony, Exhibit and Workpapers of Robert B. Hevert	✓	✓
20	Rebuttal Testimony of Paul H. Raab	✓	✓
21	Rebuttal Testimony and Exhibits of Jason L. Schneider	✓	✓
22	Settlement Agreement	✓	✓
23	Optional Completeness to ATM Exhibit 10 - FY 2018 Form 10-K	✓	✓
24	Optional Completeness to ATM Exhibit 10A - December 2017 Form 10-Q	✓	✓

GUD No. 10779

Petition for De Novo Review of the Denial of the Statement of Intent  
 filed by Atmos Energy Corp., Mid-Tex Division (Atmos), by the  
 Cities of Balch Springs, Bandera, Belton, et al.

Ex. No.	Description	Offered	Admitted
25	Optional Completeness to ATM Exhibit 10B - March 2018 Form 10-Q	✓	✓
26	Optional Completeness to ATM Exhibit 10C - June 2018 Form 10-Q	✓	✓
27	Optional Completeness to ATM Exhibit 11 - FY 2017 Form 10-K	✓	✓
28	Optional Completeness to ATM Exhibit 11A - December 2016 Form 10-Q	✓	✓
29	Optional Completeness to ATM Exhibit 11B - March 2017 Form 10-Q	✓	✓
30	Optional Completeness to ATM Exhibit 11C - June 2017 Form 10-Q	✓	✓
31	Optional Completeness to ATM Exhibit 12 - FY 2016 Form 10-K	✓	✓
32	Optional Completeness to ATM Exhibit 12A - December 2015 Form 10-Q	✓	✓
33	Optional Completeness to ATM Exhibit 12B - March 2016 Form 10-Q	✓	✓
34	Optional Completeness to ATM Exhibit 12C - June 2016 Form 10-Q	✓	✓
35	Optional Completeness to ATM Exhibit 13 - FY 2015 Form 10-K	✓	✓
36	Optional Completeness to ATM Exhibit 13A - December 2014 Form 10-Q	✓	✓
37	Optional Completeness to ATM Exhibit 13B - March 2015 Form 10-Q	✓	✓
38	Optional Completeness to ATM Exhibit 13C - June 2015 Form 10-Q	✓	✓
39	Optional Completeness to ATM Exhibit 14 - FY 2014 Form 10-K	✓	✓
40	Optional Completeness to ATM Exhibit 14A - December 2013 Form 10-Q	✓	✓
41	Optional Completeness to ATM Exhibit 14B - March 2014 Form 10-Q	✓	✓
42	Optional Completeness to ATM Exhibit 14C - June 2014 Form 10-Q	✓	✓
43	Optional Completeness to ATM Exhibit 15 - FY 2013 Form 10-K	✓	✓
44	Optional Completeness to ATM Exhibit 16A - December 2018 Form 10-Q	✓	✓
45	Optional Completeness to ATM Exhibit 19 - KY 2017-00349 Final Order Dated 05-03-18	✓	✓

**GAS UTILITIES DOCKET NO. 10779 Consolidated**

**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  
 BALCH SPRINGS, BANDERA,  
 BELTON ET AL.**

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**BEFORE THE  
 RAILROAD COMMISSION  
 OF TEXAS**

**ATMOS TEXAS MUNICIPALITIES’ EXHIBIT LIST**

<b>Exhibit</b>	<b>Description</b>	<b>Offered</b>	<b>Admitted</b>
1	Direct Testimony and Exhibits of J. Randall Woolridge (Jan. 14, 2019)	✓	✓
1A	J. R. Woolridge Affidavit – Prefiled Direct Testimony	✓	✓
2	Direct Testimony and Exhibits - Revenue Requirement Issues - of Mark E. Garrett (Jan. 14, 2019)	✓	✓
2A	M. Garrett Affidavit – Prefiled Direct Testimony	✓	✓
3	Direct Testimony and Exhibits of James W. Daniel (Jan. 14, 2019)	✓	✓
3A	J. Daniel Affidavit – Prefiled Direct Testimony	✓	✓
4	City of Denton, Texas – Certified Copy of Executed Resolution No. 18-1459 – Approving Increase in Revenue & Rates Under Rate Review Mechanism	X	X
5	<i>Intentionally Left Blank</i>	X	X
6	Atmos Mid-Tex Tariffs (excerpts)	✓	✓
7	Schedule G Relied Upons (Schedule G Cap Structure Dec17-ATM GUD 10779 Errata – From “Relied Upons” WPs)	✓	✓
8	Schedule G - Test Year Ending Dec. 31, 2017 (Errata Filing)	✓	✓
9	Schedules A & B - Test Year Ending Dec. 31, 2017 (Errata Filing)	✓	✓
10	Atmos Energy Form 10-K (Fiscal Year Ended Sept. 30, 2018) (excerpts)	✓	✓
10A	Atmos Energy Form 10-Q (Quarter ended Dec. 31, 2017) (excerpts)	✓	✓
10B	Atmos Energy Form 10-Q (Quarter ended Mar. 31, 2018) (excerpts)	✓	✓
10C	Atmos Energy Form 10-Q (Quarter ended June 30, 2018) (excerpts)	✓	✓
11	Atmos Energy Form 10-K (Fiscal Year Ended Sept. 30, 2017) (excerpts)	✓	✓
11A	Atmos Energy Form 10-Q (Quarter ended Dec. 31, 2016) (excerpts)	✓	✓

11B	Atmos Energy Form 10-Q (Quarter ended Mar. 31, 2017) (excerpts)	✓	✓
11C	Atmos Energy Form 10-Q (Quarter ended June 30, 2017) (excerpts)	✓	✓
12	Atmos Energy Form 10-K (Fiscal Year Ended Sept. 30, 2016) (excerpts)	✓	✓
12A	Atmos Energy Form 10-Q (Quarter ended Dec. 31, 2015) (excerpts)	✓	✓
12B	Atmos Energy Form 10-Q (Quarter ended Mar. 31, 2016) (excerpts)	✓	✓
12C	Atmos Energy Form 10-Q (Quarter ended June 30, 2016) (excerpts)	✓	✓
13	Atmos Energy Form 10-K (Fiscal Year Ended Sept. 30, 2015) (excerpts)	✓	✓
13A	Atmos Energy Form 10-Q (Quarter ended Dec. 31, 2014) (excerpts)	✓	✓
13B	Atmos Energy Form 10-Q (Quarter ended Mar. 31, 2015) (excerpts)	✓	✓
13C	Atmos Energy Form 10-Q (Quarter ended June 30, 2015) (excerpts)	✓	✓
14	Atmos Energy Form 10-K (Fiscal Year Ended Sept. 30, 2014) (excerpts)	✓	✓
14A	Atmos Energy Form 10-Q (Quarter ended Dec. 31, 2013) (excerpts)	✓	✓
14B	Atmos Energy Form 10-Q (Quarter ended Mar. 31, 2014) (excerpts)	✓	✓
14C	Atmos Energy Form 10-Q (Quarter ended June 30, 2014) (excerpts)	✓	✓
15	Atmos Energy Form 10-K (Fiscal Year Ended Sept. 30, 2013) (excerpts)	✓	✓
16A	Atmos Energy Form 10-Q (Quarter ended Dec. 31, 2018) (excerpts)	✓	✓
17	<b>CONFIDENTIAL</b> Hevert Workpapers – Rebuttal (02/01/19)	✓	✓
18	Fitch Report - Atmos Energy - Rating Agencies' Report - Jan '16-Nov '18 (Atmos Energy's Resp. to ATM RFI No. 1-05 (Attachment 1, pages 1-10))	✓	✓
19	Kentucky Public Service Commission, Case No. 201700349, Final Order (May 3, 2018)	✓	✓
20	Atmos Energy Resps. To ATM RFI Nos. 5-01, 5-03, 5-07, and 5-08	✓	✓
21	Atmos Energy Supp. Resp. To ATM RFI No. 5-05, subparts (l) and (m)	✓	✓
22	Atmos Energy Resps. To ATM RFI Nos. 7-06 through 7-09	✓	✓

Proposal for Decision  
GUD No. 10779

**ATTACHMENT 2**

(Settlement Agreement)

**GUD NO. 10779 (Consolidated)**

<b>PETITION FOR DE NOVO REVIEW OF</b>	§	
<b>THE DENIAL OF THE STATEMENT</b>	§	<b>BEFORE THE</b>
<b>OF INTENT FILED BY ATMOS</b>	§	
<b>ENERGY CORP., MID-TEX DIVISION</b>	§	<b>RAILROAD COMMISSION OF</b>
<b>BY THE CITIES OF BALCH SPRINGS,</b>	§	
<b>BANDERA, BELTON, ET AL.</b>	§	<b>TEXAS</b>

**SETTLEMENT AGREEMENT ON REVENUE REQUIREMENT AND  
IDENTIFICATION OF SOLE ISSUE REMAINING IN DISPUTE**

This Settlement Agreement regarding the revenue requirement to be used to determine new rates and the identification of the sole issue remaining in dispute is entered into by and between Atmos Energy Corp., Mid-Tex Division (“Atmos Energy” or the “Company”) and the Atmos Texas Municipalities (“ATM”), (collectively, the “Signatories”).

WHEREAS, Atmos Energy filed its municipal Statement of Intent with all cities participating in the ATM Coalition on June 1, 2018, with the exception of the City of Hico, where the Statement of Intent was filed on July 31, 2018; and

WHEREAS, Atmos Energy subsequently appealed these municipal rate decisions with the Railroad Commission of Texas (“Commission”) pursuant to Tex. Util. Code § 103.054; and

WHEREAS, the Commission docketed these appeals as GUD No. 10779 (consolidated); and

WHEREAS ATM sought intervention and was granted party status in GUD No. 10779; and

WHEREAS, the Company has filed direct and rebuttal testimony and errata to its Statement of Intent; and

WHEREAS, the Signatories have engaged in discovery regarding the issues in dispute; and

WHEREAS, ATM filed direct testimony on January 14, 2018; and

WHEREAS, the Signatories agree that resolution of the revenue requirement to be used to determine new rates and their agreement regarding the sole issue remaining in dispute will significantly reduce the amount of reimbursable rate case expenses associated with this docket;

NOW, THEREFORE, in consideration of the mutual agreements and covenants established herein, the Signatories, through their undersigned representatives, agree as follows:

Settlement Terms

1. As a product of compromise and for the purposes of settlement, the Signatories agree to fully litigate whether short-term debt should be included or excluded from the Company’s capital structure for purposes of establishing Atmos Energy’s revenue requirement and corresponding new rates in this proceeding.
2. The Signatories agree that in the event that the Commission adopts the Company’s proposed capital structure comprised of 60.18% equity and 39.82% long-term debt, the annual system-wide base rate revenue requirement – excluding “Other Revenue” shown in Schedule A – of \$594,158,976 should be adopted. This results in an increase to Atmos Energy’s system-wide base rate revenues of \$23,358,519, excluding revenue from Rider FF and Rider Tax or \$24,901,124 including revenue from Rider FF and Rider Tax.
3. Signatories further agree that the rates resulting from the Paragraph 2 revenue requirement and capital structure are shown below and in the tariffs included as Exhibit A:

	<b>Customer Charge</b>	<b>Consumption Charge</b>	
<b>Residential</b>	\$18.85	\$0.14846	
<b>Commercial</b>	\$43.50	\$0.09165	
<b>I&amp;T</b>	\$784.00	\$0.3312	0 to 1,500 MMBtu
		\$0.2425	Next 3,500 MMBtu
		\$0.0520	Over 5,000 MMBtu

4. The Signatories agree that a Commission decision to include short-term debt in Atmos Energy’s capital structure would modify the base rate revenue requirement of \$594,158,976 and the \$23,358,519 system-wide increase set forth in Paragraph 2 and the corresponding rates shown in Paragraph 3. The Signatories further agree that the annual revenue requirement difference associated with any Commission decision to include short-term debt in Atmos Energy’s capital structure will be allocated proportionately to customer classes and rate components.
5. The Signatories agree that rates adopted as part of the Commission’s Final Order in this proceeding should be effective for bills rendered on and after June 1, 2019.
6. The Signatories agree that it is reasonable to adopt a 9.8% return on equity regardless of the Commission’s decision on whether to include short-term debt in Atmos Energy’s capital structure.
7. The Signatories agree that, if the Commission adopts the Company’s proposed capital structure comprised of 60.18% equity and 39.82% long-term debt, Rate of Return (ROR) and capital structure for purposes of future Interim Rate Adjustment (IRA) filings should be established as follows:

<b>Class of Capital</b>	<b>Percent</b>	<b>Cost</b>	<b>Weighted Average Cost of Capital</b>	<b>Pre-Tax Return (ROR)</b>
Long Term Debt	39.82%	5.2%	2.07%	2.07%
Common Equity	60.18%	9.8%	5.90%	7.47%
Weighted Average Cost of Capital	100.00%		7.97%	9.54%

8. The Signatories agree that a Commission decision to include short-term debt would modify the components shown in the table above, by adding as an element Short Term Debt and modifying the other elements including the Capital Structure, the Weighted Average Cost of Capital, and ROR. Return on equity would, however, remain unchanged.
9. The Signatories further agree that any IRA filing made with the ATM cities pursuant to Texas Utilities Code § 104.301 shall use the following additional factors until changed by a subsequent general rate proceeding:
  - a. For any initial IRA filing, the beginning ad valorem tax rate at a Mid-Tex Division level is 1.18% and the Shared Services Ad Valorem Tax Rate is 0.69%. For subsequent IRA filings, the Ad Valorem Tax Rates will be updated annually to include the actual taxes paid in the calculation of the tax rate.
  - b. For any initial IRA filing, the system-wide net plant in service amount in the Mid-Tex Division shall be \$3,209,005,831 as presented in Exhibit B.
  - c. For any initial IRA filing and for any subsequent IRA filings, the depreciation rate for each account shall be those approved in GUD No. 10170 as presented in Exhibit B.
  - d. For any initial IRA filing, the customer charges and consumption charges as shown in Paragraph 3 or as modified by Paragraph 4 above will be the starting rates to which any IRA adjustment is applied.
  - e. Federal income taxes will be calculated using a 21% rate, unless the federal income tax rate changes, in which case the new rate will be applied.
  - f. The base rate revenue allocation factors to spread any change in IRA increase/decrease to the appropriate customer classes are as follows:

	<b>Percentage</b>
Rate R – Residential Sales	77.95%
Rate C – Commercial Sales	19.40%
Rate I & T – Industrial/Transportation Sales	2.65%

10. The Signatories agree that the rates, terms and conditions resulting from a Commission Final Order issued consistent with the terms of this Settlement Agreement comply with the rate-setting requirements of Chapter 104 of the Texas Utilities Code.

11. Signatories agree that the revenue requirement in paragraph 1 includes expenses associated with services acquired by Blueflame, a wholly-owned subsidiary of Atmos Energy that provides insurance for all of the Company's divisions. Signatories further agree that system-wide expenses in the amount of \$453,877 associated with services acquired by Blueflame are (a) reasonable and necessary and (b) the price charged to Atmos Energy's 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 as required by Tex. Util. Code § 104.055(b)(1).
12. The Signatories agree that the following amounts are reasonable to establish the base-year levels to track changes in pension-related and other post-employment benefits:

<b>Entity</b>	<b>Pension Account Plan</b>	<b>Post-Employment Benefit Plan</b>	<b>Supplemental Executive Benefit Plan</b>	<b>Total</b>
SSU Allocated to Mid-Tex	\$1,425,108	\$943,775	\$ 0	\$2,368,883
Mid-Tex Direct	\$1,987,133	\$1,062,621	\$35,837	\$3,085,591
<b>Total</b>	<b>\$3,412,241</b>	<b>\$2,006,396</b>	<b>\$35,837</b>	<b>\$5,454,474</b>

13. The Signatories agree that the revenue requirement in Paragraph 1 includes a reduction of the corporate income tax rate from 35% to 21% to recognize changes to the Federal Tax Code due to the Tax Cuts and Jobs Act of 2017.

The Signatories further agree that the revenue requirement in Paragraph 1 reflects an adjustment to federal income tax expense for excess deferred income taxes (EDIT) resulting from the Tax Cuts and Jobs Act of 2017. The EDIT adjustment has been computed based on the Reverse South Georgia Method for those amounts required under Internal Revenue Service (IRS) normalization rules.

Signatories agree that it is reasonable to amortize the Company's protected EDIT liabilities over a 24 year period as determined by the RSG method and shown on Exhibit C. The Signatories further agree that the Company's unprotected EDIT should be amortized over the same 24 year period as shown on Exhibit C.

14. Unless otherwise agreed to by Atmos Energy and ATM, the Signatories agree that the recovery of reasonable rate case expenses will be addressed in GUD No. 10796.
15. The classes and number of customers affected by this Settlement Agreement include approximately 152,734 residential, 10,871 commercial, and 72 industrial and transportation customers.

16. The Signatories agree to support and seek Commission approval of the terms outlined in this Settlement Agreement and make all efforts to enable new rates to be effective for bills rendered on and after June 1, 2019.
17. The Signatories agree to support and seek Commission approval to establish temporary rates for the period March 1, 2019 through May 31, 2019. Signatories further agree that these temporary rates shall not be subject to true up.
18. Except as may be allowed under Rule 408 of the Texas Rules of Evidence, the Signatories agree that all negotiations, discussions, and conferences related to the Settlement Agreement are privileged and inadmissible to prove the validity or invalidity of any issue raised by or presented in GUD No. 10779.
19. The Signatories agree that neither this Settlement Agreement nor any oral or written statements made during the course of settlement negotiations may be used for any purpose other than as necessary to support the entry by the Commission of an order approving this Settlement Agreement.
20. The Signatories agree that the terms of the Settlement Agreement are interdependent and indivisible, and that if the Commission intends to enter an order that is inconsistent with this Settlement Agreement, then any Signatory may withdraw without being deemed to have waived any procedural right or to have taken any substantive position on any fact or issue by virtue of that Signatory's entry into the Settlement Agreement or its subsequent withdrawal and further agrees that Atmos Energy's application to increase rates will be remanded for hearings.
21. The Signatories agree that this Settlement Agreement is binding on each Signatory only for the purpose of settling the issues set forth herein and for no other purposes. The matters resolved herein are resolved on the basis of a compromise and settlement. Except to the extent the Settlement Agreement governs a Signatory's rights and obligations for future periods, this Settlement Agreement shall not be binding or precedential upon a Signatory outside this proceeding. Each Signatory acknowledges that a Signatory's support of the matters contained in this Stipulation may differ from the position taken or testimony presented by it in other dockets or other jurisdictions. To the extent that there is a difference, a Signatory does not waive its position in any of those other dockets or jurisdictions. Because this is a stipulated resolution, no Signatory is under any obligation to take the same positions as set out in this Stipulation in other dockets or jurisdictions, regardless of whether other dockets present the same or a different set of circumstances, except as otherwise may be explicitly provided by this Stipulation. Agreement by the Signatories to any provision in this Stipulation will not be used against any Signatory in any future proceeding with respect to different positions that may be taken by that Signatory.
22. The provisions of this Stipulation are intended to relate to only the specific matters referred to herein. By agreeing to this Stipulation, no Signatory waives any claim it may otherwise have with respect to issues not expressly provided for herein. The Signatories further

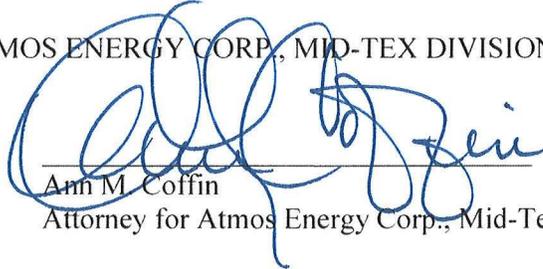
understand and agree that this Stipulation represents a negotiated settlement of all issues in this proceeding.

23. The Signatories agree that this Settlement Agreement may be executed in multiple counterparts and may be filed with facsimile signatures.

Agreed to this 22<sup>nd</sup> day of February 2019.

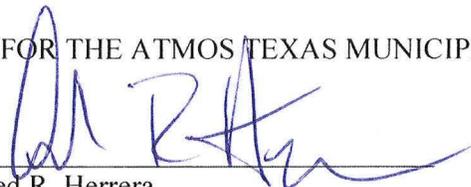
ATMOS ENERGY CORP., MID-TEX DIVISION

By:

  
Ann M. Coffin  
Attorney for Atmos Energy Corp., Mid-Tex Division

COUNSEL FOR THE ATMOS TEXAS MUNICIPALITIES

By:

  
Alfred R. Herrera  
Attorney for the Atmos Texas Municipalities

**MID-TEX DIVISION  
ATMOS ENERGY CORPORATION**

**RRC Tariff No:**

<b>RATE SCHEDULE:</b>	<b>R – RESIDENTIAL SALES</b>	
<b>APPLICABLE TO:</b>	<b>ALL CUSTOMERS IN THE MID-TEX DIVISION IN THE ATMOS TEXAS MUNICIPALITIES COALITION (“ATM”)</b>	
<b>EFFECTIVE DATE:</b>	<b>Bills Rendered on or after 06/01/2019</b>	<b>PAGE:</b>

**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:

<b>Charge</b>	<b>Amount</b>
Customer Charge per Bill	\$ 18.85 per month
Rider CEE Surcharge	\$ 0.03 per month <sup>1</sup>
<b>Total Customer Charge</b>	<b>\$ 18.88 per month</b>
Commodity Charge – All <u>Ccf</u>	\$0.14846 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.

<sup>1</sup>Reference Rider CEE - Conservation and Energy Efficiency as approved in GUD 10170. Surcharge billing effective July 1, 2018.

**MID-TEX DIVISION  
ATMOS ENERGY CORPORATION**

**RRC Tariff No:**

<b>RATE SCHEDULE:</b>	<b>R – RESIDENTIAL SALES</b>	
<b>APPLICABLE TO:</b>	<b>ALL CUSTOMERS IN THE MID-TEX DIVISION IN THE ATMOS TEXAS MUNICIPALITIES COALITION (“ATM”)</b>	
<b>EFFECTIVE DATE:</b>	<b>Bills Rendered on or after 06/01/2019</b>	<b>PAGE:</b>

## Exhibit A

Cities in the Atmos Texas Municipalities Coalition:

AUSTIN	STAR HARBOR
BALCH SPRINGS	TRINIDAD
BANDERA	WHITNEY
BELTON	
BLOOMING GROVE	
BURNET	
CAMERON	
CEDAR PARK	
CLIFTON	
COMMERCE	
COPPERAS COVE	
CORSICANA	
ELECTRA	
FREDERICKSBURG	
GATESVILLE	
GOLDTHWAITE	
GRANBURY	
GREENVILLE	
GROESBECK	
HAMILTON	
HEATH	
HENRIETTA	
HICKORY CREEK	
HICO	
HILLSBORO	
LAMPASAS	
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LONGVIEW	
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MART	
MEXIA	
OLNEY	
PFLUGERVILLE	
POINT	
PRINCETON	
RANGER	
RICE	
RIESEL	
ROCKDALE	
ROGERS	
ROUND ROCK	
SAN ANGELO	
SANGER	
SOMERVILLE	

**MID-TEX DIVISION  
ATMOS ENERGY CORPORATION**

**RRC Tariff No:**

<b>RATE SCHEDULE:</b>	<b>C – COMMERCIAL SALES</b>	
<b>APPLICABLE TO:</b>	<b>ALL CUSTOMERS IN THE MID-TEX DIVISION IN THE ATMOS TEXAS MUNICIPALITIES COALITION (“ATM”)</b>	
<b>EFFECTIVE DATE:</b>	<b>Bills Rendered on or after 06/01/2019</b>	<b>PAGE:</b>

**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:

<b>Charge</b>	<b>Amount</b>
Customer Charge per Bill	\$ 43.50 per month
Rider CEE Surcharge	\$ (0.03) per month <sup>1</sup>
<b>Total Customer Charge</b>	<b>\$ 43.47 per month</b>
Commodity Charge – All Ccf	\$ 0.09165 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.

<sup>1</sup> Reference Rider CEE - Conservation and Energy Efficiency as approved in GUD 10170. Surcharge billing effective July 1, 2018.

**MID-TEX DIVISION  
ATMOS ENERGY CORPORATION**

<b>RATE SCHEDULE:</b>	<b>C – COMMERCIAL SALES</b>	
<b>APPLICABLE TO:</b>	<b>ALL CUSTOMERS IN THE MID-TEX DIVISION IN THE ATMOS TEXAS MUNICIPALITIES COALITION (“ATM”)</b>	
<b>EFFECTIVE DATE:</b>	<b>Bills Rendered on or after 06/01/2019</b>	<b>PAGE:</b>

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RANGER	
RICE	
RIESEL	
ROCKDALE	
ROGERS	
ROUND ROCK	
SAN ANGELO	
SANGER	
SOMERVILLE	

**MID-TEX DIVISION  
ATMOS ENERGY CORPORATION**

**RRC Tariff No:**

<b>RATE SCHEDULE:</b>	<b>I – INDUSTRIAL SALES</b>	
<b>APPLICABLE TO:</b>	<b>ALL CUSTOMERS IN THE MID-TEX DIVISION IN THE ATMOS TEXAS MUNICIPALITIES COALITION (“ATM”)</b>	
<b>EFFECTIVE DATE:</b>	<b>Bills Rendered on or after 06/01/2019</b>	<b>PAGE:</b>

**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:

<b>Charge</b>	<b>Amount</b>
Customer Charge per Meter	\$ 784.00 per month
First 0 MMBtu to 1,500 MMBtu	\$ 0.3312 per MMBtu
Next 3,500 MMBtu	\$ 0.2425 per MMBtu
All MMBtu over 5,000 MMBtu	\$ 0.0520 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).

**Curtailement Overpull Fee**

Upon notification by Company of an event of curtailement or interruption of Customer's deliveries, Customer will, for each MMBtu delivered in excess of the stated level of curtailement 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.

**MID-TEX DIVISION  
ATMOS ENERGY CORPORATION**

**RRC Tariff No:**

<b>RATE SCHEDULE:</b>	<b>I – INDUSTRIAL SALES</b>	
<b>APPLICABLE TO:</b>	<b>ALL CUSTOMERS IN THE MID-TEX DIVISION IN THE ATMOS TEXAS MUNICIPALITIES COALITION (“ATM”)</b>	
<b>EFFECTIVE DATE:</b>	<b>Bills Rendered on or after 06/01/2019</b>	<b>PAGE:</b>

**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.

**MID-TEX DIVISION  
ATMOS ENERGY CORPORATION**

**RRC Tariff No:**

<b>RATE SCHEDULE:</b>	<b>I – INDUSTRIAL SALES</b>	
<b>APPLICABLE TO:</b>	<b>ALL CUSTOMERS IN THE MID-TEX DIVISION IN THE ATMOS TEXAS MUNICIPALITIES COALITION (“ATM”)</b>	
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RICE	
RIESEL	
ROCKDALE	
ROGERS	
ROUND ROCK	
SAN ANGELO	
SANGER	
SOMERVILLE	

**MID-TEX DIVISION  
ATMOS ENERGY CORPORATION**

**RRC Tariff No:**

<b>RATE SCHEDULE:</b>	<b>T – TRANSPORTATION</b>	
<b>APPLICABLE TO:</b>	<b>ALL CUSTOMERS IN THE MID-TEX DIVISION IN THE ATMOS TEXAS MUNICIPALITIES COALITION (“ATM”)</b>	
<b>EFFECTIVE DATE:</b>	<b>Bills Rendered on or after 06/01/2019</b>	<b>PAGE:</b>

**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:

<b>Charge</b>	<b>Amount</b>
Customer Charge per Meter	\$ 784.00 per month
First 0 MMBtu to 1,500 MMBtu	\$ 0.3312 per MMBtu
Next 3,500 MMBtu	\$ 0.2425 per MMBtu
All MMBtu over 5,000 MMBtu	\$ 0.0520 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.

**MID-TEX DIVISION  
ATMOS ENERGY CORPORATION**

**RRC Tariff No:**

<b>RATE SCHEDULE:</b>	<b>T – TRANSPORTATION</b>	
<b>APPLICABLE TO:</b>	<b>ALL CUSTOMERS IN THE MID-TEX DIVISION IN THE ATMOS TEXAS MUNICIPALITIES COALITION (“ATM”)</b>	
<b>EFFECTIVE DATE:</b>	<b>Bills Rendered on or after 06/01/2019</b>	<b>PAGE:</b>

**Curtailement 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.

**MID-TEX DIVISION  
ATMOS ENERGY CORPORATION**

<b>RATE SCHEDULE:</b>	<b>T – TRANSPORTATION</b>	
<b>APPLICABLE TO:</b>	<b>ALL CUSTOMERS IN THE MID-TEX DIVISION IN THE ATMOS TEXAS MUNICIPALITIES COALITION (“ATM”)</b>	
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SOMERVILLE	

**MID-TEX DIVISION  
ATMOS ENERGY CORPORATION**

<b>RIDER:</b>	<b>SUR – SURCHARGES</b>	
<b>APPLICABLE TO:</b>	<b>ALL CUSTOMERS IN THE MID-TEX DIVISION IN THE ATMOS TEXAS MUNICIPALITIES COALITION (“ATM”)</b>	
<b>EFFECTIVE DATE:</b>	<b>Bills Rendered on or after 06/01/2019</b>	<b>PAGE:</b>

**Application**

The Rate Case Expense Surcharge (RCE) rate as set forth below is pursuant to the Final Order in GUD No. 10779. This monthly rate shall apply to residential, commercial, industrial and transportation rate classes of Atmos Energy Corporation’s Mid-Tex Division in the rate area and amounts shown below. The fixed-price surcharge rate will be in effect for approximately 12 months until all approved and expended rate case expenses are recovered from the applicable customer classes as documented in the Final Order in GUD No. 10779. This rider is subject to all applicable laws and orders, and the Company’s rules and regulations on file with the regulatory authority. This surcharge is for city rate case expenses incurred to review the 2016 Rate Review Mechanism.

**Monthly Calculation**

Surcharges will be the fixed-price rate shown in the table below:

<b>Rate Schedule</b>	<b>ATM Coalition</b>
R – Residential Sales	\$0.04
C – Commercial Sales	\$0.10
I – Industrial Sales	\$1.93
T - Transportation	\$1.93

**MID-TEX DIVISION  
ATMOS ENERGY CORPORATION**

<b>RIDER:</b>	<b>WNA – WEATHER NORMALIZATION ADJUSTMENT</b>	
<b>APPLICABLE TO:</b>	<b>ALL CUSTOMERS IN THE MID-TEX DIVISION IN THE ATMOS TEXAS MUNICIPALITIES COALITION (“ATM”)</b>	
<b>EFFECTIVE DATE:</b>	<b>Bills Rendered on or after 06/01/2019</b>	<b>PAGE:</b>

Provisions for Adjustment

The Commodity Charge per Ccf (100 cubic feet) for gas service set forth in any Rate Schedules utilized by the cities of the Mid-Tex Division service area for determining normalized winter period revenues shall be adjusted by an amount hereinafter described, which amount is referred to as the "Weather Normalization Adjustment." The Weather Normalization Adjustment shall apply to all temperature sensitive residential and commercial bills based on meters read during the revenue months of November through April. The five regional weather stations are Abilene, Austin, Dallas, Waco, and Wichita Falls.

Computation of Weather Normalization Adjustment

The Weather Normalization Adjustment Factor shall be computed to the nearest one-hundredth cent per Ccf by the following formula:

$$WNAF_i = R_i \frac{(HSF_i \times (NDD-ADD))}{(BL_i + (HSF_i \times ADD))}$$

Where

- $i$  = any particular Rate Schedule or billing classification within any such particular Rate Schedule that contains more than one billing classification
- $WNAF_i$  = Weather Normalization Adjustment Factor for the  $i^{th}$  rate schedule or classification expressed in cents per Ccf
- $R_i$  = Commodity Charge rate of temperature sensitive sales for the  $i^{th}$  schedule or classification.
- $HSF_i$  = heat sensitive factor for the  $i^{th}$  schedule or classification divided by the average bill count in that class
- $NDD$  = billing cycle normal heating degree days calculated as the simple ten-year average of actual heating degree days.
- $ADD$  = billing cycle actual heating degree days.
- $BL_i$  = base load sales for the  $i^{th}$  schedule or classification divided by the average bill count in that class

The Weather Normalization Adjustment for the  $j$ th customer in  $i$ th rate schedule is computed as:

$$WNA_j = WNAF_i \times q_{ij}$$

Where  $q_{ij}$  is the relevant sales quantity for the  $j$ th customer in  $i$ th rate schedule.

**MID-TEX DIVISION  
ATMOS ENERGY CORPORATION**

<b>RIDER:</b>	<b>WNA – WEATHER NORMALIZATION ADJUSTMENT</b>	
<b>APPLICABLE TO:</b>	<b>ALL CUSTOMERS IN THE MID-TEX DIVISION IN THE ATMOS TEXAS MUNICIPALITIES COALITION (“ATM”)</b>	
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Base Use/Heat Use Factors

Weather Station	<u>Residential</u>		<u>Commercial</u>	
	Base use <u>Ccf</u>	Heat use <u>Ccf/HDD</u>	Base use <u>Ccf</u>	Heat use <u>Ccf/HDD</u>
Abilene	9.77	0.1201	99.33	0.5737
Austin	10.38	0.1493	201.46	0.8942
Dallas	13.17	0.2062	183.71	1.0046
Waco	9.26	0.1323	124.57	0.6398
Wichita Falls	11.62	0.1278	114.97	0.5226

Weather Normalization Adjustment (WNA) Report

On or before June 1 of each year, the company posts on its website at [atmosenergy.com/mtx-wna](http://atmosenergy.com/mtx-wna), in Excel format, a *Weather Normalization Adjustment (WNA) Report* to show how the company calculated its WNAs factor during the preceding winter season. Additionally, on or before June 1 of each year, the company files one hard copy and an Excel version of the *WNA Report* with the Railroad Commission of Texas' Gas Services Division, addressed to the Director of that Division.

**MID-TEX DIVISION  
ATMOS ENERGY CORPORATION**

<b>RIDER:</b>	<b>WNA – WEATHER NORMALIZATION ADJUSTMENT</b>	
<b>APPLICABLE TO:</b>	<b>ALL CUSTOMERS IN THE MID-TEX DIVISION IN THE ATMOS TEXAS MUNICIPALITIES COALITION (“ATM”)</b>	
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CAMERON	WHITNEY
CEDAR PARK	
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RICE	
RIESEL	
ROCKDALE	
ROGERS	

ATMOS ENERGY CORP., MID-TEX DIVISION  
NET INVESTMENT AND RATE BASE ADJUSTMENTS  
TEST YEAR ENDING DECEMBER 31, 2017

Line No.	Acct.	Description	Plant Balances	Accumulated Depreciation	Net Plant	Depreciation Rate
	(a)	(b)	(c)	(d)	(e) = (c)-(d)	(f)
1		<u>Mid-Tex:</u>				
2		<u>Distribution Plant</u>				
3	374	Land	\$ 969,751	\$ 90	\$ 969,661	0.00%
4	374	Land Rights	3,436,235	1,496,141	1,940,094	0.98%
5	375	Structures & Improvements	1,593,440	1,000,412	593,028	1.71%
6	376	Mains-Cathodic Protection	176,245,240	48,934,906	127,310,335	1.85%
7	376	Mains-Steel	623,552,746	211,431,541	412,121,205	3.97%
8	376	Mains-Plastic	1,617,624,079	430,076,650	1,187,547,429	2.21%
9	378	M&R Station Equipment - General	72,217,273	24,532,123	47,685,150	3.09%
10	379	M&R Station Equipment - City Gate	5,737,696	3,197,871	2,539,825	1.88%
11	380	Services	1,263,784,834	382,969,832	880,815,002	3.67%
12	381	Meters	269,036,417	64,015,902	205,020,515	3.31%
13	382	Meter Installations	124,150,788	34,256,337	89,894,450	3.66%
14	383	House Regulators	92,306,262	21,942,045	70,364,218	3.50%
15	385	Industrial M&R Station Equipment	2,777,560	327,091	2,450,469	2.80%
16		Total Mid-Tex Distribution Plant (Sum of Ln 3 through Ln 15)	\$ 4,253,432,321	\$ 1,224,180,940	\$ 3,029,251,381	
17						
18		<u>General Plant</u>				
19	302	Franchises & Consents	\$ 18,896	\$ 7,231	\$ 11,665	0.00%
20	303	Computer Software	709,231	797,603	(88,372)	0.00%
21	389	Land	5,141,158	114	5,141,045	0.00%
22	390	Structures & Improvements	58,308,484	15,275,690	43,032,795	2.54%
23	390	Air Conditioning Equipment	323,282	52,729	270,553	2.75%
24	391	Office Furniture & Equipment	10,681,124	959,242	9,721,882	4.00%
25	392	Transportation Equipment	1,744,975	725,919	1,019,056	9.04%
26	393	Stores Equipment	102,553	23,454	79,098	4.00%
27	394	Tools, Shop, and Garage Equipment	23,058,833	6,393,734	16,665,100	5.00%
28	395	Laboratory Equipment	361,884	208,926	152,958	10.00%
29	396	Power Oper. Tool & Work Equipment	1,903,358	676,434	1,226,924	7.24%
30	397	Radio Communication Equipment	5,675,755	3,771,085	1,904,669	6.67%
31	398	Miscellaneous Equipment	1,879,501	794,182	1,085,319	2.50%
32	399	Other Tangible Property	341,848	136,991	204,857	14.29%
33	399.01	Other Tangible Property-Servers Hardware	80,686	80,686	-	14.29%
34	399.02	Other Tangible Property-Servers Software	258,852	72,896	185,956	14.29%
35	399.03	Other Tangible Property-Network-Hardware	1,404,540	491,188	913,351	11.11%
36	399.06	Other Tangible Property-PC Hardware	11,980,671	5,707,220	6,273,451	14.29%
37	399.07	Other Tangible Property-PC Software	701,337	501,919	199,418	14.29%
38	399.08	Other Tangible Property-Application Software	5,588,144	3,159,690	2,428,454	14.29%
39	RWIP	Retirement Work in Progress		(1,579,392)	1,579,392	
40		Total Mid-Tex General Plant (Sum of Ln 19 through Ln 39)	\$ 130,265,112	\$ 38,257,542	\$ 92,007,570	
41						
42		Total Mid-Tex Direct Plant (Ln 16 plus Ln 40)	\$ 4,383,697,434	\$ 1,262,438,482	\$ 3,121,258,952	
43						

44							
45	<u>SSU - Customer Support (Div 012):</u>						
46	<u>General Plant</u>						
47	389	Land & Land Rights	\$ 1,498,341	\$ 846,360	\$ 651,981		0.00%
48	390	Structures & Improvements	6,604,351	831,470	5,772,881		3.34%
49	390.09	Improvements to Leased Premises	1,470,386	399,157	1,071,228		4.06%
50	391	Office Furniture & Equipment	1,213,850	510,591	703,259		4.03%
51	397	Communication Equipment - Telephone	997,308	5,682	991,626		5.54%
52	398	Miscellaneous Equipment	36,499	217,854	(181,355)		1.72%
53	399	Other Tangible Property	327,984	2,257,878	(1,929,894)		13.84%
54	399.01	Other Tangible Property-Servers Hardware	5,391,936	552,182	4,839,754		8.62%
55	399.02	Other Tangible Property-Servers Software	1,055,078	170,113	884,965		8.78%
56	399.03	Other Tangible Property-Network-Hardware	328,015	252,300	75,715		8.72%
57	399.06	Other Tangible Property-PC Hardware	521,209	64,976	456,233		8.78%
58	399.07	Other Tangible Property-PC Software	99,176	13,539,253	(13,440,077)		6.64%
59	399.08	Other Tangible Property-Application Software	46,987,217	-	46,987,217		6.57%
60		Total SSU Customer Support (Sum of Ln 47 through Ln 59)	\$ 66,531,351	\$ 19,647,815	\$ 46,883,535		

61							
62							
63	<u>SSU - Customer Support (Div 012):</u>						
64	<u>General Plant</u>						
65	Charles K. Vaughn Center						
66	389.10	Land & Land Rights	\$ 1,442,551	\$ -	\$ 1,442,551		0.00%
67	390.10	Structures & Improvements	9,410,198	1,956,188	7,454,010		3.34%
68	391.10	Office Furniture & Equipment	291,181	24,703	266,478		4.03%
69	392.10	Transportation Equipment	73,633	70,406	3,226		28.96%
70	394.10	Tools, Shop, and Garage Equipment	307,542	66,306	241,236		8.88%
71	395.10	Laboratory Equipment	18,071	10,867	7,204		10.00%
72	397.10	Communication Equipment	222,909	109,337	113,571		5.54%
73	398.10	Miscellaneous Equipment	389,445	99,600	289,845		1.72%
74	399.10	Other Tangible Equipment	259,734	100,214	159,520		13.84%
75	399.16	PC Hardware	196,746	172,014	24,732		8.78%
76	399.17	PC Software	79,445	53,254	26,192		6.64%
77	399.18	Other Tangible Property	15,722	7,417	8,305		15.89%
78		Total SSU CKV Center (Sum of Ln 66 through Ln 77)	\$ 12,707,179	\$ 2,670,308	\$ 10,036,870		

79							
80							
81	<u>SSU - General Office (Div 002):</u>						
82	<u>General Plant</u>						
83	390	Structures & Improvements	\$ 539,292	\$ 179,862	\$ 359,430		3.34%
84	390	Improvements to Leased Premises	3,323,586	3,346,088	(22,502)		4.06%
85	391	Office Furniture & Equipment	1,786,133	622,890	1,163,243		4.03%
86	392	Transportation Equipment	2,723	1,941	782		28.96%
87	393	Stores Equipment	-	-	-		10.00%
88	394	Tools & Work Equipment	29,067	11,269	17,798		8.88%
89	395	Laboratory Equipment	-	-	-		10.00%
90	397	Communication Equipment - Telephone	397,133	193,186	203,947		5.54%
91	398	Miscellaneous Equipment	52,160	16,313	35,847		1.72%
92	399	Other Tangible Property	62,003	62,044	(42)		13.84%
93	399.01	Other Tangible Property-Servers Hardware	14,122,193	7,569,076	6,553,117		8.62%
94	399.02	Other Tangible Property-Servers Software	7,262,029	6,345,288	916,742		8.78%
95	399.03	Other Tangible Property-Network-Hardware	1,356,055	914,075	441,980		8.72%
96	399.06	Other Tangible Property-PC Hardware	939,219	379,417	559,801		8.78%
97	399.07	Other Tangible Property-PC Software	562,935	76,217	486,718		6.64%
98	399.08	Other Tangible Property-Application Software	25,355,009	11,717,687	13,637,323		6.57%
99	399.09	Other Tangible Property-System Software	14,998	16,611	(1,613)		6.21%
100		Retirement Work in Progress	-	-	-		
101		Total SSU General Plant (Sum of Ln 83 through Ln 100)	\$ 55,804,535	\$ 31,451,963	\$ 24,352,572		
102							

103							
104	<u>SSU - General Office (Div 002):</u>						
105	<u>General Plant</u>						
106	Greenville Data Center (010.11520)						
107	390.05	G-Structures & Improvements	\$	1,281,518	\$	483,815	\$ 797,704 3.34%
108	391.04	G-Office Furniture & Equip.		8,891		4,213	4,678 4.03%
109		Total SSU Greenville Data Center (Sum of Ln 107 through Ln 108)	\$	1,290,410	\$	488,028	\$ 802,382
110							
111							
112	<u>SSU - General Office (Div 002):</u>						
113	<u>General Plant</u>						
114	Distribution and Marketing						
115	391.20	Office Furniture & Equipment-AEAM	\$	89,351	\$	37,968	\$ 51,383 4.03%
116	394.20	Tools & Work Equipment-AEAM		-		184	(184) 8.88%
117	397.20	Communication Equipment-AEAM		4,192		1,672	2,520 5.54%
118	398.20	Miscellaneous Equipment-AEAM		3,510		335	3,175 1.72%
119	399.21	Other Tangible Property-Servers Hardware-AEAM		773,890		521,281	252,609 8.62%
120	399.22	Other Tangible Property-Servers Software-AEAM		456,693		204,582	252,111 8.78%
121	399.23	Other Tangible Property-Network-Hardware-AEAM		28,587		19,628	8,959 8.72%
122	399.26	Other Tangible Property-PC Hardware-AEAM		149,362		19,285	130,076 8.78%
123	399.28	Other Tangible Property-Application Software-AEAM		9,330,573		5,329,213	4,001,360 6.57%
124		Total SSU Distribution & Marketing (Sum of Ln 115 through Ln 123)	\$	10,836,158	\$	6,134,149	\$ 4,702,008
125							
126							
127	<u>SSU - General Office (Div 002):</u>						
128	<u>General Plant</u>						
129	Align Pipe Projects						
130	399.31	Other Tangible Property-Servers Hardware-Align	\$	19,022	\$	2,529	\$ 16,493 8.62%
131	399.32	Other Tangible Property-Servers Software-Align		22,123		2,110	20,013 8.78%
132	399.38	Other Tangible Property-Application Software-Align		1,120,918		187,912	933,006 6.57%
133		Total SSU Align Pipe Projects (Sum of Ln 130 through Ln 132)	\$	1,162,063	\$	192,551	\$ 969,512
134							
136							
137		Total Allocated SSU Plant (Ln 60, 78, 101, 109, 124, 133)	\$	148,331,695	\$	60,584,815	\$ 87,746,880
138							
139		Total Mid-Tex Net Plant (Ln 42 plus Ln 137)	\$	4,532,029,129	\$	1,323,023,298	\$ 3,209,005,831
140							
141		Rate Base Adjustments				\$	11,532,315

**ATMOS ENERGY CORP., MID-TEX DIVISION**  
**INTERIM RATE ADJUSTMENT NET INVESTMENT AND RATE BASE ADJUSTMENTS**  
**PER TEXAS UTILITIES CODE SECTION 104.301**  
**TEST YEAR ENDING DECEMBER 31, 2017**

Line No.	Description (a)	Amount (b)	Reference (c)
1	Net Investment:		
2	Gross Plant - Direct	\$ 4,383,697,434	Schedule C
3	Accumulated Depreciation - Direct	1,262,438,482	Schedule D
4	Gross Plant - Allocated	148,331,695	Schedule C
5	Accumulated Depreciation - Allocated	60,584,816	Schedule D
6	Total Net Investment	<u>\$ 3,209,005,831</u>	Line 6 = (Line 2 - Line 3 + Line 4 - Line 5)
7			
8	Rate Base Adjustments	\$ 11,532,315	Schedule B

**ATMOS ENERGY CORP., MID-TEX DIVISION  
RATE BASE ADJUSTMENTS  
TEST YEAR ENDING DECEMBER 31, 2017  
AMORTIZATION OF REGULATORY LIABILITY**

Line No.	Year Ended Dec. 31 (a)	Beginning of Year Rate Base Adjustment Amount (b)	Annual Amortization (1) (c)	End of Year Rate Base Adjustment Amount (d)	Balance as of December 31, 2017 (e)
1	2017 (2)			\$ 290,043,948	\$ 290,043,948
2	2018	\$ 290,043,948	\$ 12,085,165	277,958,784	
3	2019	277,958,784	12,085,165	265,873,619	
4	2020	265,873,619	12,085,165	253,788,455	
5	2021	253,788,455	12,085,165	241,703,290	
6	2022	241,703,290	12,085,165	229,618,126	
7	2023	229,618,126	12,085,165	217,532,961	
8	2024	217,532,961	12,085,165	205,447,797	
9	2025	205,447,797	12,085,165	193,362,632	
10	2026	193,362,632	12,085,165	181,277,468	
11	2027	181,277,468	12,085,165	169,192,303	
12	2028	169,192,303	12,085,165	157,107,139	
13	2029	157,107,139	12,085,165	145,021,974	
14	2030	145,021,974	12,085,165	132,936,810	
15	2031	132,936,810	12,085,165	120,851,645	
16	2032	120,851,645	12,085,165	108,766,481	
17	2033	108,766,481	12,085,165	96,681,316	
18	2034	96,681,316	12,085,165	84,596,152	
19	2035	84,596,152	12,085,165	72,510,987	
20	2036	72,510,987	12,085,165	60,425,823	
21	2037	60,425,823	12,085,165	48,340,658	
22	2038	48,340,658	12,085,165	36,255,494	
23	2039	36,255,494	12,085,165	24,170,329	
24	2040	24,170,329	12,085,165	12,085,165	
25	2041	12,085,165	12,085,165	(0)	
26					
27	Revenue Related Tax Factor		6.60%	See WP_F-5.1	
	Revenue Related Taxes on Annual Amortization		\$ 798,108	Amortization * Tax Factor	
28	Amortization Including Revenue Related Taxes		<u>\$ 12,883,272</u>	Amortization + Taxes	
29					
30					
31	Note:				
32	1. The annual amortization of a 24 year recovery period is based on the				
33	Reverse South Georgia Method.				
34	2. The 2017 balance has been revised to include a known and measurable adjustment to update the balance to September 30, 2018.				

Proposal for Decision  
GUD No. 10779

**ATTACHMENT 3**

(Proposed Final Order)

**BEFORE THE  
RAILROAD COMMISSION OF TEXAS**

<b>PETITION FOR DE NOVO REVIEW</b>	<b>§</b>	
<b>OF THE DENIAL OF THE</b>	<b>§</b>	
<b>STATEMENT OF INTENT FILED BY</b>	<b>§</b>	<b>GUD NO. 10779,</b>
<b>ATMOS ENERGY CORP., MID-TEX</b>	<b>§</b>	<b><i>Consolidated</i></b>
<b>DIVISION BY THE CITIES OF</b>	<b>§</b>	
<b>BALCH SPRINGS, BANDERA,</b>	<b>§</b>	
<b>BELTON, ET AL.</b>	<b>§</b>	

**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 Chapter 551, *et seq.* (West 2017 & Supp. 2018). The Railroad Commission of Texas adopts the following findings of fact and conclusions of law and orders as follows:

**FINDINGS OF FACT**

***Procedural History and Notice***

1. Atmos Energy Corp., Mid-Tex Division ("Atmos") is a gas utility as that term is defined in the Texas Utilities Code and is subject to the jurisdiction of the Railroad Commission of Texas ("Commission").
2. Atmos filed a municipal Statement of Intent proceeding with the cities of Austin, Balch Springs, Bandera, Belton, Blooming Grove, Burnet, Cameron, Cedar Park, Clifton, Commerce, Copperas Cove, Corsicana, Electra, Fredericksburg, Gatesville, Goldthwaite, Granbury, Greenville, Groesbeck, Hamilton, Heath, Henrietta, Hickory Creek, Hillsboro, Lampasas, Leander, Longview, Marble Falls, Mart, Mexia, Olney, Pflugerville, Point, Princeton, Ranger, Rice, Riesel, Rockdale, Rogers, Round Rock, San Angelo, Sanger, Somerville, Star Harbor, Trinidad, and Whitney on June 1, 2018, and the City of Hico on July 31, 2018 (collectively, "Affected Cities").
3. Atmos provided notice of the proposed rate changes to residential and commercial customers through bill insert. Notice to industrial and other non-residential and non-commercial customers was provided by direct mail to the billing address of the affected customer.
4. Atmos subsequently filed the following *Petitions for De Novo Review* ("Petitions") of the denial of the Statement of Intent by the various municipalities that denied that rate request:
  - a. GUD No. 10779, *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 Balch Springs, Bandera, Belton, et al.*

- b. GUD No. 10788, *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 Hico, Rogers, and Trinidad.*
- c. GUD No. 10794; *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 Clifton.*
5. On October 12, 2018, the Atmos Texas Municipalities ("ATM") filed a Motion to Intervene on behalf of the Affected Cities.
6. On October 23, 2018, the Administrative Law Judge ("ALJ") granted ATM's Motion to Intervene.
7. On December 4, 2018, Hearings Letter No. 5 was issued consolidating GUD Nos. 10788 and 10794 into GUD No. 10779.
8. The rate case expenses associated with GUD No. 10779 were severed on December 4, 2018 in Hearings Letter No. 7 and will be considered in a separate docket, GUD No. 10796.
9. On December 7, 2018, and February 7, 2019, Atmos filed certain errata to its original Petition (the "Errata Filings"). The Errata Filings did not change Atmos's requested cost of service.
10. On February 12, 2019, a Notice of Hearing was issued in Hearings Letter No. 8. The notice contained the date, time, place, and nature of the hearing, a statement of the legal authority and jurisdiction under which the hearing is to be held, a reference to the particular sections of the statutes and rules involved, and a short, plain statement of the factual matters asserted.
11. A hearing on the merits was held on March 7, 2019. It concluded the same day.
12. The evidentiary record closed on March 13, 2019, with the issuance of Hearings Letter No. 13.
13. The Proposal for Decision ("PFD") was issued on April 24, 2019.
14. The deadline for Commission action is May 31, 2019.

### ***Temporary Rates***

15. On February 22, 2019, Atmos and ATM filed a Joint Motion to Establish Temporary Rates.

16. On February 25, 2019, the ALJ issued an order establishing Temporary Rates from March 1, 2019, through May 31, 2019, as follows:

	<b>Customer Charge</b>	<b>Consumption Charge</b>	
<b>Residential</b>	\$20.89	\$0.14846 per Ccf	
<b>Commercial</b>	\$49.68	\$0.09165 per Ccf	
<b>I&amp;T</b>	\$907.67	\$0.3312	0 to 1,500 MMBtu
		\$0.2425	Next 3,500 MMBtu
		\$0.0520	Over 5,000 MMBtu

17. The temporary rates established for the period March 1, 2019, through May 31, 2019, and adopted on February 25, 2019, are not subject to true up.

### ***Partial Settlement Agreement***

18. On February 22, 2019, Atmos and ATM filed a partial settlement agreement resolving all issues except whether short-term debt should be used in calculating Atmos's capital structure (the "Partial Settlement"). The Partial Settlement is appended to this Order as Attachment 1.
19. The terms of the Partial Settlement are just and reasonable.
20. All issues resolved in the Partial Settlement—approved and agreed to by Atmos and the Affected Cities—reflect ratemaking actions that Atmos and the Affected Cities agree should have been in the appealed ordinances.

### ***Books and Records***

21. Atmos established that it maintains its books and records in accordance with the Federal Energy Regulatory Commission's ("FERC") Uniform System of Accounts ("USOA") prescribed for natural gas companies.
22. Atmos established that it has complied with the books and records requirements of Commission Rule § 7.310, and therefore the amounts included therein are entitled to the presumption in Commission Rule § 7.503 that these amounts are reasonable and necessary.

### ***Revenue Requirement***

23. Atmos's proposed cost of service is based upon the financial data for the twelve-month period ending December 31, 2017, adjusted for known and measurable changes.

24. A system-wide base revenue requirement of \$594,158,976—excluding “Other Revenue” shown on cost of service Schedule A—for the Mid-Tex Division is just and reasonable and permits Atmos a reasonable opportunity to earn a reasonable return on its invested capital used and useful in providing service to the public in excess of its reasonable and necessary operating expense.
25. Atmos Mid-Tex is an unincorporated division of Atmos Energy, and Atmos Energy is the corporate entity that issues debt and stock.
26. Adoption of a system-wide revenue requirement of \$594,158,976 will result in an apportioned revenue requirement increase of approximately \$2,026,653 for the Affected Cities, excluding revenue from Rider FF and Rider Tax, or \$2,160,494, including revenue from Rider FF and Rider Tax.
27. A rate base amount totaling \$2,572,769,055, as presented in Exhibit B to the Partial Settlement, is just and reasonable.
28. It is reasonable to continue the use of the depreciation rates established in GUD No. 10170 as presented in Exhibit B to the Partial Settlement.
29. The revenue requirement reflects a reduction of the corporate income tax rate from 35 percent to 21 percent to recognize changes to the Federal Tax Code due to the Tax Cuts and Jobs Act of 2017.
30. The revenue requirement reflects an adjustment to federal income tax expense for excess deferred income taxes (“EDIT”) resulting from the Tax Cuts and Jobs Act of 2017. The EDIT adjustment has been computed based on the Reverse South Georgia Method (“RSG”) for those amounts required under Internal Revenue Service normalization rules. This adjustment and methodology are reasonable.
31. It is reasonable to amortize Atmos’s protected EDIT liabilities over a 24-year period as determined by the RSG method. Atmos’s unprotected EDIT should be amortized over the same 24-year period.
32. Atmos established that system-wide expenses associated with services acquired from Blueflame, a wholly-owned subsidiary of Atmos Energy that provides insurance for all of its divisions, in the amount of \$453,877 are (a) reasonable and necessary and (b) the price charged to Atmos 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 as required by Tex. Util. Code § 104.055(b)(1).
33. Atmos may pursue recovery of a deferred benefit regulatory asset or liability pursuant to Tex. Util. Code § 104.059 (West 2007 & Supp. 2017) in a future filing. The following amounts are established as the base-year levels to track changes in pension-related and other post-employment benefits:

<b>Entity</b>	<b>Pension Account Plan</b>	<b>Post-Employment Benefit Plan</b>	<b>Supplemental Executive Benefit Plan</b>	<b>Total</b>
SSU Allocated to Mid-Tex	\$1,425,108	\$943,775	\$ 0	\$2,368,883
Mid-Tex Direct	\$1,987,133	\$1,062,621	\$35,837	\$3,085,591
<b>Total</b>	<b>\$3,412,241</b>	<b>\$2,006,396</b>	<b>\$35,837</b>	<b>\$5,454,474</b>

34. The purpose of establishing a ratemaking capital structure is to determine the rate of return that provides the utility a reasonable opportunity to earn a fair return on its invested capital.
35. An overall rate of return of 7.97 percent, calculated using the components in the below Finding of Fact No. 45, is just and reasonable, supported by the facts and evidence unique to this case, and will not yield more than a fair return on the adjusted value of the invested capital used and useful in providing service to the public.
36. Consistent with the Partial Settlement, the weight of the credible evidence supports a capital structure for Atmos composed of 60.18 percent equity and 39.82 percent long-term debt.
37. The preponderance of the evidence supports that Atmos Energy used short-term debt in each calendar quarter of each year since January 1, 2013, through the end of its test year, December 31, 2017, and for all but one quarter from January 1, 2018, through December 31, 2018.
38. Atmos Energy's 10K and 10Q forms support that Atmos Energy uses a combination of short-term debt, long-term debt, and equity to finance capital projects.
39. Atmos Energy's recent financings were shown to be consistent with financing long-term assets with equity and long-term debt and extinguishing short-term debt through a mix of permanent refinancing comprised of long-term debt and equity offerings.
40. Fluctuations in Atmos Energy's short-term debt balance support that it uses short-term debt funding to finance daily activities, such as payroll, purchased gas costs and construction work in progress, which are not included in rate base.
41. The preponderance of the evidence supports that Atmos does not rely on short-term debt to finance its assets in rate base.

42. Atmos's capital structure of 60.18 percent equity and 39.82 percent long-term debt is within the range of the capital structures of the comparable, proxy grouping of companies used in this case.
43. It is reasonable to adopt a 9.8 percent return on equity.
44. A cost of debt of 5.2 percent for purposes of determining Atmos's weighted average cost of capital and allowable rate of return is just and reasonable.
45. The following capital structure, cost of debt, cost of equity, weighted cost of capital, overall return, and pre-tax return for the Mid-Tex Division is just and reasonable:

<b>Class of Capital</b>	<b>Percent</b>	<b>Cost</b>	<b>Weighted Average Cost of Capital</b>	<b>Pre-Tax Return (ROR)</b>
Long Term Debt	39.82%	5.2%	2.07%	2.07%
Common Equity	60.18%	9.8%	5.90%	7.47%
Weighted Average Cost of Capital	100.00%		7.97%	9.54%

46. It is just and reasonable that any Interim Rate Adjustment ("IRA") filing made with the Affected Cities pursuant to Tex. Util. Code § 104.301 use the following additional factors until changed by a subsequent general rate proceeding:
- a. For any initial IRA filing, the beginning ad valorem tax rate at a Mid-Tex Division level is 1.18 percent and the Shared Services Ad Valorem Tax Rate is 0.69 percent. For subsequent IRA filings, the Ad Valorem Tax Rates will be updated annually to include the actual taxes paid in the calculation of the tax rate.
  - b. For any initial IRA filing, the system-wide net plant in service amount in the Mid-Tex Division shall be \$3,209,005,831, as presented in Exhibit B to the Partial Settlement.
  - c. For any initial IRA filing and for any subsequent IRA filings, the depreciation rate for each account shall be those approved in GUD No. 10170 as presented in Exhibit B to the Partial Settlement.
  - d. For any initial IRA filing, the customer charges and consumption charges as shown below will be the starting rates to which any IRA adjustment is applied.
  - e. Federal income taxes will be calculated using a 21 percent rate, unless the federal income tax rate changes, in which case the new rate will be applied.

- f. The base rate revenue allocation factors to spread any change in IRA increase/decrease to the appropriate customer classes are as follows:

	<b>Percentage</b>
Rate R – Residential Sales	77.95%
Rate C – Commercial Sales	19.40%
Rate I & T – Industrial/Transportation Sales	2.65%

47. Rates for the Affected Cities based on a system-wide revenue requirement of \$594,158,976 are shown below:

	<b>Customer Charge</b>	<b>Consumption Charge</b>	
<b>Residential</b>	\$18.85	\$0.14846	
<b>Commercial</b>	\$43.50	\$0.09165	
<b>I&amp;T</b>	\$784.00	\$0.3312	0 to 1,500 MMBtu
		\$0.2425	Next 3,500 MMBtu
		\$0.0520	Over 5,000 MMBtu

48. Rates adopted as part of this Order are effective for bills rendered on and after June 1, 2019.
49. The tariffs attached to this Order are just and reasonable.

**CONCLUSIONS OF LAW**

1. Atmos is a gas utility as defined in Tex. Util. Code §§ 101.003(7) and 121.001, and is, therefore subject to the jurisdiction of the Commission.
2. Under Tex. Util. Code § 103.051, *et seq.*, the Commission has jurisdiction over the appeal of a municipal order establishing gas utility rates.
3. This proceeding was conducted in accordance with the requirements of Tex. Util. Code §§ 103.051 *et seq.* and the Administrative Procedure Act, Tex. Gov't Code §§ 2001.001 *et seq.*
4. Adequate notice was properly provided under Tex. Util. Code § 104.103 and Gov't Code § 2001.051.
5. Atmos established that its books and records conform with 16 Tex. Admin. Code § 7.310. Therefore, Atmos is entitled to the presumption that the amounts included therein are reasonable and necessary in accordance with 16 Tex. Admin. Code § 7.503.
6. Atmos's insurance transactions with Blueflame comply with Tex. Util. Code § 104.055(b)(1).

7. 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 it 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 § 104.051; and otherwise comply with Chapter 104 of the Texas Utilities Code.
8. The revenue, rates, rate design, and service charges 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 §§ 101.002, *et seq.*
9. 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 § 104.052.
10. The rates established in this docket comport with the requirements of Tex. Util. Code § 104.053 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 an adjustment for present age and condition.
11. The test-year level of pension-related and other post-employment benefits expenses are consistent with Tex. Util. Code § 104.055.
12. The rates established in this case comply with the affiliate transaction standard set out in Tex. Util. Code § 104.055.
13. Atmos has complied with all requirements set forth in the February 2018 Gas Utilities Accounting Order in GUD No. 10695, and the related March 2018 Order Nunc Pro Tunc.
14. Capital investment made through December 31, 2017, was reasonable and prudent and consistent with Tex. Util. Code, Chapter 104.
15. A rate of return of 7.97 percent based on Atmos's weighted average cost of capital, including the components specified in this Order, is consistent with the requirements of Tex. Util. Code § 104.052.
16. An overall base revenue requirement of \$2,160,494 for the Affected Cities and a system-wide base revenue requirement of \$594,158,976 is just and reasonable for the Mid-Tex Division, and permits Atmos a reasonable opportunity to earn a reasonable return on its invested capital used and useful in providing service to the public in excess of its reasonable and necessary operating expenses.

17. In accordance with 16 Tex. Admin. Code § 7.7101, Atmos may adjust its revenue in future Interim Rate Adjustment filings as set forth in the findings of fact.
18. The rate schedules and tariffs established in this Order reflect ratemaking actions the Affected Cities should have set in their ordinances, consistent with Tex. Util. Code § 103.055.
19. The rate schedules and tariffs reflected in this Order are consistent with applicable statutory and Commission requirements.
20. Atmos is required by 16 Tex. Admin. Code § 7.315 to file electronic tariffs incorporating rates consistent with this Order within 30 days of the date of this Order.

**IT IS THEREFORE ORDERED** that the proposed schedule of rates under the terms of this Order and the Partial Settlement is hereby **APPROVED**.

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

**IT IS FURTHER ORDERED** that the factors established in the findings of fact for future Interim Rate Adjustments are **APPROVED**.

**IT IS FURTHER ORDERED** that the Partial Settlement appended to this Order as Attachment 1 is hereby **APPROVED**.

**IT IS FURTHER ORDERED** that within thirty (30) days of this Order in accordance with 16 Tex. Admin. Code § 7.315, Atmos shall electronically file its rate schedules in proper form that accurately reflect the rates approved in this Order.

**IT IS FURTHER ORDERED** that any incremental change in rates approved by this Order and implemented by Atmos shall be subject to refund unless and until Atmos's tariffs are electronically filed and accepted by the Gas Services Department in accordance with 16 Tex. Admin. Code § 7.315.

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

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

**IT IS FURTHER ORDERED** that this Order will not be final and effective until 25 days after the date this Order is signed. If a timely motion for rehearing is filed by any party of 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. 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 100 days from the date this Order is signed.

**Signed on May 21, 2019.**

**RAILROAD COMMISSION OF TEXAS**

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**CHAIRMAN CHRISTI CRADDICK**

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**COMMISSIONER RYAN SITTON**

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**COMMISSIONER WAYNE CHRISTIAN**

**ATTEST:**

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**SECRETARY**