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**ATMOS energy**

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LA PUBLIC SERVICE COMMISSION

February 14, 2018

Brandon Frey
Executive Secretary – Interim
Louisiana Public Service Commission
602 North Fifth Street, 12th Floor
Baton Rouge, Louisiana 70821-9154

Dear Mr. Frey:

In response to the request of the Louisiana Public Service Commission, enclosed please find Atmos Energy Corporation's ("Atmos Energy") report addressing the financial impacts of the Tax Cuts and Jobs Act ("TCJA") on Atmos Energy and how the effects of the TCJA will be reflected in customer rates.

Sincerely,

Sam H. Hill, III

Sam H. Hill, III
Vice President, Regulatory and Public Affairs
Louisiana Division

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# REPORT OF ATMOS ENERGY CORPORATION ON IMPACTS OF THE TAX CUTS AND JOBS ACT

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (the "TCJA") was signed into law. The TCJA, which became effective on January 1, 2018, introduced several significant changes to corporate income tax laws in the United States. The most significant change that will affect Atmos Energy Corporation ("Atmos Energy" or the "Company") is the reduction of the federal statutory tax rate from 35% to 21%.

Pursuant to the January 31, 2018 directive of the Louisiana Public Service Commission, Atmos Energy submits this report to provide information on (1) the impact of the reduction in federal corporate tax rate resulting from the TCJA on the Company's financial operations; (2) the Company's recording of a deferred liability on its books to reflect the reduction in the federal corporate tax rate; and (3) the savings resulting from the January 1, 2018 tax reduction and how those savings will be reflected in Atmos Energy's rates.

## I. The TCJA's Impact on Atmos Energy's Financial Operations

The TCJA impact to Atmos Energy's financial operations are best understood by bifurcating the impacts between those that occur upon enactment of the TCJA and those that will occur over the long term in each subsequent quarter and fiscal year.

*Financial Impact Upon Enactment*

As a result of the reduction in federal corporate tax rate, the Company was required to revalue its Accumulated Deferred Income Taxes ("ADIT") using the new statutory tax rate. Deferred taxes represent the balance of tax that is due or receivable in the future when items of income and expense are recognized for tax purposes in a period different than they are recognized for financial reporting purposes. ADIT simply represents the accumulated tax for all items deferred to future periods. ADIT is accrued to the balance sheet at the currently enacted statutory tax rate; thus, a lowering of the statutory tax rate results in an excess of ADIT accrued in prior periods, or excess deferred taxes.

These excess deferred taxes must be removed from the balance of the Company's ADIT account. The removal of the excess deferred taxes associated with regulated operations was accomplished by establishing a new regulatory liability for refund to customers. The removal of the excess deferred taxes associated with items that were not included in the Company's rate base or for items that were never reflected the Company's cost of service was recognized as a onetime non-cash impact to the Company's fiscal year ended September 30, 2018 earnings.

In addition to revaluing the ADIT, the Company will take into account the tax rate change when calculating current year earnings. Additional complexity exists because Atmos Energy is a September 30th fiscal year taxpayer. Section 15 of the Internal Revenue Code ("IRC") requires that the Company use a blended tax rate in the year of enactment if the enactment date does not fall on the first day of the Company's fiscal year. Since this is the case for Atmos Energy, taxes calculated for the Company's fiscal year ending September 30, 2018 will use a blended federal statutory tax rate. This rate must be taken into account for current year earnings and for the portion of ADIT expected to reverse during the current fiscal year.

In addition, since the TCJA was enacted during the Company's first quarter, only three months of actual results existed at the time of the calculation of current year activity. Estimates for activity occurring during the remainder of the year were used in calculating the impact to fiscal year ended September 30, 2018. While the Company believes these estimates are reasonable, actual results recorded during the fiscal year will likely result in adjustments to the Company's revaluation of ADIT and the resulting regulatory liability amounts.

The implementation of the TCJA had no immediate impact on cash flow or the overall balance of liabilities included in establishing customer rates. The combined total of the revalued ADIT balance and the regulatory liability established to refund excess deferred taxes equals the total pre-TCJA ADIT liabilities that would be normally be recorded as a decrease to rate base in Company filings.

*Financial Impact Post-Enactment*

Beginning October 1, 2018, the requirement to use a blended rate will no longer be applicable and the Company will utilize a federal statutory rate of 21% to calculate current year earnings.

The return of the regulatory liability recorded upon enactment of the TCJA for the excess deferred taxes will be reflected in rates once an order or other rate proceeding occurs that incorporates such return into the Company's rates. The Company and regulators in each of its jurisdictions will have to determine how to amortize this regulatory liability back to customers in a manner that conforms with the IRC.

The IRC specifies how the regulatory liability for excess deferred taxes should be amortized to customers. The IRC requires that certain excess deferred tax liabilities be amortized back to customers using the Average Rate Assumption Method ("ARAM"), unless the Company's records do not contain the necessary data to use this method, in which case the IRC prescribes the use of the Reverse South Georgia method. At a high level, the IRC-prescribed amortization methodologies amortize the excess deferred tax liability back over the life of the underlying property that gave rise to the excess. Failure to follow the IRC amortization procedures would have adverse tax consequences for the Company and customers, as it would result in an increase in the Company's cost of service.

The enactment of the TCJA is expected to reduce our cash flows from operations primarily due to 1) the collection of taxes at a lower rate and 2) the return of regulatory liabilities established in response to the enactment of the TCJA and regulatory activities to our utility customers. We intend to externally finance this reduction in operating cash flow in a balanced fashion in order to maintain an equity capitalization ratio ranging from 50% to 60% to maintain our current credit ratings. We currently anticipate this external financing need will range from $500 million to $600 million through fiscal 2022.

## II. Savings Created by TCJA and Impact on Cost of Service Based Rates

Income taxes, like all other prudently incurred costs, are passed through to our customers through our rates. Atmos Energy is committed to ensuring customers receive the full benefit of the changes in the utility's cost of service resulting from the TCJA. As discussed in more detail below, the annual rate stabilization clause ("RSC") process allows changes in the Company's cost of service to be promptly reflected in its rates each year, as opposed to waiting for a general rate case. Through Atmos Energy's RSC filing on December 22, 2017 (Trans La) and April 1, 2018 (LGS), the comprehensive impacts of TCJA will be reflected in customer rates as early as July 1, 2018, as described further below However, if the Commission desires a quicker impact to rates, the Company is amenable to discussing accelerated solutions that will permit the current portion of the income tax expense savings to be implemented sooner.

Below is a description of how these savings will be incorporated into Atmos Energy's rates in the Louisiana Gas Service Rate Division ("LGS") and the Trans Louisiana Gas Division ("TransLa").

### A. LGS

The Company will file its annual rate stabilization clause ("RSC") filing before April 1, 2018. Included in this year's filing will be an update to the federal income tax rate from 35% to 21%. Based on the change in deficiency that results from the 35% to 21% income tax rate, the reduction to the 2017 LGS RSC filing for this item is expected to be approximately $5.9 million.

The Company recorded excess deferred income taxes ("EDIT") in its quarter ended December 31, 2017 related to LGS in the amount of $38.3 million. An estimate of the amortization period is not available at the time of this report. However if the EDIT is amortized over a period of forty years the annual reduction to cost of service is an additional $950,000, with a corresponding adjustment to rate base.

The Company is working to establish an initial estimate for incorporating the EDIT into the RSC filing. The software modifications to incorporate the amortization into the books and records will take some months to perform. Therefore, the Company believes that an initial estimate is the best approach for this year's filing. Any variances in the estimated amortization and actual amortization can be trued-up on a subsequent RSC filing.

### B. TransLa

The Company filed its RSC filing on December 22, 2017; thus, the filing did not incorporate the impact of TCJA. However, the Company and Commission Staff have agreed (Docket U-34714) to suspend the April 1, 2018 implementation of rates to allow additional time for Staff's consultant to conduct proper discovery and to incorporate the impacts of TCJA into the filing. The effect of reducing the income tax rate from 35% to 21% reduces the TransLa filing by approximately $2.5 million.

The Company recorded EDIT in its quarter ended December 31, 2018 related to Trans La in the amount of $23.3 million. An estimate of the amortization period is not available at the time of this report. However if the EDIT is amortized over a period of forty years the annual reduction to cost of service is an additional $575,000, with a corresponding adjustment to rate base.

The Company is working to establish an initial estimate for incorporating into discovery provided in the Trans La RSC filing. The software modifications to incorporate the amortization into the books and records will take some months to perform. Therefore, the Company believes that an initial estimate is the best approach for this year's filing. Any variances in the estimated amortization and actual amortization can be trued-up on a subsequent RSC filing.

Under the Company's approach the normal implementation of Trans La RSC rates will be delayed from April 1, 2018 to July 1, 2018 in order to allow for the comprehensive impact of the TCJA in Trans La customer rates.

C. Customer Impact

The combined impact of changing the current rate and amortization of excess deferred income taxes is anticipated to be a reduction of 3.5% - 4.0%. $8.5 million of the $10.0 million in annual savings is a direct result of the reduction in federal income tax expense due to the rate change. The remaining $1.5 million in savings is an estimate using a 40-year amortization of the EDIT.

If the Commission indicates earlier implementation is necessary, the Company would work with Staff to follow any order or directive requesting the change from our proposed implementation.