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BEFORE THE

LOUISIANA PUBLIC SERVICE COMMISSION

ATMOS ENERGY CORPORATION **DOCKET NO. ______________**
ex parte

In Re: Application for Review of the Rate Stabilization Clause ("RSC") Tariff of the consolidated division of Atmos Energy Corporation.

PRE-FILED TESTIMONY OF DON A. ERICKSON

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME, JOB TITLE AND BUSINESS ADDRESS.

A. My name is Don A. Erickson. I am Vice President of Rates and Regulatory Affairs for Atmos Energy Corporation ("Atmos Energy" or the "Company"), Louisiana Division and my business address is 450 Laurel Street, Suite 2000, Baton Rouge, Louisiana 70801.

Q. ON WHOSE BEHALF ARE YOU TESTIFYING?

A. I am testifying on behalf of Atmos Energy.

Q. WHAT ARE YOUR DUTIES AS VICE PRESIDENT OF RATES AND REGULATORY AFFAIRS FOR ATMOS ENERGY'S LOUISIANA DIVISION?

A. As Vice President of Rates and Regulatory Affairs, I am responsible for all regulatory and governmental affairs matters for Atmos Energy's regulated operations in Louisiana. This responsibility includes the filing of tariffs and Purchased Gas Adjustment ("PGA") filings and all other regulatory compliance filings for the Company. Additionally, I am responsible for all interactions with Louisiana Public Service Commissioners and their staff as well as with all other statewide and local public officials.

Q. WHAT IS YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL EXPERIENCE?

A. I graduated from University of New Orleans in 2005 with a Bachelor of Science in Business Administration, majoring in Finance and from Tulane University in 2009 with a Master of Business Administration. Upon graduation in 2005, I began working for Atmos Energy fulfilling various roles in their marketing and utility group including Trade Analyst, Gas Supply Financial Trader and Manager Gas Supply Risk. In October of 2019, I was named Vice President of Rates and Regulatory Affairs.

Q. HAVE YOU TESTIFIED BEFORE THE LOUISIANA PUBLIC SERVICE COMMISSION?

A. No.

Q. WHY IS THE COMPANY FILING THIS APPLICATION?

A. The purpose of this docket is to give the Louisiana Public Service Commission ("LPSC") and the LPSC Staff the opportunity to review Atmos Energy's proposed consolidated RSC tariff and recommend modifications to the RSC tariff. For regulatory purposes only, Atmos Energy historically had two rate divisions in Louisiana, LGS and Trans La. Last year, after receiving LPSC approval in Order No. U-35122, issued on December 18, 2019, the Company consolidated its two rate divisions so that now Atmos Energy serves all customers pursuant to a single tariff book.

Recognizing issues raised by the LPSC Staff in docket U-35122, the LPSC Staff and the Company agreed that Atmos Energy would, by March 31, 2020, file this Application for Review of the Rate Stabilization Clause of the consolidated division, supporting the provisions Atmos Energy believes are just and reasonable for future RSC annual RSC filings[1]. The LPSC Staff indicated it would review all provisions set forth in the RSC tariff, including but not limited to the proposed ROE, any proposed dead band or sharing

[1] Proclamation Number 41-JBE-2020 from the Governor's office extended legal deadlines in the state of Louisiana therefore this Application is filed after the original March 31, 2020 deadline.

mechanism, and proposed capital structure used to calculate the cost of capital. The LPSC Staff and the Company agreed that the terms of the Commission-approved RSC tariff from this docket will become effective with Atmos Energy's 2020 test year RSC filing.

Q. PLEASE EXPLAIN THE RELIEF REQUESTED IN THIS FILING.

A. Atmos Energy is requesting that Commission reapprove the current provisions of its RSC tariff, including the use of Atmos Energy's actual capital structure in the determination of cost of capital, but with the addition of a provision scheduling a review of the tariff's provisions by the Staff and Commission every three years. I have attached the proposed tariff language as Exhibit DAE-1.

Q. PLEASE PROVIDE AN EXECUTIVE SUMMARY OF ATMOS ENERGY'S FOCUS AND CHARACTERISTICS THAT HIGHLIGHT THE IMPORTANCE OF A FORMULA RATE PLAN LIKE THE RSC WHICH REFLECTS PROMPT RECOVERY OF ACTUAL COSTS, INCLUDING ACTUAL COST OF CAPITAL.

A. Atmos Energy is the State of Louisiana's and the country's largest fully regulated, natural-gas-only distributor. We strive to be the safest provider of natural gas with an exceptional level of customer service at affordable prices that also allow access to the capital the Company needs to achieve these goals. In order to provide reliable, affordable service to its customers, Atmos Energy must meet the needs and serve the interests of its various stakeholders, including its customers, its shareholders, and its bondholders. Atmos Energy's management team is executing its strategy to achieve these goals keeping our primary focus on customer service and safety; and strengthening and maintaining our balance sheet through actions such issuances of equity and refinancing of long-term debt in a balanced fashion to make these goals a reality. In this time of increasing capital investment demands, required to meet safety regulation standards and to provide reliable, safe service, the interests of our stakeholder groups are aligned in maintaining a healthy balance sheet, positive credit ratings, and a supportive regulatory environment so that the Company has access to the capital necessary to make these investments.

Most importantly, this strategy has enhanced the safety of our customers. In the past ten years, the landscape of the natural gas distribution industry has changed substantially, with new technologies, changing customer needs, and challenges from increasingly stringent safety regulations. The goal of the regulation of pipeline safety in the natural gas industry is to set operational standards that advance the safe transportation and delivery of natural gas to each utility's customers. New rules have been enacted on federal and state levels to guide natural gas distribution companies accelerating the replacement and modernization of their distribution systems. Atmos Energy in conjunction with the Commission has taken the steps necessary to adjust to this new landscape, increasing its capital spending through its risk-based System Integrity Investment Program and continuously enhancing its customer safety and service while maintaining affordable rates.

Q. DOES ATMOS ENERGY'S SINGULAR FOCUS ON NATURAL GAS DISTRIBUTION AND CORPORATE STRUCTURE REQUIRE A RATE STRUCTURE THAT ENSURES ATMOS ENERGY'S FINANCIAL INTEGRITY IS MAINTAINED?

A. Yes. It is of utmost importance that Atmos Energy's specific characteristics and circumstances be taken into account so that the Company's financial integrity be maintained and the Company has access to the capital necessary on reasonable terms to make its planned investments. The existing RSC tariff accomplished this goal by allowing Atmos Energy's rates to be updated annually to reflect its actual cost of service based on its most recent historical investment, historical costs, including its cost of capital, and known and measurable changes allowed under its RSC tariff. In short, the RSC tariff has functioned very well to support us in our efforts to provide safe, affordable service during a time when the levels of investment need to do so are unprecedented.

For the reasons explained in more detail later in my testimony, Atmos Energy has required capital investment at an increased pace. Below is a table illustrating the projected levels of investment over the next five years for Atmos Energy's Louisiana Division:

Proposed 5 Year Spending Trend

	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	Total
Total Capital ***($000's)***	**$127,519**	**$133,095**	**$144,093**	**$159,084**	**$174,221**	**$738,012**

In comparison, for the period 2015 through 2019, Atmos Energy's actual capital spending totaled only $489,179 million.

Atmos Energy is one of a few utilities that is not structured as a parent or holding company with subsidiary utilities. The Louisiana division, along with each of the other unincorporated divisions, are part of the legal entity that is Atmos Energy Corporation. Therefore, Atmos Energy, on behalf of all divisions, must obtain all debt or equity funding necessary to fund its System Integrity Investment Program directly from the capital markets and manage its capital structure so that the Company obtains capital at the lowest reasonable cost. As explained by Company witness Joe T. Christian, the capital structure necessary for this period of accelerating investment is more heavily weighted towards equity than debt because such structure permits Atmos Energy to execute the Company's risk-based System Integrity Investment Program at the planned investment level and pace shown above and maintain the Company's financial integrity. If Atmos Energy's capital structure contained less equity, as shown by Mr. Christian's analysis, Atmos Energy's financial integrity would be compromised and could result in a higher cost of capital to customers unless Atmos Energy slowed the pace of investment.

Continuing to provide the rate recovery necessary to support the Company's risk-based systematic approach to safety investments with a long-term view is essential to ensure that our distribution system remains safe for decades to come. The Commission's decision in this docket will influence not only the Company's cost of capital but also natural gas safety in Louisiana over the long-term. Although the level of capital spending may seem to be a decision isolated to a particular calendar year, capital spending ultimately has a generational effect, and it is difficult to "catch up" later after just a few years of not optimizing our system integrity investment.

Utilities with a strong balance sheet can better withstand an economic downturn and other unforeseen risks (such as COVID-19) while supporting their business goals as opposed to a higher leveraged utility. Eliminating the risk of being too highly leveraged allows Atmos Energy to better focus on the safety and reliability of its distribution system. Atmos Energy is taking a proactive approach in aligning its financial and operational decisions for the benefit of its customers. Allowing Atmos Energy to continue to use actual capital structure in its ratemaking process will encourage the use of a strong balance sheet for its business decisions going forward.

For these and other reasons Atmos Energy consolidated capital structure is the most accurate and appropriate means to reflect the capital structure necessary to finance and fund the investments necessary to maintain a safe reliable system. This structure does not require an artificially high leveraged equity component. Atmos' strong actual balance sheet allows it to continually access capital markets at low costs to the benefit of Louisiana customers.

Q. IS THE USE OF A SUPPORTIVE COST OF EQUITY IN THE RSC AS IMPORTANT AS THE USE OF THE COMPANY'S ACTUAL CAPITAL STRUCTURE DURING THIS PERIOD OF UNPRECEDENTED ACCELERATED SYSTEM INTEGRITY INVESTMENT?

A. Absolutely. To maintain its financial integrity, Atmos Energy must use a portion of its cash from earnings to fund its System Integrity Investment Program so that its capital structure does not become over-burdened with debt and its financial integrity becomes compromised, which would lead to an increase in the cost of capital. Thus, the return on equity and the capital structure used in the RSC tariff can create a constraint on capital investment. The testimony of Company witness Mr. Dylan W. D'Ascendis supports 9.95% as the appropriate return on equity to be used in the calculation of the cost of capital, along with the Company's actual capital structure. Based on the evidence presented in this filing and the history of the rates produced by the RSC, we believe that the use of the current terms of the RSC, with a 9.80% equity and the actual capital structure, is an appropriate rate that would permit Atmos Energy to execute its System Integrity Investment Program at the lowest reasonable cost to customers while ensuring our distribution system remains safe over the long-term.

Q. YOU HAVE MENTIONED THAT NOW IS A PERIOD OF UNPRECEDENTED ACCELERATED SYSTEM INTEGRITY INVESTMENT. IN THE LAST DECADE, HOW HAS THE WAY NATURAL GAS UTILITIES MONITOR AND MANAGE NATURAL GAS DISTRIBUTION SYSTEMS CHANGED?

A. The most significant change has been the natural gas utilities' shift in response to federal and state regulatory initiatives toward proactively identifying, assessing, evaluating and prioritizing risks to the integrity of distribution systems. Prompted by fatal explosions caused by natural gas pipeline failures in Allentown, Pennsylvania and San Bruno, California, United States Secretary of Transportation Ray LaHood, issued a Call to Action on March 28, 2011 seeking to engage state regulators, technical experts, and pipeline operators in identifying pipeline risks and repairing, rehabilitating and replacing the highest risk infrastructure. Additionally, the Call to Action called on pipeline operators and owners to evaluate the condition of their pipelines and quickly repair or replace sections in poor condition. Since that time, the Pipeline and Hazardous Material Safety Administration ("PHMSA") has implemented a series of regulations that reflect new industry standards operators must follow to promote the safety of their systems. State regulators have been charged with enforcing these regulations and have in many cases adopted even more stringent requirements. It should be noted that, in addition to including prescriptive, detailed requirements, the regulations also require operators to use their discretion to make operational and investment decisions to address safety issues to the best of their ability based on the specific circumstances and characteristics of their systems.

In addition, both federal and state rate regulators have recognized and supported this need for accelerated safety-related investment. For example, the Federal Energy Regulatory Commission ("FERC") issued a Policy Statement in 2015 addressing cost recovery mechanisms for modernization of interstate natural gas facilities in FERC Docket No.

PL15-1-000. The Policy Statement states that FERC has established a policy allowing interstate natural gas pipelines to seek recovery of certain capital expenditures made to replace infrastructure through a surcharge mechanism. On page 1 of its Policy Statement, FERC stated clearly that its intent is to "provide greater certainty regarding the ability of interstate natural gas pipelines to recover the costs of modernizing their facilities and infrastructure to enhance the efficient and safe operations of their systems." The National Association of Regulatory Utility Commissioners ("NARUC") issued a resolution in 2013 encouraging state commissions to "consider adopting alternative rate recovery mechanisms as necessary to accelerate the modernization, replacement and expansion of the nation's natural gas pipeline systems." All but three states have now adopted or enhanced accelerated infrastructure replacement programs which include cost recovery since Secretary LaHood's Call to Action.

Q. HOW HAS ATMOS ENERGY RESPONDED TO THIS REGULATORY CALL TO ACTION?

A. Atmos Energy continuously strives to improve the safety and reliability of its pipeline system. Proactively identifying assets where the risk of leaks developing is high and then designing and implementing a plan to mitigate those risks are vital steps in that process. The goal of the regulation of pipeline safety in the natural gas industry is to set operational standards that advance the safe transportation and delivery of natural gas to each utility's customers. PHMSA has carefully developed a rigorous set of such standards, which are codified in Title 49 CFR Parts 191-199, and has authorized an agency in each state to enforce these standards. Through this regulatory framework, Atmos Energy receives guidance and accountability to adhere to best practices of the industry and to operate and maintain its system as safely as possible. Atmos Energy diligently works to meet and surpass the requirements of these regulations through its own proactive efforts as well as through its cooperation with the Commission in ensuring compliance. In this way, we can build upon the standards set forth by our regulatory bodies to remain steadfast in our commitment to the safety of our customers, and the oversight of our regulators continuously confirms that we are meeting these standards for a safe natural gas transmission and distribution system. As I have stated, this level of commitment requires substantial investment.

Q. DOES ATMOS ENERGY TAKE INTO ACCOUNT THE NECESSITY OF PROVIDING RELIABLE SERVICE AT JUST AND REASONABLE RATES TO ITS LOUISIANA CUSTOMERS?

A. Yes. While the safety and reliability of our system is a paramount goal for Atmos Energy, the Company understands the Commission's obligation to balance safety and cost. Atmos Energy believes that the existing RSC tariff coupled with Atmos Energy's System Integrity Investment Program has done just that over the years, and there has been no substantial change to circumstances that would indicate now is a good time to make modifications to those terms. In fact, this year will be the first consolidated RSC filing of the two former rate divisions. Atmos Energy believes that it is in the public interest to hold constant the terms of the RSC tariff and observing whether the proposed benefits of the consolidation are realized and then evaluate whether there is a need to make adjustments to the tariff.

Q. PLEASE PROVIDE AN OVERVIEW OF THE DIRECT TESTIMONY OF THE OTHER WITNESSES PROVIDING TESTIMONY IN THIS PROCEEDING.

A. Company witness Joe T. Christian, Director of Rates & Regulatory Affairs, describes the Rate Stabilization Clause ("RSC") formula rate plan utilized by Atmos Energy in establishing rates for its customers and supports the continued utilization of Atmos Energy's consolidated actual capital structure. Mr. Dylan D'Ascendis, who is with the firm ScottMadden, Inc., will sponsor the Company's Return on Equity ("ROE") calculations, which supports the continued use of a fixed 9.80% ROE in Atmos Energy's RSC tariff.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes it does.

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AFFIDAVIT

STATE OF LOUISIANA

PARRISH OF EAST BATON ROUGE

I, Don A. Erickson, Vice President of Rates and Regulatory Affairs for Atmos Energy Corporation – Louisiana Division, being duly sworn, do hereby state that I have prepared and reviewed the above and foregoing Testimony and that the matters contained therein are true and accurate to the best of my knowledge, information and belief.

Don A. Erickson
Vice President, Regulatoryand Public Affairs,
Atmos Energy, Louisiana Division

Sworn and subscribed to before me this 12th day of April, 2020.

NOTARY PUBLIC
My Commission is for life

Mayas D. Erickson
Notary Public
State of Louisiana
Bar No. 28010
My commission is for life.

ATMOS ENERGY CORPORATION
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RATE STABILIZATION CLAUSE
Rider RSC

A. APPLICATION

This clause is applicable to gas service under any rate schedule incorporating Rider Schedule RSC by reference.

B. RSC FACTORS AND ADJUSTMENT CALCULATION PROCEDURE

(1) Under this RSC, the Company shall be allowed to earn ROE of 9.80%. If the earned ROE is below or above the allowed ROE, rates will be increased or decreased by the amount necessary to increase or decrease the earned ROE to equal the allowed ROE.

(2) The Company will file an annual report showing earnings for the 12-month period ended December 31 (test year). Such filing shall be made by March 31 immediately following the close of the test year. Any appropriate rate change will become effective with the first billing cycle of July in the year following the close of the test year.

(3) The Company’s annual report showing earnings shall be based on actual costs recorded in the books of the Company, and shall include any allowed adjustments as per rules stated herein. If the ROE calculated in the report is below or above the allowed ROE, the base rates under the respective rate schedules subject to RSC shall be increased or decreased for that amount necessary, in total, to restore the ROE to the allowed level. The RSC rate adjustment shall be developed using the formula described in Paragraph C.

(4) The RSC adjustment will be applied to all charges on the rate schedules to which RSC is applicable. rate schedules will be filed by the Company with the Commission each time they are adjusted pursuant to the RSC and shall then become the filed rates of the Company.

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C. RSC ADJUSTMENT FORMULA

(1) The RSC adjustment formula will be applied whenever the calculated return on common equity (ROE) for the test year is below or above the allowed ROE. The RSC adjustment shall be applied so as to adjust the base rates under the respective schedules to which this rider is applicable.

(2) **Step 1**
Whenever the ROE is less than 9.80%, calculate the total adjustment necessary to bring the ROE to 9.80% as follows:

$$\text{Total Adjustment} = \frac{(\,.0980 - \text{ROE}\,) * (\text{CE})}{(\,1 - T\,)} \times \text{RCF}$$

Where, for the test year:

ROE = Return on Common Equity Capital Investment
CE = Common Equity Capital Investment
T = Combined Federal and State Income Tax Rate
RCF = Revenue Tax Conversion Factor

(3) **Step 1-a**
Apply first to the rate schedules a 75% revenue deficiency increase to residential class and 25% to commercial class.

(4) **Step 1-b**
Allocate each classes increase to the customer charge and volumetric rate in a proportional manner applicable in proportion to the rate schedules' normalized gas service revenue. Round the resulting increase or decrease to the nearest thousandth of a cent per CCF and apply it to all commodity charges in the rate schedule.

(5) **Step 1-c**
Company shall update its class cost of service study annually. When the residential class is contributing to the overall system return on an equivalent basis to commercial future rate increases shall start with Step 1-b.

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(6) Step 2

Whenever the ROE is greater than 9.80%, calculate the total adjustment necessary to bring the ROE to 9.80% as follows:

$$\text{Total Adjustment} = \frac{(\text{ROE} - .0980) * (\text{CE})}{(1 - \text{T})} \times \text{RCF}$$

Where, for the test year:

ROE	=	Return on Common Equity Capital Investment
CE	=	Common Equity Capital Investment
T	=	Combined Federal and State Income Tax Rate
RCF	=	Revenue Tax Conversion Factor

(7) Step 2-a
Any rate reduction adjustment will be achieved through a uniform decrease in the commodity rates of all schedules to which the RSC is applicable. Allocate the total adjustment among the rate schedules to which the RSC is applicable in proportion to the rate schedules' normalized gas service revenue.

(8) Step 2-b
For each rate schedule, divide the allocated portion of the total adjustment by the commodity charge billing units. Round the resulting decrease to the nearest thousandth of a cent per CCF and apply it to all commodity charges in the rate schedule.

D. ANNUAL EARNINGS CALCULATIONS

(1) Rate base will include, but not be limited to, end of period plant in service, accumulated depreciation and accumulated deferred income taxes (ADIT). ADIT will be limited to rate base/ cost of service items, inclusive of ADIT associated with gains and losses on reacquired debt. Items to be included in the calculation of ADIT for inclusion in rate base are:

Environmental Activities
Directors Deferred Comp
Self Insurance – Adjustment
Vacation Accrual
Worker's Comp Insurance Reserve
Customer Advances
RAR 91/93 Bond Cost Amortized
RAR 86/90 Lease Expense Amortized

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Rabbi Trust – True Up
SEBP Adjustment – Amended Item
SEBP Adjustment
Rabbi Trust
Capitalized Selling Expense
UNICAP Section 263A Costs
Allowance for Doubtful Accounts
Clearing Account – Adjustment
RAR CFWE 1990-1985
Prepaid Dues
Prepayments
Inventory Adjustment
Section 481(a) Prepayments
Pension Expense
Regulatory Asset – LGS Amortization
Regulatory Asset – (Described in part (5) below)
Customer Forfeiture
Section 481(a) Cushion Gas
Section 481(a) Line Pack Gas
Amended Cost of Removal
Amended Book Amortization
Capitalized Overhead – True Up
Fixed Asset Cost Adjustment
Fixed Asset Accumulation Adjustment
CWIP (see note below)
IRS Audit Adjustment – Cost
IRS Audit Adjustment – Accumulation
Provision Differences – Cost
Other Plant
Amended Item – Book Depreciation Not Reversed
Amended Item – Tax Depreciation Not Claimed
ST – State Net Operating Loss
ST – State Bonus Depreciation
FD – FAS 115 Adjustment
FD – R & D Credit Valuation Allow
FD – Federal Benefit on State Bonus

In addition, the amount of CWIP included in rate base in the RSC is the amount which is not eligible to receive an amount of AFUDC, as stated in section (3) below. In order to be consistent, the percentage of ineligible CWIP to total CWIP will be applied to the CWIP amount used in determining ADIT.

Additional or new book/ tax differences shall be reviewed to determine their appropriate treatment in the calculation of ADIT for Louisiana consistent with the phrase “but not be limited to” stated in first paragraph of this section.

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To be consistent with rate base methodology, revenues will also be adjusted to reflect year-end customer levels.

Year-end balances of the reserves for injuries and damages, self insurance reserve, uncollectibles reserve and similar items for which the Company utilizes reserve accounting will be recognized as rate base additions or deductions.

(2) For the following rate base items, 13-month average of average balances will be used: materials and supplies; prepayments; and customer deposits. The balance of underground storage will be based on the average of the 12 monthly average balances. (This is derived by using a 13-month average that only gives one-half weight to the first and the last month in the test period.)

(3) Only that portion of Construction Work in Progress (CWIP) that is not eligible for AFUDC is to be included in rate base.

(4) A cash working capital allowance equal to 1/16th of non-gas O&M expense shall be included in rate base. O&M expense must be adjusted to exclude any non-cash expenses, including uncollectibles.

(5) The Company shall allowed to establish and include in rate base a regulatory asset to record all costs incurred in connection with the acquisition, installation and operation (including related depreciation but not property taxes) for the following natural gas utility plant projects:

a. Installation of natural gas distribution and transmission facilities to comply with local, state and federal safety requirements as replacements for existing facilities; projects undertaken to extend the useful life or enhance the integrity of natural gas distribution and transmission facilities to comply with local, state and federal safety requirements, and
b. Facility relocations required due to construction or improvement of a highway, road, street, public way or other public work by or on behalf of the United States, this state, a political subdivision of this state or another entity having the power of expropriation provided that the costs related to such projects have not been reimbursed to the natural gas public utility.
c. Investment cost described in (5) a. and (5) b. shall include a reduction for associated accumulated deferred income taxes if the Company has no regulated net operating loss recorded. Depreciation expense shall not be adjusted for reductions related to investment retired as a result of investments made under this section.

The Company may record interest on the balance in the regulatory asset account based on the pretax cost of capital last approved for the utility until such amounts are included in and recovered through rates in the Company’s subsequent RSC filing.

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(6) Adjustments to test year expenses is allowed for certain items. The following are eligible for annualization at year-end levels:

(a) changes in income and franchise tax rates, the applicable items being depreciation, salaries and wages, payroll taxes and certain benefits items.

(b) employee wages based on test-year labor expense, normalizing the most recent fiscal year salary merit change.

(c) payroll taxes based on end-of-test-year employee levels, wage rates and payroll tax rates.

(d) pension expense based on the most recent actuarial report

(e) property and casualty insurance premiums in effect at the end of test year.

(f) depreciation expense based on end-of-test-year plant.

Annualized salaries and wages shall consider both wage rate changes and force level changes during that test year. To the extent necessary, adjustments shall be made to exclude incentive compensation expense and to reflect post retirement benefits expense other than pension on a pay-as-you-go or cash basis, consistent with Commission policy.

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(7) Adjustments to normalize anomalies and out of period items will be made in order to reflect ongoing cost levels for the period in which rates will be in effect. All such adjustments will be subject to review at the time of each RSC filing.

(8) The earned ROE will be calculated using the benchmark adjusted LGS O&M, according to the mechanism established in LPSC Docket No. U-25003. A new LGS O&M benchmark of $39,886,000 has been established as of December 31, 2003. This benchmark will be adjusted each year for changes in the CPI-U Index, ACA Wage Index and changes in customers, according to the mechanism established in LPSC Docket No. U-25003.

(9) The earned ROE will be calculated using the Company's actual capital structure as of December 31 each year (test year) and actual cost of debt . The cost of debt will be calculated to include short-term debt amounts (12-month daily average) and interest.

(10) Weather-normalized sales will equal the total of actual sales revenue and weather normalization adjustments in the test year.

E. FILING and RESOLUTION PROCEDURES

(1) The Company will file an annual Evaluation Report showing its earnings for the test year ended December 31, on or before the following March 31. A copy of the report will be provided to the Commission Staff ("Staff") at the time it is filed with the Commission. At the time each such Evaluation Report is filed, the Company will provide Staff with work papers supporting the data and calculations reflected in the Evaluation Report. Staff may request clarification and additional supporting data. Beginning with March 31, 2020, and every three years thereafter, the Company will make a simultaneous filing for the Staff and Commission to review the provisions of the RSC tariff to determine that its terms are still in the public interest and will produce just and reasonable rates for the following three years (e.g., the March 2021, 2022, and 2023 filings).

(2) Staff shall then have until the subsequent June 15, or 75 days after filing, whichever is longer, to review the Evaluation Report to ensure that it complies with the requirements of the RSC. If the Staff should detect any errors in the application of the principles and procedures of the RSC, such errors shall be communicated in writing to the Company by June 15, or 75 days after filing, whichever is longer. Each such indicated error shall include documentation of the proposed correction, to the extent possible. However, the inability to fully document a potential correction shall not serve as a basis for not considering that correction. The Company shall then have ten (10) days to review any proposed corrections, to work with the Staff to resolve any differences and to file a revised Evaluation Report reflecting all corrections upon which the Parties agree. The Company shall provide the Staff with appropriate work papers supporting any revisions made to the initial filing.

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(3) Except where there is an unresolved dispute, which shall be addressed in accordance with the provisions described below, the appropriate adjustment to rates shall become effective for bills rendered on and after the first billing cycle for the month of July in the year following the close of the test year.

(4) In the event there is a dispute regarding any Evaluation Report, the Company and the Staff will work together in good faith to resolve such dispute. If the dispute is not resolved by the end of the ten (10) day period noted above, revised rates reflecting all revisions to the initially filed Evaluation Report on which the Staff and the Company agree shall become effective no earlier than July 1 as described above. Any disputed issues shall be submitted to the Commission for resolution.

(5) If the Commission's final ruling on any disputed issues requires changes in the rates initially implemented, the Company shall file a revised Evaluation Report reflecting the required changes within fifteen (15) days after receiving the Commission's order resolving the dispute. The Company shall provide a copy of the filing to the Staff together with appropriate supporting documentation. Such modified rate adjustments shall then be implemented with the next applicable monthly billing cycle.

(6) Within 60 days after receipt of the Commission's final ruling on disputed issues, the Company shall determine the amount to be refunded or surcharged to customers, if any, together with interest at the legal rate of interest. Such refund/ surcharge amount shall be applied on a percentage basis and shall be based on the customer's applicable base revenue during the period the interim rates were billed. Such refund/ surcharge amount shall be applied to customers' bills in the manner prescribed by the Commission.