STF-20-1 Regarding **Table-1A** below, in Figure 5.10.1, AGL provided estimated revenue requirements for 2025 – 2027. The total three (3) year revenue requirement was **$247 million**.

Table-1A: Figure 5.10.1: GRAM Impact with Traditional Rate Increase Implementation

Estimated Residential Bill Impacts	**2025**	**2026**	**2027**	
Annual Revenue Deficiency ($ millions)	$ 154	$ 38	$ 55	
Annual Impact	$ 74.08	$ 15.45	$ 23.33	
Monthly Impact	$ 6.17	$ 1.29	$ 1.94	
				3yr Average
Non-Gas Impact	16.5%	3.0%	4.3%	7.9%
Total Bill Impact-Includes Est Gas Costs	7.7%	1.5%	2.2%	3.8%

As seen in **Table-1B** below, it contains AGL's response to STF-12-9b.1, which included different revenue requirement dollar amounts for 2025 – 2027. The total three (3) year revenue requirement was **$206.8** million.

Table-1B: Attachment-STF-12-9b.1

	Approved	**Proposed**		
Year	**2024**	**2025**	**2026**	**2027**
GRAM Capital Budgets	$596,909,696	$555,998,267	$607,730,570	$601,764,584
AGL Revenue Requirements		$116,907,042	$33,649,092	$56,199,189
			($83,257,950)	$22,550,097
AGL Customer Charge Monthly	$25.24	$28.54	$29.48	$31.05
DDDC Charge Monthly	$9.12	$10.31	$10.65	$11.22

When comparing the dollar amounts in Figure 5.10.1 and Attachment-STF-12-9b.1, these dollar amounts aren't the same. Please answer the following:

a. In **Figure 5.10.1**, when reviewing the revenue requirement dollar amounts for 2025 – 2027, there is a decrease in 2026 from 2025 in the amount of **$116 million**. When reviewing the revenue requirement in 2027, there is an increase in 2027 from 2026 in the amount of **$17 million**.

b. In **Attachment-STF-12-9b.1**, when reviewing the revenue requirement dollar amounts for 2025 – 2027, there is a decrease in 2026 from 2025 in the amount of **$83.2 million**. When reviewing the revenue requirement in 2027, there is an increase in 2027 from 2026 in the amount of **$22.5 million**.

   There has been increasing capital spending through 2024 with a proposed larger capital budget for 2025. With the increasing growth in CWIP and Plant Additions, how did AGL calculate a drop in revenue requirements in 2026 from 2025 in both **Figure 5.10.1** and **Attachment-STF-12-9b.1** with only a slight increase in revenue requirements in 2027 that never get above the projected 2025 levels.

c. Does AGL agree that with increase capital spending through 2025 and increasing O&M costs through 2025, the 2026 and 2027 continued capital spending and increasing O&M will cause revenue requirements for 2026-2027 to be larger than that projected for 2025, without any reductions related to the RTU, current 10% i-CDP reduction, or a Billing Commitment reduction?

RESPONSE

a.-c.

There are two primary factors causing the forecast for 2025 to be substantially higher than 2026 and 2027 as follows:

- The forecast for 2025 includes the revenue requirement for both GRAM and SRR. The Company proposed one rate increase for SRR over the three year i-CDP period, which approximates full recovery of the SRR revenue requirement over that three-year period. Additionally, 2025 includes the impact of the SRR roll-in to the GRAM mechanism. The revenue requirements for 2026 and 2027 are for GRAM only.
- As part of the 2021 i-CDP, the Company stipulated to a 10% reduction in the requested revenue requirement and fulfilled its commitment to limit the GRAM proposed rate increases to 6% over the three-year period. These reductions in the proposed rate increases limited the Company's ability to earn its authorized rate of return each year. In fact, the Company earned substantially below its authorized rate of return in 2023 and 2024. The estimated revenue requirements for 2025-2027 included in Figure 5.10.1 assumes the Company will earn its authorized rate of return each year. This results in a higher estimated revenue requirement in 2025.

The revenue requirement for 2026 is lower than the Company has experienced over the past few years due to the completion of recoveries for the pipeline replacement program. These were annual recoveries of $23 million per year, and 2025 was the final year of recovery. In 2027, the Company's revenue requirement is consistent with recent GRAM revenue requirement proposals.

Respondent: Michael Morley
Director, Regulatory Reporting & Strategy
Southern Company Gas

STF-20-2 Regarding the dollar amounts in **Table-1A**, **Figure 5.10.1** and **Table-1B**, **Attachment-STF-12-9b.1** for 2025-2027, how did AGL arrive at very different dollar amounts between the two revenue requirement presentations?

RESPONSE

The amounts in Table-1A Figure 5.10.1 include revenue requirements for all base rate components and the SRR rider. The table provided in STF-12-9 requested rate calculations for specific rate classes that did not include peaking services and the SRR rider. Therefore, the Company did not include peaking services or the SRR rider in the revenue requirements and rate calculations provided in Attachment-STF-12-9b.1.

Respondent: Michael Morley
Director, Regulatory Reporting & Strategy
Southern Company Gas

STF-20-3 Regarding the revenue requirement numbers in **Table-1A**, Figure 5.10.1 and **Table-1B**, Attachment-STF-12-9b for 2025 – 2027, did AGL leave out any ratemaking rate base components when calculating these dollar amounts that may have contributed to lower revenue requirement dollar amounts, such as Service Company plant, cash working capital, CWIP, or other rate base components?

RESPONSE

Please see the Company's response to STF-20-2.

Respondent: Michael Morley
Director, Regulatory Reporting & Strategy
Southern Company Gas

STF-20-4 Regarding the revenue requirement numbers in **Table-1A**, Figure 5.10.1 and **Table-1B**, Attachment-STF-12-9b for 2025 – 2027, did AGL leave out any ratemaking Operating Expense components when calculating these dollar amounts that may have contributed to lower revenue requirements dollar amounts for 2025 - 2027, such as O&M, depreciation expense, taxes other than income, or other operating expense items?

RESPONSE

Please see the Company's response to STF-20-2.

Respondent: Michael Morley
Director, Regulatory Reporting & Strategy
Southern Company Gas

STF-20-5 Regarding **Table-2A** below, the Staff has provided the basic budget for GRAM, ECON-1, Cherokee LNG expansion, and SRR related to AFUDC, and Overheads for 2025 – 2027. In **Table-2B**, the Staff has provided a variance analysis between AFUDC and Overheads for each category.

What the analysis demonstrates is for GRAM, ECON-1, and Cherokee LNG Expansion, the AFUDC is a much lower dollar amount than Overheads. When reviewing the SRR, the AFUDC is much larger than the Overheads. Please answer the following:

a. In a separate Excel spreadsheet, please provide how AGL calculated the AFUDC and Overheads for GRAM.

b. In a separate Excel spreadsheet, please provide how AGL calculated the AFUDC and Overheads for ECON-1.

c. In a separate Excel spreadsheet, please provide how AGL calculated the AFUDC and Overheads for Cherokee.

d. In a separate Excel spreadsheet, please provide how AGL calculated the AFUDC and Overheads for the SRR.

e. As part of the calculation process, please explain how AFUDC is much lower than that of GRAM, ECON-1, and Cherokee when it is all the same type of capital spending.
f. As capital spending on construction projects increases, CWIP increases, and as a result, AFUDC increases. Why do AFUDC calculations show much lower dollar amounts than Overheads.
g. Please explain what is driving Overheads to increase beyond that of AFUDC.

Table-2A: AGL's Proposed Capital Budgets 2025 - 2027

	2025	2026	2027		Total
GRAM S&C Base Budget	$184,261,211.37	$210,626,444.75	$216,596,697.00		$611,484,353.12
GRAM S&C AFUDC	$6,010,598.86	$3,375,652.09	$3,441,184.25		$12,827,435.20
GRAM S&C Overheads	$12,427,160.20	$14,366,761.50	$14,928,451.73		$41,722,373.43
GRAM S & C Totals	$202,698,970.43	$228,368,858.34	$234,966,332.98		$666,034,161.75
GRAM Other Base Budget	$328,066,902.79	$349,574,545.62	$334,974,576.93		$1,012,616,025.33
GRAM Other AFUDC	$4,265,658.55	$5,721,511.95	$6,807,399.58		$16,794,570.08
GRAM Other Overheads	$20,966,735.11	$24,065,654.44	$25,016,274.97		$70,048,664.52
GRAM Other Totals	$353,299,296.45	$379,361,712.00	$366,798,251.48		$1,099,459,259.93
Total GRAM Capital Budget	$555,998,266.88	$607,730,570.34	$601,764,584.46		$1,765,493,421.68
ECON-1 Base Budget	$14,229,950.20	$13,000,000.00	$13,000,000.00		$40,229,950.20
ECON-1 AFUDC	$168,301.22	$168,301.22	$168,301.22		$504,903.66
ECON-1 Overheads	$227,759.37	$263,307.50	$273,601.91		$764,668.78
Total ECON-1	$14,626,010.79	$13,431,608.72	$13,441,903.13		$41,499,522.64
SRR Base Budget	$118,137,916.00	$100,763,661.35	$116,912,969.53		$335,814,546.89
SRR AFUDC	$11,069,260.54	$10,663,091.66	$14,191,328.22		$35,923,680.42
SRR Overheads	$6,267,493.54	$7,419,227.18	$7,699,555.62		$21,386,276.35
Total SRR	$135,474,670.08	$118,845,980.19	$138,803,853.38		$393,124,503.65
Cherokee LNG Expansion Base Budget	$33,377,135.00				$33,377,135.00
C. LNG AFUDC	$1,614,689.45				$1,614,689.45
C. LNG Overheads	$4,549,503.27				$4,549,503.27
Total SRR	$39,541,327.72	$0.00	$0.00		$39,541,327.72
Total Capital Budgets	$745,640,275.47	$740,008,159.26	$754,010,340.96		$2,239,658,775.69

Table-2B: AFUDC & Overheads

GRAM	2025	2026	2027		Total
GRAM S&C AFUDC	$6,010,598.86	$3,375,652.09	$3,441,184.25		**$12,827,435.20**
GRAM S&C Overheads	$12,427,160.20	$14,366,761.50	$14,928,451.73		**$41,722,373.43**
Variance A - O	**($6,416,561.34)**	**($10,991,109.41)**	**($11,487,267.48)**		**($28,894,938.23)**
GRAM Other	**2025**	**2026**	**2027**		**Total**
GRAM Other AFUDC	$4,265,658.55	$5,721,511.95	$6,807,399.58		**$16,794,570.08**
GRAM Other Overheads	$20,966,735.11	$24,065,654.44	$25,016,274.97		**$70,048,664.52**
Variance A - O	**($16,701,076.56)**	**($18,344,142.49)**	**($18,208,875.39)**		**($53,254,094.44)**
Variance A - O Total GRAM	**($23,117,637.90)**	**($29,335,251.90)**	**($29,696,142.87)**		**($82,149,032.67)**

ECON-1	2025	2026	2027		Total
ECON-1 AFUDC	$168,301.22	$168,301.22	$168,301.22		**$504,903.66**
ECON-1 Overheads	$227,759.37	$263,307.50	$273,601.91		**$764,668.78**
Variance A - O Total ECON-1	**($59,458.15)**	**($95,006.28)**	**($105,300.69)**		**($259,765.12)**

Cherokee	2025	2026	2027		Total
C. LNG AFUDC	$1,614,689.45				**$1,614,689.45**
C. LNG Overheads	$4,549,503.27				**$4,549,503.27**
Variance A - O Total Cherokee	**($2,934,813.82)**	**$0.00**	**$0.00**		**($2,934,813.82)**

SRR	2025	2026	2027		Total
SRR AFUDC	$11,069,260.54	$10,663,091.66	$14,191,328.22		**$35,923,680.42**
SRR Overheads	$6,267,493.54	$7,419,227.18	$7,699,555.62		**$21,386,276.35**
Variance A - O Total Cherokee	**$4,801,767.00**	**$3,243,864.48**	**$6,491,772.60**		**$14,537,404.07**

RESPONSE

a.-d.

Overheads are calculated using the Company's Oracle Planning system. The system calculates overheads based on certain parameters, including specific accounts and capitalization factors. Therefore, the detailed calculation is not available in excel or any other similar output. Overheads are then distributed to the individual project categories – GRAM, SRR, ECON-1, etc. – based on the proportion of direct costs in each project category to total direct costs of all categories. Please

see Attachment STF-20-5 Attachment A for a summary of distribution of overheads to the individual project categories.

AFUDC is calculated on a project level monthly in UISolutions software based on capital spending and in-service (commissioning) assumptions. The Construction Work In Progress (CWIP) beginning balance plus 50% of the current month Construction Expenditures and Overhead Expenditures minus 50% of the CWIP Close Activity is the AFUDC Cash Basis.

[CWIP Beginning Balance]+50%([Construction Expenditures]+[Overhead Expenditures])-50%*[CWIP Close Activity]=[AFUDC Cash Basis]*

AFUDC Equity and Debt are calculated monthly by multiplying the approved equity rate of return for AFUDC Equity by the AFUDC Cash Basis and the approved debt rate of return for AFUDC Debt by the AFUDC Cash Basis.

[AFUDC Cash Basis][AFUDC Equity Rate]=[AFUDC Equity]*

[AFUDC Cash Basis][AFUDC Debt Rate]=[AFUDC Debt]*

The sum of AFUDC Equity and AFUDC Debt is the Total AFUDC amount.

$$[AFUDC\ Equity] + [AFUDC\ Debt] = [Total\ AFUDC]$$

The annual AFUDC Equity rate is 5.74% and the annual AFUDC Debt rate is 1.662%. These rates were used throughout the study period and are consistent with rates approved in the 2023 GRAM. The AFUDC debt rate was the most recently approved debt rate available at the time of the preparation and calculation of AFUDC.

The CWIP beginning balance for the month plus Capital Expenditures, Overhead Expenditures, and AFUDC is the CWIP ending balance for the month as well as the beginning balance for the next month. This process repeats until the end of the study period occurs or the entire CWIP balance is placed in service (commissioned). Please note that certain ECON-1 projects are not getting AFUDC calculated on them due to approved spending amounts on the project and because they were placed in service in Q1 of 2025.

Please see Trade Secret Attachment STF-20-5 Attachment B for the calculation of AFUDC by project and category.

e.

SRR AFUDC is higher than the other categories because the SRR includes projects that are long term in nature. These projects can take several years to build and accrue AFUDC on the balance each month, which is generally larger than most other AGL projects. The GRAM/ECON-1 projects are much shorter term in nature and generally have lower costs on a project by project basis. Therefore, these projects do not accrue as much AFUDC even though the total spending is more in the GRAM/ECON-1 categories. Cherokee is a long term project similar to SRR. However, Cherokee is scheduled to be fully completed in 2025 and accrues AFUDC for only part of the year.

f. & g.

Generally, there is no correlation between the calculations of AFUDC and overheads. As provided in the Company's response to STF-20-5a.-d., AFUDC is calculated based on the CWIP balance of a project and the applicable AFUDC rate in effect at the time. Overheads are calculated based on certain expense accounts using specific capitalization rates. The calculated overheads are then spread to individual projects. In summary, AFUDC is based on capital spend while the calculation of overheads is independent of capital spend.

Respondent: Michael Morley
Director, Regulatory Reporting & Strategy
Southern Company Gas

STF-20-6 Regarding **Table-3** below, the Staff has provided revenue requirement dollar amounts related to Attachment-STF-12-9b.1 and b.2. Please answer the following.

a. When reviewing these dollar amounts, why is the 2025 levelized revenue requirement lower than that of 2026 and 2027? Levelized would indicate all the dollar amounts should be the same.

b. The total for 2025 – 2027 for the Base b.1dollar amounts was **$206,815,323**, but the levelized total was **$216,442,461**. Why was the levelized total three-year revenue requirement **$9,627,138** larger than the Base b.1 dollar amount?

c. Regarding Figure 5.10.2 that also provided a levelized revenue requirements. Why did it show a consistent **$86 million** a year, when the Base b.1 presentation did not?

d. In the Figure 5.10.2 presentation, its three-year total was also larger than the Figure 5.10.1 total three-year revenue requirements. Was the reason for this similar to the issue provided STF-20-6(b)?

Table-3: GRAM Revenue Requirement Comparison

	2025	2026	2027	Totals
GRAM Capital Budget	$555,998,267	$607,730,570	$601,764,584	**$1,765,493,421**
Revenue Requirements (Base b.1)	$116,967,042	$33,649,092	$56,199,189	**$206,815,323**
Revenue Requirements (Levelized b.2)	$57,112,335	$79,665,063	$79,665,063	**$216,442,461**

RESPONSE

a. The revenue requirements in Table-3 show GRAM-only revenue requirements and do not include the incremental SRR revenue requirement of approximately $22.5 million. The $22.5 million SRR revenue requirement and the 2025 GRAM revenue requirement, when added together, equal the annual revenue requirements for 2026 and 2027 in Table-3.

b. The additional $9.6 million in the levelized case covers the carrying costs associated with deferrals required to spread the revenue requirement across the three-year period.

c. The presentation in Attachment STF-12-9b.1 provides for the recovery of revenue requirements as actual capital investment is planned according to need. In Attachment STF-12-9b.2, the levelized revenue requirement provides an alternative illustration to show

potential rate impact when distributing the total three-year revenue requirement equally across three years.

d. Yes.

Respondent: Win Blair
Manager, Rates
Southern Company Gas