STF-22-1 On July 2, 2024, in Docket No. 43820, the Commission approved the Final Order related to AGL's Integrated Capacity and Delivery Plan for 2025 – 2034 ("i-CDP"). As part of the Final Order, the Commission approved a new Department of Transportation ("DOT") tariff and a Rider Recovery Mechanism ("RRM"). As recommended by Staff and approved by the Commission, the DOT RRM methodology was based on the System Reinforcement and Reliability ("SRR") program RRM. On September 4, 2024, AGL filed a petition for the approval of the 2025 DOT rate for 2025.

On September 5, 2024, the Staff and AGL had a meeting to discuss the DOT RRM for 2025. As part of that meeting, AGL discussed that it included a Cost of Removal that would be used in the RRM. This was not discussed during the negotiations concerning the i-CDP. This calculation is found in the proposed DOT model Sheet-9 and impacts Sheet-6 Deferred Tax and Sheet-4 Book Depreciation and Accumulated Reserves. It also impacts Sheet-2 Revenue Requirement Row-5 Accumulated Reserve, and Row-6 ADIT's Not Subject to Proration.

The Cost of Removal is the cost expended by AGL to remove or retire property from service. AGL may either physically remove property from its service locations or retire/abandon the property in place. In the case of abandonment, there are costs that are routinely incurred to disconnect the property from AGL's operating system.

Please answer the following:

a. When reviewing the Final Order and Stipulation in Docket No. 8516 approved September 3, 1998, regarding the Pipe Replacement Program ("PRP") that lasted for 15 years through 2014, the Final Order and Stipulation did not allow for the recovery for the Cost of Removal as part of the formula or its RRM. The new, or replacement Plant, was included in the PRP RRM and Plant and accumulated depreciation was recovered in the PRP RRM. The Cost of Removal was included in base rates for the original or old Plant that was replaced. Does AGL agree?

b. When reviewing the Final Order and Stipulation in DN 29950, Vintage Plastic Replacement ("VPR") program approved August 28, 2013, the program was active from 2014 to 2016. The Final Order and Stipulation did not allow for the recovery for the Cost of Removal as part of the formula or its RRM. The new, or replacement Plant, was included in the VPR RRM and Plant and accumulated depreciation was recovered in the VPR RRM. The Cost of Removal was included in base rates for the original Plant that was replaced. Does AGL agree?

RESPONSE:

a. and b. The PRP and VPR programs did not include cost of removal, and these costs were recovered through base rates. Further, the PRP and VPR programs are two separate dockets and proceedings with two orders specific to those programs. Docket No. 43820, which established the DOT Rider, and the resulting order are separate from the aforementioned PRP and VPR programs.

The DOT Rider includes cost of removal based on the Commission's approval of the joint stipulation between AGL and the Commission Staff in Docket No. 43820. Please see below for excerpts from the Order and the pre-filed panel testimony of Tony Wackerly, Steven Murphy and Michael J. Morley with emphasis added on the discussion of cost of removal. The recovery of the DOT cost of removal is excluded from GRAM and included as part of the DOT Rider.

Approved Order:

Section 3 of the joint stipulation approved by the Commission

Department of Transportation ("DOT") Rider

1. *The Parties acknowledge that the Company cannot accurately forecast capital expenditures required to comply with municipal, county, and Georgia DOT directions. The Parties agree to establish a DOT Rider to separately recover the revenue requirements associated with required compliance with DOT directives. The DOT Rider is provided as Attachment B to this Stipulation.* ***The Company agrees to reduce the proposed GRAM capital budgets by $2.4 million in 2025, $2.4 million in 2026, and $2.3 million in 2027 to adjust the GRAM capital budgets for DOT-related removal costs for line retirements****; and the Company agrees to reduce the proposed GRAM capital budgets by $4.2 million in 2025, $4.4 million in 2026, and $4.4 million in 2027 to adjust the GRAM capital budgets for DOT-related overheads and AFUDC that will be recovered through the DOT Rider.*

The Company is providing Attachment A to the aforementioned stipulation for further support that removal costs are to be recovered through the DOT Rider.

Additionally, below is an excerpt from the DOT Rider Tariff, which was also included as Attachment B in the stipulation.

ATTACHMENT B

DOT Rider Tariff

27. Department of Transportation (DOT) Project Rider

1. *Purpose*

   The Department of Transportation Project Rider, or DOT Project Rider, is designed to provide recovery of actual capital costs incurred in relation to relocation of AGL facilities due to roadway projects. AGL is required to relocate Company facilities located in road rights-of-way when the state, county, or municipal entity makes significant changes to their roadways (e.g., road widenings, intersection improvements, etc.). ***These relocations include costs incurred for both removing and retiring the existing facility and costs incurred to install the new facility****. This is an ongoing requirement.*

Finally, below is an excerpt from the pre-filed direct panel testimony referenced above. The excerpt is from page 12, lines 5-14.

Pre-filed panel testimony in Docket 43820:

2. DOT Rider

Q. Please describe the proposed DOT Rider.

A. The Stipulation establishes a DOT Rider to separately recover the revenue requirements associated with required compliance with municipal, county, and Georgia Department of Transportation directives regarding facilities in public easements and rights of way. The term "DOT" is used, but the rider applies to all local governments' directives as well. ***The Company agrees to reduce the proposed GRAM capital budgets for DOT related removal costs for line retirements, overheads and AFUDC that will be recovered through the DOT Rider.***

Respondent: Gary Tucker
Director, Reg Account & Rev Rec
Southern Company Gas

STF-22-2 The Cost of Removal, as it applies to a regulated utility such as AGL, represents the normalized cost of disposing of an asset at the end of its useful life. For regulatory purposes, the Cost of Removal is incorporated within book depreciation and factored into customer rates. The Cost of Removal is a component of book depreciation and accrues as a reserve. This means that the Cost of Removal is a component of book depreciation which was approved in the last rate case. When actual Cost of Removal costs are incurred, these costs are netted against the Cost of Removal dollar amount accrued as part of book depreciation. at the end of the asset's useful life, or when it is replaced. In the case of the PRP program and the VPR program, old Plant that was replaced, and the Cost of Removal was accrued in the original Plant accounts and recovered over the years in base rates. The Cost of Removal was subtracted from the Original Cost to achieve a Net Salvage Value that impacted those particular Plant accounts that was recovered using base rates.

As Plant is retired in a particular FERC account, the Cost of Removal is removed from the original cost to obtain a positive or negative salvage. This impacts the FERC account the old Plant is related to. In the case of the DOT, PRP, and VPR, this is replacing old Plant, and the Cost of Removal for the old Plant is tied to the FERC accounts, or GL accounts, funded by base rates. The new Plant in the DOT, PRP, and VPR RRM's do not have any connection to the Cost of Removal for the old Plant.

On June 3, 2019, AGL filed its 2019 rate case in Docket No. 42315. In the Dane Watson direct testimony on page 8, he described the Cost of removal as the following:

Dane Watson Direct Testimony Page 8 2019 Rate Case DN 42315

Cost of Removal - The cost expended by AGL to remove or retire property from service. AGL may either physically remove property from its service locations or retire/abandon the property in place. In the case of abandonment, there are costs that are routinely incurred to disconnect the property from AGL's operating system.

In the Dane Watson direct testimony page 8, he described Net Salvage as the following:

Dane Watson Direct Testimony Page 8 2019 Rate Case DN 42315

Net Salvage - Net Salvage is equal to Gross Salvage less Cost of Removal/Retirement. Positive Net Salvage occurs if Gross Salvage exceeds Cost of Removal/Retirement. Conversely, Negative Net Salvage occurs if Cost of Removal/Retirement exceeds Gross Salvage. Negative Net Salvage is more prevalent in the retirement of utility property because little residual value exists in the property being retired, even when abandoned in place.

On page 11 of the Dane Watson direct testimony, he described the accounting treatment for deprecation at the, particularly at the end of an assets useful, which also includes the Cost of Removal and Net Salvage. Please see below.

Dane Watson Direct Testimony Page 11 2019 Rate Case DN 42315

Q. What definition of "depreciation" have you used for the purposes of conducting a depreciation study and preparing testimony?

A. The term "depreciation," as used herein, is considered in the accounting sense; that is, a system of accounting that distributes the cost of assets, less net salvage (if any), over the estimated useful life of the assets in a systematic and rational manner. Depreciation is a process of allocation, not valuation. Depreciation expense is systematically allocated to accounting periods over the life of the properties. The amount allocated to any one accounting period does not necessarily represent the loss or decrease in value that will occur during that particular period. Thus, depreciation is considered an expense or cost, rather than a loss or decrease in value. The Company accrues depreciation based on the original cost of all property included in each depreciable plant account. On retirement, the full cost of depreciable property, less the net salvage amount, if any, is charged to the depreciation reserve.

Mr. Watson discussed in his direct testimony during the 2019 rate case, the Company accrues depreciation based on the original cost of all property included in each depreciable Plant, account, and on retirement, the full cost of t he depreciable property, less the Net Salvage amount, if any, is charged to the depreciation reserve.

Does AGL agree that in the case of the DOT, PRP, and VPR RRM's there can be no Cost of Removal related to the old Plant in these RRMs because the Cost of Removal and any Net Salvage is related to the old Plant, which is charged to the depreciation reserve related to the old Plant? Otherwise, the Cost of Removal is being charged for twice.

RESPONSE:

The Company does not agree that removal costs are being charged or recovered twice. See Attachment STF-22-2 for an illustrative example on the financial impact of a DOT project included in GRAM with the removals cost included in the DOT Rider. Removal costs should be viewed as any other capital cost included in AGL's capital budgets. Similar to other capital costs that are not included in GRAM (SRR, DOT, etc.), eliminating the DOT removal costs from GRAM ensures the costs are not recovered through both GRAM and the DOT Rider but rather once through the DOT Rider.

Respondent: Gary Tucker
Director, Reg Account & Rev Rec
Southern Company Gas

STF-22-3 Regarding the Sheet-2 Revenue Requirement worksheet format of the SRR, DOT, and ECON-1 RRM's, AGL was not in agreement with the Staff that the current SRR RRM as provided in the quarterly reports should be used. The primary concern for AGL was the presentation and calculation of the Return on Equity ("ROE"). The Staff has a concern that AGL's desired format is too basic and does not show enough details. In **Exhibit-STF-22-3** below, the Staff is proposing a more detailed version that can be used for the SRR, DOT, and ECON-1 quarterly reporting. Does this version satisfy AGL's concerns for all three Rider RRM's?

Exhibit-STF-22-3

Atlanta Gas Light Company
SRR - DOT - ECON-1 Riders

Plant in Service
Distribution Mains
Transmission Mains
Total Additions

Tax Depreciation
Mains - Distribution
Mains - Transmission
Tax Depreciation Summary

Book Depreciation
Mains - Distribution
Mains - Transmission

Average Rate Base-Monthly - Excluding Prorated ADIT
Prorated ADIT
Total Average Rate Base**
Average Equity - Monthly

Rate Base
Plant in Service - Accumulated (Plant)
Less: Accumulated Depreciation Accumulated
Accumulated Deferred Inc Taxes (Cumulative) - Not Subject to Proration**
Rate Base

Operating Income
Total Operating Revenues (Surcharge Revenues)
- Cumulative
Operating Expenses
Depreciation - Book
Interest
Total Operating Expenses
Operating Income Before Income Taxes
Income Taxes :
Total Income Tax Expense - 25.30%
Investment Tax Credit
Proforma Income Tax Expense
Operating Income After Taxes
Accumulated Operating Income

Cumulative Over/Under w/o Carrying Charges
Carrying Charges on Over/Under
Interest
Equity
Taxes
Carrying Cost on Over/Under
Cumulative Carrying Charges
Cumulative Over/Under w Carrying Charges

Check on ROE
Regulatory Net Income Calculation

Revenues
Depreciation Expense
Interest
Earnings before taxes
Tax Rate
Taxes
Net Income
Return on Equity

RESPONSE:

The Company will utilize the same model that is currently used for the quarterly SRR reporting in Docket No. 43820 that contains the requested information for future SRR, DOT, and ECON-1 quarterly reporting.

Respondent: Gary Tucker
Director, Reg Account & Rev Rec
Southern Company Gas

STF-22-4 In the proposed DOT RRM Sheet-8 COC, Tax, Collect& Depre Rate, AGL has proposed a $0.13 based rider amount. Please explain how did AGL calculated the $0.13?

RESPONSE:

The rate per customer per month for the residential customer of $.13 was based on the amount of collections needed to recover the forecasted revenue requirements for the period, in this instance 2025.

Respondent: Gary Tucker
Director, Reg Account & Rev Rec
Southern Company Gas