BEFORE THE
TENNESSEE REGULATORY AUTHORITY

PREPARED DIRECT TESTIMONY
OF
DANIEL J. NIKOLICH

IN RE:
CHATTANOOGA GAS COMPANY
DOCKET NO. 06-00175

I. INTRODUCTION

Q. Please state your name, position, and address.

A. Daniel J. Nikolich, Manager, Planning and Forecasting, AGL Services Company. My business address is 10 Peachtree Place, Location 1686, Atlanta, Georgia 30309.

Q. Have you provided a summary of your educational background and professional experience?

A. Yes. They are included as Attachment A.

Q. Have you previously submitted testimony before the Tennessee Regulatory Authority ("TRA") or any other regulatory commission?

A. Though I have not testified before the TRA, I previously have testified before as an expert on utility ratemaking, forecasting, and regulatory issues before regulatory commissions in other jurisdictions as listed in Attachment A.

Q. What is the purpose of your testimony?

A. I will support Chattanooga Gas Company's ("CGC" or "the Company") comprehensive rate design plan in this proceeding. As discussed in the direct testimony of Company witness Lindsey, this comprehensive plan is designed to

align the interests of the Company with the interests of its customers. The plan includes the following proposals, each of which will be discussed in more detail later in my testimony:

- Energy Conservation Plan ("ECP"),
- Conservation and Usage Adjustment ("CUA")
- Chattanooga Assisted Rate for Energy Service ("CARES")

In addition, we are proposing specific rate design proposals by customer class which are designed to move classes gradually towards parity, and work in conjunction with the Company's ECP and CUA to encourage conservation while mitigating the impacts of revenue instability. I also will present the recovery mechanism for the proposed Bare Steel and Cast Iron Replacement Rider.

Q. Are you sponsoring exhibits in connection with your testimony?

A. Yes. I am sponsoring the following exhibits:

- Exhibit DJN-1: Conservation Savings from furnace replacement under current rates
- Exhibit DJN-2: Electric Power Board Advertisement
- Exhibit DJN-3: Rate Design Proposals
- Exhibit DJN-4: Conservation Savings from Furnace Replacement under Proposed Rates
- Exhibit DJN-5: Commercial Meter Sizes
- Exhibit DJN-6: Small commercial block percentages

- Exhibit DJN-7: Interruptible Base Revenue Sharing through IMCR
- Exhibit DJN-8: CARES Program
- Exhibit DJN-9: Conservation and Usage Adjustment Recovery
- Exhibit DJN-10: Clean and Redline Copies of CGC's Proposed Tariff

Q. How is your testimony organized?

A. My testimony consists of four sections as follows:

I. Introduction

II. Comprehensive Rate Design Plan

III. Rate Design Proposals

IV. Energy Conservation and CARES Programs, Conservation and Usage Adjustment, and Bare Steel and Cast Iron Pipeline Replacement Program

II. COMPREHENSIVE RATE DESIGN PLAN

Q. Please summarize the objectives of the Company's comprehensive rate design plan.

A. Three main objectives guide the Company's proposed rate design plan: conservation, revenue stability, and fairness. The need for energy conservation is a growing concern and trend throughout the country. Demand for natural gas has been growing steadily nationwide while, for a number of reasons, the supply of natural gas has not increased at a corresponding rate. This increase in demand for natural gas and the increased pressure on natural gas supplies have resulted in record high prices. In fact, as discussed in the testimony of Company witness Lindsey, the United States has among the highest prices for natural gas in the

world. This was a prevailing issue in the market even before hurricanes Katrina and Rita, and with the impact these two natural disasters had on the supply of gas in 2005, CGC's customers themselves experienced extremely high commodity prices for natural gas. As a distributor of natural gas, it is imperative for CGC to be at the forefront in encouraging its customers to conserve, which would reduce their consumption and in turn reduce their energy costs. The ECP component of our rate design proposal is designed to inform and assist customers in lowering their consumption, and thus reducing their bills.

As Company witness Buchanan discusses, reduced consumption by CGC's customers already has begun as a result of a number of factors, including conservation, use of more energy efficient equipment, and increased competition. Under the current rate design, this drop in consumption has a direct, negative impact to CGC's revenue stability, which results in a disconnect between CGC's need and desire to encourage conservation while at the same time needing to recover revenue sufficient to cover the costs of operating its system and earn a fair and reasonable return for its investors. Therefore, CGC is proposing the CUA in an effort to align the interests of the Company and its customers.

Q. You have mentioned that current environmental and market conditions have lead you to consider conservation and revenue stability important rate design considerations Can you please describe in more detail what these conditions are and what effects they are having on CGC's revenues?

A. These conditions are high natural gas commodity prices, more energy efficient equipment, and increased competition, all of which have led to decreased

consumption by customers. This decrease in consumption seems to be taking two forms: (i) lower consumption by existing customers primarily due to long-term equipment efficiency changes and price conservation and (ii) lower net customer growth, which is driven by the increase in competition. Long-term efficiency gains can be exemplified best by the choice of a customer to install a 90+% efficient furnace when their older 60% efficient unit wears out. As shown in Exhibit DJN-1, the new unit will save the customer $225 per year in annual operating fuel costs. Even switching to minimum current 80% efficient furnace would save the customer $163 per year. At the same time, the Company will experience a base-revenue loss of between 4.4% and 6.1% per customer as a result of the customer's action. Based upon the average furnace life, approximately 2000 to 2600 of CGC's customers replace their furnaces every year, resulting in base-revenue losses to the Company of between $19,425 and $34,856. The other form of reduced consumption is what I call price conservation. With price conservation, if the price is sufficiently high, customers make a decision to be less comfortable and lower their thermostat in order to save on their heating costs. The consumption decreases that the Company has seen this past winter appear to be the direct result of this kind of customer price/consumption behavior. This has led to an even greater level of base-revenue instability over the loss caused by long-term energy conservation.

In addition, hurricanes Katrina and Rita created a tremendous supply disruption in a natural gas market where demand and supply were already in a narrow balance

due to years of steadily increasing national demand and lagging growth in supply that has lead to unprecedented high natural gas commodity prices this past winter (see Exhibit PGB-2 of Company witness Buchanan). Based upon New York Mercantile Exchange futures as of June 15, 2006, wholesale prices of natural gas are expected to increase above $10.00 per dekatherm again next winter. As covered in Mr. Buchanan's testimony, this served to accelerate the pace of conservation and attrition by CGC customers this past winter. As a result of these higher prices, commodity prices for a typical CGC residential customer have increased over 233% since January 2000.

In addition to reduced consumption by existing customers, the Company is experiencing lower net growth due to increased competition. Competition from electric heat pumps in the home heating market has increased dramatically over the past decade. Recent advertisements by the Electric Power Board ("EPB") on television, radio, print, and on their web site speak directly to the current competitive situation. Exhibit DJN-2 presents a sample of one the EPB's web site advertisements. While on a net present value basis over the life of the appliances, heat pumps and natural gas furnaces are comparable in cost, heat pumps offer immediate, short-term operational cost savings over a natural gas furnace. This has contributed to a long-run erosion of customer load, increased customer attrition, and deteriorating base-revenue stability.

Q. Why is this revenue instability a concern?

A. Through CGC's base revenue from serving customers has and will continue to decrease due to the factors discussed above, the Company's basic investment in

infrastructure to serve its existing customers is not expected to decline. The Company has incurred the costs for the infrastructure to serve its customers, and as evidenced by the direct testimony of Company witness Heintz, these capital costs do not vary with consumption. Further, given that CGC's current rates are consumption based, when customer consumption declines, the Company's revenue from customers will decline just as discussed in Company witness Buchanan's testimony. Therefore, the Company will be less likely to recover the costs to operate its system and earn a fair and reasonable rate of return under its current rate structure.

Q. Please describe the current rate structure for CGC.

A. CGC's rates are broken down into three basic categories: residential, commercial, and industrial.

Residential distribution rates consist of a modest customer charge and a seasonal decreasing multi-step declining block consumption rate that rewards customers for high monthly consumption with lower rates. Currently the consumption rates comprise 60.9% of the residential customers' bills.

Commercial rates consist of a modest seasonal customer charge and a seasonal decreasing multi-step declining block consumption rate that rewards customers for high monthly consumption with lower rates. Whereas customers in the residential class are fairly homogenous in both their uses and amount consumed of natural gas, commercial customers are neither. Approximately 80% of the commercial customers have a consumption average of 958 therms per year and use minimum-sized services and meters comparable to residential customers. The

20% that use larger meters and services have loads that average 17,602 therms per year, requiring much more main than the smaller commercial customers. The consumption charge portion of the distribution charges accounts for 95.1% of the larger customers bills while they account for 53.3% of the smaller customers bills. Industrial rates are based on sales-based concepts of firm and interruptible supply. As such, there are separate firm and interruptible sales rates with matching transportation rates. The firm sales and transportation rates consist of a customer charge, a demand charge, and a multi-step declining block consumption rate that rewards high monthly consumption. The interruptible sales and transportation rates consist of a customer charge and a multi-step declining block consumption rate that rewards high monthly consumption. However, the reality is quite different than the basis of the current rates. There is only one "sales customer" left. The remaining customers are all transporting gas. Of the transport customers, only a handful of them have elected any amount of firm sales backup, and only a few have confirmed back-up fuels. The current trend by customers is to drop the sales standby rate, switching to interruptible (which two recently have requested). Under transportation, there is little difference in character of service between firm and interruptible. If there is no firm sales back up, the Company is under no obligation to serve; however, the Company does not curtail the customer if the marketer gets the gas to the city gate. Further, the Company has curtailed customers in recent years only for operational and pressure problems.

Q. Does this structure properly align the customers' and the Company's interests in terms of conservation, revenue stability, and fairness?

A. No. The current rates penalize the customer for conservation through the declining block structure. In addition, by using a monthly rate with a declining block, the rates tend to encourage poor load factor utilization of CGC's distribution system. Further, the revenue from residential customers does not reflect the cost-share indicated by the cost-of-service study, suggesting that commercial and industrial customers are unfairly penalized by subsidizing the residential class. Within the commercial class, rates appear to unfairly subsidize the small users through the commodity charge and penalize the large commercial users. For the industrial class, the firm demand charge removes some issues about intra-class subsidization, but by not having an identical charge on transportation, it encourages base-revenue instability as customers drop firm sales backup to avoid the demand charge and receive an equivalent level of service. Finally, by the rates being heavily volume dependent (73% of base revenue overall comes from volumetric consumption charges), there is no incentive from rates for the Company to promote conservation. In fact, the incentive is the opposite, i.e., to promote additional consumption as price per therm decreases as a customer uses more gas. The current rate structure misaligns CGC's interests from those of its customers and the market, and its desire to earn its fair and reasonable rate of return.

III. *RATE DESIGN PROPOSALS*

Q. Please describe the proposed changes to CGC's rate structures?

A. For the residential class, the Company proposes to reduce the number of step rate blocks to encourage conservation and to increase the customer charge to better align price with cost causation. For the commercial class, the Company proposes to split the class at 4,000 therms per year to reduce intra-class subsidies between small and medium customers, reduce the number of step rate blocks to encourage conservation, increase the customer charge to better align price with cost causation, and introduce a demand charge to the new medium general service class to remove within-class subsidies between customers and better reflect cost causation. Finally, for the industrial classes, the Company proposes to increase the demand charge to better reflect cost causation, eliminate the step rate blocks, and flow back 90% of the interruptible customer volumetric consumption base revenue to the firm customers through the Interruptible Margin Sharing Credit Rider ("IMCR"). Exhibit DJN-3 presents a detailed presentation of the billing determinants, proposed changes, and their impacts to the customers.

Q. Please describe the proposed changes to CGC's Residential rate?

A. The Company proposes three main changes to the residential class. First, the Company proposes to reduce the number of step rate blocks from four to two, with a narrowing of the differential between the steps. This will simplify the rate and gradually begin moving the residential rate away from declining step rate blocks that can act as a disincentive conservation. The second change proposed is to increase the customer charge to $10.00 per month May through October, and to $13.00 per month November through April to begin to gradually better align the charges with cost causation as demonstrated by the Cost-of-Service Study

prepared by Company witness Heintz. While Mr. Heintz shows customer costs of $19.79 per month on Exhibit DAH-1, page 5, this would be a $12.79 per month increase over doubling the current customer charge. In the interests of gradualism and rate moderation, the Company is proposing more modest monthly increases. The third change proposed is to share the revenues from interruptible customers back with firm rate classes through the IMCR mechanism already in place. This would result in an overall increase to residential rates of $76.27 per customer or 7.59%. While this is not the overall $124.54 or 45.7% per-customer level of increase that would be suggested by the cost-of-service study, again, in the interests of rate moderation and gradualism, the Company is proposing the more modest average monthly increase of $6.36 per customer. As stated elsewhere in my testimony, while fairness can be interpreted as closely matching the charges paid by customers to the cost of service, there are also competing principles of gradualism and rate moderation to be weighed.

Q. Why does reducing the number of block rate steps encourage conservation?

A. As demonstrated by Exhibit DJN-4, the average customer who replaces a 60% efficient furnace with an 80% efficient furnace will save $184. This is a 12.5% or $20 increase in the potential savings from conservation.

Q. Please describe the proposed changes to CGC's Commercial rate?

A. The Company proposes to split the commercial class into two separate classes based upon annual volume. Customers with over 4,000 therms per usage would be moved to a new C-2 Medium Commercial class. For customers under 4,000 remaining in the old C-1 rate, the Company proposes a simple two-part rate

consisting of a customer charge and a consumption charge. For customers in the new C-2 rate, the Company proposes moving to a more equitable straight, fixed-variable structure with a customer charge, demand charge, and consumption charge. The Company also is proposing to share the revenues from interruptible customers back with firm rate classes through the IMCR mechanism already in place. This would result in an overall average increase to small commercial customers' rates of $110 per customer or 9.58%, and an overall average increase to large commercial customers' rates of $1,115 per customer or 4.95%. While these are not the $163 per customer increases that would be suggested by the cost-of-service study for the small commercial class, in the interests of rate moderation and gradualism, the Company is proposing a more modest monthly increase of $9.15 per customer. Also, though these are not the decreases that would be suggested by the cost-of-service study for the large commercial class, in the interests of rate moderation and gradualism, the Company is proposing a modest increase of 4.95% per customer that is at a lower level than that proposed for the residential and small commercial classes, which gradually will begin moving the medium commercial class rate of return to a more equitable position.

Q. Why is splitting the existing commercial rate in two beneficial?

A. The current commercial class is extremely diverse and consists of both larger-volume customers who use gas for industrial processing with an average annual volume of 17,600 therms per year and smaller customers who consume an average of 985 therms per year in a manner more consistent with expectations for traditional commercial usages of space heating, water heating, and cooking. As

there are differences in their volumes and usages, there also are corresponding differences in costs that the current rate structure does not reflect. Exhibit DJN-5 presents the meter sizes used by each of the proposed classes. For the small commercial class, the minimum size AC-250 Meter is by far the dominant meter type in use by over 67% of the customers. For the proposed over 4000 therms medium commercial class, less than 3% of the customers have this type of meter. In addition, the 1731 customers who would be in the medium commercial class have a design day demand of 31,563 Dths, nearly double that of the 6,620 customers that would qualify for the small commercial class with a design day of 16,820 Dths. Consequently, the proposed medium-commercial class customers account for more than double the demand costs of the small commercial class, as shown on page 4 of Company witness Heintz's Exhibit DAH-1. By splitting this class, cost differences among customers are reflected in their prices, leading to better alignment of benefits volumes and usage characteristics.

Q. For the proposed Small Commercial C-1 class, why are you proposing to change from a multi-stepped block rate to single-block rate?

A. In reality, I am not proposing any effective change to the rate structure for theses customers. As shown by the monthly block percentages in Exhibit DJN-6, not one of the customers that will qualify for the new small commercial rate exceeds the monthly 3,000 therms of the first block. This means that these customers already have the rate structure comprised of a single-block rate and a customer charge.

Q. Why is a straight fixed variable rate more equitable to customers in the proposed large-commercial class than the current multi-stepped block rate?

A. The 1,731 customers who will qualify for this class are extremely diverse with annual consumption ranging from 4,000 therms to over 400,000 therms. A straight fixed variable rate would price the rate closely with the causation of cost. The demand charge will allow the Company to recover more equitably at least a portion of the demand costs based on each customer's contribution to such costs. Further, straight fixed variable rates reward and incentivize customers to achieve higher load factors that are beneficial to the distribution system by providing them with a lower average-unit price than if they had low load factors. The existing multi-step declining block rate, while incentivizing customers to use more gas, does not encourage customers to use gas in a manner that is beneficial to the system. Rather, it rewards high-volume customers who can maximize the monthly loads at the expense of lower-volume customers. Finally, in the interest of gradualism, the Company is proposing a customer charge of $75.00 per month that is below the $128.61 per month charge suggested by the cost-of-service study and a demand charge of $7.00 per month that also is well below the cost of service recommended $11.95 per month. In addition, a commodity charge of $0.19758 per therm is being proposed.

Q. Please describe the proposed changes to CGC's industrial rates?

A. The Company is proposing two major changes to the industrial class. First, the Company is proposing to eliminate the declining block step rates in favor of an increased $7.00 per Dth demand charge for firm service that is more reflective of

cost of service. Further, the Company is proposing to flow back 90% of all interruptible commodity-based distribution revenues to the firm customers through the IMCR as shown in Exhibit DJN-7. This would result in an overall average decrease to industrial firm customers of $2,567 per customer or 0.83%. These are not the 6.55% decreases that would be suggested by the cost-of-service study for the large commercial class, but in the interests of rate moderation and gradualism, the Company is proposing a modest monthly decrease of $214 per customer that gradually will begin moving the industrial class rate of return to a more equitable position. Finally, the Company proposes to increase the unauthorized gas use charges to $25 per Dth from $15 per Dth.

Q. Why is the proposed sharing of the interruptible customer consumption revenue beneficial?

A. Sharing interruptible commodity revenue with firm rate payers provides an equitable way to pay the firm rate payers for the use of the system mains that were built and paid for through rates applied to the firm customers. A subsidiary benefit to rate payers would be the elimination of the IMCR credit for interruptible SS-1 contracts. While such special contracts still would exist, recovery of a credit from the firm rate payers that then would be credited to the firm customers through sharing would be redundant.

Q. Are there other important benefits to the industrial rate classifications?

A. Because these customers are already under a straight fixed variable rate design, elimination of the block rates for both firm and transportation customers would

serve to reward and incentivize customers to achieve higher load factors that are beneficial to the distribution system by providing them a with a lower average unit price than if they had low load factors. The existing multi-step declining block rate, while providing customers incentive to use more gas, does not encourage customers to use gas in a system-beneficial manner. Rather, it rewards high volume customers who can maximize the monthly loads at the expense of lower volume customers. In addition, it would simplify the rate.

IV. ENERGY CONSERVATION AND CARES PROGRAMS, CONSERVATION AND USAGE ADJUSTMENT, AND BARE STEEL AND CAST IRON PIPELINE REPLACEMENT PROGRAM

Q. Why are Energy Conservation programs necessary?

A. Under the above-discussed current market conditions, conservation can offer customers the best opportunity to reduce their energy costs. As evidenced by the declining use per customer CGC is experiencing, those customers that are aware of more energy efficient equipment and can afford to make the investment are doing so. However, without an energy conservation program, many customers are unaware of the existence and benefits of more energy efficient equipment, and low-income customers are trapped with lower efficiency equipment due to the initial investment required to purchase more energy efficient equipment.

Q. What are the specific energy conservation programs that the Company is proposing?

A. CGC proposes a comprehensive plan designed to assist customers with the two key components of conservation: controlling their current energy costs and

acquiring more energy efficient equipment. To help customers control their current energy costs, the Company proposes two programs, a partially-subsidized, 21-point home energy checkup and inspection and a weatherization kit. A customer would have to pay $39 for the energy checkup and inspection, with CGC picking up the remaining 57% of the cost. The checkup and inspection would include a filter change-out for their heating and cooling system and the installation of a modern set-back thermostat. The customer would have to pay only $5 for the weatherization kit, and both programs would allow the customer to save up to $170 on their energy bill.

In addition to these two programs, the Company is proposing a series of rebates for highly energy efficient furnaces and water heaters to assist customers with the initial investment of purchasing such equipment.

Q. What are the benefits of these programs to customers?

A. The potential annual savings for customers who purchase energy efficient equipment and make their homes more energy efficient can be as much as $530. As set forth below, the Company's conservation programs are designed to help customers achieve $366, or 70% of those total potential cost savings.

Q. Please explain.

A. Customers who choose to replace their aging gas furnaces with another gas furnace must purchase a furnace that is at least 80% energy efficient (lowest energy efficient rating is currently 80%). This improvement in energy efficiency

will result in annual savings of up to $164 per year. The Company's program is designed to provide incentives to customers to purchase a 90% energy efficient furnace, which provides for incremental annual savings of $61. Additional components of the annual cost savings per customer provided by the Company's program are as follows:

	Potential benefit to the customer
Replace furnace 80% to 90%+ efficient	$61
Replace water heater with tankless water heater	$135
21-point checkup with filter replacement	$60
Install weatherization kit	$110
Total	$366

Overall, the Company has included $738,980 in ECP costs in its cost of service. These investments are estimated to provide $707,102 in annual savings to those customers that participate in the ECP each year thereafter. This results in a payback of less than 13 months.

Q. Will these programs be of benefit to low-income customers?

A. Yes. All customers eventually must replace the equipment, regardless of their income. As evidenced by the declining residential use per customer that CGC is experiencing, those customers with incomes that allow them to convert to more energy efficient equipment are doing so. However, a low-income customer may not be able afford the more expensive higher efficiency equipment and, because of cost, elect to go with a less expensive, minimum 80% efficiency furnace or lower efficiency water heater. The proposed rebates are designed to lower the cost differential between high efficiency equipment and lower efficiency units.

In a similar manner, many low income customers do not have their equipment inspected annually, regularly change their heating/cooling system filters, or install set-back thermostats that would allow them to save on their current energy bills. Dirty filters alone can decrease the efficiency of their equipment by as much as 10% or $60 per year both for cooling as well as heating. A set-back thermostat can save them even more. Likewise, low income customers even more so than other customers, do not weatherize their homes. With the kit that the Company proposes to distribute, customers could save as much as $110 per year on their energy bills.

Finally, CGC is proposing to establish a community outreach program. The best conservation program in the world is of no benefit to customers if no one knows about it. Of particular concern is reaching out to low-income customers. This program would allow the Company to reach to critical community, civic, and religious organizations currently working with our low-income customers to make them aware of what the ECP has to offer.

Q. Will the benefits of the ECP be enough to meet the needs of all CGC's low-income customers?

A. No, while the plan does addresses many of the needs of low-income customers, like weatherization and easing the burden of moving to more efficient appliances and equipment, it does not go far enough to assist the most at risk group, low-income seniors. Low-income seniors are on a fixed income and will be the group most impacted by their inability to afford to invest in more fuel-efficient equipment. Likewise, they will be the most hurt by any increase in rates. As such,

the Company proposes the establishment of the Chattanooga Assisted Rate for Energy Service (CARES).

Q. How will the CARES rate work?

A. Upon receipt of an application by a qualifying low-income senior, the Company will discount 100% of the customer-charge portion of CGC's rates.

Q. Who will qualify for the rate?

A. Upon completion of the required application to the Company, all low-income customers who are over 65 years of age and with annual incomes less than or equal to the most recent U.S. Commerce Department, Bureau of the Census poverty thresholds will qualify.

Q. How many customers are projected to take advantage of CARES?

A. Between 889 and 3,555 customers as shown in Exhibit DJN-8.

Q. How does CGC propose to align the interests of its customers and itself?

A. The Company is proposing to recover the lost base revenue attributable to lower consumption through a Conservation and Usage Adjustment rider to align the interests of both parties. Annually, actual Company base revenue per customer, including Weather Normalization Adjustment ("WNA") revenue, will be compared to those established in this proceeding. The resulting difference per class then will be multiplied by the actual number of customers to arrive at excess revenue to be refunded or deficiency to be collected from the class. The excess or deficiency then will be divided by the annual projected therms for each class to arrive at the CUA charge or credit rate. Exhibit DJN-9 presents the proposed recovery mechanism.

Q. Is the CUA a decoupling mechanism or tariff?

A. Yes, the CUA is a tariff mechanism that decouples CGC's fixed distribution non-gas or "non-PGA" costs from the volume of natural gas the Company delivers to customers. Specifically through a deferral account, the CUA allows CGC to recover on a per-customer basis that revenue approved by the TRA associated with its natural gas distribution costs.

Q. Why will the CUA mechanism provide base-revenue stability for the Company and remove the disincentive to promote significant energy conservation to the benefit of its customers?

A. Even under the Company's rate design proposal, 56.7% of the Company's base-revenue requirement still will be recovered through volumetric rates. This means that CGC's profitability is tied directly to the volume of gas it delivers to customers. When usage per customer declines as it does when customers reduce consumption (as CGC's have been doing), even small drops in consumption may affect profitability significantly. Thus, declining use per customer creates a strong financial disincentive for CGC or any gas utility to aggressively promote energy efficiency and conservation. The proposed energy conservation program will only exacerbate this situation, causing further base-revenue instability for the Company. By partially decoupling CGC's allowed base-revenue from its customers' throughput, not only is the disincentive to promote energy conservation and efficiency removed but part of the Company's base-revenue stream is stabilized.

Q. Does the current WNA protect the Company against declining use per customer?

A. No, it does not. Though the current WNA does protect the customer and the Company against variations in weather, it does not protect the Company against drops in the underlying usage per customer; it does not protect the Company from declines of normalized base use per customer over time. The WNA works by looking at deviations from normal weather. It can recover only lost use per customer to the extent that weather deviates from normal. Further, it does not protect the Company against drops in non-heating loads.

Q. If rates are set at a level to allow CGC opportunity to recover its costs, by enacting or adopting the Conservation and Usage Adjustment, is not the TRA guaranteeing CGC's rate of return?

A. No, not in the least. The design of the CUA is to collect only the distribution revenue that the TRA already has deemed appropriate. For the Company to earn its allowed rate of return, CGC still must control costs and compete both to attract and retain customers. Therefore, CGC still has the same risks to grow and generate base revenue from customer growth and retention along with the same incentives to control costs that it would under traditional ratemaking.

Q. The Company also is proposing a Cast Iron and Bare Steel Replacement Rider. How does the Company propose to recover the cost associated with this program?

A. The Company proposes to recover the costs through a per-customer charge developed by taking applicable program expenditures and dividing them by the number of customers projected for the recovery period.

V. CONCLUSIONS

Q. Please summarize your conclusions?

A. The proposed rates indicated in Exhibit DJN-3 achieve the primary rate design objectives of conservation, revenue stability, and fairness in a moderate and gradual manner. Further, the proposed rates recover CGC's base-revenue requirement in a reasonable manner, while moderately reducing existing subsidies among customer classes. Additionally, the proposed customer-charge changes for some classes result in charges that are closer to cost-based levels. Finally, and most importantly, the comprehensive rate design plan, including the ECP and CUA, better aligns the interests of the customers with those of the Company and provides the Company with an opportunity both to encourage conservation and earn a fair and reasonable return.

Q. Does this conclude your testimony?

A. Yes, it does.

Daniel J. Nikolich
Manager, Planning and Forecasting

Mr. Nikolich is the Manager of Planning and Forecasting for AGL Resources who has over 13-years of experience working with regulated rates and tariffs in multiple states. Mr. Nikolich is responsible for overseeing the development of short-term and long-term demand and revenue forecasts, along with short-term and long-term new load growth forecasts. Further, he is responsible for providing economic and statistical analysis for rate design, cost of service and allocation studies. He is also responsible for market research and planning studies along with and maintaining the supporting informational databases in the various states that AGL resources has local distribution companies.

RELEVANT PROJECT EXPERIENCE

Regulatory Analysis, Ratemaking, Cost of Service

- Responsible for the development of cost-of-service, allocation and rate design studies for the 2004 Florida City Gas rate case. Represented the company and supported its position in negotiations with regulatory agencies, customers and intervenors.
- Responsible for rate design studies for the 2003 Florida City Gas Flat Rate billing filing. Provided testimony and represented the company and supported its position in negotiations with regulatory agencies, customers and intervenors.
- Responsible for the development of cost-of-service allocation, weather normalization and rate design studies for the 2002 Elizabethtown Gas rate case. Represented the company and supported its position in negotiations with regulatory agencies, customers and intervenors.
- Responsible for rate design and economic studies and analysis for the 2001 Valley Cities dual issue Customer Assistance Rate and Customer Education Rider rate case. Provided testimony and represented the company and supported its position in negotiations with regulatory agencies, customers and intervenors.
- Responsible for rate design and operational studies for the 2001 North Carolina Third Party Supplier tariff restructuring filing. Provided testimony and represented the company and supported its position in negotiations with regulatory agencies, customers and intervenors.
- Responsible for rate design, operational and economic studies and analysis for the 2000 Valley Cities Gas unbundling filing. Provided testimony and represented the company and supported its position in negotiations with regulatory agencies, customers and intervenors.
- Responsible for the development of cost-of-service, allocation and rate design studies for the 2000 Florida City Gas rate case. Represented the company and

supported its position in negotiations with regulatory agencies, customers and intervenors

Forecasting

- Prepared and testified on the forecast for the 2004 Florida City Gas rate case.
- Prepared and testified on the forecast for the 2002 Elizabethtown Gas rate case.
- Developed and prepared 2005-2006 demand and revenue forecasts for Atlanta Gas Light, Chattanooga Gas, Elizabethtown Gas, Elkton Gas, and Florida City Gas. Supervised preparation of the demand and revenue forecast for Virginia Natural Gas.
- Developed and prepared the 1994-2004 demand and revenue forecasts for Elizabethtown Gas, and Florida City Gas.
- Developed and prepared the 1997-2004 forecasts for Elkton Gas.
- Developed and prepared the 1997-2001 forecasts for Valley Cities and Waverly Gas and North Carolina Gas.

Market Analysis

- Provided Market Analysis of residential and commercial attrition for Atlanta Gas Light's Georgia Market.
- Provided market analysis of Elizabethtown Gas', Florida City Gas' and Elkton Gas' Markets.
- Provided market analysis of North Carolina Gas' and Valley Cities and Waverly Gas' Markets.

Expert Witness Testimony Presentation

- Florida Public Service Commission
- New Jersey Board of Public Utilities
- Pennsylvania Public Utility Commission
- North Carolina Public Utilities Commission

PROFESSIONAL HISTORY

AGL Resources (2005 – present)
Manager, Planning and Forecasting

NUI Corporation (2001-2005)
Manager, Planning and Forecasting

NUI Corporation (1993-2001)
Forecast Analyst

EDUCATION

B.S. Business, Economics, College of Business and Economics, University of Idaho, 1984

supported its position in negotiations with regulatory agencies, customers and intervenors

Forecasting

- Prepared and testified on the forecast for the 2004 Florida City Gas rate case.
- Prepared and testified on the forecast for the 2002 Elizabethtown Gas rate case.
- Developed and prepared 2005-2006 demand and revenue forecasts for Atlanta Gas Light, Chattanooga Gas, Elizabethtown Gas, Elkton Gas, and Florida City Gas. Supervised preparation of the demand and revenue forecast for Virginia Natural Gas.
- Developed and prepared the 1994-2004 demand and revenue forecasts for Elizabethtown Gas, and Florida City Gas.
- Developed and prepared the 1997-2004 forecasts for Elkton Gas.
- Developed and prepared the 1997-2001 forecasts for Valley Cities and Waverly Gas and North Carolina Gas.

Market Analysis

- Provided Market Analysis of residential and commercial attrition for Atlanta Gas Light's Georgia Market.
- Provided market analysis of Elizabethtown Gas', Florida City Gas' and Elkton Gas' Markets.
- Provided market analysis of North Carolina Gas' and Valley Cities and Waverly Gas' Markets.

Expert Witness Testimony Presentation

- Florida Public Service Commission
- New Jersey Board of Public Utilities
- Pennsylvania Public Utility Commission
- North Carolina Public Utilities Commission

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