

**BEFORE THE
TENNESSEE REGULATORY AUTHORITY**

**PREPARED REBUTTAL TESTIMONY
OF
RHONDA WATTS**

**IN RE:
CHATTANOOGA GAS COMPANY
DOCKET NO. 09-00183**

Electronically filed 4/5/10 at 4:20pm

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

2 A. My name is Rhonda Watts and I am a Senior Consultant with Alliance Consulting
3 Group. My business address is 1410 Avenue K, Suite 1105B, Plano, Texas
4 75074.

5
6 **Q. Are you the same Rhonda Watts who previously submitted direct testimony**
7 **in this proceeding?**

8 A. Yes.

9
10 **Q. What is the purpose of your rebuttal testimony?**

11 A. The purpose of my rebuttal testimony is to present information for Chattanooga
12 Gas Company (“CGC” or the “Company”) in response to the direct testimony of
13 the witness for the Consumer Advocate and Protection Division (“Consumer
14 Advocate”). Specifically I will respond to the depreciation accounting information
15 set forth in the direct testimony of Mr. Terry Buckner.

1 **Q. Did Mr. Buckner accept CGC's depreciation rates submitted by you in your**
2 **direct testimony?**

3 **A.** Yes, at page 15, lines 7-10, Mr. Buckner stated the Consumer Advocate applied
4 CGC's new rates to CGC's actual December 31, 2009 plant-in-service and also to
5 the net monthly plant for the forecasted period through April 30, 2011 to calculate
6 CGC's depreciation expense.

7
8 **Q. If Mr. Buckner accepted your depreciation rates, what is the issue?**

9 **A.** In his testimony at page 14, lines 20-23 Mr. Buckner excludes three accounts,
10 Account 362 LNG Storage Tanks, Account 3922 Heavy Trucks and Account 393
11 Stores Equipment, from his calculation of depreciation expense as having a book
12 value of zero or less.

13
14 **Q. What would lead Mr. Buckner to believe these three accounts have a book**
15 **value of zero or less?**

16 **A.** The Company maintains its continuing property records in its fixed asset system
17 by asset and account. This system was established using a "proxy" accumulated
18 depreciation ("reserves") amount for its depreciable assets. He was provided and
19 apparently mistakenly used the "proxy" reserve amounts as the basis for his
20 exclusion of three accounts rather than the allocated account reserves used to
21 calculate the study depreciation rates contained in my study and provided in my
22 direct testimony as Exhibit (RW-1), Appendix A.

1 **Q. Can you explain further?**

2 A. I was provided functional book reserves that agree to the books and records of
3 CGC to use in the depreciation study. Those functional book reserves, along with
4 the depreciation study parameters were used to develop a theoretical reserve
5 which was used to allocate the functional book reserve among each individual
6 account in that function. Once the reserve was allocated, new account
7 depreciation rates were calculated. The allocated account level depreciation
8 reserves were provided in my direct testimony as Exhibit (RW-1) in Appendix B.
9 The investment and depreciation reserve balances, and the remaining to accrue
10 (net book value) amounts, as found in Exhibit (RW-1) for each of these accounts,
11 are shown below.

12

Account Description	Balance	Allocated Reserve	Remaining to Accrue	Rate
362 - LNG Storage Tanks	4,409,859	2,645,908	1,763,951	1.39%
3922 - Heavy Duty Trucks	371,986	138,118	129,713	9.45%
393 - Stores Equipment	60,965	32,641	28,324	5.39%

13

14 Exhibit (RW-1) and the table above demonstrate that these three accounts actually
15 have a positive book value and should be included in the monthly depreciation
16 expense calculation. Excluding these accounts will preclude the Company from
17 recovering the remaining book value of these accounts over their remaining lives.
18 Mr. Ronald D. Hanson addresses the impact of reincorporating the study
19 depreciation rates for the three accounts excluded by Mr. Buckner in his rebuttal
20 testimony.

1 **Q. Please summarize your rebuttal testimony.**

2 A. The depreciation study I conducted provides accurate and appropriate depreciation
3 rates by account for all depreciable property. Due to the Company's historical
4 practice of only applying functional depreciation rates, an allocation of the book
5 reserve from the functional depreciation reserve to individual accounts was
6 necessary to develop the depreciation rates for each account. No account has a book
7 value of zero or less. Therefore, depreciation rates for all accounts (including those
8 three excluded by Mr. Buckner due to a mistaken perception that the book value was
9 zero or less) should be approved by this Commission for use by CGC in calculating
10 its depreciation expense.

11 **Q. Does this conclude your testimony?**

12 A. Yes.