

**BEFORE THE TENNESSEE REGULATORY AUTHORITY  
NASHVILLE, TENNESSEE**

|  |   |                            |
|--|---|----------------------------|
| <b>IN RE:</b>                          | ) |                            |
|  | ) |                            |
| <b>PETITION OF CHATTANOOGA GAS</b>     | ) |                            |
| <b>FOR GENERAL RATE INCREASE,</b>      | ) | <b>DOCKET NO. 09-00183</b> |
| <b>IMPLEMENTATION OF THE</b>           | ) |                            |
| <b>ENERGY SMART CONSERVATION</b>       | ) |                            |
| <b>PROGRAMS, AND IMPLEMENTATION OF</b> | ) |                            |
| <b>A REVENUE DECOUPLING MECHANISM</b>  | ) |                            |

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**STIPULATION OF THE CONSUMER ADVOCATE**

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Robert E. Cooper, Jr., the Attorney General and Reporter for the State of Tennessee, through the Consumer Advocate and Protection Division ("Consumer Advocate"), respectfully provides the following stipulation in regard to the Rate Base of Chattanooga Gas Company ("CGC") for the twelve months ended April 30, 2011 ("Attrition Period").

CGC has included \$111,480 in depreciation expense for three accounts with a zero or negative book value. Book value is the original cost of fixed assets less accumulated depreciation. As a matter of proper accounting practice, depreciation expense stops on assets with a zero or negative book value.<sup>1</sup> However, CGC has requested that the total accumulated depreciation be reallocated by account in conformity with the company's depreciation study and resulting theoretical accumulated depreciation. Regarding adjustments to depreciation reserves or accumulated depreciation, the Depreciation Subcommittee of NARUC states:

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<sup>1</sup> Sueflow, James, *Public Utility Accounting Theory and Application*, Ninth Edition, Michigan State University, p.100, 1988; *Transcript of Proceedings*, Cross-Examination of Rhonda Watts, TRA Docket 09-00183, pp.236:22 – 238:1, April 12, 2010.

Ordinarily where a continuing enterprise has consistently followed the straight-line method of depreciation accounting, or when a utility with substantial property in each class follows the straight-line method of depreciation accounting, no adjustment of depreciation reserves is necessary when the annual rates of depreciation are changed in order to conform to the current estimates of service lives and salvage. In such situations the appropriate procedure would be to charge the proper depreciation expense annually but not to change the depreciation reserve in order to conform to the theoretical reserve indicated by the revised estimates of annual depreciation expense. **Exceptions to this policy may be encountered where the change in the view concerning the life of property is so drastic as to indicate a serious difference between the theoretical reserve and the book reserve....Because of the inherently speculative nature of depreciation estimates, no adjustment in the reserve to reflect a requirement based on current rates should be made unless there is a clear indication that the theoretical reserve is very substantially different than the book reserve.**<sup>2</sup>

(emphasis added). Therefore, if the TRA believes there is a serious and substantial difference between the accumulated depreciation per books and the theoretical reserve per CGC's depreciation study, then the TRA should order CGC to reallocate their accumulated depreciation per books to be reallocated in conformity with the theoretical reserve as calculated in the company's depreciation study.

Consistent with the testimony of Consumer Advocate witness Terry Buckner at the hearing on April 13, 2010, if, and only if, the Authority chooses to order such a reallocation, the Consumer Advocate agrees to stipulate that \$111,480 in depreciation expense should then be included in the attrition year amount for the purpose of setting rates.<sup>3</sup> Should the Authority choose not to order such a reallocation, the Consumer Advocate maintains its position that this portion of depreciation expense is improper.

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<sup>2</sup> *Public Utility Depreciation Practices*, NARUC December 1968, pages 48 and 218.

<sup>3</sup> *Transcript of Proceedings*, Cross-examination of Terry Buckner, pp. 580:1 – 582:20, April 13, 2010.

RESPECTFULLY SUBMITTED,

**ROBERT E. COOPER JR., (BPR# 010934)**

Attorney General and Reporter

A handwritten signature in black ink, appearing to read 'T. Jay Warner', is positioned above a horizontal line.

**T. JAY WARNER (BPR# 26649)**

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CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing Stipulation was served via U.S. Mail or electronic mail upon:

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This the 7<sup>th</sup> day of May, 2010.

  
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T. Jay Warner