

**BEFORE
THE TENNESSEE REGULATORY AUTHORITY**

PETITION OF PIEDMONT NATURAL)
GAS COMPANY, INC. FOR)
APPROVAL OF A CNG)
INFRASTRUCTURE RIDER TO ITS)
APPROVED RATE SCHEDULES AND)
SERVICE)

Docket No. 14-00086

**DIRECT TESTIMONY
of
WILLIAM H. NOVAK**

**ON BEHALF OF
THE CONSUMER ADVOCATE AND PROTECTION DIVISION
OF THE
TENNESSEE ATTORNEY GENERAL'S OFFICE**

December 5, 2014

IN THE TENNESSEE REGULATORY AUTHORITY
AT NASHVILLE, TENNESSEE

INRE:

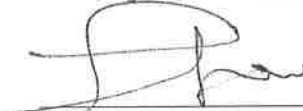
PETITION OF PIEDMONT NATURAL GAS)	
COMPANY, INC. FOR APPROVAL OF A CNG)	DOCKET NO. 14-00086
INFRASTRUCTURE RIDER TO ITS APPROVED)	
RATE SCHEDULES AND SERVICE)	
REGULATIONS)	
)	
TARIFF TO REVISE THE NATURAL GAS)	DOCKET NO. 14-00087
VEHICLE FUEL TARIFF AND INTRODUCE AN)	
EXPERIMENTAL MOTOR VEHICLE FUEL)	
SERVICE TARIFF)	

AFFIDAVIT

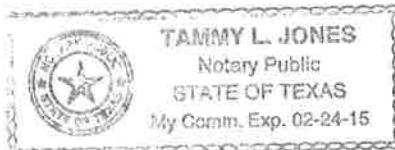
I, William H. Novak, CPA, on behalf of the Consumer Advocate Division of the Attorney General's Office, hereby certify that the attached Direct Testimony represents my opinion in the above-referenced case and the opinion of the Consumer Advocate Division.


WILLIAM H. NOVAK

Sworn to and subscribed before me
this 5 day of Dec, 2014.



NOTARY PUBLIC



My commission expires: 2-24-15

ATTACHMENTS

Attachment WHN-1

William H. Novak Vitae

Attachment WHN-2

Tennessee House of Representatives, Finance Ways &
Means Subcommittee, Transcript for HB 191 from March
13, 2013

1 ***Q1. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND***
2 ***OCCUPATION FOR THE RECORD.***

3 ***A1.*** My name is William H. Novak. My business address is 19 Morning Arbor Place,
4 The Woodlands, TX, 77381. I am the President of WHN Consulting, a utility
5 consulting and expert witness services company.¹
6

7 ***Q2. PLEASE PROVIDE A SUMMARY OF YOUR BACKGROUND AND***
8 ***PROFESSIONAL EXPERIENCE.***

9 ***A2.*** A detailed description of my educational and professional background is provided
10 in Attachment WHN-1 to my testimony. Briefly, I have both a Bachelors degree
11 in Business Administration with a major in Accounting, and a Masters degree in
12 Business Administration from Middle Tennessee State University. I am a
13 Certified Management Accountant, and am also licensed to practice as a Certified
14 Public Accountant.
15

16 My work experience has centered on regulated utilities for over 30 years. Before
17 establishing WHN Consulting, I was Chief of the Energy & Water Division of the
18 Tennessee Regulatory Authority where I had either presented testimony or
19 advised the Authority on a host of regulatory issues for over 19 years. In
20 addition, I was previously the Director of Rates & Regulatory Analysis for two
21 years with Atlanta Gas Light Company, a natural gas distribution utility with
22 operations in Georgia and Tennessee. I also served for two years as the Vice
23 President of Regulatory Compliance for Sequent Energy Management, a natural

¹ State of Tennessee, Registered Accounting Firm ID 3682.

1 gas trading and optimization entity in Texas, where I was responsible for ensuring
2 the firm's compliance with state and federal regulatory requirements.

3
4 In 2004, I established WHN Consulting as a utility consulting and expert witness
5 services company. Since 2004 WHN Consulting has provided testimony or
6 consulting services to state public utility commissions and state consumer
7 advocates in at least ten state jurisdictions as shown in Attachment WHN-1.

8
9 ***Q3. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?***

10 ***A3.*** I am testifying on behalf of the Consumer Advocate & Protection Division
11 ("CAPD" or "the Consumer Advocate") of the Tennessee Attorney General's
12 Office.

13
14 ***Q4. HAVE YOU PRESENTED TESTIMONY IN ANY PREVIOUS CASES***
15 ***CONCERNING PIEDMONT NATURAL GAS COMPANY?***

16 ***A4.*** Yes. I presented testimony in Dockets U-85-7355, U-87-7499, 89-10491, 91-
17 02636 and 11-00144 concerning either Nashville Gas Company or Piedmont
18 Natural Gas Company ("Piedmont" or "the Company") rate cases as well as
19 testimony concerning Piedmont in other generic tariff and rulemaking dockets.
20 In addition, I previously advised the TRA on issues in other Piedmont dockets
21 where I did not present testimony.

1 ***Q5. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS***
2 ***PROCEEDING?***

3 ***A5.*** My testimony will address the accounting, regulatory and rate and tariff issues
4 related to the Company's proposal for subsidizing the cost of its Compressed
5 Natural Gas ("CNG") facilities from the existing utility customers.

6
7 ***Q6. WHAT DOCUMENTS HAVE YOU REVIEWED IN PREPARATION OF***
8 ***YOUR TESTIMONY?***

9 ***A6.*** I have reviewed the Company's Petition filed on August 29, 2014, along with the
10 accompanying proposed tariff schedules. I have also reviewed the Company's
11 testimony (original and supplemental) and exhibits supporting their filing.
12 Finally, I have reviewed the Company's responses to the informal and formal data
13 requests submitted by the Consumer Advocate and other intervenors in this case.

14
15 ***Q7. PLEASE EXPLAIN THE RELIEF THAT PIEDMONT IS ASKING FROM***
16 ***THE TRA THROUGH ITS PETITION.***

17 ***A7.*** The Company is asking the TRA to implement a proposed CNG Infrastructure
18 Rider ("IR") that will allow it to recover the incremental investment and operating
19 costs related to CNG infrastructure from utility customers through its proposed
20 Rate Schedule 318. If approved, this proposed surcharge would initially increase
21 utility rates by approximately \$558,000.² In support of their Petition, the
22 Company cites Tenn. Code Ann. § 65-5-103(d) as authorizing "...alternative
23 regulatory methods to allow for public utilities to recover expenses associated

² Company Exhibit, PKP-3, Page 1.

1 with infrastructure and equipment targeted at alternative motor vehicle
2 transportation fuel.”³

3
4 In support of their filing, the Company has filed revisions to their existing Rate
5 Schedule 342 and filed a new Rate Schedule 343. The revision to Rate Schedule
6 342 limits service only to retail facilities operated by Piedmont. Rate Schedule
7 343 appears to be designed to facilitate gas service to customers who will then
8 compress the gas for use as CNG using their own equipment.

9
10 ***Q8. FROM A REGULATORY PERSPECTIVE, IS CNG THE SAME***
11 ***PRODUCT AS NATURAL GAS?***

12 ***A8.*** No. In order for natural gas to become CNG it must first be compressed to a level
13 that will facilitate its timely dispersal into motor vehicles. Therefore, CNG is a
14 completely different product than the regulated natural gas that is used in homes
15 and businesses. Further, the different customer bases and pricing for CNG and
16 natural gas support this distinction.

17
18 The customer base for natural gas is captive since Piedmont is a monopoly utility
19 provider – if customers do not buy natural gas from Piedmont, they cannot buy it
20 from any other source in Piedmont’s service territory. On the other hand, the
21 customer base for CNG is intended to be whoever stops at the CNG facility.

22 Piedmont admits that it is not a monopoly provider of CNG,⁴ so any CNG

³ Supplemental Testimony of Company witness Valentine, filed October 31, 2014, Page 12.

⁴ Company response to CAPD Supplemental Discovery Request #7.

1 customer is not limited to buying from Piedmont. In the context of the overall
2 supply chain for natural gas that is then compressed into CNG, Piedmont is
3 essentially a wholesale provider of natural gas to retail providers of CNG. The
4 Company confirms the characterization where it states that it "...is the only entity
5 currently able to provide wholesale gas supplies [for CNG] within its service
6 area."⁵

7
8 The differing pricing mechanisms also support this distinction between natural
9 gas and CNG. The price for natural gas sold by Piedmont in its monopoly service
10 territory is set by tariff. If Piedmont wants to change that price, it must first
11 request approval from the TRA. On the other hand, the retail price for CNG,
12 although set by tariff at the wholesale level, can fluctuate up or down as
13 determined by Piedmont, and not by the TRA. This price distinction means that
14 Piedmont "...may at its discretion offer a rate discount on a not unduly
15 discriminatory basis to customers, up to the per therm compression charge
16 referenced above, in order to compete with alternative fuel providers and further
17 develop the market demand for natural gas vehicular fuel or the facilities available
18 to serve such demand."⁶

19
20 By analogy to a related unregulated business, it should be noted that natural gas
21 can also be converted into other forms such as liquefied natural gas ("LNG")
22 which can then be used in motor vehicles. However, at this time, the Tennessee

⁵ Company response to CAPD Supplemental Discovery Request #11.

⁶ Company proposed tariff as originally filed in Docket No. 14-00087, on Page 1 of Rate Schedule 342.

1 legislature has not given the TRA the authority to regulate rates for the sale of
2 LNG, even though that product also originates from natural gas. Further, since
3 LNG is a product along the same lines as CNG from a regulatory perspective and
4 has similar customers and a pricing structure more similar to CNG than natural
5 gas, CNG appears to be more akin to unregulated LNG than to regulated natural
6 gas.

7
8 ***Q9. HAS PIEDMONT SHOWN THAT THE TRA IS AUTHORIZED TO***
9 ***REGULATE CNG IN THE SAME WAY THAT IT REGULATES***
10 ***NATURAL GAS?***

11 ***A9.*** No. Piedmont has not shown that the TRA is authorized by statute or regulation
12 to regulate CNG in the same manner that it regulates natural gas. Piedmont does
13 state that Tenn. Code Ann. § 65-5-103(d) "...specifically authorizes alternative
14 regulatory methods to allow for public utilities to recover expenses associated
15 with infrastructure and equipment targeted at alternative motor vehicle
16 transportation fuel."⁷ However, Piedmont's testimony does not show that Tenn.
17 Code Ann. § 65-5-103(d) provides the TRA with any new authority to regulate
18 the actual retail sale and rates of CNG.

19
20 In view of the apparent lack of statutory or regulatory support, it must be noted
21 factually, again, that CNG is a fundamentally different product with a different
22 customer base and a different pricing mechanism than natural gas. Further, the
23 regulation of CNG would seem to fly in the face of the realities of the CNG

⁷ Supplemental Testimony of Company witness Valentine, filed October 31, 2014, Page 12.

1 market – for example, the retail unregulated CNG market has various providers.⁸
2 There is no monopoly with respect to the sale of CNG.⁹ Those examples of facts,
3 reflecting the clear line between the regulated natural gas environment in which
4 Piedmont operates and the retail unregulated CNG market, demonstrate that
5 Piedmont is unable to show factually that CNG would be an activity that the TRA
6 is authorized to regulate. Since Piedmont has not shown that the retail sale of
7 CNG is a properly regulated activity, it appears that there is no basis for the TRA
8 to regulate the sale and rates of CNG.

9
10 To avoid the conflicts presented by mixing a fundamentally unregulated activity
11 such as CNG with the regulated sale of natural gas and to avoid the subsidy and
12 related problems described in Dr. Klein's testimony, it would appear that Tenn.
13 Code Ann. § 65-5-103(d) only allows the Company to extend its infrastructure
14 and equipment (e.g. mains, meters, meter sets) to a previously unserved area in
15 order to make gas available for CNG and then recover the investment cost of that
16 expansion up to the gas meter of a facility providing CNG services. Therefore, it
17 does not appear that Piedmont has demonstrated that Tenn. Code Ann. § 65-5-
18 103(d) provides the TRA with the authority to approve the CNG infrastructure
19 tariff proposed by the Company.

20
21 ***Q10. HASN'T THE TRA ALREADY APPROVED A CNG TARIFF FOR THE***
22 ***COMPANY?***

⁸ Piedmont response to CAPD Supplemental Discovery Request #12.

⁹ Piedmont responses to CAPD Supplemental Discovery Request #7 and TFCSA Supplemental Discovery Request #10.

1 **A10.** Yes. In the Company's last rate case, the TRA approved the current Rate
2 Schedule 342 for Natural Gas Vehicle Fuel.¹⁰ In that case, I included the
3 following statement in my testimony regarding the proposed natural gas vehicle
4 tariff:

5 *"The Company has proposed a new Rate Schedule 342 for Natural*
6 *Gas Vehicle Fuel. The Company has also proposed a monthly*
7 *customer charge of \$40 and a consumption charge of \$0.23109 per*
8 *therm. The CAPD believes that the prospects for the natural gas*
9 *fuel market are good and that this customer group may eventually*
10 *develop and contribute to the recovery of the Company's common*
11 *costs. The CAPD therefore supports the Company's initial*
12 *proposal for this rate schedule until the next rate case."*¹¹

13 However, the TRA's approval of Rate Schedule 342 in the Company's last rate
14 case involved no anticipated incremental rate base investment, no anticipated
15 incremental operating expenses and no anticipated incremental revenue. Instead,
16 my recollection, as a witness in that rate case, was that the Company's proposal
17 only included existing facilities for its own vehicle fleet that were already
18 included in rate base and that the natural gas vehicle tariff would only be a small
19 sideline business. Otherwise, I would have recommended that the Consumer
20 Advocate insist that this unregulated business activity be excluded from the rate
21 case.

22
23 It is now apparent that the scope and scale of the Company's plans for CNG
24 exceed that of the sideline business activity that was anticipated in their last rate
25 case. As a result of the Company's material expansion into CNG markets, my
26 recommendation is that the TRA discontinue and terminate Rate Schedule 342

¹⁰ TRA Docket 11-00144.

¹¹ Direct Testimony of William H. Novak, TRA Docket 11-00144, Page 17.

1 and to replace it with the Company's proposed Rate Schedule 343. Further, any
2 sales of natural gas to the Company or their affiliate for the purpose of resale as
3 CNG should also be captured under Rate Schedule 343.
4

5 ***Q11. DO YOU AGREE WITH PIEDMONT'S ASSERTION THAT CNG***
6 ***RETAIL SALES SHOULD BE REGULATED BECAUSE THEIR***
7 ***NATURAL GAS SERVICE BUSINESS IS REGULATED?***

8 ***A11.*** No. Piedmont asserts in its testimony that CNG retail sales should be regulated
9 because the Company's natural gas service business is regulated – in other words,
10 because the natural gas entity is regulated, everything the entity does is
11 regulated.¹² Aside from the practical problems that this interpretation could
12 present with respect to fitting businesses into entities for the purpose of avoiding
13 or attaining a regulated or unregulated status, I do not believe that you have to
14 look any further than each instance in which Piedmont makes that assertion in
15 order to refute it – specifically each time Piedmont makes such an assertion, it
16 qualifies it with the word “currently” or something similar.
17

18 In this case, it appears that the Company is attempting to establish a standard that
19 the status of the entity controls the regulated versus unregulated status to place the
20 burden of the retail CNG infrastructure cost on ratepayers (by currently
21 classifying it as regulated), while leaving open the future argument that the CNG
22 activity and related entity could become unregulated. Additionally, Piedmont's
23 assertion ignores the fundamental differences between CNG and natural gas, and

¹² Piedmont response to CAPD Supplemental Discovery Request #14.

1 the differences between their respective customer bases and pricing mechanisms,
2 regardless of the entity that conducts the activity. Further, Piedmont does not
3 appear to follow its apparent standard with respect to all of the businesses under
4 its corporate umbrella – for example, Piedmont’s SouthStar business venture is
5 unregulated, even though Piedmont itself is regulated. To state the obvious, under
6 Piedmont’s assertion, neither Piedmont nor any other regulated utility could ever
7 have an unregulated business associated with it or under its corporate umbrella.

8
9 ***Q12. HAS THE TRA EVER INCLUDED ANY OTHER SIDELINE BUSINESS***
10 ***ACTIVITIES IN RATE CASES THAT WOULD OTHERWISE BE***
11 ***CONSIDERED UNREGULATED?***

12 ***A12.*** Yes. Most notably in the past the TRA has included the revenues and direct
13 expenses of unregulated Merchandise and Jobbing (“M&J”) activity in rate cases.
14 M&J typically involves the sale and installation of gas appliances. Although
15 M&J is an unregulated activity, it is generally more efficient to include the direct
16 revenue and expenses associated with M&J activity within the rate case
17 calculation than to allocate utility overheads to the unregulated M&J operations.

18
19 Another example of unregulated activity involves the sale of LNG to other
20 utilities that I mentioned previously. As with M&J, it has generally been proven
21 to be more efficient to include the direct revenue and expenses associated with
22 LNG sales within the rate case calculation than to allocate utility overheads to the
23 unregulated LNG operations.

1

2 However, within both of the M&J and LNG examples cited above, the direct
3 revenues exceeded the direct costs of the unregulated activity. This result is in
4 sharp contrast to the Company's current proposed CNG Tariff that requires a
5 \$558,000 annual operating subsidy from captive utility customers in order to be
6 economically feasible.

7

8 ***Q13. SHOULDN'T THE COMPANY REASONABLY EXPECT TO EARN A***
9 ***RETURN FROM ITS INVESTMENT IN CNG INFRASTRUCTURE?***

10 A13. No. This docket represents this first time that the Company has notified the TRA
11 of its material investment in CNG infrastructure. In addition to my earlier
12 assertions about CNG being unregulated, if the Company truly expected to earn a
13 return and recover its cost associated with its CNG investment, then Piedmont
14 never provided the required notice to the TRA in accordance with Rule 1220-4-1-
15 .01(1)(a) regarding capital additions budgets of utilities which reads as follows:

16 (1) All public utilities operating in the State of Tennessee shall submit one (1)
17 copy of the following information on an annual basis, to be filed no later than
18 ninety (90) days after the beginning of the current fiscal year with the Chief,
19 Utilities Division or as otherwise agreed upon.

20 (a) Projected expenditures on capital construction projects both routine
21 and specific for the current year.

22 The Company never provided the TRA with the required information regarding
23 its budgeted capital expenditures for CNG infrastructure in its last rate case or
24 since that time.¹³ Since the Company failed to inform the TRA of their CNG
25 expansion plans at any one of several pre-set notification points, the risk of rate

¹³ See Company response to Consumer Advocate Supplemental Data Request No. 19.

1 recovery falls squarely on the shoulders of the shareholders. As a result, it should
2 not be a surprise for the Company to now learn that the subsidies it is now seeking
3 to recover through its CNG tariff are inappropriate and not in the public interest.
4

5 ***Q14. IS YOUR RECOMMENDATION TO TREAT CNG AS AN***
6 ***UNREGULATED ACTIVITY CONSISTENT WITH THE LEGISLATIVE***
7 ***INTENT IN PASSING TENN. CODE ANN. § 65-5-103(D)(3)(A)***
8 ***RELATING TO “INFRASTRUCTURE AND EQUIPMENT ASSOCIATED***
9 ***WITH ALTERNATIVE MOTOR VEHICLE TRANSPORTATION***
10 ***FUEL?”***

11 ***A14.*** Yes. In passing the provision relating to “alternative motor vehicle transportation
12 fuel”, the Legislature made it clear that it did not want the new statute to result in
13 any “cross-subsidization”.¹⁴ As discussed more fully in the testimony of Dr.
14 Klein, if the filing is approved by the TRA, it would necessarily result in natural
15 gas customers subsidizing a business activity for an entirely different set of
16 customers.
17

18 ***Q15. WHAT ACTION ARE YOU RECOMMENDING THAT THE TRA TAKE***
19 ***ON THE COMPANY’S FILING?***

20 ***A15.*** I recommend that the TRA reject the Company’s proposed Rate Schedule 318 to
21 recover the costs of its unregulated CNG activity from utility ratepayers. I also
22 recommend that the TRA discontinue and terminate Rate Schedule 342 and to

¹⁴ See transcript of the Tennessee House of Representatives, Finance Ways & Means Subcommittee, included as Attachment WHN-2.

1 replace it with the Company's proposed Rate Schedule 343. Finally, I
2 recommend that the TRA direct that any sales of natural gas to the Company or
3 their affiliate for the purpose of resale as CNG should be captured under Rate
4 Schedule 343.

5
6 ***Q16. IF THE TRA SHOULD DECIDE TO APPROVE THE COMPANY'S***
7 ***PROPOSAL, DO YOU HAVE ANY CONCERNS WITH HOW THE***
8 ***SUBSIDY COSTS SHOULD BE ACCOUNTED FOR?***

9 ***A16.*** Yes. If the TRA does choose to approve the Company's proposal, then
10 consideration should be given as to how the cumulative customer subsidies will
11 be refunded. Currently, the Company is requesting a \$558,000 annual operating
12 subsidy from captive utility customers in order for its proposed CNG tariff to be
13 economically feasible. If the CNG operations either fail or they are sold off, there
14 should be some type of mechanism for the captive customers to recoup their
15 subsidy investment.

16
17 ***Q17. DOES THIS COMPLETE YOUR TESTIMONY?***

18 ***A17.*** Yes it does. However, I reserve the right to incorporate any new data that may
19 subsequently become available.

ATTACHMENT WHN-1

William H. Novak Vitae

William H. Novak

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The Woodlands, TX 77381

Phone: 713-298-1760

Email: halnovak@whnconsulting.com

Areas of Specialization

Over twenty-five years of experience in regulatory affairs and forecasting of financial information in the rate setting process for electric, gas, water and wastewater utilities. Presented testimony and analysis for state commissions on regulatory issues in four states and has presented testimony before the FERC on electric issues.

Relevant Experience**WHN Consulting – September 2004 to Present**

In 2004, established WHN Consulting to provide utility consulting and expert testimony for energy and water utilities. Complete needs consultant to provide the regulatory and financial expertise that enabled a number of small gas and water utilities to obtain their Certificate of Public Convenience and Necessity (CCN) that included forecasting the utility investment and income. Also provided the complete analysis and testimony for utility rate cases including revenues, operating expenses, taxes, rate base, rate of return and rate design for utilities in Tennessee. Assisted American Water Works Company in preparing rate cases in Ohio and Iowa. Provided commercial and industrial tariff analysis and testimony for an industrial intervenor group in a large gas utility rate case. Industry spokesman for water utilities dealing with utility commission rulemaking. Consultant for the North Carolina and Illinois Public Utility Commissions in carrying out their oversight functions of Duke Energy and Peoples Gas Light and Coke Company through focused management audits. Also provide continual utility accounting services and preparation of utility commission annual reports for water and gas utilities.

Sequent Energy Management – February 2001 to July 2003

Vice-President of Regulatory Compliance for approximately two years with Sequent Energy Management, a gas trading and optimization affiliate of AGL Resources. In that capacity, directed the duties of the regulatory compliance department, and reviewed and analyzed all regulatory filings and controls to ensure compliance with federal and state regulatory guidelines. Engaged and oversaw the work of a number of regulatory consultants and attorneys in various states where Sequent has operations. Identified asset management opportunities and regulatory issues for Sequent in various states. Presented regulatory proposals and testimony to eliminate wholesale gas rate fluctuations through hedging of all wholesale gas purchases for utilities. Also prepared testimony to allow gas marketers to compete with utilities for the transportation of wholesale gas to industrial users.

Atlanta Gas Light Company – April 1999 to February 2001

Director of Rates and Regulatory Analysis for approximately two years with AGL Resources, a public utility holding company serving approximately 1.9 million customers in Georgia, Tennessee, and Virginia. In that capacity, was instrumental in leading Atlanta Gas Light Company through the most complete and comprehensive gas deregulation process in the country that involved terminating the utility's traditional gas recovery mechanism and instead allowing all 1.5 million AGL Resources customers in Georgia to choose their own gas marketer. Also responsible for all gas deregulation filings, as well as preparing and defending gas cost recovery and rate filings. Initiated a weather normalization adjustment in Virginia to track adjustments to company's revenues based on departures from normal weather. Analyzed the regulatory impacts of potential acquisition targets.

Tennessee Regulatory Authority – Aug. 1982 to Apr 1999; Jul 2003 to Sep 2004

Employed by the Tennessee Regulatory Authority (formerly the Tennessee Public Service Commission) for approximately 19 years, culminating as Chief of the Energy and Water Division. Responsible for directing the division's compliance and rate setting process for all gas, electric, and water utilities. Either presented analysis and testimony or advised the Commissioners/Directors on policy setting issues, including utility rate cases, electric and gas deregulation, gas cost recovery, weather normalization recovery, and various accounting related issues. Responsible for leading and supervising the purchased gas adjustment (PGA) and gas cost recovery calculation for all gas utilities. Responsible for overseeing the work of all energy and water consultants hired by the TRA for management audits of gas, electric and water utilities. Implemented a weather normalization process for water utilities that was adopted by the Commission and adopted by American Water Works Company in regulatory proceedings outside of Tennessee.

Education

B.A, Accounting, Middle Tennessee State University, 1981

MBA, Middle Tennessee State University, 1997

Professional

Certified Public Accountant (CPA), Tennessee Certificate # 7388

Certified Management Accountant (CMA), Certificate # 7880

Former Vice-Chairman of National Association of Regulatory Utility Commission's Subcommittee on Natural Gas

**Witness & Advisory History for William H. Novak, CPA
Selected Cases**

State	Company/Sponsor	Year	Assignment	Docket
Louisiana	CenterPoint Energy/Louisiana PSC	2011	Audit of PGA Filings from 2002 - 2008 of CenterPoint Arkla	S-32534
	CenterPoint Energy/Louisiana PSC	2011	Audit of PGA Filings from 2002 - 2008 of CenterPoint Entex	S-32537
	Louisiana Electric Utilities/Louisiana PSC	2012	Technical Consultant for Impact of Net Meter Subsidy on other Electric Customers	R-31417
Tennessee	Aqua Utilities	2006	Rate Case Audit - Revenue, Expenses, Rate Base and Rate Design	06-00187
	Atmos Energy Corporation/Atmos Intervention Group	2006	Rate design for Industrial Intervenor Group	05-00258
	Atmos Energy Corporation/Atmos Intervention Group	2007	Rate design for Industrial Intervenor Group	07-00105
	Bristol TN Essential Services	2009	Audit of Cost Allocation Manual	05-00251
	Chattanooga Manufacturers Association	2009	Spokesperson for Industrial Natural Gas Users before the Tennessee State Legislature	HB-1349
	Tennessee-American Water Company/Tennessee AG	2011	Rate Case Audit - Weather Normalization Adjustments	10-00189
	Piedmont Natural Gas Company/Tennessee AG	2011	Rate Case Audit - Revenue, Class Cost of Service Study & Rate Design	11-00144
	Lynwood Wastewater Utility/Tennessee AG	2012	Rate Case Audit - Revenue, Class Cost of Service Study & Rate Design	11-00198
	Tennessee-American Water Company/Tennessee AG	2012	Rate Case Audit - Revenues, Rate Base, Class Cost of Service Study and Rate Design	12-00049
	Atmos Energy Corporation/Tennessee AG	2012	Rate Case Audit - Revenues, Rate Base and Rate Design	12-00064
	Jefferson County (Birmingham) Wastewater/Alabama AG	In Process	Bankruptcy Filing - Allowable Costs and Rate Design	2009-2318
	Peoples & North Shore Gas Cos./Illinois Commerce Comm.	2007	Management Audit of Gas Purchasing Practices	06-0556
New Mexico	Southwestern Public Service Co./New Mexico PRC	2010	Financial Audit of Fuel Costs for 2009 and 2010	09-00351-UT
New York	National Grid/New York PSC	2011	Audit of Affiliate Relationships and Transactions	10-M-0451
	Ohio-American Water Company/Ohio Consumers' Counsel	2010	Rate Case Audit - Class Cost of Service and Rate Design	09-0391-WS-AIR
	Vectren Energy Delivery of Ohio/Ohio Consumers' Counsel	2008	Rate Case Audit - Class Cost of Service and Rate Design	07-1080-GA-AIR
Texas	Duke Energy-Ohio/Public Utilities Commission of Ohio	2009	Focused Management Audit of Fuel & Purchased Power (FPP Riders)	07-0723-EL-LUNC
	Center Point Energy/Texas AG	2009	Rate Case Audit - Class Cost of Service and Rate Design	GUD 9902
	Aqua Utilities/PSS Legal Fund	2011	Rate Case Audit - Class Cost of Service and Rate Design	W-218, Sub-319
Washington DC	Washington Gas Light Co./Public Service Comm of DC	2011	Audit of Tariff Rider for Infrastructure Replacement Costs	102Z

NOTE: Click on Docket Number to view testimony/report for each case where available.

ATTACHMENT WHN-2

Tennessee House of Representatives, Finance Ways & Means
Subcommittee, Transcript for HB 191 from March 13, 2013

TENNESSEE GENERAL ASSEMBLY

House Finance Ways & Means Subcommittee, March 13, 2013

Chairman Michael Harrison: Okay we'll take item 39, House Bill 191 out of order. Leader McCormick you're recognized.

Representative Gerald McCormick: Thank you Mr. Chairman. House Bill 191 is an administration bill in cooperation with the TRA. It has several components but basically it realigns the TRA's funding mechanism which will result in over \$1 Million in fee reductions passed down to utilities and hopefully to the consumers too. It also enables the adoption of best practices for more efficient rate reviews which means we're going to bring in and see...

Chairman Michael Harrison: Bill's been moved and properly seconded. Do we have questions on the bill? Chairman Sargent, you're recognized.

Representative Charles Sargent: thank you Mr. Chairman. Leader McCormick, let me, I have two questions I'd like to ask and I think you probably know what they are. One of these, we're going to do an annual rate review and normally we did a review after 4 or 5 years and they had a full blown hearing. When we do this will there actually be a review or is it just going to be that they ask for a half percent or a $\frac{3}{4}$ percent of an increase is that going to be automatic or will they actually have an annual review and see why they need that increase?

Representative Gerald McCormick: That's a good question. What they're going to do, as you know in the past, they'd wait several years, 3 to 5 years and longer sometimes and then go in and have a full blown case where a lot of lawyers were hired and a lot of fights and negotiating positions and that type thing. What this does is gives the TRA the ability to really on a constant basis keep an eye on these companies and give them some rate, usually increases I suspect, based on some expenses that they really don't have any control over. It'll be more of, I'd say, a CPA driven process rather than a legal driven process but with the clear understanding that it could turn into a legal process if the system breaks down. So, it has the safeguards of the old system but some efficiencies in the new system.

Representative Charles Sargent: You feel doing it like this, the consumers are still going to be protected and have all the protections they had before?

Representative Gerald McCormick: I do feel like it and I had some questions myself. I'm carrying the legislation but I think we need to ask tough questions about legislation that we carry not just other people's legislation and something that keeps cropping up that reassures me is that the Commission will have the ability and as the words are written to act in the public interest. Which is vaguely defined which I think gives them a lot of authority to go in if the system is being abused to step in and change things if they need to in the public interest.

Representative Charles Sargent: Chairman, thank you for that. For those, I just wanted to make sure that we had that on the record. The other question I have is under Section 5. Section 5 as you know where natural gas companies would be able to set up, and there's been a lot of talk about this, set up their own substation or sell natural gas for cars and trucks. Is that, do you see that as the intent of the legislation?

Representative Gerald McCormick: You know Chairman, this is one that just came up yesterday and I hate to make this last any longer but I don't want to give you the wrong answer. If I have the Committee's permission I'd like to call up possibly Chairman Allison to address that question, if that's okay with the Chairman too and both Chairmen.

Chairman Michael Harrison: Without objection we're out of session. If you would, come forward and state your name for the record.

Jim Allison: I'm Jim Allison, I'm the Chairman of the Tennessee Regulatory Authority. The answer to your question is what it deals with is a procedural change in how we will go about looking at those rates. It does not guarantee recovery, it does not say that there will be any cross- subsidization of the fuel, motor fuel dispenser by residential consumers or anything of that nature but the alternative rate making procedures, all of them, are permissive and it would require that finding that the public interest, like the Leader stated.

Chairman Michael Harrison: You're recognized.

Representative Charles Sargent: Thank you Mr. Chairman. My question is, is it the intent of natural gas companies to go into set up, I'll say natural gas stations through-out the state and have the rate payers paying for that infrastructure and not as a commercial entity? Is there, I want to make sure we don't have rate payers paying for infrastructure where we have commercial entities out there that have to basically pay for their own infrastructure.

Jim Allison: There is no intent in this legislation to allow any other class of consumers to subsidize the facilities that would go into providing natural gas as a motor fuel.

Representative Charles Sargent: And is also your understanding that natural gas companies do not intend to set up stations throughout the state? And they're going to lead back to the retailers of the Mapcos and the Exxons and the Shell stations of the world to do that?

Jim Allison: I can't really address what the intentions of the natural gas companies are but as the Regulatory Authority we will assure there is no cross-subsidization going on as we implement the various rates.

Representative Charles Sargent: Okay. Thank you. Thank you Mr. Chairman.

Chairman Michael Harrison: Representative Armstrong, you're recognized.

Representative Joe Armstrong: Thank you Mr. Chairman and Chairman Sargent brings up a very interesting question as it relates to, you know, natural gas vehicles and of course, realizing that natural gas is becoming the transportation fuel. Certainly I didn't know if the agency had looked at the conversion from petroleum based fuel to natural gas and setting up the rules and regulations along that line. Even if you look at the available information that's out there, all our utilities, they're converting the coal fired plants, the TVA's just converted to natural gas at some of their largest, some of their largest facilities over to natural gas and then with all of the reports about how much natural gas is available in this country with all the finings (?) or the shale gas and the fracking and all of this, have we looked at a comprehensive study of Tennessee looking at the use of natural gas and also as a transportation fuel? Because I think the last statistic that I saw that natural gas on a BTU level would cost about \$1.29 per gallon if we switched over from gas that's costing what \$4.40 a gallon now. Has this agency looked at going in that direction for natural gas fueling and for

providing those infrastructures?

Jim Allison: There's a lot of talk nationally about, not only natural gas, but other alternative fuels. For example, I drove up here from Shelbyville in an electric car yesterday. So, it's an emerging part of the technology of our country. At the TRA we have had some limited experience with natural gas as a motor fuel, we do have at least one and I think perhaps 2 natural gas companies that have established refueling stations. They are not on the side of the interstate where everybody knows where they are but they are for people who have limited natural gas vehicles already and we've established tariffs for those dispensing facilities already so we have looked at it in a limited sense but I would have to say in a comprehensive sense we have not had a formal study like you're suggesting.

Representative Joe Armstrong: And when you mention tariffs, we know we've got taxes on our fuel to pay for road costs but when it comes to electric vehicles, when it comes to natural gas vehicles, there's no money being collected for the infrastructure and I'm kind of following along with the Chairman was talking about. Certainly we can even get into how other states actually distribute gas to not only commercial but to residential, you know, in Georgia an individual gets to choose which company, which market they buy gas from and the utility is only the deliverer of that. In Tennessee we've got a different type of structure and I didn't know if you were looking at that, where the utility only charges you for the transportation but you pay a commodity price from someone else. And Texas has a totally deregulating both electric and natural gas. Are we looking at some of these because there's a significant difference in natural gas prices to consumers in Georgia is a big difference than what we pay here in Tennessee. In Tennessee we pay different rates in between different consumers. The only ones subject to any type of hedge, whether it's low or high, are the private companies but certainly those utilities out here that are making money off the commodity price, have we looked at basically talking to them and saying, hey, put in your infrastructure cost and let the consumer have a choice and let the businesses have a choice where they buy their natural gas?

Jim Allison: There is some of that going on in the natural gas industry all, already in Tennessee. For example, we have a number of large users of natural gas that buy directly from alternative sources and then use the local distribution company just for a delivery mechanism so there are situations in place in Tennessee where that's occurring as well. It hasn't been penetrated to the individual homeowner level. I used to work in Georgia it's got its plusses and minuses, to deal with that. It becomes a very complex arena but it hasn't penetrated down to the individual level here in Tennessee yet but we do have a number of large consumers who already do just that.

Representative Joe Armstrong: Okay, but your experience in Georgia, certainly, I think it would benefit the residential consumers to look at that option and see if it would be some savings on that residential user. And I didn't know if you had plans within the TRA to look at things of that nature.

Jim Allison: We don't have anything specifically planned but we'll certainly talk about it after the discussion today.

Chairman Michael Harrison: Any further questions for the Chairman? Seeing none. Thank you for being with us today. Without objection, we're back in session. Leader McCormick?

Representative Gerald McCormick: I renew my motion Mr. Chairman.

Chairman Michael Harrison: Any further questions. Seeing none. Is there objections to questions? Hearing none, all in favor of moving house bill 191 to full finance, say aye, those opposed. Bill moves out.