BEFORE
THE TENNESSEE REGULATORY AUTHORITY

PETITION OF B&W PIPELINE, LLC FOR AN INCREASE IN ITS RATES AND CHARGES	)))))))))	Docket No. 15-00042

SUPPLEMENTAL REBUTTAL TESTIMONY
of
WILLIAM H. NOVAK

ON BEHALF OF
B&W PIPELINE, LLC

September 1, 2015

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Attachment WHN Supplemental Rebuttal-1	Discounted Pipeline Replacement Cost Analysis
Attachment WHN Supplemental Rebuttal-2	Affidavit of Kelly G. Gillespie of Bell Engineering

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

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

Q2. ARE YOU THE SAME WILLIAM H. NOVAK THAT PREVIOUSLY PRESENTED PRE-FILED DIRECT AND REBUTTAL TESTIMONY IN THIS SAME DOCKET?

A2. Yes.

Q3. ON WHOSE BEHALF ARE YOU TESTIFYING?

A3. I am testifying on behalf of B&W Pipeline, LLC ("B&W Pipeline" or "the Company").

Q4. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL REBUTTAL TESTIMONY?

A4. The purpose of my supplemental rebuttal testimony is to respond to the supplemental testimony of the CAPD witness Ralph Smith that was filed with the TRA on August 24th. Specifically, Mr. Smith's supplemental testimony contains a number of statements that B&W Pipeline disagrees with. These statements are addressed in the following categories by Mr. Smith:

[1] State of Tennessee, Registered Accounting Firm ID 3682.

I. Original Cost of the Utility Plant;

II. Affiliate Operator Fee;

III. Costs for Obtaining [the CCN] Certificate;

IV. Throughput; and

V. Rate Design.

I will be addressing each of Mr. Smith's statements within these same categories.

I. <u>ORIGINAL COST OF THE UTILITY PLANT.</u>

Q5. MR. NOVAK BEFORE WE BEGIN, PLEASE SUMMARIZE THE COMPANY'S AND THE CAPD'S POSITIONS ON THE ORIGINAL COST OF THE UTILITY PLANT.

A5. In September 2010, the Company purchased the 48 mile gas pipeline along with 96 oil and gas wells in conjunction with the bankruptcy of the previous owner. The total price recorded for the acquisition was $2,633,085.[2] However, because these assets were purchased in conjunction with the bankruptcy of the previous owner, no original cost or continuing property records were provided with the purchase.[3]

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[2] Company response to CAPD Data Request 2-1.

[3] Furthermore, because of the state of the previous owner in bankruptcy, it is doubtful that such records could have been faithfully relied upon even if they had been provided.

The Company has included the entire acquisition cost of $2,633,085 in its rate base. Through Mr. Smith's testimony, the CAPD contends that the Company has not "carried its burden of proof" in verifying the original cost of the acquired utility plant and has therefore proposed that none ($0) of the acquisition cost should be included in rate base. In support of his proposal to exclude the pipeline acquisition cost from rate base, Mr. Smith makes the following arguments:

1. Reliance upon annual reports on file with the TRA from the previous owner as a type of consolidated transmission/distribution report;
2. Discarding the results of the Company's independent engineering study;
3. Disputing the Company's present value analysis of current replacement costs to the date the plant was placed in service;
4. Disputing the Company's assignment of zero ($0) cost to the gas and oil wells acquired;
5. Disputing the results of the utility plant included in the Company's Ad Valorem Report filed with the State of Tennessee; and
6. Disputing the affiliate transactions involving the transfer of the Company's unregulated gas and oil wells to a separate company.

<u>I-1. Annual Report of the Previous Owners</u>

Q6. MR. NOVAK, PLEASE DESCRIBE THE LAST TRA ANNUAL REPORT FILED BY THE PIPELINE'S PREVIOUS OWNER, GASCO DISTRIBUTION SYSTEMS, INC. ("GASCO").

A6. Mr. Smith included a copy of the 2009 TRA Annual Report of Gasco in his supplemental direct testimony as Attachment RCS Supplemental Direct-1. In regards to this annual report, Mr. Smith states the following:

> "No annual reports filed with the TRA by Titan Energy Group could be located. The lack of any annual reports by Titan Energy Group to the TRA suggests that either Titan never reported the original cost or depreciation over the years to the TRA and its predecessor, **or that the use of the pipeline in providing public utility service was included in the reports to the TRA filed by the entity that was providing utility service, Gasco Distribution Systems, Inc.**" (Emphasis added.)[4]

Q7. IS IT LIKELY THAT THE GASCO ANNUAL REPORT TO THE TRA INCLUDED THE COST OF THE TRANSMISSION PIPELINE?

A7. No. First, the title of the annual report specifically and clearly states that it is for "Gasco Distribution Systems, Inc." on each and every page of the report. There is no mention of a transmission pipeline.

Secondly, the annual report lists no transmission or wellhead assets. Specifically, Page F-4 of the report lists the net utility plant value at $949,548.79. However, Page G-4 and G-5 list no assets for Natural Gas Production Plant and only $272.65 for Transmission Plant.[5] If the Company was indeed going to include the cost of the transmission pipeline in the TRA Annual Report, then they would in all likelihood also have included the gas wells as natural gas production plant.

[4] Supplemental Direct Testimony of Ralph C. Smith, Page 4, A7.
[5] $272.65 in Measuring and Regulator Station Equipment (369) which is likely the cost of the distribution meter documenting gas received from the transmission pipeline.

Since the pipeline and gas well assets do not appear to be included within the Gasco Annual Report to the TRA, and no other report from Titan Energy Group can be located, it is very likely that the investment cost of the transmission pipeline was never reported to the TRA. Therefore, the Gasco 2009 Annual Report to the TRA should not be relied upon as a consolidated historical valuation of the production, transmission and distribution system.

I-2. Independent Engineering Study

Q8. WHY DOES MR. SMITH DISCARD THE RESULTS FROM THE COMPANY'S INDEPENDENT ENGINEERING STUDY[6] ON THE REPLACEMENT VALUE OF THE TRANSMISSION PIPELINE?

A8. Mr. Smith lists various reasons that rely on incorrect assumptions for his recommendation that the TRA discard the results on the net replacement value of the independent engineering study. Among these reasons are the following:

1. The engineering study was undertaken in 2013 and not in 2010 when the pipeline was purchased;
2. The engineering study only evaluates replacement cost and not original cost;
3. The engineering study makes assumptions on the theoretical life of the pipeline assets that are different than the financial depreciable lives; and
4. The engineering study overestimates the cost to construct the plant.

[6] Attached to my testimony is the affidavit of Kelly G. Gillespie, President of Bell Engineering and Project Manager of the B&W Pipeline Valuation Report. B&W Pipeline will make Mr. Gillespie available at the Company's hearing to respond to any specific questions regarding the engineering study.

Q9. DOES THE TIMING OF THE ENGINEERING STUDY HAVE AN IMPACT IN THIS CASE?

A9. No. The engineering study was not undertaken in order to establish a purchase price for the pipeline in 2010. Rather the engineering study was undertaken after the purchase in order to provide independent confirmation on the pipeline valuation. I fail to see how this distinction justifies Mr. Smith's assertion that the results of the study should now be discarded from consideration in this docket because of the timing of when the engineering study was undertaken.

Q10. DOES THE ENGINEERING STUDY EVALUATE THE NET REPLACEMENT COST OF THE PIPELINE AND NOT THE ORIGINAL COST?

A10. Yes. The engineering study evaluated the net replacement cost of the pipeline in 2013. The Company purchased the pipeline assets in conjunction with the bankruptcy of the previous owners. As a result, the previous original cost records were simply not available and likely could not have been relied upon or trusted if they had been available. However, I fail to see how this distinction somehow justifies Mr. Smith's assertion that the engineering study should now be discarded because it somehow could not have considered the pipeline's original cost.

Q11. DOES THE ENGINEERING STUDY MAKE ASSUMPTIONS ON THE THEORETICAL DEPRECIABLE LIFE OF THE PIPELINE THAT IS DIFFERENT THAN THE FINANCIAL DEPRECIABLE LIFE?

A11. Yes. Most engineering studies involving depreciation consider the theoretical lives that are based on the material (plastic, bare steel, cast iron) of the pipeline. This is certainly not unusual. It is also not unusual for utilities and public utility commissions to adopt composite depreciable lives for financial reporting purposes that are different than the theoretical lives of each individual component of a pipeline. However, I fail to see how this distinction between theoretical and financial depreciable lives somehow justifies Mr. Smith's assertion that the engineering study should now be discarded.

Q12. DOES THE ENGINEERING STUDY OVERESTIMATE THE COST TO CONSTRUCT THE PIPELINE?

A12. Certainly not based on Mr. Smith's analysis. Mr. Smith is asking the TRA to discard the results of the engineering study, but then conveniently relies upon it to make his assertion that the engineering study overestimates the replacement cost to construct the pipeline. Specifically, Mr. Smith takes a portion of the pipeline that was repaired in 2013 and not even a part of the 2010 acquisition cost of $2,633,085 to make this assertion. He then infers that because the cost for the 2013 capitalized plant repair was recorded at $241,275 on the Company's books while the estimate from the engineering study for the 2013 plant replacement was $413,280, for a difference of 58.4%, that the total values in the engineering study are overstated by 58.4%. However, what Mr. Smith fails to accurately represent is that repairing an existing portion of the pipeline is not in any way the same as building the pipe from scratch. Instead, Mr. Smith is comparing apples with

oranges by contrasting the cost for capitalized repairs for an existing pipeline with the cost for new pipeline construction.

Specifically, the $241,275 amount reflected on the Company's books represents the actual capitalized cost to repair a portion of the pipeline in order to address specific safety citations that were imposed on the previous owner by the TRA. The $413,280 amount reflected in the engineering study represents the estimated cost to completely replace this entire section of the pipeline. Because the existing pipeline only needed to be repaired instead of constructed from scratch, many of the costs involved with new construction and included in the engineering study, such as securing easements & rights-of-way, boring & trenching, engineering, legal, regulatory and administrative were not necessary. As a result, Mr. Smith's assertions comparing the capitalized repair costs with the new construction costs are just not applicable and therefore the engineering study does not overstate the costs to construct the pipeline.

Next, Mr. Smith then commits a second, equally egregious error by applying his 58.4% ratio to the wrong number. Recall that he arrived at that ratio by comparing (incorrectly) the actual cost of repairing a line ($241,275) to the "replacement cost new" ($413,280) of that same line as estimated in the Bell Engineering report. He concluded from that comparison that the actual cost of the line is only about half (58.4%) of the engineer's estimate. He then applies that same ratio – not to the "replacement cost new" of the pipeline ($13,299,138) – but

to the 2010 acquisition cost ($2,633,085). That makes no sense. Even if it were true that the cost of building the pipeline is half of the engineer's estimate shown in the study, Mr. Smith should have applied the 58.4% ratio to $13,299,138, the engineer's estimate of the replacement cost of the pipeline, not to B&W Pipeline's purchase price. If he had done so, the value of the pipeline still comes out to be well over the amount paid for it by B&W Pipeline. Once again, it should also be noted that Mr. Smith purports to rely on the figures in the engineering report to come up with a reduced value of the pipeline while, at the same time, saying that the report, done three years after the purchase, has no relevance to this rate case. He cannot have it both ways.

As mentioned above, the original cost data of the previous owner is not available for the TRA to consider in setting rates for B&W Pipeline. However, as I mentioned in my rebuttal testimony, the NARUC Uniform System of Accounts allows the TRA to estimate the original cost value of the pipeline when the original cost data is not available. The independent engineering report on the pipeline valuation is the only reliable source of data for the TRA to consider for this valuation. Mr. Smith has consistently failed to provide a valid reason why this report should be discarded from the TRA's consideration.

I-3. Present Value Analysis

Q13. WHY DOES MR. SMITH DISPUTE YOUR DISCOUNTED VALUATION ANALYSIS OF THE REPLACEMENT COST BACK TO THE CONSTRUCTION DATE OF THE PIPELINE?

A13. According to his testimony, the 3% discount rate used in my analysis heavily influences the results and that I have offered no explanation or support for the discount rate of 3%.[7]

Q14. WHAT WAS THE BASIS FOR YOUR ASSUMPTION OF A 3% DISCOUNT RATE?

A14. The 3% discount rate represents the approximate average annual growth in the consumer price index from 1982 (the year of initial pipeline construction) through 2013 (the year of the engineering study). I have included the source and support for this calculation in Attachment WHN Supplemental Rebuttal-1 to my testimony. Accordingly, I used the 3% as the discount rate in my discounted replacement value analysis that was included in Attachment WHN Rebuttal-2 to my rebuttal testimony.[8]

As shown on Attachment WHN Supplemental Rebuttal-1, the engineering study valuation of the pipeline exceeds the acquisition cost of $2,633,085 by such a significant amount that even discounting the 2013 replacement value by 3% per year back to its construction date to reflect changes in construction costs would

[7] Supplemental Direct Testimony of Ralph C. Smith, Page 10, A14.
[8] This analysis of the discounted replacement value is also included here within Attachment WHN Supplemental Rebuttal-1

still yield an acquisition cost below the market value.[9] As a result, the Company reaffirms that its pipeline acquisition cost of $2,633,085 should be reflected as the appropriate value in rate base as an estimate of the original cost of the gas pipeline.

Q15. MR. SMITH USES THE CAPD'S PROPOSED COST OF CAPITAL OF 8.5% AS A DISCOUNT RATE. IS THIS CORRECT?

A15. No. The purpose of the discounted valuation analysis included in Attachment WHN Supplemental Rebuttal-1 is to discount the replacement cost from the engineering study back to the time of the original construction for consideration as an estimate of the original cost. The analysis was never intended as a consideration for making investment decisions as Mr. Smith purports.[10]

I-4. Cost Assignment to Oil and Gas Wells

Q16. WHAT IS MR. SMITH'S RATIONALE FOR DISPUTING THE TRANSFER OF THE UNREGULATED OIL AND GAS WELLS TO THE COMPANY'S AFFILIATE?

A16. Most of Mr. Smith's arguments on this point were already reflected in his direct testimony and involve issues with the non-arm's length nature of the transactions and valuation of the oil and gas wells. These particular arguments have already been addressed in my rebuttal testimony and I won't repeat them here except to mention that the liability associated with 83 non-producing wells exceeded the

[9] The cost of the $413,280 replacement value for Section 3 of the pipeline is excluded from the analysis since it was undertaken in 2013 after the acquisition.
[10] Supplemental Direct Testimony of Ralph C. Smith, Page 11, A16.

asset value of the 13 producing oil and gas wells. However, Mr. Smith does mention in his supplemental direct testimony a new concept that the **<u>net revenues</u>** produced by the oil and gas wells indicated a positive value at the time of acquisition. He also discusses the accounting provisions for recording an asset retirement obligation that is associated with the wells.

Q17. DOES THE FACT THAT THE WELLS HAD A POSITIVE <u>NET REVENUE</u> VALUE AT THE TIME OF THE ACQUISITION IMPACT HOW THEY SHOULD BE VALUED ON THE BALANCE SHEET?

A17. No. Mr. Smith is confusing the concept that the producing wells are in fact accretive on the income statement with their balance sheet valuation. While the 13 producing wells do if fact produce some income, it is overshadowed by the liability of capping the 83 non-producing wells. The components for the future income stream from the producing wells were already taken into consideration in their valuation as shown in the analysis to CAPD Data Request 2-1. However, the valuation for all of the wells still results in a net liability for the Company.

Q18. IS THE COMPANY REQUIRED TO RECORD AN ASSET RETIREMENT OBLIGATION FOR THE GAS AND OIL WELLS AS STATED BY MR. SMITH?

A18. No. Rugby Energy, B&W Pipeline's affiliate that owns the oil and gas wells, is a single member limited liability company with no debt. Further, Rugby Energy does not issue external financial statement to any third parties and is not required

to have its financial statements audited. As a result, Rugby Energy is not legally required to record an Asset Retirement Obligation on its books under generally accepted accounting principles.

Q19. IS THE ISSUE OF RECORDING AN ASSET RETIREMENT OBLIGATION RELEVANT TO THIS PROCEEDING?

A19. No. In spite of claims by Mr. Smith to the contrary, the accounting for the liabilities associated with the unregulated oil and gas wells have no bearing on this proceeding.

I-5. Ad Valorem Reports

Q20. MR. NOVAK, DOES B&W PIPELINE PREPARE AN AD VALOREM REPORT FOR THE STATE OF TENNESSEE ON THE VALUATION OF ITS GAS PIPELINE?

A20. Yes. I included a copy of the Company's 2015 Ad Valorem Report as Attachment WHN Rebuttal-3 along with my rebuttal testimony. The Ad Valorem Report provides the assessment basis for the property taxes paid by the Company. The Company has included its acquisition costs of the pipeline in the Ad Valorem Report, as it is legally required to do.

Q21. DOES MR. SMITH TAKE EXCEPTION TO THE VALUATION INCLUDED IN THE COMPANY'S AD VALOREM REPORT?

A21. Yes. Much of his testimony recaps that no cost was allocated to the unregulated wells, and that no acquisition adjustment was recorded on B&W Pipeline's books as previously discussed. However, he does repeatedly mention that B&W Pipeline's Ad Valorem Report reflects an equal amount of pipeline plant located in Fentress, Morgan and Pickett counties.

Q22. DOES B&W PIPELINE IN FACT HAVE AN EQUAL AMOUNT OF PIPELINE PLANT LOCATED IN THESE THREE COUNTIES?

A22. Probably not, although the actual pipeline length is approximately equal to 33.33% in each county. As I mentioned earlier, the Company purchased the 48 mile gas pipeline in conjunction with the bankruptcy of the previous owner. Because these assets were purchased in conjunction with the bankruptcy of the previous owner, no original cost or continuing property records were provided with the purchase including pipeline surveys within the boundaries of each of the counties. Until a pipeline survey can be completed, the Company can only estimate its actual pipeline length within each of these three counties.

Q23. IS THE ISSUE OVER THE EXACT LENGTH OF THE PIPELINE IN EACH COUNTY RELEVANT TO THIS PROCEEDING?

A23. No. The TRA sets rates on the total pipeline cost. In spite of assertions by Mr. Smith, the gas pipeline length in each county has no bearing on this proceeding.

I-6. Affiliate Transactions

Q24. MR. NOVAK, SHOULD THE TRA BE CONCERNED WITH THE AFFILIATE TRANSACTIONS REGARDING THE TRANSFER OF THE UTILITY'S UNREGULATED OPERATIONS AS MR. SMITH INDICATES?

A24. Certainly. The TRA should always concern itself with the proper allocation of cost to reflect only regulated activity in the rates of the utility. To my knowledge, all of the gas utilities under the TRA's jurisdiction have some manner of affiliate charges. B&W Pipeline is certainly no exception to this since the pipeline is too small to have its own dedicated staff. Further, it is to the TRA's regulatory oversight benefit to have the unregulated assets and associated liabilities of oil and gas wells removed from the regulated books of B&W Pipeline.

Q25. MR. NOVAK, PLEASE SUMMARIZE YOUR RECOMMENDATION ON THE AMOUNT OF THE ACQUISITIION COST TO INCLUDE IN RATE BASE.

A25. The acquisition cost of $2,633,085 represents a real cost that was paid for the pipeline system. Although no original cost records were provided from the previous owner, the Company has demonstrated that the amount paid for the pipeline was in all likelihood less than the original cost. Therefore, we request and recommend that the TRA reject Mr. Smith's incomplete analysis of the utility plant acquisition cost and instead accept the Company's actual acquisition cost of $2,633,085 as the appropriate amount to include in rate base.

II. AFFILIATE OPERATOR FEE.

Q26. MR. NOVAK, PLEASE SUMMARIZE THE COMPANY'S AND THE CAPD'S POSITIONS ON THE AFFILIATE OPERATOR FEE?

A26. B&W Pipeline has no employees of its own since it would be uneconomical to have a completely dedicated staff for such a relatively small operation. Instead, the needs of the pipeline are provided by an affiliate service company (Enrema, LLC) that also provides services to other entities. In addition to labor, the service company also allocates vehicle and insurance cost to B&W Pipeline totaling to $11,375 per month which is the amount that the Company has included in the rate case as its affiliate operator fee.

Although this $11,375 monthly fee is based on the specific costs charges for 3 separate employees along with vehicle and insurance cost, this same monthly fee is also charged to B&W Pipeline's affiliate, Rugby Energy, LLC, for maintaining that affiliates gas and oil wells. This fee arrangement between the two affiliates has caused the CAPD to incorrectly conclude that it represents a 50/50 allocation of cost. As a result, Mr. Smith proposes an 80% monthly charge ($9,100) to Rugby Energy and a 20% monthly charge ($2,275) to B&W Pipeline.

Q27. WHAT IS THE BASIS OF MR. SMITH'S 20% ALLOCATION FACTOR?

A27. It appears to be arbitrary since Mr. Smith provides no basis for it in either his direct testimony or his supplemental direct testimony.

Q28. PLEASE SUMMARIZE YOUR RECOMMENDATION ON THE AFFILIATE OPERATOR FEE.

A28. We request and recommend that the TRA reject Mr. Smith's incomplete analysis of the Operator Fee and instead accept the Company's actual cost and proposed allocation methodology that produces an annual expense to B&W Pipeline of $136,500.[11]

III. COSTS FOR OBTAINING CERTIFICATE.

Q29. MR. NOVAK, PLEASE SUMMARIZE THE COMPANY'S AND THE CAPD'S POSITIONS ON THE COSTS FOR OBTAINING THE CCN CERTIFICATE.

A29. The legal and regulatory fees associated with the Company obtaining the CCN were approximately $74,383.[12] This amount is reflected in the Company's test period expenses. CAPD witness Ralph Smith proposes that these costs should be capitalized and deferred with an amortization period of 20 years.[13]

The Company does not object to capitalizing and deferring the test period CCN costs if the TRA approves this. However, the Company does object to the 20 year

[11] Total allocated monthly cost of $11,375 * 12 months.
[12] Attachment 10-2 to TRA Minimum Filing Requirement #10.
[13] Direct testimony of CAPD Witness Ralph C. Smith, Page 22, A 56.

recovery period proposed by Mr. Smith. B&W Pipeline feels that the legal and regulatory costs included in the CCN filing are the same type of costs incurred in the preparation of this rate case and should not be amortized over a period longer than 60 months.

Q30. WHAT IS THE BASIS OF MR. SMITH'S PROPOSED AMORTIZATION PERIOD OF 20 YEARS?

A30. Mr. Smith provides no analysis or basis for his proposal to amortize these costs over 20 years. Further, I am not aware of the TRA ever deferring and providing recovery of legal and regulatory costs over a twenty year period.

Q31. PLEASE SUMMARIZE YOUR RECOMMENDATION ON THE RECOVERY FOR THE COSTS ASSOCIATED WITH THE CCN FILING.

A31. We would request that the TRA allow the Company to recover these costs as a test period operating expense as filed. If the TRA decides to allow the Company to defer these costs, then we request that the recovery period be no more than the same 60 month period used to recover rate case costs.

IV. THROUGHPUT.

Q32. MR. NOVAK, PLEASE SUMMARIZE THE COMPANY'S AND THE CAPD'S POSITIONS ON THROUGHPUT VOLUMES.

A32. In its filing, the Company included 169,861 Mcf of throughput. In Mr. Smith's direct testimony, he includes 212,628 Mcf of throughput for the CAPD. In my rebuttal testimony, I provided hypothetical updates to the existing Navitas and B&W affiliate transportation volumes that totaled to 210,235 Mcf. The update in my rebuttal testimony was undertaken to show the volatility in these forecasted volumes and to support a recommendation for a specific rate design that would regularly true-up the tariff to the actual throughput experienced.

The acceptance by the TRA of the attrition period throughput is of critical importance to B&W Pipeline. Although the eventual throughput volumes from the new industrial customers will have no detrimental impact to Navitas since they are not included in their base rates, using these same speculative volumes for B&W Pipeline could have a damaging impact on the Company's ability to earn a fair rate of return and provide continuing service.

V. <u>RATE DESIGN.</u>

Q33. MR. NOVAK, DID B&W PIPELINE PROPOSE A SPECIFIC RATE DESIGN IN ITS FILING TO RECOVER ITS PROPOSED REVENUE REQUIREMENT?

A33. No. Although I do show an average revenue requirement cost of $3.69 per Mcf, I specifically stated the following in my direct testimony:

> "…the Company is currently negotiating with Navitas for a traditional pipeline rate design based upon peak day usage that is acceptable to both parties. We expect to have a final rate design to present to the TRA before this matter is scheduled for hearing."[14]

Q34. DOES THE CAPD AGREE WITH THE QUALIFICATION IN YOUR DIRECT TESTIMONY?

A34. Apparently not. In his supplemental testimony, Mr. Smith accuses me of doing a "180 turn on the Company's proposed rate design."[15] He also states that the "new rate design proposals are being presented for the first time in the Company's rebuttal filing and thus entail an element of procedural unfairness."[16] In addition, he describes my proposed rate design as "…a thinly veiled attempt by B&W to shift all risks related to fluctuations in pipeline throughput away from B&W and to place those risks on customers."[17] Finally, Mr. Smith states that "A demand only cost of service allocation and rate design would not be appropriate for B&W because it does not properly assign costs to cost causers."[18]

Q35. DO YOU AGREE WITH MR. SMITH'S ASSERTIONS REGARDING RATE DESIGN?

A35. No. Although it was our intent to produce an agreement with Navitas on rate design, such was not to be the case as the parties took a more and more adversarial role as the case progressed. However, it was always our intent to adopt and present a traditional demand only pipeline rate design for the TRA's

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[14] Direct testimony of William H. Novak, Page 9, A12.
[15] Supplemental direct testimony of CAPD Witness Ralph C. Smith, Page 26, A 36.
[16] Supplemental direct testimony of CAPD Witness Ralph C. Smith, Page 28, A 42.
[17] Supplemental direct testimony of CAPD Witness Ralph C. Smith, Page 28, A 42.
[18] Supplemental direct testimony of CAPD Witness Ralph C. Smith, Page 29, A 42.

consideration. B&W Pipeline has only two customers, its own affiliate and Navitas. As a result, there are only a limited number ways that rates can be realistically designed since there are no residential, commercial or industrial customer classifications. Therefore, I recommend that the TRA adopt a daily demand rate structure to allow B&W Pipeline to recover its cost of service. The daily demand rate structure also allows Navitas the opportunity to "sculpt" how it allocates this demand cost to its different customer classes through its purchased gas adjustment. I therefore request and recommend that the TRA approve a total revenue requirement of $627,565 for B&W Pipeline along with a daily demand rate of $1,719 along with a Sales Adjustment Mechanism to recover this revenue requirement.

Q36. DO YOU HAVE ANY FINAL COMMENTS TO THE TRA ON THE COMPANY'S CASE?

A36. Yes. Throughout Mr. Smith's testimony, he refers to the concept of "rate shock" to end users from B&W Pipeline's proposed rate increase. However, even after the increase for transmission service is approved, the total charge for gas service will still be less than the equivalent cost of propane.

Furthermore, the concept of "rate shock" was also brought up by Mr. Hartline in the last Navitas rate case. Specifically, Mr. Hartline states the following in his direct testimony from that case:

"Navitas' request for a general rate increase and revisions to the rates and charges for the customers is premised on the calculated revenue deficiency during the test

year 2011 of approximately $390,000. This amount represents an approximate 80%[19] increase in total revenue. Within the context of the two decades between the last rate case and this Petition for a rate adjustment, this figure represents an annualized increase over the period of 3.27%. By way of comparison, the equivalent amount of heating energy obtained through the local electrical provider for the average residential customer currently costs $2,244 where as Navitas receives only 511. Thus, even a 100% increase in gas revenue would still only represent less than half the cost of electricity."[20]

"In order to avoid rate shock, Navitas proposes to divide the rate increases into four increments implemented annually beginning October 1, 2012."[21][22]

The TRA Order from the last Navitas rate case largely accepted the proposed settlement agreement between Navitas and the Consumer Advocate that increased the overall effective charge by approximately $5.49 per Mcf.[23] By way of comparison, the overall effective proposed rate increase for B&W Pipeline in this case is only $3.09.[24] Therefore, it hardly appears that the rate increase proposed by B&W Pipeline can hardly be termed "rate shock" when compared to the rate increase implemented by Navitas in their last rate case.

Speaking specifically for B&W Pipeline, the Company has never had a rate case in 33 years. As a result, the need to establish rates based on the cost to construct

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[19] By comparison, the B&W Pipeline proposed increase only results in an 11.6% increase.

[20] Petition of Navitas TN NG for an Adjustment to its Natural Gas Rates and Approval of Revised Tariffs, Docket 12-00068, Direct Testimony of Thomas Hartline, 7A.

[21] Petition of Navitas TN NG for an Adjustment to its Natural Gas Rates and Approval of Revised Tariffs, Docket 12-00068, Direct Testimony of Thomas Hartline, 9A.

[22] The B&W Pipeline rate increase could hardly be labeled as "rate shock" since at only 11.6%, it is smaller than any of the individual four increments proposed by Navitas in their last rate case,

[23] Revenue prior to the rate increase was $209,033 / 482,085 Mcf sales = $4.34 per Mcf. Projected revenue after the rate increase was $473,975 / 482,085 sales = $9.83 per Mcf. $9.83 per Mcf less $4.34 per Mcf = $5.49 per Mcf.

[24] Overall proposed rate per Mcf of $3.69 per Direct Testimony of William H. Novak, Page 9, A12 less the current rate of $0.60 per Mcf = $3.09 per Mcf.

the pipeline goes back as far as 1982 when the first portion of the pipeline was constructed.

Furthermore, the “rate shock” argument did not prevent the TRA from approving a settlement between the CAD and Navitas which resulted in an overall increase in rates much higher than the increase proposed by B&W in this case. The Stipulation and Settlement Agreement in the Navitas case states, “This will be an overall increase in revenue billed to customers in the test year ended March 31, 2012 (including purchased gas) of approximately 63% rather than the 81% increase sought by Navitas as described by Navitas in its Petition.” A 63% increase was apparently not “rate shock” to the Consumer Advocate Division in that case, even though the rates now in effect for Navitas require customers to pay a flat fee of $23.99 for the first 9CCfs of gas whether the customer consumes that much or not. In this case, the price of the first 9CCfs of gas would be, if the TRA grants B&W’s request, an additional $2.78 (nine/tenths of $3.09 per Mcf), in other words, an increase of only 11.6% in the customer’s total gas bill. That is not rate shock.

Q37. DOES THIS COMPLETE YOUR REBUTTAL TESTIMONY?

A37. Yes it does. However I reserve the right to incorporate any new information that may subsequently become available.

ATTACHMENT
WHN SUPPLEMENTAL REBUTTAL-1

Discounted Pipeline Replacement Cost Analysis

B&W Pipeline
Calculation of Average Discount Rate

Consumer Price Index Value at December 2013	233.0	A/
Consumer Price Index Value at December 1982	97.6	A/
Growth in Consumer Price Index	**135.4**	
Percentage Growth in Consumer Price Index	**139%**	
Years from Pipeline Construction to Engineering Valuation Study (1982 to 2013)	**31**	
Average Compounded Discount Rate (1982 - 2013)	**2.85%**	
Rounded Average Compounded Discount Rate (1982 - 2013)	**3.00%**	

A/ **Attachment WHN Supplemental Rebuttal-1, Schedule 2.**

Consumer Price Index - All Urban Consumers
Original Data Value

Series Id: CUUR0000SA0
Not Seasonally Adjusted
Area: U.S. city average
Item: All items
Base Period: 1982-84=100
Years: 1980 to 2015

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	HALF1	HALF2
1980	77.8	78.9	80.1	81.0	81.8	82.7	82.7	83.3	84.0	84.8	85.5	86.3		
1981	87.0	87.9	88.5	89.1	89.8	90.6	91.6	92.3	93.2	93.4	93.7	94.0		
1982	94.3	94.6	94.5	94.9	95.8	97.0	97.5	97.7	97.9	98.2	98.0	97.6		
1983	97.8	97.9	97.9	98.6	99.2	99.5	99.9	100.2	100.7	101.0	101.2	101.3		
1984	101.9	102.4	102.6	103.1	103.4	103.7	104.1	104.5	105.0	105.3	105.3	105.3	102.9	104.9
1985	105.5	106.0	106.4	106.9	107.3	107.6	107.8	108.0	108.3	108.7	109.0	109.3	106.6	108.5
1986	109.6	109.3	108.8	108.6	108.9	109.5	109.5	109.7	110.2	110.3	110.4	110.5	109.1	110.1
1987	111.2	111.6	112.1	112.7	113.1	113.5	113.8	114.4	115.0	115.3	115.4	115.4	112.4	114.9
1988	115.7	116.0	116.5	117.1	117.5	118.0	118.5	119.0	119.8	120.2	120.3	120.5	116.8	119.7
1989	121.1	121.6	122.3	123.1	123.8	124.1	124.4	124.6	125.0	125.6	125.9	126.1	122.7	125.3
1990	127.4	128.0	128.7	128.9	129.2	129.9	130.4	131.6	132.7	133.5	133.8	133.8	128.7	132.6
1991	134.6	134.8	135.0	135.2	135.6	136.0	136.2	136.6	137.2	137.4	137.8	137.9	135.2	137.2
1992	138.1	138.6	139.3	139.5	139.7	140.2	140.5	140.9	141.3	141.8	142.0	141.9	139.2	141.4
1993	142.6	143.1	143.6	144.0	144.2	144.4	144.4	144.8	145.1	145.7	145.8	145.8	143.7	145.3
1994	146.2	146.7	147.2	147.4	147.5	148.0	148.4	149.0	149.4	149.5	149.7	149.7	147.2	149.3
1995	150.3	150.9	151.4	151.9	152.2	152.5	152.5	152.9	153.2	153.7	153.6	153.5	151.5	153.2
1996	154.4	154.9	155.7	156.3	156.6	156.7	157.0	157.3	157.8	158.3	158.6	158.6	155.8	157.9
1997	159.1	159.6	160.0	160.2	160.1	160.3	160.5	160.8	161.2	161.6	161.5	161.3	159.9	161.2
1998	161.6	161.9	162.2	162.5	162.8	163.0	163.2	163.4	163.6	164.0	164.0	163.9	162.3	163.7
1999	164.3	164.5	165.0	166.2	166.2	166.2	166.7	167.1	167.9	168.2	168.3	168.3	165.4	167.8
2000	168.8	169.8	171.2	171.3	171.5	172.4	172.8	172.8	173.7	174.0	174.1	174.0	170.8	173.6
2001	175.1	175.8	176.2	176.9	177.7	178.0	177.5	177.5	178.3	177.7	177.4	176.7	176.6	177.5
2002	177.1	177.8	178.8	179.8	179.8	179.9	180.1	180.7	181.0	181.3	181.3	180.9	178.9	180.9
2003	181.7	183.1	184.2	183.8	183.5	183.7	183.9	184.6	185.2	185.0	184.5	184.3	183.3	184.6
2004	185.2	186.2	187.4	188.0	189.1	189.7	189.4	189.5	189.9	190.9	191.0	190.3	187.6	190.2
2005	190.7	191.8	193.3	194.6	194.4	194.5	195.4	196.4	198.8	199.2	197.6	196.8	193.2	197.4
2006	198.3	198.7	199.8	201.5	202.5	202.9	203.5	203.9	202.9	201.8	201.5	201.8	200.6	202.6
2007	202.4	203.5	205.4	206.7	207.9	208.4	208.3	207.9	208.5	208.9	210.2	210.0	205.7	209.0
2008	211.1	211.7	213.5	214.8	216.6	218.8	220.0	219.1	218.8	216.6	212.4	210.2	214.4	216.2
2009	211.1	212.2	212.7	213.2	213.9	215.7	215.4	215.8	216.0	216.2	216.3	215.9	213.1	215.9
2010	216.7	216.7	217.6	218.0	218.2	218.0	218.0	218.3	218.4	218.7	218.8	219.2	217.5	218.6
2011	220.2	221.3	223.5	224.9	226.0	225.7	225.9	226.5	226.9	226.4	226.2	225.7	223.6	226.3
2012	226.7	227.7	229.4	230.1	229.8	229.5	229.1	230.4	231.4	231.3	230.2	229.6	228.9	230.3
2013	230.3	232.2	232.8	232.5	232.9	233.5	233.6	233.9	234.1	233.5	233.1	233.0	232.4	233.5
2014	233.9	234.8	236.3	237.1	237.9	238.3	238.3	237.9	238.0	237.4	236.2	234.8	236.4	237.1
2015	233.7	234.7	236.1	236.6	237.8	238.6	238.7						236.3	

Source: Bureau of Labor Statistics

B&W Pipeline
Discounted Pipeline Replacement Cost Analysis

Discount Rate: **3.00%** A/

Year	Section 1 1982 Installation	Section 2 1982 Installation	Section 4 1988 Installation	Section 5 1988 Installation	Section 6 1987 Installation	Section 7 1987 Installation	Total Value
2013	$523,033	$1,851,725	$1,962,653	$1,170,132	$413,857	$637,908	$6,559,308
2012	507,342	1,796,173	1,903,773	1,135,028	401,441	618,771	6,362,529
2011	492,122	1,742,288	1,846,660	1,100,977	389,398	600,208	6,171,653
2010	477,358	1,690,019	1,791,260	1,067,948	377,716	582,201	5,986,503
2009	463,037	1,639,319	1,737,523	1,035,909	366,385	564,735	5,806,908
2008	449,146	1,590,139	1,685,397	1,004,832	355,393	547,793	5,632,701
2007	435,672	1,542,435	1,634,835	974,687	344,731	531,360	5,463,720
2006	422,602	1,496,162	1,585,790	945,447	334,389	515,419	5,299,808
2005	409,924	1,451,277	1,538,216	917,083	324,358	499,956	5,140,814
2004	397,626	1,407,739	1,492,070	889,571	314,627	484,957	4,986,590
2003	385,697	1,365,507	1,447,308	862,884	305,188	470,409	4,836,992
2002	374,126	1,324,541	1,403,888	836,997	296,032	456,296	4,691,882
2001	362,902	1,284,805	1,361,772	811,887	287,152	442,608	4,551,126
2000	352,015	1,246,261	1,320,919	787,531	278,537	429,329	4,414,592
1999	341,455	1,208,873	1,281,291	763,905	270,181	416,449	4,282,154
1998	331,211	1,172,607	1,242,852	740,987	262,075	403,956	4,153,690
1997	321,275	1,137,429	1,205,567	718,758	254,213	391,837	4,029,079
1996	311,637	1,103,306	1,169,400	697,195	246,587	380,082	3,908,207
1995	302,288	1,070,207	1,134,318	676,279	239,189	368,680	3,790,960
1994	293,219	1,038,101	1,100,288	655,991	232,014	357,619	3,677,232
1993	284,422	1,006,958	1,067,280	636,311	225,053	346,891	3,566,915
1992	275,890	976,749	1,035,261	617,222	218,302	336,484	3,459,907
1991	267,613	947,446	1,004,203	598,705	211,752	326,390	3,356,110
1990	259,585	919,023	974,077	580,744	205,400	316,598	3,255,427
1989	251,797	891,452	944,855	563,322	199,238	307,100	3,157,764
1988	244,243	864,709	**916,509**	**546,422**	193,261	297,887	3,063,031
1987	236,916	838,767	**916,509**	**546,422**	**187,463**	**288,950**	3,015,028
1986	229,808	813,604	**916,509**	**546,422**	**187,463**	**288,950**	2,982,757
1985	222,914	789,196	**916,509**	**546,422**	**187,463**	**288,950**	2,951,455
1984	216,227	765,520	**916,509**	**546,422**	**187,463**	**288,950**	2,921,092
1983	209,740	742,555	**916,509**	**546,422**	**187,463**	**288,950**	2,891,639
1982	**203,448**	**720,278**	**916,509**	**546,422**	**187,463**	**288,950**	**2,863,070**

Discounted Replacement Cost Value to Construction Date	**$2,863,070**
Acquisition Cost in 2010	**$2,633,085**
Acquisition Cost below Discounted Replacement Cost Value	**$229,985**

A/ Attachment WHN Supplemental Rebuttal-1, Schedule 1.

SOURCE: Attachment WHN Rebuttal-1, Page 5 of 5.

Note: Pipeline Section 3 was constructed in 2013 after the acquisition date and is therefore excluded from this analysis.

BEFORE
THE TENNESSEE REGULATORY AUTHORITY

PETITION OF B&W PIPELINE, LLC FOR AN INCREASE IN ITS RATES AND CHARGES	)))))))))	Docket No. 15-00042

SUPPLEMENTAL REBUTTAL TESTIMONY
of
WILLIAM H. NOVAK

ON BEHALF OF
B&W PIPELINE, LLC

September 1, 2015

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ATTACHMENTS

Attachment WHN Supplemental Rebuttal-1	Discounted Pipeline Replacement Cost Analysis
Attachment WHN Supplemental Rebuttal-2	Affidavit of Kelly G. Gillespie of Bell Engineering

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

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

Q2. ARE YOU THE SAME WILLIAM H. NOVAK THAT PREVIOUSLY PRESENTED PRE-FILED DIRECT AND REBUTTAL TESTIMONY IN THIS SAME DOCKET?

A2. Yes.

Q3. ON WHOSE BEHALF ARE YOU TESTIFYING?

A3. I am testifying on behalf of B&W Pipeline, LLC ("B&W Pipeline" or "the Company").

Q4. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL REBUTTAL TESTIMONY?

A4. The purpose of my supplemental rebuttal testimony is to respond to the supplemental testimony of the CAPD witness Ralph Smith that was filed with the TRA on August 24th. Specifically, Mr. Smith's supplemental testimony contains a number of statements that B&W Pipeline disagrees with. These statements are addressed in the following categories by Mr. Smith:

[1] State of Tennessee, Registered Accounting Firm ID 3682.

I. Original Cost of the Utility Plant;

II. Affiliate Operator Fee;

III. Costs for Obtaining [the CCN] Certificate;

IV. Throughput; and

V. Rate Design.

I will be addressing each of Mr. Smith's statements within these same categories.

I. ORIGINAL COST OF THE UTILITY PLANT.

Q5. MR. NOVAK BEFORE WE BEGIN, PLEASE SUMMARIZE THE COMPANY'S AND THE CAPD'S POSITIONS ON THE ORIGINAL COST OF THE UTILITY PLANT.

A5. In September 2010, the Company purchased the 48 mile gas pipeline along with 96 oil and gas wells in conjunction with the bankruptcy of the previous owner. The total price recorded for the acquisition was $2,633,085.[2] However, because these assets were purchased in conjunction with the bankruptcy of the previous owner, no original cost or continuing property records were provided with the purchase.[3]

[2] Company response to CAPD Data Request 2-1.

[3] Furthermore, because of the state of the previous owner in bankruptcy, it is doubtful that such records could have been faithfully relied upon even if they had been provided.

The Company has included the entire acquisition cost of $2,633,085 in its rate base. Through Mr. Smith's testimony, the CAPD contends that the Company has not "carried its burden of proof" in verifying the original cost of the acquired utility plant and has therefore proposed that none ($0) of the acquisition cost should be included in rate base. In support of his proposal to exclude the pipeline acquisition cost from rate base, Mr. Smith makes the following arguments:

1. Reliance upon annual reports on file with the TRA from the previous owner as a type of consolidated transmission/distribution report;
2. Discarding the results of the Company's independent engineering study;
3. Disputing the Company's present value analysis of current replacement costs to the date the plant was placed in service;
4. Disputing the Company's assignment of zero ($0) cost to the gas and oil wells acquired;
5. Disputing the results of the utility plant included in the Company's Ad Valorem Report filed with the State of Tennessee; and
6. Disputing the affiliate transactions involving the transfer of the Company's unregulated gas and oil wells to a separate company.

I-1. Annual Report of the Previous Owners

Q6. MR. NOVAK, PLEASE DESCRIBE THE LAST TRA ANNUAL REPORT FILED BY THE PIPELINE'S PREVIOUS OWNER, GASCO DISTRIBUTION SYSTEMS, INC. ("GASCO").

A6. Mr. Smith included a copy of the 2009 TRA Annual Report of Gasco in his supplemental direct testimony as Attachment RCS Supplemental Direct-1. In regards to this annual report, Mr. Smith states the following:

> "No annual reports filed with the TRA by Titan Energy Group could be located. The lack of any annual reports by Titan Energy Group to the TRA suggests that either Titan never reported the original cost or depreciation over the years to the TRA and its predecessor, **or that the use of the pipeline in providing public utility service was included in the reports to the TRA filed by the entity that was providing utility service, Gasco Distribution Systems, Inc.**" (Emphasis added.)[4]

Q7. IS IT LIKELY THAT THE GASCO ANNUAL REPORT TO THE TRA INCLUDED THE COST OF THE TRANSMISSION PIPELINE?

A7. No. First, the title of the annual report specifically and clearly states that it is for "Gasco Distribution Systems, Inc." on each and every page of the report. There is no mention of a transmission pipeline.

Secondly, the annual report lists no transmission or wellhead assets. Specifically, Page F-4 of the report lists the net utility plant value at $949,548.79. However, Page G-4 and G-5 list no assets for Natural Gas Production Plant and only $272.65 for Transmission Plant.[5] If the Company was indeed going to include the cost of the transmission pipeline in the TRA Annual Report, then they would in all likelihood also have included the gas wells as natural gas production plant.

[4] Supplemental Direct Testimony of Ralph C. Smith, Page 4, A7.

[5] $272.65 in Measuring and Regulator Station Equipment (369) which is likely the cost of the distribution meter documenting gas received from the transmission pipeline.

Since the pipeline and gas well assets do not appear to be included within the Gasco Annual Report to the TRA, and no other report from Titan Energy Group can be located, it is very likely that the investment cost of the transmission pipeline was never reported to the TRA. Therefore, the Gasco 2009 Annual Report to the TRA should not be relied upon as a consolidated historical valuation of the production, transmission and distribution system.

I-2. Independent Engineering Study

Q8. WHY DOES MR. SMITH DISCARD THE RESULTS FROM THE COMPANY'S INDEPENDENT ENGINEERING STUDY[6] ON THE REPLACEMENT VALUE OF THE TRANSMISSION PIPELINE?

A8. Mr. Smith lists various reasons that rely on incorrect assumptions for his recommendation that the TRA discard the results on the net replacement value of the independent engineering study. Among these reasons are the following:

1. The engineering study was undertaken in 2013 and not in 2010 when the pipeline was purchased;
2. The engineering study only evaluates replacement cost and not original cost;
3. The engineering study makes assumptions on the theoretical life of the pipeline assets that are different than the financial depreciable lives; and
4. The engineering study overestimates the cost to construct the plant.

[6] Attached to my testimony is the affidavit of Kelly G. Gillespie, President of Bell Engineering and Project Manager of the B&W Pipeline Valuation Report. B&W Pipeline will make Mr. Gillespie available at the Company's hearing to respond to any specific questions regarding the engineering study.

Q9. DOES THE TIMING OF THE ENGINEERING STUDY HAVE AN IMPACT IN THIS CASE?

A9. No. The engineering study was not undertaken in order to establish a purchase price for the pipeline in 2010. Rather the engineering study was undertaken after the purchase in order to provide independent confirmation on the pipeline valuation. I fail to see how this distinction justifies Mr. Smith's assertion that the results of the study should now be discarded from consideration in this docket because of the timing of when the engineering study was undertaken.

Q10. DOES THE ENGINEERING STUDY EVALUATE THE NET REPLACEMENT COST OF THE PIPELINE AND NOT THE ORIGINAL COST?

A10. Yes. The engineering study evaluated the net replacement cost of the pipeline in 2013. The Company purchased the pipeline assets in conjunction with the bankruptcy of the previous owners. As a result, the previous original cost records were simply not available and likely could not have been relied upon or trusted if they had been available. However, I fail to see how this distinction somehow justifies Mr. Smith's assertion that the engineering study should now be discarded because it somehow could not have considered the pipeline's original cost.

Q11. DOES THE ENGINEERING STUDY MAKE ASSUMPTIONS ON THE THEORETICAL DEPRECIABLE LIFE OF THE PIPELINE THAT IS DIFFERENT THAN THE FINANCIAL DEPRECIABLE LIFE?

A11. Yes. Most engineering studies involving depreciation consider the theoretical lives that are based on the material (plastic, bare steel, cast iron) of the pipeline. This is certainly not unusual. It is also not unusual for utilities and public utility commissions to adopt composite depreciable lives for financial reporting purposes that are different than the theoretical lives of each individual component of a pipeline. However, I fail to see how this distinction between theoretical and financial depreciable lives somehow justifies Mr. Smith's assertion that the engineering study should now be discarded.

Q12. DOES THE ENGINEERING STUDY OVERESTIMATE THE COST TO CONSTRUCT THE PIPELINE?

A12. Certainly not based on Mr. Smith's analysis. Mr. Smith is asking the TRA to discard the results of the engineering study, but then conveniently relies upon it to make his assertion that the engineering study overestimates the replacement cost to construct the pipeline. Specifically, Mr. Smith takes a portion of the pipeline that was repaired in 2013 and not even a part of the 2010 acquisition cost of $2,633,085 to make this assertion. He then infers that because the cost for the 2013 capitalized plant repair was recorded at $241,275 on the Company's books while the estimate from the engineering study for the 2013 plant replacement was $413,280, for a difference of 58.4%, that the total values in the engineering study are overstated by 58.4%. However, what Mr. Smith fails to accurately represent is that repairing an existing portion of the pipeline is not in any way the same as building the pipe from scratch. Instead, Mr. Smith is comparing apples with

oranges by contrasting the cost for capitalized repairs for an existing pipeline with the cost for new pipeline construction.

Specifically, the $241,275 amount reflected on the Company's books represents the actual capitalized cost to repair a portion of the pipeline in order to address specific safety citations that were imposed on the previous owner by the TRA. The $413,280 amount reflected in the engineering study represents the estimated cost to completely replace this entire section of the pipeline. Because the existing pipeline only needed to be repaired instead of constructed from scratch, many of the costs involved with new construction and included in the engineering study, such as securing easements & rights-of-way, boring & trenching, engineering, legal, regulatory and administrative were not necessary. As a result, Mr. Smith's assertions comparing the capitalized repair costs with the new construction costs are just not applicable and therefore the engineering study does not overstate the costs to construct the pipeline.

Next, Mr. Smith then commits a second, equally egregious error by applying his 58.4% ratio to the wrong number. Recall that he arrived at that ratio by comparing (incorrectly) the actual cost of repairing a line ($241,275) to the "replacement cost new" ($413,280) of that same line as estimated in the Bell Engineering report. He concluded from that comparison that the actual cost of the line is only about half (58.4%) of the engineer's estimate. He then applies that same ratio – not to the "replacement cost new" of the pipeline ($13,299,138) – but

to the 2010 acquisition cost ($2,633,085). That makes no sense. Even if it were true that the cost of building the pipeline is half of the engineer's estimate shown in the study, Mr. Smith should have applied the 58.4% ratio to $13,299,138, the engineer's estimate of the replacement cost of the pipeline, not to B&W Pipeline's purchase price. If he had done so, the value of the pipeline still comes out to be well over the amount paid for it by B&W Pipeline. Once again, it should also be noted that Mr. Smith purports to rely on the figures in the engineering report to come up with a reduced value of the pipeline while, at the same time, saying that the report, done three years after the purchase, has no relevance to this rate case. He cannot have it both ways.

As mentioned above, the original cost data of the previous owner is not available for the TRA to consider in setting rates for B&W Pipeline. However, as I mentioned in my rebuttal testimony, the NARUC Uniform System of Accounts allows the TRA to estimate the original cost value of the pipeline when the original cost data is not available. The independent engineering report on the pipeline valuation is the only reliable source of data for the TRA to consider for this valuation. Mr. Smith has consistently failed to provide a valid reason why this report should be discarded from the TRA's consideration.

I-3. Present Value Analysis

Q13. WHY DOES MR. SMITH DISPUTE YOUR DISCOUNTED VALUATION ANALYSIS OF THE REPLACEMENT COST BACK TO THE CONSTRUCTION DATE OF THE PIPELINE?

A13. According to his testimony, the 3% discount rate used in my analysis heavily influences the results and that I have offered no explanation or support for the discount rate of 3%.[7]

Q14. WHAT WAS THE BASIS FOR YOUR ASSUMPTION OF A 3% DISCOUNT RATE?

A14. The 3% discount rate represents the approximate average annual growth in the consumer price index from 1982 (the year of initial pipeline construction) through 2013 (the year of the engineering study). I have included the source and support for this calculation in Attachment WHN Supplemental Rebuttal-1 to my testimony. Accordingly, I used the 3% as the discount rate in my discounted replacement value analysis that was included in Attachment WHN Rebuttal-2 to my rebuttal testimony.[8]

As shown on Attachment WHN Supplemental Rebuttal-1, the engineering study valuation of the pipeline exceeds the acquisition cost of $2,633,085 by such a significant amount that even discounting the 2013 replacement value by 3% per year back to its construction date to reflect changes in construction costs would

[7] Supplemental Direct Testimony of Ralph C. Smith, Page 10, A14.
[8] This analysis of the discounted replacement value is also included here within Attachment WHN Supplemental Rebuttal-1

still yield an acquisition cost below the market value.[9] As a result, the Company reaffirms that its pipeline acquisition cost of $2,633,085 should be reflected as the appropriate value in rate base as an estimate of the original cost of the gas pipeline.

Q15. MR. SMITH USES THE CAPD'S PROPOSED COST OF CAPITAL OF 8.5% AS A DISCOUNT RATE. IS THIS CORRECT?

A15. No. The purpose of the discounted valuation analysis included in Attachment WHN Supplemental Rebuttal-1 is to discount the replacement cost from the engineering study back to the time of the original construction for consideration as an estimate of the original cost. The analysis was never intended as a consideration for making investment decisions as Mr. Smith purports.[10]

I-4. Cost Assignment to Oil and Gas Wells

Q16. WHAT IS MR. SMITH'S RATIONALE FOR DISPUTING THE TRANSFER OF THE UNREGULATED OIL AND GAS WELLS TO THE COMPANY'S AFFILIATE?

A16. Most of Mr. Smith's arguments on this point were already reflected in his direct testimony and involve issues with the non-arm's length nature of the transactions and valuation of the oil and gas wells. These particular arguments have already been addressed in my rebuttal testimony and I won't repeat them here except to mention that the liability associated with 83 non-producing wells exceeded the

[9] The cost of the $413,280 replacement value for Section 3 of the pipeline is excluded from the analysis since it was undertaken in 2013 after the acquisition.
[10] Supplemental Direct Testimony of Ralph C. Smith, Page 11, A16.

asset value of the 13 producing oil and gas wells. However, Mr. Smith does mention in his supplemental direct testimony a new concept that the **net revenues** produced by the oil and gas wells indicated a positive value at the time of acquisition. He also discusses the accounting provisions for recording an asset retirement obligation that is associated with the wells.

Q17. DOES THE FACT THAT THE WELLS HAD A POSITIVE NET REVENUE VALUE AT THE TIME OF THE ACQUISITION IMPACT HOW THEY SHOULD BE VALUED ON THE BALANCE SHEET?

A17. No. Mr. Smith is confusing the concept that the producing wells are in fact accretive on the income statement with their balance sheet valuation. While the 13 producing wells do if fact produce some income, it is overshadowed by the liability of capping the 83 non-producing wells. The components for the future income stream from the producing wells were already taken into consideration in their valuation as shown in the analysis to CAPD Data Request 2-1. However, the valuation for all of the wells still results in a net liability for the Company.

Q18. IS THE COMPANY REQUIRED TO RECORD AN ASSET RETIREMENT OBLIGATION FOR THE GAS AND OIL WELLS AS STATED BY MR. SMITH?

A18. No. Rugby Energy, B&W Pipeline's affiliate that owns the oil and gas wells, is a single member limited liability company with no debt. Further, Rugby Energy does not issue external financial statement to any third parties and is not required

to have its financial statements audited. As a result, Rugby Energy is not legally required to record an Asset Retirement Obligation on its books under generally accepted accounting principles.

Q19. IS THE ISSUE OF RECORDING AN ASSET RETIREMENT OBLIGATION RELEVANT TO THIS PROCEEDING?

A19. No. In spite of claims by Mr. Smith to the contrary, the accounting for the liabilities associated with the unregulated oil and gas wells have no bearing on this proceeding.

I-5. Ad Valorem Reports

Q20. MR. NOVAK, DOES B&W PIPELINE PREPARE AN AD VALOREM REPORT FOR THE STATE OF TENNESSEE ON THE VALUATION OF ITS GAS PIPELINE?

A20. Yes. I included a copy of the Company's 2015 Ad Valorem Report as Attachment WHN Rebuttal-3 along with my rebuttal testimony. The Ad Valorem Report provides the assessment basis for the property taxes paid by the Company. The Company has included its acquisition costs of the pipeline in the Ad Valorem Report, as it is legally required to do.

Q21. DOES MR. SMITH TAKE EXCEPTION TO THE VALUATION INCLUDED IN THE COMPANY'S AD VALOREM REPORT?

A21. Yes. Much of his testimony recaps that no cost was allocated to the unregulated wells, and that no acquisition adjustment was recorded on B&W Pipeline's books as previously discussed. However, he does repeatedly mention that B&W Pipeline's Ad Valorem Report reflects an equal amount of pipeline plant located in Fentress, Morgan and Pickett counties.

Q22. DOES B&W PIPELINE IN FACT HAVE AN EQUAL AMOUNT OF PIPELINE PLANT LOCATED IN THESE THREE COUNTIES?

A22. Probably not, although the actual pipeline length is approximately equal to 33.33% in each county. As I mentioned earlier, the Company purchased the 48 mile gas pipeline in conjunction with the bankruptcy of the previous owner. Because these assets were purchased in conjunction with the bankruptcy of the previous owner, no original cost or continuing property records were provided with the purchase including pipeline surveys within the boundaries of each of the counties. Until a pipeline survey can be completed, the Company can only estimate its actual pipeline length within each of these three counties.

Q23. IS THE ISSUE OVER THE EXACT LENGTH OF THE PIPELINE IN EACH COUNTY RELEVANT TO THIS PROCEEDING?

A23. No. The TRA sets rates on the total pipeline cost. In spite of assertions by Mr. Smith, the gas pipeline length in each county has no bearing on this proceeding.

I-6. Affiliate Transactions

Q24. MR. NOVAK, SHOULD THE TRA BE CONCERNED WITH THE AFFILIATE TRANSACTIONS REGARDING THE TRANSFER OF THE UTILITY'S UNREGULATED OPERATIONS AS MR. SMITH INDICATES?

A24. Certainly. The TRA should always concern itself with the proper allocation of cost to reflect only regulated activity in the rates of the utility. To my knowledge, all of the gas utilities under the TRA's jurisdiction have some manner of affiliate charges. B&W Pipeline is certainly no exception to this since the pipeline is too small to have its own dedicated staff. Further, it is to the TRA's regulatory oversight benefit to have the unregulated assets and associated liabilities of oil and gas wells removed from the regulated books of B&W Pipeline.

Q25. MR. NOVAK, PLEASE SUMMARIZE YOUR RECOMMENDATION ON THE AMOUNT OF THE ACQUISITIION COST TO INCLUDE IN RATE BASE.

A25. The acquisition cost of $2,633,085 represents a real cost that was paid for the pipeline system. Although no original cost records were provided from the previous owner, the Company has demonstrated that the amount paid for the pipeline was in all likelihood less than the original cost. Therefore, we request and recommend that the TRA reject Mr. Smith's incomplete analysis of the utility plant acquisition cost and instead accept the Company's actual acquisition cost of $2,633,085 as the appropriate amount to include in rate base.

II. <u>AFFILIATE OPERATOR FEE.</u>

Q26. MR. NOVAK, PLEASE SUMMARIZE THE COMPANY'S AND THE CAPD'S POSITIONS ON THE AFFILIATE OPERATOR FEE?

A26. B&W Pipeline has no employees of its own since it would be uneconomical to have a completely dedicated staff for such a relatively small operation. Instead, the needs of the pipeline are provided by an affiliate service company (Enrema, LLC) that also provides services to other entities. In addition to labor, the service company also allocates vehicle and insurance cost to B&W Pipeline totaling to $11,375 per month which is the amount that the Company has included in the rate case as its affiliate operator fee.

Although this $11,375 monthly fee is based on the specific costs charges for 3 separate employees along with vehicle and insurance cost, this same monthly fee is also charged to B&W Pipeline's affiliate, Rugby Energy, LLC, for maintaining that affiliates gas and oil wells. This fee arrangement between the two affiliates has caused the CAPD to incorrectly conclude that it represents a 50/50 allocation of cost. As a result, Mr. Smith proposes an 80% monthly charge ($9,100) to Rugby Energy and a 20% monthly charge ($2,275) to B&W Pipeline.

Q27. WHAT IS THE BASIS OF MR. SMITH'S 20% ALLOCATION FACTOR?

A27. It appears to be arbitrary since Mr. Smith provides no basis for it in either his direct testimony or his supplemental direct testimony.

Q28. PLEASE SUMMARIZE YOUR RECOMMENDATION ON THE AFFILIATE OPERATOR FEE.

A28. We request and recommend that the TRA reject Mr. Smith's incomplete analysis of the Operator Fee and instead accept the Company's actual cost and proposed allocation methodology that produces an annual expense to B&W Pipeline of $136,500.[11]

III. COSTS FOR OBTAINING CERTIFICATE.

Q29. MR. NOVAK, PLEASE SUMMARIZE THE COMPANY'S AND THE CAPD'S POSITIONS ON THE COSTS FOR OBTAINING THE CCN CERTIFICATE.

A29. The legal and regulatory fees associated with the Company obtaining the CCN were approximately $74,383.[12] This amount is reflected in the Company's test period expenses. CAPD witness Ralph Smith proposes that these costs should be capitalized and deferred with an amortization period of 20 years.[13]

The Company does not object to capitalizing and deferring the test period CCN costs if the TRA approves this. However, the Company does object to the 20 year

[11] Total allocated monthly cost of $11,375 * 12 months.
[12] Attachment 10-2 to TRA Minimum Filing Requirement #10.
[13] Direct testimony of CAPD Witness Ralph C. Smith, Page 22, A 56.

recovery period proposed by Mr. Smith. B&W Pipeline feels that the legal and regulatory costs included in the CCN filing are the same type of costs incurred in the preparation of this rate case and should not be amortized over a period longer than 60 months.

Q30. WHAT IS THE BASIS OF MR. SMITH'S PROPOSED AMORTIZATION PERIOD OF 20 YEARS?

A30. Mr. Smith provides no analysis or basis for his proposal to amortize these costs over 20 years. Further, I am not aware of the TRA ever deferring and providing recovery of legal and regulatory costs over a twenty year period.

Q31. PLEASE SUMMARIZE YOUR RECOMMENDATION ON THE RECOVERY FOR THE COSTS ASSOCIATED WITH THE CCN FILING.

A31. We would request that the TRA allow the Company to recover these costs as a test period operating expense as filed. If the TRA decides to allow the Company to defer these costs, then we request that the recovery period be no more than the same 60 month period used to recover rate case costs.

IV. THROUGHPUT.

Q32. MR. NOVAK, PLEASE SUMMARIZE THE COMPANY'S AND THE CAPD'S POSITIONS ON THROUGHPUT VOLUMES.

A32. In its filing, the Company included 169,861 Mcf of throughput. In Mr. Smith's direct testimony, he includes 212,628 Mcf of throughput for the CAPD. In my rebuttal testimony, I provided hypothetical updates to the existing Navitas and B&W affiliate transportation volumes that totaled to 210,235 Mcf. The update in my rebuttal testimony was undertaken to show the volatility in these forecasted volumes and to support a recommendation for a specific rate design that would regularly true-up the tariff to the actual throughput experienced.

The acceptance by the TRA of the attrition period throughput is of critical importance to B&W Pipeline. Although the eventual throughput volumes from the new industrial customers will have no detrimental impact to Navitas since they are not included in their base rates, using these same speculative volumes for B&W Pipeline could have a damaging impact on the Company's ability to earn a fair rate of return and provide continuing service.

V. RATE DESIGN.

Q33. MR. NOVAK, DID B&W PIPELINE PROPOSE A SPECIFIC RATE DESIGN IN ITS FILING TO RECOVER ITS PROPOSED REVENUE REQUIREMENT?

A33. No. Although I do show an average revenue requirement cost of $3.69 per Mcf, I specifically stated the following in my direct testimony:

> "…the Company is currently negotiating with Navitas for a traditional pipeline rate design based upon peak day usage that is acceptable to both parties. We expect to have a final rate design to present to the TRA before this matter is scheduled for hearing."[14]

Q34. DOES THE CAPD AGREE WITH THE QUALIFICATION IN YOUR DIRECT TESTIMONY?

A34. Apparently not. In his supplemental testimony, Mr. Smith accuses me of doing a "180 turn on the Company's proposed rate design."[15] He also states that the "new rate design proposals are being presented for the first time in the Company's rebuttal filing and thus entail an element of procedural unfairness."[16] In addition, he describes my proposed rate design as "…a thinly veiled attempt by B&W to shift all risks related to fluctuations in pipeline throughput away from B&W and to place those risks on customers."[17] Finally, Mr. Smith states that "A demand only cost of service allocation and rate design would not be appropriate for B&W because it does not properly assign costs to cost causers."[18]

Q35. DO YOU AGREE WITH MR. SMITH'S ASSERTIONS REGARDING RATE DESIGN?

A35. No. Although it was our intent to produce an agreement with Navitas on rate design, such was not to be the case as the parties took a more and more adversarial role as the case progressed. However, it was always our intent to adopt and present a traditional demand only pipeline rate design for the TRA's

[14] Direct testimony of William H. Novak, Page 9, A12.
[15] Supplemental direct testimony of CAPD Witness Ralph C. Smith, Page 26, A 36.
[16] Supplemental direct testimony of CAPD Witness Ralph C. Smith, Page 28, A 42.
[17] Supplemental direct testimony of CAPD Witness Ralph C. Smith, Page 28, A 42.
[18] Supplemental direct testimony of CAPD Witness Ralph C. Smith, Page 29, A 42.

consideration. B&W Pipeline has only two customers, its own affiliate and Navitas. As a result, there are only a limited number ways that rates can be realistically designed since there are no residential, commercial or industrial customer classifications. Therefore, I recommend that the TRA adopt a daily demand rate structure to allow B&W Pipeline to recover its cost of service. The daily demand rate structure also allows Navitas the opportunity to "sculpt" how it allocates this demand cost to its different customer classes through its purchased gas adjustment. I therefore request and recommend that the TRA approve a total revenue requirement of $627,565 for B&W Pipeline along with a daily demand rate of $1,719 along with a Sales Adjustment Mechanism to recover this revenue requirement.

Q36. DO YOU HAVE ANY FINAL COMMENTS TO THE TRA ON THE COMPANY'S CASE?

A36. Yes. Throughout Mr. Smith's testimony, he refers to the concept of "rate shock" to end users from B&W Pipeline's proposed rate increase. However, even after the increase for transmission service is approved, the total charge for gas service will still be less than the equivalent cost of propane.

Furthermore, the concept of "rate shock" was also brought up by Mr. Hartline in the last Navitas rate case. Specifically, Mr. Hartline states the following in his direct testimony from that case:

"Navitas' request for a general rate increase and revisions to the rates and charges for the customers is premised on the calculated revenue deficiency during the test

year 2011 of approximately $390,000. This amount represents an approximate 80%[19] increase in total revenue. Within the context of the two decades between the last rate case and this Petition for a rate adjustment, this figure represents an annualized increase over the period of 3.27%. By way of comparison, the equivalent amount of heating energy obtained through the local electrical provider for the average residential customer currently costs $2,244 where as Navitas receives only 511. Thus, even a 100% increase in gas revenue would still only represent less than half the cost of electricity."[20]

"In order to avoid rate shock, Navitas proposes to divide the rate increases into four increments implemented annually beginning October 1, 2012."[21][22]

The TRA Order from the last Navitas rate case largely accepted the proposed settlement agreement between Navitas and the Consumer Advocate that increased the overall effective charge by approximately $5.49 per Mcf.[23] By way of comparison, the overall effective proposed rate increase for B&W Pipeline in this case is only $3.09.[24] Therefore, it hardly appears that the rate increase proposed by B&W Pipeline can hardly be termed "rate shock" when compared to the rate increase implemented by Navitas in their last rate case.

Speaking specifically for B&W Pipeline, the Company has never had a rate case in 33 years. As a result, the need to establish rates based on the cost to construct

[19] By comparison, the B&W Pipeline proposed increase only results in an 11.6% increase.
[20] Petition of Navitas TN NG for an Adjustment to its Natural Gas Rates and Approval of Revised Tariffs, Docket 12-00068, Direct Testimony of Thomas Hartline, 7A.
[21] Petition of Navitas TN NG for an Adjustment to its Natural Gas Rates and Approval of Revised Tariffs, Docket 12-00068, Direct Testimony of Thomas Hartline, 9A.
[22] The B&W Pipeline rate increase could hardly be labeled as "rate shock" since at only 11.6%, it is smaller than any of the individual four increments proposed by Navitas in their last rate case,
[23] Revenue prior to the rate increase was $209,033 / 482,085 Mcf sales = $4.34 per Mcf. Projected revenue after the rate increase was $473,975 / 482,085 sales = $9.83 per Mcf. $9.83 per Mcf less $4.34 per Mcf = $5.49 per Mcf.
[24] Overall proposed rate per Mcf of $3.69 per Direct Testimony of William H. Novak, Page 9, A12 less the current rate of $0.60 per Mcf = $3.09 per Mcf.

the pipeline goes back as far as 1982 when the first portion of the pipeline was constructed.

Furthermore, the "rate shock" argument did not prevent the TRA from approving a settlement between the CAD and Navitas which resulted in an overall increase in rates much higher than the increase proposed by B&W in this case. The Stipulation and Settlement Agreement in the Navitas case states, "This will be an overall increase in revenue billed to customers in the test year ended March 31, 2012 (including purchased gas) of approximately 63% rather than the 81% increase sought by Navitas as described by Navitas in its Petition." A 63% increase was apparently not "rate shock" to the Consumer Advocate Division in that case, even though the rates now in effect for Navitas require customers to pay a flat fee of $23.99 for the first 9CCfs of gas whether the customer consumes that much or not. In this case, the price of the first 9CCfs of gas would be, if the TRA grants B&W's request, an additional $2.78 (nine/tenths of $3.09 per Mcf), in other words, an increase of only 11.6% in the customer's total gas bill. That is not rate shock.

Q37. DOES THIS COMPLETE YOUR REBUTTAL TESTIMONY?

A37. Yes it does. However I reserve the right to incorporate any new information that may subsequently become available.

BEFORE
THE TENNESSEE REGULATORY AUTHORITY

PETITION OF B&W PIPELINE, LLC FOR AN INCREASE IN ITS RATES AND CHARGES	)))))))))	Docket No. 15-00042

SUPPLEMENTAL REBUTTAL TESTIMONY
of
WILLIAM H. NOVAK

ON BEHALF OF
B&W PIPELINE, LLC

September 1, 2015

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ATTACHMENTS

Attachment WHN Supplemental Rebuttal-1	Discounted Pipeline Replacement Cost Analysis
Attachment WHN Supplemental Rebuttal-2	Affidavit of Kelly G. Gillespie of Bell Engineering

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

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

Q2. ARE YOU THE SAME WILLIAM H. NOVAK THAT PREVIOUSLY PRESENTED PRE-FILED DIRECT AND REBUTTAL TESTIMONY IN THIS SAME DOCKET?

A2. Yes.

Q3. ON WHOSE BEHALF ARE YOU TESTIFYING?

A3. I am testifying on behalf of B&W Pipeline, LLC ("B&W Pipeline" or "the Company").

Q4. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL REBUTTAL TESTIMONY?

A4. The purpose of my supplemental rebuttal testimony is to respond to the supplemental testimony of the CAPD witness Ralph Smith that was filed with the TRA on August 24th. Specifically, Mr. Smith's supplemental testimony contains a number of statements that B&W Pipeline disagrees with. These statements are addressed in the following categories by Mr. Smith:

[1] State of Tennessee, Registered Accounting Firm ID 3682.

I. Original Cost of the Utility Plant;

II. Affiliate Operator Fee;

III. Costs for Obtaining [the CCN] Certificate;

IV. Throughput; and

V. Rate Design.

I will be addressing each of Mr. Smith's statements within these same categories.

I. <u>ORIGINAL COST OF THE UTILITY PLANT.</u>

Q5. MR. NOVAK BEFORE WE BEGIN, PLEASE SUMMARIZE THE COMPANY'S AND THE CAPD'S POSITIONS ON THE ORIGINAL COST OF THE UTILITY PLANT.

A5. In September 2010, the Company purchased the 48 mile gas pipeline along with 96 oil and gas wells in conjunction with the bankruptcy of the previous owner. The total price recorded for the acquisition was $2,633,085.[2] However, because these assets were purchased in conjunction with the bankruptcy of the previous owner, no original cost or continuing property records were provided with the purchase.[3]

[2] Company response to CAPD Data Request 2-1.

[3] Furthermore, because of the state of the previous owner in bankruptcy, it is doubtful that such records could have been faithfully relied upon even if they had been provided.

The Company has included the entire acquisition cost of $2,633,085 in its rate base. Through Mr. Smith's testimony, the CAPD contends that the Company has not "carried its burden of proof" in verifying the original cost of the acquired utility plant and has therefore proposed that none ($0) of the acquisition cost should be included in rate base. In support of his proposal to exclude the pipeline acquisition cost from rate base, Mr. Smith makes the following arguments:

1. Reliance upon annual reports on file with the TRA from the previous owner as a type of consolidated transmission/distribution report;
2. Discarding the results of the Company's independent engineering study;
3. Disputing the Company's present value analysis of current replacement costs to the date the plant was placed in service;
4. Disputing the Company's assignment of zero ($0) cost to the gas and oil wells acquired;
5. Disputing the results of the utility plant included in the Company's Ad Valorem Report filed with the State of Tennessee; and
6. Disputing the affiliate transactions involving the transfer of the Company's unregulated gas and oil wells to a separate company.

<u>I-1. Annual Report of the Previous Owners</u>

Q6. MR. NOVAK, PLEASE DESCRIBE THE LAST TRA ANNUAL REPORT FILED BY THE PIPELINE'S PREVIOUS OWNER, GASCO DISTRIBUTION SYSTEMS, INC. ("GASCO").

A6. Mr. Smith included a copy of the 2009 TRA Annual Report of Gasco in his supplemental direct testimony as Attachment RCS Supplemental Direct-1. In regards to this annual report, Mr. Smith states the following:

> "No annual reports filed with the TRA by Titan Energy Group could be located. The lack of any annual reports by Titan Energy Group to the TRA suggests that either Titan never reported the original cost or depreciation over the years to the TRA and its predecessor, **or that the use of the pipeline in providing public utility service was included in the reports to the TRA filed by the entity that was providing utility service, Gasco Distribution Systems, Inc.**" (Emphasis added.)[4]

Q7. IS IT LIKELY THAT THE GASCO ANNUAL REPORT TO THE TRA INCLUDED THE COST OF THE TRANSMISSION PIPELINE?

A7. No. First, the title of the annual report specifically and clearly states that it is for "Gasco Distribution Systems, Inc." on each and every page of the report. There is no mention of a transmission pipeline.

Secondly, the annual report lists no transmission or wellhead assets. Specifically, Page F-4 of the report lists the net utility plant value at $949,548.79. However, Page G-4 and G-5 list no assets for Natural Gas Production Plant and only $272.65 for Transmission Plant.[5] If the Company was indeed going to include the cost of the transmission pipeline in the TRA Annual Report, then they would in all likelihood also have included the gas wells as natural gas production plant.

[4] Supplemental Direct Testimony of Ralph C. Smith, Page 4, A7.

[5] $272.65 in Measuring and Regulator Station Equipment (369) which is likely the cost of the distribution meter documenting gas received from the transmission pipeline.

Since the pipeline and gas well assets do not appear to be included within the Gasco Annual Report to the TRA, and no other report from Titan Energy Group can be located, it is very likely that the investment cost of the transmission pipeline was never reported to the TRA. Therefore, the Gasco 2009 Annual Report to the TRA should not be relied upon as a consolidated historical valuation of the production, transmission and distribution system.

I-2. Independent Engineering Study

Q8. WHY DOES MR. SMITH DISCARD THE RESULTS FROM THE COMPANY'S INDEPENDENT ENGINEERING STUDY[6] ON THE REPLACEMENT VALUE OF THE TRANSMISSION PIPELINE?

A8. Mr. Smith lists various reasons that rely on incorrect assumptions for his recommendation that the TRA discard the results on the net replacement value of the independent engineering study. Among these reasons are the following:

1. The engineering study was undertaken in 2013 and not in 2010 when the pipeline was purchased;
2. The engineering study only evaluates replacement cost and not original cost;
3. The engineering study makes assumptions on the theoretical life of the pipeline assets that are different than the financial depreciable lives; and
4. The engineering study overestimates the cost to construct the plant.

[6] Attached to my testimony is the affidavit of Kelly G. Gillespie, President of Bell Engineering and Project Manager of the B&W Pipeline Valuation Report. B&W Pipeline will make Mr. Gillespie available at the Company's hearing to respond to any specific questions regarding the engineering study.

Q9. DOES THE TIMING OF THE ENGINEERING STUDY HAVE AN IMPACT IN THIS CASE?

A9. No. The engineering study was not undertaken in order to establish a purchase price for the pipeline in 2010. Rather the engineering study was undertaken after the purchase in order to provide independent confirmation on the pipeline valuation. I fail to see how this distinction justifies Mr. Smith's assertion that the results of the study should now be discarded from consideration in this docket because of the timing of when the engineering study was undertaken.

Q10. DOES THE ENGINEERING STUDY EVALUATE THE NET REPLACEMENT COST OF THE PIPELINE AND NOT THE ORIGINAL COST?

A10. Yes. The engineering study evaluated the net replacement cost of the pipeline in 2013. The Company purchased the pipeline assets in conjunction with the bankruptcy of the previous owners. As a result, the previous original cost records were simply not available and likely could not have been relied upon or trusted if they had been available. However, I fail to see how this distinction somehow justifies Mr. Smith's assertion that the engineering study should now be discarded because it somehow could not have considered the pipeline's original cost.

Q11. DOES THE ENGINEERING STUDY MAKE ASSUMPTIONS ON THE THEORETICAL DEPRECIABLE LIFE OF THE PIPELINE THAT IS DIFFERENT THAN THE FINANCIAL DEPRECIABLE LIFE?

A11. Yes. Most engineering studies involving depreciation consider the theoretical lives that are based on the material (plastic, bare steel, cast iron) of the pipeline. This is certainly not unusual. It is also not unusual for utilities and public utility commissions to adopt composite depreciable lives for financial reporting purposes that are different than the theoretical lives of each individual component of a pipeline. However, I fail to see how this distinction between theoretical and financial depreciable lives somehow justifies Mr. Smith's assertion that the engineering study should now be discarded.

Q12. DOES THE ENGINEERING STUDY OVERESTIMATE THE COST TO CONSTRUCT THE PIPELINE?

A12. Certainly not based on Mr. Smith's analysis. Mr. Smith is asking the TRA to discard the results of the engineering study, but then conveniently relies upon it to make his assertion that the engineering study overestimates the replacement cost to construct the pipeline. Specifically, Mr. Smith takes a portion of the pipeline that was repaired in 2013 and not even a part of the 2010 acquisition cost of $2,633,085 to make this assertion. He then infers that because the cost for the 2013 capitalized plant repair was recorded at $241,275 on the Company's books while the estimate from the engineering study for the 2013 plant replacement was $413,280, for a difference of 58.4%, that the total values in the engineering study are overstated by 58.4%. However, what Mr. Smith fails to accurately represent is that repairing an existing portion of the pipeline is not in any way the same as building the pipe from scratch. Instead, Mr. Smith is comparing apples with

oranges by contrasting the cost for capitalized repairs for an existing pipeline with the cost for new pipeline construction.

Specifically, the $241,275 amount reflected on the Company's books represents the actual capitalized cost to repair a portion of the pipeline in order to address specific safety citations that were imposed on the previous owner by the TRA. The $413,280 amount reflected in the engineering study represents the estimated cost to completely replace this entire section of the pipeline. Because the existing pipeline only needed to be repaired instead of constructed from scratch, many of the costs involved with new construction and included in the engineering study, such as securing easements & rights-of-way, boring & trenching, engineering, legal, regulatory and administrative were not necessary. As a result, Mr. Smith's assertions comparing the capitalized repair costs with the new construction costs are just not applicable and therefore the engineering study does not overstate the costs to construct the pipeline.

Next, Mr. Smith then commits a second, equally egregious error by applying his 58.4% ratio to the wrong number. Recall that he arrived at that ratio by comparing (incorrectly) the actual cost of repairing a line ($241,275) to the "replacement cost new" ($413,280) of that same line as estimated in the Bell Engineering report. He concluded from that comparison that the actual cost of the line is only about half (58.4%) of the engineer's estimate. He then applies that same ratio – not to the "replacement cost new" of the pipeline ($13,299,138) – but

to the 2010 acquisition cost ($2,633,085). That makes no sense. Even if it were true that the cost of building the pipeline is half of the engineer's estimate shown in the study, Mr. Smith should have applied the 58.4% ratio to $13,299,138, the engineer's estimate of the replacement cost of the pipeline, not to B&W Pipeline's purchase price. If he had done so, the value of the pipeline still comes out to be well over the amount paid for it by B&W Pipeline. Once again, it should also be noted that Mr. Smith purports to rely on the figures in the engineering report to come up with a reduced value of the pipeline while, at the same time, saying that the report, done three years after the purchase, has no relevance to this rate case. He cannot have it both ways.

As mentioned above, the original cost data of the previous owner is not available for the TRA to consider in setting rates for B&W Pipeline. However, as I mentioned in my rebuttal testimony, the NARUC Uniform System of Accounts allows the TRA to estimate the original cost value of the pipeline when the original cost data is not available. The independent engineering report on the pipeline valuation is the only reliable source of data for the TRA to consider for this valuation. Mr. Smith has consistently failed to provide a valid reason why this report should be discarded from the TRA's consideration.

I-3. Present Value Analysis

Q13. WHY DOES MR. SMITH DISPUTE YOUR DISCOUNTED VALUATION ANALYSIS OF THE REPLACEMENT COST BACK TO THE CONSTRUCTION DATE OF THE PIPELINE?

A13. According to his testimony, the 3% discount rate used in my analysis heavily influences the results and that I have offered no explanation or support for the discount rate of 3%.[7]

Q14. WHAT WAS THE BASIS FOR YOUR ASSUMPTION OF A 3% DISCOUNT RATE?

A14. The 3% discount rate represents the approximate average annual growth in the consumer price index from 1982 (the year of initial pipeline construction) through 2013 (the year of the engineering study). I have included the source and support for this calculation in Attachment WHN Supplemental Rebuttal-1 to my testimony. Accordingly, I used the 3% as the discount rate in my discounted replacement value analysis that was included in Attachment WHN Rebuttal-2 to my rebuttal testimony.[8]

As shown on Attachment WHN Supplemental Rebuttal-1, the engineering study valuation of the pipeline exceeds the acquisition cost of $2,633,085 by such a significant amount that even discounting the 2013 replacement value by 3% per year back to its construction date to reflect changes in construction costs would

[7] Supplemental Direct Testimony of Ralph C. Smith, Page 10, A14.

[8] This analysis of the discounted replacement value is also included here within Attachment WHN Supplemental Rebuttal-1

still yield an acquisition cost below the market value.[9] As a result, the Company reaffirms that its pipeline acquisition cost of $2,633,085 should be reflected as the appropriate value in rate base as an estimate of the original cost of the gas pipeline.

Q15. MR. SMITH USES THE CAPD'S PROPOSED COST OF CAPITAL OF 8.5% AS A DISCOUNT RATE. IS THIS CORRECT?

A15. No. The purpose of the discounted valuation analysis included in Attachment WHN Supplemental Rebuttal-1 is to discount the replacement cost from the engineering study back to the time of the original construction for consideration as an estimate of the original cost. The analysis was never intended as a consideration for making investment decisions as Mr. Smith purports.[10]

I-4. Cost Assignment to Oil and Gas Wells

Q16. WHAT IS MR. SMITH'S RATIONALE FOR DISPUTING THE TRANSFER OF THE UNREGULATED OIL AND GAS WELLS TO THE COMPANY'S AFFILIATE?

A16. Most of Mr. Smith's arguments on this point were already reflected in his direct testimony and involve issues with the non-arm's length nature of the transactions and valuation of the oil and gas wells. These particular arguments have already been addressed in my rebuttal testimony and I won't repeat them here except to mention that the liability associated with 83 non-producing wells exceeded the

[9] The cost of the $413,280 replacement value for Section 3 of the pipeline is excluded from the analysis since it was undertaken in 2013 after the acquisition.
[10] Supplemental Direct Testimony of Ralph C. Smith, Page 11, A16.

asset value of the 13 producing oil and gas wells. However, Mr. Smith does mention in his supplemental direct testimony a new concept that the **<u>net revenues</u>** produced by the oil and gas wells indicated a positive value at the time of acquisition. He also discusses the accounting provisions for recording an asset retirement obligation that is associated with the wells.

Q17. DOES THE FACT THAT THE WELLS HAD A POSITIVE <u>NET REVENUE</u> VALUE AT THE TIME OF THE ACQUISITION IMPACT HOW THEY SHOULD BE VALUED ON THE BALANCE SHEET?

A17. No. Mr. Smith is confusing the concept that the producing wells are in fact accretive on the income statement with their balance sheet valuation. While the 13 producing wells do if fact produce some income, it is overshadowed by the liability of capping the 83 non-producing wells. The components for the future income stream from the producing wells were already taken into consideration in their valuation as shown in the analysis to CAPD Data Request 2-1. However, the valuation for all of the wells still results in a net liability for the Company.

Q18. IS THE COMPANY REQUIRED TO RECORD AN ASSET RETIREMENT OBLIGATION FOR THE GAS AND OIL WELLS AS STATED BY MR. SMITH?

A18. No. Rugby Energy, B&W Pipeline's affiliate that owns the oil and gas wells, is a single member limited liability company with no debt. Further, Rugby Energy does not issue external financial statement to any third parties and is not required

to have its financial statements audited. As a result, Rugby Energy is not legally required to record an Asset Retirement Obligation on its books under generally accepted accounting principles.

Q19. IS THE ISSUE OF RECORDING AN ASSET RETIREMENT OBLIGATION RELEVANT TO THIS PROCEEDING?

A19. No. In spite of claims by Mr. Smith to the contrary, the accounting for the liabilities associated with the unregulated oil and gas wells have no bearing on this proceeding.

I-5. Ad Valorem Reports

Q20. MR. NOVAK, DOES B&W PIPELINE PREPARE AN AD VALOREM REPORT FOR THE STATE OF TENNESSEE ON THE VALUATION OF ITS GAS PIPELINE?

A20. Yes. I included a copy of the Company's 2015 Ad Valorem Report as Attachment WHN Rebuttal-3 along with my rebuttal testimony. The Ad Valorem Report provides the assessment basis for the property taxes paid by the Company. The Company has included its acquisition costs of the pipeline in the Ad Valorem Report, as it is legally required to do.

Q21. DOES MR. SMITH TAKE EXCEPTION TO THE VALUATION INCLUDED IN THE COMPANY'S AD VALOREM REPORT?

A21. Yes. Much of his testimony recaps that no cost was allocated to the unregulated wells, and that no acquisition adjustment was recorded on B&W Pipeline's books as previously discussed. However, he does repeatedly mention that B&W Pipeline's Ad Valorem Report reflects an equal amount of pipeline plant located in Fentress, Morgan and Pickett counties.

Q22. DOES B&W PIPELINE IN FACT HAVE AN EQUAL AMOUNT OF PIPELINE PLANT LOCATED IN THESE THREE COUNTIES?

A22. Probably not, although the actual pipeline length is approximately equal to 33.33% in each county. As I mentioned earlier, the Company purchased the 48 mile gas pipeline in conjunction with the bankruptcy of the previous owner. Because these assets were purchased in conjunction with the bankruptcy of the previous owner, no original cost or continuing property records were provided with the purchase including pipeline surveys within the boundaries of each of the counties. Until a pipeline survey can be completed, the Company can only estimate its actual pipeline length within each of these three counties.

Q23. IS THE ISSUE OVER THE EXACT LENGTH OF THE PIPELINE IN EACH COUNTY RELEVANT TO THIS PROCEEDING?

A23. No. The TRA sets rates on the total pipeline cost. In spite of assertions by Mr. Smith, the gas pipeline length in each county has no bearing on this proceeding.

I-6. Affiliate Transactions

Q24. MR. NOVAK, SHOULD THE TRA BE CONCERNED WITH THE AFFILIATE TRANSACTIONS REGARDING THE TRANSFER OF THE UTILITY'S UNREGULATED OPERATIONS AS MR. SMITH INDICATES?

A24. Certainly. The TRA should always concern itself with the proper allocation of cost to reflect only regulated activity in the rates of the utility. To my knowledge, all of the gas utilities under the TRA's jurisdiction have some manner of affiliate charges. B&W Pipeline is certainly no exception to this since the pipeline is too small to have its own dedicated staff. Further, it is to the TRA's regulatory oversight benefit to have the unregulated assets and associated liabilities of oil and gas wells removed from the regulated books of B&W Pipeline.

Q25. MR. NOVAK, PLEASE SUMMARIZE YOUR RECOMMENDATION ON THE AMOUNT OF THE ACQUISITIION COST TO INCLUDE IN RATE BASE.

A25. The acquisition cost of $2,633,085 represents a real cost that was paid for the pipeline system. Although no original cost records were provided from the previous owner, the Company has demonstrated that the amount paid for the pipeline was in all likelihood less than the original cost. Therefore, we request and recommend that the TRA reject Mr. Smith's incomplete analysis of the utility plant acquisition cost and instead accept the Company's actual acquisition cost of $2,633,085 as the appropriate amount to include in rate base.

II. <u>AFFILIATE OPERATOR FEE.</u>

Q26. MR. NOVAK, PLEASE SUMMARIZE THE COMPANY'S AND THE CAPD'S POSITIONS ON THE AFFILIATE OPERATOR FEE?

A26. B&W Pipeline has no employees of its own since it would be uneconomical to have a completely dedicated staff for such a relatively small operation. Instead, the needs of the pipeline are provided by an affiliate service company (Enrema, LLC) that also provides services to other entities. In addition to labor, the service company also allocates vehicle and insurance cost to B&W Pipeline totaling to $11,375 per month which is the amount that the Company has included in the rate case as its affiliate operator fee.

Although this $11,375 monthly fee is based on the specific costs charges for 3 separate employees along with vehicle and insurance cost, this same monthly fee is also charged to B&W Pipeline's affiliate, Rugby Energy, LLC, for maintaining that affiliates gas and oil wells. This fee arrangement between the two affiliates has caused the CAPD to incorrectly conclude that it represents a 50/50 allocation of cost. As a result, Mr. Smith proposes an 80% monthly charge ($9,100) to Rugby Energy and a 20% monthly charge ($2,275) to B&W Pipeline.

Q27. WHAT IS THE BASIS OF MR. SMITH'S 20% ALLOCATION FACTOR?

A27. It appears to be arbitrary since Mr. Smith provides no basis for it in either his direct testimony or his supplemental direct testimony.

Q28. PLEASE SUMMARIZE YOUR RECOMMENDATION ON THE AFFILIATE OPERATOR FEE.

A28. We request and recommend that the TRA reject Mr. Smith's incomplete analysis of the Operator Fee and instead accept the Company's actual cost and proposed allocation methodology that produces an annual expense to B&W Pipeline of $136,500.[11]

III. COSTS FOR OBTAINING CERTIFICATE.

Q29. MR. NOVAK, PLEASE SUMMARIZE THE COMPANY'S AND THE CAPD'S POSITIONS ON THE COSTS FOR OBTAINING THE CCN CERTIFICATE.

A29. The legal and regulatory fees associated with the Company obtaining the CCN were approximately $74,383.[12] This amount is reflected in the Company's test period expenses. CAPD witness Ralph Smith proposes that these costs should be capitalized and deferred with an amortization period of 20 years.[13]

The Company does not object to capitalizing and deferring the test period CCN costs if the TRA approves this. However, the Company does object to the 20 year

[11] Total allocated monthly cost of $11,375 * 12 months.
[12] Attachment 10-2 to TRA Minimum Filing Requirement #10.
[13] Direct testimony of CAPD Witness Ralph C. Smith, Page 22, A 56.

recovery period proposed by Mr. Smith. B&W Pipeline feels that the legal and regulatory costs included in the CCN filing are the same type of costs incurred in the preparation of this rate case and should not be amortized over a period longer than 60 months.

Q30. WHAT IS THE BASIS OF MR. SMITH'S PROPOSED AMORTIZATION PERIOD OF 20 YEARS?

A30. Mr. Smith provides no analysis or basis for his proposal to amortize these costs over 20 years. Further, I am not aware of the TRA ever deferring and providing recovery of legal and regulatory costs over a twenty year period.

Q31. PLEASE SUMMARIZE YOUR RECOMMENDATION ON THE RECOVERY FOR THE COSTS ASSOCIATED WITH THE CCN FILING.

A31. We would request that the TRA allow the Company to recover these costs as a test period operating expense as filed. If the TRA decides to allow the Company to defer these costs, then we request that the recovery period be no more than the same 60 month period used to recover rate case costs.

IV. THROUGHPUT.

Q32. MR. NOVAK, PLEASE SUMMARIZE THE COMPANY'S AND THE CAPD'S POSITIONS ON THROUGHPUT VOLUMES.

A32. In its filing, the Company included 169,861 Mcf of throughput. In Mr. Smith's direct testimony, he includes 212,628 Mcf of throughput for the CAPD. In my rebuttal testimony, I provided hypothetical updates to the existing Navitas and B&W affiliate transportation volumes that totaled to 210,235 Mcf. The update in my rebuttal testimony was undertaken to show the volatility in these forecasted volumes and to support a recommendation for a specific rate design that would regularly true-up the tariff to the actual throughput experienced.

The acceptance by the TRA of the attrition period throughput is of critical importance to B&W Pipeline. Although the eventual throughput volumes from the new industrial customers will have no detrimental impact to Navitas since they are not included in their base rates, using these same speculative volumes for B&W Pipeline could have a damaging impact on the Company's ability to earn a fair rate of return and provide continuing service.

V. <u>RATE DESIGN.</u>

Q33. MR. NOVAK, DID B&W PIPELINE PROPOSE A SPECIFIC RATE DESIGN IN ITS FILING TO RECOVER ITS PROPOSED REVENUE REQUIREMENT?

A33. No. Although I do show an average revenue requirement cost of $3.69 per Mcf, I specifically stated the following in my direct testimony:

"…the Company is currently negotiating with Navitas for a traditional pipeline rate design based upon peak day usage that is acceptable to both parties. We expect to have a final rate design to present to the TRA before this matter is scheduled for hearing."[14]

Q34. DOES THE CAPD AGREE WITH THE QUALIFICATION IN YOUR DIRECT TESTIMONY?

A34. Apparently not. In his supplemental testimony, Mr. Smith accuses me of doing a "180 turn on the Company's proposed rate design."[15] He also states that the "new rate design proposals are being presented for the first time in the Company's rebuttal filing and thus entail an element of procedural unfairness."[16] In addition, he describes my proposed rate design as "…a thinly veiled attempt by B&W to shift all risks related to fluctuations in pipeline throughput away from B&W and to place those risks on customers."[17] Finally, Mr. Smith states that "A demand only cost of service allocation and rate design would not be appropriate for B&W because it does not properly assign costs to cost causers."[18]

Q35. DO YOU AGREE WITH MR. SMITH'S ASSERTIONS REGARDING RATE DESIGN?

A35. No. Although it was our intent to produce an agreement with Navitas on rate design, such was not to be the case as the parties took a more and more adversarial role as the case progressed. However, it was always our intent to adopt and present a traditional demand only pipeline rate design for the TRA's

[14] Direct testimony of William H. Novak, Page 9, A12.
[15] Supplemental direct testimony of CAPD Witness Ralph C. Smith, Page 26, A 36.
[16] Supplemental direct testimony of CAPD Witness Ralph C. Smith, Page 28, A 42.
[17] Supplemental direct testimony of CAPD Witness Ralph C. Smith, Page 28, A 42.
[18] Supplemental direct testimony of CAPD Witness Ralph C. Smith, Page 29, A 42.

consideration. B&W Pipeline has only two customers, its own affiliate and Navitas. As a result, there are only a limited number ways that rates can be realistically designed since there are no residential, commercial or industrial customer classifications. Therefore, I recommend that the TRA adopt a daily demand rate structure to allow B&W Pipeline to recover its cost of service. The daily demand rate structure also allows Navitas the opportunity to "sculpt" how it allocates this demand cost to its different customer classes through its purchased gas adjustment. I therefore request and recommend that the TRA approve a total revenue requirement of $627,565 for B&W Pipeline along with a daily demand rate of $1,719 along with a Sales Adjustment Mechanism to recover this revenue requirement.

Q36. DO YOU HAVE ANY FINAL COMMENTS TO THE TRA ON THE COMPANY'S CASE?

A36. Yes. Throughout Mr. Smith's testimony, he refers to the concept of "rate shock" to end users from B&W Pipeline's proposed rate increase. However, even after the increase for transmission service is approved, the total charge for gas service will still be less than the equivalent cost of propane.

Furthermore, the concept of "rate shock" was also brought up by Mr. Hartline in the last Navitas rate case. Specifically, Mr. Hartline states the following in his direct testimony from that case:

"Navitas' request for a general rate increase and revisions to the rates and charges for the customers is premised on the calculated revenue deficiency during the test

year 2011 of approximately $390,000. This amount represents an approximate 80%[19] increase in total revenue. Within the context of the two decades between the last rate case and this Petition for a rate adjustment, this figure represents an annualized increase over the period of 3.27%. By way of comparison, the equivalent amount of heating energy obtained through the local electrical provider for the average residential customer currently costs $2,244 where as Navitas receives only 511. Thus, even a 100% increase in gas revenue would still only represent less than half the cost of electricity."[20]

"In order to avoid rate shock, Navitas proposes to divide the rate increases into four increments implemented annually beginning October 1, 2012."[21][22]

The TRA Order from the last Navitas rate case largely accepted the proposed settlement agreement between Navitas and the Consumer Advocate that increased the overall effective charge by approximately $5.49 per Mcf.[23] By way of comparison, the overall effective proposed rate increase for B&W Pipeline in this case is only $3.09.[24] Therefore, it hardly appears that the rate increase proposed by B&W Pipeline can hardly be termed "rate shock" when compared to the rate increase implemented by Navitas in their last rate case.

Speaking specifically for B&W Pipeline, the Company has never had a rate case in 33 years. As a result, the need to establish rates based on the cost to construct

[19] By comparison, the B&W Pipeline proposed increase only results in an 11.6% increase.
[20] Petition of Navitas TN NG for an Adjustment to its Natural Gas Rates and Approval of Revised Tariffs, Docket 12-00068, Direct Testimony of Thomas Hartline, 7A.
[21] Petition of Navitas TN NG for an Adjustment to its Natural Gas Rates and Approval of Revised Tariffs, Docket 12-00068, Direct Testimony of Thomas Hartline, 9A.
[22] The B&W Pipeline rate increase could hardly be labeled as "rate shock" since at only 11.6%, it is smaller than any of the individual four increments proposed by Navitas in their last rate case,
[23] Revenue prior to the rate increase was $209,033 / 482,085 Mcf sales = $4.34 per Mcf. Projected revenue after the rate increase was $473,975 / 482,085 sales = $9.83 per Mcf. $9.83 per Mcf less $4.34 per Mcf = $5.49 per Mcf.
[24] Overall proposed rate per Mcf of $3.69 per Direct Testimony of William H. Novak, Page 9, A12 less the current rate of $0.60 per Mcf = $3.09 per Mcf.

the pipeline goes back as far as 1982 when the first portion of the pipeline was constructed.

Furthermore, the "rate shock" argument did not prevent the TRA from approving a settlement between the CAD and Navitas which resulted in an overall increase in rates much higher than the increase proposed by B&W in this case. The Stipulation and Settlement Agreement in the Navitas case states, "This will be an overall increase in revenue billed to customers in the test year ended March 31, 2012 (including purchased gas) of approximately 63% rather than the 81% increase sought by Navitas as described by Navitas in its Petition." A 63% increase was apparently not "rate shock" to the Consumer Advocate Division in that case, even though the rates now in effect for Navitas require customers to pay a flat fee of $23.99 for the first 9CCfs of gas whether the customer consumes that much or not. In this case, the price of the first 9CCfs of gas would be, if the TRA grants B&W's request, an additional $2.78 (nine/tenths of $3.09 per Mcf), in other words, an increase of only 11.6% in the customer's total gas bill. That is not rate shock.

Q37. DOES THIS COMPLETE YOUR REBUTTAL TESTIMONY?

A37. Yes it does. However I reserve the right to incorporate any new information that may subsequently become available.

ATTACHMENT
WHN SUPPLEMENTAL REBUTTAL-1

Discounted Pipeline Replacement Cost Analysis

B&W Pipeline
Calculation of Average Discount Rate

Consumer Price Index Value at December 2013	233.0	A/
Consumer Price Index Value at December 1982	97.6	A/
Growth in Consumer Price Index	**135.4**	
Percentage Growth in Consumer Price Index	**139%**	
Years from Pipeline Construction to Engineering Valuation Study (1982 to 2013)	**31**	
Average Compounded Discount Rate (1982 - 2013)	**2.85%**	
Rounded Average Compounded Discount Rate (1982 - 2013)	**3.00%**	

A/ **Attachment WHN Supplemental Rebuttal-1, Schedule 2.**

Consumer Price Index - All Urban Consumers
Original Data Value

Series Id: CUUR0000SA0
Not Seasonally Adjusted
Area: U.S. city average
Item: All items
Base Period: 1982-84=100
Years: 1980 to 2015

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	HALF1	HALF2
1980	77.8	78.9	80.1	81.0	81.8	82.7	82.7	83.3	84.0	84.8	85.5	86.3		
1981	87.0	87.9	88.5	89.1	89.8	90.6	91.6	92.3	93.2	93.4	93.7	94.0		
1982	94.3	94.6	94.5	94.9	95.8	97.0	97.5	97.7	97.9	98.2	98.0	97.6		
1983	97.8	97.9	97.9	98.6	99.2	99.5	99.9	100.2	100.7	101.0	101.2	101.3		
1984	101.9	102.4	102.6	103.1	103.4	103.7	104.1	104.5	105.0	105.3	105.3	105.3	102.9	104.9
1985	105.5	106.0	106.4	106.9	107.3	107.6	107.8	108.0	108.3	108.7	109.0	109.3	106.6	108.5
1986	109.6	109.3	108.8	108.6	108.9	109.5	109.5	109.7	110.2	110.3	110.4	110.5	109.1	110.1
1987	111.2	111.6	112.1	112.7	113.1	113.5	113.8	114.4	115.0	115.3	115.4	115.4	112.4	114.9
1988	115.7	116.0	116.5	117.1	117.5	118.0	118.5	119.0	119.8	120.2	120.3	120.5	116.8	119.7
1989	121.1	121.6	122.3	123.1	123.8	124.1	124.4	124.6	125.0	125.6	125.9	126.1	122.7	125.3
1990	127.4	128.0	128.7	128.9	129.2	129.9	130.4	131.6	132.7	133.5	133.8	133.8	128.7	132.6
1991	134.6	134.8	135.0	135.2	135.6	136.0	136.2	136.6	137.2	137.4	137.8	137.9	135.2	137.2
1992	138.1	138.6	139.3	139.5	139.7	140.2	140.5	140.9	141.3	141.8	142.0	141.9	139.2	141.4
1993	142.6	143.1	143.6	144.0	144.2	144.4	144.4	144.8	145.1	145.7	145.8	145.8	143.7	145.3
1994	146.2	146.7	147.2	147.4	147.5	148.0	148.4	149.0	149.4	149.5	149.7	149.7	147.2	149.3
1995	150.3	150.9	151.4	151.9	152.2	152.5	152.5	152.9	153.2	153.7	153.6	153.5	151.5	153.2
1996	154.4	154.9	155.7	156.3	156.6	156.7	157.0	157.3	157.8	158.3	158.6	158.6	155.8	157.9
1997	159.1	159.6	160.0	160.2	160.1	160.3	160.5	160.8	161.2	161.6	161.5	161.3	159.9	161.2
1998	161.6	161.9	162.2	162.5	162.8	163.0	163.2	163.4	163.6	164.0	164.0	163.9	162.3	163.7
1999	164.3	164.5	165.0	166.2	166.2	166.2	166.7	167.1	167.9	168.2	168.3	168.3	165.4	167.8
2000	168.8	169.8	171.2	171.3	171.5	172.4	172.8	172.8	173.7	174.0	174.1	174.0	170.8	173.6
2001	175.1	175.8	176.2	176.9	177.7	178.0	177.5	177.5	178.3	177.7	177.4	176.7	176.6	177.5
2002	177.1	177.8	178.8	179.8	179.8	179.9	180.1	180.7	181.0	181.3	181.3	180.9	178.9	180.9
2003	181.7	183.1	184.2	183.8	183.5	183.7	183.9	184.6	185.2	185.0	184.5	184.3	183.3	184.6
2004	185.2	186.2	187.4	188.0	189.1	189.7	189.4	189.5	189.9	190.9	191.0	190.3	187.6	190.2
2005	190.7	191.8	193.3	194.6	194.4	194.5	195.4	196.4	198.8	199.2	197.6	196.8	193.2	197.4
2006	198.3	198.7	199.8	201.5	202.5	202.9	203.5	203.9	202.9	201.8	201.5	201.8	200.6	202.6
2007	202.4	203.5	205.4	206.7	207.9	208.4	208.3	207.9	208.5	208.9	210.2	210.0	205.7	209.0
2008	211.1	211.7	213.5	214.8	216.6	218.8	220.0	219.1	218.8	216.6	212.4	210.2	214.4	216.2
2009	211.1	212.2	212.7	213.2	213.9	215.7	215.4	215.8	216.0	216.2	216.3	215.9	213.1	215.9
2010	216.7	216.7	217.6	218.0	218.2	218.0	218.0	218.3	218.4	218.7	218.8	219.2	217.5	218.6
2011	220.2	221.3	223.5	224.9	226.0	225.7	225.9	226.5	226.9	226.4	226.2	225.7	223.6	226.3
2012	226.7	227.7	229.4	230.1	229.8	229.5	229.1	230.4	231.4	231.3	230.2	229.6	228.9	230.3
2013	230.3	232.2	232.8	232.5	232.9	233.5	233.6	233.9	234.1	233.5	233.1	233.0	232.4	233.5
2014	233.9	234.8	236.3	237.1	237.9	238.3	238.3	237.9	238.0	237.4	236.2	234.8	236.4	237.1
2015	233.7	234.7	236.1	236.6	237.8	238.6	238.7						236.3	

Source: Bureau of Labor Statistics

B&W Pipeline
Discounted Pipeline Replacement Cost Analysis

Attachment WHN Supplemental Rebuttal-1
Schedule 3

Discount Rate: **3.00%** A/

Year	Section 1 1982 Installation	Section 2 1982 Installation	Section 4 1988 Installation	Section 5 1988 Installation	Section 6 1987 Installation	Section 7 1987 Installation	Total Value
2013	$523,033	$1,851,725	$1,962,653	$1,170,132	$413,857	$637,908	$6,559,308
2012	507,342	1,796,173	1,903,773	1,135,028	401,441	618,771	6,362,529
2011	492,122	1,742,288	1,846,660	1,100,977	389,398	600,208	6,171,653
2010	477,358	1,690,019	1,791,260	1,067,948	377,716	582,201	5,986,503
2009	463,037	1,639,319	1,737,523	1,035,909	366,385	564,735	5,806,908
2008	449,146	1,590,139	1,685,397	1,004,832	355,393	547,793	5,632,701
2007	435,672	1,542,435	1,634,835	974,687	344,731	531,360	5,463,720
2006	422,602	1,496,162	1,585,790	945,447	334,389	515,419	5,299,808
2005	409,924	1,451,277	1,538,216	917,083	324,358	499,956	5,140,814
2004	397,626	1,407,739	1,492,070	889,571	314,627	484,957	4,986,590
2003	385,697	1,365,507	1,447,308	862,884	305,188	470,409	4,836,992
2002	374,126	1,324,541	1,403,888	836,997	296,032	456,296	4,691,882
2001	362,902	1,284,805	1,361,772	811,887	287,152	442,608	4,551,126
2000	352,015	1,246,261	1,320,919	787,531	278,537	429,329	4,414,592
1999	341,455	1,208,873	1,281,291	763,905	270,181	416,449	4,282,154
1998	331,211	1,172,607	1,242,852	740,987	262,075	403,956	4,153,690
1997	321,275	1,137,429	1,205,567	718,758	254,213	391,837	4,029,079
1996	311,637	1,103,306	1,169,400	697,195	246,587	380,082	3,908,207
1995	302,288	1,070,207	1,134,318	676,279	239,189	368,680	3,790,960
1994	293,219	1,038,101	1,100,288	655,991	232,014	357,619	3,677,232
1993	284,422	1,006,958	1,067,280	636,311	225,053	346,891	3,566,915
1992	275,890	976,749	1,035,261	617,222	218,302	336,484	3,459,907
1991	267,613	947,446	1,004,203	598,705	211,752	326,390	3,356,110
1990	259,585	919,023	974,077	580,744	205,400	316,598	3,255,427
1989	251,797	891,452	944,855	563,322	199,238	307,100	3,157,764
1988	244,243	864,709	**916,509**	**546,422**	193,261	297,887	3,063,031
1987	236,916	838,767	**916,509**	**546,422**	**187,463**	**288,950**	3,015,028
1986	229,808	813,604	**916,509**	**546,422**	**187,463**	**288,950**	2,982,757
1985	222,914	789,196	**916,509**	**546,422**	**187,463**	**288,950**	2,951,455
1984	216,227	765,520	**916,509**	**546,422**	**187,463**	**288,950**	2,921,092
1983	209,740	742,555	**916,509**	**546,422**	**187,463**	**288,950**	2,891,639
1982	**203,448**	**720,278**	**916,509**	**546,422**	**187,463**	**288,950**	**2,863,070**

Discounted Replacement Cost Value to Construction Date	**$2,863,070**
Acquisition Cost in 2010	**$2,633,085**
Acquisition Cost below Discounted Replacement Cost Value	**$229,985**

A/ Attachment WHN Supplemental Rebuttal-1, Schedule 1.

SOURCE: Attachment WHN Rebuttal-1, Page 5 of 5.

Note: Pipeline Section 3 was constructed in 2013 after the acquisition date and is therefore excluded from this analysis.

ATTACHMENT
WHN SUPPLEMENTAL REBUTTAL-2

Affidavit of Kelly G. Gillespie of Bell Engineering

AFFIDAVIT OF KELLY G. GILLESPIE

I, Kelly G. Gillespie, President of Bell Engineering, certify that the "Gas Pipeline Replacement Cost Evaluation of B & W Pipeline, LLC" dated December 12, 2013, which is attached to the Supplemental Rebuttal Testimony of William H. Novak in TRA Docket 15-00042, represents my opinion and the opinion of Bell Engineering based on experience, knowledge and customary practices in the pipeline industry.

Kelly G. Gillespie

KELLY G. GILLESPIE
President, Bell Engineering

STATE OF KENTUCKY
COUNTY OF FAYETTE

I, the undersigned, a notary public in and for said county in said state, hereby certify that Kelly G. Gillespie, whose name is signed to the foregoing instrument, and who is known to me, acknowledged before me on this day that, being informed of the contents of said instrument, he executed the same voluntarily on the day the same bears date.

Given under my hand and official seal this 1st day of Sept., 2015.

David Ball

Notary Public

[NOTARIAL SEAL]

My commission expires: Oct. 14 2017

ATTACHMENT

WHN SUPPLEMENTAL REBUTTAL-1

Discounted Pipeline Replacement Cost Analysis

B&W Pipeline
Calculation of Average Discount Rate

Consumer Price Index Value at December 2013	233.0	A/
Consumer Price Index Value at December 1982	97.6	A/
Growth in Consumer Price Index	**135.4**	
Percentage Growth in Consumer Price Index	**139%**	
Years from Pipeline Construction to Engineering Valuation Study (1982 to 2013)	**31**	
Average Compounded Discount Rate (1982 - 2013)	**2.85%**	
Rounded Average Compounded Discount Rate (1982 - 2013)	**3.00%**	

A/ **Attachment WHN Supplemental Rebuttal-1, Schedule 2.**

Consumer Price Index - All Urban Consumers **Attachment WHN Supplemental Rebuttal-1**
Original Data Value **Schedule 2**

Series Id: CUUR0000SA0
Not Seasonally Adjusted
Area: U.S. city average
Item: All items
Base Period: 1982-84=100
Years: 1980 to 2015

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	HALF1	HALF2
1980	77.8	78.9	80.1	81.0	81.8	82.7	82.7	83.3	84.0	84.8	85.5	86.3		
1981	87.0	87.9	88.5	89.1	89.8	90.6	91.6	92.3	93.2	93.4	93.7	94.0		
1982	94.3	94.6	94.5	94.9	95.8	97.0	97.5	97.7	97.9	98.2	98.0	97.6		
1983	97.8	97.9	97.9	98.6	99.2	99.5	99.9	100.2	100.7	101.0	101.2	101.3		
1984	101.9	102.4	102.6	103.1	103.4	103.7	104.1	104.5	105.0	105.3	105.3	105.3	102.9	104.9
1985	105.5	106.0	106.4	106.9	107.3	107.6	107.8	108.0	108.3	108.7	109.0	109.3	106.6	108.5
1986	109.6	109.3	108.8	108.6	108.9	109.5	109.5	109.7	110.2	110.3	110.4	110.5	109.1	110.1
1987	111.2	111.6	112.1	112.7	113.1	113.5	113.8	114.4	115.0	115.3	115.4	115.4	112.4	114.9
1988	115.7	116.0	116.5	117.1	117.5	118.0	118.5	119.0	119.8	120.2	120.3	120.5	116.8	119.7
1989	121.1	121.6	122.3	123.1	123.8	124.1	124.4	124.6	125.0	125.6	125.9	126.1	122.7	125.3
1990	127.4	128.0	128.7	128.9	129.2	129.9	130.4	131.6	132.7	133.5	133.8	133.8	128.7	132.6
1991	134.6	134.8	135.0	135.2	135.6	136.0	136.2	136.6	137.2	137.4	137.8	137.9	135.2	137.2
1992	138.1	138.6	139.3	139.5	139.7	140.2	140.5	140.9	141.3	141.8	142.0	141.9	139.2	141.4
1993	142.6	143.1	143.6	144.0	144.2	144.4	144.4	144.8	145.1	145.7	145.8	145.8	143.7	145.3
1994	146.2	146.7	147.2	147.4	147.5	148.0	148.4	149.0	149.4	149.5	149.7	149.7	147.2	149.3
1995	150.3	150.9	151.4	151.9	152.2	152.5	152.5	152.9	153.2	153.7	153.6	153.5	151.5	153.2
1996	154.4	154.9	155.7	156.3	156.6	156.7	157.0	157.3	157.8	158.3	158.6	158.6	155.8	157.9
1997	159.1	159.6	160.0	160.2	160.1	160.3	160.5	160.8	161.2	161.6	161.5	161.3	159.9	161.2
1998	161.6	161.9	162.2	162.5	162.8	163.0	163.2	163.4	163.6	164.0	164.0	163.9	162.3	163.7
1999	164.3	164.5	165.0	166.2	166.2	166.2	166.7	167.1	167.9	168.2	168.3	168.3	165.4	167.8
2000	168.8	169.8	171.2	171.3	171.5	172.4	172.8	172.8	173.7	174.0	174.1	174.0	170.8	173.6
2001	175.1	175.8	176.2	176.9	177.7	178.0	177.5	177.5	178.3	177.7	177.4	176.7	176.6	177.5
2002	177.1	177.8	178.8	179.8	179.8	179.9	180.1	180.7	181.0	181.3	181.3	180.9	178.9	180.9
2003	181.7	183.1	184.2	183.8	183.5	183.7	183.9	184.6	185.2	185.0	184.5	184.3	183.3	184.6
2004	185.2	186.2	187.4	188.0	189.1	189.7	189.4	189.5	189.9	190.9	191.0	190.3	187.6	190.2
2005	190.7	191.8	193.3	194.6	194.4	194.5	195.4	196.4	198.8	199.2	197.6	196.8	193.2	197.4
2006	198.3	198.7	199.8	201.5	202.5	202.9	203.5	203.9	202.9	201.8	201.5	201.8	200.6	202.6
2007	202.4	203.5	205.4	206.7	207.9	208.4	208.3	207.9	208.5	208.9	210.2	210.0	205.7	209.0
2008	211.1	211.7	213.5	214.8	216.6	218.8	220.0	219.1	218.8	216.6	212.4	210.2	214.4	216.2
2009	211.1	212.2	212.7	213.2	213.9	215.7	215.4	215.8	216.0	216.2	216.3	215.9	213.1	215.9
2010	216.7	216.7	217.6	218.0	218.2	218.0	218.0	218.3	218.4	218.7	218.8	219.2	217.5	218.6
2011	220.2	221.3	223.5	224.9	226.0	225.7	225.9	226.5	226.9	226.4	226.2	225.7	223.6	226.3
2012	226.7	227.7	229.4	230.1	229.8	229.5	229.1	230.4	231.4	231.3	230.2	229.6	228.9	230.3
2013	230.3	232.2	232.8	232.5	232.9	233.5	233.6	233.9	234.1	233.5	233.1	233.0	232.4	233.5
2014	233.9	234.8	236.3	237.1	237.9	238.3	238.3	237.9	238.0	237.4	236.2	234.8	236.4	237.1
2015	233.7	234.7	236.1	236.6	237.8	238.6	238.7						236.3	

Source: Bureau of Labor Statistics

B&W Pipeline
Discounted Pipeline Replacement Cost Analysis

Attachment WHN Supplemental Rebuttal-1
Schedule 3

Discount Rate: 3.00% A/

Year	Section 1 1982 Installation	Section 2 1982 Installation	Section 4 1988 Installation	Section 5 1988 Installation	Section 6 1987 Installation	Section 7 1987 Installation	Total Value
2013	$523,033	$1,851,725	$1,962,653	$1,170,132	$413,857	$637,908	$6,559,308
2012	507,342	1,796,173	1,903,773	1,135,028	401,441	618,771	6,362,529
2011	492,122	1,742,288	1,846,660	1,100,977	389,398	600,208	6,171,653
2010	477,358	1,690,019	1,791,260	1,067,948	377,716	582,201	5,986,503
2009	463,037	1,639,319	1,737,523	1,035,909	366,385	564,735	5,806,908
2008	449,146	1,590,139	1,685,397	1,004,832	355,393	547,793	5,632,701
2007	435,672	1,542,435	1,634,835	974,687	344,731	531,360	5,463,720
2006	422,602	1,496,162	1,585,790	945,447	334,389	515,419	5,299,808
2005	409,924	1,451,277	1,538,216	917,083	324,358	499,956	5,140,814
2004	397,626	1,407,739	1,492,070	889,571	314,627	484,957	4,986,590
2003	385,697	1,365,507	1,447,308	862,884	305,188	470,409	4,836,992
2002	374,126	1,324,541	1,403,888	836,997	296,032	456,296	4,691,882
2001	362,902	1,284,805	1,361,772	811,887	287,152	442,608	4,551,126
2000	352,015	1,246,261	1,320,919	787,531	278,537	429,329	4,414,592
1999	341,455	1,208,873	1,281,291	763,905	270,181	416,449	4,282,154
1998	331,211	1,172,607	1,242,852	740,987	262,075	403,956	4,153,690
1997	321,275	1,137,429	1,205,567	718,758	254,213	391,837	4,029,079
1996	311,637	1,103,306	1,169,400	697,195	246,587	380,082	3,908,207
1995	302,288	1,070,207	1,134,318	676,279	239,189	368,680	3,790,960
1994	293,219	1,038,101	1,100,288	655,991	232,014	357,619	3,677,232
1993	284,422	1,006,958	1,067,280	636,311	225,053	346,891	3,566,915
1992	275,890	976,749	1,035,261	617,222	218,302	336,484	3,459,907
1991	267,613	947,446	1,004,203	598,705	211,752	326,390	3,356,110
1990	259,585	919,023	974,077	580,744	205,400	316,598	3,255,427
1989	251,797	891,452	944,855	563,322	199,238	307,100	3,157,764
1988	244,243	864,709	**916,509**	**546,422**	193,261	297,887	3,063,031
1987	236,916	838,767	**916,509**	**546,422**	**187,463**	**288,950**	3,015,028
1986	229,808	813,604	**916,509**	**546,422**	**187,463**	**288,950**	2,982,757
1985	222,914	789,196	**916,509**	**546,422**	**187,463**	**288,950**	2,951,455
1984	216,227	765,520	**916,509**	**546,422**	**187,463**	**288,950**	2,921,092
1983	209,740	742,555	**916,509**	**546,422**	**187,463**	**288,950**	2,891,639
1982	**203,448**	**720,278**	**916,509**	**546,422**	**187,463**	**288,950**	**2,863,070**

Discounted Replacement Cost Value to Construction Date	**$2,863,070**
Acquisition Cost in 2010	**$2,633,085**
Acquisition Cost below Discounted Replacement Cost Value	**$229,985**

A/ Attachment WHN Supplemental Rebuttal-1, Schedule 1.

SOURCE: Attachment WHN Rebuttal-1, Page 5 of 5.

Note: Pipeline Section 3 was constructed in 2013 after the acquisition date and is therefore excluded from this analysis.

ATTACHMENT
WHN SUPPLEMENTAL REBUTTAL-2

Affidavit of Kelly G. Gillespie of Bell Engineering

AFFIDAVIT OF KELLY G. GILLESPIE

I, Kelly G. Gillespie, President of Bell Engineering, certify that the "Gas Pipeline Replacement Cost Evaluation of B & W Pipeline, LLC" dated December 12, 2013, which is attached to the Supplemental Rebuttal Testimony of William H. Novak in TRA Docket 15-00042, represents my opinion and the opinion of Bell Engineering based on experience, knowledge and customary practices in the pipeline industry.

Kelly G. Gillespie

KELLY G. GILLESPIE
President, Bell Engineering

STATE OF KENTUCKY
COUNTY OF FAYETTE

I, the undersigned, a notary public in and for said county in said state, hereby certify that Kelly G. Gillespie, whose name is signed to the foregoing instrument, and who is known to me, acknowledged before me on this day that, being informed of the contents of said instrument, he executed the same voluntarily on the day the same bears date.

Given under my hand and official seal this 1st day of Sept., 2015.

David Ball
Notary Public

[NOTARIAL SEAL]

My commission expires: Oct. 14 2017

7/3708707.1

ATTACHMENT

WHN SUPPLEMENTAL REBUTTAL-2

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Kelly G. Gillespie

KELLY G. GILLESPIE
President, Bell Engineering

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COUNTY OF FAYETTE

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