

# LUNA LAW GROUP

A PROFESSIONAL LIMITED LIABILITY COMPANY

ATTORNEYS AT LAW

333 UNION STREET  
SUITE 300  
NASHVILLE, TENNESSEE 37201

TELEPHONE (615) 254-9146  
TELECOPIER (615) 254-7123  
WWW.LUNALAWNASHVILLE.COM

J.W. Luna  
jwluna@LunaLawNashville.com

February 15, 2018

Executive Director Earl R. Taylor  
c/o Ms. Sharla Dillon  
Tennessee Regulatory Authority  
460 James Robertson Parkway  
Nashville, TN 37243-0505

Docket No. 18-00017

Re: Petition of Chattanooga Gas Company for Approval of an Adjustment in Rates and Tariff; the Termination of the AUA Mechanism and the Related Tariff Changes and Revenue Deficiency Recovery; and an Annual Rate Review Mechanism

Dear Mr. Taylor:

Enclosed please find for filing the original and four copies of the following documents:

1. Petition;
2. Direct testimony and exhibits of:
  - a. Wendell Dallas
  - b. Heath Brooks
  - c. Rachel Johnson
  - d. James Vander Weide
  - e. Dan Yardley
  - f. Dane Watson
  - g. Michael Adams
  - h. Archie Hickerson
  - i. Gregorgy Becker (3 Exhibits under seal)
  - j. John Cogburn
3. Revised Tariff included as Exhibit ARH-1 to testimony of Archie Hickerson with a redline version of the Revised Tariff as Exhibit ARH-2 included;
4. Minimum Filing Guidelines (some of which are being filed under seal);
5. Proposed Protective Order; and

February 15, 2018

Page 2

6. Proposed Procedural Schedule.

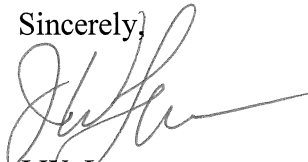
Please note in the draft procedural schedule, CGC is acknowledging the necessity for CGC to voluntarily withdraw the consideration of the ARM on a temporary basis. CGC is including the request for approval of an ARM in this petition in order for there to be total transparency in our requests so the Commission and parties may continue to review the ARM request notwithstanding the differing timeframes for consideration of the adjustment of rates and the alternative rate mechanism. Once a procedural schedule has been set, CGC will reauthorize its ARM filing to coincide with the date of the Commission's Conference where it shall consider the rate case and ARM requests.

We are also providing an electronic copy of each of the filings along with the \$25 filing fee.

A courtesy copy of this filing is being provided to the Consumer Advocate and Protection Division of the Office of the Attorney General and Reporter.

Please do not hesitate to call me if you have any questions.

Sincerely,



J.W. Luna

/cb

Enclosures

**BEFORE THE TENNESSEE PUBLIC UTILITY COMMISSION  
NASHVILLE, TENNESSEE**

**February 15, 2018**

**IN RE:**

**CHATTANOOGA GAS COMPANY  
PETITION FOR APPROVAL OF AN  
ADJUSTMENT IN RATES AND  
TARIFF; THE TERMINATION OF  
THE AUA MECHANISM AND THE  
RELATED TARIFF CHANGES AND  
REVENUE DEFICIENCY  
RECOVERY; AND AN ANNUAL  
RATE REVIEW MECHANISM**

**Docket No.  
18-\_\_\_\_\_**

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**CHATTANOOGA GAS COMPANY PETITION FOR APPROVAL OF  
AN ADJUSTMENT IN RATES AND TARIFF;  
THE TERMINATION OF THE AUA MECHANISM AND THE RELATED TARIFF  
CHANGES AND REVENUE DEFICIENCY RECOVERY; AND  
AN ANNUAL RATE REVIEW MECHANISM**

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Chattanooga Gas Company ("CGC" or "Company"), pursuant to Tennessee Code Annotated Section 65-5-103 and the Rules of the Tennessee Public Utility Commission ("TPUC" or "Commission"),<sup>1</sup> respectfully requests that the Commission approve this Petition which includes three parts. First, CGC is seeking approval for an adjustment in rates for natural gas service, along with approval for the corresponding tariff revisions. Second, CGC is requesting approval to terminate the Alignment and Usage Adjustment mechanism, approved as a trial for

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<sup>1</sup> Prior to a legislative change by the General Assembly in 2017, the Commission was formerly known as the Tennessee Regulatory Authority, and under the prior law the Commissioners were "Directors." Where appropriate from the historic context, in this Petition CGC will refer to the Commission as the "TRA" or "Authority," and a Commissioner as a "Director."

R-1 and C-1 customers in 2010. In terminating this mechanism, CGC proposes to reinstitute the Weather Normalization Adjustment mechanism for the R-1 and C-1 customers and recover the associated unpaid customer revenue deficiency, nearly \$2 million, through the Interruptible Margin Credit Rider. Third, CGC is electing to opt into an annual rate review under the alternative regulatory methods statute, Tennessee Code Annotated Section 65-5-103(d)(6)(a). This annual rate review process will provide the Commission and CGC's customers with greater transparency regarding the Company's rates and revenues while affording the Company the opportunity to earn a fair and reasonable return as it continues to invest in infrastructure and service advancements that improve system safety, increase gas supplies, and enhance reliability. In support of this Petition, CGC submits the following:

### **I. Description of CGC**

1. CGC is incorporated under the laws of the State of Tennessee and is engaged in the business of transporting, distributing, and selling natural gas in the greater Chattanooga and Cleveland, Tennessee areas within Hamilton and Bradley Counties. CGC is a public utility pursuant to the laws of the State of Tennessee, and its public utility operations, including its rates, terms, and conditions of service, are subject to the jurisdiction of this Commission.

2. CGC is a wholly-owned subsidiary of Southern Company Gas, a natural gas holding company that is the parent company operating regulated natural gas utilities in Florida, Georgia, Illinois, New Jersey, Maryland, and Virginia in addition to CGC in Tennessee. Southern Company Gas, formerly known as AGL Resources, was acquired by the Southern Company in 2016. The combined Southern Company system provides services in 18 states, serving more than 9 million customers, with a continued focus on creating real energy solutions to deliver clean, safe, reliable, and affordable natural gas and electricity.

3. CGC's principal office and place of business is located at 2207 Olan Mills Drive, Chattanooga, Tennessee 37421.

4. All correspondence and communication with respect to this Petition should be sent to the following on behalf of CGC:

J. W. Luna, Esq  
Luna Law Group, PLLC  
333 Union Street, Suite 300  
Nashville, TN 37201  
Telephone: (615) 254-9146  
Email: [jwluna@LunaLawNashville.com](mailto:jwluna@LunaLawNashville.com)

Floyd R. Self, Esq.  
Berger Singerman, LLP  
313 North Monroe Street, Suite 301  
Tallahassee, FL 32301  
Telephone: (850) 521-6727  
Email: [fself@bergersingerman.com](mailto:fself@bergersingerman.com)

Elizabeth Wade, Esq.  
Chief Regulatory Counsel  
Southern Company Gas  
Ten Peachtree Place, NW  
Atlanta, GA 30309  
Telephone: (404) 584-3160  
Email: [ewade@southernco.com](mailto:ewade@southernco.com)

Paul Leath  
Director Government, Community & Regulatory Affairs  
Chattanooga Gas Company  
2207 Olan Mills Drive  
Chattanooga, TN 37421  
Telephone: (478) 3209565  
Email: [pleath@southernco.com](mailto:pleath@southernco.com)

## **II. CGC Rate Case Request**

5. This is CGC's first request for a change in rates in over eight years. Overall, the rate request is driven by the increased capital costs associated with meeting new growth opportunities and securing adequate natural gas supply to meet present and future growth. Rate

relief is also justified to meet increasingly stringent state and federal compliance standards and to increase the investment in new employees and additional training programs since over 50 percent of CGC's workforce is eligible to retire in the next three years.

6. CGC's last rate case was conducted in 2009-2010 in Docket No. 09-00183 (the "2009 Rate Case"). By Order dated November 8, 2010,<sup>2</sup> the TRA granted new rates on the determination that the Company had upon an overall cost of capital of 7.41% and a revenue deficiency of \$60,068.<sup>3</sup> In addition, rates were partially decoupled by the 's acceptance in part of CGC's request for adoption of an Alignment and Usage Adjustment ("AUA") Tariff to replace the Company's then effective Weather Normalization Adjustment ("WNA") Tariff. Instead of an AUA that applied to all customers, the TRA approved a three-year trial AUA mechanism that only applied to the R-1 and C-1 customers, which left the WNA in effect for all other customer classes.<sup>4</sup> In approving the AUA trial, the TRA also limited annual adjustments under this mechanism to a two percent of margin revenue cap. The TRA also approved CGC's request for reimbursement of unrecovered legal fees from Docket No. 07-00224.<sup>5</sup> Finally, the TRA approved in part CGC's proposed energy conservation program, called energySMART, which consisted of a limited Community Outreach and Customer Education Program and a Programmable Thermostat Program, rejecting CGC's proposed wider programs.<sup>6</sup> CGC implemented its new rates effective June 1, 2010.

7. The rates approved in the 2010 Order were expected to produce net operating

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<sup>2</sup> The 2009 Rate Case Final Order issued November 8, 2010 will be referred to as the "2010 Order."

<sup>3</sup> 2010 Order, at 45 and 66 (paras. 5-6).

<sup>4</sup> 2010 Order, at 50-58 and 66 (paras. 7-8).

<sup>5</sup> 2010 Order, at 46-47 and 67 (para. 14).

<sup>6</sup> 2010 Order, at 58-62 and 67 (para. 12).

income of \$6,923,840, based upon a rate base of \$93,818,504<sup>7</sup> and an equity return of 10.3 percent, which was reduced 25 basis points because of the adoption of the AUA as a part of the Company's rate design.<sup>8</sup> Using current rates during the attrition period (July 1, 2018, to June 30, 2019), CGC is projected to earn a net operating income of \$7,364,092, on a rate base of \$159,856,710, which will result in an overall rate of return of 4.61 percent. Without rate relief, CGC will incur a revenue deficiency during the attrition period of \$6,995,194 at the proposed rate of return of 7.83 percent. In this case being presented to this Commission, CGC's existing rates for natural gas services are no longer adequate to permit it to recover its operating costs and to earn a fair and reasonable return on its investments.

8. As shown in the testimony, exhibits, and other supporting schedules and documentation, the major elements of CGC's request for an increase in rates are as follows:

- a. 2018-2019 Attrition Year. The proposed rates are based on a July 1, 2018, to June 30, 2019, attrition year. The forecasted data is reflective of the Company's actual cost experience and of projects and activities that the Company will be performing throughout the test year, including the new corporate tax rate.
- b. Rate Base. The Company's rate base in the attrition year is projected to be \$159,856,710.
- c. Operations and Maintenance ("O&M") Expenses. The operating expenses for Chattanooga Gas are forecasted to increase from \$23,004,863 allowed in the 2009 Rate Case to \$27,845,986 in the attrition period with the proposed rate adjustment.

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<sup>7</sup> 2010 Order, at 33-34 and 66 (para. 3).

<sup>8</sup> 2010 Order, at 45.

- d. Capital Structure. The proposed test year capital structure includes 49.23% common equity, 44.47% long-term debt, and 6.3% short-term debt. The Company believes that this capital structure is appropriate to allow it to maintain strong credit ratings.
- e. Rate of Return. The methodology used to calculate the Chattanooga Gas proposed Return on Equity (“ROE”) is consistent with the methodology that the Commission approved in the 2009 Rate Case. The Company proposes an ROE of 11.25% per annum and an overall Rate of Return (“ROR”) on rate base of 7.83% per annum.

9. The operations and maintenance expense included in the cost of service study included in this case reflects the benefits of CGC’s status as a Southern Company Gas subsidiary. While CGC maintains a competent and skilled workforce in Chattanooga to locally maintain and serve customers, many of the back office, engineering, planning, regulatory, and other services are performed on a consolidated basis by Southern Company Gas that provides expertise and resources greater and more efficiently than what CGC could accomplish on its own. Over the last eight years Southern Company Gas has invested over \$2 million in technology through modem and computer replacements, a Clink-Link application platform, a GIS upgrade, and a new customer care and billing system in 2017. In addition, over \$5.7 million has been invested in the Chattanooga LNG facility to upgrade and improve this important facility that helps to provide valuable peaking capacity when needed. Being a part of Southern Company only further supports and reinforces CGC and Southern Company Gas with its greater financial, technical, and operational resources.

- 10. An important driver in this rate case request is budgeted capital expenditures.



Within the developed parts of Chattanooga and Cleveland, CGC has a fairly extensive system. Where new customers request service within CGC's system footprint, the cost to serve is nominal. However, the real growth in Hamilton and Bradley counties over the last few years and continuing forward is occurring through greenfield projects, such as the Volkswagen, Wacker, and Amazon facilities and the suppliers, commercial districts, and residential developments that follow and that also need clean and efficient natural gas. In order to continue to be a partner in the economic expansion of CGC's market area, the Company must strategically invest in new customer infrastructure that goes hand and hand with the new businesses and residential developments coming into CGC's service area. Thus, CGC is carrying out a \$29.8 million capital budget, 67 percent of which is comprised of infrastructure improvements that include the following:

- a. Investments related to Federal and TPUC safety compliance, such as continuation of a program to rid the system of aging and obsolete pipe, which since 2010 has replaced over 93 miles of aging infrastructure representing an investment of over \$41 million.
- b. New regulator stations that more safely control pressure flow within the system and allow for inspection devices to be inserted into the high pressure lines.
- c. Capacity supply improvements to replace the pending loss of gas supply sources to ensure that Chattanooga Gas customers have reliable natural gas when and where they need it. CGC is in the process of constructing a new high pressure pipeline from its existing liquefied natural gas ("LNG") facility to the Red Bank and Signal Mountain areas that will enable the

Company to bring new supply to customers while more fully utilize an existing resource that will maximize the Company's ability to meet peaking needs.

Approval of these expenditures will enable CGC to continue to be proactive in improving the safety and reliability of the system for benefit of all customers in the community we serve.

11. As the Commission is aware, the newly adopted Tax Cuts and Jobs Act ("the Act") that passed in December 2017 reduced the federal income tax rate to 21% and implemented other tax changes that impact CGC. On February 6, 2018, this Commission issued its order in Docket No. 18-00001, directing certain utilities, including CGC, to track certain information and report to the Commission no later than March 31, 2018 ("Tax Order"), on those informational items with the Commission deciding at a later time what actions, if any, may be appropriate to reflect the impact of the Act. As a consequence of these changes, the Company has incorporated into its testimony, exhibits, and other supporting documentation filed in this case all known and measurable impacts that the Act will have on the Company's financial condition. As is more fully addressed in the testimony and exhibits of Ms. Rachel Johnson, and others, these impacts include the following:

- a. Federal income tax rate of 21%.
- b. Establishment of a regulatory liability for the recalculation of accumulated deferred income taxes for the difference in the federal tax rate of 35% and 21%. This is also referred to as excess deferred income taxes ("EDIT").
- c. Amortization of protected EDIT and basis adjustments to property using the average rate adjustment mechanism ("ARAM") and unprotected EDIT using a five year straight line method for federal and state purposes.

- d. Elimination of bonus depreciation in 2018 with the exception of property acquired prior to September 30, 2017, and placed in service in 2018.
- e. Incorporation of a higher equity ratio at Southern Company Gas to mitigate the effects of reduced cash flows due to the elimination of bonus depreciation and flow back of EDIT to customers, which in turn has an adverse impact on Southern Company Gas' credit metrics.

CGC believes that by incorporation of the Act's impacts into its filing in this case, and otherwise setting up the accrual accounts required by the Tax Order, CGC has fully complied with the Commission's requirements. CGC intends to make the required filing before March 31 in Docket No. 18-00001, which shall essentially direct the Commission to this docket. If there are other requirements CGC will need to address because of the passage of the Act and this Commission's decisions to implement the Act, CGC intends to handle such issues in this docket unless the Commission directs otherwise.

12. CGC respectfully requests that the Commission approve the adjustments to its rates and tariff as set forth herein based upon the supporting testimony and documentation included with this Petition.

### **III. AUA Termination, WNA Reestablishment, and AUA Recovery**

13. The second part of this Petition is CGC's request to terminate the AUA, return the R-1 and C-1 AUA customers back to the WNA mechanism, and recover the unpaid AUA customer revenue deficiency, nearly \$2 million, through the Interruptible Margin Credit Rider ("IMCR").

14. Prior to the Company's last rate case, CGC's tariff has for many years included a weather normalization mechanism, like many other utilities. The purpose of such a mechanism

is to adjust customer bills for the base revenue effects of weather on usage by providing a credit to customers when cold weather contributed to higher use and a charge to customers when warm weather contributed to lower use. In the 2009 Rate Case, CGC proposed to replace the weather rider with a full decoupling rider that incorporated the effects of weather and other factors on customer use in what was identified as the energySMART program, which also included a free programmable thermostat program and a community outreach effort. The proposed AUA would adjust base (non-gas) rates not only for the impact of weather deviating from normal, but also for the impact of conservation and other factors that result in actual customer usage being different from the calculated usage used for the purposes of establishing rates in the rate case. CGC requested the adoption of the AUA in order for it to actively promote customer conservation efforts without adversely impacting the ability to recover its cost to provide service.

15. At its May 24, 2010, Conference, the hearing panel consisting of Chairman Sara Kyle, Director Eddie Robinson, and Director Mary W. Freeman considered and approved, a modified AUA mechanism that made three important changes. First, the AUA mechanism was approved only for customers served under CGC's R-1 Residential General Service and C-1 Small Commercial and Industrial General Service Rate Schedules, with the WNA remaining for CGC's other customer schedules. Second, the AUA was approved only on a trial basis for three years. Finally, and most importantly, the AUA adjustments were limited to a two percent of margin revenue cap annually. Concurrent with the approval of the AUA on a trial basis, the TRA also approved, for the same three year period, the Community Outreach and Customer Education component of the Company's conservation program funded at 50% of the level proposed by CGC. The panel also approved the Free Residential Programmable Thermostat

component as proposed.<sup>9</sup>

16. In approving these conservation programs, the TRA directed its Staff to work with the National Regulatory Research Institute (“NRRI”) to establish a set of measures sufficient to evaluate the Residential Programmable Thermostat and the Community Outreach and Customer Education programs. With respect to the AUA, the TRA directed that at the end of the three-year trial period, the Company would provide a report on the AUA mechanism that would address the impact and effect of the AUA on both consumers and the Company and include recommendations whether the AUA mechanism should be continued.<sup>10</sup>

17. After three years, the measures to evaluate the Residential Free Programmable Thermostat and the Community Outreach and Customer Education components of the conservation program had not yet been developed. To provide additional time to evaluate the programs, on April 25, 2013, CGC filed a motion and a proposed tariff to extend the AUA trial and the related components of the energySMART conservation program for an additional three years and to change the cap on the amount to be recovered annually through the AUA from 2% of the margin to 2% of gross revenue from the applicable Rate Schedules.

18. At the June 17, 2013 Conference, Chairman James M. Allison, Vice Chairman Herbert H. Hilliard, and Director David F. Jones, the panel of Directors considered the filing. This panel found that an evidentiary hearing was needed before considering an increase in the annual cap, and that information related to the thermostat and consumer education programs was needed before the panel would consider an extension of the AUA mechanism. The panel thus suspended CGC’s April 25, 2013, tariff filing, appointed the General Counsel or her designee as

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<sup>9</sup> 2010 Order, at 50-65.

<sup>10</sup> 2010 Order, at 62.

Hearing Officer to prepare the matter for hearing, and directed CGC to file tariffs maintaining the existing AUA mechanism in the interim period. Accordingly, CGC's requested modifications to its conservation programs were not approved.<sup>11</sup> On June 20, 2013, CGC filed the revised tariffs continuing the AUA trial as directed. The programmable thermostat and outreach programs expired at the end of their three year trials without any further action.

19. The original intent of the AUA mechanism was to provide CGC with the ability to meet its revenue requirements while encouraging customers to conserve gas usage consistent with Tenn. Code Ann. § 65-4-126. The objective was for the Company to collect from customers the average revenues per Rate Schedule R-1 and C-1 based on the billing determinants and rate approved in the rate case. Actual average revenue per customer in excess of the benchmark is subject to refund to the customers through the application of the AUA billing factor. When the actual revenue per customer is less than the benchmark, the deficiency is to be recovered through the application of the AUA billing factor or surcharge. However, the AUA has not worked out as intended and has led to significant under-recoveries where customers have not fully paid for the service that they have consumed.<sup>12</sup>

20. As is detailed more fully in the testimony and exhibits of CGC witness Mr. Archie Hickerson, the AUA has resulted in a significant cumulative deficiency in revenue from both the R-1 and C-1 classes, \$895,058 and \$893,125, respectively, as of the end of the last annual review period on May 31, 2017. In other words, after seven years, customers have not paid enough for the gas they have received – in the aggregate, customers paid \$1,788,194 less

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<sup>11</sup> The order extending the AUA and convening a contested hearing was issued on November 6, 2013, in this docket.

<sup>12</sup> The CGC September 26, 2017, filing is incorporated into this docket as an attachment to Mr. Hickerson's testimony, Exhibit ARH-3.

than they should have. And because of the 2% cap each year, even if there are no revenue shortfalls in future years (which is unlikely), it will take years of surcharges for CGC to collect the cumulative shortfall due from customers. Given the variability in weather, and the significant adverse consequences of a warm winter, the revenue under-recovery due from customers can be so significant in one year that it can take many years for the Company to get paid back even if the weather in subsequent years is more in line with expectations, and wild swings in weather can only exacerbate the problem.

21. Second, for the R-1 customers, the revenues collected are significantly out of synch each year with the authorized margin, and the order of magnitude for the shortfall or excess each year has involved significant dollars. Moreover, the swing from excess to shortfall for 2015 to 2016 is approximately one million dollars. Worse still, the shortfall for the 12 months ended May 31, 2017, alone was nearly one million dollars. While R-1 customers have had four years of paying in excess of the target revenue, this has been more than offset by the three years where there were under payments. Given the substantial size of the \$914,033 payment deficiency for 2017, only \$262,145.41 can be surcharged to customers during the 2017-2018 recovery period due to the 2% margin cap. The bottom line is that net cumulatively, R-1 customers still have underpaid \$895,058.92 due to the Company for gas consumed. This is unreasonable and unfair for CGC and its customers.

22. Third, the situation for the C-1 customers has been more consistent, but equally problematic. The cumulative under payments have resulted in a surcharge every year after the first year, even though in two years (2014 and 2015) CGC collected revenues in excess of the revenue requirement. However, C-1 customers continued to be surcharged because of the 2% cap that limits annual surcharges or refunds. Thus, the carryover from prior shortfalls has

resulted in a surcharge every year. Today, C-1 customers still owe CGC \$893,125. Given the smaller C-1 customer base, it will take significantly longer for CGC to recover this shortfall due to the 2% annual cap.

23. In assessing the trial AUA program as a whole, the original goals and objectives are not being met for either customer class. The AUA has not resulted in timely adjustments to customers' bills because adjustments are made once a year instead of monthly under the WNA mechanism. This results in a regulatory timing disparity for the AUA customers because there is a significant disconnect between when events occur and when the corresponding adjustments are made. The extreme and unpredictable weather conditions experienced in the CGC service area over the last several years have exacerbated the annual adjustments by creating significant over or under-recoveries. Moreover, the 2% annual cap has limited the ability of the Company to timely collect authorized revenue shortfalls and to refund over-collections, which unnecessarily lengthens the recovery process and increases the regulatory disconnect between use and payment. Assuming no future over-recovery or shortfalls, it will take years to collect the current deficiencies owed to CGC from its R-1 and C-1 customers.

24. Under the WNA, which remained applicable to CGC's other customer classes, adjustments are made immediately based on the actual weather during the billing period. This means bill adjustments are made contemporaneously with the events that are causing the surcharge or refund, which is more easily understood by customers. With the AUA, the adjustment comes a year or more later than the events that caused the adjustment. Moreover, there is no opportunity to timely reduce a significant debt, whether owed by the Company to customers where there is an excess of revenues collected, or in a surcharge paid by customers wherein the rates are insufficient to pay for the service. In the face of these escalating problems,



termination of the AUA and returning the R-1 and C-1 customers to the WNA seemed to be the best option for everyone, along with a mechanism to recover the unpaid customer revenues deficiency.

25. Pursuant to the Commission's directive, in 2016 the Company met with the Consumer Protection and Advocate Division ("CPAD") to try to reach an agreement concerning the termination of the AUA and the reinstatement of the WNA. The parties were unable to reach an agreement. In a subsequent joint meeting with CGC, the TPUC staff, and CPAD, the TPUC staff took the position that they were going to address the methodology to be used to evaluate the conservation programs as they had been directed in the November 8, 2010, Order. The TPUC staff did not participate in the discussions concerning the termination of the AUA and the reinstatement of the WNA.

26. On September 19, 2017, the TPUC Party Staff filed its report that included the testimony of Mr. Jerry Kettles, Director of Economic Analysis for the Tennessee Public Utility Commission, and the report prepared by the NRRI. On September 26, 2017, CGC filed its report and recommendations regarding termination of the AUA, reinstatement of the WNA for R-1 and C-1 customers, and a proposal to recover the customer revenue deficiency. On October 24, 2017, the Consumer Protection and Advocate Division filed its position in the form of testimony by Mr. Hal Novak.

27. In the absence of an agreement and in an effort to halt the escalating growth in the accumulated deferred AUA revenue with another potentially warm weather on the horizon, on October 20, 2017, CGC filed to terminate the AUA trial and reinstate the WNA for Rate Schedules R-1 and C-1 that had been in place prior to the AUA trial and which is still in effect for other customer classes. On November 2017, the Hearing Officer suspended the tariff until

February 1, 2018. Based upon further discussions with CPAD and the Hearing Officer, the parties agreed to address the entire AUA termination and customer revenue deficit recovery as a part of this rate case filing.

28. As is more fully addressed in Mr. Hickerson's testimony and exhibits, CGC is now seeking approval to terminate the AUA and return the R-1 and C-1 customers to the WNA, or, alternatively, to continue the AUA tariff but move the weather normalization recovery to the WNA tariff. Second, in either case, CGC is requesting that the Commission approve the recovery of the nearly \$2 million deferral in customer charges through the IMCR or some other timely recovery mechanism. Using the IMCR in this manner has similarly been approved in the past for recovering the costs of the free thermostat and education components of the energySMART program, NRRI's cost to develop the conservation program measure, and the recovery of the Docket No. 07-00224 legal expenses. However, CGC is open to other reasonable and timely mechanisms that will pay for these gas services already provided.

#### **IV. Alternative Regulatory Methods**

29. The third request of this Petition, and an integral part of the ultimate rate relief being requested, is approval of an alternative regulatory method ("ARM") pursuant to T.C.A. Section 65-5-103(d)(1)(A). Under this authority, utilities may be regulated differently in order for the utility to have the flexibility it needs to meet the needs of its customers and the communities it serves. One of the authorized alternative regulatory methods is an annual review of rates, which is authorized under subsection (d)(6)(A), and which provides: "A public utility may opt to file for an annual review of its rates based upon the methodology adopted in its most recent rate case . . . ." CGC has prepared and filed with the testimony of Mr. John Cogburn a proposed ARM Tariff to implement CGC's annual rate review process.

30. The purpose of an annual rate review is to allow the Commission to examine the utility's revenues, expenses, and other pertinent information, and to adjust rates up or down, as applicable to more timely reflect changes in the utility's operations. Such a process also helps to ensure that utility's earnings remain within the authorized range of return and that the utility is continuing to provide high quality service to customers. The Company believes that adoption of the annual rate review process will provide the Commission and CGC's customers with greater transparency regarding its operations and how the Company's business operations translate into the rates charged customers.

31. By order dated November 4, 2015, an annual rate review mechanism was approved for Atmos Energy Corporation in Docket No. 14-00146.<sup>13</sup> As the TRA recognized in the Atmos ARM Order, there are potentially conflicting statutory deadlines under the general rate case statute versus the annual rate review statute:

Under Tenn. Code Ann. § 65-5-103(a) and (b), a general rate case has a statutory deadline requiring resolution by the Authority within six months with an allowance of an additional three months during which time the public utility may seek, to place the proposed rates into effect under bond pending a decision by the Authority. On the other hand, alternative ratemaking proposals filed pursuant to Tenn. Code Ann. § 65-5-103(d)(6)C) such as the Company's ARM tariff, must be considered by the Authority within 120 days of filing, a statutory deadline the Hearing Officer concluded cannot be waived.<sup>14</sup>

32. CGC is filing its request both for a general rate case and the annual rate review mechanism in this Petition in order to be transparent regarding the Company's intent. By filing a consolidated Petition, the Commission may conduct a comprehensive review of all of the relief

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<sup>13</sup> *In Re: Petition of Atmos Energy Corporation for a General Rate Increase Under T.C.A. 65-5-103(a) and Adoption of an Annual Rate Review Mechanism Under T.C.A. 65-5-103(d)(6)*, Docket No. 14-00146, Order Approving Settlement (Nov. 4, 2015) ("Atmos ARM Order").

<sup>14</sup> Atmos ARM Order, at 3 (footnote omitted).

being sought; this is especially important because the adoption of the annual rate review is based upon the mechanism approved in the utility's last rate case, which for CGC's purposes is this case.<sup>15</sup> However, in order to reconcile the different statutory timeframes, approximately 30 days from the date of this Petition CGC shall file a notice to temporarily withdraw the annual rate review portion of this matter in order to toll the end date of the annual rate review proceeding. Thereafter, based upon the Hearing Officer's Scheduling Order for the disposition of the rate case, CGC shall file a notice to reinstate the annual rate review portion of the case so that the end date of the annual rate review case will correspond to the end date of the rate case.<sup>16</sup>

33. The ARM Tariff CGC is filing generally follows the example of the Atmos ARM Tariff approved in the Atmos ARM Order, but modified as appropriate for CGC's circumstances. Mr. Cogburn's testimony and the CGC ARM Tariff provide the details of CGC's annual rate review. However, in general, the Company proposes to initiate the first annual filing under the ARM Tariff approximately one year after rates become effective in the current rate case. Operating under the assumption that rates become effective September 1, 2018, the Company would adhere to the schedule set forth in Table 1 below for its annual rate filing ("ARF").

<b>TABLE 1</b>	
<b>Action</b>	<b>Date</b>
1 <sup>st</sup> Annual ARF Filing	May 1, 2019
1 <sup>st</sup> Annual ARM Rate Effective Date	September 1, 2019
1 <sup>st</sup> Rate Effective Period	September 1, 2019 – August 31, 2020
1 <sup>st</sup> Annual Reconciliation Filing	December 1, 2020
1 <sup>st</sup> Annual Reconciliation Rate Effective	September 1, 2021

<sup>15</sup> T.C.A. § 65-5-103(6)(A).

<sup>16</sup> This is the process Atmos followed, and it seemed to address both the needs of the parties as well as the statutory requirements. Atmos ARM Order, at 3-4.

Subsequent years will follow the same pattern. Additionally, if the first anniversary of the Rate Effective Date from the instant rate case is some date other than September 1, the Company would propose to use the first day of the anniversary month of the rate becoming effective as the ARM's first rate implementation date. The ARF would be filed not less than 120 days prior to the rate implementation date and the first Annual Reconciliation Filing would be filed approximately 120 days following the conclusion of the Rate Effective Period with the Reconciliation Rate itself being applied in the following annual rate implementation.

34. Based upon the supporting testimony and documentation provided with this Petition, CGC respectfully requests that its annual rate review and ARM Tariff be approved effective September 1, 2018, at the same time as the proposed rates in this case are put into effect.

#### **IV. Rate Case Supporting Documentation**

35. In further support of its Petition, CGC has attached the following direct testimony and their accompanying exhibits, which are incorporated herein by reference:

- a. **Prepared Direct Testimony of Wendell Dallas, Vice President Operations, Chattanooga Gas Company.** As the chief operating officer of CGC, Mr. Dallas shall provide an introduction and overview of the utility's business plan and operations, the Company's need for future transportation capacity, planned future expansions of services, a summary of the rate relief requested, an introduction to the AUA issues, an overview of CGC's annual rate review process, and a high level view of the proposed rate design modifications.
- b. **Prepared Direct Testimony and Exhibits of Witness Gregory Becker,**

**Director, Capacity Planning, Southern Company Gas.** Mr. Becker will discuss CGC's LNG Redelivery Project to Red Bank and Signal Mountain and why this plan is the most cost effective for customers and the Company based upon present gas supply, future gas supply needs, alternative supply options, and appropriate reserve margins.

- c. **Prepared Direct Testimony and Exhibits of Witness Heath Brooks, Rate Analyst with Rate Design and Tariff Administration, Southern Company Gas.** Mr. Brooks provides documentation and support for the specific methods used to develop the normalized level of billing determinants and base revenue for the historic test year and the attrition period.
- d. **Prepared Direct Testimony and Exhibits of Witness Rachel Johnson, Director, Regulatory Accounting and Revenue Recovery Mechanisms, Southern Company Gas.** Ms. Johnson shall provide testimony and exhibits for the financial and accounting information being provided in support of the rate increase, including CGC's rate base, revenue requirements, cost of service, and capital structure and debt financing.
- e. **Prepared Direct Testimony of Witness Dr. James Vander Weide, Research Professor of Finance and Economics, Fuqua School of Business, Duke University, and President, Financial Strategy Associates.** Dr. Vander Weide provides an independent, expert assessment of CGC's cost of capital and the associated forward-looking effects of competition and risk in the natural gas market impacting the

proposed cost of capital.

- f. **Prepared Direct Testimony of Witness Daniel Yardley, Principal, Yardley & Associates.** Mr. Yardley shall provide expert testimony regarding an allocated cost of service study he performed and the appropriate rate design for CGC's rates that will provide the Company with an opportunity to recover the costs it incurs to provide service to customers in a fair and reasonable manner.
- g. **Prepared Direct Testimony and Exhibits of Witness Dane Watson, Partner, Alliance Consulting Group.** Mr. Watson will present testimony and exhibits with respect to the independent depreciation study he performed based upon historic data, forecasted plant and reserve balances, and his recommended depreciation rates for the Company's assets.
- h. **Prepared Direct Testimony and Exhibits of Witness Michael Adams, Senior Vice President, Concentric Energy Advisors.** Mr. Adams' expert testimony and exhibits discuss the lead-lag study prepared by Concentric that was used to develop the cash working capital factors and ultimately to calculate the cash working capital requirements for the Company.
- i. **Prepared Direct Testimony and Exhibits of Witness John Cogburn, Director, Regulatory Reporting & Strategic Planning, Southern Company Gas.** Mr. Cogburn's testimony supports CGC's request to opt into the annual rate review process under the ARM statute, and he is also the witness for CGC's corresponding ARM Tariff that will implement our

annual rate review process.

- j. **Prepared Direct Testimony and Exhibits of Witness Archie Hickerson, Director-Rates and Tariff Administration, Southern Company Gas.** Mr. Hickerson is the overall witness who will sponsor the various tariff pages impacted by requests, including the new economic development rider for main line extensions. Mr. Hickerson will also support and explain CGC's decision to terminate the AUA Tariff and return those R-1 and C-1 customers to the WNA mechanism, and CGC's proposal to recover the AUA revenue deficiencies through the IMCR. He will also provide an alternative proposal for an AUA/WNA mechanism that may better address weather issues and margins.

36. CGC is also filing its tariff revisions to reflect the proposals included in this Petition, both in redline format and clean versions.

37. CGC is submitting as part of this Petition a proposed Protective Order and a proposed Procedural Schedule.

38. Along with this Petition, CGC is filing all of the documents associated with the Minimum Filing Guidelines ("MFR's"), including some under protective seal pending the entry of a Protective Order.

## **V. Conclusion**

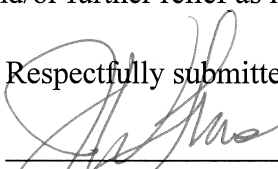
WHEREFORE, CGC prays that based upon the pleadings and documents submitted by CGC:

1. Notice be issued and a hearing be set regarding this Petition;
2. The Commission find that the Company's expenses and capital investments are prudent, that the existing rates of CGC are inadequate, and that the rates proposed by the Company are fair, just, and reasonable and in the public interest;



3. The Commission approve CGC's revised tariff implementing the proposed rates and rate design modifications to become effective September 1, 2018;
4. The Commission approve CGC's proposal or alternative proposal with respect to the termination of the AUA, reinstatement of the WNA, and a timely methodology for the recovery of the AUA customer revenue deficiency for gas consumed but not fully paid for;
5. The Commission approve CGC's request for an annual rate review and its ARM Tariff based upon the required methodologies established in this rate case;
6. The Commission permit CGC to address all aspects of the impact of the federal Tax Cuts and Jobs Act required by the Tax Order in Docket No. 18-00001 in this docket;
7. The Hearing Officer approve the proposed protective order simultaneously being submitted; and
8. CGC be granted such other and/or further relief as may be warranted.

Respectfully submitted,



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J. W. Luna, Esq. (No. 5780)  
LUNA LAW GROUP, PLLC  
333 Union Street, Suite 300  
Nashville, TN 37201  
(615) 254-9146  
(615) 254-7123 facsimile  
[jwluna@LunaLawNashville.com](mailto:jwluna@LunaLawNashville.com)

Floyd R. Self (Florida Bar # 608025)  
Berger Singerman LLP  
313 North Monroe Street, Suite 301  
Tallahassee, Florida 32301  
Direct Telephone: (850) 521-6727  
Facsimile: (850) 561-3013  
Email: [fself@bergersingerman.com](mailto:fself@bergersingerman.com)

*Attorneys for Chattanooga Gas Company*

VERIFICATION

STATE OF GEORGIA

COUNTY OF DEKALB

I, Wendell Dallas, being duly sworn, state that I am the Vice President of Operations, Chattanooga Gas Company, the Petitioner, in the subject proceeding; that I am authorized to make this verification on behalf of Chattanooga Gas Company; that I have read the foregoing Petition and exhibits and know the content thereof; that the same are true and correct to the best of my knowledge, information and belief.

Sworn and subscribed before me this 13 day of February, 2018.

Wendell Dallas

Notary Public:

State of Georgia, at Large

My Commission Expires: March 26, 2019

