

**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- 00017**

**DIRECT TESTIMONY OF

WENDELL DALLAS

ON BEHALF OF

CHATTANOOGA GAS COMPANY**

1 **I. WITNESS INTRODUCTION**

2 **Q. Please state your name, title, and business address.**

3 A. I am Wendell Dallas, Vice President of Operations, Chattanooga Gas
4 (“Company” or “CGC”), the highest ranking officer responsible for the day-to-
5 day operations of the Company. My business address is Ten Peachtree Place NE,
6 Atlanta, GA 30309. I am also the Vice President of Operations for Atlanta Gas
7 Light. Serving in these dual roles for Chattanooga and Atlanta provides me with a
8 unique perspective on natural gas operations and how to best serve our customers
9 with safe, reliable, high quality service.

10 **Q. Is Chattanooga Gas a subsidiary of Southern Company Gas?**

11 A. Yes it is. Southern Company Gas is the new name for AGL Resources after it was
12 acquired by Southern Company in 2016.

13 **Q. What are your duties and responsibilities for Chattanooga Gas?**

14 A. My responsibilities include safety, compliance, operations excellence, and the
15 financial performance of the utility. Ultimately, it is my responsibility to ensure
16 that Chattanooga Gas meets our commitment to deliver safe, reliable, and
17 affordable natural gas service to our more than 65,000 customers.

18 **Q. When did you assume responsibility for Chattanooga Gas?**

19 A. I became the Vice President of Operations for Chattanooga Gas beginning in
20 December, 2011.

21 **Q. Please summarize your professional career and education.**

22 A. I have a degree in mechanical engineering from Auburn University and more than
23 25 years of operations, management, and engineering experience in the natural

1 gas industry. Previously, I served as the Vice President for Economic and
2 Community development for AGL Resources, where I was responsible for the
3 company's economic and community development efforts throughout its eight-
4 state footprint, providing strategic leadership for customer economic development
5 projects.

6 Prior to that position, I served as the Vice President and General Manager
7 of Atlanta Gas Light, where I was responsible for operations and market
8 development of the company. I joined Atlanta Gas Light in 2000 as a supervisor
9 in Macon, Georgia, and shortly thereafter served as Atlanta Gas Light's Region
10 Manager for southeast Georgia in Savannah.

11 My career in the industry began with Southern Natural Gas Company in
12 Birmingham, Alabama, where I was an engineer. Southern Natural Gas Company
13 is an interstate natural gas pipeline company, and I was responsible for designing
14 measurement and pipeline facilities throughout the southeast.

15 **Q. In your role as Vice President of Operations for Chattanooga Gas, how have**
16 **you supported the Company's engagement in the local community?**

17 A. Throughout my career, I've served on numerous boards and have been very
18 involved in serving and supporting the local communities where we provide
19 service. These experiences allow me to provide leadership and support to our on
20 the ground business team in Chattanooga as our employees serve in a variety of
21 civic and charitable organizations.

22 I also support our Chattanooga team by drawing on my 20 years of
23 experience in workforce development issues, which is very important for the

1 larger economic development within our corporate footprint. For example, I'm
2 Chairman of Georgia's State Workforce Development Board, and I've also served
3 on the Executive Council of the Center for Energy Workforce Development, a
4 national organization focused on developing careers in the energy industry.
5 Through these organizations and others, I have focused on leveraging workforce
6 development into best practices in the energy sector and have brought this
7 experience to Chattanooga. For example, at Chattanooga Gas we currently have
8 two programs that are helping us build a stronger workforce. First, a knowledge
9 transfer pilot to ensure that we tap the knowledge and experience of our current
10 workforce to help build and develop our new workforce. Second, we also have a
11 Career Development Process that ensures our employees have a clear path to
12 progressing up to higher levels of responsibility. We are also working to better
13 leverage our relationships with local workforce partners, like community colleges
14 and STEM high schools. Home growing our talent, building a pipeline for
15 recruiting through local engagement in these types of activities, is our preference
16 when it comes to building our workforce.

17 **Q. Have you ever testified before this Commission or any other Commission?**

18 A. No, I have not.

19 **II. PURPOSE OF TESTIMONY**

20 **Q. What are the purposes of your direct testimony?**

21 A. The purpose of my testimony is to provide the Commission with an overview of
22 CGC, its current challenges and opportunities to enhance our service to our
23 customers, and our proposed plan for the future operations of the Company

1 through the three principal components of this case – our request for rate relief,
2 which includes a robust plan for infrastructure development and enhancing system
3 reliability, our plan to terminate the Alignment and Usage Adjustment (“AUA”)
4 mechanism trial and recover the deferred customer revenues due for gas received
5 but not paid for, and our proposal for opting into an annual rate review under the
6 alternative regulatory methods (“ARM”) statute.

7 In my testimony, I will introduce CGC’s other witnesses and the matters
8 they will address. I provide some background on CGC’s operations and how the
9 continued economic development of our service territory is impacting our
10 Company. I address the Company’s customer service-focused business objectives
11 and discuss the Company’s efforts to improve its internal operations in order to
12 enhance our customers’ experiences. I also provide an overview of our plan to
13 modernize our natural gas distribution infrastructure, and the critical gas supply
14 issues we face given the present limited availability of pipeline capacity. I will
15 talk about the great work of our employees, the substantial knowledge losses we
16 face due to the retirement eligibility of so many team members, and our plan for
17 developing the next generation of talented workers. I provide a high level
18 summary of the Company’s rate request and explain how our request is necessary
19 and reasonable given the previous and proposed substantial investments in
20 infrastructure while effectively and prudently managing our costs. I will briefly
21 introduce the various tariff and rate schedule changes proposed by the Company.
22 Lastly, I confirm that CGC has complied with all applicable information and
23 notice requirements.

1 **Q. This is the Company's first rate case in over eight years. What is driving**
2 **your request?**

3 A. First, I would like for the Commission to understand that we take very seriously
4 our obligation to provide safe, reliable, and efficient service to our customers and
5 to be prudent and cost effective in our expenditures so that our rates are fair, just,
6 and reasonable. After eight years without a rate increase, our request is largely
7 driven by important infrastructure investments that provide significant benefits to
8 our customers, enhancing our ability to continue to provide safe and efficient
9 service while being a good corporate citizen in the community where we serve.
10 This is the best time to make these improvements given that natural gas prices are
11 forecasted to stay low for the foreseeable future.

12 We have invested more than \$100 million in capital improvements since
13 CGC's last rate case. Looking forward, we are developing significant capital
14 programs that will improve reliability. Our infrastructure capital investments
15 materially enhance our ability to deliver clean and affordable natural gas to our
16 customers. As an added benefit, these natural gas infrastructure investments aid
17 in promoting economic development in the greater Chattanooga area. Our
18 analysis indicates we must have new operating capacity online by 2022 so that we
19 not only can accommodate new prospects like the Volkswagen Plant that came
20 online in 2011, but also ensure we do not have service interruptions on the coldest
21 days of the year for industrial and perhaps even some residential customers. So
22 our investments are both timely and strategic.

23 Our objective in filing this comprehensive case is to better position the

1 Company to be able to meet all of these different needs that first and foremost
2 benefit our customers. This rate adjustment would reset our rates to a level closer
3 to what they would have been had they consistently tracked inflation this past
4 decade. But even with the proposed increases, our average residential customer
5 will be paying 20 percent less, or \$167 less, on their total annual bill than they
6 were ten years ago thanks to lower natural gas prices. By combining our rate
7 request case with our new annual rate review mechanism, we hope to smooth out
8 the significant savings that can come with periodic rate cases and engage in a
9 more transparent ratemaking process that adjusts rates annually, up or down, as
10 necessary to reflect real-time changes in business conditions and other factors that
11 influence utility rates.

12 **Q. Are you sponsoring any exhibits with your Direct Testimony?**

13 A. No, I am not providing any exhibits to my Direct Testimony. However, I have
14 provided an affidavit in support of our Petition that formally initiated this
15 proceeding.

16 **Q. Please identify the other CGC witnesses who will be supporting the**
17 **Company's case in this docket?**

18 A. Our other witnesses in this proceeding and the subject areas they are testifying on
19 are as follows:

- 20 a. Mr. Michael Adams, Senior Vice President, Concentric Energy Advisors.
21 Mr. Adams' expert testimony and exhibits discuss the lead-lag study
22 prepared by Concentric that was used to develop the cash working capital
23 factors and ultimately to calculate the cash working capital requirements

- 1 for the Company.
- 2 b. Mr. Greg Becker, Director, Capacity Planning, Southern Company Gas.
- 3 Mr. Becker will discuss CGC's Liquefied Natural Gas ("LNG")
- 4 Redelivery Project to Red Bank and Signal Mountain and why this plan is
- 5 the most cost effective for customers and the Company based upon present
- 6 gas supply, future gas supply needs, alternative supply options, and
- 7 appropriate reserve margins.
- 8 c. Mr. Heath Brooks, Rate Analyst with Rate Design and Tariff
- 9 Administration, Southern Company Gas. Mr. Brooks provides
- 10 documentation and support for the specific methods used to develop the
- 11 normalized level of billing determinants and base revenue for the historic
- 12 test year and the attrition period.
- 13 d. Mr. John Cogburn, Director, Regulatory Reporting & Strategic Planning,
- 14 Southern Company Gas. Mr. Cogburn's testimony supports CGC's
- 15 request to opt into the annual rate review process under the alternative
- 16 regulatory methods ("ARM") statute, and he is also the witness for CGC's
- 17 corresponding ARM Tariff that will implement our annual rate review
- 18 process.
- 19 e. Mr. Archie Hickerson, Director-Rates and Tariff Administration, Southern
- 20 Company Gas. Mr. Hickerson is the overall witness who will sponsor the
- 21 various tariff pages impacted by requests, including the new economic
- 22 development rider for main line extensions. Mr. Hickerson will also
- 23 support and explain CGC's decision to terminate the AUA Tariff and

1 return those R-1 and C-1 customers to the WNA mechanism, and CGC's
2 proposal to recover the AUA revenue deficiencies. He will also provide
3 an alternative proposal for an AUA/WNA mechanism that may better
4 address weather issues and margins.

5 f. Ms. Rachel Johnson, Director, Regulatory Accounting and Revenue
6 Recovery Mechanisms, Southern Company Gas. Ms. Johnson shall
7 provide testimony and exhibits for the financial and accounting
8 information being provided in support of the rate increase, including
9 CGC's rate base, revenue requirements, cost of service, and capital
10 structure and debt financing.

11 g. Dr. James Vander Weide, President, Financial Strategy Associates. Dr.
12 Vander Weide provides an independent, expert assessment of CGC's cost
13 of capital and the associated forward-looking effects of competition and
14 risk in the natural gas market impacting the proposed cost of capital.

15 h. Mr. Dane Watson, Partner, Alliance Consulting Group. Mr. Watson will
16 present testimony and exhibits with respect to the independent
17 depreciation study he performed based upon historic data, forecasted plant
18 and reserve balances, and his recommended depreciation rates for the
19 Company's assets.

20 i. Mr. Daniel Yardley, Principal, Yardley & Associates. Mr. Yardley shall
21 provide expert testimony regarding an allocated cost of service study he
22 performed and the appropriate rate design for CGC's rates that will
23 provide the Company with an opportunity to recover the costs it incurs to

1 provide service to customers in a fair and reasonable manner.

2 **III. CHATTANOOGA GAS' OPERATIONS**

3 **Q. Please describe Chattanooga Gas and its service territory.**

4 A. It is a very exciting time to be serving the greater Chattanooga and Cleveland
5 areas. The economic development and expansion occurring in Hamilton and
6 Bradley counties provides us with great opportunities, but it also presents a
7 number of challenges that we are addressing in this case.

8 For our existing customers, the Chattanooga Gas distribution system is a
9 fairly mature system that provides access to our natural gas service by most
10 residences and businesses within our service area footprint in Chattanooga and
11 Cleveland. Today we are serving over 65,000 customers, approximately 56,700
12 residential customers and 8,300 commercial and industrial customers, through
13 nearly 1,500 miles of distribution pipeline. To better serve our customers, we
14 continue to implement upgrades to aging infrastructure and incremental
15 improvements that improve our operational capabilities. For example, over the
16 last eight years we have replaced over 93 miles of vintage pipeline in order to
17 improve reliability and safety. Later in my testimony I will discuss some of the
18 more important improvements we seek through this rate case.

19 The opportunities and challenges for our Company are occurring because
20 of the unprecedented growth happening in Hamilton and Bradley counties. We
21 have been an active partner in the economic development of our service area both
22 to strengthen the community and to develop new customers. Chattanooga Gas
23 works with the economic development professionals in both Hamilton and

1 Bradley Counties to recruit new business as well to retain our expanding existing
2 industries. We don't always get the chance to serve all of the new businesses
3 coming into our service area, but even when we don't, the corresponding new
4 residential and business communities that are being developed to house and serve
5 the employees working at these new enterprises provide excellent opportunities
6 for us to expand our distribution network.

7 **Q. Can you provide an example of how the Company has participated in the**
8 **economic expansion of the area and how that benefits CGC's customers?**

9 A. Yes. The new Volkswagen plant is an excellent example of how these trends
10 converge. We worked hard to help bring this company to our area so we could
11 supply natural gas to help power the production line. We had to extend our
12 service line to the plant and anticipate the future growth that Volkswagen was
13 planning for as well as suppliers who would also be moving into the area. When
14 the plant began operations in April 2011, we were there providing natural gas
15 service through our expanded pipeline. Since then, Volkswagen has expanded its
16 production and the plant as well, and because of our great working relationship,
17 we were prepared to supply their increased load.

18 **Q. You said that a company like Volkswagen brings more than just its own**
19 **plant. Can you please elaborate on that?**

20 A. Yes. An added benefit of a company like Volkswagen is the large number of
21 suppliers who want to be near the plant. So as Volkswagen suppliers have moved
22 into the surrounding areas, we have expanded our system to meet their growing
23 demand as well. Finally, with this type of commercial growth also comes an

1 incremental expansion within our footprint for new service to some of the
2 residential and commercial neighborhoods that have grown to meet the expanding
3 Volkswagen workforce. What all this means for our existing customers is that
4 when we add large customers like Volkswagen and the suppliers and new
5 developments associated with this type expansion, it spreads out our fixed costs
6 over a larger customer base through the greater gas sales and transportation
7 services associated with such large users. These investments have helped to defer
8 the need for a rate case until now.

9 **Q. In addition to the economic development work, what other activities has**
10 **Chattanooga Gas undertaken since the last rate case was decided in 2010?**

11 A. We have been working to implement a variety of infrastructure improvements,
12 workforce development programs, and back office operations that enable us to
13 better serve our customers.

14 **Q Please discuss what the Company has been doing in the way of infrastructure**
15 **improvements.**

16 A. First, we have continued to build on the commitment we made to the Commission
17 in our last rate case to replace aging infrastructure. Specifically, we have invested
18 approximately \$41 million to replace nearly 93 miles of pipeline mains to help
19 ensure safe and reliable system operations. Our budget includes continuing
20 capital investment for pipeline replacements and pressure improvements. Second,
21 in planning for our future gas supply needs because of the upcoming loss of
22 supply capacity, we have identified an opportunity to more fully utilize our
23 existing LNG facility. Our rate case reflects new capital investment for what we

1 are calling our LNG redelivery project. As Mr. Becker will discuss in more
2 detail, we are going to extend and build a new transmission line from the LNG
3 Plant to Red Bank and Signal Mountain to bring additional supply to our
4 customers, which will enable us to more fully utilize a great resource we already
5 own. Our analysis demonstrates that this gas supply capacity project is the most
6 cost effective means of enabling us to meet the growing demand we are
7 experiencing, while maximizing existing peaking resources. This project is a real
8 win-win for our customers.

9 **Q. A second area you identified was workforce development. What activities**
10 **have you been undertaking with respect to your employees?**

11 A. Our employees continue to be an important part of our success story. We work
12 hard to create an environment, and culture, where our employees can be
13 successful professionally and where we provide them the opportunity to be
14 community leaders. Many of our employees volunteer their time in local
15 organizations, with an average of 732 documented hours a year, and as a company
16 we support many local civic and charitable organizations. For example, our
17 Regional Director, Mr. Larry Buie, has spent countless hours serving this year as
18 the Chairman of the Chattanooga Chamber where he works very closely with the
19 business community in advancing Chattanooga's business development agenda.

20 We believe that our local civic commitment combined with a great work
21 environment contributes to the fact that our Chattanooga-based team generally
22 experiences very little turn-over in terms of employees leaving us. The average
23 tenure of a Chattanooga Gas employee is **30 years**. This means our employees

1 bring tremendous history and operational experience to work every day, which
2 enables them to serve our customers with a high degree of expertise and
3 consistent professionalism.

4 The downside to our situation is that with a relatively small workforce,
5 approximately 30 full time positions, the loss of even one employee represents a
6 significant loss in institutional knowledge. When you consider the fact that about
7 half of our Chattanooga team currently is eligible for retirement, a problem not
8 unique to our industry, we face a serious potential loss of experience that requires
9 action today. We recently had an employee retire with 49 years of experience.
10 Think about the skill, talent, and institutional knowledge you can gain from 49
11 years of working for one company and what that means when dealing with a
12 problem for our customers!

13 As I said earlier, my engagement in various workforce development
14 initiatives has led me to have our management team formulate new and creative
15 strategies for recruiting, developing, and retaining the next generation of skilled
16 team members. The Company is looking to hire new employees and place them
17 in training programs and also to pair them with our most veteran employees to get
18 practical experience before the expected retirements occur. It is very important
19 that the next generation of employees be well-trained and knowledgeable before
20 the experienced employees retire and leave us without the experience we need to
21 continue to provide safe service. We view these efforts as good for our
22 customers, Tennessee, and Chattanooga Gas.

23 **Q. A third area you identified was improvements in back office operations. Can**

1 **you please describe some of these for us?**

2 A. Back office operations are those business activities that impact our service and
3 operations, but which are usually not visible to customers unless they don't work
4 right. One of our most significant programs this last year has been a complete
5 replacement of our billing system. This project involved replacing the Customer
6 Information System ("CIS") with our new Customer Care & Billing ("CC&B")
7 system. The CC&B system will enable Chattanooga Gas to provide more detail
8 to our customers concerning their account and usage while also enabling us to
9 more efficiently and effectively manage our work on behalf of our customers.

10 **Q. Did the Company undertake these back office systems changes by itself?**

11 A. No, Chattanooga Gas is not large enough to undertake such extensive and
12 expensive improvements by itself. This is where being a part of Southern
13 Company Gas and its shared services model helps to make us a more efficient and
14 effective utility for our customers.

15 **Q. Please elaborate on Chattanooga Gas' relationship with Southern Company**
16 **Gas.**

17 A. Southern Company Gas, formerly known as AGL Resources until it was acquired
18 by Southern Company in July 2016, is a large multistate operation that in addition
19 to being the parent corporation for Chattanooga Gas, includes local distribution
20 gas utilities in Georgia, Florida, Illinois, Maryland, New Jersey, and Virginia.
21 Southern Company Gas is one of the largest natural gas local distribution
22 companies in the United States. Through a structure known as the shared services
23 model, Chattanooga Gas benefits from the management and expertise of

1 centralized resources that Southern Company Gas utilizes. Under the shared
2 services model, Chattanooga Gas takes advantage of economies of scale in a
3 variety of areas, including administrative support, construction and engineering,
4 technology support and improvements, training, best practices development, and
5 back office operations. This model creates a cost structure for each of the
6 operating companies in the Southern Company Gas system that results in lower
7 costs than if Chattanooga Gas were to provide the services on its own. Not only
8 does this lead to better quality services, but it allows us to have access to
9 resources that may otherwise be too expensive for a utility the size of
10 Chattanooga Gas to utilize. For example, if you look at our O&M costs for 2017,
11 you will see that our direct O&M declined from 2016 with our allocated costs
12 increasing. But the decline in direct costs was less than the increase in allocated
13 costs, reflecting in part the cost effectiveness of the shared services model.

14 **Q. With Southern Company Gas now being a part of Southern Company, what**
15 **are some of the benefits for the customers of Chattanooga Gas?**

16 A. There are a number of benefits. Southern Company is an industry leader offering
17 a full portfolio of energy resources, and the addition of the Southern Company
18 Gas network of natural gas assets and businesses provides a broader, more robust
19 platform for long-term success. This strategic combination was about more than
20 diversifying and expanding a business enterprise. It was about providing efficient
21 and effective energy solutions to power our communities' future and finding new
22 ways to further enhance our service to customers. It was also about being faithful
23 to the commitment made to this Commission that Chattanooga Gas would

1 continue to manage its operations without a change in management structure.

2 **Q. Please elaborate further on some of the customer benefits Chattanooga Gas**
3 **receives from Southern Company.**

4 A. Southern Company has a corporate philosophy that “the customer is at the center
5 of everything we do,” and this focus has provided additional resources that enable
6 us to enhance our ability to serve our customers. For example, there are several
7 technology projects scheduled for 2018 and beyond that will improve the security
8 of our systems, enhance functionality, further automate work orders, and improve
9 customer service interactions through such things as flexible appointment
10 windows and payment options.

11 **Q. Are there other customer benefits from Southern Company’s acquisition of**
12 **Chattanooga Gas’s parent that customers may not readily see?**

13 A. Yes. A critically important operational area of constant concern and diligence is
14 cyber security, and in this regard Southern Company is a leader in the industry
15 and the business community at large with its demonstrated commitment to
16 ensuring that our systems and customers are protected from cyber threats.
17 Southern Company has a 24/7/365 Security Operations Center (“SOC”) staffed
18 with experts in the areas of threat identification and forensic analysis. Southern
19 Company Gas has invested in security technology that aligns with Southern
20 Company standards and allows for full integration into the SOC monitoring and
21 incident response processes. At Southern Company, the expectation is that cyber-
22 security is everyone’s responsibility. Southern Company has an internal website
23 dedicated to educating employees about cybersecurity and how to practice cyber

1 safety every day with the goal of protecting ourselves, our families and our
2 organization while making the most of today's technology.

3 **Q. Is the Company seeking to recover any Southern Company acquisition costs**
4 **in this rate case filing?**

5 A. No. Chattanooga Gas has not included any Southern Company acquisition costs
6 in its test year or attrition revenue requirements.

7 **IV. RATE CASE REQUEST**

8 **Q. Let's turn now to your rate case and the proposed change in rates. Please**
9 **provide an overview of the Company's rate filing.**

10 A. The Company is requesting a \$7.0 million rate increase so that it may have a
11 reasonable opportunity to recover its costs of providing safe and reliable natural
12 gas delivery service to its customers. The Company's investment in capital
13 projects, over \$100 million in the last ten years, when combined with the
14 upcoming capital investments, especially for the LNG redelivery project,
15 significantly improves the safety and reliability of the system, provides us with
16 the opportunity to better utilize existing facilities, and helps to ensure that our
17 customers have direct access to low-cost gas supplies. These investments are not
18 reflected in the Company's current base rates set eight years ago. While overall
19 we have done an outstanding job of minimizing increases in our O&M costs, we
20 nevertheless face increased regulatory compliance, workforce development, new
21 regulator stations for safety and inspections, and customer experience
22 improvement costs, as well as general inflationary pressures. The combined
23 effect of all of these factors is that the Company will not earn its authorized rate

1 of return in the attrition year and beyond. The requested increase accurately
2 reflects the proposed attrition year costs and is supported by the Company's
3 testimony and supporting documentation.

4 **Q. Why is it important for Chattanooga Gas to fully recover its costs of serving**
5 **customers?**

6 A. With the tremendous growth and development of the Chattanooga and Cleveland
7 areas in the last decade, it is remarkable that Chattanooga Gas has not sought a
8 rate increase since 2009 as we have been meeting the demands of existing and
9 new customers. Natural gas rates in the Southeast are some of the most
10 affordable in the United States, and the Chattanooga Gas rates are competitive
11 with other utilities in the region. However, going forward, the inability to fairly
12 recover our prudently incurred costs inevitably will adversely impact the
13 Company's ability to raise capital and retain its sound financial status and credit
14 ratings. The inability to recover our increasing capital investments, to serve both
15 new and especially existing customers, will hinder the Company's ability to make
16 the infrastructure investments that are needed to ensure high quality service and
17 reliability. The inability to recover prudently incurred costs also could negatively
18 impact Chattanooga Gas' risk profile, as perceived by the debt and equity
19 markets, and impact access to financial capital, thus ultimately increasing costs to
20 customers.

21 **Q. There was a significant decrease in the corporate tax rate that took effect**
22 **January 1, 2018. Has the Company taken this into account in preparing its**
23 **rate request?**

1 A. Yes we have. We originally notified the Commission and CPAD that we were
2 going to file our case around December 1, 2017. But in listening to the responses
3 we received, we decided to push our filing date to early January. However, as
4 December progressed, and the Congress approved and the President signed the tax
5 reduction bill, we realized this would materially impact our case. Once we had
6 the approved legislation, our rate case team went back and evaluated all of the
7 elements of our case impacted by this major legislation. Based upon that review,
8 we further delayed our filing so we could properly update the systems,
9 spreadsheets, Minimum Filing Guidelines (“MFGs”), testimony, and testimony
10 exhibits impacted by the new tax law. The case we have filed fully reflects, to the
11 best of our ability, the full impact of the new tax law, including the lower
12 corporate tax rate. In addition, our case includes the information and addresses
13 the tracking requirements required by the Commission’s February 6, 2018, order
14 in Docket No. 18-00001.

15 **Q. Can you please identify and summarize the key elements of the Company’s**
16 **rate case?**

17 A. As shown in our MFGs, testimony, and other supporting exhibits and schedules
18 the major elements of the Company’s case are as follows:

19 a. 2018-2019 Attrition Year. The proposed rates are based on a July 1, 2018,
20 to June 30, 2019, attrition year. The forecasted data is reflective of the
21 Company’s actual cost experience and of projects and activities that the
22 Company will be performing throughout the test year, including the new
23 corporate tax rate.

1 b. Rate Base. The Chattanooga Gas rate base has increased from
2 \$93,818,504 in 2009 to \$159,856,710, and this is the main component of
3 our case for increased rates.

4 c. O&M Expenses. The operating expenses for Chattanooga Gas are
5 forecasted to increase from \$23,004,863 allowed in the 2009 Rate Case to
6 \$27,845,986 in the attrition period with the rate adjustment. While our
7 O&M expenses are increasing in the attrition period over the historic year,
8 the increase in O&M expenses since 2009 is not a significant driver in our
9 need for higher rates.

10 d. Capital Structure. The proposed test year capital structure includes
11 49.23% common equity, 44.47% long-term debt, and 6.3% short-term
12 debt. We believe that this capital structure is appropriate to allow us to
13 maintain strong credit ratings.

14 e. Rate of Return. The methodology used to calculate the Chattanooga Gas
15 proposed Return on Equity (“ROE”) is consistent with the methodology
16 that the Commission approved in our 2009 Rate Case. The Company
17 proposes an ROE of 11.25% per annum and an overall Rate of Return
18 (“ROR”) on rate base of 7.83% per annum.

19 **Q. Have you come to any conclusion about the Company’s current and**
20 **proposed rates?**

21 A. Yes. After eight years, and even with the lower corporate tax rate, the Company’s
22 current rates are no longer capable of generating the revenue that is necessary for
23 the long term ability of the Company to provide safe and reliable service as well

1 as value to our customers. Our capital infrastructure investment plan and other
2 capital costs and expenses are prudent, and our costs as budgeted will enable us to
3 meet the projected growing demand for the foreseeable future at affordable rates
4 for our customers. As a result of all of the activities that we are engaged in for the
5 benefit of our customers, the proposed rates will enable us to meet those
6 customer-driven needs reflected in the proposed revenue requirement. The
7 proposed rates are fair, just, and reasonable and will allow the Company to
8 recover its incurred costs while earning a reasonable return on its investments.
9 Accordingly, the Commission should approve the proposed rates and their
10 supporting methodologies documentation.

11 **Q. What changes is CGC proposing to its rate structure?**

12 A. The Company is proposing a base rate structure that is consistent with the
13 structure adopted by the Commission in CGC's last rate case. An important
14 aspect of this rate structure is the higher proportion of fixed costs that are
15 recovered through fixed charges. Although CGC is proposing to continue the
16 underlying base rate structure, changes to rider mechanisms that affect CGC's
17 ability to recover its costs are needed, including reinstituting CGC's weather
18 normalization clause independent of the AUA mechanism. The specific rates and
19 changes to recovery riders are explained by CGC Witnesses Hickerson and
20 Yardley.

21 **Q. Based upon the changes the company is proposing, what will be the impact**
22 **on a typical customer?**

23 A. We are fortunate to operate in an industry that is fueled by innovation and lower

1 cost natural gas prices. Thus, even with our proposed new rates, on a total bill
2 basis adjusted for inflation, our customers will be paying less than ten years ago.
3 More directly, just looking at base rates, even with the proposed increase, an
4 average residential customer's base rate total annual bill will increase from
5 \$246.94 to \$324.60, and rank in the middle of the three commission-regulated
6 natural gas utilities, and lower than other comparable natural gas utilities.

7 **Q. Do you have anything else to add at this time with respect to the rate case**
8 **filing?**

9 A. No company wants to undergo the scrutiny that is invited when you seek approval
10 of a rate case. However, I believe that our experts have prepared a comprehensive
11 and well documented case that demonstrates the prudence of our expenses and
12 capital programs and that the rates we are proposing are fair, just, and reasonable.
13 I respectfully request the Commission's consideration and approval.

14 **V. AUA REQUEST**

15 **Q. The second area for relief in the Company's Petition pertains to the**
16 **Alignment and Usage Adjustment ("AUA") mechanism adopted in the 2009**
17 **rate case as a three-year trial. Please explain the situation.**

18 A. Because of the weather swings we have experienced the last several years,
19 especially the warm winters, the unintended and undesirable effect of our AUA
20 tariff has been a customer revenue deficiency of almost \$2 million. This
21 deficiency reflects gas that the R-1 and C-1 customers have received but not yet
22 paid for.

23 **Q. How did this situation with the AUA arise?**

1 A. Prior to the Company's last rate case, CGC's tariff has for many years included a
2 weather normalization mechanism, like many other utilities. The purpose of such
3 mechanism is to adjust customer bills for the base revenue effects of weather on
4 usage by providing a credit to customers when cold weather contributed to higher
5 use and a charge to customers when warm weather contributed to lower use. This
6 is an important issue for a natural gas utility that has very different seasonal
7 demands because of how our customers use, and don't use, natural gas in winter
8 versus summer.

9 **Q. What did CGC propose in the last rate case?**

10 A. In our 2009 rate case, CGC proposed to replace the weather rider with a full
11 decoupling rider that incorporated the effects of weather and other factors on
12 customer use. The Commission ultimately approved the AUA decoupling rider
13 but with several important changes.

14 **Q. What were the changes the Commission made in the AUA?**

15 A. There were three important changes. First, the AUA was approved only for the
16 R-1 and C-1 customers. Second, the AUA was approved only on a trial basis for
17 three years. Finally, and most importantly, the AUA adjustments were limited to
18 a two percent of margin revenue cap annually.

19 **Q. And what has been the effect of this decision?**

20 A. Largely because of the warm winters we have experienced the last several years
21 and the 2% cap, customers have consumed nearly \$2 million in gas that they have
22 not paid for. Mr. Dan Yardley provides some rate design perspective on the AUA
23 and Mr. Archie Hickerson will provide the necessary accounting for the \$2

1 million deficiency and the two options we have developed for weather
2 normalization going forward.

3 **Q. So what action are you seeking from the Commission at this time?**

4 A. First, we are seeking approval to either terminate the AUA and return the R-1 and
5 C-1 customers to the WNA, or to continue the AUA tariff but move the weather
6 normalization recovery to the WNA tariff. Second, in either case, we are asking
7 that the Commission approve the recovery of the nearly \$2 million deferral in
8 customer charges through the Interruptible Margin Credit Rider ("IMCR") or
9 some other timely recovery mechanism.

10 **Q. Do you have anything else to add at this time with respect to the AUA issue?**

11 A. No, I do not.

12 **VI. ANNUAL RATE REVIEW REQUEST**

13 **Q. The third part of the Chattanooga Gas Petition is a request for approval of**
14 **an annual rate review. What is your understanding of what the alternative**
15 **rate statute authorizes?**

16 A. As I understand it, from my perspective as an engineer and manager, the
17 Tennessee General Assembly has authorized utilities to opt into various
18 alternative regulatory methods ("ARM"). Under this authority, utilities may be
19 regulated differently in order for the utility to have the flexibility it needs to meet
20 the needs of its customers and the communities it serves. One of the authorized
21 alternative regulatory methods is an annual review of rates, which we seek to
22 adopt. To implement annual rate review process we have prepared the
23 appropriate ARM Tariff. We believe adoption of the annual rate review process

1 will provide the commission and our customers with greater transparency
2 regarding our operations and how our business translates into the rates we charge
3 customers.

4 **Q. Please provide an overview of your ARM Tariff.**

5 A. Essentially, each year the Commission shall review our revenues and expenses
6 and make adjustments, either up or down, to our tariff rates to provide us, as the
7 utility, with the opportunity to earn our authorized return as established in this rate
8 case. Our witness Mr. John Cogburn will provide the specifics of our proposal,
9 including a statement of the required regulatory methodologies we will use in our
10 annual rate review. Mr. Cogburn's testimony will also include an exhibit with our
11 proposed ARM Tariff that would govern the Commission's annual review of our
12 rates that is based upon the similar tariff already in effect for Atmos. Consistent
13 with prior Commission orders, our proposed process also contemplates an annual
14 reconciliation process that would occur after the new rates went into effect.

15 **Q. When would the first annual review occur?**

16 A. Our first annual rate review would be approximately a year after the rates in this
17 case go into effect. Mr. Cogburn's testimony will set forth the detailed process
18 and corresponding dates associated with our ARM Tariff.

19 **Q. Based upon your testimony and the testimony of the other CGC witnesses,**
20 **the Petition, and supporting exhibits provided by Chattanooga Gas in this**
21 **rate case request and as a part of the approval of its annual rate review**
22 **request, do you believe that Chattanooga Gas has met the prerequisites so**
23 **that it may opt into an annual review of rates process?**

1 A. Yes, I do.

2 **VII. CONCLUSION**

3 **Q. Do you have any concluding remarks?**

4 A. Yes. Chattanooga Gas has made substantial infrastructure investments to the
5 benefit of our customers, and we are ready to make the next round of capital
6 expenditures that are critical to our ability to continue provide safe, reliable, and
7 affordable natural gas service to our customers. Our overall capital and O&M
8 expenses are prudent to support these efforts. The rate request package we have
9 filed, reflecting the new, lower corporate tax rate and other changes, will provide
10 us with rates that are fair, just, and reasonable and are in the public interest. The
11 alternatives we have developed to address the weather normalization issues and
12 the deferred customer revenue deficiency associated with AUA are in the public
13 interest and provide a reasonable means of paying for that gas already consumed.
14 Finally, opting into the annual rate review under the alternative regulatory method
15 statute through our proposed ARM Tariff will provide both the utility and our
16 customers with a means of staying on top of our annual revenues and expenses so
17 that Chattanooga Gas will be in the best position to continue to make investments
18 and provide great service to our customers.

19 **Q. Does this conclude your direct testimony?**

20 A. Yes.