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May 11, 2018

Chairman David Jones  
c/o Sharla Dillon  
Tennessee Public Utility Commission  
502 Deaderick Street, 4<sup>th</sup> Floor  
Nashville, TN 37243

Re: Chattanooga Gas Company  
TPUC Docket No. 18-00017

Dear Chairman Jones:

Chattanooga Gas Company's ("CGC") is hereby filing two sets of revised testimony in this matter as follows:

First, CGC is filing the substitute direct testimony of Gary Tucker for the prefiled direct testimony of Rachel Johnson. After the filing of testimony in February, Ms. Johnson left the employment of Southern Company Gas. Mr. Tucker worked extensively with Ms. Johnson in the development of the financial and accounting information provided in support of CGC's rate increase, including CGC's rate base, revenue requirements, cost of service, and capital structure and debt financing. Substituting Mr. Tucker as the witness will provide the Commission and parties with a seamless transition. As is clear from the redline or track changes copy of Mr. Tucker's substituted testimony that is also being provided today with this filing for the convenience of the parties, the only change in substituting Mr. Tucker for Ms. Johnson is to remove Ms. Johnson's personal information and replacing it with Mr. Tucker's personal information. Also to simplify the substitution process, Mr. Tucker is also adopting the exhibits originally filed with Ms. Johnson's testimony as is, and CGC is not making any changes to those exhibits even retaining the same exhibit numbers that were used for Ms. Johnson's testimony.

Second, CGC is also filing revised testimony for Wendell Dallas. The revisions to Mr. Dallas' testimony reflect both the substitution of Mr. Tucker for Ms. Johnson as well as the necessary revisions to reflect CGC's decision to permanently withdraw from any further consideration in this docket CGC's requests for adoption of certain alternative regulatory methods ("ARM"), including its annual rate review request and proposed ARM Tariff as well as its proposed infrastructure economic development proposal and SEED Tariff (collectively, the "ARM Requests"). CGC has previously filed revised testimony for its witnesses John Cogburn and Archie Hickerson reflecting the elimination of its ARM Requests, and Mr. Dallas' revised testimony reflects the necessary corresponding revisions given the changes to the testimonies of Mr. Cogburn and Mr. Hickerson. Also being included with this filing for the convenience of the Commission

May 11, 2018

Page 2

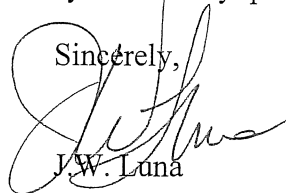
and parties is a redline or track changes copy of Mr. Dallas' revised testimony that compares the version being filed today to his original testimony filed in February.

Attached hereto are an original and four copies of each document along with an electronic copy on CD.

Additionally, on May 8, 2018, CGC filed responses to CPAD's Second Discovery Requests. In CGC's letter, we stated that two attachments would be forth coming due to size. Confidential Attachments 2-18h and 2-29ax were provided to CPAD and CRMA on May 9 and are included in this filing to the Commission on 5 CDs marked as Confidential. CGC is also including with this filing the attachment for CPAD-1-342 which was inadvertently left out of responses to CPAD's Supplemental Requests. This attachment is being provided on a separate set of 5 CDs as it is public information and has previously been provided to the parties.

Please do not hesitate to contact me if you have any questions or concerns.

Sincerely,

A handwritten signature in dark ink, appearing to read "J.W. Luna", is written over the typed name. The signature is fluid and cursive.

J.W. Luna

Enclosures

cc: Monica Smith-Ashford, Esq.  
Vance Broemel, Esq.  
Wayne Irvin, Esq.  
Henry Walker, Esq.  
Floyd R. Self, Esq.

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

**May 11, 2018**

<b>IN RE:</b>	)	
	)	
<b>CHATTANOOGA GAS COMPANY</b>	)	
<b>PETITION FOR APPROVAL OF AN</b>	)	
<b>ADJUSTMENT IN RATES AND</b>	)	<b>Docket No.</b>
<b>TARIFF; THE TERMINATION OF</b>	)	<b>18-00017</b>
<b>THE AUA MECHANISM AND THE</b>	)	
<b>RELATED TARIFF CHANGES AND</b>	)	
<b>REVENUE DEFICIENCY</b>	)	
<b>RECOVERY; AND AN ANNUAL</b>	)	
<b>RATE REVIEW MECHANISM</b>	)	

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**REDLINE VERSION OF REVISED DIRECT  
TESTIMONY OF  
WENDELL DALLAS COMPARED TO  
ORIGINAL VERSION OF DIRECT TESTIMONY  
OF WENDELL DALLAS  
FILED 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 [the identification and approval of the methodology used in](#)  
6 [this case that will form the basis for](#) our proposal for opting into an annual rate  
7 review under the alternative regulatory methods (“ARM”) statute [that the](#)  
8 [Company will file after the conclusion of this case.](#)

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

1 Lastly, I confirm that CGC has complied with all applicable information and  
2 notice requirements.

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

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

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



1 our investments are both timely and strategic.

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

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

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

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

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

- 22 a. Mr. Michael Adams, Senior Vice President, Concentric Energy Advisors.  
23 Mr. Adams' expert testimony and exhibits discuss the lead-lag study

1 prepared by Concentric that was used to develop the cash working capital  
2 factors and ultimately to calculate the cash working capital requirements  
3 for the Company.

4 b. Mr. Greg Becker, Director, Capacity Planning, Southern Company Gas.  
5 Mr. Becker will discuss CGC's Liquefied Natural Gas ("LNG")  
6 Redelivery Project to Red Bank and Signal Mountain and why this plan is  
7 the most cost effective for customers and the Company based upon present  
8 gas supply, future gas supply needs, alternative supply options, and  
9 appropriate reserve margins.

10 c. Mr. Heath Brooks, Rate Analyst with Rate Design and Tariff  
11 Administration, Southern Company Gas. Mr. Brooks provides  
12 documentation and support for the specific methods used to develop the  
13 normalized level of billing determinants and base revenue for the historic  
14 test year and the attrition period.

15 d. Mr. John Cogburn, Director, Regulatory Reporting & Strategic Planning,  
16 Southern Company Gas. Mr. Cogburn's testimony supports the  
17 identification of the methodology adopted in this case that will form the  
18 basis for ~~CGC's request to opt into~~ the annual rate review process under  
19 the alternative regulatory methods ("ARM") statute that CGC intends to  
20 file upon the conclusion of this case, ~~and he is also the witness for CGC's~~  
21 ~~corresponding ARM Tariff that will implement our annual rate review~~  
22 ~~process.~~

23 e. Mr. Archie Hickerson, Director-Rates and Tariff Administration, Southern

1 Company Gas. Mr. Hickerson is the overall witness who will sponsor the  
2 various tariff pages impacted by requests, ~~including the new economic~~  
3 ~~development rider for main line extensions~~. Mr. Hickerson will also  
4 support and explain CGC's decision to terminate the AUA Tariff and  
5 return those R-1 and C-1 customers to the WNA mechanism, and CGC's  
6 proposal to recover the AUA revenue deficiencies. He will also provide  
7 an alternative proposal for an AUA/WNA mechanism that may better  
8 address weather issues and margins.

9 f. Mr. Gary Tucker, Supervisor, Regulatory Reporting ~~Ms. Rachel Johnson,~~  
10 ~~Director, Regulatory Accounting and Revenue Recovery Mechanisms,~~  
11 Southern Company Gas. ~~Ms. Johnson~~ Mr. Tucker shall provide testimony  
12 and exhibits for the financial and accounting information being provided  
13 in support of the rate increase, including CGC's rate base, revenue  
14 requirements, cost of service, and capital structure and debt financing.

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

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

1 i. Mr. Daniel Yardley, Principal, Yardley & Associates. Mr. Yardley shall  
2 provide expert testimony regarding an allocated cost of service study he  
3 performed and the appropriate rate design for CGC's rates that will  
4 provide the Company with an opportunity to recover the costs it incurs to  
5 provide service to customers in a fair and reasonable manner.

6 **III. CHATTANOOGA GAS' OPERATIONS**

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

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

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

23 The opportunities and challenges for our Company are occurring because

1 of the unprecedented growth happening in Hamilton and Bradley counties. We  
2 have been an active partner in the economic development of our service area both  
3 to strengthen the community and to develop new customers. Chattanooga Gas  
4 works with the economic development professionals in both Hamilton and  
5 Bradley Counties to recruit new business as well to retain our expanding existing  
6 industries. We don't always get the chance to serve all of the new businesses  
7 coming into our service area, but even when we don't, the corresponding new  
8 residential and business communities that are being developed to house and serve  
9 the employees working at these new enterprises provide excellent opportunities  
10 for us to expand our distribution network.

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

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

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

1 A. Yes. An added benefit of a company like Volkswagen is the large number of  
2 suppliers who want to be near the plant. So as Volkswagen suppliers have moved  
3 into the surrounding areas, we have expanded our system to meet their growing  
4 demand as well. Finally, with this type of commercial growth also comes an  
5 incremental expansion within our footprint for new service to some of the  
6 residential and commercial neighborhoods that have grown to meet the expanding  
7 Volkswagen workforce. What all this means for our existing customers is that  
8 when we add large customers like Volkswagen and the suppliers and new  
9 developments associated with this type expansion, it spreads out our fixed costs  
10 over a larger customer base through the greater gas sales and transportation  
11 services associated with such large users. These investments have helped to defer  
12 the need for a rate case until now.

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

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

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

20 A. First, we have continued to build on the commitment we made to the Commission  
21 in our last rate case to replace aging infrastructure. Specifically, we have invested  
22 approximately \$41 million to replace nearly 93 miles of pipeline mains to help  
23 ensure safe and reliable system operations. Our budget includes continuing

1 capital investment for pipeline replacements and pressure improvements. Second,  
2 in planning for our future gas supply needs because of the upcoming loss of  
3 supply capacity, we have identified an opportunity to more fully utilize our  
4 existing LNG facility. Our rate case reflects new capital investment for what we  
5 are calling our LNG redelivery project. As Mr. Becker will discuss in more  
6 detail, we are going to extend and build a new transmission line from the LNG  
7 Plant to Red Bank and Signal Mountain to bring additional supply to our  
8 customers, which will enable us to more fully utilize a great resource we already  
9 own. Our analysis demonstrates that this gas supply capacity project is the most  
10 cost effective means of enabling us to meet the growing demand we are  
11 experiencing, while maximizing existing peaking resources. This project is a real  
12 win-win for our customers.

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

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

1           We believe that our local civic commitment combined with a great work  
2           environment contributes to the fact that our Chattanooga-based team generally  
3           experiences very little turn-over in terms of employees leaving us. The average  
4           tenure of a Chattanooga Gas employee is **30 years**. This means our employees  
5           bring tremendous history and operational experience to work every day, which  
6           enables them to serve our customers with a high degree of expertise and  
7           consistent professionalism.

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

17          As I said earlier, my engagement in various workforce development  
18          initiatives has led me to have our management team formulate new and creative  
19          strategies for recruiting, developing, and retaining the next generation of skilled  
20          team members. The Company is looking to hire new employees and place them  
21          in training programs and also to pair them with our most veteran employees to get  
22          practical experience before the expected retirements occur. It is very important  
23          that the next generation of employees be well-trained and knowledgeable before



1 the experienced employees retire and leave us without the experience we need to  
2 continue to provide safe service. We view these efforts as good for our  
3 customers, Tennessee, and Chattanooga Gas.

4 **Q. A third area you identified was improvements in back office operations. Can**  
5 **you please describe some of these for us?**

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

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

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

19 **Q. Please elaborate on Chattanooga Gas' relationship with Southern Company**  
20 **Gas.**

21 A. Southern Company Gas, formerly known as AGL Resources until it was acquired  
22 by Southern Company in July 2016, is a large multistate operation that in addition  
23 to being the parent corporation for Chattanooga Gas, includes local distribution

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

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

20 A. There are a number of benefits. Southern Company is an industry leader offering  
21 a full portfolio of energy resources, and the addition of the Southern Company  
22 Gas network of natural gas assets and businesses provides a broader, more robust  
23 platform for long-term success. This strategic combination was about more than

1 diversifying and expanding a business enterprise. It was about providing efficient  
2 and effective energy solutions to power our communities' future and finding new  
3 ways to further enhance our service to customers. It was also about being faithful  
4 to the commitment made to this Commission that Chattanooga Gas would  
5 continue to manage its operations without a change in management structure.

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

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

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

17 A. Yes. A critically important operational area of constant concern and diligence is  
18 cyber security, and in this regard Southern Company is a leader in the industry  
19 and the business community at large with its demonstrated commitment to  
20 ensuring that our systems and customers are protected from cyber threats.  
21 Southern Company has a 24/7/365 Security Operations Center ("SOC") staffed  
22 with experts in the areas of threat identification and forensic analysis. Southern  
23 Company Gas has invested in security technology that aligns with Southern

1 Company standards and allows for full integration into the SOC monitoring and  
2 incident response processes. At Southern Company, the expectation is that cyber-  
3 security is everyone's responsibility. Southern Company has an internal website  
4 dedicated to educating employees about cybersecurity and how to practice cyber  
5 safety every day with the goal of protecting ourselves, our families and our  
6 organization while making the most of today's technology.

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

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

11 **IV. RATE CASE REQUEST**

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

14 A. The Company is requesting a \$7.0 million rate increase so that it may have a  
15 reasonable opportunity to recover its costs of providing safe and reliable natural  
16 gas delivery service to its customers. The Company's investment in capital  
17 projects, over \$100 million in the last ten years, when combined with the  
18 upcoming capital investments, especially for the LNG redelivery project,  
19 significantly improves the safety and reliability of the system, provides us with  
20 the opportunity to better utilize existing facilities, and helps to ensure that our  
21 customers have direct access to low-cost gas supplies. These investments are not  
22 reflected in the Company's current base rates set eight years ago. While overall  
23 we have done an outstanding job of minimizing increases in our O&M costs, we

1 nevertheless face increased regulatory compliance, workforce development, new  
2 regulator stations for safety and inspections, and customer experience  
3 improvement costs, as well as general inflationary pressures. The combined  
4 effect of all of these factors is that the Company will not earn its authorized rate  
5 of return in the attrition year and beyond. The requested increase accurately  
6 reflects the proposed attrition year costs and is supported by the Company's  
7 testimony and supporting documentation.

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

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

1 customers.

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

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

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

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

23 a. 2018-2019 Attrition Year. The proposed rates are based on a July 1, 2018,

1 to June 30, 2019, attrition year. The forecasted data is reflective of the  
2 Company's actual cost experience and of projects and activities that the  
3 Company will be performing throughout the test year, including the new  
4 corporate tax rate.

5 b. Rate Base. The Chattanooga Gas rate base has increased from  
6 \$93,818,504 in 2009 to \$159,856,710, and this is the main component of  
7 our case for increased rates.

8 c. O&M Expenses. The operating expenses for Chattanooga Gas are  
9 forecasted to increase from \$23,004,863 allowed in the 2009 Rate Case to  
10 \$27,845,986 in the attrition period with the rate adjustment. While our  
11 O&M expenses are increasing in the attrition period over the historic year,  
12 the increase in O&M expenses since 2009 is not a significant driver in our  
13 need for higher rates.

14 d. Capital Structure. The proposed test year capital structure includes  
15 49.23% common equity, 44.47% long-term debt, and 6.3% short-term  
16 debt. We believe that this capital structure is appropriate to allow us to  
17 maintain strong credit ratings.

18 e. Rate of Return. The methodology used to calculate the Chattanooga Gas  
19 proposed Return on Equity ("ROE") is consistent with the methodology  
20 that the Commission approved in our 2009 Rate Case. The Company  
21 proposes an ROE of 11.25% per annum and an overall Rate of Return  
22 ("ROR") on rate base of 7.83% per annum.

23 **Q. Have you come to any conclusion about the Company's current and**

1           **proposed rates?**

2       A.     Yes. After eight years, and even with the lower corporate tax rate, the Company's  
3           current rates are no longer capable of generating the revenue that is necessary for  
4           the long term ability of the Company to provide safe and reliable service as well  
5           as value to our customers. Our capital infrastructure investment plan and other  
6           capital costs and expenses are prudent, and our costs as budgeted will enable us to  
7           meet the projected growing demand for the foreseeable future at affordable rates  
8           for our customers. As a result of all of the activities that we are engaged in for the  
9           benefit of our customers, the proposed rates will enable us to meet those  
10          customer-driven needs reflected in the proposed revenue requirement. The  
11          proposed rates are fair, just, and reasonable and will allow the Company to  
12          recover its incurred costs while earning a reasonable return on its investments.  
13          Accordingly, the Commission should approve the proposed rates and their  
14          supporting methodologies documentation.

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

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



1 Yardley.

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

4 A. We are fortunate to operate in an industry that is fueled by innovation and lower  
5 cost natural gas prices. Thus, even with our proposed new rates, on a total bill  
6 basis adjusted for inflation, our customers will be paying less than ten years ago.  
7 More directly, just looking at base rates, even with the proposed increase, an  
8 average residential customer's base rate total annual bill will increase from  
9 \$246.94 to \$324.60, and rank in the middle of the three commission-regulated  
10 natural gas utilities, and lower than other comparable natural gas utilities.

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

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

18 **V. AUA REQUEST**

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

22 A. Because of the weather swings we have experienced the last several years,  
23 especially the warm winters, the unintended and undesirable effect of our AUA

1 tariff has been a customer revenue deficiency of almost \$2 million. This  
2 deficiency reflects gas that the R-1 and C-1 customers have received but not yet  
3 paid for.

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

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

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

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

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

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

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

1 A. Largely because of the warm winters we have experienced the last several years  
2 and the 2% cap, customers have consumed nearly \$2 million in gas that they have  
3 not paid for. Mr. Dan Yardley provides some rate design perspective on the AUA  
4 and Mr. Archie Hickerson will provide the necessary accounting for the \$2  
5 million deficiency and the two options we have developed for weather  
6 normalization going forward.

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

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

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

15 A. No, I do not.

16 **VI. ANNUAL RATE REVIEW METHODOLOGY~~REQUEST~~**

17 **Q. The third part of the Chattanooga Gas Petition is the identification and~~a~~  
18 ~~request for~~ approval of the methodology utilized in this case that will form  
19 the basis for the~~an~~ annual rate review the Company intends to file after this  
20 case is concluded. What is your understanding of what the alternative rate  
21 statute authorizes?**

22 A. As I understand it, from my perspective as an engineer and manager, the  
23 Tennessee General Assembly has authorized utilities to opt into various

1 alternative regulatory methods (“ARM”). Under this authority, utilities may be  
2 regulated differently in order for the utility to have the flexibility it needs to meet  
3 the needs of its customers and the communities it serves. One of the authorized  
4 alternative regulatory methods is an annual review of rates, which we intend to  
5 ~~seek to adopt~~opt into after this case is concluded. To implement an annual rate  
6 review the Commission must utilize the methodology approved in Company’s last  
7 rate case, which is this docket. It is the identification and approval of the  
8 Company’s methodology that is being used in this case to that we are seeking  
9 approval of at this time~~process we have prepared the appropriate ARM Tariff~~. We  
10 believe adoption of the annual rate review process after this case will provide the  
11 commission and our customers with greater transparency regarding our operations  
12 and how our business translates into the rates we charge customers.

13 ~~Q. Please provide an overview of your ARM Tariff.~~

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

1 Q. When will the Company seek to opt into the ~~would the first~~ annual review  
2 process ~~occur~~?

3 A. We do not have an exact date at this time, only that we anticipate filing to opt into  
4 an annual rate review after the conclusion of this case. ~~Our first annual rate~~  
5 ~~review would be approximately a year after the rates in this case go into effect.~~  
6 ~~Mr. Cogburn's testimony will set forth the detailed process and corresponding~~  
7 ~~dates associated with our ARM Tariff.~~

8 Q. Based upon your testimony and the testimony of the other CGC witnesses,  
9 the Petition, and supporting exhibits provided by Chattanooga Gas in this  
10 rate case request, is it appropriate for the Commission to approve the  
11 methodology CGC has used in this case for setting rates, including expenses  
12 and revenues, so that its methodology can be utilized later when the  
13 Company seeks to ~~and as a part of the approval of its annual rate review~~  
14 ~~request, do you believe that Chattanooga Gas has met the prerequisites so~~  
15 ~~that it may~~ opt into an annual review of rates process?

16 A. Yes, I do.

## 17 VII. CONCLUSION

18 Q. Do you have any concluding remarks?

19 A. Yes. Chattanooga Gas has made substantial infrastructure investments to the  
20 benefit of our customers, and we are ready to make the next round of capital  
21 expenditures that are critical to our ability to continue provide safe, reliable, and  
22 affordable natural gas service to our customers. Our overall capital and O&M  
23 expenses are prudent to support these efforts. The rate request package we have

1 filed, reflecting the new, lower corporate tax rate and other changes, will provide  
2 us with rates that are fair, just, and reasonable and are in the public interest. The  
3 alternatives we have developed to address the weather normalization issues and  
4 the deferred customer revenue deficiency associated with AUA are in the public  
5 interest and provide a reasonable means of paying for that gas already consumed.  
6 Finally, identifying and approving the methodology we are utilizing in this case is  
7 necessary for~~opting into~~ the annual rate review we intend to file upon the  
8 conclusion of this case. Going forward under the alternative regulatory method  
9 statute through ~~our proposed ARM Tariff~~an annual rate review process will  
10 provide both the utility and our customers with a means of staying on top of our  
11 annual revenues and expenses so that Chattanooga Gas will be in the best position  
12 to continue to make investments and provide great service to our customers.

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

14 A. Yes.

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

**May 11, 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**

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**REVISED DIRECT TESTIMONY OF  
WENDELL DALLAS FILED 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 the identification and approval of the methodology used in  
6 this case that will form the basis for our proposal for opting into an annual rate  
7 review under the alternative regulatory methods (“ARM”) statute that the  
8 Company will file after the conclusion of this case.

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

1           Lastly, I confirm that CGC has complied with all applicable information and  
2           notice requirements.

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

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

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

1           our investments are both timely and strategic.

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

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

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

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

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

22          a.       Mr. Michael Adams, Senior Vice President, Concentric Energy Advisors.  
23                Mr. Adams' expert testimony and exhibits discuss the lead-lag study

1 prepared by Concentric that was used to develop the cash working capital  
2 factors and ultimately to calculate the cash working capital requirements  
3 for the Company.

4 b. Mr. Greg Becker, Director, Capacity Planning, Southern Company Gas.  
5 Mr. Becker will discuss CGC's Liquefied Natural Gas ("LNG")  
6 Redelivery Project to Red Bank and Signal Mountain and why this plan is  
7 the most cost effective for customers and the Company based upon present  
8 gas supply, future gas supply needs, alternative supply options, and  
9 appropriate reserve margins.

10 c. Mr. Heath Brooks, Rate Analyst with Rate Design and Tariff  
11 Administration, Southern Company Gas. Mr. Brooks provides  
12 documentation and support for the specific methods used to develop the  
13 normalized level of billing determinants and base revenue for the historic  
14 test year and the attrition period.

15 d. Mr. John Cogburn, Director, Regulatory Reporting & Strategic Planning,  
16 Southern Company Gas. Mr. Cogburn's testimony supports the  
17 identification of the methodology adopted in this case that will form the  
18 basis for the annual rate review process under the alternative regulatory  
19 methods ("ARM") statute that CGC intends to file upon the conclusion of  
20 this case.

21 e. Mr. Archie Hickerson, Director-Rates and Tariff Administration, Southern  
22 Company Gas. Mr. Hickerson is the overall witness who will sponsor the  
23 various tariff pages impacted by requests. Mr. Hickerson will also support

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

6 f. Mr. Gary Tucker, Supervisor, Regulatory Reporting, Southern Company  
7 Gas. Mr. Tucker shall provide testimony and exhibits for the financial and  
8 accounting information being provided in support of the rate increase,  
9 including CGC's rate base, revenue requirements, cost of service, and  
10 capital 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 METHODOLOGY**

13 **Q. The third part of the Chattanooga Gas Petition is the identification and**  
14 **approval of the methodology utilized in this case that will form the basis for**  
15 **the annual rate review the Company intends to file after this case is**  
16 **concluded. What is your understanding of what the alternative rate statute**  
17 **authorizes?**

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

1 opt into after this case is concluded. To implement an annual rate review the  
2 Commission must utilize the methodology approved in Company's last rate case,  
3 which is this docket. It is the identification and approval of the Company's  
4 methodology that is being used in this case to that we are seeking approval of at  
5 this time. We believe adoption of the annual rate review process after this case  
6 will provide the commission and our customers with greater transparency  
7 regarding our operations and how our business translates into the rates we charge  
8 customers.

9 **Q. When will the Company seek to opt into the annual review process?**

10 A. We do not have an exact date at this time, only that we anticipate filing to opt into  
11 an annual rate review after the conclusion of this case.

12 **Q. Based upon your testimony and the testimony of the other CGC witnesses,**  
13 **the Petition, and supporting exhibits provided by Chattanooga Gas in this**  
14 **rate case request, is it appropriate for the Commission to approve the**  
15 **methodology CGC has used in this case for setting rates, including expenses**  
16 **and revenues, so that its methodology can be utilized later when the**  
17 **Company seeks to opt into an annual review of rates process?**

18 A. Yes, I do.

19 **VII. CONCLUSION**

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

21 A. Yes. Chattanooga Gas has made substantial infrastructure investments to the  
22 benefit of our customers, and we are ready to make the next round of capital  
23 expenditures that are critical to our ability to continue provide safe, reliable, and



1       affordable natural gas service to our customers. Our overall capital and O&M  
2       expenses are prudent to support these efforts. The rate request package we have  
3       filed, reflecting the new, lower corporate tax rate and other changes, will provide  
4       us with rates that are fair, just, and reasonable and are in the public interest. The  
5       alternatives we have developed to address the weather normalization issues and  
6       the deferred customer revenue deficiency associated with AUA are in the public  
7       interest and provide a reasonable means of paying for that gas already consumed.  
8       Finally, identifying and approving the methodology we are utilizing in this case is  
9       necessary for the annual rate review we intend to file upon the conclusion of this  
10      case. Going forward under the alternative regulatory method statute through an  
11      annual rate review process will provide both the utility and our customers with a  
12      means of staying on top of our annual revenues and expenses so that Chattanooga  
13      Gas will be in the best position to continue to make investments and provide great  
14      service to our customers.

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

16   **A.     Yes.**