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July 2, 2018

Tennessee Public Utility Commission
c/o Sharla Dillon
502 Deaderick Street, 4th Floor
Nashville, TN 37243

Re: Petition/Chattanooga Gas Company - Docket No. 18-00017

Dear Sharla:


Enclosed for filing in the above captioned docket is the direct testimony of two witnesses (an original and four copies of each) appearing on behalf of the Chattanooga Regional Manufacturers Association.

I certify that copies of this filing have been sent by email and mail to the Consumer Advocate and Chattanooga Gas.

Sincerely,

BRADLEY ARANT BOULT CUMMINGS LLP

By:


Henry Walker

HW/ads
Enclosures

Before the
Tennessee Regulatory Authority
Docket No. 18-00017

Chattanooga Gas Company

Direct Testimony of
Randy Carter

On Behalf of
Chattanooga Regional Manufacturers Association

July, 2018

Direct Testimony of Randy Carter

Q. Please state your name, business address and occupation.

A. I am Randy Carter, manager of asphalt operations for Talley Construction Company with three production facilities served by Chattanooga Gas located in Chattanooga and Cleveland TN. My business address is 4700 Shallowford Rd, Chattanooga, Tennessee 37411.

Q. What are your principal responsibilities as Manager of Asphalt Operations for Talley Construction, Inc.

A. I am primarily responsible for managing the day to day operations of asphalt production facilities at our Chattanooga and Cleveland plants including sourcing the natural gas requirements for these facilities.

Q. Please outline your educational and professional training and experience.

A. I have worked in the road construction/asphalt business since 1992. I was first employed by Asphalt Concepts in 1992, which was later purchased by Renfro Construction. I have been employed by Talley Construction since 2014.

Q. Have you previously submitted testimony for the Chattanooga Manufacturers' Association ("CMA") to this agency?

A. No

Q. What is the subject of your testimony?

A. I will present information addressing concerns that Talley Construction has regarding Chattanooga Gas Company's filing for a revised natural gas tariff

submitted to the Tennessee Public Utilities Commission where the gas company has proposed changes in their penalty rate which will place an unreasonable hardship on our ability to manage natural gas sourcing for our asphalt plants.

Q. Have you prepared any exhibits to accompany your testimony?

A. Yes, Exhibit TC-1

Q. Please describe the nature of your gas use at your three facilities served by Chattanooga Gas Company. ?

A. Yes. Talley Construction Inc. uses natural gas as the primary heating fuel for our three asphalt facilities located in Chattanooga and Cleveland. All three facilities are served under Chattanooga T-1 (Interruptible Transportation Rate), whereby Talley Construction uses a third party gas provider to deliver natural gas to Chattanooga Gas Company's city gate for our requirements. The production of asphalt requires a considerable amount of natural gas to heat and manufacture the asphalt mix to a temperature of at least 500 degrees where it is used by Talley Construction or delivered and sold to local asphalt pavers for the purpose of paving/repairing streets in the Chattanooga area.

Q. Please describe factors that affect the amount of natural gas consumption at your facilities?

A. Asphalt plants are unlike other industrial users because our natural gas needs are very unpredictable from day to day. This is attributable to several factors. First, our business is very variable since Talley Construction or our customers may have big paving jobs that will require us to produce 2-3 times the tons on certain days

compared to other days. Second, our production is very weather sensitive, because asphalt demand will be much lower on days with precipitation, and/or days where the temperature is below freezing. Therefore, when Chattanooga Gas Company issues a daily balancing order, we are required to order enough gas to cover the burn for our three asphalt plants or we will pay the Company's penalty rate. This is particularly challenging given the unknown factors associated with our business.

Q. What has been your experience with managing natural gas needs when Chattanooga Gas Company issues a daily balancing order.

A. Historically, daily balancing orders have not been much of an issue since they were typically issued on days where it was too cold to pave and produce asphalt. However, we are now receiving balancing orders on days when the temperatures are not that cold and we are in full production. We have to anticipate our natural gas requirements at least 24 hours in advance, and if it's over the weekend, we have to order natural gas several days in advance to cover our Monday requirements. Unfortunately, we haven't been able to avoid penalties despite our efforts to cover our requirements on these days.

Q. Can you give an example of a circumstance where Talley Construction incurred a significant penalty charge.

A. During the second week in December 2017, Chattanooga Gas Company issued a balancing order starting December 6, 2017. During this time, we made every effort to source enough gas and more to cover for our production requirements.

On December 11, we sourced enough gas for approximately 1500 tons of production which would typically cover our natural gas needs. However, on this day, the weather was particularly warm, 59 degrees F. We had a high number of municipal and private pavers that needed asphalt on this day which resulted in an over-run of 437.7 dekatherms at the penalty rate of \$15.00. We paid a penalty charge of \$6,565.50 (Exhibit TC-1). Under the Company's proposed penalty tariff changes, this penalty would be 10 times the highest gas daily pricing on Chattanooga's connecting pipeline. What if gas prices become more volatile at some time in the future and daily gas prices exceed \$10.00 as they have in the past? Under the proposed tariff, the penalty rate could be ten times \$10.00 or \$100 per dekatherm, over six times the current penalty rate. On the day that the company had to pay a penalty of \$6,565.50, it was a relatively mild day and the daily price of gas was around \$2.73. Even so, if the proposed tariff had been in effect, the company's penalty would have nearly doubled. This type of penalty is just unacceptable and we urge the Commission to reject this proposal.

Q. Has Chattanooga Gas Company offered any supply options recently in lieu of paying penalty gas?

A. No. In the past, Chattanooga Gas Company did offer excess supply using their LNG peaking plant referred to as "incremental gas". When incremental gas was offered by Chattanooga Gas Company, we could request daily volumes that we felt would cover our gas requirements. Chattanooga Gas Company has not offered any incremental gas since Jan 2014. We work closely with our gas consultant, Mr.

Earl Burton, who advises us on gas-related issues. As far as we know and as far as Mr. Burton knows, Chattanooga Gas did not seek approval of this agency when the utility decided it would no longer sell incremental gas to interruptible customers in this situation.

Q. Does the proposal by Chattanooga Gas to raise the penalty rate raise concerns for Talley Construction.

A. Raising the penalty rate to the level requested in this filing will place an additional hardship on Talley Construction to manage our gas requirements. To avoid the higher penalty rate, we will have to over-buy for our forecasted gas requirements on daily balancing days. This will cause us to buy more expensive gas than what we need. On the real cold days where Chattanooga Gas is needing gas supply, we will likely shut down our production. The subsequent higher costs of natural gas will have to be passed on in the form of higher costs to our customers which will increase costs for our private and municipal customers resulting in higher costs for all citizens in our community.

Q. Does Talley Construction oppose Chattanooga Gas Company having an increase in rates?

A. Talley Construction Inc. understands that most businesses have to adjust rates from time to time to earn a fair return and profit. We would support a rate adjustment and allocation consistent with cost-of-service economic principals. We urge the TPSC to adopt Chattanooga Gas Company's cost-of-service allocation as proposed in this filing.

Q. **What other suggestions would you have for the TPSC and Chattanooga Gas in this filing?**

A. Yes. All classes have helped pay for Chattanooga Gas Company's LNG peaking facility over the years. It's unfortunate that we have been denied any incremental/supply from this asset. We would like for a reasonable amount of supply to be made available to us when there is extra deliverability. There has to be a better practice that would benefit interruptible customers and Chattanooga Gas Company.

Q. Does this conclude your testimony?

A. **Yes**

Q. **Does this complete your testimony in this rate increase proceeding?**

A. Yes, I believe this completes my testimony as to issues related to Phase I of this proceeding.

Exhibit TC-1

INVOICE for the Month of December 2017

CHATTANOOGA GAS COMPANY
MAJOR ACCOUNTS INVOICE
P.O. BOX 5720
ATLANTA, GA 31107-0720

Page: 1
Invoice No: 201801-207137
Invoice Date: 01/09/2018
Customer Number: 28916900
Due Date: 01/25/2018
Item Type: T-1
Location: 8000

SOUTHEASTERN MATERIALS - CHATTANOOGA
Kimberly Steed
PO BOX 357
ROSSVILLE GA 30741

Service Address:
4700 SHALLOWFORD ROAD
CHATTANOOGA

AMOUNT DUE: \$ 13,061.61

\$
Amount Remitted

Please Return This Portion With Your Payment

Please Remit To:

By Check:
Chattanooga Gas Company
Location 1190
PO Box 5720
Atlanta GA 31107-0720

By Wire:
Chattanooga Gas Company
JPMorgan Chase
ABA # 021000021
Account # 209959283

Account Rep: John Sears
Telephone: 404/584-4808
Email: jdsears@southernco.com

Fax: 404/584-4233

| Line | Date of Service | Description | Quantity | UOM | @ Rate | Amount |
|-----------|-----------------|------------------------------|----------|-----|---------|-----------|
| | | Total DTS Metered | 7,786.5 | | | |
| | | Total Volumes Transported | 7,863.0 | | | |
| 1 | | Capacity Charge | 911.30 | DTS | 1.3500 | 1,230.26 |
| 2 | | T1 Customer Charge | 0.00 | EA | 0.0000 | 300.00 |
| | | Interruptible Transportation | | | | |
| 3 | | T1 First 1500 | 1,500.00 | DTS | 0.7806 | 1,170.90 |
| 4 | | T1 Next 2500 | 2,500.00 | DTS | 0.6633 | 1,658.25 |
| 5 | | T1 Next 11000 | 3,786.50 | DTS | 0.3650 | 1,382.07 |
| 6 | | Cashout | 0.20 | DTS | 3.1126 | (0.62) |
| 7 | | Penalty | 437.70 | DTS | 15.0000 | 6,565.50 |
| SUBTOTAL: | | | | | | 12,306.36 |
| | | TAXES: | | | | |
| | | Franchise Fees | 5.15 | % | | 633.81 |
| | | State Taxes | 1.50 | % | | 121.44 |
| | | TOTAL TAXES: | | | | 755.25 |

Chattanooga Gas Company - Gas Volume Worksheet

01/09/2018 Gas Volume Worksheet for Southeastern Materials Chart Acct.No.: 28916500 Incremental Customer: Y
Billing Month: 12/1/2017

| Day | Nominations (in DTS) | | | Usage (in DTS) | | | Gas Volumes (in DTS) | | | | | | | |
|-----|----------------------|---------|------------|----------------|---------------|----------|----------------------|-----------|-------------|-----------|-----------|-------------|---------|---------|
| | SNG | E. Tenn | BTU Factor | MCF | Total Metered | Firm Vol | Int Vol | Curtailed | Incremental | Transport | CGO Sales | Incremental | Penalty | Cashout |
| 01 | 129.0 | 0.0 | 1.0382 | 706.0 | 733.5 | 0.0 | 733.5 | N | N | 129.0 | 0.0 | 0.0 | 0.0 | (604.5) |
| 02 | 129.0 | 0.0 | 1.0321 | 566.0 | 584.4 | 0.0 | 584.4 | N | N | 129.0 | 0.0 | 0.0 | 0.0 | (455.4) |
| 03 | 129.0 | 0.0 | 1.0335 | 708.0 | 731.9 | 0.0 | 731.9 | N | N | 129.0 | 0.0 | 0.0 | 0.0 | (602.9) |
| 04 | 129.0 | 0.0 | 1.0321 | 484.0 | 498.3 | 0.0 | 498.3 | N | N | 129.0 | 0.0 | 0.0 | 0.0 | (369.3) |
| 05 | 129.0 | 0.0 | 1.0332 | 313.0 | 323.4 | 0.0 | 323.4 | N | N | 129.0 | 0.0 | 0.0 | 0.0 | (194.4) |
| 06 | 500.0 | 0.0 | 1.0451 | 316.0 | 330.3 | 0.0 | 330.3 | Y | N | 330.3 | 0.0 | 0.0 | 0.0 | 169.7 |
| 07 | 500.0 | 0.0 | 1.0618 | 269.0 | 284.1 | 0.0 | 284.1 | Y | N | 284.1 | 0.0 | 0.0 | 0.0 | 215.9 |
| 08 | 350.0 | 0.0 | 1.0531 | 90.0 | 94.8 | 0.0 | 94.8 | Y | N | 94.8 | 0.0 | 0.0 | 0.0 | 255.2 |
| 09 | 100.0 | 0.0 | 1.0518 | 34.0 | 35.7 | 0.0 | 35.7 | Y | N | 35.7 | 0.0 | 0.0 | 0.0 | 64.3 |
| 10 | 300.0 | 0.0 | 1.053 | 316.0 | 332.8 | 0.0 | 332.8 | Y | N | 300.0 | 0.0 | 0.0 | 32.8 | 0.0 |
| 11 | 500.0 | 0.0 | 1.0548 | 857.0 | 904.9 | 0.0 | 904.9 | Y | N | 500.0 | 0.0 | 0.0 | 404.9 | 0.0 |
| 12 | 500.0 | 0.0 | 1.0418 | 376.0 | 394.2 | 0.0 | 394.2 | Y | N | 394.2 | 0.0 | 0.0 | 0.0 | 105.8 |
| 13 | 600.0 | 0.0 | 1.0383 | 402.0 | 417.9 | 0.0 | 417.9 | Y | N | 417.9 | 0.0 | 0.0 | 0.0 | 182.1 |
| 14 | 800.0 | 0.0 | 1.0456 | 294.0 | 307.8 | 0.0 | 307.8 | Y | N | 307.8 | 0.0 | 0.0 | 0.0 | 492.2 |
| 15 | 800.0 | 0.0 | 1.0372 | 201.0 | 210.4 | 0.0 | 210.4 | Y | N | 210.4 | 0.0 | 0.0 | 0.0 | 589.6 |
| 16 | 800.0 | 0.0 | 1.0276 | 32.0 | 33.2 | 0.0 | 33.2 | Y | N | 33.2 | 0.0 | 0.0 | 0.0 | 766.8 |
| 17 | 129.0 | 0.0 | 1.019 | 190.0 | 194.5 | 0.0 | 194.5 | N | N | 129.0 | 0.0 | 0.0 | 0.0 | (65.6) |
| 18 | 129.0 | 0.0 | 1.0171 | 366.0 | 372.7 | 0.0 | 372.7 | N | N | 129.0 | 0.0 | 0.0 | 0.0 | (243.7) |
| 19 | 129.0 | 0.0 | 1.0155 | 576.0 | 585.0 | 0.0 | 585.0 | N | N | 129.0 | 0.0 | 0.0 | 0.0 | (456.0) |
| 20 | 129.0 | 0.0 | 1.0183 | 118.0 | 119.9 | 0.0 | 119.9 | N | N | 119.9 | 0.0 | 0.0 | 0.0 | 9.1 |
| 21 | 129.0 | 0.0 | 1.0259 | 84.0 | 85.5 | 0.0 | 85.5 | N | N | 85.5 | 0.0 | 0.0 | 0.0 | 43.5 |
| 22 | 129.0 | 0.0 | 1.0266 | 37.0 | 37.9 | 0.0 | 37.9 | N | N | 37.9 | 0.0 | 0.0 | 0.0 | 91.1 |
| 23 | 57.0 | 0.0 | 1.0381 | 17.0 | 17.5 | 0.0 | 17.5 | N | N | 17.5 | 0.0 | 0.0 | 0.0 | 39.4 |
| 24 | 129.0 | 0.0 | 1.0429 | 16.0 | 16.7 | 0.0 | 16.7 | N | N | 16.7 | 0.0 | 0.0 | 0.0 | 112.3 |
| 25 | 129.0 | 0.0 | 1.0389 | 17.0 | 17.7 | 0.0 | 17.7 | N | N | 17.7 | 0.0 | 0.0 | 0.0 | 111.3 |
| 26 | 129.0 | 0.0 | 1.0403 | 16.0 | 16.6 | 0.0 | 16.6 | N | N | 16.6 | 0.0 | 0.0 | 0.0 | 112.4 |
| 27 | 50.0 | 0.0 | 1.0482 | 28.0 | 29.3 | 0.0 | 29.3 | Y | N | 29.3 | 0.0 | 0.0 | 0.0 | 20.7 |
| 28 | 50.0 | 0.0 | 1.0383 | 23.0 | 24.0 | 0.0 | 24.0 | Y | N | 24.0 | 0.0 | 0.0 | 0.0 | 26.0 |
| 29 | 50.0 | 0.0 | 1.0229 | 15.0 | 15.6 | 0.0 | 15.6 | Y | N | 15.6 | 0.0 | 0.0 | 0.0 | 34.4 |
| 30 | 50.0 | 0.0 | 1.022 | 16.0 | 18.4 | 0.0 | 18.4 | Y | N | 18.4 | 0.0 | 0.0 | 0.0 | 31.6 |
| 31 | 50.0 | 0.0 | 1.0227 | 17.0 | 17.4 | 0.0 | 17.4 | Y | N | 17.4 | 0.0 | 0.0 | 0.0 | 32.6 |
| | | | | 7,863.0 | 0.0 | 7,786.5 | 7,786.5 | | | | | | | |

| | | |
|---|---------|---|
| Total Volumes Nominated: | 7,863.0 | MONTHLY BALANCING |
| Transport Volumes Used: | 7,348.8 | |
| PreTrade CGC Sales: | 0.0 | Monthly CGC Sales Before Balancing: |
| Volumes at Incremental Rate: | 0 | Monthly Cashout Before Balancing - Long(short): |
| Volumes at Penalty Rate: | 437.7 | PreTrade CGC Sales: |
| PreTrade Cashout Volumes at Buy Rate: | 514.2 | PreTrade Cashout: |
| PreTrade Cashout Volumes at Sell Rate: | 0.0 | Net Trade Volume: |
| PostTrade Cashout Volumes at Buy Rate: | 0.2 | PostTrade CGC Sales: |
| PostTrade Cashout Volumes at Sell Rate: | 0.0 | |

Before the
Tennessee Regulatory Authority
Docket No. 18-00017

Chattanooga Gas Company

Direct Testimony of
David Klinger

On Behalf of
Chattanooga Regional Manufacturers Association

July, 2018

Direct Testimony of David Klinger

Q. Please state your name, business address and occupation.

A. I am David Klinger, Manager of Purchasing for McKee Foods Corp. with facilities in Collegedale, Tennessee, Virginia, Arkansas and Arizona. My business address is 10606 Apison Pike, Collegedale Tennessee, 37315.

Q. What are your principal responsibilities as Manager of Purchasing for McKee Foods Corp.?

A. I am primarily responsible for the procurement of various commodities and natural gas.

Q. Please outline your educational and professional training and experience.

A. I have been in my procurement role at McKee Foods Corp. for more than 30 years.

Q. Have you previously submitted testimony for the Chattanooga Regional Manufacturers' Association ("CRMA") to this Authority?

A. No.

Q. What is the subject of your testimony?

A. I will present information addressing concerns that McKee Foods Corp. has regarding Chattanooga Gas Company's filing for a revised natural gas tariff submitted to the Tennessee Public Utilities Commission where the gas company has proposed changes in their rate tariffs that will have an adverse impact to our business. In particular, I would like to address supply concerns at our facilities located in Collegedale, Tennessee.

Q. Have you prepared any exhibits to accompany your testimony?

A. No.

Q. Does your company have facilities located in Hamilton County, Tennessee that utilize gas supplied by Chattanooga Gas?

A. Yes. McKee Foods has three large production facilities located in Collegedale, Tennessee that use natural gas in our baking operations for various processing purposes. Our largest Tennessee facility is served under Chattanooga Gas Company's T-1 (Interruptible Transportation Rate Service) Schedule with a small amount of firm service under the Company's F-1/T-2 Rate. Our two remaining Tennessee facilities are served under the Company F-1/T-2 Firm Rate Schedules. We have numerous other gas accounts that are served by the Company's C-1 and C-2 rate schedules. Overall, natural gas is a very important energy commodity that we depend on for our operations.

Q. Please describe the economic impact that McKee Foods provides for the Hamilton County and Chattanooga area.

A. The company headquarters and production facilities are located in Collegedale, and contributed over \$260,000,000 this past year to the local economy through employee payroll and purchases from area suppliers – including Chattanooga Gas.

Q. What has been your experience in regard in working with Chattanooga Gas Company to meet your company's energy needs?

A. It is my understanding that Chattanooga Gas Company expanded their gas service to the Collegedale area in the 1980's, as McKee Foods expanded their Collegedale facilities. McKee Foods was originally a total electric facility. We would be what developers would refer to as the anchor gas customer that justified the natural gas facility expansion into Collegedale. In the mid-1990's, McKee Foods built a new facility on Apison Pike that we refer to as Plant 5. Chattanooga Gas Company extended their gas facilities approximately 2 miles and made an extensive investment in capital to serve this expansion. Once again, McKee Foods was the anchor gas customer and Chattanooga Gas provided this expansion at no charge to McKee Foods. Our partnership with Chattanooga Gas is an important part of our portfolio of suppliers. It is imperative that Chattanooga Gas continue to make investments in their natural gas infrastructure so that we can grow together in Hamilton County.

Q. Does McKee Foods intend to expand its facilities in Collegedale or Hamilton County, Tennessee?

A. We contacted Chattanooga Gas Company in 2017 with plans to convert some of our ovens from electricity to natural gas, which would have increased our natural gas demand by 30% to 40%. We were disappointed when Chattanooga Gas Company declined to make investments necessary to meet that increased demand. Instead, they would have required McKee Foods to build the infrastructure for Chattanooga Gas at a cost of over \$2 million. Needless to say, McKee Foods

opted to replace the outdated ovens with new electric ovens. Our business continues to grow, and we anticipate future expansions in Collegedale. It would be our hope that Chattanooga Gas would expand their infrastructure as well.

Q. Did Chattanooga Gas make any other proposals?

A. Yes. They indicated that they could serve the proposed load, but we would have to agree to be curtailed at a very mild temperature. Anytime the mean temperature would drop below 45 degrees F, we would be required to switch to propane for a portion of our gas load.

Q. Why does this proposal raise concerns for McKee Foods?

A. We are concerned that the Chattanooga Gas Company is not addressing the natural gas supply needs for East Hamilton County leading to inadequate natural gas supplies for future industrial expansion. East Hamilton County – Ooltewah, Collegedale, and Apison - is the fastest growing portion of Hamilton County. We certainly understand Chattanooga Gas desires to serve the new residential growth in our area. Our hope is that any rate increase approved by this board should be used for infrastructure investments to meet the needs of Chattanooga Gas Company's longstanding, growing industrial customers, as well as potential new residential and commercial customers. We feel it would be grossly unfair to grant a rate increase for infrastructure investments and continue to require industrial customers like McKee Foods to pay for infrastructure upgrades to meet basic demand.

Q. What are McKee Foods concerns in the context of the rate filing?

A. McKee Foods is not opposed to a rate increase for Chattanooga Gas in order to earn a fair rate of return. However, the LNG expansion proposal will not address supply concerns for east Hamilton County. Our concerns are squarely in the context of expansion/investments related to our service in Collegedale.

Q. Are there changes proposed in this docket that McKee Foods opposes?

A. Yes. The tariff proposals that increase the penalty charges in the T-1 interruptible tariff will be very punitive and increase our costs and risks associated with managing natural gas supply.

Q. Are there concerns that McKee Foods would address for the review of the Tennessee Public Utilities Commission?

A. Yes. Chattanooga Gas Company has offered incremental LNG supply in the past that was very beneficial to McKee Foods during peak times. During the last several winters, the Chattanooga Gas Company has not offered this service. McKee Foods would request that the TPUC inquire as to why the LNG supply is not being used for “interruptible customers” and instead is being diverted for “off system” sales, where it appears the Chattanooga Gas Company’s affiliate is profiting. The cost of building and maintaining the Chattanooga’s LNG plant is paid for by all of Chattanooga’s customers, including the company’s interruptible customers. If there is extra deliverability available from the LNG asset that is not needed by the Chattanooga’s firm customers, that incremental gas should be made

available to Chattanooga's interruptible customers. Chattanooga Gas permitted such sales until January 2014, when the Company discontinued that policy. Instead, Chattanooga Gas is selling gas to its unregulated affiliate who is profiting by selling to off-system customers. Since this incremental supply is not offered to McKee Foods and other interruptible customers, this increases our costs since we have to use a more expensive alternate fuel or replacement natural gas. Now, Chattanooga Gas proposes to increase penalties substantially while continuing the practice of not offering incremental gas to its own local customers. We urge the Commission to direct the Company to give priority to local customers, in lieu of allowing them to profit from off-system sales at the expense of local industries in Chattanooga.

Q. **Does this complete your testimony?**

A. Yes