BEFORE THE TENNESSEE PUBLIC UTILITY COMMISSION

NASHVILLE, TENNESSEE

August 3, 2018

IN RE:	)	
	)	
CHATTANOOGA GAS COMPANY PETITION FOR APPROVAL OF AN ADJUSTMENT IN RATES AND TARIFF; THE RECOVERY OF THE AUA MECHANISM REVENUE DEFICIENCY; AND THE IMPLEMENTATION OF ALTERNATIVE REGULATORY METHODS	)	**Docket No. 18-00017**

REBUTTAL TESTIMONY OF

ARCHIE R. HICKERSON

ON BEHALF OF

CHATTANOOGA GAS COMPANY

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

A. Archie R. Hickerson, Director of Rates and Tariff Administration for Southern Company Gas ("SCG"), 10 Peachtree Place NE, Atlanta, Georgia 30309.

Q. Are you the same Archie Hickerson who previously filed direct testimony in this proceeding?

A. Yes, I am.

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my testimony is to present information for Chattanooga Gas ("CGC" or "Company") in response to the direct testimony of the Consumer Protection and Advocate Division ("Consumer Advocate") witness William H. Novak testimony:

- That the Company failed to provide sufficient documentation for its filing;
- That a Weather Normalization Adjustment ("WNA") was not approved for Rate Schedules R-4 and C-2;
- That the WNA be terminated if and when the Commission should determine that an ARM (alternative regulatory method) can be implemented for CGC;
- That the Company had assigned a Special Contract rate discount to a new customer without Commission approval;
- That Company was applying the sharing percentage of off-system sales to the sale of liquefied natural gas without Commission approval;
- That the cost of the gas stored in the LNG facility is recovered through the purchased gas adjustment ("PGA") mechanism**;**
- That the margin transfer to an affiliate's books presupposes that the affiliate of CGC will always be the asset manager to control the sales of LNG;
- That the Commission update this sharing arrangement for off-system sales with 75% of the proceeds going to customers and the Company retaining 25% as a finder's fee for making the transaction happen;
- That the consultant costs related to rate design should be disallowed because these costs were for the class cost of service study ("CCOSS") that the Commission has never accepted or set utility rates on a CCOSS; and
- Mr. Novak's over statement of CGC earnings in excess of authorized Rate of Return.

In addition to Mr. Novak, I am also responding to the testimony of Mr. David Klinger on behalf of the Chattanooga Regional Manufacturers Association concerning the investment in additional facilities to serve McKee Foods. I will also respond to Mr. Randy Carter concerning the unauthorized gas use penalty.

Q. Since the Company has revised its rate request to $6,199,334, have you prepared revised Tariff sheets reflecting the reduction in the amount of the request?

A. Yes. Exhibit ARH-13 are the revised Tariff sheets No.1, No. 5, No. 10, No. 11, No. 20 , No 25, No. 30A, No. 31, and No. 33 with the new proposed rates.

Q. Are you including any exhibits in connection with your rebuttal testimony?

A. Yes. I have 8 exhibits:

- Exhibit ARH-5, CGC 5/28/2010 Compliance Tariff Filing, Docket No. 09-00183.
- Exhibit ARH-6, CGC 10/20/2010 Compliance Tariff Filing Docket No. 09-00183.
- Exhibit ARH-7, Order and Staff WNA Audit Report 11/2010-5/2011.
- Exhibit ARH-8, Order and Staff WNA Audit Report 11/2012-5/2013.
- Exhibit ARH-9, CGC Tariff Sheet 48.
- Exhibit ARH-10, October 13, 2009 Order, Docket No. 07-00224.
- Exhibit ARH-11, January 2011 CGC Monthly Report to TRA.
- Exhibit ARH-12, October 20, 2017 Petition to Terminate AUA
- Exhibit ARH-13, Revised Tariff Sheets $6.199,334 request.

Q. Turning to the first issue you have identified, do you agree with Mr. Novak that the Company's case was filed with a bare minimum amount of supporting detail and a virtually complete lack of documentation or audit trail as to the source of that supporting information?

A. No, I do not agree that the case was not supported. In my 42-year career, I have been involved in excess of 100 rate cases, and the quality and quantity of data CGC has provided in this case is as good as if not better than what I have seen in most cases, and it certainly complies with the Company's obligation to support and document its rate request.

As for Mr. Novak's assertion that the Company's case was not supported, he has failed to provide adequate or accurate support for some of the positions that he has taken in his testimony. For example, he included Table 10, on page 40 of his testimony, and provided Attachment WHN-7, CGC Earnings Calculation 2011-2016, to support his statements regarding the Company's authorized Rate of Return ("ROR") and earnings. However, on his Attachment WHN-7 he uses 7.38% as the authorized ROR without explanation or citation to a source for the 7.38%. A review of the November 8, 2010, Order in Docket No. 09-00183 shows that the authorized ROR is 7.41%.

Further, in Footnote 57, on page 40, Mr. Novak contends that the earnings information he summarizes in Table 10 was compiled from CGC's monthly reports filed with the Commission. However, the rate base amounts on his Attachment WHN-7 do not agree with the rate base as shown on CGC's monthly reports. While there may be an explanation of the difference he has not offered such an explanation or provide the supporting work papers to determine why the amounts are different.

Q. Based on your 42 of years ratemaking involvement as a member of the Commission Staff, a member of the Consumer Advocate Staff, and now as an

employee of a regulated utility, what is your understanding of the term ratemaking methodology?

A. In general, the term refers to how the Commission or regulatory agency tests a utility's rates to determine if the utility's rates are just and reasonable. In other words, test if the rates are sufficient to provide the utility the opportunity to earn a fair and reasonable return on the investment (rate base) devoted to public use. A fair rate return is achieved when the return is comparable to the return for other businesses that bear similar risks, is sufficient to ensure financial integrity, and allows the utility to attract the capital needed, but not at the level realized or anticipated in highly profitable enterprises or speculative ventures.

To make this test, the Commission matches the revenues during a test period with the expenses, and the required equity return, the required debt return, and the investment. The method used during making this test is referred to as the ratemaking methodology, and there are several that have been used over the years. The simplest and the easiest understood is the use an average historic test period. Using this approach, the expenses including taxes for an historic period are deducted from the revenues for that period to determine the operating income. The operating income is divided by the investment devoted to public service (rate base) to determine the Rate of Return ("ROR"). If the resulting rate of return meets the test, the rates are found to be just and reasonable. The Commission may make adjustment for known changes to reflect increases that changed during the period but are not fully reflected in the expense recorded on the utility's book. An example of such an adjustment is to increase salary and wage increases that

occurred during the year. The Commission may adopt an end of period approach and make adjustment to the historic revenues, expenses, and investment to reflect the conditions at the end of the period. The Commission may go farther and make changes that reflect not only those that have occurred but those reasonably anticipated to occur in the near future, commonly referred to as a forecast. All of these approaches may include adjustments to the revenue, expense, and investment to remove the impact of abnormal conditions, or to excluded costs that are not considered appropriate to be recovered from ratepayers. Such abnormal conditions may include the impact of abnormally cold or warm weather, unusual or non-recurring cost, or imprudently incurred expenses or investment. The procedures adopted by the Commission to develop the revenue, expenses, and rate base used by the Commission to evaluate the utility's rates is the ratemaking methodology, and not a series of worksheets. To conclude, with respect to Mr. Novak's comment, CGC has provided the Commission with CGC's ratemaking methodology through the extensive original filing information and the subsequent documentation we have provided; the Commission can make a fully informed decision on our request and, in doing so, establish an approved methodology for each of the components in our case as Mr. Cogburn further describes in his testimony.

Q. Turning to the second area you raise, did CGC request to discontinue the WNA in Docket No. 09-00183 on the condition that the Alignment and Usage ("AUA") was adopted?

A. Yes. In Docket No. 09-00183, Mr. Steve Lindsey on behalf of CGC testified: "If the Company's proposed AUA is approved, the Company will discontinue its

WNA."[1] The Company proposal to discontinue the WNA was conditioned on the adoption of the proposed AUA as CGC filed it.

Q. Was the Company's proposed AUA approved for Rate Schedules R-4 and C-2?

A. No. The Commission (then known as the Tennessee Regulatory Authority or "TRA") rejected the AUA as filed by CGC. Instead, the TRA approved the AUA, on an experimental basis, only for Rate Schedules R-1, and C-2. Since the TRA rejected CGC's AUA plan and to eliminate the WNA for Rate Schedules R-4 and C-2, the WNA continued as it had been.

Q. Did the Company file tariff pages in compliance with the Order in Docket No. 09-00183?

A. Yes. CGC made two compliance filings. The initial compliance filing was made on May 28, 2010, that changed only the rates that were specified at the TRA Conference on May 24, 2010. (See my Exhibit ARH-5). Since the Order had not been issued at that time, the compliance tariff included only those Tariff sheets with rate change and the new Economic Development Rate Schedule specified in the motion adopted at the conference. A subsequent Compliance Filing was made on October 20, 2010. (See my Exhibit ARH-6).

Q. Was the WNA factors addressed in the May 28, 2010 compliance filing?

A. Yes. In the cover letter, I advised that the WNA factors would be addressed in a subsequent filing:

[1] Docket No. 09-0018, Direct Testimony of Mr. Steve Lindsey, Vice President and General Manager for Chattanooga Gas Company, page 6, line 21.

> These are the only changes that are to be implemented immediately. Other tariff provisions including the recomputed Alignment and Usage Adjustment (AUA) Rider Benchmark Base Revenue Per Customer factors to reflect the rates approved at the May 24, 2010 Conference, and **applicable updated WNA factors will be provided in a latter submission. (**Emphasis added.)

Q. Were the WNA factors for Rate Schedules R-4 and C-2 addressed in the October 20, 2010 Compliance Tariff?

A. Yes. On October 20, 2010, the Company filed compliance tariff sheets that provided for the WNA to continue to be applicable to Rate Schedules R-4 and C-2. The cover letter for the filing specifically addressed the continuation of the WNA for the R-4 and C-2 Rate Schedules:

> Chattanooga Gas Company, Gas Tariff, TRA No. 1, Seventh Revised Sheets No.49 A, effective June 1, 2010. The Weighted Base Rate, the Heat Sensitive, and the Base Load factors for the R-l and the C-l Rate Schedules are deleted and the factors for the R-4 and the C-2 are updated to reflect the impact of the updated 30 year normal period and sales volumes adopted for these rate schedules in proceeding.

Q. **Were the tariff sheets filed on October 20, 2010, continuing the WNA for the R-4 and C-2 Rate Schedules, suspended or denied?**

A. No. The tariff sheets were not suspended or denied, and they went into effect as filed.

Q. Has the TRA or the Commission addressed the continuation of the WNA for the R-4 and the C-2 Rate Schedules since the tariff sheets were filed in docket 09-00183?

A. Yes. The TRA/Commission Staff has conducted seven WNA Audits and the TRA/Commission has issued seven Orders adopting the Staff's Report for each of the audits conducted by its Staff. For the November 2010-May 2011 WNA period, the Staff report (Exhibit ARH-7) included in the following:

> As a result of the Company's last rate case, an Alignment and Usage Adjustment ("AUA") was approved for the Residential R-I and Small Commercial C-I customer classes. This mechanism works in a similar manner to the existing WNA, but takes into consideration all effects on revenue recovery associated with usage. Therefore, the WNA was removed from all rate codes with the exception of C-2 and R-4 customers.

This paragraph in the Staff Audit Report for the 2012-2013 WNA period (Exhibit ARH-8) and in later periods the paragraph was revised to read as follows:

> As a result of the Company's last rate case before this Authority, CGC's WNA Rider tariff was amended to apply to only medium commercial and industrial (C-2) and multi-family (R-4) rate schedules, as revenues billed to residential (R-1) and small commercial customers (C-1) are governed under the Company's Alignment and Usage Adjustment ("AUA"). The AUA mechanism takes into consideration all effects on revenue recovery associated with usage. CGC's current WNA Rider tariff accompanies this Report as Attachment 1. The TRA Staff audits these WNA calculations annually.

The Commission and Staff have clearly recognized that the WNA continued for the R-4 and C-2 Rate Schedules. Each of the annual audits was placed on the Commission/TRA Conference agenda and adopted by Order. The Consumer Protection and Advocate Division did not allege that the filing of the compliance tariff sheets was not appropriate or that the WNA was not approved to continue for the R-4 and C-2 Rate Schedules as Mr. Novak now alleges long after the fact. Thus,

there is no basis to conclude that the WNA has not be in effect for the R-4 and C-2 customers.

Q. The third issue you are responding to involves the WNA under an ARM mechanism. Beginning on page 9 of his pre-filed direct testimony Mr. Novak states:

> **However, the implementation of this WNA would be redundant with the implementation of an Alternative Rate Mechanism ("ARM"), since the ARM trues up actual costs to those approved in the last rate case. Therefore, I would recommend that the WNA be terminated if and when the Commission should determine that an ARM can be implemented for CGC.**

Do you agree?

A. No. I do not agree. First, it's premature to address the statement of the WNA under an ARM since CGC has not filed for an ARM. Second, the WNA is designed to true-up **revenues** to normal weather and not to true-up to **"actual cost"** as Mr. Novak indicates. Also, CGC's WNA is a real-time adjustment that adjusts a customer's bill for the actual weather during the period covered by the bill. Since an ARM would likely result in an after the fact review, an adjustment for abnormal weather would likely occur well after the occurrence of the abnormal weather; this type of delay has been a big problem with the AUA. A real-time adjustment under the WNA methodology is more appropriate than an adjustment that occurs as much as a year later.

Q. Is there a local distribution company operating under an ARM in Tennessee?

A. Yes. Atmos Energy Corporation operates under an ARM.

Q. Does Atmos Energy have a WNA?

A. Yes. As stated on Atmos Energy Corporation's Tennessee Tariff Sheet 50:

> The Weather Normalization Adjustment shall apply to all residential and commercial bills based on meters read during the revenue months of October through April.

Q. What is your recommendation?

A. I recommend that the WNA be reinstated for the R-1 and C-2 Rate Schedules as requested.

Q. The fourth issue you identify is the contract assignment. Mr. Novak, testifies on page 12, "My investigation found that the Company had assigned a Special Contract rate discount to a new customer without Commission approval." And on page 13, he continues:

> **The unique conditions that were present with the original owner of the plant that required a Special Contract rate does not necessarily transfer to the subsequent owners, and I am not aware of a Commission pronouncement allowing this transfer without approval. As a result, the Company should have asked for and received Commission approval before applying the Special Contract rate to the current owner.**

Do you agree with his statements or conclusions?

A. No, I do not. The contract referenced by Mr. Novak was negotiated with DuPont after DuPont notified Chattanooga Gas Company that it was terminating service and was going to bypass us by connecting directly to the interstate pipeline. When the facility was acquired by INVISTA, the contract was assigned to INVISTA and then to Kordsa when INVISTA sold the facility. Mr. Novak's statement that: "The unique conditions that were present with the original owner of the plant that required a Special Contract rate does not necessarily transfer to the subsequent owner," is not correct. The agreement was negotiated because DuPont had given CGC notice that it was terminating service and was bypassing CGC by connecting to the East Tennessee Natural Gas pipeline that is located on the property. CGC agreed to the special contract in order to avoid having stranded investment in the

facilities used to provide service to the facility. The interstate pipeline is still there. The potential for bypass still exists, and the contract does not have a provision for termination because of a change in ownership. More importantly, while ownership may have changed, CGC has continued to serve the customer.

Q. **Is there any language in the agreement that addresses assignments?**

A. Yes. Page 14 of the agreement states: "This Negotiated Contract shall be binding upon the parties hereto, their successors or assigns, and shall be governed by the laws of the State of Tennessee." At the time the agreement was approved by the TRA, possible assignment was an integral term of the contract.

Q. Do you know if the Commission was aware that the special contract was assigned by CGC?

A. Yes, the Commission has been aware that the contract was assigned. The interpretation of the agreement was a major issue in Docket No 11-00210.[2] In 2004, the DuPont contract was assigned to the new owner of the facility, INVISTA, which continued to transport gas in accordance with the agreement. In December 2010, ConocoPhillips did not properly nominate gas to be delivered to CGC to be transported on behalf INVISTA. As a result, INVISTA consumed gas supplied by CGC during the month instead of gas transported on its behalf. The gas consumed included penalty gas on days when the Company had issued balancing orders that required customers to burn no more gas than was delivered to CGC for delivery to the customer. CGC billed INVISTA for the gas it had consumed including the

[2] Docket No. 11-00210, IN RE: Complaint Of ConocoPhillips Company For An Order Determining ConocoPhillips Not Liable For Penalties And Charges Assessed By Chattanooga Gas Company, Or, In The Alternative, Petition For Special Relief.

penalty gas. INVISTA, in turn, passed responsibility for the bill to its supplier ConocoPhillips, and ConocoPhillips filed a complaint with the TRA seeking relief from the bill. The terms and conditions of the assigned contract were central issues in the proceeding. The Authority ultimately determined that CGC had acted properly in billing for penalty gas and denied ConocoPhillips request for relief.

Q. How long was this proceeding in progress?

A. The complaint was filed in December 2011, and it continued until September 2013.

Q. Did the Consumer Protection and Advocate Division participate in that proceeding?

A. Yes.

Q. Did the Consumer Protection and Advocate Division contend that the contract had been improperly assigned?

A. No. The issue of assigning the DuPont contract to INVISTA was not raised by the Consumer Advocate.

Q. Is Commission approval required for assignment of the contract?

A. I have been advised by Legal Counsel that Commission approval is not required under the terms of the contract as approved.

Q. Your next issue is off-system sales. On page 12, Mr. Novak contends that CGC was applying the sharing percentage of off-system sales to the sale of liquefied natural gas without Commission approval. Has the Company improperly applied a sharing percentage to off-systems sales of liquefied natural gas?

A. No. CGC shares the gain from off-system sales of Liquid Natural Gas ("LNG") in accordance with its Tariff Sheet 48 that provides:

> This Interruptible Margin Credit Rider is also intended to authorize the Company to recover not more than fifty percent (50%) of the gross profit margin that results from transactions with non-jurisdictional Customers that rely on the Company's gas supply assets (**all such transactions including off-system sales)** should such transactions be made by the Company. The Company shall also recover through this Rider other costs authorized by the Authority. (emphasis added)

Q. What are off-system sales?

A. Off-system sales are to customers not physically connected to CGC's distribution system.

Q. Are the customers to whom CGC sell LNG connected to CGC distribution system who receive service under a Rate Schedule approved by the Commission?

A. The customers who purchase LNG are not connected to CGC distribution system, are not provided service under a Rate Schedule, and are not located within CGC's service area.

Q. Have these off-system sales and the sharing of the gain been previously reviewed by the Commission or the TRA?

A. Yes. There was a comprehensive review of all transaction and activities related to CGC's natural gas procurement, capacity management, storage, off-system sales, as well as other gas supply matters in Docket No. 07-00224. As a result of that proceeding, there have been two subsequent reviews by an independent consultant for the period of April 1, 2010-March 31, 2013, and the period of April 1, 2013-March 31, 2016.

Q. What was the scope of these reviews?

A. On September 21, 2009 the TRA adopted Review Procedures and Process that described the scope of the review as follows:

> The scope of the review may include all transactions and activities related either directly or indirectly to the PBRM as conducted by CGC or its affiliates, including, but not limited to, the following areas of transactions and activities: (a) natural gas procurements; (b) capacity management; (c) storage; (d) hedging; and (f) off-system sales. The scope of each review shall include a review of each of the foregoing matters as may be reasonable identified by CGC, the TRA Staff, or the CAD relative to the operation or results of the PBRM.

Q. Was the off-system sale of LNG addressed in these reviews?

A. Yes. The independent consultant's reports for both review periods include a section devoted to the off-system sale of LNG.

Q. Did the consultant find that CGC was applying the sharing percentage of off-system sales to the sale of liquefied natural gas without Commission approval as alleged by Mr. Novak?

A. No.

Q. Has CGC identified the gain from the off-system sale of LNG and the sharing in the annual IMCR filing in accordance with the Tariff provision?

A. Yes. The off-system sale of LNG has been identified in the annual IMCR filings that have been reviewed by the Commission Staff.

Q. Next you address the LNG-PGA issue. On page 13 of his pre-filed testimony, Mr. Novak states: "The cost of this LNG facility is included in rate base, and the cost of gas stored in the LNG facility is recovered through the purchased gas adjustment ("PGA") mechanism." Is he correct?

A. Partially. He is correct that the investment in the LNG facility is included in rate base. The cost of the gas purchased for provision of gas to on-system customers is recovered through the PGA mechanism. However, the cost of gas purchased for off-system LNG sales is not included in rate base or recovered through the PGA. The gas purchased for off-system sale is accounted for separately from on-system supply.

Q. The next issue you raise pertains to the asset manager margin transfer. On page 14 Mr. Novak states: "In addition, the margin transfer to an affiliate's books presupposes that the affiliate of CGC will always be the asset manager to control the sales of LNG, which will not always be true since competitive bids are made for the asset manager role." Does the asset management agreement include the management of CGC's LNG facility, and is the margin from off-sales of LNG recorded on the Asset Manager's books.

A. No, and the margin from the off-system sale of LNG is not recorded on the Asset Manager's books. The LNG facility is exempted from the Asset Management Agreement, and the Asset Manager does not handle LNG sales for CGC. Pivotal LNG ("Pivotal"), an affiliate, acts as CGC's agent for off-system sale of LNG, but it does not manage or otherwise control the facility. Pivotal deals with the customers and, on a monthly basis, determines the amount of gas needed to supply the customers. Each month CGC notifies Pivotal of the amount of gas that can be made available for off-system sales. Pivotal then notifies CGC of the amount of gas that is needed. If accepted, CGC purchases and liquefies the gas needed for the off-system sale. Pivotal handles the sales with the customer, bills the customers,

collects the revenues, and in general manages the customers' accounts, and arranges for transportation of the LNG once it leaves the facility. The revenue from the sales, the cost of gas, and the margin from the sales are recorded on Pivotal's book, with the amount due CGC on-system customers being transferred to CGC for credit to the customers through the IMCR. The margin is recorded on Pivotal's books since that is where the sales are recorded, and the customer accounts are maintained. The margin isn't recorded there for any sinister reason.

Q. What entity manages the LNG facility if it isn't managed by the Asset Manager?

A. CGC manages the facility, and makes the decisions concerning the amount of gas to be liquified and made available for off-system sale, and determine when the plant will liquefy, and when gas will be withdrawn and loaded onto trucks. The facility is maintained as a peaking facility for the benefit of CGC's on system customers. The demand of the on-system customers take priority. Thus, Mr. Novak is also incorrect when he states: "that it needs to be kept in mind that the customer bears all the risk and cost associated with these LNG sales- the Company only acts as a sales agent to make the transaction happen." While Mr. Novak alleges that the customers bear all the risk, he does not identify any such risk. For example, CGC's distribution customers bear no risk relative to the gas purchased for off-system sale, since such gas is accounted for separately and is not included in the inventory for on-system supply. The CGC customers bear no cost related to inventory, cost of gas used in converting the gas to liquid (liquefaction), the sales activity, the management of off-system customer accounts, or collection risks.

Q. What is the Asset Manager's roll, if any, in the off-system sale of LNG?

A. In accordance with the Gas Purchase and Sales Agreement, Exhibit C, to the Asset Management Agree, the Asset Manager supplies gas to CGC. This includes the gas that CGC purchases for liquefaction.

Q. The next area you raised is the sharing percentages. Mr. Novak, proposes that the current sharing of gain from off-system sales be changed from 50%/50% to 25% retained by the Company and 75% to the customers. Has the Consumer Advocate proposed this sharing arrangement before?

A. Yes. In Docket No. 07-00224 the Consumer Advocate proposed that the sharing allocations be revised to 25/75 as proposed by Mr. Novak.

Q. What was the result of the proposal in that docket?

A. The Authority did not change the sharing percentage.

Q. Did Mr. Novak offer any support that the 25/75 sharing is appropriate?

A. No. The only support he offered is that a similar sharing ratio has been adopted for another utility.

Q. Is there a risk if the sharing ratio is revised to 25/75?

A. Yes. Since the LNG facility is for on-system supply, CGC is not obligated to provide any LNG off-system sales, and similarly Pivotal LNG is not obligated to make sales only from CGC's LNG facility but can use LNG from other facilities to service the off-system customers' needs. If the amount of gain that can be retained changes, the decision on the source of the LNG becomes a business decision. For example: Pivotal owns a non-regulated LNG facility at Trussville Alabama. If it makes sales from that facility it retains 100% of the gain since no sharing is

required. There are also other facilities from which Pivotal can source LNG without the required sharing. If the sharing ratio is changed to the point that Pivotal can retain more of the gross gain by sourcing the gas from Trussville or other facilities instead of the CGC facility, simple business economics would dictate that sales be made from another facility, reducing the amount of refunds to CGC's on-system customers.

Q. Let's next examine Mr. Novak's cost of service study comments. On page 24 of his testimony, Mr. Novak states:

> **However, I rejected the consultant costs related to rate design because these costs were for the class cost of service study (CCOSS) that is discussed later in my testimony. To my knowledge, the Commission has never accepted or set utility rates on a CCOSS. Therefore, these expenditures appear to be imprudent, so I removed them from the Consumer Advocates projection of rate case expense. I also rejected the Company's estimate of rate case costs related to "Consultants" because the Company has never identified the need or purpose for these costs.**

To your knowledge, has Commission ever used a Class Cost of Service Study?

A. Mr. Novak's statement is somewhat misleading. While it is probably correct that the Commission has never issued an order expressly setting rates based exclusively on a Class Cost of Service Study, such studies are often used as the beginning point of evaluating rate design. He is correct that different methodologies can be used in such studies, but it isn't appropriate to exclude such studies from consideration in rate design. Other factors such as value of service, rate shock, etc. are often considered, but these alone are not appropriate for designing rates. CGC's cost

study provides an important methodology that we used in presenting the rate changes that CGC is proposing.

In dismissing out of hand CGC's cost study, Mr. Novak is also being inconsistent. At page 6 of his testimony, he proposes that the Minimum Filing Guidelines ("MFGs") be made Minimum Filing Requirements. But whether they are guidelines or requirements, Mr. Novak's proposed exclusion of the CGC cost of service study is expressly contrary to the requirements of MFG 55:

> 55. Provide a copy of the LDC's Cost Allocation Study and support for any proposed changes in rate design.

CGC complied with MFG 55 by providing the study prepared by Mr. Yardley, so excluding it would be to penalize the Company for complying with the Commission's minimum filing guidelines. Moreover, Mr. Novak is also proposing to exclude the cost of preparing the cost study requested in this MFG. Thus, it would be wrong and inconsistent to exclude the study and its costs when CGC was obligated by MFG 55 to incur such costs and prepare such a study. Mr. Novak just gets this all completely wrong.

Q. On page 32, Mr. Novak lists several things that should be considered in rate design. Did he explain how these were taken into consideration in his proposed rate design?

A. No. He offered no information to support his proposed rate design, let alone why it would be better for CGC's customers. Given his general criticism of CGC's proposals as lacking in documentation, these proposed changes actually lack any documentation. As such, the Commission should reject them.

Q. Turning next to the AUA, on page 39 Mr. Novak states:

During this same time, CGC exceeded its authorized rate of return of 7.38% by as much as $3.3 million as shown below on Table 10. These overearnings were only reduced in 2015 and 2016 due to a significant increase of approximately $14 million in rate base. Without this unexplained increase to its rate base, CGC would have continued exceeding its authorized rate of return during 2015 and 2016.

Does the AUA Rider include an earnings test?

A. No, it does not.

Q. Is the testimony concerning the alleged earning in excess of the authorized rate of return correct?

A. No. There are several things that are incorrect. The first is the authorized rate of return. Mr. Novak testifies that the authorized rate of return is 7.38%, which conflicts with the decision in Docket No. 09-00183. On page 45 of the November 8, 2010, Order, the TRA found:

> Based on the findings above for relevant debt and equity costs, the panel calculated an overall cost of capital of 7.53% for CGC. Based on the rate design adopted by the panel, the panel voted unanimously to adopt an overall cost of capital of 7.41% finding that to be in the required zone of reasonableness.

On page 66 it is therefore ordered that: "For purposes of the rates herein, the overall cost of capital shall be 7.41%"

Mr. Novak doesn't identify the source of the 7.38% that he uses in his computation. In Footnote 57 on page 40 of his testimony, he identifies the source of the data he used to compute the earnings shown in his Table 10 as the monthly reports filed by CGC with the Commission and provided Attachment WHN-7 as support for support for the amount shown. However, his Attachment WHN-7

doesn't agree with the monthly reports. The following are monthly rate base amounts used by Mr. Nova as shown on his Attachment WHN-7 compared with rate base on the monthly reports filed by CGC for 2011:

	Attachment WHN -7 Rate Base	CGC Monthly Report to the TPUC Rate Base
January 2011	$90,538,104	$92,939,796
February 2011	$90,464,606	$91,581,570
March 2011	$90,562,138	$90,691,554
April 2011	$91,030,001	$89,787,567
May 2011	$91,594,628	$91,176,318
June 2011	$92,156,498	$89,810,974
July 2011	$92,760,364	$91,956,898
August 2011	$90,540,330	$94,269,170
September 2011	$91,086,430	$95,579,004
October 2011	$91,432,195	$96,037,686
November 2011	$91,677,300	$96,462,799
December 2011	$91,875,199	$94,178,807

His Attachment WHN-7 does not reflect the ratemaking adjustments adopted in the rate case in the final order in Docket No. 09-00183, for calendar year 2011 and January 2012. For other years, he included the ratemaking adjustments. The revenue that he uses in computation of the alleged excess earnings includes the

unrecovered deferred AUA revenue that he contends CGC should not be allowed to recover.

Q. Were the ratemaking adjustments available to Mr. Novak for each month the from January 2011-December 2016?

A. Yes. The reports cited by Mr. Novak in his Footnote 57 include the ratemaking adjustments, but he failed to take those adjustment into consideration for the first year but included them for most of the remaining period. He offered no explanation of this inconsistency

Q. You said that the revenue that Mr. Novak uses includes the unrecovered deferred AUA revenue. Did he take the revenues from CGC income statement?

A. He took the Net Operating Income from the income statements. The income in those statements included the deferred AUA revenue that has not been billed or collected.

Q. Why is the deferred AUA revenue included as revenue, if it has not been billed?

A. It is included because it is revenue that, in accordance with the CGC tariff, it will be billed and collected in a future period. It is recognized in the current period as revenue and recorded as a regulatory asset similar to an account receivable. CGC's tariff provides:

> The revenues billed, or credits applied, net of taxes and assessments, through the application of the AUA Rate shall be accumulated for each month of the Recovery Period and applied against the AUA revenue excess or deficiency from the Calculation Period. The excess or deficiency shall include any cumulative balances remaining from prior

periods. Any balance existing at the conclusion of the Recovery Period, positive or negative, shall be reflected as a Reconciliation Adjustment to be included in the AUA for the subsequent Recovery Period.

As stated in the tariff, any excess or deficiency is carried forward to the future to be recovered.

Q. Have you made corrections to his Table 10?

A. Yes. Below is the revised table in comparable format with his.

Table 10-CGC Earnings					
	As Presented by Mr. Novak			Corrected	
	Over/(Under) Authorized Earnings	Cumulative Over/(Under) Authorized Earnings		Over/(Under) Authorized Earnings	Cumulative Over/(Under) Authorized Earnings
For the 12 Months Ended					
December 31, 2011	$ 1,115,548	$ 1,115,548		$ 956,479	$ 956,479
December 31, 2012	544,381	1,659,929		(137,121)	819,858
December 31, 2013	988,931	2,648,860		1,376,807	2,196,165
December 31, 2014	623,332	3,272,192		1,315,706	3,511,872
December 31, 2015	(842,454)	2,429,738		(762,192)	2,749,679
December 31, 2016	(1,173,289)	1,256,449		(1,583,111)	1,166,568
December 31, 2017				(2,151,358)	(984,790)

I have also included the results for the 12 months ended December 31, 2017. As shown, over the period of January 1, 2011-December 31, 2017 the Company's earnings on a cumulative basis were less than authorized return and not in excess of CGC's authorized return as alleged by Mr. Novak.

My Exhibit ARH-11 shows the Net Operating Income, the total ratemaking adjustments, the adjusted Net Operating Income, the 12 month-to-date Rate Base for December 31 for each year 2011-2017 as reported on the monthly reports, and the adjustment to remove the impact of the deferred AUA revenue.

Q. Was the deferral of AUA revenue foreseen when CGC petitioned to implement the AUA.

A. While it was anticipated that AUA revenue would be deferred for one year, it was not anticipated that the deferral would be of the magnitude that have occurred or that there it would be carried over for multiple years as a result of the 2% annual cap.

Q. Why weren't the deferrals anticipated? Was it a mistake in the proposal?

A. It was not a mistake in the proposal, but it is the result of the 2% annual limit that was imposed as recommended by the Consumer Advocate and the abnormal weather that has occurred. If the 2% limit had not been imposed, there would not have been a $1.8 million deferred balance as of May 31, 2017.

Q. After the 2% annual cap was adopted, did the Company recognize that there could be a problem?

A. Yes, but since it was adopted on a trial basis for 3 years, the Company did not appeal or request reconsideration. Since it was designated as a trial, the Company elected to go forward with the modified AUA provision.

Q. Did the Company take any action to correct the 2% cap?

A. Yes. In 2013 CGC filed to modify the cap from 2% of base revenue to 2% of total revenue. The proposal was denied until there could be an evidentiary hearing, and

the matter was assigned to a Hearing Officer to prepare for such a hearing. In August 2013, the hearing officer issued an Order adopting a procedural schedule that was dependent on the completion of the study and recommendations by the National Regulatory Research Institute ("NRRI") for measures to be used to evaluate the Programmable Thermostat and the Education and Outreach conservation programs approved in Docket No. 09-00183. The measures to be developed were not only for the CGC conservation programs but were to be used as a model for other conservation programs.[3] The NRRI was to complete its work, the TPUC Party Staff was then to file its report, followed by CGC filing its report and recommendations within 45 days of the Staff's filing. The TPUC Party Staff and the other intervening parties were to file position papers on the Company's report and recommendations within 30 days. The NRRI completed and filed its report on January 10, 2017; the Staff filed its report on September 19, 2017; the Company filed its report and recommendations on September 26, 2017, followed on October 20, 2017, by a petition and tariff filing to terminate the AUA (Exhibit ARH-12) consistent with the Company recommendations in the September 26, 2017, report. On October 24,2017, the Consumer Protection and Advocate Division filed testimony, and on October 26, 2017, the TPUC Party Staff filed its response. On November 27, 2017, the proposed tariff filing was suspended and, subsequently, the parties agreed that the matter should be combined with this proceeding.

Q. Do you have any other concluding remarks about the testimony of Mr. Novak?

[3] Order, Docket No. 09-00183, at page 62 (November 8, 2010).

A. A rate reduction, as proposed by Mr. Novak is neither supported by the facts nor in the best interests of CGC's customers. The alternative rate case strategy presented by Mr. Novak and the other CPAD witnesses does not meet its own burden of proof or demonstrate that it is a better representation of CGC's current operational situation.

Q. Turning now to the CRMA testimony, have you read the testimony filed by Mr. David Klinger on behalf of the Chattanooga Regional Manufacturers Association?

A. Yes.

Q. Can you address Mr. Klinger's statement on page 4 of his testimony where he states: "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."

A. The Company's decision not to invest in the infrastructure was in conformance with the Commission's rules and CGC tariff provision. Commission Rules 1220-04-05-.12 require:

> (1) Each utility shall develop a plan, acceptable to the Commission, for the installation of extensions of main and service lines where such facilities are in excess of those included in the regular rates for service and for which the customer shall be required to pay all or part of the cost. This plan must be related to the investment that prudently can be made for the probable revenue.

In compliance with this rule, Chattanooga Gas Company has included in its tariff an extension policy that has been approved by the Commission. The Tariff specifically provides:

> The allowable investment in metering and regulating equipment, main and service line to be made by the Company without contribution or payment by the Applicant shall not exceed the Estimated Annual Revenues from the extension divided by the Levelized Annual Carrying Charge Rate applicable to the Investment**.**

The projected increase in the revenue from McKee Foods would not have covered the revenue requirements of the estimated $2.5 million investment required. As a result, by application of the tariff, McKee Foods would have been required to make a contribution.

Q. How much investment would the projected revenue support?

A. As provided in the tariff:

> The economic life factor used in computing the Levelized Annual Carrying Charge Rate hereunder shall be 15 years for firm service to apartments, governmental buildings, hospitals, churches and schools; and ten years to any other firm service including mobile home parks. **For interruptible service the economic life factor shall be five years.** The Company reserves the right to adjust the economic life factors to recognize any conditions that would make the use of a typical economic life factor imprudent. **The economic life of industrial service shall not be greater than the length of gas service contract in years.**

Since McKee Foods is provided service under Rate Schedule T-1 (Interruptible Transportation Service), the allowable investment was computed assuming a 5-year economic life as required by the tariff. The allowable investment was also computed assuming interruptible service with a 10-year contract and economic life, as well as assuming firm service under Rate Schedule T-2 (Interruptible Transportation Service with Firm Gas Supply Backup) assuming 5 and 10-year contracts. The use of the 10- year economic life for service under the interruptible rate schedule would have required a special contract approved by the Commission,

before the project could have proceeded, since the tariff provides for the use of a 5-year economic life for interruptible service.

Q. What was the amount of allowable investment under each of these assumptions?

A. The results are as follows:Rate Schedule	Length of Agreement	Allowed Investment	Approximate Contribution Before Tax Gross-Up
T-1 (Interruptible Transport)	5 Yr.	$113,000	$2,400,000
T-1 (Interruptible Transport)	10 Yr.	$177,000	$2,300,000
T-2 (Interruptible Transport with Firm Backup F-1)	5 Yr.	$285,000	$2,200,000
T-2 (Interruptible Transport with Firm Backup F-1)	10 Yr.	$450,000	$2,000,000

Q. What is the reason for this rule and tariff provision?

A. The rule and the tariff provision has been adopted to protect other customers from having to bear the cost of uneconomic facility expansions that are not covered by the resulting revenue. In other words, the provision is to prevent other customers from having to subsidize a customer whose revenue doesn't cover the cost to provide service.

Q. Did CGC want to make the investment and provide additional service to McKee Foods?

A. The Company would have liked to provide the new service to McKee Foods, and we looked at alternative scenarios. However, under the rule and tariff provision, the Company could not require other customers to support the un-economic investment, and McKee Foods was not willing to make the contribution as required by the tariff.

Q. Can you address the testimony beginning on page 4 of Mr. Randy Carter's testimony concerning the penalty billed to Talley Construction Company for unauthorized use of gas during the month of December 2017?

A. Yes. However, first I will address the terms and conditions for service under the tariff rate schedule under which Talley Construction is served in order to have the proper context for what happened. As shown on the invoice attached to Mr. Carter's testimony as Exhibit TC-1, the Customer is served under Rate Schedule T-1 (Interruptible Transportation Service). Under this rate schedule, the customer does not purchase gas from CGC, but purchases gas from a third-party supplier who arranges for the gas to be delivered by the pipeline to CGC for distribution to the Customer. The Customer has no obligation under this rate schedule to purchase gas from CGC and CGC has no obligation under this Rate Schedule to sell gas to the Customer. This service is totally interruptible. As provided for in the tariff service under the T-1 Rate Schedule (I have highlighted key language in the tariff sections that follow):

> Available on an interruptible basis under a Transportation Service Agreement to large volume Customers **provided Chattanooga Gas Company (Company) has interruptible gas delivery capacity in excess of the then existing requirements of other Customers**, . . .

The tariff also provides:

> The Customer's use under this rate shall **not work a hardship on any other rate payers** of the Company, **nor adversely affect any other class of the Company's** Customers and further provided the Customer's use under this rate shall not adversely affect the Company's gas purchase plans and/or effective utilization of the daily demands under the Company's gas purchase contracts with

its suppliers subject to review by the Tennessee Regulatory Authority when such review is requested by Customer.

Further, the tariff provides:

> Customer agrees to install and maintain standby fuel burning facilities to enable Customer, in the event of curtailment of service, to continue operations on standby fuel, or to give satisfactory evidence of his ability and willingness to have the service hereunder interrupted or curtailed by the Company in accordance with the terms and conditions set forth in the Special Contract.

The tariff also addresses the penalty for unauthorized use of gas:

> In the event **Customer takes daily gas deliveries in excess of Customer's daily contract entitlement** where such consumption is measured and recorded on a daily basis, or in the event Customer does not comply with a curtailment order as directed by the Company and takes gas in excess of the daily volume allowed by the Company in the curtailment order, such gas taken in excess of Customer's daily contract entitlement or such daily volumes taken in excess of curtailment volumes **shall be paid for by the Customer at the greater of the rate of (1.)$15.00 per Dth or (2.) the average daily index on curtailment days plus $5.00 per Dth. and all applicable pipeline** and/or gas supplier penalties and/or charges because of the Customer's failure to comply with a curtailment order as directed by the Company. These additional charges shall be in addition to all other charges payable under this Rate Schedule.
>
> **The payment of a charge for unauthorized over-run shall not under any circumstances be considered as giving any such Customer the right to take unauthorized over-run volumes, nor shall such payment be considered as a substitute for any other remedies available to Company against Customer for failure to respect its obligations to adhere to the provisions of its contract with the Company.**
>
> The curtailment of interruptible transportation service deliveries in whole or in part under this schedule shall not be the basis for claims against the Company for any damages sustained by the Customers. Unauthorized over-run collections will be accounted for in the Actual Cost

Adjustment in a manner consistent with TRA Administrative Rule 1220-4-7.

Q. Why was the balancing order referenced by Mr. Carter issued by CGC?

A. The balancing order was issued as the result of Southern Natural Gas pipeline issuing an Operational Flow Order ("OFO").

Q. Did Talley Construction Company comply with CGC's balancing order?

A. No. Mr. Carter testified that Talley Construction elected to violate the balancing order and burn 437.7 dekatherms of unauthorized use gas instead of gas supplied by its third-party supplier or using its own standby fuel facility. This is the type of behavior by interruptible transportation customers that put at risk the Company's ability to provide service to its firm customers. In this instance, the customer made a business decision to burn unauthorized gas and incur the penalty rather than comply with the balancing order. It is apparent that the current penalty was not sufficient in this instance to deter the customer from violating the balancing order, and potentially adversely impacting other customers.

Q. Do you have any further comments regarding the testimony filed by these two customers?

A. CGC is not interested in denying service or penalizing its customers. However, we must treat all customers fairly and reasonably pursuant to the regulations established in our tariff. Both of these customers' stories reflect that we followed our tariff, and that the policies embodied in our tariff on these issues, and our proposed change with respect to penalty gas, are appropriate for all customers.

Q. Does this conclude your rebuttal testimony?

A. Yes.