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

**August 3, 2018**

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

**REBUTTAL TESTIMONY OF**

**DANIEL P. YARDLEY**

**ON BEHALF OF**

**CHATTANOOGA GAS COMPANY**

1 **I. INTRODUCTION**

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

3 A. My name is Daniel P. Yardley. I am Principal, Yardley & Associates and my  
4 business address is 2409 Providence Hills Drive, Matthews, North Carolina  
5 28105.

6 **Q. On whose behalf are you testifying?**

7 A. I am testifying on behalf Chattanooga Gas Company (“CGC” or the “Company”).

8 **Q. Are you the same Daniel P. Yardley who previously provided prepared direct  
9 testimony in this proceeding?**

10 A. Yes, I am.

11 **Q. What is the purpose of your rebuttal testimony?**

12 A. My rebuttal testimony responds to the testimony of William H. Novak on behalf  
13 of the Consumer Protection and Advocate Division of the Office of the Tennessee  
14 Attorney General (“CPAD”) concerning cost allocation and rate design matters.

15 **Q. Did you prepare an allocated cost of service study (“ACOSS”) to support the  
16 Company’s rate design proposal in this proceeding?**

17 A. Yes. The development of the ACOSS prepared for CGC was described in my  
18 direct testimony on pages 12 through 15 and in Exhibit DPY-1. Detailed ACOSS  
19 results and workpapers were provided with the Company’s base rate filing as  
20 MFG TPUC Item No. 55. The primary principle that guides the ACOSS process  
21 is that of cost causation. Each step in the development of the ACOSS is  
22 consistent with the factors that drive or contribute to the incurrence of costs on the  
23 CGC system. As a result, the ACOSS prepared for CGC provides an important

1 factual assessment of the reasonableness of CGC's existing rates and is  
2 appropriately considered along with other factors in the design of new base rates  
3 in this proceeding.

4 **Q. Please summarize Mr. Novak's testimony concerning your ACOSS.**

5 A. Mr. Novak, who uses the terminology "Class Cost of Service Study" or  
6 "CCOSS," asserts that the allocation of "each element of the Company's cost of  
7 service is inherently judgmental, and that the Company has not introduced any  
8 evidence to fully explain its rationale for each individual allocation assignment."  
9 Novak Direct, 32:4-7. Repeating this claim, Mr. Novak states: "Since the  
10 Company has not provided any rationale for its individual allocation choices it is  
11 impossible to determine its rationale for cost allocation." Novak Direct, 32:13-15.  
12 Mr. Novak goes so far as to suggest that it was imprudent for the Company to  
13 undertake an allocated cost of service study stating that "To my knowledge, the  
14 Commission has never accepted or set utility rates on a CCOSS. Therefore, these  
15 expenditures appear to be imprudent, so I removed them from the Consumer  
16 Advocates [*sic*] projection of rate case expense."

17 **Q. Please respond to Mr. Novak's claims that you did not provide any rationale  
18 for the allocations in the ACOSS accompanying your direct testimony.**

19 A. All elements of the ACOSS are explained in my direct testimony and Exhibit  
20 DPY-1 including the general approach to the ACOSS, data sources, classification  
21 of costs, allocation of costs, supporting analyses of investments in mains, services  
22 and meters, and ACOSS results. Additionally, detailed workpapers are provided  
23 in MFG TPUC Item No. 55. Mr. Novak's claim is simply incorrect.

1 **Q. Do you agree that there is judgment involved in the preparation of an**  
2 **allocated cost study for a Local Distribution Company (“LDC”)?**

3 A. Yes. It is necessary to apply expert judgment that reflects a number of factors  
4 including the nature of services the LDC provides, the demographics of its  
5 customers, the design of the LDC’s facilities and guidance from the regulatory  
6 commission concerning allocation approaches. Because judgment is involved in  
7 the process, different experts may derive somewhat different cost allocation  
8 results for a given LDC. Appropriate cost allocation methods take into account  
9 the factors noted above and yield a range of results that are within reasonable  
10 bounds to be used as a guide for rate design.

11 **Q. Does Mr. Novak present an alternative cost allocation study?**

12 A. No, he does not offer any cost allocation study to guide the rate design process.  
13 In fact, the only statement Mr. Novak offers regarding an alternative methodology  
14 is with respect to costs that are allocated on the basis of design day in the  
15 Company’s ACOSS claiming: “I could easily justify allocating many of these  
16 same costs based upon the total throughput of each customer class which would  
17 then allocate a majority of the costs to industrial customers.” Novak: 32:10-13.  
18 But use of a throughput allocation for demand-related costs is problematic. While  
19 some cost allocations studies employ a peak and average approach to the  
20 allocation of fixed demand-related costs, there is no basis for allocating these  
21 types of costs, which include investments in distribution mains, regulation  
22 equipment, and liquefied natural gas plant entirely on the basis of class  
23 throughput. Such an approach would allocate excessive costs based on off-peak

1 and interruptible loads that is contrary to the manner in which these costs are  
2 incurred. Mr. Novak's recommendation regarding the allocation of demand-  
3 related costs is not a reasonable one to consider.

4 **Q. Please respond to Mr. Novak's suggestion that undertaking a cost allocation**  
5 **study was imprudent.**

6 A. Cost allocation studies, such as the one supporting the Company's rate design, are  
7 traditionally performed by the applicant as part of an LDC base rate case. Just  
8 because a final rate case order may not expressly adopt or approve of the cost  
9 allocation study used in the proceeding, that does not mean that an allocated cost  
10 of service study is not an important consideration to guide to the approval of new  
11 base rates. Tennessee law imposes on a utility the burden of proving that its  
12 proposed rates are just and reasonable. Tennessee Code Annotated § 65-5-103(a).  
13 Consistent with this obligation, the Commission, requires a cost allocation study  
14 be provided whenever it seeks to change its rates as described in MFG No. 55 (the  
15 MFGs may not be a formally adopted rule, something Mr. Novak advocates at  
16 page 6, but as his testimony suggests, Mr. Novak, certainly considers the MFGs a  
17 requirement and CGC treated the MFGs as such). Thus, Mr. Novak's suggestion  
18 to ignore CGC's ACOSS is contrary to standard ratemaking practices and to  
19 CGC's filing obligations. Mr. Novak's undue emphasis on his belief that "the  
20 Commission has never adopted a CCOSS for any of the utilities it regulates"  
21 (Novak 33:4-5) is no justification for ignoring the one prepared by CGC or the  
22 costs associated with its preparation.

1 **Q. Did this Commission (then known as the TRA or Tennessee Regulatory**  
2 **Authority) rely on CGC’s ACOSS when it established base rates in its last**  
3 **base rate case proceeding?**

4 A. Yes. The TRA approved changes to the Company’s fixed monthly charges and  
5 apportioned the revenue increase to only some of its rate classes “in recognition,  
6 but not adoption, of the class of service cost study.” Docket No. 09-00183, TRA  
7 Order, at 58 (November 8, 2010). It is reasonable to infer from this language that  
8 the CGC cost allocation study was a guide, along with other factors, in  
9 determining the rate design that was approved by the TRA in CGC’s last rate  
10 case.

11 **Q. Does Mr. Novak recognize that the Company’s rate design proposal in the**  
12 **current case took into consideration other factors in addition to the ACOSS?**

13 A. I do not believe so. Mr. Novak either failed to understand the basis for the  
14 Company’s rate proposal or he mischaracterized it in his testimony as he responds  
15 to a question regarding whether he reviewed the Company’s cost allocation study  
16 with the following: “[t]he result of the Company’s CCOSS proposes an increase  
17 in base rates of 31.39% for residential and small commercial customers while  
18 only proposing a 9.87% increase in base rates for all other customers.” Novak  
19 31:16-22. My direct testimony clearly explains on pages 15 and 16 that under the  
20 ACOSS, only the residential and small commercial classes would require an  
21 increase in rates. However, I allocated a portion of the increase to other classes as  
22 a means of mitigating the increase to residential customers. The ACOSS is an  
23 important factor, but not the only factor to be considered, in determining

1 appropriate rates for CGC. The Company's rate design proposal properly  
2 balances the rate design goals described on pages 7 and 8 of my direct testimony,  
3 which include the goals of fairness and moderation.

4 **Q. Does Mr. Novak offer a rate design proposal?**

5 A. Yes. Mr. Novak recommends that the change in CGC revenues "be allocated  
6 evenly across-the-board to all customer classes, including Special Contract  
7 customers, based on the ratio of each customer class' attrition period margin to  
8 the total attrition period margin." Novak 33:10-13. In addition, Mr. Novak  
9 recommends that "the existing monthly customer charges remain at their current  
10 levels" (Novak 34:16-18), and that the revenue change "be recovered through  
11 decreased commodity charges" (Novak 34:14-16).

12 **Q. Does Mr. Novak offer any evidence supporting the specific rate design  
13 recommendations?**

14 A. According to Mr. Novak, "[t]he Consumer Advocate believes that an across-the-  
15 board change in rates to all customer classes more equitably spreads the benefit or  
16 burden of any change in rates and is preferable to the Company's CCOSS  
17 results." Novak 34:3-6. Mr. Novak has substituted his personal judgment, or that  
18 of CPAD, in place of an empirical analysis to assess the equity associated with  
19 CGC's rates. A comparison of revenues to costs through an allocated cost study  
20 is the only appropriate means of assessing rate equity. Moreover, this is the same  
21 approach that the Commission relied upon in CGC's last proceeding whereby it  
22 recognized the results of the ACOSS as a factor in the rates it approved.

1 **Q. Why is it not appropriate to retain existing monthly customer charges as**  
2 **proposed by Mr. Novak?**

3 A. The monthly customer charge provides an important price signal to customers  
4 associated with the costs incurred by CGC to provide distribution service  
5 regardless of the amount of natural gas that is consumed each month. These costs  
6 include revenue requirements associated with meters and services as well as  
7 monthly meter reading, billing and customer account services. Failure to increase  
8 customer charges leads to material concerns associated with important rate design  
9 principles including fairness and revenue stability.

10 From the perspective of fairness, it is important to change base rates in a  
11 manner that moves individual rate elements closer to cost-based levels. Failure to  
12 increase customer charges to reflect the results of the ACOSS retains existing  
13 inequities for larger customers within a rate class, including residential customers  
14 that heat with natural gas.

15 From the perspective of revenue stability, customer charges should be  
16 increased in order to recover a greater proportion of fixed costs through fixed  
17 charges. Given that virtually all of the Company's revenue requirements are  
18 fixed, customer charges should be increased by some measure within a base rate  
19 case.

20 **Q. Why is it inappropriate to apply an equal percentage change in class base**  
21 **revenues as proposed by Mr. Novak?**

22 A. Typically, base rates are only modified in the context of a base rate proceeding. It  
23 is important to adjust rates in a manner that moves all rates toward the underlying

1 cost of service to promote fairness and equity as well as provide consumers with  
2 appropriate price signals. Given the current level of cross-subsidies among  
3 CGC's rate classes, it is appropriate to apply varying percentage increases to  
4 various classes.

5 The Company's proposed rate design methodology set forth in my direct  
6 testimony properly balances the cost of service standard with the need to  
7 moderate rate changes and avoid rate shock. Mr. Novak's proposals set aside the  
8 cost of standard altogether, which leads to inappropriate conclusions and  
9 outcomes.

10 **Q. Mr. Novak proposes to assign a portion of the revenue change to special**  
11 **contract customers. Does it make any sense to assign a portion of the base**  
12 **revenue change to Special Contract customers?**

13 A. No. The rates for special contract customers are governed by the terms of their  
14 contracts and do not change when tariff rates are modified in a base rate case. Mr.  
15 Novak's allocation of revenues to Special Contract customers is an exercise on  
16 paper that would not lead to any change in rates that these customers pay, leading  
17 to a revenue deficiency for the Company. Therefore, no proportion of the  
18 approved base revenue change should be assigned to special contract customers.

19 **Q. Has the Company updated its base revenue request in this proceeding since**  
20 **the time that you prepared your direct testimony?**

21 A. Yes. The Company filed a number of revised MFGs in response to discovery  
22 requests from Commission Staff. The revised revenue request is \$6,199,334,  
23 which represents a slight decrease from the level originally filed by the Company.

1 **Q. Have you prepared a revised rate design schedule reflecting the reduced**  
2 **revenue requirement?**

3 A. Yes. I derived revised rates utilizing the same rate design methodology as  
4 described in my direct testimony to yield the reduced revenue requirement  
5 request. The resulting rates reflect a base revenue increase of approximately \$4.0  
6 million to the Residential (R-1) rate class, approximately \$7,000 to the  
7 Residential Multi-Family (R-4) rate class and approximately \$1.0 million to the  
8 Small Commercial (C-1) rate class. The remainder of the increase, or  
9 approximately \$1.2 million, is applied to the rates of medium commercial and  
10 industrial customers as a means of mitigating the increase to residential and small  
11 commercial customers. The rates reflecting the revised revenue requirements  
12 accompany my rebuttal testimony as Exhibit DPY-4.

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

14 A. Yes, it does.