

**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)	Docket No.
TARIFF; THE RECOVERY OF)	18-00017
THE AUA MECHANISM)	
REVENUE DEFICIENCY; AND)	
THE IMPLEMENTATION OF)	
ALTERNATIVE REGULATORY)	
METHODS)	

REBUTTAL TESTIMONY OF

DEBORAH A. SANTOLIN

ON BEHALF OF

CHATTANOOGA GAS COMPANY

1 **I. INTRODUCTION**

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

3 A. Deborah A. Santolin, Lead Analyst, Capacity Planning at Southern Company Gas.
4 My business address is 1844 Ferry Road, Naperville, IL 60563.

5 **Q. Are you the same Deborah A. Santolin who previously filed direct testimony**
6 **in this proceeding?**

7 A. Yes, I am.

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

9 A. The purpose of my testimony is to refute the exclusion of the Company's LNG
10 project from the Consumer Advocate's proposed 2019 attrition year because of
11 their use of a five-year historic average to project capital costs. I will also address
12 the testimony of the CGC customer testimony on behalf of the Chattanooga
13 Regional Manufacturers that the Company's LNG project will not benefit
14 customers in the eastern area of CGC's system.

15 As my rebuttal testimony will show, the LNG project cannot be excluded because
16 it is an operational necessity for the Company to maintain safe and reliable gas
17 service for its customers.

18 **II. OPERATIONAL NEED FOR THE LNG PROJECT**

19 **Q. Have any of the Consumer Advocate witnesses directly disallowed the LNG**
20 **project that you discuss in your direct testimony?**

21 A. Not directly. However, I have been advised that because of the way that Mr.
22 Novak utilizes a five-year historic average for Construction Work in Progress
23 ("CWIP") beginning at page 18, line 5, of his testimony, that this approach has
24 the effect of excluding the LNG project from the attrition year. As I explained in

1 my direct testimony, not including the LNG project would have highly
2 detrimental effects for CGC's customers who expect reliable gas service when
3 they need it.

4 **Q. Why is excluding the LNG project such a concern?**

5 A. Utilizing a method that excludes these costs implies that the Consumer Advocate
6 believes the Company should do nothing to replace the supply resource that will
7 be lost at the end of January 2022. It implies that the Company should put its
8 entire system at risk and jeopardize its ability to serve all of its customers in the
9 future. Providing safe, reliable service is the Company's primary responsibility to
10 its customers and the communities it serves – doing nothing to replace this lost
11 supply resource is simply not an option. Therefore, the Company must have a
12 way to recover the costs associated with this essential project, and the Company
13 must begin the project now in order to ensure the project's construction is
14 completed prior to the winter of 2022-2023.

15 **Q. Mr. Novak, at page 18, line 19 through page 19 line 2, notes that the capital**
16 **budget anticipates expenditure levels higher than historical spend, and while**
17 **not questioning the prudence of the expenditures, he goes on to say that**
18 **setting rates “on a speculative budget” would be inappropriate. Do you**
19 **agree?**

20 A. Absolutely not. By calling our CWIP budget “speculative” implies that the
21 projects represented by the budget are somehow in doubt or may not get built.
22 That is simply not true. Other CGC witnesses will address the other items in the
23 CWIP budget, the overall budgeting process, and why the budget anticipates

1 higher expenditure level than in past years. But a part of that capital spend is due
2 to the LNG project, and I can speak authoritatively with respect to the LNG
3 project. The Commission needs to know that there is nothing speculative about
4 the LNG project – not only will it be built, but I have been told it is in the process
5 of being put out to bid. Mr. Ziliak’s testimony specifically addresses how budgets
6 for projects like this are prepared and implemented.

7 **Q. Please explain why the LNG project is not speculative and should be**
8 **included in any attrition test year.**

9 As I describe in my direct testimony, the Company has an operational need for its
10 LNG project because if we do not replace the natural gas supply resource we are
11 losing, CGC will not have enough gas supply to meet our design day needs for
12 existing customers (see Figure 1 of my direct testimony). The expiring supply
13 resource is a pipeline transportation contract that was acquired through a release
14 of transportation capacity from another pipeline customer, Oglethorpe Power
15 Corporation. Without replacing this capacity, the Company will not have enough
16 supply to serve all of its customers on a peak winter day, a day when the average
17 temperature is only 8 degrees Fahrenheit outside, or to provide a reserve margin
18 that can be utilized in the event unforeseen circumstances arise, such as greater
19 than expected customer demand, supply disruptions, pipeline outages, or
20 equipment failures. The LNG project will replace expiring pipeline transportation
21 capacity and allow the Company to maintain the required level of supply in its
22 portfolio necessary to serve its customers. As I also discuss in my direct
23 testimony, this project provides the required volume of supply and was the most

1 economical alternative of those available. The build will be done over three
2 years, at approximately \$6 million a year. Because we must construct a new
3 supply alternative to replace an existing supply resource, there must be an
4 increase in the budget to provide the necessary funding. It is important to keep in
5 mind, however, that CGC's gas costs will decrease once the transportation
6 capacity expires in 2022, which will provide customers an offsetting benefit
7 against the project costs.

8 **Q. Will this project allow potential new customers to choose natural gas for**
9 **their energy needs?**

10 **A.** Yes, but that is not why it is being built. The project will expand the Company's
11 transmission system out to the Red Bank and Signal Mountain areas and is
12 expected to allow an additional 22,700 Dth/day of current customer load to be
13 served by the gas supply available from the on-system LNG peaking facility as
14 the project replaces the expiring East Tennessee capacity obtained from
15 Oglethorpe Power Corp. That is the primary benefit. A side benefit of the project
16 is the incremental gas supply that the project provides over our design day and
17 reserve margin requirements (see Figure 2 of my direct testimony). As a result,
18 excess gas supply from the LNG facility and East Tennessee pipeline capacity is
19 available as additional reserve margin or can be used to serve new customers or
20 existing customers with increased needs. This project improves CGC's ability to
21 serve all our customers.

1 **Q. The CRMA witness, Mr. Klinger of McKee Foods at page 5 in his direct**
2 **testimony, expresses the concern that the LNG project “will not address**
3 **supply concerns for east Hamilton County.” Do you agree with this**
4 **statement?**

5 **A.** No. First, as CGC’s witness Mr. Hickerson will address, requiring McKee Foods
6 to pay for infrastructure upgrades to meet its individual needs had nothing to do
7 with gas availability or supply constraints in east Hamilton County. There is a
8 difference between investments that benefit all customers and investments that
9 benefit only a single customer.

10 Second, while the construction needed for the Company’s LNG project
11 will take place in the Red Bank and Signal Mountain areas of CGC’s system, the
12 project will actually benefit all of the Company’s customers, not just those in the
13 western area of the system. CGC’s system in Hamilton and Bradley counties is
14 one natural gas local distribution system. Adding gas supply into the western area
15 of the system to replace an expiring supply resource, will help maintain system
16 supply integrity throughout CGC’s distribution system, which benefits all
17 customers. Without this project, the Company will have a total shortfall of
18 supply. If demand exceeded our supply capability, service outages could occur
19 anywhere on the system, including customers in east Hamilton County.

20 Third, all CGC customers are better served because the LNG project will
21 more fully utilize an existing Company-owned facility that is already included in
22 the Company’s rate base.

1 **III. CONCLUSION**

2 **Q. Is the LNG project an operational necessity that needs to be included in the**
3 **CWIP budget?**

4 **A.** Yes. For rate making purposes, the Commission should utilize the Company's
5 construction budget as proposed in this case, which includes the LNG project.

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

7 **A.** Yes.