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

**August 3, 2018**

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| **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

# GARY A. TUCKER

# ON BEHALF OF

# CHATTANOOGA GAS COMPANY

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

A. Gary Tucker, Supervisor, Regulatory Reporting, Southern Company Gas ("SCG"). My business address is 10 Peachtree Place, Location 1686, Atlanta, Georgia 30309.

**Q. Did you file direct testimony in this proceeding?**

A. Yes, I adopted the direct testimony of Rachel D. Johnson.

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

A. The purpose of my rebuttal testimony is to present information for Chattanooga Gas Company ("CGC" or the "Company") in response to the direct testimony of witnesses for the Consumer Protection and Advocate Division ("Consumer Advocate"). Specifically, I will respond to the financial and accounting information set forth in the direct testimony of Mr. William H. Novak, Mr. David D. Dittemore, and Dr. Christopher Klein.

**Q. How is the Company's response structured for the Consumer Advocate's proposed adjustments to capital expenditures, gas inventory, deferred rate case costs, incentive compensation, payroll expense for new employees and jobs, AGSC common plant allocator, AGSC allocation process and composite ratio, capital structure, and return on equity?**

**A**. The Company's response to these items is structured as follows:

- The Consumer Advocate's use of a historical average as opposed to the Company's projected gas inventory is addressed in the rebuttal testimony of Mr. Bellinger;
- The adjustment to the Company's deferred rate case costs for the removal of the class cost of service study is addressed in the rebuttal testimony of Mr.

Hickerson. I will address all other adjustments to deferred rate case costs in my testimony;

- The Consumer Advocate's use of an historical average as oppose to the Company's capital expenditures budget is addressed in the rebuttal testimony of Mr. Ziliak;
- The Consumer Advocate's removal of all incentive compensation is addressed in the rebuttal testimony of Mr. Garvie. I will address other concerns around incentive compensation in my testimony;
- The adjustment to payroll expense for the additional employees and jobs is addressed in the rebuttal testimony of Mr. Dallas. I will address the Consumer Advocate's calculation of this adjustment;
- The adjustment to the AGSC common plant allocator and the AGSC allocation process and composite ratio are addressed in the rebuttal testimony of Mr. Morley; and
- The adjustments to the Company's capital structure is addressed in the rebuttal testimony of Mr. MacLeod and Dr. Vander Weide. Dr. Vander Weide also addresses the Consumer Advocate's proposed return on equity.

**Q: Has the Company updated its revenue requirement?**

A: Yes. The Company's updated revenue requirement is $6.13 million; several of the other CGC rebuttal witnesses may use $6.199 million, but since their testimony was completed I have further refined our analysis. This includes the adjustments to reduce the original filed amount of $7.02 million down to $6.20 as submitted in the Tennessee Public Utility Commission's data request filed on June 1, 2018; and further adjustments for updated estimates of deferred rate case costs based on more recent data and amortization of those costs, and for the removal of lobbying expense that reduce the revenue requirement from $6.20 million to $6.13 million. The adjustment to rate case costs and the amortization period is provided in rebuttal Exhibit GAT 4-1; the adjustment for lobbying expense is discussed beginning at page 31 of my testimony.

Due to the minor change in the revenue requirement amount, the Company has not updated rate design schedules from the $6.20 million to $6.13 million.

**Q: Could you provide a summary of the adjustments made to reduce the Company's revenue requirement from $7.02 million to $6.20 million?**

The Company updated its revenue requirement to incorporate updated accumulated deferred income taxes ("ADITs") and excess deferred income taxes ("EDITs"); to include a limited number of adjustments recommended by the Consumer Advocate that correct errors or omissions in the Company's original case or that are adjustments the Company is willing to accept; and to correct oversights in the Company's lead lag component of its cash working capital.

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

A. Yes. I have 8 exhibits:

- Exhibit GAT-1-1, Rate Adjustment
- Exhibit GAT-1-2, Rate Adjustment Calculation
- Exhibit GAT-1-3, Tennessee Excise and Federal Income Taxes
- Exhibit GAT-2-1, Average Rate Base

- Exhibit GAT-2-2, Working Capital Requirement
- Exhibit GAT-2-3, Lead Lag Requirement After Revenue Adjustment
- Exhibit GAT-3-1, Summary of Estimated Consolidated Cost of Capital
- Exhibit GAT-4-1, Deferred Debits MFG 69-4

**Q: How will your testimony be presented?**

A: My testimony will be presented in six sections as follows:

- Section I – General Issues
- Section II – Rate Base and Rate Base Related Items
- Section III – Cost of Service Items
- Section IV – Tax Related Items
- Section V – Capital Structure and Return on Equity
- Section VI – Summary and Conclusions

## I. <u>General Issues</u>

**Q. Please summarize your overall response to the Consumer Advocate's filing.**

A. The overall case proposed by the Consumer Advocate has many differences from the Company's filing and, with few exceptions, we disagree with their case. The Consumer Advocate has in essence developed their own case with their own assumptions, and this has resulted in a substantial number of issues and matters to be addressed through the Company's rebuttal testimony.

**Q. Has the Consumer Advocate deviated from methodologies it utilized in this case from the methodologies it utilized in CGC's 2009 rate case?**

A. Yes. Generally, and in particular with regard to rate base, in CGC's 2009 rate case the Consumer Advocate developed its case using very much the same methodologies used by the Company; and those methodologies used known and measurable estimates and forecasts to determine the attrition period balances and results in the 2009 case. In this proceeding, the Consumer Advocate has based its attrition period estimates primarily on historical data, while the Company is consistent with its prior cases in using known and measurable data when available.

**Q. Do you accept the test period and attrition period as proposed by the Consumer Advocate? (Novak, Page 4)**

A. No, the Company's filed test period and attrition period ending June 30, 2017, and June 30, 2019, respectively, are appropriate for the Commission's consideration. As noted in my direct testimony, filing guideline schedules were updated through December 31, 2017, where applicable and appropriate, and our case reflects the impact of the Tax Cuts and Jobs Act. The Consumer Advocate has proposed an arbitrary attrition year and uses assumptions based primarily on historical data while completely ignoring known and measurable information for forecasting financial data in 2018 and 2019. The Commission has historically considered known and measurable and reasonably anticipated adjustments in a Company's attrition year, and the Consumer Advocate provides no reasonable basis for deviating from this policy.

**Q. Mr. Novak's testimony includes a table on page 5, line 2 showing the revenue deficiencies requested by the Company in past rate cases and the amounts approved to imply the Company overstates its rate case requests. Do you**

**agree, and can you explain the variances between the requested amounts and the approved amounts? (Novak, Page 4-5)**

A. I do not agree with his conclusion or his implication. Whether stipulated or litigated, the variances between the amounts requested and the amounts ultimately approved in the 2004 through 2009 rate cases are largely driven by capital structure, return on equity, and issues specific to each individual case. Drawing conclusions about this case from those cases is especially irrelevant given the fact that it has been some 8 years since our last case.

**Q. Could you explain the specific issues for the cases identified?**

A. Yes, as each case was unique. In the 2004 rate case, the Company requested to retain $534,000 or half of the allocated cost savings that resulted from the acquisition of Virginia Natural Gas by AGL Resources. This proposal was not approved, and all cost savings were passed on to customers. In the 2006 rate case, the Company proposed a new energy conservation plan. The plan was not approved and the associated expenses of $754,000 were removed. In the 2009 rate case, very significantly the Company obtained some degree of rate decoupling that was in some respects more important that the individual rate relief granted. As for rate relief, the Company requested recovery of outside legal costs using a three-year average of recent legal costs. The panel determined it would not be appropriate to include costs related to Docket No. 07-00224 as part of this three-year average because of the atypical nature of the docket and removed $396,000 of outside legal services from recovery through base rates. However, those costs were separately approved in the same proceeding for recovery from asset management funds.

Neither of these 2009 decisions show up as a rate increase, but they reflect very significant, positive decisions for the Company.

**Q. What does your analysis of the elements of the difference in the amounts requested and the amounts approved show?**

A. As stated previously, the primary differences are due to cost of capital components and to specific issues for each case. The differences are reasonable given that the primary variance is due to cost of capital, in which a small difference in the cost of capital requested and approved results in a large revenue requirement variance. Additionally, cost of capital, particularly return on equity, are typically contentious issues in a rate case. The other major differences were reasonable requests by the Company that the Commission, then known as the Tennessee Regulatory Authority ("TRA"), decided not to include in base rates. It is important to note that each case should be decided on its own merits given the revenues, expenses, and investments and not by comparison to former cases decided under different times and circumstances.

**Q. Even if you take the Consumer Advocate's position that the approved amount for this rate case should be consistent with its prior cases, is the Consumer Advocate's case consistent?**

A. No, it is not consistent with the past rate case decisions. The Consumer Advocate proposes a rate decrease of $2.8 million versus a requested increase of $6.2 million. This variance of $9 million is out of the bounds of reasonableness when compared to the prior rate case decisions granting some form of increase.

## II. Rate Base & Rate Base Related Items

**1. Utility Plant in Service (Novak, Page 16-17)**

**Q. Do you agree with the Consumer Advocate's forecast of attrition year Utility Plant in Service?**

A. No, I do not. The Consumer Advocate ignores the Company's planned capital expenditures for 2018 and 2019 for both Chattanooga Gas Company's projected plant balance and the projected plant balance calculated for service company plant ("common plant"). While an average period may be appropriate when more detailed information is unavailable, it is not appropriate in this case as the Company has prepared and provided detailed capital budgets. The Company's 2018 and 2019 capital budgets are consistent with its actual capital spend in 2017, with the exception of the additional projects outlined further in the testimony of Ms. Santolini and the rebuttal testimony of Mr. Ziliak.

**Q. Has the Consumer Advocate supported their claim, beyond mere opinion, that the Company's capital budget should not be used?**

A. No.

**Q. Has the Consumer Advocate demonstrated that its approach of using a five-year average for plant additions is a more accurate method for forecasting plant in service?**

A. No.

**Q. Are there any other issues with Mr. Novak's forecast of Utility Plant in Service?**

A. Yes, there are a number of other issues as outlined below:

- Two different approaches are used by the Consumer Advocate to forecast plant in service and construction work in progress which cause the proposed balances to be out of synchronization and which are incorrect for rate setting purposes for both Chattanooga Gas Company's assets and allocated service company assets.
- Allocated service company plant is forecast using a five-year average of changes in the plant in service balance, and one of the years contains a fair market value adjustment that significantly impacts the Consumer Advocate's projections producing an unreasonable result; therefore, the five-year average change in plant in service is grossly understated when using the Consumer Advocate's methodology.
- Recommended retirements by the depreciation study have not been made resulting in an inaccurate plant balance estimate, and inappropriate use of the depreciation rates that were developed based upon the recommend retirements.

**Q. Please explain how plant in service and Construction Work in Progress ("CWIP") have been incorrectly forecasted.**

A. When a capital expenditure is made, it is recorded in CWIP and resides in the account until the asset that the expenditure is associated with is ready for its intended use. Once an asset is ready for its intended use, the capital expenditure is moved from CWIP to plant in service. The Company appropriately aligns the balance of plant in service and CWIP balance by starting with both balances at June 30, 2017, and increasing plant in service by additions and adjusting CWIP from the

June 2017 level by the level of spend and in-service amount for project timing. The effect is to increase plant including CWIP by the amount of investment made in plant. However, the Consumer Advocate has not aligned its plant in service and CWIP forecasts

**Q. Please continue.**

A. The Consumer Advocate uses two approaches for estimating plant in service and CWIP for the attrition year, both of which are inconsistent with each other. The Consumer Advocate's attrition period estimate for CWIP is based on a five-year historical average, while their estimate for plant in service is based on the December 2017 balance and increased by the five-year average historical plant additions. In order to appropriately align the balances of CWIP and plant in service, the Consumer Advocate should also increase its forecast of plant in service for the difference between the average forecast of CWIP and the actual balance of CWIP as of December 31, 2017. The Consumer advocate did not adjust its plant in service for its forecasted decrease in CWIP resulting in an understatement in plant in service.

**Q. What is the impact?**

A. The impact is reduction of $2 million in rate base.

**Q. How was the $2 million reduction in rate base calculated?**

A. The Company has calculated the $2 million impact by reforecasting the CWIP balance using the same December 2017 starting point as plant in service and adjusting the balance by the Consumer Advocate's planned capital expenditures and closures. If the Commission adopts the Consumer Advocates methodology for estimating plant in service and CWIP, the CWIP balance should be increased by $2 million as provided in the table below:

| Month | Beginning Balance | Capital Expenditures b/ | Closures | Ending Balance Balance |
|---|---|---|---|---|
| December-2017 | | | | 8,564,707 |
| January-2018 | 8,564,707 | 1,257,860 | (1,257,860) | 8,564,707 |
| February-2018 | 8,564,707 | 1,257,860 | (1,257,860) | 8,564,707 |
| March-2018 | 8,564,707 | 1,257,860 | (1,257,860) | 8,564,707 |
| April-2018 | 8,564,707 | 1,257,860 | (1,257,860) | 8,564,707 |
| May-2018 | 8,564,707 | 1,257,860 | (1,257,860) | 8,564,707 |
| June-2018 | 8,564,707 | 1,257,860 | (1,257,860) | 8,564,707 |
| July-2018 | 8,564,707 | 1,257,860 | (1,257,860) | 8,564,707 |
| August-2018 | 8,564,707 | 1,257,860 | (1,257,860) | 8,564,707 |
| September-2018 | 8,564,707 | 1,257,860 | (1,257,860) | 8,564,707 |
| October-2018 | 8,564,707 | 1,257,860 | (1,257,860) | 8,564,707 |
| November-2018 | 8,564,707 | 1,257,860 | (1,257,860) | 8,564,707 |
| December-2018 | 8,564,707 | 1,257,860 | (1,257,860) | 8,564,707 |
| January-2019 | 8,564,707 | 1,257,860 | (1,257,860) | 8,564,707 |
| February-2019 | 8,564,707 | 1,257,860 | (1,257,860) | 8,564,707 |
| March-2019 | 8,564,707 | 1,257,860 | (1,257,860) | 8,564,707 |
| April-2019 | 8,564,707 | 1,257,860 | (1,257,860) | 8,564,707 |
| May-2019 | 8,564,707 | 1,257,860 | (1,257,860) | 8,564,707 |
| June-2019 | 8,564,707 | 1,257,860 | (1,257,860) | 8,564,707 |
| Total | | 22,641,489 | (22,641,489) | |
| **13-Month Average** | | | | $ 8,564,707 |
| Consumer Advocate's CWIP balance | | | | 6,580,878 |
| Reduction proposed by the Consumer Advocate | | | | $ (1,983,829) |

**Q. If the approach outline above was used, would the Company agree to the calculated amount?**

A. No. Although the forecasting approach for plant in service and CWIP would then be correct, the Company does not agree with the methodology used by the Consumer Advocate.

**Q. Please explain your primary concern with the Consumer Advocate's forecast of allocated plant.**

A. The Consumer Advocate's projected allocated net plant additions is based on a five-year average of year-over-year changes in the service company plant in service balance. Using this approach, the Consumer Advocate captured both plant additions as well as plant retirements. In 2017, the service company made a fair market value adjustment related to the acquisition of Southern Company Gas by Southern Company. The adjustment reduced plant in service and accumulated depreciation by $114 million. Since the adjustment impacted both plant and accumulated depreciation by the same amount, the overall adjustment had no impact to net plant. However, the Consumer Advocate only considered the plant side of the entry resulting in a year-over-year reduction in plant of $95.5 million between December 2015 and December 2016. This reduction in plant was then factored into the Consumer Advocate's five-year average and used to project net additions as shown in the table below. This approach has led to a vast difference from the service company's planned net additions of $61.6 million, which the Company documented in Minimum Filing Guideline ("MFG") 71-1, and the Consumer Advocate's forecast of $2.8 million over the period January 2018 through June 2019.

WHN Consulting — RB-11-2.00
AGL SERVICES COMPANY
Plant in Service - Net Changes

| Account - Account Title | Dec-13 | Dec-14 | Dec-15 | Dec-16 | Dec-17 | 5 Year Average |
|---|---|---|---|---|---|---|
| | Plant in Service - Net Changes | | | | | |
| 113100 - Nonutility Plant in Service | 19,072,303 | 26,231,128 | 6,671,366 | -91,073,723 | 22,278,837 | -3,364,018 |
| 113110 - Non-Utility CCNC | 175,892 | 452,284 | 6,271,458 | -4,377,311 | 15,087,434 | 3,521,951 |
| **Total Plant in Service** | **19,248,195** | **26,683,413** | **12,942,824** | **-95,451,034** | **37,366,271** | **157,934** |

**Q. Did the Consumer Advocate inquire about the significant reduction in plant in service?**

A. No, they did not seek to understand the reduction in plant before factoring it into their projections. Making these types of basic errors, and then not asking about them when the Consumer Advocate has built its case on CGC allegedly not sufficiently documenting its case, calls into question the credibility of their entire alternative rate case.

**Q. Please explain the recommended retirements put forth in the depreciation study.**

A. The depreciation study included $1.77 million of recommended retirements associated with several general plant asset classes. The prosed amortization periods for these particular asset classes is based on the assumption that the retirements are made. Therefore, you should not accept and apply the amortization rates without also taking into account the plant retirements.

**Q. Were the recommended retirements made in the Company's forecasted plant balances?**

A. Yes, the Company included the recommended retirements in its forecasted plant balances.

The recommended retirements of $1.77 million were calculated as of December 2016. Taking the recommended retirements in each general plant FERC account into consideration between January 2017 through December 2017, the Company included $1.44 million of retirements in its forecasted accumulated reserve and plant balances.

**Q. Do you have any other concerns around the Consumer Advocate's forecasted Utility Plant in Service?**

A. Yes. It may appear that the difference between the Company's filed amount and the Consumer Advocate's proposed amount is simply the difference of $716,000, but this is not the case. The larger difference lies in both the approach as detailed above and in the periods under review. The Consumer Advocate has proposed to use a 13-month average December ending 2019 balance. Using the workpapers supplied by the Consumer Advocate and aligning their forecasted utility plant in service with that included in the Company's filing for a 13-month average June 2019 results in a balance of $294 million. Thus, if the Consumer Advocate is truly using a twelve-month ending December 31, 2019 attrition year, then the difference between the Company's and the Consumer Advocate's utility plant-in-service forecast is $7.4 million, not $716,000 as shown in the Consumer Advocate's exhibit CPAD Exhibit, Schedule 3.

**2. Common Plant Allocator (Novak, Page 17)**

**Q. The Consumer Advocate has proposed their own allocation factor for allocating common plant. Do you agree with their allocation factor?**

A. No. The Company used an allocation factor of 1.9%. This factor is calculated based on the ratio of service company expenses allocated to CGC compared to total service company expense for calendar year 2017. The Consumer Advocate calculated an allocation factor of 1.63% based on throughput volumes and number of customers for 2016 and 2017. Further discussion on the calculation of the 1.63% and why it is not appropriate to use this factor to allocate service company assets is addressed in the rebuttal testimony of Mr. Morley.

**3. Accumulated Depreciation Reserve (Novak, Page 26-27)**

**Q. Do you agree with the Consumer Advocate's accumulated reserve balance for CGC?**

A. No, although the Consumer Advocate has adopted the Company's depreciation rates and the reserve adjustment of $862,000 proposed in the depreciation study, there remain multiple issues on which we do not agree. The items of disagreement include the plant balance to which the depreciation rates are applied, forecasted cost of removal, shifting the attrition period to out to December 2019, and the Consumer Advocate's exclusion of the recommended retirements presented in the depreciation study.

I addressed my disagreement with the Consumer Advocate's plant balance, shifting attrition period, and exclusion of the recommended retirements in the section above on forecasted utility plant in service balances.

My disagreement with the Consumer Advocate's cost of removal forecast is that it is based on a four-year historical average for the period ending December 2017. The use of a historical average is not appropriate in this case as the Company has provided a detailed capital budget which includes forecasted cost of removal.

**Q. Do you agree with the Consumer Advocate's allocated accumulated reserve balance?**

A. No. I disagree with the Consumer Advocate's forecast of allocated accumulated reserve on the following points: they do not include depreciation expense, but include a reserve balance; they do not include an estimate of retirements in their forecast; and there is no attempt to align the utility plant in service balance with the accumulated reserve balance.

**Q. Please further discuss each point of disagreement.**

A. The Consumer Advocate has projected a reserve balance that includes depreciation expense, however they have removed this expense from the Company's cost of service. This does not make logical sense. Either depreciation expense should be taken into account for both the cost of service and calculation of the reserve or it should not. This is addressed further in the testimony of Mr. Morley.

Next, their forecast does not include an estimate of retirements. The Consumer Advocate does not expound on this adjustment, but it is clear in their work papers that no adjustment is made.

Finally, the consumer advocate does not attempt to align utility plant in service and accumulated reserve balances by recognizing retirements assumed in the calculation of net plant additions in the calculation of the accumulated reserve balance. This last adjustment results in an overstated reserve balance and does not represent the realities of accounting for asset retirements. In summary, the Consumer Advocate's estimated accumulated reserve estimate for common plant is grossly overstated because Mr. Novak did not apply the same estimating methodologies to the accumulated reserve as he did to the plant in service.

**4. Service Company Depreciation Expense (Novak, Page 27-28)**

**Q. Please explain the Consumer Advocate's removal of depreciation for allocated common plant.**

A. The Company has included $318K of service company depreciation expense in its cost of service. The Consumer Advocate, however, did not include depreciation expense for the service company in its proposed cost of service; their argument is that the Company does not have authorized depreciation rates for service company plant. Further discussion regarding service company depreciation rates and the validity of service company depreciation expense in the Company's cost of service is addressed in the rebuttal testimony of Mr. Morley.

**5. Construction Work In Progress (Novak, Page 18)**

**Q. Do you agree with the Consumer Advocate's CWIP balance?**

A. No. The historical construction work in progress balances do not reflect the planned business operations of the Company throughout the January 2018 through June 2019 period. Specific details regarding the Company's capital budget is further discussed in the rebuttal testimony of Mr. Ziliak.

**Q. Are there any other issues with the Consumer Advocate's forecast of CWIP?**

A. Yes. As noted previously in my testimony regarding the Company's and the service company's utility plant in service, the Consumer Advocate's forecast does not properly align CWIP and utility plant in service. This misalignment does not recognize the realities of how capital expenditures are accounted for which effectively results in a $2 million reduction in rate base.

**Q. Do you agree with the Consumer Advocate's use of a 1.63% allocation rate for service company CWIP?**

A. No, I do not. This issue is specifically addressed above in my discussion on the common plant allocator factor as well as in the testimony of Mr. Morley.

**6. Allowance for Funds Used During Construction ("AFUDC") (Consumer Advocate Revenue Workpapers R-250-1.00)**

**Q. Do you agree with the Consumer Advocate's forecast for AFUDC?**

A. No, I do not. AFUDC should be a calculated amount based on a CWIP balance multiplied by the authorized rate of return. The Consumer Advocate has forecasted AFUDC based on an historical five-year average. Their approach does not take into account forecasted capital expenditures or the current rate of return.

**7. Pension Costs (Novak, Page 19-21)**

**Q. Do you agree with the Consumer Advocate's adjustment to remove pension costs from rate base and the cost of service?**

A. No. The Company is proposing to recover pension costs in accordance with generally accepted accounting principles ("GAAP"), this includes recognition of the pension asset and pension expense in rates.

**Q. Is the Consumer Advocate's adjustment to remove the pension asset correct?**

A. No, not in totality. If the Commission approves the Consumer Advocate's proposal to exclude the pension asset from rate base, then removal of the asset should be accompanied by the removal of the associated deferred tax liability. The Consumer Advocate failed to remove the deferred tax liability resulting in an overstatement of accumulated deferred income taxes.

**Q. How much is the deferred tax liability associated with the pension asset?**

A. The accumulated deferred income tax balance includes $1.7 million associated with the pension asset.

**Q. What are the benefits of applying GAAP accounting for the recovery of pension costs in rates?**

A. Recovery of pension costs based on GAAP is a methodology that allows the Company to recover the costs gradually over time, which results in rate stability and a matching of expense with service performed by employees on behalf of CGC customers. Cash contributions puts the Company's recovery at risk and could result in swings in costs to customers.

**Q. Are there any issues with the recovery of pension cost based on cash contributions?**

A. Yes. Pension funding is not made on a routine basis, but rather in large infrequent contributions. As a result, recovery of these cash contributions under the regulatory framework could cause rates to be set significantly higher or lower than the Company's cost of service when viewed over an extended period of time. The only appropriate methodology is to follow GAAP.

**8. Other Post-Employment Benefit Costs (Novak, Page 19-21)**

**Q. The Consumer Advocate has proposed cash contribution recovery of Other Post-Employment Benefit ("OPEB"), do you agree?**

A. No, I do not. The Company currently recovers OPEB costs based on GAAP accounting. As detailed in the discussion on pension cost above, recovery of costs based on GAAP allows the Company to recover the costs gradually over time which results in rate stability and a matching of expense with service performed by employees on behalf of CGC customers.

**Q. Is the Consumer Advocate's adjustment to remove the OPEB asset correct?**

A. No. First, the Company has historically included the OPEB balance sheet component in rate base consistent with recovery of expenses based on GAAP. Second, as with the pension asset, the removal of the OPEB asset should be accompanied by the removal of the associated deferred tax liability. The Consumer

Advocate failed to remove the deferred tax liability resulting in an overstatement of accumulated deferred income taxes.

**Q. How much is the deferred tax liability associated with the OPEB asset?**

A. The accumulated deferred income tax balance includes $.7 million associated with the OPEB asset.

**9. Gas Inventory (Novak, Page 22-23)**

**Q. Do you agree with Mr. Novak's forecasted Gas Inventory balance?**

A. No. Mr. Novak's approach ignores the Company's planned business operations which includes forecasted gas volumes and gas costs based on NYMEX futures prices. This is further addressed in the rebuttal testimony Mr. Bellinger.

**10. Prepayments, Materials and Supplies and Liability Reserves (Novak, Page 21-22 and 29)**

**Q. Do you agree with Mr. Novak's forecast of Prepayments, Materials and Supplies, Unclaimed Customer Credits and Health Insurance Reserves?**

A. No, I do not agree with Mr. Novak's forecast of these items. The use of the average test period balance is more appropriate because it better reflects the current operations of the Company. Furthermore, the Consumer Advocate's approach of using a five-year average dilutes the effects of recent changes in the business.

**Q. Can you provide an example of a recent change that would not be fully reflected in the balances above using the Consumer Advocate's approach?**

A. Yes, in 2016 the Company added a set of spare relief valves to its inventory for the liquefied natural gas ("LNG") plant. When a relief valve is out of specification, it must be sent out for repair and the LNG plant is unable to run. Having the spare relief valves on hand reduces downtime for repairs and increases overall system reliability by having these critical parts available when needed. Therefore, the increase in materials and supplies from the valves will continue in the future. The use of a five-year average as Mr. Novak prescribes understates the attrition period balance.

**11. Reserve for Uncollectible (Novak, Page 29)**

**Q. Do you agree with Mr. Novak's reserve for uncollectible?**

A. No. The Company's method for calculating bad debt expense is to apply an estimated percentage of write-offs to the estimated non-gas revenues. The validity and appropriateness of this approach is that it provides how much the Company needs to collect as uncollectible accounts expense for each dollar of non-gas revenue that it collects. Again, Mr. Novak's approach ignores current business conditions and results. The Company's proposed methodology has been approved by the Commission in each of the Company's last three rate cases in 2004, 2006, and 2009.

**12. Deferred Rate Case Costs (Novak, Page 23-25)**

**Q. Please describe the Consumer Advocate's adjustments to deferred rate case expenses.**

A. The Consumer Advocate adjusted deferred rate case expenses for the class cost of service study, consultant's cost and legal cost. The adjustment to remove the class cost of service study is addressed in the rebuttal testimony of Mr. Hickerson.

**Q. Do you agree with the Consumer Advocate's removal of consultant's costs?**

A. No, I do not. The Company needed an additional resource in preparing its rate case filing. Rather than fulfilling this need with a full-time position and including an additional employee as part of the Company's overall costs of service, a one-time consultant was brought in to help the Company mange and keep up with all of the different aspects of processing the case. Southern Company Gas has a practice of using consultants to assist with rate cases as a means to augment resources when necessary. In fact, the same consultant was used to assist with the Florida City Gas rate case, which was filed in October 2017.

**Q. Please describe the legal costs included as part of the deferred rate case expenses.**

A. In order to establish fair and reasonable rates for customers the Company must present its case to Commission. These proceedings are in a legal environment that requires experienced and knowledgeable representation. As such, legal expertise and representation is needed throughout the course of case, starting before it is filed to draft the petition, assist with the preparation of testimony, respond to discovery, addressing motions and other procedural issues, and conducting the hearing, if necessary, and the multitude of other things that are necessary to seeing a case through to its successful conclusion.

**Q. Do you agree with the Consumer Advocate's adjustment to limit recovery of rate case legal expenses in this case to $200,000?**

A. No.

**Q. Did the Consumer Advocate provide documented support, studies, or other legal estimates to arrive at their recommendation of $200,000 of legal expenses?**

A. No, the Consumer Advocate simply noted in their workpapers that the $200,000 was based on "CPAD Estimate" with no reference or support in how the amount was determined. Given the fact that Mr. Novak proposes a 50% recovery, his own $200,000 number violates his own recommendation. It is completely arbitrary.

**Q. The Consumer Advocate claims that the Commission has allowed rate recovery of only half or 50% of legal expenses in the past and references Docket No. 08-00039. Is this statement correct?**

A. The only precedent Mr. Novak cites is not valid. While it is true that the order he references did limit the recovery of legal expenses to 50%, this order was later reversed at the court of appeals, which authorized the full rate recovery of legal expenses.

**Q. The Consumer Advocate describes the deferred rate case cost as "runaway," is this an accurate assessment?**

A. No, it is not an accurate assessment. The deferred rate case costs provided by the Company are its costs for preparing and litigating the rate case. They are reasonable and prudent and should be allowed as they have been in our prior cases.

**Q. Are there any specific reasons for increased rate cast cost in this case compared to more recent filings?**

A. Yes, there are a multitude of reasons. First, the Company has not had a lead-lag study prepared since its 2004 rate case. For this case, the Company had prepared a lead-lag analysis using an outside consultant and we have included that cost as part of deferred rate case expenses. Second, the rate filing date has moved out several times. Each time this occurred, the Company updated its filing with the most recent accounting data. The filing date change from early January to February 15 due to the Tax Cuts and Jobs Act was particularly impactful as all accounting data had to be updated through December 2017 and forecasted periods had to be updated to reflect the changes in the federal tax rate. Finally, the vast amount of data requests submitted in this filing has caused an increase in legal and consulting costs.

**Q. Could there be unintended consequences in future rate cases if the Company is not allowed full recovery of its rate case costs?**

A. Yes, if a utility is not allowed to recover the full costs of outside resources for a rate case, it may begin hiring additional resources to perform these functions in-house. Costs for additional internal attorneys, specialized accountants and economists, and other specialized professionals would greatly exceed the costs incurred, on an annual basis, by having these same services performed by outside resources on a periodic basis. Our rate case expenses are reasonable and prudent and need to be approved for recovery.

**13. Customer Deposits (Novak, Page 29-30)**

**Q. The Consumer Advocate has proposed a customer deposit reserve based on a five-year average balance, do you agree with the proposed amount?**

A. No, I do not agree with the balance proposed by the Consumer Advocate. The Company's attrition period balance was calculated by taking the December 2017 13-month average balance and adjusting for the most recent three-year average growth rate. This approach captures recent changes in the business that should be factored into the attrition period balance.

**Q. Are there any recent changes in the business that impact the customer deposits balance?**

A. Yes. In the summer of 2017 the Company implemented a system known as the Customer Care and Billing ("CC&B") system. The CC&B system allows for more frequent review of the customer deposit accounts and more timely refunds of customer's deposits.

**Q. Please continue.**

A. The old customer information system evaluated customer deposits on the anniversary of the customer's paid in full date. If the customer had paid their balances in full for the requisite time of one year and had good credit, then the deposit was refunded. However, if the customer did not meet these criteria, the account was not reviewed again until the second anniversary of the customer's paid in full date. With the CC&B system, the same criteria for refunds are used; however, after the one year paid in full date is met, the customer's account is evaluated each day for refund eligibility. Overall, this methodology results in a more-timely refund of the customer's deposit for those who do not initially meet the refund criteria. Additionally, this results in continued lower balances of customer deposits in the future, which is not fully reflected in the use of the five-year average.

**14. Accumulated Interest on Customer Deposits (Novak, Page 30)**

**Q. Do you agree with the Consumer Advocate's proposed accumulated interest on customer deposits.**

A. Yes, I agree with an accumulated interest on customer deposits balance of $332,933. However, it should be noted that this balance is based on the 2017 December ending balance, not a five-year average as described in the testimony of the Consumer Advocate.

## III. <u>Cost of Service Items</u>

### 15. Forecasted Operating Income (Dittemore, Page 5)

**Q. Do you accept the Consumer Advocate's forecasted operating income?**

A. No, I do not. The Consumer Advocate has disregarded the Company's budget and created their own based on 2017 actuals increased by growth factors with further adjustments.

**Q. Did the Consumer Advocate provide support or analysis that indicates that their forecast is more accurate?**

A. No.

**Q. How did the Company prepare its budget?**

A. The Company's methodology uses a bottoms-up budgeting approach, meaning that each budget is a direct reflection of planned business operations for the upcoming year. For those expenses for which it is not reasonable to use a bottoms-up approach, growth factors are applied to the most recent financial data, which normally includes actual financial data plus a year to go forecast. A year to go forecast includes actual financial data as of the most recent date plus a forecast for the remainder of the year.

**Q. Who prepares the budget?**

A. The Company's budgets are constructed from the ground up, building on the hands-on knowledge and expertise of our front-line employees—employees that have directly contributed to the Company's exemplary service and reliability.

**Q. Is there a formal review process and approval by management of the budget?**

A. Yes.

**Q. Is the Consumer Advocate aware of the Company's budgeting process?**

A. Yes, the Consumer Advocate was specifically made aware in data request response CPAD 1-118. Additionally, there is a standing Minimum Filing Guideline, MFG 68, in which the Company describes its budgeting process.

**16. Growth Factors (Dittemore, Page 14)**

**Q. The Consumer Advocate calculated and applied three growth/inflation factors to the Company's 2017 operations and maintenance ("O&M") expenses, have you reviewed these growth factors?**

A. Yes, each factor is discussed below.

**Q. Do you agree with the use of a customer growth factor for customer related O&M accounts?**

A. I agree that a customer growth factor is an appropriate method for estimating customer related O&M expenses in the absence of a specific budget or forecast. However, I do not agree with the use of 2017 expenses as the starting point for the application of this factor. The Company has supplied the Consumer Advocate with a 2018 budget; the forecast for 2019 should be based on the 2018 budget as this more closely aligns with the Company's planned business operations.

**Q. Do you accept the Consumer Advocates calculation of the labor growth factor?**

A. No, I do not accept with the Consumer Advocate's labor growth factor of 3.56%. As shown in the table below, the result of the Consumer Advocate's calculation of the labor growth factor which is based on total monthly payroll captures changes in the number of employees and other factors affecting overall payroll expense which results in large swings from 6.45% to 0.67% in their labor factor and an average growth factor greater than merit for the periods reviewed. The Company's labor cost growth factor is based on the average annual merit increase of 3.0%, so it is more appropriate.

**Chattanooga Gas Company**
**Calculation of Inflation Factors**

Dkt No. 18-00017
CPAD Workpaper
Attachment DD 10-2

| | A/ CGC Labor Costs | | | |
|---|---|---|---|---|
| **Month** | **2015** | **2016** | **2017** | **2018** |
| January | 221,216 | 224,069 | 261,382 | 265,020 |
| February | 197,477 | 218,308 | 216,885 | 216,844 |
| March | 231,519 | 253,310 | 255,191 | |
| April | 219,520 | 219,754 | 216,430 | |
| May | 220,975 | 224,801 | 227,618 | |
| June | 223,904 | 230,309 | 221,219 | |
| July | 232,684 | 215,524 | 209,621 | |
| August | 211,540 | 236,705 | 232,701 | |
| September | 207,951 | 233,888 | 231,116 | |
| October | 194,902 | 225,462 | 232,636 | |
| November | 198,780 | 252,079 | 237,613 | |
| December | 233,384 | 227,032 | 237,296 | |
| | **2,593,851** | **2,761,241** | **2,779,706** | |
| | | **6.45%** | **0.67%** | **3.56%** |

**Q. Do you agree with the use of a composite factor for the remaining O&M accounts?**

A. I accept the Consumer Advocate's calculation and agree that the composite growth factor is an appropriate method for estimating certain O&M expenses in the absence of a specific budget or forecast. However, I do not agree with use of 2017 expenses as the starting point for the application of this factor. The Company has supplied the Consumer Advocate with a 2018 budget; the forecast for 2019 should be based on the 2018 budget as this more closely aligns with the Company's planned business operations.

**17. Incentive Compensation (Dittemore, Page 6-8)**

**Q. The Consumer Advocate claims that total incentive compensation costs for their test period represent over 13% of the total CGC O&M charges, is this correct?**

A. Yes, the actual amount for the twelve months ended December 2017 is correct. Under the Company's short-term incentive plan, also referred to as performance pay program ("PPP"), employees can earn amounts in excess of 100% of what is provided and prescribed in the plan. In this case, the Company based its PPP estimate on the 2018 budget and increased that amount for 3% growth in payroll. The amount of PPP included in the 2018 budget is lower than the actual amounts incurred in 2017. Additionally, there were one-time transition long-term incentive amounts that were paid out in 2017 related to the Southern Company acquisition of Southern Company Gas. These amounts have <u>not</u> been included in the Company's 2018 budget.

**Q. Is the Company seeking recovery of costs incurred for the twelve months ended 2017?**

A. No.

**Q. How much incentive compensation has the Company included in the attrition period for rate recovery?**

A. The Company has included $180,779 in its rate request for the Chattanooga Gas Company's performance pay program. Allocated incentive compensation includes $550,875 for the PPP and $244,966 for the Company's long-term incentive plan. In total, the Company has included $976,620 of incentive compensation in its rate request, this represents 7% of the total O&M charges (excluding gas costs). This is further evidence to support the Company's attrition period budget and forecast estimate as opposed to the Consumer Advocate's uses of a historic year increased for growth factors.

**Q. Could you describe the Company's incentive compensation plans, how incentive compensation fits into an employee's overall compensation and how the customer benefits through the Company's total compensation plan?**

**A.** In my testimony, I address compensation amounts included in the rate case filing and current treatment of incentive compensation under the November 8, 2010 Order in Docket No. 09-00183. Details regarding the incentive compensation plans and how they benefit customers are addressed in the rebuttal testimony of Mr. Garvie.

**Q. The Consumer Advocate recommends removing incentive compensation consistent with the Order in Docket No. 14-00146, do you agree with this treatment?**

A. No. The referenced order involves a settlement agreement in which incentive compensation does not appear to be specifically addressed, nor does the Commission speak directly to the appropriateness of incentive compensation in the settlement agreement. Settlement agreements involve a give and take from both the Company and intervening parties and is specific to each Company and each docket. Application of such a specific circumstance should not be the basis for the removal of the Company's incentive compensation as the facts and circumstances in each case is uniquely different. In particular, Mr. Garvie provides a detailed business case explanation for why CGC's incentive compensation programs are prudent and should be approved for inclusion in the rate request.

**Q. Under the November 8, 2010 Order in Docket No. 09-00183, how is incentive compensation treated for rate recovery purposes?**

A. The Company is currently allowed to recover fifty percent of the direct and allocated Annual Incentive Plan ("AIP"), now known as the Performance Pay Program ("PPP"). Both the Commission and the Consumer Advocate agreed that fifty percent was an appropriate amount to recover. Specific wording regarding recovery of the Company's incentive compensation plan from page 18 and 19 of rate case order in Docket No. 09-00183 is provided below.

> The Consumer Advocate proposed to allow 50% of the Company's AlP bonus expense because the current AlP plan serves the interests of both ratepayers and stockholders. The panel found that the AIP bonuses are designed to improve the performance of employees and thus provides a benefit to both the ratepayers and stockholders. Ultimately, this will result in more efficient operation of the Company. Therefore, the Authority determined that it was reasonable for each group to bear the cost of the plan and pay 50% of the cost of the plan.

> The panel voted unanimously to adopt an attrition period forecast of $1,061,662 for Employee Benefits Expense.

**18. Lobbying Expense (Dittemore, Page 8-10)**

**Q. The Consumer Advocate has made an adjustment to remove $273,467 of costs that they have identified as lobbying related. Do you agree with this adjustment?**

A. No, I do not agree with the full adjustment. The Consumer Advocate's adjustment is broken into three pieces: labor, benefit costs, and organization dues. I agree with certain adjustments made for these components, but not the total adjustment.

**Q. Have you recalculated an amount of lobby related costs to be removed from the Company's cost of service?**

A. Yes. I find it appropriate to remove $78,163 related to lobbying activities from the Company's cost of service. This includes $61,604 for labor, $14,309 for benefits and $2,250 for organization dues as calculated by the Consumer Advocate. The calculation is provided in the table below.

| | | |
|---|---|---|
| Governmental Affairs Labor | | |
| Labor Charges as Identified in DR CPAD-2-60 | $ | 49,238 |
| Additional Lobbying Related Labor Charges Identified | | 1,866 |
| Labor Costs | $ | 51,105 |
| | | |
| Alloc. External Relations - SCS (includes benefit costs in allocated amount) | $ | 10,500 |
| | | |
| **Total Labor Costs** | $ | 61,604 |
| | | |
| Governmental Affairs Benefits | | |
| Subtotal Lobbying/Governmental Affairs Charges | $ | 51,105 |
| Fixed Compensation Benefit Rate (as computed by CPAD) | | 28% |
| **Total Benefit Costs** | $ | 14,309 |
| | | |
| **Lobbying Portion of Organization Dues** | $ | 2,250 |
| | | |
| Lobbying Labor | $ | 61,604 |
| Benefit Costs | | 14,309 |
| Organization Dues | | 2,250 |
| **Grand Total Lobbying** | $ | 78,163 |

**Q. The Consumer Advocate removed $47,923 for Allocated Legal - SCS, and this has been replaced by $10,500 of Allocated External Relations – SCS. Is this adjustment appropriate?**

A. In the response to data request CPAD-1-119, the account Allocated Legal - SCS was mislabeled as a lobbying cost. Instead, the Allocated External Relations – SCS should have been labeled as lobbying costs.

**Q. Why is there no benefit adjustment for Allocated Legal – SCS?**

A. Allocated Legal - SCS costs include both labor and benefits costs. As such, removal of the allocated costs includes both components so a separate adjustment for benefits is not needed.

**Q. Why did you decrease the Consumer Advocate's adjustment to Governmental Affairs labor changed to $51,105?**

A. The Company identified the portion of the Governmental Affairs Labor costs that should be removed in data request response CPAD 2-60. In that response, the Company identified $49,238 as the amount to be removed from the attrition period for Governmental Affairs costs for lobbying related activities. This amount represents only the portion of these employees' payroll spent on lobbying activities. The majority of the payroll of these employees' payroll is not lobbying. The Company did. However, upon further review determine that an additional $1,866 should be classified as lobbying and removed from the Company's cost of service.

**Q. What is the Consumer Advocate's rational for the removal of <u>all</u> Governmental Affairs Labor cost?**

A. In the testimony of the Consumer Advocate, they included selective portions of the job descriptions provided by the Company for the Director of Public Policy and Senior Analyst Public Policy that were lobbying related. Their argument to remove the full labor amount is based on these selective portions rather than assessing the full job description.

**Q. What are some of the other responsibilities that are non-lobbying related for the Director of Public Policy and Senior Analyst Public Policy?**

A. Other non-lobbying related responsibilities included in the job descriptions are provided below. Please note, these are not complete job descriptions.

> Senior Analyst Public Policy - obtaining feedback from corporate departments and non-regulated businesses on the impact of policies, issues, industry trends and legislation on utility operations; Responsible for compiling, editing and routing weekly and end of year reports on legislative activity impacting AGLR; and Responsible for working with Director Public Policy to assess federal and state government and industry actions impacting corporate departments and

non-regulated businesses and anticipating policy trends and issues.

Director of Public Policy - Responsible for working with Managing Director – State Government Affairs and Managing Director-Federal Affairs to assess federal and state government actions, including government and industry associations policy recommendations, and anticipating policy trends and issues. Communicates with internal business units and external affairs on recommendations and, at the direction of VP –External Affairs and Public Policy, reports assessments to senior management; Responsible for communicating policy to corporate departments and business units, with specific attention to AGLR external affairs (Government Affairs, Regulatory, Community Affairs, Marketing, Distribution Operations, Investor Relations, etc.)

**Q. Is it appropriate to remove all of the costs for a position if only a portion of that position is related to below the line activities such as lobbying?**

A. No, it is not. The adjustment should be based on the proportion of time that is spent on below the line activities.

**Q. Has any portion of the Company's recalculated adjustment of $78,163 been reflected in the Company's updated revenue requirement of $6.13 million?**

A. Yes, the Company has already reflected the removal of $49,238. Therefore, the Company has removed an additional $28,925 in lobby expense. This adjustment is reflected in the total operating expenses in rebuttal Exhibit GAT 1-1.

**19. AGSC Allocations (Dittemore, Page 10-13)**

**Q. Do you agree with the Consumer Advocate's description of the composite ratio components?**

A. Yes.

**Q. Do you agree with the removal of operating expense as one of those components?**

A. No, I do not. Operating expense is a critical component of the calculation of the composite ratio as discussed in the rebuttal testimony of Mr. Morley.

**20. Accounting Policy Concerns (Dittemore, Page 31-36)**

**Q. The Consumer Advocate has provided its concerns and recommendations around the Company's cost allocation process. Have their concerns been addressed in your testimony?**

A. No, the Consumer Advocate's concerns and recommendations are addressed in the rebuttal testimony of Mr. Morley.

**21. Jobs & Employees (Dittemore, Page 15-16)**

**Q. Is the Consumer Advocate's claim that a 25% increase in Company employees is unrealistic addressed in your testimony?**

A. No, this claim is addressed in the rebuttal testimony of Mr. Dallas.

**Q. The Consumer Advocate has made an adjustment to remove $608,000 of payroll expense for the increase in employees. Is this amount correct?**

A. No, the Consumer Advocate has removed an amount of payroll expense in excess of what the Company has included in its filing for the increase in employees. The Company has included $504,000 of payroll expense in its filing for the new positions. Therefore, if Commission agrees with the Consumer Advocate's position to eliminate the Company's proposed increase in necessary, new employees, the adjustment would be $504,000.

**22. Cash Working Capital (Dittemore, Page 17-19)**

**Q. The Consumer Advocate has made two adjustments to the Company's calculation of cash working capital, are these adjustments addressed in your testimony?**

A. No, the Consumer Advocate's adjustments to CWC are addressed in the rebuttal testimony of Mr. Adams.

## IV. Tax Related Items

### 23. Taxes Other Than Income Taxes (Dittemore, Page 16-17)

**Q. Do you accept with the Consumer Advocate's forecast of taxes other than income taxes ("TOTIT")?**

A. No, I do not. I do not accept the results of the forecast due to the use of 2017 expenses as the starting point for the application of these factors. The Company has supplied the Consumer Advocate with a 2018 budget; the forecast for 2019 should be based on the 2018 budget as this more closely aligns with the Company's planned business operations.

**Q. Do you agree with the use of the growth factors as applied to each component of TOTIT?**

A. Yes, the growth factors selected and application of those factors to the corresponding tax category is appropriate.

**Q. Do you have any other concerns with the growth factors the Consumer Advocate has used to forecast TOTIT?**

A. Yes, I do not agree with the Consumer Advocate's calculation of the labor growth factor. Further details are provided at pages 27-29 of my testimony.

**24. Excess Deferred Income Taxes (Dittemore, Page 26-27)**

**Q. The Consumer Advocate claims that the Company has only partially complied with the Commission's Order in Docket No. 18-00001. Is this correct?**

A. No, the Company has fully complied with the requirements established in Docket No. 18-00001 and is deferring all tax savings resulting from the Tax Cuts and Jobs Act ("TCJA").

**Q. Do you agree that the amortization of rate case costs and excess deferred income taxes ("EDITs") should align?**

A. Yes.

**Q. Do you agree with a three-year amortization of EDITs as put forth by the Consumer Advocate?**

A. No. The Company has included a revised amortization of rate case costs over a five-year period as shown in rebuttal Exhibit GAT 4-1. This serves to align all of the amortizations that the Company has requested over a five-year period. This includes the amortization of rate case costs, EDITs, and the amortization of the accumulated reserve surplus of $862,000 which the Consumer Advocate found appropriate.

**Q. Are there any issues with the Consumer Advocates calculation of EDITs?**

A. Yes, the Company cannot simply defer the amortization of the protected assets till October 2018 as the Consumer Advocate has reflected in CPAD Workpaper Attachment DD 11-1.1. This point is actually addressed in Mr. Dittemore's testimony in question A49. Utilities are required to amortize EDITs associated with depreciation differences in accordance with the average rate assumption method

("ARAM"). Therefore, the amortization cannot be postponed. It should be noted that the amortization of the protected assets, once recognized, may be deferred into a regulatory liability.

**25. Current Year Tax Savings (Dittemore, Page 27-28)**

**Q. The Consumer Advocate claims that the Company should not be able to retain tax savings as a result of the TCJA based on three arguments. Would you address each argument?**

A. Yes. First the Consumer Advocate argues that the Company's request to retain the tax savings is a mismatch in accounting periods. This is not true. The Company files a monthly report which shows the current annual rate of return. The rate of return is calculated on a 12-month rolling period. The tax savings the Company has requested to retain have been realized in 2018 and are only attributed to the 2018 portion of this rolling calculation.

**Q. Please continue.**

A. The Consumer Advocate's next argument is that they do not believe the Company is currently under-earning. This is an unfounded argument. As stated above, the Company files monthly reports with the Commission containing a rate of return calculation. The reports are filed in accordance with Docket No. 09-00183 and clearly show that for January 2018 through May 2018 time frame that the Company is not earning its authorized rate of return of 7.41%. Not only is the Company under-earning, the reports show that even with retention of the savings from the TCJA included in to the rate of return calculation, the Company is still well under its authorized rate of return. See the table below for the filed rate of return for January 2018 through May 2018.

| | January | February | March | April | May |
|---|---|---|---|---|---|
| Unadjusted Rate of Return | 5.68% | 5.66% | 5.85% | 5.78% | 5.72% |
| Rate of Return with TCJA | 5.91% | 6.09% | 6.45% | 6.44% | 6.41% |

Finally, the Consumer Advocate argues there is no language in the February 6, 2018, Order in Docket No. 18-00001 that allows the Company to retain the tax savings if they are under-earning. The Company agrees that there is no language in the Order providing for the retention of the tax savings if the Company can demonstrate under-earnings. However, in complying with the Order it was requested on page 1 that the Company defer savings and submit "a proposal to reduce rates or make other adjustments to account for the tax benefits resulting from the 2017 Tax Cuts and Jobs Act." The Company has deferred the savings and has proposed to retain those savings until new rates are established as presented in the Company's current rate case filing.

**26. Accumulated Deferred Income Taxes (Dittemore, Page 30-31)**

**Q. The Consumer Advocate does not propose any adjustments to the Company's forecasted Accumulated Deferred Income Taxes ("ADITs"). Is this appropriate based on the direct case the Consumer Advocate filed?**

A. No, it is not appropriate for the Consumer Advocate to include the ADITs as filed by the Company in its forecast without also accepting the timing and inputs giving rise to those balances.

**Q. What adjustments do the Consumer Advocate need to make to align ADITs with the revenue requirement calculation filed in their direct case?**

A. The Consumer Advocate would need to adjust ADITs for all of its cost of service and rate base adjustments that affect ADITs. Examples of adjustments that the Consumer Advocate made that affect ADITs include but are not limited to: property additions, depreciation expense, pension asset elimination, OPEB asset elimination, rate case costs adjustments, bad debts expense adjustments and elimination of allocated services Company plant and accumulated depreciation. The Consumer Advocate would also need to update ADITs to its attrition period ended December 31, 2019, versus the Company's attrition period ended of June 30, 2019upon which the Company's ADITs are based.

**Q. If the ADITs are not adjusted and the Consumer Advocate's positions are adopted are there any additional potential issues?**

A. Yes, the proration calculation put forth by the Company is no longer valid.

**Q. Could you explain proration?**

A. Yes. Proration is the method of calculating the average rate base associated with federal depreciation related accumulated deferred income taxes. Proration is required by the Internal Revenue Code ("IRC") when the effective dates of new rates occurs before the end of the attrition period. The proration formula furthers the objectives of the normalization rules set forth by the IRC. The normalization rules are in place to ensure regulated utilities do not flow tax benefits to customers earlier than when the Company recognizes those tax benefits. If the Commission were to approve the Consumer Advocate's rate base adjustments that have a corresponding impact on ADIT, the Commission must also require the Consumer Advocate to determine and include the impact of those adjustments to ADIT or the Company could be in violation of the normalization rules. If the Company doesn't comply with the normalization rules, the IRS could disallow the tax benefit of accelerated tax depreciation and require the Company to use straight line depreciation for tax purposes. This would result in customers of CGC losing the benefits of accelerated tax depreciation.

## V. Capital Structure and Return on Equity

**Q. Do you have anything to add on the Consumer Advocate's proposed capital structure and return on equity?**

A. Yes, the Consumer Advocate has found the Southern Company Gas capital structure and rates as filed for Chattanooga Gas Company to be reasonable. However, they have applied an adjustment known as double leverage to the capital structure. As previously noted, the CGC's testimony as to why the Consumer Advocate's adjustment to capital structure should be rejected is addressed in the rebuttal testimony of Mr. MacLeod and Dr. Vander Weide. Dr. Vander Weide also addresses the Consumer Advocate's proposed return on equity.

## VI. Summary and Conclusions

**Q. Do you agree with the amounts or methods proposed by the Consumer Advocate, but not specifically addressed in your testimony?**

A. No, I do not. There are a number of other issues I would like to respond to regarding the Consumer Advocates direct case. However, due to the short time frame in which the Company's rebuttal testimonies are required, I am not able to respond to all issues and disagreements with the Consumer Advocate's direct case.

**Q. What are your conclusions in response to the Consumer Advocate's direct case?**

A. The Consumer Advocate's direct case was subjective in nature and based on a pre-determined purpose to adjust the Company's proposed revenue requirement as low as possible. That said, as I point out in detail above, there are a number of errors, omissions, and basic accounting treatment problems with the Consumer Advocate's case that completely undermine the validity of the proposals. It is unsound, unjust, and not in the best interests of the Company or its ratepayers to follow the downward spiral proposed by the Consumer Advocate.

The Company on the other hand prepared its case objectively and without pretense. The Company understood that some of its proposals would be challenged by the Consumer Advocate and the authorization of those proposals would be determined by the Commission, such as incentive compensation where we believe through Mr. Garvie's testimony that it would be appropriate to take a fresh look at how important such a program is for today's workforce. These proposals were provided in the Company's direct testimony with further disclosure provided through discovery requests. The Company provided the Consumer Advocate all relevant information they requested and needed to fully analyze and draw reasonable conclusions on this case, neither of which it would appear they did.

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

**A.** Yes.