

**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**

**MICHAEL J. MORLEY**

**ON BEHALF OF**

**CHATTANOOGA GAS COMPANY**

1    **I. Introduction and Background**

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

3    A. Michael Morley, Director, Regulatory Accounting and Reporting and Strategic  
4       Planning, Southern Company Gas (“SCG”). My business address is 10 Peachtree  
5       Place, Atlanta, Georgia 30309.

6    **Q. Please describe your professional background, education, and experience.**

7    A. I received a Bachelor of Business Administration from the University of Georgia  
8       in June 1991 with a major in accounting. Upon graduation, I was employed by a  
9       regional public accounting firm in Atlanta. My experience with this firm included  
10      management of audit engagements, preparation of individual and corporate tax  
11      returns and accounting and financial consulting work. I also worked as controller  
12      of a national marketing company. My responsibilities there included  
13      development and implementation of an annual budget process and management  
14      financial reporting, development and implementation of key accounting policies,  
15      and management of the day to day accounting functions.

16     In my current role, I have responsibility for the preparation and coordination of  
17     financial information for rate cases, for monthly and annual reporting  
18     requirements and for long-term financial planning and analysis of SCG’s  
19     regulated subsidiaries. I am also responsible for directing and coordinating  
20     responses to various requests of state and federal regulatory agencies and for  
21     providing various analyses and regulatory interpretations and consulting to senior  
22     management. I joined SCG as manager of financial accounting and was promoted  
23     to director of financial accounting in 2003. My responsibilities included general

1 ledger management, coordination with external auditors, and technical accounting  
2 research, and I was the primary accounting contact for operational groups  
3 including rates and regulatory, gas operations, field operations, and corporate. In  
4 2003, I joined the rates/regulatory group to assist in rate proceedings and began  
5 my current position in 2013.

6 **Q. Have you previously submitted testimony before the Tennessee Public Utility**  
7 **Commission or any other regulatory commission?**

8 A. Yes. I have submitted testimony before commissions in Tennessee, Georgia,  
9 Florida, Illinois, New Jersey, and Virginia. The testimony I have previously  
10 submitted in Tennessee was in support of rate cases for Chattanooga Gas  
11 Company's ("CGC" or the "Company"). My Exhibit MJM-4 provides a list of  
12 dockets and proceedings for which I have provided testimony.

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

14 A. The purpose of my testimony is to respond on behalf of CGC to the direct  
15 testimonies of Consumer Protection and Advocate Division ("CPAD") witnesses  
16 David Dittmore and William Novak. Specifically, I will address various claims,  
17 assertions and opinions put forth by Mr. Dittmore related to the allocation of  
18 costs by AGL Services Company ("AGSC") to its affiliates, including CGC. I  
19 will also address the methods used by Mr. Novak to determine the amount of  
20 common net plant to be included in the Company's rate base and depreciation  
21 expense.

22 **Q. Are you sponsoring exhibits in connection with your testimony?**

1 A. Yes. In addition to my Exhibit MJM-4, I am sponsoring the following exhibits in  
2 support of my testimony:

- 3 • Exhibit MJM-1 – Services agreement between AGSC and CGC.
- 4 • Exhibit MJM-2 – Sample Matrix that Provides an Example of the  
5 Interaction between Departments and Service Providers within AGSC's  
6 Allocation System and Processes.
- 7 • Exhibit MJM-3 – 2017 Invoice from AGSC to CGC and 2017 Total  
8 AGSC Allocated Costs.

9 **Q. Were these exhibits and related schedules prepared by you or under your**  
10 **direction and supervision?**

11 A. Yes.

12 **II. AGL Service Company Cost Allocations**

13 **Q. Mr. Morley, please summarize the specific assertions and opinions of Mr.**  
14 **Dittemore regarding AGSC cost allocations to affiliates you will address in**  
15 **your testimony.**

16 A. I will address the following assertions and opinions Mr. Dittemore makes in his  
17 direct testimony:

- 18 1. Mr. Dittemore's unsupported assertions regarding what he calls the  
19 significant lack of transparency of AGSC's cost allocations, AGSC's lack  
20 of compliance with the services agreement, and SCG's lack of  
21 management oversight of the allocation process.
- 22 2. Mr. Dittemore's claim and reasons why, in his opinion, that the accuracy  
23 of the composite ratio cannot be confirmed as well as his proposal to

1           modify the composite ratio for purposes of determining certain cost  
2           allocations in this proceeding.

3           3. Finally, I will address Mr. Dittimore's proposal that the Commission  
4           require AGSC to maintain a more formalized cost allocation manual  
5           ("CAM").

6   **Q.    Can you provide an overview of AGSC since understanding the role of this**  
7   **entity is important both to your testimony and Mr. Dittimore's?**

8   A.    Yes. In October 2000 Southern Company Gas (then known as AGL Resources or  
9           "AGLR") became subject to the Public Utility Holding Company Act ("PUHCA"  
10          or the "Act") of 1935. In general, the Act was passed to prevent utility holding  
11         companies from subsidizing unregulated business activities from profits obtained  
12         from their regulated business activities and customers. Additionally, PUHCA  
13         restricted public utilities from providing services to one another and requires the  
14         maintenance of all accounting procedures, correspondence, memorandum, papers,  
15         books, and other records in a manner in which such records are auditable. In  
16         accordance with the Act, AGLR formed AGL Services Company (which has  
17         continued to operate as AGSC even though AGLR changed its name to Southern  
18         Company Gas or SCG) to provide shared services to all of its subsidiaries at  
19         actual cost. AGSC also created service agreements with exhibits that detailed the  
20         cost allocation methodologies, processes, and procedures by which AGSC would  
21         allocate costs to its affiliates. AGSC allocations are the costs for services  
22         performed by AGSC employees on behalf and in support of CGC's operations.  
23         These costs are commonly referred to as allocated costs.

1   **Q.    Is PUHCA still applicable today?**

2    A.    No.  PUHCA was repealed in 2005, and effective, February 2006, is no longer  
3           applicable.  However, AGSC continues to provide services, allocate costs, and  
4           provide auditable information upon request in the same manner it did when  
5           AGSC was first created.  In other words, AGSC continues to operate and function  
6           under the same guiding principles and requirements of PUHCA.

7   **Q.    What types of service does AGSC provide to CGC?**

8    A.    Services provided by AGSC to CGC and the description of those services are  
9           included in my Exhibit MJM-1.  I will also discuss them in more detail later in my  
10          testimony.

11   **Q.    How do the services and related costs provided by AGSC benefit CGC's**  
12          **customers?**

13   A.    In today's highly competitive business environment, companies strive to improve  
14          efficiencies and reduce costs through synergies and economies of scale while at  
15          the same time improving the services provided to customers.  This is often  
16          achieved by identifying and consolidating those functions that are common in  
17          nature with no variation from one affiliated company to the next.  Examples of  
18          these type functions include payroll, accounts payable and receivable, general  
19          accounting, treasury, human resources, and most information systems support.  
20          There are also those functions that may differ in some instances, but for the most  
21          part have a common foundation from which to leverage resources.  Examples of  
22          these type functions include rates and regulatory compliance, legal support, gas  
23          supply and capacity management, engineering and construction, and customer

1 services. Consolidation of these functions and services into one area or company,  
2 in this case AGSC, not only provides a cost savings benefit, but also provides  
3 improved customer service and achieves a better, sounder infrastructure for  
4 customers to use. These latter two benefits are achieved through a larger and more  
5 talented resource pool from which CGC can use at its discretion as an affiliate of  
6 AGSC.

7 **Q. Please provide a summary of how costs are accumulated at AGSC and then**  
8 **allocated to affiliates.**

9 A. In accordance with the services agreement,<sup>1</sup> AGSC costs are accumulated and  
10 allocated at the service provider level. Exhibit MJM-1 to my testimony provides  
11 the service providers and a high-level overview of the functions they perform on  
12 behalf of affiliates, including CGC. There are departments within each service  
13 provider that function in the same manner as a work order. Departments are an  
14 important component of the ASGC allocation process since departments serve  
15 two critical functions – the accumulation of costs and the designation of which  
16 affiliates the departments allocate costs. Costs are allocated by AGSC to  
17 affiliates using the following high-level methodologies:

18 **1. Direct Charge** – Direct charge costs are allocated to AGLR subsidiaries  
19 based on a driver and standard rate or based on causal allocation factors.  
20 These costs currently include fleet services, information services and  
21 technology and payroll.

---

<sup>1</sup> The services agreement includes the agreement itself as well as the exhibits attached to the services agreement.

1           **2. Direct Assignment** – Direct assigned costs are generally payroll and  
2           benefits costs of employees that directly assign their time to an AGSC  
3           affiliate. For every pay period, time is reported by each AGSC employee  
4           through the Peoplesoft Time and Labor reporting system. Employees  
5           assign their time to affiliates by using a field within the time reporting  
6           system. Costs are then assigned to applicable affiliates based on the  
7           salary/wages of each employee.

8           **3. Allocation** – AGSC’s remaining costs (total operating expenses net of  
9           direct charges and direct assignments) are charged back based upon  
10          certain allocation drivers. These allocation drivers are by service provider  
11          and included in Exhibit MJM-1 at Exhibit II, pages 7-11 of the services  
12          agreement.

13   **Q. Will you explain further the importance the departments serve in the cost**  
14   **allocation process?**

15   A. Yes. First, the departments serve as a work order for the accumulation of costs.  
16   Costs are in effect divided into buckets or pools based on the types of services  
17   provided using departments as work orders. Second, departments within a service  
18   provider are also used to designate what affiliates the departments’ costs should  
19   be charged. This ensures that costs are not allocated to affiliates that are not  
20   receiving services for a specific department. Exhibit MJM-2 to my testimony  
21   provides an example of the employee services and engineering services service  
22   providers and how the departments within those service providers allocate costs.  
23   As this exhibit shows, the departments are a key control point for ensuring costs



1 are allocated to the appropriate affiliates and are allocated using the factors  
2 included in the services agreement.

3 **Q. Do you believe the services agreement is outdated as Mr. Dittmore claims?**

4 A. No. First, the current services agreement is dated 2008 as opposed to 2006 as  
5 described in Mr. Dittmore's testimony. Second, nothing has changed with  
6 respect to the services provided by AGSC to its affiliates, nothing has changed  
7 with respect to the allocation factors used, and nothing has changed with respect  
8 to the services CGC requires to operate its business. The acquisition of AGLR by  
9 Southern Company did not impact the way AGSC operates or allocates costs and,  
10 while the services agreements are periodically reviewed, there have not been any  
11 business reasons to change the services agreement. In other words, if the  
12 agreement were updated today, the only item that would change is the date of the  
13 agreement and signatories to the agreement.

14 **Q. Can you provide an overview of Exhibit MJM-3?**

15 A. Exhibit MJM-3 is a condensed version of the 2017 full year invoice from AGSC  
16 to CGC and the 2017 full year total costs allocated by AGSC to all affiliates. I  
17 have included this exhibit to my testimony to provide further context to the costs  
18 that are allocated to CGC. The top portion of the invoices labeled "Distribution  
19 Operations" or ("DOPS") represents 100% of the costs of a service provider or  
20 departments within a service provider that provide services only for the gas  
21 distribution utilities of SCG. In other words, these service providers or  
22 departments within the service provider do not provide services to and therefore  
23 do not incur costs on behalf of unregulated entities.

1   **Q.     Please continue.**

2   A.     The next section of the invoices labeled “Corporate” represents costs of a service  
3           provider or departments within a service provider that provide services for *all*  
4           *active* SCG subsidiaries. The last section of the invoice labeled Regulated and  
5           Non-Regulated Operations represents departments within a service provider that  
6           primarily provide services to the non-regulated entities of SCG. There are a small  
7           number of departments that provide services to the gas distribution utilities of  
8           SCG. As point of reference, approximately 91% of the Regulated and Non-  
9           Regulated Operations service provider departments are charged to non-regulated  
10          entities.

11   **Q.     Will you summarize the data contained in Exhibit MJM-3?**

12   A.     Based on the information included in Exhibit MJM-3, CGC was allocated 1.90%  
13          of the total ASGC allocated costs in 2017. This can be further broken down as  
14          follows based on the AGSC allocation categories discussed previously:

- 15           •   Distribution Operations Service Providers – 3.34% of total AGSC costs.
- 16           •   Corporate Service Providers – 1.22% of total AGSC costs.
- 17           •   Regulated and Non-Regulated Operations - .24% of total AGSC costs.

18          Further, of the Company’s total allocated costs from AGSC of \$5.2 million, the  
19          amounts can be broken down as follows:

- 20           •   Distribution Operations Service Providers – 66.82%.
- 21           •   Corporate Service Providers – 31.59%.
- 22           •   Regulated and Non-Regulated Operations – 1.59%.

1 In essence, roughly two-thirds of the total costs allocated to CGC is from  
2 distribution operations service providers, which, as discussed previously, are  
3 dedicated almost entirely to the regulated gas distribution utilities of SCG.

4 **Q. How much in costs did AGSC charge to CGC in 2017?**

5 A. As Mr. Dittmore referenced at page 31 of his testimony, AGSC allocated  
6 approximately \$5.2 million in costs to CGC. While Mr. Dittmore eagerly points  
7 out that these costs comprise approximately 40% of the Company's total non-gas  
8 operations and maintenance ("O&M") expense and constitute "a major  
9 component of CGC O&M charges," Mr. Dittmore fails to discuss the broad  
10 range of services and the criticality of such services that AGSC provides to CGC.

11 **Q. What services does AGSC provide to CGC and why are they required?**

12 A. CGC operates primarily as a service center that provides the necessary, on the  
13 ground field operations for CGC's customers. This includes meter reading,  
14 investigation of leak calls, activating customers at the premise, pipeline safety  
15 functions, and other general field operations support. The centralized services  
16 that are provided by AGSC to CGC are vital in supporting CGC in its  
17 responsibility to provide safe and reliable service at an affordable cost to its  
18 customers and to comply with federal, state and local rules and regulations.  
19 These services include, but are not limited to customer service, including all call  
20 center functions, workforce planning and management, engineering and  
21 construction, gas supply and capacity management, accounting, payroll, human  
22 resources, and information technology. I believe it is important, when  
23 considering the amount and proportion of costs AGSC charges to CGC, to also

1 understand the breadth of required services provided by AGSC to CGC. For a  
2 utility the size of CGC, it is unlikely that CGC or its customers could receive the  
3 same value AGSC provides if it alone tried to hire employees or otherwise  
4 outsource the diverse and extensive services it receives through the AGSC model.

5 **Q. Are Mr. Dittimore's claims you outlined earlier in your testimony supported**  
6 **by the information the Company has provided?**

7 A. No. Mr. Dittimore's claims are simply his opinion and are not supported by the  
8 extensive amount of information the Company provided in its minimum filing  
9 requirements or through the discovery process. As I described earlier in my  
10 testimony, AGSC has processes and procedures in place that provide for both  
11 transparent and rational cost allocations to its affiliates. The methods and factors  
12 used in the allocation process are provided in the services agreement. Further, the  
13 way AGSC establishes departments as work orders that are then tied to a service  
14 provider for the accumulation of costs and targeted companies for cost allocation  
15 should provide regulators assurances that the costs AGSC allocates to CGC are  
16 for required services at a reasonable cost.

17 **Q. Mr. Dittimore opines that cost allocations from AGSC to affiliates is not a**  
18 **priority of the management of SCG. Do you agree with this opinion?**

19 A. Absolutely not. Mr. Dittimore's comments in his testimony have no basis. His  
20 statement on page 32, lines 3-6 in which he implies management of SCG  
21 purposefully employs practices and techniques to prevent regulators, including  
22 CPAD and this Commission, from evaluating the allocations of AGSC to CGC is  
23 irresponsible with no facts to support it. Just because the process and procedures

1 of AGSC may be different from what Mr. Dittmore has seen or reviewed in the  
2 past, or may be challenging for him to understand, does not mean SCG  
3 management purposefully lacks transparency in the processes and procedures  
4 utilized by AGSC. Once you get past the form of allocations (service agreements  
5 with allocation procedures attached as exhibits versus a CAM), assessing the  
6 reasonableness of AGSC allocated costs can be done through the documentation  
7 we provided with the Minimum Filing Guidelines (“MFG”) and discovery  
8 responses not unlike what you would do with a CAM.

9 **Q. Has the Company included allocations from AGSC in prior proceedings**  
10 **before this Commission?**

11 A. Yes. The Company has included AGSC cost allocations in three prior rate  
12 proceedings in the state of Tennessee in 2004, 2006, and 2009, and none of the  
13 purported issues raised by Mr. Dittmore were addressed in those previous cases  
14 by the Consumer Advocate or the Commission. In fact, the only disallowance of  
15 AGSC allocated costs in those previous cases were costs related to a portion of  
16 incentive compensation, and the basis for those disallowances was the prudence  
17 of the costs themselves not the allocation methodologies or the lack of  
18 transparency<sup>2</sup>. I would also like to point out that the AGSC costs approved in the  
19 first rate case CGC filed, after the adoption of the services model under PUHCA,  
20 included AGSC cost allocations of \$6.6 million, which is almost \$1 million more  
21 than the amount proposed by the Company in this proceeding. I believe this is an

---

<sup>2</sup> In the 2004 case, the TRA rejected the Company’s proposal to include a sharing mechanism for synergy savings resulting from the acquisition of Virginia natural gas by AGLR. This was not an adjustment by the TRA to the actual AGSC costs themselves.

1 important fact for consideration by this Commission: in over 14 years the costs  
2 allocated from AGSC to CGC have decreased by almost \$1 million. That in and  
3 of itself should provide the Commission the assurances it needs that the proposed  
4 AGSC cost allocations in this rate case are both reasonable and prudent.

5 **Q. Have allocated AGSC costs been reviewed by other regulated jurisdictions?**

6 A. Yes. Following is a synopsis of the reviews that have taken place in the other  
7 regulated gas utility jurisdictions of SCG over the last ten years dating back to  
8 2008, the date of the current services agreement:

- 9 • Georgia – one rate case and quarterly AGSC costs allocation filings.
- 10 • Illinois – one review and approval of the services agreement when SCG  
11 acquired Nicor Gas and one rate case.
- 12 • Virginia – Application for approval of the services agreement typically  
13 occurs every five years and the agreement has been approved with  
14 minimal modifications, if any, each approval cycle. The allocated costs  
15 have been reviewed in three rate cases. An annual affiliate transaction  
16 report, including AGSC cost allocations, is also filed in Virginia.
- 17 • Tennessee – as discussed previously, the services agreement and allocated  
18 costs from AGSC to CGC has been reviewed in three previous rate cases  
19 (2004, 2006, and 2009) with minimal, if any adjustments and issues.
- 20 • New Jersey – multiple review and approvals of the services agreement and  
21 review in two rate cases.
- 22 • Florida City Gas – review in one rate case.

1           Regarding the quarterly and annual affiliate transaction filings made in Georgia  
2           and Virginia, respectively, they are all reviewed and analyzed by the respective  
3           staffs of those states, and at no point in time, based on those reviews, have the  
4           staffs raised substantive concerns regarding transparency of the processes and  
5           procedures of AGSC for allocating costs.

6   **Q.   Did any of the filings and proceedings mentioned in your previous question**  
7           **result in any material modifications to the services agreement?**

8   A.   No.

9   **Q.   Do you agree with Mr. Dittmore that AGSC is not in compliance with the**  
10          **services agreement?**

11   A.   No. While AGSC currently does not have a formalized process whereby AGSC  
12          sends to its affiliates an annual service proposal that is then returned to AGSC  
13          with the services elected, AGSC does have an informal process in which  
14          affiliates, particularly the regulated gas distribution utilities, have purview into the  
15          budgets of AGSC on an annual basis. As provided in the Company's response to  
16          CPAD 1-348, the Company explained this informal process as follows:

17               The Annual Selection of Services process, as outlined in  
18               Attachment CPAD-1-13c, is done informally on an annual  
19               basis through the annual budgeting process. Through this  
20               annual budgeting process, all GAS affiliates, including  
21               CGC, that receive services and associated costs from  
22               AGSC have an opportunity to review the budget for all  
23               service providers of AGSC. It is through this process that  
24               the annual selection of services is considered to take place.

25  
26          Expanding on the above response, and as provided in MFG No. 68, the annual  
27          budgeting process includes a budget summit whereby leadership from all

functional areas participates in the detailed review of the annual budget. Below is an excerpt from MFG No. 68:

Mid-September, 2017 – Budget Summit held.

- Budgets for utility business unit and how each functional area budget feeds into that utility budget are provided. Variances are reported between the 2017 Budget versus 2018 proposed budget is reported.
- Budget details of each functional area, including all budget items directly charged to utility business units with 2017 Budget to the 2018 proposed budget variances are provided.
- Leadership from all functional areas and utility senior management participate budget summit.

**Q. Do you agree with Mr. Dittmore's assertion that AGSC does not use the types of allocation factors included in the services agreement?**

A. No. All the factors currently used to allocate AGSC costs are included in the services agreement. There are a number of factors within the services agreement that are not currently being used to allocate costs. However, this should not be construed or interpreted as not being in compliance with the services agreement. Since AGSC is required to have commission approvals for any changes to the services agreement in Illinois and Virginia, these factors are in the agreement to allow AGSC the flexibility to use them in the future if cost drivers change and the use of these factors provide a better cost causation and therefore methodology for allocation of costs without obtaining separate approval in two states for each change to the services agreement.

**Q. Do you agree with Mr. Dittmore's proposal at pages 10-13 to use a modified composite ratio?**



1 A. No. As discussed previously, the same processes and procedures, and therefore  
2 the same composite ratio methodology, is used for all AGSC affiliates receiving  
3 services and costs from AGSC. Mr. Dittmore's argument for removing the  
4 operating expense component of the composite ratio is that it includes the  
5 allocated costs themselves and is therefore circular. Interestingly, the operating  
6 expense component is the largest of the four composite ratio components for  
7 CGC. And it is the largest component that Mr. Dittmore elects to remove.  
8 Complete removal of the operating expense component is not appropriate, and  
9 while I am not advocating a change to the operating expense formula, should the  
10 Commission agree with Mr. Dittmore's contention that the formula is circular by  
11 including the allocated costs, then the Commission should simply remove  
12 allocated costs from the formula as opposed to the entire component.

13 **Q. How do you respond to Mr. Dittmore's statement at page 12 that he could**  
14 **not confirm the accuracy of the composite ratio?**

15 A. Mr. Dittmore states the he could not confirm the accuracy of the composite ratio  
16 because the Company excludes companies with little or no commercial  
17 operations. He implies that SCG or AGSC could intentionally exclude active,  
18 non-regulated companies in an effort to allocate more costs to regulated entities.  
19 Once again, Mr. Dittmore is challenging the integrity of SCG management.

20 **Q. Does AGSC exclude Companies from the calculation of the composite ratio?**

21 A. Yes. The composite ratio is calculated based on financial information from  
22 SCG's accounting system. When the composite ratio is calculated, AGSC  
23 accounting generates reports that includes all business units within the accounting

1 system. Every legal entity is assigned a business unit whether or not that legal  
2 entity is active. Additionally, some business units are established for accounting  
3 and financial reporting purposes, but they are not a legal entity, nor do they have  
4 commercial activity. As the Company explained in its response to discovery  
5 request CPAD 1-390, AGSC does exclude business units from the calculation of  
6 the composite ratio. Most of these business units are inactive and have no  
7 commercial operations or are business units that have been established for  
8 accounting and financial reporting purposes.

9 **Q. Did Mr. Dittmore provide examples of business units that, in his opinion,**  
10 **may have been inappropriately excluded in the composite ratio?**

11 A. Yes. Mr. Dittmore provided the following business units as examples of  
12 business units that, in his opinion, may have been inappropriately excluded from  
13 the composite ratio. These business units were based on a sample of seven that  
14 Mr. Dittmore selected based on the Company's response to discovery request  
15 CPAD 1-347. I would like to point out that it was the transparency of the  
16 Company, not lack thereof, that allowed Mr. Dittmore to fully review the  
17 business units established in SCG's accounting system and allow him to evaluate  
18 the Company's calculation of the composite ratio:

- 19 • Gas Utility Finance Corp is a business unit that was established for  
20 accounting and financial reporting purposes. The business unit was  
21 established to allocate debt costs incurred by SCG's financing business  
22 unit to SCG's gas distribution utility operating segment. Therefore, this  
23 business unit has no commercial activity.

- 1           • Nicor Gas Exploration is an inactive legal entity. The only assets on its  
2           books and records are intercompany assets, which are excluded from the  
3           composite ratio. Further, Nicor Gas Exploration does not have employees  
4           and its operating margin and operating expenses are zero. Therefore, the  
5           composite ratio for this entity, even if it were included, would be zero.
- 6           • Georgia Natural Gas Company is included in the composite ratio by  
7           means of adding the relevant composite ratio components to another active  
8           entity. Therefore, this business unit is effectively included in the  
9           composite ratio. This explanation is included in footnote H of confidential  
10          attachment 1-347k.

11          Based on the above explanations of the business units Mr. Dittmore identified in  
12          his testimony as questionable for exclusion from the composite ratio (Gas Utility  
13          Finance Corp and Nicor Gas Exploration), AGSC has appropriately excluded  
14          these business units from the composite ratio. Additionally, Georgia Natural Gas  
15          Company has appropriately been included in the composite ratio.

16      **Q. Mr. Morley, do you have any other comments regarding AGSC processes**  
17      **and procedures for allocating costs to affiliates, particularly non-regulated**  
18      **entities?**

19      A. Yes. Mr. Dittmore's assertions and claims regarding the transparency of the  
20      processes and procedures of the AGSC allocation process, the concern of the  
21      potential of the regulated utilities of SCG to subsidize the non-regulated  
22      subsidiaries of SCG are without basis and merit. To put this in perspective and  
23      alleviate such unfounded concerns, AGSC allocated approximately 73% of the

1 total "Corporate" AGSC costs to the regulated gas distribution utilities of SCG. I  
2 believe just on its surface this is a reasonable and expected amount given that the  
3 regulated gas distribution utilities of SCG comprise 71% of the composite ratio  
4 and 85% of total FTEs, both of which are the primary allocation factors for the  
5 "Corporate" service providers.

6 **Q. Do you agree with Mr. Dittimore's proposed requirement at pages 32-36 that**  
7 **AGSC create a cost allocation manual ("CAM")?**

8 A. No. Mr. Dittimore's basis for this requirement is that, in his opinion, the  
9 Company does not have adequate, documented processes and procedures. He  
10 also states that AGSC does not have a CAM and refers to the Company's  
11 response to CPAD-1-12 in support of this, which is provided below:

12 Question: Provide an electronic copy of the Cost Allocation Manual(s)  
13 (CAM) relied upon by the Company and its affiliates to allocate common  
14 costs to the Company. To the extent the CAM is modified or changed  
15 during the course of this case, provide a copy of such modification or  
16 change.

17 Response: The Company does not have a stand alone cost allocation  
18 manual. **The services agreements detail cost assignment and**  
19 **allocations** (emphasis added). See the Company's response to CPAD-1-13  
20 for the current services agreements.

21 As provided in the Company's response to CPAD-1-12, the Company stated that  
22 AGSC does not have a stand-alone CAM. The Company did **NOT** state AGSC  
23 had no documented processes, procedures, or methodologies. Indeed, the  
24 Company affirmed that "the services agreements detail cost assignment and  
25 allocations."

26 As I have discussed extensively throughout my testimony, AGSC currently has  
27 adequate procedures and process in place for allocating costs that can and have

1        been reviewed and audited by multiple state commissions and consumer  
2        advocates on multiple occasions. The Company has provided extensive  
3        information, documentation, and financial information through the minimum  
4        filing guidelines and discovery process in this proceeding. Finally, over the past  
5        ten years, AGSC has not had such dramatic claims and assertions of  
6        misallocations and potential subsidization of non-regulated entities by the  
7        regulated gas distribution utilities of SCG as Mr. Dittemore states.

8        **Q. Does the current services company agreement include the four items**  
9        **recommended by Mr. Dittemore in question 65 on pages 33 - 34 of his**  
10       **testimony?**

11      A. For the most part yes. Mr. Dittemore's first recommendation is to include in a  
12      CAM a corporate organization chart that identifies all entities within the  
13      organization, scope of operations, and explanations for why, if applicable, certain  
14      entities do not receive allocations from AGSC. AGSC does not include such  
15      information in its services agreement. However, such information is available  
16      upon request and was provided in this proceeding through the discovery process,  
17      specifically CPAD 1-15.

18      The majority of the remaining three items proposed as requirements by Mr.  
19      Dittemore are already included in some way, shape, or form in the services  
20      agreement, though it may not be to Mr. Dittemore's liking or his prior experience.  
21      That, however, should not be the basis for requiring CGC customers to bear the  
22      cost of something that is not needed or required by any other state commission.  
23      Mr. Dittemore's requirements are already being met as follows:

- 1           • The methods used to assign costs are provided throughout Exhibit I to the  
2           services agreement.
- 3           • The cost allocation methods by service provider are in the services  
4           agreement. There is no matrix that matches departments, which as  
5           discussed previously are the primary costs accumulation and allocation  
6           driver in the AGSC allocation process, to service providers within the  
7           services agreement itself. However, AGSC does maintain a matrix that  
8           includes each AGSC department, the service provider to which the  
9           department is assigned, and the allocation factor used to allocate costs.  
10          This matrix was provided in response to discovery request CPAD 1-114,  
11          attachment 1-114c
- 12          • Mr. Dittmore's fourth and final recommendation is to update the  
13          allocation ratios quarterly. The services agreement states that AGSC will  
14          update the allocation factors periodically but at least annually. In practice,  
15          all allocation factors are updated monthly except for the composite ratio,  
16          which is updated quarterly. This information was also provided to Mr.  
17          Dittmore in the Company's response to CPAD 1-144 and was also  
18          discussed with Mr. Dittmore at the in-person technical conference  
19          between CGC and CPAD on May 31, 2018, to discuss CGC's case and  
20          discovery responses.

21          In summary, the information that Mr. Dittmore is requesting be included in one  
22          comprehensive CAM has already been incorporated in large part in AGSC's

1 service agreement, and the remaining information is in place elsewhere and easily  
2 obtainable upon request.

3 **Q. Mr. Morley, do you have any concluding comments as it relates to Mr.**  
4 **Dittimore's testimony?**

5 A. Yes. Mr. Dittimore makes a number of inaccurate observations and statements in  
6 his testimony regarding AGSC cost allocations. His attempts to portray the  
7 management of SCG as one that disregards the importance of the allocation of  
8 AGSC costs to its affiliated utility gas distribution companies in favor of non-  
9 regulated entities are irresponsible and unfounded. His request for a CAM should  
10 be rejected by the Commission since AGSC already has most of the documented  
11 processes, procedures, and controls in place that Mr. Dittimore has requested be  
12 part of his CAM, a process that multiple commissions review both through rate  
13 cases and other proceedings.

14 **III. AGSC Allocated Common Plant and Depreciation Expense**

15 **Q. Do you agree with Mr. Novak's allocation of net AGSC common plant?**

16 A. No. First, Mr. Novak on page 17 uses an arbitrary allocation factor that does not  
17 take into consideration the full breadth of AGSC assets that are used by AGSC  
18 personnel in performing services for CGC. Second, he inappropriately removes  
19 AGSC depreciation expense from CGC's cost of service.

20 **Q. How did Mr. Novak develop his allocation factor for AGSC common plant?**

21 A. Mr. Novak on page 17 calculated his factor based on end use customers and  
22 throughput volumes. While these factors may be appropriate for certain AGSC  
23 assets that are customer or gas supply driven, most assets on AGSC's books are

1 related to more broad functions including, but not limited to, Enterprise Resource  
2 System, which includes accounting, human resources, supply chain, and system  
3 functionality required to run the business, network servers, laptop and desktop  
4 computers, printers, copiers, etc. In other words, most of the assets on the books  
5 of AGSC that are used by both AGSC and CGC personnel in providing service to  
6 CGC customers are not customer count or volume throughput driven. Despite  
7 Mr. Novak's claim at pages 17-18 that the Company's approach "is a poor  
8 measure . . . since it is based on currently charged activity", the Company's  
9 approach is the most appropriate method to calculate the allocation factor for  
10 common plant because it incorporates all aspects of the service provided by  
11 AGSC and therefore is more complete in encompassing all systems used by  
12 AGSC and CGC employees. Additionally, Mr. Novak's argument that using  
13 currently charged activity (in this case 2017 for the Company) is a poor measure  
14 is completely contradictory to Mr. Novak's own methodology, in which he  
15 includes 2017 in his own data and results.

16 **Q. How did Mr. Novak determine the depreciation expense for AGSC?**

17 A. Mr. Novak, at page 27, did not calculate depreciation expense for AGSC and, in  
18 fact did not include any AGSC allocated depreciation costs to CGC. Mr. Novak's  
19 basis for this exclusion of costs necessary for CGC to serve its customers is that  
20 CGC has no approved depreciation rates for allocated plant. Mr. Novak implies  
21 that approved depreciation rates are required and that a depreciation study similar  
22 to the one performed for CGC should be performed.

23 **Q. Do you agree with Mr. Novak's argument?**



1 A. No. AGSC has not had a depreciation study performed in over ten years. Other  
2 than general plant, the composition of and accounting for the plant of AGSC is  
3 much different than the composition and accounting of the plant of CGC and most  
4 other regulated utilities. AGSC plant is predominantly general plant – structures  
5 and improvements, information systems and technology, office furniture, and  
6 other miscellaneous general plant. Therefore, AGSC considers use of the  
7 estimated useful life of the class of assets to be appropriate and reasonable and a  
8 depreciation study not necessary. Further, a study would increase rate case costs  
9 to CGC customers, and Mr. Novak has already taken issue with the amount of rate  
10 case costs currently being incurred in this case.

11 **Q. Have other jurisdictions of SCG's regulated gas distribution utilities**  
12 **required a depreciation study on AGSC assets?**

13 A. No.

14 **Q. Are you aware of a requirement by this Commission that allocated**  
15 **depreciation expense be based on authorized depreciation rates?**

16 A. No. I am not aware of any requirement of this Commission that the depreciation  
17 expense allocated from AGSC to CGC be based on approved depreciation rates.  
18 In fact, in CGC's last three rate cases, there were no specific approvals of  
19 depreciation rates for AGSC. There were certainly approvals of depreciation  
20 expense itself, but there were no explicit approvals of AGSC depreciation rates.

21 **Q. Do you have any other comments regarding Mr. Novak's elimination of**  
22 **AGSC depreciation expense?**

1     A.     Yes. While Mr. Novak at page 27 excludes AGSC allocated depreciation expense  
2           based on his argument that the depreciation expense should be based on approved  
3           rates, he does not exclude accumulated depreciation from the determination of  
4           allocated common plant. This is an inconsistent approach since the accumulated  
5           depreciation expense Mr. Novak includes is based on the same depreciation rates  
6           he claims should not be used since they have not been approved. The  
7           inconsistency here is that Mr. Novak believes it is perfectly acceptable to include  
8           a component of AGSC allocated common plant based on unauthorized rates yet  
9           when it comes to including AGSC allocated depreciation expense based on these  
10          same rates, Mr. Novak develops an argument that they should be excluded since  
11          they have not been specifically authorized. In this instance, Mr. Novak takes one  
12          side of the argument when it results in a reduction to the company's revenue  
13          requirement yet takes a completely opposite view when the result also yields a  
14          reduction to the Company's proposed revenue requirement. This reduction to the  
15          revenue requirement by any available methodology approach to ratemaking  
16          should be rejected by the Commission.

17     **IV. Conclusion**

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

19     A.     Yes.