

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

August 3, 2018

IN RE:

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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

WENDELL DALLAS

ON BEHALF OF

CHATTANOOGA GAS COMPANY

1 **I. WITNESS INTRODUCTION**

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

3 A. I am Wendell Dallas, Vice President of Operations, Chattanooga Gas
4 (“Company” or “CGC”). My business address is Ten Peachtree Place NE,
5 Atlanta, GA 30309.

6 **Q. Are you the same Wendell Dallas that submitted direct testimony on**
7 **February 15, 2018, and revised direct testimony on May 11, 2018?**

8 A. Yes, I am.

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

10 A. Through this rebuttal testimony I am responding to the testimony filed by Mr.
11 Randy Carter, of Talley Construction Corp., and Mr. David Klinger, of McKee
12 Foods Corp., submitted on behalf of the Chattanooga Regional Manufacturers
13 Association. I am also providing rebuttal to the Consumer Advocate testimony of
14 witnesses Mr. Hal Novak, Mr. David Dittemore, and Dr. Christopher Klein.

15 **Q. Are you the only CGC witness providing rebuttal testimony on behalf of**
16 **CGC?**

17 A. No, I’m not. CGC has other witnesses who will be responding, on a more
18 granular level, to all five of the intervenor testimonies filed on July 3. In addition
19 to myself, CGC’s rebuttal witnesses are: Mr. Michael Adams, Mr. Chris
20 Bellinger, Mr. Heath Brooks, Mr. John Cogburn, Mr. James Garvie, Mr. Archie
21 Hickerson, Mr. Greg MacLeod, Mr. Michael Morley, Ms. Deborah Santolin (who
22 is adopting and substituting for Mr. Greg Becker), Mr. Gary Tucker (who
23 previously adopted and is substituting for Ms. Rachel Johnson), Dr. James Vander

1 Weide, Mr. Dan Yardley, and Mr. Jacob Ziliak.

2 **Q. Are you sponsoring any exhibits with your Rebuttal Testimony?**

3 A. Yes, I am. Attached you will find my Exhibit WD-1, a list of our witnesses with a
4 high-level overview of the subject matter addressed by each.

5 **II. CRMA RESPONSE**

6 **Q. Do you have any general response to the CRMA testimony.**

7 A. Yes, first I want to thank Mr. Carter and Mr. Klinger for taking the time to submit
8 testimony in this matter. Talley Construction Company and McKee Foods Corp.
9 are valued CGC customers, and Mr. Hickerson and Ms. Santolin will
10 substantively respond to the issues they have raised. What I would like to add is
11 that their testimony shows why this case request is so important – CGC is an
12 important part of the continuing economic development and expansion occurring
13 in Hamilton and Bradley counties. CGC needs the rate relief we are seeking to be
14 able to make sound infrastructure investments and better serve the larger
15 Chattanooga and Cleveland communities.

16 **Q. How about the specific issues raised by these witnesses?**

17 A. Mr. Hickerson shall address Mr. Carter's objection to the proposed gas penalty
18 provisions in the tariff and Mr. Klinger's concern that CGC was unable to build
19 additional infrastructure absent substantial investment by McKee Foods. Ms.
20 Santolin shall address why the Red Bank-Signal Mountain project benefits all
21 customers and not just those on the west side of our service area.

22 **III. CPAD REBUTTAL**

23 **Q. Let's turn now to the testimony provided by the Consumer Advocate. Do**

1 **you have any general response to this testimony?**

2 A. Yes. The overall approach reflected in the CPAD testimony is constricted to a
3 look backwards instead of the forward looking, customer investment focus
4 Chattanooga Gas is pursuing in this case. The sole use of historical averages
5 instead of including real world working budgeted amounts, the arbitrary exclusion
6 of legitimate operational expenses, denial of the AUA customer revenue
7 deficiency, and the unreasonably low rate of return proposed by the Consumer
8 Advocate will not just stagnate CGC's ability to meet the needs of our customers,
9 but their proposed rate reductions seriously jeopardize the integrity of CGC's
10 system and our quality of service. The CPAD's \$2.8 million rate reduction does
11 not make any sense in the face of some \$100 million in new capital expenditures
12 over the last eight years. CPAD's entire case reflects a flawed ratemaking
13 methodology that needs to be rejected by the Commission.

14 **Q. Turning first to Mr. Novak, at page 4 of his testimony, he is proposing a**
15 **calendar year 2017 historic test year and a calendar year 2019 attrition test**
16 **year, instead of CGC's July 2016 to June 2017 historic test year and July**
17 **2018 to June 2019 attrition test year, saying that CGC's proposed test years**
18 **"appear somewhat stale." Do you agree?**

19 A. No. Our team was working on this case for more than a year before it was filed
20 and the test periods and supporting data remains very valid. Our original filing
21 date was to be September 1, 2017, but the demands on our shared team by the
22 other Southern Company Gas ("SCG") local distribution company ("LDC) rate
23 cases pushed us to a December 1, 2017, filing date. In November when we

1 advised the Commission Staff and Consumer Advocate of our anticipated
2 December filing, we were requested to delay our filing into January. This was a
3 reasonable request since that still left the Commission with six months to process
4 this case before rates would go into effect on July 1, 2018, and the Commission
5 has an excellent track record of concluding rate cases generally within six months
6 without any company needing interim rates. Of course, in December, with the
7 passage of the new tax legislation, we realized that the new lower corporate tax
8 rate and other tax code changes materially impacted our requested rate relief.
9 Accordingly, we delayed our filing and essentially reran the case to incorporate
10 these important changes, which were done in time to file on February 15, 2018.
11 While the Commission is taking more than six months to process this case, CGC
12 agreed to waive any interim rates so long as a decision could be rendered in time
13 for permanent rates to take effect on October 1, 2018. Thus, the numbers we used
14 for the \$7 million attrition year revenue deficiency in our February filing were
15 and remain quite “fresh” since they were largely developed in January and
16 February. The great job our team did in redeveloping the numbers has been
17 confirmed by the discovery process. While our revenue deficiency has been
18 reduced by about \$800,000, most of that reduction was from a tax calculation
19 error our team discovered. We have great confidence in the numbers supporting
20 our updated \$6.2 million revenue deficiency. There is nothing wrong with the
21 numbers or the time period we are using.

22 **Q. But wouldn't the timing of new rates work better with an attrition year that**
23 **starts in January of 2019?**

1 A. No. The bottom line is that new rates must to effect October first of this year
2 given the various delays in getting to this point, and a January 2019 delay would
3 only further exacerbate our revenue situation. There is no legal or regulatory
4 requirement for a specific time period for an attrition year. In addition, CGC still
5 intends to file a request for an annual rate review under the alternative regulatory
6 methods statute after this case is concluded. Thus, the Commission will have an
7 opportunity to review our numbers in this case in our subsequent annual rate
8 review proceedings.

9 **Q. So CGC does not support the use of a 2019 attrition year as proposed by Mr.**
10 **Novak?**

11 A. Yes, we do not support the CPAD's 2019 attrition year. As our other witnesses
12 will address in detail, the methodology and assumptions that the Consumer
13 Advocate's witnesses used are highly inaccurate, arbitrary, and so deficient as to
14 seriously undermine our ability to provide reliable and safe service. CGC's
15 proposed attrition year is the best and only reliable information to use in setting
16 rates.

17 **Q. Mr. Novak, at page 5 of his testimony, challenges the quality of the data**
18 **provided by CGC, saying that CGC's case lacked sufficient documentation**
19 **and that the Company did not give "serious consideration" to its filing. How**
20 **do you respond to this?**

21 A. He's completely wrong. Our team used CGC's 2009 rate case and the
22 Commission's minimum filing guidelines ("MFG's") as the road map for what we
23 needed to do. As Mr. Hickerson, Mr. Morley, and Mr. Tucker can testify, we

1 prepared our MFG documentation the same way as we did in 2009 with the
2 exception that changes in software actually made our supporting spreadsheets
3 more robust, especially since we provided the unlocked Excel spreadsheets.
4 Unlike 2009, this case is substantially easier since we are not proposing any
5 material changes to rate structure or any new programs. Also unlike 2009, on the
6 day we filed our case with the Commission, we also filed the MFGs. Moreover,
7 on the same day as filing with the Commission we also provided the Petition,
8 testimony, and MFGs to the CPAD office, including the confidential information,
9 which was three weeks before the Consumer Advocate formally intervened; by
10 comparison, when the CPAD filed its testimony on July 3, it took them 6 days to
11 get us their back up and supporting workpapers. The serious consideration we
12 gave to this case resulted in us filing the direct testimony of ten witnesses,
13 including four well known experts who support a new depreciation study, a lead
14 lag study, a detailed cost of capital analysis, and an updated cost of service study.
15 We did not cut corners or otherwise fail to deliver complete and fully supported
16 documentation for our case. As I said in my direct testimony, our goal has been
17 to be transparent with this case, and we have been.

18 **Q. But what about Mr. Novak's assertion, also on page 5 of his testimony, that**
19 **"[t]his lack of documentation required the Consumer Advocate to issue**
20 **nearly 500 data requests in this Docket"?**

21 A. First, our team tells me that it is actually more like 800 individual discovery
22 requests.

23 Second, by CPAD's own admission, some of this discovery was directed

1 to building its own “complete alternative rate case” (Consumer Advocate Motion
2 to Compel, at page 10) that included checking some CGC numbers back to 2010,
3 to our last rate case. For example, one of the two things sought in its Motion to
4 Compel, at page 15, was data by month from 2010 through 2017 “[i]n order to
5 test the Company’s common plant cost allocation methodology.” So yes, we did
6 not initially provide six years of data prior to our 2016-2017 historic test year nor
7 were we obligated to anticipate everything they might want to build their own
8 “complete alternative rate case.” The fact that the Consumer Advocate chose to
9 try to develop its own rate case filing does not mean that our historic or attrition
10 test year data was wrong or incomplete.

11 Third, as Mr. Tucker can explain in more detail, many of the so-called
12 “hard-coded” numbers Mr. Novak complains about are actually numbers that are
13 extracted from our billing system, internal accounting system, or other such
14 databases that cannot simply be exported to an Excel spreadsheet with all the back
15 up.

16 Fourth, as Mr. Brooks, Mr. Hickerson, Mr. Morley, and Mr. Tucker can
17 tell you, it was clear from their in-person meetings with the CPAD witnesses and
18 attorneys over four days in late May that some of the Consumer Advocate’s data
19 support problems are not really about the data. Rather, CPAD's witnesses take
20 exception to the types of analyses and more sophisticated approaches we took to
21 the data that are outside the experiences or expectations of the CPAD witnesses.
22 For example, Mr. Novak acknowledges at page 8 that he does not appreciate the
23 multi-linear regression analysis used by Mr. Brooks, which Mr. Novak dismisses

1 as “quite convoluted.” As Mr. Brooks testifies on rebuttal, his analysis is well
2 supported by extensive documentation, and his more sophisticated approach is
3 more reflective of what actually is happening in the field.

4 Similarly, Mr. Dittmore at pages 31-35 can’t fathom the use of service
5 contracts instead of a formal cost allocation manual (“CAM”), while recognizing
6 that the Commission does not require a CAM. The real world reality, testified to
7 by Mr. Morley, is that the system we have used since the adoption of the service
8 company model in 2001 has worked exceptionally well for Chattanooga Gas and
9 its customers. Indeed, the allocation factor calculated by Mr. Novak at page 17 of
10 this testimony (1.63%) is not materially different from the 1.90% factor the
11 Company has used.

12 The bottom line is that all the discovery was for their own purpose in
13 creating alternative historic and attrition test years. If our data was as bad as they
14 claim, then they should have seriously undermined our numbers. But instead, the
15 CPAD testimony essentially ignores our case and focuses on their own made up
16 historic and attrition test years that are built on bad assumptions and which ignore
17 the critical infrastructure investments already underway and that need to be made
18 in the next year.

19 **Q. Are you saying your rate filing is without any mistakes or shortcomings?**

20 A. No rate case filing is approved as filed. But I am proud of our team because there
21 are no material deficiencies in our case and there is nothing inherently wrong with
22 the volume or quantity of data supplied by CGC in this case. In this regard, Mr.
23 Novak’s attempt in Table 1 on page 5 to extrapolate that this case is bad because

1 CGC did not get all the relief it sought in past cases is completely irrelevant.
2 Every case is based upon a unique set of numbers and issues. This case is based
3 upon the data in this case, and our record is pretty solid. If we did not have it
4 right, then after five months of intense discovery we might be seeing a bigger
5 swing between our original \$7 million request and our updated \$6.2 million
6 request. But we're not.

7 **Q. Do you agree with the statement Mr. Novak makes in footnote 2 on page 5**
8 **that CGC has failed to set out a ratemaking methodology?**

9 A. No, I do not agree. Each of our witnesses in their own way speak to different
10 aspects of the methodology we have used to develop our revenue requirement and
11 new rate schedule: Mr. Adams with his lead-lag study, Mr. Watson with
12 depreciation, Dr. Vander Weide with cost of capital, Mr. Brooks with the billing
13 determinants, Mr. Morley with cost allocations, Mr. Tucker with the capital
14 structure, rate base, revenues, and expenses, and Mr. Yardley with cost of service,
15 among others. As Mr. Cogburn testifies, the documentation we have provided,
16 including updated exhibits our rebuttal witnesses are providing, establishes the
17 methodology for setting rates in this case and for supporting any future annual
18 rate reviews under the alternative regulatory statute. The Commission should find
19 that CGC has met its statutory prerequisites for the Commission to establish the
20 required methodology in this case so that CGC may opt into an annual review of
21 rates process.

22 **Q. On page 6, Mr. Novak proposes that the Commission adopt the MFGs as a**
23 **minimum filing requirement ("MFR") and that this process also contain the**

1 **provision that the hearing officer determine whether a utility has materially**
2 **complied with the MFRs before the procedural schedule can being. What is**
3 **CGC’s position on this?**

4 A. Our rate case is not a generic rulemaking proceeding, so consideration of such
5 matters is far outside the scope of this docket. If the CPAD wants to petition to
6 initiate rulemaking or the Commission wants to undertake such a proceeding, that
7 is their decision. For purposes of this case, CGC fully complied with the MFGs at
8 the time we filed our case on February 15, 2018.

9 Q. **On page 9, Mr. Novak asserts that CGC does not have a Commission**
10 **approved WNA mechanism in place. Do you agree?**

11 A. No, I do not. Mr. Hickerson fully addresses this in his rebuttal testimony.

12 Q. **How do you respond to Mr. Novak when, at pages 18-19, he states that the**
13 **attrition period capital budget is greater than the historic levels and that it**
14 **would be “inappropriate to set rates on a speculative budget”?**

15 A. Mr. Novak completely misses the point. As I set forth in my direct testimony and
16 here as well, this case is fundamentally about better meeting the needs of our
17 customers. The testimonies of Mr. Carter and Mr. Klinger only reinforces this
18 need. Our witnesses Ms. Santolin and Mr. Ziliak demonstrate both the sound
19 necessity of our capital infrastructure investments and the reliability of the
20 budgeting process we use to develop realistic and justifiable numbers that prove
21 to be very accurate once the project is done.

22 Q. **In developing his attrition rate base, for several of the elements including**
23 **pages 21-23, Mr. Novak utilizes five-year historical averages instead of the**

1 **various element specific approaches adopted by CGC’s witnesses. Is reliance**
2 **on historical averages appropriate for rate base?**

3 A. No, it is not. As our witnesses Ms. Santolin, Mr. Ziliak, and Mr. Tucker discuss
4 in more detail, rate base costs based upon historical averages will never be able to
5 provide sufficient cash flow to keep up with the growth in investments and
6 services, especially in high growth areas like Chattanooga and Cleveland. CGC’s
7 attrition period is built upon its actual, detailed budgets that were developed based
8 upon sophisticated modeling or other analyses that reflect what is happening on
9 the ground in our service area. These costs simply cannot be ignored.

10 **Q. On pages 23 to 25, Mr. Novak questions CGC’s rate case expenses. What is**
11 **your response?**

12 A. This is our first rate case in nine years. Frankly, we anticipated a higher level of
13 scrutiny, which has certainly been the case, and so we brought in some additional
14 resources. We felt it was appropriate to update our depreciation schedules and
15 prepare a new lead-lag study. Given the changes in the marketplace, we also
16 wanted a new cost of service study, which is required by MFG 55 and which Mr.
17 Novak completely rejected. As Mr. Tucker explains, we added some additional
18 resources we needed to process the case which Mr. Novak has also zeroed out.
19 Finally, regarding attorney’s fees, we engaged two lawyers who happen to be
20 from different law firms, to represent us in the case. Each of these lawyers
21 provide us with the experience and resources we need to handle a case of this size
22 after nine years. I have also been advised that in our prior cases we have used
23 three and even four lawyers, so there is nothing unusual or excessive about our

1 legal team. Their estimate for legal fees was legitimately higher than in the past --
2 given the number of years since our last case, the greater number of witnesses, the
3 addition of the AUA issue and the ARM request and the potential legal issues
4 associated with both, the way the case filing was delayed in order to incorporate
5 the tax law changes, and the unprecedented volume of discovery, this case has
6 clearly required a bigger budget and a lot more lawyer time in addition to our own
7 employees and other outside consultants. The Company is entitled to its
8 representation and to recover its reasonable and prudently incurred expenses. Mr.
9 Novak's exclusion of the rate design and consultant's expenses and cutting the
10 legal expenses to \$200,000 is the text book definition of arbitrary. Mr. Novak's
11 rate case expense adjustments should be rejected as unreasonable and
12 inappropriate.

13 **Q. In further questioning CGC's rate case expenses, Mr. Novak goes so far as to**
14 **suggest that the Commission may want to sever this from the rate case and**
15 **evaluate these expenses in a separate docket. Is this necessary?**

16 A. No, and that would be highly inappropriate and contrary to past decisions where
17 rate case expenses were awarded in the case in which they occurred. To sever the
18 rate case expenses and consider them in another docket only adds to those costs
19 by having a second proceeding. This is not in the ratepayers' best interest. The
20 documentation is here and available to the Commission. The rate case costs, as
21 we presented them, are reasonable and prudent and should be approved.

22 **Q. Beginning on page 35, Mr. Novak discusses CGC's alignment and usage**
23 **adjustment ("AUA") and his description of the history of the AUA generally**

1 **tracks what Mr. Hickerson said. However, Mr. Novak’s conclusion is that**
2 **CGC should not be allowed to recover the customer revenue deficiency.**

3 **What is your response to this testimony?**

4 A. Mr. Hickerson is addressing the substance of Mr. Novak’s position. What I
5 would like to point out is the inconsistency in Mr. Novak’s position. On page 38,
6 Mr. Novak says in connection with the 2% cap imposed by the Commission, “As
7 a result, CGC has been required to defer (with interest) the cumulative AUA
8 balance on its books.” On the other hand, Mr. Novak says the Commission
9 should not allow CGC to recover the deficiency due to the cap that the Consumer
10 Advocate wanted. I’m not a lawyer, but it seems to me that if the Commission-
11 imposed cap caused the customer deficiency, then the Commission has the tools
12 to fix it.

13 **Q. Do you have any concluding remarks about Mr. Novak’s testimony?**

14 A. Yes, his \$2.8 million rate reduction is based upon assumptions and conclusions
15 that are not well supported, inconsistent, and not as detailed or sophisticated as
16 the data, processes, and procedures used by the Company. His rate reduction is
17 not supported by the facts of this case and should be rejected.

18 **Q. Turning next to Mr. Dittmore, do you have any comments about his**
19 **testimony?**

20 A. Yes. Mr. Morley and Mr. Tucker will substantively address most of Mr.
21 Dittmore’s testimony, with other witnesses responding to other parts as
22 appropriate. From my perspective, the concerns I have for this testimony are his
23 issues with our cost allocations, and especially his issues with the absence of a

1 formal, written cost allocation manual or “CAM.”

2 **Q. Please continue.**

3 A. I appreciate that from Mr. Dittmore’s perspective a formalized cost allocation
4 manual may be desirable, but CGC simply does not need one. As Mr. Morley
5 testifies in detail, the service agreements and other processes we have in place
6 meet the need and provide the necessary transparency to trace and audit the
7 allocations. The Commission did not question this process in our 2004, 2006, or
8 2009 rate cases, and there is no need now that would be served by such an
9 expensive and time-consuming process that customers would ultimately pay for.

10 **Q Mr. Dittmore at page 15 of his testimony also challenges the 25 percent**
11 **increase in employees that we have proposed. Do you need these people?**

12 A. Yes, we do. As I addressed in more detail in my direct testimony, these new
13 employees are very necessary to improve the operational integrity and safety of
14 our system due to new regulations, better training, system expansions and growth,
15 and improved customer services and responsiveness. His attempt to exclude these
16 new employees should be rejected.

17 **Q. Dr. Klein has used a double-leverage cost of capital approach and he**
18 **proposes a substantially lower rate of return than that proposed by CGC.**
19 **What is the company’s position with respect to Dr. Klein’s double-leverage**
20 **approach and his resulting rate of return?**

21 A. We strongly disagree with the double-leverage approach and the level of his
22 proposed return. Our witnesses Dr. Vander Weide, Mr. MacLeod, and Mr.
23 Tucker will address the various specific problems with Dr. Klein’s testimony. All

1 I would add to this is that the failure to provide CGC with an opportunity to earn a
2 fair and reasonable return can have serious legal consequences and preclude or
3 delay us from undertaking the kinds of investments the CRMA and all of our
4 customers need in Hamilton and Bradley counties. I strongly urge the
5 Commission to set our return at a level where we can reasonably raise sufficient
6 capital and where there will be a real incentive to invest in our service area.

7 **IV. CONCLUSION**

8 **Q. Do you have any concluding remarks?**

9 A. Yes. Chattanooga Gas needs the resources we have asked for in order to ensure
10 that we can continue to meet the growing energy demands of the region. We have
11 made substantial infrastructure investments, and we are ready to make the next
12 round of capital expenditures. Our overall capital and O&M expenses are prudent
13 to support these efforts. The complete rate request package we have filed,
14 reflecting the new, lower corporate tax rate and other changes, will provide us
15 with rates that will enable us to meet these public needs. The alternatives we have
16 developed to address the weather normalization issues and the deferred customer
17 revenue deficiency associated with AUA are in the public interest and provide a
18 reasonable means of paying for that gas already consumed. Finally, as the
19 Commission reviews the methodologies for the various components that make up
20 our rate case, we are asking that the Commission to clearly and specifically
21 articulate the methodology you are approving or using, much as you did in your
22 November 8, 2010, rate case order, so there is a clear record of an approved rate
23 case methodology. This approved methodology will support our annual rate

1 review process that will help provide our customers and the Commission with
2 greater transparency regarding our operations and the new investments we must
3 make.

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

5 A. Yes.