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

September 10, 2018

IN RE:

PETITION OF CHATTANOOGA GAS COMPANY FOR APPROVAL OF AN ADJUSTMENT IN RATES AND TARIFF; THE TERMINATION OF THE AUA MECHANISM AND THE RELATED TARIFF CHANGES AND REVENUE DEFICIENCY RECOVER; AND AN ANNUAL RATE REVIEW MECHANISM	))))))	**DOCKET NO. 18-00017**

POST-HEARING BRIEF OF CHATTANOOGA GAS COMPANY

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POST-HEARING BRIEF OF CHATTANOOGA GAS COMPANY

Chattanooga Gas Company ('CGC" or "Company"), pursuant to the Order Establishing Post-Hearing Procedural Schedule, issued on August 27, 2018, hereby submits its post-hearing brief in this matter to the Tennessee Public Utility Commission ("TPUC" or "Commission"). In support of its $6,110,420 base revenues rate increase and the associated adjustments and tariff changes, the proposal to terminate the AUA and recover the deferred revenue deficiency, and to identify CGC's rate case methodology for its future annual rate review petition, CGC states as follows:

I. Introduction

Section II of this brief provides an executive summary of CGC's case. To comprehensively address both the key issues in this case as well as the detailed specific issues necessary for decision in this matter, CGC presents its substantive case in Sections III and IV that follow. In Section III, CGC will provide a narrative discussion of the 12 major issues in this proceeding. In Section IV, CGC will address the 71 detailed issues necessary for resolution. The identification of Section IV issues generally tracks the corresponding issues in CGC's 2010 rate case order, with additions and deletions based upon the specific issues raised in this case. Generally, for most of the Section IV issues, CGC's discussion is only a couple of sentences giving the substantive information, the methodology relied upon, and the appropriate evidentiary references. In addition, Section IV may have one or more discrete issues that correspond to the Section III major issues. By the combination of the evidence of record and the arguments and analysis presented in Sections III and IV, CGC believes that it has identified all of the relevant issues and corresponding positions necessary for the Commission's approval of CGC's requested rate relief and tariff changes. In addition, through this brief and the evidence, CGC has presented the Commission with the information it needs to approve CGC's proposal to terminate the AUA, return customers to the WNA, and recover the deferred revenue deficiency that has accrued since 2010. Finally, CGC has provided the necessary documentation of CGC's rate case methodologies for the Commission to identify and approve such methodologies sufficient to support CGC's annual rate review process to be filed after the conclusion of this case.

For convenience, CGC shall utilize the following abbreviations or references: The Consumer Protection and Advocate Division of the Attorney General's office shall be referred to as "CPAD" or "Consumer Advocate"; the Chattanooga Regional Manufactures' Association as "CRMA"; the final order in CGC's 2009 rate case in Docket No. 09-00183, issued on November 8, 2010, shall be referred to as the "2010 Order"; references to the Hearing Transcript shall be noted as "Tr. Vol. A/B/C," followed by "at" and the page number and line references; references to prefiled testimony shall be to the format "Party, Witness Last Name, Direct/Rebuttal if CGC, and "at" followed by the Page and Line Number(s)," so for example, "CGC Tucker Direct at 6, Lines 2-3."; references to prefiled testimony exhibits shall be in the form "Party, Witness Last Name, Direct/Rebuttal if CGC, exhibit number as identified by the witness"; hearing exhibits shall be "Exhibit" followed by the number assigned at the hearing; references to the statutes shall be to the Tennessee Code Annotated or "T.C.A."; the minimum filing guidelines shall be noted as the "MFGs"; the Alignment and Usage Adjustment shall be abbreviated as "AUA"; the Weather Normalization Adjustment is abbreviated as "WNA"; and the Interruptible Margin Credit Rider shall be noted as the "IMCR." CGC also notes that notwithstanding the prior names for the Tennessee Public Utility Commission, Tennessee Regulatory Authority ("TRA") or Tennessee Public Service Commission ("TPSC"), that CGC shall generally use the term "Commission" when referring to the agency unless it is directly quoting from a source that uses the then contemporaneous terminology. Other terms are defined within their appropriate sections.

Finally, on August 28, 2018, CGC filed an updated Gary Tucker exhibit with the Commission. This exhibit is an Excel workbook that was requested by the Commission staff and presents in the first nine tabs the same information requested earlier in the proceeding by the Commission Staff (referred to sometimes as the "workbook"). This workbook simply presents information in a different format than CGC provided in its MFGs and Mr. Tucker's exhibits. The rest of this document contains the same information as in Mr. Tucker's rebuttal exhibits with the addition of MFG 25-1, which was provided elsewhere in the docket but inadvertently omitted from Mr. Tucker's rebuttal exhibits. The advantage of this August 28, 2018, filing is that it contains in one place the Staff workbook schedules as well as Mr. Tucker's rebuttal exhibits and key MFGs as previously updated, all of which are linked so that it is possible to trace a number throughout the schedules and to its source. Thus, except for the first nine tabs (in red), the tab names and data is the same as what was in Mr. Tucker's rebuttal exhibits. In other words, it is possible to look at either the August 28, 2018, Excel filing or Mr. Tucker's rebuttal exhibits and see the exact same information, so there should not be any issues as to whether the information is already in the record. For convenient reference, this brief shall utilize the August 28, 2018, document and reference this information as the "Tucker Combined Exhibit" followed by the tab name and where appropriate the line and cell reference.

II. Executive Summary

CGC has provided competent and material evidence to support its proposed base revenues rate increase of $6,110,420. It has been nearly nine years since CGC filed its last request for a rate adjustment. In the intervening years the Company has been a partner in the tremendous growth in Hamilton and Bradley counties. Yet, after investing more than $100 million in infrastructure, CGC must increase its capital investment program. As someone at the public hearing said, what good is cheap gas if you can't get it. CGC's proposal in this case will provide the Company with the necessary and appropriate rate relief for new and improved infrastructure and other critical investments that will enable the Company to timely and cost effectively deliver natural gas to customers. In approving CGC's rate request, CGC is also requesting that the Commission identify the methodology supporting its final decisions; CGC's request is based upon thoroughly documented and sound methodologies that when approved will support CGC's annual rate review process to be filed after the conclusion of this case.

The Company's case is based upon a proposed overall rate of return of 7.83% that is founded upon a capital structure of 49.23% common equity at a cost of 11.25%, short-term debt of 6.30% at a cost of 3.01%, and long-term debt of 44.47% at a cost of 4.73%. The methodology for this capital structure and return is the same as the Company has used in its past rate cases, which is the capital structure and cost of CGC's parent Southern Company Gas. CGC's overall rate of return is in the middle of the returns of other Tennessee regulated natural gas utilities (7.47% and 7.98%) and more comparable to the overall industry (7.14% to 7.26% on average) than that proposed by CPAD:

CGC Post-Hearing Brief Table 1: ROE-Equity-ROR Comparison			
Entity	ROE	Equity	ROR
CGC Proposed	11.25%	49.23%	7.83%
Piedmont	10.2%	52.7%	7.98%
Atmos (using 2017 ROR)	9.8%	53.85%	7.47%
CPAD Proposal with Double-Leverage	9.0%	34.66%	5.93%

The CPAD's double leverage approach for capital structure is not supported by the facts or law – Southern Company Gas does not rely upon Southern Company for equity infusions, CPAD's cost of equity does not reflect the risk associated with the substantial debt CPAD would impute to CGC, and the overall rate of return of 5.93% is substantially below Tennessee and industry returns, almost 25% below the lowest authorized return in Tennessee, and would severely hinder CGC's ability to meet even the basic needs of customers. CPAD errs by equating CGC to large electric/gas holding companies that realistically are not a reasonable surrogate for a small local distribution gas utility like CGC.

CGC's attrition year of July 1, 2018 to June 30, 2019, is based upon a forward looking budget process that accounts for historical information as well as "known, measurable and reasonably anticipated estimates and forecasts when available." Tr. Vol. I C, at 219, Lines 22-24. Since ratemaking is a forward-looking enterprise, "rates are set for the future, and the estimated effect of all reasonably expected changes affecting the rate of return, including increases in expenses and investments, must be taken into consideration in the establishment of a rate." *Tenn. American Water Co. v. Tenn. Regulatory Auth.*, 2011 WL 334678, at 15 (Tenn. Ct. App. Jan. 28, 2011), *citing American Ass'n of Retired Persons v. Tennessee Pub. Serv. Comm'n* 896 S.W.2d 127, 133 (Tenn. Ct. App. 1995). The forward-looking budget process also includes allocations from CGC's services company, which provides a cost-effective way of obtaining necessary services for customers; the allocation methodology for services company costs has been used by CGC since 2000 and reviewed and approved in its 2004, 2007 and 2009 rate cases.

CGC's attrition year requests the full recovery of its incentive compensation program because employee salaries are based upon the middle of the market, with a small part of that base compensation put at-risk to help focus performance on customer service. The budget includes ten new employees, who have been already hired or who are in the process of being hired. The Company has included the recovery of pension and other post-employment benefits costs based on generally accepted accounting principles ("GAAP") and not the cash basis proposed by CPAD which is contrary to GAAP and would provide an irregular pattern of contributions that could provide unnecessary swings in an annual rate review process.

The rate design and rates CGC is proposing to implement its rate increase is based upon a cost of service study that confirms current rate disparities between large customers basically subsidizing residential and small commercial customers. However, rather than blindly applying the study's results, CGC has taken an incremental approach with the proposed rates building upon the methodology approved in the Company's 2010 Order. The resulting rates are fair and reasonable. The CRMA's issues with CGC's tariff policies on incremental gas and penalty provisions may be good for individual customers, but CGC must be ready and able to serve all customers, especially firm customers.

Contrary to the Company's forward-looking vision is the Consumer Advocate's case that would condemn the utility to mediocracy and irrelevance. CPAD's calendar year 2019 attrition year is an arbitrary period that uses a backward looking five-year historic average approach that serves only to drive rates down. More importantly CPAD's approach ignores established regulatory law and decisions of this Commission (*see* 2010 Order, at 13) by not including known, measurable, and reasonably anticipated changes that are required to be included in rates under the *Tennessee American Water* standard cited above. For example, CPAD ignores the ten new employees, already being recruited, and critically necessary capital projects, like the Red Bank-Signal Mountain pipeline that will replace a gas supply CGC is losing and the Lookout Mountain pressure improvement project, both of which are currently under way. CPAD's approach would leave CGC under staffed, underfunded, and unable to meet customer needs likely meriting another rate case much sooner than nine years.

There is competent and material evidence of record supporting CGC's rate case expenses which are fair and reasonable, and under the law entitled to full recovery over the five-year amortization schedule as proposed by the Company. CPAD's attempt to "share" expenses with stockholders and to cap legal fees is arbitrary and contrary to the law. There is no basis to disallow any group of expenses or specific expenses because CPAD has not engaged in the necessary close examination of expenses nor offered a specific determination on the record for any expenses it thinks should be disallowed as unreasonable or imprudent.

Finally, CGC's proposal to terminate the AUA, return the C-1 and R-1 customers to the WNA, and recover the deferred revenue deficiency through the IMCR should be approved. There is no dispute regarding how the AUA deferred revenue deficiency occurred or how the amount is calculated. CPAD opposes the recovery of any deferred deficiency claiming it is not specifically authorized by the 2010 Order. But the 2010 Order created the deferred deficiency by capping annual rate adjustments at 2% of margin and forwarding any excesses or deficiencies into subsequent years. Thus, the 2010 Order already has a recovery mechanism, which CGC is simply seeking to modify as a part of the termination of the AUA. Given the Commission's plenary authority to regulate utilities, the Commission has the full legal authority to utilize a different recovery mechanism for the deferred revenue deficiency so long as the final decision is consistent with the statutory fair and reasonable standard.

III. Key Issues

A. Capital Structure and Cost of Capital

CGC's capital structure and its corresponding cost of capital, especially the cost of equity, must be set at a level that provides the Company with the opportunity to earn a reasonable overall return. CGC Vander Weide Direct, at 2, Lines 12-17. CGC's proposed overall rate of return of 7.83% is based upon a capital structure of 49.23% common equity at a cost of 11.25%, short-term debt of 6.30% at a cost of 3.01%, and long-term debt of 44.47% at a cost of 4.73%. Tucker Composite Exhibit (Exhibit GAT 3-1); CGC Vander Weide Direct, at 51, Line 3 through Page 52, Line 16. CGC Tucker Direct, at 18, Lines 1-6. These ratios and costs are the Southern Company Gas capital structure and costs, consistent with the approach used in CGC's prior rate cases since CGC has no debt or equity of its own. Tucker Composite Exhibit (Exhibit GAT 3-1); CGC Tucker Direct, at 18; 2010 Order, at 41.

Based upon this capital structure and costs of debt and equity, CGC's proposed overall rate of return is 7.83%, which is more than its current authorized return of 7.41%. Tucker Composite Exhibit (GAT 3-1); 2010 Order, at 45. But when you compare CGC's proposed overall return of 7.83% with the last rate case decisions for Piedmont and Atmos – 7.98% for Piedmont and 7.73% for Atmos[1] – one can only conclude that CGC's proposed overall return is reasonable. Docket No. 11-00144, Piedmont, Order Approving Settlement Agreement, at 4 (April 18, 2012) (hereinafter, "Piedmont Order"); Docket No. 14-00146, Atmos, Order Approving Settlement, (November 4, 2015), at Exhibit 1 Stipulation and Agreement, at 4 and Settlement Attachment A, Schedule 8 to the Stipulation and Agreement (hereinafter, "Atmos Order"). Similarly, the 5.93% overall return proposed by the Consumer Advocate is unreasonable and out of step with what natural gas utilities need to serve their customers. CPAD Klein, Klein Exhibit, at Page 2 of 17.

The dispute with respect to capital structure and cost of capital focuses on the percentage of equity in the capital structure and the cost of that equity. Dr. Klein, CPAD's witness, did not object to the short term and long-term debt amounts proposed by CGC or their cost rates. CPAD Klein, at 8, Lines 3-16.

CGC's witness Dr. Vander Weide explained that risk drives the interrelationship between equity amounts and equity returns. CGC's 11.25% return on equity is necessary because CGC's capital structure has a 49.23% common equity ratio. While CGC's 11.25% return on equity may be higher than Piedmont at 10.2% and Atmos at 9.8%, those utilities have equity amounts of approximately 53% that offset their lower returns on equity. *See* Atmos Order and Piedmont Order, referenced above. So instead of focusing on individual numbers, the key is to look at the overall rate of return produced by the combinations of debt/equity ratios and returns. This is

[1] In the Atmos annual rate review conducted in Docket No. 17-00091, Atmos reported an overall return of 7.47% that is certainly more in line with CGC's proposed overall return of 7.83% than CPAD's overall return of 5.93%. Docket No. 17-0009, Atmos 2017 Reconciliation Filing, Corrected Revenue Requirement Model, at Schedule 9 (March 1, 2018).

how CGC's overall rate of return of 7.83% falls between Atmos and Piedmont even though CGC's capital structure has less equity but a higher return.

The problem with CPAD's approach is it is driven by a low equity ratio and a low equity return, resulting in CPAD's proposed rate of return of 5.93%. An overall return at this level is confiscatory and fails to recognize the relationship between the required return on equity and the financial risk associated with the percentage of equity in the capital structure. CPAD's approach would discourage investment in CGC and violate the standard set by the United States Supreme Court that a utility should be allowed to earn a return on its investment that is commensurate with the returns being earned on other investments of the same risk. *See Federal Power Comm'n v. Hope Natural Gas Co.*, 320 U.S. 561, 603 (1944), and *Bluefield Water Works and Improvement Co. v. Public Service Comm'n.* 262 U.S. 679, 692 (1923). CPAD's 5.93% is suspect on its face given that it is more than 150 basis points lower than any other TPUC regulated natural gas utility's overall rate of return.

CPAD challenged CGC's proposed equity ratio of 49.23% by proposing a substantially lower equity amount, more than 10 percentage points lower, based upon a double-leverage analysis that uses the Southern Company's forecasted equity percentage to arrive at an equity ratio of 34.66% and a cost of equity of 9.0%. CPAD Klein, at 5, Line 13 through Page 6, Line 8; CPAD Klein, Klein Exhibit, at Page 2 of 17. These proposals are economically incorrect. CGC shall first address why the double-leverage approach as proposed by CPAD's witness Dr. Klein is inapplicable to CGC and then why Dr. Klein's return on equity analysis is wrong.

Looking first at double-leverage, while the Commission may have previously used a double-leverage approach for other utilities, under the specific facts of this case, the double-leverage approach proposed by CPAD for CGC both violates the fundamental legal standard for a compensatory return and is economically inappropriate.

First, as Dr. Vander Weide explained, "the double leverage approach to setting the utility's capital structure as recommended in this proceeding by Dr. Klein, violates the fundamental principals [sic] of financial economics, that the required rate of return on an equity [investment][2], one, is equal to the required rate of return on other investments of comparable risk; two, depends only on the risk of that investment, not on the risk of the owners' other business activities; and three, depends only on the business and financial risk of that investment – not on how the owner finances the equity portion of the investment." Tr. Vol I B, at 112, Lines 4-16. The problem with the application of a double-leverage approach to CGC is that it produces a very high percentage of debt. "The greater the percentage of debt in the capital structure, the greater the risk of investing in the company's stock." CGC Vander Weide Rebuttal, at 19, Lines 7-9. As will be discussed below, because Dr. Klein does not adjust the equity cost to reflect this high debt percentage, Dr. Klein is not meeting the legal standards for a fair and reasonable return.

Second, there are no facts supporting the use of double-leverage for CGC. As Mr. Macleod explained, "Use of the double leveraged approach to capital structure implies that the equity on subsidiaries' books was ultimately derived or financed from a parent company's debt."

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[2] Dr. Vander Weide advises that the word used in the transcript, "environment" should be "investment."

Tr. Vol. I B, at 142, lines 13-15. But as Mr. MacLeod's testimony conclusively demonstrates, the exact opposite is true – The Southern Company is actually a net recipient of cash from Southern Company Gas on which CGC's capital structure is based. CGC MacLeod Rebuttal, at 3, Line 10 through Page 6, Line 81; CGC MacLeod Exhibits GBM-1, GBM-2, GBM-3, and GBM-4. Therefore, "Southern Company Gas and Chattanooga Gas have not received equity that was financed with parent company debt. There are no facts to support Dr. Klein's assumption that equity at Southern Company Gas and Chattanooga Gas was financed with parent company debt, and thus no basis for a double leverage adjustment." Tr. Vol. I B, at 145, Lines 4-10. Dr. Klein's assumption that equity at Southern Company Gas and Chattanooga Gas was financed with parent company debt is baseless, and thus there is no basis for a double leverage adjustment. CGC MacLeod Rebuttal, at 6, Line 20 through Page 7, Line 10; Tr. Vol. I B, at 142-144.

Third, if you look at the cases in which the Commission has applied a double-leverage approach, the parent corporations are, not surprisingly, usually in the same business as the subordinate utility. For example, looking at the telephone company case Mr. Walker used in the June 19, 2018 motion hearing in this docket, that case involved the GTE local operating telephone company General Telephone Company of the Southeast and its parent company, General Telephone and Electronics Corporation, which was primarily a holding company of telephone companies. General Tel. Co. v. PSC OF Tennessee, 1985 Tenn. App. LEXIS 2657 (February 6, 1985) (not available on WestLaw). Similarly, Kingsport Power Company, held up by the Consumer Advocate as the poster child for double-leverage, has a corporate parent that is in the same business as Kingsport – the generation and distribution of electric power. Docket No. 16-00001, Order Approving Stipulation and Settlement Agreement, at page 1 of the Settlement Agreement (October 19, 2016); *see also* Docket No. 16-00001, Prefiled Direct Testimony of Mr. Isaac Webb, at 2, Line 17 through Page 3, Line 2 (Jan. 4, 2016) and the parent company website at http://www.aep.com/about/ (last viewed September 9, 2016) ("AEP is one of the largest electric utilities in the U.S., serving nearly 5.4 million customers in 11 states.").

On the other hand, by choosing Southern Company's forecasted equity as the equity percentage for Chattanooga Gas, Dr. Klein is not using a business comparable to CGC: "CGC is a small natural gas utility that serves approximately 66,000 customers in Hamilton and Bradley counties in southeast Tennessee. In contrast, Dr. Klein's combination electric/natural gas companies serve millions of customers in multistate regions." CGC Vander Weide Rebuttal, at 5, Lines 4-7. It's an apple to artichoke comparison that does not work. It makes sense to use Southern Company Gas's capital structure and capital costs as a surrogate for CGC since Southern Company Gas is in the natural gas business and all of CGC's debt and equity is financed by Southern Company Gas. This is what was done in CGC's prior rate cases in 2004, 2007, and 2009. CGC MacLeod Rebuttal, at 2, Lines 12-16; 2010 Order, at 41. But to now apply the double-leverage approach to CGC and substitute Southern Company's equity and debt for Southern Company Gas' equity merely because now it is owned by Southern Company, a large multistate electric utility holding company prior to acquiring AGL Resources, is contrary to the purpose of double-leverage and, as Mr. MacLeod demonstrated, not factually justified.

Fourth, Dr. Vander Weide testified that double-leverage is rarely used these days. Tr. Vol. I B, 134, Line 19 through Page 135, Line 15 (discussion regarding Exhibit 5, further discussed below). However, if the Commission feels compelled to use the double-leverage approach, then his recommendation is to use it correctly by recognizing the greater financial risks caused by the double-leverage approach.

> Because investors in companies with highly-leveraged or <u>debt heavy capital</u> structures experience greater financial risk than investors in companies with less leveraged capital structures, and investors demand a higher return on investments of greater risk, Dr. Klein should have adjusted his cost of equity estimate for CGC upward to reflect the greater financial risk associated with his debt-heavy recommended capital structure.

CGC Vander Weide Rebuttal, at 4, Lines 4-9 (emphasis added). To correct for this imbalance, Table 1 in Dr. Vander Weide's rebuttal testimony provides the detailed calculations. As Dr. Vander Weide explained:

> The higher financial risk associated with Dr. Klein's recommended 34.66 percent equity ratio compared to the 49.23 percent equity ratio of CGC/Southern Company Gas would require an upward adjustment to Dr. Klein's recommended cost of equity of approximately 230 basis points, from 9.0 percent to 11.28 percent.

CGC Vander Weide Rebuttal, at 20, Line 21 through Page 21, Line 2; Dr. Vander Weide's Table 1, follows on Page 20 of his Rebuttal Testimony; *see also*, Tr. Vol. I B, at 135, Line 16 through Page 136, Line 12.

This adjustment to Dr. Klein's return on equity assumes that his return on equity is otherwise correct, which CGC does not believe to be the case. Putting aside the double-leverage issue for a moment, given the relationship between the percentage of equity and the cost of equity, it is important to calculate equity correctly in the first place. As Dr. Vander Weide explains at length in his direct testimony, in calculating a proxy return on equity "that allows CGC to attract capital on reasonable terms, and that allows CGC to maintain its financial integrity," he utilized a number of traditional models and methods, but all driven by companies of comparable risk – natural gas utilities. Tr. Vol. I B, at 108, Lines 22-25; CGC Vander Weide Direct, at 2, Line 19 through Page 3, Line 8; CGC Vander Weide Rebuttal, at 24-35; Tr. Vol. I B, generally pages 110, 121-123. In contrast, Dr. Klein uses a group of very large publicly-traded combination electric/natural gas utilities that serve millions of customers as proxies for the risk of investing in the Company, which have no relationship to CGC. CPAD Klein, at 17, Lines 9-17; CPAD Klein, Klein Exhibit, at pages 3 of 17 through 5 of 17.

The problems inherent in CPAD's overall results driven capital structure, return on equity, and, ultimately, the overall rate of return is demonstrated in the exhibit CPAD attempted to cross examine Dr. Vander Weide on, Exhibit 5. Recognizing that every case is settled or decided on its own unique merits, in establishing a proxy for CGC looking at returns for other natural gas utilities can provide some useful information. With that perspective, Exhibit 5, dated April 17, 2018, summarizes major rate case decisions analyzed by S&P Global. On page 1, Exhibit 5 shows that for natural gas utilities in the first quarter of 2018 the median return on equity is 9.8% versus 9.6% in 2017. So, on its face, a higher equity return than Dr. Klein's 9.0%, and lower than Dr. Vander Weide's 11.25%. But again, you cannot view return on equity in a vacuum. The appropriateness of the equity return is contingent upon how much debt and equity is in the capital structure and the appropriate risk. CGC Vander Weide Rebuttal, at 3, Line 22 through Page 4, Line 13.

The table on page 7 of Exhibit 5, provides the rest of the information necessary to understanding this median 9.8% return on equity. On page 7, at the very bottom, the Gas Utilities – Summary Table presents the average overall allowed rate of return, along with the average allowed return on equity and the average percentage of equity in the capital structure. Thus, corresponding to the 9.72% average allowed return on equity in 2017 is an average allowed equity ratio of 49.88% for an average overall allowed rate of return of 7.26%. Similarly, for the first quarter of 2018, the average allowed return on equity is 9.68%, the average allowed equity ratio is somewhat higher, 51.05%, and the average overall allowed rate of return is 7.14%. Thus, reflecting that lower equity returns require higher equity ratios, not lower ratios as CPAD proposes.

To help make sense of these numbers, CGC has prepared a summary comparison table that shows the average return on equity ("ROE"), the equity percentage of the capital structure ("Equity"), and the overall rate of return ("ROR"). The comparisons in the table include CGC's proposed rates, the applicable numbers from Atmos and Piedmont, the 2017 and 2018 gas utilities' numbers from Exhibit 5, the CPAD's proposal, CPAD's proposal with the ROE adjusted a minimum of 230 basis points as proposed by Dr. Vander Weide, and CGC's proposed capital structure with the current 10.3% ROE and CGC's proposed capital structure:

CGC Post-Hearing Brief Table 1: ROE-Equity-ROR Comparison

Entity	ROE	Equity	ROR
CGC Proposed	11.25%	49.23%	7.83%
Piedmont	10.2%	52.7%	7.98%
Atmos (using 2017 ROR)	9.8%	53.85%	7.47%
2017 Gas Utilities	9.72%	49.88%	7.26%
2018 1Q Gas Utilities	9.68%	51.05%	7.14%
CPAD Proposal with Double-Leverage	9.0%	34.66%	5.93%
CPAD Double-Leverage Adjusted ROE	11.28%	34.66%	6.72%
CGC Using Current ROE	10.3%	49.23%	7.36%

The most important take away from this comparison is that CPAD's double-leverage approach completely ignores the economic and financial relationships between the equity component and the return on equity of the capital structure and is out of line with other Tennessee utilities and across the country with natural gas utilities. Moreover, using the double-leverage approach with an 11.28% adjusted ROE would still put CGC substantially below the industry at large and other Tennessee natural gas utilities. Under these circumstances, any double-leverage capital structure for CGC is not economically viable.

As for CGC's proposed rate of return of 7.83%, this rate is consistent with the overall returns for Atmos and Piedmont and is only slightly higher than the Exhibit 5 averages for 2017 and 2018. However, the 2017 and 2018 utility data in Exhibit 5 represents averages, meaning some are higher and some are lower. Understanding this is important to Dr. Vander Weide's point that there is greater risk associated with a smaller utility like CGC in a smaller market like Chattanooga, verses a larger utility in a larger market like the greater Nashville that is served in part by Atmos or Piedmont. Thus, CGC's overall return should be higher than the averages due to the greater risk. Alternatively, using CGC's current ROE of 10.3% (which is also the average of Dr. Vander Weide's cost of equity model results before any adjustments) is more consistent with the Exhibit 5 averages, recognizing some higher risk as a smaller utility in a smaller market. Tr. Vol. I B, at 136, Line 13 through Page 138, Line 17; CGC Vander Weide Direct, at 50, Lines 3-8 and Table 2.

The bottom line is that the overall rate of return for CGC must be above 7%, and more appropriately in the mid to high 7% range. Under no circumstances should the overall rate of return for CGC be below 7%, and definitely not below 6% at 5.93% as proposed by Dr. Klein. When competent and material evidence of record is properly considered and evaluated, CGC's overall rate of return of 7.83% is appropriate based upon CGC's proposed capital structure and rates, and this is what the Commission should approve.

B. Incentive Compensation.

"Chattanooga Gas Company's compensation programs are designed to pay a reasonable compensation level targeted at the middle of the road or the median level of pay. Therefore, disallowing any portion of compensation will result in Chattanooga Gas Company not being able to recover legitimate business expenses which may impact how we structure future employee compensation and how we attract, engage, and retain the talent needed to serve our customers." Tr. Vol. III C, at 8, Line 19 through Page 9, Line 2.

CGC is asking the Commission to depart from what it did in CGC's last rate case and approve the recovery of all incentive compensation. As Mr. Garvie further explained on cross examination, incentive compensation is built into the core compensation and not something over and above core compensation:

> So at-risk compensation is simply – I mean, pick a 50,000-dollar employee. That is their target level of compensation. That is what the market says their job is worth. We take 10 percent of that, $5,000, and we tie to financial measures and operational measures to gain the balance that we discussed.
>
> Sure – could you put all of that in fixed compensation? Absolutely. And our ask for the commission would be the same amount today if we delivered that all in fixed compensation. The 50,000 would just be the 50,000. No variable. No at-risk fee. Our ask would be exactly the same for the commission. We determined through best design compensation practices that you need to tie a piece of that so that our employees have alignment with our customers' needs, and we do that through operational and financial integrity.

As Mr. Garvie's testimony relates, CGC could choose not to offer any incentive compensation component, and the incentive compensation amount now at issue would be ordinary compensation, and there would be no dispute about CGC's ability to recover it. Tr. Vol. III A, at 15, Lines 19-25. But CGC chooses to put some of an employee's base compensation at issue because such at risk compensation incentivizes employees to work better for the benefit of customers: "[L]inking pay to performance efficiently and economically aligns employee and customer interests. Placing a portion of employee compensation at-risk increases individual accountability and drives our employees to achieve higher levels of performance, customer satisfaction, and productivity." CGC Garvie Rebuttal, at 4, Lines 17-21. Employees may not wake up thinking about their incentive compensation, but they are constantly thinking about customers and how to do the best for them.

It is also appropriate to include financial measures as a part of the incentive compensation system. As Mr. Garvie further explained:

> A well-designed compensation program must have checks and balances between financial measures and operational measures. Too much of any one type of metric will create imbalances and with undesirable outcomes.
>
> For example, balancing measures that drive employees to spend money to improve customer service, i.e., operational measures, while sticking to a budget to maintain financial integrity, i.e., financial measures, is the balance that we look for in our plan.
>
> Furthermore, it is important for our employees' compensation to be balanced within the entire Southern Company system; thus, we link a small piece, a very small piece, 15 percent of an employee's pay to the greater Southern Company system. The reason is because Chattanooga Gas Company customers and all of the Southern customers benefit from being a part of a larger team. Some of the benefits of being a part of a larger team are access to resources, economies of scale, employee talent, shared services, and technical expertise, etc.

Tr. Vol. III A, at 9, Line 8 through Page 10, Line 3.

As the record reflects, full recovery of CGC's incentive compensation is in the public interest and should be approved. The Consumer Advocate's proposal is inconsistent with sound compensation principles Mr. Garvie discussed in his rebuttal, and so the CPAD's proposed disallowance should be denied.

In recommending that all incentive compensation be removed, the Consumer Advocate's position is contrary to the 2010 Order that allowed for the recovery of 50% of the Company's Annual Incentive Plan or AIP, which is what the Consumer Advocate recommended. 2010 Order, at 18; CGC Tucker Rebuttal, at 29, Line 10 through Page 32, Line 2. The 50% recovery for that plan was based upon the Commission determination that 50% of the plan was based upon customer benefit and 50% was based upon stockholder benefit. 2010 Order, at 18-19. If the Commission continued to believe that the principle set forth in the 2010 Order was appropriate, then 85% of the Company's current plan, Performance Pay Plan or PPP, should be allowed for recovery since only 15% of the current plan is linked to stockholder benefit. Tr. Vol. III A, at 11, Lines 18-19. While CGC has demonstrated why all of the incentive compensation should be allowed for recovery, at a minimum, the Commission should follow its past practices and permit 85% of the PPP plan to be recovered.

In conclusion, Mr. Dallas and Mr. Garvie are asking the Commission to reexamine and approve 100% recovery for the incentive compensation based upon the unrefuted evidence that the at-risk portion of compensation is built in to base salary that is set at 50% of the market. Tr.

Vol. I A, at 39, Lines 18-21; Tr. Vol. III A, at 8, Lines 7-18. This compensation structure must be considered in the context of today's labor market that is very different from 2009-2010, and where virtually every successful business offers some form of at risk pay, even the State of Tennessee to its government employees. Tr. Vol. III A, at 10, Lines 10-13. Alternatively, at a minimum, the Commission should follow the 2010 Order policy and permit recovery of 85% of the PPP plan.

C. People.

CGC's attrition year budget reflects an increase in costs for ten employees over the number approved in the 2010 Order, with the additional personnel involved in such vital jobs as pipeline safety and field operations. 2010 Order, at 17 (showing 40 full-time Tennessee direct positions). As Mr. Dallas testified, these new positions are vitally necessary "to improve the operational integrity and safety of our system due to new regulations, better training, system expansions and growth, and improved customer services and responsiveness." CGC is already in the process of getting these employees hired, two of whom have been hired with the remaining eight new positions to be filled before the end of 2018. Tr. Vol. I A, at 39, Line 22, through Page 40, Line 6.

The CPAD would eliminate these positions solely because they reflect an increase over past levels. CPAD Dittemore, at 15, Lines 10-17. A mere increase is not the standard to disallow an expense, especially when CPAD's argument lacks any substantive analysis that the specific work to be done by the new employees is unnecessary or redundant. Mr. Dallas, on cross examination by CPAD, acknowledged that the number of budgeted positions does not always equal the number of employees. Tr. Vol. I A, at 50, Line 14, through Page 54, Line 9; Exhibit 2. But the fact that positions may be vacant from time to time due to retirements, promotions, or departures of employees does not undermine or diminish the need for the employees. Thus, there is no evidentiary basis for excluding the new workers in CGC's attrition year budget.

In order to facilitate the Commission's understanding of its workforce, and the reliability of its budget process for these new employees, the Company will be providing a regular report on positions filled or vacant over the attrition period, July 2018 through June 2019. The format for this report is still being developed and it shall be separately filed with the Commission. The Company will begin filing this report as a part of its regular Commission monthly reporting process.

In the final analysis, CGC has provided competent and material evidence regarding the need for the new positions in the budget, and CGC shall have them all filled and working by year end. These positions constitute a known, measurable, and reasonably anticipated changes that should be included for recovery.

D. Pensions and Other Post-Employment Benefits.

This should be a very straight forward issue, but the CPAD, in its singular focus to reduce rates at any cost, is advocating on this issue for bad accounting practices.

The Company has included the recovery of pension and other post-employment benefits ("OPEB") costs based on generally accepted accounting principles ("GAAP"). Tr. Vol. I C, at 22, Line 12, through Page 23, Line 8; Tr. Vol. I C, at 222-223 and 249-251. Under the current rate order, OPEB cost recovery is based on GAAP while pension cost recovery is based on cash contributions. Tr. Vol. I C, pp. 223, Lines 5 through 8. The Consumer Advocate has proposed recovery of both pension and OPEB expenses using cash basis instead of what the GAAP accounting standard allows. CPAD Dittemore, at 8, Lines 8-22; CPAD Novak, at 19, Line 3 through Page 21, Line 18. As Mr. Tucker thoughtfully explained, by following GAAP, CGC will "recover the costs gradually over time, which results in rate stability and matching of expense with service performed by employees on behalf of CGC customers. CGC Tucker Rebuttal, at 18, Line 23 through Page 19, Line 2. The CPAD's approach is based upon when payments are made, which can be irregular over time. "Cash contributions puts the Company's recovery at risk and could result in swings in costs to customers." CGC Tucker Rebuttal, at 19, Lines 2-3.

The GAAP approach especially makes better sense under an annual rate review process in which expenses will be reviewed each year. A cash system as proposed by the CPAD would cause rates to unnecessarily spike up and down based upon actual payments, and this could unnecessarily contribute to rate shock or at least unnecessary swings in rates that customers would not like. CGC Tucker Rebuttal, at 19, Lines 4-10.

On final review, the regularity of the GAAP method as proposed by Mr. Tucker is superior to the fluctuating, variable cash method proposed by the CPAD, and the Commission should approve CGC's use of GAAP for the recovery of pension and other post-employment benefits costs.

E. Cost Allocations.

The allocation methodology CGC has used in this case is the same methodology that has been used since 2000, and its use has been approved by the Commission in CGC's 2004, 2007, and 2009 rate cases as well as by other jurisdictions. CGC Morley Rebuttal, at 12, Lines 9-19. CGC began utilizing a shared services model beginning in 2000 pursuant to the Public Utilities Holding Company Act of 1935 ("PUHCA") to prevent the subsidization of unregulated activities by regulated activities. While the Act is no longer applicable today, the services company supporting CGC's operations continues to operate and function under the same principles. CGC Morley Rebuttal, at 5, Lines 1-6. As Mr. Morley testified, the services model continues to work for CGC's customers: "the AGSC [services company] costs approved in the first rate case CGC filed, after the adoption of the services model under PUHCA, included AGSC cost allocations of $6.6 million, which is almost $1 million more than the amount proposed by the Company in this proceeding." CGC Morley Rebuttal, at 12, Lines 18-21.

The system of service agreements and cost manuals provides great transparency and accountability, contrary to CPAD's claims that that the process is not as well documented as a cost allocation manual. CGC's process and procedures are well documented and CGC provided the necessary documentation to support the allocation process and the amounts so allocated. CGC Morley Rebuttal, at 18, Lines 16-19.

Mr. Novak's proposed specific adjustments to common plant in service and depreciation expense allocations are based on arbitrary methods and measures and should be rejected. CPAD Novak, at 17, Line 12 through Page 18, Line 2; CGC Morley Rebuttal, at 22, Line 15 through Page 24, Line 20. Mr. Novak's ratio to allocate plant in service does not encompass the full breadth of plant assets used by CGC and the services company employees that provide services to Chattanooga gas and its customers. CGC Morley Rebuttal, at 22, Line 15 through Page 23, Line 15. Mr. Novak also eliminates 100% of the allocated services company depreciation expense based on the novel theory that the services company does not have commission approved depreciation rates. There is no requirement for approved services company depreciation rates and this Commission has never approved such rates. CGC Morley Rebuttal, at 23, Line 16 through 25, Line 16.

In conclusion, CGC's allocation methodology is appropriate and the proposed allocated amounts should be approved. The CPAD's proposed adjustments are arbitrary and inconsistent with past Commission orders. However, recognizing the Consumer Advocate's perspective that a cost allocation manual may provide greater transparency, CGC has committed to working with the Commission and CPAD to develop a cost allocation manual along the lines outlined by Mr. Dittemore, which CGC intends to initiate after a final decision in this matter.

F. Rate Case Expense.

Pursuant to T.C.A. § 65–5–103(a), CGC bears the burden of proof to show that its proposed charges are "just and reasonable." As is demonstrated by the testimonies of Mr. Dallas, Mr. Hickerson, Mr. Yardley, and Mr. Tucker, CGC's rate case expenses are necessary and prudent, and thus just and reasonable and appropriate for full recovery. CGC's rate case expenses should be amortized over five years as proposed by Mr. Tucker. As of CGC's last report to the Commission the estimated rate case expenses are of $1,241,665, which shall be updated, as appropriate, prior to any amortization for rate recovery.

Mr. Novak has proposed several adjustments to CGC's proposed rate case expenses, specifically the elimination of the cost associated with CGC's rate design expert and the cost of service study he performed, removal of the consultant cost, and reducing legal fees by 50% but also capping legal expenses at $200,000. CPAD Novak, at 24, Line 1 through Page 25, Line 2. But Mr. Novak's mere opinion that Mr. Yardley and the consultant costs are unnecessary does not rise to competent evidence that substantiates the adjustments he proposes, nor does it refute or even reasonably challenge the just and reasonableness of CGC's costs as demonstrated by multiple witnesses. Any adjustment in rate case expenses predicated upon CGC's past rate case expenses or now being higher than originally budgeted is a legally insufficient basis for adjusting such expenses, especially in the face of substantial and material evidence of record demonstrating their necessity and prudency.

As a general matter, this is CGC's first rate case since 2009. Tr. Vol. I C, at 224, Lines 11-15. As Mr. Dallas and Mr. Tucker explained, there were reasonably unanticipated delays in filing the case, most significantly the passage of the Tax and Jobs Act in December 2017 that essentially required the company to redo its case because of the reduction in corporate tax rates and other impactful tax code changes. CGC Dallas Rebuttal, at 3, Line 14 through Page 4, Line 21; CGC Tucker Rebuttal at 5, Lines 8-20; Tr. Vol. I C, at 224 Lines 16-22. The Company worked diligently to prepare its MFGs which were filed the same day as the petition, testimony, and testimony exhibits. *See*, Docket 18-00017, docket file filings.

Moreover, it is disingenuous for the Consumer Advocate to challenge CGC's rate case expenses when the Consumer Advocate bears some responsibility for CGC's increased costs. Tr. Vol. I C, at 224, Line 23 through Page 225, Line 6. As the Consumer Advocate stated in its pleading seeking to compel discovery from CGC, this is a big case requiring an extraordinary effort:

> the **magnitude of the rate increase** that CGC is requesting – as well as the riders CGC seeks – and the **complexity of the issues** in the general rate case justify **substantial discovery** by the Consumer Advocate. The Consumer Advocate's discovery requests reflect the need for a **substantial amount of information** that is needed to analyze and consider the **substantial and complex requests** made by CGC.

Consumer Advocate's Motion to Compel Discovery, at 8 (June 12, 2018) (emphasis added).

CGC did not budget for an unprecedented 800 plus discovery requests from the Consumer Advocate, sometimes seeking data back to the last rate case, with a lot of that information not being used. Tr. Vol. I C, at 221, Lines 16-25. The Company did not budget for the fact that the CPAD would create its own separate rate case, all of which required CGC to put together a rebuttal case in one month that would require 14 rebuttal witness, 5 of whom did not file direct: "The fact that we have more rebuttal witnesses than direct witnesses captures the significant burden they have imposed on rate case expenses." Tr. I C, at 225, Lines 4-6. To impose costs and then to object to their recovery is the textbook definition of unfair, unreasonable, and arbitrary.

The Consumer Advocate attempted to challenge CGC's rate case costs by pointing out that CGC's expenses exceed that of other utilities and CGC's past rate cases, but such comparisons are meaningless. Exhibit 13; CPAD Novak, at 25, Lines 5-9. Every case is unique, each with its own issues and thus costs. CGC Tucker Rebuttal, at 5, Line 21 through Page 7, Line 22; Tr. Vol. I C, at 253, Lines 13-19. For example, if you add up the multiple rate case costs for Atmos and Tennessee American Water over a comparable period of time in which CGC has not had a rate case, each of those other utilities' aggregate rate case costs are more than CGC's. Exhibit 13. Further, in the Tennessee American Water case, Docket No. 12-00049, a settlement was filed four months to the day from when the case was filed, but the total rate case expenses exceeded \$1.1 million. Exhibit 13; Docket No. 12-00049, Order Approving Settlement Agreement (November 20, 2012). The Tennessee American Water rate case expenses in excess of \$1.1 million are especially interesting since this case had only 255 data requests, as opposed to more than 800 in CGC's case, <u>and</u> the Tennessee American Water 2012 case came less than one year after the conclusion of its prior case. Exhibit 13; Docket No. 10-00189, especially the April 27, 2012, Final Order. But the standard is not how do you compare to other companies, or even your own past cases, but whether the costs in the present case are just and reasonable. CGC's are, and it has submitted substantial and material evidence to prove it.

Regarding overall prudency, Mr. Dallas testified that while he did not personally review all of the rate case bills, that Mr. Tucker reviewed the non-legal bills and Ms. Elizabeth Wade, the chief regulatory counsel for CGC, reviewed the attorney bills. As for the specific work performed by counsel, Mr. Tucker testified that while he did not review the legal bills, he was familiar with the work performed by the Company's attorneys:

> this is a legal proceeding. The company's representation. Can't establish fair and reasonable rates without attorneys involved. And

> they've assisted us throughout the process, starting from draft petitions. They helped support and file direct testimony, rebuttal testimony, all these 800 DRs. They were involved in that process throughout the case. Also motions that they had to respond to, as well as this hearing.

Tr. Vol. I C, at 254, Lines 14-22. As for the non-legal bills, Mr. Tucker has been reviewing them since February 2018 when he took over for Ms. Johnson. He compared invoiced amounts to budgets and contract terms. Tr. Vol. I C, at 255, Line 8 through Page 256, Line 6. A review of those contracts and the individual invoices supplied by those experts does not indicated anything unreasonable, especially given the scope of work performed by the four outside experts. *See* MFG 59, as updated throughout the case and the associated discovery responses.

While the Consumer Advocate may have taken a wide swing at CGC's overall rate case expenses, it is very important to note that CPAD did not challenge the costs associated with the depreciation study or testimony of Mr. Dane Watson, the lead-lag study or testimony of Mr. Michael Adams, or the cost of equity study and testimony of Dr. James Vander Weide, so these costs are appropriate for recovery. CPAD Novak, at 24, Lines 3-5. So, in the absence of any specific challenges to these experts, and in view of the competent testimony provided by CGC, these expenses must be deemed fair and reasonable for full recovery.

With respect to the specific challenges CPAD has raised regarding Mr. Yardley, the consultant, and the legal fees, the record is equally clear that these expenses are fair and reasonable and should be fully recovered by CGC.

First, with respect to Mr. Yardley's expert costs and the cost of service study he performed, Mr. Novak's argument that the Commission "has never accepted or set utility rates" on an allocated cost of service study completely misses the point. CPAD Novak, at 24, Lines 5-9. As Mr. Yardley and Mr. Hickerson explained, CGC was not seeking approval of Mr. Yardley's study. Rather, the study provided an informed basis for the rate design Mr. Yardley proposed. This is the exact same process CGC utilized in its 2004, 2007, and 2009 rate cases, all of which did not involve approval of the cost study, but rather some form of rate design based upon a study. Indeed, MFG 55 expressly requires submission of a "cost allocation study and support for any proposed changes in rate design." CGC Hickerson Rebuttal, at 18, Line 7 through Page 19, Line 24; CGC Yardley Rebuttal, at 4, Line 4 through Page 5, Line 10. Thus, these costs are necessary and prudent, and thus reasonably incurred.

Second, CGC, based upon the experience of its affiliated gas utilities and the services company, made a business decision to hire an outside consultant to assist with the rate case rather than to hire a full-time person. Tr. Vol. I C, at 223, Line 19-25. Mr. Novak's exclusion of this cost is essentially based upon not knowing what this person did, since this consultant was not a testifying witness. CPAD Novak, at 24, Lines 10-11. Given the explanation provided by Mr. Tucker regarding the purpose of this consultant, the savings by not hiring a full-time person, and the work performed, there is no evidence refuting the prudency of hiring the consultant. CGC Tucker Rebuttal, at 21, Line 22 through Page 22, Line 8; Tr. Vol. I C, 254, Lines 7-12. It is thus fair and reasonable to recover these costs.

Third, Mr. Novak's proposal to reduce legal expenses merely on the fact that CGC had "two separate law firms" is arbitrary. While he called having two firms "duplicative and imprudent" he offered no evidence of any duplication of work, let alone duplication of work that was unnecessary or improper. CPAD Novak, at 24, Line 13 through Page 25, Line 2. As Mr. Dallas said in response,

> we engaged two lawyers who happen to be from different law firms, to represent us in the case. Each of these lawyers provide us with the experience and resources we need to handle a case of this size after nine years. I have also been advised that in our prior cases we have used three and even four lawyers, so there is nothing unusual or excessive about our legal team.

CGC Dallas Rebuttal, at 11, Line 19 through Page 12, Line 1. Indeed, both CPAD and CGC had two attorneys of record and each party had two attorneys appear at the hearing, which may be duplicative in the sense that each party had two attorneys present, but there is nothing to suggest that having two lawyers was redundant or wasteful.

Mr. Novak ultimately caps legal fees at $200,000 after proposing to 50/50 split in rate case fees with stockholders on the basis of a prior Commission decision. CPAD Novak, at 24, Line 13 through Page 25, Line 2. But the 50/50 split was denied by the Court of Appeals and there is no evidence of record to support an arbitrary cap on attorney fees. On cross examination, Mr. Novak acknowledged that at the time of filing his testimony, he was unaware that the case he relied upon had been reversed by the Court of Appeals. Tr. Vol. III A, at 36, Line 21 through Page 37, Line 12. Mr. Novak's confession demonstrates exactly why it is appropriate and necessary for attorneys to review and test all prefiled testimony before its submission to the Commission. But to the immediate issue, there is no valid legal precedent for the sharing of rate case, or more specifically, attorney fees. In rejecting the 50/50 split, the Court explained not only why the 50/50 split would be arbitrary but that to deny any rate case expense must only be done on an expense by expense basis and a demonstration that each such expense was not reasonable or prudent:

> The record and Final Order do not explain what specific expenses the TRA deemed unnecessary, improvident, or improper or that the Authority closely examined the costs associated with the rate case to determine the portion to be recovered from rate payers and the portion to be born[e] by the shareholders. Such an examination should have taken place and its results included in the record and Final Order. Based on the lack of such findings, the TRA's decision to only include one half of the cost of the rate case in the rate was arbitrary.

Tennessee American Water Co. v. Tennessee Regulatory Authority, 2011 WL 334678, at *27 (Tenn.Ct.App. 2011), appeal den. (Tenn. May 25, 2011).

Thus, the test is <u>not</u> whether stockholders of the utility receive a benefit from the rate case and therefore whether they should split the rate case or attorney's fees expenses. Under T.C.A. § 65-5-103(a), if CGC's rate case expenses generally, or attorney fees specifically, are necessary or prudent, then they are to be 100% recovered from rate payers like any other fair and reasonable expense. Said differently, in order to disallow any rate case expenses proven by a utility, there must be competent and material record evidence that each disallowed expense was not reasonable or not prudent.

Other than bare statements that the rate case or attorney's fees expenses are high or higher than some other case, such statements do not permit the disallowance of any rate case or attorney's fees. CPAD has not engaged in a close examination of individual expenses and has not offered a specific determination on the record for each rate case or attorney's fee expense it thinks should be disallowed as unreasonable or imprudent. As Mr. Tucker noted:

> 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.

CGC Tucker Rebuttal, at 23, Lines 4-7. Since there is no close and specific evidence of record, CGC's competent and material evidence in support of its rate case expenses stands unchallenged meriting full recovery as the law requires.

While complaining of "runaway" legal expenses, Mr. Novak offers another cause to <u>increase</u> rate case expenses by suggesting that the Commission may want to sever CGC's rate case expenses from this docket and consider setting up a separate docket to determine how much of CGC's rate case expenses should be recovered. CPAD Novak, at 25, Lines 4-12. As discussed above, Mr. Tucker and Mr. Dallas both refute this and provide competent and material evidence justifying the costs incurred, including CPAD's role in increasing the costs of the case. Given the record in this case and the Commission's duty to set rates within the 9-month statutory window, including the recovery of rate case expenses, rate case recovery costs must be set here and not in a separate docket.

To conclude, CGC has met its burden of proving that its rate case expenses are fair and reasonable. CPAD has not offered any competent and material evidence for the disallowance of any rate case expenses, and any split or cap of recovery is arbitrary and confiscatory in violation of Tennessee law. Thus, rate case expenses should be approved for recovery and amortized over five years.

G. Test Years: Forward-Looking Budgeting Versus 5-Year Historic Averages

CGC's attrition year of July 1, 2018 to June 30, 2019, is based upon a forward looking budget process that accounts for historical information as well as "known, measurable and reasonably anticipated estimates and forecasts when available." Tr. Vol. I C, at 219, Lines 22-24. Since ratemaking is a forward-looking enterprise, "rates are set for the future, and the estimated effect of all reasonably expected changes affecting the rate of return, including increases in expenses and investments, must be taken into consideration in the establishment of a rate." *Tenn. American Water Co. v. Tenn. Regulatory Auth.,* 2011 WL 334678, at 15 (Tenn. Ct. App. Jan. 28, 2011), *citing American Ass'n of Retired Persons v. Tennessee Pub. Serv. Comm'n* 896 S.W.2d 127, 133 (Tenn. Ct. App. 1995). Therefore, in order to be just and reasonable, a rate must be "reasonable not only when it is first established but also for a reasonable time thereafter." *Tenn. American Water Co. v. Tenn. Regulatory Auth.,* 2011 WL 334678, at 15 (Tenn. Ct. App. Jan. 28, 2011), *citing Southern Bell Tel. & Tel.,* 304 S.W.2d 429, 435 (Tenn. Ct.

App. 1979) (*citing McCardle v. Indianapolis Water Co.,* 272 U.S. 400, 408-409 (1926); *Tennessee Cable Television Ass'n v. Tennessee Public Service Comm'n,* 844 S.W.2d 151, 159-160 (Tenn. Ct. App. 1992). The very nature of this process mandates the historic-based but forward looking budget methodology that CGC has utilized.

Contrary to this forward-looking approach, CPAD filed its own alternative rate case with different test years, methodologies, and numbers. There are a multitude of problems with what CPAD has done, which CGC addresses throughout this post-hearing brief. On its face, the calendar year 2019 attrition test year used by the CPAD may seem to be better than what CGC has proposed, especially since CGC is already into the attrition year. But as Mr. Tucker explained, the specific timing for when the attrition year does not matter so long as it includes a full year of data. Tr. I C, at 246, Lines 11-12. However, the problem with the CPAD case is that it is based upon a very backward-looking methodology – a five-year historic average – that excludes known, measurable, and reasonably anticipated expenses that are in CGC's proposal but not CPAD's.

The result of the five-year historic average approach is to significantly understate needed resources. The record in this docket provides numerous examples of where the five-year average approach ignores known, measurable, and reasonably anticipated expenses, many of which are now underway. One example of this is the ten new employees CGC has in the budget who are already in the process of being hired. Tr. I A, at 39, Line 22 through Page 40, Line 40.

Another major example of where the five-year historic average ignores real and very necessary costs are in the area of new capital infrastructure projects. As Ms. Santolin testified, CGC has learned that a gas supply contract will not be renewed when it expires January 31, 2022. After considering multiple options, CGC determined that building a new pipeline from its LNG plant to Red Bank and Signal Mountain will provide a more cost-effective replacement option and better utilize the LNG plant. CGC Santolin Direct, at 8, Line 2 through Page 18, Line 14; CGC Santolin Rebuttal, at 1, Line 19 through Page 4, Line 21. There is also the $4 million Lookout Mountain pressure improvement project that is necessary to prevent customer outages. Tr. Vol. II A, at 93, Lines 10-13; Tr. Vol. II A, at 101, Line 17 through Page 102, Line 6; Tr. Vol. II A, at 107, Line 4 through Page 108, Line 6. All of the budgeted capital projects are vitally necessary to meeting customer demand and are not optional. Tr. Vol. II A, at 104, Line 10 through Page 105, Line 3. CPAD is completely oblivious to these known, measurable and anticipated/under way expenses, which is more than sufficient cause to reject CPAD's approach.

Use of a five-year historic average to develop future costs upon which rates are then set serves only one purpose – to artificially keep rates down. A rate reduction certainly sounds good for customers, but when you deny CGC the tools it needs to meet existing customer requirements, lost gas supply, and vital infrastructure improvements that help facilitate growth throughout the community, ratepayers lose out far more substantially than the $5.73 average monthly increase in base rates that CGC is proposing. Such shortsightedness does not live up to the judicial mandate that forward-looking rates be based upon forward looking costs.

The underlying argument CPAD raises against the forward-looking budgeting process utilized by CGC is an alleged lack of trust. But an anti-rate case such as CPAD has built with its five-year historic averages approach has no basis in fact or reality. Generally, rate cases are usually always built on the reasonable and predictable future costs of the utility in order for the new rates to have a reasonable chance of recovering their costs, otherwise the utility is right back for another rate case. Such forward looking costs start with historic information and then through the budgeting process the Company picks up those known, measurable, and reasonably anticipated expenses like Red Bank-Signal Mountain and the new employees. CGC Ziliak Rebuttal at 4, Line 6 through Page 6, Line 3; Tr. Vol. II A, at 91, Line 23 through Page 93, Line 25. This is, in fact, what the Commission has done in CGC's past rate cases. 2010 Order, at 13.

But more to the point, there is no evidence that CGC has been untrustworthy other than Mr. Novak's baseless charges or the implications of some of the questions at hearing. Tr. I C, at 241, Lines 14-23. This exchange between Mr. Irvin and Mr. Tucker reflects the ridiculousness of the argument, hypothetical or otherwise, that CGC's budget and budget process is somehow rigged to take advantage of customers:

> Q. (By Mr. Irvin) It's a hypothetical. That's fair. Wouldn't it be to a company's great advantage in a rate case to say, "We know we haven't been spending a lot on capital improvements in the past, but in attrition year, we're really going to be spending a lot of money, so just go ahead and trust us and give us the rates to cover what we say we're going to spend instead of what we've been spending"?
>
> A. I think Mr. Ziliak can clearly point out that what we've planned to spend, we've actually met in previous years. So I don't think that's at all the case. And we can support –
>
> Q. So you're saying the trend, there's not a significant increase in your –
>
> A. You can't look at a trend when you're operating a business. You've got to look at what needs to occur, and then you can look back and see what did occur and ask why.
>
> Q. But if a Commission's trying to assess your spending and there's a trend and then there's a jump in the trend, wouldn't that be fair to ask why is there a big jump in the trend?
>
> A. It would be fair to ask. And we would elaborate on why it's reasonable.
>
> Q. And wouldn't it be to the company's advantage to say, "Hey, we know this is the trend, and we're going to ask for a whole lot more"?
>
> A. I'm sorry. Could you restate that question?
>
> Q. Wouldn't it be to a utility's advantage to say, "We know this is the trend. We think we're going to spend more so we're going to bump it up"?
>
> A. No. No. Again –
>
> Q. This is hypothetical.
>
> A. That would break the regulatory pact. We would have no advantage in doing – if we did it once and got away with it, we wouldn't get away with it again. There's no reason why the company would do that. We just want to set rates at a fair and reasonable level that we can earn our return on the capital that we plan on investing.

Tr. I C, at 242, Line 6 through Page 244, Line 1; *see also* CGC Tucker Rebuttal, at 26, Line 17 through Page 27, Line 12. There is no evidence of record that CGC has not lived up to its past budgets. What variances there may have been are explainable and justified. CGC Ziliak Rebuttal, at 5, Line 20 through Page 6, Line 3. To impugn the reputation or character of the Company or its employees is without any foundation or any facts and claim that the budget process should not be trusted is unconscionable and should be completely rejected. CGC files monthly surveillance reports and the Commission has the authority to call in a utility any time it believes that its rates are not fair and reasonable. So there are safeguards in place to ensure that a utility does not overstate its expenses.

Finally, it is very important to note that while CGC intends to seek an annual rate review process, it would be inappropriate in this docket to set rates arbitrarily low, based upon some misplaced belief in a five-year average, and assume it will all work itself out when the Company comes back for its first annual rate review. That is not what the annual rate review process is designed to do.

Adoption of the five-year average as the methodology in this rate case would become the methodology to be used in the annual rate review process. Such a methodology would condemn CGC to always being behind, for as new investments need to be made, the five-year average methodology would constantly understate the need for the next year – CGC would only be recovering the average of costs that it had incurred in the prior five years as opposed to cost recovery commensurate with the timing of incurring those costs. By setting rates correctly in this proceeding, based upon the forward-looking budget that is based upon the combination of past costs and known and measurable future costs rates will be properly set here, which will thus cause less rate shock and less rate variability even with the anticipated future capital expense CGC intends to invest in its system.

In order to facilitate the Commission's understanding of CGC's construction expenditures and the reliability of its construction budget, the Company has committed to providing a quarterly construction projects report over the attrition period, July 2018 through June 2019. A draft of the report will be separately filed.

In the final analysis, there is no competent and material evidence for the CPAD's five-year average approach for use in setting rates, and it should be rejected in its entirety – the methodology is so completely flawed and the specific adjustments CPAD proposes are wrong and would materially limit the ability of the Company to meet even the most basic daily needs of customers. CGC's forward looking budget methodology meets the legal standards for rate setting by taking into account known, measurable, and reasonably anticipated expenses, which is the same process CGC has filed in prior cases. There may be some necessary and appropriate adjustments to CGC's case as outlined in CGC's testimony, exhibits, and other documents, including this brief, which can still get the utility to where it needs to be, but making adjustments in the Consumer Advocate case will not produce a fair and reasonable result.

H. Rate Design and Rates

The rate design and rates CGC is proposing in this case are completely consistent with the decision in the last rate case. Tr. II B, at 193, Line 12 through Page 194, Line 18. By the numbers, this is an 11% total bill increase for R-1 residential customers, approximately $5.73 a month, and, in comparison to 10 years ago, assuming the Company's full increase, residential customer will be paying a total bill of about 21% less than 10 years ago. Tr. Vol. I A, at 16, Lines 8-14.

Mr. Daniel Yardley testified that the first necessary step before undertaking any rate design is an assessment of the Company's existing rates – this was the purpose of the allocated cost of service study that he performed and thus why it is appropriate to recover the costs of this study. CGC Yardley, Direct, at 3, Lines 1-6; CGC Yardley Rebuttal, at 1, Line 15 through Page 2, Line 3; CGC Yardley, Exhibit DPY-1. Mr. Novak himself testifies similarly to the role of an allocated cost of service study, "The purpose of any CCOSS is to arrive at the cost of serving each customer class and present a systematic approach to allocating this cost (or total revenue requirement) to the different classes of customers. The CCOSS then provides a measure of guidance for the Commission to consider how to adjust individual rates for each customer class to produce the total revenue requirement." CPAD Novak, at 31, Lines 10-14. Mr. Yardley's study indicated that the rates of larger customers are generally subsidizing residential and small commercial customers. CGC Yardley Direct, at 3, Lines 7-29; Tr. II B, at 170, Lines 11-22.

While in designing new rates it is important to try to reduce these subsidies, contrary to Mr. Novak's assertions, CGC is not proposing rates as indicated by the study. Mr. Yardley explained that the cost study indicates that the rates for residential customers should be increased by $12.2 million, but instead CGC is proposing to increase residential rates by $3.979 million, less than one-third of the increase necessary to yield cost-based rates. The Company is merely utilizing the allocated cost of service study to understand the existing rates and provide a guide to deriving future rates. Rather, the final rate design methodology starts with the study's findings and takes into consideration other important rate design objectives including rate moderation. Tr. II B, at 175, Line 5 through Page 176, Line 13. Based upon this incremental approach, the proposed rate design also provides a 9.6% increase in base revenues to medium commercial and industrial customers that mitigates the increase to residential and small commercial customers. CGC Yardley, at 7, Line 16 through Page 8, Line 14.

The base rates the Company is seeking approval of in this proceeding are set forth in Exhibit DPY-4 to Mr. Yardley's rebuttal testimony. The proposed rates were developed based upon the approximately $6.2 million increase as described in Mr. Tucker's rebuttal testimony. CGC Yardley Rebuttal, at 8, Line 19 through Page 9, Line 12. For residential customers, because it is important to recover a greater proportion of fixed costs through fixed charges, CGC is proposing to increase R-1 base rates from $16.00 to $20.50 in the winter and from $13.00 to $18.00 in the summer. CGC Yardley Rebuttal at 7, Lines 1-19; CGC Yardley Exhibit DPY-4. Under this design, the recovery of fixed costs through fixed rates increase from 70% to 73%, meaning 27% of fixed costs will continue to be recovered through variable charges. Tr. Vol. II B, at 172, Lines 1-17.

CPAD has proposed that the Commission reject the cost study because the Commission has never previously approved the use of one and that CGC should not be allowed to recover the expenses associated with the cost study. CPAD Novak, at 24, Lines 5-9. As addressed above and in Mr. Yardley's rebuttal testimony, CPAD's position completely misunderstands CGC's use of allocated cost of service study and this Commission's pat practice. CGC Yardley Rebuttal at 5, Lines 1-10. CGC is not requesting approval of the study since the study is not the rate design for the proposed rates. Rather, the study was an input for the rate design, such as CGC has done in past rate cases, and so it is appropriate to have it and to recover its costs like any other fair and reasonable rate. At the Commission said in CGC's last rate case:

> CGC provided a cost of service study for all classes of services. A cost of service study compares revenue received from the different classes of customers compared to the cost to serve each class. **This helps to determine** the income received on each class of customer and the rate of return on investment.

2010 Order, at 51 (emphasis added).

CPAD's proposed rate design, such as it is, ignores the principles reflected in CGC's study. Since CPAD is proposing a rate reduction, based upon its backward-looking five-year historic average approach, Mr. Novak proposes that the rate reduction be spread out evenly across the board across all the rate classes on the commodity charge. CPAD Novak, at 33, Line 10 through Page 34, Line 18. As Mr. Yardley discusses, the rate change should not be applied equally to all classes. CGC Yardley Rebuttal at 7, Line 20 through Page 8, Line 9. Further, the monthly customer charge provides an important price signal to customers regarding the cost to serve regardless of the amount of natural gas consumed. CGC Yardley Rebuttal, at 7, Lines 3-9. Leaving the monthly charge unchanged continues the unfairness of the current system and delays any ability to move rates so they can recover their costs. CGC Yardley Rebuttal, at 7, Line 10 through Page 8, Line 9.

Lastly, Mr. Novak improperly proposes to assign a portion of the base revenue change to CGC special contract customers. CPAD Novak at 34, Lines 8-12. Not only is this inconsistent with the rate design approved by the Commission in CGC's last rate case as well as Piedmont's last rate case, it would lead to a revenue deficiency for the Company. CGC Yardley Rebuttal at 8, Lines 10-18.

CGC's witness Mr. Archie Hickerson supports the specific tariff pages that implement the rate design, which should be approved. CGC Hickerson Rebuttal, Exhibit ARH-13. In addition to the rate increase tariff pages, Mr. Hickerson is supporting a number of other tariff changes, most of which are not opposed by the Consumer Advocate. CGC Hickerson Direct, at 4, Line 15 through Page 8, Line 16; CPAD Novak, at 41, Line 3 through Page 42, Line 10. The CRMA witnesses opposed CGC's' proposed penalty gas increase, but as Mr. Hickerson and Mr. Bellinger discuss, these changes are necessary to protect CGC's ability to provide gas to firm customers on peak days. In essence the penalty provisions penalize customers who take gas that they are not entitled to. The proposed tariff changes are designed to further disincentivize customers from violating the tariff. CGC Hickerson Rebuttal, at 29, Line 1 through Page 31, Line 23; CGC Bellinger Rebuttal, at 4, Line 7 through Page 5, Line 11; Tr. Vol. II A, at 113, Lines 2-17.

To summarize, CGC's rate design balances the cost of service standard with the need to move rates towards cost in an incremental manner that avoids avoid rate shock. This rate design methodology thus provides some rate increase to larger commercial and industrial customers while increasing the recovery of fixed costs through fixed rates of R-1 residential from 70% to 73%, for approximately a $5.73 increase per month. CGC's tariff implementing this rate design should be approved along with the other tariff changes CGC proposes that are largely not objected to. CPAD's disallowance of CGC's cost study and its methodology of applying rate changes across the board equally should not be used since it perpetuates the inequities of the current system. CRMA's request to not increase the penalty gas penalty should be denied since CGC needs a stronger incentive to discourage customers from using gas they do not have a right to use.

I. The AUA & WNA and the Deferred Unrecovered Revenue Deficiency

There is no material dispute that the AUA trial has not worked, whether the R-1 and C-1 customers should be returned to the WNA, or the amount of the deferred under-recovery of authorized revenues, which Mr. Hickerson updated in the hearing. Tr. Vol. II C, at 208, Line 18 through Page 210, Line 5. Rather, the Consumer Advocate opposes any recovery of the deferred revenue deficiency because, as Mr. Novak argues, there is no recovery mechanism stated in the 2010 Order. But Mr. Novak's argument is not supported by the language in the 2010 Order or CGC's implementing tariff.

The AUA is essentially a revenue-neutral weather adjustment mechanism. CGC Hickerson Direct, at 9, Lines 27-29. As approved, when the weather is warmer or colder than the baseline "normalized" weather, customers' service rates will be adjusted up or down, due to lesser or greater gas sales, through a surcharge or credit mechanism that is adjusted once a year subject to a 2% of margin cap. CGC Hickerson Direct, at 10, Lines 1-19. Limiting the AUA to only R-1 and C-1 customers and imposing the 2% margin cap recommended by the Consumer Advocate in the 2009 rate case was a decision of the Commission that rejected CGC's proposed AUA that would have applied to most customers and without any cap. 2010 Order, at 56-57; CGC Hickerson Direct, at 9, Lines 21-25.

By capping the annual adjustment at 2% of margin, the Commission created the potential that revenue deficiencies or excess revenues would be deferred to future years. Tr. Vol. II C, at 270, Line 21 through Page 271, Line 1. As Mr. Hickerson's detailed testimony explains, and as can be seen in Mr. Hickerson's Table 1, after the first year, there has always been an excess to refund or a short fall to collect that has carried over. To date, there is a net cumulative deferred deficiency for both R-1 and C-1 services. CGC Hickerson Direct, at 14, Table 1.

Had there been no cap, then revenues would have trued up annually, meaning that in some years the surcharges would have been significant, but there would be no deferral and no problem now to deal with. *See* Mr. Hickerson's Table 1, especially for R-1 customers in 2017. Thus, the terms of the 2010 Order establish the legal right to recover revenue deficiencies because it created the deferral process through the imposition of the 2% margin cap. This principle is supported by the fact that given the Commission's plenary authority to regulate utilities, in the absence of a statute, regulation, or other authority prohibiting its actions, the Commission has authority to allow a public utility to recover these deferred revenues and to determine the method by which those revenues are recovered so long as the decision is consistent with the overall fair and reasonable standard. *Consumer Advocate & Protection Div. of Office of Atty. Gen. of Tennessee v. Tennessee Regulatory Authority*, 2012 WL 1964593, at *20-*22 (Tenn. Ct. App. May 30, 2012).

The real question for the Commission is not whether the AUA deferred revenue deficiency should be recovered, but the best approach for dealing with the cumulative deferred deficiencies. If the AUA was continued in some form with a cap (whether based upon margin or gross revenues, as CGC proposed in 2013), then CGC would continue to seek recovery for any cumulative deferred deficiency as it has since the first true up, and the problem would get worse or better over time. Mr. Hickerson reported at the hearing that in the 12 months ending May 31, 2018, the deferred deficiency was reduced by approximately $500,000, meaning weather last year was colder than the baseline that year, so some of the cumulative net deficiency was reduced. Tr. Vol. II C, at 270, Line 21 through Page 271, Line 13. But as Mr. Hickerson's testimony demonstrates, given the potential variability in weather, returning to the WNA is more appropriate mechanism to deal with weather since it adjusts each month without any deferrals. Tr. Vol. II C, at 209, Lines 20-24 and at Page 226, Lines 3-9.

Mr. Hickerson has proposed that with the termination of the AUA and the return of R-1 and C-1 customers to the WNA that the net cumulative deferred deficiency be collected through the IMCR. CGC Hickerson Direct, at 23, Line 15 through Page 24, Line 15. Use of the IMCR would have the effect of offsetting a credit that customers get from off-system sales instead of a new charge or surcharge. This is a mechanism used in the past as a means of dealing with a one-time recovery mechanism, and it may take several years to fully resolve. CGC Hickerson Direct, at 24, Lines 8-15. CGC has expressed an openness to considering other mechanisms, such as a surcharge spread over two years. CGC Hickerson Direct, at 24, Lines 20-22. It may also be possible to keep the AUA but add the WNA for R-1 and C-1 customer for weather adjustments; such a dual system would further lengthen the recovery of the deferred deficiency but remove weather from the AUA with the WNA addressing weather adjustments on a real time basis each month.

Mr. Hickerson also testified at the hearing that the final amount of the deferred deficiency to be recovered would be calculated at the time the AUA ended. Tr. Vol. II C, at 271, Lines 2-13.

As an ancillary matter with respect to the AUA, the CPAD is wrong to assert that if CGC later gets an approved annual rate review, then the WNA should be eliminated. First, as Mr. Hickerson explained at the hearing, it is premature to address this now since an annual rate review is not before the Commission. However, Mr. Hickerson further explained, the key advantage of the WNA is that it adjusts for weather each month, contemporaneously with the weather that the customer has just experienced. If the Company has an approved annual rate review process and the WNA were to be eliminated, "you lose that real-time [weather] adjustment mechanism. . . . You do not get the impact, capture the impact the weather has on the customer's bill at the time that the customer is being billed." Tr. Vol. II C, at 226, Lines 3-9.

In the final analysis, CGC believes it is in the best interest of customers to terminate the AUA and the return of R-1 and C-1 customers to the WNA. CGC believes that the best approach for recovering the net cumulative deferred deficiency should be through the IMCR, which will not increase the customer charge, but CGC is open to alternative approaches that permit full recovery of the deferred deficiency.

J. Rate Case Methodology

CGC is not seeking approval of an alternative regulatory method in this docket after withdrawing its originally filed request for an annual rate review and an economic development rider. However, CGC intends to seek an annual rate review in a subsequent proceeding, but an annual review of rates mechanism must be based upon "the methodology adopted in its most recent rate case." T.C.A. § 65-5-103(d)(6)(A); Chattanooga Gas Company Notice Of Withdrawal From Further Consideration In This Docket Of Its Requests For Approval Of Its Proposed Alternative Regulatory Methods (April 10, 2018).

Thus, at this time, CGC is requesting that as the Commission makes its various rate case decisions on capital structure and returns, rate base, billing determinants, depreciation, lead-lag, weather normalization, forecasted O&M expenses, bad debt, taxes, and the like, such as CGC has detailed in Section IV below, that the Commission identify and approve a methodology for each such rate case issue, whether it is the methodology utilized by CGC, the Consumer Advocate, or some other approach the Commission, as applicable, may apply. CGC Cogburn Direct, at 2, Line 5 through Page 3, Line 18; CGC Cogburn Rebuttal, at 4, Lines 19-22.

As Mr. Cogburn explained in his rebuttal testimony, what CGC is seeking with respect to the identification and approval of rate making methodologies is exactly what the Commission did in CGC's 2010 rate case order. CGC Cogburn Rebuttal, at 4, Lines 22-23. Mr. Cogburn provided several illustrative quotes from the 2010 Order where in deciding such issues as bad debt, taxes, and rate design, for example, the 2010 Order specifically identified which methodology it was using CGC or the Consumer Advocate. CGC Cogburn Rebuttal, at 5, Lines 1-19. "We are asking that in the final order in this case you do what you normally do in a litigated rate case – explain the methodology you use for each of the rate case components that go into final rates." CGC Cogburn Rebuttal, at 5, Lines 20-22. As previously stated, with respect to the applicable issues set forth in Section IV below, CGC has provided both is substantive answer and the corresponding methodology relied upon.

In view of CGC's extensive testimony, MFGs, and discovery responses in the record, CGC has more than substantiated its rate case methodologies, which are summarized in Section IV below. CPAD challenges only a couple of CGC's specific methodologies – namely regression analysis for weather normalization and budgets versus 5-year historic averages – and those specific issues are addressed in Sections III or IV, as applicable.

Finally, Mr. Novak's characterization of CGC's documentation as insufficient to support the identification or approval or rate case methodologies is contrary to the Consumer Advocate's position that CGC's initial rate case filing was "voluminous" and which raised "broad and highly complex" issues. *Compare* CPAD Novak, at 5, footnote 2 *with* Consumer Advocate's Motion to Compel Discovery, at 9 (June 12, 2018).

Putting aside for a moment the inconsistencies between Mr. Novak's testimony and the Consumer Advocate's legal arguments, Mr. Novak's claim that CGC's case is insufficient does not make it true. To the contrary, CGC fully supported its case on day one by filling all of the MFGs, including supporting documentation, along with its petition, direct testimony, and testimony exhibits. Only a few of the numbers in the MFGs were "hard coded," since such numbers were extracted from other systems, which was "one of the reasons for providing the Excel spreadsheets." Tr. Vol. II C, at 23, Line 18-19. Both Mr. Dallas and Mr. Tucker provide similar confirmation and attestations regarding the quality and sufficiency of CGC's data. CGC Tucker Rebuttal, at 43, Line 7 through Page 44, Line 2; CGC Dallas Rebuttal, at 5, Line 17 through Page 8, Line 18.

Any final decision on CGC's rate case methodologies will ultimately be based upon all of the information of record, including the testimony and exhibits of CGC's 15 witnesses, the MFGs, and the overwhelming 800 discovery responses. As Mr. Hickerson's unrefuted testimony states:

> In my 42-year career, I have been involved in excess of 100 rate cases, and the quality and quantity of data CGC has provided in this case is as good as if not better than what I have seen in most cases, and it certainly complies with the Company's obligation to support and document its rate request.

CGC Hickerson Rebuttal, at 3, Lines 1-5.

The Consumer Advocate's methodologies arguments seem to be driven by the fact that CGC did not provide a document comparable to the voluminous Atmos-CPAD Settlement in Docket No. 14-00146. But the absence of a document like that does not mean that CGC's approach is wrong or insufficient. As Mr. Hickerson further explained:

> The procedures adopted by the Commission to develop the revenue, expenses, and rate base used by the Commission to evaluate the utility's rates is the ratemaking methodology, and not a series of worksheets. To conclude, with respect to Mr. Novak's comment, CGC has provided the Commission with CGC's ratemaking methodology through the extensive original filing information and the subsequent documentation we have provided; the Commission can make a fully informed decision on our request and, in doing so, establish an approved methodology for each of the components in our case as Mr. Cogburn further describes in his testimony.

CGC Hickerson Rebuttal, at 5, Lines 10-18. As previously stated, in Section IV of this Brief, with respect to each of the issues, CGC has provided both the substantive response to that issue and the corresponding supporting methodology for that answer.

To conclude, what the Commission needs to do in this case with respect to CGC's rate case methodology is simple and straightforward – identify and approve the respective methodologies CGC has employed for rate base, billing determinants, revenues and expenses, depreciation, lead-lag, taxes, and each of the other relevant rate case elements based upon the testimony, exhibits, MFGs, discovery responses, and cross examination set forth in the record in this docket and which are further identified and summarized in Section IV below. When the Commission issues its final order in this case, the Commission can cite and reference such methodologies in the same way it did so in CGC's 2010 Order. In CGC's subsequent annual rate review filing, CGC can identify its approved methodologies and provide the supporting documentation, which will likely be the same or very similar to the MFGs.

K. CRMA Issues.

The CRMA raised three areas of concern with CGC's case.

Gas Supply & Incremental Gas. CGC manages its gas supply to benefit all of its customers, but it must do so in a manner to fulfill its obligations to its firm customers. CGC Hickerson Rebuttal, at 31, Lines 7-16; Tr. Vol. II A, at 113, Lines 7-12 and Page 130, Lines 4-15. The CRMA has asked that CGC offer incremental gas to interruptible customers during peak demand days when there is a limited system curtailment, which only impacts interruptible customers where the system is supply constrained. CGC appreciates the need of interruptible customers having access to additional gas supply during these peak days. However, the CRMA testimony is focused on how those companies can best have their individual needs met while CGC must be concerned with meeting the needs of all customers, with a first priority to firm customers. When additional gas in excess of CGC's system needs, it can be made available, but the nature of such constrained days does not always mean gas is available.

Based upon the interest of the CRMA customers, at the hearing CGC committed to begin providing to the Commission and CRMA a monthly incremental gas availability report during winter months. It is CGC's belief that this reporting mechanism will provide timely and useful information regarding how CGC is managing its gas supply to meet the needs of all customers.

The CRMA also questioned CGC's Red Bank-Signal Mountain project, claiming that it would not provide any benefit to customers to the east. However, as Ms. Santolin testified, this project is designed to simply replace a gas supply contract that will terminate after January 2020, and if that supply is not replaced, CGC will be unable to meet its customers' needs. Thus, replacing that supply will be a benefit to all the customers on the system, but it is not designed to materially increase gas supply. CGC Santolin Direct, at 8, Line 2 through Page 18, Line 14; CGC Santolin Rebuttal, at 1, Line 19 through Page 4, Line 21.

CRMA further tried to allege that CGC was favoring off-system sales to the detriment of CGC's customers. However, all off-system sales have been reviewed twice pursuant to the triennial review performed by Exeter without any such questions. CGC Hickerson Rebuttal, at 13, Line 20 through Page 14, Line 24. If the Commission believes it is necessary to have a more specific and detailed review of these sales, CGC, of course, would cooperate completely in this review process. CGC is confident that a complete and thorough review by one thoroughly knowledgeable of the intricacies of providing gas supply under trying circumstances will affirm the overall decision-making made by our gas supply experts.

Unauthorized Gas Use Penalty. The current tariff allows CGC to curtail gas to interruptible customers, require transportation customers to burn no more gas than they have delivered to the Company on their behalf, or to restrict the usage to contracted volumes. To ensure compliance with these restrictions the tariff has penalty provisions to help ensure compliance with such orders. However, the current tariff penalty provisions are not sufficient to ensure compliance. The Company is proposing to increase the penalty to make it uneconomic to violate a balancing or curtailment order and to make CGC's provisions more in line with the industry norm. CGC Hickerson Direct, at 6, Line 4 through Page 7, Line 2. CRMA's request that the penalty not be changed is not reasonable. CRMA Klinger, at 6. However, if CGC's penalties "are lower or less punitive than competing markets, then the T-1 interruptible customers or the marketers that serve them will be incentivized to under- or over-deliver natural gas supply to CGC to serve other markets with higher daily balancing penalties or where they can sell their gas supply at a higher price." CGC Bellinger Rebuttal, at 4, Lines 7-23. It is important to note that these penalties do not go to CGC, but instead are refunded to the other customers through the PGA. Tr. Vol. II C, at 217, Lines 3-6.

Line Extensions. One of the CRMA witnesses, Mr. David Klinger of McKee Foods, expressed disappointment in CGC's decision to require McKee to invest $2 million before CGC would construct additional infrastructure to meet McKee's proposed business expansion. CRMA McKee, at 4. Given the fact that infrastructure is helping to drive this rate case, such a request may seem reasonable. However, as Mr. Hickerson explained, pursuant to CGC's tariff, for a customer-specific requested expansion to be without cost to the customer, the anticipated revenues needed to be greater than the investment. In this case, the $500,000 in estimated revenues did not cover the estimated $2.5 million cost, hence McKee was requested to make a $2 million contribution. If McKee did not make this contribution, then service to McKee would be subsidized by CGC's other customers. CGC Hickerson Rebuttal, at 24, Line 10 through Page 28, Line 17. "Such an investment was not prudent and would have violated the Commission rules and the company's tariffs." Tr. Vol. II C, at 217, Lines 17-19.

L. Off-System Sales Sharing Ratio.

Although he conceded that the margin received from off-system sales is not a component of the rate case, Mr. Novak recommended that the current 50%/50% sharing be revised to provide that the Company retain 25% of the margin from off-system sales. Mr. Novak offered no support for changing the sharing ratio except that a similar sharing arrangement had been approved for Piedmont Natural Gas Company. CPAD Novak, at 15, Line 12. He offered no analysis to support modifying or changing the sharing percentage.

As explained by Mr. Hickerson, in Docket No. 07-00224, the Consumer Advocate proposed the same 25%/75% sharing arrangement that was not adopted by the Authority. CGC Hickerson Rebuttal, at 17, Lines 5-15. Now the Consumer Advocate is suggesting the same proposal but without any new evidence to support the proposed change that has been previously rejected. In the two triennial reviews that have been conducted in accordance with Docket 07-00224, the independent consultant expressed no concerns with the sharing percentage, and the Consumer Advocate has not identified anything in the independent consultant's reports as grounds for making recommendations or proposed changes to the sharing ratio.

In conclusion, given the lack of a formal request to act, which would be outside the scope of this docket if requested, there is no issue requiring action in this case, so none should be taken. Moreover, there is no competent and material evidence of record in this docket that would support any change to the current sharing percentages for off-system sales, again confirming that no further action is appropriate.

IV. Specific Issues

A. Test Year

Issue 1: Is CGC's proposed historic test year for the twelve months ending June 30, 2017 appropriate?

CGC Position: Yes. This period was selected as it was the latest actual quarter-end data which was available for incorporation into CGC's rate case filing based on the initial filing date that was to be in the fall of 2017. It is important to use quarter-end for the last historic period in order to capture accounting accruals booked as part of the normal reporting process. The filing was later updated through December 2017 to capture changes recognized in the passage of the Tax Cuts and Jobs Act. However, for comparability purposes with the June 2019 attrition period, the Company retained the June 2017 test period.

The Consumer Advocate opposed this date and opted instead for a test year to the twelve months ending on December 31, 2017, claiming that the Company's test year was "stale." However, the Company's test year for the twelve months ending on June 30, 2017, represent the most recent time period for which public financial data was available when the Company began preparing its case. CGC Tucker Direct, at 2, Lines 6-16; CGC Tucker Rebuttal, at 5, Lines 8-20.

<u>Issue 2:</u> Is CGC's proposed attrition test year for the twelve months ending June 30, 2019 appropriate?

CGC Position: Yes. The attrition period was selected to align with when rates were initially to be effective - July 1, 2018. Due to the delay in the filing and the time for the Commission to process the case and render a decision, it appears that rates would take effect November 1, 2018, unless the Commission authorizes an earlier date. The Company elected to stand by its initial attrition period even though there are negative impacts due to regulatory lag and the forgone recognition of budgeted capital in the second half of 2019.

The attrition period for which the Company's estimated revenue requirement is based on is the 12 months ending June 30, 2019. The Company based its attrition period expense forecast for July 1, 2018 – December 31, 2018 on the Company's annual 2018 budget. The 2019 portion of the attrition period is forecast using the 2018 budget and applying various growth factors. The Company's complete 2018 budget with growth factors for 2019 by line item was supplied in MFG 25, Tab IS Detail MFG 25-2 and footnoted where applicable for any additional line item updates to the budget. *See* Tucker Composite Exhibit, at Tab IS Detail MFG 25-2.

The CPAD witness, Mr. Novak, believes this date is stale "given that new rates adopted by the Commission are now anticipated to become effective on October 1, 2018." Mr. Novak has updated the proposed attrition period to the twelve months ending on December 31, 2019. CPAD Novak, at 3. But there is nothing stale or out of date. As Mr. Tucker testified, "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." But more important than the attrition year is the methodology underlying Mr. Novak's approach. As Mr. Dallas testified, "the methodology and assumptions that the Consumer Advocate's witnesses used are highly inaccurate, arbitrary, and so deficient as to seriously undermine [the Company's] ability to provide reliable and safe service." CGC Dallas Rebuttal, at 6, Lines 12-14. Mr. Tucker further testified,

> The Consumer Advocate has proposed an arbitrary attrition year and uses assumption s 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.

CGC Tucker Rebuttal, at 5, Lines 14-17; Tr. Vol. I C, at 244, Line 23 through Page 248, Line 7. Accordingly, the Commission should use CGC's attrition year and methodologies in setting rates.

B. Revenues

Issue 3: Are CGC's forecasts of customers and therms by rate class for the attrition year appropriate?

CGC Position: Yes, CGC's forecasts of customers and therms by rate class for the attrition year is appropriate. CGC Brooks Direct, at 4, Line 18 through Page 14, Line 13. The methodology for these forecasts was set forth in the testimony, exhibits, and supporting documentation of CGC witness Mr. Heath Brooks, which is specific and more accurate. CGC's methodology produces a more precise result with less variance than Mr. Novak's more limited approach.

The Company, in contrast to the Consumer Advocate's usage of a "simple regression model to project normal usage for the attrition year," utilized a "multiple regression model," (aided by the use of a proprietary software – Forecast Pro) that "analyze[d] multiple explanatory variables, such as gas prices, heat loads, and long-term trends, to determine the best combination of variables to produce the most accurate attrition year volumes." CGC Brooks Rebuttal, at 5; Brooks Direct Exhibit HJB-1; Tr. Vol. I B, pp. 181-183, 200; MFG 29 (which contains all of the regression variables). Other class specific adjustments were utilized by Mr. Brooks. In contrast to CGC's detailed work, the Consumer Advocate only uses 12 months of data for their attrition year regression calculations, producing inadequate statistical results. The Company adds precision to the revenue forecast by using as many as 166 months of historic data in the regression calculations. While there may not be a material difference in the attrition year forecast, the detailed methodology will help to ensure that over time there will be lesser wide swings that will occur with Mr. Novak's approach. CGC Brooks Rebuttal, at 1, Line 21 through Page 2, Line 4, Line 9 and CGC Brooks Exhibits HJB-8, HJB-9, and HJB-10.

Issue 4: What is the total operating margin (sum of base revenues, other revenues, AFUDC, less cost of gas) for the attrition year?

CGC Position: The total operating margin, which equals revenues less gas costs, before the proposed rate adjustment (under current rates), is $33,183,150. Tucker Composite Exhibit, Exhibit GAT 1-1, Schedule 1 – Rate Adjustment, Column 1, Line 6; Tucker Composite Exhibit, Tab Inc. Statement, Cell J-16. The methodology for calculating operating margin is set forth in the supporting workpapers of Mr. Heath Brooks

Issue 5: What is the appropriate base revenue for the attrition year?

CGC Position: The appropriate base revenue for the attrition year is 31,670,029. The methodology for calculating base revenue is set forth in the testimony and supporting workpapers of Mr. Heath Brooks. Tucker Composite Exhibit, Schedule 1 – Rate Adjustment, Column 1, Line 3.

Issue 6: What are the appropriate other revenues for the attrition year?

CGC Position: The appropriate other revenues before the proposed rate adjustment is $612,767. Tucker Composite Exhibit, Exhibit GAT 1-1, Schedule 1 – Rate Adjustment, Column 1, Line 4. The methodology for calculating other revenues is set forth in the testimony and supporting workpapers of Mr. Heath Brooks. CGC Brooks Direct, at 13, Line 12 through Page 14, Line 2.

Issue 7: What is the appropriate allowance for funds used during construction ("AFUDC") for the attrition year?

CGC Position: The appropriate allowance for funds used during construction ("AFUDC") is $900,355. CGC Tucker Rebuttal, at 17, Line 21 through Page 18, Line 4; Tucker Composite Exhibit, Tab AFUDC MFG 25-4. The methodology for calculating AFUDC allowance is set forth in the testimony and supporting workpapers of Mr. Gary Tucker.

Issue 8: What is the total cost of gas for the attrition year?

CGC Position: The total cost of gas for the attrition year is $37,973,978. The methodology for calculating the cost of gas sales is set forth in the testimony and supporting workpapers of Mr. Heath Brooks. CGC Brooks Rebuttal, at 14, Lines 3-13.

C. Expenses

Issue 9: What is the total operating expense (sum of Operation and Maintenance Expense, Interest on customer deposits, depreciation expense, taxes other than income tax, and state excise and income taxes) for the attrition year?

CGC Position: The total operating expense for the attrition year is $26,957,089, and can be broken down as follows:

		Pro Forma	Proposed Rate Adj.	Adjusted Attrition Period
a.	Operation and Maintenance	$13,453,586	$20,481	$13,474,067
b.	Interest on Customer Deposits	$96,740	$-	$96,740
c.	Depreciation Expense	$8,035,649	$-	$8,035,649
d.	Taxes Other than Income Taxes	$3,523,947	$-	$3,523,947
e.	Income Taxes (Federal & State)	$228,948	$1,597,738	$1,826,686
	Total:			$26,957,089

Tucker Composite Exhibit, Exhibit GAT 1-1, Schedule 1 – Rate Adjustment, Column 3, Lines 7-12. The methodology for calculating these expenses is set forth in the testimony and supporting workpapers of Mr. Gary Tucker.

Issue 10: What are the appropriate payroll expenses for the attrition year? Should CGC's projected new employees be included in the attrition year?

CGC Position: The appropriate total payroll expense for the attrition year is $3,525,350, and it includes both variable and fixed compensation. Tucker Composite Exhibit, Tab COSS IS Summary MFG 25-1. Yes, new employees should be included as they are expected to be fully in place by the end of the year. Tr. Vol. I A, at 76, Lines 6-18; Tucker Composite Exhibit, Tab MFG 25-1. The methodology for calculating these expenses is set forth in the testimony and supporting workpapers of Mr. Gary Tucker.

Issue 11: What are the appropriate employee benefits expenses for the attrition year? What is the appropriate amount for pensions and post-retirement benefits expenses to include in the attrition year?

CGC Position: The appropriate employee benefits expenses for the attrition year total $632,861. Tucker Composite Exhibit, Tab COSS IS Summary MFG 25-1. The methodology for calculating these expenses is set forth in the testimony and supporting workpapers of Mr. Gary Tucker. Pension and OPEB expenses for the test year are ($83,021), and the forecasted expenses are based on Generally Accepted Accounting Principles ("GAAP"). Under the current rate order, OPEB cost recovery is based on GAAP while pension cost recovery is based on cash contributions. [Rebuttal MFG 25-1; Tr. Vol. I C, pp. 222-223 and 249-251].

a. 401k Benefits	$102,951
b. Health Benefits	$611,150
c. Other Benefits	$1,781
d. Pension	$31,677
e. Other Post-Employment Benefits	$(114,698)

Issue 12: What are the capitalized benefits expense for the attrition year?

CGC Position: The total capitalized benefits expense for the attrition year is ($59,257). Tucker Composite Exhibit, Tab COSS IS Summary MFG 25-1. The methodology for calculating these expenses is set forth in the testimony and supporting workpapers of Mr. Gary Tucker.

a. Employee Benefits Capitalized	$(51,205)
b. AIP (PPP) Capitalized	$(7,093)
c. LTI Capitalized	$0
d. Pension Capitalized	$(959)
e. Other Post-Employment Benefits	$0

Issue 13: What are the appropriate fleet services and facilities expense for the attrition year?

CGC Position: The appropriate fleet services and facilities expense for the attrition year is $743,647. Tucker Composite Exhibit, Tab COSS IS Summary MFG 25-1. The methodology for calculating these expenses is set forth in the testimony and supporting workpapers of Mr. Gary Tucker.

Issue 14: What are the capitalized fleet services and facilities expense for the attrition year?

CGC Position: The capitalized fleet services and facilities expense for the attrition year are $(15,462). Tucker Composite Exhibit, Tab COSS IS Summary MFG 25-1. The methodology for calculating these expenses is set forth in the testimony and supporting workpapers of Mr. Gary Tucker.

Issue 15: What are the appropriate bad debt expenses for the attrition year?

CGC Position: The appropriate bad debt expense for the attrition year is $148,451. This includes pro forma bad debt expense of $127,970 and an increase in bad debt expense of $20,481 associated with the proposed rate increase. Tucker Composite Exhibit, Tab COSS IS Summary MFG 25-1 and Exhibit GAT 1-1, Schedule 1 – Rate Adjustment, Column 2, Line 7. The methodology for calculating these expenses is set forth in the testimony and supporting workpapers of Mr. Gary Tucker.

Issue 16: What are the appropriate sales promotion expense for the attrition year?

CGC Position: The total appropriate sales promotion expense for the attrition year is $71,891. Tucker Composite Exhibit, Tab COSS IS Summary MFG 25-1. The methodology for calculating these expenses is set forth in the testimony and supporting workpapers of Mr. Gary Tucker.

Issue 17: What are the appropriate customer service and account expense for the attrition year?

CGC Position: The appropriate total customer service and account expense for the attrition year is $6,482. Tucker Composite Exhibit, Tab COSS IS Summary MFG 25-1. The methodology for calculating these expenses is set forth in the testimony and supporting workpapers of Mr. Gary Tucker.

Issue 18: What are the appropriate administrative and general expense for the attrition year?

CGC Position: The appropriate total administrative and general expense for the attrition year is $712,523. Tucker Composite Exhibit, Tab COSS IS Summary MFG 25-1. The methodology for calculating these expenses is set forth in the testimony and supporting workpapers of Mr. Gary Tucker.

Issue 19: What are the appropriate administrative and general expense capitalized for the attrition year?

CGC Position: The total capitalized administrative and general expense for the attrition period is $(66,719). Tucker Composite Exhibit, Tab COSS IS Summary MFG 25-1. The methodology for calculating these expenses is set forth in the testimony and supporting workpapers of Mr. Gary Tucker.

Issue 20: What are the appropriate other distribution and storage expense for the attrition year?

CGC Position: The total other distribution and storage expense for the attrition year is $804,148. Tucker Composite Exhibit, Tab COSS IS Summary MFG 25-1. The methodology for calculating these expenses is set forth in the testimony and supporting workpapers of Mr. Gary Tucker.

Issue 21: What are the appropriate services company allocation expenses for the attrition year? Is CGC's cost allocation methodology appropriate?

CGC Position: The total service company allocated expense for the attrition period is $5,129,252, and CGC's cost allocation methodology is appropriate as service company costs for the attrition year are allocated to each account based on the test year allocation of service company costs to CGC by account. Tucker Composite Exhibit, Tab COSS IS Summary MFG 25-1. The methodology for calculating these expenses is set forth in the testimony and supporting workpapers of Mr. Gary Tucker.

Issue 22: What is the appropriate intercompany billing expense for the attrition year?

CGC Position: The appropriate intercompany billing expense for the attrition year is $227,896. Tucker Composite Exhibit, Tab COSS IS Summary MFG 25-1. The methodology for calculating these expenses is set forth in the testimony and supporting workpapers of Mr. Gary Tucker.

Issue 23: What are the appropriate outside services expenses for the attrition year?

CGC Position: The appropriate outside services expense for the attrition period is $2,087,933. Tucker Composite Exhibit, Tab COSS IS Summary MFG 25-1. The methodology for calculating these expenses is set forth in the testimony and supporting workpapers of Mr. Gary Tucker.

Issue 24: Should CGC's proposed depreciation rates be approved?

CGC Position: Yes. CGC's depreciation rates were developed by an expert consultant using the same methodology that was used in the development of the depreciation rates that are currently in effect and approved by the Commission. Further, the Consumer Advocate did not oppose the depreciation rates and noted that they seemed reasonable. CPAD Novak Direct, at 27; Tr. Vol. 1-B, at 72, Lines 16 through 18. The methodology for the Company's depreciation rates is set forth in the testimony and exhibits of Mr. Dane Watson.

Issue 25: What are the appropriate depreciation expenses for the attrition year?

CGC Position: The appropriate direct depreciation expense for the attrition year is $7,718,130. Tucker Composite Exhibit, Tab COSS IS Summary MFG 25-1. The methodology for the Company's depreciation expenses is set for the testimony and exhibits of Mr. Dane Watson.

Issue 26: What is the appropriate interest on customer deposits for the attrition year?

CGC Position: The appropriate total interest on customer deposits for the attrition year is $96,740. Tucker Composite Exhibit, Exhibit GAT 1-1, Schedule 1 – Rate Adjustment, Column 1, Line 9. The methodology for calculating this interest on customer deposits is set forth in the testimony and supporting workpapers of Mr. Gary Tucker.

D. Taxes

Issue 27: What are the appropriate property taxes for the attrition year?

CGC Position: The appropriate property taxes for the attrition year are $1,975,518. Tucker Composite Exhibit, Tab COSS IS Summary MFG 25-1. The methodology for calculating these taxes is set forth in the testimony and supporting workpapers of Mr. Gary Tucker.

Issue 28: What are the appropriate gross receipts taxes for the attrition year?

CGC Position: The appropriate gross receipts taxes for the attrition year are $451,841. Tucker Composite Exhibit, Tab COSS IS Summary MFG 25-1. The methodology for calculating these taxes is set forth in the testimony and supporting workpapers of Mr. Gary Tucker.

Issue 29: What are the appropriate franchise fees for the attrition year?

CGC Position: The appropriate franchise fees for the attrition year are $409,287. Tucker Composite Exhibit, Tab COSS IS Summary MFG 25-1. The methodology for calculating these franchise fees is set forth in the testimony and supporting workpapers of Mr. Gary Tucker.

Issue 30: What are the appropriate TPUC inspection fees for the attrition year?

CGC Position: The appropriate TPUC inspection fees for the attrition year are $315,074. Tucker Composite Exhibit, Tab COSS IS Summary MFG 25-1. The methodology for calculating these inspection fees is set forth in the testimony and supporting workpapers of Mr. Gary Tucker.

Issue 31: What are the appropriate payroll taxes for the attrition year?

CGC Position: The appropriate payroll taxes for the attrition year are $214,815. Tucker Composite Exhibit, Tab COSS IS Summary MFG 25-1. The methodology for calculating these taxes is set forth in the testimony and supporting workpapers of Mr. Gary Tucker.

Issue 32: What are the appropriate income taxes for the attrition year?

CGC Position: The appropriate income taxes for the attrition year are $1,826,686. Tucker Composite Exhibit, Tab GAT 1-3, Schedule 3 - TN Excise & Franchise Tax, Column 2, Line 24. The methodology for calculating these taxes is set forth in the testimony and supporting workpapers of Mr. Gary Tucker.

Issue 33: What is the appropriate reduction to income tax expense for excess deferred income taxes ("EDITs") in the attrition year? What is the amortization of EDITs? Have EDITs been included in the calculation of the attrition period income tax expense of $1,826,686?

CGC Position: The appropriate reduction to income tax expense for EDITs in the attrition period is $(897,373). Tucker Composite Exhibit, Tab GAT 1-3, Schedule 3 - TN Excise & Franchise Tax, Column 2, Line 23. EDITs are split between protected EDITs and unprotected EDITs. Protected EDITs include property related book and tax timing differences for depreciation expense. All protected EDITs and EDITs associated with property basis adjustments are being amortized over the life of the associated assets using the average rate adjustment mechanism ("ARAM"), which is one of the prescribed methods for the amortization of the excess tax reserves for depreciation expense. Unprotected EDITs include all other book and tax timing differences. The Company has included the amortization of unprotected EDITs over a five-year period. CGC Tucker Rebuttal, at 38, Line 7 through Page 40, Line 3; MFG 69-13. Yes, amortization of EDITs in the amount of $(897,373) has been included in the calculation of the attrition period income tax expense of 1,826,686. Tucker Composite Exhibit, Tab Exhibit GAT 1-3, Schedule 3 - TN Excise & Franchise Tax, Column 2, Lines 23 and 24. The methodology for calculating the amortization of EDITs is set forth in the testimony and supporting workpapers of Mr. Gary Tucker.

<u>Issue 34:</u> Are current year tax impacts attributable to the passage of the Tax Cuts and Jobs Act ("TCJA"), recognized from January 2018 through October 2018, prior to the implementing of new rates, included in the calculation of income taxes?

CGC Position: No. As described in the rebuttal testimony of Mr. Tucker, the Company has requested to retain tax savings resulting from the passage of the TCJA until new rates are established, as presented in the Company's current rate case filing. The Company has proposed to retain the tax savings because it is currently earning less than its authorized rate of return of 7.41%. CGC Tucker Rebuttal, at 39, Line 14 through page 40, Line 15.

E. Net Operating Income

<u>Issue 35:</u> What is the appropriate net operating income ("NOI") for the attrition year?

CGC Position: The appropriate net operating income for the attrition year is $12,359,947. Tucker Composite Exhibit, Tab GAT 1-1, Schedule 1 - Rate Adjustment, Column 3, Line 13. The methodology for calculating the NOI is set forth in the testimony and supporting workpapers of Mr. Gary Tucker.

F. Rate Base

<u>Issue 36:</u> Should the Company's lead-lag study and calculation for cash working capital be accepted?

CGC Position: Yes, the Company's calculation for net cash working capital in the amount of $1,519,251 should be accepted. Tucker Composite Exhibit, Tab GAT 2-2, Schedule 2 – Working Capital, Line 1. The methodology for calculating cash working capital should be as set forth in the lead-lag study of Mr. Michael Adams. Tucker Composite Exhibit, Tab Lead Lag RDJ 2-3.

<u>Issue 37:</u> What is the appropriate 13-month average balance for rate base for the attrition year?

CGC Position: The appropriate 13-month average balance for rate base for the attrition year is $157,795,287. Tucker Composite Exhibit, Tab Rev Req, cell G-10, and Tab GAT-2-1, Schedule 1 - Rate Base, cell E-26. The methodology for calculating this 13-month average balance for rate base is set forth in the testimony and supporting workpapers of Mr. Gary Tucker.

<u>Issue 38:</u> What is the appropriate 13-month average balance for utility plant in service for the attrition year?

CGC Position: The appropriate 13-month average balance for utility plant in service for the attrition year is $301,415,025. Tucker Composite Exhibit, Tab Rate Base, Cell J-10 and Tab GAT 2-1-1, Cell E-13. The methodology for calculating this 13-month average balance for utility plant in service is set forth in the testimony and supporting workpapers of Mr. Gary Tucker.

<u>Issue 39:</u> What is the appropriate 13-month average balance of CWIP to include in the attrition year?

CGC Position: The appropriate 13-month average balance of CWIP for the attrition year is $12,457,439. Tucker Composite Exhibit, Tab Rate Base, Cell J-11; CGC Tucker Direct, at 18, Lines 8-16 (original calculation method). The methodology for calculating the 13-month average balance of CWIP is set forth in the testimony and supporting workpapers of Mr. Gary Tucker. Also, as Mr. Ziliak testified, this amount includes the critical resources for CGC to support current customer needs and to maintain its partnership in the continued growth of the region (see Section III.G. above).

<u>Issue 40:</u> What is the appropriate 13-month average balance for postretirement benefits other than pensions?

CGC Position: The appropriate 13-month average balance for postretirement benefits other than pensions for the attrition year is $2,378,509. Tucker Composite Exhibit Tab Exh. GAT-2-1, Cell E-16. The methodology for calculating the 13-month average balance for postretirement benefits other than pensions is set forth in the testimony and supporting workpapers of Mr. Gary Tucker.

<u>Issue 41:</u> What is the appropriate 13-month average balance for pension for the attrition year?

CGC Position: The appropriate 13-month average balance for pension for the attrition year is $6,631,181. Tucker Composite Exhibit, Tab GAT 2-1, Schedule 1 - Rate Base, Line 3. The methodology for calculating the 13-month average balance for pension is set forth in the testimony and supporting workpapers of Mr. Gary Tucker.

<u>Issue 42:</u> What is the appropriate 13-month average balance for working capital for the attrition year?

CGC Position: The appropriate 13-month average balance for working capital for the attrition year is $10,508,483. The methodology for calculating the 13-month average balance for working capital is set forth in the testimony and supporting workpapers of Mr. Gary Tucker. The attrition period working capital balance is made up of the following components:

Requirement For Lead Lag	1,519,251
Materials and Supplies	403,477
Prepayments	46,418
Stored Gas Inventory	9,710,633
Deferred Rate Case	1,117,499
Total additions	12,797,278
Reserve for Uncollectibles Accounts	220,038
Reserve for Uncollectibles Accounts - DMG Billing	19,855
Unclaimed Customer Credits & Checks	72,013
Reserve for Health Insurance	31,616
Customer Deposits	1,612,342
Accrued Interest on Customer Deposits	332,933
Total deductions	2,288,795
Total	10,508,483

Tucker Composite Exhibit, Tab GAT 2-2, Schedule 2 - Working Capital, Lines 1 through 5 and 7 through 12. In this case, CPAD is now going backwards again and arguing to exclude the return on equity in the Cash Working Capital study that was approved as far back as our 2004 rate case. CGC Adams Rebuttal, at 3, Lines 10-14; Tr. Vol. I. B., at 168, Lines 1-7.

Issue 43: What is the appropriate 13-month average balance for excess deferred income taxes for the attrition year?

CGC Position: The appropriate 13-month average balance for excess deferred income taxes for the attrition year is $22,177,646. Tucker Composite Exhibit, Tab GAT 1-1, Schedule 1 - Rate Base, Line 7. The methodology for calculating the 13-month average balance for deferred income taxes is set forth in the testimony and supporting workpapers of Mr. Gary Tucker.

Issue 44: What is the appropriate 13-month average balance for accumulated deferred taxes for the attrition year?

CGC Position: The appropriate 13-month average balance for accumulated deferred taxes for the attrition year is $25,514,266. Tucker Composite Exhibit, Tab GAT 1-1, Schedule 1 - Rate Base, Line 8. The methodology for calculating the 13-month average balance for accumulated deferred taxes is set forth in the testimony and supporting workpapers of Mr. Gary Tucker.

Issue 45: What is the appropriate 13-month average balance for accumulated depreciation for the attrition year?

CGC Position: The appropriate 13-month average balance for accumulated depreciation for the attrition year is $127,903,439. Tucker Composite Exhibit, Tab GAT 2-1, Schedule 1 - Rate Base, Line 6. The methodology for calculating the 13-month average balance for accumulated depreciation income taxes is set forth in the testimony and supporting workpapers of Mr. Gary Tucker.

G. Revenue Conversion Factor

Issue 46: What is the appropriate revenue conversion factor for the attrition year?

CGC Position: The appropriate revenue conversion factor for the attrition year is 135.316%. Tucker Composite Exhibit, Tab GAT 1-2, Schedule 2 – Rate Adjustment Calc., Line 24. The methodology for calculating the revenue conversion factor is set forth in the testimony and supporting workpapers of Mr. Gary Tucker.

H. Rate of Return & Capital Structure

Issue 47: What is the appropriate capital structure (short term debt, long term debt, and equity amounts) for the attrition year? Should the Commission use a double-leverage approach to establish the equity amount of CGC's capital structure?

CGC Position: The appropriate capital structure for the attrition period for short-term debt, long-term debt and common equity is 6.30%, 44.47% and 49.23%, respectively. [Rebuttal Exhibit GAT 3-1, Schedule 1 - Cost of Capital, Column 1, Lines 1, 2 and 4]. The methodology for determining the capital structure is the adoption of the Southern Company Gas capital structure as supported by Mr. Gary Tucker. The CPAD double-leverage approach for the amount of equity in CGC's capital structure should be rejected as set forth more fully above in Section III.A. If not rejected, then the additional risk caused by the double-leveraged approach would require at least a 230 basis point adjustment to return on equity, but even that would leave CGC's overall rate of return materially below the industry at large and other Tennessee natural gas utilities.

Issue 48: What is the appropriate cost rate for long-term and short-term debt to include in the attrition year capital structure?

CGC Position: The appropriate cost rate for long-term and short-term debt to include in the attrition year capital structure is 4.73% and 3.01%, respectively. Tucker Composite Exhibit, Tab GAT 3-1, Schedule 1 - Cost of Capital, Column 2, Lines 1 and 2. The methodology for calculating these debt costs is set in the testimony and supporting exhibits of Mr. Gary Tucker. The CPAD did not dispute these debt costs. CPAD Klein, at 8, Lines 14-16.

Issue 49: What is the appropriate authorized return on equity ("ROE") to use in establishing CGC's attrition year revenue requirement?

CGC Position: The appropriate authorized return on equity ("ROE") to use in establishing CGC's attrition year revenue requirement is 11.25%. Tucker Composite Exhibit, Tucker Exhibit GAT 3-1, Schedule 1 - Cost of Capital, Column 2, Line 4; Tr. Vol. I B, p. 110. The methodology for calculating ROE is set forth in the testimony and supporting exhibits of Dr. James Vander Weide. Dr. Klein's calculation uses the wrong proxy group (electric/gas utilities instead of gas utilities) and does not adjust for the increase risks associated with his application of the double-leverage equity structure. See further the discussion above in Section III.A.

Issue 50: What is the appropriate weighted average cost of capital to use in establishing CGC's attrition year revenue requirement?

CGC Position: The appropriate attrition period weighted average cost of capital, also referred to as the rate of return ("ROR"), to use in establishing CGC's attrition year revenue requirement is 7.83%. This is based on the following weighted average cost of capital components: short-term debt of .19%, long-term debt of 2.10%, and common equity of 5.54%. Tucker Composite Exhibit, Tab GAT 3-1, Schedule 1 - Cost of Capital, Column 3, Lines 1, 2, 4 and 5; Tr. Vol. I B, at 109, Line 14 through Page 110, Line 21. The methodology for calculating the overall rate of return is set forth in the testimony and exhibits of Dr. James Vander Weide and Mr. Gary Tucker.

I. Revenue Deficiency

Issue 51: What is the revenue deficiency for the attrition period?

CGC Position: The revenue deficiency for the attrition period is $6,133,885. [Rebuttal Exhibit GAT 1-1, Schedule 1 - Rate Adjustment, Column 2, Line 6]. The methodology for calculating the revenue deficiency is set forth in the testimony and exhibits of Mr. Gary Tucker.

Issue 52: What is the appropriate amount of rate case expense to recovered in rates, and what is the appropriate amortization period and amount to be recovered each year?

CGC Position: At the time of the hearing, the appropriate amount of rate case expense to be recovered in rates is $1,241,665. Recovery of rate case expenses has been requested over a five-year period to align with the amortization of the accumulated reserve surplus and amortization of excess deferred income taxes. A five-year recovery of rate case cost results in an annual amortization of $248,333. Tucker Composite Exhibit, Tab GAT 4-1, Schedule 1 - Deferred Debits; MFG 69-4, Lines 7 and 8. CGC reserves the right to update this amount based upon the final decision in this matter and actual costs incurred through the decision. The methodology for calculating rate case expenses is supported by the testimony and exhibits of Mr. Gary Tucker.

J. Rates and Rate Design

Issue 53: What is the appropriate rate design for rates?

CGC Position: The Company's rate design builds on the rate design approved in the 2010 Order. For this case the Company's expert Mr. Yardley used a "Class Cost of Service Study" to assist in the review of current rates and the development of new rates. Following the results of the cost of service study, a greater proportion of the rate increase was applied to residential, multi-family and small commercial rate classes to reduce existing subsidies. CGC Yardley Direct, at 15-16. The CPAD's methodology for allocating rate changes equally across equally across all customer classes would exacerbate inherent rate disparities in the current system where the large customers are subsidizing the residential and small commercial customers. CPAD Novak, at 32. CGC's methodology was set forth in the testimony and supporting study and exhibits of Mr. Dan Yardley. See further the discussion in Section III. H. above.

Issue 54: What are the appropriate customer charges?

CGC Position: The Company proposes the following increases: 1) for R-1, during the months of November through April, an increase from $16.00 to $20.50, and during the months of May through October, an increase from $13.00 to $18.00) for Multi-Family, there is an increase from $6.00 to $8.25 per month; for Small Commercial, from $29.00 to $38.00 in the winter and $25.00 to $34.00 per month in the summer; and, retain monthly customer charges for all other rate classes. CGC Yardley Direct, at 17-18. CGC's methodology was set forth in the testimony and supporting study and exhibits of Mr. Dan Yardley. See further the discussion at Section III. H above.

Issue 55: What are the appropriate per therm distribution charges?

CGC Position: CGC's methodology was set forth in the testimony and supporting study and exhibits of Mr. Dan Yardley. CGC Yardley Direct, at 18, Lines 9-20[3]; *see also* CGC Hickerson Rebuttal, Exhibit ARH-13, pp. 1-18 of 18 and the discussion at Section III. H. above. The classes were broken down as follows:

a. Residential class - $0.13449/therm;
b. Small Commercial - $0.22038/therm in winter and $0.18046/therm in summer;
c. Residential Multi-Family - $0.25489/therm in winter and $0.23071 /therm in summer;

Issue 56: What are the appropriate demand charges?

CGC Position: CGC's methodology for demand charges is set forth in the testimony, study, and exhibits of Mr. Dan Yardley. Yardley, Direct, Exhibit DPY-1, pp. 10 of 13 to 12 of 13[4]. CGC's proposed demand charges are as follows:

a. Medium Commercial and Industrial General Service (Rate Schedule C-2): Winter - $7.00/Dth and Summer - $7.00/Dth.
b. Commercial and Industrial Large Volume Firm Sales Service (Rate Schedule F-1): $7.00/Dth.
c. Interruptible Transportation Service with Firm Gas Supply Backup (Rate Schedule T-2): $7.00/Dth.
d. Low Volume Transport (Rate Schedule T-3): $7.00/Dth.

CGC Hickerson Rebuttal, Exhibit ARH-13, pp. 1-18 of 18.

Issue 57: What are the appropriate miscellaneous charges?

CGC Position: CGC did not propose any changes to its miscellaneous charges, so the existing tariff rates should remain in effect.

Issue 58: Should CGC's proposed Line Extension Tariff provisions be approved?

CGC Position: Yes. The Company is proposing to transition by simplifying the wording of the standard line extension provision included in the tariff, like other gas distribution

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[3] Mr. Yardley's Direct Testimony numbers were updated in Mr. Hickerson's Rebuttal and the updated rate design in Exhibit DPY-4.
[4] Mr. Yardley's Direct Testimony numbers were updated in Mr. Hickerson's Rebuttal and the updated rate design in Exhibit DPY-4.

companies in Tennessee. The Company will continue to use economic analysis to determine the amount of investment that can be justified based on the projected revenue that will be made without requiring a contribution in aid of constructions from the customer(s) and the amount of any contribution in aid of construction that may be required. CGC Hickerson Direct, at 4, Lines 22-30. No party opposed this change. CPAD Novak, at 41, Lines 6-7.

<u>Issue 59:</u> Should CGC's proposed elimination of the Air Conditioning rate be approved?

CGC Position: Yes. "Due to the lack of residential customers utilizing the natural gas air conditioning schedule, the special R-1 Air Conditioning rate is being deleted." CGC Hickerson Direct, at 5, Lines 8-15. No party opposed this change. CPAD Novak, at 41, Lines 12-14.

<u>Issue 60:</u> Should CGC's proposed elimination of the Standby Demand Charge be approved?

CGC Position: Yes. There are only 11 customers being billed under this charge, and, while an argument can be made to require such customers to pay the standby demand charge, it is administratively difficult to identify the type of heating equipment that each customer has installed. CGC Hickerson Direct, at 5, Lines 16-23. No party opposed this change.

<u>Issue 61:</u> Should CGC's proposed elimination of the SF-1 Experimental Semi Firm Sales Service tariff be approved?

CGC Position: Yes. No customer has ever been provided service under this Rate Schedule. CGC Hickerson Direct, at 6, Lines 1-3. No party opposed this change. CPAD Novak, at 41, Line 16-18.

<u>Issue 62:</u> Should CGC's proposed revisions to the Unauthorized Gas Use Penalty provisions be approved?

CGC Position: Yes. In accordance with its tariff, "the Company may curtail the volume of gas to be taken by customers served under interruptible Rate Schedules, require transportation customers to burn no more gas than the amount they have delivered to the Company on their behalf… [and] to ensure compliance with such restriction, the tariff has penalty provisions… ." However, the current penalty provisions are not adequate. The Company would like to increase the penalty rate to a level so that any violation of a balancing or curtailment order would be uneconomic for the customer or a third-party supplier. Tr. Vol. II C, pp. 247-248. In addition, the revenue from such penalties would flow back to the Company's customers as a reduction in the cost of gas that is recovered through the PGA. CGC Hickerson Direct, at 6, Line 4 through Page 7, Line 2. The proposed penalty is in line with other natural gas utilities and is seen as a best practice in deterring consumption during a curtailment.

<u>Issue 63:</u> Should CGC's proposed revisions regarding the determination of an Eligible Receipt Point be approved?

CGC Position: Yes. The Company would like to "revise its tariff to clarify that it can determine eligible receipt point(s) for an individual transportation customer based on the relationship between a given receipt point and the customer's meter." CGC Hickerson Direct, at 7, Lines 3-13. No party opposed this change.

Issue 64: Should CGC's proposed revisions to the Performance Based Ratemaking tariff be approved?

CGC Position: Yes. "The Performance Based Ratemaking (PBR) is being revised to require that supplies purchased at the NORA receipt point with a term of one month or greater be excluded from the calculation of the difference from the cost of gas purchase. It is also proposed to replace the Spot Purchase benchmark with First-of-the-Month ("FOM") Purchases benchmark consistent with CGC practice of purchasing gas, replace the Swing Purchases benchmark with the Daily Priced purchased benchmark, and delete the Long Term Purchases and the Citygate Purchase index that are not currently being used." CGC Hickerson Direct, at 7, Line 14 through Page 8, Line 3. No party opposed this change. CPAD Novak, at 42, Lines 4-6.

Issue 65: Should CGC's proposed tariff revisions regarding Employee Protection be approved?

CGC Position: Yes. The revisions would "allow for termination of service if the Company has reasonable evidence that there is or may be a danger from the customer…on the customer's premises to Company personnel or agents… ." CGC Hickerson Direct, at 8, Lines 4-11. No party opposed this change. CPAD Novak, at 42, Lines 8-10.

Issue 66: Should CGC's proposal to update the income tax gross-up factor applicable to contributions in aid of construction ("CIAC") to reflect the change in the corporate tax rate be approved?

CGC Position: Yes. The revised factor is 17.25% based on CGC's proposed rate of return. This factor will be adjusted if the Commission approves a different rate of return, and CGC will make such an adjustment in its compliance filing after the Commission's final decisions in this docket. CGC Hickerson, at 4, Line 30 through Page 5, Line 7. No party opposed this change. CPAD Novak, at 41, Lines 7-10.

Issue 67: What should be the effective date of any new tariff changes?

CGC Position: CGC anticipates implementing its new rates effective October 1, 2018, if a decision on the merits by the Commission is made in September 2018. If the Commission does not rule on CGC's case until sometime in October 2018, then CGC requests that it be given the option of putting rates into effect effective on the day of the Commission decision or no later than November 1, 2018, subject to administrative approval of any compliance filings by the Commission.

K. AUA

Issue 68: Should CGC's proposal to terminate the AUA trial and transfer R-1 and C-1 customers to the WNA be approved to be effective the same day as other tariff changes required by this proceeding?

CGC Position: Yes. CGC Hickerson Direct, at 8, Line 18 through Page 25, Line 14; CGC Hickerson Rebuttal, at 5, Line 19 through Page 25, Line 21; Tr. Vol. II C, 208, Line 18 through Page 212, Line 16; see also the discussion at Section III I above for a more detailed presentation of these issues.

<u>Issue 69:</u> What is the amount of the AUA deferred revenue deficiency?

CGC Position: At the time of CGC's case filing, the deferred revenue deficiency was \$1,788,184 because of the 2% cap on recoveries each year. CGC Hickerson Direct, at 24; and, Exhibit ARH-3, p. 6 of 9. At the hearing, Mr. Hickerson updated this number to \$1,414,674. Tr. Vol. II C, at 209, Lines 20-24 and Page 271, Line 18 through Page 272, Line 6. At whatever time the AUA terminates, the deferred revenue deficiency should be calculated at that point for recovery by the approved mechanism. No party disputed the calculation of the deferred amount. See further the discussion at Section III. I above.

<u>Issue 70:</u> Should CGC's proposal to recover the AUA revenue deficiency through the IMCR be approved? If not, what mechanism should be used to recover the AUA revenue deficiency?

CGC Position: Mr. Hickerson proposes using the "Interruptible Margin Credit Rider" ("IMCR") to address the "revenue deficiency without surcharges or increasing going forward rates." CGC Hickerson Direct, at 25; Tr. Vol. II C, at 210, Line 6 through Page 212, Line 6. While the IMCR will have the least impact on customers (by offsetting other revenues being shared with customers), the Company is also willing to explore other alternatives should the IMCR not meet with Commission approval. One other option would be to "propose a special surcharge on the R-1 and C-1 customer bills, as applicable, spread out over two years until all the funds are recovered." CGC Hickerson Direct, at 24, Line 15 through Page 25, Line 15. An additional option would be to "reinstate the WNA for the R-1 and C-2 Rate Schedules…and retain the AUA for non-weather effects." CGC Hickerson Direct, at 26, Lines 16-22. See further the discussion in Section III. I above.

L. Rate Case Methodology

<u>Issue 71</u>: Should CGC's request to identify and approve its rate case methodology be granted such that the final order in this proceeding will reflect an approved methodology as is required by T.C.A. § 65-5-103(d)(6)(A)?

CGC Position: Yes. As the Commission makes its various rate case decisions on rate base, billing determinants, depreciation, lead-lag, weather normalization, forecasted O&M expenses, bad debt, taxes, and the like, such as CGC has detailed in Sections III and IV of this brief and in the other issues of record, that the Commission identify and approve a methodology for each such rate case issue, whether it is the methodology utilized by CGC, the Consumer Advocate, or some other approach the Commission, as applicable, may apply. CGC Cogburn Direct, at 2, Line 5 through Page 3, Line 18; CGC Cogburn Rebuttal, at 4, Lines 19-22. See further the discussion in Section III. J above.

V. Conclusion

WHEREFORE, based upon the foregoing, and the supporting testimony, exhibits, MFGs, and discovery responses, CGC has provided competent and material evidence with respect to its proposed rate increase and tariff modifications, the termination of the AUA and associated deferred revenue deficiency recovery, and the identification of CGC's rate case methodologies, and respectfully requests that the relief requested be granted.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that on this 10th of September, 2018, a true and correct copy of the foregoing was served on the persons below by electronic mail:

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