

BEFORE THE TENNESSEE PUBLIC UTILITY COMMISSION
NASHVILLE, TENNESSEE

November 8, 2019

IN RE:)	
)	
CHATTANOOGA GAS COMPANY)	Docket No.
COMPLIANCE FILING AND)	18-00035
REPORT)	
)	

CHATTANOOGA GAS COMPANY'S
RESPONSES AND OBJECTIONS TO THE
CONSUMER ADVOCATE'S SECOND DISCOVERY REQUESTS

Chattanooga Gas Company ("CGC" or "Company"), pursuant to the Hearing Officer's September 26, 2019, Order Establishing Procedural Schedule, files its Responses and Objections to the Second Discovery Requests of the Consumer Advocate Unit in the Financial Division of the Attorney General's Office ("CAU") that were served on October 25, 2019.

OBJECTIONS

In addition to any specific objections that may be included in each individual discovery response, CGC also makes the following general objections that apply to all of its discovery responses:

1. CGC objects generally to any definitions or instructions to the extent that they are inconsistent with and request information that is beyond the scope of the Tennessee Rules of Civil Procedure. CGC's responses will comply with the requirements of the Tennessee of Rules of Civil Procedure and the Rules of the Tennessee Public Utility Commission.

2. Any requests for production of documents are interpreted to describe each item or category of items requested with reasonable particularity as required by Tenn. R. Civ. P. 34.02, and the terms used in the requests are not interpreted “broadly.” CGC will produce nonprivileged, responsive items and/or data in its possession, custody, or control as required by Tennessee Rules of Civil Procedure.

3. CGC further objects to these discovery requests to the extent they seek information that is beyond the scope of legitimate discovery in this rate case or that is subject to any privilege, including the attorney-client privilege and/or attorney work product doctrine. Without waiving any of these General Objections, the Company will respond to the CAU’s discovery requests by providing responsive, non-privileged information.

4. These General Objections are continuing and are incorporated by reference into CGC's responses to all discovery requests to the extent applicable. The statement of any specific objections in a response shall not constitute a waiver of these General Objections.

5. CGC objects to the definitions provided to the extent they are incorrect or expansive beyond the scope of permissible discovery. In particular, CGC objects to the terms “identity” or “identify” as used by the CAU. CGC objects to providing the full name, last known address, person’s relationship, and other such information for persons to be identified on the grounds that the scope of information requested is overly broad and not calculated to lead to the discovery of admissible evidence. CGC further objects to the CAU’s instructions to produce documents with the type, title, identification of author(s), subject, date, and date written on the grounds that such requests are unduly burdensome and overly broad. CGC shall reasonably identify persons and documents as relevant.

6. CGC objects to the CAU discovery to the extent that such discovery seeks to impose an obligation on CGC to respond on behalf of subsidiaries, affiliates, or other persons that are not parties to this case on the grounds that such discovery is overly broad, unduly burdensome, oppressive, and not permitted by applicable discovery rules. CGC further objects to any and all CAU discovery that seeks to obtain information from CGC for CGC subsidiaries, affiliates, or other related CGC entities that are not parties before this Commission.

7. CGC has interpreted the CAU discovery to apply to CGC's regulated operations in Tennessee and will limit its responses accordingly. To the extent that any CAU discovery is intended to apply to matters that take place outside the State of Tennessee and which are not related to CGC's regulated Tennessee operations, CGC objects to such request as irrelevant, overly broad, unduly burdensome, and oppressive.

8. CGC objects to the CAU discovery insofar as it calls for CGC to present information in a particular format or to otherwise to impose obligations on CGC which exceed the requirements of the Tennessee Rules of Civil Procedure, except as ordered by the Hearing Officer (so Excel shall be in its native form).

9. CGC objects to the CAU discovery that seeks to obtain "any," "all," "each," or "every" document, item, customer, or other such piece of information to the extent that such discovery is overly broad and unduly burdensome. Any answers that CGC may provide in response to the CAU discovery will be provided subject to, and without waiver of, this objection.

10. In the conduct of its business over time, CGC creates documents that may be stored in numerous locations and moved from site to site as employees change jobs or as the business has been transferred to new ownership or otherwise reorganized, new management installed, or other regulatory and business requirements and practices have been established. Therefore, it is possible

that not every document has been identified in response to these requests. CGC has in good faith conducted a reasonable and diligent search of records that are reasonably expected to contain the requested information. To the extent that the CAU discovery purports to require more, CGC objects on the grounds that compliance would impose an undue burden or expense.

11. CGC reserves its rights to protect all confidential information by producing it only pursuant to the appropriate protective order of the Commission that will be forthcoming from the Hearing Officer.

RESPONSES TO DISCOVERY REQUESTS

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CHATTANOOGA GAS COMPANY

Docket No. 18-00035

Consumer Advocate Unit (CAU)

Data Request Set: CAU-2

CAU-2-1 Request:

Provide a comprehensive explanation describing the nature of the change described in footnote 3 of tab CAU 1-11 provided in the attachment to CAU 1-11.

CGC Response:

With the passage of the Tax Cuts and Jobs Act, the Company's accumulated deferred income tax (ADIT) balances were revalued at the lower federal income tax rate. During this process, the state ADIT balance was setup within the Company's tax subledger, Powertax, at the state effective tax rate. A state EDIT balance was then created in error based on a comparison of the state ADIT balance, which was recorded at the effective rate, and the FAS 109 balance using the state statutory rate of 6.5%. This EDIT balance then began to amortize through the general ledger in error in January 2018 based on the average rate assumption method (ARAM).

In the Company's 2018 rate case filing, the state EDIT was identified and removed for rate setting purposes. However, the correction was not made within the Company's tax subledger Powertax. Therefore, the EDIT amount continued to amortize, producing a journal entry that was recorded to the general ledger. An entry will be recorded to remove the state EDIT amortization from the Company's books and records as part of close process for November 2019. The Company will provide the correcting entry as soon as it is available, but no later than December 13, 2019.

Subsequent calculations of the Company's rate of return will be adjusted such that no state EDIT balance or amortization is included.

Contact Person: Gary Tucker

CHATTANOOGA GAS COMPANY

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Consumer Advocate Unit (CAU)

Data Request Set: CAU-2

CAU-2-2 Request:

Regarding the Company's response to CAU No. 1-11, specifically tab 1-11e, provide the support for the OCI Offset amount of \$1,085,286, which apparently reduces the amount of unprotected excess Accumulated Deferred Income Tax ("ADIT") by that same amount (see OPEB and Pension Unprotected EDIT timing differences line). In addition to providing the supporting workpapers for this line item, provide a comprehensive explanation describing the nature of this balance and why it should be used to reduce the balance of unprotected excess ADIT.

CGC Response:

Please see CAU-2-2 CONFIDENTIAL Attachment for the supporting workpapers for the OCI offset amount of \$1,085,286. OCI offset is the EDIT associated with the accumulated deferred income taxes on Other Comprehensive Income (OCI) as of December 2017.

The accounting treatment for pensions and other post-employment benefits (OPEB) is set forth by generally accepted accounting principles (GAAP), which require that a company recognize in its financial statements the difference between the accumulated post-retirement benefits obligation (ABO) and the plan assets through a charge to other comprehensive income (OCI) on the balance sheet. The OCI balance is comprised of the unrecognized pension and Other Post-Employment (OPEB) gains and losses, prior service costs, and associated tax impacts.

In the Company's 2018 rate case filing, Docket No. 18-00017, the Company requested recovery of pension and OPEB costs based on GAAP accounting which included a return on the prepaid pension and OPEB balances, net of the associated deferred taxes, and pension and OPEB expense based on a GAAP as well. From a regulatory rate making perspective, GAAP based recovery of pension and OPEB cost includes the net prepaid asset or accrued liability which is the difference between the pension expense recognized and pension funding. This amount includes unrecognized pension gains and losses, and prior service costs. To eliminate the unrecognized components, the Company included in its proposal of GAAP based treatment the offset which is recorded to OCI. The Company also included the EDIT balance and amortization related to OCI in its case.

The Commission denied the Company's request of GAAP based recovery of pension and OPEB costs and removed the prepaid balances and associated ADIT impacts from rate base and pension and OPEB expenses from the cost of service. However, the EDIT tax impacts associated with the prepaid pension and OPEB balances appear to have been inadvertently included by the Commission in their final determination of the EDIT balance and amortization. Since the Commission denied the Company's proposal for

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Data Request Set: CAU-2

GAAP basis recovery and ordered the continuation of cash basis recovery, the Company has removed these amounts for ratemaking purposes.

After removing the pension and OPEB related timing differences from the EDIT balance and adjusting the balance for the 2017 tax return, the EDIT balance to be returned to customers is \$1,132,788.

Contact Person: Gary Tucker

CHATTANOOGA GAS COMPANY

Docket No. 18-00035

Consumer Advocate Unit (CAU)

Data Request Set: CAU-2

CAU-2-3 Request:

Is it now the position of CGC that the revised original balance of unprotected excess ADIT is \$1,132,788 rather than \$2,504,975 as shown on tab 1-11e? If so, provide a comprehensive explanation supporting CGC's proposal to modify this balance.

CGC Response:

Yes, after adjusting for the 2017 tax return and making the omitted pension and OPEB disallowances from EDIT, consistent with the Commission's exclusion of these timing differences from accumulated deferred income taxes, the EDIT balance to be returned to customers is \$1,132,788. Please refer to the Company's response to CAU-2-2 for further explanation of the removal of the pension and OPEB related EDIT.

In Docket No. 18-00017 the Commission approved an EDIT amortization of \$500,995 per year which the Company recorded in 2018 and is in the process of recording for 2019. Disposition of the remaining EDIT balance to be returned to customers as of December 2019 will be included in the Company's upcoming ARM filing in April 2020.

Contact Person: Gary Tucker

Respectfully submitted this 8th day of November, 2019.



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CERTIFICATE OF SERVICE

I hereby certify that a true and exact copy of the foregoing Responses and Objections to the Consumer Advocate's Second Discovery Requests were forwarded via electronic mail on Friday, November 8, 2019 to:

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