

# **Luna Law Group, PLLC**

L & C Tower, Suite 2200  
401 Church Street  
Nashville, Tennessee 37219

Telephone: (615) 254-9146  
Facsimile: (615) 254-7123

J. W. Luna  
[jwluna@LunaLawNashville.com](mailto:jwluna@LunaLawNashville.com)

Electronically Filed in TPIC Docket Room on April 15 2019 at 9:40 a.m.

April 15, 2019

**19-00047**

Chairman Robin L. Morrison  
Tennessee Public Utility Commission  
502 Deaderick Street, 4<sup>th</sup> Floor  
Nashville, TN 37243

Re: Chattanooga Gas Company Petition to Opt Into an Annual Review of  
Rates Mechanism

Dear Chairman Morrison:

Enclosed for filing is a Petition and supporting documents in the above captioned new matter for Chattanooga Gas Company. The following documents are being filed:

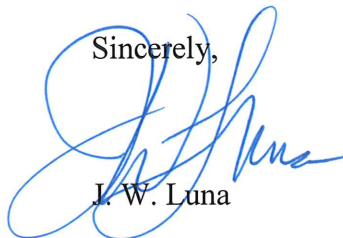
1. Petition
2. Direct Testimony of Archie Hickerson and Exhibit ARH-1 ("Annual Review Mechanism")
3. Direct Testimony of Gary Tucker and Exhibit GAT-1 ("ARM Methodologies")

We are providing an electronic filing and four hard copies. No confidential information is contained in this filing.

Also, we are providing by e-mail a courtesy copy of the enclosed documents to the Consumer Advocate, and obviously, CGC will not object to the intervention by the Consumer Advocate. Hopefully, within the next few days the parties may be able to submit a proposed procedural schedule for the Hearing Officer's consideration.

As always, if there are any questions, please do not hesitate to contact me.

Sincerely,



J. W. Luna

Enclosures

cc: Earl Taylor  
Kelly Cashman-Grams  
Monica Smith-Ashford  
David Foster  
Vance Broemel  
Karen Stachowski

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

**April 15, 2019**

<b>IN RE:</b>	)	
	)	
<b>CHATTANOOGA GAS COMPANY</b>	)	
<b>PETITION TO OPT INTO AN</b>	)	<b>Docket No.</b>
<b>ANNUAL REVIEW OF RATES</b>	)	
<b>MECHANISM PURSUANT TO</b>	)	<b>19- <u>00047</u></b>
<b>TENN. CODE ANN. § 65-5-103(d)(6)</b>	)	
	)	

---

**CHATTANOOGA GAS COMPANY PETITION TO OPT INTO AN  
ANNUAL REVIEW OF RATES MECHANISM PURSUANT TO  
TENN. CODE ANN. § 65-5-103(d)(6)**

---

Chattanooga Gas Company ("CGC" or "Company"), pursuant to Tennessee Code Annotated Section 65-5-103(d)(6) and the Rules of the Tennessee Public Utility Commission ("TPUC" or "Commission"), hereby files for approval of its Petition To Opt Into An Annual Review Of Rates Mechanism ("Petition") based upon its 2018 general rate case and the rate making methodology approved therein. In support of this Petition, CGC states as follows:

**I. INTRODUCTION**

1. CGC is incorporated under the laws of the State of Tennessee and is engaged in the business of transporting, distributing, and selling natural gas in the greater Chattanooga and Cleveland, Tennessee areas within Hamilton and Bradley Counties. CGC is a public utility pursuant to the laws of the State of Tennessee, and its public utility operations, including its rates, terms, and conditions of service, are subject to the jurisdiction of this Commission.

2. CGC is a wholly-owned subsidiary of Southern Company Gas, a natural gas

holding company that is the parent company operating regulated natural gas utilities in Georgia, Illinois, and Virginia in addition to CGC in Tennessee. Southern Company Gas, formerly known as AGL Resources, was acquired by the Southern Company in 2016.

3. CGC's principal office and place of business is located at 2207 Olan Mills Drive, Chattanooga, Tennessee 37421.

4. All correspondence and communication with respect to this Petition should be sent to the following on behalf of CGC:

J. W. Luna, Esq  
Luna Law Group, PLLC  
L&C Tower, Suite 2200  
401 Church Street  
Nashville, TN 37219  
Telephone: (615) 254-9146  
Email: [jwluna@LunaLawNashville.com](mailto:jwluna@LunaLawNashville.com)

Floyd R. Self, Esq.  
Berger Singerman, LLP  
313 North Monroe Street, Suite 301  
Tallahassee, FL 32301  
Telephone: (850) 521-6727  
Email: [fself@bergersingerman.com](mailto:fself@bergersingerman.com)

Elizabeth Wade, Esq.  
Chief Regulatory Counsel  
Southern Company Gas  
Ten Peachtree Place, NW  
Atlanta, GA 30309  
Telephone: (404) 584-3160  
Email: [ewade@southernco.com](mailto:ewade@southernco.com)

Paul Teague  
Director, External Affairs  
Chattanooga Gas Company  
2207 Olan Mills Drive  
Chattanooga, TN 37421  
Telephone: (404) 693-5986  
Email: [pteague@southernco.com](mailto:pteague@southernco.com)

5. By this Petition, CGC is now seeking the Commission's approval of CGC's request to opt into an alternative regulatory method as authorized by Tennessee Code Annotated Section 65-5-103(d)(1)(a), specifically an annual review of rates authorized by Tennessee Code Annotated Section 65-5-103(d)(6), with CGC's specific annual rate review mechanism referred to herein as the CGC "Annual Review Mechanism" or "ARM."

### **III. STATUTORY PRECONDITIONS: CGC'S GENERAL RATE CASE**

6. Tennessee Code Annotated Section 65-5-103(d) establishes two preconditions to a utility's decision to opt into an annual review of rates mechanism. First, Tennessee Code Annotated Section 65-5-103(d)(6)(B) requires that, "In order for a public utility to be eligible to make an election to opt into an annual rate review, the public utility must have engaged in a general rate case pursuant to § 65-5-101 and subsection (a) within the last five (5) years; . . ." Second, the annual review of rates must be "based upon the methodology adopted in its most recent rate case pursuant to § 65-5-101 and subsection (a), if applicable." CGC has met both of these statutory preconditions.

7. With respect to the first precondition, CGC has engaged in a general rate case within the last five years. On February 15, 2018, CGC filed its petition for a general rate case, which was processed in Commission Docket No. 18-00017. By its Amended Order issued January 15, 2019 ("Rate Case Order"), the Commission granted in part and denied in part CGC's general rate case petition. While each of CGC's rate case requests may not have been approved, the Commission did make decisions with respect to each of the issues necessary and required in order for the Commission to approve new rates. Accordingly, the Rate Case Order conclusively establishes that CGC has conducted a general rate case within five years of the date of this Petition.

8. Second, the Rate Case Order established the necessary and appropriate



methodology that can now be used as a basis for this request to opt into its proposed ARM. When CGC filed its general rate case in Docket No. 18-00017, CGC also petitioned for an annual rate review under the alternative regulatory method statute. However, CGC subsequently withdrew without prejudice its annual rate review case so that its general rate case could proceed unencumbered by a simultaneous proceeding to establish an annual rate review mechanism. In withdrawing its annual review of rates request from Docket No. 18-00017, CGC specifically requested “that the Commission in the final order in this rate case clearly identify the approved rate case methodology required by T.C.A. Section 65-5-103(d)(6)(A).” Docket No. 18-00017, *CGC Notice of Withdrawal From Further Consideration in this Docket of its Request for Approval of its Proposed Alternative Regulatory Methods*, para. 4, at 2 (April 10, 2019). As requested, the Commission found in Ordering Paragraph No. 22 as follows: “If Chattanooga Gas Company petitions for an alternative regulatory mechanism, the forward-looking methodologies adopted in this Order should be reviewed for appropriateness in the determination of service rates pursuant to such annual rate setting mechanism.” Rate Case Order, para. 22, at 89. Accordingly, the Rate Case Order established the necessary rate-making methodology to support CGC’s proposed ARM.

9. Thus, all of the necessary statutory prerequisites are present for CGC to now seek to opt into an annual rate review mechanism as authorized by Tennessee law.

#### **IV. CGC’s ANNUAL REVIEW MECHANISM (“ARM”)**

10. Tennessee Code Annotated Section 65-5-103(d)(6) allows utilities to opt for annual review of their rates mechanism. Such an annual review of rates mechanism is intended to allow for more frequent review of the utility’s operations, and thus greater transparency regarding the utility’s business. To the extent the utility is over-earning or under-earning, an annual review process should result in smaller, incremental changes to the utility’s rates, whether up or down.

Additionally, inherent in the statute is a more streamlined and timely process that should be less burdensome and costly than a general rate case.

11. CGC's ARM proposal herein is different than the one proposed in Docket No. 18-00017. CGC's previous proposal was generally modeled on the annual rate review mechanism approved by the Commission for Atmos Energy Corporation in Docket No. 14-00146. The Atmos annual rate review mechanism was negotiated by Atmos and the Consumer Advocate in order to settle both a general rate case and the establishment of an Atmos annual rate review mechanism. As the first utility in Tennessee to seek authority for an annual rate review mechanism, the Atmos annual rate review settlement mechanism was certainly groundbreaking. However, after three years of experience with the Atmos mechanism, the Consumer Advocate's own expert has acknowledged that changes to the Atmos mechanism may be appropriate: "In hindsight our position today on some of the existing methodologies may be different," and that other changes may also be in the public interest. Docket No. 18-00067, Hearing Exhibit 1, *The Consumer Advocate's Response to Questions Posed in Procedural Order For Docket No. 18-00067*, D. Dittemore presentation, at 10 (October 15, 2018) Based upon recommendations by both Atmos and the Consumer Advocate, in Docket No. 18-00112 the Commission is considering whether to approve proposed changes to the Atmos mechanism.

12. On February 15, 2018, when CGC filed its original annual rate review mechanism in Docket No. 18-00017, CGC was seeking expediency over customization – since CGC was filing for both a general rate case and an annual review of rates mechanism in the same docket, CGC believed it would be easier to get an Atmos-type plan approved rather than adopt a new, more CGC-specific approach, even though CGC found the Atmos settlement more complicated and burdensome. However, early on in the rate case it became clear to CGC that expediency did not

justify complicating a general rate case with a simultaneous annual rate review mechanism case. Thus, CGC completely withdrew its annual rate review mechanism from the rate case and committed to not filing for an annual rate review mechanism until after the conclusion of its general rate case.

13. With the rate case concluded, CGC's proposed ARM is unique and specific to CGC.

As the Commission has recently said,

One size does not fit all when it comes to alternative regulatory methods and there is not a specific formula or method for implementing alternative regulatory methods, including an annual rate review, set forth in statute. A utility is free to propose the type of alternative regulatory method that would work best for its business, and the Commission will then make a determination based on evidence presented and vote accordingly.

CGC believes that it has developed an annual review of rates alternative regulatory method through its proposed ARM that will be transparent, relevant, and efficient to administer for CGC, its customers, and the Commission.

14. To allow for the orderly implementation of the annual review mechanism established by Section 65-5-103(d)(6), CGC's ARM sets forth a timetable for the Company's annual filings and specifies the documentation that CGC will file annually. Overall, it is a one-step or single annual filing process that will be based upon the company's actual books and records. The CGC ARM will use an historic base period defined as the twelve-month period ending December 31 of each calendar year, with the same adjustments made in the Rate Case Order. There will be no forward-looking or forecasted data. The Company proposes to make its annual filing on or before March 20 of each year with the rates to be effective on August 1. To avoid regulatory lag, CGC's ARM includes a true-up procedure that will enable the Company to remain whole for any under-recovery of costs and to require a credit to customers if CGC earns in excess



of its authorized return. CGC anticipates that its first annual review petition will be filed March 20, 2020, utilizing calendar year 2019 data; any rate adjustments will take effect for rates beginning on August 1, 2020.

15. The CGC ARM filing shall include 29 specific schedules as follows: Annual Reconciliation Revenue Deficiency/Excess; Rate Base; Lead-Lag Results; Working Capital Expense Lag; Income Statement Historic Base Period; Revenue Summary; Operating and Maintenance Expense; Taxes Other than Income Tax; Excise and Income Tax; Income Statement at Proposed Rates; Rate of Return Summary; Revenue Conversion Factor; Proposed Margin Change; Depreciation and Amortization Expenses, Summary - Historic Base Period Jurisdictional Non-Gas Revenues - Current Rates; Weather Normalization Adjustment; Proof of Revenue-Proposed Rates; Other Revenues; CGC Income Statement; AGLS Income Statement; General Ledger for each month of the Historic Base Period, and two previous years; Capital Expenditures; Allocated Cost; Lobbying Expense, Charitable Contribution, Social Club Membership; Pension and Other Post-Employment Benefits; Advertising Expense; Incentive Compensation; Normalization Adjustments-Non-Weather; and Carrying Charges and Historic Period Annual Reconciliation Balance.

16. In addition to the foregoing schedules, CGC shall file the corresponding supporting schedules and workpapers, all consistent with the documentation filed in its last rate case. Further, for informational and transparency purposes, the Company will provide a copy of the current year's annual budget including the budgeted capital expenditures.

#### **IV. SUPPORTING TESTIMONY AND EXHIBITS**

17. In further support of its Petition and opt in request for approval of its proposed ARM, CGC has attached the following direct testimony and accompanying exhibits, which are

incorporated herein by reference:

- a. **Direct Testimony Witness Archie Hickerson, Director-Rates and Tariff Administration, Southern Company Gas.** Mr. Hickerson's testimony supports the establishment of an annual rate review process for CGC, and he presents the overall operation of the Company's proposed ARM process.
- b. **Prepared Direct Testimony of Witness Gary Tucker, Supervisor, Regulatory Reporting, Southern Company Gas.** Mr. Tucker will address the approved methodology and accounting issues associated with the Company's ARM as well as the specific supporting schedules for ARM.
- c. **Proposed ARM Process.** CGC's detailed annual rate review process is presented in Mr. Hickerson's Exhibit No. ARH-1, "Annual Review Mechanism (ARM)."
- d. **ARM Methodologies.** CGC's identification of the relevant methodologies established in the Rate Case Order are presented in this document, which is identified as Mr. Tucker's Exhibit No. GAT-1.

## V. CONCLUSION

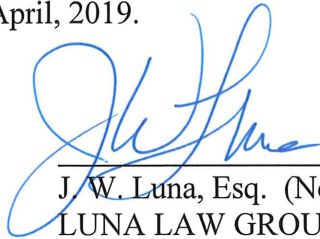
WHEREFORE, CGC respectfully prays that based upon the pleadings and documents submitted by CGC:

1. Notice be issued and a hearing be set regarding this Petition;
2. The Commission find that the Company has met the necessary statutory prerequisites to the establishment of an annual review of rates mechanism;
3. The Commission allow CGC to opt into an annual review of rates mechanism pursuant to the "Annual Review Mechanism (ARM)" proposed by CGC, including the timetables and documents to be filed; and

and documents to be filed; and

4. CGC be granted such other and/or further relief as may be warranted.

Respectfully submitted this 15<sup>th</sup> day of April, 2019.



---

J. W. Luna, Esq. (No. 5780)  
LUNA LAW GROUP, PLLC  
L&C Tower, 22nd Floor  
401 Church Street  
Nashville, Tennessee 37219  
Telephone: (615) 254-9146  
Facsimile: (615) 254-7123  
Email: [jwluna@LunaLawNashville.com](mailto:jwluna@LunaLawNashville.com)

and

Floyd R. Self, Esq. (Fla. Bar # 608025)  
BERGER SINGERMANN LLP  
313 North Monroe Street, Suite 301  
Tallahassee, Florida 32301  
Direct Telephone: (850) 521-6727  
Facsimile: (850) 561-3013  
Email: [fself@bergersingerman.com](mailto:fself@bergersingerman.com)

*Attorneys for Chattanooga Gas Company*