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April 15, 2019

19-00047

Chairman Robin L. Morrison
Tennessee Public Utility Commission
502 Deaderick Street, 4th 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

I. WITNESS IDENTIFICATION, BACKGROUND AND EXPERIENCE

Q. Please state your name, position and address.

A. Gary Tucker, Supervisor, Regulatory Reporting, Southern Company Gas ("SCG"). My business address is 10 Peachtree Place, Location 1686, Atlanta, Georgia 30309.

Q. Please describe your professional background and education.

A. I graduated Magna Cum Laude from Georgia State University in 2011 with a Bachelor of Business Administration degree in Accounting. The following year, I joined Georgia Power Company's Regulatory Accounting Department. In the Regulatory Accounting Department, I supported, prepared and reviewed various regulatory filings. The filings included Georgia Power Company's 2013 Base Rate Case, 2015 and 2016 Base Rate Updates, Nuclear Construction Cost Recovery NCCR-5 Tariff adjustment, and 2015 Annual Surveillance Report. In 2016 I moved to Georgia Power Company's Property Accounting Department where I was primarily responsible for compiling and reporting on Georgia Power Company's regulated assets and construction work-in-progress. In 2017 I began working at SCG as the Regulatory Reporting Supervisor. In this position, I am responsible for the preparation, review and filing of monthly and annual financial information to state regulatory commissions, including rate case proceedings.

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

A. Yes, I have presented testimony before the Tennessee Public Utility Commission ("TPUC" or "Commission") in Docket No. 18-00017, CGC's 2018 general rate case.

II. PURPOSE OF TESTIMONY

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to identify the methodologies that Chattanooga Gas Company ("CGC" or "Company") will use in its annual rate revenue filing and to discuss the underlying calculations and associated deferral mechanism. CGC's requested annual review of rates mechanism under the alternative regulatory methods statute is referred to herein as the Annual Review Mechanism ("ARM"). Mr. Archie Hickerson will provide an overview of the CGC ARM filing, including benefits of the ARM, work papers that will be submitted with the filing, the timing of filing, and other supplemental schedules that will be submitted with the ARM.

Q. Are you sponsoring any exhibits?

A. Yes. Exhibit GAT-1: Chattanooga Gas Company ARM Methodologies.

Q. Please discuss the requirements, as understood by CGC, to enter into an ARM.

A. The ARM CGC seeks to opt into is pursuant to the alternative regulatory methods statute, Tennessee Code Annotated Section 65-5-103(d). The statute specifies that "A public utility may opt to file for an annual review of its rates based upon the methodology adopted in its most recent rate case pursuant to § 65-5-101 and subsection(a), if applicable." The statute continues, "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;"

As is further discussed by Mr. Hickerson, the Company has met these criteria and is proposing to opt into its proposed ARM based on the methodologies defined in Exhibit GAT-1.

Q. What are the components of the Company's ARM filing?

A. The filing has two primary purposes, to recover or refund the earnings deficiency/excess recorded in the base year and to set rates prospectively based on the base year so that the Company is allowed an opportunity to earn its authorized rate of return. Therefore, the ARM filing will have two components: 1) a calculation of the revenue deficiency/excess to recover/refund in future rates, and 2) a calculation of an adjustment to set current rates at the base level (rate reset). Schedules and supporting information will be provided that demonstrate the deficiency/excess calculation and base year revenue deficiency to be used for the rate reset. Both components will be computed in accordance with the methodologies provided in Exhibit GAT-1.

III. METHODOLOGIES

Q. Could you describe the methodologies in Exhibit GAT-1?

A. Yes. The Exhibit provides the methodologies for each line item, by category. The categories are revenues, expenses, rate base components, and rate of return components. The Company has set forth how each item will be determined and/or calculated for rate recovery in the ARM filing. The line items have been identified consistent with those in the Commission's January 15, 2019, Amended Order issued in the Company's 2018 rate case, Docket No. 18-00017 ("Rate Case Order") and have the same numbering for ease of review and comparison with the corresponding line items outlined in the Rate Case Order.

In addition to defining how each item will be determined and/or calculated, the Exhibit also provides a distinction, where applicable, between the methodologies that will be applied in the calculation of the base year earnings deficiency/excess and the methodologies that should be used for the rate reset.

Q. How were the methodologies determined?

A. The Company reviewed the methodologies adopted in the Rate Case Order and used these methodologies as a guide. Based on the Commission's rationale and discussions on the methodologies adopted in the Rate Case Order, the Company defined the methodologies to be used in its historical based ARM filing.

Q. Please discuss the methodologies adopted in CGC's Rate Case Order.

A. The methodologies adopted by the Commission were defined based on the 2018 rate case rate setting period, which was based on a forward-looking attrition period. Appropriately, the Commission adopted forward-looking methodologies that supported the forward-looking rate setting period.

The Company has chosen to request an ARM filing using an historical base year rather than a forecasted period. Taking this into consideration and as directed by the Commission in Paragraph 22 of the Rate Case Order, at page 89, "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," the Company has reviewed the adopted forward-looking methodologies for appropriateness and has determined that the historical methodologies proposed would be a reasonable and more appropriate approach to be used in its ARM filing.

Q. What are the benefits of using historical data in the Company's ARM filings?

A. The benefits of using historical data is that the information is easily verifiable and should provide for an efficient review of the Company's filing. In general, the use of historical data for rate setting purposes would not be favored by the Company due to regulatory lag. However, under CGC's proposed ARM, regulatory lag, from an earnings standpoint, is mitigated with the deferral of any excess earnings or deficiency for future refund or recovery. Please refer to the testimony of Mr. Archie Hickerson for a further discussion on the benefits of the ARM filing.

Q. What methodologies do you propose be included in the calculation of the revenue requirement which are the basis for the earnings deficiency/excess and the rate reset?

A. The Company proposes to include the methodologies provided in Exhibit GAT-1 in the calculation of its revenue requirement. The methodologies include all of the rate-making adjustments prescribed and adopted by the Commission in the Rate Case Order. A complete list of rate-making adjustments is provided below.

- Removal of all Promotional Advertising expense that is not eligible for rate recovery, as directed by Commission Rule 1220-04-05.45.
- Removal of 50% of direct and allocated short-term incentive compensation.
- Removal of all direct and allocated long-term incentive compensation.
- Removal of direct and allocated lobbying related expenses, including organizational dues.
- Removal of direct and allocated pension and pension related expense and inclusion of cash contributions (excluding amounts related to SERP).
- Removal of direct and allocated Other Post Employment Benefits ("OPEB") expense and inclusion of cash contributions.

- Removal of the Pension and OPEB assets, and removal of the corresponding accumulated deferred income taxes.

Q. Will there be ratemaking adjustments that were not specifically discussed in the Order, but were recognized and accounted for in the Commission Exhibit included as Attachment 1 to the Rate Case Order?

A. Yes. There were appropriate adjustments or presentation reclassifications that were and are routinely made that were not specifically discussed in the narrative portion of the Rate Case Order but are reflected in Attachment 1 ("Commission Exhibit") to the Rate Case Order. For example, the Asset Management Agreement fees and the gain from off-system sales of Liquid Natural Gas were excluded from the base rate proceeding. These are addressed by the Commission in the Company's annual Interruptible Margin Credit Rider filing and not in a general rate case proceeding. There was also the reclassification or exclusions from the base rate proceeding of the Franchise Fees that are collected by the Company from customers living within the city limits of Chattanooga and Cleveland and remitted to the cities. Since these are a direct pass-through from the Customer to the Cities, the collections are not included in revenues and the remittance are not included in the rate case as an expense. Another example is the reclassification Damage Billings from a credit to operating expense to revenue. These reclassifications are not discussed in the narrative of the Order but are reflected in the Commission's Exhibits to the Order.

Q. Are there any other adjustments or considerations the Company is proposing to make in its ARM filing outside of the rate-making adjustments discussed above?

A. Yes. The Company is proposing to make any further adjustments, not specifically identified in the methodologies outlined in Exhibit GAT-1, in its ARM filing for costs that are not generally allowable for rate recovery. For example, fines and penalties. Additionally, the Company is proposing to make adjustments to reflect changes in the business, such as new accounts eligible for rate recovery, and/or any adjustments necessitated by changes in the application or guidance of generally accounting principles.

Q. Please discuss the difference between the methodologies used in determining the earnings deficiency/excess for the base period and the methodologies used for the rate reset.

A. Except for the normalization adjustments listed below, there are no differences in the methodologies applied in determining the earnings deficiency/excess for the base period and the methodologies used for the rate reset.

For the annual rate reset, the Company is proposing to use the same historic period amounts, with limited normalization adjustments, in line with those adjustments adopted by the Commission in the Rate Case Order. These normalization adjustments have been made in an effort to minimize the short-term variations or impacts of certain items by normalizing the expense or balance. The Company is proposing the following adjustments to be used in place of the base year historical amounts when calculating the annual rate reset:

- Non-Gas Revenues – revenues will be weather normalized for Rate Schedules R-1, R-4, C-1, and C-2 based on the actual customer or (units billed) and the average weather normalized usage per customer adopted in Docket No. 18-00017.
- Other Revenues – historic four-year average.
- Uncollectible Expense – historic five-year average.

- Reserve for Uncollectibles, Health Insurance and Unclaimed Credit – three-year, thirteen-month historical average.
- Materials & Supplies, Prepayments and Gas Inventory – three-year, thirteen-month historical average.

IV. ARM CALCULATION AND DEFERRAL MECHANISM

Q. What will be included in the Company's ARM filing?

A. The Company's ARM filing will be made on or before March 20 of each year, based on the Company's fiscal year end, December 31. The filing will include a list of rate-making schedules, supporting work papers, and supplemental schedules to aid in the Commission's review of the ARM. Please refer the testimony and exhibit of Mr. Archie Hickerson for a detailed discussion and list of the information that will be provided.

Q. Will the ARM filing be made using the same format and supporting data as the Company's rate case filing?

A. The ARM will be filed in the same format, utilizing the same cost categories and provided at the same level of detail as the Commission Exhibits provided as Attachment 1 to the Rate Case Order. Further, the Company will provide a working model with additional workpapers supporting the amounts provided in the exhibits. Consistent with CGC's rate case filing in Docket No. 18-00017, the Company's income statement and balance sheet items (supporting documentation for the cost of service and rate base) will be provided in the same format, which is based on the Company's common or native chart of accounts. The Company's books and records are maintained in accordance with FERC rules and regulations, but the Company uses its own chart of accounts. The benefit of the Company's chart of accounts is that it provides a greater level of detail, by line item for each category of costs.

Q. How will the Company calculate the base year earnings deficiency/excess?

A. The earnings deficiency or excess will be calculated using the base year return on equity compared to the Company's authorized return on equity. The base year return on equity will be calculated using the actual financial data for that period, with rate-making adjustments as adopted by the Commission and any non-rate-making adjustments deemed appropriate as outlined above. The difference between the earned return on equity compared to the authorized return on equity will be deferred in an earnings deficiency/excess regulatory asset/liability on the balance sheet. The earnings deficiency/excess amount will be provided in Schedule 1 of the ARM filing, as shown in Exhibit ARH 1: Chattanooga Gas Company Annual Review Mechanism.

Q. Will carrying costs be accrued on the earnings deficiency/excess balance?

A. Yes, carrying cost will be accrued on the simple average of the earnings deficiency/excess balance. The simple average will be determined based on the final year end deferred balance, assuming the balance accrued evenly throughout the year. The average balance will then be multiplied by the base year rate of return. The base year rate of return will be calculated using the current period debt costs and the Commission adopted capital structure and return on equity.

The total deferred balance, including accrued carrying costs, will be included in the following year's rate base as a deferred regulatory asset or regulatory liability. Recovery or refund of the balance will be included in the base year ARM filing.

Q. How will the deferred earnings deficiency/excess be included and recovered in the Company's prospective rates?

A. As part of the ARM filing, the Company will provide the final deferred balance including carrying cost to be recovered or refunded in addition to the base year revenue requirement. The Company is proposing to recover or refund this balance equally over twelve months. The amortization of the balance will not begin until new rates become effective and reflect the amortization of the earnings deficiency/excess balance. Thus, when new rates based on the base year become effective on August 1, they will be reset at a level equal to the base year revenue requirement and set recover or refund the earnings deficiency/excess balance.

Q. How will the revenue requirement for the base year be determined?

A. The Company will use the base year cost of service and rate base component amounts, adjusted for Commission adopted rate-making adjustments, limited normalization adjustments, and any other necessary adjustments, as defined in the methodologies section above, to conform the GAAP based financials to regulatory based financials. Utilizing the regulatory based financials, a revenue requirement for the base year will then be calculated. Once the base year revenue requirement is determined, the refund or recovery of the deferred amount will be added to arrive at the total revenue requirement. The required operating revenues will be provided on Schedule 10 in the ARM filing, as shown in Exhibit ARH 1: Chattanooga Gas Company Annual Review Mechanism.

Q. Does this conclude your direct testimony?

A. Yes.

I. CHATTANOOGA GAS COMPANY'S REQUEST FOR AN ANNUAL REVIEW MECHANISM

Chattanooga Gas Company ("CGC" or "Company") seeks to opt into an annual review of rates mechanism it is referring to as its "Annual Review Mechanism" or "ARM" under the alternative regulatory methods statute, pursuant to Tennessee Code Annotated Section 65-5-103(d).

As noted in the statute, "A public utility may opt to file for an annual review of its rates based upon the methodology adopted in its most recent rate case pursuant to § 65-5-101 and subsection(a), if applicable." The statute continues, "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; . . ."

The Company has met the rate filing criteria and is proposing to opt into its ARM using the methodologies presented in this Exhibit.

Following the Commission's guidance in Paragraph 22[1] of the Company's 2018 rate case Amended Order, issued on January 15, 2019 in Docket No. 18-00017 ("Rate Case Order"), CGC has reviewed the proposed methodologies provided below with the Commission's adopted methodologies for reasonableness. Based on the Commission's rationale and discussions of the methodologies adopted in the Rate Case Order, the Company has determined that its proposed historical methodologies would be a reasonable basis for its ARM.

II. OVERVIEW OF ANNUAL RATE REVIEW

Provided in Section III. Methodologies, below, CGC has identified and listed the proposed methodologies for each rate-making category, i.e., revenues, expenses, rate base components, and rate of return components. A citation has also been provided to the page in the Rate Case Order in which each item was discussed.

The Company has indicated, where applicable, the differences in methodologies between how the item will be treated in the current historic base period deficiency calculation and how it may be treated for rate setting purposes ("rate reset"). This distinction is necessary due to the proposed methodologies for CGC's proposed ARM.

The Company's proposed ARM will incorporate an historical base year review of its revenues, expenses, investments (rate base), and rate of return components to determine if the Company earned the authorized return on equity adopted in the most recent rate case. If the Company earned more than the authorized return on equity, the excess revenues (also referred to as earnings excess) will be deferred in a regulatory liability and rates will be reduced for this amount prospectively. If the Company earned less than its authorized return on equity, the Company will defer expenses to a regulatory asset and rates will be increased for this amount prospectively. Under both scenarios, the Company is proposing that carry charges be computed and accrued for on the simple average of the deferred balance. The simple average will be determined based on the final year end deferred balance, assuming the balance accrued evenly throughout the year. The average balance will then be multiplied by the base year rate of return.

[1] Paragraph 22 of the CGC Rate Case Order, states: "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."

In addition to the review of the annual earnings deficiency or excess, rates will be adjusted prospectively based on the historic base period so that the Company may earn its authorized return in the future and include the recovery or refund of the deferred earnings deficiency or excess balance.

The annual earnings deficiency or excess review and rate reset will occur in one filing, made on or before March 20 of each year. The historic base period for the ARM filing will align with the Company's fiscal year end, December 31. In summary, there will be one annual filing that will include the determination of the earning deficiency or excess and the rate reset.

Finally, for ease of review and comparability purposes, the methodologies have been ordered and are numbered consistent with the corresponding sections and page numbers in the Rate Case Order.

III. METHODOLOGIES

A. TEST PERIOD AND ATTRITION PERIOD (Pg. 12)

Defined as CGC's most recently completed fiscal year end, prior to the filing.

B. REVENUES (INCLUDING COST OF GAS AND MARGIN CALCULATION)

B(1). GAS SALES AND TRANSPORTATION REVENUES (Pg. 13-16)

For the rate reset, the non-gas revenues shall be weather normalized for Rate Schedules R-1, R-4, C-1, and C-2 based on the actual customer usage or (units billed) and the average weather normalized usage per customer adopted in Docket No. 18-00017.

In determining the historic base year earnings deficiency or excess, actual usage and recorded revenues shall be used.

B(2). OTHER REVENUE (Pg. 16)

Other Revenue include revenues from:

- Late Payment Fees
- Returned Check Charges
- Reconnection Charges
- Seasonal Reconnection Charge
- Turn-on Charges
- Meter Set Charges
- Miscellaneous Charges
- Damage Billing

For the rate reset, the Historic four-year average of Other Revenues shall be used.

In determining the historic base year earnings deficiency or excess, the Other Revenues recorded shall be used.

B(3). ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION (Pg. 16-17)

For the purposes of the rate reset and for computing the historic base period earnings deficiency or excess, the AFUDC- Debt and AFUDC-Equity amounts recorded in the historic base period shall be used.

B(4). COST OF GAS (Pg. 17-18)

Both Purchased Gas Adjustment (PGA) revenues and Purchased Gas expenses are included in the base period, which net to zero, effectively eliminating gas cost from the return on equity calculation for the rate reset and in determining the historic base year earnings deficiency or excess.

B(5). TOTAL OPERATING MARGIN (Pg. 18)

The Total Operating Margin shall include the non-gas revenues from the sales and transportation Rate Schedules, Special Contracts, and Other Revenues:

Residential (R-1)
Multi-Family Housing (R-4)
Commercial (C-1)
Commercial (C-2)
Industrial (F-1/T-2)
Industrial (I-1)
Industrial Transport (T-1)
Industrial (T-3)
Special Contracts
Other Revenues

C. OPERATIONAL AND MAINTENANCE EXPENSES

C(1). Payroll Expenses (Pg. 19-23)

For both the rate reset and in determining the historic base year earnings deficiency or excess, the historic base year salary and wages expense shall be used, with an adjustment to exclude 50% of the short-term incentive compensation and 100% of long-term incentives compensation.

C(2). Employee Benefits (Pg. 23-24)

The Company's ARM filing shall include historical base year employee benefits costs, adjusted to remove pension and other post-employment benefits (OPEB) expenses (as calculated and recorded in accordance with Generally Accepted Accounting Principles (GAAP)), and pension capitalization credits. An adjustment shall be made to include Pension and OPEB cash contributions in employee benefits costs. The adjusted employee benefit costs shall be used for both the rate reset and in determining the historic base year earnings deficiency or excess.

C(3). BENEFITS CAPITALIZED (Pg. 24-25)

For both the rate reset and in determining the historic base year earnings deficiency or excess, the historic base year capitalized benefits shall be adjusted to maintain the ratio of capitalized benefits to the total unadjusted benefits.

C(4). FLEET SERVICES AND FACILITIES, OUTSIDE SERVICES, OTHER DISTRIBUTION AND STORAGE (Pg. 25-26)

For both the rate reset and in determining the historic base year earnings deficiency or excess, the historic base year expense for Fleet Services and Facilities, Outside Services, and Other Distribution and Storage shall be used.

C(5). BAD DEBT (UNCOLLECTIBLE EXPENSE) (Pg. 26-27)

For the rate reset, the Uncollectible Expense shall be normalized by averaging the test year amount with the expense incurred in the four previous years.

In determining the historic base year earnings deficiency or excess, the historic base year Uncollectible Expense shall be used.

C(6). SALES PROMOTION (Pg. 27-29)

For both the rate reset and in determining the historic base year earnings deficiency or excess, the Company shall exclude any Sales Promotion expense that is not eligible for rate recovery, as directed by Commission Rule 1220-04-05.45.

C(7). CUSTOMER SERVICE AND ACCOUNT (Pg. 29)

For both the rate reset and in determining the historic base year earnings deficiency or excess, the historic base year expense for Customer Service and Accounting shall be used.

C(8). ADMINISTRATIVE AND GENERAL (Pg. 29-31)

For both the rate reset and in determining the historic base year earnings deficiency or excess, the historic base year expense for Administrative and General shall be used.

C(9). ADMINISTRATIVE & GENERAL SALARIES (PAYROLL) CAPITALIZED (Pg. 31-32)

For both the rate reset and in determining the historic base year earnings deficiency or excess, the historic base year Administrative and General Salaries Capitalized amount shall be used.

C(10). AGL SERVICE COMPANY ALLOCATIONS (Pg. 32-34)

The Company's ARM filing shall include allocated AGL Service Company expense amounts incurred in the historic base year, with adjustments removing costs related to SERP, lobbying, organization dues, 50% of short-term incentive compensation and 100% of long-term incentive compensation, and certain pension benefits and Other Post-Employment Benefit contributions. An adjustment shall be made to include Pension and OPEB cash contributions attributable to the Company from AGL Services Company. Pension and OPEB cash contributions shall be allocated using the percentage of expenses charged to CGC relative to total expenses allocated to all affiliates. The adjusted AGL Service Company allocated expense shall be used for both the rate reset and in determining the historic base year earnings deficiency or excess.

Allocated AGL Service Company costs shall be determined and allocated in accordance with CGC's Services Agreement with AGL Services Company.

D. PURCHASED GAS EXPENSE (Pg. 32-34)

As noted above in B(4), the Company's proposed ARM filing shall include both Purchased Gas Adjustment (PGA) and Purchased Gas expenses, which net to zero, effectively eliminating gas cost from the return on equity calculation for the rate reset and in determining the historic base year earnings deficiency or excess.

E. DEPRECIATION EXPENSE (Pg. 34)

See section J(1) for the methodology prescribed in determining Depreciation Expense.

F. INTEREST ON CUSTOMER DEPOSITS (Pg. 34)

For both the rate reset and in determining the historic base year earnings deficiency or excess, the historic base year expense for Interest on Customer Deposits shall be used. Interest on Customer Deposits is derived by multiplying the average balance in Customer Deposits by the tariffed interest rate of 6.0% per annum which shall be updated if the applicable tariff rate is changed.

G. TAXES OTHER THAN INCOME TAXES

G(l). PROPERTY TAX (Pg. 35-36)

For both the rate reset and in determining the historic base year earnings deficiency or excess, the historic base year expense for Property Tax, related to direct and allocated plant shall be used.

G(2). COMMISSION INSPECTION FEE (Pg. 36)

For both the rate reset and in determining the historic base year earnings deficiency or excess, the historic base year expense for Commission Inspection Fee shall be used. Commission Inspection Fee shall be computed in accordance with Tennessee Code Ann. § 65-4-303.

G(3). PAYROLL TAXES (Pg. 36-37)

The payroll tax percentage computed by dividing the base period payroll tax by the base period payroll expense shall be multiplied by the adjusted base period salary and wage expense to determine the amount of payroll tax that shall be used for both the rate reset and in determining the historic base year earnings deficiency or excess.

G(4). FRANCHISE TAX (Pg. 37-38)

The Company's ARM filing shall include Franchise Tax (also referred to as Net Worth tax) expense incurred in the historic base period for both the rate reset and in determining the historic base year earnings deficiency or excess.

G(5). GROSS RECEIPT TAX (Pg. 38-39)

For both the rate reset and in determining the historic base year earnings deficiency or excess, the historic base year expense for Gross Receipt Tax shall be used. Gross receipt tax shall be computed in accordance with the Tennessee Gross Receipt Tax Form.

G(6). ALLOCATED & OTHER TAXES (Pg. 39)

The Company's ARM filing shall include allocated and other taxes with total allocated expenses consistent with the Rate Case Order as discussed above in C(10). The ARM shall include actual AGL service Company costs incurred in the historic base period for both the rate reset and in determining the historic base year revenue deficiency or excess.

H. INCOME TAXES (Pg. 39-40)

The Company's ARM filing shall include Tennessee Excise tax and Federal Income tax, as outlined below, for both the rate reset and in determining the historic base year earnings deficiency or excess.

Tennessee Excise Tax

Tennessee Excise Tax shall be computed in accordance with the applicable statute and tax regulations and revenues and expenses reflecting adjustments adopted by the Commission in Docket No. 18-00017. Interest used for computing Tennessee Excise Tax shall be the synchronized interest computed by multiply the average rate base by the weighted cost of debt.

Federal Income Tax

Federal Income Tax shall be computed in accordance with the applicable statute and tax regulations and revenues and expenses reflecting adjustments adopted by the Commission in Docket No. 18-00017. Interest used for computing Federal Income Tax shall be the synchronized interest computed by multiply the average rate base by the weighted cost of debt. The calculated income tax expense shall be offset by the excess deferred income tax amortization, consistent with the amounts, methods and timing approved by the Commission in Docket No. 18-00017.

I. NET OPERATING INCOME (Pg. 40)

Net Operating Income ("NOI") represents the earnings of the Company under present rates that are available after all items of the cost of providing utility service have been considered.

The summation of operating revenues (i.e., gas sales and transportation, AFUDC and other), results in total operating revenue. Thereafter, the operation and maintenance expenses are subtracted. In addition, depreciation expense, interest on customer deposits, taxes other than income taxes, state excise taxes and federal income taxes are also subtracted. These subtractions result in the removal of a total operating expense. Calculation of NOI by subtracting total operating expense from total operating revenue arrives at the net operating income.

J. RATE BASE

Rate Base is the total of the investor funded or supplied plant, facilities, and other investments used by the utility in provisioning service to its customers. The rate base is the investment base to which a fair rate of return is applied to arrive at the net operating income requirement.

J(l). UTILITY PLANT IN SERVICE, DEPRECIATION AND ACCUMULATED DEPRECIATION (Pg. 42-45)

The Company's ARM filing shall include its actual thirteen-month average Plant in Service and Accumulated Reserve balances, as well as the depreciation expense, based on the depreciation rates approved in Docket No. 18-00017, for the historic base period.

Allocated common plant, based on the thirteen-month average AGL Service Company common plant in service and accumulated reserve balances, as well as depreciation expense, shall be allocated using the percentage of expenses charged to CGC relative to total expenses allocated to all affiliates, also aligned with the historic base period.

The direct and allocated rate base balances and expenses shall be used for both the rate reset and in determining the historic base year earnings deficiency or excess.

J(2). CONSTRUCTION WORK IN PROGRESS (Pg. 45)

The Company's ARM filing shall include its actual thirteen-month average CWIP balance and allocated CWIP, for the historic base period under review. Allocated CWIP is based on the thirteen-month average AGL Services Company CWIP balance, it is allocated using a factor based on the percentage of expenses charged to CGC relative to total expenses allocated to all affiliates.

The direct and allocated CWIP balances shall be used for both the rate reset and in determining the historic base year earnings deficiency or excess.

J(3). PENSION AND OPEB ASSETS (Pg. 45-47)

The Company's ARM filing shall exclude the Pension and OPEB assets and associated Accumulated Deferred Income Taxes.

J(4). WORKING CAPITAL (Pg. 47-49)

The Company's ARM filing shall include an amount for the lead/lag component of working capital, the lead/lag component shall reflect the adjustment to remove return on equity from the calculation and a reduction in the lag days for the removal of incentive compensation from the overall lag day calculation. The calculated lead/lag amount shall then be adjusted for the thirteen-month average balances of the franchise fees, excise and use taxes collected but not yet remitted.

The calculated lead/lag amount shall be used for both the rate reset and in determining the historic base year earnings deficiency or excess.

J(5). DEFERRED RATE CASE EXPENSE (Pg. 49-52)

The Company's ARM filing shall include the thirteen-month average deferred rate case expense balance for the historic base period, for both the rate reset and in determining the historic base year earnings deficiency or excess.

J(6). OTHER RATE BASE ADDITIONS (Pg. 52-53)

For the rate reset, the Company shall apply the prescribed methodology of a three-year, thirteen-month historical average for calculating Materials & Supplies, Prepayments and Gas Inventory.

In determining the historic base year earnings deficiency or excess, the Company shall use the historic base period thirteen-month average for Materials & Supplies, Prepayments and Gas Inventory.

J(7). ACCUMULATED DEFERRED INCOME TAX AND REGULATORY LIABILITY FOR EXCESS DEFERRALS (Pg. 53-55)

The Company's ARM filing shall include the thirteen-month average direct and allocated Accumulated Deferred Income Tax (ADIT) and CGC's Excess Deferred Income Tax (EDIT) balances for the historic base period. The EDIT balance is segmented into protected and unprotected EDITs. The Unprotected EDIT balance shall be amortized, consistent with the timing and amounts approved by the Commission in Docket No. 18-00017. Protected EDITs shall be amortized based upon the average rate assumption method, approved by the Commission in Docket No. 18-00017.

Allocated ADIT, based on the thirteen-month average AGL Service Company common plant related ADITs, shall be allocated using the percentage of expenses charged to CGC relative to total expenses allocated to all affiliates.

The thirteen-month average direct and allocated ADIT and the CGC's EDIT balances shall be used for both the rate reset and in determining the historic base year earnings deficiency or excess.

J(8). RESERVES FOR UNCOLLECTIBLES, HEALTH INSURANCE AND UNCLAIMED CREDIT (Pg. 55-56)

For the rate reset, the Company shall apply the prescribed methodology of a three-year, thirteen-month historical average for calculating Reserves for Uncollectibles, Health Insurance and Other/Unclaimed Credits.

In determining the historic base year earnings deficiency or excess, the Company shall use the historic base period, thirteen-month average for Uncollectibles, Health Insurance and Other/Unclaimed Credits in the calculation of the earnings deficiency or sufficiency.

J(9). CUSTOMER DEPOSITS AND ACCRUED INTEREST ON CUSTOMER DEPOSITS (Pg. 57-58)

The historic base period thirteen-month average of the Customer Deposits and Accrued Interest on Customer Deposits balances shall be used for both the rate reset and in determining the historic base year earnings deficiency or excess.

K. REVENUE CONVERSION FACTOR (Pg. 58)

The Company's ARM filing shall include a Revenue Conversion Factor of 1.347169, as adopted by the Commission; and shall be used for both the rate reset and in determining the historic base year earnings deficiency or excess.

L. RATE OF RETURN (Pg. 58-59)

L(l). CAPITAL STRUCTURE (Pg. 59-62)

The Company's ARM filing shall include a capital structure composed of 44.47% long-term debt, 6.3% short-term debt and 49.23% equity as adopted by the Commission. This capital structure shall be used for both the rate reset and in determining the historic base year earnings deficiency or excess.

L(2). COST OF DEBT (Pg. 63)
The Company's ARM filing shall include short-term and long-term debt costs based on the Company's costs for the historic base period, calculated in a manner consistent with the debt costs approved by the Commission in Docket No. 18-00017. These debt cost shall be used for both the rate reset and in determining the historic base year earnings deficiency or excess.

L(3). RETURN ON EQUITY (Pg. 63-68)
The Company's ARM filing shall include a 9.8% equity return, the equity return shall be used for both the rate reset and in determining the historic base year earnings deficiency or excess.

L(4). OVERALL RATE OF RETURN (Pg. 68)
The Company's ARM filing shall include an overall rate of return incorporating a 9.8% equity return, a capital structure composed of 44.47% long-term debt, 6.3% short-term debt and 49.23% equity, and short-term and long-term debt costs based on the Company's costs for the historic base period, calculated in a manner consistent with the debt costs approved by the Commission in Docket No. 18-00017. The resulting overall rate of return shall be used for both the rate reset and in determining the historic base year earnings deficiency or excess.

IV. OTHER ADJUSTMENTS

A. OTHER RATE-MAKING ADJUSTMENTS

There were appropriate adjustments or presentation reclassifications that were and are routinely made that were not specifically discussed in the narrative portion of the Rate Case Order but are reflected in Attachment 1 (Commission Exhibit) to the Rate Case Order. These adjustments will be made in both the rate reset and in determining the historic base year revenue deficiency or excess. A listing of the adjustment is as follows:

i. Exclusion of Asset Management Agreement (AMA) fees and the gain from off-system sales of Liquid Natural Gas (LNG) were excluded from the base rate proceeding. These are addressed by the Commission in the Company's annual Interruptible Margin Credit Rider (IMCR) filing and not in a general rate case proceeding.
ii. The reclassification or exclusions from the base rate proceeding of the Franchise Fees that are collected by the Company from customers living within the city limits of Chattanooga and Cleveland and remitted to the cities. Since these are a direct pass-through from the Customer to the Cities, the collections are not included in revenues and the remittance are not included in the rate case as an expense.
iii. The reclassification of Damage Billings from a credit to operating expense to revenue.

B. NON-RECOVERABLE COSTS

The Company will make any further adjustments in its ARM filing for costs that are not generally allowable for rate recovery. For example, fines and penalties.

C. OTHER ADJUSTMENTS NECESSARY TO CONFORM GAAP BASED FINANCIALS TO REGULATORY BASED FINANCIALS

The Company will make adjustments to reflect changes in the business, such as new accounts eligible for rate recovery, and/or any adjustments necessitated by changes in the application or guidance of generally accounting principles.