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IN THE TENNESSEE PUBLIC UTILITY COMMISSION
AT NASHVILLE, TENNESSEE

IN RE:	)	
	)	
CHATTANOOGA GAS COMPANY	)	
PETITION TO OPT INTO AN	)	**DOCKET NO. 19-00047**
ANNUAL REVIEW OF RATES	)	
MECHANISM PURSUANT TO	)	
TENN. CODE ANN. § 65-5-103(d)(6)	)	

CHATTANOOGA GAS COMPANY's RESPONSES TO
FIRST DISCOVERY REQUEST OF THE COMMISSION PARTY STAFF

Pursuant to the procedural schedule in this docket, Chattanooga Gas Company ("CGC" or "Company") hereby responds to the Designated Party Staff of the Tennessee Public Utility Commission ("Party Staff") and the First Discovery Request provided to CGC on April 30, 2019. Pursuant to the Rules of the Tennessee Public Utility Commission and the Tennessee Rules of Civil Procedure, CGC's discovery responses are attached hereto.

REQUEST: Please refer to Exhibits GAT-1 and ARH-1. Provide an illustrative example using recent historical financial information that demonstrates the computations and schedules comprising the Annual ARM Filings for two Historic Base Periods. Please provide all computations and schedules in Excel format with working formulas.

RESPONSE:
See the attached Excel Workbooks:

"Example ARM Calendar Yr. 2017" and

"Example ARM Calendar Yr. 2018."

These Excel workbooks provide an ARM analyses for calendar years 2017 and 2018 respectively. The analysis for 2017 shows that as adjusted in accordance with methodology adopted in Docket 18-00017, CGC's return on equity was less than authorized. To illustrate the ARM process, it was assumed that rates were developed and made effective on 8/1/2018 to recover the 2017 deficiency and to produce the authorized return on equity to be earned in the future. The same process was followed for calendar year 2018, but the actual revenue was adjusted to include the impact of the theoretical 8/1/2017 rate increase. The analysis for 2018 also shows an earnings deficiency, that was materially less than the 2017 deficiency. When the 2018 revenues were normalized and the 8/1/2017 rate increase annualized to reflect a full year, the analysis shows that the rates were greater than required to recovery the 2018 earnings deficiency and provide for the Company to earn its authorized return on a going forward basis. Based on the 2018 analysis, a theoretical rate reduction would have been implemented 8/1/2019.

Note that the 35% federal income tax rate was used in the 2017 analysis, since the statutory rate during 2017 was 35%. The 21% federal income tax rate was utilized in the 2018 analysis. Also note that these Excel workbooks are for illustration purposes and do not reflect Company proposed rate changes.

Response by: Archie Hickerson and Gary Tucker

REQUEST: Please provide and describe the accounting journal entries necessary to accrue and amortize the ARM Regulatory Asset or Regulatory Liability account for two consecutive Historic Base Periods.

RESPONSE:

As shown on schedule 29 of "Example ARM Calendar Yr. 2017 equity earnings for 2017 was $4,868,303 which was $1,038,132 less than the $5,906,515 authorized. Carrying charges for ½ year computed at the 7.12% authorized return is $36,945 for a total of $1,075,077 when grossed-up for State and Federal taxes is $1,768,946. The $1,768,946 is recorded as a Regulatory Asset to be amortized over the twelve-month period beginning August 1 when rates are effective.

To record the Regulatory Asset:

	Debit	Credit
Regulatory Asset ARM Earning Deficiency	$1,768,946	
ARM Accrued Revenue		$1,768,946

To record Amortization of Regulatory Asset:
Monthly beginning August

	Debit	Credit
Amortization Expense-ARM Regulatory Asset -Earning Deficiency	$147,412	
Regulatory Asset ARM Earning Deficiency		$147,412

If instead of an earning deficiency, there had been an earning excess:

	Debit	Credit
ARM Accrued Revenue	$1,768,946	
Regulatory Liability- ARM Earning Excess		$1,768,946

Monthly beginning August

	Debit	Credit
Regulatory Liability- ARM Earning Excess	$147,412	
Amortization-Expense ARM -Earning Excess		$147,412

The above entries as shown are for Regulatory and Ratemaking purposes. The GAAP accounting journal entries may be different.

Response by: Archie Hickerson and Gary Tucker.

REQUEST: Please explain the reasons for computing the "rate reset" in each Annual ARM Filing as opposed to using the baseline for revenues, operating expenses and rate base established in the Company's most recent rate case.

RESPONSE:

Tennessee law provides for alternative regulatory methods to allow a public utility to have annual rate reviews and cost reviews in lieu of a general rate proceeding; utilities may also use riders that allow for the recovery of specific increase in operational expenses, capital cost, or both in connection with various operational changes including safety requirements imposed by government; reliability of utility plant in service; replacements or upgrades to usage measurement devices; weather-related natural disasters; certain infrastructure investments; economic development; or other programs that are in the public interest. Tenn. Code §65-5-103(d)(1) through §65-5-103(d)(5). The use of baselines for revenue, operating expenses, and rate base established in the Company's most recent rate case may be appropriate for such mechanisms.

Chattanooga Gas Company has elected the alternative annual review as provided in §65-5-103(d)(6):

> (A) 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.
>
> (B) 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; provided, however, that the commission may waive such requirement or increase the eligibility period upon a finding that doing such would be in the public interest.
>
> (C) Pursuant to the procedures set forth in subdivision (d)(1), the commission shall review the annual filing by the public utility within one hundred twenty (120) days of receipt and order the public utility to make the adjustments to its tariff rates <u>to provide that the public utility earns the authorized return on equity established in the public utility's most recent general rate case</u> pursuant to § 65-5-101 and subsection (a).

In order to determine if the Company earned its authorized return as provided during the historic period as provided in §65-5-103(d)(6) (C), the actual revenue, expenses, and investment for the historic period as adjusted in accordance with Docket 18-00017 are used. As proposed in the filing, CGC will provide, for comparison purposes, the revenues, expenses, and rate base as adopted by the Commission in the previous year's filing, but can also include the revenues, expenses, and rate base adopted in Docket 18-00017.

Response by: Gary Tucker.

REQUEST: Would it be appropriate to utilize the baseline for revenues, operating expenses and rate base established in the Company's most recent rate case to determine the earnings sufficiency or deficiency necessary to adjust the Company's earned return on equity for a historic review period to its authorized return on equity? If not, please explain why it would not be appropriate to do so.

RESPONSE:

As explained in the response to Party Staff Request No. 3, Chattanooga Gas Company has elected the alternative annual review as provided in §65-5-103(d)(6) that provides for an annual review and a determination if the Company earned its authorized return. The Company is proposing to use a calendar year historic period as the basis for determining revenue deficiency or excess. The most appropriate procedure for comparison purposes would be to compare the historic test year to the most recently authorized revenues, expenses and investment. Further, since there is no example or explanation of how the baseline revenue, operating expenses, and rate base would be used to determine the revenue sufficiency or deficiency, we are unable to provide an analysis or otherwise address such a proposal.

Response by: Archie Hickerson.

REQUEST: Other than the adjustments described in the pre-filed direct testimony of the Company's witnesses, please describe any other normalization adjustments that may be included in the computation of the "rate reset."

RESPONSE:

The normalization adjustments addressed in Docket 18-00017 would be included for determining the rate increase (reset): weather, other revenues, uncollectible expense, the average materials and supplies balance, the average prepayment balance, the average gas inventory balance, the average reserve for uncollectible accounts, the average reserve for health insurance, and the average other reserves balance.

Normalization adjustment may be proposed in the determination of an earning excess or deficiency only for infrequent or abnormal events that materially distort earnings. An example of an infrequent occurring expense is the periodic painting of the Liquid Natural Gas tank. If the expense is material, the Company may propose to amortize the cost over a multi-year period similar to the treatment of Rate Case expense. An example of an abnormal expense that may need to be normalized would be the repair of major storm damage. CGC has not experienced abnormal storm damage in the past but is aware of such expense being incurred by other utilities. There may other similar events that also materially distort earnings that should be normalized. Such normalization adjustments would also in included in the determination of the rate adjustment (rate reset).

Response by: Archie Hickerson

REQUEST: Please explain how the computation of the "rate reset" in each Annual ARM Filing comports with (a) T.C.A. § 65-5-103(d)(6)(C)'s language stating "the commission shall review the annual filing . . . and order the public utility to make adjustments to its tariff rates to provide that the public utility earns the authorized return on equity established in the public utility's most recent general rate case": and (b) efforts by the Commission to "refine and streamline" the annual rate review process as stated on page 10 of the Commission's *Order Approving 2018 Annual Rate Review Filing* in Docket No. 18-00067 issued on December 4, 2018.

RESPONSE:

Under the Chattanooga Gas Company's ARM proposal the Company will file details schedules that include the actual revenues, expenses, and rate base for the calendar year with adjustments consistent with Docket 18-00017 that will allow the Commission to determine the earning excess or deficiency for the calendar year and the need for a tariff rate adjustment to credit to the customers the excess and reduce rate for the next year, or for the Company to recover the deficiency and increase to provide for the Company to earn its authorized return in the future.

The "rate reset" is the ". . . adjustment to its tariff rates to provide the public utility earns the authorized return on equity established in the public utility's most recent general rate case.

While CGC was not a party to Docket No. 18-00067, its proposed ARM addresses the streamlining the process as proposed by the Commission by:

1. Having one annual filing instead of the two annual filing as under the Atmos ARM;
2. Having the annual filing based entirely on an historic calendar year, with the revenues, expense, and investments supported by the Company's books and underlying records;
3. Having no adjustments for known and measurable changes therefore eliminating the necessity for the review and analysis of such adjustments. (For example, there will be no adjustments to reflect increase in salary and wages, increase in the number of employees, additional plan investment etc.);
4. Having no adjustments for anticipated (forecasted) changes or adjustments based on the budgets for a future period. As a result, the need to review and analyze CGC's or another party's forecasting process or methodology and support is eliminated;
5. Having standard schedules patterned after the schedules adopted as the Commission exhibit to the final Order in Docket 18-00017 with supporting schedules and workpapers in Excel format that will allow the Staff and other parties to review and analyze the filing. adjustment for known or anticipated changes the review process is streamlined. Since there are no forecasted adjustments for anticipated changes, such as salary and wage increases, increases

in employees there is no requirement review and analyze forecasting or budgeting procedures or supporting documents. The filing also provides for specific detailed schedules with supporting documentation to be provided with each annual filing.

Response by: Archie Hickerson

Respectfully Submitted,

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<u>Certificate of Service</u>

I hereby certify that a true and exact copy of the foregoing document has been served by electronic mail, postage pre-paid U.S. first-class mail, and/or delivering a copy by hand, upon the following person(s) on this the 15th day of May, 2019:

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