

**IN THE TENNESSEE PUBLIC UTILITY COMMISSION  
AT NASHVILLE, TENNESSEE**

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

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**CHATTANOOGA GAS COMPANY's  
RESPONSES AND OBJECTIONS TO THE  
FIRST DISCOVERY REQUEST OF THE CONSUMER ADVOCATE**

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Pursuant to the procedural schedule in this docket, Chattanooga Gas Company ("CGC" or "Company") hereby submits its responses and objections to the Consumer Advocate Unit in the Financial Division of the Tennessee Attorney General's Office ("Consumer Advocate") and the Consumer Advocate's 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.

To assist the Hearing Officer in evaluating this matter, CGC is setting forth its objections in two parts. Part I sets forth general objections applicable to CGC's discovery responses. Part II are the specific discovery request responses and, where applicable, the objections are incorporated with each such response. While CGC has objected to only three requests in order to preserve its rights, CGC has provided a substantive response for those objected to requests in order to be as responsive as possible given the nature of those requests.

**I. GENERAL OBJECTIONS**

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 non-privileged, 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 for a proceeding seeking approval of an annual review of rates proceeding 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 Consumer Advocate'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 the following additional objections to specific discovery requests shall not constitute a waiver of these General Objections.

5. CGC objects to the scope of the terms "identity" and "identify" as used by the Consumer Advocate. In particular, 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 Consumer Advocate's instructions to produce documents with the type, title, 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 Consumer Advocate 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 Consumer Advocate 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 Consumer Advocate discovery to apply to CGC's regulated operations in Tennessee and will limit its responses accordingly. To the extent that any Consumer Advocate 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 Consumer Advocate 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 may be ordered by the Hearing Officer. However, Excel workbooks shall be provided in their native form with cells unlocked to the extent possible recognizing that links to external data sources will be broken.

9. CGC objects to the Consumer Advocate 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 Consumer Advocate 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 Consumer Advocate discovery purports to require more, CGC objects on the grounds that compliance would impose an undue burden or expense.

11. None of the responses to this discovery request involves confidential information. However, to the extent CGC may be called upon to provide any confidential information, it shall negotiate in good faith a protective agreement that may be issued by the Hearing Officer as a Protective Order and any subsequent confidential information shall be provided as set forth therein.

## **II. SPECIFIC OBJECTIONS**

Notwithstanding any of the foregoing objections, and without waiving any such objections, CGC's specific objections appear with each response that merits an appropriate objection on the following pages as indicated.

**REQUEST:** Refer to Company Witness Hickerson's pre-filed direct testimony on page 6. He indicates that the Commission's Order in TPUC Docket No. 18-00017 expressly included approval of the necessary methodology for an ARM. Provide all support for this assertion, including, but not limited to, the location in the Order that supports this statement.

**RESPONSE:**

On page 10 of the January 15, 2019, Amended Order in Docket 18-00017 ("Amended Order") the Commission set out its criteria for setting rates:

The Commission must also approve a rate that provides the regulated utility an opportunity to earn a just and reasonable return on its investment. The Commission considers petition for rate increase, filed pursuant to Tenn. Code Ann. §65-5-103 in light of the following criteria:

1. The investment or rate base upon which the utility should be permitted to earn a fair rate of return;
2. The proper level of revenue for the utility;
3. The proper level of expense for the utility; and
4. The rate of return the utility should earn.

The procedure followed by the Commission to comply with these criteria is the methodology.

The first decision that is made is the selection of the appropriate Test Period, as is addressed on page 12:

In a rate case, the Commission must decide the appropriate test period and an attrition period to be utilized in the calculation of rates. Selecting the test period has the stated purpose of providing an indication of the rate of return that will be produced during the period under the existing rate structure in the reasonably foreseeable future. The test period takes into consideration the estimated effect of calculations related to revenues, expenses, and investments.

The Commission addresses the Test Period to be used as follows:

The Commission noted that, in general, the most recent normalized test period is most appropriate base to be used in forecasting because recent results are generally more reflective of future outcomes. Applying this principle to the instant case, the panel

found the later test period of the twelve months ending December 31, 2017 utilized by the Consumer Advocate was the appropriate test period and, accordingly, voted unanimously to adopt it.

The Commission adopted as the Test Period the twelve-month period ending on December 31. This is the Test Period that CGC proposes to be used in its ARM filing.

On pages 13 and 18, the Commission found that the revenues to be used in the evaluation of the Company's rates are the:

Total Operating Margin consists of the sum of Base Revenues, Other Revenues and Allowance for Funds Used during Construction (AFUDC), less the Cost of Gas.

Consistent with the Commission's finding, CGC proposes to include these revenues in the annual ARM filings.

The determination of the Gas sales revenue is addressed on page 13:

Gas sales revenues are forecasted by adjusting the test period billing determinants for the impacts of normal weather, annualized customer usage, and customer growth to arrive at the attrition period billing determinants. Attrition period billing determinants are then multiplied by the current (existing) base tariff rates and the appropriate Purchased Gas Adjustment rate to produce the attrition period gas sales revenues at current rates.

Since the ARM is based on the historic calendar year and not a forecasted or projected period, the adjustment methodology for determining revenue for setting rates is "by adjusting the test period billing determinants for the impacts of normal weather, and annualized customer usage, to arrive at the billing determinants." Since the ARM is based on the historic calendar year, there is no adjustment for customer growth to arrive at attrition period billing determinants.

The normalization of the billing determinants is addressed on page 15:

Further, the panel adopted the average normalized usage per customer as calculated by the Consumer Advocate for the residential and commercial classes and the Consumer Advocate's individual customer analysis of forecasted usage for the industrial customers, finding both to be reasonable, particularly since the factors were based on historical data.

Consistent with the Commission's finding in Docket 18-00017, CGC adopted the average normalized usage per customer as calculated by the Consumer Advocate for the residential and commercial classes and the actual usage for the individual industrial customers.

Other Revenues are addressed on page 16 of the Amended Order:

The panel found that the use of an historical four-year average is a reasonable methodology for calculation of Other Revenues, as it uses known amounts as its basis as opposed estimated amounts.

The historical four-year average of Other Revenues is used in determining the reset of rates in the proposed ARM filings.

On page 17 of the Amended Order the Commission found:

CGC estimated AFUDC by multiplying its forecasted balance of CWIP for the attrition period by the Company's proposed weighted average cost of capital for the attrition period. The Consumer Advocate forecasted AFUDC using a five-year average of AFUDC from 2013 to 2018.

The panel applied its determined weighted cost of capital of 7.12% to its calculated thirteen-month average direct CWIP balance of \$11,576,245, exclusive of allocated CWIP of \$881,194. Therefore, the panel unanimously adopted \$823,951 for Allowance for Funds Used During Construction for the attrition period.

The Commission computed the AFUDC by multiplying the average forecasted CWIP balance by the authorized rate of return of 7.12%. AFUDC is computed by multiplying the authorized rate of return by the CWIP balance subject to accrual.

The determination of the Cost of Gas is addressed on page 17:

CGC used the wholesale futures price of natural gas as reported by NYMEX on January 3, 2018 as the basis to project an attrition period PGA rate, and using a regression equation developed with historical NYMEX prices and historical CGC retail prices. This rate is then applied to the attrition period billing determinants. The Consumer Advocate prices out gas costs by multiplying its attrition period billing determinants by CGC's approved December 31, 2017 PGA tariff rate.

The panel found that the preferred methodology is to use an actual PGA tariff rate to project PGA gas costs. In this case, the panel

utilized the PGA tariff rate submitted by CGC which became effective July 1, 2018. As a result, the attrition period gas cost amount adopted unanimously by the panel was \$38,611,525.

The Cost of Gas is equal to the PGA tariff rate filed by the Company applied to the billing determinants.

Operational and Maintenance "(O&M)" Expenses are addressed in the Amended Order beginning on page 18:

Operational and Maintenance ("O&M") Expenses are comprised of expenses associated with services necessary to run the business operations of CGC. The majority of these expenses are variable and dependent upon items such as the number of customers and employees, revenues, assets, etc.

The O&M Expenses are more specifically identified as:

Payroll expense  
Employee Benefits  
Benefits Capitalized  
Fleet Services & Facilities Expense  
Outside Services  
Other Distribution & Storage Expense  
Bad Debt Expense  
Sales Promotion Expense  
Customer Service & Accounting Expense  
Administration & General Expense  
Administration & General Expense Capitalized  
AGL Services Company Allocations.

Payroll expense is addressed on page 22:

The panel voted unanimously to adopt a payroll expense of \$3,216,717 for the twelve-month attrition period ending June 30, 2019. The panel arrived at this amount applying its findings on CGC payroll expense, beginning with the test period (twelve months ending December 31, 2017) payroll expense, removing 50% of the short-term incentive compensation to arrive at an adjusted test period payroll, calculating the average employee pay using the December 31, 2017 employee count, and then multiplying the average employee pay by the attrition period employee count. Utilizing this calculation, the panel arrived at the adopted payroll expense of 3,216,717.



Payroll expense is adjusted to exclude 50% of short-term incentive compensation. Any long-term incentive shall be removed consistent with page 34.

Employee Benefits Expense is addressed on page 24 of the Amended Order:

Based upon analysis of the evidence, the panel voted unanimously to adopt employee benefits expense for the twelve-month attrition period ending June 30, 2019 of \$716,680. The panel arrived at that amount for employee benefits expense based upon the December 31, 2017 test period with the recommended adjustments of (\$66,775) as described by the Consumer Advocate, and removal of Dental and Vision Premiums, for a total of \$688,801. The panel then grew this amount to the projected 44 employees and applied the compounded composite growth factor of 3.7% to arrive at the adopted \$716,680 for the attrition year.

As explained here, the Commission began with the test period Employee Benefit Expense with the removal of discontinued benefits. This base amount was grown to arrive at the attrition period expense. Since the ARM is based on the historic test period and not the attrition period, the test period Employee Benefit Expense adjusted to remove the cost of any discontinued benefits is used to determine the rate reset.

Benefits Capitalized is addressed on page 25:

The panel found that it could accept neither of the expense figures asserted by the parties, as the attrition year adopted by the panel is forecasting fewer employees than CGC and more employees than the Consumer Advocate. Therefore, the panel calculated a percentage of benefits capitalized using the December 31, 2017 test period amount of benefits expensed plus the benefits capitalized in total to the benefits capitalized and subsequently grossed up employee benefit expense by the inverse to arrive at a total employee benefit amount for the attrition year ending December 31, 2019. The benefits capitalized percentage was applied to the total employee benefit amount \$809,164 to arrive at employee benefits capitalized of (\$92,484). Therefore, the panel voted unanimously to adopt an operation and maintenance expense of Benefits Capitalized of (\$92,484) for the attrition year ending December 31, 2019.

The ratio of the test period benefits capitalized to total test benefits is multiplied by the adjusted benefits adopted to determine the benefits capitalized.

Fleet Services & Facilities Expense, Outside Services, and Other Distribution & Storage Expense are addressed on page 26:

“Based upon calculations utilizing the actual test period amounts at December 31, 2017 and growing them by a compounded growth factor of 3.7%, the panel arrived at balances for the attrition period ending June 30, 2019 for Fleet Services and Facilities of \$810,419, Outside Services of \$1,849,778 and Other Distribution and Storage of \$588,213. The panel unanimously voted to adopt operation and maintenance expenses for the attrition year ending June 30, 2019 for the following categories: Fleet Services and Facilities, \$810,419; Outside Services, \$1,849,778; and, Other Distribution and Storage, \$588,213.

Test period Fleet Service & Facilities Expense, Outside Service and Other Distribution and Storage Expense are used.

Bad Debt (Uncollectible Expense) is addressed in the Amended Order on page 27:

The Consumer Advocate took an actual five-year average (2013-2017) of uncollectible expense of \$100,904 and added an actual five-year average of uncollectible expense-damages of \$20,958 to arrive at an attrition period bad debt expense of \$121,863. The panel found that the use of actual data for determining bad debt expense rather than forecasted budget based in part on a requested rate increase is reflective of the widely accepted policy of the Commission of historical forecasting which is grounded on actual results.

Therefore, the panel found the Consumer Advocate's amount for bad debt expense to be reasonable. The panel voted unanimously to adopt the amount of \$121,863 as bad debt expense for the attrition period ending June 30, 2019.

As addressed on page 27, the Commission found that the use of actual data is preferable and concluded that a five-year average was appropriate for the attrition period. For the ARM filing the actual bad debt expense for the test period will be used in the determination of any earning excess or deficiency for the test year, and a five-year average will be used in the rate reset.

Sales Promotion Expense is addressed beginning on page 27:

In accordance with Administrative Rule 1220-04-05-.45, ADVERTISING, Promotional Advertising is not recoverable and therefore not included in rates. Consistent with this finding, Promotional Expense is excluded.

Customer Service and Account Expense is addressed in the Amended Order on page 29:

The panel found that the use of historical data as a starting point for calculations provides more credibility and verifiable evidence than the use of budgeted amounts for the attrition period. However, upon review of the Consumer Advocate's calculation for customer service and account expense, the panel found that the growth factor applied by the Consumer Advocate was not compounded for the correct growth time frame. Applying the compounded customer growth factor of 1.76% to the test period amount of \$4,775 yields an attrition period expense of \$4,859. Accordingly, the panel voted unanimously to adopt \$4,859 in customer service and account expense for the attrition period ending June 30, 2019.

Verifiable test period Customer Service and Account Expense is used in CGC's ARM.

Administrative and General Expense is discussed on page 31 of the Amended Order:

The panel arrived at total administrative and general expenses of \$951,611 for the twelve-month attrition period ending June 30, 2019. This amount is calculated by taking the December 31, 2017 trial balance of administrative and general expenses and growing that amount by a composite 3.7% growth factor, and then adding \$248,333 of amortized of rate case expenses. The panel voted unanimously to adopt \$951,611 in administrative and general expenses for the attrition period.

The Administrative and General Expense is the test period expense that includes the amortization of the deferred rate case expense over 5 years. (See Order page 52 addressing rate case cost amortization.)

Administrative and General Salaries (Payroll) Capitalized is addressed beginning on page 31:

Since the panel previously found that 44 employees are adopted for the attrition period, which is fewer employees than the Company and more employees than Consumer Advocate, it found that it could not accept the recommendation of either party. A percentage of payroll expense capitalized was calculated using CGC's

forecasted payroll capitalized as a percentage of total payroll expense. The panel applied this percentage to the adopted payroll expense to arrive at administrative and general salaries capitalized of (\$60,878). The panel voted unanimously to adopt the Administrative and General Salaries Capitalized of (\$60,878) for the attrition period.

The percentage of payroll capitalized in the test period is multiplied by the payroll expense adopted to determine the amount of the Administrative and General Salaries (Payroll) Capitalized to be recognized for rate making purposes. (The adjusted payroll expense will exclude 50% of short-term and 100% of any long-term incentive pay.)

The Commission addressed AGL Service Company Allocations beginning on pages 32-34:

The panel also noted that the majority of the \$1,764,843 difference between the Company and the Consumer Advocate for the attrition period relates to the adjustments made by the Consumer Advocate to remove Bonuses, Short and Long Term Incentives, Allocated Supplemental Executive Retirement Plan expenses ("SERP"), Government Relations, Legal and Lobbying Expenses totaling \$1,496,707.

The panel found that that removal of expenses related to SERP, lobbying expense, certain pension benefits, and organization dues, as recommended by the Consumer Advocate, is reasonable and consistent with previous rulings of the Commission. The panel removed said expenses from the trial balance test period amount as of December 31, 2017, and then removed 50% of short-term incentive compensation and 100% of long-term incentive compensation (consistent with the methodology used for payroll expense and pursuant to established Commission precedent for recovery of incentive compensation) and applied a customer growth factor of 3.7%. This calculation results in \$3,371,863 of AGL allocated service expenses for the attrition period ending June 30, 2019, which the panel voted unanimously to adopt.

The allocated expense related to SERP, lobbying, certain pension benefits, and organization dues for the test period is removed as recommended by the Consumer Advocate. (See also CPAD Workpapers, Attachment DD4-1, Attachment DD4-2, and Attachment DD4-3). 50% of the allocated short-term incentive compensation and 100% of the allocated long-term incentive compensative are excluded.

Interest on Customer Deposits is addressed on page 35 of the Amended Order:

TPUC Rule 1220-4-5.14 allows gas utilities to accrue interest on Customer Deposits. Such interest is refunded to the customer along with the security deposit after a specified time period when the customer demonstrates credit-worthiness. CGC forecasted \$96,740 for the attrition period Interest on Customer Deposits. The Consumer Advocate forecasted \$114,315 for the attrition period Interest on Customer Deposits. The panel multiplied the adopted accrued interest on customer deposits by the tariffed interest rate of 6.0% per annum and arrived at the amount forecasted by the Company.

The interest on customer deposits is computed by multiplying the balance of the customer deposit by the tariff interest rate of 6%.

Property Tax is addressed on page 35:

As opposed to strictly using a budgeted amount as proposed by the Company, the panel found that historical amounts provide more credible evidence of future outcomes in this instance. For this reason, the panel determined a property tax percentage by comparing the Consumer Advocate's December 31, 2017 test year amount for property tax with the Company's thirteen-month average of the combined direct plant and allocated plant in service. The panel applied this percentage to the plant in service for the attrition period ending June 30, 2019 to arrive at property taxes of \$2,093,447, which the panel voted unanimously to adopt.

Property Tax is computed by multiplying the plant balance adopted by the ratio of the test period Property Tax to test period plant.

The Commission Inspection Fee is addressed on page 36:

The panel calculated Commission Inspection Fee by applying statutory rates set forth in Tenn. Code Ann. § 65-4-303. Consistent with statutory language, attrition period gas revenue, AFUDC, and Other Revenues less Uncollectibles were summed for a total of \$71,850,864. This revenue amount was then reduced by the statutory \$5,000 exemption to arrive at a taxable revenue base for inspection fees. The panel unanimously voted to adopt \$305,345 for the attrition period ending June 30, 2019, having applied the statutory rate of 0.425% to the remaining balance to arrive at the adopted inspection fee.

The Commission Inspection Fee is computed in accordance with the statutory requirements and the applicable revenues adopted.

Payroll Tax is addressed on page 37:

The panel found that in this instance, the historical amounts provide more credible evidence of future outcomes than the budgetary data provided by the Company. For this reason, the panel calculated a percentage for payroll tax using the Consumer Advocate's test year booked payroll tax as a percentage of booked payroll expense. The panel applied this percentage to the difference between the adopted payroll expense and the booked test year payroll expense for a total of \$46,135.66. This incremental payroll tax amount (payroll tax for additional payroll expense) was then added to the December 31, 2017 booked payroll tax amount to arrive at attrition period payroll taxes of \$383,805. The panel thereafter voted unanimously to adopt \$383,805 in payroll taxes for the attrition year ending June 30.

Payroll Tax is computed by multiplying the ratio of the payroll tax to the payroll for the test period by the adjusted payroll expense.

Franchise Tax is addressed on page 38:

Accordingly, the panel calculated a Franchise Fee percentage based upon the Company's thirteen-month average of the combined direct plant and allocated plant in service to Consumer Advocate's test period Franchise Tax. The panel applied this percentage to the adopted Plant in Service to determine the Franchise Tax. The panel unanimously adopted Franchise Tax in the amount of \$136,334 for the attrition period ending June 30, 2019.

Franchise Tax is computed by multiplying the average plant in service included in the rate base by the ratio of the test period Franchise Tax Expense to the test period (including allocated plant).

Gross Receipt Tax is addressed on page 38:

The panel found that use of historical amounts provides more credible evidence of future outcomes than budgetary data in this instance. Based upon this finding, the panel calculated Gross Receipts Tax using the Tennessee Gross Receipts Tax Form. Gas Revenue, AFUDC, and Other Revenues were totaled and Uncollectibles were deducted to arrive at a taxable amount of \$71,850,864. The \$5,000 exemption was deducted and the statutory 1.50% tax rate was applied resulting in a gross tax of \$1,077,688. Forecasted Franchise and Excise Taxes were then deducted, pursuant to the statute. The voting panel unanimously adopted the resulting Gross Receipts Tax of \$862,580 for the attrition period ending June 30, 2019.

Gross Receipt Tax is computed in accordance with the Statute using the applicable revenues for the test period

Income Tax is addressed on pages 39 - 40 and the Commission Exhibit attached to the Amended Order, Schedule 9:

The Company and the Consumer Advocate each presented its schedules as exhibits for its calculations on the proper amount of income tax. Income Taxes include both the Tennessee Excise Tax and the Federal Income Tax. Income Tax is calculated based on operating margin and expense calculations and applying statutory tax rates. Both CGC and the Consumer Advocate accounted for the impact of the significant changes resulting from the Tax Cut & Jobs Act, which became effective January 1, 2018 in their respective calculations and schedules. Based upon the statutory rates and the other items decided in this rate case, the panel unanimously adopted Net State Excise Tax of \$373,213 for the attrition period and Net Federal Income Tax of \$264,062, which includes Excess Deferred Tax Liability Amortization of \$918,724.

Tennessee Excise Tax and Federal Income Tax is calculated as shown on Schedule 9 of the Commission's Exhibit attached to the Order.

The Rate Base is addressed beginning on page 40:

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.

The components of the rate base were discussed individually. On page 44:

Moreover, the panel found that the capital budgeting approach used by the Company is consistent with the methodology for determining appropriate levels of UPIS for rate-setting purposes by the Commission in prior rate cases. Therefore, the voting panel unanimously voted to adopt CGC's thirteen-month average of UPIS of \$301,415,025 for the attrition year.

The 13-month average of plant in service for determining the balance of plant in service to be included in rate base.

Depreciation and Accumulated Depreciation is addressed on page 44:

As stated above, the parties agreed that the updated depreciation rates recommended by CGC's depreciation study should be applied to plant balances to compute depreciation expense in this case. Because the panel adopted the Company's UPIS balance, based in part on its forward-looking forecast of capital projects and related expenditures, which is also consistent with prior rate case procedures, the panel likewise unanimously adopted CGC's calculation of attrition year annual depreciation expense of \$8,035,649. Further, since the accumulated depreciation reserve is a mathematical function of plant balances and associated annual depreciation charges, the panel voted unanimously to adopt the Company's thirteen-month average forecast of accumulated depreciation of \$127,903,439 for the attrition period ending June 30, 2019.

Depreciation is computed using the depreciation rates approved in Docket 18-00017. The 13-month average accumulated depreciation is used in the development of the rate base.

Construction Work In Progress ("CWIP") is addressed on page 45:

The panel found that because CWIP is determined by plant construction projects and activities, the CWIP forecast should be aligned with the capital expenditure projections used to compute UPIS. Accordingly, and for the same reasons the panel adopted CGC's forward-looking forecast of UPIS, the panel unanimously voted to adopt the Company's thirteen-month average CWIP balance of \$12,457,439 for the attrition year in this case.



The 13-month average of CWIP is included in rate base.

The Pension and OPEBs Asset is address on pages 45-47:

Therefore, the panel voted unanimously to adopt pension and OPEB assets of zero for the attrition year in this case, consistent with established Commission precedent.

The Pension and OPEBs Assets are not included in the rate base.

Working Capital is addressed on pages 47-49, and Schedules 3 and 4 of the Commissions Exhibit attached to the Amended Order:

As the panel found the Consumer Advocate's adjustments to the Company's lead/lag study to be reasonable and appropriate, the panel unanimously adopted the Consumer Advocate's lag days for computing cash working capital in this case. When weighted and applied to attrition year operating expenses, taxes and interest the panel adopted, the panel determined that a net lag of 4.75 days should be applied to a computed average daily cost of service of \$180,221, which, when reduced for tax collections withheld of \$506,569, results in a calculated cash working capital of \$350,066. Therefore, the panel unanimously voted to adopt working capital for the attrition period in the amount of \$350,066.

The lead/lag days as proposed by the Consumer Advocate weighted with the expenses adopted for rate making purposes are used to compute the working capital which is reduced by the average tax collections withheld. The detailed calculations are as shown on Schedules 3 and 4 of the Exhibit attached to the Amended Order.

Deferred Rate Case Expense is addressed on pages 51 and 52:

As previously indicated, the panel noted its concern with regard to the high amount of rate case expenses. It is evident that both ratepayers and stockholders receive a benefit from the rate increases that generally result from the completion of rate cases. The ratepayers receive the benefit of the facility repairs and upgrades ensuring a safe and reliable system and the resources necessary to cover reasonable operating expenses to ensure efficient operations from the Company's increase revenue. At the same time, the stockholders receive the benefit of higher equity returns which leads to increased stock prices as a result of the

increased revenues. CGC acknowledges the benefit of rate cases to both ratepayers and stockholders in the testimony of Mr. Dallas.

The Company bears the burden of proving its just and reasonable expenses pursuant to Tenn. Code Ann. § 65-5-103(a). The panel found that CGC provided sufficient testimony and documentation to justify its rate case expenses as reasonable. Further, while the panel noted its concern about the high rate case expense and noted the benefit of rate increases to both ratepayers and stockholders, it found that there is insufficient evidence in the record to determine the relative benefits of this proceeding to ratepayers and stockholders by which to apportion the rate case among the ratepayers and shareholders. Absent such evidence, the panel determined that any exclusion from rate case expense based upon this distinction is unsupported and potentially arbitrary. Therefore, the panel unanimously voted to approve the rate case expense of \$1,241,665 be recovered over a five-year period as proposed by the Company, resulting in a thirteen-month average of deferred rate case expense of \$1,117,499 for the attrition period.

The deferred rate case cost included in the rate base is the 13-month average assuming amortization over a five-year period.

Materials & Supplies, Prepayments and Gas inventory are addressed collectively on pages 52 and 53 of the Amended Order:

The panel found that utilizing the test year average is too limited because of the upward and downward variations of the monthly and annual balances of these accounts caused by the activities and operational needs of the Company. In addition, the panel found that while a multiyear average should be examined to capture a trend of normalized activity for ratemaking purposes, a three-year average, as opposed to the five-year average proposed by the Consumer Advocate, provides a more accurate reflection of the recent operational trends in these accounts. Therefore, the panel utilized a three-year, thirteen-month historical average to estimate materials & supplies, prepayments and gas inventories for the attrition year. Using this method, the panel arrived at an estimated thirteen-month average attrition year balance of \$343,442 for materials & supplies, \$46,803 for prepayments, and \$9,425,959 for gas inventory and voted unanimously to adopt these amounts.

The test period thirteen-month average of the Materials and Supplies, Prepayments, and Gas Inventory is used to compute the test year earn excess or deficiency. The three-year average

of the thirteen-month average is used for Materials & Supplies, Prepayments and Gas inventory in resetting rates going forward.

Accumulated Deferred Income Tax and Regulatory Liability for Excess Deferrals are addressed on pages 53-55 of the Amended Order.

Page 54 provides:

With regard to amortization of EDIT, Mr. Tucker testified on behalf of CGC that amortization of the protected EDIT related to depreciable property must be amortized over the life of the related property in accordance with the average rate assumption method, which is one of the amortization methods approved by the IRS. Further, Mr. Tucker stated that compliance with the tax code required the amortization of the protected EDIT to begin with the income tax rate reduction effective January 2018 without delay. The Company proposes to amortize its calculated unprotected EDIT over five years, aligning with its recommended amortization of rate case costs.

Page 55 provides:

The most significant portion of ADIT relates to differences in the methods used for computing depreciation expense for tax purposes versus ratemaking purposes. As the voting panel adopted CGC's Utility Plant In Service and associated depreciation expense amounts and the Consumer Advocate does not object to CGC's computation of ADIT, the panel found that the Company's ADIT calculation of \$25,514,266 be reduced by \$2.4 million<sup>182</sup> to reflect the ADIT associated with removal of the Company's proposed pension and OPEB assets from rate base. Using this calculation, the voting panel arrived at an ADIT of \$23,114,266 for the attrition year, which it voted unanimously to adopt. Further, the panel voted unanimously to adopt the Company's amortization periods for both protected and unprotected, and to adopt an EDIT regulatory liability of \$22,177,646 for the attrition year. In addition, the voting panel ordered CGC to accrue into a regulatory liability account all amortized amounts of EDIT for the period from January 2018 to the effective date of the rate change ordered in this docket, with the disposition of the regulatory liability to be determined in Docket No. 18-00035.

The ADIT component of the rate base is to exclude the ADIT associated with the Company's pension and OPEB's asset. The Excess Deferred Income Tax liability protected EDIT is to be amortized over the life of the related property and the unprotected EDIT is to be amortized over 5 years.

The Reserve for Uncollectible, Health insurance and Unclaimed Credits are stated in the Amended Order beginning on page 55:

Reserves for uncollectibles, health insurance and other/unclaimed credits represent noninvestor supplied funds available to the Company and should therefore be deducted from rate base.

Further, on page 56, the Amended Order provides:

As it found with regard to materials & supplies, prepayments and gas inventory, the panel found that utilizing a test year average does not allow for the upward and downward variations of the monthly and annual balances of these accounts caused by the activities and operational needs of the Company. Further, the volatility in the uncollectible reserve account suggests that this reserve has not been in correlation with associated annual revenues. In addition, the panel found that while a multi-year average should be examined to capture a trend of normalized activity for ratemaking purposes, a three-year average, as opposed to the five-year average proposed by the Consumer Advocate, provides a more accurate reflection of the recent operational trends in these accounts. Therefore, the panel utilized a three-year, thirteen-month historical average to estimate the reserves for uncollectibles, health insurance and unclaimed credits for the attrition year. Using this method, the voting panel unanimously voted to adopt the amounts calculated for these reserve balance accounts: an estimated thirteen-month average attrition year balance of \$169,708 for the reserve for uncollectibles; \$33,409 for the reserve for health insurance; and \$72,774 for the reserve for unclaimed credits.

The thirteen-month average of the reserve for uncollectibles, health insurance, and unclaimed credits are used in the calculation of the test year earning excess or deficiency.

The three-year, thirteen-month historical average to estimate the reserves for uncollectibles, health insurance and unclaimed credits shall be used in resetting rate going forward.

The Revenue Conversion Factor is addressed on page 58 and the Commission Exhibit Schedule 12 attached to the January 15, 2019 Order in Docket 18-00017.

Page 58 of the Amended Order provides:

The Revenue Conversion Factor represents the adjustment factor necessary to translate any surplus or deficiency in NOI into a Revenue Deficiency or Surplus that rates will be designed to produce. To produce a certain amount of revenue several factors are considered. In order to determine the proper amount of revenue needed for the Company to have the opportunity to earn a fair rate of return, it is necessary to apply a revenue conversion factor to Net Income Deficiency or the NOL. After this amount is calculated, it is necessary to add forfeited discounts and subtract uncollectibles, state excise tax, and federal income tax. Based upon a Forfeited Discounts Factor of 0.008796, an Uncollectible Ratio of 0.003825, State Excise Tax rate of 6.5%, and a Federal Income Tax rate of 21%, the panel arrived at and unanimously voted to adopt an overall Revenue Conversion Factor of 1.347169.

Rate of Return is addressed on page 59:

The process of determining the cost of capital involves three steps. First, the capital structure of the firm must be established. In this proceeding, the Commission must determine whether to adopt a double leverage capital structure methodology, as proposed by the Consumer Advocate. Second, the cost of each component of the capital structure - debt and equity - must be calculated. Finally, the overall return is computed by calculating the weighted cost of capital.

Capital Structure is addressed on page 62 of the Amended Order:

The panel found that adoption of the capital structure of Southern Company Gas proposed by Company is reasonable and appropriate. The capital structure proposed by CGC witness Gary Tucker is composed of 44.47% long-term debt, 6.3% short-term debt and 49.23% equity and is comparable in composition to capital structures adopted by the agency. The Consumer Advocate witness, Dr. Klein accepted this capital structure for use in his double leverage calculation. Further, the panel found that using the capital structure for Southern Company Gas is analogous to its treatment in prior agency proceedings as CGC's capital structure is set by using a parent company's capital structure that is engaged in

the natural gas business. Therefore, the panel adopted the capital structure proposed by the Company containing 44.47 long-term debt, 6.3% short-term debt and 49.23% equity.

Southern Company is to be used in determining the Rate of Return.

The Cost of Debt is addressed on page 63:

The panel adopted the short-term and long-term debt costs proposed by The Company, which were also accepted by the Consumer Advocate as part of its capital recommendation. Therefore, the panel found that the costs of short-term debt and long-term debt for SCG are 3.01% and 4.73%, respectively.

Southern Company Gas cost of short-term and long-term debt as computed by the Company was to be used setting rates.

Return on Equity is addressed on page 68 of the Amended Order:

Finally, the recast results of Dr. Vander Weide's analysis supported a 9.9% equity return. Therefore, the panel found that a 9.8% equity return is supported by the record and leads to a comparable return for the equity capital deployed by CGC and unanimously voted to adopt 9.8% as the appropriate equity return for use in this proceeding.

The authorized Return on Equity is 9.8%

**Response by: Archie Hickerson and Gary Tucker.**

**REQUEST:** On August 22, 2018, during the Hearing on the merits for TPUC Docket No. 1800017, CGC's Counsel represented on behalf of the Company that CGC would meet with Commission Staff and with the Consumer Advocate to discuss a Cost Allocation Manual. CGC's Counsel then discussed bringing a formal Cost Allocation Manual back to the Commission for approval and use. Confirm that the Company still intends to file a Cost Allocation Manual and provide the date by which the Company intends to fulfil its promise. If the Company no longer intends to make such a filing, describe in detail why it will not do so.

**RESPONSE:**

The Company plans to provide a Cost Allocation Manual for CGC to Commission Staff and the Consumer Advocate in the coming months. The CAM will be consistent with the services provided and cost allocation methodologies the Company uses to allocate costs for services provided to CGC. Filing the CAM for "approval" may imply that the Company's processes could potentially change and that was not to Company's intent in stating that a CAM would be filed.

The Company will meet with Commission Staff and the Consumer Advocate to discuss the Cost Allocation Manual for CGC before any content is provided.

**Response by: Gary Tucker.**

**REQUEST:** Provide a copy of the NICOR Cost Allocation Manual.

**RESPONSE:**

The AGL Services Agreement with Nicor Gas serves as the “Cost Allocation Manual” that determines services provided by AGSC and the cost allocation methodologies. See attached AGL Services Agreement with Nicor Gas, marked as “CGC Attachment 1-3.”

**Response by: Gary Tucker.**



### AGL SERVICES AGREEMENT

This AGL Services Agreement (the "Agreement") is entered into as of the 3<sup>rd</sup> day of February 2012, by and between Northern Illinois Gas Company d/b/a Nicor Gas Company, an Illinois corporation (the "Company"), and AGL Services Company, a Georgia company ("AGSC").

WHEREAS, each of the Company and AGSC is an associate company of AGL Resources Inc. ("AGLR");

WHEREAS, AGSC has been formed for the purpose of providing administrative, management and other services to associate companies; and

WHEREAS, the Company believes that it is in the interest of the Company to provide for an arrangement whereby the Company may, from time to time and at the option of the Company, agree to purchase certain administrative, management and other services from AGSC;

NOW, THEREFORE, in consideration of the mutual covenants contained herein and other valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto, intending to be legally bound, hereby agree as follows:

- I. **SERVICES OFFERED.** Exhibit I hereto lists and describes all of the services that are available from AGSC. AGSC hereby offers to supply those services to Company and to other associate companies. Such services are and will be provided to the Company only at the request of the Company.
- II. **SERVICES SELECTED.**
  - A. **Initial Selection of Services.** Exhibit II lists the services each Company hereby agrees to receive from AGSC.
  - B. **Annual Selection of Services.** AGSC shall send an annual service proposal form to the Company on or about October 1 listing services proposed for the next fiscal year. By November 30, the Company shall notify AGSC of the services it has elected to receive during the next fiscal year.
- III. **PERSONNEL.** AGSC will provide services by utilizing the services of such executives, accountants, financial advisers, technical advisers, attorneys, engineers and other persons as have the necessary qualifications.

If necessary, AGSC, after consultation with the Company, may also arrange for the services of unaffiliated experts, consultants, attorneys and others in connection with the performance of any of the services supplied under this Agreement. AGSC also may serve as administrative agent, arranging and monitoring services provided by third parties to Company, whether such services are billed directly to Company or through AGSC.

IV. COMPENSATION AND ALLOCATION. As and to the extent required by law, AGSC will provide such services at cost. The attached Exhibit I contains AGSC's Policies and Procedures Manual which describes the rules for determining and allocating costs for AGSC. AGSC shall include in the Policies and Procedures Manual detailed instructions mandating that indirect costs of human resources costs, including pension expense, health insurance, and payroll taxes, be charged to the Company by use of an overhead rate. Such language shall not be effective until July 1, 2012. The Company shall file on the ICC's e-Docket system in Docket No. 11-0046 with a copy to the Chief Clerk of the Commission, and provide a copy to the Manager of the Accounting Department, documentation of any substitution or changes in the methods of allocation in the Policies and Procedures Manual.

V. BILLING. Bills will be rendered on or about the 15th of each month covering amounts due for the month calculated using the actual expenses incurred to the extent possible during the previous month. Any amount remaining unpaid after thirty days following receipt of the bill shall bear interest thereon from the date of the bill at an annual rate of 2% above the interest rate on 30 day commercial paper as listed on the last working day of that month in the Wall Street Journal.

VI. TERMINATION AND MODIFICATION.

A. Modification of Services. The Company may modify its selection of services at any time during the fiscal year by giving AGSC written notice sixty (60) days in advance for the additional services it wishes to receive, and/or the services it no longer wishes to receive, from AGSC.

B. Modification of Other Terms and Conditions. No other amendment, change or modification of this Agreement shall be valid, unless made in writing and signed by all parties hereto.

C. Termination of this Agreement. The Company may terminate this Agreement with AGSC by providing sixty (60) days advance written notice of such termination to AGSC. AGSC may terminate this Agreement as to the Company by providing sixty (60) days advance written notice of such termination to the Company.

This Agreement shall be subject to the approval of any state commission or other state regulatory body whose approval is, by the laws of said state, a legal prerequisite to the execution and delivery or the performance of this Agreement.

VII. NOTICE. Where written notice is required by this Agreement, said notice shall be deemed given when mailed by United States registered or certified mail, postage prepaid, return receipt requested, addressed as follows:

a. To Nicor Gas Company:  
1844 Ferry Road  
Naperville, IL 60563  
Attention: Ralph Cleveland, President  
Facsimile: (630) 983-9449

b. To AGL Services Company:  
Ten Peachtree Place  
Atlanta, GA 30309  
Attention: Paul R. Shlanta, Executive Vice President and General Counsel  
Facsimile: (404) 584-3237

VIII. ACCESS TO RECORDS. During the term of this Agreement and for a period of seven years after the expiration or termination of this Agreement by either AGSC or the Company (individually a "Party"), such Party shall have reasonable access to and the right to examine any and all books, documents, papers and records which pertain to services provided under this Agreement to such Party, and such Party shall provide access to, and the opportunity to examine, all such records which pertain to services provided under this Agreement by such Party. Each Party shall maintain all such records for a period of seven years after expiration or termination of this Agreement as to such Party. In addition, during the term of this Agreement and for a period of seven years after the expiration or termination of this Agreement, the ICC shall have access to the books and records of AGSC as they relate to transactions between AGSC and the Company to the extent allowed under Section 7-101 of the Illinois Public Utilities Act and subject to Section 5-108 of the Illinois Public Utilities Act.

IX. INTERNAL AUDIT, ANNUAL REPORT AND TRIENNIAL COST STUDY.

A. The Company shall file an internal audit report annually with the ICC's Accounting Department Manager no later than July 1 of the following year. The first such report shall cover the year ending December 31, 2012. The internal audit report shall reflect the results of an internal audit that tests compliance with the processes outlined in the Services Agreement.

The internal audit shall also include a review of the allocation factors and the calculation of each to verify that they are updated and calculated in accordance with the Agreement.

B. The Company shall file no later than May 1 annually a billing report on the ICC's e-docket system in Docket No. 11-0046 with a copy to the ICC's Accounting Department Manager and to the Office of the Chief Clerk of the ICC. The billing report shall summarize the monthly charges to the Company from AGSC under the Agreement and shall be in the same format as the bill provided in response to Discovery Request DLH 1.06 in the above-referenced Docket. Any confidential data in the billing reports shall be provided to the ICC's Accounting Department Manager at the time of filing on e-Docket.

C. The Company shall perform a study of the cost of services provided under this Agreement every three years. The first study shall cover calendar years ending December 31, 2014.

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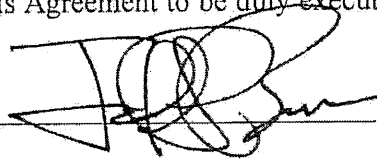
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D. AGSC shall provide annual updates of the rates/ratios referenced in the Policies and Procedures Manual no later than May 1 of the year following the end of the most recently completed fiscal year. The first such update shall pertain to the period ending December 31, 2012, and shall be due on or before May 1, 2013.

- X. GOVERNING LAW. This Agreement shall be governed by and construed in accordance with the laws of the State of Georgia, without regard to their respective conflict of law provisions.
- XI. ENTIRE AGREEMENT. This Agreement, together with its exhibits, constitutes the entire understanding and agreement of the parties with respect to its subject matter, and effective upon the execution of this Agreement by the respective parties hereof and thereto, any and all prior agreements, understandings or representations with respect to this subject matter are hereby terminated and cancelled in their entirety and of no further force or effect.
- XII. WAIVER. No waiver by any party hereto of a breach of any provision of this Agreement shall constitute a waiver of any preceding or succeeding breach of the same or any other provision hereof.
- XIII. ASSIGNMENT. This Agreement shall inure to the benefit of and shall be binding upon the parties and their respective successors and assigns. No assignment of this Agreement or any party's rights, interests or obligations hereunder may be made without the other party's consent, which shall not be unreasonably withheld, delayed or conditioned.
- XIV. SEVERABILITY. If any provision or provisions of this Agreement shall be held to be invalid, illegal, or unenforceable, the validity, legality, and enforceability of the remaining provisions shall in no way be affected or impaired thereby.
- XV. EFFECTIVE DATE. This Agreement is effective as of December 9, 2011.

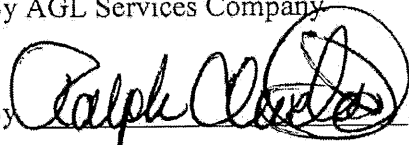
IN WITNESS WHEREOF, the parties have caused this Agreement to be duly executed as of the date first above mentioned.

By



By AGL Services Company

By



By Northern Illinois Gas Company

## EXHIBIT I. POLICIES AND PROCEDURES MANUAL

Cost Accumulation and Assignment. Allocation Methods, and Description of Services Offered by AGL Services Company

This document sets forth the methodologies used to accumulate the costs of services performed by AGL Services Company ("AGSC") and to charge, assign or allocate such costs to other subsidiaries and business units within the AGL Resources Inc. ("AGLR") system. The subsidiaries and business units of AGLR are referred to as the "AGLR System Companies".

Cost of Services Performed

AGSC maintains an accounting system that enables costs to be identified by "Account Codes" which include Cost Center, Account Number, Capital Project or O&M Project. The primary inputs to the accounting system are payroll records for AGSC's employees, accounts payable transactions and journal entries.

To the extent practicable, costs of services are directly charged to the appropriate AGLR System Companies and the applicable Account Codes. AGSC uses a Project Costing work order system to directly charge costs related to specifically created O&M projects to one or more AGLR System Companies as defined by the project owner. Additionally, AGSC uses standard rates and drivers to direct charge costs to AGLR System Companies.

AGLR also uses the Project Costing work order system to directly assign payroll costs based on a unique business unit identifier for all AGLR System Companies. Other operational costs can also be direct assigned to AGLR System Companies by utilizing the unique business unit identifier.

The full cost of providing services also includes certain indirect costs such as departmental overheads, administrative and general costs, and taxes. These indirect costs are associated with the services performed by AGSC that are not directly charged or assigned to one or more AGLR System Companies. These indirect costs are distributed or allocated to one or more AGLR System Companies. Causal relationships between the services provided and the allocation factors are identified and utilized as the basis for selecting the appropriate allocation driver for distributed and allocated costs.

AGSC also assigns the cost of capital projects that are attributable to affiliates. Cost of these projects includes costs directly incurred by AGSC and the overheads incurred by AGSC in the completion of capital projects that are assignable to multiple AGLR System companies. Amount assigned to individual AGLR System Companies are based on the specific characteristics of each project. Generally these projects are managed by information systems. From time to time other functional areas may manage certain capital projects that benefit multiple AGLR System Companies.

Cost Assignment and Allocation

AGSC's costs will be directly charged, assigned, distributed or allocated to AGLR System Companies in the manner described below:

1. Direct Charge: Costs accumulated in specific O&M projects will be directly charged to one or more AGLR System Companies as defined by the project owner. Costs will also be directly charged to AGLR System Companies using methods determined on a case-by-case basis consistent with the nature of the work performed and/or based on the utilization of one of the standard rates and drivers described below
  - A. Number of Stores Issues Ratio - A ratio based on the actual withdrawals from materials and supplies inventory. This ratio will be updated at regular intervals, at least annually, based on actual withdrawals from materials and supplies inventory using the most recent data reasonably available.
  - B. Rate Per Square Foot - This rate may be used by Business Support-Facilities Management and is based on the estimated or actual costs to maintain and support the common facilities used by AGLR System Companies. This rate will be updated at regular intervals, at least annually, using the most recent data reasonably available. This rate will be applied to the actual square footage used by the applicable AGLR System Companies.
  - C. Rate Per Vehicle - This rate may be used by Business Support-Fleet Services and is based on the estimated or actual costs to maintain and support fleet vehicles used by AGLR System Companies. This rate will be updated at regular intervals, at least annually, using the most recent data reasonably available. This rate will be applied to the actual number of vehicles used by the applicable AGLR System Company. The actual number of vehicles will be updated at regular intervals, at least annually, using the most recent data reasonably available.
  - D. Rate Per Computer - This rate may be used by Information Systems and is based on the estimated costs of personal computers and peripheral equipment. This rate will be updated at regular intervals, at least annually, using the most recent data reasonably available. This rate will be applied to the actual number of personal computers and peripheral equipment for the applicable AGLR System Company. The actual number of personal computers and peripheral equipment will be determined at regular intervals, at least annually, using the most recent data reasonably available.
  - E. Rate Per Employee - -This rate may be used by Information Systems and is based on a cost per hour to maintain electronic data processing and telecommunications systems in the AGLR System Companies. This rate will be updated at regular intervals, at least annually, using the most recent data reasonably available
  - F. Direct Charge Payroll Ratio – This ratio may be used to direct charge costs related to administration of benefits, at-risk compensation plans, etc. In addition, this ratio may be used to direct charge benefit costs such as health, pension, retirement, etc. when such benefits are not recorded directly on books of AGLR System Companies. This ratio will be based on the relative percentage of a participating AGLR System Company department's payroll costs to total AGLR System payroll costs. This ratio will be determined at regular intervals, at least annually, using the most recent data reasonably available.

- G. Number of Employees Ratio - A ratio based on the number of employees benefiting from the performance of a service. This ratio will be updated at regular intervals, at least annually, using the most recent data reasonably available.
- H. Number of Vehicles Ratio – This ratio may be used for Business Support and is based on the actual percentage of vehicles operated by a participating AGLR System Company to the total number of vehicles operating by AGLR System Companies (Excluding AGSC's vehicles). This ratio will be updated at regular intervals, at least annually, using the most recent data reasonably available.
2. Direct Assigned: Costs accumulated in Account Codes for services specifically performed for one or more AGLR System Companies will be assigned utilizing the unique business unit identifier for all operational costs including payroll expenses. Benefit related expenses will be direct assigned among and charged to such AGLR System Companies using methods determined on a case- by-case basis consistent with the nature of the work performed and/or based on one of the distribution or allocation methods described below
- A. Direct Assign Payroll Ratio - This ratio is based on the total payroll costs a department incurs on behalf of an AGLR System Company as tracked in a unique business unit identifier and/or O&M project. This ratio will be determined monthly based on time recorded on time sheets by AGSC employees and the AGSC employees' effective salary rates.
- B. Direct Assign Human Resources Overhead Rate – This rate includes the indirect costs of human resources costs including, but not limited to, pension expense, postretirement health expense, retirement savings, health insurance and payroll taxes. This rate will be applied to the Direct Assigned Payroll Ratio amounts as an overhead factor.
3. Distributed and Allocated: Costs accumulated in Account Codes for services of a general nature which are applicable to all AGLR System Companies or to a class or classes of AGLR System Companies will be allocated among or charged to such AGLR System Companies by application of one or more of the allocation methods described below.

#### Distribution and Allocation Methods

The following methods will be applied, as indicated in the Description of Services section that follows, to distribute or allocate any remaining costs that are not directly charged or directly assigned using the allocation methodologies described above:

- A. Number of End-Use Customers Ratio - A ratio based on the number of end-use customers for AGLR natural gas affiliates. This ratio will be updated at regular intervals, at least annually, using the most recent data reasonably available.
- B. Total Assets Ratio - A ratio based on the total assets less intercompany receivables and intercompany notes. This ratio will be updated at regular intervals, at least annually, using the most recent data reasonably available.

- C. Number of Employees Ratio - A ratio based on the number of employees benefiting from the performance of a service. Additionally, for the parent or holding company of AGLR, the number of employees is those officers common to the parent and AGSC. This ratio will be updated at regular intervals, at least annually, using the most recent data reasonably available.
- D. Call/Phone Volume Ratio – A ratio based on the monthly call volume incurred on behalf of the AGLR System Companies and may be adjusted for any known and reasonably quantifiable events, or at such time as may be required due to significant changes.
- E. Operating Expense Ratio- A ratio based on total operating expense. This ratio will be updated at regular intervals, at least annually, using the most recent data reasonably available.
- F. Operating Margin Ratio - A ratio based on operating margin defined as revenue less cost of goods. Additionally, for the parent or holding company of AGLR, operating margin consists of dividends for the AGLR System Company subsidiaries. This ratio will be updated at regular intervals, at least annually, using the most recent data reasonably available.
- G. Composite Ratio - This ratio is an average of the above four ratios of: Number of Employees, Total Assets, Operating Expenses and Operating Margin. This ratio will be updated at regular intervals, at least annually, using the most recent data reasonably available.

#### Description of Services

A description of each of the services performed by AGSC, which may be modified from time to time, is presented below. As discussed above, where identifiable, costs will be directly charged or assigned to AGLR System Companies. For costs accumulated in Account Codes which are for services of a general nature that cannot be directly charged or assigned, the method or methods of allocation are also set forth. Substitution or changes may be made in the methods of allocation hereinafter specified, as may be appropriate and will be provided to state regulatory agencies and to each affected AGLR System Company.

#### 1. Rates and Regulatory.

AGSC assists the AGLR System Companies in the analysis of their rate structures and in the formulation of rate policies and advises and assists AGLR System Companies in proceedings before regulatory bodies involving the rates and operations of AGLR System Companies and of other competitors where such rates and operations directly or indirectly affect the AGLR System Companies. AGSC also assists AGLR System Companies by analyzing Pipeline



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Safety, Environmental and Safety Regulations; writing the appropriate procedures to assist the system companies to stay in compliance with those regulations; providing internal reviews to assure operational, environmental and safety compliance; assisting in work with state and federal pipeline safety regulators and managing leak survey, pipeline integrity, locate and right of way contractors. Any remaining costs not directly charged or assigned will be distributed using the Number of End-Use Customers Ratio.

2. Internal Auditing.

AGSC performs periodic reviews of operational, compliance, financial and information system processes for AGLR System Companies. Any remaining costs not directly charged or assigned will be allocated using the Composite Ratio.

3. Strategic Planning.

AGSC advises and assists AGLR System Companies with the preparation of strategic business plans and corporate strategies. Any remaining costs not direct charged or assigned will be allocated using the Composite Ratio.

4. External Relations.

AGSC maintains relationships with government policy makers, conducts lobbying activities and provides community relations support. Any remaining costs not directly charged or assigned will be allocated using the Composite Ratio.

5. Gas Supply, Capacity Planning and Capacity Management.

AGSC provides gas control, scheduling, capacity planning and monitoring services. AGSC manages a centralized gas control center which provides natural gas delivery for natural gas distribution affiliates. AGSC also provides scheduling functions between the natural gas distribution affiliates and the pipelines for their daily supply. AGSC provides capacity planning services for each natural gas distribution affiliate including identifying present and future gas requirements to meet the needs of each natural gas distribution affiliate. AGSC provides monitoring of natural gas storage facilities and telecommunications networks.

AGSC also coordinates the management of gas supply for natural gas distribution affiliates who offer retail services and coordinates gas transmission and storage services for all natural gas distribution affiliates to ensure the most efficient use of services and to capture economies of scale as a larger purchaser in the market. Individually, natural gas distribution affiliates may, however, remain as the contract party under any agreement. Any remaining costs not directly charged or assigned will be distributed using the Number of End-Use Customers Ratio.

6. Legal Services and Risk Management.

AGSC provides various legal services and general legal oversight. In addition, AGSC provides insurance, claims, security, records management, environmental and safety related

services and performs corporate secretarial functions. Any remaining costs not directly charged or assigned will be allocated using the Composite Ratio.

7. Marketing.

AGSC assists AGLR System Companies by providing analysis, implementation and maintenance of line extension policies, by providing analysis of tariff rates in response to customer needs and by developing marketing strategies and programs. Any remaining costs not directly charged or assigned will be distributed using the Number of End-Use Customers Ratio.

8. Financial Services.

AGSC provides various services to AGLR System Companies including corporate tax, treasury, corporate accounting and reporting, general ledger maintenance and all accounting recordkeeping, processing certain accounts such as accounts payable, cash, management, and others as may be deemed necessary, including hedging policy and oversight, financial planning and regulatory support (for all natural gas distribution affiliates and other AGLR System Companies that interact with regulators or regulated companies). In addition, AGSC maintains relationships with the financial community and provides shareholder services for the benefit of AGLR System Companies. Each AGLR System Company may also maintain its own corporate and accounting group and engage AGSC to provide advice and assistance on accounting matters, including the development of accounting practices, procedures and controls, the preparation and analysis of financial reports and the filing of financial reports with regulatory bodies, on a system-wide basis. Any remaining costs not directly charged or assigned will be allocated using the Composite Ratio.

9. Information Systems.

AGSC provides the AGLR System Companies with production support of web, mainframe and distributed computing applications, servers and networks. AGSC also provides deskside asset management, disaster recovery, data network, application security and voice communications services. Any remaining costs not directly charged or assigned will be allocated using the Composite Ratio to affiliates receiving these services. In addition AGSC provides for the management and development of certain capital projects that benefit multiple AGLR System Companies. Upon completion of certain of these projects, they then could be transferred to the AGLR system companies to which they benefit.

10. Executive.

AGSC utilizes the executive staff of AGLR in order to assist the AGLR System Companies in formulating and executing general plans and policies, including operations, issuances of securities, appointment of executive personnel, budgets and financing plans, expansion of services, acquisitions and dispositions of property, public relationships and other related matters. Any remaining costs not directly charged or assigned will be allocated using the Composite Ratio.

11. Customer Services.

AGSC assists AGLR System Companies by providing billing, mailing, remittance processing, call center and customer communication services for customers; by providing credit and collections support and analysis; by providing support for response to customer complaints and by providing customer service surveys to improve service and efficiency. Any remaining costs, except for AGSC call center related costs, not directly charged or assigned will be distributed using the Number of End-Use Customers Ratio to affiliates receiving these services. Any remaining costs related to the AGSC call center will be distributed using the Call/Phone Volume Ratio defined for customer services representatives and management support staff.

#### 12. Employee Services.

AGSC assists AGLR System Companies in developing employee relations policies and programs, and training personnel in a coordinated manner throughout the AGLR System Companies. Each AGLR System Company may maintain a human resources group to handle the individualized application of policies and programs. AGSC also provides payroll services, management of the employee benefit plans and employee communications. Any remaining costs not directly charged or assigned will be distributed using the Number of Employees Ratio.

#### 13. Engineering.

AGSC provides engineering services for the AGLR System Companies. These services include design of infrastructure expansion and improvements, system analysis and modeling, GIS mapping and updates and maintenance and general engineering expertise. AGSC may also provide certain services for non-regulated subsidiaries. Any remaining costs not directly charged or assigned will be distributed using the Number of End-Use Customers Ratio.

#### 14. Business Support.

##### i. Purchasing.

AGSC provides procurement services to AGLR System Companies. Any remaining costs not directly charged or assigned will be allocated using the Composite Ratio to affiliates receiving these services.

##### ii. Facilities Management.

AGSC provides facilities management services for offices owned or leased by AGLR System Companies. Any remaining costs not directly charged or assigned will be allocated using the Composite Ratio to affiliates receiving these services through a two step process. First, facilities costs are assigned divided based on square footage between (1) service providers that provide service to utility affiliates which are designated as distribution operations service providers and (2) service providers that provide service to all affiliates which are designated as corporate service providers. The second step is to assign the distribution operations service provider costs to utilities based on the relative composite ratio for utility affiliates and to assign the

corporate service provider costs to all affiliates based on the corporate-wide composite ratio.

iii. Fleet.

AGSC provides fleet management services for vehicles owned or leased by AGLR System Companies. Any remaining costs not directly charged or assigned will be allocated using the Composite Ratio to affiliates receiving these services.

15. Corporate Communications

AGSC provides communication services to AGLR System Companies. The services include community affairs, customer communication, employee communications, public affairs and creative services. Any remaining costs not directly charged or assigned will be allocated using the Composite Ratio to affiliates receiving these services.

16. Corporate Compliance and Corporate Secretary

AGSC provides corporate compliance and corporate secretary services to AGLR System Companies. Any remaining costs not directly charged or assigned will be allocated using the Composite Ratio to affiliates receiving these services.

17. Other.

AGSC provides other services, project management, as identified in this document or requested by the AGLR System Companies. Any remaining costs not directly charged or assigned will be allocated using the Composite Ratio.

EXHIBIT II

**AGREED UPON SERVICES TO BE RECEIVED FROM AGL SERVICES COMPANY**

<b>SERVICES</b>		<b>YES</b>	<b>NO</b>
1.	Rates and Regulatory	x	
2.	Internal Auditing	x	
3.	Strategic Planning	x	
4.	External Relations	x	
5.	Gas Supply and Capacity Management	x	
6.	Legal Services and Risk Management	x	
7.	Marketing	x	
8.	Financial Services	x	
9.	Information Systems and Technology	x	
10.	Executive	x	
11.	Customer Services	x	
12.	Employee Services	x	
13.	Engineering	x	
14.	Business Support	x	
	i. Purchasing	x	
	ii. Facilities Management	x	
	iii. Fleet	x	
15.	Corporate Communications	x	
16.	Corporate Compliance and Corporate Secretary	x	
17.	Other	x	

**REQUEST:** Regarding the earnings deferral described in Company Witness Tucker's testimony, provide an example of how such deferred balance would be calculated assuming a \$2 million earnings deficiency incurred ratably during the test period, with new rates effective the following August 1<sup>st</sup>.

**RESPONSE:**

Assuming that the \$2 million earnings deficiency is the difference in the return on equity and the authorized return on equity, carrying charges would be computed by multiplying the \$2 million by the over-all return for ½ year. The carrying charges would be added to the \$2 million. The result would be grossed-up for taxes and recorded as regulatory-asset. Beginning August 1, the balance would be amortized over 12 months. Please also refer to the Company's response to Staff's Request No. 1-2.

1	Earning Deficiency	\$2,000,000
2	Authorized ROR	7.12%
3	Annual Carrying Charges (L1 X L2)	\$142,200
4	Carrying Charges for ½ Year (L3 X 1,2)	\$71,200
5	Total Regulatory Asset (L1+L4)	\$2,071,200
6	Monthly Amortization beginning August 1 L5/12	\$172,600

**Response by: Gary Tucker.**

**REQUEST:** Regarding the proposal to use the customer usage and average weather normalized usage per customer adopted in TPUC Docket No. 18-00017, provide a comprehensive explanation of why such an adjustment is needed within the rate reset calculation given that CGC's revenue for the R-1, R-4, C-1, and C-2 classes earned within the test period is already weather normalized.

**RESPONSE:**

Weather normalized volumes are to be used only in developing rates to produce the required revenue assuming normal weather consistent with the procedure adopted by the Commission in Docket 18-00017 and previous CGC, Atmos, and Nashville Gas rate proceedings. Each of these utilities have Weather Normalization Adjustments but it was recognized that rates are designed assuming normal weather in order to remove the influence on either abnormally warm or abnormally cold years when computing the required rates.

**Response by: Archie Hickerson.**

**REQUEST:** Confirm that the impact of Item B (1) within GAT-1, relating to the use of customer usage and average weather normalized usage per customer, adopted in TPUC Docket No. 18-00017 within the rate reset will be limited to developing rates associated with the revenue deficiency or excess within these customer classes and would not be used within the calculation used to determine the earnings deficiency or excess.

**RESPONSE:**

It is confirmed that the average weather normalized usage per customer will be used only in developing rates associated with the revenue deficiency or excess and will not be used in the determination of the earnings deficiency or excess for the historic calendar year.

**Response by: Archie Hickerson.**



**REQUEST:** Confirm that actual revenues earned in the historic base year for Rate Schedules R-1, R-4, C-1, and C-2 will be used to determine the earnings deficiency or excess. If this is not the case, provide an explanation of how base-year earnings will be adjusted for weather impacts.

**RESPONSE:**

It is confirmed that the actual revenues earned in the historic base year for all Rate Schedules including R-1, R-4, C-1 and C2 will be used to determine the earning deficiency or excess in the historic base year to be recovered or refunded to customers. There will be no adjustment to base-year earnings for weather impacts. However, revenues will be normalized when determining the required base rate increase or decrease to be implemented when new base rates are effective.

**Response by: Archie Hickerson.**

**REQUEST:** Define the term “Rate Reset” as used on page 3 of Tucker’s testimony and within GAT-1.

**RESPONSE:**

Please refer to the Company’s response to Staff 1-3.

**Response by: Gary Tucker.**

**REQUEST:** Assume a \$2 million rate reset rate increase beginning in August 2020. Does CGC believe it would be appropriate to annualize this rate increase for the 2020 test period in determining whether the revenue deficiency is contained in the Company's March 2021 filing? If CGC does not believe this annualization would be appropriate, provide a comprehensive explanation supporting this conclusion.

**RESPONSE:**

Annualization is not appropriate in determining the amount of revenue deficiency or surplus for the historic test year to be recovered or refunded to customers. If a \$2 million rate increase occurs beginning on August 2020, the actual revenue generated by the rate increase during the months of August-December would be included in the actual revenues for the 2020 calendar year in the determination of any earning excess or deficiency for the 2020 calendar year. The rate increase would not be annualized for calendar year 2020 because the rate change on August 1 would not impact the Company's earning for January 1-July 31 of 2020. If the increase were annualized for 2020 the result would be an over-statement of the Company's actual earnings for the calendar year.

Similarly, if a \$2 million rate reduction that was implemented on August 1, 2020 was annualized for 2020, it would incorrectly reduce Company's earnings for the year and increase any earning deficiency for calendar year 2020, indicating the need for a greater rate increase for the following year.

Annualization is appropriate when determining the base rate reset and the amount to adjust base rates prospectively.

**Response by: Archie Hickerson**

**REQUEST:** Regarding Item B (3) within GAT-1, the description indicates amounts recorded in the historic base period shall be used within the rate reset and earnings deficiency/excess calculations. Provide a comprehensive explanation identifying how the Allowance for Funds Used During Construction (AFUDC) rate is determined and applied.

**RESPONSE:**

The AFUDC rate will be the current Tennessee Public Utility Commission approved rate of return for Chattanooga Gas. AFUDC is calculated and applied to eligible charges for capital projects. AFUDC is not computed if a project becomes idle for 90 days or more, and AFUDC ceases when a project is completed, and the asset is placed in service.

**Response by: Gary Tucker.**

**REQUEST:** Regarding Item C (2) within GAT-1, provide a comprehensive explanation of the treatment of capitalized pension costs. Provide an example identifying how the Company proposes to treat capitalized pension and other post-retirement benefits (OPEB) costs within the ARM calculation. To the extent the treatment differs between the calculation of earnings deficiency/excess calculation and the rate reset calculation, provide a separate response for capitalized pension and OPEB.

**RESPONSE:**

Please refer to the Company's response to Staff 1-1 and the supporting for workpapers for the methodology that the Company will use to adjust pension and OPEB expense and capitalized expense.

**Response by: Gary Tucker.**

**REQUEST:** Regarding Item C (3) within GAT-1, provide a comprehensive explanation for the Company's proposed methodology, including an example of how a hypothetical adjustment would be determined.

**RESPONSE:**

The Company will use the historic test year for capitalized benefits. If an adjustment to benefits expense is required, the benefits capitalized will be based on the ratio the historic year capitalized benefits to total benefits (benefits expensed plus benefits capitalized). For example, assume in the historic year benefits expense is \$1,000 and benefits capitalized is \$100 for a total benefits costs of \$1,100. The benefits percentage capitalized for the historic year is 9.09% ( $\$100/\$1,100$ ). If an adjustment to benefits expense of \$100 is made to the historic year, then a corresponding adjustment for capitalized benefits will be made in the amount of \$91 ( $9.09\% \times \$100$ ).

**Response by: Gary Tucker.**

**REQUEST:** Identify the month and year in which CGC began amortizing its rate case costs associated with TPUC Docket No. 18-00017.

**RESPONSE:** CGC began amortizing rate case expense in November 2018.

**Response by:** Gary Tucker.

**REQUEST:** Regarding Item C (9) within GAT-1, provide a comprehensive explanation for the Company's proposed methodology, including an example of how a hypothetical adjustment would be determined.

**RESPONSE:**

For Item C (9) within GAT-1, the Company will use the historic year amount. There are no adjustments for this item contemplated at this time.

**Response by: Gary Tucker.**



**REQUEST:** Does the Company believe that intervening parties to future annual CGC ARM filings are limited in proposing modifications or adjustments to AGLSC cost allocations to those items listed within Item C (10) of GAT-1? Provide a comprehensive explanation.

**RESPONSE:**

CGC objects to this request as it calls for speculation by CGC regarding what future parties may do in CGC's future annual rate filing proceedings or be allowed to do in future proceedings and how CGC might speculatively respond to such speculative actions. The request is also overly broad and unduly burdensome, potentially seeking CGC's legal position regarding future proceedings, and otherwise not reasonably calculated to lead to the discovery of admissible evidence. Subject to and without waiving the foregoing objections, CGC states as follows: Without limiting how CGC might respond to a future discovery request or other inquiry by the Consumer Advocate or some other party in a future annual rate review proceeding, at this time CGC would state that parties to a future annual rate review proceeding would not be permitted to change CGC's approved methodology, which would include the Company's cost allocation methodology, and if permitted, the party seeking to change the approved methodology would bear the burden of proof for the appropriateness and necessity of such change as well as developing its own evidence to support such change. But again, this is extremely hypothetical and speculative at this point.

**Response by: Objections provided by Counsel; substantive response provided by Gary Tucker.**

**REQUEST:** Describe in detail the Company's position on what, if any, latitude intervening parties have to propose adjustments to historic base period costs within the ARM filing? In other words, is there any regulatory criteria that should be met permitting recovery from ratepayers beyond simply whether such cost was recorded on the books of the Company?

**RESPONSE:**

CGC objects to this request as it calls for speculation by CGC regarding what the Consumer Advocate or other parties may do in CGC's future annual rate filing proceedings or be allowed to do in future proceedings and how CGC might speculatively respond to such speculative actions. The request is also overly broad and unduly burdensome, potentially seeking CGC's legal position regarding future proceedings, and otherwise not reasonably calculated to lead to the discovery of admissible evidence. Subject to and without waiving the foregoing objections, CGC states as follows: Without limiting how CGC might respond to a future adjustment proposed by a party in a future annual rate review proceeding, CGC notes that traditional ratemaking principles such as accuracy, completeness, and prudence should generally apply within the context of utilizing CGC's approved methodology, but whether it is appropriate to consider any specific adjustment will likely depend upon the context of what is being proposed. CGC notes that CGC's annual rate review filing is not a rate case, and such an annual rate review process does not give a party unlimited access or authority to conduct extensive discovery outside the scope of CGC's approved methodology or beyond testing the accuracy and completeness of the data provided by CGC in its filing. But again, this request is extremely hypothetical and speculative at this point.

**Response by: Objections provided by Counsel; substantive response provided by Archie Hickerson and Gary Tucker.**

**REQUEST:** Provide a comprehensive explanation of the Company's view of the extent to which the Consumer Advocate may evaluate the reasonableness of AGLSC cost allocations? Within this response, identify all areas which the Company believes would be beyond the scope of the Consumer Advocate's review.

**RESPONSE:**

CGC objects to this request as it calls for speculation by CGC regarding what the Consumer Advocate may do in CGC's future annual rate filing proceedings or be allowed to do in future proceedings and how CGC might speculatively respond to such speculative actions, especially in a "comprehensive explanation." The request is also overly broad and unduly burdensome, potentially seeking CGC's legal position regarding future proceedings, and otherwise not reasonably calculated to lead to the discovery of admissible evidence. Subject to and without waiving the foregoing objections, CGC states as follows: Without limiting how CGC might respond to a future discovery request or other inquiry by the Consumer Advocate in a future annual rate review proceeding, CGC notes as an initial matter that the underlying public policy purpose of any form of alternative regulatory method is to provide greater transparency regarding the utility's ongoing operations and for such review to be accomplished at less cost than a full revenue requirements rate case. Accordingly, CGC's annual rate review filing is not a rate case, and such an annual rate review process does not give the Consumer Advocate unlimited access or authority to conduct extensive discovery outside the scope of CGC's approved methodology or beyond testing the accuracy and completeness of the data provided by CGC in its filing. The statutory structure provides that CGC base its annual rate review on the methodology established in the last rate case. It therefore seems that if a party is permitted to challenge the approved methodology, then such a party challenging an approved methodology would bear the burden of proof for the appropriateness and necessity of such change as well as developing its own evidence to support such change. In other words, because this is not a rate case, a party should not be in a position to challenge a methodology and then make the utility develop the evidence to support such a change. But again, this is extremely hypothetical and speculative at this point.

**Response by: Objections provided by Counsel; substantive response provided by Gary Tucker.**

**REQUEST:** Provide a comprehensive explanation detailing how the Company intends to compute Cash Working Capital. The response should clearly indicate whether the weighted average lead/lag days identified within the study conducted in TPUC Docket No. 18-00017 will be used or whether new weighted average lead/lag days will be re-computed based upon historic test period Operating and Maintenance expenses.

**RESPONSE:**

Cash Working Capital will be computed using the methodology and the lead/lag days adopted by the Commission in Docket 18-00017. The weighted average lead/lag days will be re-computed based on the historic test period expenses including Operating and Maintenance expense, Taxes, and Interest consistent with Schedule 4 of the Commission Exhibit attached to the January 15, 2019 Order in Docket 18-00017. See Schedules 3 & 4 in the Excel spreadsheet provided in response to the TPUC Staff Discovery Request No. 1.

**Response by: Gary Tucker.**

**REQUEST:** Assume a new liability account is established on the books of either CGC or Atlanta Gas Light Service Company (AGLSC). Further assume this liability reflects cost-free capital to the Company's shareholders. Does the Company believe it is appropriate to reflect such account as an offset to Rate Base, despite the fact it was not specifically identified (and did not exist) within Exhibit GAT-1?

**RESPONSE:**

The proposed adjustment mechanism should have the flexibility to include new liabilities *and* new assets that are not currently established in rate base to the extent that it is appropriate to include them in rate base and such treatment is approved by the Tennessee Public Utilities Commission.

**Response by: Archie Hickerson and Gary Tucker.**

**REQUEST:** Regarding Item L (2) within GAT-1, provide a comprehensive discussion identifying the types of debt issuances (including an identification of the issuing entity) that the Company believes should be included within the Cost of Debt calculation. Further, identify the evidence the Company believes should be provided to demonstrate that the specific debt is funding CGC Rate Base.

**RESPONSE:**

In the January 15, 2019, Tennessee Public Utility Commission Amended Order in Docket 18-00017, the Commission found that the Southern Company Gas consolidated cost of Long-Term and Short-Term Debt, excluding Nicor Gas, was appropriate. The Company will compute the Cost of Debt consistent with the finding in Docket 18-00017.

**Response by: Gary Tucker.**

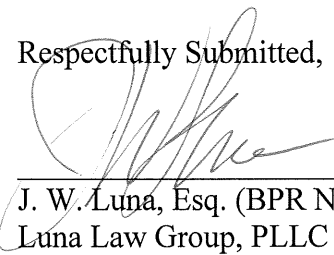
**REQUEST:** Provide an Excel workbook that reflects the attachment ARH-1 with working formulas (if such a workbook does not yet exist, please provide the workbook as soon as it is available).

**RESPONSE:**

See the response to TPUC Party Staff Discovery Request No. 1.

**Response by: Archie Hickerson and Gary Tucker.**

Respectfully Submitted,



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*Counsel for Chattanooga Gas Company*

**CERTIFICATE OF SERVICE**

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 15<sup>th</sup> day of May, 2019:

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