

**IN THE TENNESSEE PUBLIC UTILITY COMMISSION
AT NASHVILLE, TENNESSEE
June 10, 2019**

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

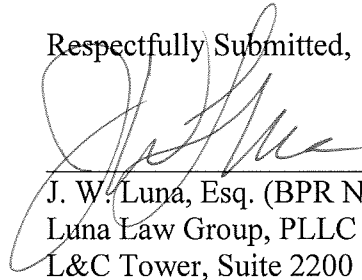
**CHATTANOOGA GAS COMPANY's
RESPONSES AND OBJECTIONS TO THE
SECOND DISCOVERY REQUEST OF THE CONSUMER ADVOCATE**

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 Second Discovery Request provided to CGC on May 28, 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.

GENERAL OBJECTIONS

CGC hereby adopts its objections to the Consumer Advocate's First Discovery Requests previously filed on May 15, 2019. Subject to, and without waiving any objection made therein, CGC responses to the specific requests as follows:

Respectfully Submitted,



J. W. Luna, Esq. (BPR No. 5780)
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L&C Tower, Suite 2200
401 Church Street
Nashville, TN 37219

and

Floyd R. Self, Esq.
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313 North Monroe Street, Suite 301
Tallahassee, FL 32301

Counsel for Chattanooga Gas Company

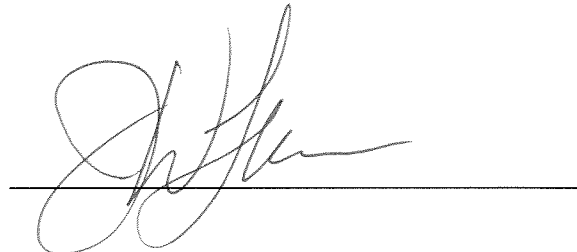
CERTIFICATE OF SERVICE

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 10th day June, 2019:

TPUC Party Staff
Ryan McGehee, Esq.
502 Deaderick Street, 4th Floor
Nashville, TN 37243

Counsel for the Consumer Advocate
Daniel P. Whitaker, III, Esq.
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Counsel for Chattanooga Regional Manufacturers Association
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1600 Division Street, Ste 700
Nashville, TN 37203



- 2-1. Refer to the Company's response to TPUC Staff Request No. 1. Schedule 19 contains various color highlights. Please describe in detail the distinctions behind the differing colors.

RESPONSE:

During the process of preparing the model, the amounts on Schedule 19 were highlighted as they were being incorporated into or linked to other schedules. The highlights should have been removed from Schedule 19 before the response was provided. There are no specific distinctions behind the differing colors.

Contact Person: Archie Hickerson.

- 2-2 Please confirm that the Company does not intend to capitalize accrued pension/OPEB costs and long-term incentive compensation.

RESPONSE:

Chattanooga Gas Company (CGC) intends to perform all rate making adjustments as expressly directed by the Commission in Docket No. 18-00017.

Contact Person: Gary Tucker.

- 2-3 Provide a reconciliation of the amounts and accounts (or portion of account balances) contained in Schedules 19, 19.1, and 20, provided in response to TPUC Staff Request No. 1, with the appropriate FERC accounts.

RESPONSE:

Please see attached Excel Spreadsheet CGC Response CAU 2-3, Attachment for the requested information.

Contact Person: Gary Tucker.

Docket No. 19-00047
Chattanooga Gas Company Responses
Consumer Advocate Request No. 2-3

The excel Spreadsheet for CGC Response CAU 2-3 has been provided electronically on flash drive.

- 2-4 Refer to the Company's response to TPUC Staff Request No. 1, schedules 19 and 20, where subtotals include hard-coded data. Provide source and support for all cells with hard-coded data. Indicate whether CGC is willing to incorporate formulas to calculate subtotals and totals within all Schedules on a going-forward basis within its ARM filings.

RESPONSE:

CGC objects to this request as being overly broad and unduly burdensome. Subject to and without waiving the foregoing objection, CGC states: Schedules 19 and 20 are CGC's and AGSC's income statements that are generated from Southern Company Gas' Accounting System in an Excel hard-coded format. The source of the data is Southern Company Gas' Accounting System and the data is supported by the underlying journal entries, invoices, and other accounting source documents. Productions of all such underlying accounting documents as requested for 24 months for both CGC and AGSC is unduly burdensome. It is not reasonably practical to produce the native source information that backs up the numbers on these Schedules.

CGC is willing to manually modify Schedules 19 and 20 to incorporate formulas to calculate subtotal and totals on Schedules 19 and 20 on a going-forward basis.

Contact Person: Archie Hickerson; objections provided by Counsel.

- 2.5 Regarding the response to Consumer Advocate Request No. 1-3, identify all aspects of this response that will not be incorporated into the Cost Allocation Manual applicable to CGC which is purportedly under development.

RESPONSE:

The Cost Allocation Manual applicable to CGC that the Company plans to provide to the Consumer Advocate and Commission Staff is currently being developed. The Cost Allocation Manual will be consistent with the AGL Services Company/Chattanooga Gas Company Services Agreement, and the Company does not intend to include the additional requirements in the Nicor Gas/AGSC agreement.

Contact Person: Archie Hickerson.

2.6 Consumer Advocate Request No. 1-3 sought a copy of a Cost Allocation Manual of AGSC related to transactions with NICOR. The Company's Response included a copy of a Services Agreement between AGSC and NICOR. The following link refers to a heavily redacted document titled "SCS Cost Accountability and Control Manual" <http://www.icc.illinois.gov/downloads/public/edocket/432304.pdf>. With respect to this document, respond to the following:

- a. Confirm that the linked document does not impact costs assigned/allocated from AGSC to NICOR; and
- b. Provide an unredacted copy of the SCS Cost Accountability and Control Manual.

RESPONSE:

- a. CGC objects to this request in that it seeks information and/or documents from other entities that are not within CGC's possession, custody, or control. NICOR is a public utility that provides service in the State of Illinois and is regulated by the Illinois Commerce Commission (ICC). NICOR has no operations in the State of Tennessee and is not a party to this proceeding. Notwithstanding the foregoing and without waiving its objections, CGC states: The linked document is the cost accountability manual ("CAM") between AGSC and SCS, and to the extent services are provided by SCS to AGSC on behalf of CGC, then CGC will be allocated such costs from AGSC. This CAM was in existence during CGC's most recent rate case, and any costs allocated from SCS to AGSC then to CGC under the CAM were included in the Docket No. 18-00017 rate case. Further, the CAM was provided to the Consumer Advocate through discovery in the rate case.
- b. CGC objects to this request in that it seeks information and/or documents from other entities that are not within CGC's possession, custody, or control. NICOR is a public utility that provides service in the State of Illinois and is regulated by the Illinois Commerce Commission (ICC). NICOR has no operations in the State of Tennessee and is not a party to this proceeding. Notwithstanding the foregoing and without waiving its objections, CGC states: An unredacted copy of the "SCS Cost Accountability and Control Manual" was previously provided to the Consumer Advocate in response to the Consumer Advocates Discover Request (CPAD 1-351) in Docket No. 18-00017. Attachment A to this response is an additional unredacted copy of the "SCS Cost Accountability and Control Manual."

Contact Person: Archie Hickerson; objections provided by Counsel.

SOUTHERN COMPANY SERVICES

**COST ACCOUNTABILITY AND
CONTROL MANUAL**

2016 EDITION

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INTRODUCTION

Purpose

Southern Company Services, Inc. (SCS) and its customer companies recognize the necessity for controlling costs through an effective budget, cost accumulation and billing process utilizing a work order system. To provide its services as economically and efficiently as possible, SCS controls costs from the point of work order authorization through billing. Individuals authorizing work orders -- both within the customer company and within SCS-- are responsible for monitoring and determining the reasonableness of all charges.

The purpose of the SCS *Cost Accountability and Control Manual* is to define the cost control systems and support the service agreements between SCS and its affiliate customers. The manual is available on the SCS Corporate Accounting website and may be distributed to those outside Southern Company upon request.

Address <http://accounting.southernco.com/scs/scs-acctg/>
Hyperlink Welcome to SCS CORPORATE ACCOUNTING

All comments, questions and recommended revisions should be addressed to Stuart Pierce, Manager of SCS Corporate Accounting.

SCS ACCOUNTING SYSTEMIntroduction

SCS utilizes a systematic method of cost accumulation that facilitates an accurate billing process. The purpose of this section is to present an overview of the transaction flow from source documents to final reporting products, which include financial reports and invoices to customer companies.

SCS Account Number

SCS utilizes a 57-character account number for cost accumulation and compliance with regulatory requirements. This account number identifies the performing responsibility center number (PRCN), resource type, activity, expenditure work order (EWO), project, location number, Federal Energy Regulatory Commission's (FERC) Uniform System of Accounts for Centralized Service Companies account number, allocation indicator (AI), and receiving organization (RORG). Use of this account number provides for the generation of financial statements in the prescribed FERC format, creation of internal cost control/budget reports, and billings to customer companies.

An example of this account number follows: (Account segments required for all expense transactions are indicated by an *. A FERC account for expenses is added through an automated process. All other account segments are optional.)

	PRCN*	FERC - SUB	EWO - SUB*	RORG	Project
Example:	90496	403 - 00000	3716 - 01	90313	ZCASPR
Definition:	The SCS department performing services.	The classification of transactions as assets, liabilities, revenue or expense as specified by the FERC.	Service performed and the company to be invoiced.	Records which business unit is authorizing the work and receiving either benefit from the work or revenues.	Cost groups that may include multiple work orders.
	Activity*	Resource Type*	Location	Allocation Indicator	
Example:	ACCOTHR	VDE	81405	GH	
Definition:	Common, ongoing tasks as defined by functional business units, subsidiaries, or Southern Company (for system-wide activities).	Identifies the type of cost incurred, revenue generated, resource used to perform the work (labor, material, etc.).	Physical location or broader geographical sector of the Southern electric system's facilities.	Identifies the source of an allocation, such as fixed percentage or overhead.	

All account segment values are available through the Account Validation Inquiry system (AVI).

The official Consistent Account Segment Project (CASPR) playbook provides detailed guidelines for account segment usage. In addition, the CASPR website provides definitions for each account segment, except work order.

It is imperative that employees record their time and expenses properly. Employees should familiarize themselves with the policy regarding recording below-the-line-expenses, including time. Time spent on below-the-line activities should be recorded as such without regard to the recipients of the charges. Refer to the below the line policy on the Corporate Compliance website.

Work Order System and Authorizations

Introduction

In the course of providing services to customer companies, costs are incurred by SCS employees. These costs are identified by work orders which are recorded on employees' time reports, employees' statements of business expense, vendor invoices, etc.

A work order is a four-digit number. The first or first two positions identify the customer company.

<u>Work Order</u>	<u>Customer Company</u>
1XXX	The Southern Company
2XXX	Alabama Power Company
3XXX	Georgia Power Company
4XXX	Gulf Power Company
5XXX	Mississippi Power Company
6XXX	Southern Electric Generating Company (SEGCO)
AXXX	Southern Company Gas
BXXX	Southern Renewable Energy, Inc
CXXX	Southern Nuclear - Corporate
FXXX	Southern Nuclear – Plant Farley
GXXX	Department of Energy
HXXX	Southern Nuclear – Plant Hatch
JXXX	Southern Management Development
KXXX	Southern LINC (Southern Communications Services)
LXXX	Southern Electric Railroad Company
MXXX	Southern Holdings Inc.
PXXX	Southern Power Company
SXXX	PowerSecure International
TXXX	Southern Telecom
VXXX	Southern Nuclear – Plant Vogtle
WBXX	SE Finance Capital Corp II
WFXX	Southern Company Electrotechnologies / SVC1 Inc.
WGXX	Southern Company Capital Funding
RXXX	Other, Non-affiliates - EPRI, etc.
8XXX	Multiple Companies
9XXX	Multiple Companies or overheads

The work order sub is a two-position alphanumeric field that further identifies specific goods or services. For example:

<u>Work Order</u>	<u>Sub</u>	<u>Description</u>
2112		Miller Steam Plant Fossil Retrofit Projects
2112	BF	Miller Units 3&4 Vibration Testing

Expenses are always billed using the work order and sub.

How to Open a Work Order

To obtain services from SCS, the Work Order Request Form (Exhibit A) must be completed. Customer company personnel requesting SCS services should contact the SCS department that will perform the services to receive assistance in completing the form and obtaining executive approval. The completed form is returned to SCS Accounting Services. Major points in establishing an SCS work order include the following:

- SCS and customer company executive management must approve all work orders, except Corporate Services. See section on Corporate Services below for the approval process. Approval can be in an electronic format.
- If the request is for services to be allocated to more than one Customer Company, the request should originate at SCS and have the approval of participating customer company executive management. The allocation method should be identified on the work order request form.
- SCS and customer company contacts must be listed.
- A description of the service to be performed should be documented.
- The customer company's primary FERC mapping must be provided.

Cost estimates, justifications, and similar material may be attached to the form. Limitations as to time and approval of work order subs may also be written into the body of the work order request.

Work order subs are requested by e-mail, via a Work Order Sub Request Form, by the SCS budget coordinator responsible for the associated work order.

When requests are approved, the work order or sub number will be assigned and forwarded to Enterprise Solutions Support (ESS). ESS will enter and activate the new work order in the Account Validation Maintenance (AVM) system. Work order information is available to all employees, via the Application Catalog, in Mobius Document Direct as well as through AVI which accesses AVM. The accounting system will accept charges to only valid work orders.

How to Cancel a Work Order

Work orders may be canceled by an e-mail request from SCS or customer company management. An e-mail is also required for cancellation of work order subs and should be authorized by a SCS budget coordinator. All cancellations are effective the month following the request unless otherwise specified.

Periodically, SCS reviews all work orders and subs and inactivates those with no activity in the prior years or expected during the current year.

How to Change an Allocation during the Year

If an allocation methodology that is already in place is deemed to not be appropriate for those costs or the factors used in that methodology change significantly, the allocation should be changed. For example, if a large function is centralized at SCS and a number of people from the customer companies are moved to SCS, the employee count factors should be changed to reflect the employee moves. If a change is identified, the SCS budget coordinator should contact SCS Corporate Accounting. SCS Corporate Accounting must approve all such changes before they will be implemented.

Cost Accumulation Systems

The SCS account number is coded on all transactions including employees' time reports, employees' statements of business expenses, purchase orders/contracts, computer jobs, vendor invoices, and other source documents. These source documents are entered into the appropriate source system where costs are accumulated by account number. During the month-end closeout, this information is passed to the SCS accounting system. After a series of allocation programs, this information is used to create customer companies invoices and financial reporting documents such as the balance sheet and income statement.

SCS uses five main source systems to accumulate costs from the source documents:

Maximo – Maximo is a materials and procurement system used for inventory management and the sourcing of materials and services.

Oracle Accounts Payable – Oracle AP accumulates vendor pay information, calculates amounts due, and issues vendor payments.

Southern Human Resources Information and Payroll Systems (SHIPS) -- SHIPS accumulates employee pay data, calculates pay amounts, allocates pay amounts to hours per work order, issues paychecks, and provides employee information.

PowerPlant – PowerPlant is the primary source for manual journal entries which are prepared to establish accruals, make adjustments, and other accounting entries. PowerPlant contains a property management system. PowerPlant is the source of all allocations.

Oracle General Ledger – Oracle GL is the primary General Ledger system. It receives interfaced information for various sub-ledgers including accounts receivable and treasury system. It is synchronized with PowerPlant at a summary level. Oracle GL functions as the final source for financial statements and information for consolidations with all the affiliate companies.

Another critical interface for monthly billing is Southern Business Information System (SOBIS) which contains the statistical information required for calculating charge-backs (resource pools). The service units are accumulated by work order based upon actual usage. SOBIS stores a standard rate for each product (resource pools). When the statistical data is entered into SOBIS, the rate is multiplied times the units to derive the cost of service. Resource pools include engineering services, PC's, printers, etc.

The Data Repository (DR) consolidates selected detailed data from the various source systems. The DR is used to generate various plant, budget, billing, and financial reports.

COST METHODS AND ALLOCATION PROCEDURES

Introduction

All costs incurred by SCS are ultimately charged to billable work orders. If the work order used to accumulate the expenses is "direct," i.e. pertaining to only one Customer Company, no additional assignment or allocation is necessary. Some costs are accumulated in resource pools and assigned to work orders based on usage. If the work order in which the costs are accumulated pertains to multiple companies or projects, then equitable allocations to billable work orders are made.

Overhead work orders are used to collect fringe benefits, indirect administrative costs, occupancy costs, and service company corporate administrative costs. The six types of work orders consist of the following:

1. Direct
2. Fixed Percent
3. Distinct Allocation (aka Direct Accumulative)
4. Resource Pool
5. Overhead/Cost Center
6. Corporate Services

Direct Work Orders

Direct work orders are used to bill costs associated with specific projects or services that benefit one customer company. The leading character in the work order defines the company to be invoiced.

Fixed Percent Work Orders

Fixed Percent work orders are used to accumulate costs for projects or services that benefit multiple companies. These costs are allocated to customer companies on a cost-causative basis using various cost allocation methods.

The allocation methods used by SCS must logically relate to the services being performed and must be approved by both SCS and the applicable customer company management. The Securities and Exchange Commission approved allocation methods prior to the February 2006 repeal of the 1935 Public Utility Holding Company Act (PUHCA). FERC adopted the approved SEC allocations upon repeal of PUHCA and the enactment of the Public Utilities Holding act of 2005. Currently, FERC does not require approval of allocation methodologies. SCS reports its allocation methodologies to FERC on Form 60 Schedule XXI annually.

Allocation methods are based on objective statistical data. These ratios are updated annually based upon statistics for the prior year with a one-year lag; i.e. 2016 ratios are based upon 2014 actuals. As aforementioned, when material events occur, such as the addition of a new plant, allocations are reviewed by management and statistical updates may occur.

Multiple versions of the bases are available to reflect the exclusion of specific companies if they do not participate in or benefit from particular projects or services. Exhibit B is a listing of the allocation bases, and Exhibit C shows the work orders associated with each of the bases.

SCS allocation bases for use in 2016 are as follows:

Load Basis

Annual operating area territorial load (defined as kilowatt-hours of total energy generated plus energy received minus energy delivered) plus other firm wholesale commitments of each Customer Operating Company other than Southern Electric Generating Company (SEGCO).

Sales for Resale Basis

Megawatts of wholesale generation as reported in annual Form 10-K as Sales for Resale.

Transmission Usage

Total megawatt-hour deliveries to territorial customers plus deliveries to Open Access Transmission Tariff (OATT) customers (including Network Services and Point-to-Point service) plus other transmission deliveries under contracts predating OATT.

Customer Basis

Number of year-end customers of each Customer Operating Company (other than SEGCO and Southern Power).

Commercial Customer Basis

Number of year-end commercial customers of each Customer Operating Company.

Employee Basis

Number of year-end employees of each Customer Company. Employee groups not benefiting from certain services are not included in every allocation.

Financial Basis

Average of the percentages of net fixed assets, operating expenses, and operating revenues of each Customer Company.

Coal Generation Basis

Generation (kilowatt-hours) from coal fuel sources of each Customer Operating Company. Generation from plants operated by the Southern system but jointly owned by external parties is included. Generation jointly owned by Southern Company affiliates is assigned on an ownership basis.

Gas Burned Basis

Volume of gas consumed (BTUs) by each Customer Operating Company.

Fossil and Hydro Capacity Basis

Fossil and hydro nameplate generating capacity (kilowatts) for each Customer Operating Company. Capacity operated by the Southern system but jointly owned by external parties is included. Capacity jointly owned by Southern Company affiliates is assigned on an ownership basis.

Fossil Capacity Basis

Fossil nameplate generating capacity (kilowatts) for each Customer Operating Company. Capacity operated by the Southern system but jointly owned by external parties is included. Capacity jointly owned by Southern Company affiliates is assigned on an ownership basis.

Coal Capacity Basis

Coal nameplate generating capacity (kilowatts) for each Customer Operating Company. Capacity operated by the Southern system but jointly owned by external parties is included. Capacity jointly owned by Southern Company affiliates is assigned on an ownership basis.

Gas and Oil Capacity Basis

Gas & Oil generating capacity (kilowatts) for each Customer Operating Company (combustion turbines, cogeneration and combined cycle only). Capacity operated by the Southern system but jointly owned by external parties is included. Capacity jointly owned by Southern Company affiliates is assigned on an ownership basis. This does not include Gas & Oil Steam Units.

Insurance Premium Basis

Insurance premiums of each Customer Company.

Salary Basis

Service Company labor billed to each Customer Company.

In addition, overhead charges are allocated to the applicable companies based on standard rates applied to actual labor charges in the current period.

Information Technology Division Salary Basis

Service Company Information Technology labor billed to each Customer Company.

Capitalization Basis

Book capitalization (defined as long-term debt, preferred stock, cumulative preferred stock and common shareholder equity) of each Customer Company.

System Aircraft Availability Basis

Prior year usage by executives authorized to call out flights at each Customer Company. Utilization of system aircraft is billed based on a comparable undiscounted commercial fare for the itinerary flown. The remaining costs are billed using this allocation as an availability fee.

Carbon Emissions Basis

Actual equivalent carbon dioxide emissions (Metric CO₂e) for each generating company.

Affiliate Basis

Shared equally among affiliates receiving the services

Network ID

Number of Network ID's for each affiliate

The following methods were formerly approved by the SEC prior to the repeal of PUHCA and are available, but are not used in the current year:

Net Fixed Assets Basis

Net fixed assets of each Customer Company.

Number of Officers and Directors

Number of defined officers and directors of each Customer Company.

Number of Nuclear Plants

Number of nuclear plants of each Customer Company.

Number of Vehicles Basis

Number of vehicles of each Customer Company.

Nuclear Plant Capacity Basis

Nuclear plants generating capacity for each Customer Company.

Nuclear Plant Generation Basis

Nuclear plants net generation of each Customer Company.

Preferred Stockholder Basis

Number of preferred stockholders of each Customer Company.

Direct Billing Basis

Service Company direct billings of each Customer Company.

Fossil Fuel Generation Basis

Generation (kilowatt-hours) from fossil fuel sources of each Customer Operating Company. Generation from plants operated by the Southern system but jointly owned by external parties is included. Generation jointly owned by Southern Company affiliates is assigned on an ownership basis.

Market-Based Equity Basis

Book equity adjusted to estimated fair market value of each Customer Company.

Personal Computer Basis

Number of personal computers of each Customer Company. Organizations not benefiting from certain types of computers are not included in every allocation.

New Fixed Percent Allocation Methods

If existing allocation methods are not adequate to fairly and equitably allocate a particular cost of service, then management may request that a new basis be established. A request should be sent to SCS Corporate Accounting and include the following:

- Description of proposed method
- Source of statistical basis
- Services/projects impacted
- Justification
- Allocation percents by customer company

SCS Accounting Services will review the request for reasonableness and compliance with applicable regulations. If the new basis is found to have merit, the request is forwarded to the SCS Comptroller and the comptrollers of the impacted customer companies for their approval.

Distinct Allocations (aka Direct Accumulatives)

If costs need to be charged to multiple work orders, a "distinct allocation" is requested. A distinct allocation work order can be distributed to any other type of work order except for another distinct allocation, an administrative and general (A&G) work order, and an occupancy work order. The

request form (Exhibit D) must include a description of the service; a narrative of the allocation methodology; allocation of charges by work order sub and percents; and authorization by an SCS VP and the SCS Accounting Director or Manager.

Use a distinct allocation (DA) allocator only if there is no similar fixed percentage allocator available or if there is no objective measure that can be used to establish a fixed percent (FXP) allocator. DA's must be reviewed annually to ensure the DA is properly recording time and expenses and is still valid for the periods it is expected to be used. Documentation supporting this review must be maintained. The requestor is solely responsible for maintaining documentation fully supporting the splits used in the DA. Documentation is subject to audit and therefore should be substantial enough to show the rationale behind the split, how the split was derived, any studies supporting the split, etc. Do not split a DA into two FXP's. Code the invoice or labor charges to the FXP's. DA's are preferably not established for less than \$100,000 annually.

New DA's should not be established as a substitute for tracking time and expenses unless approved by SCS Accounting. All labor and expenses should be coded to work orders at the time of incurrence. The project segment can be used to track individual time and expenses. SCS Corporate Accounting will assist the requestor in establishing the proper FXP allocation methodology and in creating an appropriate project value.

DA's do not require the family naming convention used by fixed percent work orders. DA's can be complex and cumbersome. Therefore, they should only be used when other allocation methodologies are not adequate.

Fixed Distributions for Labor

In some cases fixed distribution plans are used to record time between multiple account numbers. In all cases where fixed distribution plans are used to record time, it is the responsibility of the employee using the fixed distribution to maintain documentation supporting the methodology used to split time. Each fixed distribution should be reviewed periodically to ensure proper recording of time for that period. Documentation is subject to audit and therefore should be substantial enough to show the rationale behind the split, how the split was derived, and any analysis completed to support the split, etc

Resource Pools

Employees throughout SCS and the Southern electric system share certain types of equipment and services. The equipment and/or services are organized into specific resource pools for accounting and billing purposes with each resource pool having its own unique work order. Costs such as salaries, depreciation, rent and interest are charged to the resource pool, and monthly units of usage are accumulated by pool for each user work order. To charge these resource pool costs to users, a standard rate is derived annually by dividing total projected costs by total projected units. This rate is applied monthly to the actual units accumulated in the pool to calculate each user's work order costs. All standard rates are calculated annually and adjusted during the year if necessary.

Rate Calculation: (For Illustration Only)

<u>Resource Pool</u>	<u>Rate Formula</u>	<u>Calculation</u>
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SCS COST ACCOUNTABILITY AND CONTROL MANUAL

96L101- Leased Desktop PC	$\frac{\text{Annual Estimated Costs}}{\text{\# of Std. Desktop PCs x 12}} = \text{Standard Rate}$	$\frac{\$8,073,601}{212,184} = \38.05
------------------------------	---------------------------------------------------------------------------------------------------	-----------------------------------------

User Charges: (For Illustration Only)

<u>Work Order</u> 26GEAD	$\frac{\text{Monthly Units}}{6} \times \text{Rate} =$	<u>Billing</u> \$228.30
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Exhibit E is a listing of the current pools.

Overheads/Cost Center Work Orders

Overhead work orders are associated with those administrative costs that cannot be directly associated with specific customers or projects.

A cost center is an organizational unit (PRCN or a group of PRCN's) that has been established for billing and cost assignment of services. Cost centers are identified by the nature of services provided and are assigned a unique overhead work order number. Overhead costs attributable to the various centers are charged or allocated to the appropriate overhead work order. These overhead costs are then allocated monthly to work orders that have labor charges. This cost center concept provides accurate assignment of overhead costs and provides more billing responsibility for indirect costs.

The assignment of overhead costs is accomplished by using a unique cost center standard overhead rate. The standard rate is computed by dividing the total anticipated cost center overheads by the anticipated base labor amount. These individual rates are used monthly in computing the overheads applied to that cost center labor charges for monthly SCS billing. The standard rates are established annually, reviewed monthly, and can be revised, if necessary, in April, July, October, November, and December to ensure proper billing of these expenses annually. If there is a significant change in assumptions for any of the cost centers, the rate can be changed in other months.

The cost center rate is generally composed of the following major cost categories:

- 1) Cost Center Overhead Labor - The labor of cost center activities which are general and administrative in nature and cannot be charged directly to the customer companies. This includes, but is not limited to, general office administration; training; personnel administration (performance management, hiring, etc.); company informational meetings; and budget preparation.
- 2) Occupancy Costs - Interest, rent, and depreciation related to office furniture and equipment; property taxes; interest on long-term debt; property insurance; maintenance and utilities; security services; and office rents.
- 3) Organizational Costs - Labor and expenses incurred by an executive or manager when performing those tasks which benefit the entire organization comprised of multiple cost centers.

- 4) Miscellaneous General Expenses - Travel expenses for training and office supplies are two common examples.

Department managers have access to their standard and actual overhead rates via cost center reporting available on Mobius Document Direct. The overhead work order for each SCS cost center is listed in the PRCN Listing Report also in Document Direct.

Corporate Services

Corporate Services (CS) are the expenses incurred to support SCS as a corporation. CS expenses can be SCS' portion of fixed percent work orders or support groups such as Budgeting. CS expenses are allocated to both affiliated and non-affiliated customers based on current month labor billings. CS EWO's use a family naming convention similar to fixed percents. For example, CS EWO 97AS is allocated to 27AS, 37AS, etc. The non-affiliated portion is recorded in a work order that is allocated to each non-affiliate work order (RXXX and GXXX) based on current labor. New CS work orders should be routed to the SCS Corporate Accounting Manager for review. The SCS Corporate Accounting Manager will route to the SCS Assistant Comptroller & Accounting Services Director for approval.

See Exhibit H for the decision matrix to be used to select which allocation methodology should be used for new expenses or services. If, after going through the decision tree process, it is decided that a new work order is warranted, you should contact the SCS Accounting Manager to ensure agreement with that decision before forwarding through the approval process.

SCS BILLING

SCS creates monthly invoices to its customer companies for each billable work order sub that incurred costs during the month. Each SCS invoice includes: a description of the services rendered; hours charged; direct and allocated expenses; and overheads. Certain details are available to all customers on-line via Document Direct, and upon request, additional explanations and documentation are provided to justify charges. The major sections of the invoice are:

1. The month for which the services were rendered and invoiced.
2. The name of the customer company.
3. The work order number (or work order and sub) and description of services rendered.
4. Resource usage is identified by specific pools for direct and allocated charges.
5. Overheads are the amount of administrative charges billed on a standard rate. The types of charges allocated include cost center indirect labor, fringe benefits, payroll taxes, occupancy costs, corporate service costs and other miscellaneous general expenses.

The SCS invoices are available to all customers for viewing and printing through Document Direct. This information is available in both work order and work order sub formats.

BUDGETING AND OTHER CONTROLS

Introduction

To render the proper level of service to affiliate companies, SCS must adequately plan and budget its resources. The SCS planning / budgeting process is designed to be a systematic, iterative process that promotes SCS and affiliate company management involvement in the determination of resources required for planned levels of activity. The process results in an estimate of resources that can be used for planning and control purposes both internally within SCS and externally by the affiliate companies.

Budgeting Process

During the annual budgeting process, budgets are prepared for the following year ("the budget year") as well as four forecast years. Budget preparation for a given year generally begins in the first quarter of the preceding year. Starting at this time, an overall budget schedule and budget guidelines are developed and procedures are reviewed and finalized.

The intent is for each affiliate company to be actively involved in the SCS budget process. Interaction between the affiliate companies and SCS management provides SCS with preliminary levels of service requirements for planning and budgeting purposes. This is an iterative process that requires communication between the affiliate companies and SCS. The affiliate companies' review and discussion of SCS activities during the year is a key factor throughout the process in determining appropriate service levels and associated costs.

As a starting point in the budget process, basic budget information from the prior year's forecast will be brought forward and preloaded into the budget system. (Budget data dependent upon assumptions unique to the preceding year will not be brought forward.) The budget data includes estimates, by work order / sub, of labor hours, salaries, expenses, overheads and resource usage.

The preloaded data from the prior process, coupled with the discussions noted earlier, actual experience and changes in assumptions provide the building blocks of the current year's budget preparation and normally result in changes to the base data.

The resource estimates are the basis of three distinct but related preliminary budgets.

1. The RESPONSIBILITY BUDGET (PRCN) defines the resources for which each department within SCS is responsible, and provides a means to monitor costs and assess performance.
2. The BILLING BUDGET (Work Order) based on the same source data, provides estimates for the services anticipated for each affiliate company and becomes an integral part of their own annual budgets. The affiliate companies use the billing budget to monitor and control the services provided to them by SCS.
3. The CAPITAL BUDGET is an estimate of SCS' five year capital requirements.

As the budget process moves forward, budget reports are provided on a continuous basis to SCS areas via multiple avenues. This information is used by the areas to evaluate their overall budget

status. Areas develop, review, change and seek approval at successively higher levels in the organization.

Meanwhile, specific dates are established for releasing preliminary information to affiliate company budget department personnel (communications accompany the preliminary releases indicating to the companies the stage of development / review). It is expected that customer company budget areas will distribute appropriate budget information to the various areas within their company. The various distributions of preliminary budget data helps ensure that all affiliates have an opportunity to review and follow-up on proposed SCS budgets prior to final approval. During these reviews, activities included in SCS' budget may be reprioritized, changed in scope or altered in some other manner. Reviews / discussions can focus on a variety of factors including costs, levels of service, etc. The review and discussion is an iterative process that may result in the adjustment of company resources until the overall budget is agreed upon. When reviews of the budget have been completed, customer company budget personnel are furnished with the final SCS Billing Budget file with data specific to their company for inclusion in their budget.

The SCS budget is included in each customer companies' budget, with the various services classified as either capital or expense. The operating companies are responsible for classifying the estimated charges. Based on the work order, the cost of each service may also be assigned to a specific responsibility area within the customer company.

The following are the key steps in the SCS Budgeting process. This process usually begins in April or May and is concluded in September or October.

- Budget schedule developed.
- Budget guidelines, assumptions and instructions distributed.
- Training sessions conducted.
- Open budget system.
- Begin budgeting process.
- All budget input due into budget system.
- Budget system will remain open for changes (for selected individuals).
- Supply the customer companies with preliminary budget.
- Preliminary billing budgets and responsibility budgets reviewed by all levels of management.
- Budget system temporarily closes.
- Summary assessment of position and issues developed.
- Discussion with SCS and Company management.
- Budget changes are made as appropriate.
- Budget material is transmitted to affiliate companies for inclusion in their official budget.

Budget Preparation System

The SCS budget preparation system (Budworks) is designed to provide a constant reference source for budget-related inquiries. In order for budget information to be used as a tool for measuring, evaluating and controlling management performance, the treatment of expected costs must be comparable to the treatment given to actual charges. The budget system also utilizes a series of "spread" programs to perform the same type of allocations for fixed percentage, distinct allocation and overhead work orders.

The budget data collected and transmitted by each function / responsibility center is categorized by the following seven transactions.

- (1) Employee Count – The employee count provides a summary of regular full-time employees, co-ops and part-time employees for a given department.
- (2) Labor Hours – The labor hour budget contains the estimated labor hours for each activity (identified by work order and sub) anticipated by a function during a given year. Labor hours can either be SCS or contract employee time. Salary and contract labor expenses are both functions of the labor hours and the appropriate labor rates. Sometimes DA's and fixed distribution plans are used to record time. In all cases where these time recording techniques are used, the person that is responsible for the DA or fixed plan must maintain documentation supporting the methodology used to split time. Each DA and fixed plan should be reviewed annually to ensure proper recording of time for that period. The review should be documented and retained. Documentation is subject to audit and therefore should be substantial enough to show the rationale behind the split, how the split was derived, any studies supporting the split, etc. Budget coordinators that are involved in changing the DA's or fixed distribution plans should emphasize the need to create and maintain the documentation.
- (3) Labor Rates – The labor rate is the average actual hourly labor rate for a given SCS department. The contract labor rate is the anticipated rate for professional services such as engineering and contract programming. These rates are used to calculate salary and contract labor expenses.
- (4) Expenses – Expenses are directly controllable cost items, other than resource usage, necessary to conduct business. Examples are office supplies, meals and travel, legal and consulting services. Also included in expenses are salary costs. They are the product of the labor hours and labor rates described above and take into consideration fluctuations caused by differences in productive hours from month to month. These costs are identified by the Resource Type.
- (5) Resource Pools – Resource pools are unique work orders established to 'accumulate specific costs for services and billed to users at a standard rate. Examples of resource pools include CPU seconds, data storage, etc. Costs associated with each pool are estimated and then billed to users based on standard rates, such as cost per CPU second.
- (6) Capital – This category identifies additional estimated capital expenditures required for each function. Capital expenditures may be required to meet new service requirements of customers, to improve productivity levels of the functional area or to replace items due to obsolescence or deterioration of services. Capital expenditure projections affect depreciation and interest expenses billed to customer companies.
- (7) Overhead Rates – Overhead costs are billed from each organizational unit (cost center) using a standard overhead rate. The standard rate is composed of cost center labor, fringe benefits, payroll taxes, occupancy costs, and organizational cost allocations. The rates for each cost center are derived from budget projections and / or actual cost trends and are applied to all work orders incurring productive labor charges. The budget

preparation system automatically calculates and applies overheads to all applicable work orders resulting in an SCS budget that is “fully costed” and consistent with SCS accounting methodologies.

Cost Monitoring, Reporting and Control

The SCS budget preparation process supports the cost control requirements of both the service company and the affiliate companies by reflecting projected expenditures by project and function. To promote cost control, personnel at both SCS and the affiliate company are responsible for monitoring and controlling costs for the work orders in their respective area. The design is for ongoing communication to take place between SCS and the affiliate company personnel for those work orders assigned.

Any questions concerning the costs appearing on the invoice are first directed to the respective SCS budget coordinator. Various budget reports are available to SCS and customer management for reference when answering questions relating to SCS charges.

Each month, reports are made available to SCS management and affiliate company personnel. These reports contain both current month and year-to-date information related to the status of billing budgets, employee counts, capital, etc. Significant issues and variances are highlighted and discussed. In addition, SCS communicates projected spending levels to customer companies throughout the year.

Other Controls

Below are some of the other policies and activities that provide or verify SCS’ general cost allocation controls:

Sarbanes-Oxley Section 404 Compliance:

This act requires that management assess the design and effectiveness of its internal controls around financial reporting, and our external auditors must concur with management’s assessment. Specific controls within each major accounting cycle are pertinent to the various inputs into the general ledger. For example, labor hours and pay rates have specific controls that should be completed prior to the distribution of paychecks and interface into the general ledger. See each cycle’s documentation for those controls.

Southern Company Policy on Affiliate Transactions:

In February 1997, Southern Company President and CEO, Bill Dahlberg, issued a policy statement restating Southern’s commitment to equitable allocation of costs. “The basic message of the policy is a simple one - no Southern Company affiliate will enter into any transactions that would result in subsidization of another affiliate company in violation of applicable regulatory restrictions.” A full copy of this policy is attached as Exhibit F.

While Exhibit F was written prior to the repeal of PUHCA of 1935, its applicability is still sound. FERC did not fundamentally depart from the rules and regulations promulgated by the SEC with regards to allocation of costs by a centralized service company.

SCS Procedure for Implementing the Southern Company Affiliate Transaction Policy:

This statement reaffirms SCS' policy of annual work order and billing methodology review. Each year, SCS executives will review their charges and either confirm the existing methods or recommend changes. In addition, this information is provided to SCS' affiliate customers for review and approval. A full copy of this procedure is attached as Exhibit G.

Independent Auditors:

Each year, Southern's outside auditors report on SCS' results related to its goal of ensuring that expenses were properly supported and assigned utilizing the appropriate cost allocation methodology.

Other Audits:

The following entities periodically review SCS costs: FERC, State Public Service Commissions, Defense Contract Audit Administration, joint owners, and customer companies.

EXHIBITS

Exhibit A - 2016 Work order request form

Exhibit B - 2016 Fixed Percentage Listing

Exhibit C - 2016 Fixed Percentage WO Listing

Exhibit D - 2016 Direct Accum request form

Exhibit E - 2016 Resource Pool

Exhibit F - Southern Company Affiliate Transaction Policy

Exhibit G - SCS Affiliate Trans Procedure

Exhibit H - New Allocation Decision Matrix

2.7 With respect to reporting requirements of NICOR submitted to the Illinois Commerce Commission (ICC) related to cost allocations/assignments from AGSC to NICOR, provide the following:

- a. Provide a list of each such document provided to the ICC; and
- b. Provide a copy of such documents provided to the ICC related to 2018 operations.

For purposes of this response, do not include information provided in discovery within rate case proceedings. Instead, the Consumer Advocate is seeking information NICOR is required to provide on an annual/quarterly/monthly basis to the ICC related to cost allocations and affiliated transactions.

RESPONSE:

- a. CGC objects to this request in that it seeks information and/or documents from other entities that are not within CGC's possession, custody, or control. NICOR is a public utility that provides service in the State of Illinois and is regulated by the Illinois Commerce Commission (ICC). NICOR has no operations in the State of Tennessee and is not a party to this proceeding. Notwithstanding the foregoing and without waiving its objections, CGC states: CGC provides the following list of documents NICOR provided to the Illinois Commerce Commission related to cost allocations/assignments from AGSC to NICOR:

1. Annual Filing of a Billing report for the AGL Services Agreement as set forth in the Order in Docket No. 11-0046
 - a. 2012
 - b. 2013
 - c. 2014
 - d. 2015
 - e. 2016
 - f. 2017
 - g. 2018
2. Annual Internal Audit of the AGL Services Agreement as set forth in the Order in Docket No. 11-0046. Note this document is not filed with the Commission but is provided to the Commission Staff.
 - a. 2012
 - b. 2013

- c. 2014
- d. 2015
- e. 2016
- f. 2017

3. Cost Study of Services provided under the Services Agreement for the three years ended:

- a. 2014
- b. 2017

- b. CGC objects to this request in that it seeks information and/or documents from other entities that are not within CGC's possession, custody, or control. NICOR is a public utility that provides service in the State of Illinois and is regulated by the Illinois Commerce Commission (ICC). NICOR has no operations in the State of Tennessee and is not a party to this proceeding. Notwithstanding the foregoing and without waiving its objections, CGC states: CGC provides the following documents provided to the Illinois Commerce Commission or its Staff.

- 1. Attachment A-Billing Report for the 12-months ended December 31, 2018.
- 2. Attachment B-Southern Company Gas AGSC-NGAS Services Agreement Compliance Audit, June 27, 2018. This report is for the period of January 1, 2017-December 31, 2017. The Audit Report for the period of January 1, 2018-December 31, 2018 has not been provided to the ICC Staff.

Contact Person: Archie Hickerson; objections provided by Counsel.

353 N. CLARK STREET CHICAGO, IL 60654-3456

JENNER & BLOCK LLP

April 30, 2019

John Rooney
Tel +1 312 923 2612
JRooney@jenner.com

Via e-Docket

Mr. Richard Bridal, Director
Financial Analysis Division
Illinois Commerce Commission
527 East Capital Avenue
Springfield, Illinois 62701
Richard.Bridal@illinois.gov

Re: Docket No. 15-0558 Compliance Filing

Dear Mr. Bridal:

The attached Billing Report is being submitted to you in compliance with Appendix A, Condition 18 of the Final Order in Docket No. 15-0558, which approved the reorganization of Nicor Gas Company.

Condition 18 states:

Nicor Gas shall make an annual filing of a Billing Report for the aforementioned Services Agreement, in the manner set forth in the Order in Docket No. 11-0046.

Further, Section IX.B. of the AGL Services Agreement, as approved in Docket No. 11-0046 and filed with the Commission on March 12, 2012, states:

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 Services 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.

Mr. Richard Bridal
April 30, 2019
Page 2


Should you have any questions regarding this report please contact me. Thank you for your assistance.

Sincerely,

/s/ John E. Rooney
Counsel for Northern Illinois Gas Company
d/b/a/ Nicor Gas Company

Enclosures

cc: Attached Service List
ICC.AccountingMgr@illinois.gov



Southern Company Gas

For Service Provided Cost To:

Nicor Gas (GL103 / NGAS)

For The Year-To-Date Ended:

December 31, 2018

Remit To:

Southern Company Gas

Atlanta, Ga.

Terms:

Net 30

Total Amount Due: \$

98,074,589.91

Service Provided Cost	Direct Charged	Direct Assigned	Allocated	Total
Distribution Operations				
Corporate Communications Dist	-	452,095.35	216,097.19	668,192.54
Supply Chain Mgmt Distribution	-	16,149.38	-	16,149.38
Employee Services Distribution	-	539,590.02	2,911,541.49	3,451,131.51
Customer Services	-	88,033.75	3,126,739.69	3,212,773.43
Customer Services NGAS	-	-	(260,411.90)	(260,411.90)
Customer Service SCS	-	4,229.19	14,248.61	18,477.80
Engineering Services	-	1,476,291.19	6,402,857.94	7,879,149.13
Executive Operations	-	9,793.89	3,219,096.93	3,228,890.82
External Relations Operations	-	-	-	-
External Relations SCS	-	833.54	357,984.51	358,818.05
Gas Supply and Mgt	-	1,066,352.06	3,213,701.97	4,280,054.03
Info Services Operations	2,751,750.27	22,938.51	527.15	2,775,215.93
IT Dist Ops SCS	-	1,091,578.51	7,430,085.81	8,521,664.32
Marketing Administration	-	347,523.36	585,422.34	912,945.70
Marketing SCS	-	10,810.81	(23,325.79)	(12,514.98)
Rates and Regulatory	-	288,602.40	1,211,170.31	1,499,772.71
Regulatory SCS	-	13,128.47	44,063.09	57,191.56
Engineering SCS	-	12,390.72	12,926.45	25,317.17
Allocated SOPS - SCS	-	-	-	-
Total Distribution Operations	2,751,750.27	5,418,341.15	28,442,725.78	36,612,817.20
Corporate				
Business Support Other Service	-	-	-	-
Bus Support-Facilities Mgt	-	7,465.92	5,108,901.76	5,116,367.68
Other	-	270,072.52	2,955,142.80	3,225,215.32
Other SCS	-	75,339.70	1,122,235.34	1,197,575.04
Employee Services	-	426,077.01	3,632,672.65	4,058,749.66
Employee Services SCS	-	-	3,227,071.36	3,227,071.36
Executive	-	2,425.90	1,599,523.86	1,801,949.76
Executive SCS	-	-	1,949,010.99	1,949,010.99
External Relations	-	124,142.34	452,583.14	576,725.48
Financial Services	249,635.11	493,470.92	4,818,033.50	5,559,139.53
Financial Services SCS	34,860.93	574,670.12	2,928,052.97	3,535,684.02
Information Services	4,612,729.61	13,790.82	2,335,551.25	6,862,071.68
Info Services SCS	-	6,169,426.27	11,579,698.69	17,749,122.96
Internal Audit	-	1,799.06	22,958.44	24,756.50
Internal Audit SCS	-	687,058.64	505,313.40	1,192,372.04
Investor Relations	-	-	-	-
Investor Relations SCS	-	-	38,773.99	38,773.99
Legal	-	585,966.26	3,108,204.07	3,695,170.33
Legal SCS	-	19,138.56	1,266,850.50	1,305,989.06
Pivotal Development	-	-	-	-
Supply Chain Management	-	300,801.45	1,288,633.81	1,589,515.26
Supply Chain Mgt SCS	-	-	141,984.01	141,984.01
FAC MGMT SCS	-	-	70,504.16	70,504.16
Total Corporate	4,797,225.65	9,752,725.49	48,167,795.69	62,717,747.83
Regulated and Non-Regulated Operations				
Bus Support-Fleet	846,481.51	42,223.82	-	888,705.13
Gas Supply Other	645,129.47	366,140.40	42,401.56	1,053,671.43
Legal Services Other	-	72,378.78	52,199.36	124,578.14
Employee Services Other	-	1,450.43	-	1,450.43
Executive Operations Other	-	-	-	-
Rates and Regulatory Other	-	5,580.60	11,906.18	17,486.78
Financial Services Other	-	-	29,629.08	29,629.08
Information Services Other	-	(120.28)	-	(120.28)
Non-Regulated IST	-	-	-	-
Joint Venture	-	-	-	-
Strategic Planning	-	-	-	-
Renewable Energy	-	-	-	-
Wholesale	-	-	-	-
Retail Services	-	-	-	-
Gas Supply Other SCS	-	-	-	-
Executive Other SCS	-	-	-	-
IT OTHER SCS	-	-	1,416.83	1,416.83
Flowthru	-	-	-	-
Total Regulated and Non-Regulated Operations	1,491,610.98	487,653.55	137,553.01	2,116,817.54
AGSC Allocated Subtotal	9,040,586.90	15,658,720.19	76,748,075.48	101,447,382.57
Cost of Capital				
Cost of Capital	-	-	35.82	35.82
Non-Service Pension				
Other Income	-	-	(3,372,828.48)	(3,372,828.48)
Total Amount Due	\$ 9,040,586.90	\$ 15,658,720.19	\$ 76,748,111.30	\$ 98,074,589.91

DOCKET NO. 15-0558
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June 28, 2018

Via E-Mail

Ms. Joy Nicdao-Cuyugan, Director
Financial Analysis Division
Illinois Commerce Commission
527 East Capital Avenue
Springfield, Illinois 62701

Re: Docket No. 15-0558
Compliance Filing

Dear Ms. Nicdao-Cuyugan:

The attached Audit Report is being submitted to you in compliance with Appendix A, Condition 16 of the Final Order in Docket No. 15-0558, which approved the reorganization of Nicor Gas Company.

Condition 16 states:

Nicor Gas shall conduct an annual internal audit of the Services Agreement, in the manner set forth in the Order in Docket No. 11-0046.

Further, Section IX.A. of the AGL Services Agreement, as approved in Docket No. 11-0046 and filed with the Commission on March 12, 2012, states:

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.

Ms. Nicdao-Cuyugan
June 28, 2018
Page 2



Please contact me if you have any questions regarding this filing. Thank you for your assistance.

Sincerely,

/s/ John E. Rooney

cc: Dianna Trost, Illinois Commerce Commission
ICC.AccountingMgr@illinois.gov

INTERNAL AUDITING

SOUTHERN COMPANY GAS

AGSC-NGAS Services Agreement Compliance Audit

Findings

Reportable: No

Other: Yes



**Southern
Company**

This report is intended solely for the information of the Audit Committee and management of Southern Company and is not intended to be and should not be used by anyone other than these specified parties. No information contained in this report may be released outside of Southern Company without the prior written consent of the Southern Company Chief Audit Executive.

**Report No. GAS2018-19
June 27, 2018**

Report No. GAS2018-19

Executive Summary

Key Areas Covered:

- AGL Services Company and Nicor Gas' compliance with the Services Agreement.

Period Tested: January 1, 2017 – December 31, 2017

Reportable Findings:

- None

Management's Action Items:

- None

Report No. GAS2018-19

Background

This Internal Auditing (IA) report presents the results of the required audit of the Services Agreement (Agreement) between AGL Services Company (AGSC) and Nicor Gas (NGAS). The Agreement was formed on February 3, 2012, in accordance with the Illinois Commerce Commission's (ICC) approval of the merger between NGAS and AGL Resources (AGLR). The Agreement provides the accounting treatment for the allocation of intercompany costs from AGSC to NGAS, along with stipulating various compliance reporting components. The completion and filing of an annual, internal audit is required by July 1st of each year, which reviews the previous year's activity.

On July 1, 2016, Southern Company acquired AGL Resources (GAS). No subsequent changes occurred to the original Agreement following this transaction. However, with the addition of Southern Company Services (SCS) providing services to AGSC and its affiliates, these charges must be handled in alignment with the Agreement.

Objectives

The objectives of this audit were to validate that AGSC and NGAS were adhering to the regulatory and compliance terms of the Agreement and that intercompany costs were charged, assigned, and distributed or allocated in accordance with the Agreement.

Drew Marvin, Han Hong, Brianna Gwin, Kris Kob, and Melvin Icalina conducted the engagement. Inquiries can be directed to Drew Marvin at 8-453-4522 or Michelle Minor at 8-453-4972.

Scope

The scope of this engagement included an evaluation of intercompany transactions, between AGSC and NGAS, to ensure compliance with the regulatory terms of the Agreement. The Agreement's compliance/filing requirements were also validated.

Procedures performed during the engagement included reviewing transactions between AGSC and NGAS, reviewing allocation methods, validating appropriate security access to the relevant accounting system, interviewing AGSC employees, validating filings were submitted to the ICC timely and accurately, and performing other tests as considered necessary to ensure compliance with the Agreement.

The period covered by this engagement was January 1, 2017 to December 31, 2017.

We conducted the audit in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

Report No. GAS2018-19

Conclusion

Based on the results of testing performed, applicable controls appear to be adequately designed and operating effectively to provide reasonable assurance that AGSC and NGAS are in compliance with the Agreement requirements.

We noted two other observations that did not rise to the reportable level and are not included in this report. These observations were deemed immaterial, but were discussed with AGSC Corporate Accounting. Management has agreed to consider these suggestions.

Report No. GAS2018-19

DISTRIBUTION

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Chris Williams

Illinois Commerce Commission

- 2-8 Provide a comprehensive analysis of how methodologies that were approved in TPUC Docket No. 18-00017 can be used in this Docket to establish an ARM pursuant to Term. Code Ann. § 65-5-103(d)(6). For example, this response should include, but in no way be limited to, a discussion of how forward-looking methodologies in TPUC Docket No. 18-00017 can now be used in a historic-looking ARM filing, while still complying with the requirement that the annual review of rates be “based upon the methodology adopted in [the public utility’s] most recent rate case”

RESPONSE:

See CGC’s response to the Consumer Advocate Request 1-1. The assertion in the Consumer Advocate’s Discovery Request that CGC is proposing to use a forward-looking methodology in a historic-looking ARM filing is erroneous. As explained on page 8 of the Direct Testimony of Archie Hickerson, CGC is not proposing to make forward-looking adjustments in the ARM filings:

Q. For setting rates on a going forward basis, will there be forward-looking or forecasted adjustments?

A. No, there will be no forward-looking or forecasted adjustments. The amounts will be based on the Company’s actual calendar year’s books and records with adjustments to remove items that were excluded for rate making purposes in Docket 18-00017.

The Company’s proposed methodology in this proceeding is consistent with the Commission’s use of a test period based on the historic calendar year ended December 31 Docket 18-00017.

Please refer to the Company’s ARM filing for additional details of the proposed adjustment procedures that were approved in Docket No. 18-00017.

Contact Person: Archie Hickerson.