

1 **Q. Please state your name, position and address.** **20-00049**

2 A. Gary Tucker, Manager, Regulatory Reporting, Southern Company Gas (“SCG”).
3 My business address is 10 Peachtree Place, Location 1686, Atlanta, Georgia 30309.

4 **Q. Have you previously submitted testimony before the Tennessee Public Utility**
5 **Commission (“Commission”) in this proceeding?**

6 A. Yes. I provided direct testimony and exhibits to the Commission in this proceeding
7 on behalf of Chattanooga Gas Company (“CGC” or “Company”).

8 **Q. What is the purpose of your rebuttal testimony?**

9 A. The purpose of my rebuttal testimony is to respond to the Direct Testimonies of
10 Messrs. David Dittemore and Alex Bradley, and to the supplemental testimony filed
11 by Mr. Dittemore, provided in this proceeding, submitted on behalf of the
12 Consumer Advocate.

13 **Q. Are you sponsoring exhibits in connection with your rebuttal testimony?**

14 A. Yes, I am sponsoring two Rebuttal Exhibits, GT-4 and GT-5. Rebuttal Exhibit GT-
15 4 is an updated version of Exhibit GT-1, now incorporating the accelerated tax
16 savings and excess deferred income taxes proposed in my Exhibit GT-3 plus certain
17 additional adjustments which will be discussed in detail later in my testimony. The
18 overall difference between the exhibits is a reduction of \$3,204,974 in the rate
19 adjustment, resulting in a proposed rate increase of \$4,758,586 versus \$7,963,550
20 in GT-1 and \$5,188,095 as CGC’s originally recommended increase in GT-3. For
21 illustrative purposes, the table below captures the flow of the Company’s case as
22 outlined above.

	GT-1*	GT-3**	GT-4	CA Exhibit
	w/o tax acceleration	w/ tax acceleration	w/ tax acceleration & updates	Schedule 1 Supplemental
Rev. Requirement Rate Adjustment	\$ 7,963,550	\$ 5,188,095	\$ 4,758,576	\$ 4,908,480
*Required ARM Filing **Preferred case with acceleration of EDITs and tax savings				

2

3 Exhibit GT-5 is a proposed ARM schedule, to be included in all future ARM filings,
 4 that will provide additional details supporting the base period outside legal services
 5 cost.

6 **Q. How is your testimony presented?**

7 A. My testimony is presented in five sections as follows:

- 8 • Section I – Review of Rebuttal Exhibits
- 9 • Section II – Inclusion of the EDITs and Tax Savings into the Rate Reset
- 10 Period
- 11 • Section III – Opposed Adjustments made by the Consumer Advocate
- 12 • Section IV – CGC’s Proposed Adjustments to the Filed 2019 Deficiency
- 13 and Rate Reset
- 14 • Section V – Conclusions and Recommendations

15 **Q. Could you briefly discuss the interactions with the Consumer Advocate on the**
 16 **Company’s ARM filing?**

17 A. Yes. Since the filing of the ARM, the Company and the Consumer Advocate have
 18 engaged in both formal and informal virtual meetings and provided formal and
 19 informal discovery on the filing. The post filing activities include responding to

1 two sets of DRs, totaling 96 individual data requests, not including sub-parts, and
2 several informal data requests. As noted in the ARM Procedural and Scheduling
3 Order, the Company and the Consumer Advocate have also participated in three
4 separate virtual meetings to discuss the ARM filing. Additionally, there have been
5 other informal meetings and discussions directly between Company personnel and
6 the Consumer Advocate. The open lines of communication between the Company
7 and Consumer Advocate, I believe, has aided in curtailing data requests and helped
8 limit the number of differences between the Company's ARM filing and that
9 proposed by the Consumer Advocate.

10 **Q. Are there proposed adjustments by the Consumer Advocate that you agree to**
11 **and have made in Exhibit GT-4?**

12 A. Yes, the Company has made an adjustment to reduce the rate reset depreciation
13 expense by \$143,735. The adjustment is shown in Exhibit GT-4, Schedule 5, the
14 impact is shown in Schedule 1. Although the Company does not oppose the
15 acceleration of the tax savings and excess deferred income taxes (EDIT) in the rate
16 reset rather than its application to the 2019 deficiency balance as initially filed, the
17 Company does not agree with the method by which the Consumer Advocate has
18 incorporated the activity and balance into the rate reset. The Company's proposed
19 inclusion of the tax savings and EDITs into the rate reset is discussed in Section II.
20 We also agree that all of the 2019 ARM Docket legal expenses should be included
21 in the three-year amortization of those expenses as the parties agreed in Docket 19-

1 00047. However, we have been able to refine the numbers to better capture the
2 actual costs and to correctly amortize the recovery of those expenses in this docket.

3
4 **Section I – Review of Rebuttal Exhibits**

5 **Q. Please provide an overview of Schedule 1 in Exhibit GT-4.**

6 A. Schedule 1 in Exhibit GT-4 provides a summary of the revenue deficiency for the
7 historic base period and the rate reset period. Schedule 1 contains the same
8 information in Line Nos. 1 through 8 that were initially filed in Exhibit GT-1 but
9 have been updated for certain changes as discussed in sections II and IV. A
10 description of each change and resulting revenue requirement impact are shown in
11 Line Nos. 10 through 15. The changes presented in Schedule 1, Exhibit GT-4 are
12 also provided in the table below.

Line No.	Description	Adopted Dkt 18-00017	Authorized Rate Increase	Adopted Dkt 18-00017 with Increase	Historic Base Period with Rate Making Adjustments	Historic Base Period Normalized	Annual True-Up Revenue Requirement Rate Adjustment
1	Rate Base - Sch 2	149,739,716	-	149,739,716	160,751,326	161,916,337	163,379,679
2	Operating Income - Sch 5	9,625,826	1,032,050	10,657,876	8,615,531	11,014,347	8,096,435
3	Earned Return [L2/L1]	6.43%		7.12%	5.36%	6.80%	4.96%
4	Fair Rate of Return - Sch 11	7.12%		7.12%	7.12%	7.12%	7.12%
5	Required Operating Income [L4 X L1]	10,657,876		10,657,876	11,441,638	11,524,559	11,628,714
6	Operating Income Deficiency (Excess) [L6-L2]	1,032,050		(0)	2,826,107	510,211	3,532,279
7	Gross Revenue Conversion Factor - Sch 12	1.347168975		1.347168975	1.347168975	1.347168975	1.347168975
8	Revenue Deficiency (Surplus) [L6 X L7]	1,390,345		(1)	3,807,243	687,341	4,758,576
9	Filed amounts per Exhibit GT-1, Schedule 1				3,997,504	3,688,861	7,963,550
10	Amortization of Tax Savings Over One Year (1/3 was included, total amount now included)				-	(1,185,154)	(1,185,154)
11	Acceleration of 2021 Unprotected EDIT Amortization				-	(590,155)	(590,155)
12	Acceleration of Federal Basis Adjustment EDIT Amortization				-	(953,455)	(953,455)
13	ARM Outside Legal Services Cost - Deferral and Amortization				(160,380)	(98,386)	(269,887)
14	Removal of non-allocable AGSC Plant (see DR CA 1-74)				(29,881)	(29,881)	(61,834)
15	Depreciation Expense Adjustment Proposed by Mr. David Dittmore				-	(144,489)	(144,489)
16	Revised Revenue Deficiency				3,807,243	687,341	4,758,576
2	Check				-	-	-

Support for Line Nos. 10 through 15 is contained within the Exhibit and denoted by yellow highlighted tabs and cells. Adjustments in Line Nos. 10 through 12 are discussed in Section II, adjustment in Line 13 is discussed in Section III, adjustment in Line 14 is discussed in Section IV and the adjustment on Line 15 is consistent with that proposed by the Consumer Advocate.

Q. Is the updated ARM filing presented in Exhibit GT-4 in compliance with the methodologies and filing requirements set forth in the ARM Stipulation, Docket 19-00047?

1 A. Yes, the updates presented in GT-4 are primarily for corrections to the filing and
2 do not represent departures from the methodologies and filing requirements agreed
3 to in the ARM Stipulation.

4 **Q. Is the Company proposing any prospective adjustments or changes to the**
5 **ARM methodologies or filing requirements?**

6 A. Yes, the Company is proposing a change to the ARM filing requirements to include
7 an additional schedule which will provide support for the Company's outside legal
8 services costs. Please see Exhibit GT-5 for the proposed outside legal services cost
9 schedule. The schedule will identify the law firm, docket if applicable, general
10 nature of the work performed and total cost expended for the period. In addition to
11 the cost details included in the schedule, the Company will also include an affidavit
12 from the Chief Regulatory Counsel that each legal invoice paid in the historic base
13 period was reviewed and approved under their direction. This schedule will work
14 in conjunction with the changes to how CGC's outside counsel record and bill their
15 time that Mr. Leath discusses in his rebuttal testimony.

16 **Q. Is the proposed change consistent or allowed within the ARM Stipulation?**

17 A. Yes. Subject to Commission review and approval, provision 16 of the ARM
18 Stipulation allows for prospective changes to CGC's ARM filing whereas
19 retrospective changes to the ARM filing requirements and methodologies is not
20 allowed. CGC believes that this schedule and the changed billing procedures will
21 better document and demonstrate these costs and hopefully help to streamline and
22 make less contentious this part of the annual ARM review process.

1

2 **Section II – Inclusion of the EDITs and Tax Savings into the Rate Reset Period**

3 **Q. The Consumer Advocate has proposed amortizing the EDITs and tax savings**
4 **back to customer in the rate reset rather than applying the balances to the**
5 **2019 deficiency as proposed by the Company. Could you discuss why the**
6 **Company does not agree with the method by which the Consumer Advocate**
7 **has incorporated the activity and balance into the rate reset?**

8 A. Yes, the Company does not agree with the approach proposed by the Consumer
9 Advocate as it does not appropriately match expenses with revenues. In Exhibits
10 DND-2 and DND-3, the Consumer Advocate has provided their alternate approach
11 to amortizing the tax savings and EDITs to customers and the rate base impacts.
12 Exhibit DND-2 shows the amortization beginning in September 2020 through
13 December 2020. While this approach seems to coincide with the rate reset period,
14 it is not consistent with the resulting revenues that would be established in this
15 ARM filing as the reduction to the revenue requirement would be spread equally
16 across the rate setting period while the expense would be incurred September to
17 December 2020. The amortization of the regulatory liabilities should be amortized
18 equally over the rate setting period resulting in a matching of revenues and
19 expenses.

20 **Q. Is the Consumer Advocate’s approach to amortizing the deferred tax savings**
21 **consistent with the Uniform System of Accounts (“USoA”)?**

1 A. No. The deferred tax savings are recorded to FERC account 254. USoA guidance
2 regarding the amortization of the balance is as follows: “*Account 407.4 Regulatory*
3 *credits: This account shall be credited, when appropriate, with the amounts debited*
4 *to Account 182.3, Other Regulatory Assets, to establish regulatory assets. This*
5 *account shall also be credited, when appropriate, with the amounts debited to*
6 *Account 254, Other Regulatory Liabilities, concurrent with the return of such*
7 *amounts to customers through rates.*” emphasis added. The amortization of the
8 deferred tax savings will be recorded as debit to account 254 and a credit to account
9 407.4.

10 **Q. What are the rate base implications of the Consumer Advocate’s approach?**

11 A. The Consumer Advocate’s proposed amortization would also overstate the tax
12 savings regulatory liability, as again, they do not reflect the amortization of the
13 liability over the course of one year consistent with revenues/collections. The CAU
14 shows net tax liability of \$1,100,558 in DND-3 based on an amortization of the
15 balance from September to December. However, if the balance is updated for the
16 activity which properly match revenues and expenses, the actual net liability to
17 include in the rate reset is \$681,298 as shown below.

Exhibit DND-3			CGC's Calculation of Tax Savings Liability		
Tax Liability - Tax Savings January - October 2018	ADIT on Tax Savings	Net Liability	Amortization of Tax Savings Equally Over one Year	ADIT on Tax Savings	Net Liability
(1,844,710)	482,115	(1,362,595)	(1,844,710)	482,115	(1,362,595)
(1,844,710)	482,115	(1,362,595)	(1,690,984)	441,939	(1,249,045)
(1,844,710)	482,115	(1,362,595)	(1,537,258)	401,762	(1,135,496)
(1,844,710)	482,115	(1,362,595)	(1,383,533)	361,586	(1,021,946)
(1,844,710)	482,115	(1,362,595)	(1,229,807)	321,410	(908,397)
(1,844,710)	482,115	(1,362,595)	(1,076,081)	281,234	(794,847)
(1,844,710)	482,115	(1,362,595)	(922,355)	241,057	(681,298)
(1,844,710)	482,115	(1,362,595)	(768,629)	200,881	(567,748)
(1,844,710)	482,115	(1,362,595)	(614,903)	160,705	(454,198)
(1,383,533)	361,586	(1,021,946)	(461,178)	120,529	(340,649)
(922,355)	241,057	(681,298)	(307,452)	80,352	(227,099)
(461,178)	120,529	(340,649)	(153,726)	40,176	(113,550)
-	-	-	-	-	-
(1,489,958)	389,401	(1,100,558)	(922,355)	241,057	(681,298)

2

3 **Q. How should the tax savings and EDITs be returned to customers so to avoid**
4 **the mismatch in revenues and expenses and incorrect rate base impacts.**

5 A. The tax savings could either be applied against the 2019 deficiency balance on
6 October 1, 2020 coinciding with new rates and as filed by the Company in its May
7 29 filing or the regulatory liabilities could be returned equally over the full rate
8 reset period which would coincide with the amortization of the annual
9 reconciliation balance. In either instance, revenues and expenses would be properly
10 aligned.

11 **Q. In regard to the approach initially proposed by the Company, do you agree**
12 **with the Consumer Advocate's assessment that the application of the tax**

1 **savings and EDITs to the 2019 deficiency balance “has the appearance of**
2 **retroactive accounting”?**

3 A. No, there is no retroactive accounting by CGC. The Company’s proposal to apply
4 the tax savings to the deficiency balance would coincide with new rates on October
5 1, 2020. In the 2020 ARM reconciliation balance, the EDIT and tax savings
6 liabilities will be fully reflected from January through September. The 2020 ARM
7 would also capture the October 1, 2020 activity applying the tax savings and EDITs
8 to the 2019 deficiency. Therefore, CGC’s customers would and are going to receive
9 the full benefit of the balances and activity under the Company’s May 29, ARM
10 filing.

11 **Q. Does the Company have a preference for returning the tax savings and EDITs**
12 **to customers?**

13 A. No, other than that it be reflected correctly.

14 **Q. How have you shown the return of the EDITs and tax savings to customers in**
15 **Exhibit GT-4?**

16 A. In Exhibit GT-4, the return of the tax savings and EDITs have been incorporated
17 into the rate reset which is the Consumer Advocates preferred method. However,
18 the return of the taxes has been incorporated in a manner in which it correctly
19 returns the benefits over one-year coinciding with the adjusted revenues.

20 **Q. Do you have any other issues or concerns regarding the Consumer Advocate’s**
21 **assessment of the Company’s proposal to apply the tax savings and EDITs to**
22 **the 2019 deficiency?**

1 A. Yes. The Consumer Advocate asserts that the Company has duplicated carrying
2 charges for the 2019 deficiency balance by including an additional \$24,962 in its
3 calculation of the rate reset of as shown in Exhibit GT-3, these carrying charges are
4 not duplicative. The annual reconciliation balance includes carrying charges as
5 shown in Schedule 29, but these charges are for 2019. The addition of \$24,962 is
6 the carrying charge for the rate reset or recovery of the balance. Or said differently,
7 carrying charges are incurred for the buildup of the deficiency in the annual
8 reconciliation period and in the rate reset for the recovery of the deficiency balance.
9 In summary, the carrying charges are for two separate periods and are not
10 duplicative.

11 **Q. Does the ARM stipulation allow for carrying charges to be incurred on the**
12 **deficiency balance for the annual reconciliation period and rate reset?**

13 A. Yes. The annual reconciliation balance carrying charges for the annual
14 reconciliation period is defined on page 1 of Exhibit A. *“(C) Annual Reconciliation*
15 *Balance is the sum of the Historic Base Period Earning Deficiency or Excess and*
16 *the carrying charges from the mid-point to the end of the Historic Base Period*
17 *multiplied by the Income Tax Gross-Up factor.”* The inclusion of the balance in
18 rate base in the rate reset, in which carrying charges would be assessed as part of
19 the overall calculation of the revenue deficiency or excess, is addressed on page 3
20 of Exhibit A. *“10. The rate base shall be adjusted to include: 1. The Average*
21 *unamortized balance of the Annual Reconciliation Balance (positive or negative) and*
22 *the related deferred income tax assuming amortization over twelve (12) months...”*

1

2 **Section III – Opposed Adjustments made by the Consumer Advocate**

3 **Q. What adjustments do you disagree with that the Consumer Advocate has**
4 **proposed?**

5 **A.** I disagree with the adjustment to increase taxes other than income taxes (TOTIT),
6 the amount of ARM related legal cost to reclassify from outside legal service to the
7 deferred ARM cost regulatory asset account and the reduction in the amortization
8 of the deferred ARM costs regulatory asset.

9 **Q. Please discuss the Consumer Advocate’s adjustment to TOTIT.**
10 **On page 11 of the pre-filed testimony of Mr. Dittemore, he explains his**
11 **adjustment to TOTIT:**

12 *“Consumer Advocate Adjustment No. 1 to Taxes Other than Income (TOTIT)*
13 *increases such expenses \$85,841 by reflecting actual taxes paid associated with*
14 *2019 taxes rather than the level of accrued tax expense recorded on the books of*
15 *the Company. While the Company has reflected its actual accrued (estimated) tax*
16 *expense for 2019, I believe the Base Period results should be adjusted to reflect*
17 *the actual taxes paid associated with 2019 operations rather than relying upon*
18 *an estimated amount of such costs.”*

19 **Do you know how Mr. Dittemore computed the \$85,841 adjustment?**

20 **A.** Yes. Mr. Dittemore subtracted the amount recorded on CGC’s books from the
21 amount paid during calendar year 2019.

1 **Q. Does the amount paid during calendar year 2019, reflect the tax applicable to**
2 **calendar year 2019?**

3 **A.** No. On Mr. Dittimore's Exhibit DND-4, he references the Company's response to
4 Consumer Advocate's Discovery Request 2-10 as the source of the amount paid in
5 calendar year 2019. As shown on the response to CA 2-10 the payments made
6 during calendar year 2019 are a mixture of 2018 and 2019 taxes. For example, the
7 largest payment identified in the response of \$1,159,608 for Hamilton County
8 Property tax was made on January 24, 2019 for Property tax for calendar year 2018,
9 not for 2019.

10 **Q. Should 2018 activity be included as part of the 2019 annual reconciliation base**
11 **period?**

12 **A.** No, not only is this the Company's position, but it is also the position of the
13 Consumer Advocate as discussed in the supplemental testimony filed by Mr. David
14 Dittimore on August 20.

15 *Q13. WERE ANY LEGAL COSTS EXCLUDED WITHIN YOUR ANALYSIS?*

16 *A13. Yes. Costs totaling \$1,879 were incurred in 2018, which is outside the base*
17 *period and therefore were removed in my adjustment.*

18 **Q. What was requested in the Consumer Advocate's CA 2-10?**

19 **A.** The request was for actual tax payments made in 2019:

20 *"Provide the actual tax payments made in 2019 for Property Taxes, Gross Receipts*
21 *Taxes, and Net Worth Taxes that correspond to the accruals recorded in accounts*
22 *427550, 427101, and 427130 respectively as shown on Schedules 8 and 19."*

- 1 **Q. What accounting method is Mr. Dittmore proposing with this adjustment?**
- 2 **A.** Mr. Dittmore appears to be advocating the use of cash-based accounting instead
3 of accrual accounting.
- 4 **Q. Does CGC account for Taxes Other than Income Tax in accordance with the**
5 **USoA?**
- 6 **A.** Yes.
- 7 **Q. Does the USoA require Taxes Other Than Income Tax be accounted for using**
8 **cash-based accounting?**
- 9 **A.** No. USoA General Rule 11 requires gas utilities to use accrual accounting:
10 *“Rule 11. Accounting to be on accrual basis. A. The utility is required to keep its*
11 *accounts on the accrual basis. This requires the inclusion in its accounts of all*
12 *known transactions of appreciable amount which affect the accounts. If bills*
13 *covering such transactions have not been received or rendered, the amounts shall*
14 *be estimated and appropriate adjustments made when the bills are received.”*
- 15 **Q. In CGC’s last rate case, Docket 18-00017, did the Commission adopt cash-**
16 **based accounting for Taxes Other than Income Tax?**
- 17 **A.** No. For example, for Property Tax the Commission began with the expense
18 recorded on the Company’s books for calendar year 2017 and increased it based on
19 projected growth in the plant investment. The Commission did not substitute the
20 cash payment in 2017 for the amount recorded on the Company’s books.
- 21 **Q. Did the Consumer Advocate propose to use cash-based accounting for Taxes**
22 **Other than Income Tax in the last rate case?**

1 **A.** No. As explained on page 35 of the January 15, 2019 Order in Docket 18-00017:
2 *“The Consumer Advocate started with actual property tax per book amounts for*
3 *the twelve months ending December 31, 2017, and then reclassified \$4,484 of*
4 *allocated property tax to allocated taxes other than income. The Consumer*
5 *Advocate then used a compound growth factor of 7.11% to arrive at attrition period*
6 *property taxes of \$2,039,886.”*

7 The Consumer Advocate began with the property tax on the books for the historical
8 period and increased it using a compound growth factor. The Consumer Advocate
9 did not propose to use cash-based accounting,

10 **Q.** **Is the use of cash-based accounting as proposed by the Consumer Advocate a**
11 **change from the methodology adopted in the last rate case and in the ARM**
12 **approved in Docket 19-00047?**

13 **A.** Yes, it would be, and as such it cannot be used in this case.

14 **Q.** **The Consumer Advocate has proposed to reclassify \$166,850 from outside**
15 **legal services to the ARM regulatory asset, is this the correct amount to**
16 **reclassify?**

17 **A.** No, the correct amount to reclassify is \$160,754.

18 **Q.** **How did you determine the reclassification amount of \$160,754?**

19 **A.** The amount I reclassified was provided to me by our attorneys, Mr. Luna and Mr.
20 Self, based upon their review and reclassification of amounts billed in 2019 that
21 were related to the establishment of the Company’s ARM mechanism. The
22 reclassified amounts by month are shown in Schedule 28 in Exhibit GT-4. As Mr.

1 Dittemore acknowledged at page 3 of his supplemental testimony, his calculation
2 was arbitrary, simply a splitting of costs evenly when there appeared to be multiple
3 matters covered by the same time entry, whereas the attorney review of the detailed
4 invoices should be closer to the actual. In adjusting this balance, as Mr. Dittemore
5 proposed, I too have included within the scope of the Docket 19-00047 costs the
6 Atmos ARM Docket intervention costs since the denial of the intervention, and the
7 reasons for the denial, were very important to how CGC presented its different
8 ARM proposal.

9 **Q. The Consumer Advocate excluded \$1,879 in their determination of the legal**
10 **cost to reclassify as this amount was related to 2018 activity. Did you make the**
11 **same or similar exclusion?**

12 A. No, since the Company's outside legal services cost were based on accrual
13 accounting, 2018 activity was not included in the outside legal services activity of
14 \$324,445 recorded in account 670402 Outside Legal Services in the 2019 base
15 period. The amount excluded by the Consumer Advocate was based on the invoiced
16 amount paid in 2019, which was accrued for and reflected on the Company's book
17 and records as part of 2018 activity.

18 **Q. In the Consumer Advocate's supplemental testimony filed on August 20, Mr.**
19 **Dittemore also excludes the deferred ARM legal cost from rate base. Did CGC**
20 **exclude the deferred ARM legal cost from rate base in Exhibit GT-4?**

21 A. No, Exhibit GT-4 includes both the activity and corresponding ARM regulatory
22 asset balance. The inclusion of both the amortization and balance reflect the full

1 recovery of costs by the Company and is appropriate and consistent with the ARM
2 Stipulation.

3 **Q. In Docket 19-00047, the deferral and recovery of ARM cost is established in**
4 **item 17: *Docket No. 19-00047 ARM Costs. CGC shall treat the costs it has incurred***
5 ***in Docket No. 19-00047 like a rate case expense and shall amortize such expenses***
6 ***over a three-year period. The three-year amortization period for CGC's ARM Docket***
7 ***costs shall begin on September 1, 2020, coinciding with the first annual rate reset.***
8 **Item 17 specifically states the deferred ARM cost should be treated like a rate**
9 **case expense. Has the Company treated the deferred ARM cost like the**
10 **deferred rate case expense in its updated ARM filing in Exhibit GT-4?**

11 A. Yes, the Company has treated the deferred ARM regulatory costs the same as the
12 deferred rate case costs which is to include the full recovery of those costs in the
13 ARM filing by reflecting a full twelve months of activity and inclusion of the
14 balance in rate base.

15 **Q. Please discuss the Consumer Advocate's reduction in the amortization of the**
16 **deferred ARM costs.**

17 A. The Consumer Advocate has proposed to reduce the amortization of the ARM
18 regulatory asset by only recognizing four months of the amortization in the rate
19 reset rather than reflecting a full year of activity or annualized activity which was
20 proposed by the Company. Only four months are included since they view the rate
21 reset as applying to only a partial year 2020 or September through December.

1 **Q. Could you explain why the adjustment to only recognize one-third of the**
2 **amortization expense is incorrect?**

3 A. Yes. Similar to the amortization of the tax savings and EDITs to customers
4 preciously discussed, the Consumer Advocate has isolated the activity to 2020 and
5 not taken into consideration the period in which rates would be in place. Again, this
6 leads to a mismatch in revenues and expenses whereas the revenues would be
7 collected over the course of a year, October 2020 through September 2021, while
8 the expenses are proposed to be amortized in 2020. Under the Consumer
9 Advocate's proposal, CGC would collect \$26,881 in revenues ($80,644 \times 1/3$) but
10 expense or amortize \$80,644. Furthermore, the ARM stipulation directs the
11 Company to amortize the deferred cost over a three-year period, using the approach
12 and amounts proposed by the Consumer Advocate and properly matching revenues
13 and expenses would result in recovery of the cost over nine years.

14 **Q. Is the Consumer Advocate's approach to amortizing the deferred ARM cost**
15 **regulatory asset consistent with the USoA?**

16 A. No. The deferred tax savings are recorded to FERC account 182.3. USoA guidance
17 regarding the amortization of the balance is as follows: *"Account 407.3 Regulatory*
18 *debits: This account shall be debited, when appropriate, with the amounts credited*
19 *to Account 254, Other Regulatory Liabilities, to record regulatory liabilities*
20 *imposed on the utility by the ratemaking actions of regulatory agencies. This*
21 *account shall also be debited, when appropriate, with the amounts credited to*
22 *Account 182.3, Other Regulatory Assets, concurrent with the recovery of such*

1 amounts in rates.” (Emphasis added). The amortization of the deferred ARM cost
2 will be recorded as debit to account 407.3 and a credit to account 182.3.

3 **Q. Are there any other amortizations or expenses that have been added or**
4 **removed and annualized in the rate reset such as the amortization of the**
5 **deferred ARM cost?**

6 A. Yes, the recovery of the annual reconciliation balance was added to the rate reset
7 similar to the amortization of the deferred ARM cost. However, the cost of the full
8 annual reconciliation balance was included for recovery, not just the amount that
9 would be amortized in 2020. There were also cost removed in the rate reset that we
10 do not expect to incur at levels experienced by CGC in 2019 as shown in Schedule
11 28. When the removals were made, they were fully annualized, not just limiting the
12 adjusting to the 2020 period which would have been incorrect.

13
14 **Section IV – CGC’s Proposed Adjustments to the Filed 2019 Deficiency and Rate**
15 **Reset**

16 **Q. Please discuss any other adjustments made by CGC and presented in rebuttal**
17 **Exhibit GT-4.**

18 A. Exhibit GT-4 includes one additional adjustment for the removal of non-allocable
19 common plant.

20 **Q. What is the adjustment for non-allocable common plant?**

21 A. The adjustment for non-allocable plant removes the allocation of certain common
22 plant, accumulated reserve and CWIP balances that were inadvertently allocated

1 and included in CGC's ARM filing on May 29, 2020. The adjustment for non-
2 allocable balances is necessary as the underlying assets and projects are either
3 used entirely or predominately by another entity. This adjustment was identified
4 and discussed in data request response CA 1-74. As shown in the table in Section
5 1, the overall impact of the adjustment is a reduction of \$62 thousand in the
6 revenue deficiency.

7
8 **Section V – Conclusions and Recommendations**

9 **Q. Please summarize your conclusions and recommendations on the Company's**
10 **updated 2019 deficiency balance and rate reset.**

11 A. The Company's updated case as presented in GT-4 accurately reflects the
12 methodologies and filing requirements as stipulated in Docket 20-00047 along with
13 the accelerated tax credits and benefit the Company is proposing. The Consumer
14 Advocate's filing, on the other hand, is not entirely based on the ARM Stipulation
15 and should therefore be denied. For example, the Consumer Advocate has proposed
16 moving to cash-based accounting for recovery for taxes other than income taxes.
17 This was not what was agreed to and documentation supporting this departure from
18 the Stipulation was not provided by the Consumer Advocate as acknowledged in
19 response five to the Company's data request.

20 *5. Identify the Commission Order with reference to the specific page number or*
21 *section containing language that the Consumer Advocate believes authorizes or*
22 *makes it appropriate for the proposed taxes other than income taxes ("TOTIT")*

1 *adjustment to use cash payments rather than the expense amount recorded by the*
2 *Company to adjust the 2019 ARM deficiency balance.*

3 ***RESPONSE:*** *The Consumer Advocate's testimony concerning taxes other than*
4 *income taxes was based on the knowledge, experience, and expertise of CA witness*
5 *David Dittmore. At this time, the Consumer Advocate is not in possession of a*
6 *Commission Order or other responsive document that addresses the requested*
7 *information.*

8 Furthermore, the difference between the Company's treatment of the annualization
9 of the deferred ARM cost (twelve months of activity) versus their proposal of four
10 months of activity was generally acknowledged to be correct, at least in terms of
11 the cost of service, in the Consumer Advocate's response to question two to the
12 Company's data request.

13 *2. Does the Consumer Advocate agree that CGC's rate reset period is based upon*
14 *an adjusted calendar year and therefore any adjustments or normalizations should*
15 *reflect a full year of activity both for cost of service and rate base? If not, explain*
16 *why not.*

17 ***RESPONSE:*** *The Consumer Advocate generally agrees with this statement;*
18 *however, not all adjustments require a modification to Rate Base. Regarding the*
19 *deferred tax savings, the Commission has jurisdiction over the period(s) in which*
20 *such costs are recorded.*

1 Considering this information and my rebuttal testimony in its entirety, I respectfully
2 request the Commission approve the Company's updated ARM filing as presented
3 in Exhibit GT-4 and deny the Consumer Advocates alternate ARM filing.

4 **Q. Does this conclude your rebuttal testimony?**

5 A. Yes.

**Chattanooga Gas Company
Annual Review Mechanism (ARM)**

Schedule 39: Outside Legal Services

1. Provide the outside legal services cost and details for the Historic Base Period. Details included in this schedule shall include:
 - a. Name of the law firm.
 - b. Docket number, if applicable.
 - c. General nature of the work performed.
 - d. Total cost expended for the Historic Base Period.
 - e. The Chief Regulatory Counsel of Southern Company Gas shall attest or affirm that each legal invoice paid in the historic base period was reviewed and approved under their direction.