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May 29, 2020

Tennessee Public Utility Commission
Attention: Ectory Lawless, Esq., Docket Clerk
Andrew Jackson State Office Building
502 Deaderick Street, 4th Floor
Nashville, TN 37243-0001

Re: Docket No. 20-00049; Chattanooga Gas Company's Petition for Approval of Its 2019 Annual Rate Review Filing Pursuant to T.C.A. § 65-5-103(d)(6)

Ms. Lawless:

First, let me thank you for your assistance along with the assistance of TPUC's General Counsel and Technical Staff as well as the cooperation of the Consumer Advocate staff in this electronic filing format given the current declared State of Emergency.

As you will see in the attached Petition and Testimonies of our witnesses, Chattanooga Gas Company's ("CGC") is witnessing first-hand the devastating impacts COVID-19 and recent tornados are having on our region and on so many of our customers. Therefore, to minimize the impacts of the this first annual review proceeding on our customers at a time that they are truly most challenged, CGC is recommending that the Commission consider and approve the acceleration and return of certain tax credits and benefits ordered in Docket Nos. 18-00017 and 8-00035. To facilitate the acceleration of these tax credits and benefits, CGC will timely file for the for reconsideration of the Final Order in Docket No. 18-00035 to seek the amending of the Final Order, if necessary, to implement this recommendation if approved by the Commission.

Included in this filing is CGC's Petition for Approval of its 2019 Annual Rate Review filing pursuant to Tennessee Code Annotated § 65-5-103(d)(6) and in compliance with the final Order in Docket No. 17-00047 approving a Settlement Agreement.

Also included with the Petition are Direct Testimony of CGC's three witnesses:

1. Paul Leath with no Exhibits;
2. Gary Tucker accompanied by 3 Exhibits; and
3. Archie Hickerson accompanied by 9 Exhibits.

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Numerous supporting documents and work papers are included in their Exhibits and other supporting documents and workpapers are supported by the witnesses and are provided for filing. All documents and workpapers required by the Settlement Agreement in Docket No. 19-00047 are provided in this filing.

Please note that there are a few documents which contain confidential information provided in accordance with TPUC practice and subject to a pending Protective Order issued by the Hearing Officer. The confidential documents are clearly marked and found at Schedules 27, 32, 32F, 32G, 34, 34.1 and 35.1.

All of the above documentation are being provided by access to a shared link at this link:

https://bergersingerman.sharefile.com/share/view/8ae081cf5be941fb/fo71f642-80ce-4197-9b3d-78360758d5ba

Attached to this transmittal email for convenience are the three Direct Testimonies, the Petition, and a Proposed Joint Procedural Schedule.

We have worked out with the Consumer Advocate the attached Proposed Joint Procedural Schedule and would appreciate the Hearing Officer issuing the appropriate order encompassing this schedule with any modifications the Commission believes are necessary and appropriate; CGC and the Consumer Advocate would be happy to jointly talk with the Hearing Officer about our joint schedule if appropriate.

In addition, the Consumer Advocate and CGC have agreed that the issuance of a protective order is needed given the above referenced confidential information being provided. The Consumer Advocate and CGC have agreed that a Protective Order like the one issued in CGC's original ARM proceeding, Docket No. 19-00047, on October 16, 2019, would be appropriate

Again, let me thank all the TPUC Staff and Consumer Advocate staff for working with us in coordinating this filing process under the unique circumstances all of us are facing given the effects of the COVID-19 pandemic and as recognized in the Governor's Declared State of Emergency.

We are today providing the Consumer Advocate access to the filing via the share site. CGC will not object to their intervention in this matter, and we appreciate their joint agreement to the Proposed Procedural Schedule and Proposed Protective Order, and in facilitating this filing during this pandemic.

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Finally, pursuant to your discussions with Carlinda Booher, and the filing guidelines given the State of Emergency, she will meet you later this afternoon with the filing in whatever additional format that you have requested.

Please do not hesitate to contact either Carlinda Booher, Floyd Self or me if you have any questions.

Sincerely,

Butler Snow LLP

J.W. Luna

JWL/cb

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I. INTRODUCTION AND BACKGROUND.

Q. PLEASE STATE YOUR NAME, POSITION AND ADDRESS.

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

Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS CASE?

A. I am testifying on behalf of Chattanooga Gas Company ("CGC" or "Company"), which is a subsidiary of Southern Company Gas. Our Regulatory Reporting group provides technical support and expertise to CGC and other SCG subsidiaries.

Q. PLEASE DESCRIBE YOUR PROFESSIONAL BACKGROUND AND EDUCATION.

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

Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY BEFORE THE TENNESSEE PUBLIC UTILITY COMMISSION OR ANY OTHER REGULATORY COMMISSION?

A. Yes, I have submitted testimony before the Tennessee Public Utility Commission ("TPUC" or "Commission") on behalf of CGC in Docket Nos. 18-00017 ("Rate Case Docket"), 18-00035 ("Tax Docket"), and 19-00047 ("ARM Docket").

II. PURPOSE OF TESTIMONY.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to support CGC's annual review mechanism ("ARM") set forth in the settlement agreement approved by the Commission in the ARM Docket by its order of October 7, 2019 ("ARM Order"). I present and discuss the calculation of the Company's 2019 Historic Base Period annual reconciliation balance deficiency and the prospective 2020 rate reset necessary for the Company to earn its authorized rate of return as approved by this Commission in the Rate Case Docket. Additionally, I provide an overview of CGC's ARM and highlight other filing requirements the Company has committed to and performed leading up to this ARM filing. Finally, in consideration of the current impacts to customers from COVID-19, I also provide and recommend approval of an alternate 2019 annual reconciliation balance deficiency, this alternate balance has been reduced by accelerating certain tax credits and benefits realized as a result of the Tax Cuts and Jobs Act ("TCJA"), which substantially lowers the Company's overall rate increase. I also address the resulting balance deficiency without accelerating these TCJA credits and benefits as is otherwise required by ARM Order.

Q. ARE YOU SPONSORING ANY EXHIBITS?

A. Yes. In addition to this testimony, I am sponsoring three Exhibits. The Exhibits are comprehensive documents and, as such, contain certain noted Schedules that are sponsored by Mr. Archie Hickerson.

- Exhibit GT-1 is the ARM Model which contains the calculation of the 2019 annual reconciliation balance and 2020 rate reset, and other supporting Schedules. The following Schedules in Exhibit GT-1 are sponsored by Mr. Archie Hickerson: Schedules 5.1, 6, 6.1, 13, 15, 15.1, 16.1, 16.1A, 16.2, 16.3, 16.4, 16.5, 17, 17.1, 18, 18.1 and 28.1.
- Exhibit GT-2 is a completed and updated Exhibit A as attached to the ARM Stipulation attached to the ARM Order. The exhibit has been updated and completed for the 2020 ARM filing based on a December 31, 2019 Historic Base Period. Exhibit GT-2 serves as both an overview of the filing and contains a complete list of the documents provided in the ARM filing. In addition to the Schedules noted in Exhibit GT-1, Schedule 35.8 in Exhibit GT-2 is sponsored by Mr. Archie Hickerson.
- Exhibit GT-3 provides CGC'S primary proposed 2019 annual reconciliation balance deficiency accomplished by accelerating the amortization of TCJA credits and benefits. The Exhibit also includes an updated 2020 rate reset calculation and total rate increase.

- I am also sponsoring the following additional Schedules required by the ARM Order: Schedules 21, 22, 23, 27, 30, 31, 32, 33, 34, 35, 36, 37 and 38.

Q. ARE ALL OF THE REQUIRED ARM SCHEDULES IDENTIFIED IN THE ARM ORDER INCLUDED IN CGC'S ARM FILING?

A. Yes, CGC's ARM filing includes all of the required ARM Schedules identified in the ARM Order, as well as other supplemental workpapers filed in Schedule 35, Additional Workpapers.

Q. PLEASE PROVIDE A BRIEF OVERVIEW OF THE SUPPLEMENTAL WORKPAPERS SUBMITTED IN SCHEDULE 35.

A. Schedule 35 includes nine supplemental workpapers. A brief description of the workpapers is provided below.

- Schedule 35.1, Affiliate Agreements. This Schedule contains confidential information. The schedule includes the following agreements: AGSC Tax Allocation Agreement, AGSC-CGC Services Agreement, AGSC-SCS Services Agreement, AMA & Agency Agreement (CONFIDENTIAL), AMA & Agency Agreement (PUBLIC DISCLOSURE), Master LNG Sales Agreement (CONFIDENTIAL), Money Pool Agreement and SCS Tax Allocation Agreement.
- Schedule 35.2, SCS Incentive Compensation Workpaper. This details for the breakout of SCS incentive compensation account 670640 between short-term and long-term incentive compensation.

- Schedule 35.3, Other Post Retirement Benefits Payments Workpaper. This provides support for the direct and allocated OPEB payments.
- Schedule 35.4, Pension Payments Workpaper. This provides support for CGC pension cash contributions/payments.
- Schedule 35.5, EDIT Bal & Act Workpaper. This includes tax reports and workpapers supporting EDIT balances and activity.
- Schedule 35.6, Outside Services YE Accruals Workpaper. This has direct and allocated OS accruals in excess of 25K.
- Schedule 35.7, ADIT Workpaper. This tax reports supporting ADIT balances and support for the OPEB/Pension ADIT adjustments.
- Schedule 35.8, Cost of Service.
- Schedule 35.9, Fines and Penalties. This has direct and allocated account level details for the fines and penalties adjustment.

III. OVERVIEW & HISTORY OF CGC'S ANNUAL REVIEW MECHANISM.

Q. WHAT IS THE PURPOSE OF THE COMPANY'S ANNUAL REVIEW MECHANISM.

A. The purpose of CGC'S ARM is to provide the Company a reasonable and timely means of recovering its cost of service as measured against its current authorized rate of return set in the Rate Case Docket Amended Order of January 15, 2019 ("Rate Case Order"). The Company's ARM is symmetrical ensuring that any earnings in excess of its authorized rate of return are returned to customers, while also allowing the Company to recover any deficiency as measured against the rate of return. The ARM is a comprehensive mechanism based on known historical information and data and includes all components of the Company's cost of service including capital investment, depreciation expense, O&M expenses, taxes, and revenues. Ultimately, the ARM mechanism allows the Company to recover its cost of service in a timely manner while avoiding the cost and time necessary for a general rate case, and earn a fair and reasonable rate of return as established in the Rate Case Order.

Q. WHAT IS THE BASIS FOR CGC'S ARM FILINGS IN THIS DOCKET?

A. The ARM process we are following was set forth in a Settlement Agreement reached by and between the Company, the Consumer Advocate Unit of the Attorney General's Office ("Consumer Advocate"), the Chattanooga Regional Manufacturers Association ("CRMA"), and Party Staff on July 26, 2019. This Settlement Agreement was subsequently approved by the Commission in the ARM Order on August 12, 2019.

Q. PLEASE PROVIDE A GENERAL DESCRIPTION OF CGC's ARM AND HOW IT WORKS.

A. The Company's ARM mechanism has two components: (1) recovery or refund of a Historic Base Period revenue deficiency or surplus referred to as the annual reconciliation balance, and, (2) a prospective rate setting mechanism referred to as the rate reset. Both the calculation of the annual reconciliation balance and the rate reset include the rate-making adjustments and methodologies set forth in the ARM Order.

The Historic Base Period annual reconciliation balance is determined based on a review of the Company's actual rate of return compared to its current authorized rate of return of 7.12%. The resulting revenue deficiency or surplus for the Historic Base Period is then deferred and included in the Company's calculation of the rate reset. The rate reset utilizes the same Historic Base Period cost of service but is adjusted for the recovery or refund of the annual reconciliation balance and certain normalization adjustments described in detail below. Simply put, rates are set annually to recover or refund the prior year's annual reconciliation balance and collect on a going forward basis rates needed to earn the authorized rate of return.

Q. WHAT ARE THE COMPONENTS THAT MAKE UP THE AUTHORIZED RATE OF RETURN OF 7.12%?

A. The 7.12% is CGC's current authorized rate of return, approved by the Commission in the Rate Case Order. The capital structure consists of 6.30% short-term debt, 44.47% long-term debt, and 49.23% equity. The cost of short-term debt is 3.01%, long-term debt is 4.73%, and the return on equity is 9.8%. Furthermore, the fixed rate of return 7.12% was agreed to by all parties in the ARM Docket and approved by the Commission in the ARM Order, so this is a fixed component for purposes of the Commission's review of CGC's ARM filing in this case.

Q. HAVE YOU COMPLIED WITH THE RATE-MAKING METHODOLOGIES AND FILING REQUIREMENTS SET FORTH IN THE RATE CASE ORDER AND THE ARM ORDER?

A. Yes, the Company's ARM filing incorporates the rate making methodologies established in the Rate Case Order and the stipulated filing requirements approved in the ARM Order. The ARM Order also includes the requirement for CGC to provide monthly operating metrics to the Consumer Advocate and for CGC to develop a Cost Allocation Manuel ("CAM"), which CGC initially committed to doing in the Rate Case Docket.

Q. PLEASE EXPLAIN THE CAM REQUIREMENTS SET FORTH IN THE ARM STIPULATION.

A. As approved by the ARM Order, the Company agreed to prepare and present the CAM to the Commission Staff and any interested parties in person with the appropriate Company personnel at a mutually agreeable time in Atlanta, Georgia before the close of 2019. The purpose of the meeting was to provide Staff and the Commission with a better understanding of the services company allocation process as well as to review the draft CAM, with the draft CAM required to be provided to the parties seven days prior to the meeting. The Company provided the draft CAM to Staff and the Consumer Advocate on October 15, 2019 for a meeting that was scheduled to occur in Atlanta on October 28 and 29, 2019. The meeting was held as scheduled, and the Company presented and discussed the allocations process for Southern Company Services ("SCS") and AGL Services ("AGSC"), reviewed the draft CAM, and responded to the questions posed by the Staff and Consumer Advocate representatives who attended the meeting. The 2019 AGSC CAM is included as part of the Company's ARM filing in Schedule 32. This CAM as being filed in this case incorporates the feedback received on the draft CAM from the meeting with the parties and has been updated with 2019 data.

Q. WERE CGC's 2019 ALLOCATED SERVICE COMPANY COSTS BASED ON THE COST CAUSATION PRINCIPLES AND PROCESSES OUTLINED IN THE 2019 AGSC CAM?

A. Yes, service company costs allocated to CGC in 2019 followed the cost causation principles and allocation processes outlined in the AGSC CAM. The basis for the AGSC CAM is the AGSC services agreement with CGC. The AGSC CAM, however, is a more thorough and complete picture of the allocation process, including supplemental workpapers supporting the allocation process. This is also supported by the Shared Services Study conducted by Strategy&, which has been included as Schedule 32.1 with the 2019 AGSC CAM. The study concludes that the services provided by both AGSC and Southern Company Services are necessary, beneficial, and not duplicative, with the allocated costs of such services provided being reasonable and providing CGC a significant cost benefit that would not be obtainable without the service companies.

IV. CGC'S 2019 ANNUAL RECONCILIATION BALANCE AND 2020 RATE RESET.

Q. WHAT CALCULATIONS HAVE YOU PERFORMED FOR THE ARM FILING?

A. I have calculated the Company's actual rate of return for the 2019 Historic Base Period and compared the results to the authorized rate of return approved by the Commission. The difference, with the addition of carrying costs, comprises the Company's annual reconciliation balance. After calculating the annual reconciliation balance, I calculated the 2020 rate reset which includes normalization adjustments and recovery of the 2019 annual reconciliation balance over one year.

The results and supporting calculations are shown in Exhibit GT-1. All of the calculations were made in accordance with the approved methodologies.

Q. PLEASE DISCUSS THE RESULTS OF YOUR CALCULATIONS.

A. The Company's actual rate of return for the Historic Base Period is 5.28%. This return is significantly less than the authorized rate of return of 7.12% approved by the Commission. The difference between the authorized rate of return and actual rate of return results in a total annual reconciliation balance revenue deficiency of $3,997,504, with the addition of carry cost the total deficiency balance is $4,160,209. The annual reconciliation balance is presented in Schedule 29 in Exhibit GT-1. The rate reset rate of return is 5.42%, the rate reset return is higher due to the ARM normalization adjustments. The difference between the authorized rate of return and actual rate of return for the rate reset results in a revenue deficiency of $3,688,861.

Incorporating both the 2019 Historic Base Period annual reconciliation balance and 2020 rate reset results in a total rate adjustment of $7,963,550. CGC refers to this as the required ARM Order reconciliation balance and rate reset since it strictly applies all of the requirements of the ARM Order as required therein.

Q. IN GETTING TO THIS REQUIRED ARM ORDER TOTAL RATE ADJUSTMENT, WERE ALL THE IMPACTS OF THE TCJA INCORPORATED INTO THE ARM FILING AS DIRECTED BY THE COMMISSION IN THE TAX DOCKET?

A. Yes, the required ARM Order reconciliation balance and rate reset includes the TCJA credits as directed in the Tax Docket Final Order issued on May 20, 2020

("Tax Docket Order"). Specifically, the TCJA reserve liability and associated deferred income taxes are included in rate base in the Historic Base Period for the calculation of the 2019 annual reconciliation balance. For the 2020 rate reset, the reserve is being amortized over three-years and the reserve balance and associated deferred income taxes have been adjusted for this activity and included in rate base in the calculation of the rate reset.

Q. IS THIS REQUIRED ARM ORDER RECONCILIATION BALANCE AND RATE RESET WHAT CGC IS PROPOSING THE COMMISSION APPROVE IN THIS CASE?

A. No, this is not our primary proposal for the Commission to approve. The Commission should approve this required ARM Order reconciliation balance and rate reset only if the Commission rejects CGC's primary proposal.

Q. WHAT IS CGC'S ARM PRIMARY PROPOSAL FOR THE COMMISSION IN THIS DOCKET?

A. As a result of the recent and unforeseen customer impacts caused by the COVID-19 novel coronavirus pandemic and the recent tornado in Chattanooga, the Company is proposing to accelerate the TCJA reserve amount I discussed above for the 2018 tax savings and the deferred EDITs, which help to offset some of the 2019 annual reconciliation balance, resulting in an overall lower rate increase for customers. Additionally, there are two other remaining tax benefits resulting from the TCJA that may be accelerated, and the Company is proposing to accelerating these items in addition to the tax reserve identified above, therefore further reducing the 2019 annual reconciliation balance and rate increase for customers. As Mr.

Leath notes in his testimony, the Commission has already determined that these credits and benefits belong with the customers. We believe that given the present circumstances, it is in the public interest to accelerate these TCJA credits and benefits in this proceeding.

Q. PLEASE DISCUSS THE REMAINING TCJA TAX BENEFITS THAT THE COMPANY IS PROPOSING TO ACCELERATE.

A. The two remaining TCJA tax benefits that the Company is proposing to accelerate are the basis adjustment EDIT balance and the existing unprotected EDIT reserve.

The first tax benefit, the basis adjustment EDITs are currently being amortized with the protected EDITs using the average rate assumption method ("ARAM"), which amortizes the balance over the life of the underlying assets. However, the basis adjustments are not considered protected under IRS tax guidelines and could be accelerated and returned to customers as determined by the Commission. The projected ending basis adjustment EDIT balance aligning with the commencement of new rates in October 2020 is $707 thousand or $957 thousand grossed-up.

The second tax benefit identified is the remaining amortization of the existing unprotected EDIT reserve balance. The Commission approved a five-year amortization of an unprotected EDIT balance of $2.5 million in the Rate Case Order. As filed in the Tax Docket, after actualizing for the 2017 tax return in 2018, the unprotected EDIT balance changed from $2.5 million to $1.9 million. The Company amortized the Commission authorized amount in 2018, 2019, and 2020 of $501 thousand, leaving a remaining amount of $438 thousand or $592 thousand grossed-up to be amortized in 2021.

Q. PLEASE SUMMARIZE THE TCJA TAX BENEFITS THAT THE COMPANY IS PROPOSING TO ACCELERATE AND APPLY AGAINST THE 2019 ANNUAL RECONCILIATION BALANCE DEFICIENCY?

A. The TCJA tax benefits the Company is proposing to accelerate total $3.394 million, separately they are $1.845 million, $957 thousand and $592 thousand for the accelerating the return of the tax reserve, federal basis adjustment EDIT balance, and remaining unprotected EDIT reserve, respectively. By applying the remaining benefits from the TCJA to the 2019 annual reconciliation balance deficiency, the overall rate increase to customers is reduced to $5.188 million as presented in Exhibit GT-3.

Q. ARE THERE ANY IMPACTS THE COMMISSION SHOULD BE AWARE REGARDING THE COMPANY'S PROPOSAL?

A. Yes. Based on the prescribed ARM filing presented in Exhibit GT-1, the tax reserve is being returned over three-years beginning in the 2020 rate reset. Accelerating the return of this reserve by applying the tax reserve balance to the 2019 annual reconciliation balance deficiency causes the 2020 rate reset to increase from $3.689 million to $4.401 million. The remaining tax benefits identified would be recorded throughout all or a majority of 2020 but would not be available in 2021 to potentially offset any increases in the 2021 and 2022 ARM filings due to the absence of these credits.

Q. PLEASE PROVIDE THE COMPONENTS THAT MAKE UP THE 2019 ANNUAL RECONCILIATION BALANCE DEFICIENCY OF $3.998 MILLION?

A. The primary components that make up the revenue deficiency of $3.998 million is $1.275 million in capital, $1.545 million in allocations, $365 thousand in payroll expense, and $1.320 million in outside services. The cost increases are offset, primarily, by an increase in margin to arrive at the $3.998 million deficiency. The Company's last rate increase was based on forecasted capital and capital components through June 2019 and actual expenses incurred for calendar year 2017 with growth factors applied. Comparisons of the 2019 Historic Base Period cost of service to the cost of service approved in the Rate Case Docket is provided in Schedules 2 and 5 of Exhibit GT-1 for rate base components and the income statement, respectively.

Q. WERE THE RATE MAKING ADJUSTMENTS SET FORTH IN CGC'S RATE CASE ORDER REFLECTED IN THE CALCULATION OF THE REVENUE DEFICIENCY?

A. Yes, all rate making adjusted were performed. A summary of the rate making adjustment amounts and by roll-up category is provided in Schedule 5 of Exhibit

Rate Making Adjustments	Schedule
Exclude AMA Management & Consulting Fee from Revenues	Schedule 5.1
Exclude 50% of Direct and Allocated Short-Term Incentive Comp.	Schedule 27
Exclude 100% of Direct and Allocated Long-Term Incentive Comp.	Schedule 27
Exclude 100% of Promotional Advertising	Schedule 26
Exclude 100% of Lobbying Costs	Schedule 24
Exclude 100% of Supplemental Executive Retirement Plan Costs	Schedule 25
Exclude Pension and OPEB Costs, Include Actual Cash Contributions	Schedule 25

GT-1. The amounts are further linked within the model to supporting workpapers. The table below list each rate making adjustment and the Schedules the adjustment details are provided within.

Q. WERE ANY OTHER ADJUSTMENTS INCLUDED IN THE CALCULATION OF THE DEFICIENCY?

A. Yes, in addition to the prescribed rate making adjustments made in the Rate Case Docket, the Company has also removed a legal reserve recorded in November 2019, removed the impact to revenue associated with an increase in the TCJA reserve and miscellaneous billing adjustments, removed direct and allocated fines and penalties, and made an adjustment to recognize only one-fifth of the allocated pension contribution recognized in the Historic Base Period. The legal reserve adjustment is discussed in Schedule 37 of Exhibit GT-1. The allocated pension adjustment is provided in Schedule 25 of Exhibit GT-1 with support for the cash contributions provided in the actuarial reports in Schedule 34 of Exhibit GT-3.

Q. COULD YOU FURTHER DISCUSS THE PENSION ADJUSTMENT?

A. Southern Company Gas made a contribution of $145 million to fully fund the Southern Company Gas pension plan in December 2019. Of this amount, approximately $69 million was for the AGSC pension plan. Consistent with the calculation and use of a service company cost allocation factor in CGC's 2018 rate case to perform service company adjustments, CGC has calculated an allocation factor of 2.23% for the 2019 Historic Base Period. Applying the 2019 AGSC allocation factor to the total AGSC pension contributions, net of capitalizations, results in allocated pension contribution cost of $1.3 million to CGC. Due to the large nature of the contribution and that the contribution is non-recurring and infrequent in nature, the Company is requesting and has submitted the ARM filing with the pension contributions amortized over five-years and the inclusions of the deferred costs, net of tax impacts, included in rate base.

Q. WHAT WAS THE BASIS FOR THE SOUTHERN COMPANY GAS PENSION CONTRIBUTION?

A. Southern Company Gas, with guidance from its Actuary AON, reviews its plan regularly, at least annually, and seeks to maintain a pension funding status between 90-100%. This funding status is a prudent course of action for both employees and customers. For our current and former employees, this funding status provides more certainty and financial security on their pension benefit. For our customers, it benefits them as the invested funds reduce future contributions as a result of growth

Prescribed Adjustment	Schedule
Weather Normalization	Schedule 16.3
Other Revenues (four-year avg.)	Schedule 28
Depreciation Expense	Schedule 14
Annual Reconciliation Balance	Schedule 29
Interest on Customer Deposits	Schedule 28
Uncollectible Expense (five-year avg.)	Schedule 28
Docket 19-00047 Expenses (three-year amort.)	Schedule 28
Material and Supplies (three-year avg.)	Schedule 28
Prepayments (three-year avg.)	Schedule 28
Gas Inventory (three-year avg.)	Schedule 28
Reserve for Uncollectible (three-year avg.)	Schedule 28
Reserve for Health Insurance (three-year avg.)	Schedule 28
Other Reserves (three-year avg.)	Schedule 28
Tax Cut & Jobs Act (three-year amort., Dkt 18-00035)	Schedule 28

on these investments, and it allows the Company to avoid variable rate premiums charged by the Pension Benefit Guaranty Corporation.

Q. PLEASE DISCUSS THE NORMALIZATION ADJUSTMENTS PERFORMED IN THE 2020 RATE RESET.

A. The methodologies for the 2020 rate reset include normalizing certain rate base and income statement items. In addition to the prescribed normalization adjustments, the rate reset also allows for the adjustment of any material one-time, non-recurring items. The tables below list each normalization adjustment and the Schedules the adjustment details are provided within.

Please see the testimony of Mr. Archie Hickerson for an explanation of the Special Contract to Firm Customer Revenues adjustment.

Material One-Time, Non-Recurring Adjustments	Schedule
Special Contract to Firm Customer Revenues	Schedule 28 & 28.1
Group Insurance - Medical (five-year Avg.)	Schedule 28
Non-Recurring Outside Services	Schedule 28 & 28.2

Q. COULD YOU DISCUSS THE ADJUSTMENTS FOR GROUP INSURANCE AND NON-RECURRING OUTSIDE SERVICES?

A. The group insurance adjustment was made to normalize the 2019 Historic Base Period costs which were significantly higher than recently incurred costs. CGC is self-insured and can have material variations in cost from one year to the next due to its population size. The non-recurring outside services adjustment is comprised of four adjustments which rollup to the outside services category, each adjustment by account is presented in Schedule 28.2 of Exhibit GT-1. The charges removed were for one-time or non-recurring costs related to licensing fees, LNG plant maintenance, software application startup fees, and contractor costs.

V. CONCLUSION.

Q. PLEASE SUMMARIZE CGC's ARM FILING AND PRIMARY PROPOSAL FOR APPROVAL BY THE TENNESSEE COMMISSION.

A. The Company has submitted a 2019 annual reconciliation balance and a 2020 rate reset, both of which are based on and comply with the methodologies approved by this Commission in the Rate Case Order, including the required rate making and normalization adjustments. The Company has also produced all the necessary filing documents supporting the calculation of the 2019 annual reconciliation balance and the 2020 rate reset as is required by the ARM Order. In addition to making the required ARM Order filings, CGC's primary proposal is to also accelerate the amortization of certain TCJA credits and benefits in order to reduce the ARM annual reconciliation balance and thereby reduce the total rate increase to customers. Due to how the COVID-19 pandemic and the recent Chattanooga tornado has impacted CGC's customers, I respectfully request that the Commission approve and set rates based on CGC's primary proposal for the 2019 annual reconciliation balance presented in Exhibit GT-3, which accelerates the remaining TCJA tax benefits resulting in a total rate increase of $5,188,095.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.