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Before the
Tennessee Public Utility Commission

Docket No. 20-00139

December 8, 2021

Docket to Evaluate Chattanooga Gas Company's
Purchases and Related Sharing Incentives

Direct Testimony Of
Gregory Becker
On Behalf Of
Chattanooga Gas Company

I. INTRODUCTION AND WITNESS QUALIFICATIONS

Q. Please state your name and business address.

A. My name is Gregory Becker. My business address is Ten Peachtree Place, Atlanta, GA 30309.

Q. By whom are you employed and in what position?

A. I am the Director, Capacity Planning for Southern Company Gas. Southern Company Gas is the holding company for four natural gas distribution companies, including Chattanooga Gas Company ("CGC" or the "Company"), in Tennessee, Georgia, Illinois, and Virginia.

Q. Please describe your responsibilities as Director, Capacity Planning.

A. As Director, Capacity Planning, I have responsibility for load forecasting and economic analysis of pipeline capacity and gas supply services for Southern Company Gas, including CGC.

Q. Please summarize your educational background and work experience.

A. In 2003, I received a Bachelor of Arts degree in Management from Southern Polytechnic State University in Marietta, Georgia. Southern Polytechnic State University is now part of Kennesaw State University.

I began my career in 1990 at National Fuel Gas in Buffalo, New York as an Analyst in the Gas Supply department. In 1998, I moved to Georgia for a position at a company called New Energy Associates as a Senior Consultant in their gas division. In this role, I supported clients throughout North America in the utilization of a proprietary gas supply planning and forecasting software called SENDOUT®. Then, in 2006, I joined Southern Company Gas (previously AGL

Resources) as a Senior Analyst in the Gas Operations Department. I was subsequently promoted to Manager, and I now serve in my current role as Director, Capacity Planning.

II. PURPOSE OF TESTIMONY

Q. What is the purpose of your direct testimony?

A. The purpose of my testimony is to respond to the prefiled testimony of the Consumer Advocate witness, Mr. David Dittemore and the Exeter Report that he relied upon for his testimony. I will also respond to the information provided by the Exeter consultant, Mr. Jerome Mierzwa, who provided responses to some discovery questions that our lawyers made to Exeter.

Q. Are you sponsoring any exhibits?

A. Yes, I have one exhibit, Exhibit GB-1, the July 15, 2003 letter from the Commission to CGC approving a tariff change to the IMCR tariff to implement the 50% sharing incentive.

Q. How was this proceeding initiated?

A. The Consumer Advocate initiated this docket on December 23, 2020, when it filed a petition ("Petition") seeking to modify CGC's performance based ratemaking mechanism ("PBRM"). The Consumer Advocate's Petition was based at least in part on the PBRM triennial review of CGC's gas costs and transactions for the period July 2016 to March 2019. Exeter Associates, Inc. ("Exeter"), the independent consultant that conducted an audit of CGC's PBRM, issued its *Review of Performance Based Ratemaking Mechanism Transactions and Activities* ("Report") that was filed in Docket No. 07-00224 on June 29, 2021. The Report made a number of findings, many of which were separately implemented by CGC after working with the Commission Staff as the Commission directed in its October 27, 2020, Order Concerning 2020 Triennial Review, issued in Docket 07-00224. At a Status Conference in this docket with the Parties, the Consumer Advocate agreed to limit the scope of this docket to a single issue: *Should the sharing incentive percentage of Chattanooga Gas Company's Asset Management and Agency Agreement ("AMAA") be modified and if so, what is the appropriate percentage*? The Hearing Officer memorialized this sole issue in the *Order Establishing Issue to be Addressed in Docket and Setting Date for Response* issued April 7, 2021.

Q. Please briefly summarize that current sharing mechanism.

A. The current sharing mechanism has a long, and well-established history. The sharing mechanism is set forth in CGC's Interruptible Margin Credit Rider ("IMCR") and an amendment that was effective on January 1, 2003. See attached Exhibit GB-1. In 2007, the Commission opened Docket 07-00224 to address asset management and capacity issues raised by the Consumer Advocate. In a series of Commission orders beginning in 2009, the Commission required that CGC must submit future asset management requests for proposals for approval by the Commission before placing them out to bid. The Commission also required that a triennial review of the transactions and activities related to CGC's performance based rate mechanism would be conducted every three years by an independent consultant pursuant to procedures and criteria set forth in its October 13, 2009

Order. CGC has had three triennial reviews, in 2014, 2017, and 2020, all conducted by Exeter.

The sharing component does not arise under the PBRM – so there is no sharing of savings or losses from CGC's commodity gas costs. Rather, durative of the third-party Asset Manager retained through the PBRM process, there is a 50/50 sharing of the Asset Manager Agreement ("AMA") fees paid by the third-party Asset Manager to CGC, as well as a 50/50 sharing of margins generated by the Asset Manager from capacity release and off-system sales made by the Asset Manager. It is only this very limited 50/50 splitting of AMA fees and the marginal revenues obtained from capacity releases and off-system sales that are set forth in through CGC's separate IMCR tariff first effective in 2003.

III. RESPONSE TO THE EXETER REPORT

Q. What is the Consumer Advocate's proposal to change CGC's IMCR sharing percentage?

A. Their case is to ask the Commission to adopt a 25/75 CGC/customer split based upon a recommendation in the 2020 Exeter Report.

Q. What exactly does the Report say on this subject?

A. Exeter's evaluation of CGC's AMA and off-system sales is at pages 43-46 of the Report. The full Report, parts of which are confidential, was filed in Docket 07-00224. The Report has also been filed in this docket as Confidential Exhibit DND-3 to the prefiled direct testimony of the Consumer Advocate witness, Mr. David Dittemore.

The Report makes some very general introductory statements about other jurisdictions where natural gas utilities have different sharing of capacity release revenues, off-system sales margins, and AMA fees. The Report then summarizes how the CGC IMCR sharing mechanism works. The Report follows by briefly summarizing the Atmos performance based ratemaking mechanism and the Piedmont performance incentive plan. Following the description of the Atmos mechanism and the Piedmont plan, the Report provides a "Balance of Incentives" wherein it reports that in other jurisdictions the sharing percentages range from 90% customer/10% utility to 75% customer/25% utility, noting that Atmos is 90/10 customer/utility and Piedmont is 75/25 customer/utility. The Report then concludes:

> Exeter has observed no material differences in the resource efforts of natural gas utilities to generate AMA fees, capacity release revenues, or off-system sales margins under a 25% sharing incentive compared to a 10% sharing incentive, nor has Exeter observed a natural gas utility failing to devote sufficient resources to maximize these revenues/margins when provided a sharing incentive. An incentive mechanism should provide a utility with an incentive sufficient to ensure ratepayer benefits are maximized since it is resources paid for by ratepayers that are used to generate AMA fees, capacity release revenues, and off-system sales margins. Therefore, Exeter concludes that for AMA fees, a 75% customer / 25% utility sharing incentive would be more appropriate for CGC and reflect a reasonable balance of incentives.

Q. What are your concerns with what the Report has to say about changing the CGC sharing percentage to 75/25 customer/utility?

A. On its face, there are numerous problems with this. First, there is nothing in the Report that says that under the current 50/50 split that customers are being harmed or disadvantaged. Likewise, there is nothing that says that a change from 50/50 to 75/25 customers/utility that CGC's customers will derive any benefit or any better benefit over what it has now. So there is no evidence supporting any change.

Second, the entire basis for making the change is that Atmos and Piedmont have different sharing percentages than CGC. There is nothing in the Report indicating why the sharing percentages of Atmos or Piedmont are an appropriate surrogate for CGC other than the fact that all three are regulated by the TPUC. Indeed, there is nothing in the Report to indicate that CGC is in any way similar to Atmos or Piedmont, both of which are more than twice the size of CGC and each of which has its own unique service territory and customer mix issues. Thus, there is no basis for reliance on Atmos or Piedmont for changing the way CGC is regulated.

Third, in relying upon Atmos and Piedmont, each of them have mechanisms that are different from each other, and both are different than CGC's. There is no explanation or consideration for whether the differences in the mechanisms between Atmos and Piedmont are material or whether their differences from CGC are material. Again, there is no basis to rely upon the regulatory treatment of Atmos or Piedmont.

Fourth, not only are the Atmos and Piedmont mechanisms different from each other and different from CGC, they each have different sharing splits -- while Piedmont may have a 75/25 customer/utility split as Exeter is advocating for CGC, the Atmos mechanism is a 90/10 customer/utility split. There is no attempt to reconcile the different Atmos and Piedmont splits to CGC in its unique circumstances. There is no explanation for these differences or why 75/25 is appropriate for CGC.

Fifth, in proposing a change from a 50/50 split to a 75/25 split, there is no analysis, no consideration, and no review of any kind of how changing CGC's sharing from 50/50 to 75/25 will work as well or provide the same type of incentives as the 75/25 customer/utility split for Piedmont or as effectively as the 90/10 for Atmos. An argument to change CGC without these questions being answered would be irresponsible.

Finally, using 75/25 is completely arbitrary. The Report indicates that Exeter has not "observed" any material differences between a 90/10 split versus a 75/25 split. The initial problem with this is that, Exeter offers no reason for why it picked 75/25 customer/utility versus 90/10 customer/utility. On the other hand, while Exeter may not have "observed" any material difference between 75/25 and 90/10, it completely fails to consider whether there is a material difference between 50/50 versus the 75/25 or 90/10 splits. Again, there is simply no support for changing anything.

Q. Do you have any concluding remarks about the Exeter Report and its recommendation to change the CGC split from 50/50 to 75/25?

A. Yes. First, there is nothing compelling about the recommendation because it is simply based upon the statement that Atmos and Piedmont do not have 50/50 sharing splits. Mere reliance on a different sharing split without any information demonstrating that the status quo is inferior or can be made better, or any analysis of how the change will impact CGC and its ratepayers is irrational. The Consumer

Advocate is presumably advocating for this change because they apparently believe it will provide more revenue to the benefit of CGC's customers – but there is absolutely no evidence to support that conclusion in the Exeter Report, let alone where anyone benefits or is harmed and by how much.

Second, the Exeter Report utilizes stale information, which only further demonstrates why reliance on Atmos or Piedmont is very misguided. The sharing incentive information for Atmos in the Report is actually the sharing incentive as it was on March 31, 2014. The Consumer Advocate and Atmos entered into a settlement in December 2016 that was approved by the Commission on January 19, 2017, in Docket 16-00028. In that approved settlement, several aspects changed. The Atmos sharing percentage changed significantly. It moved from 90/10 customer / utility up to 75/20 for off-system sales margins and capacity release revenues. More importantly the annual cap increased from $1.25 million to $2.0 million. In the final analysis, each utility's situation is different and should be evaluated on its own merits. Merely trying to mimic another utility's sharing percentage in a vacuum is bad public policy and can lead to unintended results, especially when there is no substantive analysis in the first place.

IV. RESPONSE TO MR. DITTEMORE

Q. In support of changing CGC's sharing incentive percentage, the Consumer Advocate has prefiled the testimony of Mr. David Dittemore. Have you reviewed Mr. Dittemore's testimony and exhibits?

A. Yes, I have.

Q. In seeking to change the sharing incentive percentage of Chattanooga Gas Company's Asset Management and Agency Agreement ("AMAA"), what is the Consumer Advocate's position?

A. Based upon the information in the Exeter Report, the Consumer Advocate, through its witness Mr. Dittemore, seeks for the Commission to set CGC's sharing percentage set at 25% of the asset management fees, capacity release revenues, and off-system sale margins along with an annual cap of $550,000, implemented on a prospective basis. [Dittemore Direct at p. 5.].

Q. What is the basis for Mr. Dittemore's recommendations?

A. He says the basis for his recommendations is the Exeter Report.

Q. Does the Exeter Report propose to cap CGC's sharing revenues at $550,000?

A. No, that is not anywhere in the Report. The Report does note that Atmos and Piedmont have caps, which as I have already discussed is wrong for Atmos. But there is nothing in the Report stating or even suggesting that caps are appropriate for CGC, let alone that those caps are reasonable or in the public interest.

Q With respect to Mr. Dittemore's recommendation for a 25% sharing incentive for CGC versus the current 50%, you have already presented your criticisms of the Report with respect to the sharing incentive percentage split. Did Mr. Dittemore offer any independent or additional information to support changing the sharing incentive percentage split or for the 25% he is recommending?

A. With respect to the 25% sharing incentive percentage for CGC, Mr. Dittemore did not provide any independent or additional evidence of any kind in support of changing the long standing 50/50 split. He simply says that the Commission may use an independent report such as the Exeter Report. It is not clear to me that use of the Exeter Report alone is enough to justify such a change. However, as I have already testified, the Exeter Report conclusion to change to a 75/25 customer/utility sharing incentive split is made without any statement that there is a problem with the current split, whether changing would have adverse consequences, or that there will be benefits from changing the split from 50/50 to 75/25. As I have said, it is completely arbitrary given the absence of any support for changing the status quote.

Q. Did Mr. Dittemore offer any testimony as for the need for a change or how this change will be better for consumers and the Company?

A. No, he does not. Interestingly, he does acknowledge that the purpose of the IMCR sharing split is to provide CGC with an incentive to maximize off-system sales. But again, Mr. Dittemore, like the Exeter Report, offers no evidence that changing the sharing percentage will provide a better incentive or that the proposed 75/25 customer/utility split will provide a better incentive than the current 50/50 split.

Q. Since the Exeter Report relies upon the TPUC's experience with the Atmos and Piedmont sharing incentives, does Mr. Dittemore have anything to say about Atmos and Piedmont and why or how their experiences are relevant to CGC?

A. No. Mr. Dittemore provides some very basic information about the size of Atmos (155,000 customer) and Piedmont (194,000 customers), which are more than twice the size of CGC (approximately 69,000 customers), but he is silent on explaining how or why the Atmos and Piedmont observations are relevant to CGC. He also speaks to the Atmos and Piedmont sharing mechanisms, which are different than how CGC's mechanism works. He also notes the Atmos $1.25 million cap and the Piedmont $1.6 million cap, but he does not explain how his $550,000 proposed CGC cap relates to those other caps. Mr. Dittemore uses this information to calculate that the Atmos incentive retention approximates $8 per customer per year and the Piedmont incentive approximates $8.25 per customer per year but there is no testimony as to whether this is good or bad, let alone how this information relates to CGC.

Q. Do you have any concluding remarks about Mr. Dittemore's testimony?

A. Mr. Dittemore, by his own admission, is relying upon the Exeter Report for why the long-standing sharing incentive 50/50 split should be changed and why it should be changed to 75/25 customers/utility, but neither the Report nor Mr. Dittemore provide any basis for change or for the recommended percentage. Worse still is Mr. Dittemore's proposed cap of $550,000, which is completely absent in Exeter Report even though he says, "The basis for my recommendation is the information provided within the June 2020 Exeter Report." You won't find $550,000 in the Report, nor will you find any statement that CGC should also have a sharing revenue cap of any kind.

V. RESPONSE TO EXETER DISCOVERY INFORMATION

Q. Did CGC conduct any type of inquiry into the documentation supporting the Exeter Report?

A. Yes, the Hearing Officer worked with the parties to allow us to submit written questions to Exeter as a precursor to a potential deposition. Pursuant to this agreement, CGC prepared eight questions that sought both written responses and supporting documentation backing up the Exeter Report. The Hearing Officer transmitted those eight questions to Exeter and Mr. Jerome Mierzwa, who provided written responses and some attached documents to those questions. On the basis of this information, CGC did not believe it was necessary to take Mr. Mierzwa's deposition, and there was no deposition of Mr. Mierzwa.

Q. Did you review the information provided by Mr. Mierzwa?

A. Yes, I did.

Q. Please elaborate on the additional information CGC gained through this discovery to Exeter.

A. The main take away from Mr. Mierzwa's responses is that the Exeter Report relied upon Atmos and Piedmont because those utilities are regulated by this Commission. [Response 4c and 4g.] There was no additional explanation as to how either of those companies are similar to CGC or why they should be seen as good surrogates for CGC. Mr. Mierzwa also acknowledged that Exeter did not look at any gas utilities that used a 50/50 split. [Response 6.] Further, Exeter did not consider whether there was any material difference under a 50% sharing incentive versus either a 25% or 10% sharing incentive. [Response 7.]

Interestingly, in response to a question seeking further information about a reference the Exeter Report makes to Nicor in Illinois, Mr. Mierzwa provided a copy of his prefiled Rebuttal Testimony in ICC Docket Nos. 01-0705, 02-0067, and 02-0725, submitted on February 27, 2004. On page 5 of that testimony, Mr. Mierzwa states that it is not proper to consider the relationship of Nicor's gas cost to those of other Illinois utilities. He explains in detail how one utility is different from another, and that the performance of the gas cost incentive program of one utility is not the same as another. Given how the Exeter Report lacks an explanation supporting why change is needed, excludes any analytical support of a change and still there is a recommendation for a 25% sharing incentive for CGC. We should follow Mr. Mierzwa's Illinois testimony and not set policy for CGC in isolation solely on the basis of another utility doing something different.

VI. CONCLUSION

Q. Do you have any concluding remarks?

A. Yes. The combination of Mr. Dittemore's testimony and the Exeter Report **together** still fail to offer the Commission any answers to the basic questions that underlie this docket: what is the harm to the present 50/50 sharing incentive split; what are the benefits of going from 50/50 to 75/25 customers/utility; why is 75/25 customer/utility better than 50/50 or 90/10; and will the proposed 75/25 customer/utility split mean increased revenues to be split? None of these questions were answered by the Consumer Advocate's testimony, the Exeter Report, or the Exeter discovery responses. The Commission should stick with what has worked without issue since the IMCR tariff with sharing was first put into effect in 2003.

Q. Does this conclude your testimony?

A. Yes.

TENNESSEE REGULATORY AUTHORITY

Deborah Taylor Tate, Chairman
Pat Miller, Director
Sara Kyle, Director
Ron Jones, Director

THE GREAT SEAL OF THE STATE OF TENNESSEE XVI AGRICULTURE COMMERCE 1796

460 James Robertson Parkway
Nashville, Tennessee 37243-0505

July 15, 2003

Mr. Archie R. Hickerson
Manager - Rates
Atlanta Gas Light Company
Location 1686
P.O. Box 4569
Atlanta, GA 30302-4569

Dear Mr. Hickerson:

This is to acknowledge receipt of your letter dated June 16, 2003, enclosing a Tariff revision to Chattanooga Gas Company (CGC) Tariff No. 1:

Sixth Revised Sheet No. 48, Interruptible Margin Credit Rider (IMCR)

The tariff revision was proposed to modify the language of the current tariff to include all non-sales transactions between CGC and non-jurisdictional customers. The current tariff addresses only off-systems sales. Market conditions have since changed to enable the Company to enter into other transactions that utilize CGC's gas supply assets. I have reviewed the proposed changes and the Company's responses to the Staff's data request and the requested revision appears to be appropriate. The proposed effective date also appears to be appropriate. Chattanooga filed a PGA on May 27, 2002 to implement IMCR refund credits for the reporting period ending December 31, 2002. Therefore, Sixth Revised Sheet No. 48 is approved to be effective January 1, 2003, the beginning of the Company's next reporting period for these non-sales transactions.

For future reference, this Tariff filing is logged as number 03-00408. Please refer to this number in any correspondence regarding this particular filing.

Sincerely,

Pat Murphy

Pat Murphy
Interim Chief
Energy and Water Division

PM03-40.cgctariff

INTERRUPTIBLE MARGIN CREDIT RIDER

APPLICABILITY

This Rider shall apply to and become part of each of the Company's Rate Schedules under which gas is sold on a firm basis (hereinafter referred to as "Firm Schedule").

INTENT AND APPLICATION

This Interruptible Margin Credit Rider is intended to authorize the Company to recover ninety percent (90%) of the gross profit margin losses that result from rates negotiated under the provisions of Special Service Rate Schedule SS-1 or from customers who switch to alternate fuels where the Company is unable to meet alternate fuel competition.

This Interruptible Margin Credit Rider is also intended to authorize the Company to recover not more than fifty percent (50%) of the gross profit margin that results from trans actions with non-jurisdictional customers that rely on the Company's gas supply assets (all such transactions including off-system sales) should such transactions be made by the Company.

DETERMINATION OF GROSS PROFIT MARGIN LOSSES

The gross profit margin loss shall be calculated as ninety percent (90%) of the difference between the Test-Year Targeted Rate Margin as determined in the Company's most recent rate case order of the Authority and the Actual Negotiated Rate Margin.

Any amount of gross profit margin losses shall be recovered from the firm commodity component of gas costs as determined under the presently effective Purchased Gas Adjustment Provision.

FILING WITH THE AUTHORITY

Each negotiated rate gross profit margin loss accounting/recovery period shall correspond with the Company's Fiscal Year, which ends December 31, each year.

The Company shall charge all authorized negotiated rate gross profit margin losses to the "Deferred Gas Cost" account in accordance with Section III.C. of the Authority's PGA Docket No. G86-1 and shall file the supplemental sheets required by this Rule showing the calculation of the margin losses.