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IN THE TENNESSEE PUBLIC UTILITY COMMISSION
AT NASHVILLE, TENNESSEE

IN RE:	)	
	)	
DOCKET TO EVALUATE CHATTANOOGA GAS COMPANY'S PURCHASES AND RELATED SHARING INCENTIVES	)))	**DOCKET NO. 20-00139**
	)	

REBUTTAL TESTIMONY

OF

DAVID N. DITTEMORE

December 22, 2021

Q1. PLEASE STATE YOUR NAME.

A1. David N. Dittemore

Q2. DID YOU SUBMIT DIRECT TESTIMONY IN THIS DOCKET?

A2. Yes.

Q3. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A3. The purpose of my rebuttal testimony is to respond to certain statements made by Mr. Becker, testifying on behalf of Chattanooga Gas Company ("CGC" or the "Company").

Q4. IN YOUR OPINION WHAT IS THE UNDERLYING QUESTION CONFRONTING THE TENNESSEE PUBLIC UTILITY COMMISSION ("TPUC" OR THE "COMMISSION") IN THIS PROCEEDING?

A4. The central question confronting the Commission is what sharing percentage should be applied to the CGC's Performance Based Ratemaking Mechanism ("PBRM") that will derive the greatest benefit for CGC ratepayers.

Q5. WHY HAVE YOU EXCLUDED THE INTEREST OF CGC SHAREHOLDERS IN THE CONSIDERATION OF THE APPROPRIATE SHARING PERCENTAGE CONFRONTING THE COMMISSION?

A5. The regulatory compact that underlies utility regulation is an exchange between the utility and its customers. The utility is obligated to serve all eligible customers in their designated service area at the lowest reasonable cost, while also providing quality service. In exchange, the utility should have a reasonable <u>opportunity</u> to earn its authorized rate of return on prudently incurred assets as well as recovery of its operating expenses. There is no legal obligation that I'm aware of that extends the regulatory compact to suggest the utility is entitled to earn margins[1] on asset management services, capacity release transactions or off-system sales.

Q6. IF THERE IS NO LEGAL OBLIGATION TO PERMIT THE UTILITY TO RETAIN MARGINS ON THESE TYPES OF TRANSACTIONS, WHY SHOULD THERE BE ANY SHARING OF SUCH MARGINS WITH SHAREHOLDERS?

A6. The presumption is that by permitting the utility to retain a portion of such margins it will expend more effort to maximize such margins to the benefit of its customers. In other words, the assumption is the ratepayer portion of such margins would be greater under an incentive mechanism than if there were no sharing of such benefits with shareholders.

For the sake of this testimony and my direct testimony I am not challenging this assumption. I will point out that as a matter of public policy, the utility should diligently work to maximize such revenues for the benefit of its customers to provide service at the lowest possible cost – without the need for additional financial motivation to do so.

Q7. PLEASE BEGIN WITH IDENTIFYING YOUR FIRST CONCERN WITH THE TESTIMONY OF MR. BECKER.

A7. Mr. Becker's testimony indicates there is nothing in the Exeter Report that states under the current 50/50 split customers are being harmed or disadvantaged.[2]

Q8. DO YOU HAVE A RESPONSE TO THIS STATEMENT?

[1] The use of the term margins in my testimony includes Asset Management Agreement ("AMA") fees, as well as net revenue generated from capacity release and off-system sales transactions.

[2] Direct Testimony of Gregory Becker, pp. 5:30-6:1, TPUC Docket No. 20-00139 (Dec. 8, 2021).

A8. Yes. The "harm" comes into play by providing excessive compensation to shareholders of amounts that otherwise would contribute to the reduction of costs to captive customers.

Q9. WHAT IS THE NEXT POINT OF MR. BECKERS' TESTIMONY THAT YOU WISH TO ADDRESS?

A9. Mr. Becker states there is "nothing that says that a change from 50/50 to 75/25 customer/utility that CGC's customers will derive any benefit or any better benefit over what it has now."[3] The Exeter Report addresses this issue on page 45:

> 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.

There is an exception in Exeter's findings that margins generated would not decline under a 75/25 split of margins, including AMA fees, contrasted with the current 50/50 split. Thus, Exeter responded to this point contrary to the assertion made by Mr. Becker. The purpose of the mechanism is not to simply provide an opportunity for the Company to bolster its profit margins. Instead, the underlying goal should be to maximize margins for the benefit of customers with the goal of providing a reduced cost of service.

Q10. DO YOU HAVE OTHER ASPECTS OF MR. BECKER'S TESTIMONY YOU WOULD LIKE TO DISCUSS?

A10. Yes. Mr. Becker's testimony does not identify any other utilities with a 50/50 sharing mechanism. Mr. Becker incorrectly concludes that the "entire basis for making the change is that Atmos and Piedmont have different sharing percentages than CGC."[4]

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[3] *Id.* at p. 6:1-3.
[4] *Id.* at p. 6:4-5.

The Exeter report states on page 45 that:

> In other jurisdictions, sharing percentages that range from 90% customer / 10% utility to 75% customer / 25% utility have generally been adopted for AMA fees, capacity release revenues and off-system sales margins realized by the utility.

Mr. Becker fails to explain to the Commission why CGC, with its 50% retention of margins, is entitled to a best in class sharing percentage on behalf of its shareholders, or how ratepayers are better off under this unique sharing percentage.

Q11. HOW DO YOU RESPOND TO CRITICISM FROM MR. BECKER THAT NEITHER THE CONSUMER ADVOCATE NOR THE EXETER REPORT IDENTIFIES HOW RATEPAYERS WILL BE BETTER OFF UNDER THE EXETER RECOMMENDATION OF A 75%/25% SPLIT OF MARGINS CONTRASTED WITH A 50%/50% SPLIT?

A11. First, the Company fails to identify any other utility that utilize a 50% incentive retention. The underlying support that Mr. Becker argues is required to change from the current best in class 50% retention percentage to one that is in line with industry standards, requires significant assumptions. Specifically, it would require a determination of what margins CGC would have generated if its retention percentage were reduced from 50% to 25%. The Company provides no suggestion on how such a grand hypothetical exercise would be conducted.

Presumably the Company would put forth the same effort to generate margins under a 25% retention percentage. There is no evidence presented by the Company to suggest otherwise. If, in fact, the Company took the approach of failing to diligently pursue the best possible outcome in the way of securing AMA fees and off-system margins, it would be shirking its responsibility as a public utility to act in the best interests of its ratepayers. While Mr. Becker hints that such an outcome could occur, he fails to recognize the Company's responsibilities as a monopoly provider of an essential service to provide the most cost-efficient service to ratepayers, while maintaining quality service.[5] I prefer to assume the Company would continue to act in the best interests of its customers under an industry standard 25% retention percentage and aggressively pursue these incidental revenues that reduce the overall revenue requirement of the utility. Further, Exeter has indicated in its report on page 45 that it has not observed a material difference in the resource efforts of natural gas utilities to generate AMA fees or other related margins under a 25% sharing percentage relative to a 10% sharing percentage.

Exeter is an independent consultant with experience in the evaluation of such sharing mechanisms and its opinion should carry weight with the Commission.

Q12. HAS MR. BECKER PROVIDED ANY EVIDENCE THAT CGC OR ITS AFFILIATES WOULD DEVOTE LESS EFFORT IN SECURING AMA FEES OR OFF SYSTEM TRANSACTIONS UNDER A 75/25 SPLIT OF MARGINS RELATIVE TO THE CURRENT 50/50 SPLIT OF MARGINS?

A12. No.

Q13. DID THE COMPANY HAVE AN OPPORTUNITY TO PROVIDE COMMENTS TO THE COMMISSION ADDRESSING THE RECOMMENDATIONS OF THE EXETER REPORT AT THE TIME OF ITS SUBMISSION?

[5] *Id.* at p. 13:10-18.

A13. Yes. The Company did not, however, provide a formal response to the Commission regarding the Exeter recommendations. Essentially the Company pursued a strategy of ignoring the recommendations in the report until such time as a formal pleading was made by the Consumer Advocate.

Q14. DO YOU AGREE WITH MR. BECKER'S STATEMENT THAT IN TRA DOCKET NO. 16-00028 THE COMMISSION INCREASED THE ANNUAL CAP APPLICABLE TO ATMOS TO $2.0 MILLION FROM $1.25 MILLION?

A14. Yes. I agree with Mr. Becker's conclusion. I incorrectly referenced the prior Atmos cap in my direct testimony.

Q15. DOES THIS IMPACT THE RECOMMENDED CAP IDENTIFIED IN YOUR DIRECT TESTIMONY?

A15. Yes. The Atmos cap of $2 million, when divided by its approximately 155 thousand residential customers, equates to a cap of approximately $13 per customer per year, rather than the $8 per customer per year referenced in my direct testimony. Applying the approximate amount of $13 per customer per year to the approximate CGC customer base of 69,000 customers[6] equates to an overall CGC cap of $900,000. Thus, the Commission has imposed caps of approximately $8.25 per customer per year for Piedmont[7] and $13 per customer per year for Atmos. Relying upon the higher cap of Atmos as a benchmark, I believe it would be appropriate for the Commission to impose a cap on CGC retention of incentives of $900,000 per year. The equivalent cap relying upon the Piedmont retention per customer, would be in the $550,000 range as identified in my direct testimony.

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[6] *Id.* at p. 10:22.

[7] Direct Testimony of David Dittemore at page 5, TPUC Docket No. 20-000139, October 11, 2021.

Q16. DOES THIS CONCLUDE YOUR TESTIMONY?

A16. Yes.

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AFFIDAVIT

I, David Dittemore on behalf of the Consumer Advocate Unit of the Attorney General's Office, hereby certify that the attached Rebuttal Testimony represents my opinion in the above-referenced case and the opinion of the Consumer Advocate Unit.

David N. Dittemore
DAVID N. DITTEMORE

Sworn to and subscribed before me
this 22nd day of December, 2021.

Terra Allen
NOTARY PUBLIC

TERRA ALLEN STATE OF TENNESSEE NOTARY PUBLIC HICKMAN COUNTY

My commission expires: September 28, 2022.