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1   ***Q1.   PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND***  
2                   ***OCCUPATION FOR THE RECORD.***

3   A1.   My name is William H. Novak. My business address is 19 Morning Arbor Place,  
4           The Woodlands, TX, 77381. I am the President of WHN Consulting, a utility  
5           consulting and expert witness services company.<sup>1</sup>

6   ***Q2.   PLEASE PROVIDE A SUMMARY OF YOUR BACKGROUND AND***  
7                   ***PROFESSIONAL EXPERIENCE.***

8   A2.   Briefly, I have both a Bachelor's degree in Business Administration with a major  
9           in Accounting, and a Master's degree in Business Administration from Middle  
10          Tennessee State University. I am a Certified Management Accountant and am  
11          also licensed to practice as a Certified Public Accountant.

12        My work experience has centered on regulated utilities for over 35 years. Before  
13        establishing WHN Consulting, I was Chief of the Energy & Water Division of the  
14        Tennessee Public Utility Commission (the "Commission") where I had either  
15        presented testimony or advised the Commission on a host of regulatory issues for  
16        over 19 years. In addition, I was previously the Director of Rates & Regulatory  
17        Analysis for two years with Atlanta Gas Light Company, a natural gas  
18        distribution utility with operations in Georgia and Tennessee. I also served for  
19        two years as the Vice President of Regulatory Compliance for Sequent Energy  
20        Management, a natural gas trading and optimization entity in Texas, where I was

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<sup>1</sup> State of Tennessee, Registered Accounting Firm ID 3682.

1 responsible for ensuring the firm's compliance with state and federal regulatory  
2 requirements.

3 In 2004, I established WHN Consulting as a utility consulting and expert witness  
4 services company. Since 2004, WHN Consulting has provided testimony or  
5 consulting services to state public utility commissions and state consumer  
6 advocates in at least ten state jurisdictions.

7 ***Q3. ON WHOSE BEHALF ARE YOU TESTIFYING?***

8 A3. I am testifying on behalf of the Consumer Advocate Unit ("Consumer Advocate")  
9 in the Financial Division of the Office of the Tennessee Attorney General.

10 ***Q4. HAVE YOU PRESENTED TESTIMONY IN ANY PREVIOUS DOCKETS***  
11 ***REGARDING CHATTANOOGA GAS COMPANY?***

12 A4. Yes. I've presented testimony in TPUC Docket Nos. U-85-7382, 88-01363, 90-  
13 08876, 91-03765, 93-06946 and 18-00017 concerning rate cases involving  
14 Chattanooga Gas Company (CGC or the "Company") as well as dockets for other  
15 generic tariff and rulemaking matters. In addition, I previously advised the  
16 Commission on issues in other CGC dockets in cases where I did not present  
17 testimony.

18 ***Q5. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS***  
19 ***PROCEEDING?***

1 A5. My testimony will support and address the Consumer Advocate's concerns,  
2 positions and recommendations with respect to the Petition filed by CGC to adjust  
3 its rates and charges. Specifically, I will address the following:

- 4 1. The overall adjustment to the Annual Review Mechanism (ARM)  
5 proposed in the Company's filing including the impact of specific errors  
6 and miscalculations contained in the filing that were discovered during the  
7 Consumer Advocate's analysis;
- 8 2. The Company's proposed depreciation rate in the ARM for Transmission  
9 Mains;
- 10 3. The Company's proposed tariff adjustment for Customer Deposits;
- 11 4. The Company's proposed change in the determination of Billing Demand  
12 for the Low-Volume Transportation General Service Tariff (T-3);
- 13 5. The Company's methodology for calculating weather normalization in the  
14 ARM;
- 15 6. The Consumer Advocate's proposed Revenue Adjustment including the  
16 Company's proposed rate cap; and
- 17 7. The Consumer Advocate's proposed Rate Design for the ARM.

18 ***Q6. WHAT DOCUMENTS HAVE YOU REVIEWED IN PREPARATION OF***  
19 ***YOUR TESTIMONY?***

20 A6. I have reviewed the Company's Petition filed on April 20, 2021, along with the  
21 testimony and exhibits presented with its filing. In addition, I have reviewed the  
22 Company's workpapers supporting its proposed revenue adjustment calculations.

1 I have also reviewed the Company's responses to the Consumer Advocate's  
2 discovery requests. In addition, I reviewed previous Commission's Orders  
3 associated with the Company's ARM mechanism in TPUC Docket Nos. 19-00047  
4 and 20-00049.

5 *[Testimony continues on next page]*

**I. ARM ADJUSTMENT PROPOSED BY CHATTANOOGA GAS**

**COMPANY**

***Q7. MR. NOVAK, PLEASE EXPLAIN THE OVERALL PURPOSE AND STRUCTURE OF THE ARM AND THE RELIEF THAT CGC IS ASKING FROM THE COMMISSION THROUGH ITS PETITION.***

A7. The overall purpose of the ARM is to allow the Company to adjust its rates on a timely basis outside of the traditional rate case process. The structure for the ARM was agreed to by CGC, Party Staff, The Chattanooga Regional Manufacturer's Association, and the Consumer Advocate in TPUC Docket No. 19-00047<sup>2</sup> and then incorporated into the Commission's Order<sup>3</sup> in that docket. Since the establishment of the ARM structure, the Commission has approved a rate adjustment of \$4,758,576 in TPUC Docket No. 20-00049.<sup>4</sup> The Company's calculated rate adjustment of \$11,783,474 in this current Docket represents the 2<sup>nd</sup> ARM filing made by CGC.

***Q8. HOW IS THE COMPANY'S \$11,783,474 RATE ADJUSTMENT CALCULATED?***

A8. CGC's rate adjustment of \$11,783,474 is generally calculated in accordance with the terms of the Commission Order in TPUC Docket No. 19-00047. The overall

<sup>2</sup> *Stipulation and Settlement Agreement By and Among Chattanooga Gas Company, the Consumer Advocate Unit of the Attorney General, the Chattanooga Regional Manufacturer's Association, and Party Staff*, TPUC Docket No. 19-00047 (July 26, 2019).

<sup>3</sup> *Order Approving Settlement Agreement* (“19-00047 ARM Order”), TPUC Docket No. 19-00047 (October 7, 2019).

<sup>4</sup> *Order Approving 2019 ARM Filing* (“20-00049 Order”), TPUC Docket No. 20-00049 (October 27, 2020).

1 methodology for the rate adjustment calculation is shown below in Table 1 which  
2 provides a comparison of the current ARM proposal along with the revenue  
3 deficiency approved by the Commission in the Company's prior rate case and  
4 ARM docket.

5

Table 1 – Revenue Deficiency Comparison			
Item	18-00017 Rate Case <sup>5</sup>	20-00049 ARM Filing <sup>6</sup>	21-00048 ARM Filing <sup>7</sup>
Rate Base	\$149,739,716	\$163,379,679	\$190,231,598
Operating Income at Present Rates	9,625,826	8,096,435	4,793,084
Earned Rate of Return	6.43%	4.96%	2.52%
Fair Rate of Return	7.12%	7.12%	7.12%
Required Operating Income	10,657,877	11,628,714	13,539,926
Operating Income Deficiency	1,032,051	3,532,279	8,746,842
Gross Revenue Conversion Factor	1.347169	1.347169	1.347169
<b>Revenue Deficiency</b>	<b>\$1,390,347</b>	<b>\$4,758,576</b>	<b>\$11,783,474</b>

6

7 ***Q9. HAS THE COMPANY PROVIDED ANY ALTERNATIVE PROPOSALS***  
8 ***TO THIS \$11,783,474 RATE ADJUSTMENT?***

9 A9. Yes. In its filing, the Company has proposed to implement a temporary \$6.8  
10 million rate adjustment cap “to begin this year and continue for the next three  
11 ARM docket filings with any residual difference being captured in the annual  
12 ARM deficiency and rate reset filings for 2022 through 2024.”<sup>8</sup> This proposed  
13 rate adjustment cap, which I discuss in more detail later in my testimony, would  
14 reduce the current proposed revenue deficiency from \$11,783,474 to \$6,800,000.

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<sup>5</sup> Amended Order, Attachment 1, Commission Exhibit, Schedule 1, TPUC Docket No. 18-00017 (January 15, 2019).

<sup>6</sup> Rebuttal Testimony of Gary Tucker, p. 5, TPUC Docket No. 20-00049 (August 25, 2020). See also 20-00049 Order.

<sup>7</sup> Direct Testimony of Gary Tucker, file <CGC Tucker Exhibit GT-1>, Tab “Schedule 1”, TPUC Docket No. 21-00048 (April 20, 2021).

<sup>8</sup> Direct Testimony of Gary Tucker at 12:7-9.



1 ***Q10. HAS CGC ADJUSTED ANY OF THE TARIFF PROVISIONS***  
2 ***CONTAINED IN ITS INITIAL ARM FILING?***

3 A10. Yes. On May 18, 2021, CGC withdrew certain proposed tariff revisions related to  
4 the over-delivery of gas by transportation customers on the T-1, T-2 and T-3 Rate  
5 Schedules.<sup>9</sup> The withdrawal of these proposed tariff revisions has no impact on  
6 the revenue deficiency calculation in this Docket.

7 ***Q11. HAS CGC ADJUSTED THE RECONCILIATION AMOUNT CONTAINED***  
8 ***IN ITS INITIAL FILING?***

9 A11. Yes. As mentioned previously, CGC originally requested the Commission to  
10 approve an ARM revenue deficiency of \$11,783,474 that has since been revised  
11 to \$11,696,730 to correct certain errors that were discovered during the Consumer  
12 Advocate's review and analysis.<sup>10</sup> However, even though the correction of these  
13 errors results in a revenue requirement decrease of \$86,744, the Company is not  
14 proposing a change to the rate adjustment cap of \$6.8 million described above.<sup>11</sup>

15 ***Q12. HOW IS THE REVISED RECONCILIATION AMOUNT OF \$11,696,730***  
16 ***CALCULATED?***

17 A12. CGC's revised revenue deficiency of \$11,696,730 is still calculated in accordance  
18 with the terms of TPUC Docket No. 19-00047 and reflects updated and corrected

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<sup>9</sup> *Chattanooga Gas Company's Notice of Withdrawal from Further Consideration in this Docket Certain Proposed T-1, T-2, and T-3 Tariff Changes*, TPUC Docket No. 21-00048 (May 18, 2021).

<sup>10</sup> CGC's Supplemental Response to CA-2-010, file <CA-2-010a Attachment (6-16-2021) GT-1 (ARM Model) (Revised 6-16-2021) at Tab "Schedule 1", TPUC Docket No. 21-00048 (June 21, 2021).

<sup>11</sup> *Id.*

1 data to the initial filing. A comparison of the initial and revised revenue  
2 deficiency calculations is shown below on Table 2.

3

<b>Table 2 – Revised Revenue Deficiency Comparison</b>		
<b>Item</b>	<b>21-00048 Initial ARM Filing<sup>12</sup></b>	<b>21-00048 Revised ARM Filing<sup>13</sup></b>
Rate Base	\$190,231,598	\$190,182,848
Operating Income at Present Rates	4,793,084	4,854,004
Earned Rate of Return	2.52%	2.55%
Fair Rate of Return	7.12%	7.12%
Required Operating Income	13,539,926	13,536,456
Operating Income Deficiency	8,746,842	8,682,452
Gross Revenue Conversion Factor	1.347169	1.347169
<b>Revenue Deficiency</b>	<b>\$11,783,474</b>	<b>\$11,696,730</b>

4

5 ***Q13. HAVE YOU REVIEWED THE CALCULATIONS SUPPORTING THE***  
6 ***REVISED ARM FILING?***

7 A13. Yes. I reviewed the Company’s revised filing. I also prepared discovery requests  
8 for supplemental supporting information that was not contained in the original  
9 filing. In addition, I have had continuing discussions with CGC regarding the  
10 filing. The purpose of my review was to determine whether CGC’s ARM  
11 calculation was based on actual amounts recorded on its books.

12 ***Q14. WHAT WERE THE RESULTS OF YOUR REVIEW?***

13 A14. Overall, I found that CGC’s filing appropriately reflected the actual revenues,  
14 expenses and net investment recorded on the Company’s ledger. Likewise, I also

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<sup>12</sup> Direct Testimony of Gary Tucker, file <CGC Tucker Exhibit GT-1>, Tab “Schedule 1”, TPUC Docket No. 21-00048 (April 20, 2021).

<sup>13</sup> CGC’s Supplemental Response to CA-2-010, file <CA-2-010a Attachment (6-16-2021) GT-1 (ARM Model) (Revised 6-16-2021) at Tab “Schedule 1”, TPUC Docket No. 21-00048 (June 21, 2021).

1 found that the reconciliation generally reflected the methodologies established in  
2 TPUC Docket No. 19-00047. However, there are certain adjustments proposed  
3 by the Company that I either do not agree with or believe that they should be  
4 specifically recognized and approved by the Commission. These adjustments are  
5 discussed in more detail later in my testimony and in the testimony of Consumer  
6 Advocate witness David Dittemore.

7 *[Testimony continues on next page]*

1                    **II.        DEPRECIATION RATE FOR TRANSMISSION MAINS**

2        ***Q14. MR. NOVAK, WHAT DEPRECIATION RATES WERE USED BY THE***  
3                    ***COMPANY IN THE ARM CALCULATION?***

4        A14. Overall, the Company has used the depreciation rates adopted by the Commission  
5                    in the last rate case with only one exception. Specifically, the Company has  
6                    applied a 1.4% depreciation rate to Account 367.10 for Steel Transmission  
7                    Mains.<sup>14</sup> This specific account, and the related depreciation rate, did not exist at  
8                    the time of the Company's last rate case.

9        ***Q15. HOW WAS THE 1.4% DEPRECIATION RATE FOR ACCOUNT 367.10***  
10                    ***DETERMINED.***

11        A15. According to the Company, the 1.4% depreciation rate was taken from the  
12                    depreciation study used in the Company's Georgia operations and reflects a 75-  
13                    year projected life.<sup>15</sup>

14        ***Q16. DO YOU DISAGREE WITH THE COMPANY'S USE OF THE 1.4%***  
15                    ***DEPRECIATION RATE FOR ACCOUNT 367.10?***

16        A16. I have no objections to the implementation of this 1.4% rate within the ARM  
17                    calculation and for calculating depreciation expense on the Company's books.

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<sup>14</sup> Direct Testimony of Gary Tucker, file <CGC Tucker Exhibit GT-1>, Tab "Schedule 14", TPUC Docket No. 21-00048 (April 20, 2021).

<sup>15</sup> *Chattanooga Gas Company's Response and Objections to the Second Discovery Request of the Consumer Advocate and Informal Third Discovery Request of the Consumer Advocate*, CA-2-013 and CA-2-013a Attachment (June 7, 2021).

1           However, I do recommend that the Commission formally adopt this depreciation  
2           rate since it reflects a departure from the previous depreciation rates approved by  
3           the Commission in the Company's last rate case.

1           **III.    TARIFF LANGUAGE RELATED TO CUSTOMER DEPOSITS**

2    ***Q17.   MR. NOVAK, HAS THE COMPANY PROPOSED A CHANGE TO THE***  
3           ***TARIFF FOR CUSTOMER DEPOSITS?***

4    A17.   Yes. The Company is proposing to stop paying interest on customer deposits held  
5           less than six months.<sup>16</sup>

6    ***Q18.   DO YOU AGREE WITH THE COMPANY’S PROPOSED CHANGE TO***  
7           ***CUSTOMER DEPOSITS?***

8    A18.   I am not necessarily opposed to the language change to the tariff that the  
9           Company is proposing. However, I am opposed to making such a policy change  
10          within the confines of an ARM docket. Specifically, an ARM docket is designed  
11          to only consider rate adjustments within a relatively abbreviated time frame.  
12          Instead, the Company here is asking the Commission to expand the typical scope  
13          of an ARM docket to also consider new policy matters – such as the proper  
14          methodology for calculating interest on customers deposits.

15          This proposed tariff change will certainly have an impact on customers, and it is  
16          difficult to fully measure this impact within the scope of this Docket. Instead, the  
17          Company should make a request for this type of change in a separate docket  
18          outside of the ARM process. As a result, I recommend that the Commission  
19          reject the Company’s request for a change to the tariff related to Customer

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<sup>16</sup> Direct Testimony of Archie R. Hickerson at 9:6-15.

- 1 Deposits in this ARM docket. This adjustment has no impact (\$0) on the current
- 2 ARM revenue deficiency calculation.<sup>17</sup>

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<sup>17</sup> Although the Company segregated Customer Deposits between those amounts held less than six months and those amounts held more than six months, the Interest on Customer Deposits calculation was based on total Customer Deposits. As a result, the Company included no impact in the current ARM calculation for its proposed tariff modification to Customer Deposits. Therefore, the impact of excluding this adjustment is \$0. See Direct Testimony of Gary Tucker, file <CGC Tucker Exhibit GT-1>, Tab “Schedule 28” for more information.

1                   **IV.    TARIFF LANGUAGE CHANGE RELATED TO THE**  
2                   **DETERMINATION OF BILLING DEMAND FOR LOW-VOLUME**  
3                   **TRANSPORTATION CUSTOMERS**

4    ***Q19.   MR. NOVAK, HAS THE COMPANY PROPOSED A CHANGE TO THE***  
5                   ***LOW-VOLUME TRANSPORTATION (T-3) TARIFF FOR THE***  
6                   ***DETERMINATION OF BILLING DEMAND?***

7    A19.   Yes. The Company is proposing to alter the determination of billing demand for  
8           those T-3 customers with already existing daily metering equipment.<sup>18</sup> Currently,  
9           the determination of billing demand for existing customers on the T-3 tariff is  
10          based on their historic monthly consumption.<sup>19</sup> The estimated impact of this  
11          proposed change will be a reduction to billing demand revenue of \$79,757.<sup>20</sup>

12   ***Q20.   DO YOU AGREE WITH THE COMPANY'S PROPOSED CHANGE TO***  
13               ***THE BILLING DEMAND DETERMINATION FOR T-3 CUSTOMERS?***

14   A20.   I am not necessarily opposed to the language change to the tariff that the  
15          Company is proposing. Again however, I am opposed to making such a policy  
16          change within the confines of an ARM docket. Specifically, an ARM docket is  
17          designed to only consider rate adjustments within a relatively abbreviated time  
18          frame. Instead, the Company here is asking the Commission to expand the typical

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<sup>18</sup> Direct Testimony of Archie R. Hickerson at 11:14-15.

<sup>19</sup> Direct Testimony of Archie R. Hickerson, Exhibit ARH-9 at, p. 14.

<sup>20</sup> *Chattanooga Gas Company's Response and Objections to the Second Discovery Request of the Consumer Advocate and Informal Third Discovery Request of the Consumer Advocate*, CA-2-008 (June 7, 2021).



1 scope of an ARM docket to also consider new policy matters – such as the proper  
2 methodology for the determination of billing demand for T-3 customers.

3 This proposed tariff change would eventually have a rate impact of approximately  
4 \$80,000 that will have to be absorbed by other customers. Weighing the merits of  
5 such a change within the confines of this abbreviated proceeding is inappropriate.  
6 Instead, the Company should make a request for this type of change in a separate  
7 docket outside of the ARM process. As a result, I recommend that the  
8 Commission reject the Company's request for a change to the tariff related to the  
9 determination of billing demand for T-3 customers in this ARM docket. This  
10 adjustment has no impact (\$0) on the current ARM revenue deficiency  
11 calculation.<sup>21</sup>

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<sup>21</sup> Although the Company did propose to change the tariff for the calculation of the Rate Schedule T-3 Billing Demand Determinants, no related adjustment was included in the ARM calculation for the impact from this change. Therefore, the impact of excluding this adjustment is \$0.

1                                    **V.        REDUNDANT WEATHER NORMALIZATION**

2        ***Q21. MR. NOVAK, SHOULD WEATHER NORMALIZATION BE***  
3                                    ***CONSIDERED WITHIN THE CONTEXT OF CGC'S ARM FILING?***

4        A21. Yes. The ARM specifically states that "Sales and transportation margin shall be  
5                                    weather normalized based on the weather normalized use per customer for Rate  
6                                    Schedules R-1, R-4, C-1 and C-2 adopted in Docket No. 18-00017 or subsequent  
7                                    general rate case."<sup>22</sup>

8        ***Q22. HAS THE COMPANY CALCULATED A WEATHER NORMALIZATION***  
9                                    ***ADJUSTMENT IN THIS CURRENT ARM DOCKET?***

10       A22. Yes. Unfortunately, the base revenues included in the ARM were already weather  
11                                    normalized. As a result, the Company made a redundant weather normalization  
12                                    adjustment in the current ARM.

13       ***Q23. PLEASE EXPLAIN?***

14       A23. In the Company's last rate case, the Commission approved a Weather  
15                                    Normalization Adjustment (WNA) for residential and commercial customers.<sup>23</sup>  
16                                    These WNA revenues are already included in the historic revenue calculation in  
17                                    this ARM filing. However, the Company has also included a second weather  
18                                    normalization within the ARM filing. Both the WNA revenues and the calculated

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<sup>22</sup> *Stipulation and Settlement Agreement By and Among Chattanooga Gas Company, the Consumer Advocate Unit of the Attorney General, the Chattanooga Regional Manufacturer's Association, and Party Staff*, Exhibit 1, p. 2, Definitions, D.1, TPUC Docket No. 19-00047 (July 26, 2019).

<sup>23</sup> *Amended Order*, p. 89, Item 18, TPUC Docket No. 18-00017 (January 15, 2019).

1 revenues from Company's second weather normalization adjustment are shown  
2 below in Table 3.

<b>Table 3 – Weather Normalization Adjustment Revenues</b>		
<b>Tariff</b>	<b>Regular WNA Revenues<sup>24</sup></b>	<b>Redundant WNA Revenues<sup>25</sup></b>
Residential (R-1)	\$722,031	\$-383,187
Multi-Family Housing (R-4)	2,568	-2,639
Small Commercial & Industrial (C-1)	217,990	29,820
Medium Commercial & Industrial (C-2)	468,938	378,893
<b>Total WNA Revenues</b>	<b>\$1,411,527</b>	<b>\$22,887</b>

3

4 ***Q24. WHAT IS YOUR RECOMMENDATION WITH RESPECT TO THE***  
5 ***COMPANY'S REDUNDANT WEATHER NORMALIZATION***  
6 ***ADJUSTMENT IN THIS DOCKET?***

7 A24. I recommend that the Company's redundant weather normalization adjustment  
8 totaling \$22,887 be removed from the current and future ARM filings. The  
9 existing weather normalization adjustment approved by the Commission in TPUC  
10 Docket No. 18-00017 is a real-time adjustment and already satisfies all the  
11 weather normalization requirements in an ARM proceeding from TPUC Docket  
12 19-00047. I have calculated the change in the revenue deficiency related to  
13 removing the redundant weather normalization to be approximately \$22,753.<sup>26</sup>

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<sup>24</sup> Direct Testimony of Gary Tucker, file <CGC Tucker Exhibit GT-1>, Tab "Schedule 15".

<sup>25</sup> Direct Testimony of Gary Tucker, file <CGC Tucker Exhibit GT-1>, Tabs "Schedule 6" and "Schedule 16.3".

<sup>26</sup> Workpapers of William H. Novak, file <WHN Analysis of CGC ARM in Docket 21-00048 – Draft3>, Tab "Notes".

1                    **VI.     CONSUMER ADVOCATE REVENUE REQUIREMENT**

2     ***Q25.   MR. NOVAK, WHAT IS THE CONSUMER ADVOCATE’S REVENUE***  
3                    ***DEFICIENCY AFTER CONSIDERING ALL ADJUSTMENTS IN THE***  
4                    ***CURRENT ARM FILING?***

5     A25.   The Consumer Advocate’s adjustments to the Company’s ARM filing total  
6                    \$-378,364 as shown below on Table 4.

<b>Table 4 – Consumer Advocate Revenue Deficiency Adjustments</b>	
<b>Adjustment</b>	<b>Revenue Deficiency Impact</b>
Change in Customer Deposit Policy	\$0
Change in Rate Schedule T-3 Billing Demand Policy	0
Removal of Redundant Weather Normalization	22,753
Removal of PWC Study <sup>27</sup>	-401,117
<b>Total Revenue Deficiency Adjustment</b>	<b>\$-378,364</b>

7  
8                    As a result of these adjustments, the Consumer Advocate’s total revenue  
9                    deficiency is \$11,318,366.<sup>28</sup> A comparison of the Company’s revised revenue  
10                    deficiency along with the Consumer Advocate’s is shown below on Table 5.

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<sup>27</sup> Direct Testimony of David N. Dittmore, TPUC Docket No. 21-00048 (June 25, 2021).

<sup>28</sup> Workpapers of William H. Novak, file <WHN Analysis of CGC ARM in Docket 21-00048 – Draft3>, Tabs “Schedule 1” and “Schedule 29”. This total revenue deficiency consists of a historic revenue deficiency of \$7,292,944 and a budget period revenue deficiency of \$4,025,422.

<b>Table 5 – CGC and Consumer Advocate Revenue Deficiency Comparison</b>		
<b>Item</b>	<b>CGC Revised ARM Filing<sup>29</sup></b>	<b>Consumer Advocate ARM Filing<sup>30</sup></b>
Rate Base	\$190,182,848	\$190,038,992
Operating Income at Present Rates	4,854,004	5,124,624
Earned Rate of Return	2.55%	2.70%
Fair Rate of Return	7.12%	7.12%
Required Operating Income	13,536,456	13,526,217
Operating Income Deficiency	8,682,452	8,401,594
Gross Revenue Conversion Factor	1.347169	1.347169
<b>Revenue Deficiency</b>	<b>\$11,696,730</b>	<b>\$11,318,366</b>

***Q26. MR. NOVAK, DO YOU AGREE WITH THE COMPANY’S  
ALTERNATIVE REVENUE DEFICIENCY PROPOSAL THAT  
IMPLEMENTS A RATE CAP OF \$6.8 MILLION?***

A26. As mentioned earlier, the Company is proposing to implement a temporary \$6.8 million rate adjustment cap “to begin this year and continue for the next three ARM docket filings with any residual difference being captured in the annual ARM deficiency and rate reset filings for 2022 through 2024.”<sup>31</sup>

I have no objections to the implementation of the Company’s proposed rate adjustment cap of \$6.8 million. However, the Commission should keep in mind that this rate adjustment cap will ultimately result in higher customer rates. Specifically, while CGC customers will receive an immediate rate benefit from the proposed ARM cap of \$6.8 million, “additional carrying charges would be

<sup>29</sup> CGC’s Supplemental Response to CA-2-010, file <CA-2-010a Attachment (6-16-2021) GT-1 (ARM Model) (Revised 6-16-2021) at Tab “Schedule 1”, TPUC Docket No. 21-00048 (June 21, 2021).

<sup>30</sup> Workpapers of William H. Novak, file <WHN Analysis of CGC ARM in Docket 21-00048 – Draft3>, Tab “Schedule 1”.

<sup>31</sup> Direct Testimony of Gary Tucker at 12:7-9.

1           accrued as the overall deficiency balance would be greater due to recovery of the  
2           balance over a longer period of time.”<sup>32</sup>

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<sup>32</sup> Direct Testimony of Gary Tucker at 15:17-19.

1                                   **VII.    RATE ALLOCATION AND RATE DESIGN**

2    ***Q27.   MR. NOVAK, HOW DO YOU PROPOSE THAT THE COMMISSION***  
3                   ***ALLOCATE THE COMPANY’S REVENUE DEFICIENCY TO EACH***  
4                   ***CUSTOMER CLASS?***

5    A27.   I would recommend that the ARM revenue deficiency (under either revenue  
6            deficiency alternative described above) be allocated evenly across-the-board to all  
7            customer classes, including Special Contract customers, based upon the margin  
8            ratio of each customer class.  An across-the-board change in rates to all customer  
9            classes most equitably spreads the benefit and burden of any change in rates.

10   ***Q28.   DID THE COMPANY PROPOSE A SIMILAR REVENUE DEFICIENCY***  
11               ***ALLOCATION TO EACH CUSTOMER CLASS?***

12   A28.   Not exactly.  The Company has excluded Special Contract customers from any  
13            rate change.<sup>33</sup>  I disagree with this approach and would recommend that Special  
14            Contract customers also be assigned a pro rata share of any rate change.

15   ***Q29.   WHAT SPECIFIC RATE DESIGN DO YOU PROPOSE?***

16   A29.   As to specific tariff rates, the Company has proposed a change in all billing items  
17            (customers charges, usage charges, billing demand charges and capacity charges)  
18            in order to achieve appropriate tariff rates that reflect the Commission’s decision

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<sup>33</sup> Direct Testimony of Gary Tucker, file <CGC Tucker Exhibit GT-1>, Tab “Schedule 13”.

1 in this docket. This approach appears reasonable to me and is likely to result in  
2 the most equitable overall impact to customers.



1 **VIII. RECOMMENDATIONS**

2 ***Q30. MR. NOVAK, COULD YOU PLEASE SUMMARIZE YOUR***  
3 ***RECOMMENDATIONS TO THE COMMISSION.***

4 A30. My recommendations are as follows:

- 5 • I recommend the Commission recognize and formally approve the 1.4%  
6 depreciation rate currently used by the Company for Account 367.10 – Steel  
7 Transmission Mains.
- 8 • I recommend the Commission reject the Company’s proposal to change the  
9 terms of its tariff related to Customer Deposits held less than six months.
- 10 • I recommend that the Commission reject the Company’s proposal to change  
11 the terms of its tariff related to the determination of billing demand for the T-3  
12 Rate Schedule.
- 13 • I recommend that the Commission require the Company’s redundant weather  
14 normalization adjustment totaling \$22,887 to be removed from the current and  
15 future ARM filings.
- 16 • I recommend that the Commission accept either the Consumer Advocate’s  
17 revenue deficiency for this case of \$11,318,366 or the Company’s rate  
18 adjustment cap proposal of \$6.8 million in which case any future true-up of  
19 rates should be based on the \$11,318,366 revenue deficiency calculated by the  
20 Consumer Advocate for the current ARM period.

- 1           • I recommend that the Commission allocate the ARM revenue deficiency  
2           evenly across-the-board to all customer classes, including Special Contract  
3           customers, based upon the margin ratio of each customer class.
- 4           • I recommend that the Commission approve an increase to all rate components  
5           (customers charges, usage charges, billing demand charges and capacity  
6           charges) to achieve the Company's revenue requirement.

7    ***Q31. DOES THIS COMPLETE YOUR TESTIMONY?***

8    A31. Yes, it does. However, I reserve the right to incorporate any new information that  
9       may subsequently become available.

**21-00048 Hal Novak Testimony - Affidavit draft732372.1.pdf**

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terra.allen@ag.tn.gov



**IN THE TENNESSEE PUBLIC UTILITY COMMISSION  
AT NASHVILLE, TENNESSEE**

<b>IN RE:</b>	)	
	)	
<b>CHATTANOOGA GAS COMPANY'S PETITION FOR APPROVAL OF ITS 2020 ANNUAL RATE REVIEW FILING PURSUANT TO TENN. CODE ANN. § 65-5-103(d)(6)</b>	) ) ) ) ) )	<b>DOCKET NO. 21-00048</b>

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**AFFIDAVIT**

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

  
**WILLIAM H. NOVAK**

Sworn to and subscribed before me this \_\_\_\_ day of \_\_\_\_\_, 2021. 06/21/2021

  
\_\_\_\_\_  
**NOTARY PUBLIC**



My commission expires: \_\_\_\_\_

