

Before the
Tennessee Public Utility Commission

Docket No. 22-00004

August 19, 2022

**CHATTANOOGA GAS COMPANY
PETITION FOR APPROVAL OF TARIFF AMENDMENTS TO
ITS T-1, T-2, AND T-3 TARIFFS**

Rebuttal Testimony Of
Archie R. Hickerson
On Behalf Of
Chattanooga Gas Company

1 **I. WITNESS INTRODUCTION**

2 **Q. Please state your name, position, and business address.**

3 A. Archie R. Hickerson, Director of Rates and Tariff Administration for Southern
4 Company Gas (“SCG”), 10 Peachtree Place NE, Atlanta, Georgia 30309.

5 **Q. Are you the same Archie Hickerson who previously filed direct testimony in**
6 **this proceeding?**

7 A. Yes, I am.

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

9 A. The purpose of my testimony is to present information for Chattanooga Gas
10 (“CGC” or “Company”) in response to the direct testimony and supplemental direct
11 testimony of witness James L. Crist filed on behalf of the Chattanooga Regional
12 Manufacturers Association (“CRMA”) regarding his proposal that the Company be
13 required to offer incremental gas from the LNG facility at any time. I will also
14 respond to the testimony of the two CGC customers testifying on behalf of the
15 CRMA, Mr. Chance Donahue of Kordsa and Mr. John Edwards of Koch Foods,
16 and their arguments in support of the offering of incremental gas to interruptible
17 transportation customers.

18 **Q. Do you have any exhibits associated with your testimony?**

19 A. Yes. I am sponsoring Confidential Exhibit ARH-3.

20 **Q. Was that exhibit prepared by you or under your direct supervision?**

21 A. Yes, and it is true and correct to the best of my knowledge and belief.

22 **II. CRMA INCREMENTAL GAS PROPOSAL**

1 **Q.** Before we jump into the specifics of the CRMA proposal for incremental gas,
2 let's start with the present situation. In this regard, Mr. Edwards in his
3 testimony expresses his concern or frustration over the availability of
4 incremental gas, asserting that "it was our understanding in the last rate case
5 that they would offer incremental gas to T-1 customers, but it has not been
6 offered" Witness Crist, at pages 14 and 15 of his direct testimony, likewise
7 suggests that CGC made a commitment in the 2018 rate case to make
8 incremental gas available. Do you agree that CGC made a commitment in the
9 2018 rate case to provide incremental gas?

10 A. The commitment CGC made in the 2018 rate case was to make incremental gas
11 available in accordance with CGC's approved tariff. Under the tariff this means
12 gas in excess of CGC's system needs, with the system designed for our firm
13 customers. This was not a commitment to make gas available to interruptible
14 customers on demand, and certainly not a commitment to use LNG, which does not
15 contain "excess" gas.

16 **Q.** While witnesses Becker and Bellinger address the operational considerations
17 for the availability of incremental gas, can you please provide some context for
18 what the tariff requires with respect to making available incremental gas to
19 interruptible customers?

20 A. Availability under the tariff language does not guarantee supply availability on any
21 given day. The practices of the operational people must follow what the tariff
22 requires. The specific wording from the tariff is as follows:

23 When the Company determines that volumes of gas are available to
24 be purchased and transported to Customers under this Rate

1 Schedule, then the Company *shall, at its option, be authorized to*
2 *charge the incremental* rate Customers for such gas supply
3 distributed to those Customers who have been offered and who have
4 agreed to pay such incremental rate. On days when gas is not being
5 withdrawn from the Company's Liquid Natural Gas (LNG) facility
6 for system supply, the incremental rate shall be the applicable index
7 rate plus the variable pipeline charges. On those days when gas is
8 being withdrawn from the LNG facility, the incremental rate will be
9 increased to reflect the cost of gas used in the liquefaction and
10 vaporization process. [Emphasis added.]

11 Notice that the tariff does **not** state that CGC **shall offer gas** for sale to interruptible
12 transportation customers whenever they want it. As is reflected in the language of
13 the tariff, the word "shall" in the tariff only applies to the rate CGC can charge.
14 Thus, the correct reading is "the Company *shall* be authorized to charge the
15 increment rate."

16 In terms of availability, as Mr. Becker and Mr. Bellinger more completely
17 discuss in their joint testimony, whether or when incremental gas is made available
18 depends upon the exercise of judgement, after considering a number of factors,
19 which is consistent with the tariff: "**When the Company determines** that volumes
20 of gas are available to be purchased and transported to the Customers"
21 [emphasis added.] It seems to me that what the CRMA is seeking to do is remove
22 the exercise of sound judgement that protects our firm customers and give priority
23 to the interruptible customers – turning the process on its head. This is not
24 appropriate.

25 **Q. Turning then to the specifics of the CRMA proposal for incremental gas, what**
26 **is your understanding of what Mr. Crist is seeking?**

27 A. I understand that Mr. Crist is asking the Commission to require CGC to offer
28 incremental gas to interruptible customers essentially any time. In effect, Mr. Crist

1 is proposing that CGC be required to provide a new backup supply service to
2 interruptible transportation customers that have voluntarily elected to purchase and
3 manage their own gas supply.

4 **Q. Does CGC currently offer a firm backup supply service that would meet this**
5 **need?**

6 A. Yes, under Rate Schedule T-2.

7 **Q. So why don't the CRMA members desiring such a service simply subscribe to**
8 **it?**

9 A. It is understandable that these customers may wish to have a backup source of firm
10 supply. Such supply, however, does not require the adoption of a new firm backup
11 service, since CGC already offers these customers Interruptible Transportation
12 Service with Firm Gas Supply Backup under Rate Schedule T-2. An Interruptible
13 Transportation Service customer served under Rate Schedule T-1 who wishes to
14 have firm backup service simply needs to request to move from Rate Schedule T-1
15 to T-2. It should be noted that customers who elect service under Interruptible
16 Transport Service (Rate Schedule T-1) have expressly agreed **“to install and**
17 **maintain standby fuel burning facilities** to enable Customer, in the event of
18 curtailment of service, to continue operations on standby fuel, **or to give**
19 **satisfactory evidence of the ability and willingness to have the service**
20 **hereunder interrupted or curtailed.”** [Emphasis added.]

21 **Q. So, what is the issue?**

22 A. Money. Interruptible Transportation Service customers served under Rate
23 Schedule T-1 have elected interruptible service, for which they pay a lesser rate. If

1 a customer is not satisfied with interruptible service, the customer can elect to
2 switch to firm service or elect interruptible transportation service with firm supply
3 backup under Rate Schedule T-2, but both of those services have rates higher than
4 the T-1 rate schedule. By requiring CGC to allocate or apportion some amount of
5 gas that Mr. Crist calls incremental to the interruptible customers, CRMA is
6 essentially shifting to CGC all the risk of being an interruptible customer taking
7 interruptible service. That is not fair or appropriate for CGC's other customers. If
8 this recommendation is adopted, I would expect to see many of CGC's other large
9 customers shift to this new interruptible service which would cause all types of
10 problems for CGC's other customer classes, especially residential customers.

11 **Q. What would be the effect of adopting Mr. Crist's recommendation on page 10**
12 **of his direct testimony to in essence create a new class of service?**

13 A. If Mr. Crist's recommendations were to be adopted, the nature of services that CGC
14 provides to the transportation customers would be completely changed. Under his
15 proposal:

16 (1) CGC would be required to assign interstate capacity and storage assets
17 to un-regulated poolers/marketers over which the Commission has no regulatory
18 authority. Such poolers/marketers are not public utilities subject to the Commission
19 jurisdiction.

20 (2) Transportation customers would not be allowed to manage their own gas
21 supply but would be required to take service from the un-regulated pooler/marketer.

22 (3) CGC would no longer provide Interruptible Transport with Firm Supply
23 Backup (Rate Schedule T-2) since the supply assets used to provide the Firm

1 Supply Backup Service would need to be assigned to the un-regulated
2 poolers/marketers. A customer desiring such backup service would be required to
3 purchase the service from a pooler/marketer at un-regulated rates. The Customer
4 could cease being a transportation customer and elect service under Rate Schedule
5 F-1 or change to Rate Schedule T-1.

6 (4) CGC's Low Volume Transport Customers served under Rate Schedule
7 T-3 would no longer have the option to purchase gas at the Rate Schedule C-2 rate
8 since the supply assets used by CGC to provide service to such customers would
9 be assigned to and controlled by the un-regulated poolers/marketers. The only other
10 option for such customers would be to cease taking service under Rate Schedule T-
11 3 and become a firm sales customer served under Rate Schedule C-2.

12 (5) CGC and the Commission would have no control over the billing for
13 imbalances to the customers served by the un-regulated poolers/marketers. The un-
14 regulated poolers/marketers would bill for the for such imbalances.

15 (6) CGC would have to release some operational control of its LNG facility
16 to the un-regulated poolers/marketers.

17 Q. **What percentage of CGC's throughput would be controlled by the un-**
18 **regulated poolers/marketers if Mr. Crist's recommendations were adopted?**

19 A. Based on the 12 months ended June 30, 2022, approximately 43% of volumes
20 provided to CGC's customers would be controlled by the poolers/marketers if Mr.
21 Crist's recommendations were adopted.

22 Q. **What is wrong with the poolers/markers controlling 43% of CGC's**
23 **throughput if Mr. Crist's recommendation was adopted?**

1 A. It would have significantly adverse consequences for CGC's firm customers, all to
2 the benefit of the un-regulated poolers/marketers.

3 **Q. Why is that?**

4 A. Such a system would put all the burden on CGC and its firm customers. The
5 marketers would not have to secure the capacity needed to transport the gas that
6 they sell to the transportation customers, but they would be able to use the capacity
7 that CGC has secured and is paid for by CGC's firm customers. The un-regulated
8 poolers/marketers could use the assigned assets to make off-system sales to
9 customers who are not on CGC's system. The poolers/marketers would have no
10 obligation to share the gain from such off-system sales with their customers or
11 CGC's customers. The assignment of the assets would directly impact the value
12 of the Asset Management Agreement since the assets available for optimization
13 would be significantly reduced. This decrease in value would result in lower asset
14 management payments and the amount credited to CGC's customers, which is now
15 at 75%.

16 **Q. Are there other regulatory considerations for the Commission?**

17 A. Yes. If the Commission were to approve this proposal in this docket, it would be
18 making the decision in a vacuum. While the poolers/marketers would be the
19 beneficiary of Mr. Crist's recommendation, none of the potential marketers have
20 intervened, filed testimony, responded to discovery, or made representatives
21 available for cross-examination. The Commission would be approving a system of
22 effectively deregulating a big part of CGC's business without all the relevant input
23 and handing the business over to unknown and unregulated entities. Putting aside

1 whether such actions would be legal under Tennessee law, from a regulatory
2 standpoint, it would be irresponsible for the Commission to approve the CRMA
3 proposal in this docket.

4 **Q. So, the Commission should conduct a wider investigation and include these**
5 **marketers?**

6 A. No, that is completely unnecessary. Over the past 46 years, I've worked as a
7 member of the Commission's staff, the Tennessee Consumer Advocate staff, and
8 for public utilities. Based on my experience, another proceeding is unnecessary
9 because the changes proposed by Mr. Crist's are so averse to CGC's customers and
10 involve such significant changes in the way CGC would operate, there simply is no
11 form of Mr. Crist's proposal that is in the public interest. I strongly recommend
12 that the CRMA proposal be rejected.

13 **III. THE EXETER AUDITS AND THE TRIENNIAL REVIEW PROCESS**

14 **Q. Mr. Crist, at pages 8-9 of his supplemental direct testimony, is also proposing**
15 **that in addition to making incremental gas available "immediately and**
16 **ongoing" this winter season, that for the next triennial review audit that would**
17 **occur in 2023 that Exeter, or whatever entity that conducts the triennial audit,**
18 **also examine whether CGC's capacity planning and gas supply practices for**
19 **this immediate and ongoing gas availability for the winter 2022-2023**
20 **"demonstrates otherwise." Do you agree with this?**

21 A. No. First, there should be no immediate and ongoing offering of gas upon demand
22 this winter, CGC should only make incremental gas available utilizing the factors
23 Mr. Becker and Mr. Bellinger discuss. If the current tariff remains in effect, then

1 there are no further requirements that need to be added to the 2023 triennial review.
2 As Mr. Crist acknowledges at page 8, lines 182-183, the scope of the audit already
3 includes “capacity management and storage as topics to be investigated,” so the
4 auditor will report on whatever the auditor finds relevant. There is no need to incur
5 the extra cost of conducting a special review of CGC’s capacity planning and gas
6 supply practices when the scope of the present triennial review process is sufficient
7 for the consultants to raise issues they may identify as relevant for further
8 consideration by the Commission.

9 **Q. So CGC’s capacity management and gas supply have been addressed in the**
10 **past, whether in the triennial review process or by the Commission?**

11 A. Yes, over many years. The triennial review process was initiated in the
12 Commission’s September 23, 2009, Order in Docket 07-00224. In response to asset
13 management and supply issues raised by the Consumer Advocate, the Commission
14 rejected the Consumer Advocate’s argument that “the transportation and storage
15 assets obtained by CGC are more than that which is required to meet the needs of
16 its customers on a daily basis.” Instead, in the Findings and Conclusion section of
17 the Order the Commission found, “2. CGC subscribes to an appropriate level and
18 mix of storage, peaking, and transportation capacity.” [Emphasis added.]

19 **Q. So, notwithstanding this finding, the Commission initiated the triennial review**
20 **process for CGC?**

21 A. Yes.

22 **Q. What reasoning did the Commission offer for engaging an independent**
23 **consultant in this process?**

1 A. As explained in the 2009 Order, while the then present asset mix was reasonable,
2 the Commission found that a triennial review was appropriate because of possible
3 changes that could occur over time. The Commission said:

4 While CGC's asset mix appears reasonable at this time, **changes in**
5 **customer mix, weather, and usage patterns necessitate** periodic
6 review of CGC capacity planning. Therefore, a triennial review of
7 capacity planning shall occur beginning in 2012 with the selection
8 of an independent consultant. Implementation of this triennial
9 review requires the adoption of procedures and process; therefore,
10 the parties shall provide comments regarding the proposed
11 procedures/criteria with in ten days. [Emphasis added.]

12 Thus, the Commission did not order the triennial based on a concern that CGC's
13 mix of storage, peaking, and transportation assets was inappropriate. The review
14 was based on the concern that, as a result of changes in customers, weather, or
15 usage, over time CGC's mix of capacity assets may not be appropriate under future
16 conditions.

17 **Q. Had the Commission previously adopted the triennial review of any other gas**
18 **utilities?**

19 A. Yes. In Docket 05-00165 the Commission adopted a triennial review requirement
20 for Nashville Gas, now Piedmont. In fact, the procedures for selecting the outside
21 consultant and process for CGC's review were those that had previously been
22 adopted for Nashville Gas. Subsequently, the Commission adopted the same
23 process for Atmos Energy.

24 **Q. Has Exeter been the consultant used in CGC's past triennial reviews?**

25 A. Yes.

26 **Q. What have been Exeter's findings relative to CGC's gas operations in the past**
27 **triennial reviews?**

1 A. In the review for the 2010-2013 period, Exeter found:

- 2 • CGC's storage inventory planning criteria were reasonable and CGC
3 generally adhered to those criteria, and CGC's review period storage
4 activity was reasonable.
- 5 • CGC's design day probability of occurrence is consistent with observed
6 industry practice.
- 7 • CGC's review period forecasts of design day demands were reasonable.
- 8 • CGC's review period use of a 5 percent reserve margin, when viewed
9 in conjunction with its design day criteria of 57 heating degree days,
10 was reasonable.
- 11 • The balance between CGC's review period winter season capacity
12 resources and requirements was reasonable.
- 13 • CGC could reduce its pipeline demand costs by decreasing its year-
14 round capacity and instead rely on winter season capacity. However,
15 the Company's opportunities to do so are currently unavailable.

16 In the review for the period of 2013-2016 period, Exeter found:

- 17 • CGC's storage inventory planning criteria were reasonable, CGC
18 generally adhered to those criteria, and CGC's review period storage
19 activity was reasonable.
- 20 • CGC's review period forecasts of design day demands were reasonable.
- 21 • CGC's review period use of a 5 percent reserve margin, when viewed
22 in conjunction with its design day criteria of 57 heating degree days,
23 was reasonable.

- 1 • CGC could reduce its interstate pipeline demand costs by decreasing its
2 year-round capacity and instead rely on winter season capacity;
3 however, there are currently no opportunities for the Company to do so.
- 4 • Exeter's review found that CGC's gas costs during the review period
5 were prudently incurred, including the gas costs incurred during the
6 Plan Year ended June 30, 2016.
- 7 • CGC is appropriately monitoring, evaluating, and investigating
8 opportunities to reduce its gas costs by finding an alternative to its
9 ETNG Nora Lateral receipt point capacity and securing TGP receipt
10 point capacity that would provide access to lower-cost Marcellus Shale
11 region gas supplies

12 In the review for the period of 2016-2019 period, Exeter found:

- 13 • Chattanooga Gas Company contracted for services with Tennessee Gas
14 Pipeline, East Tennessee Natural Gas, and Southern Natural Gas
15 Company during the review period.
- 16 • CGC's storage inventory planning criteria were reasonable, CGC
17 generally adhered to those criteria, and CGC's review period storage
18 activity was reasonable.
- 19 • CGC's design day probability of occurrence is consistent with observed
20 industry practice.
- 21 • CGC's review period forecasts of design day demands were reasonable
22 and incorporated the impact of customer conservation efforts.

- CGC's planned use of a 5% capacity reserve margin, when viewed in conjunction with its design day criteria of 57 HDDs, was reasonable.
- The balance between CGC's review period winter season capacity resources and requirements was reasonable.
- CGC could reduce its interstate pipeline demand costs by decreasing its year-round capacity and instead rely on winter season capacity; however, there are currently no opportunities for the Company to do so.

Thus, in each of the triennial reviews, the consultant Exeter has found CGC capacity planning and asset management reasonable.

Q. What recommendation would you make to the Commission with respect to the triennial review of CGC to be conducted in 2023?

A. First and foremost, as an interim measure or otherwise, do not order that CGC make incremental gas available to the interruptible customers on demand as the CMRA seeks – CGC should continue to manage its gas supplies, and LNG storage, to benefit firm customers and to make incremental gas available to interruptible customers when it is appropriate under the circumstances at the time of the request to do so. Second, no special or extra instructions are necessary for the triennial review auditor – the consultants should approach the audit as they have been done in the past.

IV. CGC'S TARIFF PROPOSAL

Q. Turning to Mr. Crist's response to CGC's tariff proposal, on page 11 of the his direct testimony, Mr. Crist disagrees with your proposal that imbalance

1 penalties be credited to the gas costs in the Actual Gas Cost Adjustment.

2 **Please explain how such penalties and cash-out payments are handled today.**

3 A. Imbalances and cash-out payments are treated as gas cost recovery and flowed
4 through the gas cost in the annual Actual Gas Cost Adjustment. CGC is not
5 proposing anything new, while Mr. Crist is proposing to change a process that has
6 been in place for years.

7 **Q. Mr. Edwards in his testimony at pages 6-7 complains that your examples of**
8 **what happened in February 2021 are not useful because those were high gas**
9 **price days, and that this shows that the tariff proposal you are making is**
10 **unfair. How do you respond to this testimony?**

11 A. What is unfair is that without the proposed tariff change, interruptible transportation
12 customers can game the system, with the financial consequences of those actions
13 being borne by the firm customers and not the customers causing the problem. As
14 I have previously noted, customers select T-1 interruptible service knowing that
15 they might get interrupted, in which case they must use their standby fuel source or
16 suffer the then existing market conditions if they seek to buy transportation and gas
17 that day. There is nothing inherently unfair of living with the consequences of the
18 service level that you choose. As Mr. Becker and Mr. Bellinger and I have all said,
19 assigning firm capacity to interruptible customers as the CRMA proposes would
20 have disastrous consequences for firm customers, and that is what would be unfair.

21 If T-1 customers want access to CGC gas, there is a very easy solution to
22 such a “problem”— **buy firm back up**. Every customer is unique. But our existing
23 tariff provides a solution that can be a much more cost-effective solution for

1 customers who are looking for balance between being interrupted but always
2 having a firm back up.

3 **V. SEQUENT AND OFF SYSTEM SALES**

4 **Q. Are there any other comments in Mr. Crist's testimony that you would like to**
5 **address?**

6 A. Yes. On page 15, beginning at line 13 of his direct testimony, Mr. Crist states:

7 Prior to the February 1, 2022, acquisition of the
8 additional Oglethorpe capacity of 25,000 Dth/day the
9 Company had 92,000 Dth/day firm pipeline capacity,
10 and now holds approximately 117, 000 Dth/day.
11 During the relatively cold January 2022, CGC
12 actually used 129,000 mcf of LNG to supplement gas
13 it flowed on the interstate pipeline. The reason it
14 needed to use LNG was because the asset manager, its
15 former affiliate Sequent Energy Services ("Sequent"),
16 was diverting some of CGC's capacity for sale off-
17 system. This created revenues for Sequent and CGC
18 and under the sharing mechanism in effect at that
19 time, Sequent retained 50% of those revenues.
20

21 In this statement, Mr. Crist accuses CGC of diverting capacity to an affiliate
22 (Sequent) so that the affiliate could retain 50% of the gain from off-system sales.

23 This statement is wrong.

24 **Q. Please elaborate.**

25 A. Sequent is not presently and was not an affiliate of CGC in January 2022, as he
26 stated. In addition to incorrectly claiming that Sequent was an affiliate of CGC in
27 January 2022, Mr. Crist also incorrectly characterizes the Asset Management
28 Agreement ("AMA"). Under the Commission's approved procedures, CGC issues
29 an RFP for bids to solicit an asset manager. In response, the potential managers
30 submit a bid to pay CGC a flat rate annual fee for the ability to manage CGC's

1 fallow assets. Under this agreement, there is no sharing of revenues related to the
2 supply assets covered by the AMA. CGC receives the annual fee that is shared
3 with CGC's customers. There was a provision that allowed the asset manager to
4 share 50% of the gain with CGC's customers when the supply assets that are not
5 covered by the AMA (excluded assets) are used in off-system sales. During
6 January 2022, there was no gain from the use of excluded assets. Mr. Crist's
7 description of the events in January 2022 is entirely incorrect.

8 **Q. Would off system sales using the excluded assets create revenues for CGC as**
9 **Mr. Crist claims in his statement: "This created revenues for Sequent and**
10 **CGC and under the sharing mechanism in effect at that time, Sequent retained**
11 **50% of those revenues"?**

12 A. No. When the asset manager (currently Sequent) uses assets covered by the AMA
13 or increases of the usage of assets covered by the AMA, CGC **does not** receive any
14 additional revenue. As I have explained, under the AMA approved by the
15 Commission, CGC receives a flat annual payment based on the asset manger's bid
16 (the actual amount is treated as a confidential). The use of such assets by the asset
17 manager doesn't result in an increase in amount of CGC's revenue. If the asset
18 manager utilizes any of the excluded asset to make off system sales, CGC's
19 customers receive 50% of the gain from such transactions, but CGC's revenues are
20 not increased as claimed by Mr. Crist.

21 **Q. On page 17 of his direct testimony, Mr. Crist states that the Exeter report**
22 **mapped out the logic trail that explains how the Company's affiliate profits by**

1 **not allowing customers to access LNG and listed several items. Is Mr. Crist**
2 **statements concerning the Exeter report, correct?**

3 A. No. He states: “Revenues from **off system sales of LNG** and capacity release are
4 shared with Sequent retaining 50% of the profits and the Chattanooga Gas
5 Company receiving 50%. CGC’s share is applied to its system gas costs.” [Emphasis
6 added.] Exeter did not find that gain from off system sales of LNG was shared with
7 Sequent. Sequent did not make off-system sales of LNG during the audit period or
8 in the period since the audit period ended.

9 Further, Mr. Crist’s statement that “Pivotal, another affiliate, sells off
10 system LNG to parties and shares 50% with ratepayers and Company” is also wrong
11 and misleading. While Pivotal made off system sales of LNG in the past, Exeter
12 explained on page 45 of the June 2020 Report that:

13 “Pivotal, an unregulated entity, **ceased its off-system LNG tanker**
14 **sales efforts after August 2018** due to what CGC believes was the
15 availability of LNG from other sources which did not require a 50%
16 sharing of the margins realized by Pivotal with CGC’s ratepayers.
17 Thus, it is reasonable to conclude that Pivotal found the balance of
18 incentives under the sharing mechanism insufficient to continue to
19 pursue the off-system sale of CGC’s LNG. **Pivotal is no longer an**
20 **affiliate of CGC.** Therefore, it is uncertain whether Pivotal or
21 another entity would be interested in making off-system LNG sales
22 under an alternative incentive mechanism. Exeter has not observed
23 the marketing of utility off-system LNG tanker sales by unregulated
24 entities in other jurisdictions.” (Emphasis added)

25
26 Mr. Crist implies that the off-system sale of LNG by Pivotal continues and that
27 Pivotal is an affiliate of CGC contrary to Exeter’s finding that such the off-system
28 sales had cease in 2018 and that Pivotal is no longer an affiliate of CGC.

29 **Q. What about Mr. Crist’s inclusion of in the finding of Exeter that the:**
30 **“Company’s incentive to earn a 50% share of off system sales would be a**

1 **negative incentive for them to assign assets.” What is included in the Exeter**
2 **report concerning the assignment of assets?**

3 A. Contrary to what Mr. Crist claims, Exeter did not address the assignment of assets
4 in its report.

5 **Q. On page 18 of his direct testimony Mr. Crist states: “Exeter wants them to**
6 **consider selling more displacement out of the LNG, I agree with this only after**
7 **the needs of system customers are satisfied, for reasons I will explain.” Has**
8 **the recommendation that CGC consider selling more displacement out of the**
9 **LNG been considered by the Company and the Commission?**

10 A. Yes. In the September 8, 2021, Order in Docket 21-00069 approving the RFP for
11 the current Asset Management Agreement, the Commission found:

12 Because CGC has relied heavily on its LNG assets as its primary
13 facility to meet peaking demand coupled with growing consumer
14 demands on the system, the Company has determined that the
15 operational risk of LNG inventory not being readily available to meet
16 customer demand because it was used by the asset manager is too
17 great to allow the LNG assets to be made available for optimization.
18 The voting panel found that for these reasons it is reasonable that
19 CGC would disallow optimization of its LNG facility as
20 recommended by Exeter.

21
22 **Q. Just to be clear, who operates the LNG facility, CGC or the asset manager?**

23 A. CGC has complete control of the LNG facility. The asset manager has no control
24 of the LNG facility.

25 **Q. Is the CGC LNG facility included in the assets covered by the Asset**
26 **Management Agreement?**

27 A. No. The Asset Management Agreement with the term April 1, 2018, to March 31,
28 2021, which was extended with TPUC approval for one year without changes to

1 March 31, 2022, includes the LNG facility as an **excluded asset**. The excluded
2 assets are 100% controlled by CGC and cannot be used or optimized by the asset
3 manager unless explicitly authorized by CGC. For the period April 1, 2018, to
4 March 31, 2022, CGC did not allow the asset manager to use or optimize the LNG
5 facility. In the latest Asset Management Agreement with the term April 1, 2022, to
6 March 31, 2025, the LNG facility is not included in the Asset Management
7 Agreement and is specifically excluded from the assets subject to optimization by
8 the asset manager.

9 **Q. Can the asset manager direct CGC to operate the LNG facility so that the asset**
10 **manager can make sales by displacement?**

11 A. No.

12 **Q. In January 2022, did CGC vaporize gas from the LNG facility in order for the**
13 **asset manager to make sales by displacement as alleged in footnote 3 to the**
14 **Response to Motion of Chattanooga Gas to Strike or Transfer Certain**
15 **Testimony filed the CRMA on July 21, 2022, in Docket 22-00032?**

16 A. No, CGC did not withdraw gas from the LNG facility to make displacement sales.

17 **VI KORDSA TESTIMONY**

18 **Q. Turning now to Mr. Donahue's testimony, on page 4 of his direct testimony,**
19 **he states: "However, if Chattanooga Gas Company would have offered**
20 **incremental gas on many of those days, Kordsa could had saved as much as**
21 **\$25,000-\$30,000 per day. Without any benefits from incremental gas, we**
22 **estimated that that our additional gas costs were \$350,000 for the month of**
23 **January alone." How do you respond to this statement?**

1 A. Mr. Donahue's conclusion is not supported. In discovery, CGC requested that the
2 CRMA provide support for the claim that Kordsa could have saved \$350,000 if
3 CGC had offered incremental gas during January. As stated on the workpaper
4 supplied in response to the request, the potential saving was computed using the
5 LNG at the Weighted Average Cost of Gas ("WACOG") (CRMA Response to
6 CGC DR 1-6, Attachment 1-6.). It is clear from this response that the incremental
7 tariff provision had been misinterpreted by Mr. Donahue and misapplied in the
8 computation.

9 **Q. What does the tariff specifically require?**

10 A. The Incremental Gas provision provided on CGC Tariff Sheet 31A provides:

11 AUTHORIZED INCREMENTAL RATE
12

13 When the Company determines that volumes of gas are
14 available to be purchased and transported to Customers
15 under this Rate Schedule, then the Company shall, at its
16 option, be authorized to charge the incremental rate
17 Customers for such gas supply distributed to those
18 Customers who have been offered and who have agreed to
19 pay such incremental rate. **On days when gas is not being**
20 **withdrawn from the Company's Liquid Natural Gas**
21 **(LNG) facility for system supply, the incremental rate**
22 **shall be the applicable index rate plus the variable**
23 **pipeline charges.** On those days when gas is being
24 **withdrawn from the LNG facility, the incremental rate**
25 **will be increased to reflect the cost of gas used in the**
26 **liquefaction and vaporization process.** [Emphasis added.]
27

28 The price of incremental gas used to compute the potential saving was not
29 computed in accordance with the tariff. Instead of using the index rate as required,
30 Mr. Donahue used the WACOG of the LNG inventory. In addition, there was no
31 adjustment for the gas used in liquefaction and vaporization.

1 **Q. Does Kordsa have an option other than incremental gas for backup supply?**

2 A. Yes. Under its Special Contract with CGC, Kordsa can purchase firm supply
3 backup in accordance with the provisions of Rate Schedule T-2.

4 **Q. If Kordsa had firm supply backup in accordance with Rate Schedule T-2,**
5 **would its gas cost for January 2022 have been less than purchasing gas from**
6 **the third-party supplier?**

7 A. Yes. As I more fully describe in the confidential version of this answer in my
8 Confidential Exhibit ARH-3, Kordsa could have saved more than \$250,000 for the
9 month.

10 **Q. Does Kordsa currently have any Firm Supply Backup under the terms of Rate**
11 **Schedule T-2?**

12 A. Yes. Kordsa currently has a relatively small amount of firm supply backup.

13 **Q. Could Kordsa increase the amount of firm supply backup?**

14 A. Yes, as can any other interruptible transportation customer. It is not necessary for
15 CGC to be required to offer a new firm incremental gas service as proposed by Mr.
16 Crist and Mr. Donahue.

17 **Q. How does incremental gas service impact base (non-gas) rates?**

18 A. Incremental gas sales do not impact base (non-gas) rates. The impact is reflected
19 in the PGA. Any gas that is withdrawn from the LNG facility as incremental gas
20 will have to be replaced with gas that is purchased, liquified, and injected into the
21 tank. If the price that CGC charges the interruptible transportation customer for the
22 incremental gas is less than its replacement cost, the firm customers who purchase
23 gas from CGC will have to pay more through the PGA. The problem is that when

1 gas is withdrawn from the LNG facility, the Company doesn't know what its
2 replacement cost will be. For example, if LNG was withdrawn as incremental gas
3 in December 2021, it would not be replaced until several months later. An increase
4 in the price between the time that the gas that was withdrawn and the when the gas
5 is replaced will be included in the cost of the stored gas that will be passed on to
6 firm customers, not the interruptible customers who benefited from the incremental
7 gas sale. In addition, LNG generally costs more than flowing gas since 15–18%
8 of the gas purchased for liquefaction is consumed during the liquefaction process.
9 As a result, if incremental gas sales are to occur, price will need to be increased to
10 reflect these additional costs so that the firm customers are not paying for some of
11 the incremental gas sold to the interruptible customers.

12 **Q. Please provide a summary of your rebuttal testimony.**

13 A. Contrary to the assertions of the CRMA witnesses, the status quo works, and we
14 have an easy option for interruptible customers wanting access to a reliable gas
15 source – buy firm back up from CGC. To require CGC to make incremental gas
16 available on demand this winter as requested by the CRMA, would be to upend the
17 way CGC manages its gas supplies, especially its LNG storage, to the detriment of
18 the firm customers, for which the system is designed. Likewise, it is not necessary
19 to engage the triennial review consultant in any kind of additional review of CGC's
20 capacity management or gas supply operations outside of what they normally
21 would do. In the final analysis, to protect CGC's firm customers, the Commission
22 should approve the proposed tariff amendments as filed in this docket and reject
23 the CRMA's incremental gas and triennial review proposals.

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

2 **A.** Yes.