

**BEFORE THE TENNESSEE PUBLIC UTILITY COMMISSION
NASHVILLE, TENNESSEE**

October 3, 2022

IN RE:)	
)	
CHATTANOOGA GAS COMPANY)	DOCKET NO. 22-00004
PETITION FOR APPROVAL OF)	
TARIFF AMENDMENTS TO ITS)	
T-1, T-2, and T-3 TARIFFS)	

POST-HEARING BRIEF OF CHATTANOOGA GAS COMPANY

Chattanooga Gas Company (“CGC” or “Company”), pursuant to the *Pre-Hearing Order* in this docket issued September 9, 2022, hereby submits its post-hearing brief in this matter to the Tennessee Public Utility Commission (“TPUC” or “Commission”). The record in this matter supports approval of CGC’s request for an amendment to the T-1, T-2, and T-3 tariffs to provide an incentive for transportation customers to not take gas they don’t own on days when a balancing order is in effect. Further, the request of the Chattanooga Regional Manufacturers Association (“CRMA”) to radically change the regulatory paradigm to create a pooling system or to mandate LNG gas sales to interruptible customers who choose to be responsible for their own gas supplies should be denied. In support of its tariff filing and rejection of the CRMA proposals CGC states as follows:

I. BACKGROUND AND INTRODUCTION

CGC designs, builds, and operates its natural gas local distribution system to meet the needs of its firm customers safely and reliably. Some large customers choose to be responsible for purchasing their own gas supply and transporting such gas to CGC’s city gate. These customers are subject to interruption under the tariff for certain conditions on the interstate pipeline or within

CGC's system, and so these transportation customers must have their own backup fuel supply unless they also purchase CGC's firm backup gas service.

Tariffs T-1, T-2, and T-3 address the conditions and rates applicable to CGC's transportation of gas on behalf of customers who have elected to purchase and manage their own gas supply. As the balancing point operator, however, CGC is responsible for managing any imbalance – the difference in the gas consumed by CGC's customers and the volume of gas scheduled to be delivered by the pipelines to CGC's city gate – for both CGC's firm and transportation customers.

The current wording of the balancing provisions of the T-1, T-2, and T-3 tariffs is problematic. The cash out, imbalance trading, and daily balancing order provisions have the effect of shifting certain gas costs from the interruptible customer who causes a gas supply imbalance to CGC's firm customers. The problem arises on days where the interstate pipelines have issued Operational Flow Orders ("OFOs") and CGC has daily balancing orders in effect and a transportation customer chooses to consume gas that does not belong to it by taking more gas than it has scheduled to be delivered, gas that is usually more expensive. Later, these same customers will over-schedule the delivery of gas to bring its total deliveries of gas in balance, and this gas usually costs less than when it earlier took the more expensive gas. While the gas volumes may ultimately be in balance by the end of the month, the gas costs do not balance out with that difference in gas cost being charged to CGC's firm customers. The proposed tariff change would provide the transportation customers an incentive to comply with daily balancing or delivery orders. Any amounts collected under the new tariff would be credited to the recovery of gas costs included in the Actual Cost Adjustment ("ACA") applicable to firm customers; no charges under this penalty would be retained by CGC.

In opposing CGC's reasonable and simple request to ensure that costs caused by transportation customers are not unfairly shifted to firm customers, the CRMA ignores the easily available solution and instead proposes that CGC's system be turned on its head. To get around OFO and daily balancing orders, the CRMA wants CGC to provide gas from its LNG facility on demand or for CGC to give over some 43% of the Company's throughput to an undefined and unregulated poolers/marketers. The CRMA proposal lacks critical supporting information and would nevertheless completely undermine CGC's ability to meet its obligation to reliably serve firm customers. CGC *already offers the back up gas supply* service being requested – it's CGC's Interruptible Transportation Service with Firm Backup under Rate Schedule T-2. It is unnecessary to undermine CGC's ability to serve its firm customers when there is a preexisting and reliable tariff solution that some of CGC's other customers already use. It would be reckless and pose serious and significant risks to the 69,000 firm customers in Cleveland and Chattanooga to implement either of CRMA's proposals in order to hopefully save a handful of interruptible transportation customers some money when gas is expensive on very cold days. It would be unwarranted and contrary to the public interest that this Commission is charged to protect for the Commission to approve either of the short sighted and self-serving CRMA proposals.

The presentation of CGC's case is organized as follows. Section II of this brief provides an executive summary of CGC's case in support of its requested tariff amendment and in opposition to CRMA's proposals. In Section III, CGC comprehensively addresses the key issues supporting the Commission's approval of the tariff amendment and rejection of CRMA's proposals. By combination of the evidence of record and the arguments presented in Section III, CGC believes that it has identified all the relevant issues and corresponding positions supporting

approval of CGC's requested tariff amendments and requiring denial of CRMA's alternate, self-serving proposals.

For convenience, CGC shall utilize the following abbreviations or references: The Consumer Advocate Unit in the Financial Division of the Office of Attorney General shall be referred to as "Consumer Advocate" or "CAU"; Chattanooga Gas Company shall be referred to as "CGC" or "Company"; the Chattanooga Regional Manufacturers' Association shall be referred to as "CRMA"; references to the Hearing Transcript shall be noted as "Tr." followed by "at" and the page number and line references; references to prefiled testimony shall be to the format "Party, Witness Last Name, Direct/Rebuttal/Cross Rebuttal" and "at" followed by the Page and Line Numbers(s); references to prefiled testimony exhibits shall be in the form "Party, Witness Last Name, Direct/Rebuttal/Cross Rebuttal," exhibit number as identified by the witness; references to the statutes shall be to the Tennessee Code Annotated or "T.C.A."; references to the rules shall be to the rules shall be to the Tennessee Rules and Regulations or "Tenn. Comp. R. & Regs."

II. EXECUTIVE SUMMARY

This proceeding is about fairness to and protection of CGC's 69,000 firm customers – the customers CGC and this Commission have the legal and regulatory responsibility to protect. CGC initiated this docket to request a simple but important change to its transportation tariffs to discourage interruptible customers from consuming gas that does not belong to them to the detriment of CGC's firm customers. CGC is proposing to modify its transportation tariffs to implement additional charges on customers that do not comply with daily balancing or curtailment orders. The intent is to disincentivize transportation customers from taking excess gas during periods when a balancing order is in effect and later replacing that gas with less expensive gas. These customer practices cause CGC's firm customers to pay for the cost difference in gas prices.

The Consumer Advocate fully supports this proposal, while suggesting that CGC does not go far enough.

In response to CGC's reasonable request to protect firm customers from this unfair cost shifting, CRMA proposes that either interruptible transportation customers be given gas supply from the LNG facility on demand, or that approximately 43% of CGC's capacity be shifted to an undefined system of unregulated poolers/marketers. In essence, a few interruptible transportation customers who made the business decision to be responsible for their own gas supply and then do not follow the tariff want the Commission to either (1) **require** CGC to sell them gas supply from the LNG facility when it is more affordable than acquiring their own gas supply; or (2) shift a large portion of CGC's capacity that it has secured for its firm customers to poolers/marketers who are not regulated by this Commission. **CRMA makes these proposals in the face of a tariff that already provides the service they are seeking**—T-2 Interruptible with Firm Back-up. CRMA does not want this service because they think that by acquiring incremental gas from CGC, especially from the LNG facility, that they will pay less than the firm back up service under the T-2 Rate Schedule. Their veiled attempts to paint themselves as victims are hollow; the true victims are CGC's firm customers who must pay for the business decisions of certain transportation customers.

CRMA's proposal to have on demand access to the LNG facility is short sighted and reckless. It would materially undermine CGC's ability to meet its obligation to reliably serve firm customers on high demand or system outage days. CGC's system is constructed and maintained to meet its legal and regulatory obligations to provide safe, reliable, and affordable service to its firm customers. Interruptible customers are served so long as such service does not impede the Company's ability to meet its obligations to firm customers. CRMA would turn this around.

Rather than subscribing to the existing firm back-up service, CRMA is requesting that CGC be required to provide “excess” gas from its LNG facility to interruptible transportation customers on demand. This request is based on the faulty premise that the LNG facility represents “excess” or available “incremental” gas supply capacity. This is simply not the case. The LNG facility is CGC’s only peak shaving asset available for use to serve firm customers on cold days when the Company’s interstate pipeline capacity is not sufficient to meet CGC’s firm customers’ demand for gas. The LNG facility also serves as a contingency supply in case there is a service disruption on the interstate pipelines or within CGC’s system. The LNG facility does not represent “excess” or “incremental” gas.

Requiring CGC to sell gas supply from the LNG facility to interruptible transportation customers would not only negatively impact firm customers from a reliability standpoint but would also have negative impacts from a financial standpoint. Among other financial impacts, most notably, any gas withdrawn from the LNG facility for transportation customers must be replaced; any increase in the price between the time that the gas was withdrawn and the time when gas is replaced would be passed on to firm customers. But even if you protected the price of the gas, supply sold in the winter season is lost and no longer available to firm customers until the tank is refilled, usually in the summer months.

Nothing in CGC’s tariff imposes an obligation on CGC to make incremental gas available at any time. The tariff merely authorizes the Company to provide incremental gas to interruptible customers and prescribes the rate to be charged. The tariff is intended to ensure that the costs of the gas are borne by the interruptible customers consuming it, rather than the Company’s firm customers. That’s it. Similarly, in the rate case CGC did not make any sort of commitment or promise to make incremental gas from the LNG facility available on demand. CGC’s only

commitment was to make reports on incremental gas requests and availability, which CGC has been doing. There was no promise to interruptible customers to provide them with gas any and every time they wanted, and certainly no commitment to make LNG available on demand.

CRMA's assertion that CGC improperly diverts gas supply off-system to the benefit of CGC and its affiliate is legally and factually inaccurate. First, CGC does not have an obligation to prioritize interruptible transportation customers – customers who do not pay for gas supply service – over off-system gas supply sales. In any event, CGC does not divert LNG gas supply off-system to the benefit of CGC or an affiliate or otherwise. All the gas supply that the Company purchases is used by firm customers. Likewise, all of the LNG vaporized by CGC in January 2022 was used solely to serve firm customer demand in accordance with its normal gas supply practices.

CGC also should not be required to shift gas supply capacity to unregulated poolers/marketers. The proposal is completely lacking in any specificity and is not sufficiently detailed to reasonably evaluate. The proposal should be denied on that basis alone. In addition, CRMA's proposal would completely change the nature of services CGC provides to transportation customers. This would result in some 43% of CGC's throughput being controlled by poolers/marketers and would result in negative impacts to firm gas supply customers, contrary to the public interest. Notably, interruptible transportation customers have only made one request for incremental gas in the last three years. It would be a substantial overreaction to completely overhaul CGC's system based on this small demand and self-serving proposal.

Despite CRMA's suggestion, there is no need for additional direction to the triennial review auditors. The auditor has repeatedly considered CGC's overall gas supply plan over more than a decade and concluded that CGC's storage inventory planning criteria are reasonable.

To be clear, the CRMA case is absolutely and entirely about money and getting a better deal than CGC's firm customers. CRMA is going to great lengths to avoid paying for the service they want and that CGC already provides – Interruptible with Firm Backup under Rate Schedule T-2. It makes little sense to completely undermine CGC's gas supply and capacity planning and management system or overhaul CGC's gas supply system to the detriment of CGC's firm customers to save a few interruptible customers some money. Transportation customers made the business decision to choose interruptible service, and they agreed to have a standby fuel source for which they pay a lesser rate. If the interruptible transportation customers want to have access to gas without the exposure to market rates, then they could receive service at the PGA rate simply by becoming a firm customer. What they want, however, is to pay lower rates year-round and then purchase gas from CGC when it is too expensive or not available. The CRMA proposals are unfair, unsupported, unwarranted, self-serving, contrary to the public interest, and should be soundly rejected.

III. ISSUES

A. The Requested Change to the Balancing Tariff is Necessary.

CGC initiated this docket to request a simple but important change to the balancing tariff to discourage interruptible customers from consuming gas that does not belong to them, to the detriment of CGC's firm customers. CGC proposes to modify its T-1, T-2, and T-3 tariffs to implement additional charges on those days in which customers do not comply with daily balancing orders or curtailment orders. CAU, Dittmore, Direct at p. 3, l. 3-5. The additional charges are designed to disincentive transportation customers from (a) taking excess gas during times a balancing order is in effect; (b) failing to comply with curtailment orders; and (c) failing to comply with daily balancing orders by having gas delivered in excess of daily consumption. CAU, Dittmore, Direct at p. 3, l. 5-8; CGC, Hickerson, Direct at p. 9, l. 1 – p. 13, l. 8.

Tariffs T-1, T-2, and T-3 address the conditions and rates applicable to CGC transportation of gas on behalf of CGC customers that have elected to purchase and manage their own gas supply. Importantly, these customers have *chosen* to be responsible for purchasing gas from a supplier and arranging for the gas to be delivered by the interstate pipeline to CGC's city gate. CGC, Hickerson, Direct at p. 4, l. 1-6.

Tariff T-1 relates to interruptible transportation service. Service under this tariff is fully interruptible, with CGC having *no* firm obligation to supply gas. Tariff T-2 relates to interruptible transportation with firm supply back-up. Under this tariff, the customer purchases and manages the gas supply, but pays CGC to have the ability to purchase a designated volume of gas from CGC at the F-1 billing demand rate. CGC has an obligation to sell the T-2 customer up to the designated billing demand volume. Tariff T-3 relates to low volume transport service. Customers served under tariff T-3 have a firm right to purchase gas from CGC under the C-2 rate. CGC, Hickerson, Direct at p. 4, l. 7-17. While these customers manage their own gas supply, CGC is responsible for managing any imbalance – the difference in the volume of gas consumed by CGC customers and the volume of gas scheduled to be delivered by the pipelines to CGC's city gate – for both gas supply and transportation customers. CGC, Hickerson, Direct at p. 4, l. 19-22.

Each of the tariffs includes a daily balancing order provision. When an interstate pipeline company issues an Operational Flow Order (“OFO”), CGC has the responsibility to ensure that the volume of gas delivered to the city gate is equal to the volume of gas consumed by both CGC's sales and transportation customers. CGC, Hickerson, Direct at p. 6, l. 14-17. Since CGC does not arrange for transportation customers' gas supply, CGC issues a balancing order that requires the transportation customers to have the volume of gas delivered to CGC on behalf of the customer on a given day equal the volume of gas consumed by the customer during the day. OFOs are issued

by the upstream pipeline to protect the operational integrity of the pipeline. CGC, Hickerson, Direct at p. 6, l. 21-22; CAU, Dittmore, Direct at p. 3, l. 10-12; Tr. 139, l. 8-9. Failure of CGC to adhere to an OFO could result in penalties assessed to CGC. CAU, Dittmore, Direct at p. 3, l. 15. CGC, Hickerson, Direct at p. 6, l. 18-21. Since an OFO often results in an imbalance in the demand for and the supply of gas, it is often accompanied by a daily increase in the price of gas. CGC, Hickerson, Direct at p. 6, l. 22 – p. 7, l. 2; CAU, Dittmore, Direct at p. 4, l. 1-2.

The current tariff permits transportation customers to take more gas off the system than they nominate during periods in which an OFO is in effect, while replacing the shortage later in the month after prices have subsided, shifting costs from themselves to gas supply customers. CAU, Dittmore, Direct at p. 4, l. 2-5; CGC, Hickerson, Direct at p. 7, l. 4-15. This is not a hypothetical problem. In February 2021, 30 of the 49 T-3 customers did not schedule gas for delivery during the periods of February 1-7 and February 13-23 when the interstate pipelines had issued OFOs and CGC had corresponding daily balancing orders in effect. CGC, Hickerson, Direct at p. 7, l. 17-19. These same customers then scheduled delivery of excess gas when no balancing order was in effect. The T-1 and T-2 customers displayed similar patterns. CGC, Hickerson, Direct at p. 8, l. 10-11. Essentially, the transport customers borrowed expensive gas from the gas supply customers during a period of peak pricing and replaced the gas when prices went down; while the volume was offset by the over-deliveries, the cost was not offset. CAU, Dittmore, Direct at p. 4, l. 6-9; CGC, Hickerson, Direct at p. 8, l. 4-10; Tr. p. 137, l. 7-9. CGC had to locate replacement gas for that taken by the transport customers and incur significant costs in doing so to maintain system integrity and fulfill its obligations to firm sales customers. CAU, Dittmore, Direct at p. 4, l. 9-11; CGC, Hickerson, Direct at p. 7, l. 22 – p. 8, l. 4.

CGC's requested tariff amendment is necessary to prevent the unfair shifting of gas costs from the transportation customers to the firm gas supply customers and should be approved by this Commission. Importantly, CGC has *no financial incentive* to propose these changes. Any amount collected by virtue of the revised provisions will be credited to the recovery of gas cost included in the annual Actual Cost Adjustment ("ACA") filing. CGC, Hickerson, Direct at p. 13, l. 11-12; CGC, Hickerson, Rebuttal at p. 14, l. 3-6; Tr. at p. 92, l. 24 – p. 93, l. 2. Notably, CAD fully supports the proposed tariff amendment and, in fact, does not think it goes far enough to protect firm customers from the actions of the transportation customers. The Consumer Advocate further proposes that CGC be authorized to apply the daily balancing requirement during times of price spikes, regardless of whether an OFO has been issued. CAU, Dittmore, Direct at p. 5, l. 14 – p. 6, l. 13; Tr. p. 152, l. 11-14. CGC does not oppose this additional change.¹ Tr. at p. 141, l. 11.

B. CRMA's Proposals Are Unwarranted, Self-Serving, and Unsupported.

In response to CGC's simple and reasonable request to ensure costs are not unfairly shifted to gas supply customers, CRMA proposes dramatic and wholly unrelated changes to the way CGC manages its capacity and gas supply. More specifically, CRMA proposes that CGC (1) be required to provide gas supply from its LNG facility to interruptible transportation customers on demand; or (2) that a large portion of CGC's gas supply be shifted to unregulated poolers or marketers. These proposals are unwarranted, self-serving, and unsupported. CGC already offers the service that the T-1 interruptible customers are requesting – Interruptible Transportation Service with Firm Backup under Rate Schedule T-2. The T-1 interruptible customers have made the business decision not to elect this service and are now asking the Commission to essentially require CGC to provide firm back-up without requiring them to pay for it to the detriment of those customers who *do* pay

¹ The Consumer Advocate's proposal is based on price volatility of 20% or more. CAU, Dittmore, Direct at 6, l. 10-13. It should be noted that, for example 20% of \$4.00 gas is much less of an impact than 20% of \$8.00 gas.

for gas supply service.² CGC, Hickerson, Rebuttal at p. 4, l. 9-20; CGC, Becker/Bellinger, Rebuttal at p. 5, l. 21-23, p. 14, l. 7-16, p. 32, l. 18 – p. 33, l. 3; CGC, Ferrell, Rebuttal at p. 7, l. 22 – p. 8, l. 7; Tr. at 89, l. 1-7.

1. CGC Should Not Be Required to Provide LNG Facility Gas on Demand.

CRMA suggests that, instead of the tariff amendments, interruptible transportation customers should be given access to gas supply from the LNG facility on demand. The proposal is based on a lack of understanding of CGC's system, in particular the role of the LNG facility; would undermine CGC's ability to meet its obligation to reliably serve firm customers; and is fundamentally unfair and contrary to the public interest.

a. CGC's System

CGC's system is constructed and maintained to meet the projected needs of firm customers. CGC, Ferrell, Rebuttal at p. 6, l. 4-15. All customers are important, but the system, as a whole, is able to provide interruptible service primarily because it is constructed and maintained, in its totality, to meet the projected needs of firm customers. No subset of the system can stand on its own to serve a specific customer or subset of customers. CGC, Ferrell, Rebuttal at p. 6, l. 15-20; CGC, Becker/Bellinger, Rebuttal at p. 3, l. 14-19. The CGC system works as an integrated network with an ability to meet the needs of firm customers. That is how it is designed, built, and operated. Interruptible customers are afforded a level of service so long as it does not impede the Company's ability to meet its obligations to firm customers. CGC, Becker/Bellinger, Rebuttal at p. 3, l. 20-23.

As CGC's system and its customer base have grown over the years, so too has its ability to provide interruptible customers with service. However, at the extreme end of operations,

² T-1 Interruptible customers are not akin to stand-by airline passengers. Stand-by airline passengers have paid for a ticket and, therefore, the airline has an obligation to get the passenger to their destination. T-1 Interruptible customers have not paid for any gas supply from CGC yet want CGC to provide it to them when they want it.

especially on the coldest winter days, or on days when things do not go according to plan for reasons outside of the Company's control, the system and its aggregate gas supply capability is ultimately designed and operated to ensure the natural gas needs of its firm customers are met. CGC, Becker/Bellinger, Rebuttal at p. 4, l. 1-7. The same is true of CGC's delivering interstate pipelines, Southern Natural Gas Pipeline and East Tennessee Natural Gas. The limitations that these interstate pipeline place on shippers like CGC are informative and contribute to the Company's ability to offer service to firm customers. Interruptible customers are asked to go offline or switch over to their required back-up fuel source when needed, which is consistent with CGC's tariff for their class of service. CGC, Becker/Bellinger, Rebuttal at p. 4, l. 7-13.

While some interruptions are beyond CGC's control, there are steps CGC has taken that help minimize potential disruptions within its system. CGC, Ferrell, Rebuttal at p. 6, l. 11-12. For example, CGC's pressure improvement and other system enhancement projects over the last several years have resulted in very meaningful upgrades in the system's ability to support firm load obligations, which in turn provide greater reliability for the Company's interruptible customers. CGC, Ferrell, Rebuttal at p. 7, l. 20-23. Even though these pressure improvements are designed for the benefit of firm customers, the interruptible customers have benefitted from the multiple system improvements. More specifically, the 2021 curtailment plan removed 18 interruptible customers such that today there are only 12 customers on the 2021-22 curtailment plan, and the trigger for curtailment was adjusted downward from 43 degrees to 27 degrees. CGC, Ferrell, Rebuttal at p. 6, l. 4-15. While CGC does not want to interrupt service at all, at times it is necessary. Again, however, if CGC's transportation customers need a more reliable alternative to being interrupted, then they should subscribe to CGC's firm back-up service. CGC, Ferrell, Rebuttal at p. 6, l. 8-9.

b. The LNG Facility Does Not Represent “Excess” Capacity

Rather than subscribing to the firm back-up service, CRMA is requesting that CGC be required to provide “excess” gas from its LNG facility to interruptible transportation customers on demand. This request is based on the faulty premise that the LNG facility represents “excess” or available “incremental” gas supply capacity. The term “excess” capacity suggests that the gas supply assets obtained by CGC are more than what is required to meet the needs of CGC’s gas supply customers. This is simply not the case. CGC, Ferrell, Rebuttal at p. 4, l. 10-12.

The LNG plant is not a large storage facility available to be utilized whenever someone wants to purchase gas. Rather, the on-system LNG plant is a peak shaving resource for the system. It is a reserve facility that is CGC’s last call for natural gas available for firm customers on the system in high load operating scenarios. It also provides the last line of defense when operational constraints occur, for example an interruption to the interstate pipeline, a gate station shutdown, an inadvertent construction mishap that cuts a pipe, or the negative operational and customer impacts suffered by the energy sector in the winter of 2021 during Winter Storm Uri. CGC, Becker/Bellinger, Rebuttal at p. 8, l. 9-19.

The LNG facility is CGC’s only peak shaving asset that is available for use to serve firm customers on cold days when the Company’s interstate pipeline capacity is not sufficient to meet CGC’s firm customers’ demand for gas. The LNG facility also serves as a contingency supply in case there is a disruption on the interstate pipeline serving CGC’s system which could prevent CGC from receiving its full contracted gas supply capacity. CGC, Becker/Bellinger, Rebuttal at p. 1, l. 12-17. The LNG facility is the last truly no-notice swing source of supply if the Company’s forecast of customer requirements is too low or if the actual weather experienced by the system is

colder than what had been forecasted for the day. CGC, Becker/Bellinger, Rebuttal at p. 21, l. 17-20.

The LNG inventory is finite and will last approximately 13 days, assuming full vaporization capacity is used. Once LNG is withdrawn during the heating season, CGC's ability to liquefy and replace gas stored in the LNG facility that may be needed during the remaining winter months is extremely limited. Because of the finite amount of inventory, the lack of assurance that any gas withdrawn could be replenished before it is needed to provide the safe and reliable gas service required by CGC's firm customers, increased LNG gas supply usage to support sales to interruptible transportation customers increases the operational risk of being able to provide service to firm customers. CGC, Becker/Bellinger, Rebuttal at p. 22, l. 1-9. Without the LNG facility, and otherwise without adequate gas supply, customers may experience outages that can cause life-threatening consequences, such as what happened in Texas in 2021. CGC, Ferrell, Rebuttal at p. 5, l. 1-5.

This does not mean that CGC will and can never provide incremental gas to interruptible customers. However, the availability of gas on any given day is a function of the point in the winter heating season and many different factors that require the exercise of judgment based on experience. CGC, Becker/Bellinger, Rebuttal p. 33, l. 15-19. When CGC makes the operational decision to provide or deny a request for incremental gas, it is always made based on whether the firm customers can continue to reliably receive service even on the coldest days of the year. Tr. p. 33, l. 10-14.

Mr. Crist, who admittedly has not held a capacity planning or supply management job, asserts that CGC's LNG gas is unnecessary to meet firm customer demand. As explained by Mr. Becker and Mr. Bellinger, the Director of Capacity Planning and the Gas Supply Manager for

Southern Company Gas, respectively, this is simply incorrect. CGC's design day demand is forecasted to be 153,333 Dth/day. Of that amount, 112,018 Dth/day is available through interstate pipeline contracts, leaving 41,315 Dth/day to be supplied by the withdrawal of gas from the LNG facility. CGC, Becker/Bellinger, Rebuttal at p. 14, l. 23 – p. 15, l. 5. While design day weather conditions do not happen very often, when they do, the obligation to provide safe and reliable life-saving service to CGC's customers is CGC's sole responsibility. Degrading that readiness because, on average, the design days do not happen often is not the appropriate lens to view readiness for extreme weather events. Becker/Bellinger, Rebuttal at p. 16, l. 1-5.

The LNG facility also serves as a contingency supply in case there is a disruption on the system or in the event that the interstate pipelines serving CGC have operational issues that prevent them from delivering CGC's full contracted capacity. Becker/Bellinger, Rebuttal at p. 16, l. 6-9. As discussed above, however, the LNG inventory is finite. Once LNG is withdrawn, during the finite window where it is available each heating season, the Company's ability to liquify and replace gas to be stored as LNG is extremely limited. Becker/Bellinger, Rebuttal at p. 16, l. 9-13. It is not appropriate to make the LNG gas supply available to meet the needs of interruptible transportation customers especially prior to the coldest months. The operating system's integrity on cold days or on those days when the interstate pipelines have operational issues is the critical need for CGC's LNG plant. Becker/Bellinger, Rebuttal p. 16, l.13-19. On those coldest of winter days, CGC's firm customers are entitled to safe and reliable service, and CGC is obligated to ensure that it has done the planning and managing so that the gas is available when requested. Becker/Bellinger, Rebuttal at p. 17, l. 9-12. The LNG facility is a critical component of this and, contrary to CRMA's assertions, does not represent "excess" or additional "incremental" capacity.

Any mandate to provide gas supply from the LNG facility to interruptible transportation customers would not be in the public interest. Tr. at p. 92, l. 20-22.

CRMA suggests that because CGC proposed use of the LNG facility to serve firm customer demand during the 2018 rate case, it should be able to do so now as well. This, again, is incorrect. In the 2018 rate case, CGC recognized that the most cost-effective option for addressing the loss of 25,000 Dth/day package of interstate pipeline transportation capacity that was to occur in 2022 was to more fully utilize the daily send-out capability of the LNG facility. Tr. at p. 35, l. 13-19. At the time, utilizing the LNG facility was the only means of offsetting the expected loss of the needed transportation capacity. Tr. at p. 35, l. 9-22. Moving forward four years, however, CGC was able to secure 50,000 Dth/day of interstate pipeline transportation capacity via retention of the 25,000 Dth/day expected to be lost and acquisition of an additional 25,000 Dth/day. Retaining the 25,000 Dth/day that was expected to be lost and securing an additional 25,000 Dth/day to address load growth on the system now enables CGC to appropriately reposition the LNG facility back to its intended role as a peak shaving facility. Tr., p. 36, l. 3-7. Having the LNG available for peak shaving is even more imperative given the Company's robust and continued customer growth. Tr. at p. 36, l. 8-10; Tr., p. 92, l. 2-12; CGC, Becker/Bellinger, Rebuttal at p. 23, l. 5 – p. 25, l. 2.

Acquisition of the additional 25,000 Dth/day (*i.e.*, 25,000 Dth/day beyond the 25,000 Dth/day retained) does *not* mean that the LNG facility now represents “excess” gas. First, CRMA repeatedly confuses gas supply with transportation capacity. Transportation capacity held on the two delivering pipelines only means that CGC has the ability to bring gas to its system. CGC still has to purchase the gas. Tr., p. 36, l. 11-15. CGC secured additional transportation capacity; it did not secure additional gas supply. Tr., p. 36, l. 11-12. Further, CGC's experts explained, CGC's design day gas supply capability is only slightly (less than 2,000 Dth/day) greater than it was prior

to acquisition of the 50,000 Dth/day. CGC, Becker/Bellinger, p. 25, l. 5-9, CGC, Becker/Bellinger, Rebuttal, Ex. GB-2.

Finally, prior to acquisition of the additional 25,000 Dth/day in 2022, CGC had approximately 91,917 Dth/day of capacity. Tr. at p. 188, l. 23. *Every year* from 2011-2021 CGC's peak day exceeded 91,017 Dth/day. Tr., p. 89, l. 4-7; CRMA, Crist p. 16, l. 3-4. In fact, in one year (2014), CGC exceeded 91,017 Dth/day by nearly 50%, or 42,904 Dth/day. CRMA, Crist p. 16, l. 3-4; Tr., p. 189, l. 8-15. Looking at just the last four years since the rate case in 2018, the difference between the 91,917 and the peak day was 37,507 Dth/day (2018); 16,796 Dth/day (2019); 19,066 Dth/day (2020); and 26,103 Dth/day (2021). CRMA, Crist p. 16, l. 3-4; Tr., p. 189, l. 16 – p. 190, l. 23. The difference in each instance was satisfied by LNG gas supply availability. Tr., p. 190, l. 22-23. Importantly, the average deficiency in the last four years is nearly 25,000 Dth/day. Tr., p. 191, l. 10 – p. 192, l. 13. This alone demonstrates that the additional 25,000 Dth/day is needed now to meet growth and CGC's firm customer needs. Thus, the LNG facility must remain available as a peak shaving resource. The LNG facility simply does not represent "excess" capacity.

c. Additional Costs to Firm Gas Supply Customers

Requiring CGC to sell gas supply from the LNG facility to interruptible transportation customers would not only negatively impact firm customers from a reliability standpoint but would also have negative impacts from a financial standpoint. Any gas that is withdrawn from the LNG facility as incremental gas must be replaced with gas that is purchased, liquified, and injected into the tank. If the price that CGC charges the interruptible transportation customer is less than its replacement cost, the firm customers who purchase gas from CGC will have to pay more through the PGA. CGC, Hickerson, Rebuttal p. 21, l.18-23. Any increase in the price between the time

that the gas was withdrawn and the time when the gas is replaced would be included in the cost of the stored gas that is passed on to the firm customers, not the interruptible customers who benefited from the incremental gas sale. CGC, Hickerson, Rebuttal p. 22, l. 3-7; CGC, Becker/Bellinger, Rebuttal p. 9, l. 11-18.

In addition, incremental gas sales would lower asset management agreement guaranteed minimums paid to CGC which are an offset to firm customer billings. CGC, Becker/Bellinger, Rebuttal at p. 19, l. 15-17. Allowing incremental gas sales would also reduce LNG inventory that could be used by the firm customers to offset high gas prices during a heating season. CGC, Becker/Bellinger, Rebuttal at p. 19, l. 17-19. Finally, utilizing the LNG facility for incremental gas sales to interruptible transportation customers would increase operation and maintenance costs of the LNG facility as well as additional personnel costs to account for the increased usage. CGC, Becker/Bellinger, Rebuttal at p. 20, l. 22 – p. 21, l. 9. It simply is unfair to impose these additional burdens on CGC's firm gas supply customers – those who pay for gas supply service simply so interruptible transportation customers who do not pay for gas supply service, can have a cheaper gas supply from CGC available to them.

d. CGC's Tariff/Rate Case "Promise"

Nothing in CGC's tariff imposes an obligation on CGC to make incremental gas available at any time. CGC must follow the requirements of its tariff. CGC, Hickerson, Rebuttal at p. 2, l. 20-22. The tariff specifically requires:

When the company determines that volumes of gas are available to be purchased and transported to Customers under this Rate Schedules then the Company shall, *at its option, be authorized* to charge the incremental rate Customers for such gas supply distributed to those Customers who have been offered and who have agreed to pay such incremental rate. On days when gas is not being withdrawn from the Company's Liquid Natural Gas (LNG) facility for system supply, the incremental rate shall be the applicable index

rate plus the variable pipeline charges. On those days when gas is being withdrawn from the LNG facility, the incremental rate will be increased to reflect the cost of gas used in the liquefaction and vaporization process.

CGC, Hickerson, Rebuttal, p. 3, l. 1-10.

The incremental rate stated in the tariff is an “authorized” rate to be charged by the Company “at its option.” The tariff *authorizes* the Company to provide incremental gas to interruptible customers and prescribes the rate to be charged for doing so to protect CGC’s firm gas supply customers. CGC, Hickerson, Rebuttal at p. 3, l. 11-15. In other words, the tariff is intended to ensure that the costs of the gas are borne by the interruptible customers consuming it, rather than the Company’s firm customers. The tariff does not impose an obligation of any kind on the Company to provide incremental gas. In fact, it clearly states otherwise.

Similarly, CGC did not make any sort of commitment or promise to make incremental gas from the LNG facility available on demand in the 2018 rate case. As an initial matter, if this Commission had already ordered CGC to make incremental gas available to interruptible customers, CRMA would not need to be making such a request of the Commission in this proceeding. In any event, CGC’s only commitment in the rate case was to make reports on incremental gas requests and availability, which CGC has been doing. There was no promise to interruptible customers to provide them with gas any and every time they wanted, and it certainly was not a commitment to utilize LNG, which does not contain “excess” gas available for sale. CGC, Hickerson, Rebuttal at p. 2, l. 10-15.

e. Off-System Sales

CRMA asserts that CGC improperly diverts gas supply off-system to the benefit of CGC and its former affiliate. This is legally and factually inaccurate.

As an initial matter, Mr. Dittmore agreed that CGC does not have an obligation to prioritize interruptible transportation customers over off-system sales. Tr., p. 169, l. – p. 171, l. 4. Again, these transportation customers *do not pay for gas supply*; they take that responsibility on themselves.

The CRMA has argued that an earlier appellate court decision supports its claims, but CRMA fails to quote that decision in context. The Court of Appeals in *Consumer Advocate & Protection Division v. Tennessee Regulatory Authority*, 2012 WL 1964593, *2 (Tenn. Ct. App. 2012), expressly recognized that CGC “must purchase gas and have it delivered to its own distribution system at the level necessary to meet the full natural gas supply needs of the consumers.” The decision goes on to recognize that “[i]f it is determined that some of the pipeline capacity assets that have been purchased *will not be needed to meet the needs of the Gas Company’s customers*, the asset manager can market the excess assets to other jurisdictions. *Id.* at *3 (emphasis added). The Court, in turn, defines “customers” to mean “firm customers” or “those customers for whom the Gas Company has a *firm obligation to supply gas* that is not ordinarily subject to interruption or curtailment.” *Id.* at n. 4 (emphasis added). Thus, the Court recognized that, as a legal matter, CGC is free to sell excess assets off-system and is not required to prioritize interruptible customers.

In any event, CGC does not divert LNG gas supply off-system to the benefit of CGC or an affiliate. Mr. Crist asserts that CGC diverted capacity to a former affiliate (Sequent) so that the affiliate could retain 50% of the gain from off-system sales pursuant to the Asset Management Agreement (“AMA”). This is wrong on many levels. First, importantly, Sequent is no longer an affiliate of CGC. CGC, Hickerson, Rebuttal at p. 15, l. 21-23; CGC, Becker/Bellinger, Rebuttal at p. 26, l. 7-8. Second, there is no sharing of revenues under the AMA. CGC, Hickerson, Rebuttal

at p. 16, l. 1-2. Rather, CGC receives the annual fee that is shared with CGC's customers. CGC, Hickerson, Rebuttal at p.16, l. 3-5. The AMA itself has a three-year term, so there is no incentive to CGC to increase off-system sales to increase the value of the AMA or individual financial incentive to do so. Tr. at p. 79, l. 6-23. Third, CGC has complete control over the LNG facility; the asset manager has no control over the LNG facility. CGC, Hickerson, Rebuttal at p. 18, l. 23-24. Finally, Sequent did not make off-system sales of LNG during the latest triennial audit period (2016-2019) or at any point thereafter. CGC, Hickerson, Rebuttal at p.17, l. 6-8. In fact, all the gas supply that the Company purchases is used by firm customers. Tr. at p. 54, l. 16-19. Mr. Crist's and CRMA's assertions are simply wrong.

CRMA also incorrectly asserts that CGC withdrew gas from the LNG facility to make displacement sales in January 2022, despite a request from an interruptible customer for incremental gas during that same timeframe. This, again, is wrong. CGC categorically did not withdraw gas from the LNG facility to make displacement sales in January 2022. CGC, Hickerson, Rebuttal at p. 19, l. 16. No gas scheduled for delivery on behalf of CGC was replaced with gas from the Company's LNG tanks. CGC, Becker/Bellinger, Rebuttal, at p. 27, l. 14-16. There is simply no basis for this assertion. All of the LNG vaporized by CGC in January 2022 was used solely to serve firm customer demand in accordance with its normal operating procedures and gas supply practices. CGC, Becker/Bellinger, Rebuttal, at p. 27, l. 13-18.

In addition, it should be noted that CGC's decision to deny the request for incremental gas in January 2022 was completely appropriate. The Company decides if it will offer incremental gas to interruptible transportation customers after evaluating several factors, including, but not limited to, the time of the year or date within the winter period; the current LNG inventory; and if CGC forecasts it will vaporize LNG to serve the firm customers. In January 2022, based on these

criteria, CGC determined it was too early in the winter season to offer incremental gas sales using peak shaving inventory from the LNG facility. CGC, Becker/Bellinger, Rebuttal at p. 27, l. 19-p. 20, l. 2. CGC’s expertise in this area should not be questioned or subject to Monday morning quarterbacking.

2. CGC Should Not Be Required to Shift Gas Supply to Unregulated Poolers/Marketers.

In a further effort to gain access to CGC’s gas supply without paying for it, CRMA proposes a complete change to the nature of service that CGC provides to transportation customers. Although utterly lacking in specifics, CRMA very generally proposes establishment of transportation gas supply pools and a requirement that CGC assign capacity and storage assets to unregulated poolers or marketers. CRMA, Crist, Direct at p. 10, l. 6 – p. 1, l. 8. In essence, CRMA seeks to turn CGC’s system on its head rather than paying for the service that CGC *already provides*—Interruptible Service with Firm Back-up under tariff T-2.

CRMA’s “proposal” for an overhaul of the Company’s transportation tariffs should be rejected. As an initial matter, CRMA’s proposal is based on less than two pages of testimony and is “lacking in detail and rationale for such a significant change.” CAU, Dittmore, Cross Rebuttal at p. 2, l. 9-10. Overall, the “proposal is overly general and lacks the necessary detail required to give the proposal serious consideration.” CAU, Dittmore, Cross Rebuttal at p. 4, l. 10-11. CRMA’s proposal should be denied on this basis alone.

Further, the proposal would have extraordinarily widespread implications. For example, under CRMA’s proposal, CGC would be required to assign interstate capacity and storage assets to unregulated poolers/marketers over which the Commission has no regulatory authority. Such poolers/marketers are not public utilities subject to the Commission jurisdiction. CGC, Hickerson, Rebuttal at p. 5, l. 16-19. Transportation customers, in turn, would not be allowed to manage their

own gas supply but would be required to take service from the unregulated pooler/marketer. CGC, Hickerson, Rebuttal, p. 5, l. 2-21. CGC would then no longer provide Interruptible Transport with Firm Supply Back-up (Rate Schedule T-2) since the supply assets used to provide the back-up supply would need to be assigned to the un-regulated poolers/marketers. A customer desiring such back-up service would be required to purchase the service from a pooler/marketer at un-regulated rates. CGC, Hickerson, Rebuttal at p. 6, l. 1-6. Similarly, CGC's low volume transport customers served under Rate Schedule T-3 would no longer have the option to purchase gas at the Rate Schedule C-2 rate since the supply assets used by CGC to provide that service would be assigned to and controlled by the unregulated poolers/marketers. CGC, Hickerson, Rebuttal at p. 6, l. 6-11.

Importantly, under this proposal, CGC and the Commission would have no control over the billing for imbalances to the customers served by the unregulated poolers/marketers. Instead, those poolers/marketers would bill for such imbalances. In addition, CGC would have to release some operational control of its LNG facility to the unregulated poolers/marketers. In sum, approximately 43% of volumes provided to CGC's customers would be controlled by the poolers/marketers if CRMA's proposal was adopted. CGC, Hickerson, Rebuttal, p. 6, l. 12-21. In other words, 43% of CRMA's capacity would then be unregulated.

Nothing in the current law authorizes this complete restructuring that places large amounts of capacity in the hands of unregulated entities, and it is contrary to the public interest. This proposal would place all of the burden on CGC and its firm customers. The marketers would not have to secure the capacity needed to transport the gas that they sell to the transportation customers, but they would be able to use the capacity that CGC has secured and is paid for by CGC's firm customers. CGC, Hickerson, Rebuttal at p. 7, l. 4-7. The unregulated poolers/marketers could use the assigned assets to make off-system sales to customers who are not on CGC's system. The

poolers/marketers would have no obligation to share the gain from such off-system sales with their customers or CGC's customers. The assignment of the assets would directly impact the value of the AMA since the assets available for optimization would be significantly reduced. This decrease in value would result in lower asset management payments and the amount credited to CGC's customers, which is now 75%. CGC, Hickerson, Rebuttal at p., l. 7-15. The proposed changes are incredibly adverse to CGC's customers and contrary to the public interest. CGC, Hickerson, Rebuttal at p. 8, l. 6-12.³

In sum, CRMA seeks a complete overhaul to CGC's system to benefit transportation customers who simply do not want to pay the cost of firm or firm back-up service – they admittedly make a “financial decision to stay on the interruptible rate.” Tr., p. 210, l. 20-22. Their proposal is incredibly self-serving and, for the reasons discussed above, is contrary to the public interest. It should be noted that these interruptible transportation customers have only made *one* request for incremental gas over the last *three* years. Tr., p. 84, l. 5-7. It would be a gross overreaction to make such a substantial change to CGC's system recognizing that this “need” for gas by these customers is a seasonal issue for only a few days each year.

C. There is No Need for Additional Direction to the Auditors.

CRMA proposes that, in addition to making incremental gas available “immediately and ongoing” this winter season, that the auditor for the 2023 triennial audit also examine whether CGC's capacity planning and gas supply practices “demonstrate[] otherwise,” *i.e.*, demonstrate that CGC does not have available incremental gas. CRMA, Crist, Direct at p. 19, 8-19. CGC's capacity management and gas supply audits have been addressed in the past, over many years.

³ CGC has not addressed whether such a system is legal under Tennessee Law since there are no details for how it would work, so there is no way to address how it would work legally. Thus, CGC reserves its right to challenge this or any future such plan outside the Commission's authority.

CGC, Hickerson, Rebuttal at p. 9, l. 11. The triennial review process was initiated in 2009. In response to asset management and supply issues raised by the Consumer Advocate, the Commission specifically found “CGC subscribes to an appropriate level and mix of storage, peaking, and transportation capacity.” *In re: Docket to Evaluate Chattanooga Gas Company’s Gas Purchases and Related Sharing Incentives*, Docket No. 07-00224, p. 5 (Sept. 23, 2009). Since then, the auditor has considered CGC’s overall gas supply plan three separate times over more than a decade and concluded that CGC’s storage inventory planning criteria are reasonable. Hickerson, Rebuttal at p. 11, l. 2-4, l. 17-19; p. 12, l. 16. Additional direction to the auditors is simply unnecessary.

D. CGC Already Provides the Service T-1 Customers are Seeking.

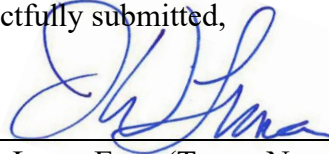
With the context of the preceding arguments, it bears repeating that CGC already offers the service that the T-1 Interruptible customers are requesting – Interruptible Transportation Service with Firm Backup under Rate Schedule T-2 – and that this is the most efficient and cost effective solution for these transportation customers. CGC, Hickerson, Rebuttal, p. 4, l. 6. The T-1 Interruptible customers who have made business decisions not to elect this service are now asking the Commission to essentially require CGC to provide firm back-up without requiring them to pay for it or, in the alternative, to completely restructure CGC’s transportation tariff and 43% of CGC’s capacity. These customers who elect T-1 service have expressly agreed “to install and maintain standby fuel burning facilities to enable Customer, in the event of curtailment of service, to continue operations on standby fuel, or to give satisfactory evidence of the ability and willingness to have the service hereunder interrupted or curtailed.” CGC, Hickerson, Rebuttal, p. 4, l. 15-20. Thus, they fully and willingly choose T-1 service, recognizing that they may be interrupted or curtailed.

As Mr. Hickerson showed in his confidential rebuttal exhibit, CGC's T-2 firm back up service is a significantly cheaper service than going on the market as Kordsa did. CGC, Hickerson Rebuttal Exhibit ARH-3; Rebuttal, p.21. If the interruptible transportation customers want to have access to gas without the exposure to market rates, then they could receive service at the PGA rate simply by becoming a firm customer. What they want, however, is to pay lower rates year-round and then purchase gas from the CGC LNG tank whenever they choose to, especially in periods of time when it is difficult or costly to secure gas supply on the interstate pipelines, since the LNG tank gas would certainly be less than market prices on a very cold day. CGC, Becker/Bellinger, Rebuttal, p. 14, l. 7-12. Notably, Mr. Donahue recognized that this is not about access to gas, it is about access to what they consider "affordable gas." Tr. at p. 212, l. 20-25. In other words, it is all about *their* money without regard to the impacts on CGC's other customers. CRMA's proposals are unsupported, unwarranted, self-serving, contrary to the public interest, and should be soundly rejected.

IV. CONCLUSION

For the reasons stated above, CGC's tariff amendments should be approved. CRMA's proposals should be wholly rejected.

Respectfully submitted,



J. W. Luna, Esq. (Tenn. No. 5780)
Butler Snow LLP
150 3rd Avenue South, Suite 1600
Nashville, TN 37201
Telephone: (615) 651-6749
JW.Luna@butlersnow.com

and

Floyd R. Self, Esq. (TBPR PHV85597; Fla. Bar
No. 608025)
Berger Singerman LLP
313 North Monroe Street, Suite 301
Tallahassee, Florida 32301
Direct Telephone: (850) 521-6727
fself@bergersingerman.com
Attorneys for Chattanooga Gas Company

CERTIFICATE OF SERVICE

I hereby certify that a true and exact copy of the foregoing Post-Hearing Brief of Chattanooga Gas Company has been forwarded via electronic mail on Monday, October 3, 2022, to the following:

Henry Walker, Esq.
Bradley Arant Boult Cummings, LLP
Roundabout Plaza
1600 Division Street, Suite 700
Nashville, TN 37203
hwalker@bradley.com

Karen Stachowski, Esq.
Vance L. Broemel, Esq.
Office of the Tennessee Attorney General
Financial Division, Consumer Advocate Unit
P.O. Box 20207
Nashville, TN 37202-0207
karen.stachowski@ag.tn.gov
vance.broemel@ag.tn.gov

