

22-00032

1 **I. WITNESS INTRODUCTION.**

2 **Q.** I am Paul Leath, Regional Director of Operations, Chattanooga Gas (“Company”  
3 or “CGC”) and Northeast Georgia. My business address is 2207 Olan Mills Drive,  
4 Chattanooga, Tennessee, 37421.

5 **Q. Is Chattanooga Gas a subsidiary of Southern Company Gas?**

6 A. Yes, it is. When Southern Company acquired CGC’s parent company AGL  
7 Resources in 2016, the name was changed to Southern Company Gas.

8 **Q. What are your duties and responsibilities for Chattanooga Gas?**

9 I am a resident of Chattanooga, and I am responsible for the day-to-day operation  
10 of the utility by the 55 employees we have working in Bradley and Hamilton  
11 Counties, including safety, construction and maintenance of the system, and  
12 regulatory compliance. Ultimately, it is my responsibility to ensure that  
13 Chattanooga Gas meets our commitment to deliver safe, reliable, and affordable  
14 natural gas service to approximately 70,000 customers.

15 **Q. When did you assume responsibility for Chattanooga Gas?**

16 A. I became the Regional Director of Operations in September of 2018.

17 **Q. Please summarize your professional career and education.**

18 A. I have lived and worked in Chattanooga since moving here in July 2012 when I  
19 became the Director of External and Regulatory Affairs for CGC, the position I  
20 held until assuming my current position. I began my professional career in the  
21 United States Army after graduating from Loyola University Maryland in May  
22 1989 with a BBA in Finance. During my nine years in the Army, I rose from the  
23 rank of second lieutenant to captain, and I served as a logistics officer during my

1 military career. I left the Army in 1998 to go to work with GE in their lighting  
2 division, where my primary duties included Manager of Distribution and Logistics.  
3 I left GE in 2001 and began my career in the natural gas industry working for  
4 Atlanta Gas Light in Macon, GA. While in Macon, I was the Region Operations  
5 Manager of South Metro Atlanta and Central Georgia. In 2012, I was asked to  
6 move to Chattanooga to serve as the Local Community and Legislative Affairs  
7 Representative for the Company. Later, in 2016, I was given additional  
8 responsibilities over regulatory affairs, and I became CGC's community contact  
9 person.

10 During my time in Chattanooga, I have become very invested in this  
11 community that I love. I serve on the boards of the Tennessee Chamber, Tennessee  
12 Gas Association, and the Executive Committee of the Chattanooga Area Chamber  
13 of Commerce; I am scheduled to become the Chair of the Chattanooga Chamber  
14 next year.

15 Helping to secure the economic future of my community is a passion of  
16 mine and the Company's, which supports me in my work. In furtherance of the  
17 economic development of the CGC service area, I have served as the Chairman of  
18 the Greater Chattanooga Economic Partnership, Vice-Chairman of Economic  
19 Development for the Chattanooga Chamber, and I have been a member of the  
20 Economic Development Council for Bradley County. I am also a member of the  
21 Chattanooga Downtown Rotary Club and I have served on the United Way of  
22 Greater Chattanooga's Funds Allocations Committee. I have been a part of the  
23 regional economic development team that worked on multiple expansion projects

1 for our two largest area employers resulting in Volkswagen (“VW”) investing \$1.4  
2 billion and creating 3,000 jobs and McKee Foods investing \$500 million and adding  
3 480 jobs to our community. In 2023, Volkswagen will complete an expansion that  
4 includes an additional 1,000 employees as part of its \$800 million electric line  
5 expansion. With the addition of the third shift, VW will have over 4,500 employees  
6 working in our community. I also worked on CGC’s expansion of its natural gas  
7 system into the Spring Branch Industrial Park to serve Cannon Automotive  
8 Solutions, which resulted in them investing \$114 million and adding 200 jobs in  
9 Bradley County. I worked to help bring six large automotive part manufacturers to  
10 the area resulting in \$375 million in investment and the creation of over 1,625 new  
11 jobs. In addition, I assisted with one of Bradley County’s larger manufacturers,  
12 Mars Chocolate N.A., making two expansions worth \$243 million that brought an  
13 additional 160 jobs.

14 **Q. Have you ever testified before this Commission or any other Commission?**

15 A. Yes, I provided testimony in Dockets 20-00049 and 21-00048, the Company’s 2020  
16 and 2021 annual review mechanism or “ARM” dockets, which we resolved without  
17 a hearing or the need for my oral testimony. I have also provided testimony in  
18 Docket 20-00131, CGC’s pipeline replacement proceeding, which was approved  
19 on April 12, 2021, and over the last few years I have also reported to the  
20 Commission or the Commission Staff on CGC’s annual construction projects  
21 budget, pursuant to the law.

22 **II. PURPOSE OF TESTIMONY.**

23 **Q. What is the purpose of your direct testimony?**

1     A.     I am testifying today to support the Company’s overall ARM for calendar year  
2           2021, or what is referred to as the Historic Base Period. This case is being filed  
3           pursuant to the Stipulation and Settlement Agreement reached in Docket No. 19-  
4           00047 and approved by the Commission in its *Order Approving Settlement*  
5           *Agreement* dated October 7, 2019 (“2019 ARM Order”). Our case also addresses  
6           the 2020 ARM Docket, Docket 20-00049, and the Commission order issued on  
7           October 27, 2020 (“2020 ARM Order”) which requires us to file a new Schedule  
8           39, which is also part of this case. My testimony further addresses the 2021 ARM  
9           Docket and *Order Approving Settlement Agreement* dated November 1, 2021  
10          (“2021 ARM Order”), which included a \$6.8 million voluntary annual rate cap and  
11          the carry forward of any unrecovered authorized revenue in ARM Schedule 29. I  
12          will provide an overview of the case, some general information regarding the  
13          economic growth of our service area in Hamilton and Bradley counties, and a  
14          review of the operational activities that underlie the financial numbers that are the  
15          subject of the testimonies of our other witnesses.

16   **Q.     Are you sponsoring any exhibits with your Direct Testimony?**

17    A.     No, I am not providing any exhibits to my Direct Testimony. However, I am the  
18           witness supporting Schedule 35.11, the Annual PRP Budget, and I have provided  
19           an affidavit in support of our overall case filing that is a part of the Petition being  
20           filed.

21   **Q.     Please identify the other CGC witnesses who will be supporting the**  
22           **Company’s case in this docket.**

23    A.     CGC is sponsoring two other witnesses in this case.

1 First, we have Ms. Tiffani Weems, who is the Supervisor of Regulatory  
2 Reporting, for Southern Company Gas. Ms. Weems will provide the necessary  
3 testimony and exhibits regarding the calculation of the Historic Base Period annual  
4 reconciliation balance deficiency, the associated carrying charges on the  
5 deficiency, and the prospective 2022 rate reset necessary for the Company to earn  
6 its rate of return, which results in a total rate adjustment of \$8 million. Ms. Weems  
7 will also discuss how CGC will again be voluntarily capping any rate recovery at  
8 \$6.8 million, with any excess revenues not recovered in this year's rates being  
9 carried forward to next year's ARM Docket case. Ms. Weem's testimony will  
10 address the prescribed requirements of the 2019 ARM Order, 2020 ARM Order,  
11 and 2021 ARM Order.

12 Second, we have Mr. Archie Hickerson, who is the Director of Rates and  
13 Tariff Administration for Southern Company Gas. Mr. Hickerson's testimony and  
14 exhibits support the revenue schedules and normalization adjustments required  
15 under the ARM Order. He is also our rate design witness, and his exhibits include  
16 the proposed tariffs based upon the Company's proposed rate design.

17 **III. CASE OVERVIEW.**

18 **Q. Please summarize CGC's ARM case and its impact on customers.**

19 A. CGC has a 2021 prescribed total rate adjustment of \$8 million, which reflects the  
20 Historic Base Period deficiency, the carryover from the 2021 total rate adjustment  
21 in excess of the \$6.8 million cap, and the rate reset.

22 **Q. What are the primary drivers for the total rate adjustment?**

1 A. Capital investments remain the largest single component of this increase, with other  
2 significant factors impacting this filing including increases in operations and  
3 maintenance expenses, regulatory lag, and the carryover from last year's ARM  
4 Docket that was in excess of our \$6.8 million voluntary rate cap.

5 **Q. What is the effect of CGC's continued voluntary rate cap for customers?**

6 A. By again capping our rate increase at \$6.8 million, the total estimated increase to  
7 the typical residential customer's bill would be \$4.20 per month (6.16%), and the  
8 average commercial customer's bill would be \$8.89 per month (6.86%).

9 **IV. THE ANNUAL ARM PROCESS.**

10 **Q. Please briefly summarize the ARM process.**

11 A. CGC's ARM is based upon the General Assembly's authorization to the  
12 Commission to approve various alternative regulatory mechanisms for utilities.  
13 CGC's ARM involves an annual review of rates, which includes an examination of  
14 both revenues and expenses from the books and records of the Company for the  
15 prior calendar year. From that review, rates are to be adjusted up or down based  
16 upon the Company's overall performance and whether we have under earned or  
17 over earned based upon our approved rate of return. Based on the 2021 ARM  
18 Order, the rate recovery is voluntarily limited to \$6.8 million annually through our  
19 2024 ARM Docket filing. Both Ms. Weems and Mr. Hickerson will use actual data  
20 from calendar year 2021 to determine the actual deficiency for the year; they will  
21 then calculate a rate reset, that normalizes or excludes certain costs, to get to the  
22 total rate adjustment of \$8 million. For informational purposes only, CGC's filing

1 includes its 2022 budget, but the total rate adjustment we are seeking is based solely  
2 on the 2021 Historic Base Period, 2021, and not the current 2022 budget year.

3 **V. CGC's 2021 OPERATIONS**

4 **Q. Please provide an overview of CGC's service territory and operations for 2021.**

5 A. CGC continues to experience extraordinary growth in our service area. And during  
6 the continued economic uncertainty induced by the COVID-19 pandemic, demand  
7 for service from Chattanooga Gas only increased further. Looking back ten years,  
8 we have more than doubled the annual number of new residential and commercial  
9 customers, to more than 1,100 new customers last year, for approximately 70,000  
10 total customers. This growth is expected to continue for the foreseeable future  
11 fueled by expansions of our major employers as well as multiple economic  
12 development projects locating in our region.

13 In order to timely meet the region's growing needs, Chattanooga Gas made  
14 enhancements to its infrastructure that strengthened the safety and reliability of the  
15 region's pipeline infrastructure; we made improvements that supported the  
16 increased supply and demand growth from residential customers, especially on the  
17 coldest days of the year; and our gas supply team secured a true once-in-a-  
18 generation opportunity by obtaining a long-term contract for 50,000 dekatherms a  
19 day of transportation capacity on the interstate pipeline. Half of this new pipeline  
20 capacity replaces the pipeline capacity we were to lose in 2022, with the other half,  
21 approximately, available for growth. Like our other pipeline contracts, this  
22 capacity will be optimized by our asset manager. The gain from the transactions  
23 that utilize this capacity will be shared on a 50%/50% basis by the asset manager

1 and CGC's customers. The customers' share will flow directly back to our  
2 customers through the PGA.

3 Together, these actions significantly increase our ability to support the  
4 further economic development of the area and the growth in residential,  
5 commercial, and industrial customers.

6 **Q. How much did the Company spend in 2021 on capital investments?**

7 A. Ms. Weems' documentation shows that we spent \$30.9 million in 2021 on capital  
8 projects.

9 **Q. How does that \$30.9 million compare with what was budgeted and reported to**  
10 **the Commission?**

11 A. The original capital budget for 2021 was \$35.1 million. The actual capital spend  
12 for 2021 came in at approximately \$4.2 million below budget. The shortfall was  
13 driven by an indefinite hold on the West Chattanooga - Hamilton Expansion project  
14 due to the acquisition of the additional pipeline capacity from East Tennessee  
15 Natural Gas, which resulted in an underspend of \$6.7 million. To close the gap,  
16 there was some acceleration of DIMP spending and pressure improvement projects  
17 like Standifer Gap Phase 2.

18 **Q. Please describe the major capital projects completed or started in 2021.**

19 A. CGC continues to address existing pressure and capacity issues and provide for  
20 future growth – without these improvements we simply cannot move adequate gas  
21 to our customers to meet their demand or to serve new customers. Specifically, we  
22 have five ongoing projects in Hamilton County that will be completed in 2022.  
23 Standifer Gap Road – Phase 2 pressure improvement (“PRIM”) and Apison Pike



1 PRIM will address existing pressure issues in the Ooltewah, Apison, and  
2 Collegedale areas and provide for future growth in the Enterprise South Industrial  
3 Park and McKee Foods. The East Gate Station renewal and the Chattanooga Line  
4 Uprate will address existing pressure issues and allow for growth in Eastern  
5 Hamilton County. The current phase of the West Chattanooga Hamilton High  
6 Pressure (“HP”) Expansion project will also be completed this year. This project,  
7 along with the Red Bank HP Expansion allow us push gas from the LNG plant  
8 further into our system, freeing up our East Tennessee gas supply to be used at our  
9 other tap stations on colder days of the year.

10 The remainder of the West Chattanooga HP Expansion project (to Signal  
11 Mountain), estimated at \$12 million, has been put on hold due to the acquisition of  
12 additional pipeline capacity from East Tennessee, which was not available when  
13 this HP expansion projects began a few years ago. The combination of the  
14 additional capacity from the HP expansion projects and East Tennessee puts us in  
15 a good position to be able to serve the growth we will continue to see in this area  
16 for many years to come.

17 CGC also has completed and planned projects in Bradley County to  
18 continue to address existing pressure issues and provide for future growth in the  
19 area. The North Lee Highway PRIM project, which addresses existing pressure  
20 issues and provides for growth along Lee Highway was completed in 2021. The  
21 Paul Huff Parkway PRIM project, which addresses existing pressure issues west of  
22 I-75, was also completed in 2021. The Cleveland phase 1 PRIM project, which

1 reinforces our system to the south and allows for growth around the Spring Branch  
2 Industrial Park, was completed earlier this year.

3 **Q. Last year, the Commission approved CGC's pipeline replacement program**  
4 **("PRP") in Docket 20-00131. Are any of those costs included in this case?**

5 A. No, there are no PRP expenses in the 2022 ARM filing. CGC does have four PRP  
6 projects scheduled to be completed in 2022. CGC plans to renew 3700 feet of  
7 vintage steel main as part of the East 10<sup>th</sup> Street and East 12<sup>th</sup> Street project. CGC  
8 will also renew 10,300 feet of vintage plastic as part of the Brynwood Terrace  
9 project; 10,000 feet of vintage plastic as part of the Gann Store Road project; and  
10 7,600 feet of vintage plastic as part of the Shady Fork Road project. In addition to  
11 these projects, we have several others designed and ready to move to construction  
12 if additional funds become available this year. I support Schedule 35.11, which  
13 reflects the PRP budget for 2022 and these projects.

14 **Q. Outside of capital projects, where do you stand now on staffing?**

15 A. Staying fully staffed in a market like greater Chattanooga is a constant challenge  
16 given the competition for good employees. Add to this the usual cycle of attrition,  
17 promotion, and resignments we need to make to meet operational needs means that  
18 our position assignments are somewhat different from one year to the next. As our  
19 overall workload has increased, in order to meet the needs of our customers, we  
20 have continued to train, promote, and otherwise shift people when necessary to help  
21 increase staffing for key positions, such as adding two asset protection specialists  
22 to meet our constant commitment to safety and a construction operations project  
23 coordinator to help better manage our infrastructure programs.

1     **Q.     In last year’s ARM case, you described the economic impacts associated with**  
2           **COVID-19. Since COVID-19 continued into 2021, are there any COVID-19**  
3           **impacts that are reflected in the 2021 Historic Base Period?**

4     A.    Yes, we spent \$33,774 on the costs associated with the pandemic, including  
5           personal protective equipment (PPE), telework reimbursements, and legal support  
6           services. Our employees returning to the workplace, and those continuing to work  
7           onsite, were issued PPE such as masks, hand sanitizer, disinfectant wipes/sprays,  
8           disposable gloves, boot coverings, and protective goggles. Employees that are  
9           working remotely from home receive a quarterly payment to partially offset internet  
10          and home office expense. Legal support services were provided to ensure  
11          compliance with all orders, directives, mandates, and protocols. The Historic Base  
12          Period reflects these costs, but as Schedule 35.10 reflects, through a normalization  
13          adjustment, these costs have been removed from the rate reset.

14    **Q.     Can you please discuss any other operational developments that have occurred**  
15          **in 2021 that are impacting the Company’s 2022 ARM case?**

16    A.    We continue to commit significant resources and investments to reduce  
17          unintentional damage to our system. CGC has made significant progress in  
18          reducing our locate request to damage ratio. We have added a damage prevention  
19          specialist in 2021 that works directly with excavators to reduce damages. Our  
20          efforts have been rewarded with a reduction in the damage ratio (damages per 1,000  
21          locate requests) from 4.15 in December 2020 to 3.4 in December 2021. We intend  
22          to keep working at this.

23

1   **VI.   CONCLUSION.**

2   **Q.   Do you have any concluding remarks?**

3   A.   Yes, Chattanooga Gas is very proud of our relationships with our customers.  
4       Chattanooga Gas was named a 2021 Business Customer Champion based on its  
5       performance in the Cogent syndicated *Utility Trusted Brand & Customer*  
6       *Engagement*. Chattanooga Gas finished 2021 ranked fourth among all natural gas  
7       utilities in the study. This is the second time in three years Chattanooga Gas has  
8       earned Business Customer Champion designation. Chattanooga Gas was also  
9       awarded the 2021 Trusted Business Partner.

10               We are extremely fortunate to live in a community that is attracting people  
11       from all over the world who are relocating their families to enjoy our natural beauty,  
12       the “Gig City” technology hub, and the economic prosperity inherent in our vibrant  
13       community. The Chattanooga area was recognized by Forbes and HGTV in 2021  
14       for best places to work remotely, affordable living, and great weather. We have  
15       partnered with our community economic development teams and elected officials  
16       to recruit new industry and expand existing industry. An example of this is Cannon  
17       Automotive Solutions, which was the first prospect to locate in the 300-acre Spring  
18       Branch Industrial Park-Bradley County in 2021. They invested \$114 million in  
19       capital and hired 200 employees.

20               Chattanooga Gas is indeed a good corporate citizen, and we care deeply for  
21       our community. The COVID-19 pandemic created great financial hardships for  
22       many of our customers. In 2021, we donated over \$120,000 to non-profit  
23       organizations serving Hamilton and Bradley Counties, with \$50,000 designated for

1 energy assistance and natural gas appliance donations for low-income families,  
2 none of which is part of this rate recovery from our customers. Chattanooga Gas  
3 further helped our customers by offering alternative payment plans, which extended  
4 the payment period from four to twelve months and credited back any late fees. In  
5 2021, we had over 1,000 customers take advantage of our delayed payment plan.

6 But with all of this growth, and everything else happening in the world,  
7 there are external factors beyond our control that continue to put pressure on our  
8 costs, including supply chain disruptions, increased prices for many of the materials  
9 we need, soaring fuel costs, and higher personnel costs that are necessary to retain  
10 and attract talent in a highly constricted labor market. To deal with these  
11 challenges, we review all expenses and justify any variances during our monthly  
12 CEO budget reviews. We work very hard to run a very efficient operation and do  
13 everything in our control to manage our expenses. Given all these pressures, we  
14 are still able to proceed with this case on target for our total rate adjustment, without  
15 any new substantive proposals, and we are again following through with our  
16 voluntary rate cap. With the approval of this year's ARM, Chattanooga Gas  
17 Company will continue to be in the best position to provide safe, reliable, and  
18 affordable natural gas service to our community.

19 **Q. Does this conclude your direct testimony?**

20 **A.** Yes.