

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 of the Consumer
11 Advocate Unit in the Financial Division of the Tennessee Attorney General’s
12 Office (“Consumer Advocate”) witness William H. Novak. More specifically, I
13 will respond to Mr. Novak’s recommendation that the Annual Rate Review
14 Mechanism (“ARM”) revenue deficiency be allocated “evenly across-the-board to
15 all customer classes, including both Special Contract customers, based upon the
16 margin ratio of each customer class.” Consumer Advocate Direct Testimony,
17 William H. Novak, p. 9, l. 4-6. I will also present information for the Company in
18 response to the direct testimony of witness James L. Crist filed on behalf of the
19 Chattanooga Regional Manufacturers Association (“CRMA”) regarding rate
20 design, including the use of the Class Cost of Service Study (“CCOSS”) in
21 designing rates in this proceeding, as well as in response to Mr. Crist’s proposal
22 that the Company be required to offer incremental gas from the LNG facility at any
23 time. Finally, I will present information for the Company in response to the direct

1 testimony of witness Chance Donahue on behalf of the CRMA wherein he states
2 that “if Chattanooga Gas Company would have offered incremental gas on many
3 of those days, Kordsa could had saved as much as \$25,000-\$30,000 per day.
4 Without any benefits from incremental gas, we estimated that that our additional
5 gas costs were \$350,000 for the month of January alone.” CRMA Direct
6 Testimony, Chance Donahue, p. 4.

7 **Q. Are any other witnesses submitting rebuttal testimony regarding use of the**
8 **Company’s LNG facility?**

9 A. Yes. Mr. Greg Becker and Mr. Christopher Bellinger are filing rebuttal testimony
10 regarding use of the LNG facility, as is Mr. Paul Leath.

11 **II. SPECIAL CONTRACT RATES**

12 **Q What is CGC’s position relative to increasing the rates for Kordsa?**

13 A. As I explained in my direct testimony, during negotiations with Kordsa for a
14 Special Contract that would result in Kordsa remaining a customer of CGC instead
15 of constructing its own bypass facilities, CGC agreed to limit annual rate increases
16 to no more than 5%. This was a commitment that CGC made to Kordsa, was an
17 integral part of the agreement between the two parties, and was included in the
18 contract that was filed for approval by the Commission. When the Commission
19 recently approved the Special Contract, it found: “[T]he Commission would be
20 unwise to approve a self-imposed limitation on its ratemaking authority in general,
21 particularly in a long-term contract. Limiting the future revenues of the Company
22 for the duration of the Contract through special rate caps applicable to one
23 customer, without consideration of the long-term costs of the Company, which are

1 unknown and could impact the economic viability of the contract over its term,
2 would be poor ratemaking policy.” (Order Approving Special Contract, as
3 Modified, Docket No. 21-00094, p. 13 (May 13, 2022).) Consistent with this
4 finding, the Commission directed that the language in the contract that would limit
5 its authority be removed from the contract.

6 CGC recognizes the Commission’s concern with imposing a restriction on
7 the Commission’s ability to take action in future proceedings. We respect that. The
8 Commission’s decision to remove this provision from the contract, however, does
9 not, relieve the parties of commitments made to each other during good faith
10 negotiations. Further, while the rate change limitation was removed from the
11 contract, there is no limitation on CGC from recommending to the Commission a
12 lesser rate increase, and certainly no limitation on the Commission from approving
13 what CGC has recommended for Kordsa. As a result, CGC has proposed to limit
14 the annual increase to Kordsa to 5% as agreed to by the parties.

15 **Q. What is the Company’s position relative to the Consumer Advocate’s proposal**
16 **to increase the special contract rate for Volkswagen (“VW”)?**

17 A. The VW contract is the result of unique and special circumstances. When VW was
18 considering locating its U.S. production facility in Chattanooga, State and local
19 economic development officials and the Chairman of the Tennessee Regulatory
20 Authority had requested that Chattanooga Gas Company offer a Special Contract
21 as a part of the package of incentives offered to large manufacturers to locate at the
22 Chattanooga site that VW ultimately selected. This contract is not the result of
23 negotiation between CGC and VW based upon a bypass scenario, but one part of a

1 package of incentives offered by State and local governmental officials to have VW
2 locate in Tennessee. As approved by the Commission, the VW Special Contract
3 provides:

4 Customer agrees to purchase from Company, and
5 Company agrees to sell to Customer, firm intrastate
6 transportation service, as detailed in this Negotiated
7 Contract, for the industrial natural gas requirements of
8 Customer at the Plant, under the terms and conditions of
9 this Negotiated Contract for an initial term ending May
10 31, 2022 ("Initial Term"), and thereafter such terms and
11 conditions shall continue for successive term of five (5)
12 years (each such five year period shall constitute a
13 "Renewal Term") until written notice of cancellation shall
14 be given by either party to the other at least one hundred
15 eighty (180) days prior to the end of the Initial Term or any
16 Renewal Term.

17
18 (CGC-VW Negotiated Contract, pages 2-3 (October 21, 2014) (filed with
19 the Commission October 23, 2014; certain provisions are confidential).)

20 The parties recently agreed to a contract extension, pursuant to this
21 language, which the Consumer Advocate has accepted, and the Commission
22 has acknowledged. (See Docket 14-00118, Consumer Advocate letter dated
23 May 12, 2022, and Joe Shirley letter dated May 19, 2022.) The reasons for
24 offering VW this incentive package are just as valid today as when they were
25 first made to VW, with VW expanding and continuing to expand its
26 operations at its Chattanooga facility.

27 Thus, CGC believes that it is important to keep the promises made
28 when the incentive package was presented to VW by State and local
29 economic development officials. Failure to honor the commitment to
30 provide service under the terms and conditions of the Special Contract would

1 not reflect favorably on the Company or the State and local authorities who
2 negotiated with VW. Further, renegeing on the special contract rate could
3 cause concern on the part of other companies considering locating operations
4 in Tennessee that the State and its businesses are not to be trusted. As a
5 result, CGC has complied with the agreement and has not proposed to
6 increase VW's Special Contract Rates.

7 **III. RATE DESIGN**

8 **Q. Before addressing Mr. Crist's testimony regarding the CCOSS CGC filed in**
9 **this case, what is the Company's position concerning the use of a CCOSS in**
10 **designing rates?**

11 A. We agree that a CCOSS is an important tool when designing rates, but it's not the
12 only thing that must or should be considered. Ratemaking is not a simple math
13 exercise or an exact science. Ratemaking requires a considerable amount of
14 judgment, with consideration given to a number of factors, including, for example,
15 the impact on the rates on the different customer categories, the value of the service
16 provided, economic development, rate shock, pipeline bypass threat, alternative
17 fuel competition, energy conservation, and environmental policies. Rates should
18 not be set in a vacuum based solely on the results of a CCOSS.

19 Further, the CCOSS itself requires a significant amount of judgment and is
20 somewhat subjective. In his testimony, Mr. Crist has emphasized the disparity in
21 rates of return between the classes of customers. Considering that Mr. Crist is
22 testifying primarily on behalf of large industrial customers, his emphasis on the
23 disparity in the rates of return is understandable. Someone representing primarily

residential and small commercial customers could similarly place the emphasis on the difference in the base rate per therm across the different customer categories. For example, the average base (non-gas) charge for R-1 Residential customers under current rates is \$0.55/therm while the average base charge for the industrial class (Rate Schedules F-1, T-2, and T-2) is only \$0.10/therm. (The average base (non-gas) rate is computed by dividing the total revenue for the class by the total volumes by class as shown on Exhibit ARH-4.) For comparison, the average base (non-gas) rate per therm for the different rate categories are presented below under both current and proposed rates.

| Customer Category | Avg Base Charge per Therm Current Rates | Avg Base Charge per Therm Proposed Rates |
|---|---|--|
| Residential R-1 | \$0.55 | \$0.63 |
| Multi-Family R-4 | \$0.54 | \$0.62 |
| Small Commercial C-1 | \$0.66 | \$0.76 |
| Medium Commercial and Industrial C-2, T-3 | \$0.40 | \$0.46 |
| Large Industrial F-1, T-1, T-2 | \$0.10 | \$0.12 |

While a CCOSS is a useful tool for a regulatory body, cost is not the only consideration in rate design. The fundamental ratemaking principle is that the rate design be in the public interest.

Q. How is rate design addressed in CGC's ARM?

A. In its October 7, 2019, Order in Docket 19-00047, the Commission found that the Stipulation and Settlement Agreement Among Chattanooga Gas Company, the

1 Consumer Advocate, CRMA, and Party Staff, was to be approved, adopted, and
2 incorporated into the Order. Paragraph (g) on page 5 of the Order provides:

3 In its annual rate filing, CGC shall make a proposal for how
4 to allocate any revenue excess/deficiency among CGC's rate
5 classes and the specific rate design for how rates are to be
6 decreased/increased for each class. Any intervenor party
7 may make its own proposal for how the revenue
8 excess/deficiency should be allocated to the classes and the
9 rate design for any decrease/increase in rates should be
10 accomplished in the rate reset. Based upon a final
11 determination that rates need to be decreased/increased, the
12 Commission shall order such decrease/increase in rates
13 based upon the proposals of the parties or such other rate
14 allocation and rate design decision as it may find to be in the
15 public interest.
16

17 **Q. Did the Consumer Advocate and the CRMA provide rate designs in this**
18 **docket?**
19

20 **A.** The Consumer Advocate basically adopted the Company's proposed rate design
21 with a modification that would result in the rates for the Special Contracts to
22 increase the same percentage as other customers, as discussed above.

23 Mr. Crist, testifying on behalf of the CRMA, did not really propose a rate
24 design. Instead, he proposed on page 7 of his testimony that: "Therefore, Mr.
25 Hickerson should be directed to redo his cost allocation so that each class rate of
26 return is equal to the Company's rate of return. Such leveling of rates will eliminate
27 the cross-subsidization currently experienced." It isn't entirely clear what he
28 means by "redo his cost allocation so each rate class rate of return is equal," since
29 the issue is rate design not cost allocation. But assuming he means use the CCSS
30 that is filed in this docket as the rate design, there are two major problems with his
31 proposal.

1 First, the CCOSS was based on calendar year 2021 and does not include the
2 normalization adjustments that are included in the ARM filing. So even if the
3 Commission was inclined to adopt rates based upon a class cost of service study,
4 the CCOSS filed in this docket would not be appropriate.

5 Second, Mr. Crist at page 13 of his testimony also proposed: “Should the
6 Commission wish to gradually move to the correct cost allocations that are based
7 fully on cost causation, in the alternative, at the very least the averaging of the two
8 studies should be adopted.” Again, his statement is not clear since there is only
9 one CCOSS filed in this proceeding. In an attempt to bring some clarity to this
10 testimony, in a response to a discovery request it was explained:

11 The even allocation proposed by Mr. Hickerson (Exhibit
12 ARH-4 page 3 of 3) should be averaged with a revenue
13 allocation that would produce the same class rates of return
14 such as the study performed by Mr. Yardley at Docket 18-
15 00017 on behalf of the Company.

16
17 (CRMA Response to CGC DR 1-4a.) It appears that Mr. Crist is proposing that a
18 rate design be adopted in this proceeding based on a 4-year-old study that was
19 rejected by the Commission in Docket 18-00017 and is not part of the record in this
20 proceeding. If the CRMA wishes to propose a rate design in this Docket, it should
21 comply with the intent of the Stipulation and Settlement Agreement in Docket 19-
22 00047 and file such a proposed design along with any support that it wishes to
23 present.

24 **Q. To be clear, is the use of any type of class cost of service study, whether it is**
25 **the CCOSS filed in this docket or one reflecting the needed updates you have**
26 **identified, appropriate in this case?**

1 A. CGC believes that setting rates solely on a class cost of service model basis, or
2 where the rates for every rate class provides the same rate of return, is not
3 appropriate. An across-the-board equal increase as CGC is proposing essentially
4 maintains the preexisting rate relationships that the Commission established in
5 CGC's last rate case in 2018, which was the last time the Commission conducted a
6 thorough review of CGC's rate design. Before setting rates based upon a class cost
7 of service model, in the absence of evidence indicating a specific problem or a
8 public interest issue needing to be addressed, the Commission should undertake a
9 more comprehensive investigation of rate design before attempting to realign rates
10 based upon a class cost of service model.

11 **IV. INCREMENTAL GAS**

12 **Q. What is your understanding of Mr. Crist's proposal on behalf of CRMA**
13 **regarding incremental gas?**

14 A. I understand that Mr. Crist is asking the Commission to require CGC to offer
15 incremental gas to interruptible customers essentially any time. In effect, Mr. Crist
16 is proposing that CGC be required to provide a new backup supply service to
17 interruptible transportation customers that have on their own, elected to purchase
18 and manage their own gas supply.

19 **Q. Does CGC currently offer a firm backup supply service?**

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

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

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

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

14 A. Money. Interruptible Transportation Service customers served under Rate
15 Schedule T-1 have elected interruptible service, for which they pay a lesser rate. If
16 a customer is not satisfied with interruptible service, the customer can elect to
17 switch to firm service or elect interruptible transportation service with firm supply
18 backup under Rate Schedule T-2, but both of those services have rates higher than
19 the T-1 rate schedule. By requiring CGC to allocate or apportion some amount of
20 gas that Mr. Crist calls incremental to the interruptible customers, CRMA is
21 essentially shifting to CGC all the risk of being an interruptible customer taking
22 interruptible service. That is not fair or appropriate for CGC’s other customers. If
23 this recommendation is adopted, I would expect to see many of CGC’s other large

1 customers shift to interruptible which would cause all types of problems for CGC's
2 other customers, especially residential customers.

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

5 A. Yes. On page 8, beginning at line 6, Mr. Crist states:

6 During the relatively cold January 202[2], CGC actually
7 used 129,000 mcf of LNG to supplement gas it flowed on
8 the interstate pipeline. The reason it needed to use LNG was
9 because the asset manager, its affiliate Sequent Energy
10 Services ("Sequent"), was diverting some of CGC's capacity
11 for sale off-system. The created revenues for Sequent and
12 CGC and under the current sharing mechanism, Sequent
13 retained 50% of those revenues.

14
15 In this statement, Mr. Crist accuses CGC of diverting capacity to an affiliate
16 (Sequent) so that the affiliate could retain 50% of the gain from off-system sales.
17 This statement is wrong. Sequent is not presently and was not an affiliate of CGC
18 in January 2022 as he stated. In addition to incorrectly claiming that Sequent was
19 an affiliate of CGC in January 2022, he also incorrectly characterizes the Asset
20 Management Agreement ("AMA"). Under the Commission's approved
21 procedures, CGC issues an RFP for bids for an asset manager. In response, the
22 potential managers submit a bid to pay CGC a flat rate annual fee for the ability to
23 manage CGC's fallow assets. Under this agreement, there is no sharing of revenues
24 related to the supply asset covered by the agreement. CGC receives the annual fee
25 that is shared with CGC's customers. There is a provision that allows the asset
26 manager to share 50% of the gain with CGC's customers when the supply assets
27 that are not covered by the AMA (excluded assets) are used in off-system sales.

1 During January 2022, there was no gain from the use of excluded assets. Mr. Crist's
2 description of the events in January 2022 is entirely incorrect.

3 **Q. Do you have any comments concerning Mr. Donahue's testimony?**

4 A. Yes. On page 4 of his direct testimony Mr. Donahue states:

5 However, if Chattanooga Gas Company would have
6 offered incremental gas on many of those days, Kordsa could
7 had saved as much as \$25,000-\$30,000 per day. Without any
8 benefits from incremental gas, we estimated that that our
9 additional gas costs were \$350,000 for the month of January
10 alone.

11
12 In discovery, CGC requested that the CRMA provide support for the claim that
13 Kordsa could have saved \$350,000 if CGC had offered incremental gas during
14 January. As stated on the workpaper supplied in response to the request, the
15 potential saving was computed using the LNG at the Weighted Average Cost of
16 Gas ("WACOG") (CRMA Response to CGC DR 1-6, Attachment 1-6.). It is clear
17 from this response that the incremental tariff provision had been misinterpreted by
18 Mr. Donahue and misapplied in the computation. The Incremental Gas provision
19 provided on CGC Tariff Sheet 31A provides:

20 **AUTHORIZED INCREMENTAL RATE**
21

22 When the Company determines that volumes of gas are
23 available to be purchased and transported to Customers
24 under this Rate Schedule, then the Company shall, at its
25 option, be authorized to charge the incremental rate
26 Customers for such gas supply distributed to those
27 Customers who have been offered and who have agreed to
28 pay such incremental rate. **On days when gas is not being**
29 **withdrawn from the Company's Liquid Natural Gas**
30 **(LNG) facility for system supply, the incremental rate**
31 **shall be the applicable index rate plus the variable**
32 **pipeline charges. On those days when gas is being**

1 **withdrawn from the LNG facility, the incremental rate**
2 **will be increased to reflect the cost of gas used in the**
3 **liquefaction and vaporization process.**
4

5 [Emphasis added.] The price of incremental gas used to compute the potential
6 saving was not computed in accordance with the tariff. Instead of using the index
7 rate as required, Mr. Donahue used the WACOG of the LNG inventory. In
8 addition, there was no adjustment for the gas used in liquefaction and vaporization.

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

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

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

15 A. Yes. As I more fully describe in the confidential version of this answer in my
16 Confidential Exhibit ARH-5, Kordsa could have saved more than \$250,000 for the
17 month.

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

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

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

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

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

1 A. Incremental gas sales do not impact base (non-gas) rates. The impact is reflected
2 in the PGA. Any gas that is withdrawn from the LNG facility as incremental gas
3 will have to be replaced with gas that is purchased, liquified, and injected into the
4 tank. If the price that CGC charges the interruptible transportation customer for the
5 incremental gas is less than its replacement cost, the firm customers who purchase
6 gas from CGC will have to pay more through the PGA. The problem is that when
7 gas is withdrawn from the LNG facility, the Company doesn't know what its
8 replacement cost will be. For example, if LNG was withdrawn as incremental gas
9 in December 2021, it would not be replaced until several months later. An increase
10 in the price between the time that the gas that was withdrawn and the when the gas
11 is replaced will be included in the cost of the stored gas that will be passed on to
12 firm customers, not the interruptible customers who benefited from the incremental
13 gas sale. In addition, LNG generally costs more than flowing gas since 15–18%
14 of the gas purchased for liquefaction is consumed during the liquefaction process.
15 As a result, if incremental gas sales are to occur, price will need to be increased to
16 reflect these additional costs so that the firm customers are not paying for some of
17 the incremental gas sold to the interruptible customers.

18 **Q. To be clear, is it correct that the incremental gas issue raised by CRMA in this**
19 **docket does not impact the base rates that will be set by the Commission in**
20 **this proceeding?**

21 A. That is correct. That is why this issue should not be considered in this docket at
22 all.

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

2 **A.** **Yes.**