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August 2, 2022

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Room on August 2, 2022 at 2:02 p.m.

Chairman Herb Hilliard
ATTN: Ectory Lawless, Docket Clerk
Tennessee Public Utility Commission
502 Deaderick Street, 4th Floor
Nashville, TN 37243

Re: *Chattanooga Gas Company's Petition for Approval of Its 2021 Annual
Rate Review Filing Pursuant to T.C.A. § 65-5-103(d)(6)*
Docket No. 22-00032

Dear Chairman Hilliard:

Enclosed please find on behalf of Chattanooga Gas Company ("CGC"), Revised Rebuttal Testimony of Archie Hickerson and Paul Leath. The Revised Rebuttal Testimonies are being filed for these two witnesses based upon the agreement of the parties and the concurrence of the Hearing Officer to transfer the incremental gas issue to Docket 22-00004. Therefore, these revised testimonies reflect the elimination of this issue that is no longer in Docket No. 22-00032. Likewise, CGC withdraws from this Docket the Joint Testimony of Greg Becker and Chris Bellinger, since their joint testimony went exclusively to the incremental gas issue. There are no changes to the Tiffani Weems Supplemental Testimony, which shall remain part of Docket No. 22-00032.

Please do not hesitate to contact me if you have any questions or concerns.

Yours truly,

Butler Snow LLP



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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.

22 **II. SPECIAL CONTRACT RATES**

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

1 A. As I explained in my direct testimony, during negotiations with Kordsa for a
2 Special Contract that would result in Kordsa remaining a customer of CGC instead
3 of constructing its own bypass facilities, CGC agreed to limit annual rate increases
4 to no more than 5%. This was a commitment that CGC made to Kordsa, was an
5 integral part of the agreement between the two parties, and was included in the
6 contract that was filed for approval by the Commission. When the Commission
7 recently approved the Special Contract, it found: “[T]he Commission would be
8 unwise to approve a self-imposed limitation on its ratemaking authority in general,
9 particularly in a long-term contract. Limiting the future revenues of the Company
10 for the duration of the Contract through special rate caps applicable to one
11 customer, without consideration of the long-term costs of the Company, which are
12 unknown and could impact the economic viability of the contract over its term,
13 would be poor ratemaking policy.” (Order Approving Special Contract, as
14 Modified, Docket No. 21-00094, p. 13 (May 13, 2022).) Consistent with this
15 finding, the Commission directed that the language in the contract that would limit
16 its authority be removed from the contract.

17 CGC recognizes the Commission’s concern with imposing a restriction on
18 the Commission’s ability to take action in future proceedings. We respect that. The
19 Commission’s decision to remove this provision from the contract, however, does
20 not, relieve the parties of commitments made to each other during good faith
21 negotiations. Further, while the rate change limitation was removed from the
22 contract, there is no limitation on CGC from recommending to the Commission a
23 lesser rate increase, and certainly no limitation on the Commission from approving

1 what CGC has recommended for Kordsa. As a result, CGC has proposed to limit
2 the annual increase to Kordsa to 5% as agreed to by the parties.

3 **Q. What is the Company's position relative to the Consumer Advocate's proposal**
4 **to increase the special contract rate for Volkswagen ("VW")?**

5 A. The VW contract is the result of unique and special circumstances. When VW was
6 considering locating its U.S. production facility in Chattanooga, State and local
7 economic development officials and the Chairman of the Tennessee Regulatory
8 Authority requested that Chattanooga Gas Company offer a Special Contract as a
9 part of the package of incentives offered to large manufacturers to locate at the
10 Chattanooga site that VW ultimately selected. This contract is not the result of
11 negotiation between CGC and VW based upon a bypass scenario, but one part of a
12 package of incentives offered by State and local governmental officials to have VW
13 locate in Tennessee. As approved by the Commission, the VW Special Contract
14 provides:

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

27
28 (CGC-VW Negotiated Contract, pages 2-3 (October 21, 2014) (filed with
29 the Commission October 23, 2014; certain provisions are confidential).)

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

8 Thus, CGC believes that it is important to keep the promises made
9 when the incentive package was presented to VW by State and local
10 economic development officials. Failure to honor the commitment to
11 provide service under the terms and conditions of the Special Contract would
12 not reflect favorably on the Company or the State and local authorities who
13 negotiated with VW. Further, renegeing on the special contract rate could
14 cause concern on the part of other companies considering locating operations
15 in Tennessee that the State and its businesses are not to be trusted. As a
16 result, CGC has complied with the agreement and has not proposed to
17 increase VW's Special Contract Rates.

18 **III. RATE DESIGN**

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

22 **A. We agree that a CCOSS is an important tool when designing rates, but it's not the**
23 **only thing that must or should be considered. Ratemaking is not a simple math**

1 exercise or an exact science. Ratemaking requires a considerable amount of
 2 judgment, with consideration given to a number of factors, including, for example,
 3 the impact on the rates on the different customer categories, the value of the service
 4 provided, economic development, rate shock, pipeline bypass threat, alternative
 5 fuel competition, energy conservation, and environmental policies. Rates should
 6 not be set in a vacuum based solely on the results of a CCOSS.

7 Further, the CCOSS itself requires a significant amount of judgment and is
 8 somewhat subjective. In his testimony, Mr. Crist has emphasized the disparity in
 9 rates of return between the classes of customers. Considering that Mr. Crist is
 10 testifying primarily on behalf of large industrial customers, his emphasis on the
 11 disparity in the rates of return is understandable. Someone representing primarily
 12 residential and small commercial customers could similarly place the emphasis on
 13 the difference in the base rate per therm across the different customer categories.
 14 For example, the average base (non-gas) charge for R-1 Residential customers
 15 under current rates is \$0.55/therm while the average base charge for the industrial
 16 class (Rate Schedules F-1, T-2, and T-2) is only \$0.10/therm. (The average base
 17 (non-gas) rate is computed by dividing the total revenue for the class by the total
 18 volumes by class as shown on Exhibit ARH-4.) For comparison, the average base
 19 (non-gas) rate per therm for the different rate categories are presented below under
 20 both current and proposed rates.

Customer Category	Avg Base Charge per Therm Current Rates	Avg Base Charge per Therm Proposed Rates
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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

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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.

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

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

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

Q. Did the Consumer Advocate and the CRMA provide rate designs in this docket?

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

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

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

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

1 The even allocation proposed by Mr. Hickerson (Exhibit
2 ARH-4 page 3 of 3) should be averaged with a revenue
3 allocation that would produce the same class rates of return
4 such as the study performed by Mr. Yardley at Docket 18-
5 00017 on behalf of the Company.

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7 (CRMA Response to CGC DR 1-4a.) It appears that Mr. Crist is proposing that a
8 rate design be adopted in this proceeding based on a 4-year-old study that was
9 rejected by the Commission in Docket 18-00017 and is not part of the record in this
10 proceeding. If the CRMA wishes to propose a rate design in this Docket, it should
11 comply with the intent of the Stipulation and Settlement Agreement in Docket 19-
12 00047 and file such a proposed design along with any support that it wishes to
13 present.

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

17 A. CGC believes that setting rates solely on a class cost of service model basis, or
18 where the rates for every rate class provides the same rate of return, is not
19 appropriate. An across-the-board equal increase as CGC is proposing essentially
20 maintains the preexisting rate relationships that the Commission established in
21 CGC's last rate case in 2018, which was the last time the Commission conducted a
22 thorough review of CGC's rate design. Before setting rates based upon a class cost
23 of service model, in the absence of evidence indicating a specific problem or a
24 public interest issue needing to be addressed, the Commission should undertake a
25 more comprehensive investigation of rate design before attempting to realign rates
26 based upon a class cost of service model.

- 1 **Q.** **Does this conclude your rebuttal testimony?**
- 2 **A.** Yes.