

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

Chattanooga Gas Company Petition for
Approval of its 2021 Annual Rate Review
Filing Pursuant to Tenn. Code Ann. § 65-
5-103 (d)(6)

Docket No. 22-00032

DIRECT TESTIMONY
of
WILLIAM H. NOVAK

ON BEHALF OF

THE CONSUMER ADVOCATE UNIT

OF THE

FINANCIAL DIVISION

OF THE

OFFICE OF THE TENNESSEE ATTORNEY GENERAL

June 17, 2022

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1 ***Q1. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND***
2 ***OCCUPATION FOR THE RECORD.***

3 A1. My name is William H. Novak. My business address is 19 Morning Arbor Place,
4 The Woodlands, TX, 77381. I am the President of WHN Consulting, a utility
5 consulting and expert witness services company.¹

6

7 ***Q2. PLEASE PROVIDE A SUMMARY OF YOUR BACKGROUND AND***
8 ***PROFESSIONAL EXPERIENCE.***

9 A2. Briefly, I have both a Bachelor's degree in Business Administration with a major
10 in Accounting, and a Master's degree in Business Administration from Middle
11 Tennessee State University. I am a Certified Management Accountant and am also
12 licensed to practice as a Certified Public Accountant.

13

14 My work experience has centered on regulated utilities for over 35 years. Before
15 establishing WHN Consulting, I was Chief of the Energy & Water Division of the
16 Tennessee Public Utility Commission (the "Commission") where I had either
17 presented testimony or advised the Commission on a host of regulatory issues for
18 over 19 years. In addition, I was previously the Director of Rates & Regulatory
19 Analysis for two years with Atlanta Gas Light Company, a natural gas distribution
20 utility with operations in Georgia and Tennessee. I also served for two years as the
21 Vice President of Regulatory Compliance for Sequent Energy Management, a

¹ State of Tennessee, Registered Accounting Firm ID 3682.

1 natural gas trading and optimization entity in Texas, where I was responsible for
2 ensuring the firm's compliance with state and federal regulatory requirements.

3

4 In 2004, I established WHN Consulting as a utility consulting and expert witness
5 services company. Since 2004, WHN Consulting has provided testimony or
6 consulting services to state public utility commissions and state consumer
7 advocates in at least ten state jurisdictions.

8

9 ***Q3. ON WHOSE BEHALF ARE YOU TESTIFYING?***

10 A3. I am testifying on behalf of the Consumer Advocate Unit ("Consumer Advocate")
11 in the Financial Division of the Office of the Tennessee Attorney General.

12

13 ***Q4. HAVE YOU PRESENTED TESTIMONY IN ANY PREVIOUS DOCKETS***
14 ***REGARDING CHATTANOOGA GAS COMPANY?***

15 A4. Yes. I've presented testimony in TPUC Docket Nos. U-85-7382, 88-01363, 90-
16 08876, 91-03765, 93-06946, and 18-00017 concerning rate cases involving
17 Chattanooga Gas Company ("CGC" or the "Company") as well as dockets for other
18 generic tariff and rulemaking matters. In addition, I previously presented testimony
19 concerning CGC's Annual Review Mechanism (ARM) in Docket No. 21-00048
20 that is the subject of this proceeding.

21

22 ***Q5. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS***
23 ***PROCEEDING?***

1 A5. My testimony will support and address the Consumer Advocate's concerns,
2 positions and recommendations with respect to the Petition filed by CGC to adjust
3 its rates and charges. Specifically, I will address the following:

- 4 1. The overall adjustment to the ARM proposed in the Company's filing
5 including the impact of specific errors and miscalculations contained in the
6 filing that were discovered during the Consumer Advocate's review; and
- 7 2. The Consumer Advocate's proposed Rate Design for the ARM revenue
8 deficiency.

9
10 ***Q6. WHAT DOCUMENTS HAVE YOU REVIEWED IN PREPARATION OF***
11 ***YOUR TESTIMONY?***

12 A6. I have reviewed the Company's Petition filed on April 20, 2022, along with the
13 testimony and exhibits presented with its filing. In addition, I have reviewed the
14 Company's workpapers supporting its proposed revenue adjustment calculations. I
15 have also reviewed the Company's responses to the Consumer Advocate's
16 discovery requests. In addition, I reviewed previous Commission's Orders
17 associated with the Company's ARM mechanism in TPUC Docket Nos. 19-00047,
18 20-00049 and 21-00048.

A8. CGC’s rate adjustment of \$8,021,257 is calculated in accordance with the terms of the Commission Order in TPUC Docket No. 19-00047. The overall methodology for the rate adjustment calculation is shown below in Table 1 which provides a comparison of the current ARM proposal along with the revenue deficiency approved by the Commission in the Company’s prior two ARM dockets.

Table 1 – Revenue Deficiency Comparison			
Item	20-00049 ARM Filing⁵	21-00048 ARM Filing⁶	22-00032 ARM Filing⁷
Rate Base	\$163,379,679	\$190,129,250	\$210,023,754
Operating Income at Present Rates	8,096,435	4,962,492	8,994,494
Earned Rate of Return	4.96%	2.61%	4.28%
Fair Rate of Return	7.12%	7.12%	7.12%
Required Operating Income	11,628,714	13,532,641	14,948,653
Operating Income Deficiency	3,532,279	8,570,149	5,954,158
Gross Revenue Conversion Factor	1.347169	1.347169	1.347169
Revenue Deficiency	\$4,758,576	\$11,545,439	\$8,021,257

Q9. HAS CGC ADJUSTED THE RECONCILIATION AMOUNT CONTAINED IN ITS INITIAL FILING?

A9. Yes. As mentioned previously, CGC originally requested the Commission to approve an ARM revenue deficiency of \$8,021,257 that has since been revised to

⁵ Rebuttal Testimony of Gary Tucker, p. 5, TPUC Docket No. 20-00049 (August 25, 2020). *See Order Approving 2019 ARM Filing*, TPUC Docket No. 20-00049 (October 27, 2020).

⁶ *Direct Testimony of Gary Tucker*, File <CGC Tucker Supplemental Exhibit GT-4>, Tab “Schedule 1”, TPUC Docket No. 21-00048 (July 14, 2021). *See Order Approving Settlement Agreement on Chattanooga Gas Company’s 2020 Annual Rate Review Filing Pursuant to Tenn. Code Ann. § 65-5-103(d)(6)*, TPUC Docket No. 21-00048 (November 1, 2021).

⁷ *Direct Testimony of Tiffani Weems*, File <CGC Weems Exhibit TW-1>, Tab “Schedule 1”, TPUC Docket No. 22-00032 (April 20, 2022).

1 \$7,911,764 to correct certain errors that were discovered during the Consumer
2 Advocate’s review and analysis.⁸

3

4 ***Q10. HOW IS THE REVISED RECONCILIATION AMOUNT OF \$7,911,964***
5 ***CALCULATED?***

6 A10. CGC’s revised revenue deficiency of \$7,911,764 is still calculated in accordance
7 with the terms of TPUC Docket No. 19-00047 and reflects updated and corrected
8 data to the initial filing. A comparison of the initial and revised revenue deficiency
9 calculations is shown below on Table 2.

10

Table 2 – Revised Revenue Deficiency Comparison		
Item	22-00032 Initial ARM Filing⁹	22-00032 Revised ARM Filing¹⁰
Rate Base	\$210,023,754	\$210,018,272
Operating Income at Present Rates	8,994,494	9,075,381
Earned Rate of Return	4.28%	4.32%
Fair Rate of Return	7.12%	7.12%
Required Operating Income	14,948,653	14,948,263
Operating Income Deficiency	5,954,158	5,872,882
Gross Revenue Conversion Factor	1.347169	1.347169
Revenue Deficiency	\$8,021,257	\$7,911,764

11

12 ***Q11. HAVE YOU REVIEWED THE CALCULATIONS SUPPORTING THE***
13 ***REVISED ARM FILING?***

⁸ Direct Testimony of Tiffani Weems, File <2022-06-13 CGC Weems Exhibit TW-1 (ARM Model Rev. 6-13-2022), Tab “Schedule 1”, TPUC Docket No. 22-00032 (June 13, 2022).

⁹ Direct Testimony of Tiffani Weems, File <CGC Weems Exhibit TW-1>, Tab “Schedule 1”, TPUC Docket No. 22-00032 (April 20, 2022).

¹⁰ Direct Testimony of Tiffani Weems, File <2022-06-13 CGC Weems Exhibit TW-1 (ARM Model Rev. 6-13-2022)>, Tab “Schedule 1”, TPUC Docket No. 22-00032 (June 13, 2022).

1 A11. Yes. I reviewed both the Company's original and revised filings. I also prepared
2 discovery requests for supplemental supporting information that was not contained
3 in the original filing. In addition, I have had continuing discussions with CGC
4 regarding both filings. The purpose of my review was to determine whether CGC's
5 ARM calculation was based on actual amounts recorded on its books.

6
7 ***Q12. WHAT WERE THE RESULTS OF YOUR REVIEW?***

8 A12. Overall, I found that CGC's filing appropriately reflected the actual revenues,
9 expenses and net investment recorded on the Company's ledger. Likewise, I also
10 found that the reconciliation generally reflected the methodologies established in
11 TPUC Docket No. 19-00047.

12
13 ***Q13. HAS THE COMPANY LIMITED THE AMOUNT OF THE REVENUE***
14 ***INCREASE IN THIS DOCKET?***

15 A13. Yes. In Docket No. 21-00048, the Commission approved a 4-year annual rate cap
16 of \$6.8 million from ARM filings.¹¹ As a result, the Company has limited the
17 revenue increase in this Docket to \$6.8 million instead of the revised \$7,911,764
18 calculated amount.¹² My recommendation for the allocation of this \$6.8 million
19 revenue deficiency to the different customer classes is discussed in the next section
20 of my testimony.

¹¹ *Order Approving Settlement Agreement on Chattanooga Gas Company's 2020 Annual Rate Review Filing Pursuant to Tenn. Code Ann. § 65-5-103(d)(6)*, p. 14, TPUC Docket No. 21-00048 (November 1, 2021).

¹² Direct Testimony of Archie Hickerson at 4:17 to 5:4.

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[REDACTED] The

calculation of the Company's proposed customer class allocation of the ARM

Revenue Deficiency is presented below in Table 3.

[illegible]

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¹³ CGC's Response to Consumer Advocate DR-2-10(b)-(c) (June 3, 2022).

¹⁴ Direct Testimony of Archie Hickerson, File <Exhibit ARH-4>, Tab “Schedule 17.1 (2)”, TPUC Docket No. 22-00032 (April 20, 2022).

¹⁵ Company Filing, Schedule 35.14, TPUC Docket No. 22-00032 (April 20, 2022) (CONFIDENTIAL).

A15. No. I would recommend that the ARM Revenue Deficiency of \$6.8 million be allocated evenly across-the-board to all customer classes. [REDACTED]

[REDACTED] believe that such an across-the-board change in rates to all customer classes most equitably spreads both the benefit of the Company's infrastructure investment and the burden from any change in rates. The Company has not provided information that would justify disparate customer treatment in this matter. The calculation of my proposed customer class allocation of the ARM Revenue Deficiency is presented below in Table 4.

[illegible]

¹⁷ Company Filing, Schedule 35.14, TPUC Docket No. 22-00032 (April 20, 2022) (CONFIDENTIAL).

1 ***Q16. WHAT SPECIFIC RATE DESIGN DO YOU PROPOSE?***

2 A16. As to specific tariff rates, the Company has proposed a change in all billing items
3 (customers charges, usage charges, billing demand charges and capacity charges)
4 in order to achieve appropriate tariff rates that reflect the Commission’s decision in
5 this Docket.¹⁸ This approach appears reasonable to me and is likely to result in the
6 most equitable overall impact to customers. The resulting rate design can then be
7 easily modified to adapt to the Commission’s decision on the ARM Revenue
8 Deficiency allocation to each customer class.

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10
11 *[Testimony continues on next page]*
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¹⁸ Direct Testimony of Archie Hickerson, File <Exhibit ARH-4>, Tab “Schedule 17”, TPUC Docket No. 22-00032 (April 20, 2022).

III. RECOMMENDATIONS

2

3 ***Q17. MR. NOVAK, COULD YOU PLEASE SUMMARIZE YOUR***
4 ***RECOMMENDATIONS TO THE COMMISSION.***

5 A17. My recommendations are as follows:

- 6 • I recommend that the Commission accept the Company's revised ARM
- 7 Revenue Deficiency calculation of \$7,911,764 limited to the \$6.8 million rate
- 8 cap.
- 9 • I recommend that the Commission allocate the ARM Revenue Deficiency cap
- 10 of \$6.8 million evenly across-the-board to all customer classes, including both
- 11 Special Contract customers, based upon the margin ratio of each customer
- 12 class.
- 13 • I recommend that the Commission approve an increase to all rate components
- 14 (customers charges, usage charges, billing demand charges and capacity
- 15 charges) to achieve the \$6.8 million ARM Revenue Deficiency cap.

16

17 **Q18. DOES THIS COMPLETE YOUR TESTIMONY?**

18 A18. Yes, it does. However, I reserve the right to incorporate any new information that
19 may subsequently become available.

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22

23

IN THE TENNESSEE PUBLIC UTILITY COMMISSION
AT NASHVILLE, TENNESSEE

IN RE:

CHATTANOOGA GAS COMPANY'S
PETITION FOR APPROVAL OF ITS
2021 ANNUAL RATE REVIEW
FILING PURSUANT TO
TENN. CODE ANN. § 65-5-103(d)(6)

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DOCKET NO. 22-00032

AFFIDAVIT

I, William H. Novak, on behalf of the Consumer Advocate Unit of the Attorney General's Office, hereby certify that the attached Direct Testimony represents my opinion in the above-referenced case and the opinion of the Consumer Advocate Unit.

WILLIAM H. NOVAK

Sworn to and subscribed before me
this 17th day of June, 2022.

NOTARY PUBLIC



My commission expires:

September 28, 2022.