

April 19, 2024

24-00024

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

Electronically Filed in TPUC Docket
Room on April 19, 2024 at 12:57 p.m.

Re: Chattanooga Gas Company's Petition for Approval of Its 2023 Annual Rate
Review Filing Pursuant to T.C.A. § 65-5-103(d)(6)

Dear Chairman Hilliard:

Enclosed is Chattanooga Gas Company's Petition for Approval of its 2023 Annual Rate
Review filing pursuant to T.C.A. § 65-5-103(d)(6).

Attached please find the following documents for filing:

1. Petition
2. Petition Verification of Paul Leath (Exhibit A to the Petition)
3. Proposed Procedural Schedule (Exhibit B to the Petition) and agreed upon
by the Consumer Advocate
4. Direct Testimony and exhibits of three witnesses:
 - a. Paul Leath (no Exhibits)
 - b. Tiffani Weems (2 Exhibits)
 - c. Ashley Vette (4 Exhibits)
5. Prescribed ARM Schedules presented electronically on two flash drives,
one containing confidential documents and the other containing the non-confidential
public documents (please note that some of the Schedules are also part of the ARM
Model that is separately filed as Weems Exhibit TW-1)

All documents and workpapers required by the Settlement Agreement Orders in Docket
Nos. 19-0047, 20-00049, 21-00048, 22-00032, and 23-00029 are provided in this filing.

Please also note that there are a few documents which contain confidential information
provided in accordance with TPUC practice and subject to a pending Protective Order to be

T 615.651-6700
F 615.651-6701
www.butlersnow.com

Jones Wilson (J.W.) Luna
T 615-651-6749
jw.luna@butlersnow.com

The Pinnacle at Symphony Place
150 3rd Ave. South, Suite 1600
Nashville, TN 37201

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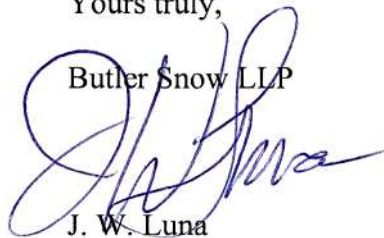
issued by the Hearing Office. CGC requests that the Hearing office enter the Protective Order issued in last year's Docket No. 23-00029. The confidential documents are clearly marked and found at Schedules 23, 23.1, 27, 32, 34, 34.1, 35.1, 35.2a, 35.2b, 35.3a, 35.4a, 35.4b, 35.10b, 35.14, 35.15, 35.16.

In addition to this electronic filing, we will deliver an original and four hard copies of the petition, testimonies, and a check for the filing fee in this matter, along with two flash drives containing the electronic documents in .pdf and/or excel format, one flash drive with public documents and one with confidential documents.

A courtesy copy of this filing is being provided to the Consumer Advocate.

Yours truly,

Butler Snow LLP

A handwritten signature in blue ink, appearing to read "J. W. Luna", is written over the printed name.

J. W. Luna

Enclosures

1 **I. WITNESS INTRODUCTION**

2 **Q. Please state your name, title, and business address.**

3 A. I am Paul Leath, Regional Director of Operations, Chattanooga Gas (“Company”
4 or “CGC”). My business address is 2207 Olan Mills Drive, Chattanooga,
5 Tennessee, 37421.

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

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

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

10 I am a resident of Chattanooga, and I am responsible for the day-to-day operation
11 of the utility by the 55 employees we have working in Bradley and Hamilton
12 Counties, including safety, construction and maintenance of the system, and
13 regulatory compliance. Ultimately, it is my responsibility to help ensure that
14 Chattanooga Gas meets our commitment to deliver safe, reliable, and affordable
15 natural gas service to nearly 71,500 customers.

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

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

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

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

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

11 During my time in Chattanooga, I have become very invested in this
12 community that I love. I serve on the boards of the Tennessee Chamber, Tennessee
13 Gas Association, and the Chattanooga Area Chamber of Commerce, and I am
14 currently the Chattanooga Chamber Chairman.

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.

1 I have been a part of the regional economic development team that worked
2 on multiple expansion projects for our two largest area employers, resulting in
3 Volkswagen (“VW”) investing \$1.4 billion and creating 3,000 jobs and McKee
4 Foods investing \$500 million and adding 480 jobs to our community; both of these
5 companies are CGC customers. I worked with our team on CGC’s expansion of its
6 natural gas system into the Spring Branch Industrial Park to serve Cannon
7 Automotive Solutions, which resulted in them investing \$114 million and adding
8 200 jobs in Bradley County. Last year SK Foods started construction of a new \$240
9 million plant to be built in Spring Branch that will create 840 new jobs. I worked
10 to help bring six large automotive part manufacturers to the area resulting in \$375
11 million in investment and the creation of over 1,625 new jobs. In addition, I
12 assisted with one of Bradley County’s larger manufacturers, Mars Chocolate N.A.,
13 making the decision to undertake two local expansions worth \$243 million that
14 brought an additional 160 jobs; Mars Chocolate is also a CGC customer. We are
15 proud of our role in providing safe and reliable natural gas to our customers while
16 being able to partner with many local businesses that help to make Hamilton and
17 Bradley counties such an attractive community to live and work.

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

19 A. Yes, I provided testimony in Dockets 20-00049, 21-00048, and 23-00029 the
20 Company’s 2020, 2021 and 2023 annual review mechanism or “ARM” dockets,
21 which we resolved without a hearing or the need for my oral testimony. I also
22 provided testimony in Docket 22-00032, the Company’s 2022 ARM Docket, and
23 Docket 20-00131, CGC’s pipeline replacement proceeding, which was approved

1 on April 12, 2021. Over the last few years, I have also reported to the Commission
2 or the Commission Staff on CGC's annual construction projects budget, pursuant
3 to law.

4 **II. PURPOSE OF TESTIMONY**

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

6 A. I am testifying today to support the Company's overall ARM recovery for calendar
7 year 2023, or what is referred to as the Historic Base Period. This case is being
8 filed pursuant to the Stipulation and Settlement Agreement reached in Docket No.
9 19-00047 and approved by the Commission in its *Order Approving Settlement*
10 *Agreement* dated October 7, 2019 ("2019 ARM Order"). Our case also addresses
11 the 2020 ARM Docket, Docket 20-00049, and the Commission order issued on
12 October 27, 2020 ("2020 ARM Order") which requires us to file a new Schedule
13 39, which is also part of this case. My testimony further addresses the 2021 ARM
14 Docket and *Order Approving Settlement Agreement* dated November 1, 2021
15 ("2021 ARM Order"), which included a \$6.8 million voluntary annual rate cap
16 through 2024 and the carry forward of any unrecovered authorized revenue in ARM
17 Schedule 29. I will provide an overview of the case, some general information
18 regarding the economic growth of our service area in Hamilton and Bradley
19 counties, and a review of the operational activities that underlie the financial
20 numbers that are the subject of the testimonies of our other witnesses.

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

22 A. No, I am not providing any exhibits to my Direct Testimony. However, I am the
23 witness supporting Schedule 35.11, the Annual PRP Budget, and I have provided

1 an affidavit in support of our overall case filing that is a part of the Petition being
2 filed.

3 **Q. Please identify the other CGC witnesses who will be supporting the**
4 **Company's case in this docket.**

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

6 First, we have Ms. Tiffani Weems, who is the Manager, Regulatory
7 Reporting, for Southern Company Gas. Ms. Weems will provide the necessary
8 testimony and exhibits regarding the calculation of the Historic Base Period annual
9 reconciliation balance deficiency, the associated carrying charges on the
10 deficiency, and the prospective 2024 rate reset necessary for the Company to earn
11 its rate of return, which results in a total rate adjustment of \$8.4 million, also known
12 as the prescribed ARM recovery amount. Ms. Weems will also discuss how CGC
13 will again be voluntarily capping any rate recovery at \$6.8 million, with any excess
14 revenues not recovered in this year's rates being carried forward to next year's
15 ARM Docket case. Ms. Weems' testimony will address the financial information
16 required through the various predecessor ARM proceedings.

17 Second, we have Ms. Ashley Vette, who is the Manager of Rates and Tariff
18 Administration for Southern Company Gas. Ms. Vette's testimony and exhibits
19 support the revenue schedules and normalization adjustments required under the
20 various predecessor ARM docket orders, and she is the principal witness for several
21 of the supporting ARM Schedules. Ms. Vette is also our rate design witness, and
22 her exhibits include the proposed tariffs based upon the Company's proposed rate
23 design for recovery of the \$6.8 million to actually be recovered in rates this year.

1 **III. CASE OVERVIEW**

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

3 A. As Ms. Weems' testimony supports, CGC has a 2023 prescribed total rate
4 adjustment of \$8,422,852, which reflects the Historic Base Period deficiency, the
5 carryover from the 2023 total rate adjustment in excess of the \$6.8 million cap, and
6 the rate reset.

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

8 A. The largest impacts on 2023 operations are continued significant capital
9 investments to support approved pipeline replacement program. The continuing
10 effects of the COVID-19 pandemic on the economy have been significant in terms
11 of inflation, interest rates, labor availability, material costs, supply chain delays,
12 and other unforeseen consequences. This has resulted in increased capital and
13 operational costs.

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

15 A. As our team reports in the other testimonies, by again capping our rate increase at
16 \$6.8 million, the total estimated increase to the typical residential customer's bill
17 will be \$4.21 per month (6.46%), and the average commercial customer's bill will
18 be \$8.91 per month (6.99%). When the proposed rates are compared with the
19 current rates, the total annual bill for the typical residential customer will be 1.7%
20 less, including the PGA, than in September 2023, when the current rates went into
21 effect.

22

1 **IV. THE ANNUAL ARM PROCESS**

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

3 A. CGC's ARM is based upon the General Assembly's authorization to the
4 Commission to approve various alternative regulatory mechanisms for utilities.
5 CGC's ARM involves an annual review of rates, which includes an examination of
6 both revenues and expenses from the books and records of the Company for the
7 prior calendar year. From that review, rates are to be adjusted up or down based
8 upon the Company's overall performance and whether we have under earned or
9 over earned based upon our approved rate of return. Based on the 2021 ARM
10 Order, the rate recovery is voluntarily limited to \$6.8 million annually through and
11 including this 2024 ARM Docket filing. Both Ms. Weems and Ms. Vette will use
12 actual data from calendar year 2023 to determine the actual deficiency for the year;
13 they will then calculate a rate reset, that normalizes or excludes certain costs, to get
14 to the total rate adjustment of \$8.4 million. For informational purposes only,
15 CGC's filing includes its 2024 budget, but the total rate adjustment we are seeking
16 is based solely on the 2023 Historic Base Period and not the current 2024 budget
17 year.

18 **V. CGC's 2023 OPERATIONS**

19 **Q. Please provide an overview of CGC's service territory and operations for 2023.**

20 A. We continue to serve a vibrant community that remains one of the fastest growing
21 locations in the country. Looking back ten years, we have more than doubled the
22 annual number of new residential and commercial customers, adding over 1,100
23 new customers last year, for approximately 71,500 total customers. This growth

1 shows no sign of slowing down despite other potentially negative things that are
2 occurring in the economy. Hamilton County has grown from a population of
3 336,463 in 2010 to nearly 380,000 in 2024, which is an increase of nearly 13%.
4 Hamilton County grew more than three times the U.S. rate last year. These
5 population and business gains throughout our service area have resulted in
6 Chattanooga Gas having the largest percentage growth in customers within all of
7 Southern Company.

8 **Q. What is the Company doing to meet the growth in your service area?**

9 A. To meet the region's ongoing needs, Chattanooga Gas has continued to make
10 significant investments in its infrastructure that strengthen the safety and reliability
11 of the region's pipeline infrastructure. We have also made other reliability
12 improvements that support the increased supply and demand growth from
13 residential, commercial, and industrial customers, especially on the coldest days of
14 the year.

15 **Q. How much did the Company spend in 2023 on capital investments?**

16 A. Ms. Weems' documentation shows that we spent \$40.5 million in 2023 on capital
17 projects.

18 **Q. How does that \$40.5 million compare with what was budgeted and reported to**
19 **the Commission?**

20 A. The original capital budget for 2023 was \$40.14 million. The actual capital spend
21 for 2023 came in at approximately \$40.5 million, which was close to target. While
22 we did a good job of being in the ballpark on our budget, what we spent simply did

1 not go as far. Substantial increases in materials and labor have forced us to delay
2 or draw out projects because our dollars simply do not go as far in this economy.

3 **Q. Please describe the major capital projects completed or started in 2023.**

4 A. CGC continues to address existing pressure and capacity issues and provide for
5 future growth – without these improvements we simply cannot move adequate gas
6 to our firm customers to meet their demand or to serve new customers. These
7 investments were necessary to support new customer growth opportunities while
8 also helping to ensure existing customers did not experience a negative impact
9 related to their service.

10 We completed seven pressure improvement (“PRIM”) projects in Hamilton
11 County and three PRIM projects in Bradley County last year. More specifically, we
12 continued the Apison Pike PRIM project to provide McKee Bakery (Little Debbie)
13 the gas needed for their expansion and otherwise benefit nearby residential
14 neighborhoods we serve. We also completed the Dupont Bridge replacement
15 project to renew the 12-inch main over the Tennessee River. In addition, we started
16 the LNG station replacement in 2023, a \$6 million project we anticipate completing
17 in 2024.

18 Our unprecedented growth over the past several years, notably within the
19 timeframe of the current voluntary ARM cap, has been meaningful for CGC and
20 would not have been possible without the partnership and support of the
21 Commission. The Company’s investments I mentioned previously have enabled
22 considerable revenues for the company in the R-1 Residential and C-1 Commercial
23 categories. More specifically, we gained 907 residential and 121 commercial

1 customers in 2020; 1,055 residential and 109 commercial customers in 2021; 1,159
2 residential and 97 commercial customers in 2022; and 1,002 residential and 122
3 commercial customers in 2023. This customer growth resulted in increased
4 revenue of over \$5.56 million from 2020 through 2023. Keep in mind that not all
5 new customers require new capital investments in order to serve.

6 **Q. How does CGC ensure that projects designed to serve new growth are cost-**
7 **effective?**

8 A. Each project is analyzed from a cost to serve and allowable investment perspective.
9 This ensures the new customers produce the appropriate revenue to cover the cost
10 to serve while mitigating existing customers from subsidizing the new growth
11 opportunities. Where it appears the new customer growth opportunity will not
12 cover the project's cost from a revenue standpoint, that customer is expected to
13 provide a contribution in aid of construction to protect existing customers.

14 **Q. In 2021, the Commission approved CGC's pipeline replacement program**
15 **("PRP") in Docket 20-00131. Are any of those costs included in this case?**

16 A. Yes, there is approximately \$9.17 million in PRP expenses in the 2024 ARM filing.
17 In addition to the actual spend in 2023, I am also supporting Schedule 35.11, which
18 reflects the PRP budget for 2024.

19 As the U.S. Department of Transportation, Pipeline and Hazardous
20 Materials Safety Administration has recognized, "[a]s the United States continues
21 to develop and place more demand on energy transportation, it becomes necessary

1 to invest in upgrading its infrastructure, including aging pipelines.”¹ Pipeline age
2 and material are significant risk factors.

3 As we have continued to implement the PRP, we have faced substantially
4 increased labor and materials costs caused by rising interest rates and inflation,
5 supply chain disruptions, and scarcities in the labor market, especially for skilled
6 workers. None of these unforeseen challenges were reasonably anticipated when
7 the PRP was designed and approved, resulting in re-prioritization and, in some
8 cases, delay of PRP projects. By way of example, the cost of Electric Resistance
9 Welded (“ERW”) steel pipe has increased from just over \$1,000 per ton in late 2020
10 to almost \$3,000 per ton through early 2022. Since that time, ERW pipe costs have
11 subsided some, but were still approximately \$2,000 per ton as of October 2023,
12 resulting in a significant and mostly uncontrollable impact on PRP costs, as we
13 have seen with all of our capital infrastructure projects.² In the face of these
14 challenges, we still completed five PRP projects in 2023, replacing 7.79 miles of
15 main.

16 While we expected our PRP projects and costs to ramp up in the next few
17 years, the extraordinary increases in materials and manpower has strained even our
18 skillful management of all of our capital spending projects and challenges our
19 ability to accomplish all that needs to be done within the budgets and timeframes
20 initially contemplated. We are not asking for any changes at this time; however,

¹ U.S. Department of Transp., PHMSA, [Pipeline Replacement Background | PHMSA \(dot.gov\)](#) (last visited March 5, 2024).

² ERW steel pipe is the standard for 2” through 16” new or replaced steel pipelines within the CGC system so it is a good representation of the costs increases CGC has seen on steel pipe in recent years.

1 we will continue to apprise the Commission on our progress on these important
2 projects and do all we can to obtain efficiencies and economies to make every dollar
3 count.

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

5 A. We have maintained our staffing level at 55 employees, which is the same as the
6 last few years. We have worked hard to better retain our skilled and award-winning
7 team, which enables us to better focus on employee training and retention rather
8 than recruiting.

9 **Q. Can you please discuss any other operational developments that have occurred**
10 **in 2023 that are impacting the Company's 2024 ARM case?**

11 A. Yes. One category for which we always budget involves costs associated with
12 relocation associated with Department of Transportation ("DOT") projects. While
13 we cannot predict these projects or associated costs with any level of certainty,
14 based on our experience, we typically budget \$1 million in anticipation of these
15 projects. In 2023, we incurred costs of approximately \$3.1 million related to nine
16 DOT projects. The largest project cost \$1.3 million, which exceeded our entire
17 forecast for the year.

18 Recent legislation that will help limit the scope of what we must repair
19 should help reduce some of these costs. Had this legislation been in place in 2023,
20 our costs would have been reduced by approximately \$600,000. But, as our service
21 area continues to grow and state and local agencies continue to build or expand our
22 highways, we cannot control these expenses, which must be made when the
23 government says we must move pipes. Where we can, we always work to

1 coordinate and time projects to minimize our costs, but at the end of the day we
2 have to do what the road authority tells us to do.

3 **VI. CONCLUSION**

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

5 A. Yes, CGC is very proud of our relationships with our customers. The Company
6 has once again been awarded the 2023 Customer Champion for Residential and
7 Business, Most Trusted Brand- Residential, and Easiest to do Business With-
8 Residential. We have received the Cogent Award for Trusted Business Partner five
9 years in a row (2019-23).

10 We are very fortunate to live in a community that continues to thrive,
11 recognizing that even during the COVID Pandemic we experienced unprecedented
12 growth. Volkswagen and McKee Bakery continue to grow, and other new
13 providers like SK Foods are now also moving into our area.

14 At CGC we strive to be a great corporate citizen and seek ways to enrich
15 our community. Our employees volunteer hundreds of hours each year and donate
16 thousands of their personal funds to give back to our community that has given us
17 so much. In 2023, we donated more than \$400,000 to non-profit organizations
18 serving Hamilton and Bradley Counties, none of which is part of this rate recovery
19 from our customers. Included in the \$400,000, we donated \$85,000 towards energy
20 assistance, which helps our customers pay their utility bills to help ensure they
21 remain warm during the coldest months of the year.

22 But with all this growth, and everything else happening in the world, there
23 are external factors beyond our control that continue to put pressure on our costs.

1 Like many industries today, we are experiencing significant price increases for the
2 materials, fuel, contractor labor, and employee salaries and benefits that are
3 necessary to retain and attract talent. To deal with these challenges, we review all
4 expenses and justify any variances during our monthly CEO budget reviews. We
5 work hard to run a very efficient operation and do everything in our control to
6 manage our expenses. Even with all of these pressures, we are again following
7 through with our voluntary rate cap, and we believe this will be the last year that
8 we will need a cap given our budget projections for future years. With the approval
9 of this year's ARM, Chattanooga Gas Company will continue to be in the best
10 position to provide safe, reliable, and affordable natural gas service to our
11 community.

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

13 **A. Yes.**