

1 **I. WITNESS INTRODUCTION**

25-00028

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 72,255 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 served on the boards of the Tennessee Chamber,
13 Tennessee Gas Association, and the Chattanooga Area Chamber of Commerce, and
14 I am the Immediate Past Chairman of the Chattanooga Chamber. In addition, I am
15 a graduate of Leadership Chattanooga.

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

1 I was part of the regional economic development team that worked on
2 multiple expansion projects for large area employers, many of whom are also CGC
3 customers. Most recently, this includes expansions by Novonix and West Star
4 Aviation with expected 500 and 200 new jobs, respectively. From 2019-2024, the
5 Chattanooga area saw \$4.4 billion in new business investments and over 9,800 new
6 jobs announced. We are proud of our role in providing safe and reliable natural gas
7 to our customers while being able to partner with many local businesses that help
8 to make Hamilton and Bradley counties such an attractive community to live and
9 work.

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

11 A. Yes, I provided testimony in dockets 20-00049, 21-00048, 23-00029, and 24-0024
12 the Company's 2020, 2021, 2023, and 2024 annual review mechanism or "ARM"
13 dockets, which we resolved without the need for my oral testimony. I also provided
14 testimony in docket 22-00032, the Company's 2022 ARM Docket, and docket 20-
15 00131, CGC's pipeline replacement proceeding, which was approved on April 12,
16 2021. Most recently I submitted testimony in the Company's pipeline replacement
17 extension proceeding, docket 25-00021. Over the last few years, I have also
18 reported to the Commission or the Commission Staff on CGC's annual construction
19 projects budget, pursuant to law.

20 **II. PURPOSE OF TESTIMONY**

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

22 A. I am testifying today to support the Company's overall ARM recovery for calendar
23 year 2024, or what is referred to as the Historic Base Period. This case is being

1 filed pursuant to the Stipulation and Settlement Agreement reached in docket No.
2 19-00047 and approved by the Commission in its *Order Approving Settlement*
3 *Agreement* dated October 7, 2019 (“2019 ARM Order”). I will provide an overview
4 of the case, some general information regarding the economic growth of our service
5 area in Hamilton and Bradley counties, and a review of the operational activities
6 that underlie the financial numbers that are the subject of the testimonies of our
7 other witnesses.

8 **Q. Are you sponsoring any exhibits with your direct testimony?**

9 A. No, I am not providing any exhibits to my direct testimony. However, I am the
10 witness supporting Schedule 35.11, the Annual PRP Budget, and I have provided
11 an affidavit in support of our overall case filing that is a part of the Petition being
12 filed.

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

15 A. CGC is presenting two other witnesses in this case.

16 First, we have Ms. Tiffani Weems, who is the Manager, Regulatory
17 Reporting, for Southern Company Gas. Ms. Weems will provide the necessary
18 testimony and exhibits regarding the calculation of the Historic Base Period annual
19 reconciliation balance deficiency, the associated carrying charges on the
20 deficiency, and the prospective 2025 rate reset necessary for the Company to earn
21 its rate of return, which results in a total rate adjustment of \$4.0 million, also known
22 as the prescribed ARM recovery amount. Ms. Weems’ testimony will also address

1 the financial information required through the various predecessor ARM
2 proceedings.

3 Second, we have Ms. Ashley Vette, who is the Manager of Rates and Tariff
4 Administration for Southern Company Gas. Ms. Vette's testimony and exhibits
5 support the revenue schedules and normalization adjustments required under the
6 various predecessor ARM docket orders, and she is the principal witness for several
7 of the supporting ARM Schedules. Ms. Vette is also our rate design witness, and
8 her exhibits include the proposed tariffs based upon the Company's proposed rate
9 design for recovery of the \$4.0 million to be recovered in rates this year.

10 **III. CASE OVERVIEW**

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

12 A. As Ms. Weems' testimony supports, CGC has a 2024 prescribed total rate
13 adjustment of \$3,976,804 which reflects the Historic Base Period deficiency, the
14 carryover from the 2024 total rate adjustment in excess of the final year of the \$6.8
15 million cap, and the rate reset.

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

17 A. The largest impacts on 2024 operations are continued significant capital
18 investments to support approved pipeline replacement program projects. The
19 continuing effects of the COVID-19 pandemic on the economy have been
20 significant in terms of inflation, interest rates, labor availability, material costs,
21 supply chain delays, and other unforeseen consequences. This has resulted in
22 increased capital and operational costs.

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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. Both Ms. Weems and Ms.
10 Vette will use actual data from calendar year 2024 to determine the actual
11 deficiency for the year; they will then calculate a rate reset, that normalizes or
12 excludes certain costs, to get to the total rate adjustment of almost \$4.0 million. For
13 informational purposes only, CGC's filing includes its 2025 budget, but the total
14 rate adjustment we are seeking is based solely on the 2024 Historic Base Period
15 and not the current 2025 budget year.

16 **V. CGC's 2024 OPERATIONS**

17 **Q. Please provide an overview of CGC's service territory and operations for 2024.**

18 A. We continue to serve a vibrant community that remains one of the fastest growing
19 locations in the country. Looking back ten years, we have more than doubled the
20 annual number of new residential and commercial customers, adding over 1,100
21 new customers last year, for approximately 72,255 total customers. This growth
22 shows no sign of slowing down. More specifically, growth in Hamilton and

1 Bradley Counties was approximately 2.5 and 1.7 times the national average,
2 respectively, in 2024.

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

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

10 **Q. How much did the Company spend in 2024 on capital investments?**

11 A. Ms. Weems' documentation shows that we spent \$43.5 million in 2024 on capital
12 projects.

13 **Q. How does that \$43.5 million compare with what was budgeted and reported to**
14 **the Commission?**

15 A. The original capital budget for 2024 was \$47.6 million. The actual capital spend
16 for 2024 came in at approximately \$43.5 million, which was close to target. While
17 we did a good job of being in the ballpark on our budget, what we spent simply did
18 not go as far. Substantial increases in materials and labor have forced us to delay
19 or draw out projects because our dollars simply do not go as far in this economy.

20 **Q. Please describe the major capital projects completed or started in 2024.**

21 A. CGC continues to address existing pressure and capacity issues and provide for
22 future growth – without these improvements we simply cannot move adequate gas
23 to our firm customers to meet their demand or to serve new customers. These

1 investments were necessary to support new customer growth opportunities while
2 also helping to ensure existing customers did not experience a negative impact
3 related to their service.

4 More specifically, along with significant investment in pipeline
5 replacement program (“PRP”) projects, CGC completed the LNG station
6 replacement project in 2024, which included replacing and upgrading certain
7 components of the existing station as well as the installation of a dedicated fuel line,
8 and renewal of the process and send-out lines. We also completed the I-24 and I-
9 75 interchange project which included installation of 4,400 feet of 8-inch, 6-inch,
10 and 2-inch plastic piping, replacement of pipes located on the bridge, and a 780-
11 foot bore under I-24.

12 Our unprecedented growth over the past several years has been meaningful
13 for CGC and would not have been possible without the partnership and support of
14 the Commission.

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

17 A. Each project is analyzed from a cost to serve and allowable investment perspective.
18 This ensures the new customers produce the appropriate revenue to cover the cost
19 to serve while mitigating existing customers from subsidizing the new growth
20 opportunities. Where it appears the new customer growth opportunity will not
21 cover the project’s cost from a revenue standpoint, that customer is expected to
22 provide a contribution in aid of construction to protect existing customers.

1 **Q. You mentioned CGC’s PRP approved by the Commission in docket 20-00131.**
2 **Are any of those costs included in this case?**

3 A. Yes, there is approximately \$12.2 million in PRP expenses in the 2025 ARM filing.
4 In addition to the actual spend in 2024, I am also supporting Schedule 35.11, which
5 reflects the PRP budget for 2025.

6 As we have continued to implement the PRP, we have faced substantially
7 increased labor and materials costs caused by rising interest rates and inflation,
8 supply chain disruptions, and scarcities in the labor market, especially for skilled
9 workers. None of these unforeseen challenges were reasonably anticipated when
10 the PRP was designed and approved, resulting in re-prioritization and, in some
11 cases, delay of PRP projects. In the face of these challenges, we still replaced 9.2
12 miles of main in 2024.

13 **Q. Has CGC requested any changes to the PRP?**

14 A. Yes. CGC filed a request to extend the PRP by three years in Docket No. 25-00021.
15 As explained in that filing, to complete the entire 73 miles within the original seven-
16 year PRP timeframe, CGC would need to accelerate the number of miles replaced
17 each year, and concomitantly, its PRP investment. Without the requested
18 extension, this accelerated construction schedule would place more than half of the
19 new pipe in service in the next three years, at a cumulative estimated cost in excess
20 of \$80 million. For customers, such a rapid pace of replacement would result in
21 significantly higher rate impacts through 2028 versus what are projected if the PRP
22 is extended for three years. Importantly, though, CGC has not requested an increase
23 in the PRP budget or the cost recovery method.

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

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

8 **Q. Can you please discuss any other operational developments that have occurred**
9 **in 2025 that are impacting the Company's 2025 ARM case?**

10 A. Yes. One category for which we always budget involves costs associated with
11 relocation associated with Department of Transportation ("DOT") projects. While
12 we cannot predict these projects or associated costs with any level of certainty,
13 based on our historical experience, we typically budget approximately \$1 million
14 in anticipation of these projects. In 2023, we incurred costs of approximately \$3.1
15 million related to nine DOT projects, and therefore budgeted \$1.7 million in 2024.
16 Despite this increased budget, our 2024 incurred costs for 2024 were \$3.1 million.
17 Since 2018, our incurred costs have exceeded budget by \$5.1 million.

18 **VI. CONCLUSION**

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

20 A. Yes, CGC is very proud of our relationships with our customers. For the third year
21 in a row, the Company was awarded the 2024 Most Trusted Brand-Residential by
22 Escalent. The Company was also named the 2024 Customer Champion and Easiest
23 to do Business With.

1 We are very fortunate to live in a community that continues to thrive,
2 including the recently announced growth from Novonix and West Star Aviation.

3 At CGC we strive to be a great corporate citizen and seek ways to enrich
4 our community. Our employees volunteer hundreds of hours each year to give back
5 to our community that has given us so much. In 2024, CGC donated more than
6 \$235,000 to non-profit organizations serving Hamilton and Bradley Counties, none
7 of which is part of this rate recovery from our customers.

8 **Q. How does CGC ensure that rates remain affordable for CGC's customers?**

9 A. With all the growth in our service territory, and everything else happening in the
10 world, there are external factors beyond our control that continue to put pressure on
11 our costs. Like many industries today, we are experiencing significant price
12 increases for the materials, fuel, contractor labor, and employee salaries and
13 benefits that are necessary to retain and attract talent. To deal with these challenges,
14 we review all expenses and justify any variances during our monthly CEO budget
15 reviews. We work hard to run a very efficient operation and do everything in our
16 control to manage our expenses. Our work in these areas is evidenced in our rates
17 which are comparable to others in the region.

18 In addition, we prioritize capital improvements that will help ensure
19 customer reliability on the coldest days and bring economic development to the
20 area.

21 With the approval of this year's ARM, Chattanooga Gas Company will
22 continue to be in the best position to provide safe, reliable, and affordable natural
23 gas service to our community.

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

2 **A.** Yes.