BEFORE THE

GEORGIA PUBLIC SERVICE COMMISSION

IN RE:	**ATLANTA GAS LIGHT COMPANY'S INTEGRATED CAPACITY AND DELIVERY PLAN (i-CDP)**	**)** **)** **)**	**DOCKET NO. 43820**

DIRECT TESTIMONY

AND EXHIBITS

OF

RANDY A. FUTRAL

ON BEHALF OF THE

PUBLIC INTEREST ADVOCACY STAFF

J. Kennedy and Associates, Inc.
570 Colonial Park Drive, Suite 305
Roswell, GA 30075

May 14, 2024

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DIRECT TESTIMONY OF RANDY FUTRAL

Q. Please state your name and business address.

A. My name is Randy A. Futral. My business address is J. Kennedy and Associates, Inc. ("Kennedy and Associates"), 570 Colonial Park Drive, Suite 305, Roswell, Georgia 30075.

Q. Please state your occupation and your employer?

A. I am a utility rate and planning consultant holding the position of Director, Consulting with the firm of Kennedy and Associates.

Q. Please describe your education and professional experience.

A. I earned a Bachelor of Business and Science degree in Business Administration with an emphasis in Accounting from Mississippi State University. I have held various positions in the field of accounting for a period of almost 40 years, both as an employee and more recently as a consultant. My experience has been focused in the areas of accounting, auditing, tax, budgeting, forecasting, financial reporting, and management.

Since 2003, I have been a consultant with Kennedy and Associates, providing services to state government agencies and large consumers of utility services in the ratemaking, financial, tax, accounting, and management areas. From 1997 to 2003, I served both as the Corporate Controller and Assistant Controller of Telscape International, Inc., an international public company providing telecommunication and high-end internet access services. My tenure with Telscape included responsibilities in the areas of accounting, financial reporting, budgeting, forecasting, banking, and management. From 1988 to 1997, I was employed by Comcast Communications, Inc., then the world's third largest cable television provider, in a series of positions including Regional Controller for their South Central regional office. My duties with Comcast encompassed various accounting, tax, budgeting, forecasting, and managerial functions. From 1984 to 1988, I held various staff and senior level accounting positions for both public accounting and private concerns focusing in the areas of accounting, budgeting, tax and financial reporting.

I have testified as an expert on ratemaking, accounting, finance, tax, and other issues in proceedings before regulatory commissions at the federal and state levels on numerous occasions. While I have not testified before the Georgia Public Service Commission ("Commission"), I have assisted the Commission's Staff and other Kennedy and Associates' experts in numerous proceedings before the Commission, including those involving Atlanta Gas Light Company ("AGL").[1]

[1] My qualifications and regulatory appearances are further detailed in PIA Staff Exhibit___(RAF-1).

Q. On whose behalf are you providing testimony?

A. I am providing testimony on behalf of the Commission's Public Interest Advocacy Staff ("PIA Staff").

Q. Please state the purpose of your testimony?

A. The purpose of my testimony is to provide a brief summary of the findings, conclusions, and recommendations resulting from the affiliate audit performed by Kennedy and Associates that are set forth in the 2024 Affiliate Audit Report ("Audit Report").[2] This affiliate audit is an update to the prior affiliate audit that PIA Staff and Kennedy and Associates performed in 2019.[3]

Q. Please summarize your testimony.

A. The Audit Report addresses the historic costs incurred by AGL through charges from its two affiliate centralized service providers, Southern Company Services, Inc. ("SCS") and AGL Services Company ("ASC"). The Audit Report also addresses the methodologies used by SCS and ASC to direct assign, direct charge, and allocate their costs to AGL.[4] The direct charges are for costs incurred by SCS and ASC directly on behalf of a single affiliate. The direct assignments are for costs of services provided to specific affiliates and charged to those affiliates based upon certain factors

[2] The 2024 Affiliate Audit Report is attached as PIA Staff Exhibit___(RAF-2). Lane Kollen and I participated in the 2024 Affiliate Audit of AGL and authored this Audit Report. Mr. Kollen is the President of Kennedy and Associates.

[3] The 2019 Affiliate Audit Report was filed as PIA Staff Exhibit___(WK-18) in Docket 42315.

[4] Southern Company owns SCS and Southern Company Gas as well as other first tier affiliates, including Georgia Power Company and other regulated electric utilities. Southern Company Gas owns ASC, as well as other first tier affiliates, including AGL and other regulated natural gas utilities.

such as time reporting and end use customers. The allocations are for the costs of services that are provided to multiple affiliates that are more general in nature and charged to those affiliates based upon various factors such as full time equivalent employees, end use customers, and a financial basis ratio and a composite ratio based upon other factors, including revenues, revenue margins, and operating expenses.

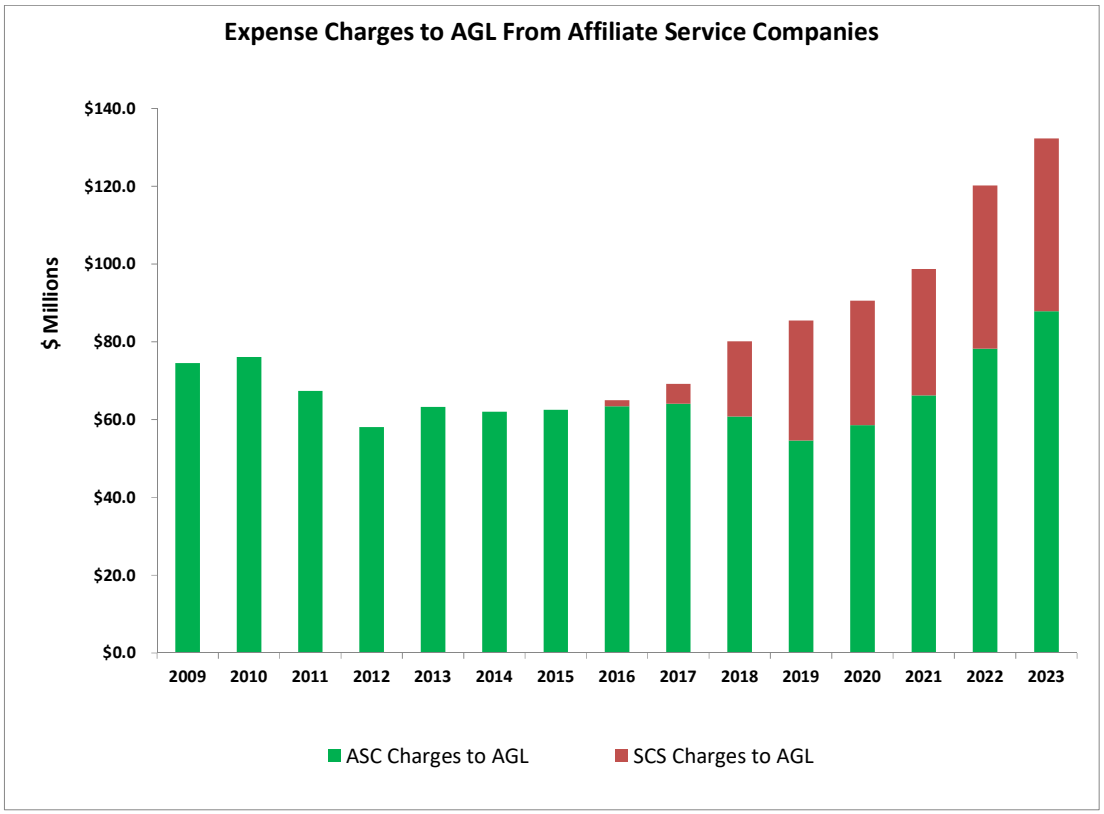
These affiliate charges to AGL from SCS and ASC are significant and affect the expense and capital costs included in the 2025-2034 Integrated Capacity and Delivery Plan ("i-CDP"), as well as the rates proposed by AGL for the System Reinforcement Rider ("SRR") in this proceeding that will be in effect for the next three years and the Georgia Rate Adjustment Mechanism ("GRAM") filings and rates that will be in effect and revised annually starting in January 2025. It is my understanding that PIA Staff proposes in this proceeding to discontinue the SRR and roll in the costs of those assets into future GRAM filings for recovery purposes.

The SCS and ASC affiliate charges to AGL include both expense charges, which affect AGL's operating income, and capital charges, which affect AGL's rate base. These charges, together with the increases in expenses and capital costs incurred directly by AGL, have resulted in significant increases in charges to end-use customers through the AGL component portion (AGL pass through charges), which is part of the total cost charged to the customers on the marketers' bills.

The SCS and ASC expense charges to AGL have continued to grow significantly since Southern Company acquired AGL Resources, Inc. in 2016.[5] However, the most rapid growth occurred in the last four years after the approval of

[5] Southern Company renamed AGL Resources, Inc. as Southern Company Gas.

new base rates in 2019 and the SRR rider in 2020. As shown in the following chart, these expense charges were $62.5 million in 2015, the year before the acquisition, and have grown to $132.3 million in 2023. This represents a compound annual growth rate of 9.8%, which is around three times more than the annual rate of inflation. This becomes a total increase of 111.7% over this eight-year period.



Capital charges also have also grown significantly in recent years. Plant assets assigned directly to AGL by ASC on a cumulative basis for all previous years amounted to $101.2 million as of the end of 2018.[6] Plant assets assigned directly to

[6] AGL was unable to provide the annual capital charges in each year prior to 2019 in response to PIA

AGL by ASC for only the four years 2019 through 2023 amounted to $45.3 million, almost half of the amount directly assigned to AGL in all previous years combined.

Based on the findings and conclusions detailed in the Kennedy and Associates Audit Report, I make the following recommendation.

- For ASC plant related CWIP allocated to AGL for ratemaking purposes, the Commission should require AGL to include AFUDC in operating income based on AGL's after-tax full rate of return, similar to the actual AFUDC operating income adjustments related to AGL-owned CWIP assets in the GRAM model. When this AFUDC is grossed-up as a component of and offset to the operating income deficiency, the resulting revenue requirement effect will offset the revenue requirement calculated on the ASC CWIP pushed down and included in AGL's rate base. This ensures that there is no AGL net revenue requirement on ASC CWIP that already earns AFUDC on ASC's accounting books.

Q. Why are these affiliate service company charges relevant in this proceeding?

A. The affiliate service company charges are relevant in this proceeding because the i-CDP filing provides a ten-year forecast of AGL's planned investment and expenses. The forecasts of AGL's planned investment and expenses include the costs charged to AGL from SCS and ASC. The i-CDP filing also provides the basis for the proposed SRR rates for the next three years as well as the framework for the annual changes in the GRAM rates. Again, it is my understanding that PIA Staff proposes

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Staff discovery.

in this proceeding to discontinue the SRR and roll in the costs of those assets into future GRAM filings for recovery purposes.

Q. Can you describe the growth in affiliate service company expense charges since the last affiliate audit performed in Docket No. 42315?

A. Yes. The expensed costs charged by SCS and ASC to AGL have increased significantly since the years applicable to the affiliate audit in Docket No. 42315. The table below provides expensed cost data from Staff's last audit report and consists of expense charges to AGL for the years 2016 through 2018 for expenses originating at both SCS and ASC. Expense charges to AGL increased from $65.006 million in 2016 to $80.130 million in 2018 as shown on the following table.

AGL Affiliate Expense Charges from Both Service Companies By Year
$

	2016	2017	2018
SCS Direct Charged	-	-	-
SCS Direct Assigned	16,882	476,362	5,083,924
SCS Allocated	1,555,570	5,050,176	19,300,934
Total SCS Costs	1,572,452	5,526,538	24,384,858
ASC Direct Charged	9,351,458	11,763,539	3,933,613
ASC Direct Assigned	12,453,607	12,042,992	11,854,019
ASC Allocated	41,628,037	39,828,767	39,957,785
Total ASC Costs	63,433,102	63,635,298	55,745,417
Total - All	65,005,555	69,161,835	80,130,275
O&M and A&G	58,811,876	61,907,309	72,641,569
Depreciation	4,137,059	5,073,707	5,652,636
Other Taxes	1,999,055	1,964,723	1,780,522
All Other	57,566	216,096	55,549
Total - All By Category	65,005,555	69,161,835	80,130,275

SCS and ASC expense charges to AGL increased even more significantly in the years 2019 through 2023, as shown in the following table. The annual expense

charges more than doubled from $65.006 million incurred in 2016 to $132.343 million incurred in 2023, an increase of nearly 104%.

AGL Affiliate Expense Charges from Both Service Companies By Year
$

	2019	2020	2021	2022	2023
SCS Direct Charged	-	-	-	239,356	435,711
SCS Direct Assigned	5,092,882	4,677,328	5,311,038	4,354,844	4,614,650
SCS Allocated	25,818,453	27,358,768	27,229,128	37,389,152	39,410,492
Total SCS Costs	30,911,335	32,036,096	32,540,166	41,983,352	44,460,853
ASC Direct Charged	1,378,392	2,288,561	2,860,362	5,916,253	9,257,995
ASC Direct Assigned	12,457,113	11,739,405	10,988,644	11,810,761	14,885,923
ASC Allocated	40,752,291	44,537,020	52,355,646	60,507,406	63,738,638
Total ASC Costs	54,587,796	58,564,986	66,204,653	78,234,419	87,882,556
Total - All	85,499,132	90,601,082	98,744,818	120,217,771	132,343,410
O&M and A&G	78,112,945	81,982,890	89,161,950	108,102,736	117,284,961
Depreciation	5,575,498	6,320,741	7,383,935	8,966,490	10,162,457
Other Taxes	1,736,431	2,113,568	2,185,765	3,121,658	4,832,611
All Other	74,258	183,883	13,168	26,887	63,381
Total - All By Category	85,499,132	90,601,082	98,744,818	120,217,771	132,343,410

It is my understanding that PIA Staff reserves the right to address the large increase in affiliate service company expense charges to AGL as part of the upcoming 2025 GRAM proceeding.

Q. What is the main reason for the large increase in service company expenses being charged to AGL?

A. The main reason for the increase in service company expenses charged to AGL is the large increase in overall service company expenses that are being charged out to each of the affiliates, including AGL, in the aggregate.[7]

Q. Did the Southern Company and Southern Company Gas divestitures of regulated electric and gas utilities and other unregulated entities result in an increase in expense charges to AGL?

A. Yes. Southern Company divested Gulf Power Company in 2019. Southern Company Gas divested Elizabethtown Gas Company, Elkton Gas Services, Florida City Gas, and other smaller entities in 2018 and Sequent Energy Management, LP in 2021. These divestitures reduced the number of utilities and other entities that were provided centralized services by the two service companies. Instead of a reduction in the SCS and ASC total costs due to serving fewer Southern Company affiliates, the two service companies continued to increase their total costs and their affiliate charges to AGL. The increases in total costs impacted the costs charged to AGL, but the fact that there were fewer affiliates compounded the increase in costs charged to AGL over this time period. These increased cost impacts on AGL continue today and will continue to be reflected in customer rates unless the SCS and ASC costs are reduced.

Q. Is the increase in the number of employees at SCS and ASC also a factor in the significant increases in affiliate expense charges to AGL?

[7] The increases in service company expense charges to all affiliates are addressed in greater detail in the Audit Report.

A. Yes. There have been significant increases in the affiliate service company full-time equivalent employees ("FTEs") even with the Southern Company and Southern Company Gas divestitures.[8] There has been an increase in SCS FTEs since the beginning of 2019, of 464, an increase of 12.3%. There has also been an increase in ASC FTEs since the beginning of 2019, of 159, an increase of 15.7%. This increase in FTEs is a major component of the overall increase in service company expense costs being charged to AGL.

Q. Can you describe the capital costs charged by the service companies to AGL.

A. Yes. Construction (capital) costs are incurred by SCS and ASC on behalf of AGL, and the other Southern Company Gas affiliates, and are either direct assigned to AGL or allocated to AGL for ratemaking purposes only. These plant asset costs are mostly technology based but also include other classes of general plant, such as facilities, furniture, and fixtures.[9] Assets are direct assigned, or pushed down, to specific ASC affiliates when they benefit those specific affiliates. These capital costs are recorded on the accounting books of AGL and/or the other applicable affiliates. I refer to these assigned plant asset costs on AGL's accounting books as ASC Embedded Plant to distinguish them from assigned expense costs. Other capital costs incurred by ASC are retained on the accounting books of ASC. When the asset serves as a benefit to all Southern Company Gas affiliates, the asset is recorded on the books of ASC and remains there. The manner in which the costs

[8] The increases in FTEs are addressed in greater detail in the Audit Report.
[9] Direct Testimony of Michael J. Morley at 7.

are recorded by ASC and AGL and the other Southern Company Gas affiliates defines the way each type of cost is included in AGL rate base and operating income for rate recovery purposes. AGL includes the ASC Embedded Plant costs for cost recovery purposes in rate base as CWIP and plant in service assets owned by AGL. AGL performs a pro forma adjustment related to the ASC-owned asset costs so that the allocated portions of those plant-related costs are also included as a component of AGL's rate base even though AGL neither owns nor finances the costs of those assets. AGL receives a full rate of return on these ASC-owned and allocated costs as if they are owned and financed by AGL. The ASC-owned and allocated costs are actually financed entirely through debt at a lower rate of return.

Q. Until recently, have the details regarding the ASC Embedded Plant costs been explicitly described as part of prior AGL ratemaking proceedings and mandatory affiliate transaction quarterly reporting.

A. No. Prior reporting in AGL ratemaking proceedings and in quarterly filed GRAM and affiliate reports did not provide information detailing these ASC Embedded Plant costs that had been assigned to AGL over the years. Previously, such affiliate reporting and discovery response reporting had been limited to expense charges from each of the service companies to AGL. In response to the Commission Staff's concerns about this lack of reporting, the Company has agreed to provide additional information in regards to the ASC Embedded Plant costs in its quarterly and annual reporting and in ratemaking proceedings. This is evident from the detailed

description of such costs that were provided in the Direct Testimony of Mr. Morley in this proceeding.[10]

Kennedy and Associates was able to confirm that ASC had direct assigned, or pushed down, ASC Embedded Plant costs to AGL for accounting and ratemaking purposes in prior years. In response to discovery, AGL quantified at least $101.237 million in such information technology hardware and software costs that had been pushed down from ASC and that was recorded on the accounting books of AGL as of the end of 2018.[11] AGL also provided a copy of a data response from the 2019 rate case, Docket No. 42315, which included a brief description of a portion of these costs and how they were reflected in the Company's revenue requirement determination.[12] From 2019 through 2023, an additional $45.299 million in ASC Embedded Plant costs has been added to AGL's plant in service due to the push down of such costs.[13]

Q. Briefly describe the changes in ASC's and AGL's accounting for the ASC Embedded Plant costs and changes in AGL's ratemaking affecting its GRAM and SRR ratemaking calculations.

A. ASC and AGL implemented a methodology and accounting change in August 2022 in conjunction with the implementation of new accounting procedures when Southern Company implemented the Enterprise Foundations ("Enterprise")

[10] Direct Testimony of Michael J. Morley at 6-11.

[11] AGL's response to STF-10-30, Attachment STF-10-30a.
[12] AGL's response to STF-10-11, including attachments.
[13] AGL's response to STF-10-30, Attachment STF-10-30e.

accounting software.[14] Prior to the methodology and accounting change, ASC retained all construction work in progress ("CWIP") incurred for its affiliates on its accounting books during the construction period, where ASC added allowance for funds used during construction ("AFUDC") calculated at its cost of debt to CWIP. ASC allocated the CWIP, including the AFUDC that was recorded on its accounting books, to AGL solely for ratemaking purposes during the construction period. AGL included this ASC CWIP in its rate base. Since the implementation of Enterprise, ASC now direct assigns the CWIP each month to AGL for book accounting purposes and no longer adds AFUDC on its accounting books. On the CWIP projects that ASC retains on its accounting books and does not direct assign to AGL for accounting purposes, ASC continues to add AFUDC to the CWIP balance and continues to allocate this CWIP to AGL solely for ratemaking purposes.

AGL included and continues to include its own directly incurred CWIP, the ASC capital charges direct assigned and recorded to CWIP on AGL's accounting books since the implementation of Enterprise, and the ASC capital charges allocated to AGL solely for ratemaking purposes in its rate base, including the SRR and GRAM rate base calculations, where the grossed-up return on those rate base investments is included in the revenue requirement. AGL continues to include AFUDC on its own directly incurred CWIP and now, since the accounting changes implemented contemporaneously with Enterprise, includes AFUDC on the ASC CWIP recorded on AGL's accounting in operating income, which, when grossed up

[14] This was a change at Southern Company Gas from PeopleSoft to Oracle.

for income taxes, offsets and reduces the effect of the grossed-up return included in the revenue requirement.

Prior to the change in accounting in August 2022, AGL did not include AFUDC in operating income on any of the CWIP that was recorded on ASC's accounting books, whether it would be later direct assigned to AGL or allocated to AGL for ratemaking purposes only.[15] This mistake had the effect of improperly increasing the GRAM and other revenue requirement determinations. Reflecting the AFUDC in operating income prevents the double recovery of the return on the CWIP assets in the buildup of CWIP balances and the recovery of the return on the overall CWIP balances for ratemaking purposes. The Company corrected this mistake in August 2022 with the change in accounting for the CWIP costs incurred by ASC, but direct assigned and recorded on AGL's accounting books each month during construction. However, the Company has not yet corrected this mistake for the CWIP that is retained on ASC's accounting books, but allocated to AGL solely for ratemaking purposes. The Company acknowledged that this mistake should be corrected in response to PIA Staff discovery. It also proposed a methodology to correct the remaining mistake starting with the 2025 GRAM filing and other future rate case filings that require the calculation of AGL's revenue requirement. In response to discovery, AGL made the following statement and proposal.[16]

> AGL currently does not include an operating income adjustment for ratemaking purposes for capitalized interest on ASC allocable shared assets. In future GRAM filings, rate case proceedings, and other filings that require

[15] AGL's response to STF-17-2. I have attached a copy of this response as PIA Staff Exhibit___(RAF-3).

[16] *Id.* See PIA Staff Exhibit___(RAF-3) for a copy of AGL's entire response to STF-17-2.

the calculation of AGL's revenue requirement, the Company will include a ratemaking adjustment to incorporate AGL's portion of the capitalized interest on ASC allocable shared assets.

Q. Does the Company's proposal fully correct the mistake for ratemaking purposes?

A. No. While ratemaking adjustment to incorporate the effects of the AFUDC on operating income is appropriate, the Company's proposed fix does not completely correct the issue. The return on the CWIP assets allocated to AGL for ratemaking purposes is computed based upon AGL's fully grossed-up rate of return applicable to 100% of the CWIP assets, not just the debt rate applicable to ASC as the response seems to indicate. The ratemaking adjustment to reflect the ASC AFUDC as additional operating income does not fully offset the return on the CWIP balances included in the revenue requirement.

Q. What is your recommendation in regards to future ratemaking adjustments to incorporate the effects of AFUDC in AGL's operating income?

A. I recommend that the Commission require AGL to include AFUDC in operating income based on AGL's after-tax full rate of return, similar to the actual AFUDC operating income adjustments related to AGL-owned CWIP assets in the GRAM model. The after tax AFUDC is a component of and offset to the operating income deficiency. When the operating income deficiency is grossed up to a revenue deficiency, the grossed up AFUDC component will offset and reduce the revenue requirement calculated on the ASC CWIP pushed down and included in AGL's rate

base. This is necessary to ensure that there is no AGL net revenue requirement on ASC CWIP that already earns AFUDC on ASC's accounting books.

Q. Does this complete your testimony?

A. Yes.

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