STATE OF GEORGIA
BEFORE THE GEORGIA PUBLIC SERVICE COMMISSION

IN RE:

ATLANTA GAS LIGHT	**)**	**DOCKET NO. 42315**
COMPANY'S PETITION FOR	**)**	
APPROVAL OF AJUSTMENT OF ITS	**)**	
RATES AND REVISED TARIFF	**)**	

FINAL ORDER

Record submitted: December 9, 2019 Date Decided: December 19, 2019

APPEARANCES

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JURISDICTION & APPLICABLE LAW

O.C.G.A. § 46-2-20(a) provides that the Georgia Public Service Commission ("Commission") has general supervisory authority over gas companies.

O.C.G.A. § 46-2-23 provides that the Commission has exclusive power to determine what are just and reasonable rates and charges to be made by any person, firm or corporation subject to its jurisdiction. The rates for firm distribution service and ancillary services rendered by an electing distribution company must be established in accordance with Article 5 of Title 46, O.C.G.A. §§ 46-4-151 *et seq.*

STATEMENT OF PROCEEDINGS

On February 8, 2019, the Commission issued a Procedural and Scheduling Order ("PSO") in this docket directing Atlanta Gas Light Company ("AGL" or "the Company") to file a general rate case on or before June 3, 2019. The Commission also ordered that the following issues would be addressed in this proceeding:

(a) For the test year period, what is AGL's total revenue requirement? As part of the consideration of total revenue requirement, what are AGL's just and reasonable operating expenses, depreciation expense, taxes, rate base, and cost of capital?

(b) Are AGL's current rates just and reasonable and do they recover more or less than the Company's revenue requirement?

(c) For the test year period, if AGL's current rates are not just and reasonable, how should AGL's rates be modified so that the new rates are just and reasonable and reflect the Company's revenue requirement?
(d) Are affiliate transaction costs fairly allocated?
(e) Are merger-related synergy savings properly reflected?
(f) Is the jurisdictionally allocated cost of service data fully adjusted separately to reflect estimated operations during the twelve (12) months following the proposed effective date of the rates? See O.C.G.A. § 46-2-26.4(b).
(g) Should AGL's Tariff be modified and updated?

In addition to participation by the Georgia Public Service Commission Public Interest Advocacy Staff ("PIAS") in this matter, interventions were filed by a number of interested parties. These interested parties included FireSide Natural Gas, LLC; Gas South, LLC ("Gas South"); Georgia Watch; IBEW Local 1997; International Paper Company; Resource Supply Management ("RSM"); SCANA Energy Marketing, Inc. ("SCANA"); Southstar Energy Services, LLC d/b/a Georgia Natural Gas ("Southstar" or "GNG"); Texican Industrial Energy Marketing, LLC; and Walton Energy, Inc. d/b/a Walton EMC Natural Gas.

On June 3, 2019, AGL filed its Petition for Approval of Adjustment of Rate and Revised Tariff and Application for Approval of an Alternative Form of Regulation along with the supporting pre-filed direct testimony and exhibits of eleven (11) witnesses and witness panels.

An Errata to the direct testimony of Bryan Batson; the direct testimony of the panel of Steve Murphy, Jennifer Rose, Donald Carter and Bradley J. Beckham; the direct testimony of Dr. James H. Vander Weide; the direct testimony of Michael Adams; the direct testimony of David A. Heintz; the direct testimony of Dane A. Watson; the direct testimony of the panel of Heath J. Brooks and Kenny R. Smith and Michael Morley were filed on August 30, 2019.

Hearings on Atlanta Gas Light's direct case occurred on September 10, 2019, at which time the Commission received the testimony of all the witnesses that had filed pre-file direct testimony and exhibits on behalf of Atlanta Gas Light.

On September 20, 2019, PIAS and interveners pre-filed direct testimony. Hearings on this second phase of the case began on October 23, 2019, during which the above-referenced witnesses testified, and concluded on October 24, 2019.

On November 6, 2019, Atlanta Gas Light filed fifteen (15) pre-filed expert filings. An Errata to the rebuttal testimony of witnesses Flaherty and Vander Weide were filed on November 15, 2019. On November 20-21, 2019, the Commission held a hearing on AGL's rebuttal witnesses. On December 9, 2019, parties in this matter filed proposed orders and briefs.

The Commission voted to adopt a Commissioner Motion resolving the issues in this case at its Special Administrative Session on December 19, 2019.

Pursuant to the Commissioner Motion, AGL submitted it Compliance Filing on January 1, 2020.

I. FINDINGS OF FACT AND CONCLUSIONS OF LAW

INTRODUCTION

After various adjustments, Atlanta Gas Light requested an increase in its revenue requirement of $90.323 million. Tr. 2214.

PIAS called for a $42.42 million reduction to the Company's revenue requirement from its current levels. Tr. 910. The differences between AGL's application and PIAS's recommendation are derived from PIAS's opposition to expenses associated with the Company's proposed programs and shared services expenses, PIAS's call to reduce recovery related to various Company capital assets, PIAS's call to reduce AGL's return on equity and to reduce the equity ratio in its structure, and PIAS's recommendation to disallow recovery of some proposed AGL costs.

The Company also asked that the Commission approve the continued use of the AGL Georgia Rate Adjustment Mechanism ("GRAM"). PIAS witnesses opposed the GRAM and asked that alternative ratemaking be denied or, in the alternative, that AGL be required to operate under a three-year accounting order under which a new rate case would be filed after three years. Tr. 976.

A. REVENUE REQUIREMENT

1.

The Commission finds as a matter of fact that the test period utilized in resolving this matter is the twelve-month period ending July 31, 2020.

2.

The Commission finds as a matter of fact that the appropriate total revenue increase for the Company is $65.3 Million as outlined in the Motion. The Company's requested increase shall be adjusted as follows. The Commission shall use the $90.323 million revenue deficiency based on the errata and other adjustments made in the rebuttal phase as the starting point and shall further modify that amount to include the following additional adjustments: an $11.7 million reduction to reflect the change in return on equity ("ROE") from 10.75% to 10.25%; a $2.9 million increase to reflect an increase in the capital structure equity percentage from 55% to 56% to satisfy proper Funds From Operation ("FFO") to debt ratio; a $5 million reduction in operation and maintenance ("O&M") for cross bore capitalization; a $4 million reduction by accepting PIAS's proposed depreciation rates; a $5 million reduction by accepting PIAS's proposal for a 5-year Excess Deferred Income Taxes ("EDIT") Amortization; an $8 million additional cut to revenue requirement; a $1 million increase for supplemental low-income assistance to be implemented by Commission Staff, AGL, and Georgia Watch; and a $5.1 million increase for additional funding for Customer Fulfillment.

3.

The Commission finds it necessary to advance a Customer Fulfillment program.

As such, the Company shall immediately begin and shall fully implement the following within 3 years of the date of this Order:

i. A two-day service standard as detailed in the Company filing;
ii. Expand the "Keep Me Informed" program to all regions of AGL's service territory;
iii. Increase the target for scheduling customer appointments within a 4- hour window from 40% to 80%;
iv. Improve average leak response time to 25 minutes or less;
v. Increase the availability of 4-hour appointments within the 4:00 PM to 8:00 PM time window by 25%; and
vi. Implement Saturday reconnection appointments available during the day.

4.

The Commission determines it is appropriate that AGL's revenue requirement be adjusted by an additional $8 million reduction as a part of the fair resolution to the full range of issues presented in this docket.

5.

The Commission determines it is appropriate that AGL's revenue requirement provide $1.0 million Supplemental low-income assistance program to be implemented by Commission Staff, AGL, and Georgia Watch.

1. Atlanta Gas Light Rate Base

a. Utility Plant

The Company utilized December 31, 2018 actual utility plant balances, including construction work in process ("CWIP") and the related CWIP capitalized payroll to which projected capital expenditures were added and projected retirements were subtracted. The projected capital expenditures were based on the Company's 2019 budgeted capital expenditures and forecasted capital expenditures for the seven months ending July 31, 2020. Additionally, the Company included in the utility plant a portion of average rate base plant amounts allocated from Atlanta Gas Light Services Company ("AGSC"). Tr. 832.

PIAS recommended that the Commission reduce the test year rate base to reflect the lower actual capital expenditures in the first six months of 2019. They urged the Commission to consider this fact in conjunction with the Company's request to increase capital expenditures starting in January 2020 to expand existing programs and implement new programs and initiatives. The

Company actually may not spend those amounts even if the forecast capital additions are included in rate base for those first seven months of 2020 for ratemaking purposes.

The Company included an allocation of AGSC net assets in rate base. The Company's witness testified that it has included allocated AGSC plant amounts (including plant in service, CWIP, accumulated depreciation, and accumulated deferred income taxes) in its rate base because these are components that comprise the total plant used, useful, and necessary to support AGL's operations, and its ability to provide utility service to its customers. Tr. 832-834; Tr. 2224. PIAS did not disagree that such assets are required for AGL to provide utility service to its customers.

PIAS witnesses Mr. Wackerly and Mr. Kollen recommended the removal of the allocated portion AGSC rate base because AGL neither own nor directly finances it. Tr. 931. Alternatively, Mr. Wackerly and Mr. Kollen recommended that the Commission include an allocated portion of AGSC's interest expense in the Company's revenue requirement set at $0. *Id.*

PIAS also recommended that if the Commission accepts the Company's proposal to include AGSC net plant assets that the Commission should also require an allocation of AGSC liabilities, including reserves for injuries and damages and workers compensation and AGSC's net pension and OPEB liabilities. Company witness Mr. Morley stated that there were several errors in PIAS' calculation of their adjustment and argued that the amounts that would be allocated to AGL if the calculations were correct would be less than $1 million. Specifically, PIAS did not include an adjustment for deferred income taxes or include other assets on AGSC's books that would otherwise be included in AGL's rate base. Mr. Morley also argued that the impacts of these items are reflected in AGL's lead lag component of its cash working capital requirement.

The Commission finds that the updated utility plant in AGL's rate base is reasonable. The Commission further finds that any allocation of AGSC's reserves for injuries and damages and the pension and OPEB liabilities are incorporated in AGL's cash working capital and a separate allocation of such items is not warranted in this proceeding.

b. Capitalization of Technology Project Costs

AGL requested that the Commission allow it to apply a concept of capitalization to all technology project costs. Tr. 135-136.

PIAS recommended that the Commission approve the Company's request, but defined and limited technology costs subject to this change in accounting to those costs incurred for the selection and implementation of "technology projects" that have future value for a defined multi-year period, but specifically exclude those costs that are ongoing and recurring costs and that have no future value for a defined multi-year period. Tr. 926. Certain costs that otherwise would have been expensed now would be capitalized to CWIP/plant in service. These costs have future value and are more appropriately deferred to regulatory assets or capitalized to plant in service, included in rate base, and then amortized or depreciated in future years when they provide service. This approach, they argued, provides a better matching of the costs to the future periods in which the assets provide service. *Id.*

PIAS also recommended that the Commission reflect the reduction in expense in the revenue requirement, subject to the recommendation to define technology costs eligible for the change in accounting. *Id*.

The Company updated its revenue requirement with its rebuttal filing to incorporate PIAS's adjustment for the Company's proposal to capitalize certain technology costs. Tr. 2218. The revenue requirement differs from PIAS's revenue requirement impact because the Company also incorporated the impact of these adjustments on cash working capital (lead/lag) and interest synchronization. *Id*.

The Commission finds that the Company's capitalization of certain technology costs is reasonable and is approved.

c. Accumulated Deferred Income Tax ("ADIT")

To measure Accumulated Deferred Income Tax, the Company utilized actual December 31, 2018 ADIT balances and adjusted these balances for book and income tax timing differences primarily related to depreciation expense and activity of certain balance sheet accounts from January 2019 through July 2020. The Company utilized an effective income tax rate of 25.47% to determine the income tax effect of these book and income tax timing differences. Tr. 139.

PIAS recommended adjustments to the amount. However, the Commission accepts the Company's ADIT balance as filed.

d. Deferred Rebate Costs

The Company's proposed conversion rebate and multi-family rebate programs seek to expand gas service to rural areas and multi-family residential developments.

PIAS witnesses Kollen and Wackerly objected to the inclusion of the costs of these programs on the basis that the Company has experienced net customer growth and that further customer growth is not required. Tr. 937.

Company witness Garofolo stated that while the Company has experienced net customer growth, this growth is limited to certain geographic and demographic markets and that many areas remain stagnant or are suffering negative customer growth. Tr. 2191. Mr. Garofolo further testified that in the case of large multi-family developments, many developers elect not to install natural gas equipment to reduce upfront construction costs despite the potential long-term economic benefits of natural gas service to tenants.

The Commission finds that the Company has provided adequate evidence to support the claim that there is a need for these programs.

e. Prepaid Pension and OPEB Asset

The Company projects its pension and Other Post Employment Benefits ("OPEB") to be $26.5 million for the twelve months ended July 31, 2020. The asset/liability for pensions and other post-retirement benefits is based on estimates provided by the Company's actuary for each of the components of the Company's pension plan and its OPEB. The test period thirteen-month average was then calculated to determine the appropriate rate base amount. Tr. 837. The Company updated AGL's and AGSC's pension and OPEB expenses to include new known and measurable data in rebuttal, primarily a change in the discount rate, increasing the expense amount by approximately $745,000. Tr. 2218.

PIAS sought a reduction to the Company's prepaid pension and OPEB asset, which would reduce the Company's revenue requirement by $0.235 million. Tr. 927-929. PIAS asserted that "the prepaid pension and OPEB assets should be reduced to exclude the capitalized components and include only the expense components of these costs." Tr. 928.

The Commission finds the Company's proposed pension and OPEB assets and related test year expenses, including the Company's proposed increase of $745,000, to be reasonable and appropriate.

f. Rate Base Determination

Combining all of the accepted adjustments to the Company's rate base, the Commission finds that AGL's projected rate base on July 31, 2020, shall be $3,194,072,320. Because the Commission disagrees with certain PIAS proposed reductions to rate base, it also rejects the directly related reduction in ad valorem tax expenses associated with rate base that PIAS proposed. Tr. 953.

2. Cost of Capital

a. Capital Structure

AGL's proposed ratemaking capital structure in this proceeding contained 45% combined short-term and long-term debt, and 55% common equity. Tr. 428. In this proceeding, the Company requested that its capital structure remain unchanged, which AGL testified will support its credit rating, help ensure that it will be able to access capital, be consistent with the level of equity recently established for comparable utilities in other jurisdictions and reasonably reflect the business and regulatory risks that AGL faces. Tr. 426.

PIAS proposed a capital structure of 44.20% long-term debt, 4.8% short-term debt and 51% common equity, which PIAS witness Gorman testified would support the Company's current bond rating at a lower cost to ratepayers than the Company's proposal. Tr. 1169.

However, in an abundance of caution as to potential negative impacts on the Company's bond ratings and concerns regarding maintaining the Company's financial integrity, the Commission finds the application of a 56% equity capital structure is more appropriate. The

Commission further finds that the capital structure shall be 39.21% long term debt and 4.79% short term debt.

b. Cost of Debt

The cost of debt as testified to by AGL witness Morley on rebuttal included cost rates of 2.51% for short-term debt, and 4.74% for long-term debt. Tr. 2264; Tr. 2307; AGL Exhibit No. 67 (MJM-8).

PIAS witness Gorman disagreed with the initial rates for both long-term and short-term debt as originally filed by the Company. The Company accepted the short-term debt rate of 2.51% proposed by PIAS as a reasonable estimate of the test year annual costs although AGL did not agree with the methodology utilized by PIAS in its calculation of the rate. Tr. 2263. Disagreement remains regarding the cost of long-term debt. Mr. Gorman advocates "a revised cost of long-term debt that reflects the current capital market cost for a new bond issued at an A- bond rating." Tr. 1197. Mr. Gorman then applied the then-current marginal interest rate in combination with a 50-basis point issuance cost to derive the 4.62% long-term cost of debt that he advocated. *Id*.

The Commission finds that AGL provided adequate support for its test-year cost of debt at the time of rebuttal testimony, and therefore finds that the short-term debt cost and long-term debt cost presented by the Company to be reasonable and appropriate.

c. Cost of Equity

AGL and PIAS each presented experts who testified as to the appropriate ROE given the current market conditions and AGL's current financial situation. They used varying mathematical methodologies to estimate the appropriate ROE for AGL, ranging from the constant growth discounted cash flow ("DCF") methodology to the multi-stage DCF methodology to the capital asset pricing model ("CAPM") to the comparable earnings model to the risk premium approach.

AGL witness Dr. Vander Weide recommended the continued use of a 10.75% ROE for setting AGL's rates. Tr. 424-425. PIAS witness Mr. Gorman called for a reduction of AGL's ROE from its current 10.75% level to 9.0%.

Based on the evidence in the record the Commission finds that 10.25% ROE is reasonable and appropriate in this proceeding.

The Commission concludes that applying the approved capital structure, approved ROE, and approved costs of debt of 2.51% and 4.74% for long-term and short-term debt respectively, AGL's weighted average cost of capital is approved as 7.718%.

3. Test Year Revenues

a. Actual Jurisdictional Revenues

AGL had actual jurisdictional revenues for the historic 12-month period ending December 31, 2018 of $657,375,113. Tr. 723. No party provided evidence in opposition to this amount. Accordingly, the Commission finds that AGL's actual historic test year jurisdictional revenues of $657,375,113to be reasonable.

b. Forward-Looking Test Year Forecast

AGL's forecasted jurisdictional revenues of $687,216,428 using a methodology previously approved by this Commission for the forward-looking test year ending July 31, 2020. Tr. 724-725; Tr. 768-769. AGL's forecast includes miscellaneous revenues of $50,870,581. Tr. 725; Tr. 769. AGL assumed a 1% net growth for the residential class with 16,508 additional billing units. Tr. 728. AGL assumed a 0.6% net increase in the commercial class with 525 additional commercial billing units. Tr. 729. No party provided evidence disputing AGL's proposed forecasted revenues. Therefore, the Commission finds that AGL's jurisdictional revenues for the forward-looking test year ending July 31, 2020 of $687,216,428.

4. Operations & Maintenance Expenses and Taxes

a. Operations and Maintenance Expense Before Adjustments

The Company proposed an increase of approximately $32 million in operations & maintenance ("O&M") expenses, excluding increases in shared service costs and inflationary increases versus the O&M included in the 2017 GRAM computations. Tr. 2216. The Company stated that the majority of this increase relates to the recommended safety programs that the Company included with its application in this case. Tr. 818. AGL also proposed increases in training safety and awareness, customer service and customer growth and retention programs. In addition, the Company proposed to increase the number of full time employees ("FTEs") in order to modernize its ability to communicate with its customers and to improve its leak response time.

PIAS opposed Commission approval of these programs and the corresponding increases in O&M. PIAS also opposed Commission approval of any new FTEs to improve customer service and leak response. PIAS does not address the merits of the proposals but instead testified that Commission approval is not necessary and/or there is no "business case" to support them.

IBEW Local 1997 requested that the Commission require any approved increase of AGL's rates and revised tariff result in an actual increase in the total number of FTEs employed by AGL, and that any and all additional FTEs added be hired as AGL employees, not contractors.

The Commission approves the Company's recovery of its increased O&M expenses, including, but not limited to, those related to the safety programs. The Commission denies IBEW's

request. Issues such as this are more appropriately addressed by the Company in the normal course of business.

b. Shared Services

AGL has relied upon its shared services arrangement with AGSC since 2008. AGSC is a subsidiary of Southern Company Gas ("GAS") and provides various common services across the GAS system companies and charges the appropriate system company for these services in accordance with the applicable services agreement. Tr. 121. Similarly, AGL has relied upon a shared services arrangement between AGSC and Southern Company Services ("SCS") since 2016. AGL Exhibit No. 3 (MK-2). Certain corporate-level services are provided by SCS for the entire Southern Company system, as well as certain functions transferred from AGSC to SCS. Tr. 123.

AGL witness Kim stated that AGSC and SCS serve different purposes and provide different services to GAS' subsidiaries, including AGL. SCS generally provides services that are common throughout Southern Company's operating companies, including GAS. The Company stated that AGSC provides services that are not provided by SCS or that are specific to GAS and its subsidiaries. As a result, it is necessary to have a separate service company within GAS, and AGSC already has an established methodology to charge for its services. Tr. 124-125.

Witness Kim testified that AGL's shared services costs incurred for services provided to it by AGSC are reasonable and are lower than costs AGL would incur if it arranged for alternative provision of those same services. Tr. 120-121. He testified that providing services in a centralized manner through a shared services company creates a cost structure for each of the system companies that is lower than if each system company were to provide these individual services on their own. Tr. 121-122.

PIAS witnesses Kollen and Wackerly recommended that the Commission disallow $12.666 million of AGL's shared services expenses as "net losses" from the AGL/Southern Company merger and contended that disallowing this amount is consistent with "the specific terms and conditions set forth in the settlement agreement adopted by the Commission in the merger docket." Tr. 964. Mr. Kollen and Mr. Wackerly attribute the increase in the allocated shared services costs to "the imposition of [Southern Company Services or "SCS"] affiliate expenses in addition to the [AGSC] affiliate expenses, without sufficient offsetting synergy merger and/or efficiency savings." Tr. 960.

Mr. Kollen and Mr. Wackerly also recommended the Commission make changes to certain AGSC allocation methodologies for ratemaking purposes. They asserted that these changes are necessary to minimize allocations of service company costs to AGL and its customers and testified that the Commission change the AGSC Composite Ratio used to allocate SCS charges so that it includes a revenue factor in lieu of the present AGSC Composite Ratio, which includes an Operating Margin factor. PIAS advocated that the Commission adopt a change to the AGSC Composite Ratio so that the Operating Expenses factor excludes all allocated charges from AGSC. Lastly, Mr. Kollen and Mr. Wackerly requested the Commission modify the Number of End Use

Customers ratio used in the allocations in order to reduce or eliminate charges to AGL for gas supply and capacity activities, marketing activities, customer service activities. Tr. 966.

The Commission is not compelled by PIAS's recommendation at this time and finds that AGL's shared service expenses are reasonable and should be included in rates in this proceeding.

c. Variable Compensation

PIAS proposed to exclude $2.591 million in long-term incentive ("LTI") plan compensation expenses on the grounds that the expenses do not benefit ratepayers and should be allocated to shareholders. This proposal would eliminate 100% of the LTI program from the Company's total compensation plan. In addition, PIAS proposed to exclude $5.51 million in Performance Pay Plan ("PPP") expenses on the grounds that the expenses are tied to financial performance and should be allocated to shareholders. Tr. 947-949. PIAS also recommended a $0.393 million reduction in the Company's Supplemental Executive Retirement Plan ("SERP") expense. Tr. 951-952.

Company witness Garvie testified that the Company uses a total compensation approach which includes an incentive compensation program based on both operational and financial goals. Tr. 1545. Mr. Garvie further testified that goals based on a balance of operational and financial goals provide reduced operational and maintenance expenses and result in greater efficiencies in operations. Tr. 1550-1552. Mr. Garvie also testified that the Company's LTI and SERP expenses are necessary for the Company to retain experienced and qualified employees to lead and manage the organization. Tr. 1553-1556; Tr. 1565-1566. Additionally, as Company witness Deason testified, PIAS is not taking issue with the *amount* of total compensation paid, rather PIAS is taking issue with the *manner* by which compensation is paid. Tr. 1663-1664.

Based on the foregoing, the Commission finds that the Company's inclusion of the LTI, PPP and SERP expenses as part of its overall compensation plan are appropriate.

d. Depreciation

AGL provided an updated Depreciation Study that analyzes the life and net salvage percentages for Production, Storage, Transmission, Distribution, General Plant Depreciated and General Plant Amortized assets for the period ending December 31, 2018. Tr. 663; AGL Exhibit No. 16 (DAW-1 Rev.).

PIAS disputed AGL's Depreciation Study related to Distribution Accounts 380, 382, 383, and 384 and proposed longer lives than proposed in the AGL Depreciation Study. Tr. 1145-1149. Specifically, PIAS testified that the AGL study's linking of the service lives for these accounts rendered the recommended life inconsistent with AGL's experience data. Tr. 1148.

AGL responded that it established the same service life for the assets in these four accounts based on conversations with subject matter experts in the field. Tr. 1833-1834. AGL argued that the resulting combined service life is dominated by Account 380 Services, which includes plant in service of more than $1 billion, contrasted with plant assets of a little more than $200 million for

the other three accounts combined, or around 19%. Tr. 1834. AGL witness Watson testified that because the linked accounts are dominated by Account 380 Services, his proposed 50 R2 curve establish the appropriate service lives.

The Commission rejects AGL's proposed depreciation rates and finds that the Staff's recommended methodology and depreciation rates are appropriate.

e. Rate Case Expenses

AGL requested recovery of all rate case expenses incurred as a result of this Docket.

PIAS witnesses Mr. Wackerly and Mr. Kollen recommended that the costs associated with the Company's rate comparison study and shared services study be excluded. Tr. 938-940. PIAS seek disallowance of costs incurred by the Company for the testimony and Affiliate Cost Study supported by Company Witness Mr. Flaherty and the rate comparison study supported by Company witness Mr. Heintz. Mr. Wackerly and Mr. Kollen contended that the "Company's customers should not be required to pay for the costs to justify increased costs… ." Tr. 938-939.

Company witness Morley testified that these costs were prudently incurred to support the proposals and requests in this rate case. Mr. Morley further noted that the Company included an affiliate cost study in the 2010 rate case (analogous to the one presented by Mr. Flaherty), and PIAS made no proposal to disallow those costs. Tr. 2239. The Company considered the rate study appropriate and relevant to provide the Commission with an analysis and comparison of how AGL's rates remain competitive even after the Company's proposed rate increase. Tr. 2239-2240.

PIAS has recommended the Commission to not charge the recovery of rate case expenses such that the Company would finance the costs of amortizing the rate case expenses over five years without being compensated for its carrying costs. Tr. 940. Mr. Kollen and Mr. Wackerly justified this proposed change on the basis that rate cases "do not benefit AGL's customers." Tr. 939.

The Commission concludes that the rate case expenditures should be recoverable in the manner proposed by the Company.

f. Amortization of Rate Case Expenses & Recovery of Deferred Rate Case Expenses

PIAS has asked the Commission to change the recovery of rate case expenses such that the Company would finance the costs of amortizing the rate case expenses over five years without being compensated for its carrying costs. Tr. 940. Mr. Kollen and Mr. Wackerly justified this proposed change on the basis that rate cases "do not benefit AGL's customers." Tr. 939.

The Company considers these costs – both the return of and return on – as a required operating cost of the business and should therefore be allowed full recovery of both components. Tr. 2231-2232.

The Commission finds that AGL should be allowed recovery of all rate case costs incurred, including return on investment, with an amortization period of five years.

g. Amortization of Unprotected EDIT Regulatory Liability

(i) AGSC Unprotected EDIT Regulatory Liability

PIAS witnesses proposed including an amortization for AGSC Excess Deferred Income Tax ("EDIT") in the amount of $.406 million. Tr. 956-958. Mr. Wackerly and Mr. Kollen contended that AGL is entitled to the amortization of the EDIT principal because it is charged for the depreciation expense incurred by AGSC. Tr. 957.

Company witness Mr. Morley rebutted the notion that this new amortization should be created. Mr. Morley's primary issue with PIAS's adjustment is that AGSC does not recover income taxes from its affiliates, including AGL. Therefore, there are no income taxes to refund or, in the case of AGSC, to charge back to customers due to the recent changes in the federal and state income tax rates. In other words, there is no EDIT on AGSC's books and records, nor should there be. Tr. 2235.

The Commission finds the Company's argument persuasive and approves the Unprotected EDIT in conformity with the Company's request.

(ii) AGL Unprotected EDIT Regulatory Liability

PIAS witnesses Mr. Wackerly and Mr. Kollen recommended that the Company cease using the Average Rate Assumption Method ("ARAM") for the remaining AGL unprotected EDIT regulatory liability. Instead, Mr. Wackerly and Mr. Kollen ask the Commission to require the Company to use an amortization period for the AGL Unprotected EDIT Regulatory Liability be set at five years. They contended that there is no requirement for the amortization period for unprotected EDIT amounts to be set using ARAM. The rate base impact of the accelerated amortization of AGL's unprotected EDIT balances results in a $0.057 increase in revenue requirement Tr. 954-956.

Company witness Mr. Morley agreed with PIAS that there is no requirement for the amortization period for unprotected EDIT amounts to be set using ARAM. However, Mr. Morley recommended the continued amortization of these items using ARAM.

The Commission agrees with PIAS's recommendation that AGL cease using the Average Rate Assumption Method ("ARAM") for the remaining AGL unprotected EDIT regulatory liability. And that Company use an amortization period for the AGL Unprotected EDIT Regulatory Liability be set at five years.

5. Safety and Customer Service Programs

The Company seeks approval and recovery of fifteen (15) new or expanded programs related to transmission system integrity, distribution system integrity, and customer service. Regarding the transmission-related programs, the Company is complying with expanded Transmission Integrity Management Program ("TIMP") requirements issued by the Pipeline and Hazardous Materials Safety Administration ("PHMSA") on October 1, 2019. Tr. 1688; AGL Exhibit No. 52 (RF-1). Regarding distribution-related programs, the Company similarly seeks to continue its compliance with PHMSA's Distribution Integrity Management Program ("DIMP") requirements.

Company witnesses testified that the Integrity Management process requires natural gas companies to constantly evaluate their systems and prioritize issues that could compromise safety or reliability. Tr. 316. The fifteen (15) safety programs proposed in this filing represent those priorities. Tr. 316-319. If the Company identifies a risk in conjunction with its DIMP or TIMP, it is required to prioritize and mitigate those risks. Tr. 1685. AGL has not been before the Commission in a full rate case since the imposition of new TIMP and DIMP regulations (Tr. 1750-1751), so this is the first opportunity for the Commission to weigh in on the Company's efforts to comply with these new regulations. This Commission's aggressive focus on safety has allowed AGL to become a leader in the field.

PIAS countered that the scope and costs of the proposed expanded and new programs and initiatives are not the result of new federal or state mandates, but rather reflect an acceleration of the responses to existing mandates, go beyond existing mandates, or address other issues that are not justified by savings in other investment or operating expenses or specific improvements in reliability or safety metrics. PIAS argued that the Commission's role is to set just and reasonable rates, not manage the Company, and it is the Company's role to manage its system to meet operational and safety requirements within the revenues that are authorized. Additionally, PIAS testified that if the Commission approves specific program and initiatives, as well as the related capital expenditures in the test year, the Company has no obligation to actually spend those funds on the projects it reflected in its rate case filing. Arguing further that after the rate case is concluded, the Company actually will incur capital expenditures as it sees fit regardless of the programs and initiatives and the related capital expenditures presented during the rate case and reflected in the requested increase. PIAS noted that its recommendations should be applicable to all fifteen (15) of the Safety and Customer Service Programs proposed by the Company, (Wackerly–Kollen testimony pp. 11–16).

a. Transmission Related Programs

i. Maximum Allowable Operating Pressure ("MAOP")

Maximum Allowable Operating Pressure is the highest pressure at which a Company is allowed to operate a transmission asset. Tr. 319.

The Commission notes that oversight of safety programs differs MAOP depending on factors such as the material used, the location, the size, and other relevant characteristics. Following the 2010 gas transmission pipeline explosion in San Bruno, California, the United States Congress mandated that PHMSA establish regulations requiring pipeline operators such as AGL to reconfirm the MAOP on each of their existing transmission pipelines that operate in the suburban and urban areas of the country. Tr. 320. On October 1, 2019, PHMSA issued its new regulations, including new requirements related to reconfirming MAOP.

The new regulations require AGL to have "traceable, verifiable and complete" records above and beyond historic requirements in order to continue operating transmission pipelines at current MAOPs. Tr. 1689. The Company testified that this effort requires multiple activities such as extensive records research, physical inspection of pipelines, re-testing of pipelines and/or replacement of pipelines. Tr. 1689. The new regulation allows for a fifteen-year term to complete these activities. *Id.* Although AGL initiated its MAOP reconfirmation program five years ago and has already invested $31.6 million, the Company estimates it will need to spend approximately $700 million over the next fifteen (15) years to reach compliance. Tr. 1689-1690. This includes $38.6 million in its 2019 capital budget and $52.1 million in its 2020 capital budget. Tr. 1690. The record shows that the costs for compliance with the new requirement will increase if AGL waits because, for instance, (1) recovery of the $700 million total investment necessary for compliance will be spread over fewer years, and (2) all transmission pipelines will be competing for the same third-party resources to reach compliance, which could increase costs down the road. (Tr. 1689-1691; Tr. 1950.

PIAS argued that, although they may enhance safety and reliability, the Company cannot or would not provide any meaningful assessment of any such improvements. Significantly, with the exception of potential new maximum allowable operating pressure ("MAOP") rulemaking requirement, none of the issues addressed by the Company's expanded and new programs are new.

PIAS also asserted that the Company has timed most of these additional expenditures to commence only after an order has been issued in this rate case proceeding. If the proposed expansions in existing programs and new programs and initiatives were required by law or otherwise necessary to address significant safety and reliability concerns, then the Company should have and would have increased its capital expenditures to address these issues in prior years, including the last five months of 2019 included in the test year, but it did not do so.

The record indicates that expansion of the Reconfirming MAOP program may deliver substantial benefits to system safety as well as create jobs for Georgians.

The Commission is not persuaded by PIAS' concern. The Commission has repeatedly considered "safety and reliability" as a top priority. Therefore, the Commission approves AGL's expansion of its MAOP program at the funding level requested.

(ii) Modifying Pipelines for Smart Pigs

Pursuant to PHMSA regulations, AGL must test all of its pipelines within High Consequence Areas, which are those locations where a release could have the most significant adverse consequences. Tr. 324. In general, this conforms to the urban and suburban areas of AGL's service territory. *Id*. There are three methods for assessment allowed by the Federal Code (49 C.F.R. § 192.921): (a) internal inspection tools, also known as "smart pigs"; (b) pressure testing, and (c) direct assessment. Tr. 324. Although AGL currently uses all three types of assessment depending on the characteristics of the pipeline being tested (Tr. 328), smart pigs provide much more data for analysis, and therefore represents the best option to identify and mitigate risk. Tr. 324; Tr. 1692. Specifically, because smart pigs are inserted into the pipe and pushed through using the flow of natural gas during normal operations, they can collect data, including defect sizes, severity, and location that may be undetectable by the other methods. Tr. 325. The National Transportation Safety Board and PHMSA have expressed a preference for using smart pigs for assessment. Tr. 325. Currently, AGL uses smart pigs for about 40% of the miles of pipeline within the High Consequence Areas that must be tested per PHMSA requirements, 58% for direct assessment, and 2% for pressure testing. Tr. 324.

AGL's requested program would modify transmission pipelines to allow for internal inspection tools at locations where currently the pipelines are not "piggable." Tr. 329; Tr. 1692. Issues preventing a pipeline from being "piggable" include certain in-line fittings, sharp bends in the pipe, valves with openings smaller than the pipe diameter, changing pipe diameter, lack of launchers and receivers for the smart pigs to enter and exit the pipeline, and insufficient pressure/flow to move the smart pig through the pipeline. Tr. 328. The requested program would begin to address these issues to make more of the Company's transmission system "piggable," and therefore allow for more thorough and complete assessment information. AGL has already invested approximately $106 million in this effort and modified about 394 miles of existing transmission pipeline to accommodate smart pigs. Tr. 329. In this case, AGL asked the Commission to approve additional investment of $16.9 million for its 2019 capital budget and $12.9 million for its 2020 capital budget. Tr. 329-330.

The record shows that additional funding to modify more transmission pipeline to accommodate in-line inspection, or smart pigs, will enhance system safety. The Commission approves AGL's continued investment in modification of existing transmission pipeline to accommodate smart pigs at the requested level.

(iii) Preventing Alternating Current ("A/C") Corrosion

Natural gas pipelines and high-voltage power lines historically have often inhabited the same rights of way. One unintended consequence of this arrangement is that nearby high-voltage power lines may generate an electrical field that creates a current on the pipeline facilities. Tr. 330. The A/C field affects both buried and surface natural gas facilities. *Id*. Induced A/C current can

significantly accelerate corrosion of pipeline facilities and cause a shock hazard for AGL personnel working on the pipe or the general public that come into contact with an energized, aboveground facility. Tr. 331. Pursuant to federal regulations (49 C.F.R. § 192.473(a)), AGL must mitigate the risk caused by induced A/C. To do so, recent standards, such as NACE SP-0177 provide operators with guidance on how to best mitigate these effects. Tr. 331. These mitigation systems are often very complex due to the amount of coordination with other utilities and necessary construction within common utility corridors. Tr. 331. AGL requests that the Commission approve $8.3 million for the 2019 capital budget and $8.7 million for the 2020 capital budget to mitigate both the shock hazard and the accelerated risk of corrosion caused by induced A/C. Tr. 332.

The Commission approves AGL's request to address this safety concern at the requested level.

(iv) Installing Remote Control Valves

Another of the new regulations issued by PHMSA on October 1, 2019 requires transmission pipelines to install remote-controlled valves on all newly constructed or replaced transmission pipelines where it is economically, technically, and operationally feasible. Tr. 332. Remote controlled valves reduce the potentially serious consequences of large-volume uncontrolled releases of natural gas by reducing the necessary response times to close the valves. Tr. 1694. Currently, most of AGL's transmission valves do not have remote control and require personnel to physically travel to the valve location and manually turn off the valve. Tr. 333. Many valve locations are in remote areas, which could require substantial time before the valve could be closed. Tr. 333. Addressing this issue could provide significant safety benefits to the citizens of Georgia that live in proximity to these pipelines. Tr. 334.

AGL requests investment of $2 million per year to replace or retrofit these valves, which will address 4-6 valves per year. Tr. 1695. The Commission approves AGL's request to address this safety concern at the requested level.

b. Distribution Related Programs

(i) Replacing Higher Risk Pipelines

As part of the Company's DIMP program required by PHMSA (49 C.F.R. Part 192, Subpart P), AGL must identify threats to its distribution system, determine the risk of each of the identified threats, and take action to mitigate the identified risk. Tr. 335. AGL quantifies the identified risks and ranks them through a process combining analytical data and interviews with subject matter experts. *Id*. Higher risk pipelines are prioritized for replacement or some other type of accelerated, remedial action. *Id*.

The high-risk distribution pipelines identified by AGL generally are either older steel pipelines (pre-1960s) that often have less effective coatings and lack cathodic protection, or mid-vintage plastic pipelines (1974-1983) that often experience an increased leak rate. *Id*. Notably, all of this pipe complied with regulations existing at the time, (Tr. 336) but AGL still must remedy the situation pursuant to PHMSA regulations.

As of the end of calendar year 2018, AGL had 1,654 miles of known or assumed to be pre-1960 coated steel mains and 2,593 miles of known or assumed to be mid-vintage plastic mains in the system. *Id*. AGL has prioritized replacement according to the leakage history of the identified higher risk pipelines and asks that the Commission approve in this case a capital budget of $25 million for 2019 and $31.8 million for 2020 to continue its replacement efforts. Tr. 337.

The Commission approves AGL's request to address this safety concern at the requested level.

(ii) Remediating POSI-HOLD Couplings

Gas utilities across the United States have commonly used, and regulators have consistently approved, POSI-HOLD couplings for the last 25 years, including at AGL. Tr. 337. These fittings use compression to activate gripper rings to connect two pieces of steel pipe as a substitute for welding. *Id.* Over the last seventeen years, AGL has noted coupling failures on its system caused by POSI-HOLD, some of which have led to unplanned outages for Georgians on the AGL system. Tr. 338. In October 2017, AGL submitted a five-year plan to Commission Pipeline Safety Staff that would remove or remediate the POSI-HOLD couplings near end caps that have contributed to unplanned outages. *Id.* AGL in concert with Pipeline Safety Staff developed a program to address this issue, and AGL has to date removed or remediated 147 of 475 identified POSI-HOLD couplings. *Id.* As part of this case, AGL requests approximately $12.2 million for its 2019 capital budget and approximately $11.3 million for its 2020 capital budget to continue this program and meet the goals established with Pipeline Safety Staff.

The Commission approves AGL's request to address this safety concern at the requested funding level.

(iii) Remediating Cased Crossings

Cased crossings involve installing a larger diameter casing pipe and then inserting a smaller diameter, gas-carrying pipe through the casing pipe. Tr. 339. Casings have typically been installed at crossing locations such as railroads, highways, and interstates. *Id.* Casings are typically required by the permitting authority, such as a railroad or the Georgia Department of Transportation, before access will be granted to the right of way. *Id.* Federal regulations (49 C.F.R. § 192.467) require that each pipeline must be electrically isolated from metallic casings and annual monitoring is necessary to demonstrate compliance. Tr. 340. These measurements are commonly taken by attaching a test wire to the casing pipe and another to the carrier pipe. *Id.* These wires run to an above ground test station where AGL can take electrical measurements of the casing and carrier pipes to determine whether the cased crossing is properly isolated. *Id.*

AGL has experienced problems taking these measurements due to test stations and test wires being damaged or destroyed by third party vehicles, third party excavators, or theft. *Id.* Other events, such as road-widenings, can further destroy test wires or cause the ends of the casing to become inaccessible under additional layers of pavement. *Id.* Due to these complications, taking measurements to ensure that the cased crossing is electrically isolated has become problematic.

Tr. 341. A failure to keep a pipeline electrically isolated can drain the carrier pipeline's cathodic protection current leading to accelerated corrosion. *Id.*

In order to meet the goals established by AGL and Pipeline Safety Staff, the Company in this case asks for $10 million for its 2019 budget and $15 million for its 2020 capital budget. Tr. 342. Approval of this request will enhance safety on the system by increasing effective cathodic protection and reducing the corrosion that leads to leaks. Tr. 1699. Approval will also help AGL meet its compliance obligations with 49 C.F.R. Section 192, and will further efforts to reach the seven-year goal established by AGL and Pipeline Safety Staff.

The Commission approves AGL's request at the requested funding level.

(iv) Evaluating Regulator Stations

In response to failures of regulator stations, AGL assembled a team of subject matter experts to review documents and make recommendations to incorporate into the Company's ongoing regulator station renewal program. The Company asserts that these stations need replacement or modification due to remaining service lives, changes in environmental factors, or the addition of safety controls like filters, separators, and sense line protection. Failure of a regulator station may result in over-pressuring pipelines, which may lead to fires, injuries, and loss of service.

AGL asserts that replacement or modification to the identified individual regulator stations, it requests capital budgets of $13.1 million in 2019 an $19.1 million in 2020. *Id.*

The Commission approves AGL's request at the requested funding level.

(v) Replacing Celcon Caps on Service Tees

AGL testified that Celcon caps have a higher leakage rate as compared to areas without Celcon service tee caps. AGL proposed to mitigate this issue by replacing those caps in the areas of the state where plastic mains and services were installed between 1984 and 1995. Tr. 345-346.

To accomplish this goal, AGL has included $560,000 in its O&M budget to use contractor crews to systematically replace the Celcon service tee caps. Tr. 346.

The Commission approves AGL's request to address this concern at the requested funding level.

(vi) Retiring Inactive Services

AGL stated that it has experienced multiple incidents related to damage to inactive services caused by excavation damage or demolition. Tr. 347. The Company has been and plans to continue to retire these higher risk inactive services, and requests $2 million for its 2019 capital budget and $2 million for its 2020 capital budget. *Id.*

The Commission approves AGL's request to address this safety concern at the funding level requested.

c. External Influences

(i) Inspecting Sewer Systems for Potential Cross-Bores

Cross-bores occur when a gas pipeline is installed through an existing underground sanitary sewer or storm sewer pipe. Tr. 348. Cross-bores are not common on AGL's system, and the Company has changed practices to ensure that unmarked sewer facilities are identified prior to construction of new natural gas pipelines, but there have been historical occurrences of cross-bores existing in areas with unmarked or unidentifiable sewer mains or laterals. *Id.* Although not many cross-bores exist on AGL's system, they can create a serious safety hazard because individuals may damage the gas line when trying to unblock or clean out a clogged sewer line. *Id.* Any damage to the gas line within a sewer system can cause significant leaks, which can accumulate in homes and businesses and result in fires or even explosions. *Id.*

To address this issue, AGL plans to continue to investigate and remediate areas with previously identified cross-bores within ten (10) years to eliminate this potential safety hazard. Tr. 349. AGL has included $5.4 million in its annual O&M budget to accomplish this goal.

The Commission finds, based on the evidence in the record, that it is appropriate to approve the proposed cross bore work, but further finds that the cost should be capitalized rather than recovered through O&M. This results in a $5 million reduction to the Company's proposed revenue requirement.

(ii) Reducing Third Party Excavation Damages

AGL initiated a pilot watch and protect program because of a heightened risk of damages to its facilities resulting from the numerous locates resulting from Verizon's fiber optic construction in metro Atlanta. Tr. 350-351.

AGL requests $1.1 million in its O&M budget to expand this pilot program by recruiting, hiring, training, and equipping fourteen (14) watch and protect personnel and one supervisor. Tr. 351. The Company testified that approving this request will enhance system safety by reducing the number of damage incidents caused by third party excavations.

Based on the Company's claims, the Commission approves AGL's request to address this safety concern at the requested funding level.

d. Quality Issues

(i) Improving Data Quality and Accessibility

AGL has developed a source record validation process that requires verifying and updating historical asset information within the Company's GIS system to ensure that data is accurate and complete. Tr. 351. This process includes scanning historical construction records, indexing these source records into an enterprise content management system, and updating the GIS as needed. *Id.* In order to complete the scanning and indexing of source records in Georgia and to increase the resources allocated to review and update the GIS, AGL requests an additional $2.2 million in O&M to complete this program. Tr. 352. AGL stated that improving data quality and accessibility will enhance system safety by making more accurate records available to AGL field personnel.

The Commission approves AGL's request to address this concern at the requested funding level.

(ii) Expanding Quality Assurance ("QA")

Quality assurance is the evaluation of work being performed to ensure the desired level of quality. Tr. 352. Quality assurance enhances both personnel and pipeline safety by providing an independent internal review of how the Company's employees and contractors are performing their work in the field. *Id.* AGL currently uses quality assurance on a limited basis and has three QA Specialists who are totally dedicated to evaluating contractor construction work. Tr. 353. The Company proposes to expand the scope of its QA program to cover operations and maintenance work in the field as well as work performed in customers' homes by hiring one Quality Assurance Manager and four additional specialists who will be spread geographically throughout the state. Tr. 353.

To expand this QA program, AGL requested $440,000 in its O&M budget to fund this program. The Commission approves AGL's request at the funding amount requested.

(iii) Applying Pipeline Safety Management Systems ("PSMS")

PSMS is a recommended practice published by the American Petroleum Institute in July 2015 and a recommended practice developed specifically for the pipeline industry. Tr. 354. It is a safety management system developed by industry experts from the gas and liquids pipeline sectors, federal pipeline safety regulators, state pipeline safety regulators and public pipeline safety advocates. *Id.* PSMS's core principal is the "Plan-Do-Check-Act" cycle, which requires pipeline operators to, in general terms, determine the steps that need to be taken, complete those steps, periodically review those steps, and make any changes or improvements as necessary. *Id.* The "Plan-Do-Check-Act" cycle approach enhances pipeline safety by proactively evaluating and enhancing processes across a utility's operations. *Id.* AGL is in the process of adopting and implementing PSMS and will be performing a gas analysis of existing operational procedures. Tr. 355. In order to implement the proposed PSMS, AGL requests $400,000 in its O&M budget that will provide for a PSMS manager position at AGL and analysts to provide tracking, trending and reporting.

Approving this request will enhance system safety by improving utility operations through dedicated personnel evaluating and enhancing utility operations. As noted above, the merits of the proposed program to create a PSMS program and the reasonableness of the proposed costs stand uncontested in the record.

The Commission approves AGL's requested PSMS program at the requested funding level.

6. Increasing Capacity to Address Customer Issues

a. Customer Engagement Modernization Project

AGL proposed to implement a Customer Engagement Modernization Project to provide relevant, easier-to-access and timely information about AGL's business and services. Tr. 30. Specifically, this Project will accomplish three things: 1) enhance digital communications capabilities that will provide digital tools for stakeholders to use that will improve safety education, 2) improve crisis management communications in instances where an unexpected incident occurs that will enable better workforce agility and readiness and timely information to employees & customers in instances such as a mass disruption in service, and 3) increase outreach to stakeholders during major infrastructure projects. *Id.* In order to accomplish these goals, AGL seeks to add two FTEs to the Corporate Communications Department at an increase to O&M expense of $3 million.

PIAS recommended that the Commission not fund the Company's request.

The Commission promotes the notion that utilities need to keep pace with the flow of information customers expect and finds reasonable and approves the Customer Engagement Modernization Project at the requested amount. This proposal shall be in keeping with the Commission's Customer Fulfillment ruling below.

b. Improvements to Leak Response Time Windows

Historically, AGL has staffed its field personnel to meet the goal of scheduling appointments within a four-hour window 40% of the time. Tr. 34. Because AGL continues to grow and add customers, it must add personnel and infrastructure to maintain and improve customer service. Tr. 34. The Company in this case proposes to add field service personnel to improve its ability to schedule leak-response appointments from meeting a four-hour window 40% of the time to 60% of the time. Tr. 34. Doing so both improves safety by having the resources to investigate leak reports quicker and also improves the customer service experience and helps natural gas better compete in the energy marketplace. AGL testifies that to meet this goal it needs an additional 57 filed service FTEs over the next three years, and asked that the Commission approve funding for 33 of those FTEs as part of this case. Tr. 34. The marketing community testified in strong support of this goal. Tr. 1449.

PIAS recommended the Commission reject the proposal without addressing the merits of the proposal or analyzing the costs proposed to reach the goals of the program. Tr. 1816. PIAS stated that the Company failed to make a business case for its proposal.

The Commission agrees that improving leak response goals will provide for safer service. The Commission finds the proposed increase to field service FTEs reasonable and approves the program at the requested level of costs, The Commission further finds that, in accordance with the Customer Fulfilment Requirement, the target for scheduling customer appointments within a four-hour window shall increase from 40% to 80%.

B. TARIFFS AND COST ALLOCATION

1. Tariff Revisions

The Commission accepts all of AGL's tariff changes except as otherwise provided herein.

a. Changes to Tariff Language

AGL proposed several changes to its tariff language. AGL Exhibit No. 23 (KRS-1-Rev). Most of the proposed changes are cosmetic and non-substantive, or they were unchallenged by other parties. Tr. 2125. Other proposed changes by PIAS have been adopted by AGL. Tr. 2125-2126. Other parties have challenged aspects of the proposed tariff changes related to the proposed G-12 rate schedule, the proposal to exclude high demand customers from the true-up step of the DDDC annual recalculation process, the proposal to move Section 13.3.1 subpart (l) in the sequence of steps in the annual DDDC recalculation process, and the proposal to add Section 13.3.1 subpart (m) regarding DDDC adjustments outside the normal recalculation process.

(i) Proposed G-12 Rate Schedule

PIAS objected to the proposed changes to the arguing that it will completely omit G-12 DDDCs from the annual DDDC review once the minimum DDDC level is established. Tr. 977. AGL responded that this objection is based on a misunderstanding of the proposed change. AGL proposed the change to ensure that G-12 customers will continue to be charged based on their contractual minimum level of DDDC, but that this change does not limit the annual DDDC review process. Tr. 2138. Actual consumption of G-12 customers will continue to be monitored and will be increased if the annual review shows an increase in capacity requirements. Tr. 2139. The proposed change establishes a floor, not a ceiling. This protects AGL and other customers from absorbing infrastructure costs incurred to deliver the contractual demand if a G-12 customer's actual demand falls below the contractual minimum during the term of the contract. Tr. 2139

International Paper ("IP"), a G-12 customer, stated that the 22.9% rate increase is excessive. IP was recently awarded Universal Service Funds to allow AGL to construct additional services to increase firm load to its Rome Mill by 10 times the current amount. IP further stated that this rate increase will greatly impact its operating costs and make the mill less competitive within its marketplace. Such an adverse impact from the rate increase undermines some of the competitive improvement the additional firm service could provide.

IP is in favor of AGL's revised tariff language for G-12 rate (general gas delivery service – high demand greater than 3,000 Dth). The DDDC will be established by mutual agreement of customer and Company and will not be recalculated for a period of time mutually agreed by customer and Company, but not longer than 10 years. IP's Rome Mill has two gas meters: one firm and one interruptible. Given this arrangement, AGL recommends that the Company flow any additional consumption beyond its firm requirement through the interruptible meter where it is subject to curtailment.

The Commission denies IP's recommendation and agrees that the increased change is reasonable and will protect other customers from having to absorb costs from G-12 customers if their annual demand falls below the contractual minimum.

(ii) Annual DDDC Recalculation Under Section 13.3.1

PIAS raises three issues related to the proposed changes to the annual DDDC recalculation process and charges that these proposed changes would exempt G-12 customers from the annual recalculation process and entitled them essentially to a fixed DDDC level for 10 years. Tr. 978-979. AGL responded that there appears to be some confusion regarding the annual recalculation process. Every firm customer's DDDC is evaluated and recalculated on an annual basis, with the exception of new customers or existing customers that have recently added load because there is as yet not enough consumption information to either establish or recalculate the DDDC. Tr. 2140. A new customer's DDDC stays active for one year until there is enough consumption data to recalculate the DDDC. Tr. 2140. A customer that has added load is adjusted outside of the annual recalculation process once there is enough consumption data reflecting the additional load. Tr. 2140. Once DDDCs are recalculated as part of the annual recalculation process, a true-up factor is applied to the aggregate DDDC's in each pool group to keep the Company from over-earning or under-earning revenues from the pool group.

AGL proposes to exempt G-12 customers from the pool group true-up process, but not from the recalculation process. The intent is to protect other customers from having to cover the costs for a large G-12 customer should that customer leave the system, decrease usage, or move to an interruptible rate schedule. Tr. 2141. In other words, the proposed change is intended to protect other customers, not to benefit a G-12 customer. With this understanding, the Commission finds that the proposed changes to the DDDC recalculation and true-up process are reasonable.

AGL's proposal to add language to section 13.3.1(m) of the tariff authorizes the Company to make changes to a customer's DDDC outside of the annual recalculation process. Tr. 2141. PIAS raises the concern that this could make adjustments subject to uncertain criteria. The Company responded that it already makes adjustments outside of the recalculation process at the request of the customer or sometimes the Commission. Sometimes, a customer's DDDC may increase due to a temporary change in consumption patterns. Once contacted, the Company verifies the need for a DDDC adjustment by visiting the premise or reviewing the customer's most recent gas consumption. Tr. 2142.

The Commission concludes that this change to the tariff merely memorializes the current practice and continues to provide the Company with the flexibility to review and potentially

redress a calculated DDDC that does not reflect a customer's actual consumption. Accordingly, the Commission finds this change to the tariff reasonable.

b. Changes to Service Establishment and Reconnection Charges

AGL argued that these charges should follow the principles of cost causation and reflect the actual costs of providing the service. Tr. 746. AGL has not updated its Service Establishment and Reconnection Charges for more than 20 years. Tr. 746.

The Commission agrees that service charges should reflect the actual cost of the service being provided in order to reduce the amount of individual costs socialized to other customers; but the Commission also finds that it is not the only factor to consider when setting rates. With respect to the connection and reconnection charges, only the changes to the seasonal reconnection charges that were proposed by AGL, discussed at the Special Energy Committee on December 17, 2019[1], and supported by the Marketers are approved.

AGL shall work with Staff to develop a tariff that provides for a Premium Reconnect Service. The cost of this service shall be paid for solely by the customers that choose to use the service and shall not be subsidized by other customers and/or AGL.

2. Cost Allocation

a. Changes to Rate Classes

AGL proposed several changes to its rate classes. First, the Company proposed two additional Designated Design Day Capacity ("DDDC") tiers within the G-11 rate class as well as proposing a new DDDC tier for the G-12 rate class. DDDC charges are an individualized factor for each customer that covers the common costs of delivering gas based on a premise's demand on the system on the potential coldest day of the year, also known as the Design Day. Tr. 732. The chart below shows the current and proposed G-11 and G-12 tier structure:

Current Structure			**Proposed Structure**	
Class	**DDDC Value**		**Class**	**DDDC Value**
G-11	< 2.5		G-11	< 2.5
G-11	2.5 – 6.999		G-11	2.5 – 6.999
G-11	7.0 – 19.999		G-11	7.0 – 19.999
G-11	20 – 199.999		G-11	20 – 199.999
G-11	200 – 499.999		G-11	200 – 499.999
G-12	>500		G-11	500 – 2,999.999
			G-12	3,000+

[1] Video Broadcast available at https://livestream.com/PSC/events/8933048

AGL proposed these changes to better reflect cost causation as it relates to meter replacement costs. Tr. 738. For the G-11 class, each tier's average meter replacement cost increases by at least 80% from the previous tier. *Id.* The proposed customer charge variation within the G-11 rate class is designed to reflect the average equipment cost increase associated with each tier. Tr. 739. For the G-12 rate class, AGL proposes the breakpoint for customers with DDDCs greater than or equal to 3000 Dth, again largely to reflect principles of cost causation. The average meter replacement cost for the proposed G-12 class is $31,261 compared to $23,739 in the highest proposed G-11 rate class tier. Tr. 739.

The Commission accepts the Company's proposed changes as reasonable and appropriate.

b. Class Cost of Service Study

AGL argued that the class cost of service study reveals that the customer charge and DDDC charges should be slightly modified to better align each with the type of costs they are designed to recover. AGL proposed slightly lowering the customer charge in order to better align the rate with unit customer costs. Tr. 743. Correspondingly, AGL proposed increasing the DDDC charge to move that charge closer to recovering demand-related unit costs. *Id.* PIAS raised concern that this change could lessen the amount of revenue recovered through the fixed customer charge. Tr. 1395. Further, PIAS argued that AGL should allocate revenue among the rate classes as an equal percentage. Tr. 1395. AGL responded that its changes will better reflect cost causation and move the customer classes closer towards the same revenue percentage. Tr. 2145-2146. With respect to the special contract classes like TS-2, Marta, and NGV, the Company argued that allocating revenues to these classes ignores the fact that they differ fundamentally from the other rate classes. For instance, the TS-2 class is for transportation of non-conforming gas through dedicated distribution facilities, and is not commingled with system supply gas. Tr. 2143. The monthly revenue recovered from the one existing TS-2 customer is set by contract and would require renegotiation of that contract if the Commission accepted PIAS's recommendation. Tr. 2143-2144. Similarly, revenues recovered from the Marta and NGV classes are based on specific contracts. Tr. 2144.

The Commission agrees that revenues should be allocated in order to move the various rate classes closer to the actual rate of return. Further, the Commission agrees that these special contract classes should not be allocated revenues from base rates since revenues are separately generated by contract.

Accordingly, the Commission finds the proposed tariff changes to be reasonable. The Company shall file a compliance tariff showing all approved changes consistent with this Order.

C. LONG-RANGE PLANNING TOOL

AGL shall propose, no later than January 31, 2020, a Notice of Proposed Rulemaking that establishes a proceeding, which shall be open to all interested parties, that integrates the Capacity

Supply Plan with an infrastructure delivery plan. The Commission will examine and approve parameters for capital budgets (including related O&M spending) associated with multi-year outlooks. The first proceeding following the effective date of the new Rules establishing the long-range planning tool will be decided by this Commission within eight months of AGL's first plan filing.

D. GEORGIA RATEMAKING ADJUSTMENT MECHANISM ("GRAM")

The Company asked that the Commission approve the continued use of the AGL GRAM. While certain components of the revenue requirement – return on equity, depreciation rates, rate design, lead lag, etc. – are not reviewed as part of the GRAM process, the primary drivers of the revenue requirement, including revenues, operating expenses and rate base, are available for review.

PIAS witnesses Mr. Kollen and Mr. Wackerly opposed the continued use of the GRAM by AGL. Tr. 975. Mr. Kollen and Mr. Wackerly asserted that the AGL GRAM has not worked properly. Tr. 973-974. In particular, Mr. Kollen and Mr. Wackerly testified that the GRAM does not comply with O.C.G.A. § 46-2-23.1(c) because the GRAM does not lower rates when it allows the addition of new capital programs and O&M expenses for recovery. Tr. 974. Mr. Kollen and Mr. Wackerly strongly objected to the continued use of alternative ratemaking, but state that, if an alternative ratemaking is to be used, then it should, as a viable alternative, be a three-year accounting order that would allow for limited annual rate increases between rate cases. Tr. 975-976.

Georgia Watch supported PIAS's recommendation that the Commission approve a 3-year accounting order and eliminate the GRAM.

The Commission finds that AGL shall continue under GRAM with the mechanism automatically adjusting and producing lower revenue requirement for the upcoming year for any underspending of sums approved in this case.

The Earnings Band for the GRAM shall have a low of 10.05% ROE and a high of 10.45% ROE, with the midpoint at 10.25%. AGL will establish a regulatory liability for any "over-collection" as measured against the upper end of the earnings band. This will address any event where AGL's actual total revenue requirements for the test year the resulting rates are effective are less than the maximum incremental revenue requirement upon which such rates were set. AGL will not, however, establish a regulatory asset for any "under-collection" as measured against the lower end of the earnings band.

The GRAM and the parameters set forth in the GRAM tariff will continue on a calendar year basis as modified by the order in this docket beginning January 1, 2020, until terminated by order of the Commission. The order in this docket will be the new "Final Order" for the GRAM. When Annual GRAM Filings show that rates need to be adjusted up or down, the adjustment will be made to bring the ROE back to the midpoint of the Earnings Band established above. Annual GRAM filings will be made no later than July 1 for each succeeding calendar year implementation.

The Commission finds and concludes that pending the outcome of the first long-range planning proceeding referenced above, in 2020 AGL will manage its capital and operations and maintenance budgets so as not to exceed 5% growth rate in base rates to be effective January 1, 2021. The Company will not seek recovery through base rates in any GRAM proceeding of investments and expenditures that contribute to base rates exceeding 5% growth in 2021 from 2020 levels until the next general rate case, this will work as a disincentive for the Company to spend outside of this level as it must absorb the carrying costs over multiple years. This 5% limitation is not to be construed as precedent in any future rate proceeding for AGL. The deferral accounts within the existing GRAM shall continue to be used without interruption.

AGL will make a second compliance filing on or before July 1, 2020 for rates to be effective January 1, 2021. Staff will review and, if appropriate, challenge the associated GRAM schedules and bring to the Commission any dispute, otherwise the compliance filing shall be deemed approved for the 2021 calendar year without further action by the Commission.

In accordance with the above findings, the Commission concludes that the AGL GRAM should continue to be used by the Company.

CONCLUSIONS OF LAW

1.

O.C.G.A. § 46-2-20(a) provides that the Commission has general supervisory authority over gas companies.

2.

O.C.G.A. § 46-2-23 provides that the Commission has exclusive power to determine what are just and reasonable rates and charges to be made by any person, firm or corporation subject to its jurisdiction. The rates for firm distribution service and ancillary services rendered by an electing distribution company must be established in accordance with Article 5 of Title 46, O.C.G.A. § 46-4-151 *et seq.*

3.

O.C.G.A. § 46-2-25 provides in pertinent part that whenever any new rate schedule is filed, the Commission shall have authority, upon reasonable notice to the utility, to enter a hearing concerning the lawfulness of such rate, charge, classification, or service.

4.

O.C.G.A. § 46-2-23.1 provides that the Commission has the authority to approve, modify, or reject alternative forms of regulation for gas companies.

5.

O.C.G.A. § 46-2-23.1 provides that the Commission has the authority to approve, modify, or reject alternative forms of regulation for gas companies.

6.

The Commission concludes as a matter of law that the Company has met its burden of proof to substantiate a revenue deficiency, which the Commission found as a matter of fact to equal $65.3 million.

7.

The Commission concludes as a matter of law that the Company should be allowed to charge rates calculated to allow the Company an opportunity to recovery this deficiency and that such award will allow the Company the opportunity to earn a return on its assets which is not confiscatory, unjust or unreasonable.

8.

The Commission concludes as a matter of law that the provisions of this decision related to the allocation of the additional revenue requirement and the specific charges set by the Commission will provide the most equitable distribution of the additional revenue requirement mandated by the record.

ORDERING PARAGRAPHS

After consideration of all of the evidence presented in this proceeding in conjunction with consideration of the applicable law and regulatory policy within the existing legislative framework, and upon the Commission's findings of fact and conclusions of law, the Commission adopts the ordering paragraphs set forth below.

WHEREFORE IT IS ORDERED that AGL is directed to increase rates to produce an increase in revenues in the amount of $65.3 million, consistent with the provisions of this Order, with said rates to be effective for service rendered on and after January 1, 2020.

ORDERED FURTHER, that AGL's return on common equity for ratemaking purposes shall be set at 10.25%. The cost of long-term debt shall be 4.74%. The cost of short-term debt shall be 2.51%. The capital structure for AGL shall be 56% common equity, 39.21% long term debt, and 4.79% short term debt. The overall return is 7.718%.

ORDERED FURTHER that the total revenue increase for the Company shall be $65.3 million as outlined in the Commissioner Motion. The Company's as-filed requested increase shall be adjusted as follows. The Commission shall use the $90 million revenue deficiency based on

the errata and other adjustments made in the rebuttal phase as the starting point and shall further modify that amount to include the following additional adjustments: an $11.7 million reduction to reflect the change in ROE from 10.75% to 10.25%; a $2.9 million increase to reflect an increase in the capital structure equity percentage from 55% to 56% to satisfy proper FFO to debt ratio; a $5 million reduction in O&M for cross bore capitalization; a $4 million reduction by accepting PIAS's proposed depreciation rates; a $5 million reduction by accepting PIAS's proposal for a 5-year EDIT Amortization; an $8 million additional cut to revenue requirement; a $1 million increase for supplemental low-income assistance to be implemented by Commission Staff, AGL, and Georgia Watch; and a $5.1 million increase for additional funding for Customer Fulfillment.

ORDERED FURTHER, that AGL shall recover the increased O&M expenses, including all those related to the safety programs as filed.

ORDERED FURTHER that AGL shall work with Staff to develop a tariff that provides for a Premium Reconnect Service. The cost of this service shall be paid for solely by the customers that choose to use the service and shall not be subsidized by other customers and/or AGL.

ORDERED FURTHER that AGL shall advance a Customer Fulfillment Program. Accordingly, AGL shall immediately begin and shall fully implement the following within 3 years of the date of this Order:

i. A two-day service standard as detailed in the Company filing;
ii. Expand the "Keep Me Informed" program to all regions of AGL's service territory;
iii. Increase the target for scheduling customer appointments within a four hour window from 40% to 80%;
iv. Improve average leak response time to 25 minutes or less;
v. Increase the availability of four hour appointments within the 4:00 PM to 8:00 PM time window by 25%; and
vi. Develop Saturday reconnection appointments available during the day.

ORDERED FURTHER that AGL's revenue requirement shall be adjusted by an additional $8 million reduction as a part of the fair resolution to the full range of issues presented in this docket.

ORDERED FURTHER that AGL shall fund a $1.0 million Supplemental low-income assistance program to be implemented by Staff, AGL, and Georgia Watch.

ORDERED FURTHER, that the updated utility plant in AGL's rate base is reasonable and appropriate. Further the Company shall allocate of AGSC's reserves for injuries and damages and the pension and OPEB liabilities in its cash working capital and a separate allocation of such items is not warranted in this proceeding.

ORDERED FURTHER, that the Company shall capitalize certain technology costs as provided in this Order.

ORDERED FURTHER, that AGL shall balance its ADIT in accordance with its filed request.

ORDERED FURTHER, that the Company shall implement the conversion rebate and multi-family residential developments as proposed.

ORDERED FURTHER, that the tariffs implemented by the Company to collect the aforesaid increased revenues of $65.3 million shall be submitted as a compliance filing subject to review by the Commission to ensure that such tariffs, as implemented, are just and proper. The rates shall be consistent with the findings of the Commission regarding Revenue Requirements in this Order utilizing the rate design methodology proposed by AGL, except as may be noted in the specific rate modifications contained in this Order.

ORDERED FURTHER, that AGL shall implement its proposed pension and OPEB assets and related expenses, including the proposed increase of $745,000.

ORDERED FURTHER, that combining all of the proposed adjustments to the Company's rate base, the Commission finds that AGL's projected rate base on July 31, 2020, shall be $3,194,072,320.

ORDERED FURTHER, that the rate case expenditures shall be recoverable in the manner proposed by the Company.

ORDERED FURTHER, that AGL shall recover of all rate case costs incurred. including return on investment, with an amortization period of five years.

ORDERED FURTHER, AGL is entitled to the amortization of the AGLSC Unprotected EDIT regulatory liability principal in the amount of $.046 million because it is charged for the depreciation expense incurred by AGSC.

ORDERED FURTHER, the Company shall cease using the Average Rate Assumption Method ("ARAM") for the remaining AGL unprotected EDIT regulatory liability. And that Company use an amortization period for the AGL Unprotected EDIT Regulatory Liability be set at five years.

ORDERED FURTHER, AGL shall implement tariff changes consistent with this Order and shall file a compliance tariff, including rate schedules, on or before December 31, 2019.

ORDERED FURTHER, that AGL shall continue to utilize its GRAM as a form of alternative ratemaking, consistent with O.C.G.A. § 46-2-23.1. This order shall be the new "Final Order" for the AGL GRAM within the parameters set out in this Order.

ORDERED FURTHER, that all findings, conclusions and statements made by the Commission and contained in the foregoing sections of this Order are hereby adopted as findings of fact, conclusions of law, and statements of regulatory policy of this Commission.

ORDERED FURTHER, that unless specified otherwise in this Order, the decisions adopted herein shall be effective immediately.

ORDERED FURTHER, that any motion for reconsideration, rehearing or oral argument or any other motion shall not stay the effective date of this Order, unless otherwise ordered by the Commission.

The above by action of the Commission in Special Administration Session on the 19th day of December, 2019.

_____	_____
Reece McAlister	Chuck Eaton
Executive Secretary	Chairman
_____	_____
Date	Date