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BEFORE THE

GEORGIA PUBLIC SERVICE COMMISSION

IN RE: ATLANTA GAS LIGHT COMPANY'S)
2004-2005 RATE CASE) DOCKET NO. 18638-U

DIRECT TESTIMONY AND EXHIBITS OF TONY WACKERLY AND LANE KOLLEN

(Comprehensive Rate Plan, Pipeline Replacement Program Surcharge, Performance Based Rate Plan)

ON BEHALF OF THE
GEORGIA PUBLIC SERVICE COMMISSION
ADVERSARY STAFF

FEBRUARY 25, 2005

TABLE OF CONTENTS

Direct Testimony of

Tony Wackerly and Lane Kollen

On Behalf of the Adversary Staff

Of the Georgia Public Service Commission

Docket No. 18638-U

Atlanta Gas Light Company's

2005 Rate Case

I. QUALIFICATIONS AND SUMMARY

Q. Please state your name and business address.

A. My name is George Anthony ("Tony") Wackerly. My business address is the Georgia Public Service Commission, 244 Washington Street, Atlanta, Georgia 30334.

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

Q. What is your occupation and by whom are you employed?

A. I (Mr. Wackerly) am a Utilities Analyst employed by the Georgia Public Service Commission ("PSC" or "Commission").

I (Mr. Kollen) am a utility rate and planning consultant holding the position of Vice President and Principal with the firm of Kennedy and Associates.

Q. Mr. Wackerly, please describe your education and professional experience.

A. I have been employed by the Commission since 2002. I have testified on Atlanta Gas Light Company's ("AGLC" or "Company") 2004/2007 Capacity Supply Plan in Docket No. 18437-U. In that proceeding, I testified on the Company's Pipe Replacement Program ("PRP"). I addressed how the PRP had been used in the past and how the Company proposed to use it under the Capacity Supply Plan docket for recovery of the PRP under Docket No. 8516-U, and I developed Staff's recommendations. My education and professional experience are further detailed on our **Exhibit___(WK-1).**

Q. Mr. Kollen, please describe your education and professional experience.

A. I described my education and professional experience in my Direct Testimony on Revenue Requirements also filed in this proceeding. My expert witness appearances are detailed on my **Exhibit___(LK-1)** attached to that testimony.

Q. Mr. Wackerly, please describe your involvement with the Company's Pipe Replacement Program.

A. I have been the project leader for the AGLC's Pipe Replacement Program audits for 2 ½ years. I have overseen nine quarterly audits and one focus audit relating to costs the Company has sought to recover in the Pipe Replacement Program Rider ("Rider"). I have presented numerous related issues before the Commission in Docket No. 8516-U. I have written two Staff audit reports detailing the audit process, findings, financial information, and recommendations.

Q. On whose behalf are you testifying?

A. We are testifying on behalf of the Georgia Public Service Commission Adversary Staff ("Staff").

Q. What is the purpose of your testimony?

A. The purpose of our testimony is to present a Comprehensive Rate Plan ("CRP") encompassing base rates, the Pipeline Replacement Program surcharge rider, and the Performance Based Rate Plan ("PBR"), to present alternatives to the CRP, and to respond to the Company's requested base rate increases, its economic development rider rate increase, and its projected PRP rate increases.

Another purpose of our testimony is to describe the operation and cost recoveries pursuant to the Company's PRP in the past and to provide recommendations to improve the PRP recovery mechanism going forward.

Q. Please summarize your testimony.

A. The Company has proposed at least five rate increases over the next three years that will provide it at least $146.944 million in additional revenue during that period. These five rate increases include a base rate increase of $25.633 annually commencing on May 1, 2005 in conjunction with a continuation of the PBR, a new economic development fund surcharge rate increase of $7.500 million annually commencing on May 1, 2005, and three estimated PRP rate increases of $9.563 million annually, $11.131 million annually, and $8.943 million annually commencing on October 1 in 2005, 2006, and 2007, respectively. In addition, the Company has requested a continuation of the PBR, along with a retained right to file for additional base rate increases during the three year PBR period if its ratemaking return falls below the lower PBR earnings threshold.

In lieu of the Company's five rate increase plan, the Staff recommends that the Commission adopt a Comprehensive Rate Plan that provides for stable and just and reasonable rates over the next three years with no base rate increases or reductions, no new economic development fund surcharge, and no PRP rate increases or reductions. The CRP provides the Company just and reasonable rates through a partial roll-in with limited modifications of the PRP, a prepayment and levelization of the PRP rates, and a continuation of the PBR with limited modifications.

The CRP includes a roll-in to base rates of the PRP revenue requirements equivalent to the appropriate base reduction in lieu of actually implementing that base rate reduction. The CRP includes no commensurate reduction to the PRP rates for the amount rolled into base rates. Instead, the resulting excess PRP recovery will be recorded as a regulatory liability and used to prepay the PRP rate increases and levelize the PRP rates during the next three years in lieu of actually implementing the Company's estimated three PRP rate increases. In other words, the CRP provides true rate stability to customers by using the overearnings generated by the current base rates to offset and levelize the future pipe replacement costs.

The CRP requires limited computational modifications to the PRP recovery formula. These modifications include recognition of the regulatory liability resulting from the partial roll-in to base rates of the total PRP revenue requirement, recognition of all PRP related plant retirements and the related reduction of depreciation expense, and recognition of cash working capital.

In addition, the PRP should be modified so that no new projects, other than pipeline replacement, are allowed in the surcharge computation in the absence of specific Commission authorization to do so. All other projects should be considered base rate projects unless authorized as PRP projects.

The CRP is not dependent upon the continuation of the PBR. Nevertheless, the Staff believes that the PBR should be continued. To date, there have been no tangible and quantifiable benefits from the PBR, but the potential exists for the sharing of excess earnings over the next three years. In addition, there is some limited benefit from the restriction against the Company filing for a base rate increase during the three year period unless its ratemaking return is below the lower PBR earnings threshold. If the PBR is continued, the Staff recommends that the Commission incorporate certain refinements, including a narrower bandwidth of plus and minus 75 basis points as opposed to the existing 100 basis points and an increase in sharing to the Company for earnings over the upper threshold to 33 1/3% compared to the existing 25%.

The Commission may wish to consider ratemaking alternatives other than the Staff's CRP with no rate increases for the next three years or the Company's proposal for at least five rate increases. The Staff does not believe these alternatives provide the benefits of the CRP.

One of these alternatives is to fully roll-in to base rates the PRP revenue requirements and eliminate the PRP altogether. Adoption of this alternative initially would result in a net rate reduction if the Commission determines that a base rate reduction is appropriate in the absence of any PRP roll-in to base rates. In addition, it would eliminate problems with including non-PRP projects in the PRP. However, it is likely that a full roll-in to base rates of the PRP will result in at least annual base rate increases if the Company is required to adhere to the pipeline replacement obligations pursuant to the Docket No. 8516-U Stipulation.

Another alternative is to reduce base rates and continue the PRP. Adoption of this alternative initially will result in a net rate reduction if the Commission determines that a base rate reduction is appropriate. However, the three PRP rate increases still will be necessary if the Company is required to adhere to the pipeline replacement obligation pursuant to the Docket No. 8516-U Stipulation.

Finally, the Commission should include the cost of the Southern Natural Gas Pipeline ("SNG") purchase in base rates rather than in the PRP. The cost should be limited to the actual cost paid plus the cost of the necessary tie-ins. The Staff has included the full cost of the SNG purchase and tie-ins in the base revenue requirement reflected in Mr. Kollen's testimony.

II. SPECIFICS OF THE COMPREHENSIVE RATE PLAN

Benefits of Comprehensive Rate Plan

Q. Please describe the benefits of the Staff's CRP.

A. The primary benefit of the CRP is that base and PRP rates will remain stable for the next three years, with no reductions or increases. In the absence of the partial PRP roll-in, there will be a significant base rate reduction in May if the Commission adopts the Staff's recommendation only to be followed in October by the first of the next three PRP annual rate increases.

Another benefit of the CRP is that the Company would not be subject to the regulatory lag problem associated with the full roll-in to base rates and the elimination of the PRP described by Mr. Carter (Carter Direct at 9-14). The Staff does not agree with the Company that regulatory lag is a problem given the use of a projected test year that would include projected PRP expenditures and the ability of the Company to file for base rate increases as justified. Nevertheless, the Staff's CRP eliminates this regulatory lag problem to the extent it exists.

Yet another benefit of the CRP is that it preserves the Company's financial integrity and ability to raise capital on reasonable terms, a concern associated with the full roll-in to base rates of the PRP described by Mr. Carter (Carter Direct at 13) and echoed by Mr. O'Brien (O'Brien Direct at 7, 17-20).

Partial Roll-In to Base Rates of PRP and Use of Regulatory Liability to Prepay Future PRP Rate Increases

Q. Please describe how the amount of the partial PRP roll-in to base rates would be accomplished.

A. The partial PRP roll-in to base rates would be equivalent to the amount of base rate reduction determined appropriate by the Commission absent the roll-in. For example, if the Commission determines that a $30 million base rate reduction is appropriate, then the partial PRP roll-in would be $30 million. Similarly, if the Commission determines that a $15 million base rate reduction is appropriate, then the partial PRP roll-in would be $15 million.

Q. During the hearings on the Company's Direct Testimony, both Mr. Morley and Mr. O'Brien stated that in the absence of PRP recovery the Company would have to write-off the regulatory asset on its books for the PRP liability. Is this correct?

A. No. The only circumstance where that would be correct is if the Commission provided no rate recovery of the PRP costs. If there is full recovery through base rates, the PRP surcharge rider, or some other recovery mechanism, there will be no write-off.

SFAS 71 is the financial accounting standard that governs the Company's ability to recognize regulatory assets on its accounting books. The SFAS 71 standard for recognition of a regulatory asset is as follows:

> 9. Rate actions of a regulator can provide reasonable assurance of the existence of an asset. An enterprise shall capitalize all or part of an incurred cost that would otherwise be charged to expense if both of the following criteria are met:
>
> a. It is probable that future revenue in an amount at least equal to the capitalized cost will result from inclusion of that cost in allowable costs for rate-making purposes.

> b. Based on available evidence, the future revenue will be provided to permit recovery of the previously incurred cost rather than to provide for expected levels of similar future costs. If the revenue will be provided through an automatic rate adjustment clause, this criterion requires that the regulator's intent clearly be to permit recovery of the previously incurred cost.

The standard established by SFAS 71 is not based on the form of recovery, whether through base rates, the PRP surcharge rider, or some other recovery mechanism. The standard established by SFAS 71 is based on whether the Commission provides rate recovery and whether that rate recovery is sufficient to recover the costs deferred. As such, SFAS 71 does not require that the Commission provide recovery of the PRP costs through the PRP surcharge rider.

Q. Please describe how the PRP roll-in to base rates will be captured in a regulatory liability and used to prepay future PRP rate increases, thereby levelizing the PRP rates.

A. The amount of the PRP roll-in to base rates will be recognized as a regulatory liability computed monthly in five steps. The first step will be to compute the percentage of the authorized revenue rolled-in to base rates to the authorized total base revenue requirement for the projected year including the PRP revenue requirement. This percentage will be used in the second step to compute the amount of the PRP revenue requirement that is recovered through base rates. For example, if the PRP annual revenue requirement rolled-in to base rates is \$20 million and the total annual base revenue requirement absent the base rate roll-in is \$480 million, then the percentage will be 4.0% (\$20 million divided by \$500 million).

The second step will be to multiply the percentage computed in the first step times the Company's actual total base revenues in each month of the PRP test year. The result is the amount of the PRP revenue that is recovered through base rates in that month. For example, if the Company's total base revenue in month 1 is \$40 million, then the amount of the PRP revenues recovered through base rates in that month would be \$1.600 million.

The third step will be to compute the regulatory liability amount by accumulating these monthly amounts. In each month, the amount computed in the second step will be added to the prior month's cumulative balance. For example, if the amount computed in the second step for the second month is \$1.520 million, it would be added to the \$1.600 million computed for the first month for a cumulative total of \$3.120 million.

The fourth step will be to subtract the current month's use of this regulatory liability to pay for avoided PRP rate increases. For example, if the PRP rate increase would have been \$1 million in the second month, then the regulatory liability would be reduced by the \$1 million in lieu of the rate increase to \$2.120 million (\$3.120 million less \$1 million).

The fifth and final step is to compute a carrying charge on the amount of the regulatory liability from the prior month, net of the related accumulated deferred income taxes ("ADIT"), and to add it to the amount computed in the fourth step. The Company's grossed-up rate of return will be used for this purpose, computed on a monthly basis, consistent with the use of the grossed-up rate of return applied to the PRP rate base included in the PRP revenue requirement. For example, in the second month, the \$1.520 million balance at the end of the first month would be reduced by the ADIT computed at the current combined federal and state income tax rate of 38.68% (\$0.932 million) and then multiplied by the authorized grossed-up rate of return, computed on a monthly basis. If the authorized grossed-up rate of return, computed on a monthly basis, was 1%, then the carrying charge that would added to the regulatory liability balance would be \$0.093 million.

Q. Please provide an example of the use of the regulatory liability to actually pay for the avoided PRP rate increase projected for October of this year.

A. The regulatory liability computed in the manner previously described will accumulate and grow each month after the effective date of the Commission's Order in this proceeding. The cumulative amount of the regulatory liability each month will be reduced by the amount of the PRP rate increase that was avoided.

The first such reduction will occur in October of this year. The Company has estimated that there will be a $9.563 million PRP rate increase reflecting Year Seven test year costs compared to the current PRP recovery reflecting Year Six test year costs. In lieu of an actual increase the PRP rates on October 1, 2005, the regulatory liability will be used to pay the monthly $0.797 million amount of the increase that will not be implemented.

Q. Please provide an illustration of the operation of the regulatory liability to prepay the estimated future PRP rate increases and levelize PRP rates for the next three years.

A. The following table illustrates the Company's projected PRP rate increases and the regulatory liability available to pay for those increases in order to levelize rates assuming a $20 million partial PRP roll-in to base rates.

ILLUSTRATION OF REGULATORY LIABILITY
FOR PRP ROLL-IN TO BASE RATES OF $20 MILLION ($000)

	May 2005-Apr 2006	May 2006-Apr 2007	May 2007-Apr 2008
Beg Bal Reg Liability	0	15,023	20,388
Roll-In To Base Rates	20,000	20,000	20,000
Payment of PRP Rate Increases	(5,578)	(16,056)	~~(22,469)~~ (25,911)
Return on Reg Liability	601	1,421	~~1,538~~ 1,472
End Bal Reg Liability	15,023	20,388	~~19,457~~ 15,949

Q. If the Commission determines that a base reduction greater than the current PRP revenue recovery is appropriate, does that affect your recommendation?

A. No. However, the Commission's decision affects the amount of the regulatory liability available to prepay future PRP rate increases. The greater the base rate reduction, the greater the prepayment of future PRP rate increases.

It is possible that the regulatory liability may exceed the amount necessary to prepay the PRP rate increases and levelize PRP rates for the next three years. In that event, the regulatory liability could be used to prepay the final PRP rate increase or otherwise used to mitigate the effects on the base revenue requirement of the full and final roll-in to base rates as contemplated by the Docket No. 8516-U Stipulation that established the PRP surcharge rider.

Modifications to the PRP Surcharge Rider

Q. Please describe the modifications to the PRP surcharge rider that the Staff recommends.

A. There are two modifications that the Staff recommends. The first modification is to reflect the cash working capital effects of the PRP revenue requirement in the PRP rider. The second modification is to reflect the retirements associated with the PRP and the related effects on depreciation expense in the PRP rider rather than in base rates as is currently done.

Q. Please explain why the PRP surcharge rider should be modified in this manner.

A. Both of these changes will modify the PRP rider so that it incorporates the reductions in revenue requirements that occur from the cash working capital effects of PRP investment and the reductions in depreciation expense that occur from retirements of plant due to the PRP. Presently, the Company retains the benefit of both of these components of the revenue requirement between base rate proceedings.

The Company is allowed to recover a full grossed-up rate of return on the PRP rate base through the PRP rider. However, it does not reflect the related reduction in rate base that should occur due to effects on cash working capital from the net lag in interest, property tax expense, and other working capital items.

In addition, depreciation expense ceases on retirements of plant. This reduces the costs reflected in base rates between base rate proceedings because, all else being equal, the Company does not reflect the reduction in this depreciation expense in the PRP rider. During the last three years, the retirements related to the PRP were $14.342 million according to the Company's response to STF 6-17. The depreciation expense benefit retained by the Company during the three years was approximately \$0.6 million. That benefit should inure to the ratepayers because it is a direct function of the PRP and should be reflected in the PRP revenue requirement.

Q. Does the roll-in to base rates of a portion of the costs currently recovered through the PRP require a modification of the Stipulation in Docket 8516-U?

A. No. That type of roll-in is contemplated in and allowed by the Stipulation. The Stipulation provides that the purpose of the surcharge is to recover only those pipe replacement costs that the Company is not allowed to recover through other regulatory processes. As the Commission recently stated on page 18 of its October 19, 2004 Amended Final Order in Dockets 8516-U and 18437-U:

> It is important to note that the rider recovery mechanism for costs pertaining to implementing the pipe replacement program is one that supplements, and is an exception to, the current regulatory process that traditionally provides recovery of these costs, namely, base rate proceedings. The PRP Stipulation provides that the Company is "entitled to recovery of all net prudent costs of the performance of the stipulation." (PRP Stipulation at 24.) Immediately following this language, the PRP Stipulation qualifies that "should the regulatory process then in place fail to recover the cost to the Company for performance of its obligations pursuant to this Stipulation, the Company may file for recovery as part of the annual filing above." (Id.) Furthermore, the PRP Stipulation provides that cost recovery "will be designed to complement and supplement the regulatory process then in place" and that this "recovery will be through a surcharge to then existing rates." (Id. at 23.) A plain reading of this language, in conjunction with general principles guiding the purpose of riders, makes it clear not only can the PRP be rolled into rate base, [*foot note omitted*] but that recovery through rate base proceedings is the standard and that recovery through PRP is only appropriate as an exception if the rate proceeding fails to provide for recovery. There is no reason to believe that the Commission will fail to provide for appropriate recovery in the upcoming rate case. (Emphasis added.)

No Economic Development Fund Rider

Q. The CRP does not include the Company's proposed economic development fund rider. Is this issue addressed in the Direct Testimony of Ms. Michelle Thebert and Mr. Lane Kollen?

A. Yes. The Staff's CRP provides a comprehensive rate solution with no rate increases or decreases for the next three years and no new surcharge riders. Although Staff does not recommend the creation of an economic development fund, if the Commission determines that it will create one, then the Commission could fund it with a portion of the overearnings on base rates rather than through a new surcharge.

Continuation of the Performance Based Rate Plan

Q. Do you agree with the Company that the PBR should be continued?

A. Yes. Although there have been no tangible or quantifiable benefits from the PBR during the initial three years of its existence, there is a possibility that the PBR may provide such benefits in the form of rate reductions over the next three years. In addition, the PBR limits the Company's ability to file base rate increases unless the ratemaking return is less than the lower earnings threshold.

Q. Is there any evidence that there has been any cost savings due solely to the PBR?

A. No. Although the Company has been very successful at controlling its costs, on cross-examination Mr. O'Brien agreed that the Company had not implemented any cost reduction solely due to the ~~evidence~~ existence of the PBR.

Q. If the Commission continues the PBR, are there any changes that are necessary or appropriate?

A. Yes. First, if the Commission adjudicates the revenue requirement and there is no settlement, then computation of the PBR rate of return components will need to be conformed to the Commission's decisions on various issues. One such issue may be the elimination of the phantom expense for 50% of the VNG acquisition savings.

Second, we recommend that the Commission consider changing two of the PBR parameters, the dead band around the authorized rate of return and the sharing percentage if the earned ratemaking return exceeds the upper threshold. We recommend the Commission consider tightening the dead band from 100 basis points above and below the authorized return to no more than 75 basis points above and below the authorized return. In addition, the Commission may want to consider increasing the Company's sharing percentage to 33 1/3% from the current 25% for earnings in excess of the upper threshold.

Q. Why should the Commission consider changing the dead band around the authorized rate of return and the sharing percentage?

A. The PBR as currently configured is simply ineffective. As a practical matter, it has operated no differently than traditional regulation. The PBR has not operated to accomplish either of its primary objectives to provide any rate reductions or as an incentive mechanism. In addition, if the Company's requested return on equity is adopted, it will raise the upper threshold before sharing to customers from 12.0% to 12.2%. Thus, the PBR as currently configured will be even less likely to accomplish its primary objectives for the next three years unless appropriate changes are made.

Q. Are the PBR dead band and sharing parameters a matter of judgment for the Commission?

A. Yes. The PBR dead band and sharing parameters must be balanced against the return on equity and other ratemaking adjustments adopted by the Commission in this proceeding. For example, the higher the allowed return on equity, the lower the upper threshold should be before sharing.

III. HISTORICAL OPERATION AND RECOVERIES PURSUANT TO THE PRP

Background

Q. Please provide some background on AGLC's Pipe Replacement Program.

A. The Commission issued a Rule Nisi against the Company on January 6, 1998 in Docket No. 8516-U in which the Commission Staff alleged that the Company had committed numerous violations that were continuing to occur concerning the operation of the Company's pipeline system. The majority of the allegations related to the lack of attention paid to a large number of known leaks on the Company's distribution system. Staff and the Company reached a stipulated agreement to facilitate solutions to the problems listed in the Rule Nisi.

The stipulated agreement permitted the Company to recover through a rider costs incurred to replace portions of its pipeline system that were corroded and/or leaking. After a hearing on July 8, 1998, the Commission approved an order adopting the PRP stipulation on September 3, 1998. At that time, 2,312 miles of bare steel/cast iron had been identified for replacement. Staff currently conducts quarterly audits to determine the prudence of the O & M and capital expenditures.

Overview: Capital Expenditure, Rider Surcharge, and Firm Customer Estimates

Q. Please describe the history of capital expenditures in the PRP versus the Rider surcharge.

A. The capital expenditures relating to the program are directly related to the replacement of the bare steel/cast iron which includes all materials, labor, and additional costs. In Cost Year-1 (1998/1999), the capital expenditures for the program were $25.7 million. After the baseline of $9.1 million was subtracted, this resulted in $16.6 million directly charged to the program with $62,967 as a net impact to the Rider. The baseline is the dollar amount the Company is currently recovering in its base rates for this activity, and the base line is removed or subtracted from the total amount. The yearly surcharge of Cost Year-1 was $0.04 per customer for the year. Staff worked with the Company to develop a "pre-collect" amount to help reduce carrying charges in future years. The Commission approved a surcharge with a pre-collect amount of $1.28 per customer, and this increased the yearly Rider amount to $1.32. This generated a monthly surcharge amount of $.11 per customer per month.

In Cost Year-2 (1999/2000), the capital expenditures were $53.1 million, and after the baseline of $11.9 million was subtracted, this resulted in $41.2 million directly charged to the program and a net impact to the Rider of $2.7 million. The yearly surcharge for Cost Year-2 was $1.88 per customer. The Commission approved a surcharge with a pre-collect amount of $0.52 per customer, and the resulting yearly surcharge became $2.40 per customer. The monthly surcharge became $0.20 per customer per month.

For Cost Year-3 (2000/2001), the capital expenditures were $47.9 million, and after the baseline of $11.9 million was subtracted, the resulting amount directly charged to the program was $36.0 million, and the net impact to the Rider was $5.7 million. The resulting yearly surcharge for Cost Year-3 was $3.76 per customer. The Commission approved a surcharge with a pre-collect amount of $0.44. This increased the yearly surcharge to $4.20 per customer. The monthly surcharge became $0.35 per customer.

In Cost Year-4 (2001/2002), the capital expenditures were $53.6 million, but the Company applied a credit of $18,359, and this resulted in a total capital expenditure of $53.5. After the baseline of $11.9 million was subtracted, $41.6 million was directly charged to the program, and the net impact to the Rider was $16.9 million. The yearly surcharge of Cost Year-4 was $11.13 per customer, and the Commission did not pursue a pre-collect amount due to increasing costs to the program. The $11.13 per customer would have resulted in a surcharge of $0.92 per customer per month. The Rider had accrued a credit due to the previous cost year's pre-collections in the amount of $2.37 per customer, and the yearly surcharge was reduced by this amount to a yearly surcharge of $8.76 per customer. The monthly surcharge for Cost Year-4 was $0.73 per customer per month.

In Cost Year-5 (2002/2003), the capital expenditures were $37.6 million, and after the baseline of $11.9 million was subtracted, this resulted in $25.7 million directly charged to the program with a net impact to the Rider of $20.3 million. The yearly surcharge was assessed at $13.10 per customer, but due to a one month delay in collections in October 2002 (Cost Year-4), this created a carrying charge amount of $0.38 per customer, and increased the yearly surcharge to $13.48 per customer. This would have resulted in a monthly surcharge of $1.12 per customer, but in October 2003, there was another one month delay in collections that resulted in another carrying charge of $0.38 per customer. The yearly surcharge became $13.86 per customer, and the monthly surcharge for Cost Year-5 was $1.15 per customer per month.

In Cost Year-6, the capital expenditures were $62.9 million, and after the baseline of $11.9 million was subtracted, this result was a direct charge of $51.0 million to the program with a net impact to the Rider of $23.9 million. The yearly surcharge for Cost Year-6 was $15.52 per customer, and the monthly surcharge currently is $1.29 per customer per month.
The total capital spending for the PRP Cost Year-1 through Cost Year-6 is $280 million, and after the baseline is removed, this will result in $212 million that has been directly charged to the PRP. The net impact to the Rider for Cost Year-1 through Cost Year-6 is $69.2

million. In our **Exhibit__(WK-2) Part A**, we provide a history of the capital spending activity with the resulting net impact to the Rider for Cost Year-1 through Cost Year-6. The net impact to the Rider divided by the customer count for that cost year is how the surcharge is calculated.

In our **Exhibit___(WK-2) Part B**, we provide a history of the PRP Rider surcharge over the Cost Year-1 through Cost Year-6 period. In our **Exhibit___(WK-3) Part A**, we provide copies of the Company's filed annual reports on financial activity that support capital and surcharge numbers, and in our **Exhibit___(WK-3) Part B**, we provide the Administrative Session transcripts relating to the Commission approved surcharge orders, as well as the orders, from Cost Year-1 to Cost Year-6.

Q. Does the number of firm customers impact the calculation of the Rider?

A. Yes. To give an example from the most recent cost year, Cost Year-6, the net impact to the rider was $23,878,254. The customer count that AGLC used to access the surcharge was 1,538,146. This is an estimate of customers that will be on the system that will pay the total net impact to the rider during the recovery year. If the $23.8 million net impact is divided by the 1.5 million customers, the result is $1.29.

In our **Exhibit___(WK- 4),** we list the customer counts used to calculate the PRP Rider surcharge from Cost Year-1 through Cost Year-6. The numbers we used in our **Exhibit___(WK-4)** were obtained from our **Exhibit___(WK-3) Part A**, the Company's annual report used to calculate the PRP surcharge.

As we noted previously, this is an estimated customer count. If the customer count falls below that estimated amount, the Company will not recover all revenues necessary to recover its costs. If this happens, then the Company will apply the shortfall to the following year's surcharge, and include carrying costs on the shortfall. If the customer count should rise above the projected, then the Company should apply a credit to the surcharge during the next recovery period.

Overview: O & M Tracking and Mileage Requirements

Q. Would you please present a brief history of the O & M tracking as it relates to the PRP?

A. At the beginning of the PRP, Staff and the Company decided to evaluate certain O & M accounts that were agreed to be related or affected by the PRP. The purpose for identifying these accounts or O & M categories was to have a mechanism whereby the ratepayers could have the possibility to receive a credit to the surcharge. The result was that eighteen accounts in five categories were selected for tracking. The five categories and the eighteen general ledger accounts include the following:

- Leak Call: (Accounts: 600045, 600051, 640701, 640702, 640709, 640710) Responding to emergency gas leak or carbon monoxide calls.

- 3-Year Leak Survey: (Accounts: 600024, 640203, 640204) Surveys pipes that are cathodically unprotected and outside of the business districts. The survey is preformed annually in Georgia as a fulfillment of the PRP stipulation.

- 5-Year Leak Survey: (Accounts: 600025, 640205, 640206) This is surveying cathodically protected pipe that is outside of business districts.

- Meter Sets: (Accounts: 600070, 645501, 645501, 645502) This is performing preventive maintenance to meter sets and regulators.

- No Gas: (Accounts: 600047, 640705, 640706) This involves performing relights of customer appliances due to outages related to Company work or third party damage.

A sixth category was developed to track corrosion leak repairs on the system, although it is not an actual O & M account. The purpose of tracking the number of corrosion leak repairs on the system is that as pipe is replaced the number of corrosion leaks should decrease, which would aid in providing a possible credit to the PRP Rider.

Each of the six categories has a separate O & M baseline. If the total O & M costs for a program year do not exceed the total baseline for the total of all six categories, there will be a credit to the surcharge. The concept is that as old pipe is replaced by new pipe the O & M costs overall should start to go down. Since the ratepayers are paying for 100% of the program, this allows them to receive a benefit for any cost reductions achieved by the PRP. In **Exhibit __ (WK – 5)** we listed the historical activity of O & M costs related to the surcharge, and these numbers were taken from the Company's annual reports listed in **Exhibit___(WK-3) Part A.**.

In Cost Year-1 (1998/1999), there were actual costs of $8.6 million, and this was subtracted from the baseline of $9.0 million, this resulted in a savings of $483,926 credited to the surcharge.

In Cost Year-2 (1999/2000), there were actual costs of $9.5 million subtracted from a baseline of 12.2 million, and this resulted in a savings of $2.7 million credited to the program. In Cost Year-3 (2000/2001), there were actual costs of $7.3 million subtracted from a baseline of $12.2 million, and a savings of $4.9 million credit to the program.
In December 2001, during Cost Year-4 (2001/2002), the Company filed a letter with the Commission that stated, in part, the following:

> In April 2001, the Company initiated an internal review of Program O&M Expense in order to determine the basis for significant and unexpected changes in Program O&M Expense that started to appear in FY 2000. Based on this internal review, as well as a Commission Staff audit, AGLC has identified certain adjustments that need to be made to the Program Rider.

The internal review found that over $183,354 would be refunded and credited to the Cost Year-4 surcharge. "A charge of $226,430 for an inadvertent failure to include costs of responding to carbon monoxide (CO) leaks" was charged against the Rider. In addition, a charge of $2,174,014 was placed against the rider for O & M baseline credits achieved whose costs were not being captured in the PRP O & M tracking. In the accounts for travel, transportation, and utility expenses, these costs had been removed from the PRP O & M tracking since Cost Year-2, but the baseline of $12.2 million had not been adjusted to reflect this change. The Company stated that the baseline had been too high causing a significant amount of savings that was not correct. The Company adjusted the baseline from $12.2 million to $11.0 million for Cost Year-4, and added over $2.3 million in O & M costs from Cost Year-2 and Cost Year-3 to the $8.5 million incurred during Cost Year-4. In our **Exhibit___(WK-5),** the original baseline of $12.2 million is used for Cost Year-2 and Cost Year-3 to reflect the Company's annual PRP filings for those periods. The Company did not make any revised filings to previous cost years. This resulted in total Cost Year-4 O & M costs of $10.7 million. After the $10.7 million was subtracted from the new baseline of $11.0 million, the O & M savings for Cost Year-4 was $222,087.

For Cost Year-5 (2002/2003), there were actual costs of $9.2 million, and after the baseline of $11.0 million was subtracted, this resulted in savings of $1.7 million credited to the program.

In Cost Year-6 (2003/2004), the program incurred O & M costs of $8.6 million. After the baseline of $11.0 million was subtracted, there was an O & M savings of 2.4 million credited to the program. The total O & M costs incurred from Cost Year-1 to Cost Year-6 is $54.1 million, and the total savings over the same period is $12.5 million.

Q. What is the Company's historical and present mileage achieved during the program?

A. As mandated in the PRP Stipulation, the Company originally had 2,312 miles of bare steel/cast iron that were identified for replacement over ten years. The minimum mileage requirement in the PRP Stipulation was roughly 231.2 miles per year as listed in Section 15 of the Stipulation. In our **Exhibit___(WK-6) Part A**, we have the Company's historical PRP mileage analysis broken out by cost year. We obtained these numbers from the Company's annual PRP reporting. During the Cost Year-1 of the program, the Company replaced 299.63 miles, and this left 2,012.37 miles remaining for replacement. During Cost Year-2 of the program, the Company replaced 251.39 miles, and this left a remaining 1,760.98 miles that needed to be replaced. In Cost Year-3 the Company replaced 254.74 miles, and this left 1,506.24 miles remaining for replacement. In Cost Year-4, the Company replaced 234.03 miles with 1,272.21 miles remaining. In the Company's Cost Year-4 annual report, it stated that due to a new mapping system the original 2,312 miles would be refined. Staff and the Company met on this issue during Cost Year-5. As reported in the Company's annual report for Cost Year-5, it added an additional 192 miles to the original mandate. This increased the total miles from 2,312 to 2,504, and the average minimum mileage requirements was increased from 231.2 to 250.4 miles per year. That is, at a minimum, 250.4 miles would need to be replaced annually to finish by Year 10 of the program. This left an outstanding mileage to be replaced at 1,464.21 at the beginning of Cost Year-5. During Cost Year-5, the Company replaced 250.37 miles of bare steel/cast iron pipe leaving an outstanding 1,213.84 miles to be replaced of the 2,504 miles. In Cost Year-6, the Company replaced 250.56 miles of pipe leaving 963.28 miles outstanding to be replaced.

The Company has always met its minimum mileage requirements, and during the first 4 years of the program, they exceeded the minimum mileage requirements. During Cost Year-5 and Cost Year-6, the Company just met the mileage requirements that would complete the 2,504 miles by Cost Year-10 (2008). At the end of Cost Year-6, the Company had a remaining 963.28 miles requiring replacement, and with four years left in the program, the Company would need to average 240.82 miles to complete the 2,504 miles by Cost Year-10. This is assuming that only the minimum average is completed, but it still falls within the 10 year mandate of the Commission. We have outlined this analysis in our **Exhibit___(WK-6) Part B**. In our **Exhibit___(WK-7),** we have included the Company's annual filings on retired pipe, and the filings contain the numbers used in Staff's testimony.

Atlanta Gas Light Company Future PRP Estimates

Q. Has the Company provided any estimates for the remaining four years of the Program?

A. Yes. On November 4, 2004, Staff sent its Ninth Set of Data Requests in Docket No. 8516-U to the Company. On December 6, 2004, the Company filed its responses. In response to STF-9-4, the Company included a breakdown of PRP estimates in its Schedule 1. The information provided estimated miles of replacement, capital expenditures, capital baseline costs, capital costs to the PRP after the baseline, O & M costs, O & M baseline, O & M credits, depreciation expense, carrying charges, and the resulting net impact to the rider. In our **Exhibit___(WK-8)**, we have included the Company's Schedule 1.

Two items stood out in analyzing the Company's Schedule 1. First, the most dramatic aspect of the estimates is the increase in capital expenditures and mileage. Where the Company had only completed the minimum miles for the past two years, they estimate to increase this in Cost Year-7, and the capital expenditures will drastically increase while the miles of replacement decreases. The Company estimates capital expenditures for Cost Year-7 to be over $105 million with 295 miles of pipe being replaced. In Cost Year-8, the Company estimates costs of $55 million in capital expenditures with 248 miles being completed. In Cost Year-9, the Company projects $81.1 million in capital expenditures with 215 miles being replaced, which falls short of the minimum required 231.2 miles per year stated in the PRP Stipulation. In the last year of the program, Cost Year-10 (2008), the Company projects capital expenditures of $80.5 million with 185 miles being replaced.

The second area of interest is the total miles for 2005 through 2008 (Cost Year-7 through Cost Year-10) that the Company listed on its Schedule 1. The Company lists a total of 943 miles remaining that needs to be replaced in its response to STF-9-4 in its Schedule 1. This contradicts its October 15, 2004 annual report detailing Cost Year-6 retired pipe. In that filing, the Company states that of the 2,504 total miles to be replaced, it has replaced a total of 1,540 miles. This would leave 964 miles remaining to be replaced. In Staff's analysis of the Company's filings, AGLC has963.28 miles of pipe remaining.

Q. Have there been instances when the Company has sought to recover non-PRP costs through the program?

A. Yes. In Docket No. 18347-U, Atlanta Gas Light Company's 2004-2007 Capacity Supply Plan, Staff testified that the Company attempted to recover base rate costs through the PRP. There were two main situations where the Company attempted to place base rate type items into the PRP.

First, during the March 18-20, 2003 2nd quarter audit, the Staff identified costs relating to a pressure improvement project that the Company attempted to recover through the PRP. In the second situation, the Company filed as part of its 2004/2007 Capacity Supply Plan in Docket No. 18437-U, the costs associated with the purchase of 250 miles of pipe facilities from Southern Natural Gas ("SNG") to replace 60 miles of pipe scheduled for replacement under the PRP. The Company sought to recover the costs of the entire purchase through the PRP.

We have attached the October 27, 2004 Amended Final Order in Atlanta Gas Light Company's 2004-2007 Capacity Supply Plan in Docket No. 18437-U / Docket No. 8516-U as our **Exhibit___(WK-9)**.

Q. Have there been other instances where the Company booked expenses against the PRP that were base rate items?

A. Yes. During Staff's 1st quarter PRP audit for Cost Year-7, November 29 through December 1, 2004, Staff found costs related to the SNG purchase. Initially during the audit, only $19,000 in costs was found, but after expressing concern to the Company, they researched this issue and found over $168,000 in right-of-way surveys and costs. Additionally, Staff met with the Company on January 26, 2005 for a meeting on pipe replacement issues, and the Company provided Staff with current financial data through December 2004 that stated over $180,000 has been charged to the program. The Company stated that these costs are continuing as a result of surveys related to the SNG purchase. The Company also stated that the costs had been backed out of the program awaiting determination from the Commission on the appropriate recovery mechanism.

PRP Cost Recovery Concerns

Q. Did you have concerns that these costs were not backed out the PRP accounts?

A. Yes. Upon further review of the matter, Staff determined that the costs had not been backed out of the general ledger accounts related to the PRP and were just being tracked separately. Even if the SNG purchase was approved for Rider recovery, these particular costs should not be considered recoverable under the PRP. It is the Company's presumption that if a cost is possibly related to the PRP, then it must be recoverable in the PRP. This places intense pressure on the audit process to determine prudence. It is apparent the Company supports placing these costs in the PRP, and Staff is opposed to this.

Q. Why didn't AGLC's Regulatory Compliance group inform Staff of these costs?

A. Staff also determined that the Regulatory Compliance group at AGLC had no knowledge prior to the 1st quarter audit that these costs were being charged to the program. In the January 26th meeting, Staff determined that AGLC's engineering group charged these costs against the PRP without the Compliance group's knowledge. This precipitates further concern for Staff because it is Regulatory Compliance that Staff relies upon to obtain current and accurate information on the PRP.

It should not be strictly left to the audit process to hunt and find these types of costs being charged to the program. Rather, the Company should openly communicate to Staff when it knowingly places costs in the program that could be contrary to orders approved by the Commission. During the AGLC hearings, Scott Carter stated that "the way the settlement was set up, staff has an obligation to audit the program and make a recommendation about what the rate should be for the next year." (Tr. at 334.) Mr. Carter's response was to a question asked by Staff's attorney in trying to determine the distinction between recovering costs through the PRP Rider versus base rates. Mr. Carter's statement expresses the

Company's position that it is incumbent on Staff to find any items that the Company is placing in the PRP general ledger accounts that are inappropriately charged to the program. This is an important difference between the PRP Rider and a rate case because under the PRP, the burden is shifted to Staff to find any imprudent spending after it has occurred as opposed to a rate case proceeding where the Company has the statutory burden to prove prudence before the spending takes place.

The Company should bear the responsibility to critically determine whether a cost is justified before booking it against the PRP and that the program is not charged inappropriately. The receipt found by Staff during the 1st quarter audit related to survey expenses, and it was not obvious where the surveys were being conducted. If it had not been for a hand written note on the receipt document which stated, "SNG Pipeline Environmental Due Diligence", Staff may not have looked at it as closely as we did, nor would the Company have known it was attributed to the SNG pipe facilities. This same contractor is performing other engineering services that are related to the PRP. **Exhibit __(WK_10)** Part A is the receipt document found where the Company is booking costs to the PRP related to surveys of the SNG pipe facilities. Part B is a receipt document from the same contractor conducting services related to the PRP.

Q. Should AGLC's engineering group have sole authority in determining what costs are appropriate for the PRP exclusive to informing AGLC's Regulatory Compliance group and Commission Staff?

A. No. AGLC's engineering group should not have charged the SNG-related costs against the PRP, and they should have consulted with AGLC's Regulatory Compliance before making that decision. Then Staff could have been informed in a professional manner without having to rely on the audit process as the first and last line of defense to catch this type of cost. In its October 27, 2004 Final Order in Docket No. 18437, Atlanta Gas Light Company's 2004-2007 Capacity Supply Plan, and Docket No. 8516, Atlanta Gas Light Company's Pipe Replacement Program, the Commission stated the following in its Amended Final Order dated October 27, 2004:

> As previously stated herein, the Commission finds that only 60 miles of the Company's proposed purchase of 250 miles of SNG pipeline replaces the Old Colonial Line as contemplated by the PRP Stipulation. (Page 24)

The Final Order continues with the following:

> Subsequent to hearing such evidence, the Commission will make a determination as to whether the Company may recover the associated value or cost through the PRP rider, and, if so, on the appropriate amount to be recovered. The remaining 190 miles composing the SNG pipeline purchase is new capital investment and not pipe replacement within the meaning of the PRP Stipulation. The appropriate method of recovery for this expenditure is through base rates and the Company may seek recovery through its base rates. (Page 25)

Considering this language from the Final Order, Staff is concerned that the Company continues to book costs related to surveys of the 250 miles of SNG pipe facilities when only 60 miles have been deemed potentially eligible, but not guaranteed, for recovery through the PRP. Furthermore, these survey costs being incurred are not related to the PRP or the SNG purchase price, and, thus, should not be allowed for PRP recovery. On February 8, 2005, Staff sent a formal letter to the Company stating it would seek to disallow all costs it had booked against the PRP as it relates to the surveys and due diligence.

Q. Does Staff have concerns with the Company seeking to extend the PRP to a 15 year program?

A. Yes. Messrs. Danny McGriff and Alan Towe testify on behalf of Staff regarding concerns with the proposed program extension from a safety perspective. From a financial perspective, Staff is concerned that slowing the program down would certainly be detrimental to existing contracts with contractors. Extending the term of the contracts currently in place or reducing the number of existing contractors could negatively impact the cost reducing synergies now in place between the Company and the contractors. The existing contractors would have reduced economies of scale because they will have less pipe to replace each year, and this could cause the cost per foot to increase.

Q. Is Staff concerned that the Company may be including in the PRP costs for replacing transmission pipe that falls under federal mandates and not the PRP?

A. Yes. This is a concern since it will have a negative cost impact to the PRP. The McGriff/Towe testimony covers that subject in detail.

Q. Was it Staff's initial opinion that the Rider should be rolled in to base rates?

A. Yes. Staff had recommended that the Commission consider the possibility of rolling the Rider into base rates in its Audit Report for Cost Year-5 in Docket No. 8516-U. The Commission agreed with this recommendation in the Order approving the surcharge for Cost Year-5 in Docket No. 8516-U and the Procedure and Scheduling Order for Docket No. 18638-U. The primary driver for seeking to roll-in the PRP Rider into base rates was to keep base rate items from being recovered by the Rider.

Q. Has Staff's position changed in regard to the roll-in of the Rider to base rates?

A. No, although the Staff's primary recommendation has now changed from a full roll-in to base rates in conjunction with the termination of the PRP to a partial roll-in to base rates and the retention of the PRP with certain modifications. In addition, we propose additional options to the Commission regarding the disposition of the PRP and Rider versus base rate recovery in the following section of our testimony. Staff's primary recommendation is to have a partial roll-in of PRP dollars, but maintain the PRP Rider at a fixed amount until the completion of the program. This will provide rate stability until the end of the program. The Commission still has the option of a full base rate roll in, but Staff recommends a partial roll in.

IV. ALTERNATIVES TO THE COMPREHENSIVE RATE PLAN

Q. Are there alternatives other than the Staff's CRP or the Company's proposal for at least five rate increases over the next three years?

A. Yes. One alternative to either the Staff's CRP or the Company's proposal for at least five rate increases is to fully roll-in to base rates the PRP revenue requirement, to reject the economic development fund surcharge rider, and to eliminate the PRP rider altogether. With this alternative, it would be necessary to provide the Company with recovery of the unrecovered deferred amounts from Year 6 and all the deferred amounts from Year 7 of the PRP. The Company identified the roll-in to base rates and elimination of the PRP surcharge rider as Alternative 2 to its Preferred Case and quantified the required base rate increase as $62.248 million. The Company's quantification of the required base rate increase excluded the additional amount necessary to recover the unrecovered deferred amounts from Years 6 and 7.

Another alternative to either the Staff's CRP or the Company's proposal for at least five rate increases is to reduce base rates in accordance with the Staff's recommendation on revenue requirements, to reject the economic development fund surcharge rider, and to retain the PRP surcharge rider along with the related rate increases in October of each of the next three years.

Q. Why are the alternatives you identified inferior to the Staff's CRP?

A. These alternatives are less attractive to both the Company and ratepayers. The first alternative is less attractive to the Company for the reasons cited in Mr. Carter's Direct Testimony, primarily the asserted harm due to regulatory lag in the Company's ability to timely recover its PRP investment. The first alternative is less attractive to ratepayers because it will result in annual or more frequent base rate increases, again according to Mr. Carter's Direct Testimony.

The second alternative is less attractive to both the Company and ratepayers due to the rate volatility resulting from a base rate reduction followed by three PRP rate increases. If this rate volatility can be addressed by using a base rate reduction to prepay the PRP rate increases, then it benefits both the Company and ratepayers.

V. VALUATION OF SNG PURCHASE

Q. What is Staff's opinion regarding the valuation of and the method of recovery for the 60 miles of SNG pipe facilities?

A. The Commission's Amended Final Order in Docket 18437-U states on page 32 as follows:

> The Commission finds that the Company's proposed purchase of the SNG pipeline and its plan to tie in that pipeline with its system are prudent, but that only 60 miles of the SNG pipeline replaces the Old Colonial line as intended by the PRP Stipulation. The Commission shall hear evidence pertaining to the value and cost of this 60-mile pipeline, including the cost of any necessary tie-ins, in the Company's rate case proceeding in Docket No. 18638-U. Subsequent to hearing such evidence, <u>the Commission shall make a determination as to whether the Company may recover the associated cost or value through the PRP rider and, if so, on the appropriate amount to be recovered</u>. In addition to any such costs not recovered through the PRP rider, the costs of the remaining 190 miles comprising the SNG pipeline purchase are new capital investment and not pipe replacement within the meaning of the PRP Stipulation. The appropriate method of recovery for these expenditures is through base rates and the Company may seek recovery of these costs through its rate base and such costs shall be given appropriate treatment in the rate case. (Emphasis added).

Pursuant to this order, the first determination for the Commission to make is whether the 60 miles should be recovered through the PRP or through base rates. The Staff has included the 60 miles at cost in the base revenue requirement. If the Commission determines that the 60 miles should be recovered though the PRP, then it would need to determine whether to use "cost or value" to decide how much to place in the PRP, with the remainder of the total cost of the 250-mile SNG purchase going into base rates. If the Commission determines that the 60 miles should be recovered though base rates, however, then there is no need to apportion the total cost of the 250-mile SNG purchase and thus no need to determine a separate cost or value for the 60 miles.

Q. Did the Company address the valuation of the 60 miles in their direct testimony?

A. No. The Company did not address either the cost or the value of the 60 miles in their direct testimony. Accordingly, Staff recommends that the Commission determine that neither the associated cost nor value of the 60 miles be recovered through the PRP rider and that the cost of the entire 250 miles be recovered through base rates instead. In any event, if the Commission adopts Staff's preferred case, it is largely academic as to whether cost or value is used or whether the 60 miles is placed in base rates or the PRP.

Q. Regardless of any valuation of the 60 miles, should the Company be allowed to recover more than the filed purchase price of the 250 miles of SNG pipe facilities?

A. No. Regardless of which recovery method is used, the total amount that the Company can recover for the 250-miles is the total cost of the SNG purchase plus the cost of the tie-ins. Under Staff's preferred case, the over-recovery in base rates is used to offset the expected increases in the PRP rate. If the 60 miles is placed in base rates, then there will be less over-recovery from base rates but less PRP costs to offset. Conversely, if the 60 miles is placed in the PRP, there will be more over-recovery from base rates but more PRP costs to offset.

If for some reason the Commission determines that the Company should recover the "cost or value" of the 60 miles through the PRP, Staff recommends in the alternative that the Commission provide for recovery of the cost as quantified by Staff in Docket No. 18437-U. Namely, Staff recommended that the Commission use the book value that SNG filed with the Federal Energy Regulatory Commission ("FERC") as an accurate accounting of the value of the pipe. The specific 60-mile, 14-inch line is identified in the FERC filing as the Ocmulgee-Atlanta Line from Milepost 1.659 to Milepost 62.347. Its book value is listed in Exhibit-Y of the FERC filing in the amount of $4.3 million

Tony

Q What is your response to the Company's valuation of the 60 miles of SNG pipe facilities by Mustang Engineering L.P.

A. Staff has only been provided a copy of this valuation within the last week and is still in the process of reviewing it. We are pleased that Mustang Engineering apparently agrees with Staff's recommendation that the Ocmulgee-Atlanta Line is a comparable replacement for the Old Colonial Line. To date, however, neither Mustang Engineering nor the Company has presented any evidence in this case to cause Staff to alter its recommendation. Staff has yet to see any pre-filed testimony sponsoring the valuation or any request from the Company seeking to allow it to present such testimony out-of-time. In the event that the Company does intend to offer the valuation as evidence in this matter, Staff should be given sufficient time to submit data requests to the Company and to Mustang Engineering regarding the valuation.

Q. Does this complete your testimony?

A. Yes

Docket No. 18638: Atlanta Gas Light Company's 2004-2005 Rate Case

Errata Sheet: Testimony of Tony Wackerly and Lane Kollen

Item-1

Page 3 Line 13: The words, "nine quarterly audits" should be **"ten quarterly audits"**.

Item-2

Page 11 Line 12:

Table entitled: ILLUSTRATION OF REGULATORY LIABILITY FOR PRP ROLL-IN BASE RATES OF $20 MILLION

	May 2007-Apr 2008
Payment of PRP Rate Increases	Change from: (22,469) to **(25,911)**
Return ~~of~~ on Reg Liability	Change from: 1,538 to **1,472**
End Bal Reg Liability	Change from: 19,457 to **15,949**

Item-3

Page 14 Line 24: The word "evidence" should be **"existence"**.

Item-4

Page 18 Line 23: After Cost Year-6 add **(2003/2004)**

Item-5

Page 19 Line 17: The last sentence should read: **If the $23,878,254 net impact to the PRP Rider is divided by the 1,538,146 customers, this will be $15.52 per customer for the year. When the $15.52 is divided by 12 months, this is $1.29 per customer per month.**

Item-6

Page 20 Line 24: Account Number **645501** should appear only once.

Item-7

Exhibit __(WK_10) did not list Part A or Part B

Exhibit__(WK-10)

Part A

Receipt discovered during the PRP 1st quarter audit in November 2004 Detailing Expenses the Company Claims Related to the SNG Purchase

Part B

Similar to Receipt in Part A Detailing Similar Expenses Not Related to SNG Pipe Facilities