BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

September 13, 2001

IN RE:)
)
CHATTANOOGA GAS COMPANY)**Docket No. 01-00172**
ACTUAL COST ADJUSTMENT AUDIT)

NOTICE OF FILING BY THE ENERGY AND WATER DIVISION OF THE TENNESSEE REGULATORY AUTHORITY

Pursuant to Tenn. Code Ann. §§ 65-4-104, 65-4-111 and 65-3-108, the Energy and Water Division of the Tennessee Regulatory Authority hereby gives notice of its filing of the Compliance Audit Report of the Actual Cost Adjustment Audit (hereafter "ACA") Component of the Purchased Gas Adjustment Rule for Chattanooga Gas Company in this docket and would respectfully state as follows:

1. The present docket was opened by the Authority to hear matters arising out of the ACA audit of Chattanooga Gas Company (the "Company").

2. The Company's ACA filing was received on February 9, 2001, and the Staff completed its audit of same on August 22, 2001.

3. On August 24, 2001, the Energy and Water Division issued its preliminary ACA audit findings to the Company, and on September 7, 2001 the Company responded thereto.

4. The preliminary ACA audit report was modified to reflect the Company's responses and a final ACA audit report (hereafter the "Report") resulted therefrom. The Report is attached hereto as Exhibit A and is fully incorporated herein by this reference. In addition to the recommendations of the Energy and Water Division the Report contains the audit findings of the Energy and Water Division and the Company's responses thereto.

5. The Energy and Water Division hereby files its Report with the Tennessee Regulatory Authority for deposit as a public record and approval of the recommendations and findings contained therein.

Respectfully Submitted:

Pat Murphy

Pat Murphy
Energy and Water Division of the
Tennessee Regulatory Authority

CERTIFICATE OF SERVICE

I hereby certify that on this 13th day of September, 2001, a true and exact copy of the foregoing has been either hand-delivered or delivered via U.S. Mail, postage pre-paid, to the following persons:

Mr. K. David Waddell
Executive Secretary
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37243

Ms. Beth White
Controller
AGL Resources, Inc.
Location 1686
PO Box 4569
Atlanta, GA 30302-4569

Mr. Archie R. Hickerson
Manager - Rates
AGL Resources, Inc.
Location 1686
P.O. Box 4569
Atlanta, GA 30302-4569

Pat Murphy
Pat Murphy

COMPLIANCE AUDIT REPORT
of the
ACTUAL COST ADJUSTMENT COMPONENT
of the
PURCHASED GAS ADJUSTMENT RULE
for
CHATTANOOGA GAS COMPANY

Docket No. 01-00172

Prepared by:

THE ENERGY AND WATER DIVISION
of the
TENNESSEE REGULATORY AUTHORITY

SEPTEMBER 2001

EXHIBIT
A

COMPLIANCE AUDIT REPORT
of the
ACTUAL COST ADJUSTMENT COMPONENT
of the
PURCHASED GAS ADJUSTMENT RULE
for
CHATTANOOGA GAS COMPANY
for the Year ended June 30, 2000

Docket No. 01-00172

TABLE OF CONTENTS

I. INTRODUCTION

The subject of this audit is Chattanooga Gas Company's (hereafter the "Company" or "Chattanooga") compliance with the Actual Cost Adjustment and Refund Adjustment of the Purchased Gas Adjustment Rule (hereafter "PGA") of the Tennessee Regulatory Authority (hereafter the "TRA" or the "Authority"). The objective of the audit was to determine whether the Purchased Gas Adjustments, which are encompassed by the Actual Cost Adjustment (hereafter "ACA") as more fully described in section V., for the year ended June 30, 2000, were calculated correctly and were supported by appropriate source documentation.

II. AUDIT OPINION AND RECOMMENDATION

The Company submitted its ACA filing on February 9, 2001, seven (7) months after the close of the audit period. While the PGA Rule does not specify the exact timing of the required annual filing, it is the Staff's expectation that companies will file within a reasonable time following the close of the period to be audited. We realize that preparing the filing is very time consuming, as is the time necessary to audit the filing. For the last four (4) years, Chattanooga has filed its ACA during the month of October (within four (4) months of the close of the audit period). Therefore, absent unusual or unforeseeable circumstances, we can conclude that a four (4) month time frame is reasonable for this company. The filing date this year was well beyond this test of reasonableness. We inquired of the Company several times, beginning in October 2000, its reason for the delay in filing. The responses indicated that they were waiting on the final report from the accounting firm.[1] We recommend that, if the Company continues to have this firm review its filing prior to submitting it to the TRA, a time certain for the completion of the review be established in the contract, in order for the Company to timely file its report with the TRA.

The Staff's audit resulted in eleven (11) exceptions for the current ACA period as detailed in Section VII. The **net over-recovery of $67,526.70** decreased the Company's net under-recovered balance in the ACA Account by this amount. **The corrected net balance in the Deferred Gas Cost Account should be $2,216,335.06.** Based on our review, we conclude that for the current ACA filing period the Purchased Gas Adjustment mechanism as calculated in the Actual Cost Adjustment is working properly and in accordance with the TRA's rules.

III. BACKGROUND INFORMATION ON COMPANY

Chattanooga Gas Company, located at 6125 Preservation Drive in Chattanooga, Tennessee, is a wholly owned subsidiary of Atlanta Gas Light Company, which has its main office at 1251 Caroline St. N.E., Atlanta, Georgia. As a local distribution company (hereafter "LDC") Chattanooga Gas provides service to customers in Chattanooga and Cleveland, Tennessee, and environs in Hamilton and Bradley Counties in Tennessee, respectively. The

---

[1] See Section VI. for a discussion of the Accountant's Report.

natural gas used to serve these areas is purchased from three natural gas pipelines in accordance with separate and individual tariffs approved by the Federal Energy Regulatory Commission. The three interstate pipelines are Tennessee Gas Pipeline, East Tennessee Natural Gas, and Southern Natural Gas.

IV. JURISDICTION OF THE TENNESSEE REGULATORY AUTHORITY

Tennessee Code Annotated (T.C.A.) gave jurisdiction and control over public utilities to the Tennessee Regulatory Authority (hereafter the "Authority" or "TRA"). T.C.A. § 65-4-104 states:

> The Authority shall have general supervisory and regulatory power, jurisdiction, and control over all public utilities, and also over their property, property rights, facilities, and franchises, so far as may be necessary for the purpose of carrying out the provisions of this chapter.

Further, T.C.A. § 65-4-105 grants the same power to the Authority with reference to all public utilities within its jurisdiction as chapters 3 and 5 of Title 65 of the T.C.A. has conferred on the Department of Transportation's oversight of the railroads or the Department of Safety's oversight of transportation companies. By virtue of T.C.A. § 65-3-108 said power includes the right to audit:

> The department is given full power to examine the books and papers of the said companies, and to examine, under oath, the officers, agents, and employees of said companies... to procure the necessary information to intelligently and justly discharge their duties and carry out the provisions of this chapter and chapter 5 of this title.

The Energy and Water Division of the TRA is responsible for auditing those companies under the Division's jurisdiction to ensure that each company is abiding by Tennessee statute as well as the Rules and Regulations of the Authority. Pat Murphy of the Energy and Water Division conducted this audit.

V. DESCRIPTION OF PURCHASED GAS ADJUSTMENT RULE

Actual Cost Adjustment Audits:

The PGA Rule can be found in Chapter 1220-4-7 of the Rules of the Tennessee Regulatory Authority. The PGA Rule permits the Company to recover, in a timely fashion, the total cost of gas purchased for delivery to its customers and to assure that the Company does not over-collect or under-collect gas costs from its customers.

The PGA consists of three major components:

1. **The Actual Cost Adjustment (hereafter the "ACA")**
2. **The Gas Charge Adjustment (hereafter the "GCA")**
3. **The Refund Adjustment (hereafter the "RA")**

The ACA is the difference between the revenues billed customers by means of the GCA and the cost of gas invoiced the Company by suppliers plus margin loss (if allowed by order of the TRA in another docket) as reflected in the Deferred Gas Cost account. The ACA then "trues-up" the difference between the actual gas costs and the gas costs recovered from the customer through a surcharge or a refund. The RA refunds the "true-up" along with other supplier refunds. For a more complete definition of the GCA and RA, please see the PGA Formula in Appendix A of this Report.

Section 1220-4-7-.03 (2) of the PGA rule requires:

> Each year, the Company shall file with the [Authority] an annual report reflecting the transactions in the Deferred Gas Cost Account. Unless the [Authority] provides written notification to the Company within one hundred eighty (180) days from the date of filing the report, the Deferred Gas Cost Adjustment Account shall be deemed in compliance with the provisions of this Rule. This 180-day notification period may be extended by mutual consent of the Company and the [Authority] Staff or by order of the [Authority].

Prudence Audit of Gas Purchases:

Section 1220-4-7-.05 of the PGA Rule provides for, unless otherwise ordered by the Authority, an "Audit of Prudence of Gas Purchases" by a qualified consultant. This specialized audit evaluates and reports annually on the prudence of any gas costs included in the PGA. PHB Hagler Bailly (now PA Consulting Group) conducted the Prudence Audit of the gas purchasing activities of Chattanooga for the period July 1, 1999 to June 30, 2000. In its report PHB Hagler Bailly stated "For the purpose of this review, we conclude that AGL, acting of [sic] behalf of Chattanooga Gas Company during the period under review, acted prudently, overall, in the areas of gas supply planning and procurement."[2]

[2] At the September 11, 2001 Authority Conference, the Directors voted to approve a Performance-Based Rate Making Mechanism for Chattanooga. As part of the tariff, the Company established a benchmark to compare its gas purchases against. If it meets the criteria established, the Company is released from having to undergo a prudency review by an independent consultant for that plan year.

VI. SCOPE OF ACA AUDIT

Background:

The Staff's audit of Chattanooga's Deferred Gas Cost Account for the ACA period July 1, 1997 through June 30, 1998 resulted in fifty-five (55) exceptions, the net effect of which reduced the balance in the account by $1,806,996. The materiality of the findings and seriousness of the accounting deficiencies were such that Staff concluded the Company had failed to comply with the Actual Cost Adjustment component of the Purchased Gas Adjustment Rule. This adverse audit opinion resulted in the Company being placed on probation for a period of one year. The June 22, 1999 Authority Order resulting from this audit required the Company to submit a summary of the steps taken by the Company to correct the deficiencies in its accounting procedures.

One of the steps the Company took to correct the accounting weaknesses cited in the previous audit report was to contract with an independent CPA firm to review its ACA filing before it was submitted to the TRA. The subsequent audit of the period ending June 30, 1999 resulted in a favorable audit opinion and the Company was released from its probationary status on June 22, 2000. The Company has elected to continue that review for an additional year to assure that the necessary internal accounting controls and procedures are in place. The independent accounting firm of Work & Greer, P.C. reviewed the Company's Actual Cost Adjustment ("ACA") filing for the audit period July 1, 1999 through June 30, 2000, and a copy of the Independent Accountant's Report ("Accountant's Report")[3] was provided to the Staff.

Audit Scope:

The Company's filing summarized the balance in the Deferred Gas Cost Account (hereafter "ACA Account") at June 30, 2000, as follows:

Beginning Balance @ 6/30/99	$ 875,272
Activity during year ended 6/30/00:	
Gas Purchases	49,841,166
Gas Recoveries	(48,510,946)
Interest accrued during year ended 6/30/00	78,371
ENDING BALANCE @ 6/30/00	$ 2,283,862

We performed an in-house audit to ascertain that the Company's calculations of gas costs incurred and recovered were correct. As part of our auditing process, we reviewed the Accountant's Report mentioned above. Adjustments to the ACA Account recommended by the report totaled $190,898. These adjustments were incorporated into the Company's filing prior to submitting to the TRA. At the time the report was issued, there were several minor adjustments that had not been made. Of these adjustments, a net $1,921 in under-recoveries were incorporated into the Staff's findings. The results of our audit showed an over-recovery in the

[3] The Accountant's Report is attached as Exhibit 1.

ACA Account of $67,527. Details of the ACA Account and the Staff's findings can be found in Section VII. of this report.

The Company filed a PGA with the TRA on November 20, 2000, to become effective December 1, 2000, implementing a surcharge for the 1999-2000 ACA balance. The filing also included the remaining balance of the 1997-1998 ACA surcharge. Staff concludes that the Company has now implemented all refunds/surcharges.

We also audited a sample of customer bills to determine if the proper PGA rates were being applied in the Company's calculation of the customers' bills. Since the Company's billing process is computerized, we tested a sample of 68 bills. These bills were selected to be representative of the residential, commercial, industrial and interruptible customers in the Company's service area. The sample was selected from the twelve-month period of July 1, 1999, through June 30, 2000. After recalculating each sample bill, we determined that the calculation methods utilized by the Company are correct.

VII. ACA FINDINGS

As mentioned in Section II above, the result of the Staff's audit was a **net over-collection of $67,526.70**, which had the effect of decreasing the Company's under-recovered balance in the ACA Account by this amount. A summary of the ACA Account as filed by the Company and as adjusted by the Staff is shown below, followed by a detail of each finding.

SUMMARY OF THE ACA ACCOUNT:

	Company	Staff	Difference (Findings)
Beginning Balance at 6/30/99	$ 875,271.82	$ 875,271.82	$ 0
Plus Gas Costs	49,841,165.60	49,773,694.13	-67,471.47
Minus Recoveries	48,510,946.14	48,506,545.14	-4,401.00
Ending Balance before Interest	2,205,491.28	2,142,420.81	-63,070.47
Plus Interest	78,370.48	73,914.25	-4,456.23
Ending Balance at 6/30/00	$ 2,283,861.76	$ 2,216,335.06	$ -67,526.70

The above corrected balance in the ACA Account is broken down as $2,426,348.44 under-recovery in the Commodity portion, and $210,013.38 over-recovery in the Demand portion.

SUMMARY OF FINDINGS:

FINDING #1	Invoiced Gas Costs - Commodity	$ 31,062.14	over-recovery
FINDING #2	Inventory Withdrawals - Commodity	11,037.93	over-recovery
FINDING #3	Off-System Sales - Commodity	6,377.24	over-recovery
FINDING #4	Consultant Fees - Commodity	19,038.26	over-recovery
FINDING #5	SS-1 Margin Loss - Commodity	44.10	under-recovery
FINDING #6	ACA Refunds and Surcharges - Commodity	2,059.00	under-recovery
FINDING #7	ACA Refunds and Surcharges – Demand	849.00	under-recovery
FINDING #8	Gas Cost Recoveries - Commodity	1,249.00	under-recovery
FINDING #9	Gas Cost Recoveries – Demand	244.00	under-recovery
FINDING #10	Interest Accrual – Commodity	4,472.27	over-recovery
FINDING #11	Interest Accrual - Demand	16.04	under-recovery
	Net Result	**$ 67,526.70**	**over-recovery**

FINDING #1:

Exception:

The Staff calculated an **over-recovery of $31,062.14** in invoiced gas costs.

Discussion:

There were two factors that contributed to the above amount. As stated earlier in this report, the Company elected to have an independent accounting firm review its ACA filing prior to submitting it to the TRA. We have relied to some extent on the results of this "pre-audit". The Company supplied a list of exceptions from the independent consultant that were not corrected prior to its filing with the TRA. One of these was a net $1,031.16 overrecovery of various supplier invoiced gas costs. Page 2 of the accountant's report details the differences for the delivery months of 11/99, 12/99, 4/00, and 6/00. The Company agrees with this finding and we incorporate this finding into our audit results.

The second factor was an overrecovery of $30,030.98 for an Enron invoice in April 2000. While researching a response to a Staff data request, the Company discovered that certain invoiced volumes that the Company had paid for on one invoice were included by Enron on a second invoice. Consequently, the Company inadvertently paid for those volumes twice. The Company then notified Staff by letter dated July 23, 2001 of the duplicate payment and supplied supporting documentation.

Company Response:

The Company concurs. The Company reported both the items identified above to the TRA Staff. In a February 9, 2001 letter to the TRA Staff, the Company identified the $1,031.16 adjustment referenced as a finding in the accountant's report. Also as stated above, the Company notified the Staff in a July 23, 2001 letter of the double billing. The appropriate adjusting entries will be recorded.

FINDING #2:

Exception:

The Staff calculated an **over-recovery of $11,037.93** in Inventory Withdrawals.

Discussion:

The Company used LIFO (last in, first out) accounting for its inventory accounting during this audit period. When calculating the cost of inventory withdrawals for the months of January 2000 and February 2000, the Company made errors in applying the cost associated with the appropriate layers of inventory.

Company Response:

The Company concurs that inappropriate layers of inventory cost were used when valuing withdrawals for the months of January and February 2000. The result was the incorrect timing of the recognition of the cost. The gas costs for the twelve months ended June 30, 2000 will be reduced $11,037.93 and the inventory balance will be increased $11,037.93.

FINDING #3:

Exception:

The Staff calculated an **over-recovery of $6,377.24** in Off-System Sales.

Discussion:

In accounting for Off-System Sales, the Company credits the ACA Account with the cost of these sales. Fifty percent (50%) of the profits from these sales is then refunded through an IMCR (Interruptible Margin Credit Rider) filing through the PGA filing process. In this ACA filing, the Company understated the cost of its Off-System sales volumes by $6,377.24.

Company Response:

The Company concurs in part. Subsequent to filing the ACA for the twelve months ended June 30, 2000, the Company notified the Staff of the $6,377.24 understatement of the cost of Off-System Sales. The understatement in Off-System Sales gas cost resulted in a corresponding over-statement in the gross profit from Off-System Sales and an overstatement of the amount to be refunded in accordance with the Interruptible Margin Credit Rider. Since the Interruptible Margin Credit Rider provides that only (50%) of the profit from Off-System is refunded, the overstatement in Off-System cost resulted in a net $3,188.62 over-recovery.

Staff Response:

The Company is correct in stating that the **net** overrecovery by the Company is $3,188.62. However, the $3,188.62 underrecovery as a result of overstating the gross profit from Off-System Sales will need to be corrected in a subsequent IMCR filing, along with a correction in the corresponding interest accrual. **As relates to this filing**, the balance in the ACA Account is overstated by $6,377.24.

FINDING #4:

Exception:

The Staff calculated an **over-recovery of $19,038.26** in Consultant Fees.

Discussion:

Under the terms of the PGA Rule, the Staff reviews (audits) the ACA Account of a gas utility on an annual basis.[4] Included in this ACA Account are all gas costs as defined by the Rule, plus any margin loss allowed by Order of the TRA in another docket.[5] Also allowed for recovery is any amount a company pays to a consultant for the audit of the prudence of its gas purchasing practices.[6]

Included in this filing is $19,038.26 in fees paid to the independent accounting firm that Chattanooga engaged to "pre-audit"[7] its ACA filing for the last audit period (July 1998 to June 1999). The Staff's audit of the July 1997 to June 1998 filing period resulted in an adverse opinion. The Company was put on probation for one year and told to correct the accounting deficiencies noted in the report or face possible additional sanctions by the TRA. As part of the corrective measures taken by the Company, it engaged an independent accounting firm to review the next ACA filing prior to submitting it to the TRA. The audit results of the July 1998 to June 1999 filing period showed that the Company had complied with the Authority's Order and acceptably corrected all deficiencies. As stated earlier in this report, Chattanooga has engaged the same firm to review this audit period as well.

In a Staff data request, we asked the Company to explain why these fees should be considered "gas costs" as defined in the PGA Rule. The Company responded and a copy of that response is attached to this report as Exhibit 2. After reviewing the Company's response, we are not persuaded that these fees meet the intent of the PGA Rule for recovery of gas costs. It is the Company's responsibility to comply with the Authority's rules and regulations. The Company makes the decision how best to utilize its resources to meet this responsibility. Whether a Company prepares its ACA filing in-house or employs an outside accounting firm to do the job, these expenses would properly be considered operating costs and not gas costs.

Company Response:

The Company does not concur. While we agree with the Staff that the definition of "gas cost" included in the TRA's PGA Rule does not specifically address payments to qualified consultants to review the Company's filing, there are other provisions of the PGA Rule which both anticipate these types of costs and provide for their recovery.

---

4 TRA Rule 1220-4-7-.03(2)
5 TRA Rule 1220-4-7-.03(1)(c)2
6 TRA Rule 1220-4-7-.05(1)(a)3
7 As stated in the Company's cover letter for this filing, the independent accounting firm was engaged to "review the supporting documents and the procedures used by Chattanooga Gas Company in determining the ACA and IMCR factors."

Specifically, TRA Rule 1220-4-7-.02 (1) reads as follows:

> **1220-4-7-.02 GENERAL PROVISIONS**
> (1) These Purchased Gas Adjustment (PGA) Rules are intended to permit the company to recover, in timely fashion, the total cost of gas purchased for delivery to its customers **and to assure that the Company does not over-collect or under-collect Gas Costs from its customers.** (Emphasis added).

In addition, the TRA's PGA Rule is not intended to be a static instrument, and changes to include items such as these consultant costs as proposed by the Company are anticipated by Rule 1220-4-7-.03(4) which reads as follows:

> (4) Modification of Formulas. The formulas set forth above are not designed for use with two-part demand/commodity rate schedules; **however, the formulas may be modified from time to time to carry out the intent of these PGA Rules.** Any proposed modification to the formulas shall contain a proposed effective date. The Commission may suspend the modification within thirty (30) days of filing, in which case the proposed modification shall be subject to notice and hearing; other wise, the modification to the formula shall be effective on the proposed effective date. (Emphasis added).

After the Company's 1997/1998 audit of gas costs by the TRA Staff, we decided to engage a qualified consultant to review our future filings prior to submission to the TRA. In both the previous and current ACA filings, our consultant was able to identify errors and make recommendations for improvements in our draft filings.

While this added layer of review has been beneficial to the Company for correcting draft filings prior to submission, it has also been valuable for the Staff to the extent that they could rely on the work of this consultant. As evidence of this, five of the findings identified in the Staff's audit were first discovered by the consultant, and then incorporated by the Staff into their report.

There seems to be no question by the Staff as to whether the payments to this consultant are prudent, but rather whether the PGA mechanism is the proper place for its recovery. The Company basically has only two mechanisms for cost recovery – base rates and purchased gas adjustments. Since this cost did not exist at the Company's last rate case, the only way for it to be recovered is through the purchased gas adjustment mechanism, which is appropriate since this cost directly relates to assuring customers that the Company does not "over-collect or under-collect gas costs from its customers" as described above.

Finally, the Company would like to point out that this consultant has represented a new resource that the Staff can, and has called upon for questions or concerns about the ACA process. Because labor resources at both the TRA and the Company are restricted, this consultant can act as an efficient added source of labor without any adjustment to the TRA's Inspection Fee structure. Again, the use of the consultant for this activity is proper, since it helps ensure that the gas costs charged to customers has been properly calculated. However, the Company will be unable to provide this resource for the Staff in future audits if we are not allowed to properly recover its cost.

To summarize, the Company **does not concur** with the Staff's finding because a) the PGA rule provides for recovery of costs assuring that gas costs have not been either over-collected or under-collected; b) the PGA rule allows for its formulas to be modified in a way that would include recovery of the costs for this consultant; c) the Staff has reviewed and relied upon the consultant's report in preparing their own findings.

Staff Response:

The definition of **"gas costs"** according to the PGA Rule means "the total delivered cost of gas paid or to be paid to **Suppliers** (emphasis added), including, but not limited to, ... which are paid by the Company to its gas suppliers in connection with the purchase, storage or transportation of gas for the Company's system supply."[8] The omitted portion of the passage is a lengthy list of possible charges that the Company may incur.

The definition of "Suppliers" means "any person or entity, including affiliates of the Company, who locates, purchases, sells, stores and/or transports natural gas or its equivalent for or on behalf of the Company."[9]

With these definitions in mind, we are still of the opinion that the reimbursement of outside consultant fees for review and/or preparation of the Company's ACA filing does not fall within the intent of the PGA Rule. The only provision for the inclusion of outside consultant fees is with respect to the consultants that the TRA engages to review the prudence of the Company's gas purchasing practices. Since the Company is required to pay these fees, the Rule provides for these fees to be reimbursed to the Company through the PGA Rule procedures.[10]

The "intent" of the PGA Rule regarding the assurance that the Company does not over- or under-collect its gas costs from the ratepayer is addressed in the annual audit of the Deferred Gas Cost Account, which is performed by the TRA Staff.

In summary, <u>these</u> consultant fees represent human resources utilized to meet the requirements of the Authority's rules. It is our opinion that they are appropriately part of the Company's operating costs. As such, **if the costs are on going**, they could be considered for recovery in the context of a rate case to adjust the Company's base rates.

---

[8] TRA Rule 1220-4-7-.01(1).
[9] TRA Rule 1220-4-7-.01(5).
[10] TRA Rule 1220-4-7-.05(1)(a)3.

FINDING #5:

Exception:

The Staff calculated an **under-recovery of $44.10** in SS-1 Margin Loss.

Discussion:

The independent accountant's report noted a net under-recovery for SS-1 Margin Loss. The finding resulted from a variance in sales volumes for December 1999 and April 2000. The Company agrees with the finding, but had not corrected the filing prior to submitting it to the TRA.

Company Response:

The Company concurs. The $44.10 under-recovery was reported to the TRA Staff by the Company.

FINDING #6 and #7:

Exception:

The Staff calculated an **under-recovery of $2,908** in the ACA Refunds and Surcharges.

Discussion:

This was an area that we relied on the review by the independent accounting firm. Their findings indicated a net under-recovery in the commodity portion of the '97/'98 and '98/'99 ACA Refunds and Surcharges of $2,059. There was also a net under-recovery $849 in the demand portion. This was the result of a variance in sales volumes used to calculate the ACA refunds/surcharges during four (4) months of audit period.

Company Response:

The Company concurs. Both the items identified above were reported by the Company in the February 9, 2001 letter previously referenced. The appropriate adjusting entries will be recorded

FINDING #8 and #9:

Exception:

The Staff calculated an **under-recovery of $1,493** in the Gas Cost Recoveries.

Discussion:

This was also an area that the independent accounting firm reported a finding. Through an **independent calculation** of recoveries, we agree with the amount noted in the accountant's report; however, we disagree that it was an over-recovery of gas costs. In calculating the recoveries for November 1999, the Company overstated the sales volumes. This would result in an overstatement of the recoveries and under-recovery of gas costs.

Company Response:

The Company concurs.

FINDING #10 and #11:

Exception:

The Staff calculated a net **over-recovery of $4,456.23** in the interest accrual.

Discussion:

We recalculated the interest accrual for the ACA account based on the above findings. We found an over-recovery of $4,472.27 in the Commodity portion and an under-recovery of $16.04 in the Demand portion.

Company Response:

The Company does not concur. The adjustment to exclude the $19,038.26 Consultant Fee in Finding #5 understates the cost subject to recovery under the ACA and the related interest accrual. The recalculated interest accrual based on the remaining findings, results in a computed interest over-accrual of $3,297.11. (Commodity over-recovery $ 3,313.15, Demand under-recovery $16.04)

Staff Response:

Since we disagree with the Company's response to Finding #5, the above over-recovery of $4,456.23 in interest accrual is accurate.

APPENDIX A

PGA FORMULA

The computation of the GCA can be broken down into the following formulas:

$$\text{Firm GCA} = \frac{D + DACA}{SF} - DB + \frac{P + T + SR + CACA}{ST} - CB$$

$$\text{Non-Firm GCA} = \frac{P + T + SR\ CACA}{ST} - CB$$

where

GCA	=	The Gas Charge Adjustment in dollars per Ccf/Therm, rounded to no more than five decimal places.
D	=	The sum of all fixed Gas Costs.
DACA	=	The demand portion of the ACA.
P	=	The sum of all commodity/gas charges.
T	=	The sum of all transportation charges.
SR	=	The sum of all FERC approved surcharges.
CACA	=	The commodity portion of the ACA.
DB	=	The per unit rate of demand costs or other fixed charges included in base rates in the most recently completed general rate case (which may be zero if the Company so elects and the Commission so approves).
CB	=	The per unit rate of variable gas costs included in base rates in the most recently completed general rate case (which may be zero if the Company so elects and the Commission so approves).
SF	=	Firm Sales.
ST	=	Total Sales.

The computation of the RA can be computed using the following formulas:

$$\text{Firm RA} = \frac{DR1 - DR2}{SFR} + \frac{CR1 - CR2 + CR3 + i}{STR}$$

$$\text{Non-Firm RA} = \frac{CR1 - CR2 + CR3 + i}{STR}$$

where

RA	=	The Refund Adjustment in dollars per Ccf/Therm, rounded to no more than five decimal places.
DR1	=	Demand refund not included in a currently effective Refund Adjustment, and received from suppliers by check, wire transfer, or credit memo.
DR2	=	A demand surcharge from a supplier not includable in the GCA, and not included in a currently effective Refund Adjustment.
CR1	=	Commodity refund not included in a currently effective Refund Adjustment, and received from suppliers by check, wire transfer, or credit memo.
CR2	=	A commodity surcharge from a supplier not includable in the GCA, and not included in a currently effective Refund Adjustment.
CR3	=	The residual balance of an expired Refund Adjustment.
i	=	Interest on the "Refund Due Customers" account, using the average monthly balances based on the beginning and ending monthly balances. The interest rates for each calendar quarter used to compute such interest shall be the arithmetic mean (to the nearest one-hundredth of one percent) of the prime rate value published in the "Federal Reserve Bulletin" or in the Federal Reserve's "Selected Interest Rates" for the 4th, 3rd, and 2nd months preceding the 1st month of the calendar quarter.

SFR = Firm sales as defined in the GCA computation, less sales under a transportation or negotiated rate schedule.

STR = Total sales as defined in the GCA computation, less sales under a transportation or negotiated rate schedule.

EXHIBIT 1

W&G

WORK & GREER, PC
CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS CONSULTANTS
206 CAPITOL BOULEVARD, NASHVILLE, TENNESSEE 37219-1801
(615) 259-7600 • FAX (615) 259-7603 • WWW.WORKGREER.COM

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

November 15, 2000

Mr. Victor Peña
Vice-President and Controller
Atlanta Gas Light Company

We have performed the procedures enumerated below, which were agreed to by you, solely to assist you in determining that the activity in the Deferred Gas Cost account of Chattanooga Gas Company (CGC) for the twelve months ended June 30, 2000 is in compliance with the Actual Cost Adjustment of the Purchased Gas Adjustment Rule of the Tennessee Regulatory Authority (TRA). This agreed-upon procedures engagement was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely your responsibility. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Our procedures and findings are as follows:

1. **Procedure** – Obtain a copy of the analysis of the deferred gas cost account (analysis) for the twelve months ended June 30, 2000 from your accounting personnel to determine it is clerically accurate.

   Finding – All rows, columns and ending balances on the analysis are clerically accurate.

2. **Procedure** – Determine that the balance in the deferred gas cost account at each month end as reflected on the analysis reconciles to the Company's general ledger balance.

   Finding – We were able to determine that your accounting personnel appropriately reconciled the deferred gas cost balances each month on the analysis (prior to any revisions) to the Company's general ledger balances. Also, we agreed the beginning balances in the deferred gas cost accounts at June 30, 1999 on the analysis to revised audited balances from the TRA.

3. **Procedure** – Trace gas costs incurred for each month on the analysis to the schedule of "Purchased Gas Invoice Adjustments" and to invoices from suppliers and determine the costs are properly classified between demand and commodity costs. Also determine the schedule of "Purchased Gas Invoice Adjustments" is clerically accurate.

   Finding – For each month from July 1999 through June 30, 2000, your accounting personnel prepared a schedule of vouchers for the month paid the following month, which was used by your personnel to post gas purchases from suppliers on the analysis. As a result, we traced gas costs incurred for each month on the analysis to the schedule of vouchers (rather than the schedule of "Purchased Gas Invoice Adjustments) and to invoices from suppliers. We noted the following four charges for gas supplies included on the analysis for commodity cost that we were unable to determine is properly charged to Chattanooga Gas Company:

Supplier	Invoice Date	Amount charged to commodity cost	Our estimate of the amount that should be charged to commodity cost
Columbia Energy	12-14-99	$209,694.32	$224,045.62
Enron	05-10-00	12,970.65	0.00
Dynegy	01-10-00	68,065.30	15,703.60
Enron	07-10-00	701,540.82	751,490.71
		$992,271.09	$991,239.93

Our estimate of the amounts above that should be charged to commodity cost for these four charges is based on our review of the suppliers' invoices in conjunction with the shipper receipt point allocations from the pipeline. The analysis has not been adjusted for the total difference of $1,031.16 between our estimate and the amounts charged.

Also, we determined that the allocation of costs between commodity costs and demand costs appeared proper without exception. Finally, we tested the clerical accuracy of the schedule of vouchers for each month from July 1999 through June 30, 2000 and found no exceptions.

4. **Procedure** – Trace gas costs recovered for each month on the analysis to the Company's schedule of "Actual MCF Billed". Trace volumes on the "Actual MCF Billed" schedule to the Company's "Monthly Schedule of Customers, Volumes and Revenues" and to billing registers. Trace the cost recovery rates on the "Actual MCF Billed" schedule to the filed rates for the month. Determine that the volumes and rates on the "Actual MCF Billed" schedule are properly broken down between demand and commodity components. Determine the schedule of "Actual MCF Billed " is clerically accurate.

   Finding – We traced the commodity cost of gas recovered for each month on the analysis directly to the schedule of "Actual MCF Billed" each month except for the months of December 1999, April 2000, and May 2000. The amount posted on the analysis for December 1999 commodity cost recoveries was $2,562.91 less than the amount on the "Actual MCF Billed" schedule for December 1999. This amount is a miscellaneous adjustment posted on the analysis which, due to the size, we did not pursue. The amount posted on the analysis for April 2000 was $55,030.93 more than the amount on the "Actual MCF Billed" schedule, due mainly to adjustments for Koch Foods recoveries for November through February. Based on a review of the documentation, this adjustment amount appears proper.

   The amount posted on the analysis for May 2000 was $26,213.71 less than the commodity cost recoveries on the "Actual MCF Billed" schedule. This adjustment relates to customers being billed at the wrong PGA rate for three days. Based on our review of the documentation, this adjustment appears proper.

   The demand cost of gas recovered on the analysis was not directly traceable to the "Actual MCF Billed" schedule. Miscellaneous general ledger adjustments were made each month to the demand component of deferred gas costs which had to be added to the "Actual MCF Billed" schedule amounts in order to trace to the analysis. These miscellaneous adjustments related mainly to standby charges billed to commercial customers that were not on the "Actual MCF Billed" schedule. These monthly adjustments ranged from $352.55 to $636.14.

We agreed all of the miscellaneous adjustments to the actual general ledger journal entries for each month.

For April 2000 and May 2000, the demand cost recoveries on the analysis were $4,551.39 higher and $15,073.50 lower, respectively, than the amounts on the "Actual MCF Billed" schedule. These adjustments related mainly to Koch Foods recoveries and customers being billed at the wrong PGA rate for three days as discussed above. Based on our review, these adjustments appear proper.

We traced volumes on the "Actual MCF Billed" schedule to the Company's "Monthly Schedule of Customers, Volumes and Revenues" for each month except for the months of November 1999 and February 2000. Incorrect volumes on the "Actual MCF Billed" schedule for November 1999 resulted in an overrecovery of commodity cost on the analysis of $1,249 and an overrecovery of demand cost on the analysis of $244. These differences were not adjusted by your accounting personnel.

Incorrect volumes on the "Actual MCF Billed" schedule for February 2000 were corrected by your accounting personnel resulting in a decrease in the recovery of commodity cost on the analysis of $43,650. Of this amount, $33,821 was posted to February 2000 and $9,829 was posted to April 2000 on the analysis. The posting by your accounting personnel is correct except the $9,829 should have been posted to February 2000 instead of April 2000.

Incorrect volumes for February 2000 also resulted in a decrease in the recovery of demand cost on the analysis of $6,431. This amount was posted to April 2000 on the analysis by your accounting personnel. The posting by your accounting personnel is correct except the $6,431 should have been posted to February 2000 instead of April 2000.

With respect to tracing volumes of gas billed to customers as presented on the "Monthly Schedule of Customers, Volumes and Revenues" to detailed billing registers, we traced volumes billed to customers under rate schedule I-1 for December 1999 to actual invoices to customers. We also traced volumes billed to customers under rate schedule L-1 for March 2000 to actual invoices to customers. We noted no exceptions. We attempted to trace volumes billed under rate schedules R-1 and C-1 to a detailed billing register for one month. We were unable to trace those volumes. Based on our discussions with accounting personnel, these customers are billed through the CIS system, which is a dynamic database that changes daily based on any corrections, additions and deletions. Volumes presented on the "Monthly Schedule of Customers, Volumes and Revenues" for rate schedules C-1 and R-1 are obtained from a summary snapshot of the database at the end of each month. The system cannot produce a detailed billing register after the fact that ties to the original summary snapshot. We traced the cost recovery rates on the "Actual MCF Billed" schedule for each month to the filed rates for the month. We determined that the rates on the "Actual MCF Billed " schedule for each month were properly broken down between demand and commodity components. We also determined that the schedule of "Actual MCF Billed " for each month was clerically accurate.

5. **Procedure** - Vouch storage injection and withdrawal volumes to appropriate documentation including information from the pipelines and suppliers. Agree the costs for storage injections to the "Purchased Gas Cost Worksheet" and to invoices from pipelines and suppliers. Agree the costs for storage withdrawals to the company's running perpetual LIFO inventory records. Agree the month end storage gas inventory volumes to documentation from the pipelines and suppliers and to the perpetual inventory records. Agree the month end storage gas costs to the general ledger. Test the clerical accuracy of the perpetual LIFO inventory records.

   Finding – We were able to trace gas storage injection and withdrawal volumes to invoices from the pipelines or to gas storage management information reports from the pipelines. For LNG, we were able to trace boiloff volumes and liquefaction volumes to information from the LNG plant management company. We also traced and agreed the monthly LNG boil off costs on the analyses to the LNG perpetual inventory records except for the months of April 2000, May 2000 and June 2000. We determined that incorrect LIFO rates were used for boil off for these months. As a result your accounting personnel reduced the LNG boil off costs on the analysis by $90,662.03 to correct for this error. We were able to trace the cost of storage injections to the unit costs on the "Purchased Gas Cost Worksheets" and to invoices from pipelines and suppliers.

   We were unable to agree the volumes of gas in storage at June 30, 2000 per the perpetual inventory records to the volumes of gas in storage as of that date reported by the pipelines except for Tennessee Gas Pipeline production area storage. As a result, your accounting personnel adjusted the volumes of gas in storage at June 30, 2000 at the other storage areas to agree to ending balances reported from the pipelines. LNG volumes of gas in storage were also adjusted by your accounting personnel to agree to ending inventory from the LNG management company at June 30, 2000. Following is an analysis of the adjustments to the deferred gas cost analysis for commodity costs as a result of these inventory corrections:

	Adjustments to deferred gas costs
LNG inventory adjustments:	
To adjust ending inventory to actual	($5,585.02)
Errors caused by using wrong rates for boil off	(90,662.03)
Total LNG inventory adjustments	($96,247.05)
Other gas storage inventory adjustments:	
March 2000 CNG – GSS withdrawal not recorded	$155,366.47
To adjust CNG GSS storage to actual	(4,810.70)
Transfer of TGP MA storage not previously recorded	129,183.89
To adjust TGP MA storage to actual	(2,829.70)
To adjust SNG CSS storage to actual	84,232.72
Total other gas storage inventory adjustments	$361,142.68

   We tested the clerical accuracy of the perpetual gas storage records to determine they were clerically accurate. We also reviewed the reconciliations of the gas in storage at June 30, 2000 per the perpetual gas storage records to the general ledger balances at that date.

6. **Procedure** - Agree company use volumes to supporting documentation, recalculate the cost recovery and agree to the analysis.

   Finding – We agreed company use volumes as reported on the analysis to supporting documentation for all months. We recalculated the cost recovery for each month and agreed to the analysis without exception.

7. **Procedure** - Agree unbilled gas costs on the analysis to the schedule of "Unbilled MCF Volumes" for each month. Test the computation of unbilled volumes and agree the cost recovery rates to the filed rates for the month. Test the clerical accuracy of the schedule of "Unbilled MCF Volumes."

   Finding – We agreed unbilled gas costs on the analysis to the schedule of "Unbilled MCF Volumes" for each month without exception. We recalculated the computation of unbilled volumes each month on a test basis and found no exceptions. We agreed the cost recovery rates to the filed rates for each month except for the month of November 1999. We found a slight difference in rates used for that month, resulting in a $2,229 underrecovery of commodity cost in November 1999 and a corresponding overrecovery of commodity cost for December 1999. Since this error had no impact on the analysis overall, the analysis was not revised for this error by your accounting personnel. We also determined that the schedule of "Unbilled MCF Volumes" was clerically accurate for each month.

8. **Procedure** – Test the calculation of interest on the analysis. Agree the interest rates used to the prime rates published in the Federal Reserve Bulletin as required by TRA Rule 1220-4-7-.03(1)(b)2,(VII). Determine that interest is computed on the average monthly balance of the deferred cost accounts (commodity and demand).

   Finding – We tested the calculation of interest on the analysis as revised for corrections made by your accounting personnel as discussed in this report. We found no exceptions. We agreed the interest rates to Federal Reserve Bulletins and determined that interest was properly calculated on the average monthly balance of the deferred cost accounts in accordance with the TRA rule.

9. **Procedure** – Agree gas costs recovered from off-system sales on the analysis to the schedule of "Off-System Sales Revenue and Off-System Gas Costs". Agree sales volumes on the schedule to invoices to customers and purchased volumes and costs to supplier invoices. Test the clerical accuracy of the schedule of "Off-System Sales Revenue and Off-System Gas Costs".

   Finding – We agreed gas costs recovered from off-system sales on the analysis to the schedule of "Off-System Sales Revenue and Off-System Gas Costs" for each month after taking into account various adjustments for October 1999, January 2000, May 2000 and June 2000. One adjustment made by your accounting personnel in June 2000 was to reduce cost recovered of $109,500.00 for an off-system sale to Enron, which apparently did not occur. We traced sales volumes on the schedule to invoices to customers on a test basis. For July 1999 through October 1999, we were able to trace unit purchase prices of off-system sales to invoices from suppliers (no pipeline transportation cost was included in the unit cost). For November 1999, December 1999, May 2000 and June 2000, we were able to trace unit purchase prices to invoices from suppliers plus pipeline transportation charges of .036 per dekatherm. For January 2000 and February 2000, we were able to trace unit purchase prices to invoices from suppliers, plus pipeline transportation charges of .036 per dekatherm <u>divided by</u> a pipeline fuel factor of .974. For March 2000 and April 2000, we were able to trace unit purchase prices to invoices from suppliers, plus pipeline transportation charges of .036 per dekatherm <u>multiplied by</u> a pipeline fuel factor of .974.

   We believe that for each month for the period July 1999 through June 2000, the unit cost of off-system sales applied to purchased volumes should consist of (1) the unit commodity cost from suppliers <u>plus</u> (2) the unit transportation cost from the pipeline of .036 <u>multiplied</u> by .974. Since the pipeline transportation charge from the pipeline is based on sales volumes, and the Company uses grossed up purchased volumes to calculate the cost of off-system sales, the pipeline transportation charge of .036 should be <u>multiplied</u> by the .974 fuel factor. The Company used this methodology only for the months of March 2000 and April 2000.

   We performed an overall reasonableness test of the cost of off-system sales included on the analysis as follows:

Mr. Victor Peña
Page Six
November 15, 2000

	Our overall estimate of the cost of off-system sales	Cost of off-system sales included on the analysis	Difference
Cost of off system sales:			
July 1999	$199,021.97	$183,666.64	$15,355.33
August 19989	40,131.49	39,578.00	$ 553.49
September 1999	0.00	0.00	0.00
October 1999	486,789.31	432,326.94	54,462.37
November 1999	287,469.21	239,046.03	48,423.18
December 1999	553,753.44	560,124.10	(6,370.66)
January 2000	780,909.14	782,071.07	(1,161.93)
February 2000	560,283.21	570,237.64	(9,954.43)
March 2000	644,655.54	645,412.80	(757.26)
April 2000	145,256.42	145,607.69	(351.27)
May 2000	264,473.28	266,598.94	(2,125.66)
June 2000	516,056.44	498,451.32	17,605.12
	$4,478,799.45	$4,363,121.17	$115,678.28

In calculating our overall estimate of the cost of off-system sales above, we applied the weighted spot purchase unit cost on SNG pipeline for each month plus the SNG transportation charge of .0369 per dekatherm multiplied by the fuel factor of .974 to the purchased volumes. We obtained the weighted spot purchase cost on SNG pipeline from the "Purchased Gas Cost Worksheets" prepared by gas supply. Our estimate of the cost of off-system sales is an overall test and results in a difference of only 2.6% of the cost of off-system sales included on the analysis.

We tested the clerical accuracy of the schedule of "Off-System Sales Revenue and Off-System Gas Costs" and found no errors.

10. **Procedure** – Agree the SS-1 margin loss on the analysis to the schedule of "Calculation of Loss in Gross Profit From Sales Using Special Service Rate Schedule SS-1". Agree sales volumes and SS-1 rates on the schedule to invoices to customers and agree tariff rates (T-1 and L-1) to the Company's tariff rates for the month. Test the clerical accuracy of the schedule.

    Finding – On the original analysis of deferred gas costs supplied to us, SS-1 margin loss was excluded. Your accounting personnel anticipated that the SS-1 margin loss would be included in the Interruptible Margin Credit Rider (IMCR) filing. Based on discussion with the Tennessee Regulatory Authority, the SS-1 margin loss should be included in the Actual Cost Adjustment. As a result, your accounting personnel revised the analysis for commodity cost to include 90% of the margin loss resulting from sales using special service rate SS-1. This revision resulted in an increase to underrecovered commodity cost of $234,030.48.

    We agreed sales volumes on the monthly schedules of "Calculation of Loss in Gross Profit From Sales Using Special Service Rate Schedule SS-1" to invoices from customers except for the months of December 1999 and April 2000. For December 1999, volumes for Dupont failed to include 400 MCF resulting in the margin loss on the analysis being understated by $81 for December 1999. For April 2000, volumes for Rock-Tenn included 360 MCF not on invoices to them. This resulted in the margin loss being overstated by $36.90 on the analysis for April 2000. The net effect of these differences on the analysis is an understatement of the margin loss by $44.10. The analysis has not been adjusted by your accounting personnel for this difference.

We agreed tariff rates (T-1 and L-1) on the "Calculation of Loss in Gross Profit From Sales Using Special Service Rate Schedule SS-1"to the Company's tariff rates in effect except for the months of August 1999, September 1999, October 1999 and November 1999. For these four months incorrect tariff rates were used. Your accounting personnel revised the analysis to correct for these errors resulting in an increase in the SS-1 margin loss by $358.07. We tested the clerical accuracy of the schedules of the "Calculation of Loss in Gross Profit From Sales Using Special Service Rate Schedule SS-1" and found no errors.

11. **Procedure** – Agree other miscellaneous items on the analysis such as consulting fees, ACA refunds and surcharges for prior years, weather normalization adjustments, and SS-1 adjustments and IMCR adjustments for prior periods to supporting documentation.

    Finding – We agreed consulting fees to invoices from consultants for the gas purchasing prudence review without exception. We agreed ACA refunds and surcharges to supporting schedules. We traced volumes of gas used in the ACA refunds and surcharge schedules to the "Actual MCF Billed" schedules for each month.

    We were unable to agree volumes used in ACA refunds and surcharges 1997-1998 for the months of November 1999, February 2000, April 2000 and June 2000. The result of these volume differences was an underrecovery of commodity cost on the analysis of $1,492 and an underrecovery of demand cost on the analysis of $151. Also we were unable to agree volumes used in ACA refunds and surcharges 1998-1999 for the months of February 2000, April 2000 and June 2000. The result of these volume differences was an underrecovery of commodity cost on the analysis of $567 and an underrecovery of demand cost on the analysis of $698. The analysis has not been adjusted for these differences.

    We agreed the refund and surcharge rates to the Company's tariffs without exception and, we tested the clerical accuracy of the ACA refunds and surcharge schedules and found no errors.

    The analysis includes a weather normalization adjustment (underrecovery) of $17,389 for the 1998-1999 year. We agreed this amount to the amount included in the Company's refund calculation effective December 1, 1999.

12. **Procedure** – Select a sample of 25 customer bills covering all rate classes from those issued for the year and determine the customers were billed at the correct filed rates.

    Finding – We selected a sample of 25 customer bills covering all rate classes for the year ended June 30, 1999 and recalculated the billed amounts based on filed tariff rates. We noted no errors in our recalculation of these 25 billings.

W&G

Following is a summary of the revisions to the deferred gas cost accounts on the analysis that have been reflected by your accounting personnel (after the revisions for SS-1 margin loss discussed above) since we began our agreed-upon procedures engagement:

	Deferred gas cost commodity	Deferred gas cost demand	Total
Balance June 30, 2000 as originally presented to us	$2,304,086.48	($211,122.42)	$2,092,964.06
Storage gas inventory adjustments at 6/30/00	361,142.68	0	361,142.68
LNG inventory adjustment at 6/30/00	(5,585.02)	0	(5,585.02)
LNG boil off corrections	(90,662.03)	0	(90,662.03)
Actual billings	33,821.00	0	33,821.00
Remove off-system sale to Enron	(109,500.00)	0	(109,500.00)
SS-1 margin loss	358.07	0	358.07
Interest adjustment due to above revisions	1,323.00	0	1,323.00
Balance June 30, 2000 as filed with the TRA	$2,494,984.18	($211,122.42)	$2,283,861.76

We were not engaged to, and did not, perform an examination, the objective of which would be the expression of an opinion on the activity in the Deferred Gas Cost account. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for your information and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes.

Work & Greer, P.C.

Chattanooga Gas Company

6125 Preservation Drive
Chattanooga, TN 37416
Telephone 1-800-427-5463

RECEIVED
TN REG. AUTHORITY
JUL 06 2001
ENERGY & WATER DIVISION

EXHIBIT
2

July 2, 2001

Mrs. Pat Murphy
Senior Financial Analyst
Energy and Water Division
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37243-0505

Re: Audit of Chattanooga Gas Company ACA Filing for the year ended June 30, 2000
Docket No. 01-00172

Dear Mrs. Murphy

As a supplement to the TRA Staff's June 5, 2001 Data Request, the Company was asked to respond to the following:

> As a response to the TRA placing Chattanooga Gas on a one-year probation for accounting deficiencies noted in the Staff's audit report, the Company has elected to have its filing pre-audited by Work & Greer, PC for year-ended June 1999 and June 2000. In this filing for the second year, the Company has included Work & Greer consulting fees, for a total of $19,038.26. Fees were not included in last year's filing. Please explain the Company's position as to why these fees should qualify as gas costs as defined in the Purchased Gas Adjustment Rule.

Attached is the Company's response.

Sincerely,

Archie R. Hickerson

Archie R. Hickerson
Manager-Rates

Tennessee Regulatory Authority
Supplemental Question
Staff's Second Data Request
Audit of Chattanooga Gas Company ACA Filing- Docket No 01-00172
June 5, 2001

Supplemental Question

As a response to the TRA placing Chattanooga Gas on a one-year probation for accounting deficiencies noted in the Staff's audit report, the Company has elected to have its filing pre-audited by Work & Greer, PC for year-ended June 1999 and June 2000. In this filing for the second year, the Company has included Work & Greer consulting fees, for a total of $19,038.26. Fees were not included in last year's filing. Please explain the Company's position as to why these fees should qualify as gas costs as defined in the Purchased Gas Adjustment Rule.

Response:

The Company's accounting treatment of the fees paid to Work and Greer is consistent with the accounting treatment provided by Tennessee Regulatory Authority's Administrative Rule 1220-4-7-.05 for fees paid to consultants engaged to perform the annual prudence review of gas purchases. Both the fees paid to the prudence consultants and the fees paid to Work & Greer are incurred for the benefit of the ratepayers to insure that the gas costs are properly recovered through the PGA/ACA. As with the prudence reviews, the ACA reviews preformed by an independent Certified Public Accounting firm provides assurance to the TRA and the TRA Staff that the ACA filing is in compliance with the TRA's rules and reduces the amount of work required of the Staff in conducting its review of the filing. These fees were for work performed on last year's filing, that were not paid until the current ACA audit period. The fees are properly included in the costs recovered through the ACA as provided by the Purchased Gas Adjustment Rule.