TENNESSEE REGULATORY AUTHORITY

Sara Kyle, Chairman
Lynn Greer, Director
Melvin Malone, Director

460 James Robertson Parkway
Nashville, Tennessee 37243-0505

July 16, 2001

D. Billye Sanders
Waller Lansden Dortch & Davis
A Professional Limited Liability Company
511 Union Street, Suite 2100
Nashville, TN 37219

RE: Petition of Chattanooga Gas Company for Approval of Tariff Establishing a Performance-Based Rate Making Mechanism – Docket No. 01-00619

Dear Ms. Sanders:

After reviewing Chattanooga Gas Company's petition referenced above, we find we need additional information to clarify the filing. Since you are proposing that the tariff become effective August 9, 2001, please provide your responses to the following questions no later than Friday, July 20.

1. Please verify that 100% of any savings below the established benchmark, as well as 100% of any excess costs above the benchmark will accrue to the ratepayers. The proposed tariff does not address this provision under Overview of Structure.

2. An "Agreement for Consulting Services" was entered into on July 1, 2000 with Hagler Bailly to review the prudence of Chattanooga's gas purchases for the period July 1, 2000 through June 30, 2001. With that in mind, shouldn't the above filing and the proposed tariff state that the prudence audit would be subject to waiver for plan years ending after June 30, 2001, rather than plan years ending after June 30, 2000?

3. Chattanooga Gas states in the Applicability section of its proposed tariff that the Performance-Based Ratemaking Mechanism (PBRM) "is designed to encourage the utility to maximize its gas purchasing activities at minimum cost consistent with efficient operations and service reliability." What is the incentive for the Company to purchase gas at less than the established benchmark or improve on the way it is currently purchasing gas?

4. Since Chattanooga Gas proposes no "sharing" between the Company and the ratepayer or other "incentive" as part of its proposed PBRM, what is the reason the Company is requesting approval of a tariff as opposed to requesting a waiver of TRA Rule 1220-4-7-.05?

5. If the Company were to exceed the benchmark by 2% or more early in the plan year, what would be the incentive for the Company to aggressively continue to purchase gas as cheaply as possible?

6. Please update your Exhibit 1 schedules to include July 2000 through March 2001.

7. What is the Company's reason for selecting a 2% band of prudence as opposed to 1% as used by Nashville Gas? According to the schedules provided in your Exhibit 1, Chattanooga (with the exception of 2 months in 1998 for Southern Natural Gas) has been able to purchase gas every month at 0.5% above the benchmark or less.

8. Are there any benefits for the ratepayer under the proposed tariff, other than the elimination of the annual consultant fees?

9. Please state the amount of the consulting fees that were paid for the prudence audit for the last 3 years.

Please contact Pat Murphy at extension 178 if you have any questions regarding this request. To expedite the filing, please email your responses to Staff in advance of mailing your official responses.

Sincerely,

David Waddell
Executive Director

cc: Earl Burton
Archie Hickerson
Directors' Offices
Legal
Dan McCormac
Pat Murphy

Pm01-50(data request no. 1)