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August 1, 2001

Via Hand-Delivery

K. David Waddell
Executive Secretary
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, Tennessee 37219

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

Dear Mr. Waddell:

Enclosed are the original and thirteen (13) copies of the responses to the staff data requests that were issued on July 16, 2001. A partial response was previously e-mailed to the staff. Please contact me if you are in need of additional information.

Sincerely,

D. Billye Sanders
Attorney for Chattanooga Gas Company

DBS:lmb
Enclosures

cc: Mr. Earl Burton, Manager, Marketing/Rates
Mr. Archie Hickerson, Manager-Rates

689051.1

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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.

Response:

With the exception of the provision that waives, (when gas cost is below 102% of the benchmark), the prudence review required in TRA Administrative Rule 1220-4-7-.05, the tariff does not modify or otherwise impact the provision of the PGA Rule (TRA Administrative Rule 1220-4-7).

The gas cost will continue to be recovered under the provisions of the PGA rule. Savings below the benchmark will flow to the ratepayers as will gas cost in excess of the benchmark. However, if gas cost is in excess of 102% of the benchmark, the Company's gas purchases will be subject to the prudence review in Administrative Rule 1220-4-7-.05, and will be recovered if the Company's gas purchasing practices are found to be prudent.

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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?

Response:

Although the contract between the Company and Hagler Bailly calls for a prudence review for the 12 months ended June 30, 2001, the terms for compensation are made on the basis of hours worked. Therefore, if there are no hours worked, there is no payment for services.

If the Company's cost of gas is less than the 102% upper limit, and less than the upper limit used by other gas utilities under the TRA's jurisdiction, a prudence review for this period would serve no benefit to the Company's customers. The prudence reviews have never made a finding of imprudence on any aspect of the Company's purchases since they were first adopted in 1990.

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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?

Response:

Chattanooga Gas Company's incentive to continue to improve its purchasing practice and lower the cost of gas is the requirement that it satisfy its customers needs. As with any business, customer satisfaction is necessary if the Company is to continue to be the energy provider of choice. Chattanooga Gas must continually strive to minimize the cost of service that it provides. Chattanooga's commitment to minimizing the cost of gas is evident from the reviews of its past purchasing practices. Since the adoption of the prudence review required by 1220-4-7-.05, outside auditors have consistently found Chattanooga Gas' purchases prudent. In order to continue to be the energy source of choice, the Company must continue to improve and to purchase gas at or below the established benchmark

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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?

Response:

While the Company could have requested a waiver of TRA Rule provision 1220-4-7-.05, including the terms and conditions under which the rule provision will be waived for Chattanooga Gas Company within its approved tariffs, a tariff appears to be the most practical approach. The terms and conditions that the Company must meet as specified in a public document will be easily accessible to any interested party or to public in general. Having the provision within the tariff also provides an efficient and convenient method for modifying any term or condition that the Tennessee Regulatory Authority or the Company find necessary to change. Such change can be accomplished quickly and efficiently through a tariff filing.

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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?

Response:

As explained in the response to Item 3, Chattanooga Gas Company must continue to minimize the cost of gas if it is to continue to be the energy provider of choice. In addition, if Chattanooga Gas exceeds the 2% benchmark at any time during the plan year, it will be subject to the prudence review addressed in TRA Rule 1220-4-7-.05, and the possible disallowance of gas cost to be recovered through the PGA/ACA.

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

Response:

See Attachment **A**

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Attachment A
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Chattanooga Gas Company
JULY 2000-MAR 2001 Cost of Gas
East Tennessee Gas Pipeline

Line	East Tennessee Gas Pipeline	Jul-00	Aug-00	Sep-00	Oct-00	Nov-00	Dec-00
	Spot Market Purchases						
1	Purchase Quantities	506,700	461,714	772,170	583,061	726,900	751,130
2	Purchase Price	$4.205	$3.418	$4.518	$5.187	$4.392	$5.913
3	Total Purchase Cost	$2,130,841	$1,578,201	$3,488,401	$3,024,139	$3,192,677	$4,441,738
	Swing Purchases						
4	Purchase Quantities	0	0	0	0	0	0
5	Benchmark Price Index	$0.000	$0.000	$0.000	$0.000	$0.000	$0.000
6	Benchmark Gas Cost	$0.000	$0.000	$0.000	$0.000	$0.000	$0.000
	Long Term Purchases						
7	Purchase Quantities	0	0	0	0	0	0
8	Benchmark Price Index	$0.000	$0.000	$0.000	$0.000	$0.000	$0.000
9	Benchmark Gas Cost	$0.000	$0.000	$0.000	$0.000	$0.000	$0.000
	City Gate Purchases						
10	Purchase Quantities	0	0	0	0	0	0
11	Benchmark Price Index	$0.000	$0.000	$0.000	$0.000	$0.000	$0.000
12	Benchmark Gas Cost	$0.000	$0.000	$0.000	$0.000	$0.000	$0.000
	Benchmark Price Index						
13	Inside Gas Market Report-1st	$4.290	$3.740	$4.520	$5.190	$4.420	$5.920

Data Source: Closing Reports, Inside Gas Market Report Publications

Chattanooga Gas Company
JULY 2000-MAR 2001 Cost of Gas
East Tennessee Gas Pipeline

Line	East Tennessee Gas Pipeline	Jan-01	Feb-01	Mar-01			
	Spot Market Purchases						
1	Purchase Quantities	754,631	678,440	751,130			
2	Benchmark Price Index	$9.759	$6.038	$4.882			
3	Benchmark Gas Cost	$7,364,675	$4,096,693	$3,666,921			
	Swing Purchases						
4	Purchase Quantities	0	0	0			
5	Benchmark Price Index	$0.000	$0.000	$0.000			
6	Benchmark Gas Cost	$0.000	$0.000	$0.000			
	Long Term Purchases						
7	Purchase Quantities	0	0	0			
8	Benchmark Price Index	$0.000	$0.000	$0.000			
9	Benchmark Gas Cost	$0.000	$0.000	$0.000			
	City Gate Purchases						
10	Purchase Quantities	0	0	0			
11	Benchmark Price Index	$0.000	$0.000	$0.000			
12	Benchmark Gas Cost	$0.000	$0.000	$0.000			
	Benchmark Price Index						
13	Inside Gas Market Report	$9.820	$6.130	$4.910			

Data Source: Closing Reports, Inside Gas Market Report Publications

Chattanooga Gas Company
JULY 2000-MAR 2001 Cost of Gas
Southern Natural Gas

Line	Southern Natural Gas	Jul-00	Aug-00	Sep-00	Oct-00	Nov-00	Dec-00
	Spot Market Purchases						
1	Purchase Quantities	278,439	205,231	462,000	700,197	411,559	759,400
2	Benchmark Price Index	$4.323	$3.823	$4.590	$5.236	$4.476	$6.008
3	Benchmark Gas Cost	$1,203,563	$784,495	$2,120,580	$3,666,009	$1,842,205	$4,562,130
	Swing Purchases						
4	Purchase Quantities	0	0	0	0	0	0
5	Benchmark Price Index	$0.000	$0.000	$0.000	$0.000	$0.000	$0.000
6	Benchmark Gas Cost	$0.000	$0.000	$0.000	$0.000	$0.000	$0.000
	Long Term Purchases						
7	Purchase Quantities	0	0	0	0	0	0
8	Benchmark Price Index	$0.000	$0.000	$0.000	$0.000	$0.000	$0.000
9	Benchmark Gas Cost	$0.000	$0.000	$0.000	$0.000	$0.000	$0.000
	City Gate Purchases						
10	Purchase Quantities	0	0	0	0	0	0
11	Benchmark Price Index	$0.000	$0.000	$0.000	$0.000	$0.000	$0.000
12	Benchmark Gas Cost	$0.000	$0.000	$0.000	$0.000	$0.000	$0.000
	Benchmark Price Index						
13	Inside FERC Gas Market Report	$4.350	$3.820	$4.590	$5.240	$4.470	$6.010

Data Source: Closing Reports, Inside Gas Market Report Publications

Chattanooga Gas Company
JULY 2000-MAR 2001 Cost of Gas
Southern Natural Gas

Line	Southern Natural Gas	Jan-01	Feb-01	Mar-01			
	Spot Market Purchases						
1	Purchase Quantities	715,333	390,715	116,696			
2	Benchmark Price Index	$9.882	$6.270	$4.987			
3	Benchmark Gas Cost	$7,068,906	$2,449,783	$581,909			
	Swing Purchases						
4	Purchase Quantities	0	30,000	151,561			
5	Benchmark Price Index	$0.000	$6.620	$5.129			
6	Benchmark Gas Cost	$0.000	$198,600	$777,312			
	Long Term Purchases						
7	Purchase Quantities	0	0	0			
8	Benchmark Price Index	$0.000	$0.000	$0.000			
9	Benchmark Gas Cost	$0.000	$0.000	$0.000			
	City Gate Purchases						
10	Purchase Quantities	0	0	0			
11	Benchmark Price Index	$0.000	$0.000	$0.000			
12	Benchmark Gas Cost	$0.000	$0.000	$0.000			
	Benchmark Price Index						
13	Inside FERC Gas Market Report	$9.890	$6.270	$4.980			
14	Gas Daily Average - Sonat	$0.000	$6.620	$5.121			

Data Source: Closing Reports, Inside Gas Market Report Publications

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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 <u>or less</u>.

Response:

The 2% range and the indices are comparable with the provisions of United Cities Gas Company's tariff approved by the Tennessee Regulatory Authority. In both Chattanooga Gas Company's proposal and United Cities' tariff, the commodity cost of gas is compared with the appropriate commodity index. Nashville Gas, however, does not use the published index but develops indices adjusted to include the cost of transportation. The development of Nashville Gas' indices as explained in its tariff is as follows:

Commodity Costs

Each month Nashville will compare its total city gate commodity cost of gas to a benchmark dollar amount. The benchmark gas cost will be computed by multiplying total actual purchase quantities for the month by a price index. The monthly price index is defined as

I = Ff(P0K0+P1K1+PcKc+...P? K?)+FoO+FdD; where

Ff+Fo+Fd= 1; and

I = the monthly city gate commodity gas cost index.

Ff = the fraction of gas supplies purchased in the first-of-the-month market which are transported to city gate under Nashville's FT service agreements.

P = the Inside FERC Gas Market Report price index for the first-of-the-month edition for a geographic pricing region, where subscript 0 denotes Tennessee Gas Pipeline (TGP) Rate Zone 0; subscript 1 denotes TGP Rate Zone 1; subscript C denotes Columbia Gas Transmission (CGT), Louisiana, <u>plus applicable transportation and fuel charges in CGT's FT tariff</u> to Rayne, and subscript? denotes new incremental firm services to which Nashville may subscribe in the future. <u>The commodity index prices will be adjusted to include the appropriate pipeline maximum firm</u>

transportation (FT) commodity transportation charges and fuel retention to the city gate under Nashville's FT service agreements. (Emphasis added.)

K = the fraction (relative to total maximum daily contract entitlement) of Nashville's total firm transportation capacity under contract in a geographic pricing region, where the subscripts are as above.

Fo = the fraction of gas supplies purchased in the first-of-the-month spot market which are delivered to Nashville's system using transportation arrangements other than Nashville's FT contracts.

O = the weighted average of Inside FERC Gas Market Report first-of-the-month price indices, plus applicable maximum IT rates and fuel retention, from the source of the gas to the city gate, where the weights are computed based on actual purchases of gas supplies purchased by Nashville and delivered to Nashville's system using transportation arrangements other than Nashville's FT contracts. (Emphasis added.)

Fd = the fraction of gas supplies purchased in the daily spot market.

D = the weighted average of daily average index commodity prices taken from Gas Daily for the appropriate geographic pricing regions, where the weights are computed based on actual purchases made during the month. The commodity index prices will be adjusted to include the appropriate maximum transportation commodity charges and fuel retention to the city gate. (Emphasis Added.)

If the actual total commodity gas purchase cost in a month is within one percent of the benchmark dollar amount, there will be no incentive gains or losses. If the actual total commodity gas purchase cost varies from the benchmark dollar allowance by more than one percent, the variance in excess of the one percent threshold shall be deemed incentive gains or losses under the plan. Such gains or losses will be shared 50/50 between the Company and the ratepayers.

As a result, Nashville Gas is allowed a 1% variance on the commodity cost of gas and a 1% variance on the cost of transporting the gas. Consistent with United Cities approved plan, Chattanooga does not propose to adjust the indices, to include transportation cost in the commodity cost of gas, or to incorporate into the prudence range a factor equal to 1% of the transportation cost.

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

Response:

Yes. The elimination of the annual prudence reviews will result in the more efficient operation of the utility that will benefit the ratepayers. In addition to the consultant fees, the annual reviews require a substantial amount of employee time and costs. While the employee related costs are not included in the PGA/ACA, these costs are ultimately recovered from the customers through rates. The elimination of this cost will benefit the customers by helping defer the need for future rate increases.

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

Response:

Chattanooga Gas Company paid $69,762.46 to consultants for prudence reviews during the last three fiscal years.