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D. Billye Sanders
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August 31, 2001

Via Hand-Delivery

K. David Waddell
Executive Secretary
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, Tennessee 37243-0505

01-00761

Re: Petition of Chattanooga Gas Company for Approval of Tariff
Establishing Experimental Fixed Rate PGA Rider

Dear Mr. Waddell:

Enclosed for filing please find the original and thirteen (13) copies of the above referenced Petition filed on behalf of Chattanooga Gas Company and a check for \$25 for the filing fee. Due to the need to secure natural gas supplies prior to October 1, 2001, we respectfully request that the Authority expedite review of this matter and schedule any necessary proceedings such that the matter can be placed on the September 25, 2001 Authority Conference Agenda for decision.

We greatly appreciate your help in this matter and look forward to hearing from you.

Sincerely,

D. Billye Sanders

D. Billye Sanders

DBS:lmb

Enclosures

cc: Hal Novak
Earl Burton
Archie Hickerson
Kristin M. Coile, Esq.

**BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE**

IN RE:

**PETITION OF CHATTANOOGA GAS)
COMPANY FOR APPROVAL OF)
TARIFF ESTABLISHING)
EXPERIMENTAL FIXED RATE PGA)
RIDER)**

DOCKET NO. 01-00761

**PETITION FOR APPROVAL OF TARIFF ESTABLISHING EXPERIMENTAL
FIXED RATE PGA RIDER**

Pursuant to TRA Rule 1220-4-1-.06 and Rule 1220-1-1-.05, Chattanooga Gas Company, a Tennessee corporation, ("Chattanooga Gas" or "Petitioner") respectfully requests that the Tennessee Regulatory Authority ("TRA" or "Authority") approve its tariff establishing an Experimental Fixed Rate PGA (Purchased Gas Adjustment) Rider ("FRT"), which is attached hereto as Exhibit A. Chattanooga Gas requests that the Authority conduct an expedited review of this Petition, schedule an expedited hearing, if the Authority deems that a hearing is necessary, and place the Petition on the TRA's September 25, 2001 Authority Conference for a decision. Expedited consideration is requested because Chattanooga Gas seeks to enter into a 12-month gas supply contract by October 1 in order to take advantage of current market rates, which are relatively low, prior to the winter heating season when market rates tend to increase.

In support of this Petition, Chattanooga Gas submits the following information:

1. Full name and address of the principal place of business of the Petitioner are:

Chattanooga Gas Company
6125 Preservation Drive
Chattanooga, Tennessee 37416

2. All correspondence and communications with respect to this Petition should be sent to the following:

Earl Burton, Manager
Marketing/Rates
Chattanooga Gas Company
6125 Preservation Drive
Chattanooga, Tennessee 37416
Telephone: (423) 490-4311
Facsimile: (423) 490-4333

Archie Hickerson, Manager-Rates
AGL Resources
Location 1686
P. O. Box 4569
Atlanta, GA 30302-4569
Telephone: (404) 584-3855
Facsimile: (404) 584-3489

William H. Novak
Vice President of Regulatory Compliance
Sequent Energy Management, L. P.
Location 7500
P. O. Box 4569
Atlanta, GA 30302-4569
Telephone: (404) 584-3399
Facsimile: (404) 584-3477

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Waller Lansden Dortch & Davis

A Professional Limited Liability Company
511 Union Street, Suite 2100
Nashville, Tennessee 37219
Telephone: (615) 244-6380
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3. Chattanooga Gas is incorporated under the laws of the state of Tennessee and is engaged in the business of transporting, distributing and selling natural gas in Hamilton and Bradley Counties within the state of Tennessee and surrounding environs. Chattanooga Gas is a public utility pursuant to the laws of the state of Tennessee and its public utility operations are subject to the jurisdiction of this Authority. Chattanooga Gas is a wholly-owned subsidiary of AGL Resources, Inc.

4. The purpose of the FRT is to provide customers of Chattanooga Gas with certainty on an annual basis relative to their natural gas price, regardless of consumption or weather. Chattanooga Gas developed the FRT in direct response to the financial hardships faced by residential and small commercial customers due to the volatility in natural gas wholesale prices during the past winter heating season. As an example of this volatility, last heating season customers of Chattanooga Gas were faced with costs ranging from \$.50 per hundred cubic feet ("CCF") to \$.99 per CCF. The fixed rate to be offered under the FRT will be approximately \$.70 per CCF. The net benefit to customers is that, should the natural gas wholesale prices again increase dramatically, the FRT would protect customers from these increased costs by establishing in advance a fixed price for the next twelve months. Given current market conditions, Chattanooga Gas believes

the fixed rate that it proposes is fair and reasonable. (See Pre-filed Testimony of Larry Buie, General Manager of Chattanooga Gas, attached hereto in collective Exhibit B.) If this Petition is approved, Chattanooga Gas will enter into a contract with its gas trading affiliate, Sequent Energy Management, L. P. ("Sequent") for a 12-month gas supply at a fixed rate. Chattanooga seeks expedited treatment of its Petition so that it can lock in the annual rate at current market prices, which are relatively low and likely to rise as the winter approaches.

The experimental tariff will be in effect for a three-year period beginning October 1, 2001, and will apply to Residential General Service (R-1), Multi-Family Housing Service (R-4), and Commercial and Industrial General Service (C-1) rate schedules. The FRT will supersede Chattanooga Gas' regular Purchased Gas Adjustment Rider for these rate schedules.

The detailed formula for computation of the fixed rate offered in the FRT is contained in the tariff rider attached as Exhibit A and explained in the Pre-Filed Testimony of Brian Toole, Business Services Consultant for Sequent, attached hereto in collective Exhibit B. The FRT formula establishes a fixed cost based upon a weighted average of monthly commodity, storage and demands costs divided by projected sales volumes and then adding interstate pipeline transportation rates and a risk premium. To establish this fixed cost, Chattanooga Gas will enter into a fixed rate gas supply contract by October 1 of each year. Chattanooga Gas will assume certain risks as a result of entering into a long term contract. For example, if the gas supply acquired by Chattanooga Gas to meet

upcoming demand is inadequate, Chattanooga Gas will have to buy gas on the spot market and bear the risk of any increased costs at the time of these spot market purchases. Therefore, to compensate for such risks, the FRT includes a "risk premium", as discussed in the Pre-Filed Testimony of Larry Buie.

A new fixed rate will be computed under this formula by October 1 of each year during the three year tariff period. By September 1 of each year, a pro forma of the fixed rate shall be filed with the Authority indicating the market conditions for wholesale gas prices at that time. Although the pro forma will not set forth a guaranteed fixed rate, the risk premium contained in the pro forma will not change prior to the October 1 effective date. Thus, the Authority will have good indications of the market conditions and the proposed risk premium thirty days before implementation of the new annual fixed rate and can use this information as a basis to determine whether it will approve the tariff for the ensuing year.

The current pro forma is attached as Exhibit 1 to the Pre-Filed Testimony of Brian Toole. After review of this Petition, including this pro forma, Petitioner requests that the TRA take action on the tariff by September 25, 2001, for year 1 of the FRT. The Petitioner further requests that a new fixed rate under the FRT would go into effect in years 2 and 3 unless the Authority acts to halt implementation of the of the fixed rate by September 25 of such subsequent years. As explained above, Petitioner requests that a decision on suspension of the tariff occur by late September so that Petitioner may be able to secure a fixed rate annual contract with its supplier before the gas rates rise in anticipation of the winter

months. If the TRA suspends the FRT, Chattanooga Gas would revert to its regular Purchased Gas Adjustment pricing mechanism.

5. Petitioner requests that the requirements of the Purchased Gas Adjustment Rule (TRA Rule 1220-4-7) be waived for the affected rate schedules because the fixed rate obviates the need for computing the adjusted rate as set forth in the rule.¹

6. With respect to the Actual Cost Adjustment balances accrued prior to October 1, 2001 pursuant to the PGA Rule, Chattanooga Gas proposes to file a proposal regarding how these balances should be recovered after the TRA completes its audit of these balances.

7. As further evidence of the public interest and support of this proposed tariff, enclosed as collective Exhibit C are affidavits from current customers of Chattanooga Gas setting forth their perspectives of the anticipated benefits of the FRT. Chattanooga Gas submits these affidavits pursuant to Tenn. Code Ann. § 4-5-313 and does not intend to call these affiants to testify at the hearing, if a hearing is held. For the information of the Authority, attached hereto as Exhibit D is a press release that Chattanooga Gas will issue upon filing of this Petition, which explains the filing to the general public.

¹ The TRA has authority to waive its own rules pursuant to TRA Rule 1220-1-1-.05.

8. Both Chattanooga Gas and the Authority shall have the ability to discontinue the FRT upon notice to the other within thirty (30) days of the October 1 anniversary date for renewal of the tariff.

WHEREFORE, Petitioner prays:

1. That the Authority approve the tariff attached hereto which establishes an Experimental Fixed Rate PGA Rider for Chattanooga Gas Company effective October 1, 2001.

2. That the Authority consider this Petition in an expedited manner such that a decision may be rendered by September 25, 2001.

3. That Petitioners be granted such other and/or further relief as may be warranted.

Respectfully submitted,

Chattanooga Gas Company

By: D. Billye Sanders

D. Billye Sanders, Esq.

Waller Lansden Dortch & Davis

A Professional Limited Liability
Company

Nashville City Center

511 Union Street, Suite 2100

Nashville, TN 37219-8966


(615) 244-6380

Attorney for Chattanooga Gas Company

CERTIFICATE OF SERVICE

I hereby certify that on this 3rd day of August, 2001, a true and correct copy of the foregoing Petition was served on the persons below via hand-delivery:

Consumer Advocate Division
Office of Attorney General
Cordell Hull Building
426 5th Avenue North
Nashville, Tennessee 37243-0500



D. Billye Sanders

EXHIBIT A

EXPERIMENTAL FIXED RATE PGA RIDER

APPLICABILITY

This Rider shall apply to the Company's Purchased Gas Adjustment Provision for the Residential General Service (Rate Schedule R-1), Multi-Family Housing Service (Rate Schedule R-4) and Commercial and Industrial General Service (Rate Schedule C-1) Rate Schedules. This Rider shall also supersede the Company's regular Purchased Gas Adjustment Rider for these rate schedules at those times when this Rider is in effect.

EXPERIMENTAL PERIOD

This Experimental Rider is effective for a three-year period beginning October 1, 2001 and ending September 30, 2004. This Rider may be discontinued by either the Company or the Authority upon notice 30 days prior to the annual anniversary date of October 1.

INTENT AND APPLICATION

This Rider is intended to provide for all of the gas needs for the covered rate schedules at a fixed rate PGA, regardless of consumption or weather. A new fixed rate PGA will be implemented for a 12 month period on October 1 of each year during the Experimental Period. By September 1 of each year during the Experimental Period, the Company shall make a proforma rate filing with the Authority reflecting the current market conditions for wholesale gas prices at that point in time. Such filing shall be made in accordance with the formula contained in the Determination of Fixed Rate. Such filing will not be a guarantee of the Fixed Rate offered on October 1, but shall be indicative of the general market conditions at September 1. Unless the Authority acts to stop the Company from implementing this Rider by September 25, the Company will enter into agreements to lock in the price of gas for the next 12 month period beginning October 1. If the TRA acts by September 25 to halt this Fixed Rate PGA Rider, then this Rider will be suspended for the following 12 months, and the Company shall revert to its regular PGA pricing mechanism.

DETERMINATION OF FIXED RATE

The fixed rate PGA offered under this service shall be set in accordance with the following formula:

$$\left(\frac{\sum_{N_1-N_{12}} (O_N \times Q_N) + \sum_{N_1-N_{12}} [(SI_N \div SQ_N) \times S_N] + D}{\sum_{N_1-N_{12}} (V_N)} \right) + PTR + RP$$

Where:

- N** = Month of Fixed PGA Rate.
- O** = Gas Daily NYMEX Future Rate at the Henry Hub.
- Q** = Projected gas wellhead purchases, excluding industrial usage.
- SI** = Projected cost of gas in storage inventory.
- SQ** = Projected volume of gas in storage inventory.
- S** = Projected gas deliveries from storage inventory, excluding industrial usage.
- D** = Projected annual pipeline demand charges, excluding industrial demand.
- V** = Projected sales volumes, excluding industrial usage.
- PTR** = Projected pipeline transportation rate.
- RP** = Risk Premium.

EXPERIMENTAL FIXED RATE PGA RIDER (Continued)

WAIVER OF PRUDENCE AUDITS, ACA AUDITS, AND PGA REQUIREMENTS

Because the Authority has notice of the fixed gas rate to be offered for the next 12 months in advance of its implementation, the prudence of these gas purchases is assumed, and the requirements for prudence audits under Section 1220-4-7-.05 of the Tennessee Regulatory Authority's Purchased Gas Adjustment Rule is waived for these purchases. In addition, because the Company is required to commit to an annual price offering for all consumption in advance, the annual audit of the Company's actual gas costs shall also be waived for the applicable rate schedules, subject to any verification over the accuracy of end-user bills. Finally, because the company is committing to a one-year price offering, all requirements of the Authority's Purchased Gas Adjustment Rule shall also be waived for the affected rate schedules.

BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE

IN RE:

PETITION OF CHATTANOOGA GAS)
COMPANY FOR APPROVAL OF)
TARIFF ESTABLISHING)
EXPERIMENTAL FIXED RATE PGA)
RIDER)

DOCKET NO. 01-_____

PRE-FILED TESTIMONY OF BRIAN TOOLE
ON BEHALF OF CHATTANOOGA GAS COMPANY

1 **Q. Would you state your name and title for the record please?**

2 A. My name is Brian Toole and my title is Business Services Consultant for
3 Sequent Energy Management.

4 **Q. Would you describe your educational background and experience?**

5 A. I graduated from Auburn University in 1992 with a Bachelor of Mechanical
6 Engineering and I am currently enrolled in Georgia State University's Master of
7 Business Administration's program.

8 From 1993 to 1998, I worked for Atlanta Gas Light Company in various positions
9 as a marketing representative. In this role, I have worked with commercial and
10 industrial customers on energy audits, equipment choices, natural gas supplies,
11 back-up fuel choices, curtailment issues, and contract negotiations.

12 In 1998, I was promoted to Senior Gas Supply Analyst in AGL Energy Services.

13 My responsibilities were monthly forecasting, managing price offering to retail
14 customers, long-term planning, pipeline contract evaluation, working with

1 marketer proposals around capacity planning and forecasting for Atlanta Gas
2 Light and Chattanooga Gas Company.

3 In 2000, I accepted a position at Colonial Pipeline as Business Manager. In this
4 role, I was responsible for managing the refined petroleum pipeline's Southeast
5 Operations Division's budget.

6 During the summer of 2001, I accepted the position of Business Services
7 Consultant with Sequent Energy Management. In this position, I am responsible
8 for special projects, developing procedures, and assisting in long-term planning.

9 **Q. What is the purpose of your testimony?**

10 A. The purpose of my testimony is to describe the components of the Experimental
11 Fixed Rate PGA Tariff, and how these components are calculated.

12 **Q. Please explain the Fixed Rate PGA formula contained in Exhibit BAT-1.**

13 A. The Fixed Rate PGA formula is designed to work in similar fashion to the
14 Authority's existing PGA rule with the forecasted costs and volumes producing a
15 gas rate to be charged to our customers. However, unlike the Company's
16 existing PGA Rider, the proposed Fixed Rate PGA Rider contains a risk
17 premium (RP) to compensate for the risks assumed by the Company in making
18 this tariff available.

19 The Fixed Rate PGA Tariff formula proposed by the Company reads as follows:

$$\left(\frac{\sum_{N_1-N_{12}} (O_N \times Q_N) + \sum_{N_1-N_{12}} [(SI_N \div SQ_N) \times S_N] + D}{\sum_{N_1-N_{12}} (V_N)} \right) + PTR + RP$$

The first part of the formula aggregates the projected monthly commodity, storage and demand costs in the numerator, and then divides this total annual cost by the projected sales volumes in the denominator. This produces a weighted average expected rate that the Company anticipates it will be able to deliver to its customers. The second part of the formula adds in the projected interstate pipeline transportation rate. Finally, the third part of the formula adds in a Risk Premium. I will now discuss each of these components separately.

Q. Please explain the projected commodity cost component of the formula.

A. The projected commodity cost in the formula is designated as follows:

$$\sum_{N_1-N_{12}} (O_N \times Q_N)$$

In this piece of the equation, the variable O_N represents the future rate at which gas can be purchased at the Henry Hub, which is the standard on New York Mercantile Exchange for natural gas futures, in a particular month. The variable Q_N represents the projected volume of wellhead gas that the Company expects to purchase in a particular month. These projected wellhead purchases are contained in Exhibit BAT-2, of the Company's filing, and are derived from an analysis of previous volumes consumed by the company's residential and commercial customers. To get the expected annual commodity cost, the monthly projected wellhead purchases are multiplied by the monthly projected future price for each month of the year that the Fixed Rate PGA Tariff will be in effect, and then the totals for each month are summed.

Q. Please explain the projected storage cost component of the formula.

1 A. The projected storage cost in the formula is designated as follows:

$$\sum_{N_1-N_{12}} [(SI_N \div SQ_N) \times S_N]$$

2 In this piece of the equation, the variable SI_N represents the inventory value of
3 the gas in storage in a particular month, and SQ_N represents the total volume of
4 gas in storage in a particular month. When SI_N is divided by SQ_N , it produces a
5 weighted average cost of gas (WACOG) in storage for that particular month.
6 This weighted average cost of gas in storage is then multiplied by S_N , which
7 represents the projected deliveries from storage for that same month to give the
8 total cost for gas delivered from storage for a particular month. Summing the
9 monthly projected storage costs for each month of the twelve months that the
10 Fixed Rate PGA Tariff will be in effect gives the expected annual storage cost.

11 **Q. Please explain the projected demand cost component of the formula.**

12 A. The projected demand cost allocated to residential and commercial customers is
13 designated by the variable D in the formula. This is the same annual demand
14 cost that the company includes in its existing PGA, and covers the capacity costs
15 to bring gas to Chattanooga.

16 **Q. Please explain the projected sales volumes component in the formula.**

17 A. The projected sales volume is designated by V in the formula, and represents the
18 Company's projected sales to the residential and small commercial customers.

19 **Q. Please explain the projected Pipeline Transportation Rate component**
20 **in the formula.**

21 A. The projected Pipeline Transportation Rate is designated by PTR in the formula,
22 and represents the transportation rate projected to be approved by the Federal
23 Energy Regulatory Commission ("FERC"). The Pipeline Transportation Rate is

1 designed to cover the cost of interstate pipelines to move gas from the wellhead
2 to Chattanooga. The Pipeline Transportation Rate is also already included in
3 the Company's existing PGA Rider approved by the Authority.

4 **Q. Please explain the Risk Premium component in the formula.**

5 A. The Risk Premium is designated by the variable *RP* in the formula, and
6 represents the premium required by the Company for assuming the associated
7 risk of offering this tariff. The Experimental Fixed Rate PGA Tariff is
8 structured so that the Company is required to provide a pro forma calculation,
9 showing the results of the formula on September 1 of each year. Included in this
10 pro forma rate will be the Company's required Risk Premium that it needs in
11 order to offer this service.

12 **Q. How does the Company determine the rate for the Risk Premium?**

13 A. The Company internally considers all of the risks for this tariff that it feels it
14 will be required to absorb over the plan year.

15 **Q. What is the alternative for the Authority if it disagrees with the Risk
16 Premium required by the Company?**

17 A. The pro forma Risk Premium rate required by the Company for the upcoming
18 plan year will be filed on September 1st of each year to be effective on October 1st.
19 If the Authority disagrees with the Risk Premium required by the Company, the
20 tariff is structured to allow for suspension until the next plan year.

21 **Q. What specific risks are being absorbed by the Company in offering this
22 rate?**

1 A. Through this offering, the company will be responsible for providing all volumes
2 at a fixed price regardless of weather, usage patterns, changes in pipeline
3 demand charges, changes in unaccounted for gas, and the effects that
4 interruptible demand and supply have on the storage levels.

5 **Q. Many of the variables in the fixed rate formula include projections on**
6 **wellhead purchases, storage injections, storage withdrawals, and sales**
7 **volumes. How are these projections made?**

8 A. After normalizing for weather and taking customer growth into account, the
9 total usage for the residential and small commercial class has proven to be fairly
10 constant. While weather is the single largest risk that the Company has to
11 absorb in offering this tariff, we have produced a consolidated analysis for our
12 projection of wellhead gas purchases, storage injections, storage withdrawals,
13 and sales volumes that takes a projection of weather into account. The
14 projection of these volumes has been included in our filing as Exhibit BAT-2.

15 **Q. How will the commodity price be determined?**

16 A. Between the 25th of September and the 1st of October, Sequent Energy
17 Management will enter the market and acquire the volumes listed in Exhibit
18 BAT-2, barring any force majeure situation (tornado, hurricane, explosion or
19 other natural or mechanical disaster) occurring in the Gulf of Mexico or other
20 production areas. Once the volumes have been acquired, SEM will calculate the
21 fixed price and provide it to the Authority along with the commodity prices that
22 were obtained for October 2001 through September 2002. Sequent Energy
23 Management will also provide the Authority a copy of supplier's confirmation

1 sheet for the wellhead gas. This confirmation will indicate the volumes that were
2 fixed at a specific price per month.

3 **Q. How can the Authority determine that the future commodity price**
4 **contract is indicative of the current market rate?**

5 **A.** The gas market is a very volatile and changes by the minute. On a daily basis,
6 various publications provide data on the range of gas commodity trades that
7 occur on the New York Mercantile Exchange on a particular day. These ranges
8 provide the lowest and highest price paid for gas commodity for a future month.
9 Gas Daily is one such publication, which prints the previous day's high and low
10 prices for natural gas trades at Henry Hub for the proceeding 36 months. The
11 volumes procured by Sequent Energy Management for the period October 2001
12 through September 2002 should be between the low and the high for the day that
13 the trade occurred.

14 **Q. Will fixing prices guarantee the consumers that they will pay the lowest**
15 **possible cost for the next 12 months?**


16 **A.** No. Fixing the price for natural gas provides the consumer with a known price
17 for service over the 12 month period. It does not guarantee the lowest cost.

18 **Q. Does this conclude your testimony?**

19 **A.** Yes, it does.

VERIFICATION

I, Brian Toole, declare under penalty of perjury that I am authorized by Sequent Energy Management, L.P. to testify on its behalf, that I have caused the foregoing written testimony to be prepared on my behalf, that I have read the foregoing testimony and that the statements contained therein are true and correct to the best of my knowledge, information and belief.



Brian Toole
Business Services Consultant
Sequent Energy Management, L.P.

STATE OF TENNESSEE)
)
COUNTY OF HAMILTON)

Sworn to and subscribed before me this 31st day of August, 2001.



Notary Public

My Commission Expires: 4/30/05

EXPERIMENTAL FIXED RATE PGA RIDER

APPLICABILITY

This Rider shall apply to the Company's Purchased Gas Adjustment Provision for the Residential General Service (Rate Schedule R-1), Multi-Family Housing Service (Rate Schedule R-4) and Commercial and Industrial General Service (Rate Schedule C-1) Rate Schedules. This Rider shall also supersede the Company's regular Purchased Gas Adjustment Rider for these rate schedules at those times when this Rider is in effect.

EXPERIMENTAL PERIOD

This Experimental Rider is effective for a three-year period beginning October 1, 2001 and ending September 30, 2004. This Rider may be discontinued by either the Company or the Authority upon notice 30 days prior to the annual anniversary date of October 1.

INTENT AND APPLICATION

This Rider is intended to provide for all of the gas needs for the covered rate schedules at a fixed rate PGA, regardless of consumption or weather. A new fixed rate PGA will be implemented for a 12 month period on October 1 of each year during the Experimental Period. By September 1 of each year during the Experimental Period, the Company shall make a proforma rate filing with the Authority reflecting the current market conditions for wholesale gas prices at that point in time. Such filing shall be made in accordance with the formula contained in the Determination of Fixed Rate. Such filing will not be a guarantee of the Fixed Rate offered on October 1, but shall be indicative of the general market conditions at September 1. Unless the Authority acts to stop the Company from implementing this Rider by September 25, the Company will enter into agreements to lock in the price of gas for the next 12 month period beginning October 1. If the TRA acts by September 25 to halt this Fixed Rate PGA Rider, then this Rider will be suspended for the following 12 months, and the Company shall revert to its regular PGA pricing mechanism.

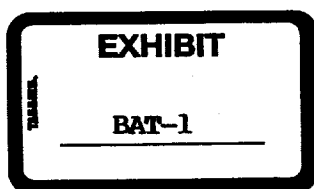
DETERMINATION OF FIXED RATE

The fixed rate PGA offered under this service shall be set in accordance with the following formula:

$$\left(\frac{\sum_{N_1-N_{12}} (O_N \times Q_N) + \sum_{N_1-N_{12}} [(SI_N \div SQ_N) \times S_N] + D}{\sum_{N_1-N_{12}} (V_N)} \right) + PTR + RP$$

Where:

- N** = Month of Fixed PGA Rate.
- O** = Gas Daily NYMEX Future Rate at the Henry Hub.
- Q** = Projected gas wellhead purchases, excluding industrial usage.
- SI** = Projected cost of gas in storage inventory.
- SQ** = Projected volume of gas in storage inventory.
- S** = Projected gas deliveries from storage inventory, excluding industrial usage.
- D** = Projected annual pipeline demand charges, excluding industrial demand.
- V** = Projected sales volumes, excluding industrial usage.
- PTR** = Projected pipeline transportation rate.
- RP** = Risk Premium.



EXPERIMENTAL FIXED RATE PGA RIDER (Continued)

WAIVER OF PRUDENCE AUDITS, ACA AUDITS, AND PGA REQUIREMENTS

Because the Authority has notice of the fixed gas rate to be offered for the next 12 months in advance of its implementation, the prudence of these gas purchases is assumed, and the requirements for prudence audits under Section 1220-4-7-.05 of the Tennessee Regulatory Authority's Purchased Gas Adjustment Rule is waived for these purchases. In addition, because the Company is required to commit to an annual price offering for all consumption in advance, the annual audit of the Company's actual gas costs shall also be waived for the applicable rate schedules, subject to any verification over the accuracy of end-user bills. Finally, because the company is committing to a one-year price offering, all requirements of the Authority's Purchased Gas Adjustment Rule shall also be waived for the affected rate schedules.

No.

Exhibit BAT-2

Page 1 of 2

1 Days of the Month	31	30	31	31	28	31
2	Oct-01	Nov-01	Dec-01	Jan-02	Feb-02	Mar-02
3	Normal					

3	Projected Wellhead Supply (Q)	314,147	665,139	1,211,874	1,447,010	877,337	760,889
4	Projected Storage Supply (S)	306,935	332,919	384,087	480,138	462,185	275,863
5	Total (Q+S)	621,082	998,058	1,595,961	1,927,148	1,339,522	1,036,752
6	Projected Sendout at City Gate	599,744	963,275	1,538,917	1,859,314	1,292,533	1,000,616
7	Projected Customer Usage						
8	Projected Residential Customer Usage	242,441	482,109	829,998	966,358	597,138	500,798
9	Projected Commercial Customer Usage	334,800	445,024	652,141	823,194	646,899	462,275
10	Total Projected Customer Usage (V)	577,242	927,133	1,482,139	1,789,553	1,244,037	963,073

11	Projected Wellhead Cost of Gas (O)	\$ 2,395	\$ 2,720	\$ 3,045	\$ 3,195	\$ 3,167	\$ 3,097
12	Projected Wellhead Cost (OxQ)	\$ 752,381	\$ 1,809,178	\$ 3,690,155	\$ 4,623,195	\$ 2,778,527	\$ 2,356,472

13	Projected Storage Cost (SI)	\$ 17,080,451	\$ 15,526,170	\$ 13,840,310	\$ 11,895,343	\$ 9,463,984	\$ 7,123,535
14	Projected Storage Volume (SQ)	3,373,003	3,066,068	2,732,148	2,349,061	1,868,923	1,406,738
15	Projected Injections Volume	-	-	-	-	-	-
16	Estimated Cost for Storage Injections	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
17	Weighted Average Cost of Gas (SI/SQ)	\$ 5.064	\$ 5.064	\$ 5.064	\$ 5.064	\$ 5.064	\$ 5.064
18	Storage Volumes Delivered (S)	306,935	332,919	384,087	480,138	462,185	275,863
19	Projected Volumes delivered by LNG***	21,700	21,000	21,700	21,700	61,757	21,700
20	Storage Delivered Cost ((SI/SQ)*S)	\$ 1,554,281	\$ 1,685,860	\$ 1,944,967	\$ 2,431,359	\$ 2,340,445	\$ 1,396,936

21	Demand Cost (D)****	\$ 936,885	\$ 936,885	\$ 936,885	\$ 936,885	\$ 936,885	\$ 936,885
22	Cost (OxQ)+(SI/SQ)*S)+D	\$ 3,243,548	\$ 4,431,924	\$ 6,572,008	\$ 7,991,440	\$ 6,055,858	\$ 4,690,293
23	Sales Volumes (V)	577,242	927,133	1,482,139	1,789,553	1,244,037	963,073
24	Fixed Cost excluding Transportation & Risk Premium Per DT	\$ 5.62	\$ 4.78	\$ 4.43	\$ 4.47	\$ 4.87	\$ 4.87

25 Pipeline Transportation Per DT

26 Risk Premium per DT

27 Total Fixed Price Per Therm

28 Total Fixed Price CCF

*** LNG volumes are included on line 18 (Storage Delivered Volumes (S))

**** Demand cost of residential and commercial customers

EXHIBIT

BAT-2

No

Exhibit BAT-2

Page 2 of 2

1 Days of the Month	30	31	30	31	31	30	Yearly Vol
2	Apr-02	May-02	Jun-02	Jul-02	Aug-02	Sep-02	DT

3 Wellhead Supply (Q)	384,739	246,557	238,603	246,557	246,557	238,603	6,878,013
4 Storage Supply (S)	183,800	33,001	21,000	21,700	21,700	32,531	2,555,864
5 Total (Q+S)	568,539	279,557	259,603	268,257	268,257	271,135	9,433,877
6 Projected Sendout at City Gate	550,196	270,919	251,610	259,997	259,997	262,755	9,110,879
7 Projected Customer Usage							
8 Projected Residential Customer Usage	264,776	104,302	87,181	95,092	77,575	85,985	4,333,761
9 Projected Commercial Customer Usage	264,776	156,452	154,989	155,150	172,667	166,912	4,435,289
10 Total Projected Customer Usage (V)	529,553	260,754	242,170	250,242	250,242	252,896	8,769,050

11 Wellhead Cost of Gas in Storage (O)	\$ 3,007	\$ 3,027	\$ 3,069	\$ 3,117	\$ 3,162	\$ 3,163	
12 Wellhead Cost (OxQ)	\$ 1,156,909	\$ 746,327	\$ 732,273	\$ 768,517	\$ 779,612	\$ 754,702	\$20,948,262
13 Projected Storage Cost (SI)	\$ 5,726,603	\$ 6,299,365	\$ 7,669,208	\$ 9,119,566	\$ 10,595,371	\$ 12,096,298	
14 Projected Storage Volume (SQ)	1,130,875	1,447,075	1,914,074	2,393,074	2,871,374	3,349,674	
15 Projected Injections Volume	500,000	500,000	500,000	500,000	500,000	500,000	3,000,015
16 Estimated Cost for Storage Injections	\$ 1,503,500	\$ 1,513,500	\$ 1,534,500	\$ 1,558,500	\$ 1,581,000	\$ 1,581,500	
17 Weighted Average Cost of Gas (SI/SQ)	\$ 5,064	\$ 4,353	\$ 4,007	\$ 3,811	\$ 3,690	\$ 3,611	
18 Storage Volumes Delivered (S)	183,800	33,001	21,000	21,700	21,700	32,531	2,555,878
19 Volumes delivered by LNG***	21,000	21,700	21,000	21,700	21,700	21,000	297,676
20 Storage Delivered Cost ((SI/SQ)*S)	\$ 930,738	\$ 143,657	\$ 84,142	\$ 82,695	\$ 80,073	\$ 117,477	\$12,792,649
21 Demand Cost (D)****	\$ 936,885	\$ 936,885	\$ 936,885	\$ 936,885	\$ 936,885	\$ 936,885	\$11,242,645
22 Cost (OxQ)+(SI/SQ)*S)+D	\$ 3,024,533	\$ 1,826,869	\$ 1,753,300	\$ 1,788,097	\$ 1,796,570	\$ 1,809,064	\$44,983,526
23 Sales Volumes (V)	529,553	260,754	242,170	250,242	250,242	252,896	8,769,056
24 Fixed Cost excluding Transportation & Risk Premium Per DT	\$ 5.71	\$ 7.01	\$ 7.24	\$ 7.15	\$ 7.18	\$ 7.15	\$ 5.130

25 Pipeline Transportation Per DT

\$ 0.06

26 Risk Premium per DT

\$ 1.24

27 Total Fixed Price Per Therm

\$ 64.30

28 Total Fixed Price CCF

\$ 66.23

*** LNG volumes are included on line 18 (Storage Delivered Volumes (S))

**** Demand cost of residential and commercial customers

BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE

IN RE:

PETITION OF CHATTANOOGA GAS)	
COMPANY FOR APPROVAL OF)	
TARIFF ESTABLISHING)	
EXPERIMENTAL FIXED RATE PGA)	
RIDER)	DOCKET NO. 01-_____

PRE-FILED TESTIMONY OF LARRY BUIE
ON BEHALF OF CHATTANOOGA GAS COMPANY

- 1 **Q. Would you state your name and title for the record?**
- 2 A. My name is Larry Buie - General Manager, Chattanooga Gas Company.
- 3 **Q. Please briefly describe your educational and professional background.**
- 4 A. I graduated from Mississippi State University in 1977 with a degree in Civil
- 5 Engineering. Shortly after graduation, I joined Southern Natural Gas Company,
- 6 where I spent the next 24 years of my career as an Engineer, Project Engineer,
- 7 Senior Engineer, and Transmission Superintendent. In 2000, I joined
- 8 Chattanooga Gas Company as General Manager.
- 9 **Q. What is the purpose of your testimony?**
- 10 A. The purpose of my testimony is to present an overview of the Company's
- 11 proposed Fixed Rate PGA Tariff, and to explain how it will benefit the
- 12 Company's residential and small commercial customers. Our other witness will
- 13 explain the technical aspects of how the rate is determined.
- 14 **Q. Please briefly describe the Company's proposed Fixed Rate PGA Tariff.**

1 A. The Company's Fixed Rate PGA Tariff "locks in" the price of gas for the
2 residential and small commercial customers for a one-year period regardless of
3 consumption or weather. In contrast, the Company's regular PGA changes the
4 gas rate for these same customers on a monthly basis, and is dependent on the
5 wholesale gas price that is available in the spot market. While the Company's
6 proposed Fixed Rate PGA does not guarantee a lower total cost to the customer
7 over a twelve month period, it does eliminate the price volatility that has been
8 the source of many complaints to TRA.

9 **Q. Why is a Fixed Rate PGA Tariff appealing for your customers?**

10 A. As the Authority is aware, the wholesale gas rate can be extremely volatile.
11 While the Company's base rates can change only upon the action of the
12 Authority, the gas rate is subject to monthly changes in the wholesale gas
13 market. Since the Company's last rate case in 1998, the monthly gas rate has
14 ranged from a low of \$0.34 per hundred cubic feet to \$0.99 per hundred cubic feet
15 last winter as shown on Exhibit LB-1.

16 This wholesale price volatility has been a source of contention with many of our
17 residential and small commercial customers who depend on a stable gas rate to
18 help them budget their energy expenditures, and we are presenting testimony
19 from two of our customers that support this claim. Because this price volatility
20 has such a detrimental effect on so many of our customers, I asked our gas
21 trading affiliate, Sequent Energy Management ("Sequent"), to examine this
22 problem and determine if a solution could be crafted. The Company's proposed
23 Fixed Rate PGA Tariff, which was developed by Sequent, eliminates this

1 volatility by offering a fixed stable rate for wholesale gas that will not change
2 over the next 12 months.

3 **Q. How is the Company able to offer a fixed price for gas on a 12-month**
4 **period when it must purchase this gas at market rates?**

5 A. Arrangements for fixed wholesale pricing of gas on a unit basis can be easily
6 arranged, and our technical witness will speak more to the mechanics of this
7 process. Generally speaking though, the Company has several hedging tools
8 available to it where it can “lock in” or hedge a unit price today for wholesale gas
9 to be delivered over the next twelve months. However in offering this Fixed Rate
10 PGA Tariff, other assumptions must also be made which are not known, such as
11 the individual customer usage and weather.

12 **Q. Why are weather and customer usage important?**

13 A. Because they are unknown variables that will affect the volume of gas consumed.
14 For example, if weather is colder than normal, our customers will generally
15 consume more gas. Likewise, when these same customers either install or
16 change out their existing gas appliances, it can also affect their gas usage.
17 When the Company hedges prices for wholesale gas purchases over a twelve-
18 month period, it must also decide what corresponding volume of gas to hedge.

19 **Q. What would happen if the Company hedges either too much gas or not**
20 **enough?**

21 A. If the Company hedges too much gas (for example, if weather turns out to be
22 warmer than expected) then it will have to find a market for this gas at a price
23 that could be either lower or higher than the hedged price. Likewise, if the

1 Company does not hedge enough gas (for example, if weather turns out to be
2 colder than expected), it will be forced to go back into the market and purchase
3 additional supplies of gas that may be either higher or lower than the hedged
4 price in order to satisfy the demand for gas from our customers.

5 Because the Company is assuming this risk regarding the correct volume of gas
6 to hedge, we have included a Risk Premium variable in Fixed Rate PGA Tariff
7 formula. The calculation of this formula will be explained more fully by our
8 technical witness.

9 **Q. Did the Company take bids from other suppliers for the Fixed Rate PGA**
10 **Tariff price offering?**

11 A. No. The Company does not know of any suppliers who would be either willing or
12 capable of managing the complete usage risk needs for a distribution company's
13 residential and commercial customers.

14 **Q. If the Company did not take bids for this service, how is the Authority**
15 **to determine whether the fixed price being offered is fair?**

16 A. Exhibit LB-2 shows the rate offering of the certified marketers in Georgia. This
17 exhibit is taken directly from the Georgia Public Service Commission's web site.
18 As the Authority is aware, the retail gas market has been deregulated in Georgia
19 since 1999. As such, the responsibility for acquiring wholesale gas has been
20 removed from the gas distribution utility and instead passed on to certificated
21 marketers. One of the truly innovative features of gas deregulation in Georgia
22 has been an offering of a fixed rate by the certified marketers to their customers.
23 As can be seen from Exhibit LB-2, the price offering by the Company for its

1 Fixed Rate PGA Tariff is less than any rate offered by a certified marketer in
2 Georgia. Because these Georgia Marketers are purchasing gas from the same
3 sources as Chattanooga Gas Company, I feel that this proves to the Authority
4 that the rate offered for our Fixed Rate PGA Tariff is not only fair, but superior
5 to any other similar offering.

6 **Q. Did the Company consider offering this service as an option to its**
7 **regular tariff rather than applying it to all existing customers?**

8 A. Yes, we did. Our examination revealed that the cost of changing our computer
9 billing system to manage those customers who chose a fixed rate and others who
10 chose to remain on a variable rate would be prohibitive. In addition, we also
11 found that it would require an extensive customer education campaign as well as
12 additional training and staffing in our call center. Despite all of these costly
13 changes, there was no way to know for certain exactly how many customers
14 would elect this service. Because of these reasons, we abandoned this approach
15 in favor of the Fixed Rate PGA Tariff that we are presenting to the Authority
16 today.

17 **Q. Is this Fixed Rate PGA Tariff being offered to your Industrial Tariff**
18 **customers?**

19 A. No. The Company's Industrial Tariff Customers (Rate Schedules I-1, L-1, T-1
20 and T-2) already have options available to let them hedge gas on an individual
21 basis if they desire.

22 **Q. Do you have any other comments?**

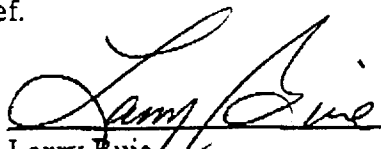
1 A. Yes. I would urge the Authority to approve the Company's proposed tariff. In
2 the pro forma analysis contained in Exhibit BAT-1, the proposed tariff produced
3 a gas rate that is 30% less than the peak rate charged to our customers last
4 winter. In addition, it removes price volatility for the customer, and eases the
5 auditing requirements for the Authority Staff.

6 **Q. Does this complete your testimony?**

7 A. Yes, it does.

VERIFICATION

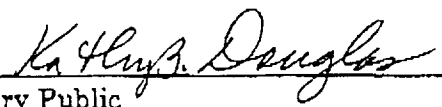
I, Larry Buie, declare under penalty of perjury that I am authorized by Chattanooga Gas Company to testify on its behalf, that I have caused the foregoing written testimony to be prepared on my behalf, that I have read the foregoing testimony and that the statements contained therein are true and correct to the best of my knowledge, information and belief.



Larry Buie
General Manager
Chattanooga Gas Company

STATE OF TENNESSEE)
)
COUNTY OF HAMILTON)

Sworn to and subscribed before me this 31 day of August, 2001.



Notary Public
My Commission Expires: _____

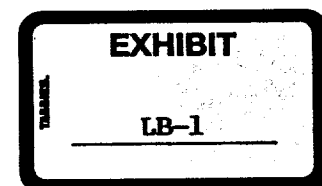
My Commission Expires Feb. 23, 2002

Chattanooga Gas Company
PGA 10/98-9/01

	<u>Change In PGA</u>	<u>PGA Per MCF</u>	<u>PGA Per CCF</u>
10/1/98		\$3.5120	\$ 0.3512
11/1/98	\$ 0.3000	3.8120	0.3812
12/1/98	-	3.8120	0.3812
1/1/99	-	3.8120	0.3812
2/1/99	-	3.8120	0.3812
3/1/99	-	3.8120	0.3812
4/1/99	-	3.8120	0.3812
5/1/99	(0.3800)	3.4320	0.3432
6/1/99	-	3.4320	0.3432
7/1/99	0.2440	3.6760	0.3676
8/1/99	-	3.6760	0.3676
9/1/99	0.6570	4.3330	0.4333
10/1/99	0.2543	4.5873	0.4587
11/1/99	0.0287	4.6160	0.4616
12/1/99	0.2279	4.8439	0.4844
1/1/00	-	4.8439	0.4844
2/1/00	(0.5599)	4.2840	0.4284
3/1/00	-	4.2840	0.4284
4/1/00	0.3957	4.6797	0.4680
5/1/00	-	4.6797	0.4680
6/1/00	0.0908	4.7705	0.4771
7/1/00	0.9419	5.7124	0.5712
8/1/00	-	5.7124	0.5712
9/1/00	(0.3783)	5.3341	0.5334
10/1/00	-	5.3341	0.5334
11/1/00	1.3896	6.7237	0.6724
12/1/00	0.9093	7.6330	0.7633
1/1/01	-	7.6330	0.7633
2/1/01	2.3090	9.9420	0.9942
3/1/01	(2.1848)	7.7572	0.7757
4/1/01	(1.1168)	6.6404	0.6640
5/1/01	(0.2048)	6.4356	0.6436
6/1/01	(0.2469)	6.1887	0.6189
7/1/01	(0.8893)	5.2994	0.5299
8/1/01	(0.3436)	4.9558	0.4956
9/1/01	0.0950	\$5.0508	\$ 0.5051
Total Change	\$ 1.5388		

Maximum Rate \$ 0.9942

Minimum Rate \$ 0.3432



August 2001 Certified Gas Marketers Price List

Prices shown are through August 5, 2001. There are no guarantees that these prices are accurate for any date after 08/05/2001.

<u>Certified Gas Marketer</u>	<u>Commodity Price</u> (per therm)	<u>Interstate Capacity Charge</u>	<u>Customer Service Charge</u>	<u>Other Charges</u>
ACN Energy	\$0.6900	\$4.2900 per DDDC Factor	\$4.95	AGL Base Charge \$1.48 per DDDC--balancing \$0.00 per DDDC--imbalance charge
Energy America	\$0.4660	\$7.3451 per DDDC Factor	\$7.05	AGL Base Charge
*Gas Key cannot sign new customers per Commission Order				
Georgia Natural Gas (Fixed)	\$0.7290	Included in Commodity Charge	\$4.90	AGL Base Charge
Georgia Natural Gas (Variable)	\$0.7290	Included in Commodity Charge	\$5.95	AGL Base Charge
Infinite (Fixed)	\$0.6700	Included in Commodity Charge	\$3.65	AGL Base Charge
Infinite (Variable)	\$0.6197	Included in Commodity Charge		
New Power Company (Fixed Two Year)	\$0.6490	Included in Commodity Charge		
Scana (Fixed)	\$0.6990	Included in Commodity Charge	\$4.95	AGL Base Charge
Scana (Variable)	\$0.8590	Included in Commodity Charge	\$5.95	AGL Base Charge
Shell (Fixed)	\$0.6990			
Shell (Variable)	\$0.7290			
Prices shown are for August 5, 2001. There are no guarantees that these prices are accurate for any date after August 5, 2001.				
Prices do not include the base charge from Atlanta Gas Light Company. This charge is \$10.17 + (\$3.94 per DDDC Factor).				
The Base Charge is the same regardless of which marketer is chosen.				
Customer specific DDDC Factors can be obtained by calling the selected marketer. Gas Marketer contact information click here.				
Prices DO NOT include sales tax, which varies by county.				

EXHIBIT

LB-2

EXHIBIT C

NOTICE REGARDING AFFIDAVIT OF RICHARD BROWN

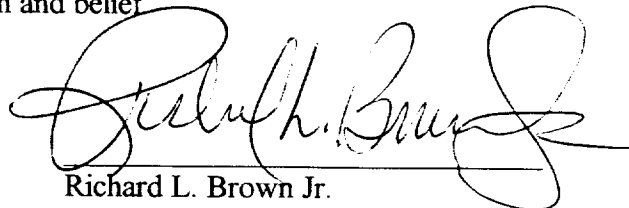
Pursuant to T.C.A. § 4-5-313, the accompanying affidavit of Richard Brown, Vice Chancellor for Finance and Operations at the University of Tennessee at Chattanooga, will be introduced as evidence at the hearing, if any, in the Petition of Chattanooga Gas Company for Approval of Tariff Establishing Experimental Fixed Rate PGA Rider, Docket No. 01-_____, before the Tennessee Regulatory Authority.

Mr. Brown will not be called to testify orally and you will not be entitled to question such affiant unless you notify D. Billye Sanders, Attorney for Chattanooga Gas Company, at 511 Union Street, Suite 2100, Nashville, Tennessee 37219 that you wish to cross-examine such affiant. To be effective, your request must be mailed or delivered to D. Billye Sanders at 511 Union Street, Suite 2100, Nashville, Tennessee 37219 on or before Friday, September 7, 2001.

STATE OF TENNESSEE)

COUNTY OF HAMILTON)

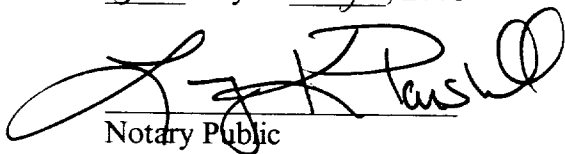
Personally, appeared before the undersigned authority, Richard L. Brown, Jr., who, after being duly sworn, states on oath that he is the same Richard L. Brown Jr. whose prepared testimony accompany this Affidavit: that he is authorized to make this affidavit; that he is familiar with the contents of the foregoing testimony on behalf of Chattanooga Gas Company to the Tennessee Regulatory Authority; and that the facts stated therein are true to the best of his knowledge, information and belief



Richard L. Brown Jr.
Vice Chancellor for Finance and Operations

Sworn to and subscribed before me this

30th day of August, 2001



Notary Public

My Commission Expires: 2 MARCH 2005

(Notary Seal)

Q. Would you state your name for the record?

A. My name is Richard Brown, Vice Chancellor for Finance and Operations at the University of Tennessee at Chattanooga (UTC)

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to comment on the impact of last year's volatile gas market and the adverse impact on commercial/institutional customers.

Q. Briefly describe your main areas of responsibility and how it relates to natural gas costs.

A. As Vice Chancellor of Finance and Operations, I am responsible, among other things, for all oversight of UTC's budgeting process, including budgeting for all utility costs including electricity, gas and water.

Q. What rate schedules are applicable to UTC?

A. Our main energy plant is served by Chattanooga Gas Company's I-1 Large Industrial Firm Service Rate. UTC also has approximately 20 firm accounts that are served by Chattanooga Gas Company's C-1 General Commercial/Industrial Service rate.

Q. Did this winter's high gas prices have an adverse impact on UTC's budget?

A. High gas prices caused UTC to be well over our budget for gas last year. Cumulatively, UTC budgeted a total of \$697,800 last year for natural gas. Total expenditures for natural gas during last year was \$817,500. This resulted in an unfavorable variance of \$120,000 for natural gas alone. This budget imbalance required UTC to reallocate funds from other intended expenditures, impacting among other things the academic mission of the institution.

Q. How is UTC budgeting for natural gas this upcoming winter?

A. Currently, my staff is considering purchasing a winter strip for the gas requirements for the Physical Plant which is served by Chattanooga's I-1 Large Industrial Firm rate. This rate provides UTC with gas procurement options; however, UTC does not have the same options with the C-1 firm accounts. Budgeting for gas costs on these accounts presents a challenge given the volatility experienced last year.

Q. What are your thoughts on a fixed priced PGA that would fix gas costs on UTC's firm accounts.

A. There are certainly benefits for a state agency such as UTC to have the ability to anticipate gas costs with a reasonable amount of certainty. Our budget is very tight and budget variances caused by volatility in the gas market will continue to negatively impact our academic mission. For these reasons, UTC would be very supportive of a fixed priced PGA that would allow Chattanooga Gas Company the ability to lock in low gas prices when market conditions were favorable. This would allow us a cost control option on our C-1 firm accounts where there are currently no options.

Q. Does this conclude your testimony

A. Yes.

NOTICE REGARDING AFFIDAVIT OF HOSSEIN A. JAVADI

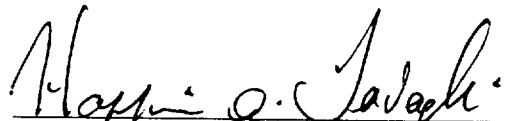
Pursuant to T.C.A. § 4-5-313, the accompanying affidavit of Hossein A. Javadi, Owner and Operator of Family Cleaners, will be introduced as evidence at the hearing, if any, in the Petition of Chattanooga Gas Company for Approval of Tariff Establishing Experimental Fixed Rate PGA Rider, Docket No. 01-_____, before the Tennessee Regulatory Authority.

Mr. Javadi will not be called to testify orally and you will not be entitled to question such affiant unless you notify D. Billye Sanders, Attorney for Chattanooga Gas Company, at 511 Union Street, Suite 2100, Nashville, Tennessee 37219 that you wish to cross-examine such affiant. To be effective, your request must be mailed or delivered to D. Billye Sanders at 511 Union Street, Suite 2100, Nashville, Tennessee 37219 on or before Friday, September 7, 2001.

STATE OF TENNESSEE)

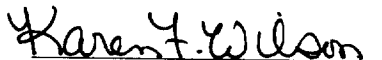
COUNTY OF HAMILTON)

Personally, appeared before the undersigned authority, Hossein A. Javadi, who, after being duly sworn, states on oath that he is the same Hossein A. Javadi whose prepared testimony accompany this Affidavit: that he is authorized to make this affidavit; that he is familiar with the contents of the foregoing testimony on behalf of Chattanooga Gas Company to the Tennessee Regulatory Authority; and that the facts stated therein are true to the best of his knowledge, information and belief.


Hossein A. Javadi

Sworn to and subscribed before me this

29 day of Aug., 2001


Notary Public

My Commission Expires:

2-18-03
(Notary Seal)

Q. Would you state your name for the record?

A. My name is Hossein A. Javadi

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to comment on the impact of last year's volatile gas market and the adverse impact on small business gas consumers.

Q. Briefly describe your business, and how your business utilized natural gas.

A. I am the owner and operator of Family Cleaners, a dry cleaning service business located in Collegedale Tennessee. My business uses natural gas year-round to produce steam, and hot water used in the dry cleaning process. We also use gas to heat our building.

Q. What rate schedule are you served under?

A. Family Cleaners is served by Chattanooga Gas Company's C-1 General Commercial/Industrial rate.

Q. Did this winter's high gas prices have an adverse impact on your business.

A. Natural gas is a very significant cost in the dry cleaning business, and we spend approximately \$500 per month for natural gas. However, this winter gas costs escalated with the February bill increasing to \$774.17. This increase in cost cut into our profit margins considerably and represented lost income for my business.

Q. What are your thoughts on a fixed priced PGA that would fix gas costs for the entire year at a fixed level?

A. As a small business operator, managing costs is very important to survival. I also have to be able to price my services at predetermined levels to ensure that my cost and profit margins are included. A fixed gas cost PGA that would lock in a fixed

rate for my business would certainly be a benefit and assist me in managing my business. It makes good sense to allow Chattanooga Gas Company to lock in gas costs when market conditions are favorable, and eliminate a source of anxiety for small business operators like myself. It is my understanding that the TRA will have an opportunity to approve or disapprove the fixed cost PGA filing and verify the prudence of this cost relative to historical gas costs. This will provide another pricing option for Chattanooga's customers that may be the best alternative in lieu of being subject to the extreme volatility that we experienced this year.

Q. Does this conclude your testimony?

A. Yes.

EXHIBIT D

FOR IMMEDIATE RELEASE

Contact:

Russ Williams

Director, Media Relations

AGL Resources Inc.

(404) 584-3210

CHATTANOOGA GAS COMPANY PROPOSES FIXED RATE FOR NATURAL GAS

Residential and small commercial customers would benefit from fixed natural gas prices

CHATTANOOGA, TENNESSEE, August 31, 2001 — Chattanooga Gas Company, a wholly owned subsidiary of AGL Resources Inc. (NYSE: ATG) today presented a proposal to the Tennessee Regulatory Authority (TRA) that would allow the company to create a fixed purchased natural gas rate for residential and small commercial customers.

The fixed rate would establish a standard price per hundred cubic feet (hcf) for the actual cost of natural gas delivered to customers. That rate would lock in the price of gas for a period of one year, eliminating the month-to-month rate fluctuations that are normally associated with variable wholesale market pricing. There would be no effect on customers' base rate charges, which are regulated by the TRA.

"By locking in fixed rates, the customers of Chattanooga Gas Company will be protected from the highly volatile natural gas wholesale price fluctuations that have been experienced in the recent past," said Larry Buie, general manager, Chattanooga Gas Company. "By eliminating volatility and stabilizing pricing, customers will be able to better manage their energy expenditures. We estimate that Chattanooga Gas Company will be able to offer a fixed cost of less than 70 cents per hcf, which is approximately 30 percent less than the peak rate charged last winter."

Chattanooga Natural Gas is requesting that the TRA schedule a hearing on the proposal and issue a decision by September 25.

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Chattanooga Gas Company, a wholly owned subsidiary of AGL Resources Inc., provides retail natural gas sales and transportation services to approximately 60,000 customers in Hamilton County and Bradley County, Tennessee. This service area includes the cities of Chattanooga, Cleveland, Red Bank, East Ridge, Lookout Mountain and Signal Mountain. Chattanooga Gas Company has a system throughput of approximately 20 billion cubic feet of gas a year.

AGL Resources Inc. is a regional holding company for energy and infrastructure related businesses in the Southeast. The company is the second-largest natural gas-only distribution company in the United States and serves more than 1.8 million customers throughout Georgia; Chattanooga, Tennessee; and southeastern Virginia. AGL Resources also is engaged through subsidiaries and partnerships in other businesses, including telecommunications, retail energy marketing, wholesale energy services, and wholesale and retail propane sales. More information about the company is available on the Internet at www.aglresources.com.

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