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September 21, 2001

Via Hand-Delivery

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

Re: Petition of Chattanooga Gas Company for Approval of Tariff Establishing Experimental Fixed Rate PGA Rider; Docket No. 01-00761; Responses to CAD Data Requests

Dear Mr. Waddell:

Enclosed you will find the original and thirteen (13) copies of Chattanooga Gas Company's responses to the Consumer Advocate Division's ("CAD") data requests. I have confirmed with Chris Allen with the CAD that items 1 – 11 are duplicates of the TRA Staff Data Requests and that such responses were previously submitted to the TRA and served on the CAD. Accordingly, we have only included responses to items 12-19.

Sincerely,

D. Billye Sanders

D. Billye Sanders

Enclosures

cc: Tim Phillips, CAD
Hal Novak
Earl Burton
Archie Hickerson
Kristin Murphy Coile, Esq.

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CHATTANOOGA GAS COMPANY
Experimental Fixed Rate PGA (Docket 01-00761)
Tennessee Consumer Advocate Division
Data Request No. 1

12. Were the considerations/parameters for sales and purchase volumes in developing the proposed Fixed Rate PGA the same as those utilized in the current PGA mechanism?

    See attached response.

13. Will Chattanooga Gas lock in a definite rate with Suquent and then do spot purchasing only if an inadequate volume of gas was purchased? How will these additional costs be recovered by Chattanooga Gas?

    See attached response.

14. Please explain (in detail) how the Risk Premium factor/charge was developed.

    See attached response.

15. Will Sequent realize any profit margin based on the difference in the price of gas it purchases and the price it "sells" to Chattanooga Gas? How will this number be reported? Please explain all possibilities in which Sequent will make revenue from Chattanooga Gas.

    See attached response.

16. Please provide organizational charts for Chattanooga Gas, AGL Resources, and Sequent.

    See attached response.

17. Does Chattanooga Gas have permission to hedge right now without further TRA approval?

    See attached response.

18. Is the price that Sequent will lock into with whom Chattanooga Gas or futures contracts equal to the factors enumerated in your "Determination of Fixed Rate" formula?

    See attached response.

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19. Please provide a proforma comparison covering the latest available 12 months comparing the Fixed Rate PGA proposal (including all formula pieces) with actual gas cost including billing factor (in cents per CCF).

    See attached response.

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Item 12
Were the considerations/parameters for sales and purchase volumes in developing the proposed Fixed Rate PGA the same as those utilized in the current PGA mechanism? Cite any differences and the reasons for doing so.

Response:

No. Under the current PGA procedure, Chattanooga estimates its cost of gas based on actual historic volumes sold and the current price of the commodity, transportation services, and storage services. A PGA is calculated, and a new PGA factor placed in effect the first of each month. Annually the actual cost of gas is compared with the revenue recovered from the PGA factors billed to the customers during the past twelve months. If the revenue collected through the PGA factor is less than actual cost incurred, a surcharge is placed in effect to recover the deficiency over the next twelve month period. If the PGA factors results in revenues in excess of gas cost, a credit factor is placed in effect to refund the excess over the next twelve months.

Under the Experimental Fixed Rate PGA there will be no annual true-up as there is under the current PGA/ACA procedure. Under the Experimental Fixed Rate Tariff, the sales volumes for residential and commercial customers are projected based on normal weather for each of the next twelve months. The gas volumes are then priced out using the current prices for contracts that provide gas deliveries in each of the next twelve months, including transportation cost and inventoried cost of stored gas. If the actual volumes sold are different from those projected and additional gas is purchased at spot market prices different from the fixed rate, the stockholders will bear the additional cost. Similarly, if the actual volumes sold are less than volumes projected and the Company must sell this excess gas at less than fixed rate, the stockholders will bear the loss.

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Item 13
Will Chattanooga lock-in a definite rate with Sequent and then do spot purchasing only if an inadequate volume of gas was purchased? How will these additional costs be recovered by CGC?

Response:

Under the Experimental Fixed Rate PGA Tariff, Sequent will agree to provide all gas and transportation needed for Chattanooga to service its Residential and Commercial Customers at a fixed rate. Sequent in turn will purchase futures contracts to meet the projected volumes of gas needed. If the amount purchased under these contracts proves to be inadequate, Sequent will make spot purchases for the difference. These volumes will be provided to Chattanooga at the locked-in rate. Any difference in the locked-in fixed rate and the actual spot price will be absorbed by Sequent and in turn AGL Resources stockholders and not billed CGC or its customers.

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Item 14
Please explain (in detail) how the Risk Premium factor/charge was developed.

Response:

The proposed Fixed Rate PGA proposal requires a strong element of trust and cooperation between the entity that purchases the gas and Chattanooga Gas Company, because it is the gas that is <u>delivered to the end-use customers</u> that is guaranteed a fixed price rather than the gas <u>delivered to the utility</u>. This requires Chattanooga to timely and accurately report its daily sales to the purchasing entity.

Another item, which affects this proposal, is the interruptible demand, and the company's control over it. CGC's interruptible customers' transported and consumed volumes vary through the month. Since interruptible and industrial customers will still be covered under the ACA and PBR, their volumes will have to be managed separately. In addition to the ACA and PBR issues, swings in deliveries will have an affect on storage levels and gas costing, since withdrawals are charged out at weighted cost of gas and injections are entered at the cost of flowing gas. The company's ability under regulation to control these swings is fairly minimal.

Because such a strong tie to the accounting records is required from this type of arrangement and the need to manage the interruptible customers separately, the Company decided that the best course of action would be for CGC's gas trading affiliate, Sequent Energy Management, to procure the gas and take the related risk for pricing, instead of seeking bids for this service from a third party supplier.

Because the Company could not take bids on this service, we committed ourselves to be the low-cost provider of similar fixed rate arrangements in Georgia's deregulated market in order to gain acceptance and approval for this tariff from the TRA. We therefore determined a ceiling rate that would achieve this goal would be approximately $0.66 per Ccf based on the pricing of 12 month fixed rate plans in Georgia for the month of August 2001. The Risk Premium component was then computed by taking this low-cost rate to be offered, and subtracting the other identified costs in the Fixed Rate PGA formula. After reviewing the risk premium of approximately $0.124 per Ccf, Sequent Energy Management decided that this rate was acceptable for the inherent risk in the Fixed Rate PGA tariff proposal. This risk includes unpredictable variances in weather, sales, number of customers, gas spot markets, effect of industrial demands on the system, storage usage, pipeline transportation rates, pipeline capacity rates, affects of revenue swings on the companies projection of earnings, and other variables not yet identified. Force majeure events created by natural disasters such as earthquakes, tornado, hurricanes, and acts of terrorism have not been accounted for in this projected price.

Item 15
Will Sequent realize any profit margin based on the difference in the price of gas it purchases and the price it "sells" to Chattanooga Gas? How will this number be reported? Please explain all possibilities in which Sequent will make revenue from Chattanooga Gas.

Response:

Sequent may realize a profit or loss depending on how the risks assumed actually work out. Since the Company is offering a final delivered rate of approximately $0.66 per Ccf, there would be no further reporting, other than verifying that the rate offered was actually the rate billed to Chattanooga's customers.

There are an infinite number of possibilities under which Sequent may make either a profit or loss on sales to Chattanooga under this Fixed Rate PGA proposal. For example, if weather and sales are exactly as projected for each month, then Sequent will realize a profit.. However, if weather, sales, gas spot markets, effect of industrial demands on the system, storage usage, pipeline transportation rates, pipeline capacity rates, or other variables not yet identified, vary from the projected levels, then Sequent may be forced to realize a loss on this tariff.

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Item 16
Please provide organization charts for Chattanooga Gas, AGL Resources, and Sequent.

Response:

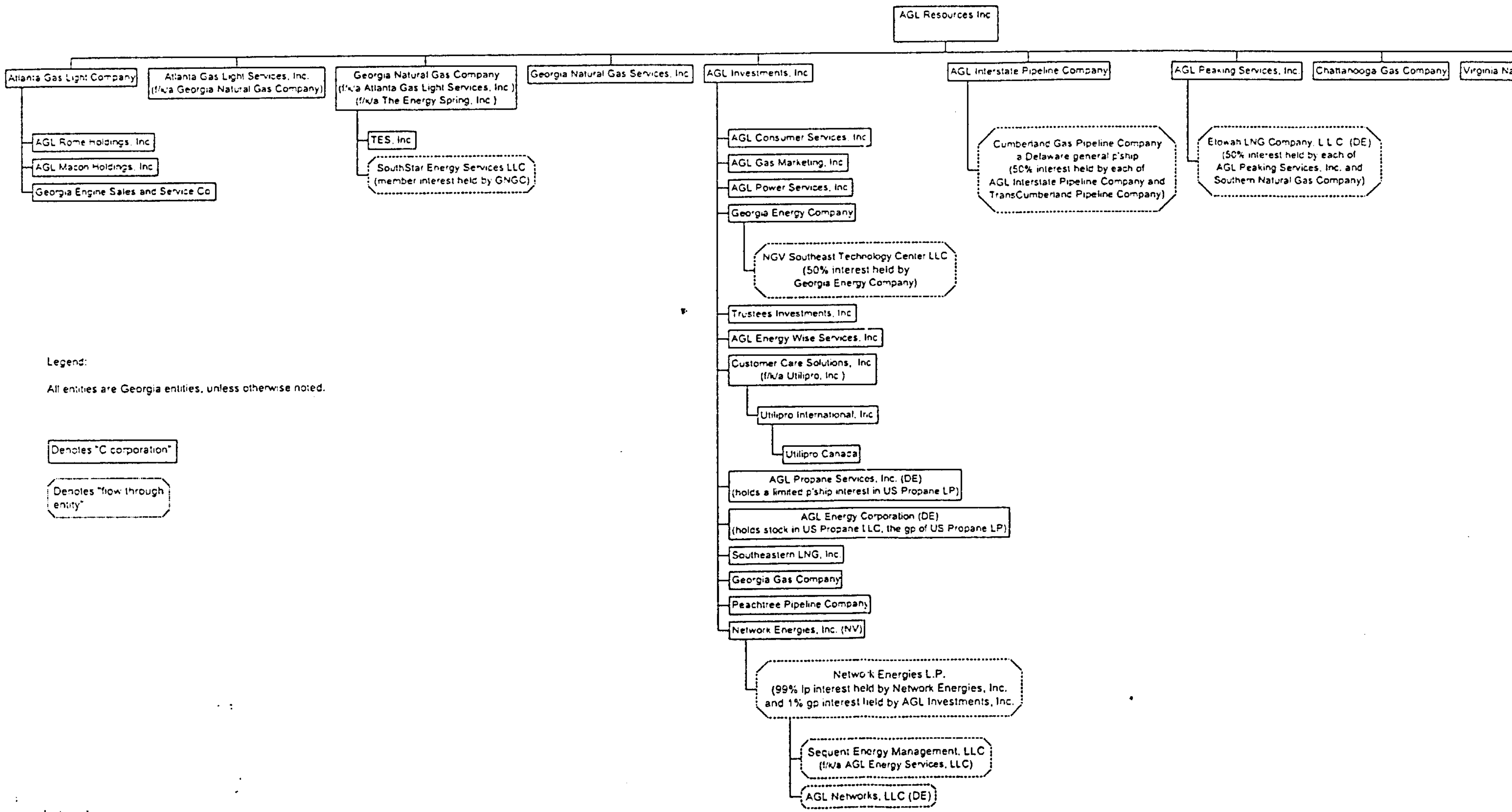
See the attached organization chart.

Office of the Corporate Secretary

AGL Resources Inc. - Corporate Organizational Chart

May 23, 2001

(for internal use only)



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Item 17
Does Chattanooga Gas have permission to hedge right now without further TRA approval?

Response:

While the Company could hedge its gas costs without further TRA approval, to do so now without any further guidance from the TRA as to how these hedging costs would be treated could open the Company up to an increased liability for the gas it purchases.

Even with the approval of the PBR proposal in its current form, the company could be held liable for purchases outside of 102% of the indice which would be NYMEX. Since NYMEX trades can easily shift by 10 or 30 percent in a day.

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Item 18
Is the price that Sequent will lock into equal to the factors enumerated in your "Determination of Fixed Rate" formula?

Response:

The locked in price will be determined using the factors enumerated in the "Determination of Fixed Rate" formula. Between September 25 and October 1 the inputs into the formula will be updated to reflect the current price of gas purchased under futures contract for the following twelve month, any change in the gas inventory, and any changes in pipeline transportation rates and fuel factors. As explained in the testimony the rate computed on Exhibit BAT-2 is and estimate of the rate based information available at September 1st.

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Item 19

Please provide a proforma comparison covering the latest available 12 months comparing the Fixed Rate PGA proposal (including all formula pieces) with actual gas cost including billing factor (in cents per CCF).

Response:

The attached schedule [BAT-2(2000)] attempts to estimate a fixed price for last year. Since the fixed price market was not well developed this time last year, we cannot recalculate our risk premium; therefore, we have used this year's risk premium. The following comparison shows customer's rates under the fixed proposal and the PGA cost for last year. However, this analysis does not take into consideration the $3.7 million dollars in uncollected PGA gas costs that are included in the ACA.

		Vol.	Customer Charge	Base Rates Rev.	PGA Rate	PGA Revenue	Total Bill	Fixed Rate PGA	PGA Revenue	Total B
Oct.	2000	25.7	$ 7.50	$ 5.36	$ 0.5334	$ 13.71	$ 26.57	$ 0.7825	$ 20.12	$ 32.97
Nov.	2000	45.5	7.50	11.35	0.6724	30.58	49.43	0.7825	35.59	54.44
Dec	2000	134.9	7.50	27.11	0.7633	102.96	137.57	0.7825	105.55	140.16
Jan	2001	193.5	7.50	37.37	0.7633	147.73	192.59	0.7825	151.44	196.31
Feb	2001	140.4	7.50	28.07	0.9942	139.57	175.13	0.7825	109.85	145.42
Mar	2001	97.2	7.50	20.51	0.7757	75.40	103.41	0.7825	76.06	104.07
Apr	2001	83.0	7.50	18.02	0.6640	55.08	80.60	0.7825	64.91	90.43
May	2001	27.7	7.50	5.66	0.6436	17.84	31.00	0.7825	21.69	34.85
Jun	2001	17.1	7.50	3.59	0.6189	10.58	21.67	0.7825	13.38	24.47
Jul	2000	14.1	7.50	2.97	0.5712	8.07	18.54	0.7825	11.06	21.52
Aug	2000	11.9	7.50	2.60	0.5712	6.81	16.82	0.7825	9.33	19.34
Sep	2000	16.1	7.50	3.39	0.5334	8.61	19.50	0.7825	12.63	23.52
		807.2	$ 90.00	$165.88		$ 616.96	$ 872.84		$ 631.62	$ 887.50

The $3.7 million in uncollected PGA gas costs are reflected in the attached spreadsheet.

PGA Revenue Recomputed to include $3.7 million unrecovered gas cost.

		Consumption Per Customer		Customer Charge	Base Rates	PGA Rate	Adjustment to included Unrecovered Gas Cost	Adjusted PGA	PGA Billed	Total Bill		Fixed Rate		
October	2000	2.570619755	25.70619755	$ 7.50	$ 5.36	$ 0.5334	$ 0.03	$ 0.5634	$ 14.48	$ 27.34		0.7825302	$ 20.12	$ 32.97
November	2000	4.548597703	45.48597703	$ 7.50	$ 11.35	0.6724	0.03	0.7024	$ 31.95	$ 50.80		0.7825302	$ 35.59	$ 54.44
December	2000	13.48940474	134.8940474	$ 7.50	$ 27.11	0.7633	0.03	0.7933	$ 107.01	$ 141.62		0.7825302	$ 105.56	$ 140.17
January	2001	19.35360742	193.5360742	$ 7.50	$ 37.37	0.7633	0.03	0.7933	$ 153.53	$ 198.40		0.7825302	$ 151.45	$ 196.32
February	2001	14.03814046	140.3814046	$ 7.50	$ 28.07	0.9942	0.03	1.0242	$ 143.78	$ 179.35		0.7825302	$ 109.85	$ 145.42
March	2001	9.720565027	97.20565027	$ 7.50	$ 20.51	0.7757	0.03	0.8057	$ 78.32	$ 106.33		0.7825302	$ 76.07	$ 104.08
April	2001	8.295416789	82.95416789	$ 7.50	$ 18.02	0.6640	0.03	0.6940	$ 57.57	$ 83.09		0.7825302	$ 64.91	$ 90.43
May	2001	2.771886291	27.71886291	$ 7.50	$ 5.66	0.6436	0.03	0.6736	$ 18.67	$ 31.83		0.7825302	$ 21.69	$ 34.85
June	2001	1.709706701	17.09706701	$ 7.50	$ 3.59	0.6189	0.03	0.6489	$ 11.09	$ 22.18		0.7825302	$ 13.38	$ 24.47
July	2000	1.413092551	14.13092551	$ 7.50	$ 2.97	0.5712	0.03	0.6012	$ 8.50	$ 18.96		0.7825302	$ 11.06	$ 21.53
August	2000	1.192759939	11.92759939	$ 7.50	$ 2.50	0.5712	0.03	0.6012	$ 7.17	$ 17.18		0.7825302	$ 9.33	$ 19.34
Sept	2000	1.614462361	16.14462361	$ 7.50	$ 3.39	0.5334	0.03	0.5634	$ 9.10	$ 19.99		0.7825302	$ 12.63	$ 23.52
		80.71825974	807.1825974		$ 165.88				$ 641.17	$ 897.06			$ 631.64	$ 887.53
											$ 9.53			

	Nov-April	May-Oct
25 Ccf	0.29	0.21
next 25 CCf	0.2	0.15
Over 50 Ccv	0.175	0.045

Fixed Cost excluding Transportation & Risk Premium Per DT	0.6295404
Pipeline Transportation Per DT	0.00589
Risk Premium per DT	0.1243077
Total Fixed Price Per Therm	0.7597381
	1.03
Total Fixed Price CCF	0.7825302

Unrecovered Gas Cost	$ 3,700,000
Total Sales Volumes(12 m ended 6/30/01)	111,091,700
	$ 0.03