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REGULATORY AUTH.

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EXECUTIVE SECRETARY

DATE: September 18, 2001
TO: Files
FROM: Beth White
SUBJECT: CGC Fixed PGA

The following documents the policies and procedures which will be implemented upon the implementation of the fixed PGA for Chattanooga Gas Company ("CGC").

UNDERSTANDING OF THE FACTS:

- Fixed rates will be in effect for the R1, R4, and C1 customer classes and not for the I1 and L1 (industrial classes)
- The experimental fixed PGA rates will be in effect from October 1, 2001 through September 30, 2002
- Sequent will pay all demand (firm transportation and storage) and commodity costs for all CGC customers
- Sequent will bill CGC $.66 per CCF for firm throughput, which includes demand (both firm transportation and storage), commodity and consideration of lost and unaccounted for gas
- CGC will bill firm ratepayers $.66 per CCF
- As inventory is withdrawn from storages by Sequent, CGC will bill Sequent at the appropriate WACOG
- As inventory is injected into CGC's storages, Sequent will bill CGC at the appropriate WACOG
- Sequent will allocate demand to industrial customers and will bill CGC for demand and actual commodity consumed
- CGC will keep in place the current PGA mechanism for all industrial customers
- As of August 31, 2001, CGC has an asset of $5.4 million related to unrecovered PGA costs
- The $.66 CCF factor will be utilized for all bills sent to CGC customers subsequent to October 1

POLICIES:

- The unrecovered PGA asset as of September 30, 2001 will be recovered during the twelve months ended September 30, 2003. This asset is subject to the TRA's annual audit of the costs included in the filing for the twelve months ended June 30, 2001 and for the three months ended September 30, 2001. The recovery will include interest until fully collected from the ratepayers.
- Sequent will need to track and account for lost and unaccounted for gas. CGC needs to produce reports reconciling gas delivered to the city gate versus what was metered by CGC. The information used for lost and unaccounted for needs to be on the MCF/CCF basis. CGC operations and accounting personnel will provide lost and unaccounted for information to Sequent by the ____th day of the subsequent month.
- CGC will continue to calculate unbilled revenue as it has historically. Unbilled revenue is a function of cycle meter reading dates and this change to a fixed PGA will not effect this calculation.

- CGC will manually allocate billings in the month of October between that which relate to the pre-fixed PGA and that which relate to the post-fixed period. The main assumption here will be that the gas is consumed on a ratable basis throughout the month.

- Sequent will bill CGC by the 1st of the month for both the commodity and demand charges incurred during the previous month. The commodity charges should include an estimate of throughput and be trued up in the subsequent month. This bill should be based on throughput as metered at the city gate, less an estimate of lost and unaccounted for gas. The following month, the amount should be trued up based on information provided by CGC regarding the actual gas metered to the ratepayers.

- CGC will prepare a reconciliation of the volumes billed to the ratepayers, volumes unbilled to the ratepayers, company use gas and volumes billed by Sequent. This reconciliation will be utilized by CGC and Sequent to determine the true-up to be billed by Sequent in a subsequent month for usage differences by utilizing an estimate by Sequent. This reconciliation will be prepared by CGC and provided to Sequent by the ___th day of the month.

- All bills prepared by Sequent for CGC will be based on a MCF or CCF volumetric basis.

- The cash out rates charged to transportation customers should be at the lower of the pipeline cash out rate or market

- Sequent will bill demand costs for the industrial customers of CGC separately. These demand costs will be based on current contracted peak day capacity contracts as a percent of total current firm transportation and LNG volume. Sequent will charge commodity costs for the industrial customers of CGC based on spot rates for the volumes purchased. CGC will bill its industrial customers based on billings received from Sequent. These items will be billed to CGC by the ___th of the month.

- Both the firm transportation and storage demand costs paid by Sequent will be expensed as incurred.