WALLER LANSDEN DORTCH & DAVIS
A PROFESSIONAL LIMITED LIABILITY COMPANY
NASHVILLE CITY CENTER
511 UNION STREET, SUITE 2100
POST OFFICE BOX 198966
NASHVILLE, TENNESSEE 37219-8966
(615) 244-6380
FAX: (615) 244-6804
www.wallerlaw.com

WALLER LANSDEN DORTCH & DAVIS, LLP
AFFILIATED WITH THE PROFESSIONAL LIMITED LIABILITY COMPANY
520 SOUTH GRAND AVENUE, SUITE 675
LOS ANGELES, CALIFORNIA 90071
(213) 362-3680

WALLER LANSDEN DORTCH & DAVIS
A PROFESSIONAL LIMITED LIABILITY COMPANY
809 SOUTH MAIN STREET
POST OFFICE BOX 1035
COLUMBIA, TENNESSEE 38402-1035
(931) 388-6031

D. Billye Sanders
(615) 252-2451
bsanders@wallerlaw.com

September 24, 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 Staff Data Requests

Dear Mr. Waddell:

Enclosed you will find the original and thirteen (13) copies of Chattanooga Gas Company's Responses to the Staff's September 21, 2001 Data Requests.

Sincerely,

D. Billye Sanders

D. Billye Sanders

DBS:lmb
Enclosures
cc: Hal Novak
Archie Hickerson
Earl Burton
Tim Phillips, Esq., Consumer Advocate Division

701101.1

bcc: Kristin Murphy Coile, Esq.

CHATTANOOGA GAS COMPANY
Experimental Fixed Rate PGA (Docket 01-00761)
Tennessee Regulatory Authority Staff
Data Request No. 2

Item 1

In your response to the scenarios presented in Item 5 of our first data request, the analysis based on your proposed risk premium of $1.24 per DTH shows that Sequent may lose $640,000 in a colder than normal winter scenario, may gain $6,600,000 in a normal weather scenario, or may gain $6,200 in a warmer than normal weather scenario. This appears to represent a small potential risk versus a large potential gain for Sequent. You have also stated you should be rewarded for taking the risk for the ratepayers. It appears that under the proposed risk premium, your risk is very little compared to your chance for a major gain. Would Sequent consider sharing the risk and potential gain or loss with your ratepayers?

Response:

The Company objects to the characterization of future unknown risk from the Fixed Rate PGA Tariff as "very little compared to your chance for a major gain." The risk premium rate of $1.24 per DTH was computed by analyzing the market rates for similar Fixed Rate proposals in Georgia's deregulated gas retail market. As stated in our response to Item 5 of the TRA Staff's first data request, the scenarios proposed by the Staff assume that all costs are known, quantifiable and weighted accurately. We would again ask the Staff to recognize that the inherent risks of the Fixed Rate PGA cannot be fully quantified as requested in Item 5 of the TRA Staff's first data request since the complete risks of the proposal are unknown.

Without waiving its objection, the Company states that it is difficult to respond to the Staff's question as written regarding the sharing of any potential gain or loss with the ratepayers in the absence of any stated parameters for sharing. From a practical point of view, the Company would not object to some type of sharing mechanism, assuming that any sharing was synchronous for both the Company and the ratepayers (that is, providing for the same amount of sharing for any gains or losses). However, sharing would violate the original concept and spirit of the Company's proposal to move risk for excessive costs away from the customer. In addition, sharing would also result in the continuation of the current ACA procedures and would be counter to our proposal to offer a fixed rate to our customers since any sharing of gain or loss would have to be either refunded or surcharged in a subsequent period.

CHATTANOOGA GAS COMPANY
Experimental Fixed Rate PGA (Docket 01-00761)
Tennessee Regulatory Authority Staff
Data Request No. 2

Item 2
If some sharing mechanism were to be adopted, would an ACA need to filed to determine how much loss or gain was realized?

Response:
If some type of sharing mechanism were adopted, an ACA or some other very similar type of mechanism would need to be filed with the TRA in order to determine the proper amount of sharing.

CHATTANOOGA GAS COMPANY
Experimental Fixed Rate PGA (Docket 01-00761)
Tennessee Regulatory Authority Staff
Data Request No. 2

Item 3

If the proposed rate ($1.24 per Dkt) is approved, under the scenarios presented (refer to Question #5) what would be the effective percentage rate increase requested?

Response:

The Company is not requesting any type of increase to base rates. The Company's base rates were designed in the last rate case to cover its reasonable operating expenses (exclusive of gas costs) plus a fair return on the stockholders investment in utility plant. The risk premium rate of $1.24 per Dkt was designed and computed by first analyzing the market rates for similar Fixed Rate offerings in Georgia's deregulated gas retail market, and then proposing a Tennessee Fixed Rate that would be less than any of those offered in Georgia. As such, it would be inappropriate to compare the revenues earned the proposed Fixed Rate PGA with the Company's total revenues from base rates.

In response to the Consumer Advocate and Protection Division's "Talking Points" Item # 16 (previously provided to the TRA Staff), the Company computed an average customer's bill as directed, assuming that the Fixed Rate PGA tariff had been in place during the past heating season. When the actual PGA's were adjusted to eliminate the unrecovered gas cost, the analysis showed that the average customer's total bill would have been less under the Fixed Rate tariff than under the existing PGA/ACA procedure.

CHATTANOOGA GAS COMPANY
Experimental Fixed Rate PGA (Docket 01-00761)
Tennessee Regulatory Authority Staff
Data Request No. 2

Item 4
In exchange for the Company accepting the risk that the ratepayers are now accepting, what is a reasonable estimate of the change in CGC's required return on equity?

Response:
No change in CGC's return on equity is required as a result of this experimental tariff filing. The risk premium is intended to compensate Sequent for the risk that the ratepayers are now accepting.

The proposed Fixed Rate PGA tariff filing is not a general rate case and the Company has not prepared or had prepared a cost of capital analysis to determine if the rate of return approved by the Tennessee Regulatory Authority in 1998 docket # 97-00982 continues to be appropriate today or to determine the impact on the required rate of return if CGC is no longer guaranteed the recovery of 100% of the gas cost as provided by the current PGA/ACA procedure.

As explained in Item 3, the risk premium is a market based calculation. Retail gas service in Georgia is provided on a deregulated competitive basis. Since the marketers who provide gas service in Georgia purchase gas from the same sources and utilize the same pipeline transportation and storage services as Chattanooga, their Fixed Rate offerings reflect risk inherent in such an offering and serve as a surrogate for competitive fixed rate in the neighboring Chattanooga Gas Service area. As explained in previous meetings and above, the risk premium was computed by deducting from a rate lower than the lowest Fixed Rate offered in Georgia the computed gas cost assuming normal weather for each month and the known price of gas future contracts and stored gas.

Item 5

Would Sequent consider cutting the risk premium to make the possible gains and losses more equal? If so, what risk premium would more accurately align the potential risks and rewards with the actual increase in cost of equity?

Response:

The Company believes that its proposed risk premium already provides a fair compensation for both the risks assumed and the unknown gas costs that could not be calculated or reasonably forecasted. As stated in Items 3 and 4, the Company's proposed risk premium was computed by first analyzing the market rates for other similar fixed rate offerings in Georgia, and then subtracting the forecasted gas costs that could be identified.