BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

October 2, 2002

IN RE:	)	
	)	
CHATTANOOGA GAS COMPANY	)	**Docket No. 02-00797**
WEATHER NORMALIZATION ADJ. (WNA) AUDIT	)	

NOTICE OF FILING BY THE ENERGY AND WATER DIVISION OF THE TENNESSEE REGULATORY AUTHORITY

Pursuant to Tenn. Code Ann. §§ 65-4-104, 65-4-111 and 65-3-108, the Energy and Water Division of the Tennessee Regulatory Authority (the "Energy and Water Division") hereby gives notice of its filing of the Chattanooga Gas Company WNA Audit Report in this docket and would respectfully state as follows:

1. The present docket was opened by the Authority to hear matters arising out of the audit of Chattanooga Gas Company (the "Company").

2. The Company's WNA filings were received on November 1, 2001, through April 30, 2002, and the Staff completed its audit of same on July 25, 2002.

3. On July 26, 2002, the Energy and Water Division issued its preliminary WNA audit findings to the Company, and on September 27, 2002, the Company responded thereto.

4. The preliminary WNA audit report was modified to reflect the Company's responses and a final WNA audit report (the "Report") resulted therefrom. The Report is attached hereto as Exhibit A and is fully incorporated herein by this reference. The Report

contains the audit findings of the Energy and Water Division, the Company's responses thereto and the recommendations of the Energy and Water Division in connection therewith.

5. The Energy and Water Division hereby files its Report with the Tennessee Regulatory Authority for deposit as a public record and approval of the recommendations and findings contained therein.

Respectfully Submitted:

Pat Murphy
Energy and Water Division of the
Tennessee Regulatory Authority

CERTIFICATE OF SERVICE

I hereby certify that on this 2nd day of October, 2002, a true and exact copy of the foregoing has been either hand-delivered or delivered via U.S. Mail, postage pre-paid, to the following persons:

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Pat Murphy

EXHIBIT A

COMPLIANCE AUDIT REPORT

OF

CHATTANOOGA GAS COMPANY

WEATHER NORMALIZATION ADJUSTMENT (WNA) RIDER

DOCKET NO. 02-00797

PREPARED BY

TENNESSEE REGULATORY AUTHORITY

ENERGY AND WATER DIVISION

OCTOBER 2002

COMPLIANCE AUDIT

CHATTANOOGA GAS COMPANY

WEATHER NORMALIZATION ADJUSTMENT (WNA) RIDER

Docket No. 02-00797

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COMPLIANCE AUDIT

CHATTANOOGA GAS COMPANY

WEATHER NORMALIZATION ADJUSTMENT (WNA) RIDER

DOCKET NO. 02-00797

I. OBJECTIVE OF AUDIT

In its September 26, 1991 Order in Docket 91-01712, the Tennessee Regulatory Authority ("TRA" or "Authority"), formerly the Tennessee Public Service Commission, approved a three year experimental Weather Normalization Adjustment ("WNA") Rider to be applied to residential and commercial customers' bills during the months of October through May of each year. In its June 21, 1994 order, the TRA adopted the WNA Rider as a permanent rule, to be applied November through April of each year for Chattanooga Gas Company ("CGC" or "Company"). (See Attachment 1) The purpose of this audit is to determine if the WNA rider was calculated and applied to customers' bills correctly between November 1, 2001 and April 30, 2002.

II. SCOPE OF AUDIT

In meeting the objective of the audit, the Staff compared the following on a daily basis:

(1) the Company's actual heating degree days to National Oceanic and Atmospheric Administration ("NOAA") actual heating degree days;

(2) the Company's normal heating degree days to the normal heating degree days calculated in the last rate case; and

(3) the Company's calculation of the WNA factor to Staff's calculation.

The Staff also audited a sample of customers' bills during the WNA period to verify that the WNA factor had been correctly applied to the bills.

Pat Murphy and Butch Phillips of the Energy and Water Division conducted this audit.

III. BACKGROUND ON WEATHER NORMALIZATION ADJUSTMENT RIDER

In setting rates, the Tennessee Regulatory Authority uses a normalized level of revenues and expenses for a test year, which is designed to be the most reasonable estimate of the Company's operations during the time the rates are to be in effect. Use of normalized operating levels eliminates unusual fluctuations that may occur during the test period, which causes rates to be set too high or too low.

Specifically, one part of normalizing revenues consists of either increasing or decreasing the test year weather related sales volumes to reflect the difference between the normal and actual heating degree days. (A heating degree day is calculated as the difference in the average daily temperature and 65 degrees Fahrenheit.) This average daily temperature constitutes normal weather and is determined based on the previous thirty years weather data.

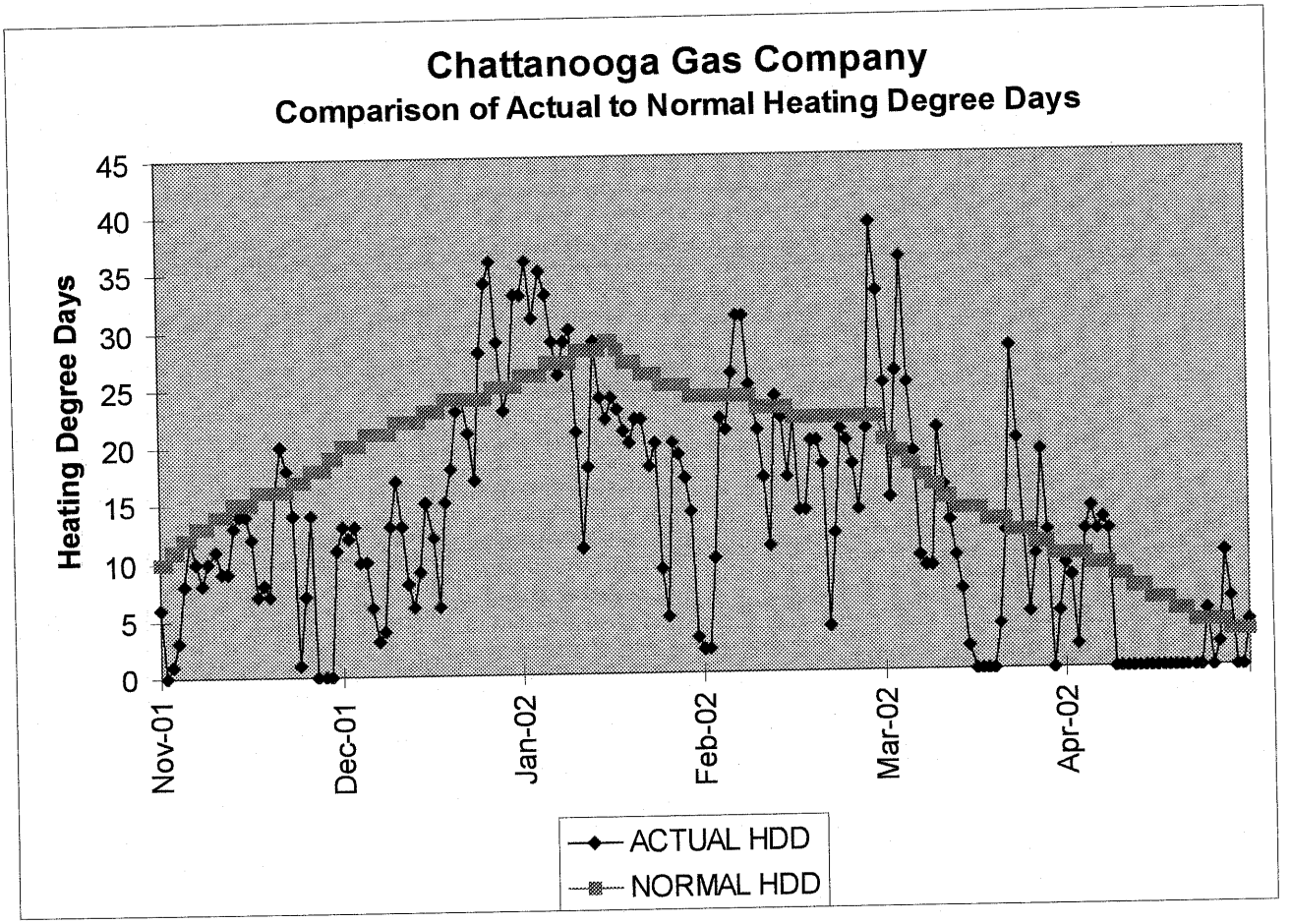
However, normal weather rarely occurs. This has two impacts:

(1) The customers' bills fluctuate dramatically due to changes in weather from month to month; and

(2) The gas companies earn more or less than their authorized rate of return. For example, if weather is colder than normal, then more gas than anticipated in the rate case will be sold. This results in higher customer bills and overearnings for the company. On the other hand, if weather is warmer than normal, less gas than anticipated in the rate case will be sold, the customers' bills will be lower and the company will underearn.

In recognition of this fact, the TRA approved an experimental WNA mechanism, which became permanent on June 21, 1994, to reduce the impact abnormal weather has on the customers' bills and on the gas utilities' operations. In periods of weather colder than normal, the customer receives a credit on his bill, while in periods of warmer than normal weather, the customer is billed a surcharge. Thus, customers' monthly bills should not fluctuate as dramatically and the gas company should have a more stable rate of return.

The following graph is a comparison of actual heating degree days to normal heating degree days for Chattanooga Gas during the 2001 - 2002 heating season.


Chattanooga Gas Company
Comparison of Actual to Normal Heating Degree Days
Heating Degree Days
45
40
35
30
25
20
15
10
5
0
Nov-01
Dec-01
Jan-02
Feb-02
Mar-02
Apr-02
ACTUAL HDD
NORMAL HDD

IV. IMPACT OF WNA RIDER

Overall, the winter period was warmer than normal. As a result, the net impact of the WNA Rider during the November 1, 2001 through April 30, 2002 WNA period was that residential and commercial customers were **surcharged** an additional $1,295,861 and $1,142,484 respectively. This equates to increases in revenues from residential and commercial sales of 5.72% and 6.80% respectively. (See Table 1) This is an increase from the previous year when the residential and commercial customers were **refunded** $45,684 and $81,769 respectively (See Table 2).

Table 1

Impact of WNA Rider on Residential & Commercial Revenues
November 1, 2001 - April 30, 2002

	WNA Rider Revenues	Total Revenues	Percentage Impact of WNA Rider on Revenues
Residential Sales	$ 1,295,861	$ 22,666,365	5.72%
Commercial Sales	1,142,484	16,811,900	6.80%
Total	$ 2,438,345	$ 39,478,265	6.18%

Table 2

Amount Surcharged (Refunded)
1999 - 2002

	Residential	Commercial	Total Surcharge/(Refund)
11/99-4/00	$ 1,463,046	1,315,218	2,778,264
11/00-4/01	(45,684)	(81,769)	(127,453)
11/01-4/02	1,295,861	1,142,484	2,438,345
Total	$ 2,713,223	$ 2,375,933	$ 5,089,156

V. BACKGROUND INFORMATION ON THE COMPANY

Chattanooga Gas Company, with its headquarters at 6125 Preservation Drive, Chattanooga, Tennessee, is a wholly owned subsidiary of Atlanta Gas & Light Company, which has its headquarters at 235 Peachtree Street, Atlanta, Georgia. CGC is a gas distributor, which provides service to the cities of Chattanooga and Cleveland and surrounding environs in Hamilton and Bradley counties, all located in Southeast Tennessee. The natural gas used to serve these areas is either purchased from or transported by East Tennessee Natural Gas and Southern Natural Gas. The purchases are made in accordance with separate and individual tariffs approved by the Federal Energy Regulatory Commission, while the transportation is for gas purchased on the spot market.

VI. WNA FINDINGS

The Staff's audit results showed a net **under-collection** from CGC's ratepayers in the amount of **$4,046.** See table below for a breakdown of this amount by month and rate class:[1]

Month	Residential	Multi-Family	Commercial	Total
November 2001	$ (1,105)	$ 0	$ (1,139)	$ (2,244)
December 2001	(4,465)	(47)	(1,505)	(6,017)
January 2002	(5,879)	(10)	(7,061)	(12,950)
February 2002	9,484	53	7,543	17,080
March 2002	6,413	0	7,802	14,215
April 2002	(2,030)	0	(4,008)	(6,038)
Total	$ 2,418	$ (4)	$ 1,632	**$ 4,046**

This net under-collection resulted from four (4) findings, which are described in detail beginning on page 7.

[1] Positive nos. represent an under-collection. Negative nos. () represent an over-collection.

FINDING #1:

Exception

The Company used inaccurate actual heating degree-days in the calculation of the WNA factor.

Discussion

The audit indicates that on five (5) days out of 212 days of weather observations in the WNA period, the Company used inaccurate actual heating degree-days in the calculation of the WNA factor.

A summary of the days involved follows:

Date	Daily Degree-Days Used By Company	Daily Degree-Days As Published by NOAA	Degree-Day Difference
10/16/2001	10	11	+1
12/12/2001	7	8	+1
12/19/2001	14	18	+4
01/11/2002	17	18	+1
02/13/2002	22	17	-5

See the Company's response for its explanation of the differences between the Company's actual degree-days and the degree-days published by NOAA.[2]

Company Response

Daily degree data is retrieved from the NOAA reports. This data is entered into the Company's billing system, and updated on the EOM worksheet provided for the TRA. On four of the days, the variance was only 1 degree-day, which the Company attributes to rounding. On 12/19/01, the Company retrieved the attached table from the NOAA website, which reflects 14 degrees-days for this day. It appears that on a later date, the actual degree-days for 12/19/01 was corrected to 18 degree-days. The Company believes that a similar error occurred on 2/13/02. The 22 degree-day retrieved by the Company was later revised to 17 degree-days by NOAA.

These are the first occurrences of initial information from our NOAA reports being subsequently updated, and we believe them to be isolated incidents.

[2] NOAA's published **monthly report** contains the official weather data supplied by NOAA and is the standard that the Staff uses to audit the Weather Normalization Rider.

FINDING #2:

Exception

The actual heating degree-days the Company calculated for bill group (cycle) 11 in November 2001 and bill groups (cycles) 13-21 in January 2002 do not agree with the actual heating degree-days filed by the Company on its EOM (End of Month) report.[3]

Discussion

The Company supplies the TRA with its calculation of the WNA factors for each bill group (cycle) during the heating season. Part of the calculation formula is the total actual heating degree-days[4] in that cycle. The Company obtains actual heating degree-day information on a daily basis. At the end of each month it supplies the TRA Staff with its EOM report which lists the daily heating degree-days that CGC used in its cycle WNA calculations. For the bill groups (cycles) referenced above, the WNA factors calculated used total actual heating degree-days that differed from the totals Staff arrived at when using the information supplied on the EOM reports. See the table below for a summary of the discrepancies.[5]

Month	Bill Group	CGC's Total ADD[6]	Staff's Total ADD[7]	Difference
November	11	234	237	+3
January	13	771	770	-1
January	14	786	785	-1
January	15	782	781	-1
January	16	797	796	-1
January	17	802	801	-1
January	18	850	849	-1
January	19	847	846	-1
January	20	732	731	-1
January	21	701	700	-1

The Company's response below provides an explanation for the one (1) degree-day differences in January, but does not address the three (3) day variance in November.

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[3] The EOM report is Staff's source for comparing the Company's daily actual heating degree-days to the NOAA monthly report.

[4] The total actual heating degree-days for a cycle is the sum of the actual degree-days for each day in the cycle.

[5] This type of finding was also noted in last year's audit report (Finding #3) in Docket No. 01-00591.

[6] Total actual heating degree-days (ADD) CGC used to calculate the WNA factors for these bill groups.

[7] Total actual heating degree-days (ADD) Staff calculated from CGC's EOM reports.

Company Response

A review of the Company's actual degree days that was entered into the Company's Customer Information System (CIS) last winter indicates that on January 11, 2002, 17 degree days were entered into CIS versus 18 degree days on the EOM reports. January 11 was one of the days in which the Company's actual degree-days were different from NOAA by 1 degree. Degree-day data is entered into CIS by our gas operations department who receives degree-day report data from NOAA. The data is forwarded to the rates department who updates the Company's EOM worksheet. The difference between the EOM report and CIS actual degree-days appears to be the results of a rounding difference that occurred in data entry of this data.

FINDING #3:

Exception

The normal heating degree-days calculated for bill groups (cycles) 14-21 in January did not agree with the Staff's calculations using the normal heating degree-days established in CGC's last rate case.

Discussion

Normal heating degree-days for each day during the winter heating season is established during a company's rate case proceeding. The normal degree-days remain in effect until such time as they are updated in a subsequent rate case. Therefore, Staff would not expect a finding in this area.

The Company reported the correct normal heating degree-days on its EOM report. But the total normal heating degree-days used in the WNA calculations for the referenced cycles above did not agree with the total normal heating degree-days calculated using these reported normal degree-days. See table below for a summary of these discrepancies.

Bill Group	CGC's Total NDD[8]	Staff's Total NDD[9]	Difference
14	822	823	+1
15	803	805	+2
16	807	809	+2
17	810	812	+2
18	864	867	+3
19	866	869	+3
20	771	774	+3
21	771	774	+3

Company Response

A review of the normal degree-days used by the CIS indicates that there was a variance of 1 degree day that occurred on January 15, 16 and 19. (See Attachment). When this table was loaded in the summer of 2001 in anticipation for the upcoming winter, the incorrect data was loaded for these three days.

The Company has reviewed the normal degree days loaded for the upcoming winter of 2002/2003, and has validated that the 30 year normal degree days approved in the Company's last rate case is loaded in the tables.

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[8] Total normal heating degree-days (NDD) CGC used to calculate the WNA factors for these bill groups.

[9] Total normal heating degree-days (NDD) Staff calculated from daily normal heating degree-days established in CGC's last rate case.

FINDING #4:

Exception

For bill groups (cycles) 3 and 4 in April, the Company used inaccurate actual heating degree-days in the calculation of the WNA factor.

Discussion

The total actual heating degree-days used by CGC for these cycles did not agree with Staff's calculation of the total actual heating degree-days. Staff could find no explanation for the twelve (12) degree-day differences between the Company's and Staff's calculations. **CGC did not respond to this specific finding.**

Bill Group	CGC's Total ADD	Staff's Total ADD	Difference
3	400	412	+12
4	375	387	+12

Company Response

None.

VII. RECOMMENDATIONS AND CONCLUSIONS

In its letter, dated September 27, 2002, CGC summarized its response to Staff's audit exceptions as follows:

> "In summary, it appears that most of the exceptions are attributable to rounding of degree-days in which the Company's actual degree-days deviated one degree from the staff's actual degree-days. On two occasions, 12/19/01 and 2/13/02, the variance was more than one-degree day, and it appears that this is attributable to initial data retrieved from NOAA being subsequently revised. Additionally, as a result of human error the Company's normal degree-days were incorrect on three days by one degree. We have reviewed the normal degree-days for next year, and have confirmed that the correct normal degree data is loaded into CIS. To avoid this occurrence in the future, the Company will validate correct normal degree days in our system prior to the WNA billing period. This task will be added in the Company's regulatory calendar for future verification."

Staff accepts that the one degree-day differences in the actual degree-days are probably the result of rounding differences in the degree-day formula. However, the Company did not address the larger differences in November (Finding #2) and April (Finding #4). According to CGC's response, the gas operations department enters the degree-day data received from NOAA into the Company's CIS. The rates department then uses that information to update its EOM worksheet monthly. The EOM worksheet is the basis for the WNA calculations and the means used to convey degree data to the Staff for audit. Staff recommends that CGC take a closer look at the coordination between the two departments and if possible eliminate the manual entering of data twice (once into CIS and once into the EOM worksheet). In other audits, Staff has reported discrepancies between the numbers CGC reports that it uses and the numbers actually used. This problem is totally unrelated to degree-day differences as compared to the NOAA reports. It is a problem to be addressed by internal controls over the data obtained.

The Staff concludes that, except for the above findings, the Company is correctly implementing the mechanics of the WNA Rider as specified by the TRA and included in the Company's tariff. (See Attachment 1) The **$4,046 net under-collection** is immaterial (less than $0.01 per customer). The Company proposes to debit the deferred gas cost account ("ACA") for the amount of the under-collection. Staff concurs with the Company's proposed method of recovery.