STATE OF TENNESSEE

Office of the Attorney General

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December 10, 2003

Honorable Deborah Taylor Tate
Chairman
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, Tennessee 37243

RE: PETITION OF CHATTANOOGA GAS COMPANY, NASHVILLE GAS COMPANY, A DIVISION OF PIEDMONT NATURAL GAS COMPANY, INC., AND UNITED CITIES GAS COMPANY, A DIVISION OF ATMOS ENERGY CORPORATION FOR A DECLARATORY RULING REGARDING THE COLLECTIBILITY OF THE GAS COST PORTION OF UNCOLLECTIBLE ACCOUNTS UNDER THE PURCHASED GAS ADJUSTMENT ("PGA") RULES
Docket No. 03-00209

Dear Chairman Tate:

Enclosed is an original and thirteen copies of our Response to the Petitioners' Motion to Strike Unsubstantiated Statements in the Affidavit of Daniel W. McCormac in the above-referenced matter. Kindly file the attached in this docket. By copy of this letter, we are serving all parties of record. If you have any questions, please feel free to contact me at (615) 532-3382. Thank you.

Sincerely,

Shilina B. Chatterjee

Shilina B. Chatterjee
Assistant Attorney General
(615) 532-3382

Enclosures
cc: Kim Beals, Esq.
Hearing Officer
All Parties of Record

71201

IN THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE

IN RE:	)	
	)	
PETITION OF CHATTANOOGA GAS COMPANY, NASHVILLE GAS COMPANY, A DIVISION OF PIEDMONT NATURAL GAS COMPANY, INC., AND UNITED CITIES GAS COMPANY, A DIVISION OF ATMOS ENERGY CORPORATION FOR A DECLARATORY RULING REGARDING THE COLLECTIBILITY OF THE GAS COST PORTION OF UNCOLLECTIBLE ACCOUNTS UNDER THE PURCHASED GAS ADJUSTMENT ("PGA") RULES	)	**DOCKET NO. 03-00209**
	)	

RESPONSE TO PETITIONERS' MOTION TO STRIKE UNSUBSTANTIATED STATEMENTS IN THE AFFIDAVIT OF DANIEL W. McCORMAC

Comes Paul G. Summers, the Attorney General and Reporter, through the Consumer Advocate and Protection Division of the Office of Attorney General (hereinafter "CAPD" or "Consumer Advocate") hereby responds to Petitioners' Motion to Strike filed on December 4, 2003 in the above-captioned matter. Petitioners' have stated that the Affidavit of Daniel W. McCormac is unsubstantiated. First, whether or not material in an affidavit is "unsubstantiated" is simply not a ground for striking the material. Second, the Consumer Advocate provided a Supplemental Response to the Petitioners on November 25, 2003 in which the Consumer Advocate set forth details and various documents that provide support for Mr. McCormac's affidavit. Mr. McCormac relied on documents in the record and in particular, documents provided by Chattanooga Gas Company on November 11, 2003 in Discovery Response No. 23 of the CAPD discovery request. Thus, "substantiation," to the extent it is may be of some interest in the summary judgment context concerning his statements, has already been provided.

The Affidavit of Daniel W. McCormac is based in part on the first Affidavit of Archie Hickerson and documents produced by the Petitioners' and filed with the TRA. All documents relied upon are in the record in this docket.

Thirdly, the Petitioners filed their Affidavit of Archie Hickerson and did not provide specific reference to "substantiation" for his statements. The Petitioners merely served the Consumer Advocate with a stack of documents and never specified citations or exact documents to support Mr. Hickerson's statements in his affidavit. Upon review of the Affidavit of Archie Hickerson, the Consumer Advocate carefully reviewed the documents produced by Petitioners in their supplemental discovery responses and other documents in the record. The Consumer Advocate is under no obligation to provide specific citations for each fact stated in an affidavit and specifically refer to each document they relied upon in formulating opinions and preparing an affidavit.

Moreover, the Consumer Advocate is mystified by the Petitioner's misplaced claim that statements made by Daniel W. McCormac are "unsubstantiated" given that there is no legal requirement of "substantiation"[1] and Mr. McCormac's statements were based upon a review of the documents that were produced by the Petitioners, his own personal knowledge and the entire record in this docket.

Most of the documents relied upon in the preparation of Mr. McCormac's affidavit were produced by the Petitioners in response to discovery requests of the Consumer Advocate and documents filed with the TRA by the Consumer Advocate in response to Atmos' discovery request. The purpose of discovery is to avoid "trial by ambush." Petitioners are in no way

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[1] "Substantiation" is, by definition, a term that invokes questions of the <u>weight</u> of evidence.

prejudiced when all documents are already in the record and it would merely require a full and thorough review of the documents in this docket by the Petitioners. Therefore, if the Petitioners have access to all documents in the record, there is no chance for an "ambush." It appears that Petitioners are not familiar with the documents they provided to the Consumer Advocate during the course of discovery. Petitioners have failed to review the documents they themselves produced and the documents in the record, including discovery responses. All these documents are available for review in this docket. It is clear that the Petitioners claims in this Motion to Strike are without genuine merit.

However, in an effort to resolve this issue expeditiously so that the TRA may concentrate on more pertinent matters, the Consumer Advocate submits the attached Exhibit A with citations to documents in the record and references each of the statements that Petitioners are claiming are unsubstantiated claims of Daniel W. McCormac.

At this juncture, since there is no "substantiation" requirement in the summary judgment context and because all statements have, in any event, properly been substantiated with specific documents relied upon, the Petitioner's Motion to Strike should be immediately denied.

RESPECTFULLY SUBMITTED,

Shilina B. Chatterjee

SHILINA B. CHATTERJEE, B.P.R. #20689
Assistant Attorney General
Office of the Attorney General
Consumer Advocate and Protection Division
P.O. Box 20207
Nashville, Tennessee 37202
(615) 532-3382

Dated: December 10, 2003

71141

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was served via hand delivery or facsimile on December 10, 2003.

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Shilina B. Chatterjee
SHILINA B. CHATTERJEE
Assistant Attorney General

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CAPD EXHIBIT A
RESPONSE TO PETITIONERS MOTION TO STRIKE UNSUBSTANTIATED STATEMENTS OF DANIEL W. MCCORMAC

The following are the responses to the Petitioners' Motion to Strike which include citations to the record which refutes the Petitioners' allegations that "certain" statements contained in Daniel W. McCormac's Affidavit are unsubstantiated. Further, the citations provided herein should not be construed as all the material relied upon by the affiant, Daniel W. McCormac. There may be additional citations in the record supporting this statements. We hereby reserve the right to supplement, if necessary.

We have listed the numbered statements that Petitioners raised in its Exhibit 1 of the Motion to Strike and have responded following each statement.

1. "The PGA rules were designed to allow companies to "recover" gas costs by "billing" those costs to consumers. The PGA rules have been interpreted this way consistently since implementation in 1970."

<u>CAPD RESPONSE</u>: This statement is clearly substantiated by current rule and by documents provided by the petitioners. The documents quoted were obtained from Petitioners.

A. The Rule

> TRA Rule 1220-4--7-.03 (1) "The PGA shall consist of three major components: (a) the Gas Charge Adjustment; (b) the Refund Adjustment and (c) the Actual Cost Adjustment (ACA)." The "Gas Charge Adjustment" is defined at 1220-4--7-.01 (4) as "the per unit amount **billed** by the Company to its customers solely for Gas Costs." The Gas Charge Adjustment is computed by dividing the adjustment dollars by "Total Sales" or "Total volumes **billed** . . ." (1220-4--7-.03 (1) (a) 3. (viii)).
> The ACA factor is defined at 1220-4--7-.03 (1) (c) (2) as "the difference between (1) revenues **billed** customers by means of the Gas Charge Adjustment and (2) the cost of gas . . ."
> Furthermore, 1220-4--7-.04 clearly spells out the appropriate accounting to be followed to account for gas costs. Gas costs are expensed (or debited) to the "Natural Gas Purchases" account as "volumes are sold or **billed** to customers." (emphasis added)

B. Testimony and Documents Provided by Petitioners

> Page 12 of Documents Provided by Petitioners Chattanooga Gas, Amended Petition in Docket G-86-1 (Attachment #1):

"Petitioners aver that it is in the public interest to revise the PGA rule so as to clearly enable Petitioners to **flow through** all demand, commodity, and other costs related to the purchase of gas or other energy supplies... An Actual Cost Adjustment (ACA) is proposed. This provision provides for reconciliation on at least an annual basis of gas cost incurred and gas related revenues **billed**."(emphasis added)

Page 1 of Exhibit 1, Page 1 of 8 attached to the Amended Petition in Docket G-86-1:

"This Purchased Gas Adjustment (PGA) Rider is intended to permit the Company to **recover**, in a timely fashion, the total cost of gas purchased..."(emphasis added)

Page 7 of Exhibit 1, Page 7 of 8 attached to the Amended Petition in Docket G-86-1 states:

"The ACA shall be the difference between (1) revenues **billed** customers by means of the Gas Charge Adjustment and (2) the cost of gas invoiced the Company by Suppliers..."(emphasis added)

Pages 3-11 of Direct Testimony of Bill R. Morris in Docket No. G-86-1 (Attachment #2).

"Recovered" was clearly defined by witness Bill Morris.

"The proposed PGA Rider provides procedures for the **pass-through** of the cost of natural gas purchased..." (p. 3)

"The proposed PGA Rider **covers** all of these contingencies." (p. 4)

The proposed PGA rider will permit the LDCs to **collect** their actual gas costs and therefore, will **eliminate** these **over-collections** and **under-collections**. (p. 4)

Why is it necessary to provide for the **pass-through** of changes in the cost of gas purchased from gas suppliers other than interstate pipelines? (p. 5)

Why is it necessary to provide for the **pass-through** of LNG, LPG, SNG and other feedstocks in the PGA? (p. 6)

Why is it important that the PGA be amended to **eliminate over-collections** and **under-collections** relating to changes in the mix of purchased gas, differences in current actual sales volumes and historical volumes and other factors? A. The purpose of any PGA is to permit an LDC to **recover** its prudently incurred gas costs — **no more and no less**.

<u>The amount **recovered** will be determined by multiplying (a) the gas cost component of the LDC's tariff rates by (b) the appropriate sales volumes **billed** to customers. (p. 8)</u>

"... each month the LDC would calculate the ACA by comparing invoice gas costs with the amount of gas costs **recovered** from customers." (Pp. 9-10) "The deferred account ... provides assurance that the LDCs will **not over-recover** their gas costs." (P. 11)

Mr. Morris also addressed how the companies would **recover** certain margin losses through the ACA calculation. "The Commission has approved procedures for each of the three LDCs which permit them to **recover** margin losses incurred in connection with the negotiation of interruptible rates. Under the proposed PGA Rider, these margin losses would be included in the ACA calculation." (p. 10) (emphasis added)

Throughout all of Docket G-86-1, it is clear that recovery meant billed. Once gas costs were billed, they were considered to be recovered.

On Pages 2-3 of testimony given by Kenneth A. Royse, the President of Chattanooga Gas testified (Attachment #3):

"First, the PGA rule should permit the full and timely **recovery** of purchased gas cost by the regulated companies." "How does the proposed PGA rule permit full and timely cost **recovery**? A. Full and timely cost **recovery** will be realized ..." "... the gas companies can **recover** their costs . . . In addition to the benefit of timely cost **recovery** for the gas companies there is also benefit for customers who pay **no more and no less** than the full cost of gas." The proposed PGA rule permits **full cost recovery** with ratepayer protection. (<u>See</u> p.6) (emphasis added)

Page 10, Testimony of Donald E. Johnstone on behalf of Associated Valley Industries Intervention Group (Attachment #4):

"Gas cost changes are to be **flowed through** more or less routinely under the proposed PGA, and the ACA provides a mechanism that will assure that there is **no under or overrecovery**."(emphasis added)

2. The petition in Docket 01-00802 was "presented as an exception to the rule" and an "interpretation that has endured for 33 years."

CAPD RESPONSE:

Page 2 of the Order in Docket 01-00802 quotes from the Applicants request (Attachment #5):
"In doing so, the companies adopted a policy of not conducting 'business as usual' including not disconnecting customers in accordance with tariff provisions."

Clearly this was the first and only time in the 33 year history of the PGA in Tennessee as shown from the statement on page 5 of the order:
"This measure should not be understood, however, to reflect the ongoing policy of the Authority, but is adopted for this **one instance only** in response to the **extraordinary circumstances** surrounding the winter of 2000-2001." [emphasis added]

3. "As a result of the shortage of employees, some consumers who were not paying the gas bills were allowed to continue to take gas even through the summer of 2001. This quite likely contributed to the increased levels of Uncollectible Accounts expense in 2001."

CAPD RESPONSE:

This statement is based on the personal knowledge and recollection of Dan McCormac regarding oral representations made by employees of the petitioner during conference calls or meetings regarding the significant events leading up to the petitioners request in Docket 01-00802.

4. "For example, interest expense on short term debt has declined by 50% or more in the last few years. Other expenses have saved these utilities millions of dollars. The petitioners are focusing only on one portion of the cost of service that will provide the opportunity to reduce risks, incentives and accountability while ignoring some major expenses that have declined in recent years. Perhaps the Petitioners could use some of these savings to offset any increase in Uncollectible Accounts expense instead of trying to increase rates to consumers."
"Atmos and Chattanooga Gas have also reduced levels of employment in Tennessee. Chattanooga Gas has reduced service employees from 37 in 1996 to 30 in 2003. Atmos has reduced customer service expenses from $303,479 in 1995 to $36,764 in 2002."
"The petitioners will likely argue that Uncollectible Accounts expense varies with gas costs. While this may be true, Forfeited Discounts revenues need to be examined closely because these appear to vary with the cost of gas. For example, if a customer gets a gas bill that is comprised of $30 for service and $70 for gas, the total bill is $100. The 5% late charge on a $100 bill would be $5. If the total bill goes up to $140 due to a higher cost of gas, the 5% late charge would be $7. It is quite possible that the extra $2 late charge associated with the higher cost of gas could offset a large portion of any

increase in Uncollectible Accounts expense."
Exhibit A shows that Forfeited Discounts revenues normally exceed Uncollectible Accounts expense. Chattanooga's last rate case included .20% of revenues for Uncollectible Accounts expense, and the Forfeited Discount revenue was estimated to be .68% of revenues. In the 2003 Nashville Gas rate case, Uncollectible Accounts expense was assumed to be .45% of total revenues, however the Forfeited Discount revenue was estimated to be .74% of revenues. Similarly, the latest Atmos rate case assumed .12% of revenues for Uncollectible Accounts expense, but the Forfeited Discount revenue was estimated to be .43% of revenues. If the utilities want a rate increase to adjust for increases in Uncollectible Accounts, the utilities should also be willing to give a rate **reduction** to reflect increases in Forfeited Discounts revenue. Incentive plans are not designed to be all reward without any risks. If utilities want incentives, the incentives need to be balanced with risks and rewards. The petitioners want to remove the sticks and eat the carrots.
Approving the petitioner's proposed changes would continue to shift expenses from the review of the TRA and remove the incentive to control costs. If the TRA allows the process of transferring more and more costs into the "automatic recovery" territory, this may ultimately lead to all costs being flushed through the PGA. If all costs were in the PGA today, it is possible that we would be reducing rates instead of increasing rates. As stated earlier, several major costs have declined since the most recent rate cases for two of the petitioners. In addition, the petitioners are collectively receiving millions of dollars per year in "incentive payments" over and above actual gas costs. Furthermore, if all ratemaking risks are removed, the cost of capital would certainly decline dramatically. If these utilities want the opportunity to earn 8%, 9%, 10% or more on equity, there needs to be some risk involved. The 9% return needs to be **earned** not **given** to the investors! The petitioners have the right to **bill** reasonable costs to consumers, but consumers should not have to take the money to the bank and fill out the deposit ticket for the management of these utilities.
The current PGA mechanism is difficult enough to enforce. Almost all ACA audit reports reveal errors in the recording or billing of the gas costs. For example, the latest Nashville Gas audit report in Docket 03-00317 shows $103,000 of errors in accounting for the cost of gas. Adding yet another automatic recovery mechanism that requires estimates of the separation of the accounts receivable into the theoretical sources of those accounts would add another source of potential error. The current process is cumbersome and error prone. Allowing another layer of automatic cost recovery will only further complicate the process.

CAPD RESPONSE:

The statement concerning the number of employees of Chattanooga gas is based on Chattanooga's reply to our data request #5 for employee data since 1996. (See Attachment #6 for filings for 4th quarter 1996 and the latest available data plus a summary of AGL call center personnel assigned to Tennessee.)
The decline in customer service expense was reported by Atmos in its annual

reports to the TRA for 1995 and 2002. (Attachment #7 of Exhibit A. These reports were included to our data response filed on November 13, 2003.) In addition, Ms. Childers' affidavit claims that customer service expenses were $1,996,667 for 2002. We could not find that number in the data provided by Atmos, however it appears that Ms. Childers incorrectly quoted the expense for the **entire Atmos company** for 2002 which was $1,994,989 as shown in the FERC Form No. 2 report for that year. We were using the reported expenses for **Tennessee only** rather than the whole company's expense.

The fact that uncollectible accounts expenses are normally more than covered by the late payment charges or forfeited discounts billed to consumers is supported by Exhibit A to our Supplemental responses to discovery filed on November 25, 2003. (Attachment #8. These factors were also included as an attachment to Exhibit 3 of the petitioners December 4th reply & motion to strike filing.)

The fact that "the petitioners are collectively receiving millions of dollars per year in "incentive payments" over and above actual gas costs" is from Mr. McCormac's memory as disclosed in this year's rate case with Nashville Gas. (The TRA certainly has plenty of documentation to substantiate these incentive payments and this is an undisputed fact.)

"If the utilities want a rate increase to adjust for increases in Uncollectible Accounts, the utilities should also be willing to give a rate **reduction** to reflect increases in Forfeited Discounts revenue" is simply a statement of equity since it is standard practice to base both on revenues in a rate case. (Again see Revenue Conversion Factors as proof.)

"If these utilities want the opportunity to earn 8%, 9%, 10% or more on equity, there needs to be some risk involved. The 9% return needs to be **earned** not **given** to the investors!" is again just a statement of equity. Mr. McCormac is familiar with the utilities' arguments about risks and how these arguments are used to justify 10% or more on equity.

The rest of these statements are supported by Mr. McCormac's personal knowledge based on the facts agreed upon between Nashville Gas Company and presented to the TRA in the most recent rate case in Docket 03-00313. The fact that the current process is cumbersome and error prone is also substantiated by the numerous annual ACA audits conducted by the TRA's staff in which there is almost always several findings of errors in the billing or reporting of the proper balances in the Deferred Gas Cost account.

5. "Petitioners are attempting to:

    1. short-circuit the normal rate making procedure;
    2. receive an automatic recovery of "Uncollectible Accounts" expense through an automatic pass-through mechanism;
    3. provide more and more automatic recovery of expenses through a pass-through mechanism;
    4. provide a speedup in expense recovery which reduces the proper

incentives for good management of expenses;

5. provide a subsidy for reducing service quality through continued reductions of service personnel;
6. provide an opportunity for less regulatory oversight responsibility and accountability;"

CAPD RESPONSE:

This statement is simply a summary of the points in Mr. McCormac's affidavit and is supported by the wording of the affidavit.

PAT CHILDERS AFFIDAVIT

Ms. Childers' affidavit claims that "once billed, the total bill does not become revenue to the company. The bill is a receivable but does not become revenue until it is collected."

CAPD RESPONSE:

Basic bookkeeping or accounting teaches that for every debit, there is a credit. When the Accounts Receivable account is debited, revenues are credited. This is also the required accounting under the USOA. See for example Account No. 480 - Residential Sales revenue which states "This account shall include the net **billing** for gas supplied for residential or domestic purposes." (Attachment 9)

IN THE MATTER OF:
PETITION OF CHATTANOOGA GAS COMPANY, NASHVILLE GAS COMPANY, A DIVISION OF PIEDMONT NATURAL GAS COMPANY, INC. , AND UNITED CITIES GAS COMPANY FOR A REVISION OF THE RULE RELATING TO PURCHASED GAS ADJUSTMENTS
DOCKET NO. G-86-1

AMENDED PETITION with EXHIBIT

ATTACHMENT NO. 1

742

BEFORE THE

TENNESSEE PUBLIC SERVICE COMMISSION

NASHVILLE, TENNESSEE

IN THE MATTER OF:	)	
	)	
PETITION OF CHATTANOOGA GAS COMPANY, NASHVILLE GAS COMPANY, A DIVISION OF PIEDMONT NATURAL GAS COMPANY, INC., AND UNITED CITIES GAS COMPANY FOR A REVISION OF THE RULE RELATING TO PURCHASED GAS ADJUSTMENTS	)	DOCKET NO. G-86-1

AMENDED PETITION

Come now the above-named Petitioners, 1/ each of which is an investor-owned, regulated natural gas distribution company, and submit this amendment to their original Petition filed January 17, 1986, requesting the Tennessee Public Service Commission to revise its Rule No. 1220-4-1-.12, relating to purchased gas adjustments (the PGA rule).

1/ For purposes of this Rulemaking Petition all of the moving natural gas distribution companies shall be referred to jointly as "Petitioners".

VII.

REVISED PGA RIDER

Petitioners aver that it is in the public interest to revise the PGA rule so as to clearly enable Petitioners to flow through all demand, commodity, and other costs related to the purchase of gas or other energy supplies, regardless of the form in which they are incurred. New competitive rate designs could be anticipated, and customers would have neither excess nor deficit collections under Petitioners' proposed Rider. The proposed Rider, consisting of eight (8) pages, is attached herewith as Exhibit 1. The principal changes proposed in the new Rider are as follow:

(a) An Actual Cost Adjustment (ACA) is proposed. This provision provides for reconciliation on at least an annual basis of gas cost incurred and gas related revenues billed. Any deviation would be refunded or collected, as appropriate, in a subsequent PGA adjustment.

(b) Sources of gas to be covered under the PGA rule have been expanded to include all sources of supply available to Petitioners, including, but not limited to liquefied petroleum gas (LPG), supply sources not regulated by the FERC, and transportation services related to a supply source.

(c) The general definitions in the PGA Rider have been modified to allow for anticipated changes in billing determinants and sales volumes during the initial application period. This

Purchased Gas Adjustment Rider

I. General Provisions.

A. This Purchased Gas Adjustment (PGA) Rider is intended to permit the Company to recover, in a timely fashion, the total cost of gas purchased for delivery to its customers and to assure that the Company does not over-collect or under-collect Gas Costs from its customers.

B. This Rider is intended to apply all Gas Costs incurred in connection with the purchase, transportation and/or storage of gas purchased for general system supply, including, but not limited to, natural gas purchased from interstate pipeline transmission companies, producers, brokers, marketers, associations, intrastate pipeline transmission companies, joint ventures, providers of liquefied natural gas (LNG), liquefied petroleum gas (LPG), substitute, supplemental or synthetic natural gas (SNG), and other hydrocarbons used as feed-stock, other distribution companies and end-users, whether or not the Gas Costs are regulated by the Federal Energy Regulatory Commission and whether or not the provider of the gas, transportation or storage is affiliated with the Company.

C. To the extent practicable, any revision in the PGA shall be filed with the Commission no less than thirty (30) days in advance of the proposed effective date and shall be accompanied by the computations and information required by this Rider. It is recognized, however, that in many instances the Company receives less than 30 days notice from its Suppliers and that other conditions may exist which may prevent the Company from providing 30 days advance notice. Therefore, should circumstances occur where information necessary for the determination of an adjustment under this Rider is not available to the Company so that the thirty (30) days requirement may be met, the Company may, upon good cause shown, be permitted to place such rates into effect with shorter advance notice.

D. The rates for gas service set forth in all of the Rate Schedules of the Company shall be adjusted pursuant to the terms of the PGA, or any specified portion of the PGA as determined by individual Rate Schedule(s).

E. No provision of this Rider shall supersede any provision of a Special Contract approved by the Commission.

II. Definitions.

A. "Gas Costs" shall mean the total delivered cost of gas paid or to be paid to Suppliers, including, but not limited to, all commodity/gas charges, demand charges, peaking charges, surcharges, fuel loss relating to transportation, storage and/or peaking services, emergency gas purchases, over-run charges, capacity charges, customer charges, standby charges, gas inventory charges, minimum bill charges, minimum take charges, take-or-pay charges, take-and-pay charges, calendar quarter. The interest rate used shall not be greater than 12% nor less than 5%.

SFR = Firm sales as defined in the Gas Charge Adjustment computation, less sales under a transportation or negotiated rate schedule.

STR = Total sales as defined in the Gas Charge Adjustment computation, less sales under a transportation or negotiated rate schedule.

3. **Modification of Formula.**

The formulas, at the option of the Company, may be modified to carry out the intent of this PGA Rider, e.g., the use of billing demand units in lieu of firm sales for the derivation of the Demand Cost Adjustment applicable to the two-part demand/commodity rate schedules.

4. **Filing with the Commission.**

The computation of the Refund Adjustment shall be filed in accordance with the notice requirements specified in the preamble to this Rider, and shall remain in effect for a period of twelve (12) months or for such longer or shorter period of time as required to appropriately refund the applicable refund amount.

The Company shall file with the Commission a transmittal letter, exhibits showing the computation of the Refund Adjustment and interest calculations, and a PGA tariff sheet. The transmittal letter shall state the PGA tariff sheet number, the service area(s), the reason for adjustment, and the effective date. Should the Company have a Gas Charge Adjustment filing to become effective the same date as a Refund Adjustment, a separate transmittal letter and PGA tariff sheet shall not be necessary.

C. **Actual Cost Adjustment.**

Commencing with the initial effective date of this Rider, the Company shall calculate the Actual Cost Adjustment (ACA) monthly. The Company may, at its option, file monthly to include the ACA in its calculation of the Gas Charge Adjustment but shall be required to do so at least annually. The ACA shall be the difference between (1) revenues billed customers by means of the Gas Charge Adjustment and (2) the cost of gas invoiced the Company by Suppliers plus margin loss as reflected in the Deferred Gas Cost account. The balance of said account shall be adjusted for interest at the rate provided for the calculation of

IN THE MATTER OF:
PETITION OF CHATTANOOGA GAS COMPANY, NASHVILLE GAS COMPANY, A DIVISION OF PIEDMONT NATURAL GAS COMPANY, INC., AND UNITED CITIES GAS COMPANY FOR A REVISION OF THE RULE RELATING TO PURCHASED GAS ADJUSTMENTS
DOCKET NO. G-86-1

DIRECT TESTIMONY
of
BILL R. MORRIS

ATTACHMENT NO. 2

Before the
Tennessee Public Service Commission
Docket No. G-86-1

Direct Testimony
of
Bill R. Morris

Q. Would you state your name and business address for the record please?

A. My name is Bill R. Morris and my business address is 1915 Rexford Road, Charlotte, N.C. 28211.

Q. By whom are you employed and what position do you hold?

A. I am employed by Piedmont Natural Gas Company ("Piedmont") as Director-Rates.

Q. By whom were you employed prior to being employed by Piedmont?

A. I was employed by Nashville Gas Company ("Nashville Gas") as Assistant Vice President of Rates prior to my transfer to Piedmont in February 1986. Prior to that, I was employed by the Tennessee Public Service Commission as a Financial Analyst from August 1974 through September 1981.

Q. Briefly describe your educational background.

A. I received a Bachelor of Science degree in accounting in 1974 from Austin Peay State University. In 1979 I became a Certified Public Accountant in the state of Tennessee.

Q. Have you previously offered testimony in any regulatory proceedings?

A. Yes, while with the Tennessee Public Service Commission, I entered testimony as a staff witness in numerous rate cases. Since being employed by Nashville Gas and Piedmont, I have testified in four general rate cases and the take-or-pay proceeding before the Tennessee Public Service Commission, and I have entered testimony before the Federal Energy Regulatory Commission (FERC).

Q. Are you a member of any professional associations?

A. Yes, I am a member of the American Institute of Certified Public Accountants and the Tennessee Society of Certified Public Accountants.

Q. What is the purpose of your testimony in this proceeding?

A. The purpose of my testimony is to present to the Commission, on behalf of the three major regulated natural gas distribution companies in the state, testimony explaining a proposed Purchased Gas Adjustment (PGA) Rider. Other witnesses have explained why PGAs are essential to avoid the time constraints and expense which would be placed on the Commission, the Staff and local distribution companies (LDCs) by the filing of repeated general rate cases. These witnesses have also explained the history of the current PGA rule (which was adopted more than 20 years ago), the events that have produced significant changes in the natural gas industry since the adoption of the original PGA rule and the reasons why it is essential that the rule be amended. The purpose of my testimony is to explain the changes in the existing PGA procedures which would be implemented in the proposed PGA Rider.

Q. What are the major differences between the proposed PGA Rider and the existing PGA rule?

A. There are a number of important differences between the proposed PGA Rider and the present PGA rule. Included in these differences are the following:

1. The existing PGA rule does not provide an up-to-date definition of "gas costs." At the time of the adoption

of the existing rule, most natural gas was purchased under a two-part rate which provided for the payment of demand costs and commodity costs, and those two costs are the only gas costs specifically defined in the present PGA rule. Today, gas costs may include (in addition to demand and commodity costs) capacity charges, customer charges, standby charges, gas inventory charges, minimum bill charges, minimum take charges, take-or-pay charges, take-and-pay charges, storage charges, peaking charges, surcharges, fuel charges, emergency gas purchases, over-run charges, service fees, transportation charges and other charges related to the purchase, storage and/or transportation of gas. The proposed PGA Rider includes these charges in the definition of "gas costs."

2. The existing PGA rule was adopted at a time when the LDCs purchased gas almost exclusively from one or two interstate pipelines under long-term contracts. As a result, the existing rule does not provide adequate procedures for the pass-through of changes in gas costs which result from the addition or deletion of existing pipeline suppliers or for the purchase of gas from producers, brokers, marketers, intrastate pipelines or other distribution companies. The proposed PGA Rider provides procedures for the pass-through of the cost of natural gas purchased from any of these various gas suppliers.

3. The existing PGA Rule does not provide procedures for the pass-through of the costs of liquified natural gas (LNG), liquified petroleum gas (LPG), substitute,

supplemental or synthetic natural gas (SNG) or other hydrocarbons used as feed stock. The proposed PGA Rider includes all sources of gas which are purchased by an LDC for its general system supply.

4. The existing PGA rule requires a PGA filing and results in retail rate changes each time there is a change in the wholesale cost of gas. This requirement has made it necessary for the LDCs to make frequent PGA filings and changes in their retail rates. The proposed PGA Rider is expected to provide for less frequent PGA filings and changes in retail rates and, thereby, avoid the confusion and dissatisfaction which often results from repeated filings and changes in retail rates.

5. The present PGA rule permits the pass-through of changes in demand costs only when those changes result from a change in the rate of an existing supplier. The present rule does not cover changes in demand costs which result from the addition of a new gas supplier, the deletion of an existing gas supplier or an increase or decrease in both the commodity or demand volume of gas purchased from a supplier. The proposed PGA Rider covers all of these contingencies.

6. The present PGA rule permits the LDCs to over-collect or under-collect their actual gas costs as a result of changes in the mix of purchased gas, differences in current actual sales volumes and historical sales volumes, and other factors. The proposed PGA rider will permit the LDCs to collect their actual gas costs and, therefore, will eliminate these over-collections and under-collections.

Q. Why is it necessary to provide an up-to-date definition of "gas cost"?

A. As I had previously stated, the existing PGA rule only provides specific definitions for demand costs and commodity costs. Today, gas costs come in many different forms. For example, fixed gas costs may take the form of demand charges, capacity charges, customer charges, standby charges and gas inventory charges. Variable gas costs may take the form of commodity charges, gas charges, injection charges, withdrawal charges, fuel charges and overrun charges. Although the Commission and the Staff has generally worked with the LDCs in permitting the pass-through of these various charges regardless of their designation, the proposed definition would remove any doubt as to which costs are properly included in a PGA filing.

Q. Why is it necessary to provide for the pass-through of changes in the cost of gas purchased from gas suppliers other than interstate pipelines?

A. At the time that the original PGA rule was adopted, most of the LDCs purchased gas from one or two interstate suppliers. For example, Nashville Gas purchased gas from a single supplier under a single rate schedule. Today, the LDCs, including Nashville Gas, purchase gas from many different suppliers under many different pricing arrangements, and it is anticipated that the number of gas suppliers and the variety of pricing arrangements will increase substantially in the future. Many of these sources of supply will be short-term; therefore, they will be replaced from time to time with other sources of supply. The prices paid to acquire, transport and, in some instances, store these various sources of supply can be expected to vary from time to time. In order to provide the cheapest gas to our customers consistent with stability of supply, we need to be able to adjust our rates to reflect the changes in our cost of gas caused by the addition and/or deletion of these various sources of supply, transportation and storage. If we are permitted to pass-through changes in the costs of these supplies and services, our purchase decisions can properly be based on whether the particular decision will produce the lowest cost of gas, consistent with stability of supply, rather than on whether we will be able to change our rates to reflect any changes in our gas costs caused by our purchase decisions.

Q. Why is it necessary to provide for the pass-through of LNG, LPG, SNG and other feedstocks in the PGA?

A. Once these sources of gas enter our system, they are no different from any other source of gas; therefore, there is no justification for treating these sources of gas any differently from any other source of gas. These sources of gas are usually, but not always, used for peaking purposes. It is less expensive to use these peaking supplies than it is to contract for additional peak day demand from our suppliers; therefore, the use of these supplies results in lower rates for our customers.

Q. Why is it appropriate to amend the PGA to provide for less frequent PGA filings and changes in retail rates?

A. Each PGA filing is time consuming for the LDC and the Commission Staff. Each retail rate change is a potential source of confusion and dissatisfaction for our customers. Under the existing rule, retail rates are changed every time there is a change in a pipeline supplier's wholesale rates. Under the proposed rule, it would be possible to defer changes in retail rates. For example, if an LDC anticipated that an increase in the rates of one supplier would be offset by a future decrease in the rates of another supplier, it would be unnecessary to change retail rates. Similarly, refunds could be used at the option of the Company to offset increases for specified periods of time.

Q. Why is it important that the PGA cover changes in demand charges other than just changes in rates from an existing supplier?

A. Under our present PGA procedures, an LDC is permitted to adjust its rates if its existing pipeline supplier changes its demand rates. However, if an LDC were to replace some or all of the gas purchased from an existing supplier with gas from another supplier, the present PGA procedures do not permit it to revise its rates to reflect this change.

This omission from the present PGA procedures can result in substantial inequities to the LDC and to its customers. For example, the present Tennessee Gas Pipeline Company (TGPL) CD Rate Schedule has a demand charge (at 100% load factor) of approximately $.26 per dt. and a CD commodity charge of approximately $3.38 per dt. for a total per dt. cost (at 100% load factor) of $3.64. If Nashville Gas were able to reduce its cost of gas by replacing all or a part of the TGPL gas with gas from another supplier who had a demand charge of $.15, a commodity charge of $3.30 and a total per dt. charge of $3.45, the present PGA does not require Nashville Gas to reduce its rates even though its cost of gas decreased by $.19 per dt.

Similarly, if Nashville Gas' cost of gas were to increase because it became necessary to replace all or a part of the TGPL gas with gas from another supplier who had a demand charge of$.50, a commodity charge of $3.30 and a total dt. cost of $3.80, the present PGA would not permit Nashville Gas to increase our rates even though our cost of gas increased by $.16 per dt.

Q. Why is it important that the PGA be amended to eliminate over-collections and under-collections relating to changes in the mix of purchased gas, differences in current actual sales volumes and historical volumes and other factors?

A. The purpose of any PGA is to permit an LDC to recover its prudently incurred gas costs -- no more and no less. For this reason alone, over-collections and under-collections should be eliminated. Furthermore, as I have just illustrated, the elimination of over-collections and under-collections relating to changes in suppliers is necessary to permit an LDC to purchase gas from the least cost supplier.

Q. Please explain the procedures that would be used to account for purchased gas costs under the proposed PGA Rider.

A. Each LDC will establish a "Deferred Gas Costs Account." Each month, this account will be debited by an amount equal to all gas costs invoiced to the LDC during that month. Likewise, each month, this account will be credited with an amount equal to the amount of its gas costs actually recovered during the month. The amount recovered will be determined by multiplying (a) the gas cost component of the LDC's tariff rates by (b) the appropriate sales volumes billed to customers. At any point in time, the accumulation of the monthly account activity will represent the LDC's "Actual Cost Adjustment" (ACA).

Q. What do you mean by the "gas cost component of an LDC's tariff rates"?

A. The gas cost component of an LDC's tariff is that portion of a customer's rates which reflects the cost of gas allocated to that customer in the LDC's most recent general rate case plus or minus any changes in gas costs reflected in subsequent PGA filings.

Q. How will any balance in the Deferred Gas Cost Account be reflected in rates to customers?

A. At least annually, each LDC must file a Gas Charge Adjustment to account for any balance in its Deferred Gas Cost Account. An LDC may file a PGA to account for any balance in its Deferred Gas Cost Account on a more frequent basis at its option.

Q. Will changes in customer's rates under the PGA Rider be prorated?

A. The LDCs will have a choice. An LDC who wishes to continue to prorate PGA charges will be permitted to do so. An LDC who does not wish to prorate PGA charges will not be required to do so. However, it must wait at least 30 days before reflecting the PGA change in customer rates.

Q. How will the LDC record the PGA increase during the 30 day waiting period?

A. The increase will be recorded in the deferred account and reflected in a subsequent ACA.

Q. You previously testified that each month the LDC would calculate the ACA by comparing invoice gas costs with the amount of gas costs recovered from customers. Are there any other components included in the calculation of the ACA?

A. Yes. The Commission has approved procedures for each of the three LDCs which permit them to recover margin losses incurred in connection with the negotiation of interruptible rates. Under the proposed PGA Rider, these margin losses would be included in the ACA calculation. The inclusion of margin losses in the PGA will avoid the necessity of making separate filings to account for margin losses. It also recognizes that the purpose of the current margin loss procedures is to permit the LDCs to purchase less expensive interruptible gas supplies for their interruptible customers and to pass on the reduced costs of those gas supplies to the extent necessary to remain competitive.

Q. Under the proposed PGA Rider, an LDC's Deferred Gas Cost Account will at various times have a debit balance reflecting an under-recovery of gas costs and a credit balance reflecting an over-recovery of gas costs. Do you propose to debit and/or credit interest on these balances?

A. Yes, in either case, interest will be recorded in the deferred account. The proposed PGA Rider provides for interest at a rate 2% below the arithmetic mean (to the nearest one-hundredth of one percent) of the prime rate value published in the "Federal Reserve Bulletin" or in the Federal Reserve's "Selected Interest Rates" for the fourth, third and second months preceding the first month of the calendar quarter. There is a ceiling of 12% and a floor of 5%.

Q. Why do you feel the Deferred Gas Costs Account is an equitable approach of accounting for purchased gas?

A. The deferred account accomplishes three major purposes. From a customer perspective, it provides rate stability. From a regulatory perspective, it provides assurance that the LDCs will not over-recover their gas costs. From an LDCs perspective, it provides recovery of its prudently incurred gas costs. In addition, from everyone's perspective, it provides a more efficient, less time consuming and less expensive way of accounting for gas costs.

IN THE MATTER OF:
PETITION OF CHATTANOOGA GAS COMPANY, NASHVILLE GAS COMPANY, A DIVISION OF PIEDMONT NATURAL GAS COMPANY, INC. , AND UNITED CITIES GAS COMPANY FOR A REVISION OF THE RULE RELATING TO PURCHASED GAS ADJUSTMENTS
DOCKET NO. G-86-1

DIRECT TESTIMONY
of
KENNETH A. ROYSE

ATTACHMENT NO. 3

BEFORE THE TENNESSEE PUBLIC SERVICE COMMISSION

DOCKET NO. G-86-1

IN THE MATTER OF
CHATTANOOGA GAS COMPANY

DIRECT TESTIMONY OF KENNETH A. ROYSE

Q. Will you please state your name and address?

A. My name is Kenneth A. Royse. My office address is Chattanooga Gas Company, 811 Broad Street, Chattanooga, Tennessee 37402.

Q. What is your position?

A. I am President of Chattanooga Gas Company (herein referred to as Chattanooga, CGC or Company). I was initially employed by the Company in January 1955 and have been involved in the financial, accounting, regulatory, and operating aspects of the business since the date of my initial employment.

Q. What is your educational and industry background?

A. I am an accounting/business administration graduate of the University of Chattanooga. I have served as Chairman of the Accounting Section of the Southern Gas Association and as President of the Tennessee Gas Association.

Q. Have you presented testimony for Chattanooga before this Commission on previous occasions?

A. Yes, I previously presented testimony in February, 1989 in connection with the Company's last general rate case in Docket No. 88-01363. I have also testified numerous other times before the Commission on rate and regulatory matters.

Q. What is the purpose of your testimony in this proceeding?

A. The purpose of my testimony is to provide a brief overview of Chattanooga's perspective relative to the proposed Purchased Gas Adjustment (PGA) rule, including a brief summary of the objectives we believe to be appropriate for a PGA rule; to describe Chattanooga's role in the development of the proposed PGA rule; and to respectfully request Commission adoption of the proposed PGA rule as presented in Mr. Morris' testimony.

Q. What are the appropriate objectives for a PGA rule?

A. Chattanooga believes that there are four important objectives for a PGA rule. First, the PGA rule should permit the full and timely recovery of purchased gas cost by the regulated gas companies. Second, gas cost should be fairly apportioned within customer classes, between firm and non-firm service and between time periods (monthly and seasonally). Third, a PGA rule should permit the gas companies to be competitive with alternate fuels. Finally, the PGA rule should be practical to administer.

Q. How does the proposed PGA rule permit full and timely cost recovery?

A. Full and timely cost recovery will be realized by allowing the gas companies to reflect their current cost of gas based on actual/projected gas purchase volumes as the gas companies are permitted to adjust their gas purchase mix to reflect gas supply commitments in the current month. Current prices and related purchase volumes permit a much closer matching of gas costs and gas prices than is permitted under the current PGA rule. Furthermore, by allowing the amortization of deferred gas costs balances as frequently as monthly, the gas companies can recover their costs with a minimum of time lag. In addition to the benefit of timely cost recovery for the gas companies there is also benefit for customers who pay no more and no less than the full cost of gas. Customers also receive timely price signal changes which permit them to adjust their consumption in an economically efficient manner.

Q. How does the proposed PGA rule enhance fair cost apportionment?

A. The proposed PGA rule permits sufficient flexibility to reflect the different costs of firm and non-firm service, as well as to reflect demand cost changes for those customers who are billed on a demand basis. The timely recovery of gas costs means that weather patterns, seasonal consumption patterns, alternate fuel competition, and gas transportation are not likely to create the possibility that one group of customers bears a larger than proportionate share of gas costs than another due to the timing of consumption.

Q. How does the proposed PGA rule permit the gas companies to be competitive with alternate fuels?

A. Under the provisions of the industrial sales program provision, the gas companies are permitted to negotiate prices to attempt to meet the price of competitive fuels rather than experience loss of load, and to flow the margin loss associated with meeting competitive fuel alternatives through the deferred gas accounting mechanism. In a rapidly changing gas supply market, this flexibility will benefit not only dual fuel customers but also firm service residential, small commercial and small industrial customers through protection of loss of load. Firm service customers benefit because the gas companies will no longer be nominating just maximum daily/monthly pipeline or transportation purchase volumes but will also be projecting monthly consumption by customer class. By having the flexibility to nominate monthly gas purchase volumes based on both interruptible and firm customers' loads, the gas companies will be able to insure reasonable cost supplies of gas for the firm service market in those periods when firm service demand increases rapidly. The result will be a lower average cost of gas for the firm service market.

Q. Do you believe the proposed PGA rule will be practical to administer?

A. Yes. The proposed PGA rule is predicated on well-defined formulas designed to properly reflect actual gas costs. In addition, the use of deferred gas accounting in conjunction with the proposed PGA rule creates a straight-forward audit trail to review gas cost and gas cost revenue.

Q. Please describe Chattanooga's role in the development of the proposed PGA rule.

A. Chattanooga has participated with the other regulated Tennessee gas companies in a joint effort to develop a PGA rule that reasonably reflects existing gas supply market conditions and permits sufficient flexibility to meet the operating differences of the various companies. For example, the proposed PGA rule will be flexible enough to permit Chattanooga Gas to reflect the demand portion of its gas supply cost for firm customers through adjustments to the demand charge applicable to its large industrial firm service customers without having to implement special modification provisions as is now required by the present PGA rule. By providing for a uniform PGA rule with flexibility to meet the needs of each individual company, this joint effort represents the collective insight and varied perspectives of each of the different gas companies in the state.

Q. Why do you support the adoption of the proposed PGA rule?

A. I believe that there are three reasons for the Commission to adopt the gas companies' proposed PGA rule. First, the gas companies have justified the need for a change in the present PGA rule. Given the changes which have occurred in the gas supply market and the Company's resale market and the further changes that are expected, the present PGA rule is simply inadequate. Second, the rapid changes that occur in gas price and gas supply conditions create potential for significant mismatches between gas cost and gas cost recovery. Any mismatch may adversely impact either ratepayers or the gas companies. The proposed PGA rule permits full cost recovery with ratepayer protection. Finally, the provisions of the proposed PGA rule are designed to be fair and equitable for both the gas companies and their customers. Indicative of the balance that the proposed PGA rule strikes is the treatment of interest on deferred gas balances. Whether the deferred gas balances are a debit or credit the interest provisions apply uniformly.

Q. Does this conclude your testimony?

A. Yes, it does.

IN THE MATTER OF:
PETITION OF CHATTANOOGA GAS COMPANY, NASHVILLE GAS COMPANY, A DIVISION OF PIEDMONT NATURAL GAS COMPANY, INC. , AND UNITED CITIES GAS COMPANY FOR A REVISION OF THE RULE RELATING TO PURCHASED GAS ADJUSTMENTS
DOCKET NO. G-86-1

TESTIMONY
of
DONALD E. JOHNSTONE

ATTACHMENT NO. 4

45

Before the

Tennessee Public Service Commission

Nashville, Tennessee

IN THE MATTER OF:)) PETITION OF CHATTANOOGA GAS) COMPANY, NASHVILLE GAS COMPANY,) A DIVISION OF PIEDMONT NATURAL) GAS COMPANY, INC., AND UNITED) CITIES GAS COMPANY FOR A REVI-) SION OF THE RULE RELATING TO) PURCHASED GAS ADJUSTMENTS)	Docket No. G-86-1

Testimony of

DONALD E. JOHNSTONE

On behalf of

Associated Valley Industries Intervention Group
(AVIIG)

Project 4462
February, 1990

Drazen-Brubaker & Associates, Inc
St. Louis, Missouri 63141-0110

will typically be short so that the changes can be put into effect on a timely basis.

A second filing requirement is set forth in Section III.E. which requires an Annual Report to the Commission that reflects transactions in the Deferred Gas Cost Account. Other than information provided with PGA filings and the ACA Annual Report, no other review is provided.

Q **IS THE REVIEW PROVIDED UNDER THE PROPOSED PGA SUFFICIENT?**

A No, it is not. Gas-cost changes are to be flowed through more or less routinely under the proposed PGA, and the ACA provides a mechanism that will assure that there is no under or overrecovery. However, there is no provision for a periodic review of the prudency of the Companies' gas purchases and purchasing practices. There should be provision for such a review on an annual basis. To provide information necessary to the review, I would recommend an Annual Report which includes not only ACA adjustments but also an explanation of purchasing practices for the preceding year and a demonstration of the reasonableness of the resulting costs. This Report should be filed with the Commission and available for review by Staff and any other interested party. It is my recommendation that the Commission not require a hearing each year but rather retain the right for such a hearing on its own Motion or in response to Motions from any legitimate parties.

IN THE MATTER OF:
PETITION OF CHATTANOOGA GAS COMPANY, NASHVILLE GAS COMPANY, A DIVISION OF PIEDMONT NATURAL GAS COMPANY, INC. , AND UNITED CITIES GAS COMPANY FOR A REVISION OF THE RULE RELATING TO PURCHASED GAS ADJUSTMENTS
DOCKET NO. G-86-1

ORDER APPROVING DEFERRAL OF UNCOLLECTIBLE ACCOUNTS IN DOCKET NO. 01-00802

ATTACHMENT NO. 5

BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE
JANUARY 29, 2002

IN RE:	)	
	)	
APPLICATION OF UNITED CITIES GAS COMPANY, A DIVISION OF ATMOS ENERGY, INC., NASHVILLE GAS COMPANY, A DIVISION OF PIEDMONT NATURAL GAS COMPANY, INC. AND CHATTANOOGA GAS COMPANY FOR APPROVAL OF DEFERRED ACCOUNTING	)	DOCKET NO. 01-00802

ORDER APPROVING DEFERRAL OF UNCOLLECTIBLE ACCOUNTS

This matter came before the Tennessee Regulatory Authority (the "Authority" or "TRA") at a regularly scheduled Authority Conference held on November 6, 2001, upon the *Second Amended and Restated Joint Application for Approval of Treatment of Uncollectible Accounts* filed on October 19, 2001 by United Cities Gas Company ("United Cities" or "UCG"), Nashville Gas Company ("Nashville Gas"), and Chattanooga Gas Company ("Chattanooga Gas") (collectively the "Applicants").

The *Application*

On September 14, 2001, the Applicants filed a Joint Application for Approval of Deferred Accounting. On September 17, the Applicants filed an Amended and Restated Joint Application for Approval of Deferred Accounting, which superseded the September 14, 2001 filing. On October 19, 2001, the Applicants filed a *Second Amended and Restated Joint Application for Approval of Treatment of Uncollectible Accounts* (referred to herein as the "Application"), and this filing in turn superseded the September 17, 2001 filing. In their

Application, the Applicants request that the Authority approve the deferral of certain costs related to uncollectible accounts.

In support of their request, the Applicants state:

> Due to the dramatic increase in the wholesale cost of gas during the 2000-2001 winter heating season, coupled with colder-than-normal weather conditions during the months of November and December of 2000, customers of each of the Applicants experienced gas bills significantly higher than those for the same period the previous winter. In fact, the wholesale gas costs were significantly higher than experienced in the previous ten winter heating seasons. The prospect of excessive disconnects was of great concern to the TRA as expressed at the TRA's conference on February 6, 2001. In response to the TRA's concerns the companies made every effort to extend payment plans and offer budget billing. In doing so, the companies adopted a policy of not conducting "business as usual" including not disconnecting customers in accordance with tariff provisions. The Applicants took measures throughout the previous winter heating season and thereafter to mitigate the effects of the high wholesale prices by providing customers with deferred payment plans that allowed payments to be spread over a number of months rather than paid in full at the time of billing. Under the various plans offered by the Applicants, service was not terminated to the individual customers as long as payment terms agreed to by the customers were being honored. In addition, each of the Applicants has a budget-billing program that is designed to allow customers to spread their bill payments over a one-year period. These programs were especially helpful to customers on fixed incomes and to other customers who had difficulty paying their bills.[1]

Nevertheless, according to the *Application*, "each of the companies experienced an unprecedented increase in the level of its bad-debt expenses in Tennessee."[2] Although it notes that each Applicant's tariff allows the recovery of a certain amount of uncollectible account expenses as part of the cost of service, the *Application* states that "the magnitude of the uncollectible accounts experienced by the Applicants during the 2000-2001 winter heating

[1] *Application*, pp. 3-4.

[2] *Id.*, p. 4. The Application states that "the total net write-offs attributable to uncollectible account expenses incurred by the Applicants are $1,572,202 for UCG, $1,505,000 for Nashville Gas and $1,397,938 for Chattanooga Gas." *Id.*, p. 5.

season and thereafter is far in excess of the amounts currently allowed for uncollectible account expenses in the respective tariffs."[3]

The *Application* goes on to state that "[u]nless the Authority grants appropriate relief, the applicants will be required to absorb substantial costs that will not be recovered in the currently allowed rates."[4] The *Application* adds that "[t]hese excessive expenses are obviously outside the norm and were not caused by the actions and/or inactions of the Applicants."[5] The *Application* states:

> The Applicants contend that it would be unfair to require them to absorb these costs when the excessive expenses arose in large part due to the Applicants' attempts to mitigate the impact on their customers by working out payment plans which were not honored by the customers. Furthermore, each of the Applicants can demonstrate that significant efforts were made to collect the delinquent accounts during the current year, and each of the Applicants will continue to diligently attempt to collect all delinquent accounts, which have been debited to the Unrecovered Purchased Gas Costs-Federal Energy Regulatory Commission Account No. 191 ("FERC Account No. 191"), and to credit the gas portion of the accounts previously written off to FERC Account No. 191 for the benefit of the ratepayers, the approval of which is sought in this Application.[6]

On this basis, the Applicants request that the Authority permit each of them "to defer pursuant to TRA Rule 1220-4-1-.12 and their respective tariffs under the PGA rider the difference between the gas cost portion of the actual net write-offs for each LDCs' [local distribution company] current fiscal period and the gas cost portion of uncollectible account expenses currently allowed in their base rates."[7] The *Application* further states the "gas cost recovery component on all amounts received on previously written off accounts will be credited

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[3] *Id.*
[4] *Id.*
[5] *Id.*
[6] *Id.*, p. 5.
[7] *Id.*, p. 6. The *Application* states that the fiscal years for United Cities and Chattanooga Gas end on September 30, 2001 and the fiscal year for Nashville Gas ends on October 31, 2001.

to the deferred gas accounts for the benefit of the ratepayers through December 31, 2002."[8] The *Application* states that the gas recovery component on collections will be calculated using the same percentage as that used in determining the amount of the uncollectible deferral. The *Application* states that the deferred gas accounts will be finally reconciled as of December 31, 2002 to reflect the net recovery after credits for payments received on the written-off accounts and the respective reconciliations will be included in each Applicant's first Actual Cost Adjustment audit filing after December 31, 2002.

Findings and Conclusions

At the February 6, 2001 Authority Conference, the Directors of the Authority discussed the issue of customer disconnection due to higher than normal residential gas bills and heard comments on this issue from representatives of the three major public utility gas companies in Tennessee, which are also the three Applicants in this proceeding. Although the Directors recognized that the three companies were not themselves responsible for the unusual increases in wholesale gas costs that occurred late in 2000, the Directors expressed concern that high gas bills might be causing an abnormally large number of residential customers to have gas service disconnected, including customers whose payment history had previously been good. The Directors noted, and the company representatives acknowledged, that each of the three companies had recently disconnected a much higher than normal number of customers for non-payment of the customers' gas bills. The company representatives described a number of unusual measures each company had taken to alleviate the burden of high gas bills, including extended payment periods, delayed disconnection, and the opportunity to enter into average payment plans at any time. The Directors asked the companies not to treat the situation in

[8] *Id.*, p. 7.

February 2001 as normal, to take unusual measures to avoid the harsh effects of high bills, and to be compassionate toward their residential customers who were facing unusual circumstances.

The Applicants have responded in a cooperative spirit to the TRA's request that they take steps to alleviate the burden of high gas bills which resulted from the unusual combination of high wholesale gas costs and lower than normal temperatures that occurred during the winter of 2000-2001. Despite their efforts, the Applicants have experienced record levels of bad debt. The Authority finds that it is appropriate under these extraordinary circumstances to allow the Applicants to defer the gas cost portion of their bad debt expense. This measure is consistent with the intent of Authority Rule 1220-4-7-.02, which allows for recovery of gas costs.[9] If the Authority does not allow recovery of the Applicants' bad debt expenses in this instance, the Applicants' reported earnings, their ability to raise capital at favorable rates, and their current level of service to their customers could be impaired. This measure should not be understood, however, to reflect the ongoing policy of the Authority, but is adopted for this one instance only in response to the extraordinary circumstances surrounding the winter of 2000-2001.

At the November 16, 2001 Authority Conference the Authority unanimously approved the Applicants' request to defer the gas portion of the excess of their bad debt expense for each Applicant's fiscal period ending in 2001 over the gas cost portion of uncollectible account expenses currently allowed in the Applicant's base rates. The Authority directed that this recovery take place through the actual cost adjustment mechanism. The Authority also directed the Applicants to revert to their normal tariff regulations by April 1, 2002, make reasonable efforts to reinstate disconnected customers, and inform the Authority of their respective progress

[9] Authority Rule 1220-4-7-.02(1) states: "These Purchased Gas Adjustment (PGA) Rules are intended to permit the company to recover, in timely fashion, the total cost of gas purchased for delivery to its customers and to assure that the Company does not over-collect or under-collect the Gas Costs from its customers."

granting reinstatement to customers or allowing customers to pay their past- due bills.

IT IS THEREFORE ORDERED THAT:

1. The *Second Amended and Restated Joint Application for Approval of Treatment of Uncollectible Accounts* filed by United Cities Gas Company, Nashville Gas Company, and Chattanooga Gas Company is approved.

2. Each of the Applicants is allowed to defer the gas portion of the excess of its bad debt expense for its fiscal period ending in 2001 over the gas cost portion of uncollectible account expenses currently allowed in the Applicant's base rates.

3. Such recovery shall take place through the actual cost adjustment mechanism.

4. Each Applicant shall revert to its normal tariff regulations by April 1, 2002.

5. Each Applicant shall make reasonable efforts to reinstate disconnected customers.

6. Each Applicant shall inform the Authority of its respective progress granting reinstatement to customers or allowing customers to pay back their bills

7. Any party aggrieved with the Authority's decision in this matter may file a Petition for Reconsideration with the Authority within fifteen (15) days from the date of this Order.

Sara Kyle

Sara Kyle, Chairman

Lynn Greer

H. Lynn Greer, Jr., Director

Melvin J. Malone, Director

ATTEST:

K. David Waddell

K. David Waddell, Executive Secretary

IN THE MATTER OF:
PETITION OF CHATTANOOGA GAS COMPANY,
NASHVILLE GAS COMPANY,
A DIVISION OF PIEDMONT NATURAL GAS
COMPANY, INC. , AND
UNITED CITIES GAS COMPANY FOR A REVISION
OF THE RULE RELATING TO PURCHASED GAS
ADJUSTMENTS
DOCKET NO. G-86-1

DISCOVERY REQUEST ITEM 5, ATTACHMENT 5
DOCKET NO. 03-00209

ATTACHMENT NO. 6

Chattanooga Gas Company
Docket 03-00209
Consumer Advocate and Protection Division of the Office of The Attorney General
Discovery Request Docket Issued July 28,2003
Discovery Request Item 5 Attachment A
Quarter.

4th 96

Count of ID	
Descr	Total
Administrative Assistant I	1
Coordinator,Construction	6
Crew Member I	2
Crew Member II(1)	4
Crew Member III(1)	7
Distribution Operator(1)	5
Field Meter Mechanic A	3
Field Meter Mechanic C	1
Field Service Rep A	20
Field Service Rep B	1
Field Service Rep C	1
Foreman,Crew	6
Foreman,Pressure Control	1
Inactive Employee	1
Manager,Chattanooga	1
Manager,Cleveland	1
Meter Reader	4
Office Assistant I	4
Office Assistant II	3
Operations Clerk	1
President,Chattanooga Gas	1
Stores Clerk I	1
Stores Clerk II	1
Supervisor,Distribution	1
Supervisor,Meter Reading	1
Supervisor,New Construction	1
Supervisor,Operations	1
Supervisor,Service	1
Welder	2
(blank)	
Grand Total	83

Chattanooga Gas Company
Docket 03-00209
Consumer Advocate and Protection Division of the Office of The Attorney General
Discovery Request Docket Issued July 28,2003
Discovery Request Item 5 Attachment A

8/21/2003

Count of 12168	
Coordinator,Office Assistant	Total
Assistant II,Office	4
Foreman,Crew	4
Manager,Chattanooga	1
Member I,Crew	1
Member II (1),Crew	1
Member III (1),Crew	2
Member III (2),Crew	1
Operator (1),Distribution	6
Operator,Dist Press Ctrl	2
Operator,LNG Plant	4
Reader,Meter	10
Rep A,Field Service	11
Rep,Major Accounts	1
Rep,New Business	1
Superintendent,LNG Plant	1
Supervisor,Distribution	1
Supervisor,Service	1
Technician,LNG	1
VP,CGC Operations	1
Welder	1
(blank)	
Grand Total	55

Chattanooga Gas Company
Docket 03-00209
Consumer Advocate and Protection Division of the Office of The Attorney General
Discovery Request Docket Issued July 28,2003
Discovery Request Item No. 5 Attachemnt B.

Calculated CGC Headcount								
	1996	1997	1998	1999	2000	2001	2002	2003
Jan		8	10	7	9	11	10	16
Feb		8	11	7	10	13	10	17
Mar		8	8	7	9	12	11	16
Apr		8	9	8	9	11	11	14
May		8	9	8	9	10	10	12
Jun		8	9	8	9	8	10	10
Jul		8	9	7	9	7	9	
Aug		9	8	6	9	7	9	
Sep		9	8	8	9	9	9	
Oct	8	9	7	8	10	10	10	
Nov	8	10	7	7	9	8	10	
Dec	8	11	7	7	9	8	12	

IN THE MATTER OF:
PETITION OF CHATTANOOGA GAS COMPANY, NASHVILLE GAS COMPANY, A DIVISION OF PIEDMONT NATURAL GAS COMPANY, INC. , AND UNITED CITIES GAS COMPANY FOR A REVISION OF THE RULE RELATING TO PURCHASED GAS ADJUSTMENTS
DOCKET NO. G-86-1

GAS OPERATING REVENUES AND EXPENSES

ATTACHMENT NO. 7

of Respondent Cities Gas Company	This Report is: (1) _X_ An Original (2) __ A Resubmission	Date of Report *(Mo, Da, Yr)* April 1, 1996	Year of Report Dec. 31, 1995

GAS OPERATING REVENUES AND EXPENSES

Particulars (a)	Tennessee Intra-state Operations (b)	Other Operations (c)	Total Operations (d)	Line
				1
				2
				3
				4
				5
				6
				7
OPERATING REVENUES				8
SALES OF GAS				9
ential Sales (480)	36,819,673	89,089,984	125,909,657	10
mercial and Industrial Sales (481)	58,701,052	68,713,142	127,414,194	11
r Sales to Public Authorities (482)	860,392	832,872	1,693,264	12
s for Resale (483)			0	13
departmental Sales (484)			0	14
er (Please Specify) Transportation	1,157,562	11,273,075	12,430,637	15
er (Please Specify)			0	16
Total Sales of Gas	97,538,679	169,909,073	267,447,752	17
				18
OTHER OPERATING REVENUES				19
feited Discounts (487)	373,306	236,516	609,822	20
scellaneous Service Revenues (488)	1,703,545	2,061,692	3,765,237	21
venues from Transporation of Gas of Others (489)		0	0	22
nt from Gas Property (493)		14,484	14,484	23
erdepartmental Rents (494)			0	24
her Gas Revenues (495)		22,495	22,495	25
her (Please Specify)			0	26
Total Other Operating Revenues	2,076,851	2,335,187	4,412,038	27
Total Operating Revenues (400)	99,615,530	172,244,260	271,859,790	28
				29
OPERATING EXPENSES				30
as Production Expenses (700-798)	423,185	445,608	868,793	31
rchased Gas Expenses (800-813)	54,039,588	100,950,971	154,990,559	32
Total Production Expenses	54,462,773	101,396,579	155,859,352	33
nderground Storage Expenses (814-837)	1,739,882	1,777,752	3,517,634	34
her Storage Expenses (840-848 3)		465,106	465,106	35
ransmission Expenses (850-867)	16,768	52,083	68,851	36
istribution Expenses (870-894)	4,138,103	10,686,439	14,824,542	37
ustomer Accounts Expenses (901-905)	2,680,669	7,549,341	10,230,010	38
ustomer Service Expenses (909-912)	303,479	604,098	907,576	39
ales Expenses (915-918)	1,280,101	1,242,982	2,523,083	40
dministrative and General Expenses (920-932)	10,315,789	22,290,915	32,606,704	41
Other (Please Specify)			0	42
Other (Please Specify)			0	43
Total Operation and Maintenance	74,937,564	146,065,294	221,002,859	44
Depreciation Expense (403)	6,354,440	7,999,162	14,353,602	45
Amortization and Depletion of Producing Natural Gas Land (404 1)	0	0	0	46
Amortization of Underground Storage Land (404.2)			0	47
Amortization of Other Limited-Term Utility Plant (404 3)	228,939	377,650	606,590	48
Amortization of Other Utility Plant (405)			0	49
Amortization of Utility Plant Acquisition Adjustments (406)		158,909	158,909	50
Amortization of Property Losses (407.1)			0	51
Amortization of Conversion Expenses (407.2)			0	52
Taxes Other than Income Taxes (408 1)	4,120,763	8,148,778	12,269,541	53
Income Taxes (409 1)	1,593,154	1,130,610	2,723,764	54
Provision for Deferred Income Taxes, Operating (410 1)	1,019,310	701,182	1,720,492	55
Income Taxes Deferred in Prior Years-Credit, Operating (411 1)	0		0	56
Investment Tax Credits, Deferred (412 1)			0	57
Investment Tax Credits, Restored (412.2)	(145,896)	(218,479)	(364,375)	58
Other (Please Specify)			0	59
Other (Please Specify)			0	60
Total Operating Expenses	88,108,277	164,363,106	252,471,383	61
Operating Income	11,507,253	7,881,154	19,388,407	62

Name of Respondent	This Report Is:	Date of Report	Year of Report
ATMOS ENERGY CORPORATION	(1) [X] An Original (2) [ ] A Resubmission	(Mo, Da, Yr)	Dec. 31, 2002

GAS OPERATION AND MAINTENANCE EXPENSES - TENNESSEE ONLY

Line No.	Account (a)	Amount for Current Year (b)	Amount for Previous Year (c)
235	904 Uncollectible Accounts	58,322	1,775,260
236	905 Miscellaneous Customer Accounts	0	(47)
237	TOTAL Customer Accounts Expenses (Enter Total of lines 232 thru 236)	432,816	2,138,411
238	6. CUSTOMER SERVICE AND INFORMATIONAL EXPENSES		
239	Operation		
240	907 Supervision	3,315	1,365
241	908 Customer Assistance Expenses	4,327	3,937
242	909 Informational and Instructional Expenses	29,098	38,687
243	910 Miscellaneous Customer Service and Informational Expenses	24	47
244	TOTAL Customer Service and Information Expenses (Lines 240 thru 243)	36,764	44,036
245	7. SALES EXPENSES		
246	Operation		
247	911 Supervision	3,802	209
248	912 Demonstration and Selling Expenses	19,168	9,617
249	913 Advertising Expenses	200	474
250	916 Miscellaneous Sales Expenses	41,519	1,092
251	TOTAL Sales Expenses (Enter Total of lines 247 thru 250)	64,689	11,392
252	8. ADMINISTRATIVE AND GENERAL EXPENSES		
253	Operation		
254	920 Administrative and General Salaries	23	0
255	921 Office Supplies and Expenses	2,049,928	13,491
256	(Less) (922) Administrative Expenses Transferred - Cr.	9,295,317	11,331,244
257	923 Outside Services Employed	233,678	432,884
258	924 Property Insurance	0	100
259	925 Injuries and Damages	1,465	993
260	926 Employee Pensions and Benefits	947,024	453,375
261	927 Franchise Requirements	0	0
262	928 Regulatory Commission Expenses	0	30,715
263	(Less) (929) Duplicate charges - Cr.	81	0
264	930 1 General Advertising Expenses	864	544
265	930.2 Miscellaneous General Expenses	42,578	24,881
266	931 Rents	301,546	103,144
267	TOTAL Operation (Enter Total of lines 254 thru 266)	12,872,504	12,391,371
268	Maintenance		
269	935 Maintenance of General Plant	0	0
270	TOTAL Administrative and General Exp (Total of lines 267 and 269)	12,872,504	12,391,371
271	TOTAL Gas O. and M Exp (Lines 97, 177, 201, 229, 237, 244, 251 and 270)	99,063,812	147,198,277

IN THE MATTER OF:
PETITION OF CHATTANOOGA GAS COMPANY,
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COMPANY, INC. , AND
UNITED CITIES GAS COMPANY FOR A REVISION
OF THE RULE RELATING TO PURCHASED GAS
ADJUSTMENTS
DOCKET NO. G-86-1

CHATTANOOGA GAS COMPANY
REVENUE CONVERSION FACTOR
FOR THE 12 MONTHS ENDING SEPTEMBER 30, 1998
TRA NO. 97-00982

ATTACHMENT NO. 8

TRA #97-00982
CA Exhibit
Schedule 14

Chattanooga Gas Company
Revenue Conversion Factor
For the 12 Months Ending September 30, 1998

Line No		Amount	Balance
1	Operating Revenues		1 000000
2	Forfeited Discounts	0 006837	0 006837
3	Balance		1 006837
4	Uncollectible Ratio	0 001952	0 001965
5	Balance		1 004872
6	State Excise Tax	0 060000	0 060292
7	Balance		0 944579
8	Federal Income Tax	0 350000	0 330603
9	Balance		0 613977
10	Revenue Conversion Factor (Line 1 / Line 9)		1 628727

Nashville Gas Company
Revenue Conversion Factor
For the 12 Months Ending October 31, 2004

Line No.		Amount		Balance
1	Operating Revenues			1.000000
2	Add. Forfeited Discounts	0.007435	A/	0.007435
3	Balance			1.007435
4	Uncollectible Ratio	0.004534	B/	0 004568
5	Balance			1.002867
6	State Excise Tax	0.060000	C/	0.060172
7	Balance			0.942695
8	Federal Income Tax	0.350000	C/	0 329943
9	Balance			0 612752
10	Revenue Conversion Factor (1 / Line 9)			1 631982

A/ Filing Guidelines Item 25, P. 42
B/ Filing Guidelines Item 25, P. 47 adjusted to include all uncollectibles ($2,132,710 / $470,411,854)
C/ Statutory rate

95-02258
CA Exhibit
Schedule 11

Atmos

United Cities Gas Company
Revenue Conversion Factor
For the 12 Months Ending November 30, 1996

Line No		Amount	Balance
1	Operating Revenues		1 000000
2	Forfeited Discounts	0 004266	0 004266
3	Balance		1 004266
4	Uncollectible Ratio	0 001237	0 001242
5	Balance		1 003024
6	State Excise Tax	0 060000	0 060181
7	Balance		0 942842
8	Federal Income Tax	0 350000	0 329995
9	Balance		0 612847
10	Revenue Conversion Factor (Line 1 / Line 9)		1 631727

IN THE MATTER OF:
PETITION OF CHATTANOOGA GAS COMPANY, NASHVILLE GAS COMPANY, A DIVISION OF PIEDMONT NATURAL GAS COMPANY, INC. , AND UNITED CITIES GAS COMPANY FOR A REVISION OF THE RULE RELATING TO PURCHASED GAS ADJUSTMENTS
DOCKET NO. G-86-1

OPERATING REVENUE ACCOUNTS

ATTACHMENT NO. 9

OPERATING REVENUE ACCOUNTS

1. SALES OF GAS

480. Residential Sales.

A. This account shall include the net billing for gas supplied for residential or domestic purposes.

B. Records shall be maintained so that the quantity of gas sold and the revenues received under each rate schedule shall be readily available.

Note.—When gas supplied through a single meter is used for both residential and commercial purposes, the total revenue shall be included in this account or account 481, Commercial and Industrial Sales, according to the rate schedule which is applied. If the same rate schedules are applicable to both residential and commercial service, classification shall be according to principal use.

481. Commercial and Industrial Sales.

A. This account shall include the net billing for gas supplied to commercial and industrial customers.

B. Records shall be maintained so that the quantity of gas sold and revenue received under each rate schedule shall be readily available.

C. Records shall be maintained so as to show separately the revenues from commercial and industrial customers, as follows:

Large Commercial and Industrial Sales

(Wherein shall be included the revenues from customers which use large volumes of gas, generally in excess of 200,000 Mcf per year or approximately 800 Mcf per day of normal requirements. Reasonable deviations are permissible in order that transfers of customers between the large and small classifications may be minimized.)

Small Commercial and Industrial Sales

(Wherein shall be included the revenues from customers which use volumes of gas generally less than 200,000 Mcf per year or