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BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE

April 13, 2004

IN RE:	)	
	)	
CHATTANOOGA GAS COMPANY	)	**Docket No. 03-00514**
INCENTIVE PLAN ACCOUNT (IPA) AUDIT	)	

NOTICE OF FILING BY 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 (hereafter "Energy and Water") hereby gives notice of its filing of the Chattanooga Gas Company Incentive Plan Account (hereafter "IPA") 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's (hereafter the "Company") IPA for the year ended June 30, 2003.

2. The Company's IPA filing was received on September 3, 2003, and the Staff completed its audit of same on March 26, 2003. The earlier 180-day statutory deadline of March 2, 2004 was extended to June 14, 2004 by mutual consent of the Authority Staff and the Company, as provided for in the Authority's Purchased Gas Adjustment Rule 1220-4-7-.03(2)

3. The Staff's audit revealed no material findings The Report is attached hereto as Exhibit A and is fully incorporated herein by this reference.

4. The Energy and Water Division hereby files its Report with the Tennessee Regulatory Authority for deposit as a public record and approval of the same.

Respectfully Submitted:

Pat Murphy

Pat Murphy
Energy and Water Division
Tennessee Regulatory Authority

CERTIFICATE OF SERVICE

I hereby certify that on this 13th day of April 2004, 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:

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

Mr. Archie Hickerson
Manager - Rates
Atlanta Gas Light Company
Location 1686
P O. Box 4569
Atlanta, GA 30302-4569

Pat Murphy
Pat Murphy

COMPLIANCE AUDIT REPORT
OF

CHATTANOOGA GAS COMPANY'S INCENTIVE PLAN ACCOUNT

Docket No. 03-00514

PREPARED BY

TENNESSEE REGULATORY AUTHORITY

ENERGY AND WATER DIVISION

APRIL 2004

EXHIBIT A

TENNESSEE REGULATORY AUTHORITY'S
COMPLIANCE AUDIT
of
CHATTANOOGA GAS COMPANY'S
INCENTIVE PLAN ACCOUNT
Docket No. 03-00514

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I. INTRODUCTION AND AUDIT OPINION

The subject of this compliance audit is the Performance Incentive Plan ("PBR," "Incentive Plan," or "IPA") of Chattanooga Gas Company (hereafter "Chattanooga Gas," "Chattanooga," or the "Company"). The audit objective was to determine whether the Company had complied with the terms of its IPA tariff as of June 30, 2003. After reviewing the Company's gas purchases activity, along with the applicable benchmark indexes each month, Staff found no material errors. Staff concludes that, during the plan year under review, the Company's gas purchases have met the criteria as specified in its tariff. Therefore, for the plan year ended June 30, 2003, the Company is released from the prudence audit requirements encompassed in the Purchased Gas Adjustment Rule ("PGA Rule") 1220-4-7-.05. Section III of this report further describes the actual results of the plan year

II. BACKGROUND AND DESCRIPTION OF PERFORMANCE INCENTIVE PLAN

On January 8, 2002, the Tennessee Regulatory Authority ("TRA" or "Authority") issued an Order in Docket Number 01-00619 approving a tariff to establish a performance-based ratemaking mechanism for Chattanooga Gas Company. The specific details of the mechanism are included in Chattanooga Gas' tariff entitled Performance-Based Ratemaking, which was issued on January 25, 2002, and was effective September 11, 2001.[1] A copy of this tariff is attached to the report as Attachment 1.

The tariff differs from traditional incentive plans in that the Company does not share in any profits or losses experienced when comparing its actual gas cost purchases against a predetermined benchmark. The "incentive" in Chattanooga Gas's case is a waiver of the prudence audit of gas purchases as required under the TRA's Purchased Gas Adjustment Rule.[2] The terms under which the prudence audit will be waived is found in the section Prudence Determination of the tariff.

> "If Chattanooga's total commodity gas cost for the plan year does not exceed the total benchmark amount by one percentage point (1%) for a plan year ending after June 30, 2000, Chattanooga's gas cost will be deemed prudent and the audit required by Tennessee Regulatory Authority's Administrative Rule 1220-4-7-.05 is waived. If during any month of the plan year, the Company's commodity gas cost exceeds the benchmark amount by greater than two percentage points (2%), the Company shall file a report with the Authority fully explaining why the cost exceeded the benchmark."

[1] September 11, 2001 was the date of the Authority Conference during which the Directors voted to approve the Company's tariff petition with certain modifications

[2] TRA Rule 1220-4-7-05

The Incentive Plan automatically rolls over for an additional plan year on each July 1st, and continues until the Incentive Plan is either (a) terminated at the end of a plan year by not less than 90 days notice to the TRA by Chattanooga Gas or (b) modified, amended or terminated by the TRA.

III. ACTUAL PLAN YEAR RESULTS

On September 3, 2003, Chattanooga Gas filed its annual report as specified in its tariff, showing its actual cost of gas purchased and the applicable benchmark index for each month of the plan year ending June 30, 2003. The Staff reviewed applicable gas cost invoices and other supporting documentation supplied by the Company to verify whether the Company met the criteria necessary to be released from the requirements of the prudence audit. Below is a table summarizing the Company's monthly purchases as compared to the established benchmark

Month	Actual Purchase Cost	Benchmark Cost	Percentage Over/(Under) Benchmark
July 2002	$1,424,510	$1,439,894	-1.07%
August 2002	604,295	604,295	0.00%
September 2002	3,151,744	3,157,173	-0.18%
October 2002	4,028,411	4,046,263	-0.44%
November 2002	3,159,226	3,164,992	-0.18%
December 2002	5,358,525	5,369,781	-0.21%
January 2003	6,175,803	6,173,666	+0.03%
February 2003	6,977,061	7,061,370	-1.19%
March 2003	3,766,555	3,724,855	+1.12%
April 2003	2,683,643	2,689,344	-0.21%
May 2003	1,524,396	1,524,466	-0.01%
June 2003	5,221,608	5,220,924	+0.01%
Annual Cost	**44,075,777**	**44,177,020**	**-0.23%**

In every month except three (3), the Company was able to purchase gas at or below the predetermined benchmark for the month Total purchases for the year were 0.23 % below the total annual benchmark. Therefore, Chattanooga Gas has satisfied the criteria as set forth in its tariff and is released from the prudence audit for the plan year ended June 30, 2003.

IV. IPA FINDINGS

After reviewing the Company's filing, the Staff concluded that there were no material findings.[3]

V. JURISDICTION OF THE TENNESSEE REGULATORY AUTHORITY

Tennessee Code Annotated (hereafter "T C.A.") gave jurisdiction and control over public utilities to the Tennessee Regulatory Authority. T.C.A. § 65-4-104 states.

> The Authority has general supervisory and regulatory power, jurisdiction, and control over all public utilities, and also over their property, property rights, facilities, and franchises, so far as may be necessary for the purpose of carrying out the provisions of this chapter.

Further, T.C.A. § 65-4-105 grants the same power to the Authority with reference to all public utilities within its jurisdiction as chapters 3 and 5 of Title 65 of the T.C.A. has conferred on the Department of Transportation's oversight of the railroads or the Department of Safety's oversight of transportation companies. By virtue of T.C.A. § 65-3-108, said power includes the right to audit:

> The department is given full power to examine the books and papers of the said companies, and to examine, under oath, the officers, agents, and employees of said companies...to procure the necessary information to intelligently and justly discharge their duties and carry out the provisions of this chapter and chapter 5 of this title.

The Authority's Energy and Water Division is responsible for auditing those companies under the Division's jurisdiction to insure that each company is abiding by the rules and regulations of the TRA This audit was performed by Pat Murphy of the Energy and Water Division.

[3] The audit goal is not to guarantee that the Company's results are 100% correct Where it is appropriate, Staff utilizes sampling techniques to determine whether the Company's calculations are materially correct Material discrepancies would dictate a broadening of the scope of Staff's review

Performance-Based Ratemaking

Applicability

This Performance-Based Ratemaking Mechanism (PBRM) is designed to encourage the utility to maximize its gas purchasing activities at minimum cost consistent with efficient operations and service reliability Each plan year will begin July 1. The annual provision and filings herein will apply to this annual period. The PBRM will continue until it is either (a) terminated at the end of a plan year or by not less than 90 days notice by the Company to the Authority or (b) modified, amended or terminated by the Authority.

Overview of Structure

The Performance-Based Ratemaking Mechanism establishes predefined monthly benchmark indexes to which the Company's commodity cost is compared. This PBRM does not modify the method of calculating the Purchased Gas Adjustment as set forth in TRA Rule 1220-4-7 or provide for any sharing of gas cost in excess of the benchmark or savings when gas is purchased below the benchmark.

Benchmark Index

Each month, Chattanooga will compare its actual commodity cost of gas to the appropriate benchmark amount. The benchmark gas cost will be computed by multiplying actual purchase quantities for the month, including quantities purchased for injection into storage, by the appropriate benchmark price index

Spot Market Purchases:

The monthly spot market benchmark is the "Index" price published in the first issue of the delivery month of *Inside FERC's Gas Market Report* in the table titled "Price of Spot Gas Delivered to Pipelines," denoted in the column labeled "Index" and the row for the applicable "Pricing Point."

Swing Purchases

For swing purchases, the benchmark " Index" price for gas delivered on any day upon which *Gas Daily* is published, is equal to the Gas Daily-Midpoint price for the immediately following day under the heading "Daily Price Survey." For gas delivered on Saturday, Sunday, or any other day upon which *Gas Daily* is not published, the price index is equal to the Daily-Midpoint for the nearest subsequent day published by *Gas Daily*

Long-term purchases

For long term purchases, i e , a term more than one month, the "Index" price published in the first issue of the delivery month of *Inside FERC's Gas Market Report* in the table titled "Price of Spot Gas Delivered to Pipelines" denoted in the column labeled "Index" and the row for the applicable "Pricing Point" will be adjusted for the Company's rolling three-year average premium paid to ensure long-term supply availability during peak periods.

City Gate Purchases

For city gate purchases where gas is delivered by the supplier to the local distribution company, the indexes will be adjusted for the avoided transportation costs that would have been paid if the upstream capacity were purchased versus the demand charges actually paid to the supplier

Performance-Based Ratemaking (Continued)

Prudence Determination

If Chattanooga's total commodity gas cost for the plan year does not exceed the total benchmark amount by one percentage point (1%) for a plan year ending after June 30, 2000, Chattanooga's gas cost will be deemed prudent and the audit required by Tennessee Regulatory Authority's Administrative Rule 1220-4-7-. 05 is waived. If during any month of the plan year, the Company's commodity gas cost exceed the benchmark amount by greater than two percentage points (2%), the Company shall file a report with the Authority fully explaining why the cost exceeded the benchmark.

Filing with the Authority

The Company will file an annual report not later than 60 days following the end of each plan year identifying the actual cost of gas purchased and the applicable index for each month of the plan year.

Unless the Authority provides written notification to the Company within 180 days of such reports, the annual filing shall be deemed in compliance with the provisions of this Service Schedule.

Periodic Index Revisions

Because of changes in the natural gas marketplace, the price indices used by Chattanooga, and the composition of Chattanooga's purchased gas portfolio may change. The Company shall, within 30 days of identifying a change to a significant component of the mechanism, provide notice of such change to the Authority Unless the Authority provides written notice to Chattanooga within 30 days of the Company's notice to the Authority, the price indices shall be deemed approved as proposed by the Company.