

STATE OF TENNESSEE

Office of the Attorney General



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T.R.A. DOCKET ROOM

ANDY D BENNETT
CHIEF DEPUTY ATTORNEY GENERAL

LUCY HONEY HAYNES
ASSOCIATE CHIEF DEPUTY
ATTORNEY GENERAL

PAUL G SUMMERS
ATTORNEY GENERAL AND REPORTER

MAILING ADDRESS
P.O. BOX 20207
NASHVILLE, TN 37202

MICHAEL E MOORE
SOLICITOR GENERAL

CORDELL HULL AND JOHN SEVIER
STATE OFFICE BUILDINGS

TELEPHONE 615-741-3491
FACSIMILE 615-741-2009

Reply to:
Consumer Advocate and Protection Division
Post Office Box 20207
Nashville, TN 37202

August 9, 2004

Honorable Pat Miller
Chairman
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, Tennessee 37243

**IN RE: Petition of Chattanooga Gas Company for Approval of Adjustment of its Rates,
Charges, and Revised Tariff
Docket 04-00034**

Dear Chairman Tate:

Enclosed is an original and thirteen copies of the Consumer Advocate and Protection Division's Reply to Supplemental Data Requests of Chattanooga Gas Company in regard to Docket No. 04-00034. No attachments, however, are being filed or served on any party except Chattanooga Gas. Please file same in this docket. Copies are being sent to all parties of record.

Should you have any questions, please contact me at (615) 741-8700. Thank you.

Sincerely,

Vance Broemel
Vance Broemel
Assistant Attorney General

CC: All Parties of Record.

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LATE FILED

**IN THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE**

IN RE:)	
)	
PETITION OF CHATTANOOGA GAS)	
COMPANY FOR APPROVAL OF)	DOCKET NO. 04-00034
ADJUSTMENT OF ITS RATES AND)	
CHARGES)	

**CONSUMER ADVOCATE AND PROTECTION DIVISION'S
RESPONSES TO CHATTANOOGA GAS COMPANY'S SUPPLEMENTAL
DISCOVERY REQUESTS**

Comes now Paul G. Summers, Attorney General and Reporter for the State of Tennessee, through the Consumer Advocate and Protection Division of the Office of the Attorney General ("CAPD" or "Consumer Advocate"), pursuant to Rule 26.05 of the Tennessee Rules of Civil Procedure, and hereby submits the following responses to the supplemental discovery requests propounded by Chattanooga Gas Company (CGC).

With regard to all "Revised Discovery" requests, the Consumer Advocate restates and incorporates herein all applicable objections.

SUPPLEMENTAL RESPONSES

Revised Discovery Item # 1

On page 8 at lines 15-17 of his prefiled testimony Mr. McCormac states: "As shown on Exhibit CAPD-DM, Schedule 8, Line 1, reducing the number of employees back to a reasonable level will reduce the salaries and wages expense by \$302,000 or by about 10% of CGC's projection."

Provide detailed supporting documentation of the CAPD's determination of the "reasonable level" employees and the resulting of \$302,000 reduction in salaries and wage expense proposed by Mr.

McCormac.

RESPONSE #1 (Revised):

Mr. McCormac did not determine a "reasonable level" of employees. He stated that "Mr. Chrysler testifies as to why CGC's proposed increase is unwarranted." He also stated that "CGC projected the cost of salaries and wages to increase by 16%. This projection appears to be unreasonable when compared to recent events which have shown decreases in employment levels as discussed in Michael Chrysler's testimony. CGC's proposed increase in employee levels is not supported by the evidence in the record." CGC's filing in this case has not supported the large increase in expenses for salaries and wages.

Discovery Item # 6 Revised.

Produce a copy of all documents or things relied upon or prepared by the witness in reaching conclusions or opinions in this matter. (See transcript of May 10, 2004 conference page 59.)

RESPONSE #6 (Revised):

First, the Consumer Advocate objects to this request to the extent it seeks any information covered by the attorney work-product doctrine and attorney-client privilege. Furthermore, this request is unduly burdensome and vague, particularly with regard to the meaning of "prepared." Without waiving these objections, the CAPD would state that the documents relied upon by the witnesses in their pre-filed testimony are attached to their testimony and/or are in the public domain; in the case of Dr. Brown there are certain additional materials that may be responsive to this request. Accordingly, in the case of Dr. Brown, see attached items (2 discs) marked "REVISED #6." Specifically provide copies of all documents utilized or relied up in reaching the following conclusion or opinions:

Refer to Mr. Chrysler's prefiled testimony page 5, lines 6 and 7.

Provide each and every document or other thing supporting Mr. Chrysler's assertion that Chattanooga Gas Company's employee levels remained constant **"until preparing for this case."**

RESPONSE #6 (Revised):

Mike Morley testimony at page 10; Exhibit MDC EL 1 & 2; CGC response to CAPD Data Request No. 5, 3-00209, which includes 4th Quarter & Credit and Collections Allocated Employees.

Refer to Dr. Brown's testimony, page 6, lines 1 and 2.

Provide each and every document or other thing supporting Dr. Brown's assertion that "AGL Resources' financial reporting procedures are inaccurate with respect to the equity return of CGC.

Refer to Dr. Brown's testimony, page 52, lines 20 and 21

Provide each and every document or other evidence supporting the "\$2 million decline in revenues by the end of May 2003."

RESPONSE #6 (Revised):

Refer to AGL Resources filings: SEC Form 8-K filing of November 7, 2002; SEC Form 8-K filing of November 18, 2003; SEC Forms U-13-60 filings of May 2003 and May 2004; SEC Forms U-9C-3 quarterly filings for 2003 and 2004, VSCC filing of July 15, 2003 Docket PUE-2002-00237 "Weather Normalization Adjustment Experimental Program Annual Report." Except for the U-9C-3 filings and U-13-60 filings, copies are in the Discs provided.

Discovery Revised # 7

Produce a copy of all factual information utilized or relied upon by all witness in reaching

conclusions or formulating an opinion in this matter. (See transcript of May 10, 2004 conference page 59.)

RESPONSE #7 (Revised):

First, the Consumer Advocate objects to this request to the extent it seeks any information covered by the attorney work-product doctrine and attorney-client privilege. Furthermore, this request is unduly burdensome and vague, particularly with regard to the meaning of “utilized.” Without waiving these objections, the CAPD would state that the “factual information” and documents relied upon by the witnesses in their pre-filed testimony are attached to their testimony and/or are in the public domain; in the case of Dr. Brown there are certain additional materials that may be responsive to this request. Accordingly, in the case of Dr. Brown, see attached items (2 discs) marked “REVISED #6.

Specifically provide all factual information utilized or relied up in reaching the following conclusion or opinions:

Refer to Mr. Chrylser’s prefiled testimony page 5, lines 6 and 7.

Provide all factual information utilized or relied upon by Mr. Chrysler in asserting that Chattanooga Gas Company’s employee levels remained constant “**until preparing for this case.**”

RESPONSE #7 (Revised):

See RESPONSE #6 (Revised).

Refer to Dr. Brown’s testimony, page 6, lines 1 and 2 .

Provide all factual information utilized or relied upon by Dr. Brown in asserting that “AGL Resources’ financial reporting procedures are inaccurate with respect to the

equity return of CGC.

RESPONSE #7 (Revised):

See RESPONSE #6 (Revised).

Refer to Dr. Brown's testimony, page 52, lines 20 and 21

Provide all factual information utilized or relied upon by Dr. Brown in asserting

"VNG has a \$2 million decline in revenues by the end of May 2003."

RESPONSE #7 (Revised): See RESPONSE #6 (Revised).

Discovery Item 9 Revised:

Please provide copies of the articles published in Public Utilities Fortnightly mentioned on page 2 of Dr. Brown's testimony, and copies or summaries of any book, monograph, or article Dr. Brown has published in academic finance journals subject to peer review in the last five years dealing with the subject of corporate finance, investments, and regulation.

RESPONSE #9 (Revised): Dr. Brown has not written any articles for journals subject to peer review in the last five years. The articles mentioned on page 2 of Dr. Brown's testimony are attached.

Discovery Item 10 Revised

Admit or deny that the Consumer Advocate and Protection Division surveyed, had a survey conducted, and/or received complaints from the customers of Chattanooga Gas Company? If admit, please provide the results of such survey(s) and/or number and nature of complaints received.

RESPONSE #10 (Revised):

The CAPD admits that it did not conduct any surveys and that it has not received consumer complaints.

Discovery Item 17

(a) Identify Dr. Brown's recommended capital structure and the costs rates for each component of the capital structure in each non-telephone rate case in which Dr. Brown has testified in the last five years and identify the common equity ratio, return on equity adopted by the regulatory agency in each case.

RESPONSE #17a:

This information is in the public domain and readily available to the company at:

See TRA Docket 03-00118 Tennessee-American Water Co. at the TRAs' web site:

<http://www.state.tn.us/tra/orders/2003/0300118bm.pdf>

Case was settled.

See TRA Docket 03-00313 Nashville Gas Co. at the TRAs' web site:

<http://www.state.tn.us/tra/orders/2003/0300313z.pdf>

Case was settled.

(b) For each case identified in (a) provide the prevailing yield on long-term U.S. Treasury bonds at the time Dr. Brown prepared his testimony.

RESPONSE #17b:

The CAPD objects to this request on the grounds that this information is equally available to the company and is in the public domain. In addition, this request is unduly burdensome.

Discovery Item 18

Provide a list and describe all college-level finance (corporate finance, investments, banking, regulation, etc.) courses Dr. Brown has taught in the last five years or is currently teaching, include the syllabus for these courses, and a list of textbooks/readings used in these courses. If

unavailable for the last five years, provide such information and the year taught for the last five courses last taught.

RESPONSE #18:

None.

Discovery Item 19

Please provide the currently authorized return on equity for each of the regulated companies used in Dr. Brown's sample group.

RESPONSE #19:

The CAPD objects to this request on the grounds that this information is equally available to the company and is in the public domain. In addition, this request is unduly burdensome.

Discovery Item 20

If Dr. Brown's recommended cost of common equity does not assume the maintenance of the company's existing capital, please state Dr. Brown's recommended ROE under both the company's existing capital structure and his recommended capital structure.

RESPONSE #20:

The CAPD objects to this request on the ground that the phrase "maintenance of the company's existing capital" is vague and undefined. Furthermore, the request is not likely to lead to the discovery of admissible evidence. Without waiving these objections the CAPD would state that Dr. Brown's recommended ROE under both the company's existing capital structure and his recommended capital structure covers the Company's cost of capital.

Discovery Item 21

If there are any investor-owned regulated utilities in North America with an allowed rate of

return on common equity that is equal to, or less than, what Mr. Brown recommends in this proceeding, please identify each such utility.

RESPONSE #21:

The CAPD objects to this request in that it is not likely to lead to the discovery of admissible evidence and this information is clearly as equally available to CGC as it is to the CAPD, but, without waiving this objection, would state that preliminary research shows the following:

Chazy & Westport Telephone Corp., 8.01%, NY PUC Lexis 475

W.V.P.S.C. Case No. 03-0353-W-42T, West Virginia-American Water Works, January 2, 2004, 7%.

Discovery Item 22

Is it Mr. Brown's opinion that natural gas distribution utility stocks have outperformed or underperformed the overall equity market in the last two years. Please provide any supporting evidence.

RESPONSE #22:

Dr. Brown has not formed an opinion nor performed a study of whether the gas distribution utility stocks have outperformed or underperformed the overall equity market in the last two years.

Discovery Item 23

Is it Mr. Brown's contention that natural gas distribution utility stocks have become more risky, less risky, or as risky as in the past?

RESPONSE #23:

Dr. Brown makes no contentions. In his expert testimony, Dr. Brown has not opined that gas

distribution utility stocks are more risky or less risky now than they were in the past. However, his review of betas of some gas utility stocks is in his testimony.

Discovery Item 24

If it is Mr. Brown's position that the parent-subsidary relationship influences the cost of capital, explain how it is influenced.

RESPONSE #24:

Refer to Dr. Brown's direct testimony, pages 19-124.

Discovery Item 25

Please restate the debt ratios shown on CAPD Exhibit SB___Schedule 3 without the inclusion of short-term debt.

RESPONSE #25:

The CAPD objects to this request on the grounds that it is unduly burdensome and that the company is equally capable of performing the calculations.

Discovery Item 26

Provide the computational details for each beta estimate shown on Exhibit ____ CAPD-SB Schedule 28.

In the details explain over what period were each of the betas measured; the market index that was employed, and the holding period returns that were used (daily, weekly, monthly)? If these betas are unadjusted, please provide the adjusted betas.

RESPONSE #26:

See Disc #2 provided and relevant testimony.

Discovery Item 27

Admit or deny that Dr. Brown reviewed Chattanooga Gas Company's responses to TRA Minimum Filing Guideline No. 80 filed February 9, 2004 or TRA data request ECON No. 2, filed May 6, 2004 prior to the completion of his direct testimony July 19, 2004?

RESPONSE #27:

The CAPD objects to this request on the grounds that it is not likely to lead to the discovery of admissible evidence and attorney work product doctrine.

Discovery Item 28

Refer to page 3, lines 7 and 8 of Dr. Brown's confidential testimony. Dr. Brown asserts that "CGC suffered a loss of \$800,000 in its dealings with Sequent." To what account or type of account on the books and records of CGC does Dr. Brown, or any other employee of the Consumer Advocate Protection Division, purport this "loss" was charged.

RESPONSE #28:

Dr. Brown did not identify the "loss" as being recorded in accounts on CGC's books and records.

Discovery Item 29

Admit or deny that, during the past 10 years, the Consumer Advocate and Protection Division has participated in a rate case in which the utility is/was a subsidiary of a parent Company subject to the provisions of the Public Utility Holding Company Act of 1935 (PUHCA). As used here the current case involving Chattanooga Gas Company is excluded.

RESPONSE #29:

The CAPD objects to this request on the ground that it does not seek information likely to lead to the discovery of admissible evidence. Without waiving this objection, the CAPD would state the following response: Admit.

Discovery Item 30

On page 4 beginning at line 92 Mr. McGriff states: “Finally, contrary to the Company’ s assertion (that without the separate tracker to recover the cost of the program, Chattanooga Gas Company would be required to file for annual rate relief), the cost and duration of the proposed program is “known and measurable” and could readily be incorporate into rates being determined in the present case.”

Provide any and all analysis that Mr. McGriff prepared or had prepared under his supervision that identify the “known and measurable” cost referenced by Mr. McGriff and show that rates can be implemented in this rate case that will allow the revenue requirement of the remaining nine years of the program to be recovered without subsequent rate increases.

RESPONSE #30:

Though no analysis was prepared specifically for this case, the statement “...the cost and duration of the proposed program is ‘known and measurable’ and could readily be incorporated into rates being determined in the present case ” was based on the fact that, between the years 1989 and 1997, the Atlanta Gas Light Company replaced an average of 60 miles of cast iron and bare steel pipe per year, without a separate rider or annual rate case.

Discovery Item 31

Identify by regulatory jurisdiction, docket number and date each rate proceeding in which Mr. McGriff has testified during the last five years.

RESPONSE #31:

Mr. McGriff has not testified in any rate proceeding in the last five years.

Discovery Item 32

In Dr. Brown's testimony, he includes numerous documents obtained from external sources to support his positions. These documents include, but are not limited to, filings by Virginia Natural Gas (VNG) with the Virginia State Corporation Commission (VSCC) and filings by AGL Resources Inc. (AGLR) with the SEC.

Provide any and all other filings by VNG with the VSCC and by AGLR with the SEC that were reviewed and/or analyzed while preparing for this proceeding, regardless of whether or not they were used to support Mr. Brown's assertions in his testimony.

RESPONSE #32:

See Response to #6 and #7

Discovery Item 33

Provide complete details of the \$500,000 of "other" costs, including the type and nature of the costs referenced by Mr. McCormac on page 13, lines 21-24 of his testimony.

RESPONSE #33:

See McCormac testimony on page 13, line 11 and line 20. The illustration is of an assumed transaction and refers to Exhibit CAPD-DM, Schedule 14. Schedule 14 shows examples of the type of costs that would not be "gross profits" such as some storage costs like LNG facilities and associated depreciation, maintenance, taxes and return on investment; reservation fees and demand charges. We do not know what these costs are because CGC has not reported those costs. If CGC would cooperate and answer our inquiries, we would like to find out what the actual costs are.

Discovery Item 34

Admit or deny that under the treatment of gain from non-jurisdictional transactions proposed by

Mr. McCormac CGC's base rates would be reduced by approximately \$2,374,000 annually even if no such transactions occur in future years.

RESPONSE #34:

Admit. However, Mr. McCormac's testimony states that any cost recovery above (or below) the \$2.4 million level should be credited to consumers through the PGA as stated on Page 16, lines 4-5 of Mr. McCormac's testimony. Therefore, under the hypothetical question posed, the 2.4 million base rate credit would be offset by a 2.4 million PGA surcharge and the total rate reduction would be \$0.

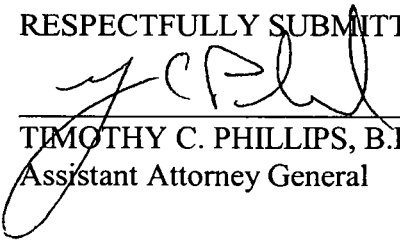
Discovery Item 35

Identify by docket any case in which the CAPD has taken a position either for or against the LifeLine or LinkUp programs provided by telephone companies that provide service in Tennessee.

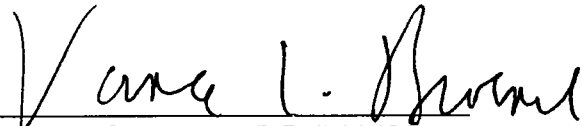
RESPONSE #35:

In general, the CAPD supports Lifeline and LinkUp programs. The current staff of the CAPD does not recall any case in which Lifeline or LinkUp were subject to a "for or against" proceeding. The participation of the CAPD of the TRA is a matter of public record that CGC is welcome to research themselves.

RESPECTFULLY SUBMITTED,



TIMOTHY C. PHILLIPS, B.P.R. # 012751
Assistant Attorney General



VANCE L. BROEMEL, B.P.R.# 11421
Assistant Attorney General
Office of the Attorney General
Consumer Advocate and Protection Division
P.O. Box 20207
Nashville, Tennessee 37202
(615) 741-3533

Dated: August 9, 2004

CERTIFICATE OF SERVICE

I hereby certify that a true and exact copy of the foregoing has been served via the methods indicated on this 9th day of August, 2004, to the following:

Via first-class U.S. mail, postage prepaid:

Dale Grimes
c/o Dale Grimes
Bass, Berry & Sims
AmSouth Center
315 Deaderick Street, Suite 2700
Nashville, TN 37238-3001

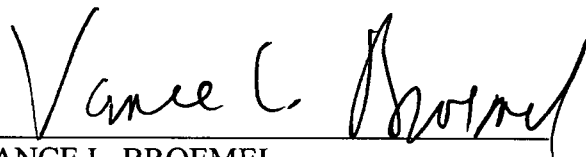
Chattanooga Gas Company
c/o Archie Hickerson
AGL Resources, Location 1686
P.O. Box 4569
Atlanta, GA 30302-4569

Henry Walker, Esq.
Boult Cummings, et al.
414 Union Street, #1600
Nashville, TN 37219-8062

Richard Collier, Esq.
General Counsel
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, Tennessee 37243-0505

Via hand delivery:

D. Billye Sanders, Esq.
Waller, Lansden, Dortch & Davis, PLLC
511 Union Street, Suite 2100
Nashville, TN 37219-1760


VANCE L. BROEMEL
Assistant Attorney General