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Chattanooga Gas
Virginia Natural Gas
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November 4, 2004

Chairman Pat Miller
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37243-0505

Dear Chairman Pat Miller:

Today, Chattanooga Gas Company ("CGC") is filing a Motion for Reconsideration with the TRA regarding the recent Order (the "Order") issued for Docket No. 04-00034 (Petition of Chattanooga Gas Company for Approval of Adjustments of its rates and charges and revised tariff). I would like to take this opportunity to explain our concerns regarding the decision.

This motion specifically addresses the issues of capital structure, return on equity, and the corresponding rate of return. CGC believes the low rate of return adopted in the Order fails to provide the Company a just and reasonable return which will enable it to maintain its financial integrity, attract capital, and compensate investors for the assumed risk. The low rate of return resulted in large part by the derivation of a capital structure for CGC which is inconsistent with the Authority's stated methodology and is legally infirm. This material error is compounded by the extremely low return on equity selected by the Authority.

During the proceeding, the Company recommended that the Authority adopt a "stand alone" approach which would have utilized CGC's own capital structure. The Authority rejected the use of CGC's capital structure and instead decided to use the capital structure of CGC's parent AGL Resources, Inc. ("AGLR"). In its Order, the TRA states that the capital structure is based on AGLR's capital structure *and* is consistent with a prior CGC case, i.e., TRA Docket No. 97-00982 and other previous decisions of the Tennessee Public Service Commission ("TPSC"). However, a review of the record and those cases reveal the capital structure adopted in the Order is in fact neither.

Plainly, the capital structure adopted in the Order is not AGLR's current capital structure, nor is it the capital structure AGLR had at the time of the Order. More significantly, it is not the capital structure reasonably expected to be in place during the attrition period ending June 30, 2005, which would be consistent with the Authority's stated methodology. In fact, the adopted capital structure does not appear on the exhibit cited in the Order as the source of "AGLR's" capital structure and no explanation is provided as to how it was derived. No party to the proceeding, proposed the adopted capital structure and as a result CGC was never given an opportunity to provide a response to the adopted capital structure during the case.

In addition, the capital structure is not consistent with the methodology used in the last CGC rate proceeding (TRA Docket No. 97-00982) While the capital structure of the parent was indeed used in the 1997 case, it was the capital structure for the attrition period, which was forward looking. It appears that the capital structure developed in this case was derived using historical information which is inconsistent with previous decisions. The adopted capital structure is so out of line that it falls outside of the range of all four components (short-term, long-term debt, preferred stock and equity) proposed by the CAPD and the Company. Because of these inconsistencies and errors, CGC is respectfully requesting that the Authority reconsider its decision and, at a minimum, modify the capital structure to be consistent with the Authority's stated methodology.

In regard to the equity return, the adopted rate fails to provide a fair rate of return based on the relevant legal standards. Further, the decision is out of line with recent gas utility rate decisions. Nationally, of the seven gas utility rate decisions reached prior to the CGC case, only one falls below the 10.20% adopted by the TRA with the remaining six (6) decisions all being higher. In fact, four of the seven were awarded equity returns between 10.90% and 12.00%. These returns are consistent with the 11.25% equity return requested by CGC in this proceeding and the Company respectfully requests the Authority modify its Order to set the equity return at 11.25%

Finally, CGC respectfully requests the TRA give careful consideration to this motion. The adopted Order resulted in one of the lowest rates of return in the country and CGC does not believe that the Authority intended such a result. The Company is hopeful that the errors and inconsistencies identified in the Petition can be addressed appropriately during reconsideration.

Sincerely,

Steven L. Lindsey

Steven L. Lindsey
Vice President
Chattanooga Gas

c: Director Sara Kyle
Director Deborah Taylor Tate
Parties of Record