

BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

April 24, 2006

IN RE:

SUMMARY OF THE TRANSACTIONS IN
CHATTANOOGA GAS COMPANY'S DEFERRED
GAS COST ACCOUNT FOR THE TWELVE MONTHS
ENDED JUNE 30, 2004 AND THE COMPUTATION OF
ACA FACTOR EFFECTIVE JANUARY 1, 2005

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) DOCKET NO.
) 04-00402
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CHATTANOOGA GAS COMPANY'S REPORT OF
ACTUAL GAS COST AND THE APPLICABLE INDEX
COST FOR EACH MONTH OF THE PLAN YEAR
ENDED JUNE 30, 2004

) DOCKET NO.
) 04-00403
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ORDER APPROVING TARIFF

This matter came before Chairman Ron Jones, Director Pat Miller and Director Sara Kyle of the Tennessee Regulatory Authority (the "Authority"), the voting panel assigned to this docket, at the regularly scheduled Authority Conference held on January 23, 2006 for consideration of the revision to Chattanooga Gas Company's Performance-Based Ratemaking Tariff ("Revised Tariff") filed by Chattanooga Gas Company ("CGC" or the "Company") on December 29, 2005.

BACKGROUND

CGC submitted its Actual Cost Adjustment (ACA) filing on November 15, 2004, and the TRA Audit Staff ("Staff") completed its audit of the Company's filing on August 25, 2005. On August 29, 2005, the Staff issued preliminary ACA audit findings to CGC, and the Company responded to the findings on September 6, 2005. The Staff filed its *Compliance Audit Report of the Actual Cost Adjustment Component of the Purchased Gas Adjustment Rule and Performance-Based Ratemaking Tariff for Chattanooga Gas Company* ("Report") with the Authority on September 9,

2005. CGC filed a response with the Authority on October 7, 2005. The Report contained four findings and four recommendations. The Staff recommendations included: (1) that the TRA should adopt a set of affiliate rules for CGC in order to ensure affiliate transactions are appropriate and do not harm ratepayers; and (2) that the TRA should require the Company, going forward, to place all contracts out for bid using the request for proposal ("RFP") process. The recommendation states that this requirement should be enforced at the end of the current term of all affiliate agreements currently in place.

The Company objected to the Staff's recommendations to adopt affiliate rules for CGC and to require the Company to place all contracts out for bid using the RFP process. The Company argued that its current affiliate arrangement provides protections for its customers that exceed any potential benefits from affiliate rules, such as a bidding requirement. According to CGC, an open bidding process will not ensure that ratepayers will receive greater benefits than the Company has achieved under the current asset management agreement.

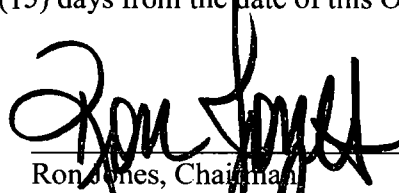
At a regularly scheduled Authority Conference held on November 7, 2005, the panel voted unanimously to accept the audit findings as submitted. The panel voted unanimously to require CGC to submit to the TRA proposed guidelines for affiliate transactions to deter the risk of preferential treatment of an affiliate over a non-affiliate. These affiliate guidelines were ordered to be submitted by the Company as part of its performance-based ratemaking tariff no later than December 29, 2005. The panel also voted unanimously to require CGC to place all future asset management contracts out for bid using the RFP process and to uphold the findings in Docket No. 03-00516 requiring CGC to submit any asset management contract to the TRA for approval prior to the commencement of the agreement. On December 29, 2005, CGC filed the Revised Tariff to add guidelines for affiliate transactions to become effective February 1, 2006.


JANUARY 23, 2006 AUTHORITY CONFERENCE

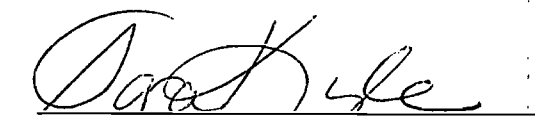
At the regularly scheduled Authority Conference held on January 23, 2006, the voting panel assigned to this docket considered the Revised Tariff. The panel expressed concern that the Company had not fully responded to the Authority's directions regarding the guidelines for affiliate transactions. The panel clarified that the Company's tariff should include guidelines for securing an asset manager through an RFP process and a procedure for transactions that will ensure that an affiliate is not given preferential treatment over a non-affiliate. The Company agreed to submit a tariff amendment by March 15, 2006 and agreed that the amendment would be subject to further review by the Authority. The panel then voted to approve the Revised Tariff as submitted, subject to review of the tariff amendment the Company agreed to file.

IT IS THEREFORE ORDERED THAT:

1. The Revised Tariff submitted by Chattanooga Gas Company on December 29, 2005 is approved.
2. Chattanooga Gas Company is required to submit a tariff amendment consistent with this Order to the Authority no later than March 15, 2006.
3. Any party aggrieved by 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.


Ron Jones, Chairman


Pat Miller, Director


Sara Kyle, Director