

BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

July 21, 2006

IN RE:)	
)	
SUMMARY OF THE TRANSACTIONS IN)	DOCKET NO.
CHATTANOOGA GAS COMPANY'S DEFERRED)	04-00402
GAS COST ACCOUNT FOR THE TWELVE)	
MONTHS ENDED JUNE 30, 2004 AND THE)	
COMPUTATION OF ACA FACTOR EFFECTIVE)	
JANUARY 1, 2005)	
)	
CHATTANOOGA GAS COMPANY'S REPORT OF)	DOCKET NO.
ACTUAL GAS COST AND THE APPLICABLE)	04-00403
INDEX COST FOR EACH MONTH OF THE PLAN)	
YEAR ENDED JUNE 30, 2004)	

**TRA STAFF RESPONSE TO CHATTANOOGA GAS COMPANY'S PROPOSED
REVISION TO GAS TARIFF NO. 1 TO ADD RFP PROCEDURES FOR
SELECTION OF ASSET MANAGER AND/OR GAS PROVIDER**

The TRA Staff of the Utilities Division ("the Staff"), as a party to the above named dockets,¹ submits the following comments in response to the July 17, 2006 filing by Chattanooga Gas Company ("CGC" or the "Company") of a proposed revised Gas Tariff No. 1 PERFORMANCE-BASED RATEMAKING ("PBR tariff") to include RFP Procedures for the selection of an Asset Manager and/or Gas Provider. The purpose of this response is to provide the Authority with additional information relevant to the approval of the revised tariff in this docket.

¹ The Panel assigned to Docket Nos. 04-00402 and 04-00403 unanimously voted to convene contested cases at the regularly scheduled Authority Conference held on June 27, 2005.

BACKGROUND

At the November 7, 2005 Authority Conference, the panel of Directors in these dockets voted to require the Company to file proposed guidelines for affiliate transactions as part of its PBR tariff by December 29, 2005. The Directors also voted to require the Company to place future asset management arrangements out for bid using an RFP process and reminded the Company that all future asset management contracts must be brought before the TRA for approval prior to the effective date.

On December 29, 2005, CGC filed a revised PBR tariff that included proposed affiliate guidelines. The proposed tariff revision came before the panel for its consideration at the January 23, 2006 Authority Conference. The panel expressed its concern that the tariff revision did not include RFP procedures for placing future asset management arrangements out for bid. Based on the Company's assertion that it would submit a further revision to include RFP procedures, the panel voted to approve the tariff as filed and re-address the tariff upon the Company's subsequent filing. CGC filed a newly revised tariff to include RFP procedures on July 17, 2006.

DISCUSSION

The panel directed Staff to meet with the Company for the purpose of drafting proposed RFP procedures. To that end, representatives of the Company met with Staff at the TRA on June 27, 2006. Resulting from this discussion are the procedures included in the Company's latest tariff revision filed on July 17. Staff is in agreement with these procedures as filed.

Staff would like to offer, however, additional information that the Authority may want to consider in reaching a decision whether or not to approve the proposed tariff

revision as filed. Under the current asset management contract between CGC and its affiliate Sequent Energy Management (“SEM”), SEM manages CGC’s assets and remits to CGC 50% of net margin realized from all transactions with non-jurisdictional customers using CGC’s assets.² Under the provisions of CGC’s Interruptible Margin Credit Rider (“IMCR”), this *payment* is received by CGC and CGC, under the current asset management agreement, in turn refunds 100% of this payment to CGC’s firm customers. In other words, the customers get the benefit of 100% of CGC’s share of net margin resulting from the asset management arrangement with SEM.

Since the asset manager in this case is an affiliate of CGC, both SEM and CGC have the same stockholders. Therefore, the stockholders in common receive 50% of profits and customers receive 50% of profits. No monies are withheld at the utility level. The IMCR, as it relates to the asset management function, is predicated on SEM being the asset manager.

The current PBR tariff contains no sharing provision for gas procurement, capacity release, or asset management activities. What the PBR tariff does is set a benchmark, whereby CGC may avoid a prudence audit by an outside consultant, if gas purchases meet certain requirements with respect to that benchmark. However, the stockholders of AGL can still benefit from 50% of the profits under the asset management agreement by means of the IMCR tariff.

Under the open bid process, the possibility exists that an unrelated third party could become the asset manager at some point. Payments made by a third party asset manager to CGC could be a flat rate amount or based on some sharing scenario. The

² The contract specifies that this payment to CGC is made in accordance with CGC’s Interruptible Margin Credit Rider (“IMCR”) and refunded in full to CGC’s firm customers.

Authority should be aware that under the language of the current IMCR tariff it appears that CGC could keep up to 50% of any payment received from a third party asset manager for the benefit of its stockholders.³ While customers currently receive 100% of any payment made by the asset manager for the use of assets they have paid for, under a third party agreement customers would receive only 50% of those payments.

CONCLUSION

Staff agrees with the RFP procedures included in the Company's revised PBR tariff. Staff believes that under the PBR tariff and the IMCR tariff, a third party asset manager, all things being equal, would have to offer a bid with twice the value as SEM in order for the customers to receive the same dollar benefit. Staff also believes that the proposed procedures would allow the Company the flexibility to ascertain which bid would generate the greatest benefit to its customers and reasonably reward its stockholders. CGC, under direction from the Authority, must now submit its proposed asset management agreements to the TRA for prior approval. This should provide additional safeguards for the consumers.

Respectfully submitted,



Aaron Rochelle
Counsel for TRA Staff
460 James Robertson Pkwy.
Nashville, TN 37243
(615) 741-3191 x. 203

³ This payment represents the value a potential asset manager places on the assets owned by CGC. It is the equivalent of the 50% of net margin that SEM pays CGC (the value SEM places on those same assets).

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing was served as indicated on the person or persons listed below on_____.

- ☐ Hand Delivery
- ☐ First Class Mail
- ☐ Facsimile
- ☐ E-mail

J. W. Luna
Farmer & Luna
Counsel for Chattanooga Gas Company
333 Union Street
Suite 300
Nashville, TN 37201


Aaron Rochelle