BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

December 5, 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	)	**DOCKET NO. 04-00402**
	)	
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**

ORDER ADOPTING TARIFF REVISIONS

This matter came before Chairman Sara Kyle, Director Pat Miller and Director Ron Jones of the Tennessee Regulatory Authority (the "TRA" or "Authority"), the voting panel assigned to this docket, at a regularly scheduled Authority Conference held on August 23, 2006 for consideration for approval of the tariff revisions filed subsequent to the *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"). The panel previously considered the Report, prepared by the TRA's Utility Division ("Audit Staff"), at a regularly scheduled Authority Conference held on November 7, 2005. The panel voted unanimously to accept the audit findings as submitted and to require Chattanooga Gas Company ("CGC" or "Company") 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 to be submitted by the Company as part of its performance-based ratemaking tariff no later than December 29, 2005.[1]

A revised tariff was considered by the panel at the January 23, 2006 Authority Conference. The panel expressed concern that the proposed affiliate guidelines did not sufficiently cover certain affiliate transactions and clarified that the Company's tariff should include guidelines for securing an asset manager through an RFP procedure that will ensure an affiliate is not given preferential treatment over a non-affiliate.[2]

Pursuant to the panel's directions, the RFP procedures submitted by CGC in the current tariff revision require the Company to develop a written proposal, advertise that proposal for thirty (30) days, evaluate only written, on-time bids, and maintain all RFP documents for four (4) years. In addition, the guidelines set forth the total value of the bidder's asset management qualifications and experience, and the bidder's financial stability and strength as minimum criteria for evaluating the RFP bids.[3]

On July 21, 2006, Audit Staff filed a response concurring with the proposed RFP procedures. Audit Staff also explains that currently CGC refunds 100% of the profits earned from its asset management agreement with its affiliate to ratepayers, although the Interruptible Margin Credit Rider ("IMCR") tariff allows the Company to retain 50% of those profits. Audit Staff notes that CGC would likely opt to retain 50% of asset management fees if an agreement is signed with a third party and that the application of the IMCR tariff should be taken into account by the Authority when approving future asset management agreements.[4]

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[1] *Order Approving Tariff*, pp. 1-2 (April 24, 2006).
[2] *Id.* at 3.
[3] *Proposed Tariff Revisions*, pp. 4-5 (July 17, 2006).
[4] *TRA Staff Response to Chattanooga Gas' Proposed Revision to Gas Tariff No. 1 to Add RFP Procedures for Selection of Asset Manager and/or Gas Provider*, pp. 3-4 (July 21, 2006).

After considering the Report and subsequent tariff revisions at the August 23, 2006 Authority Conference, the voting panel approved and adopted the tariff revisions as discussed above.

IT IS THEREFORE ORDERED THAT:

The tariff revisions filed subsequent to the *Compliance Audit Report of the Actual Cost Adjustment Component of the Purchased Gas Adjustment Rule and Performance-Based Ratemaking Tariff for Chattanooga Gas Company* are approved.

Sara Kyle, Chairman

Pat Miller, Director

Ron Jones, Director