increase except that Kingsport Power, Air Products, KPUA and Staff agree that (1) the agreed-to $4,625,000 rate increase consists of a $4,920,871 pass-through of an increase in purchased power expense and a decrease of $295,871 for local operations and (2) the base rate increase of $4,625,000 was determined using a 10.7% overall rate of return and a 12% return on equity.

2. Kingsport Power, Air Products, KPUA and Staff agree that the portion of the increase in base rates attributable to the base purchased power expense increase from Appalachian Power Company ("APCo") shall be passed through, subject to refund, pending a final order from the Federal Energy Regulatory Commission ("FERC") in APCo's Docket No. ER92-324-000. Upon issuance of a final FERC order in Docket No. ER92-324-000, the base purchased power expense increase allowed in this Agreement, which is in excess of the base purchased power increase ultimately determined by the FERC, shall be refunded by means of a negative surcharge. It is further agreed that the refund shall apply only to amounts collected by Kingsport Power subsequent to the adoption of this Agreement by this Commission and that, following a final FERC order in Docket No. ER92-324-000, Kingsport Power will file revised tariffs designed to reflect, on a prospective basis, the decrease in its base purchased power expense determined pursuant to the final FERC order.

3. Any refund applicable to the FERC's final order in APCo's Docket No. ER90-133-000, which covers the period between August 4, 1990 and September 14, 1992, shall be made in accordance

with the Settlement Agreement approved by the Commission's December 27, 1990 Order in Docket No. 90-05735.

4. The revenue increase is agreed to be allocated according to the attached schedule.

5. The tariff changes summarized in Exhibit____(LRJ-6) are agreed to. In addition, the following new and revised tariffs are also agreed to:

Tariff	Rate Design Modification
RS (Residential Electric Service), RS-E (Residential Electric Service - Employee)	Introduce storage water heating provision.
RS-TOD (Residential Time-of-Day Electric Service)	Introduce new tariff for general use time differentiated service. Limit availability to the first 250 customers.
SGS (Small General Service)	Introduce energy storage provision.
MGS-TOD (Medium General Service Time-of-Day)	Introduce new time-of-day (TOD) general use tariff for secondary service customers with demands over 10 KW but less than 150 KW. Limit availability to first 100 customers.
LGS (Large General Service)	Revise minimum billing demand provision to be 60% of the greater of (a) the customer's contract capacity, (b) the customer's highest previously established monthly billing demand during the past 11 months or (c) 100 KVA. Revise Term of Contract provision to require contracts for customers with annual average demands over 500 KW with contract requirements at the company's option for customers with demands of 500 KW or less; waive initial term provision for existing customers

	expanding service, but not requiring additional facilities; require initial period of one year with six months' notice to discontinue service.
IP (Industrial Power)	Revise Demand Measurement provision to establish the minimum monthly billing demand to be 60% of the greater of (a) the customer's contract capacity or (b) the customer's highest previously established monthly billing demand during the past 11 months. In no event shall the monthly billing demand be less than 3,000 KW.

6. The agreed-to base rates reflect Other Postretirement Employee Benefits ("OPEB") expense on a pay-as-you-go basis. The parties have agreed that Kingsport will be authorized to defer, as a regulatory asset, OPEB expense calculated in accordance with Statement of Financial Accounting Standards ("SFAS") No. 106, in excess of pay-as-you-go levels. Also, the parties have agreed that Kingsport Power will be authorized to defer the 1990 Voluntary Employees' Beneficiary Association ("VEBA") contribution and the accrual of deferred earnings on that contribution pending recovery and inclusion of the unrecovered balance in rate base. A generic proceeding will be initiated no later than the first quarter of 1993 to determine the manner in which the SFAS 106 costs will be treated for ratemaking purposes. In that proceeding, the Commission will decide whether an amount in excess of the current pay-as-you-go basis may be recovered.

7. This Settlement Agreement contemplates a full settlement of this proceeding.

8. The making of this Settlement Agreement shall not be deemed in any respect to constitute any precedent for the future or an admission by any party hereto that any computations, formula, allegations or contentions made by any other party in these proceedings is true or valid. Moreover, this Settlement Agreement establishes no principles and shall not be deemed to foreclose any party from making any contention in any future proceeding or investigation.

9. If this Settlement Agreement is not approved in its entirety by the Commission, without additions, deletions or revisions, then it shall be null and void in all respects, it shall be deemed withdrawn, it shall not constitute any part of the record in this proceeding and it shall not be used by any party for any purpose whatsoever. This Agreement shall be submitted to the Administrative Law Judge at Kingsport, Tennessee, on October 28, 1992, at which time all pre-filed testimony and exhibits will be introduced into the record. In the event that this Settlement Agreement is not so approved by the Commission, the parties reserve the right to continue litigating the issues in this proceeding, for ultimate determination by the Commission.

10. The parties to this Settlement Agreement will not appeal, challenge or contest an Order of the Commission that accepts and approves this Settlement Agreement without modification.

11. The parties have arrived at this Settlement Agreement after full and fair consideration of all the evidence filed in this proceeding, as well as the positions of the various parties as to

the technical issues raised in this proceeding. It is the further position of the parties that the Commission's approval of this Settlement Agreement will promote the public interest, will result in rates which are just and reasonable during the term of this Agreement, will aid the expeditious conclusion of this proceeding, and will minimize the additional time and expense which otherwise would have to be devoted to this matter by the Commission and the parties.

12. It is the understanding of the parties that this agreement is to be considered by the Commission at the scheduled Commission conference on November 3, 1992 or, if the conference is cancelled or rescheduled, then no later than November 6, 1992. The agreed upon rate increase will become effective on the date of the Commission's order, for service rendered on and after that date.

IN WITNESS WHEREOF, the parties hereto have affixed their signatures.

KINGSPORT POWER COMPANY
("Kingsport Power")

Dated: 10/29/92

By: T. Arthur Scott, Jr.

THE STAFF OF THE TENNESSEE PUBLIC
SERVICE COMMISSION ("Staff")

Dated: 10/29/92

By:

AIR PRODUCTS AND CHEMICALS, INC.
("Air Products")

Dated: 10/29/92

By: Daniel R. Loftus

KINGSPORT POWER USERS ASSOCIATION
("KPUA")

Dated: 10/29/92

By: ______________________

ssl/HSTAS/1692

KINGSPORT POWER COMPANY

Allocation of Purchased Power

and Local Increases

Twelve Months Ended December 31, 1991

Class	Going-Level Revenue Less Purchased Power	Purchased Power Pass Through	Going-Level Revenue	Purchased Power % Increase	Local Increase	Total Increase	Total % Increase
(1)	(2)	(3)	(4)=(2+3)	(5)=(3/2)	(6)	(7)=(3+6)	(8)=(7/2)
Residential Service (RS)	31,302,534	1,970,978	33,273,512	6.30	114,000	2,084,978	6.66
Small General Service (SGS)	1,028,767	38,827	1,067,594	3.77	28,635	67,462	6.56
Medium General Service (MGS)	4,187,001	190,646	4,377,647	4.55	70,260	260,906	6.23
Electric Heating General (EHG)	1,998,755	101,118	2,099,873	5.06	33,702	134,820	6.75
Church Service (CS)	404,176	18,652	422,828	4.61	6,786	25,438	6.29
Public Schools (PS)	1,608,200	110,250	1,718,450	6.86	0	110,250	6.86
Large General Service (LGS)	11,470,147	690,627	12,160,774	6.02	158,134	848,761	7.40
Industrial Power (IP)	24,326,731	1,794,203	26,120,934	7.38	(724,970)	1,069,233	4.40
Outdoor Lighting (OL)	444,107	5,570	449,677	1.25	17,582	23,152	5.21
Total Excluding SL	76,770,418	4,920,871	81,691,289	6.41	(295,871)	4,625,000	6.02
Street Lighting (SL)	371,542	0	371,542	0.00	0	0	0.00
Total Including SL	77,141,960	4,920,871	82,062,831	6.38	(295,871)	4,625,000	6.00

TENNESSEE PUBLIC SERVICE COMMISSION
460 JAMES ROBERTSON PARKWAY
NASHVILLE, TENNESSEE 37243-0505

Acl

STEVE HEWLETT, CHAIRMAN
FRANK COCHRAN, COMMISSIONER
KEITH BISSELL, COMMISSIONER

PAUL ALLEN, EXECUTIVE DIRECTOR
HENRY M. WALKER, GENERAL COUNSEL

TRANSMITTAL LETTER

I HAVE ATTACHED A COPY OF A RECENT COMMISSION ORDER WHICH IS BEING SENT TO PARTIES OF RECORD AND/OR OTHER INTERESTED PARTIES.

Paul Allen

PAUL ALLEN
EXECUTIVE DIRECTOR

BEFORE THE TENNESSEE PUBLIC SERVICE COMMISSION
Nashville, Tennessee

OCTOBER 13, 1992

IN RE: MOTION OF KINGSPORT POWER COMPANY FOR AN EMERGENCY RATE INCREASE

DOCKET NO. 92-04425

ORDER

This matter is before the Tennessee Public Service Commission upon the motion of Kingsport Power Company for an emergency rate increase pursuant to T.C.A. §65-5-203(b)(2). The Commission considered this matter at its conference held on September 21, 1992 and September 29, 1992.

Kingsport Power Company has asked the Commission to grant an emergency rate increase allowing the Company to recover the increase in the cost of power from Appalachian Power.

Appalachian Power, on September 15, 1992, raised the cost of power to Kingsport Power, subject to refund. Kingsport Power has claimed that the increase will cost approximately 5 million dollars over the next year. /1 Tariffs designed to recover these increased power costs are presently pending before the Commission in Kingsport Power's ongoing rate case.

/1 The Company's estimated cost of power from Appalachian Power is determined by the FERC, which has not made a final determination of the cost. The actual cost of power to the Company may, in fact, be significantly less than the Company's projection, depending on the decision in Appalachian Power's rate case before the FERC. Appalachian Power only requested that the FERC grant an increase of $3.9 million.

Under the rate case deadline, Kingsport Power will have new rates in place on November 30, 1992. These rates will account for the increased power costs. The present issue is whether Kingsport Power needs an emergency rate increase to cover the increased expense incurred between now and November 30, 1992. The Company has estimated the cost to be about $973,000 over the next 2 months.

Studies done by the Accounting Staff show that Kingsport Power clearly does not need the requested emergency rate increase to recover the estimated $973,000. As of July, 1992, Kingsport Power has a large revenue surplus and is over-earning over a million dollars over the 11.2% rate of return on capital which the Company has requested in its pending rate case. /2. Therefore, even without the requested emergency rate increase, the Company will still have a revenue surplus and will still be earning well over its requested 11.2% rate of return.

The Company has also claimed that some maintenance programs will be threatened if the emergency increase is not granted. Again, even if the Company's estimates are correct, the emergency increase is not warranted: using the Company's own unverified estimates of maintenance and purchased power expenses over the next

----

/2 The 11.2% requested by the Company does not necessarily represent a "just and reasonable" rate as determined by the Commission based on past cases, the return fixed by the Commission is normally less than the Company's requested return.

2 months, the Company, with revenues of over $74 million, will still have a revenue surplus.

Furthermore, the Accounting Staff has estimated that rates will increase 6-7% for a sixty day period if the emergency increase is granted. On November 30, 1992, the rates will likely be reduced in light of the carrier's excess earnings. This "yo-yo" effect is likely to cause confusion and uncertainty among Kingsport's customers.

To grant the Company's request, the Commission must find that "an emergency exists or that the utility's credit or operations will be materially impaired or damaged by the failure to permit..." the emergency rate increase. T.C.A. §65-5-203(b)(2). The Company clearly has not met that burden of proof. To the extent that the Company has provided documentation of maintenance expenses, the Staff has included them in its analysis for the pending rate case. In light of the Company's present earnings, Kingsport has not shown that the Company's credit or operations will be materially damaged or impaired by the failure to grant the sixty-day increase.

IT IS THEREFORE ORDERED:

1. That the above-referenced motion for an emergency rate increase is denied.

2. That any party aggrieved with the Commission's decision in this matter may file a Petition for Reconsideration with the

Commission within ten (10) days from and after the date of this Order; and

3. That any party aggrieved with the Commission's decision in this matter has the right of judicial review by filing a Petition for Review in the Tennessee Court of Appeals, Middle Section, within thirty (30) days from and after the date of this Order.

CHAIRMAN

COMMISSIONER

COMMISSIONER

ATTEST:

EXECUTIVE DIRECTOR

BEFORE THE TENNESSEE PUBLIC SERVICE COMMISSION
Nashville, Tennessee
FEBRUARY 7, 1992

IN RE: EARNINGS OF CONCORD TELEPHONE EXCHANGE
DOCKET NO. 91-9063

EARNINGS OF TELLICO TELEPHONE COMPANY
DOCKET NO. 91-9061

EARNINGS OF TENNESSEE TELEPHONE COMPANY
DOCKET NO. 91-9062

ORDER

This matter is before the Tennessee Public Service Commission (Commission) on its own motion and was considered at a regularly scheduled Commission conference on February 4, 1992. The Commission has the continuing obligation to supervise the earnings of public utilities under its general supervision, regulation and jurisdiction as set out in T.C.A. sections 65-4-104 and 65-5-201.

The Commission Staff (Staff) has conducted its earnings review of Concord Telephone Exchange, Tellico Telephone Company and Tennessee Telephone Company (the Companies) and has had an exchange of information and conferences with officials of the Companies. All three companies are owned by TDS Telecom, a subsidiary of Telephone and Data Systems, Incorporated (TDS) of Chicago, Illinois. As a result of these conferences and a review of the attrition period earnings of the Companies by the Staff, an agreement has been reached by the Companies and the Staff as to an appropriate level of its earnings for the attrition period January 1, 1992, through December 31, 1993, and a method to keep the Companies earnings at a fair and reasonable return for that period.

The Staff and the Companies have agreed on the appropriate revenues, expenses and rate base as described in Attachment I and have agreed that these proceedings should be consolidated for purposes of this Order. This investigation was conducted in keeping with the Commission's Regulatory Reform Plan Docket No. 90-06170.

The Staff has filed a memorandum dated January 22, 1992, setting out the agreement between the Companies and the Staff. See Attachment II. This memorandum is made a part of the record in this cause and states that the Staff proposed and the Companies agreed to reduce earnings by $371,495 for the attrition period. The reduction in earnings will be accomplished through setting aside the $371,495 of revenue requirement for the implementation of new technology. The technology deployment schedule for the Companies is outlined in Attachment III.

While the exact revenue requirement of the new technology is not known, we direct the Company to defer the $371,495 from the attrition period and establish a Deferred Revenue Account. To insure that expenditures for new technology are in addition to, and not in lieu of, the Company's actual expenditures for budgeted projects, the Company is directed to file a report at the end of the attrition period showing a comparison between the original budget and the Company's actual expenditures for budgeted projects. The report should explain any material deviation between the budget and funds actually spent during the test period. The accounting procedures reflected in Attachment IV assure that the disposition of the deferred revenue will appropriately flow revenues and costs back into the income stream and allow the Company an opportunity to earn its targeted rate of return. The distribution of the remaining revenues will earn interest in the deferred revenue account during the attrition period and may be used to fund additional construction and/or exogenous items as outlined in the small local exchange company regulatory reform plan.

The Commission further approves effective January 1, 1992, depreciation rates and amortization of the depreciation reserve deficiency for the retired Concord and Mt. Juliet central offices over the three year period 1992-1994 as shown on Attachment V.

IT IS THEREFORE ORDERED:

1. That the Companies shall change depreciation rates per Attachment V; and amortize the depreciation reserve deficiency for the retired Concord and Mt. Juliet central offices over the three year period 1992-1994 per Attachment V;

2. That the Company shall establish a Deferred Revenue Account of $371,495 for the deployment of new technology and may be used to fund additional construction and/or exogenous items as defined in the small local exchange company regulatory reform plan. The Deferred Revenue Account will be subject to the accounting outlined in this order;

3. That any party aggrieved with the Commission's decision in this matter may file a Petition for Reconsideration with the

Commission within ten (10) days from and after the date of this Order;

4. That any party aggrieved with the Commission's decision in this matter has the right of judicial review by filing a Petition for Review in the Tennessee Court of Appeals, Middle Section, within thirty (30) days from and after the date of this Order.

CHAIRMAN

COMMISSIONER

ATTEST

EXECUTIVE DIRECTOR

COMMISSIONER

Attachment I

TDS TELECOM
TENNESSEE COMPANIES *
STAFF FORECAST
EXCESS REVENUES

LINE		12 MONTHS ENDING 12/31/92	12 MONTHS ENDING 12/31/93	TOTAL
1	Local Service Revenues	$ 15,211,430	$ 15,972,840	$ 31,184,070
2	Network Access	7,312,093	7,707,010	15,019,103
3	Long Distance	4,200,580	4,392,134	8,592,714
4	Miscellaneous	1,711,052	1,881,888	3,572,940
5	Uncollectibles	(54,878)	(57,896)	(112,574)
6	Total Operating Revenues	$ 28,380,277	$ 29,875,976	$ 58,256,253
7	Operations and Maintenance	$ 13,029,351	$ 13,579,610	$ 26,608,961
8	Depreciation & Amortization	6,585,113	7,008,165	13,593,278
9	Other Operating Taxes	1,366,728	1,461,156	2,827,884
10	Federal Income Taxes	1,665,653	1,803,497	3,469,150
11	Total Operating Expenses	$ 22,646,845	$ 23,852,428	$ 46,499,273
12	Net Operating Income	$ 5,733,432	$ 6,023,548	$ 11,756,980
	Other Adjustments			
13	Intercompany Profit	$ 73,860	$ 77,184	$ 151,044
14	Int on Cust Dep, Net of Taxes	(11,698)	(12,278)	(23,976)
15	Inside Wire Operations NOI	154,945	162,976	317,921
16	Parent Tax Savings	205,638	209,896	415,534
17	Adjusted Net Operating Income	$ 6,156,177	$ 6,461,326	$ 12,617,503
18	Rate Base	$ 56,829,910	$ 57,985,802	$ 114,815,712
19	Rate of Return	10.83%	11.14%	10.99%
20	Fair Rate of Return	10.79%	10.79%	10.79%
21	Excess Net Operating Income	$ 25,356	$ 204,729	$ 230,085
22	Gross Revenue Conversion Factor	1.6078	1.6154	1.6146
23	Excess Revenue	$ 40,768	$ 330,727	$ 371,495

* EXCLUDES HUMPHREYS COUNTY

TENNESSEE PUBLIC SERVICE COMMISSION

460 JAMES ROBERTSON PARKWAY
NASHVILLE, TENNESSEE 37243-0505

STEVE HEWLETT, CHAIRMAN
FRANK COCHRAN, COMMISSIONER
KEITH BISSELL, COMMISSIONER

PAUL ALLEN, EXECUTIVE DIRECTOR
HENRY M. WALKER, GENERAL COUNS

MEMORANDUM

TO: Steve Hewlett, Chairman
Frank Cochran, Commissioner
Keith Bissell, Commissioner

FROM: Whitfield Burcham, Director WB
Accounting Division

DATE: January 22, 1992

SUBJECT: Earnings Review for Concord Telephone Exchange, Tennessee Telephone Company and Tellico Telephone Company (TDS Telecom)

As a result of our earnings review, the Staff has reached an agreement with the TDS Telecom subsidiaries; Concord, Tennessee and Tellico telephone companies for the earnings period January 1, 1992 to December 31, 1993. The agreement includes the following:

(A) Reduce earnings by $371,495 for the earnings period. Appendix A.

1. Set aside the $371,495 for implementation of new technology through a deferred revenue account. The deferred revenue will provide the following technology:

    a. SS-7 (CLASS) service for all exchanges by December 31, 1993.

    b. ISDN deployment for the Mt. Juliet exchange by December 31, 1993.

    There will be an actual cost accounting of all technology expenditures drawn from deferred revenues. Any remaining funds will earn interest in the deferred revenue account during the forecast period and may be used to fund additional construction and/or exogenous items as outlined in the small local exchange company regulatory reform plan.

(B) Amortize the depreciation reserve deficiency for the retired Concord and Mt. Juliet central offices over the three year period 1992-1994.

(C) Set a target return on equity of 14.34% for the surveillance report of Concord, Tellico, and Tennessee during 1992 and 1993.

(D) Adopt Concord, Tellico, and Tennessee Telephone companies' depreciation rates as set forth in Appendix B.

Currently, the Staff is investigating Humphreys County Telephone Company, also a TDS Telecom subsidiary, for the earnings period April 1, 1992 to December 31, 1993. If this investigation is not complete by April 1, 1992, the Company and the Staff have agreed that any adjustment in earnings will be effective April 1, 1992.

I request that this item be placed on the Commission Conference agenda for Tuesday, February 4, 1992.

Attachments

TDS TELECOM
CONCORD, TELLICO and TENNESSEE TELEPHONE COMPANIES
FYI DEPLOYMENT SCHEDULE

Company/ Exchange	SS7/CLASS COMPLETION 1/	ANTICIPATED ISDN 2/	SCHEDULED FYI ISDN
Concord	1992	1994	1996
Tellico			
Tellico Plains	1993	1995	1994
Ball Play	1993	1995	1994
Coker Creek	1993	1995	1998
Vonore	1993	1994	1997
Englewood	1993	1995	1996
Niota	1993	1995	1997
Riceville	1993	1995	1999
Tennessee			
Halls Crossroads	1992	1994	1998
Cornersville	1993*	1995	1997
Lavergne	1992	1994	1998
Mt. Juliet	1992	1993*	1993
Waynesboro	1993*	1994	1994
Clifton	1993*	1994	1997
Collinwood	1993*	1994	1994
Parsons/Darden	1993	1994	1994
Bruceton	1993*	1995	1994
Decaturville	1993*	1995	1995
Linden	1993*	1995	1994
Lobelville	1993*	1995	1995
Scotts Hill	1993*	1995	1994
Sardis	1993*	1995	1998

* Revenue Requirement associated with technology Investment is to be applied against the Deferred Revenue account.

1/ SS7 deployment dates may vary due to availablilty of connecting Company.

2/ ISDN deployment dates may vary due to availability from manufacturers.

TDS TELECOM
CONCORD, TELLICO and TENNESSEE TELEPHONE COMPANIES
FIBER DEPLOYMENT SCHEDULE TO CONNECTING COMPANIES

Company/ Exchange	Fiber Deployment
Concord	Complete
Tellico	
Tellico Plains	1992
Ball Play 1/	1992
Coker Creek 1/	1992
Vonore	1992
Englewood	1992
Niota 2/	1992
Riceville 2/	1992
Tennessee	
Halls Crossroads	1992
Cornersville	1993
Lavergne	Complete
Mt. Juliet	1992
Waynesboro	1993
Clifton 3/	1993
Collinwood 3/	1993
Parsons/Darden	1994
Bruceton	Complete
Decaturville	Complete
Linden	1993
Lobelville 4/	1993
Scotts Hill	1995
Sardis	Complete

1/ Intra-company facilities are trunked through Tellico Plains.
2/ Intra-company facilities are trunked through Englewood.
3/ Intra-company facilities are trunked through Waynesboro Exchange.
4/ Intra-company facilities are trunked through Linden Exchange.

EXAMPLE ACCOUNTING ENTRIES

The following illustrated accounting entries would be made for expenditures associated with new technology deployment:

(A) Revenue Requirement:

Miscellaneous Revenue	XXX	
Deferred Revenue Liability		XXX

To set up monthly amount of deferred revenue.

(B) Cost of Service Portion:

Deferred Revenue Liability	XXX	
Miscellaneous Revenue		XXX

To recognize the monthly revenue requirement of the new technology.

Tennessee Telephone Company
Depreciation Rates
For The Years 1992 - 1993

Account Number	Title	1992	1993
2112000	Vehicles	8.60%	8.60%
2116000	Other Work Equip	4.40%	4.40%
2121000	Buildings	3.80%	3.80%
2122000	Furniture & Off Support	3.90%	3.90%
2123200	Company Comm Equip	11.80%	11.80%
2124000	Gen Purpose Computers	20.00%	20.00%
2215900	COE	7.00%	7.00%
2212000	COE-Digital	7.00%	7.00%
2219000	Traffic Measuring Equip	13.30%	13.30%
2231100	Radio Systems-Mobile	13.30%	13.30%
2231200	Radio Systems-Paging	13.30%	13.30%
2232000	Circuit Eq-Sub,Toll	13.30%	13.30%
2232400	Circuit-Concentrator	7.00%	7.00%
2232500	Circuit-Fiber Optics	13.30%	13.30%
2351000	Public Telephone	11.80%	11.80%
2411000	Pole Lines	6.10%	6.10%
2421000	Aerial Cable & Drop-M	4.60%	4.60%
2422000	Underground Cable-Met	3.70%	3.70%
2423000	Buried Cable & Drop-M	4.10%	4.10%
2423200	Bur & Undgrd Cable-N	4.60%	4.60%
2431000	Aerial Wire	4.60%	4.60%
2441000	Conduit Systems	1.70%	1.70%

Amortization

Company will record annual amortization of $816,849 for the reserve deficiency existing in account number 3122120, for the years 1992, 1993 and 1994. The reserve deficiency results from the retirement of the Mt. Juliet NEC Kai switch to upgrade and expand its NEC E switch in 1992 to fully accomodate SS7 and CLASS service offerings.

Tellico Telephone Company
Depreciation Rates
For The Years 1992 - 1993

Account Number	Title	1992	1993
2112000	Vehicles	12.00%	12.00%
2116000	Other Work Equip	6.70%	6.70%
2121000	Buildings	3.00%	3.00%
2122000	Furniture & Off Support	7.00%	7.00%
2123200	Company Comm Equip	6.40%	0.00%
2124000	Gen Purpose Computers	16.70%	16.70%
2215800	COE	2.40%	8.00%
2212000	COE-Digital	7.00%	7.00%
2219000	Traffic Measuring Equip	5.00%	5.00%
2231100	Radio Systems-Mobile	10.00%	10.00%
2231200	Radio Systems-Paging	0.00%	7.00%
2232000	Circuit Eq-Sub,Toll	8.00%	8.00%
2232400	Circuit-Concentrator	8.00%	8.00%
2232500	Circuit-Fiber Optics	8.00%	8.00%
2351000	Public Telephone	11.80%	11.80%
2411000	Pole Lines	4.00%	4.00%
2421000	Aerial Cable & Drop-M	5.00%	5.00%
2422000	Underground Cable-Met	5.00%	5.00%
2423000	Buried Cable & Drop-M	5.00%	5.00%
2423200	Bur & Undgrd Cable-N	8.00%	8.00%
2431000	Aerial Wire	6.00%	6.00%
2441000	Conduit Systems	4.50%	4.50%

Concord Telephone Exchange
Depreciation Rates
For The Years 1992 - 1993

Account Number	Title	1992	1993
2112000	Vehicles	12.00%	12.00%
2116000	Other Work Equip	5.00%	5.00%
2121000	Buildings	4.00%	4.00%
2122000	Furniture & Off Support	8.00%	8.00%
2123200	Company Comm Equip	19.20%	19.20%
2124000	Gen Purpose Computers	20.00%	20.00%
2215800	COE	8.00%	8.00%
2212000	COE-Digital	7.00%	7.00%
2219000	Traffic Measuring Equip	15.20%	15.20%
2231100	Radio Systems-Mobile	15.20%	15.20%
2231200	Radio Systems-Paging	15.20%	15.20%
2232000	Circuit Eq-Sub,Toll	11.20%	11.20%
2232400	Circuit-Concentrator	8.00%	8.00%
2232500	Circuit-Fiber Optics	11.20%	11.20%
2351000	Public Telephone	10.70%	10.70%
2411000	Pole Lines	7.50%	7.50%
2421000	Aerial Cable & Drop-M	8.00%	8.00%
2422000	Underground Cable-Met	4.50%	4.50%
2423000	Buried Cable & Drop-M	5.00%	5.00%
2423200	Bur & Undgrd Cable-N	8.00%	8.00%
2431000	Aerial Wire	13.20%	13.20%
2441000	Conduit Systems	4.50%	4.50%

Amortization

Company will record annual amortization of $496,503 for the reserve deficiency existing in account number 3122120, for the years 1992, 1993 and 1994. The reserve deficiency results from the retirement of the Mt. Juliet NEC Kai switch to upgrade and expand its NEC E seitch in 1992 to fully accomodate SS7 and CLASS service offerings.

BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

February 19, 1997

RECEIVED

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STATE ATTORNEY GENERAL
CONSUMER ADVOCATE DIVISION

In Re:	)	
	)	**Docket No.**
Application of Nashville Gas Company, a Division of Piedmont Natural Gas Company, Inc. for an Adjustment of its Rates and Charges	)	**96-00977**

ORDER

This matter came before the Tennessee Regulatory Authority (hereafter "Authority") upon the petition of Nashville Gas Company (hereafter "Company" or "Nashville Gas"), an operating division of Piedmont Natural Gas Company, Inc. (hereafter "Piedmont") for a general rate increase. This matter was heard by the Authority on November 13 and 14, 1996.

I. PROCEDURAL BACKGROUND

On May 31, 1996, the Company filed a petition with the Tennessee Public Service Commission (hereafter "TPSC") requesting a general increase in its rates and charges for natural gas service and approval of certain changes to its rate schedules, classifications, and practices. On June 6, 1996, the Consumer Advocate Division, Office of the Attorney General (hereafter "Advocate"), entered a notice of appearance with the TPSC.

On July 29, 1996, pursuant to Administrative Order No. 1,[1] the Company filed its petition to recommence, and its agreement with the Advocate which stipulated that the record before the TPSC would be considered as the record before the Authority.

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[1] Effective July 1, 1996, the TPSC ceased to exist and the Authority was established. On July 18, 1996, the Authority issued its Administrative Order No. 1 in which it set forth the requirements upon which it would accept jurisdiction over any pending matters that had been brought before the TPSC and not completed prior to the TPSC's termination.

On August 27, 1996, the Authority ordered that all filings, including petitions, pre-filed testimony, petitions of intervenors, orders of the TPSC and all other matters that were filed before the TPSC with respect to the Company's request for a general rate increase be adopted as though filed with the Authority. On August 9, 1996, Associated Valley Industries group (hereafter "AVI"), a coalition of certain industrial users of natural gas, filed a petition to intervene. That petition was granted on August 20, 1996.

On September 13, 1996, a status conference was held before H. Edward Phillips, III, Associate Counsel of the Authority. On September 25, 1996, a Report and Recommendation was submitted to the Authority providing dates for the submission of any additional data requests and responses, for the filing of additional direct and rebuttal testimony and for a hearing. By Order dated October 7, 1996, the Authority adopted the procedural schedule set forth in the Report and Recommendation.

II. HEARING AND APPEARANCES

On November 13, 1996, a hearing was convened before the Directors of the Authority, at which time, the following appearances were entered by counsel:

FOR THE COMPANY:

T.G. Pappas, Esq.
Bass, Berry & Sims
2700 First American Center
Nashville, TN 37238-2700

Jerry W. Amos, Esq.
Amos & Jeffries, L.L.P.
1230 Renaissance Plaza
Greensboro, NC 27402

FOR THE ADVOCATE:

L. Vincent Williams, Esq.
Office of the Attorney General
426 - 5th Avenue, North
Nashville, TN 37243-0485

FOR AVI:

Henry Walker, Esq.
414 Union Street, Suite 1600
Boult, Cummings, Conners & Berry
Nashville, TN 37219

The Company presented testimony from Bill R. Morris, Gregory E. Aliff, Dr. Donald A. Dr. Murry, Charles W. Fleenor and John H. Maxheim. AVI presented the testimony of Donald Johnstone. The Advocate presented the testimony of Dr. Stephen N. Dr. Brown, Michael W. Warner, Daniel W. McCormac, and R. Terry Buckner.

At a regularly scheduled Authority Conference held on December 17, 1996, the Directors of the Authority, after public deliberation, announced their decision in this matter.

III. CRITERIA FOR ESTABLISHING JUST AND REASONABLE RATES

The Authority considers petitions seeking adjustments of rates and charges under Tenn. Code Ann. § 65-5-203, which requires:

> 1) that the Authority shall have the power upon written complaint, or upon its own initiative, to hear and determine whether the increase, change or alteration being sought by a public utility is just and reasonable;
>
> 2) that the burden of proof to show that the increase, change or alteration is just and reasonable shall be on the public utility making the same; and
>
> 3) in determining whether such increase, change or alteration is just and reasonable, the Authority shall take into account the safety, adequacy and efficiency or lack thereof of the service or services furnished by the public utility.

IV. TEST PERIOD

In a rate case, the Authority must, as a preliminary determination, decide which test period is appropriate. The purpose in the selection of a test period is to provide an indication of the rate of return that is likely to be produced under the existing rate structure in the reasonably foreseeable future after taking into consideration the estimated effect of reasonably expected revenues, expenses and investments.

All of the parties agreed that the Company's use of a test period from December 31, 1995, adjusted to October 31, 1997, was reasonable.

V. CONTESTED ISSUES

In its original filing, the Company requested a rate increase of $9,257,633. At the hearing, the Company agreed to reduce its request to $7,861,622[2] to reflect the fact that updated information obtained by the Company since the time of its filing required adjustments in Charitable Contributions, Operating Revenues-Forfeited Discounts, Operation and Maintenance Expenses, and Taxes Other Than Income and Retention Factor. The Advocate asserted that a rate increase was not just and that the Company should be ordered to reduce current rates by $775,415. AVI asserted that if a $4,600,000 or a $9,300,000 [3] rate increase were granted, then the industrial users should correspondingly receive either a one percent (1%) reduction in rates or a zero percent (0%) rate increase.[4] AVI's assertion is based upon its position that the Company's

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[2] See Company's Hearing Exhibit No. 5

[3] See table appearing at p. 8 of the Pre-Filed Direct Testimony of Mr. Donald Johnstone. These figures cited to in the text above represent assumed rate increases for the purpose of illustrating the portion of the increase that AVI asserted should be passed on to the industrial users.

[4] *See supra* note 2.

industrial customers are currently paying a premium for natural gas supplied by the Company, and that these rates should be competitive.[5]

V. A. Rate Base:

Rate base is the Company's net investment, which is financed through investor supplied funds, in property used and useful in providing utility service. This is the amount of investment on which the Company should be allowed the opportunity to earn a fair and reasonable rate of return. At the hearing, the disputed issues were (1) whether the Company accurately calculated accumulated depreciation and the related depreciation expense, and (2) whether the Company correctly calculated the amount of its working capital.

A. I. Accumulated Depreciation:

At the hearing, the Company's witness, Mr. Morris, testified that the Advocate's proposed calculation for accumulated depreciation contained an error,[6] which if not corrected would result in an increase in the Company's revenue requirement. Further, Morris testified that the Advocate's proposal was based on an erroneous conclusion that the Company's attrition period accumulated depreciation was overstated by two months.[7] The Advocate did not rebut the Company's assessment that its original calculation of accumulated depreciation was in error. Therefore, the Authority accepts the Company's calculation of accumulated depreciation and depreciation expense of $101,595,670 and $11,067,061 respectively based on the supporting proof, and finds that this calculation is reasonable.

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[5] To that end, AVI did not sponsor any witnesses to discuss the cost of service. Instead, AVI proffered only one witness who presented testimony on rate design.

[6] See Hearing Transcript Vol. I, p. 59, testimony of Mr. Bill Morris.

[7] See Hearing Transcript Vol. I, p. 59, testimony of Mr. Bill Morris.

A. ii. Working Capital:

The Advocate used 38 lag days for income tax expense, while the Company used a negative 106 lag days in the calculation of working capital.[8] The Company's calculation is due to its overpayment of estimated income tax liability. This overpayment and resulting refund causes the negative lag days used by the Company. The Advocate has used the forecasted tax expense included in their case to produce a positive lag day result. Whatever the reason for the overpayment, the Authority finds that it would be inappropriate to require ratepayers to fund any more for working capital relating to income tax expenses than necessary. We, therefore, adopt the 38 lag days proposed by the Advocate.

A. iii. TOTAL RATE BASE:

Adjusting Rate Base for accumulated depreciation and working capital produces a total rate base of $200,699,631. The Authority finds that this rate base is fair and reasonable and will permit the Company to earn a fair rate of return.

V. B. REVENUES & EXPENSES

The Company's current level of revenues and expenses will determine the current net income. The revenues represent dollars received from the Company's ratepayers in providing services while the expenses represent the cost of providing that same service.

B. i. Forfeited Discounts:

Forfeited Discounts are those revenues received by the Company from customers who pay their bills after the expiration of the discount period. The Company has included approximately $1,506,000 in their case for forfeited discounts while the Advocate has used

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8 See Pre-Filed Direct Testimony of Mr. Michael Warner at p. 3.

approximately $1,417,000 which was produced by the Advocate's use of an offsetting adjustment to the Revenue Conversion Factor, discussed below.[9] At the hearing, the Company agreed with the Advocate's calculation of this item, and proposed to adjust their case accordingly.[10] Therefore, the Authority finds that approximately $1,417,000 is the appropriate amount to include for forfeited discounts.

B. ii. Allocation of Demand Cost:

The Company has proposed to allocate a portion of their fixed gas costs to the gas commodity rates. This proposal has the effect of allocating a portion of the fixed costs of purchasing gas to all customers instead of just those firm customers who use gas on the coldest days. The Company has made this proposal to recognize the principal that all customers should bear a share of the fixed cost burden. There was no opposition from any party at the hearing to this proposal.

The Authority therefore finds that the Company's proposal to allocate a portion of gas demand costs to commodity rates is reasonable and appropriate. The Company is instructed to file its future Purchased Gas Adjustments and Actual Cost Adjustments in a manner that reflects this change.

B. iii. Removal of Gas Cost from Base Rates:

This item relates to the recommendation by the Authority Staff in its compliance audit to remove gas costs from base rates.[11] The Company's current tariff rates include separate amounts for base rates which contain gas costs and a purchased gas adjustment which contains adjusted gas costs.

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[9] See Pre-Filed Testimony of Mr. Daniel McCormac at pp. 3-4.

[10] See Hearing Transcript Vol. I, p. 60, testimony of Mr. Bill Morris.

[11] See p. 13 of the Compliance Audit Report prepared by the Authority's Utility Rate Division Staff.

Since the Authority's current Purchased Gas Adjustment Rule (hereafter "PGA") allows gas utilities to "true-up" any over-recovery or under-recovery of gas costs, it is no longer necessary to consider gas costs in a rate case. Therefore, only the gross margin from gas sales should be considered in a rate case while the gas costs should be moved to the PGA calculation. This is the method approved by the TPSC for both United Cities Gas Company and Chattanooga Gas Company. Making this adjustment for Nashville Gas will create uniformity among the gas utilities regulated by the Authority and will simplify explaining (1) which components of a customer's bill we consider in a rate case and (2) which components are subject to the fluctuations of the natural gas markets. We, therefore, find that the Company should remove the gas cost from its base rates.

B. iv. <u>Sales Promotional Expenses:</u>

This item represents both payroll and non-payroll expenses of Nashville Gas Company employees that perform sales promotional activities. The Company has included approximately $811,000 and $308,000 in their case for marketing payroll and non-payroll expenses respectively.[12] The Advocate has proposed to include approximately $303,000 or ($816,000 less) in marketing expenses than the Company as part of its overall adjustment for advertising expenses as discussed below. The Advocate contends that sales promotion expenses should be considered a component of advertising and, as such, should be included in the allowance for advertising.[13] Previously, the TPSC limited the Company to recover advertising expenses that were equivalent to only 0.5% of the company's gross revenues.

No party to this proceeding presented evidence that sufficiently demonstrated the TPSC ever meant to include sales promotion payroll and non-payroll expenses in the calculation of the advertising expense allowance. Further, the Advocate failed to present

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12 See Hearing Transcript Vol. I, p.64, testimony of Mr. Bill Morris.

13 See Pre-Filed Testimony of Mr. Terry Buckner at p. 7.

evidence that demonstrated that these expenditures were unreasonable. Finally, the Company witnesses presented credible testimony regarding the necessity and the reasonableness associated with these expenditures. Therefore, based upon the evidence presented by the Company that these expenditures were prudent and reasonable for the services rendered, the Authority finds it proper to accept the Company's calculation for Sales Promotion Expense. Further, these payroll and non-payroll expenses are not to be included in the advertising expense allowance.

B. v. Advertising Expense:

The Company has included approximately $1,486,000 in their case for advertising which represents the amount actually spent in 1995. The Company's witness Mr. Maxheim admitted that this amount was greater than what the Company was allowed to recover by the TPSC. Further, Mr. Maxheim testified that the amount of the advertising expenditures that had exceeded the amount allowed by the TPSC were paid for by the Company's shareholders.

The Company seeks recovery of the entire amount requested for this expense. However, the Advocate has proposed that the Company be limited to recover an amount for these expenditures that is equal to 0.5% of gross revenues.[14]

It is the opinion of the majority of this agency that the evidence appearing in the record demonstrates that both the shareholders and the ratepayers derive some benefit from the company's advertising expenditures. Therefore, the shareholders should bear a portion of the cost of this expense.[15] Therefore, the majority finds that the proper level of

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[14] See Pre-Filed Direct Testimony of Mr. Terry Buckner at p. 7.

[15] Chairman H. Lynn Greer voted not to approve this method of allocation for advertising expenses.

advertising expense to be allowed rate recovery shall be one-half of the amount requested by the company or approximately $743,000.

The Authority also directs its Staff to conduct a study of the appropriate allowance for advertising for all Class A gas utilities under the Authority's jurisdiction. The results of this study shall be reported to the Authority no later that May 31, 1997.

B. vi. Payroll Expenses:

Three issues were raised in this case regarding payroll expenses. These issues dealt with what should be the appropriate amounts allowed for the following expenses: corporate office payroll allocated from North Carolina to Tennessee operations, Tennessee Direct payroll, and the Company's Long Term Incentive Plan.

a) Corporate Allocated Payroll:

The first issue concerns the proper allocation of corporate payroll expenses from Piedmont's corporate office in North Carolina to Tennessee. During 1995, the Company consolidated some of its functions into Piedmont's corporate office in North Carolina. This consolidation replaced both payroll and non-payroll expenses that were historically associated with Tennessee. Now these expenses will be allocated to Nashville from the corporate office.[16] Although the Company made this consolidation in 1995, no expense was allocated to Tennessee until November 1, 1996, which coincides with the beginning of Piedmont's fiscal year. Prior to this time, this expense was allocated only to the Company's operations in North and South Carolina.

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[16] See Hearing Transcript Vol. I, pp. 88-89, testimony of Mr. Bill Morris.

The Company has included $2,440,000 in allocated corporate wages in their rate case for this item.[17] This amount represents the allocation of those corporate employees who provide services to Tennessee.

The Advocate seeks to have the Authority approve the 1995 Tennessee payroll expenses[18] that did not reflect the direct or allocated expense changes that had actually occurred. The Advocate's position is inappropriate because it does not recognize the attrition period consolidation as a known and measurable occurrence. Therefore, the Authority finds that the Company's calculation of $2,440,000 in allocated corporate wages is just and appropriate.

b) Direct Payroll:

The second payroll issue relates to what is the proper amount of Tennessee direct payroll expenses. The Company has included $11,694,000 in their case for direct salaries & wages while the Advocate has only included $11,388,000 for a difference of $306,000. In this case, the Company has used the employee level at December 31, 1995, while the Advocate used the employee level as of August 31, 1996.[19] The total number of employees declined during 1996 due to consolidations of work functions between the Nashville and North Carolina offices. As a result, the Advocate was able to capture a lower employee level which produces the lower expense for the attrition period.

After careful consideration of the evidence in the record, the Authority finds that it is appropriate and reasonable to reduce the Company's Tennessee direct payroll expenses to $11,388,000. This reduction reflects the fact that the Company has reduced its number of employees since the filing of this case, and that this reduction of employees should be

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17 See Pre-Filed Rebuttal Testimony of Mr. Bill Morris at p. 14.

18 See Pre-Filed Direct Testimony of Mr. Terry Buckner at pp. 10-11.

19 See Pre-Filed Direct Testimony of Mr. Terry Buckner at p. 6.

reflected in the Authority's decision. Therefore, the Company's original filing is reduced by $306,000 for direct salaries & wages.

c) Long Term Incentive Plan:

The third payroll issue is the Long-Term Incentive Plan (LTIP) for upper management employees. The LTIP program is designed to provide additional compensation for top executives that achieve preset financial targets established by the Company. The Company has included approximately $600,000 in their rate request for LTIP while the Advocate has excluded the entire amount from its case.[20]

There was a great deal of testimony presented on this issue at the hearing. At issue here is whether funding for the LTIP should come from the ratepayers or from the company's shareholders through savings brought about by the plan. The record reflects the fact that both North and South Carolina permit the shareholders and ratepayers to share this expense at a ratio of twenty-five percent (25%) to seventy-five percent (75%) respectively. However, after much consideration, the majority finds that both the shareholders and ratepayers equally share in the benefits derived from the LTIP. Therefore, the majority finds that both the shareholders and ratepayers should fund the LTIP on a fifty-fifty percentage (50/50) ratio. Accordingly, the Company's original filing is reduced by approximately $300,000.[21]

B. vii. Injuries and Damages Expense:

Injuries and damages expense relates to premiums the Company pays for various

[20] See Pre-Filed Direct Testimony of Mr. Terry Buckner at pp. 11-12.

[21] Director Sara Kyle voted not to approve the allocation for this expense. See p. 105 of the December 17, 1996, Authority Conference Transcript.

liability insurance policies such as Fire Protection, Directors & Officers Liability, Automobile coverage, and their self-insured program for Worker's Compensation coverage. While the forecast for Worker's Compensation is based on an independent estimate from an outside actuary, the amounts for the remaining items are based on Company estimates.

The Company originally included approximately $967,000 in its case for injuries and damages expense. At the hearing, the Company reduced its request for this item to approximately $725,000 because of an error in their calculation of Worker's Compensation Insurance.[22] The error is worth approximately $240,000 as indicated in the Company's hearing exhibit.

The Advocate has included $650,000 in their calculation of injuries and damages expense. To calculate this expense the Advocate used an overall growth factor of 12.66% [23]to forecast the change in this expense. The Advocate has provided more justification for the use of this growth factor than the Company has for its own. The Authority, therefore, finds that the Advocate's calculation of $650,000 for Injuries & Damages expense is reasonable and appropriate.

B. viii. Pension Expense:

The Company originally included approximately $1,300,000 of net pension expense in its filing. This amount represents the expense that the Company plans to report in its financial statements during the next year. At the hearing, the Company lowered this amount to approximately $900,000.[24]

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22 See Hearing Transcript Vol. I, pp. 80-81, testimony of Mr. Bill Morris.

23 See Pre-Filed Direct Testimony of Mr. Terry Buckner at p. 4.

24 See Hearing Transcript Vol. I, p. 88, testimony of Mr. Bill Morris.

The Advocate proposes that the pension expense be excluded from the Company's request. The Advocate correctly demonstrated that the Company's plan is fully funded, and no contribution is necessary at this time.[25] For this reason, the Authority finds that to appropriately match the Company's current pension expense with its current ratepayers, the minimum required contribution should be adopted as the current pension expense.[26] Since the pension plan is fully funded, the Company's minimum required contribution for this case is zero dollars ($0.00), therefore the Authority adopts this dollar amount for the Company's pension expense.

The Advocate has further excluded approximately $350,000 in pension fund administrative costs. The administrative cost that the Advocate seeks to exclude, encompasses, but is not limited to the following fees, actuarial fees, investment manager fees, trustee fees, and audit fees. The Authority finds that the Company should recover the $350,000 in pension fund administrative costs, since this is a continuing prudent cost of the Company. Further, the Authority will permit the Company to establish a deferred asset for the difference between the amount of Pension expense funded, and the amount expensed on the Company's books.

B. ix. Allocation of Corporate Office Expenses:

Since Piedmont operates in three states, it is necessary to allocate corporate expenses to each jurisdiction. Historically, these joint expenses have been allocated on the percentage of net plant in Tennessee to total net plant. This same allocation method, which is updated annually, is also used in the company's other jurisdictions outside Tennessee.

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25 See Pre-Filed Direct Testimony of Mr. Terry Buckner at pp. 8-9.

26 See December 17, 1996, Authority Conference Transcript at p. 79.

The Advocate has applied an allocation factor based on Tennessee customers to total company customers.[27] The Advocate's rationale for allocating corporate expenses on customers instead of net plant is that the TPSC has used the customer allocation method in relation to other regulated gas utilities.

The Authority recognized that the TPSC has historically allowed Piedmont to allocate corporate office expenses to Tennessee ratepayers by the net plant allocation method. The basis for the applications of the net plant allocation method to Piedmont is not simply based upon the historical practices of the TPSC. Rather, evidence exists that demonstrates that Piedmont is permitted to use the net plant allocation method in both North and South Carolina, which are the other two jurisdictions in which Piedmont provides service. Therefore, the Authority should provide consistency in the application of the new plant allocation method between the jurisdictions. Moreover, consistency of treatment between the jurisdictions will prevent Piedmont from recovering more or less than one hundred percent (100%) of its prudently incurred corporate office expenses.[28] Therefore, it is for these reasons that the Authority finds that the Company's net plant allocation methodology is acceptable.

B. x. <u>Forecasting of Attrition Period Expenses:</u>

This issue has been separated into two categories and pertains to the differences between the Company and the Advocate's approaches in arriving at forecasted attrition period expenses that were not manually priced-out. The Advocate has reduced the Company's request by approximately $748,000 for these items. The Company has used a zero-based calculation on most of their expenses, while the Advocate chose to apply a growth factor based on the Gross Domestic Product (hereafter "GDP") to the entire amount.

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27 See Pre-Filed Direct Testimony of Mr. Terry Buckner at pp. 10-11.

28 See Hearing Transcript Vol. I, p. 63, testimony of Mr. Bill Morris.

For the items that were not calculated on a zero-based method, the Company grew these amounts by a factor based on the Consumer Price Index (hereafter "CPI").

a) <u>CPI vs. GDP Growth:</u>

Of the $748,000 total reduction for this item, approximately $113,000 relates to the Company using a CPI growth factor[29] while the Advocate has used a GDP growth rate.[30] The CPI index relates to price changes in consumer goods, while the GDP index relates to the price changes for the entire economy. Since the expenses that are applied to a growth rate are not limited to consumer type items, the Authority is persuaded that the Advocate's use of the GDP index is more precise. For this reason, the Authority finds that the use of the GDP index is appropriate and that the company's request should be reduced by $113,000 to reflect this adjustment.

b) <u>Zero-Based Items:</u>

As stated above, the Advocate has applied their GDP growth rate to this entire amount, while the Company has chosen to price these amounts out separately. Of the $748,000 total proposed reduction for this item by the Advocate, approximately $635,000 relates to the different methods of calculation described above. Generally, it is preferable to price-out these expenses rather than apply a broad growth rate when possible. For this reason, the Authority finds that it shall accept the Company's method of zero-based calculation for these expenses.

The combination of these two items results in a net decrease of $113,000 from the Company's filing.

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[29] See Pre-Filed Rebuttal Testimony of Mr. Bill Morris at pp. 8-11.

[30] See Pre-Filed Direct Testimony of Mr. Terry Buckner at pp. 3-6.

B. xi **Charitable Contributions:**

The Company originally proposed to recover certain charitable contributions in its rates. At the hearing, however, the Company agreed to remove this item as an issue and therefore exclude charitable contributions from their case.[31] Therefore the Authority finds that the company shall reduce its request by approximately $96,000.

B. xii. **Non-Recurring Expenses:**

Generally, non-recurring expenses are material expenditures made during the test period that are not likely, or expected to re-occur during the forecasted attrition period. In his pre-filed direct testimony, Advocate witness Buckner testified that he deducted approximately $145,000 of expenses that were described as non-recurring expenses.[32]

As part of an effort to allow the hearing to be completed on November 14, 1996, the Company and the Advocate reached an agreement that permitted the Advocate to enter all of the pre-filed testimony of Daniel McCormac, Terry Buckner and Mike Warner into the record while the Company waived cross-examination. However, both McCormac and Buckner were permitted to address matters raised during the hearing which were not addressed in their pre-filed testimony.

Thus, because of this agreement, the Company did not pose questions to Buckner that related to the nature of specific non-recurring expenses. However, despite the fact that no break-down is provided as to what specific expenses generate the full amount of the non-recurring expenditures, the Authority finds that is reasonable to expect a utility such as Nashville Gas to make certain expenditures that are non-recurring. Further, it is unreasonable to expect that the Company would have zero non-recurring expenses. The

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31 See Hearing Transcript Vol. II at p. 133, testimony of Mr. John Maxheim.

32 See Pre-Filed Direct Testimony of Mr. Terry Buckner at p. 6.

Company has not provided an alternative figure to the one proposed by the Advocate, neither has the Company denied that it had non-recurring expenses for the attrition period. The Authority finds that the Advocate has proposed a reasonable reduction for the Company's non-recurring expenses. Therefore, the Authority finds that the Company shall reduce its request by approximately $145,000.

B. xiii. Administrative Transferred Credit:

Transferred Credits are accounting mechanisms used to allocate a portion of the Company's overhead expenses to construction costs and non-utility operations. As a result, the amount for transferred credits will either increase or decrease with corresponding changes in overhead expenses. Examples of overhead expenses that effect transferred credits include administrative employees salaries (both Corporate & Tennessee), pension expense, 401(k) expense, all insurance coverage, and miscellaneous employee benefits expense.

The Company has included approximately $1,306,000 in their case for transferred credits while the Advocate has included $1,487,000. According to the Advocate, the Company's figure contained an error of approximately $424,000.

At the hearing, the Company agreed with the Advocate that their original calculations were in error.[33] However, the Company contends that the actual effect of the error is approximately $484,000 and they have adjusted their case accordingly. The Advocate presented no objections to this revised calculation. Therefore, the Authority finds that the correct adjustment should be $484,000.

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33 See Hearing Transcript Vol. I, pp. 82-83, testimony of Mr. Bill Morris.

B. xiv. Employee Benefits Expense:

The Company has included expenses for country club dues, and fees for professional sports tickets and suites in the above-the-line utility operations. While these amounts were removed for rate case purposes, they still should not be booked as utility operating expenses. Therefore, the Authority finds and directs the Company to begin accounting for these expenses to a non-utility account.

VI. COST OF CAPITAL

The Authority in reaching a decision on a rate of return must give in-depth analysis and consideration to numerous factors, such as capital structure, cost of capital, and changes that can be reasonably anticipated in the foreseeable future.

VI. A. Capital Structure:

Company witness Dr. Murry proposes using the following capital structure based on the period ending October 31, 1997: 46.68% long term debt, 1.52% short term debt and 51.80% common stock equity. Alternatively, Advocate witness Dr. Brown suggests using the Company's 1995 capital structure of 48.8% long term debt, 1.60% short term debt and 49.6% common stock equity.

We find that the capital structure proffered by the Advocate is appropriate in this case. The Advocate's recommendation is based on verifiable and reasonably current data. Conversely, the suggested capital structure proposed by Company witness Dr. Murry is based on speculation for which he provides no convincing foundation. The table below summarizes the recommended capital structures.

	Long Term Debt	Short Term Debt	Equity
*NGC	46.68%	1.52%	51.8%
**CAD	48.80%	1.60%	49.6%

* The abbreviation "NGC" used in this table refers to Nashville Gas Company.
** The abbreviation "CAD" used in this table refers to the Consumer Advocate.

VI. B. Cost of Debt:

There is no disagreement between the parties concerning the cost of long-term and short-term debt; therefore, it is appropriate to use the cost rates put forth by both parties: 8.32% for long-term debt and 5.92% for short-term debt.

VI. C. Return on Equity:

Company witness Dr. Murry estimated the Company's cost of equity primarily using the Discounted Cash Flow (DCF) method, the Risk Premium method and the Capital Asset Pricing Model (CAPM). Dr. Murry's DCF estimates range from 9.31% to 15.19%.[34] His risk premium estimate is 13.21% using historical data and 12.97% using current data. His CAPM estimate was 13.12%. In his direct testimony, Dr. Murry recommends allowing a return on common equity between 13.00% and 13.25%. However, in his oral testimony Dr. Murry favors the lower bound of this range based on current market conditions. Advocate witness Dr. Brown uses two techniques to estimate the Company's cost of equity, the DCF and Risk Premium methods. These methods yield estimates of 11.48% and 10.64%, respectively. Dr. Brown recommends allowing a return on common equity of 11.00% based upon a monthly compounding of earnings.

Dr. Brown testified extensively that the approved cost of equity should be adjusted for monthly compounding of earnings. The Authority finds this adjustment inappropriate

[34] Actually, Dr. Murry's DCF estimate was of the overall cost of capital, from which a cost of equity estimate can be imputed.

because it assumes a constant monthly earnings rate not typical of a gas utility.[35] Further, this adjustment ignores variable dividend payments, and conflicts with the calculation of annual earnings elsewhere in this case. Finally, Dr. Brown did not produce any evidence that this theory has been applied in any other case. Therefore, the Authority finds that this theory is inappropriate for use in this rate case.

Dr. Murry testified to several criticisms of Dr. Brown's Risk Premium analysis of the cost of equity. However, Dr. Murry's most important criticism was that Dr. Brown inappropriately combines an estimated short term market risk premium with an estimated long term debt yield.[36] The Authority finds that Dr. Brown's use of inputs based on inconsistent time horizons is inappropriate.

Dr. Brown focuses his criticism on Dr. Murry's Risk Premium analyses using both historical and current data as well as his Comparable Earnings analysis. Dr. Murry uses the results of the latter only as a qualitative check on his other estimates. For all of these analyses, Dr. Brown alleges that Dr. Murry unjustifiably and inappropriately compares the Company to dissimilar firms. In addition to his criticisms of Dr. Murry's methodology, Dr. Brown argues that the approved cost of equity should be adjusted for monthly compounding which gives the Company an opportunity to earn more than the allowed annual rate.

After careful consideration of the testimony of both witnesses, and the evidence in the record, the Authority finds that the cost of equity is 11.50%. Moreover, the cost of equity being adopted by the Authority herein is within the range of DCF calculations proposed by both Dr. Murry and Dr. Brown.

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35 See Pre-Filed Rebuttal Testimony of Dr. Donald A. Murry at p. 7

36 See Pre-Filed Rebuttal Testimony of Dr. Donald A. Murry at p. 8.

VI. D. **Overall Cost of Capital:**

Based on the approved capital structure which consists of 48.8% long-term debt, 1.60% short term debt and 49.6% common stock equity the Authority approves an overall rate of return of 9.85%.

VII. RATE INCREASE

After determining the appropriate Rate Base, Operating Income, and Fair Rate of Return, we can now calculate the appropriate revenue level and determine how much rates should be adjusted. Since the parties have agreed that the revenue conversion factor of 1.626747 as proposed by the Advocate is appropriate for this case, we will also use this to determine any rate adjustment.

Based on the findings and conclusions set forth above, the Authority concludes that the just and reasonable revenues, expenses, and rate base produce a rate increase of $4,417,290. The Authority further concludes that in order to permit the Company to earn the return determined to be just and reasonable, the Company should be allowed to increase its rates by $4,417,290. Further, a majority of the Authority has determined that this rate increase be effective beginning with service rendered on and after January 1, 1997.[37]

VIII. RATE DESIGN AND TARIFF CHANGES

Company witness Mr. Fleenor testified that he designed the Company's proposed rates using a cost of service study of existing rates along with traditional rate design principles and the desire to provide additional services to the ratepayers. The traditional rate design principles considered by Mr. Fleenor included (1) value of service, (2) the need

[37] Director Sara Kyle moved that the increase become effective on January 28, 1997. This motion failed for lack of a second, and as a result, the majority concluded that the increase would become effective on January 1, 1997. See December 17, 1996, Authority Conference Transcript at p. 115.

to avoid discrimination among classes of service, (3) system load equalization and (4) revenue stability. Mr. Fleenor also considered several non-economic factors. He testified that the main objective of his rate design was to continue to develop a design and structure that will enable the Company to continue to adapt to the many changes occurring in the natural gas industry and to recommend rate levels that more properly reflect cost and value of service. Based on the Company's rate design considerations and its original request to increase its rates by $9,257,633, the Company proposed to increase rates to the residential category by 9.3%, to the small commercial class by 5.3% and to the large commercial and industrial class by 2%.

The Advocate's witness Mr. McCormac did not recommend how a rate increase should be applied, however, he did suggest that any change in rates be spread equally among all customer classes.[38] AVI's witness Mr. Johnstone strongly advocated cost-based rates, and as a result proposed that there should be no increase in industrial rates. Finally, he suggested that if the full requested increase were not granted, then the industrial rates should be reduced by one percent (1%).[39]

After careful consideration of the testimony and exhibits of the parties, the Authority finds that the rate increase approved herein should be spread equally to all customers. It is the intent of the Authority to spread this increase to all ratepayers, including Interruptible Sales customers, Transportation customers, and Special Contract customers, in order to minimize the overall impact of this rate change. In addition, the Authority concludes that the residential customer charge should be increased from $6.00 per month to $7.00 per month.

The Company also proposed certain changes to its tariff language to permit the Company to respond to existing competitive conditions under FERC Order No. 636. Among other things, these changes include provisions for customers to elect sales or

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[38] The Advocate proposed a decrease in rates of $775, 415.

[39] See Pre-Filed Direct Testimony of Mr. Donald Johnstone at p.8.

transportation service on an annual basis so that these customers will be prevented from switching back and forth as the price of spot gas and the price of gas under the Company's PGA varies from month to month. No party has objected to these provisions and the Authority finds them to be fair and reasonable. Therefore, the Company is instructed to take the appropriate action so the implementation of these provisions may not be unnecessarily delayed.

IX. DISPOSITION OF PROCEDURAL MOTIONS

The parties to the proceeding filed several motions concerning certain procedural issues. On November 12, 1996, the Company filed its Motion to Strike the Rebuttal Testimony of Advocate witness Dr. Stephen Brown. After hearing oral argument on this matter, the Authority denied the motion. The Authority noted that the Company would not be unduly prejudiced by the admission of the testimony, because the Company would have the opportunity to cross-examine the witness, attempt to impeach the witness and object to portions of the witness' testimony.

On November 13, 1996, the Advocate filed a Motion requesting disclosure of documents and records prepared by the Authority Staff in relation to this proceeding. The Directors of the authority permitted the Advocate to present oral argument. After careful consideration, the Authority denied the Advocate's motion. In denying the motion, the Authority asserted the deliberative privilege which protects the confidentiality of communication between a Director and certain staff members.

Finally, the Advocate made an oral motion for a one day continuance of the proceeding. The Advocate stated that late filed discovery responses by the Company warranted such continuance. After presentation of oral argument by the parties, the Authority denied the motion.

IT IS THEREFORE ORDERED:

(1) That the rates filed by Nashville Gas Company on May 31, 1996, are hereby denied;

(2) The Company is directed to file tariffs with the Authority that are designed to produce $4,417,290 in additional revenue, for service rendered on and after January 1, 1997, and any other tariffs necessary to be consistent with this Order;

(3) In future true-ups under its Purchase Gas Adjustment (PGA), the Company shall use the demand allocation percentages;

(4) That the residential customer charge shall be increased from $6.00 per month to $7.00 per month;

(5) That the Authority Staff shall conduct a study of the appropriate allowance for advertising for all Class A gas utilities under the Authority's jurisdiction. The results of this study shall be reported to the Authority no later that May 31, 1997;

(6) That the Company shall begin accounting for employee benefit expenses in a non-utility account;

(7) That the Company shall establish a deferred asset for the difference between the amount of Pension expense funded, and the amount expensed on the Company's books;

(8) That the Company shall exclude gas costs from its base rates, and shall instead file an appropriate Purchased Gas Adjustment to reflect all of its gas costs;

(9) Any party aggrieved with the Authority's decision in this matter may file a Petition for Reconsideration with the Authority within ten (10) days from and after the date of this Order; and

(10) Any party aggrieved with the Authority's decision in this matter has the right of judicial review by filing a Petition for Review in the Tennessee Court of Appeals, Middle Division, within sixty (60) days from and after the date of this Order.

CHAIRMAN

DIRECTOR

DIRECTOR

ATTEST:

EXECUTIVE SECRETARY

ORD/96-00977

BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE
June 9, 1997

In Re:

Application of Nashville Gas Company, a Division of	**)**	
Piedmont Natural Gas Company, Inc., for an Adjustment	**)**	**Docket No.**
of its Rates and Charges.	**)**	**96-00977**

ORDER CLARIFYING "ORDER OF FEBRUARY 19, 1997"; DENYING MOTIONS FOR RECONSIDERATION; DISMISSING MOTION TO STRIKE; AND DENYING MOTION FOR STAY

On May 31, 1996, Nashville Gas Company (here "Nashville Gas"), a Division of Piedmont Natural Gas Company, Inc., filed an application with the Tennessee Public Service Commission (here "Commission") seeking to increase its rates by approximately $9.2 million. On July 1, 1996, the Commission was replaced with the Tennessee Regulatory Authority (here "Authority"), and on July 29, 1996, the case was recommenced before the Authority. A hearing was held on Nashville Gas' application on November 13 and 14, 1996. On December 17, 1996, the Authority approved an increase of approximately $4.4 million to be effective January 1, 1997. The Authority's decision was reduced to writing in an order dated February 19, 1997.

Petitions for reconsideration, rehearing or clarification of the February 19, 1997 Order were filed by Nashville Gas, the Consumer Advocate Division, Office of the Attorney General (here "Consumer Advocate"), and Associated Valley Industries Group (here "AVI"). Nashville Gas also filed a motion to strike portions of the petition for reconsideration filed by the Consumer Advocate. These matters were considered by the Authority at its March 18, 1997 conference, at which time, the Authority clarified the February 19, 1997 Order as discussed below, denied the petitions for reconsideration and rehearing, and dismissed the motion to strike as moot.

AVI's Petition for Reconsideration

AVI did not challenge the amount of the rate increase or the Authority's decision to require interruptible customers to bear an equal share of the rate increase. Instead, AVI challenged the Authority's decision to increase the tail block rate for interruptible service. AVI contends that the tail block should be $0.21 per dekatherm and that the difference between the tail block rate approved by the Authority ($.0228 per dekatherm) and the $0.21 advocated by AVI should be spread to other blocks in the interruptible rate schedule. AVI contends that in recent years the interruptible tail block rate has been either reduced or kept the same to recognize that industrial rates should be cost-based and to deter large gas customers from bypassing Nashville Gas. AVI also argued that Nashville Gas did not propose to increase the tail block rate, that AVI proposed to reduce rates to the industrial class and that, although the Consumer Advocate proposed that any increase be spread evenly to all customer classes, the Consumer Advocate did not propose any change to interruptible rates.

The Authority has carefully considered these arguments; however, we continue to support the rate design set forth in our order. In our December 17, 1996 decision (reduced to writing in our February 19, 1997), we found that Nashville Gas was entitled to increase its rates. No doubt, each class of customers would like to be exempted from any portion of this increase; however, the evidence in this case does not support such an exemption for AVI. While we recognize that bypass is a concern, Nashville Gas has the ability to negotiate lower rates when required to avoid bypass; therefore, the possibility of bypass is not sufficient grounds for lowering the tail block rate at this time.

Nashville Gas' Motion for Rehearing

In its motion for rehearing, Nashville Gas argued that the Authority erred in (1) denying the Company the right to recover its actual advertising expenses, (2) denying the Company the right to recover the actual expenses of its Long-Term Incentive Plan (the "LTIP"), (3) denying the Company the right to recover its pension expenses, and (4) approving a return on equity of "only 11.50%."

Nashville Gas argues that the Authority cannot deny it the right to recover its advertising expenses without finding that the expenses were not prudent. We disagree. The standard for judging rates is not prudence, but justness and reasonableness or a zone of reasonableness Southern Bell Tel. and Tel. v. Tennessee Public Service Commission, 202 Tenn. 465, 304 S.W. 2d 640 (1957). Nashville Gas does not claim that the rates are unjust or unreasonable due to the Authority's finding on advertising expenses.

With respect to the LTIP, Nashville Gas states that an error on page 12 of the February 19, 1997 Order where the following statement appears: "The record reflects the fact that both North and South Carolina permit the shareholders and ratepayers to share this expense at a ratio of twenty-five percent (25%) to seventy-five percent (75%)." We agree that the statement is in error and that the second sentence in the second full paragraph on page 12 of the February 19, 1997 Order should be deleted; however, we do not agree that our decision on this issue should be reversed. We continue to support our holding that the shareholders and ratepayers should share the expense of the LTIP because they will share in any cost savings produced as a result of the LTIP.

With respect to pension expense, Nashville Gas states that the February 19, 1997 Order is not clear regarding the treatment of the deferred regulatory asset for future recovery of its pension cost. The Authority clarifies the Order of February 19, 1997 by deleting the last sentence in the second paragraph on page 14 and replacing it with the following: "Further, the Authority will permit the Company to establish a deferred asset for the difference between the amount of funded pension expense recognized in the Company's last rate case -- in this case, zero -- and the amount of pension expense funded in the future. In future rate cases, the amount of funded expense that has been deferred will be recognized and rates awarded to recover it."

Nashville Gas claims that the 11.5% return on equity is inadequate because it is less than that granted to other Piedmont Natural Gas Company operations in North Carolina and South Carolina. The Authority based its decision regarding the return on equity on all the evidence in the record including the expert testimony presented in this docket, and therefore, we continue to support our decision that the approved return is within the zone of reasonableness.

Consumer Advocate's Petition for Reconsideration and Motion filed March 10, 1997

The Consumer Advocate argues that the Authority (1) violated a number of procedural rules, (2) improperly permitted Nashville Gas to place rates into effect on January 1, 1997, (3) allowed a return on equity that is too high, (4) allowed an excessive advertising allowance, (5) improperly found that Nashville Gas used zero-based budgeting, and (6) improperly permitted Nashville Gas to recover a portion of its LTIP expenses.

The Consumer Advocate argues that the Authority did not comply with T.C.A. § 4-5-301, which requires that in a contested case the agency members sit in the presence of an administrative judge or hearing officer. We disagree.

Under T.C.A. § 4-5-301, any member of the Authority may fulfill the role as administrative judge or hearing officer, and at all times a member of the Authority fulfilled this role in this proceeding.

The Consumer Advocate also argues that the Authority improperly permitted Nashville Gas to place rates into effect on January 1, 1997. The Authority heard oral arguments on this issue on March 4, 1997.[1] At that time the Consumer Advocate argued that the Authority did not have statutory authority to approve the rates effective January 1, 1997 and that its action amounted to retroactive ratemaking.[2]

The Directors have carefully considered the arguments advanced by the Consumer Advocate in his most recent motion, and have unanimously determined that the motion should be denied. Additionally, the Authority is of the opinion that this decision is consistent with our decision of December 17, 1996 and our order of February 19, 1997 that the rates should become effective on January 1, 1997. The Authority's decision is also consistent with the Order of the Court of Appeals of Tennessee in Consumer Advocate Division v. Tennessee Public Service Commission, 1996 WL 482970 (Aug. 18, 1996), where the court stated the following:

> "Under these statues the rates charged by a public utility are not always the product of a ratemaking proceeding in the Commission. New tariffs automatically become effective unless the Commission elects to suspend them while conducting an investigation."

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1 At that time, a majority of the Directors voted to deny the Advocate's motion for reasons set forth in the Authority's Order dated May 14, 1997. However, Director Malone concurred in the result reached by the majority, but did not support their rationale.

2 In response, Nashville Gas asserted its belief that the Authority had the authority to place the rates into effect on at least three grounds. First, Nashville Gas argued that since the rates were not suspended by the Commission, Nashville Gas was authorized to place all or any portion of the rates into effect on June 30, 1996 (while the commission still had authority over this matter). Second, Nashville Gas contended that since the rates were not suspended by the Authority following recommencement of the case, Nashville Gas was authorized to place all or any portion of the rates into effect at any time prior to the authority's issuance of a final order. Third, Nashville Gas argued that it was authorized to place the rates into effect under Section 65-5-203(b)(1).

Finally, the Authority's decision to permit the rates to become effective January 1, 1997, is consistent with the requirements of state law as codified in Title 65 of Tennessee Code Annotated.

With respect to the Consumer Advocate's argument that an 11.5% return on equity is too high, the Consumer Advocate states that the following language appears on page 20 of the February 19, 1997 Order: "Company witness Dr. Murry estimated the Company's cost of equity using the Discounted Cash Flow (DCF) method, the Risk Premium method and the Capital Asset Pricing Model (CAPM). Dr. Murry's DCF estimates range from 9.31% to 15.1%." The Consumer Advocate argues that the quoted language is in error and that it overstates the DCF range testified to by Dr. Murry. The Consumer Advocate is correct, and the second sentence of the quote should be revised to read as follows: "Dr. Murry's DCF estimates for Piedmont range from 8.80% to 11.85%." In addition, footnote 34 on page 20 should be deleted and replaced with the following language: "Dr. Murry's exhibit (DAM-1), Schedule 15." These changes in the February 19, 1997 Order, however, do not change the opinion of the Authority that the appropriate return on equity is 11.5%. The approved return still falls within the range suggested by Dr. Murry.

The Consumer Advocate attacked the use of Nashville Gas' term "zero-based budgeting" in determining just and reasonable expenses. As indicated above, the Authority's decision of December 17, 1997, on advertising and LTIP expenses is supported by the record in this case and produces rates that are just and reasonable. Further, this is true of the other expenses that were approved whether based on "zero-based budgeting" or on some other method. We find the Consumer Advocate's arguments "on zero-based budgeting" to be unpersuasive. The record in this proceeding makes it clear that Nashville Gas used the term "zero-based budgeting" to refer to a procedure in which a manager in charge of a given expense had to justify 100% of the expense. In other words, the manager had to start from zero. He or she could not simply take a prior period's expense and grow it by some amount for inflation. We find this to be an appropriate method of determining just and reasonable expenses under the facts of this case.

<u>Nashville Gas' Motion to Strike</u>

Nashville Gas filed a motion to strike various affidavits attached to the Consumer Advocate's motion for rehearing and various references to those affidavits set forth throughout that motion. Since we have denied the Consumer Advocate's motion for rehearing, we will dismiss Nashville Gas' motion to strike as moot.

<u>Consumer Advocate's Motion to Stay</u>

The Consumer Advocate also filed a Motion to Stay the February 19, 1997 Order. In this motion, the Consumer Advocate again argues that the Authority should not have permitted Nashville Gas to place the approved rates into effect on January 1, 1997. We have already ruled that Nashville Gas properly placed the approved rates into effect on January 1, 1997; therefore, we deny this motion. We also observe that if we were to grant the requested motion to stay, Nashville Gas' customers may be required to pay the higher rates as originally filed by Nashville Gas, absent an effective Order from this Authority.

IT IS THEREFORE ORDERED:

1) That AVI's Petition for Reconsideration is denied;

2) That Nashville Gas' Motion for Rehearing is denied;

3) That the Consumer Advocate's Petition for Reconsideration is denied;

4) That the Consumer Advocate's Motion filed on March 10, 1997, is denied;

5) That Nashville Gas' Motion to Strike is dismissed as moot;

6) That the Consumer Advocate's Motion for Stay is denied;

7) That the February 19, 1997 Order is amended as set forth in the body of this order;

8) That any party aggrieved by the Authority's decision in this matter may file a Petition for Reconsideration with the Authority within ten (10) days from and after the date of this Order; and

9) That any party aggrieved by the Authority's decision in this matter has the right of judicial review by filing a Petition for Review in the Tennessee Court of Appeals, Middle Division, within sixty (60) days from and after the date of this Order.

Lynn Greer / pm

CHAIRMAN

Sara Kyle / ms

DIRECTOR

DIRECTOR

ATTEST:

K. David Waddell

EXECUTIVE SECRETARY

NGC ORD/96-0977/3-18-97

BEFORE THE TENNESSEE PUBLIC SERVICE COMMISSION
Nashville, Tennessee
October 11, 1995

IN RE: PETITION OF CHATTANOOGA GAS COMPANY TO PLACE INTO EFFECT A REVISED NATURAL GAS TARIFF

DOCKET NO. 95-02116

ORDER

This matter is before the Tennessee Public Service Commission ("Commission"), upon the petition filed May 1, 1995, of the Chattanooga Gas Company ("Company") to increase its base rate revenues in the amount of $5,164,901 annually.

This matter was heard by the Commission in Chattanooga, Tennessee on September 26, 1995. At that hearing the parties to this matter presented a Joint Settlement Among Chattanooga Gas Company, the Consumer Advocate Division and Associated Valley Industries/Chattanooga Manufacturers Association Intervention Group Concerning Rate Design Issues ("Joint Settlement"), a copy of which is attached as Exhibit A to this Order. This Joint Settlement was approved by the Commission and resolved any further participation in the proceeding by Associated Valley Industries/Chattanooga Manufacturers Association Intervention Group ("AVI"). The parties indicated that the remaining issues were not settled and were being presented to this Commission for decision based upon proof and the applicable law. Accordingly, the Commission proceeded to hear proof upon the remaining issues.

THE COMPANY

Chattanooga Gas Company, a Tennessee corporation and wholly-owned subsidiary of Atlanta Gas Light Company, is a natural gas distribution company which serves customers in Chattanooga, Tennessee, and Cleveland, Tennessee, and environs in Hamilton

County, Tennessee, and Bradley County, Tennessee.

Mr. Kenneth A. Royse, President of Chattanooga Gas Company; Mr. James E. Greer, Treasurer of Chattanooga Gas Company; Mr. Earl Burton, Marketing Manager of Chattanooga Gas Company; Mr. Scott Siegel, Engineering Manager of Chattanooga Gas Company; Mr. Fred A. Carillo, Senior Planning Analyst for Atlanta Gas Light Company; Mr. H. Edwin Overcast, Vice President of Corporate Planning and Rates for Atlanta Gas Light Company; and Victor L. Andrews, Mills Bee Lane Professor of Banking and Finance of Georgia State University, entered pre-filed testimony and exhibits on behalf of the petitioner and Messrs. Royse, Greer, Overcast, Andrews and Mr. Donald S. Roff of Deloitte & Touche, LLP presented pre-filed rebuttal testimony. The Company's pre-filed direct and rebuttal testimony and exhibits were premised on a test year ended September 30, 1994, adjusted to September 30, 1996, and included financial data reflecting Company's investment in rate base, the present and projected levels of revenues and expenses, the design in which the Company's adjusted rates should be reflected in the tariff, the cost of capital and competition of other energy sources.

INTERVENORS

CONSUMER ADVOCATE DIVISION

Mr. Joseph T. Werner, Associate Director of the Consumer Advocate Division; Michael W. Warner, Jr., a member of the Consumer Advocate Division Staff; Daniel W. McCormac, Associate Director of the Consumer Advocate Staff; Mr. R. Terry Buckner, a member of the Consumer Advocate Division staff; and Stephen N. Brown, Senior Economist in the Consumer Advocate Division, entered pre-filed testimony and exhibits and certain rebuttal testimony on behalf of the Consumer Advocate Division as Intervenor. The Intervenor's pre-filed testimony and exhibits included financial data with respect to present and projected levels of revenues, expenses, investment in rate base, the design in which any adjusted rates should be allocated in the tariff and the cost of capital to the Company.

ASSOCIATED VALLEY INDUSTRIES/CHATTANOOGA MANUFACTURERS ASSOCIATION INTERVENTION GROUP

Mr. Donald E. Johnstone, Consultant with Brubaker & Associates, Inc., St. Louis, Missouri; Mr. Michael Gorman, Consultant with Brubaker & Associates; and Mr. James T. Seleckey, Consultant with Brubaker & Associates presented pre-filed direct and certain rebuttal testimony and exhibits on behalf of AVI which reflected their position to recommend cost based rates, adjustments to depreciation expense and the cost of capital to the Company.

Other intervenors in this case elected not to present testimony but remained parties of record.

DISCUSSION

At the hearing of this matter, following several hours of testimony and other procedural matters, the Company and Consumers Advocate Division announced to the Commission and moved for approval of a settlement of all remaining issues. This settlement was for an agreed revenue deficiency of $2,500,000.00 to be allowed to Chattanooga Gas Company, to be applied in accordance with the Joint Settlement provisions contained in Exhibit A.

This matter having been duly considered by the Commission at the public hearing held in Chattanooga, Tennessee, on September 26, 1995, after proper public notice, based upon the record in this matter, both pre-filed and oral testimony, the Joint Settlement of the parties, attached hereto as Exhibit A and the additional settlement of the parties as to revenue deficiency announced at the hearing, the Commission determines that the results of the Joint Settlement and additional settlement between the parties is just, reasonable and in the public interest. Accordingly, the Commission hereby approves such settlements and concludes that Chattanooga Gas Company is entitled to a rate increase which will produce additional revenues of $2,500,000.00 over and above the level of rates presently authorized. The Commission further approves the allocation and rate design set forth in Exhibit B attached hereto which will produce such additional revenue for the Company and which is premised upon the Joint Settlement.

Accordingly, the Company has prepared and filed tariffs which reflect such increase in revenues in accordance with the foregoing conclusions and findings. The Commission has reviewed such tariffs and approves them as consistent with this Order.

IT IS THEREFORE ORDERED:

1. That the tariffs filed in this Docket 95-02116 designed to produce additional revenues of $2,500,000 as summarized in Exhibit B attached to this order, are hereby approved to be effective for service rendered on and after November 1, 1995.

2. That any party aggrieved with the Commission's decision in this matter may file a Petition for Reconsideration with the Commission with ten (10) days from and after the date of this Order; and

3. That any party aggrieved with the Commission's decision in this matter has the right of judicial review by filing a Petition for Review in the Tennessee Court of Appeals, Middle Section, within sixty (60) days from and after the date of this Order.

APPROVED FOR ENTRY:

William L. Taylor, Jr.

William L. Taylor, Jr., attorney
for Chattanooga Gas Company

Steven A. Hart for Vincent Williams

Vincent Williams, Consumer Advocate
Office of the Attorney General

Henry Walker

Henry Walker, John Konvalinka,
attorneys for Associated Valley
Industries/Chattanooga Manufacturers
Association Intervention Group

ATTEST:

Executive Director

Chairman

Commissioner

Commissioner

chattgas.ord\wlt\jcb

Ex 12

BEFORE THE TENNESSEE PUBLIC SERVICE COMMISSION

NASHVILLE, TENNESSEE

IN RE: PETITION OF CHATTANOOGA GAS COMPANY

Docket No. 95-02116

JOINT SETTLEMENT AMONG
CHATTANOOGA GAS COMPANY, THE CONSUMER ADVOCATE DIVISION, AND ASSOCIATED VALLEY INDUSTRIES/CHATTANOOGA MANUFACTURERS ASSOCIATION INTERVENTION GROUP CONCERNING RATE DESIGN ISSUES

Chattanooga Gas Company (the "Company"), Associated Valley Industries/Chattanooga Manufacturers Association Intervention Group ("AVI/CMA"), and the Consumer Advocate Division have agreed to settle certain issues concerning the allocation of any rate increase resulting from the Company's above-captioned filing. The parties jointly move the Commission to adopt this settlement and, in support thereof, the parties stipulate to the following findings of fact and conclusions of law:

1. Any rate increase awarded in this case will be spread equally, on a percentage basis as applied to the gross margin, among the residential, commercial and industrial classes. To deter uneconomic bypass and deter large customers from switching to alternative fuels, the end step in rate schedules I-1, L-1, T-1 and T-2 will be reduced by two cents ($.02/MCF). Other rate schedules and steps in the industrial class will be adjusted accordingly so that the reduction will not offset or affect the allocation of dollars to the industrial class as described above.

2. Coincident with the implementation of any rate award in this docket, the Company will flow through to customers a PGA reduction of $2.2 million. The parties, as part of this settlement, agree to allocate to the commercial and residential classes approximately $1.1 million of that PGA reduction which would otherwise, under the Commission's rules, be allocated to industrial customers and used to reduce the commodity rate for industrial customers.

3. The current sales adjustment mechanism ("SAM") used by the Company is no longer needed since the parties are in agreement concerning the Company's projected volumes. The interruptible margin credit rider will continue to allocate losses among customers and stockholders on a ninety percent/ten percent (90%/10%) basis. Profits from the Company's off-system sales will be allocated on a fifty percent/fifty percent (50%/50%) basis as proposed by the Company.

4. These settlement proposals and agreements are reasonable and will result in just and reasonable rates for all of the Company's customers, including the residential, commercial and industrial classes.

5. The parties agree that the language of this settlement results from give-and-take, arm's-length negotiations and should not be considered as precedent in any other present or future proceeding involving the Company, other gas companies or other gas customers. In light of the Commission's approval of this settlement, the parties agree to waive their rights to present

Ex. A
Page 2 of 2

testimony or cross-examine witnesses concerning those issues which have been resolved by this settlement. The parties agree that this settlement is suitable for informal disposition pursuant to T.C.A. §65-2-108 upon sufficient notice by the Commission of the terms of the settlement. The parties also agree to support this settlement in any such hearing or any other proceeding before the Commission.

APPROVED FOR SETTLEMENT PURPOSES:

William L. Taylor, Jr.
William L. Taylor, Jr.
Attorney for Chattanooga Gas Company

Henry Walker John P. Konvalinka
Henry M. Walker
John P. Konvalinka
Attorneys for AVI/CMA Intervention Group

Steven A. Hart
Steve Hart for the Consumer Advocate
Division of the Attorney General

c/ael/262/2
9/26/95

CHATTANOOGA GAS COMPANY

DOCKET NO. 95-02116

EXHIBIT B

TARIFF CHANGES OTHER THAN PRICE

CHATTANOOGA GAS COMPANY
BASE RATE MARGIN INCREASE
DOCKET NO. 95-02116

RATE CLASSIFICATION	TEST YEAR MCF SALES	RATES/MCF CURRENT MARGIN/MCF	PROPOSED MARGIN/MCF	PROPOSED INCREASE PER MCF	MARGIN CURRENT MARGIN	PROPOSED MARGIN	MARGIN INCREASE	% INC
R-1 (RESIDENTIAL)								
WINTER (NOV-APR)								
Base Use Charge/Bill	258,538	$7.0000	$7.5000	$0.5000	$1,809,766	$1,939,035	$129,269	
First 2.5 Mcf	802,645	$2.8150	$3.0049	$0.1899	$2,259,446	$2,411,868	$152,422	
Next 2.5 Mcf	741,477	$1.8150	$2.0049	$0.1899	$1,345,781	$1,486,587	$140,806	
Over 5.0 Mcf	1,822,080	$1.6150	$1.8049	$0.1899	$2,942,659	$3,288,672	$346,013	
TOTAL	3,366,202				$8,357,652	$9,126,162	$768,510	
SUMMER (MAY-OCT)								
Base Use Charge/Bill	254,714	$7.0000	$7.5000	$0.5000	$1,782,998	$1,910,355	$127,357	
First 2.5 Mcf	378,011	$2.5290	$2.7189	$0.1899	$955,990	$1,027,774	$71,784	
Next 2.5 Mcf	132,290	$1.3310	$1.5209	$0.1899	$176,078	$201,200	$25,122	
Over 5.0 Mcf	67,402	$0.2810	$0.4709	$0.1899	$18,940	$31,740	$12,800	
TOTAL	577,703				$2,934,006	$3,171,069	$237,063	
AIR CONDITIONING CHARGE								
SUMMER (MAY-OCT)								
Over 5 Mcf	—	$0.2810	$0.4709	$0.1899	–	–	–	
Standby Service Demand Charge		$2.9800	$3.0600	$0.0800	–	–	–	
TOTAL R-1	3,943,905				$11,291,658	$12,297,231	$1,005,573	8.91%
R-4 (MULTI-FAMILY)								
WINTER (NOV-APR)								
Base Use Charge / Unit	3,900	$5.5000	$6.0000	$0.5000	$21,450	$23,400	$1,950	
Flat Rate / Mcf	33,888	$1.9250	$2.0862	$0.1612	$65,234	$70,697	$5,463	
TOTAL	33,888				$86,684	$94,097	$7,413	
SUMMER (MAY-OCT)								
Base Use Charge / Unit	3,900	$5.5000	$6.0000	$0.5000	$21,450	$23,400	$1,950	
Flat Rate / Mcf	11,634	$1.5500	$1.7112	$0.1612	$18,033	$19,908	$1,875	
TOTAL	11,634				$39,483	$43,308	$3,825	
AIR CONDITIONING CHARGE								
SUMMER (MAY-OCT)								
Flat Rate / Mcf	–	$0.2810	$0.4709	$0.1899	–	–	–	
TOTAL R-4	45,522				$126,167	$137,405	$11,238	8.91%
C-1 (COMM. & INDUST)								
WINTER (NOV-APR)								
Base Use Charge / Bill	44,869	$20.0000	$20.0000	$0.0000	$897,380	$897,380	$0	
First 300 Mcf	2,086,460	$2.5380	$2.7998	$0.2618	$5,295,435	$5,841,671	$546,236	
Next 200 Mcf	321,079	$2.2880	$2.5240	$0.2360	$734,629	$810,403	$75,774	
Next 1,000 Mcf	617,621	$2.2310	$2.4611	$0.2301	$1,377,912	$1,520,027	$142,115	
Excess	292,728	$1.1620	$1.2819	$0.1199	$340,150	$375,248	$35,098	
TOTAL	3,317,888				$8,645,506	$9,444,729	$799,223	
SUMMER (MAY-OCT)								
Base Use Charge / Bill	42,885	$15.0000	$15.0000	$0.0000	$643,275	$643,275	$0	
First 300 Mcf	640,677	$2.0840	$2.2990	$0.2150	$1,335,171	$1,472,916	$137,745	
Next 200 Mcf	111,638	$1.7350	$1.9140	$0.1790	$193,692	$213,675	$19,983	
Next 1,000 Mcf	233,189	$1.5480	$1.7077	$0.1597	$360,977	$398,217	$37,240	
Excess	81,045	$1.1620	$1.2819	$0.1199	$94,174	$103,892	$9,718	
TOTAL	1,066,549				$2,627,289	$2,831,975	$204,686	
AIR CONDITIONING CHARGE								
SUMMER (MAY-OCT)								
Flat Rate / Mcf	–	$0.2810	$0.4709	$0.1899	–	–	–	
Standby Service Demand Charge		$2.9800	$3.0600	$0.0800	–	–	–	
TOTAL C-1	4,384,437				$11,272,795	$12,276,704	$1,003,909	8.91%

CHATTANOOGA GAS COMPANY
BASE RATE MARGIN INCREASE
DOCKET NO. 95-02116

RATE CLASSIFICATION	TEST YEAR MCF SALES	RATES/MCF CURRENT MARGIN/MCF	PROPOSED MARGIN/MCF	PROPOSED INCREASE PER MCF	MARGIN CURRENT MARGIN	PROPOSED MARGIN	MARGIN INCREASE	% INC
I-1 (LARGE VOLUME FIRM)								
Base Use Charge / Bill	827	$250.0000	$300.0000	$50.0000	$206,750	$248,100	$41,350	
Demand Units	125,780	$2.9800	$3.0600	$0.0800	$374,824	$384,887	$10,063	
First 1,500 Mcf	595,254	$0.8100	$0.9088	$0.0988	$482,156	$540,967	$58,811	
Next 2,500 Mcf	609,554	$0.6950	$0.7798	$0.0848	$423,640	$475,330	$51,690	
Next 11,000 Mcf	803,182	$0.4200	$0.4712	$0.0512	$337,336	$378,459	$41,123	
Excess	145,654	$0.3400	$0.3200	($0.0200)	$49,522	$46,609	($2,913)	
TOTAL	2,153,644				$1,667,478	$1,826,252	$158,774	
L-1 (INTERRUPTIBLE)								
Base Use Charge / Bill		$250.0000	$300.0000	$50.0000	$0	$0	$0	
First 1,500 Mcf	576,758	$0.8100	$0.9088	$0.0988	$467,174	$524,158	$56,984	
Next 2,500 Mcf	673,187	$0.6950	$0.7798	$0.0848	$467,865	$524,951	$57,086	
Next 11,000 Mcf	1,025,172	$0.4200	$0.4712	$0.0512	$430,572	$483,061	$52,489	
Excess	297,993	$0.3400	$0.3200	($0.0200)	$101,318	$95,358	($5,960)	
TOTAL	2,573,110				$1,466,929	$1,627,528	$160,599	
T-1 (TRANSPORTATION SERVICE)								
Base Use Charge / Bill		$250.0000	$300.0000	$50.0000	$0	$0	$0	
First 1,500 Mcf	280,215	$0.8100	$0.9088	$0.0988	$226,974	$254,659	$27,685	
Next 2,500 Mcf	424,626	$0.6950	$0.7798	$0.0848	$295,115	$331,123	$36,008	
Next 11,000 Mcf	1,047,072	$0.4200	$0.4712	$0.0512	$439,770	$493,380	$53,610	
Excess	1,972,845	$0.3400	$0.3200	($0.0200)	$670,767	$631,310	($39,457)	
TOTAL	3,724,758				$1,632,626	$1,710,472	$77,846	
T-2 (TRANSPORTATION SERVICE-FIRM BACKUP)								
Base Use Charge / Bill		$250.0000	$300.0000	$50.0000	$0	$0	$0	
Demand Units	28,130	$2.9800	$3.0600	$0.0800	$83,827	$86,078	$2,251	
First 1,500 Mcf	97,500	$0.8100	$0.9088	$0.0988	$78,975	$88,608	$9,633	
Next 2,500 Mcf	159,304	$0.6950	$0.7798	$0.0848	$110,716	$124,225	$13,509	
Next 11,000 Mcf	305,129	$0.4200	$0.4712	$0.0512	$128,154	$143,777	$15,623	
Excess	16,480	$0.3400	$0.3200	($0.0200)	$5,603	$5,274	($329)	
TOTAL	578,413				$407,275	$447,962	$40,687	
TOTAL INDUSTRIAL	9,029,925				5,381,058	5,860,314	479,256	8.91%
V-1 (NATURAL GAS VEHICLE SERVICE)								
Base Use Charge / Bill	–	$17.5000	$17.5000	$0.0000	–	–	–	
Flat Rate / Mcf	–	$0.2810	$0.4709	$0.1899	–	–	–	
TOTAL	–				–	–	–	
TOTAL SYSTEM	17,403,789				$28,071,678	$30,571,654	$2,499,976	
ROUNDING DIFFERENCE							$24	
TOTAL REVENUE DEFICIENCY							$2,500,000	8.91%

CHATTANOOGA GAS COMPANY
COMPUTATION OF PURCHASED GAS ADJUSTMENT AND ALLOCATION TO RATE CLASSIFICATIONS
BASED ON VOLUMES FOR TWELVE MONTHS ENDED AUGUST 31,1995

RATES TO BE EFFECTIVE: NOVEMBER, 1 1995

CURRENT GAS COST	CONTRACT DEMAND	ANNUAL COMMODITY MCF SALES	CURRENT GAS COST DEMAND	CURRENT GAS COST COMMODITY	CURRENT GAS COST TOTAL	CURRENT LEVEL OF GAS COST/MCF (D) * DEMAND PER UNIT	COMMODITY (D) DEMAND	COMMODITY (P) COMMODITY	COMMODITY TOTAL
RATE SCHEDULE									
I-1	9,346	2,486,014	1,845,071	4,243,620	6,088,691	16.4515		1.7070	1.7070
L-1		4,267,903		7,285,300	7,285,300			1.7070	1.7070
T-2	3,304		652,270		652,270	16.4515			
ALL OTHER	54,350	6,922,336	10,729,683	11,816,409	22,546,092		1.5500	1.7070	3.2570
V-1							0.5409	1.7070	2.2479
TOTAL COST ADJUSTMENT	67,000	13,676,253	$13,227,024	$23,345,329	$36,572,353				

BASE RATE LEVEL OF GAS COST/MCF
(DOCKET NO. 93-06946)

BASE GAS COST / RATE SCHEDULE	(DB) DEMAND PER UNIT	COMMODITY (DB) DEMAND	COMMODITY (CB) COMMODITY	COMMODITY TOTAL
I-1	15.7963		2.7275	2.7275
L-1			2.7275	2.7275
T-2	15.7963			
ALL OTHER		1.2576	2.7275	3.9851
V-1		0.5193	2.7275	3.2468

100% LOAD FACTOR
DEMAND COST/MCF

* TOTAL DEMAND COST	$0.5409

TOTAL DEMAND COST = 67,000 X 365 DAYS / TOTAL DEMAND COST

	ANNUAL DEMAND UNITS
* UNIT COST BASED ON	151,800

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CHATTANOOGA GAS COMPANY
GAS TARIFF
TPSC NO. 1

CURRENT LEVEL OF REFUND CREDIT

	PER MCF							PER CCF	
	I-1		L-1	T-1	T-2		V-1	AIR/COND.	ALL OTHER
CREDIT EFFECTIVE	DEMAND	COMMODITY	COMMODITY	COMMODITY	DEMAND	COMMODITY	COMMODITY	COMMODITY	COMMODITY
10-01-94	\3 0.0000	0.0000	\2 0.0000	\1 0.0000	0.0000	0.0000	0.0000	0.0000	0.0213
04-01-95	1.0698	0.0000	0.0000	0.0000	1.0698	0.0000	0.0000	0.0000	0.0100
11-01-95	0.0798				0.0798		0.0000		0.0345
TOTAL	$1.1496	$0.0000	$0.0000	$0.0000	$1.1496	$0.0000	$0.0000	$0.0000	$0.0658

ACA over-collection (93-94 ACA) refund made effective October 1, 1994 for a period of twelve (12) montths or for a longer or shorter period of time as may be required to appropriately refund the over-collection to the Company's customers.

Supplier refund made effective April 1, 1995 for a period of twelve (12) months or for a longer or shorter period of time as may be required to appropriately refund the supplier refund to the Company's customers.

Purchased gas refund made effective November 1, 1995 for a period of twelve (12) montths or for a longer or shorter period of time as may be required to appropriately refund the purchased gas refund to the Company's customers. This refund was calculated in accordance with the settlement agreement reached in docket 95-02116.

\1 The refund amount allocated to the L-1 rate class has been refunded.

\2 The refund amount allocated to commodity portion of the I-1 rate class has been refunded.

\3 The refund amount allocated to demand portion of the I-1 and T-2 rate classes has been refunded.

CURRENT LEVEL OF SURCHARGES AND REFUND CREDITS

AMOUNTS INDICATED BELOW APPLY TO THE BILLING DETERMINANTS OF EACH INDIVIDUAL TARIFF

	I-1		L-1	T-1	T-2		ALL OTHER	R-1, R-4, C-1 AIR CONDITIONING	V-1 NATURAL GAS VEHICLE
RATES	DEMAND	COMMODITY	COMMODITY	COMMODITY	DEMAND	COMMODITY	COMMODITY	COMMODITY	COMMODITY
BILLING UNITS	MCF	MCF	MCF	MCF	MCF	MCF	CCF	CCF	CCF
REFUND CREDIT	($1.1496)	$0.0000	$0.0000	$0.0000	($1.1496)	$0.0000	($0.0658)	$0.0000	$0.0000
GSR / TRANSITION COSTS	$0.0000	$0.1385	$0.0692	$0.0692	$0.0000	$0.1385	$0.0182	$0.0182	$0.0182
IMCR SURCHARGE		$0.0360					$0.0036	$0.0036	$0.0036
TOTAL	($1.1496)	$0.1745	$0.0692	$0.0692	($1.1496)	$0.1385	($0.0440)	$0.0218	$0.0218

CHATTANOOGA GAS COMPANY
DOCKET NO. 95-02116

NOVEMBER 1 1995

		REVISED RATE MARGIN	PRIOR RATE MARGIN	CUMULATIVE PGA	REFUNDS & SURCHARGES	REVISED RATE	PRIOR RATE	INCREASE
R-1	WINTER (NOV - APR)							
RESIDENTIAL	Base Use Charge/Bill	$7.5000	$7.0000			$7.5000	$7.0000	$0.5000
GENERAL	First 2.5 MCF	$3.0049	$2.8150	$3.2570	($0.4400)	$5.8219	$5.6320	$0.1899
SERVICE	Next 2.5 MCF	$2.0049	$1.8150	$3.2570	($0.4400)	$4.8219	$4.6320	$0.1899
	Over 5.0 MCF	$1.8049	$1.6150	$3.2570	($0.4400)	$4.6219	$4.4320	$0.1899
	SUMMER (MAY - OCT)							
	Base Use Charge/Bill	$7.5000	$7.0000			$7.5000	$7.0000	$0.5000
	First 2.5 MCF	$2.7189	$2.5290	$3.2570	($0.4400)	$5.5359	$5.3460	$0.1899
	Next 2.5 MCF	$1.5209	$1.3310	$3.2570	($0.4400)	$4.3379	$4.1480	$0.1899
	Over 5.0 MCF	$0.4709	$0.2810	$1.7070	$0.2180	$2.3959	$2.2060	$0.1899
AIR CONDITIONING	SUMMER (MAY - OCT)							
	Over 5.0 MCF	$0.4709	$0.2810	$1.7070	$0.2180	$2.3959	$2.2060	$0.1899
STANDBY SERVICE								
DEMAND CHARGE	Rate Per MCF of Input per Month	$3.0600	$2.9800	$16.4515	($1.1496)	$18.3619	$18.2819	$0.0800
R-4	WINTER (NOV - APR)							
MULTI-FAMILY	Base Use Charge/Unit	$6.0000	$5.5000			$6.0000	$5.5000	$0.5000
HOUSING	Commodity Charge/MCF	$2.0862	$1.9250	$3.2570	($0.4400)	$4.9032	$4.7420	$0.1612
SERVICE								
	SUMMER (MAY - OCT)							
	Base Use Charge/Bill	$6.0000	$5.5000			$6.0000	$5.5000	$0.5000
	Commodity Charge/MCF	$1.7112	$1.5500	$3.2570	($0.4400)	$4.5282	$4.3670	$0.1612
AIR CONDITIONING	SUMMER (MAY - OCT)							
	Flat Rate / MCF	$0.4709	$0.2810	$1.7070	$0.2180	$2.3959	$2.2060	$0.1899
C-1	WINTER (NOV - APR)							
COMMERCIAL &	Base Use Charge/Bill	$20.0000	$20.0000			$20.0000	$20.0000	$0.0000
INDUSTRIAL	First 300 MCF	$2.7998	$2.5380	$3.2570	($0.4400)	$5.6168	$5.3550	$0.2618
GENERAL	Next 200 MCF	2.5240	$2.2880	$3.2570	($0.4400)	$5.3410	$5.1050	$0.2360
SERVICE	Next 1,000 MCF	2.4611	$2.2310	$3.2570	($0.4400)	$5.2781	$5.0480	$0.2301
	Over 1,500 MCF	1.2819	$1.1620	$3.2570	($0.4400)	$4.0989	$3.9790	$0.1199
	SUMMER (MAY - OCT)							
	Base Use Charge/Bill	$15.0000	$15.0000			$15.0000	$15.0000	$0.0000
	First 300 MCF	$2.2990	$2.0840	$3.2570	($0.4400)	$5.1160	$4.9010	$0.2150
	Next 200 MCF	1.9140	$1.7350	$3.2570	($0.4400)	$4.7310	$4.5520	$0.1790
	Next 1,000 MCF	1.7077	$1.5480	$3.2570	($0.4400)	$4.5247	$4.3650	$0.1597
	Over 1,500 MCF	1.2819	$1.1620	$3.2570	($0.4400)	$4.0989	$3.9790	$0.1199
AIR CONDITIONING	SUMMER (MAY - OCT)							
	Flat Rate / MCF	$0.4709	$0.2810	$1.7070	$0.2180	$2.3959	$2.2060	$0.1899
STANDBY SERVICE								
DEMAND CHARGE	Rate Per MCF of Input per Month	$3.0600	$2.9800	$16.4515	($1.1496)	$18.3619	$18.2819	$0.0800
I-1	Base Use Charge	$300.0000	$250.0000			$300.0000	$250.0000	$50.0000
LARGE	Demand Charge / Demand Unit	$3.0600	$2.9800	$16.4515	($1.1496)	$18.3619	$18.2819	$0.0800
VOLUME	Commodity Charge / MCF							
FIRM	First 1,500 MCF	$0.9088	$0.8100	$1.7070	$0.1745	$2.7903	$2.6915	$0.0988
SERVICE	Next 2,500 MCF	$0.7798	$0.6950	$1.7070	$0.1745	$2.6613	$2.5765	$0.0848
	Next 11,000 MCF	$0.4712	$0.4200	$1.7070	$0.1745	$2.3527	$2.3015	$0.0512
	Over 15,000 MCF	$0.3200	$0.3400	$1.7070	$0.1745	$2.2015	$2.2215	($0.0200)
L-1	Base Use Charge	$300.0000	$250.0000			$300.0000	$250.0000	$50.0000
INTERRUPTIBLE	Commodity Charge/MCF							
SERVICE	First 1,500 MCF	$0.9088	$0.8100	$1.7070	$0.0692	$2.6850	$2.5862	$0.0988
	Next 2,500 MCF	$0.7798	$0.6950	$1.7070	$0.0692	$2.5560	$2.4712	$0.0848
	Next 11,000 MCF	$0.4712	$0.4200	$1.7070	$0.0692	$2.2474	$2.1962	$0.0512
	Over 15,000 MCF	$0.3200	$0.3400	$1.7070	$0.0692	$2.0962	$2.1162	($0.0200)
T-1	Customer Charge	$300.0000	$250.0000			$300.0000	$250.0000	$50.0000
INTERRUPTIBLE	Transportation Charge/MCF							
TRANSPORTATION	First 1,500 MCF	$0.9088	$0.8100		$0.0692	$0.9780	$0.8792	$0.0988
SERVICE	Next 2,500 MCF	$0.7798	$0.6950		$0.0692	$0.8490	$0.7642	$0.0848
	Next 11,000 MCF	$0.4712	$0.4200		$0.0692	$0.5404	$0.4892	$0.0512
	Over 15,000 MCF	$0.3200	$0.3400		$0.0692	$0.3892	$0.4092	($0.0200)
T-2	Customer Charge	$300.0000	$250.0000			$300.0000	$250.0000	$50.0000
INTERRUPTIBLE	Demand Charge/Demand Unit	$3.0600	$2.9800	$16.4515	($1.1496)	$18.3619	$18.2819	$0.0800
TRANSPORTATION	Transportation Charge/MCF							
SERVICE	First 1,500 MCF	$0.9088	$0.8100		$0.1385	$1.0473	$0.9485	$0.0988
WITH FIRM	Next 2,500 MCF	$0.7798	$0.6950		$0.1385	$0.9183	$0.8335	$0.0848
BACKUP	Next 11,000 MCF	$0.4712	$0.4200		$0.1385	$0.6097	$0.5585	$0.0512
	Over 15,000 MCF	$0.3200	$0.3400		$0.1385	$0.4585	$0.4785	($0.0200)
V-1								
NATURAL GAS	Base Use Charge / Bill	$17.5000				$17.5000	$17.5000	$0.0000
VEHICLE SERVICE	Flat Rate / MCF	$0.4709	$0.2810	$2.2479	$0.2182	$2.9370	$2.7471	$0.1899

SUMMARY OF TARIFF CHANGES OTHER THAN PRICE
Description of Changes

MONTHLY BASE RATE

Revised Monthly Base Rate Section as required to reflect the Company's Monthly Base Rate having been changed to include margin only.

Revision shall read as follows:

"Purchased gas costs, other adjustments, charges and/or credits as determined in accordance with the Tennessee Public Service Commission's Rules and Regulations and applicable taxes shall be added to the above rates."

PAYMENT TERMS

Revised Payment Terms Section for All Rate Schedules to read that payment must be received in lieu of made as contained in presently effective tariff.

Revision shall read as follows:

"All bills for service are due upon presentation. The stated net amount shown on the bill shall apply if payment is received on or before the date as specified on the bill. Payments received after that date shall be for an amount which shall be greater by five percent (5%) than the net billing."

SPECIAL TERMS AND CONDITIONS

Revised Special Terms and Conditions Section for Rate Schedules C-1, I-1, L-1, T-1, T-2, SS-1 and Limiting and Curtailing Gas Service to provide for increase in penalty rate to be no less than the minimum pipeline supplier's penalty rate.

Revision shall read as follows:

"In the event consumer takes daily gas deliveries in excess of consumer's daily contract entitlement where such consumption is measured and recorded on a daily basis, or in the event consumer does not comply with a curtailment order as directed by the Company and takes gas in excess of the daily volume allowed by the Company in the curtailment order, such gas taken in excess of consumer's daily contract entitlement or such daily volumes taken in excess of curtailment volumes shall be paid for by the consumer at the greater of the rate of $15.00 per MCF or $1.50 per Therm or an amount equal to the actual cost incurred by the Company to include all applicable pipeline and/or gas supplier penalties and/or charges because of the consumer's failure to comply with a curtailment order as directed by the Company. These additional charges shall be in addition to all other charges payable under this Rate Schedule. The Company may waive any such additional charges for such excess or unauthorized use of gas if its costs of gas purchased or produced or gas service to any other of the Company's customers was not affected by such unauthorized use by the consumer."

INTERRUPTIBLE MARGIN CREDIT RIDER

Revised the Intent and Application Section to authorize the Company to recover no more than 90% of gross profit margin losses and no more than 50% of gross profit margin for off-system sales of gas.

Revision shall read as follows:

"This Interruptible Margin Credit Rider is intended to authorize the Company to recover no more than ninety percent (90%) of the gross profit margin losses that result from rates negotiated under the provisions of Special Service Rate Schedule SS-1 or from customers who switch to alternate fuels where the Company is unable to meet alternate fuel competition."

"This Interruptible Margin Credit Rider is also intended to authorize the Company to recover no more than fifty percent (50%) of the gross profit margin that results from off-system sales of gas should such sales be made to off-system customers by the Company."

WNA RIDER

Revised WNA Rider Component Factors for Rate Schedules R-1, R-4 and C-1.

BEFORE THE TENNESSEE PUBLIC SERVICE COMMISSION

November 20, 1995 Nashville, Tennessee

IN RE: PETITION OF UNITED CITIES GAS TO PLACE INTO EFFECT REVISED TARIFF SHEETS

DOCKET NO. 95-02258

ORDER

This matter is before the Tennessee Public Service Commission upon the Petition of United Cities Gas Company for a rate increase of $3,950,613 in annual revenue. The Petition was filed on May 15, 1995, and was heard by the Commission on October 11, 1995. Sitting at the hearing were Chairman Keith Bissell, Commissioner Stephen O. Hewlett, and Commissioner Sara Kyle.

Appearances were as follows:

For the Petitioner:

Jack M. Irion
Bomar, Shofner, Irion & Rambo
P. O. Box 129
Shelbyville, TN 37160

For the Intervenors
Associated Valley Industries Intervenor Group:

Henry Walker
Boult, Cummings, Conners & Berry
414 Union Street
Suite 1660
Nashville, TN 37219

For the Intervenor
Consumer Advocate Division, Office of the Attorney General:

David Yates and Steven A. Hart
Consumer Advocate Division
404 James Robertson Parkway
Suite 1504
Nashville, TN 37243-0500

Special and Limited Appearance
For the Commission Staff:

Jeanne Moran, Legal Counsel
Tennessee Public Service Commission
460 James Robertson Parkway
Nashville, TN 37243-0505

The Commission has considered the Petition, Exhibits, testimony of witnesses, and the resolution of the issues as described below. In accordance with Tennessee Code Annotated §4-5-314, the Commission makes the following findings of fact and conclusions of law:

I. Description of Petitioner:

United Cities Gas Company ("United Cities," "Company," or "Petitioner") is a natural gas distribution company, organized and existing under the laws of the States of Illinois and Virginia. It operates franchises in the following areas of Tennessee which will be affected by the revised tariffs filed herewith, to-wit:

(1) Bristol, Tennessee, and environs in Sullivan County;

(2) Columbia, Tennessee, and environs in Maury County;

(3) Elizabethton, Tennessee, and environs in Carter County;

(4) Franklin and Nolensville, Tennessee, and environs in Williamson County;

(5) Greeneville, Tennessee, and environs in Greene County;

(6) Johnson City and Jonesboro, Tennessee, and environs in Washington County;

(7) Kingsport, Tennessee, and environs in Sullivan County;

(8) Lynchburg, Tennessee, and environs in Moore County;

(9) Maryville and Alcoa, Tennessee, and environs in Blount County;

(10) Morristown, Tennessee, and environs in Hamblen County;

(11) Murfreesboro, Tennessee, and environs in Rutherford County;

(12) Shelbyville, Tennessee, and environs in Bedford County;

(13) Spring Hill, Tennessee, and environs in Maury and Williamson County;

(14) Union City, Tennessee, and environs in Obion County.

United Cities last filed an application for general rate relief in the year 1992 in Docket No. 92-02987. Since 1970, United Cities' rates have been subject to a Purchased Gas Adjustment (PGA) provision in its rate tariff which permits the Company to track increases or decreases in its purchased gas cost. This PGA has periodically been revised pursuant to the generic proceeding in Docket No. G-86-1 and also United Cities' Application To Establish An Experimental Performance-Based Ratemaking Mechanism (Incentive Ratemaking) in Docket No. 95-01134. United Cities' rates are also subject to a Weather Normalization Adjustment (WNA). Said WNA was modified and made permanent pursuant to the Commission's Order of June 21, 1994 in the generic proceeding in Docket No. 91-01712.

II. Criteria for Establishing Just and Reasonable Rates.

The Commission has traditionally considered petitions such as this one, filed pursuant to Tennessee Code Annotated § 65-5-203, in light of the following considerations:

1. The investment or rate base upon which the utility should be permitted to earn a fair rate of return.

2. The proper level of revenues for the utility.

3. The proper level of expenses for the utility.

4. The rate of return the utility should earn.

5. The safety, adequacy and efficiency of the services provided by the utility.

III. Prehearing Conference; Hearing; Resolution of Issues

The parties attended a prehearing conference on October 2, 1994, conducted by Administrative Judge Ralph B. Christian, II. Prior to the date of the prehearing, there had been informal settlement negotiations, however, no settlements had been reached at the time of the prehearing conference. Nor were there any settlements of any contested issues at the prehearing conference. The parties did agree to certain adjustments which were in the nature of a correction of errors or of a correction of methodology. But beyond these minor adjustments, no resolution of contested issues was reached.

This matter came on for hearing, as stated above, on October 11, 1995. Counsel for the various parties identified their prefiled testimony and exhibits. The first witness called was John Antonuk, whose presence was obtained by the Commission's Staff. Mr. Antonuk was the project manager for the management audit conducted pursuant to the Company's agreement in its last general rate case, Docket No. 92-02987. Mr. Antonuk was examined by the parties concerning the findings of the management audit team and whether those findings should be applied in a rate case environment. He also was questioned as to the detail of the findings and whether they could be tied to the test period.

Following Mr. Antonuk's testimony, the Company presented witnesses, Gene C. Koonce, Michael R. Walker, David P. Vondle, and Morris H. Jacobs. Following a recess, the Commission's Staff made a special and limited appearance for the purpose of discussing and explaining a settlement reached by the Commission Staff with the Petitioner in regard to the management audit mentioned hereinabove. That settlement and the Commission's action thereon are discussed below. The Staff's witness for this limited purpose was William H. Novak.

Following Mr. Novak's testimony, the Company continued with witnesses, Walter S. Hulse III and James B. Ford. Following these witnesses, as set out hereinbelow, there were further settlement discussions which eliminated the need for further witnesses to take the stand. At the conclusion of the hearing, the parties moved for the admission of all prefiled testimony and Exhibits, and this motion was granted.

Prior to the hearing, the Company and the Staff reached an agreement as to certain issues arising from the Company's management audit mentioned hereinabove. This agreement was reached without the concurrence of the intervenors. The Commission's Staff, as stated above, made a special and limited appearance for the purpose of presenting and explaining this settlement. The settlement, in the form of a Stipulation and Agreement dated October 6, 1995, was admitted into the record as Exhibit No. 26 and is attached as Appendix A to this Order. The Commission's action upon this Stipulation and Agreement is described below:

During various recesses at the hearing, the parties continued settlement discussions. Upon representation of the parties that a complete settlement might be possible, the Commission allowed additional time for further discussions. Subsequently, the parties announced to the Commission that they believed an overall settlement on revenue deficiency could be reached if the Commission could give an indication of what its action would be upon the aforementioned Stipulation and Agreement attached hereto as Appendix A. This settlement involved $1,502,000 of proposed disallowances. The settlement would permit the Company to recover those amounts in return for the Company's agreement as to certain accounting and reporting practices, all as set forth in Appendix A.

The Commission indicated that it believed that the Company had borne the burden of proof on these issues and that the Stipulation and Agreement attached hereto as Appendix A should be approved as part of any overall settlement. The Commission did, however, indicate that its action should not be viewed as any indication that the Company should close any customer service centers in any of the neighborhoods or areas that are currently served, or where those currently exist. The Company agreed to continue to study these issues, but stated that its general philosophy was to continue on a town-oriented customer service approach (see the discussion on this point at pages 195-197 of the official transcript).

Thereafter, the parties announced that a settlement had been reached on revenue deficiency. This settlement involves what is commonly referred to as a "black box settlement", whereby the issues are settled by agreeing upon a bottom line revenue deficiency without any elaboration as to the resolution of specific contested issues. The Company did file as a part of this case recovery of SFAS 106 costs in accordance with Docket No. 92-14631 (C) and the Compliance Audit Report dated September 13, 1995. No exceptions were filed to recovery of the SFAS 106 costs.

The parties stated that they would continue to discuss the issue of rate design and would present an overall settlement, including rate design, or would request an additional short hearing from the Commission on this one issue. The Commission approved this approach, and then the hearing was adjourned.

IV. The Settlement.

A. Methodology and Underlying Principles.

The parties agreed at the outset, and it is specifically understood that their settlement represents a negotiated settlement in the public interest with respect to the various rate matters described. Neither United Cities, the Commission, its Staff, nor the Intervenors shall be prejudiced or bound thereby in any other proceeding except as specifically provided herein. Neither United Cities, the Commission, its Staff, nor the Intervenors shall be deemed to have approved, accepted or agreed to any concept, methodology, theory, or principle underlying or supposed to underlie any of the matters provided for in said settlement except as specifically provided.

B. Revenue Deficiency.

After extensive discussions, the Company and the intervenors agreed upon a revenue deficiency of $2,227,000, which figure includes the sum of $1,502,000 that is the subject of the Stipulation and Agreement attached hereto as Appendix A. The Commission, upon consideration of all evidence, finds the settlement as to revenue deficiency to be reasonable and approves the same.

C. Rate Design.

By letter dated October 24, 1995, the Office of the Consumer Advocate notified the Commission that as of that date the parties had been unable to reach an agreement on rate design. The Commission, therefore, set this matter for a further hearing on November 7, 1995. At this hearing, however, it was announced that in the interim period an agreement on rate design had been reached. Under the terms of said agreement, the Company's interruptible industrial customers and customers billed at interruptible rates (Rate Schedules 240 and 250) would receive a rate increase equivalent to $0.050 per Mcf. The remaining portion of the revenue deficiency discussed in Subsection B would be spread in equal percentages to the remaining customer classes (See Appendix B). Subsequent to the November 7, 1995, hearing, it was determined that there was a misunderstanding as to the exact agreement with regard to the interruptible customer class. The parties' agreement was for a $0.050 increase to the interruptible customer class as a whole. The Company and the industrial intervenors also agreed to certain changes within that customer class. The Consumer Advocate took no position about changes within the interruptible industrial class so long as the total revenue to be recovered from that class did not change. The changes outlined below only affect rates within the interruptible class and do not affect the total revenue to be recovered from that class. The changes are (1) the customer surcharge is increased from $280 to $310; (2) usage in the first rate block is increased by $0.10 per Mcf; (3) usage in the second rate block is increased by $0.021 per Mcf; and (4) a new third rate block price of $.329 per Mcf is created for usage over 50,000 Mcf per month. In reaching just and reasonable rates the Commission considers, among other things, the utility's total cost, the value of the service provided to individual customers or customer groups, the impact of the rate change on the various classes of customers, and customers' ability to convert to alternate fuels. Taking these factors into consideration, the rate design appears to be reasonable and is approved, subject to the submission and approval of appropriate tariff sheets.

D. Transition Costs.

By Order dated February 9, 1995, the Commission, upon it own Motion, opened a generic docket to determine the appropriate allocation of FERC Order No. 636 costs (commonly referred to as transition costs) of gas utilities in Tennessee. This generic docket was assigned Docket No. 94-04478. By further Order dated June 29, 1995, in the said Docket No. 94-04478, the Commission approved a settlement of this matter as to United Cities Gas Company. Said settlement provided, *inter alia*,

> "No final resolution of the transition cost issue should be made without consideration of the impact of the company's pending rate case. Therefore, the transition cost issue should be addressed during the rate design portion of the company's rate case."

Said settlement provided that United Cities should, effective August 1, 1995, begin charging all interruptible customers a transition cost surcharge of $0.050 per Mcf. At the hearing on

November 7, 1995, the parties announced that they had agreed that this transition cost surcharge to interruptible customers should be increased to $0.088 (See Appendix B). To the extent that the transition costs are increased to the interruptible customers, they shall be decreased to the remaining customer classes. The Commission, upon consideration of all evidence, finds the settlement as to transition costs to be reasonable and approves the same.

E. Other Tariff Issues.

Certain other tariff issues were also agreed to by the parties. It was agreed that the Company's existing Sales Adjustment Mechanism (SAM) applicable to its customer, Goodyear Tire & Rubber Company, located in Union City, Tennessee, should be continued as at present. The Company proposed that it implement a zero-based Purchase Gas Adjustment (PGA). In a zero-based PGA, all gas costs are removed from base rates and are included in the PGA. All parties agreed to this change provided that in the Company's future tariff filings it will show not only the base rate and the PGA, but also the combined rate. The Company agreed to this condition. This issue has no revenue impact. Certain other tariff changes were also sought by the Company in its filing and by way of certain changes announced at the hearing on November 7, 1995. These changes were minor in nature and were unopposed by any other party. None of said changes has any significant revenue impact. The Commission finds the aforementioned resolutions of tariff issues reasonable and the same are hereby approved. The parties also agree that the summer rate for residential customers will remain in effect.

F. Other Issues.

The remaining issues in this proceeding were likewise settled as between United Cities and the parties, and these settlements are incorporated in the above-described "black box settlement" as to revenue deficiency.

V. Commission Determination.

The Commission has fully reviewed the settlement in all its parts, as described above, and finds it to be reasonable and in the public interest. Therefore, the Commission ratifies and approves the foregoing settlement and resolution of the issues as a whole and orders that the same be implemented as indicated below.

IT IS THEREFORE ORDERED:

1. That the Petition of United Cities Gas Company for a rate increase of $3,950,613 is denied.

2. That the stipulation between the Commission Staff and United Cities Gas Company which is attached as Appendix A is hereby approved as though copied into this Order verbatim.

3. That the Company shall file tariff sheets designed to produce $2,227,000 in additional annual revenue and in accordance with this Order and the agreements approved hereby, said tariff sheets to become effective as of November 15, 1995, for service rendered on and after that date.

4. That any party aggrieved with the Commission's decision in this may file a Petition for Reconsideration with the Commission within ten (10) days from and after the date of this Order; and

5. That any party aggrieved with the Commission's decision in this matter has the right of judicial review by filing a Petition for Review in the Tennessee Court of Appeals, Middle Section, within sixty (60) days from and after the date of this Order.

Keith Bissell

CHAIRMAN

COMMISSIONER

COMMISSIONER

ATTEST:

Maria Owens

EXECUTIVE DIRECTOR's OFFICE

APPROVED FOR ENTRY:

BOMAR, SHOFNER, IRION & RAMBO

By: Jack M. Irion

Jack M. Irion
Attorney for United Cities Gas Company

BOULT, CUMMINGS, CONNERS & BERRY

By: Henry Walker JMI by permission

Henry Walker
Attorney for Associated Valley
Industries Intervenor Group

CONSUMER ADVOCATE DIVISION,
OFFICE OF THE ATTORNEY GENERAL

By: David W. Yates JMI by permission

David W. Yates
Associate Consumer Advocate

Before The
Tennessee Public Service Commission
Nashville, Tennessee

In the Matter of:	)	
Petition of United Cities Gas	)	
Company To Place Into Effect	)	**Docket No. 95-02258**
Revised Tariff Sheets	)	

STIPULATION AND AGREEMENT

United Cities Gas Company (UCGC) and the Staff of the Tennessee Public Service Commission (Staff) hereby enter into this Stipulation and Agreement (S & A) for the purpose of resolving all issues, except the non-compete/consulting and equity funding fees, relating to the management audit which impacts the revenue requirement of UCGC. In order to avoid litigating and settling the $1,502,000 adjustment proposed by Consumer Advocate (CA), UCGC and Staff hereby agree to the following:

1. UCGC will by year-end make a good faith effort to modify the PSC 3.03 monthly report to include in rate base the assets leased between UCG Energy (Energy) and UCGC with corresponding adjustments for rental expense, depreciation expense and income taxes. The Company will provide a detailed report on a monthly basis which shows the calculation of the above information.

2. Both UCGC and Staff agree that the information necessary to calculate the proper accumulated deferred federal income tax on the leased assets is readily available for inclusion in subsequent rate case and this resolves the concern in the management audit finding 2.12-1.

3. The issues concerning the Company's management audit will be deemed to be resolved and no further adjustments, ratemaking or otherwise, except the non-compete/consulting and equity funding fees, will be proposed or made in any future proceedings before the Tennessee Public Service Commission.

4. The terms set forth in the Stipulation and Agreement are the results of negotiations among the signatory parties. Because the terms are

interdependent, if the Commission does not approve and adopt all of the terms of this Stipulation and Agreement, this Stipulation and Agreement shall be void and no signatory shall be bound by any of the agreement or provisions hereof.

5. This agreement may be executed in several counterparts and all so executed shall constitute but one and the same instrument binding all parties thereto, notwithstanding that all parties are not signatory to the same counterpart, each shall be fully effective as an original.

Executed this 6th day of October, 1995.

James G. Sager
James G. Sager
Senior Manager Accounting/Regulatory
Affairs
UNITED CITIES GAS COMPANY

William H. Novak
Manager of Energy and Water
Tennessee Public Service Commission

APPENDIX B

Settlement = $ 2,227,000

	Per MCF		
Class of Service	Base Rate Increase (Decrease)	Transitition Cost Increase (Decrease)	Overall Increase (Decrease)
Residential A/	$ 0.167	$ (0.0280)	$ 0.139
Commercial (220)	0.141	$ (0.0280)	$ 0.113
Industrial - Firm	0.114	$ (0.0280)	$ 0.086
Interruptible	0.050	$ 0.0380	$ 0.088

REVISED

A/ Maintain summer/ winter rate differential.

BEFORE THE TENNESSEE PUBLIC SERVICE COMMISSION

November 30, 1995 Nashville, Tennessee

IN RE: PETITION OF UNITED CITIES GAS TO PLACE INTO EFFECT REVISED TARIFF SHEETS

DOCKET NO. 95-02258

ORDER

The above-captioned matter is a general rate case filed on behalf of United Cities Gas Company (United Cities or Company). The petition was filed on May 15, 1995. Under date of September 13, 1995, the Staff of the Tennessee Public Service Commission issued a Compliance Audit report in connection with this docket. This report incorporated Staff findings and Company responses. The Company initially agreed with several items, with the remaining items to be addressed in the rate proceeding itself. Ultimately, all issues were resolved.

On October 23, 1995, the Commission received a Memorandum from William H. Novak, Manager, Energy & Water Section, Utility Rate Division, attaching for approval a settlement agreement between the Staff and the Company in regard to the Compliance Audit. A copy of the settlement agreement is attached hereto as Appendix A.

This matter came on for consideration at the Commission's regularly scheduled Commission Conference on November 7, 1995. At that time, the Commission determined that it should receive the Compliance Audit, and that the settlement agreement between the Staff and the Company with regard to that Compliance Audit should be approved.

IT IS, THEREFORE, ORDERED:

1. That the Compliance Audit of September 13, 1995, be and the same hereby is received.

2. That the agreement between the Commission's Staff and the Company transmitted to the Commission by the aforementioned Memorandum and attached hereto as Appendix A be and the same hereby is approved.

3. That any party aggrieved with the Commission's decision in this may file a Petition for Reconsideration with the Commission within ten (10) days from and after the date of this Order; and

4. That any party aggrieved with the Commission's decision in this matter has the right of judicial review by filing a Petition for Review in the Tennessee Court of Appeals, Middle Section, within sixty (60) days from and after the date of this Order.

CHAIRMAN

COMMISSIONER

COMMISSIONER

ATTEST:

EXECUTIVE DIRECTOR

APPENDIX A

TEN SSEE PUBLIC SERVICE COMMI ION
460 JAMES ROBERTSON PARKWAY
NASHVILLE, TENNESSEE 37243-0505

EITH BISSELL, CHAIRMAN
EVE HEWLETT, COMMISSIONER
SARA KYLE, COMMISSIONER

PAUL ALLEN, EXECUTIVE DIRECTOR

TENNESSEE
AMERICA at ITS BEST

MEMORANDUM

To: Chairman Keith Bissell
Commissioner Steve Hewlett
Commissioner Sara Kyle

From: William H. Novak, Manager
Energy & Water Section
Utility Rate Division

Subject: United Cities Gas Company
Docket 95-02258

Date: October 23, 1995

The Company and Staff have reached a settlement agreement on all Compliance Audit findings left unsettled last week's hearing. I have attached a copy of the signed settlement agreement for your approval.

If you have any questions or comments, please call me at 532-9156.

Attachment

cc: James Sager, UCG
Consumer Advocate
Henry Walker, AVI
Chris Klein
Jeanne Moran

WHN:ta:ta57

COMPLIANCE AUDIT
SETTLEMENT AGREEMENT
DOCKET 95-02258

On September 13, 1995, the Staff of the Tennessee Public Service Commission issued a Compliance Audit report on United Cities Gas Company. This document incorporated Staff findings and Company responses. The Company initially agreed with several items with the remaining items to be addressed in the pending rate proceeding (Docket 95-02258). The Commission addressed several of these issues at the hearing held on October 11, 1995. However, two issues remained unsettled. The Company and Staff then held a discussion and settled on the remaining matters. The following is a summary of all issues:

- The Company and Staff originally agreed on the following issues:
  - ⇒ Actual Cost Adjustment Compliance
  - ⇒ Weather Normalization Adjustment factors
  - ⇒ Purchased Gas Prudence Review & Incentive PGA
  - ⇒ SFAS 106 Compliance
  - ⇒ Removal of Gas Cost from Base Tariff Rates
  - ⇒ Accumulated Deferred Federal Income Taxes
  - ⇒ Sales Adjustment Mechanism
  - ⇒ Margin Losses
  - ⇒ Capacity Assignment

- **Management Audit Amortization**: The Company and Staff disagreed on the length of time required to write off the management audit cost. This issue was settled as part of the $2.227 million Rate Case settlement agreement. No further action is required.

- **Customer Installations Expense**: The Company submitted a response outlining changes to ensure that credits in these accounts will closely resemble actual costs. The Staff will review this methodology in its next compliance audit. No further action is required at this time.

Signed,

James G. Sager
United Cities Gas Company

[signature]
Tennessee Public Service Commission Staff

BEFORE THE TENNESSEE PUBLIC SERVICE COMMISSION
NASHVILLE, TENNESSEE

IN RE: JOINT PETITION OF HARDIN COUNTY GAS COMPANY AND COUNCE NATURAL GAS CORP. FOR TRANSFER OF CERTIFICATE OF CONVENIENCE AND NECESSITY TO OPERATE A NATURAL GAS DISTRIBUTING COMPANY IN HARDIN COUNTY, TENNESSEE FROM HARDIN COUNTY GAS COMPANY TO COUNCE NATURAL GAS CORP.

DOCKET NO. 95-03379

ORDER TO REVISE SCHEDULE

Upon the Joint Petition of Hardin County Gas Company and the Consumer Advocate, the deadline for filing testimony in the above-styled proceeding is reset from Wednesday, November 29, 1995, to Friday, December 1, 1995, at which time each party shall hand deliver to each other and to the Commission its testimony to be prefiled in this case.

ENTERED this 22nd day of November, 1995.

Administrative Law Judge

APPROVED FOR ENTRY:

John Knox Walkup
Counsel for Hardin County Gas Corp.

L. Vincent Williams JKW by permission

L. Vincent Williams
Consumer Advocate

0042628.01

TENNESSEE PUBLIC SERVICE COMMISSION

460 JAMES ROBERTSON PARKWAY
NASHVILLE, TENNESSEE 37243-0505

TENNESSEE
AMERICA at ITS BEST

NOTICE OF HEARING RESCHEDULE

DOCKET: 95-03232

PETITIONER: WINSTAR WIRELESS OF TENNESSEE, INC.

IN RE: APPLICATION OF WINSTAR WIRELESS OF TENNESSEE, INC. FOR A CERTIFICATE OF CONVENIENCE AND NECESSITY

DATE: November 29, 1995

Pursuant to T.C.A. 65-4-203, the Commission has scheduled a **hearing** in the above captioned proceeding for Friday, December 1, 1995, at 1:30 p.m., in the Commission Hearing Room, Ground Floor, 460 James Robertson Parkway, Nashville, Tennessee. This hearing has been **rescheduled** for **Friday, December 1, 1995, at 2:00 p.m.**

The hearing will be conducted in accordance with the Tennessee Uniform Administrative Procedures Act, T.C.A. 4-5-101 et seq. All parties are entitled to be represented by counsel.

Any motion to change the date of these hearings must be made in writing, filed with the office of the Executive Director of the Commission, and directed either to the presiding Administrative Judge or the Chairman of the Commission. Copies of the motion must be served on all parties.

Participants with disabilities who require special accommodations or alternate communications formats should contact the Tennessee Public Service Commission ADA-EEO/AA Coordinator/Officer, 460 James Robertson Parkway, Nashville, Tennessee 37243-0505, 1-800-342-8359 or TDD 741-3930 no less than five days prior to the scheduled hearing so that reasonable accommodations can be made.

FOR THE TENNESSEE PUBLIC SERVICE COMMISSION

cc: Interested Parties

BEFORE THE TENNESSEE PUBLIC SERVICE COMMISSION

Nashville, Tennessee

November 20, 1995

IN RE: PETITION OF UNITED CITIES GAS TO PLACE INTO EFFECT REVISED TARIFF SHEETS

DOCKET NO. 95-02258

ORDER

This matter is before the Tennessee Public Service Commission upon the Petition of United Cities Gas Company for a rate increase of $3,950,613 in annual revenue. The Petition was filed on May 15, 1995, and was heard by the Commission on October 11, 1995. Sitting at the hearing were Chairman Keith Bissell, Commissioner Stephen O. Hewlett, and Commissioner Sara Kyle.

Appearances were as follows:

For the Petitioner:

Jack M. Irion
Bomar, Shofner, Irion & Rambo
P. O. Box 129
Shelbyville, TN 37160

For the Intervenors
Associated Valley Industries Intervenor Group:

Henry Walker
Boult, Cummings, Conners & Berry
414 Union Street
Suite 1660
Nashville, TN 37219

For the Intervenor
Consumer Advocate Division, Office of the Attorney General:

David Yates and Steven A. Hart
Consumer Advocate Division
404 James Robertson Parkway
Suite 1504
Nashville, TN 37243-0500

Special and Limited Appearance
For the Commission Staff:

Jeanne Moran, Legal Counsel
Tennessee Public Service Commission
460 James Robertson Parkway
Nashville, TN 37243-0505

The Commission has considered the Petition, Exhibits, testimony of witnesses, and the resolution of the issues as described below. In accordance with Tennessee Code Annotated § 4-5-314, the Commission makes the following findings of fact and conclusions of law:

I. Description of Petitioner:

United Cities Gas Company ("United Cities," "Company," or "Petitioner") is a natural gas distribution company, organized and existing under the laws of the States of Illinois and Virginia. It operates franchises in the following areas of Tennessee which will be affected by the revised tariffs filed herewith, to-wit:

(1) Bristol, Tennessee, and environs in Sullivan County;

(2) Columbia, Tennessee, and environs in Maury County;

(3) Elizabethton, Tennessee, and environs in Carter County;

(4) Franklin and Nolensville, Tennessee, and environs in Williamson County;

(5) Greeneville, Tennessee, and environs in Greene County;

(6) Johnson City and Jonesboro, Tennessee, and environs in Washington County;

(7) Kingsport, Tennessee, and environs in Sullivan County;

(8) Lynchburg, Tennessee, and environs in Moore County;

(9) Maryville and Alcoa, Tennessee, and environs in Blount County;

(10) Morristown, Tennessee, and environs in Hamblen County;

(11) Murfreesboro, Tennessee, and environs in Rutherford County;

(12) Shelbyville, Tennessee, and environs in Bedford County;

(13) Spring Hill, Tennessee, and environs in Maury and Williamson County;

(14) Union City, Tennessee, and environs in Obion County.

United Cities last filed an application for general rate relief in the year 1992 in Docket No. 92-02987. Since 1970, United Cities' rates have been subject to a Purchased Gas Adjustment (PGA) provision in its rate tariff which permits the Company to track increases or decreases in its purchased gas cost. This PGA has periodically been revised pursuant to the generic proceeding in Docket No. G-86-1 and also United Cities' Application To Establish An Experimental Performance-Based Ratemaking Mechanism (Incentive Ratemaking) in Docket No. 95-01134. United Cities' rates are also subject to a Weather Normalization Adjustment (WNA). Said WNA was modified and made permanent pursuant to the Commission's Order of June 21, 1994 in the generic proceeding in Docket No. 91-01712.

II. Criteria for Establishing Just and Reasonable Rates.

The Commission has traditionally considered petitions such as this one, filed pursuant to Tennessee Code Annotated § 65-5-203, in light of the following considerations:

1. The investment or rate base upon which the utility should be permitted to earn a fair rate of return.

2. The proper level of revenues for the utility.

3. The proper level of expenses for the utility.

4. The rate of return the utility should earn.

5. The safety, adequacy and efficiency of the services provided by the utility.

III. Prehearing Conference; Hearing; Resolution of Issues

The parties attended a prehearing conference on October 2, 1994, conducted by Administrative Judge Ralph B. Christian, II. Prior to the date of the prehearing, there had been informal settlement negotiations, however, no settlements had been reached at the time of the prehearing conference. Nor were there any settlements of any contested issues at the prehearing conference. The parties did agree to certain adjustments which were in the nature of a correction of errors or of a correction of methodology. But beyond these minor adjustments, no resolution of contested issues was reached.

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The Commission indicated that it believed that the Company had borne the burden of proof on these issues and that the Stipulation and Agreement attached hereto as Appendix A should be approved as part of any overall settlement. The Commission did, however, indicate that its action should not be viewed as any indication that the Company should close any customer service centers in any of the neighborhoods or areas that are currently served, or where those currently exist. The Company agreed to continue to study these issues, but stated that its general philosophy was to continue on a town-oriented customer service approach (see the discussion on this point at pages 195-197 of the official transcript).

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IV. The Settlement.

A. Methodology and Underlying Principles.

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B. Revenue Deficiency.

After extensive discussions, the Company and the intervenors agreed upon a revenue deficiency of $2,227,000, which figure includes the sum of $1,502,000 that is the subject of the Stipulation and Agreement attached hereto as Appendix A. The Commission, upon consideration of all evidence, finds the settlement as to revenue deficiency to be reasonable and approves the same.

C. Rate Design.

By letter dated October 24, 1995, the Office of the Consumer Advocate notified the Commission that as of that date the parties had been unable to reach an agreement on rate design. The Commission, therefore, set this matter for a further hearing on November 7, 1995. At this hearing, however, it was announced that in the interim period an agreement on rate design had been reached. Under the terms of said agreement, the Company's interruptible industrial customers and customers billed at interruptible rates (Rate Schedules 240 and 250) would receive a rate increase equivalent to $0.050 per Mcf. The remaining portion of the revenue deficiency discussed in Subsection B would be spread in equal percentages to the remaining customer classes (See Appendix B). Subsequent to the November 7, 1995, hearing, it was determined that there was a misunderstanding as to the exact agreement with regard to the interruptible customer class. The parties' agreement was for a $0.050 increase to the interruptible customer class as a whole. The Company and the industrial intervenors also agreed to certain changes within that customer class. The Consumer Advocate took no position about changes within the interruptible industrial class so long as the total revenue to be recovered from that class did not change. The changes outlined below only affect rates within the interruptible class and do not affect the total revenue to be recovered from that class. The changes are (1) the customer surcharge is increased from $280 to $310; (2) usage in the first rate block is increased by $0.10 per Mcf; (3) usage in the second rate block is increased by $0.021 per Mcf; and (4) a new third rate block price of $.329 per Mcf is created for usage over 50,000 Mcf per month. In reaching just and reasonable rates the Commission considers, among other things, the utility's total cost, the value of the service provided to individual customers or customer groups, the impact of the rate change on the various classes of customers, and customers' ability to convert to alternate fuels. Taking these factors into consideration, the rate design appears to be reasonable and is approved, subject to the submission and approval of appropriate tariff sheets.

D. Transition Costs.

By Order dated February 9, 1995, the Commission, upon it own Motion, opened a generic docket to determine the appropriate allocation of FERC Order No. 636 costs (commonly referred to as transition costs) of gas utilities in Tennessee. This generic docket was assigned Docket No. 94-04478. By further Order dated June 29, 1995, in the said Docket No. 94-04478, the Commission approved a settlement of this matter as to United Cities Gas Company. Said settlement provided, *inter alia,*

> "No final resolution of the transition cost issue should be made without consideration of the impact of the company's pending rate case. Therefore, the transition cost issue should be addressed during the rate design portion of the company's rate case."

Said settlement provided that United Cities should, effective August 1, 1995, begin charging all interruptible customers a transition cost surcharge of $0.050 per Mcf. At the hearing on

November 7, 1995, the parties announced that they had agreed that this transition cost surcharge to interruptible customers should be increased to $0.088 (See Appendix B). To the extent that the transition costs are increased to the interruptible customers, they shall be decreased to the remaining customer classes. The Commission, upon consideration of all evidence, finds the settlement as to transition costs to be reasonable and approves the same.

E. Other Tariff Issues.

Certain other tariff issues were also agreed to by the parties. It was agreed that the Company's existing Sales Adjustment Mechanism (SAM) applicable to its customer, Goodyear Tire & Rubber Company, located in Union City, Tennessee, should be continued as at present. The Company proposed that it implement a zero-based Purchase Gas Adjustment (PGA). In a zero-based PGA, all gas costs are removed from base rates and are included in the PGA. All parties agreed to this change provided that in the Company's future tariff filings it will show not only the base rate and the PGA, but also the combined rate. The Company agreed to this condition. This issue has no revenue impact. Certain other tariff changes were also sought by the Company in its filing and by way of certain changes announced at the hearing on November 7, 1995. These changes were minor in nature and were unopposed by any other party. None of said changes has any significant revenue impact. The Commission finds the aforementioned resolutions of tariff issues reasonable and the same are hereby approved. The parties also agree that the summer rate for residential customers will remain in effect.

F. Other Issues.

The remaining issues in this proceeding were likewise settled as between United Cities and the parties, and these settlements are incorporated in the above-described "black box settlement" as to revenue deficiency.

V. Commission Determination.

The Commission has fully reviewed the settlement in all its parts, as described above, and finds it to be reasonable and in the public interest. Therefore, the Commission ratifies and approves the foregoing settlement and resolution of the issues as a whole and orders that the same be implemented as indicated below.

IT IS THEREFORE ORDERED:

1. That the Petition of United Cities Gas Company for a rate increase of $3,950,613 is denied.

2. That the stipulation between the Commission Staff and United Cities Gas Company which is attached as Appendix A is hereby approved as though copied into this Order verbatim.

3. That the Company shall file tariff sheets designed to produce $2,227,000 in additional annual revenue and in accordance with this Order and the agreements approved hereby, said tariff sheets to become effective as of November 15, 1995, for service rendered on and after that date.

4. That any party aggrieved with the Commission's decision in this may file a Petition for Reconsideration with the Commission within ten (10) days from and after the date of this Order; and

5. That any party aggrieved with the Commission's decision in this matter has the right of judicial review by filing a Petition for Review in the Tennessee Court of Appeals, Middle Section, within sixty (60) days from and after the date of this Order.

Keith Bissell

CHAIRMAN

COMMISSIONER

COMMISSIONER

ATTEST:

Maria Givens

EXECUTIVE DIRECTOR's OFFICE

APPROVED FOR ENTRY:

BOMAR, SHOFNER, IRION & RAMBO

By: Jack M. Irion

Jack M. Irion
Attorney for United Cities Gas Company

BOULT, CUMMINGS, CONNERS & BERRY

By: Henry Walker JMI by permission

Henry Walker
Attorney for Associated Valley
Industries Intervenor Group

CONSUMER ADVOCATE DIVISION,
OFFICE OF THE ATTORNEY GENERAL

By: David W. Yates JMI by permission

David W. Yates
Associate Consumer Advocate

Before The
Tennessee Public Service Commission
Nashville, Tennessee

In the Matter of:	)	
Petition of United Cities Gas	)	
Company To Place Into Effect	)	**Docket No. 95-02258**
Revised Tariff Sheets	)	

STIPULATION AND AGREEMENT

United Cities Gas Company (UCGC) and the Staff of the Tennessee Public Service Commission (Staff) hereby enter into this Stipulation and Agreement (S & A) for the purpose of resolving all issues, except the non-compete/consulting and equity funding fees, relating to the management audit which impacts the revenue requirement of UCGC. In order to avoid litigating and settling the $1,502,000 adjustment proposed by Consumer Advocate (CA), UCGC and Staff hereby agree to the following:

1. UCGC will by year-end make a good faith effort to modify the PSC 3.03 monthly report to include in rate base the assets leased between UCG Energy (Energy) and UCGC with corresponding adjustments for rental expense, depreciation expense and income taxes. The Company will provide a detailed report on a monthly basis which shows the calculation of the above information.

2. Both UCGC and Staff agree that the information necessary to calculate the proper accumulated deferred federal income tax on the leased assets is readily available for inclusion in subsequent rate case and this resolves the concern in the management audit finding 2.12-1.

3. The issues concerning the Company's management audit will be deemed to be resolved and no further adjustments, ratemaking or otherwise, except the non-compete/consulting and equity funding fees, will be proposed or made in any future proceedings before the Tennessee Public Service Commission.

4. The terms set forth in the Stipulation and Agreement are the results of negotiations among the signatory parties. Because the terms are

interdependent, if the Commission does not approve and adopt all of the terms of this Stipulation and Agreement, this Stipulation and Agreement shall be void and no signatory shall be bound by any of the agreement or provisions hereof.

5. This agreement may be executed in several counterparts and all so executed shall constitute but one and the same instrument binding all parties thereto, notwithstanding that all parties are not signatory to the same counterpart, each shall be fully effective as an original.

Executed this 6th day of October, 1995.

James G. Sager
Senior Manager Accounting/Regulatory Affairs
UNITED CITIES GAS COMPANY

William H. Novak
Manager of Energy and Water
Tennessee Public Service Commission

F

APPENDIX B

Settlement = $ 2,227,000

	Per MCF		
Class of Service	Base Rate Increase (Decrease)	Transitition Cost Increase (Decrease)	Overall Increase (Decrease)
Residential A/	$ 0.167	$ (0.0280)	$ 0.139
Commercial (220)	0.141	$ (0.0280)	$ 0.113
Industrial - Firm	0.114	$ (0.0280)	$ 0.086
Interruptible	0.050	$ 0.0380	$ 0.088

REVISED

· Maintain summer/ winter rate differential.