

**BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE**

November 20, 2006

IN RE: PETITION TO OPEN AN)
INVESTIGATION TO DETERMINE)
WHETHER ATMOS ENERGY CORP.)
SHOULD BE REQUIRED BY THE TRA)
TO APPEAR AND SHOW CAUSE THAT)
ATMOS ENERGY CORP. IS NOT)
OVERREARING IN VIOLATION OF)
TENNESSEE LAW AND THAT IT IS)
CHARGING RATES THAT ARE JUST)
AND REASONABLE)

Docket No: 05-00258

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TRA

**BRIEF OF CHATTANOOGA GAS COMPANY REGARDING THE APPROPRIATE
FORUM TO CONSIDER PROPOSED PHASE II ISSUES**

Chattanooga Gas Company ("CGC" or "Company") is filing this brief as requested by the Tennessee Regulatory Authority ("TRA" or "Authority") at its November 6, 2006 Conference Agenda regarding whether Docket 05-00253 (i.e., Atmos' current ACA audit docket) or Docket 05-00258 (i.e., Atmos' rate proceeding) is the appropriate forum for the parties to address asset management issues and how resolution of such issues should proceed.

The TRA reviews all gas costs and related revenues, including revenues generated from non-jurisdictional use of gas supply assets, in the annual ACA audit through the Purchase Gas Adjustment ("PGA") Rule. This has been the policy and practice of the TRA under its rules and regulations.

While CGC continues to believe that rulemaking is the most appropriate forum for the TRA to establish policies on various asset management issues that may be applied industry-wide, CGC believes that issues concerning Atmos' asset management arrangement should be considered in Atmos' ACA docket (Docket 05-00253), rather than in Atmos' rate proceeding

(Docket 05-00258). This is consistent with how asset management issues have been addressed for CGC. Recently, the TRA has addressed CGC's asset management agreement and the related revenue in dockets 04-00402/403 and 05-00321/322.¹ Handling issues regarding asset management and the related revenues in the ACA audit has worked well for CGC and its customers.² Allowing asset management to be addressed in Atmos' rate proceeding (Docket 05-00258) will expand rate cases beyond addressing the costs used to calculate a company's rate base, operation and maintenance expenses, net operating income, and rate of return, to include addressing gas costs and revenues related to gas supply assets which have always been reviewed and regulated by the TRA through the PGA. CGC believes that ACA audit dockets are the appropriate forums for addressing the treatment of asset management agreements and the related revenue.

As a contested case, Docket 05-00253 affords the parties the same opportunity to discuss and litigate the asset management issues that have been listed as the issues to be litigated in Phase II of Docket 05-00258. Therefore, for purposes of consistency and of following well-established TRA policy and procedure, the asset management issues proposed for Phase II of the Atmos rate proceeding should be addressed in Atmos' ACA audit docket (Docket 05-00253).

¹ CGC has been working with the TRA Staff in its 2004 and 2005 ACA audits regarding issues concerning asset management and has revised its tariff to include affiliate transaction guidelines and an RFP bidding process for future asset management agreements.

² CGC has a current asset management agreement that requires its asset manager to share fifty percent (50%) of the net gain earned off non-jurisdictional transactions with CGC's customers, which is different from the fixed fee arrangement that Atmos currently has with its asset manager. Because of the unusual conditions in the natural gas market in the aftermath of Hurricanes Katrina and Rita, the ratepayers' share of the gain from non-jurisdictional transactions completed by the Company's asset manager was approximately \$4.5 million for the year ended December 31, 2005.

Respectfully submitted,

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CERTIFICATE OF SERVICE

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