

BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

July 21, 2006

IN RE:)	
)	
CHATTANOOGA GAS COMPANY ACTUAL)	DOCKET NO.
COST ADJUSTMENT FILING FOR 12 MONTHS)	05-00321
ENDED JUNE 30, 2005)	
)	
CHATTANOOGA GAS COMPANY ANNUAL)	DOCKET NO.
INCENTIVE PLAN FILING FOR 12 MONTHS)	05-00322
ENDED JUNE 30, 2005)	

**TRA STAFF REPLY TO CHATTANOOGA GAS COMPANY'S RESPONSE TO
THE UTILITIES DIVISION'S COMPLIANCE AUDIT REPORT**

The TRA Staff of the Utilities Division ("the Staff"), as a party to the above named dockets,¹ submits the following comments in reply to the July 17, 2006 response made by Chattanooga Gas Company ("CGC" or the "Company") to the Utilities Division Compliance Audit Reports in these Dockets. The purpose of this reply is to inform the Authority of Staff's opinion regarding suggestions proposed by the Company.

BACKGROUND

Staff issued its audit report in Docket No. 05-00321 on June 23, 2006 and its audit report in Docket No. 05-00322 on June 27, 2006. On June 30, the Company notified that it wished to file comments in response to Staff recommendations in these Dockets and would do so by July 17, 2006. Subsequently, by mutual agreement between Staff and

¹ The Panel assigned to Docket Nos. 05-00321 and 05-00322 unanimously voted to convene contested cases at the regularly scheduled Authority Conference held on March 20, 2006.

CGC, the audit deadlines were extended to August 31, 2006. CGC filed its response as promised on July 17, 2006.

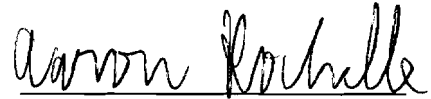
CGC RESPONSE

The Company's response was directed to the Staff's Conclusions and Recommendations contained in the above-mentioned audit reports. While CGC will abide by all three (3) recommendations made by Staff, the Company has some concerns related to completing a bidding process and bringing a new asset management agreement before the Authority for approval before the expiration of its current asset management agreement ("Agreement") (expires March 31, 2007). Therefore, CGC is asking that the Authority allow the current Agreement to continue past April 1, 2007 to allow the Company to complete the process and maximize the benefits to consumers. As support for its request, CGC explains the timeline necessary to accomplish the process before April 1, 2006 and the very tight timeframe available to the Company. The Company also talks about hedging opportunities available today in the market that may be lost should Sequent Energy Management ("SEM") not be able to enter into deals that extend beyond March 2007 into the summer months.

CONCLUSION

Staff understands the basis for the Company's request and does not oppose the Authority granting additional time to make this initial transition to an open bidding process. While the Company does not offer a date certain, Staff believes CGC will work with Staff and keep Staff informed as to the progress of this initial bidding process. Staff, however, would expect that after the initial bidding process the Company will be able to timely administer the process.

Respectfully submitted,



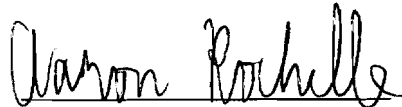
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CERTIFICATE OF SERVICE

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

- ☐ Hand Delivery
- ☐ First Class Mail
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