

# FARMER & LUNA

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TRA DOCKET ROOM

August 11, 2006

## VIA HAND DELIVERY

Chairman Sara Kyle  
Tennessee Regulatory Authority  
460 James Robertson Parkway  
Nashville, Tennessee 37243-00505

Re: Docket 05-00321 Chattanooga Gas Company Actual Cost Adjustment  
Filing for 12 Months Ended June 30, 2006

Docket 05-00322 Chattanooga Gas Company Annual Incentive Plan  
Filing for 12 Months Ended June 30, 2006

Dear Chairman Kyle:

Chattanooga Gas Company ("CGC" or "Company") and Sequent Energy Management, L.P. ("Sequent") would like to meet jointly with the Tennessee Regulatory Authority ("TRA" or "Authority") Staff to discuss the additional time that is needed to make the initial transition to a Request for Proposal ("RFP") process. The Company has requested that the TRA allow the Company's current asset management agreement with Sequent to continue past April 1, 2007, to allow CGC enough time to implement an RFP process, finalize the contract with the winning bidder, and obtain the TRA's approval of the final contract. Pursuant to its July 21, 2006 response in the above referenced dockets, the Staff does not oppose the Company's request to extend the asset management agreement with Sequent beyond April 1, 2007, to allow additional time for the transition to an open bidding process.

As CGC explained in its July 17, 2006 response in the above dockets, whenever there is a disruption in an asset management arrangement, there is loss of value for the customers. CGC wants to make certain that the loss of value is minimized during any transition process, particularly any loss that results from the initial transition to an RFP process. Further, CGC wants to make certain that Sequent will be able to continue to take advantage of the unique opportunities that exist in the current gas commodity market during the transition period so that Sequent can optimize the Company's assets to receive the maximum benefits for CGC's customers.

August 11, 2006

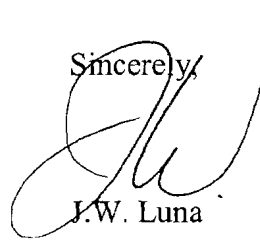
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In order for Sequent to do so, Sequent needs a better understanding of the timeframe that will be required for the RFP process to be implemented and the asset management contract to be re-bid and finalized. Having a better understanding of and an initial agreement with the Staff about the projected timeframe will assist Sequent in knowing the length of time that it will have past April 1, 2007. Doing so, will enable Sequent to enter into deals to utilize CGC's assets to take advantage of the volatility in gas prices and provide credits to CGC's customers, ultimately reducing the gas costs on their bills.

CGC will monitor and keep the Staff informed of the progress of the initial RFP process. CGC agrees with the Staff that, after the initial bidding process and the new asset management contract is in place, it should be able to timely administer the RFP process going forward.

Thank you in advance for your consideration of the Company's and Sequent's request for a joint meeting with the Staff. If I can be of any assistance to you, please do not hesitate to contact me at 254-9146.

Sincerely,

A handwritten signature in black ink, appearing to be "J.W. Luna", written over the typed name.

J.W. Luna

cc: Elizabeth Wade, Esq.  
Archie Hickerson  
Lance Roth