

**BEFORE THE TENNESSEE REGULATORY AUTHORITY**

**NASHVILLE, TENNESSEE**

**July 10, 2006**

T.R.A. DOCKET ROOM

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**IN RE:**

**CHATTANOOGA GAS COMPANY**

**WEATHER NORMALIZATION ADJ. (WNA) AUDIT )**

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) **Docket No. 06-00163**

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**NOTICE OF FILING BY THE UTILITIES DIVISION OF THE TENNESSEE  
REGULATORY AUTHORITY**

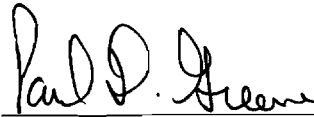
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Pursuant to Tenn. Code Ann. §§ 65-4-104, 65-4-111 and 65-3-108, the Utilities Division of the Tennessee Regulatory Authority (the "Utilities Division") hereby gives notice of its filing of the Chattanooga Gas Company WNA Audit Report in this docket and would respectfully state as follows:

1. The present docket was opened by the Authority to hear matters arising out of the audit of Chattanooga Gas Company (the "Company").
2. The Company's WNA filings were received on November 1, 2005, through May 5, 2006, and the Staff completed its audit of same on July 10, 2006.
3. The Staff Audit produced no findings.
4. The Report is attached hereto as Exhibit A and is fully incorporated herein by this reference.

5. The Utilities Division hereby files its Report with the Tennessee Regulatory Authority for deposit as a public record and approval of the same.

Respectfully Submitted:

A handwritten signature in black ink, appearing to read "Paul D. Greene", written over a horizontal line.

Paul D. Greene  
Utilities Division  
Tennessee Regulatory Authority

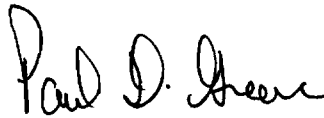
**CERTIFICATE OF SERVICE**

I hereby certify that on this 10th day of July, 2006, a true and exact copy of the foregoing has been either hand-delivered or delivered via U.S. Mail, postage pre-paid, to the following persons:

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

Mr. Archie Hickerson  
Director, Regulatory Affairs  
AGL Resources, Inc.  
5100 E. Virginia Beach Boulevard  
Norfolk, Virginia 23502

Mr. Phil Buchanan  
Rates and Regulatory Consultant  
Atlanta Gas Light Company  
Location 1686  
P.O. Box 4569  
Atlanta, GA 30302-4569

A handwritten signature in cursive script that reads "Paul D. Greene". The signature is written in dark ink and is positioned above a horizontal line.

Paul D. Greene

# **EXHIBIT A**

COMPLIANCE AUDIT REPORT

OF

**CHATTANOOGA GAS COMPANY**

**WEATHER NORMALIZATION ADJUSTMENT (WNA) RIDER**

**DOCKET NO. 06-00163**

PREPARED BY

**TENNESSEE REGULATORY AUTHORITY**

UTILITIES DIVISION

JULY 2006

**COMPLIANCE AUDIT**  
**CHATTANOOGA GAS COMPANY**  
**WEATHER NORMALIZATION ADJUSTMENT (WNA) RIDER**  
**Docket No. 06-00163**

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<u>WEATHER NORMALIZATION ADJUSTMENT (WNA) RIDER</u>	

**COMPLIANCE AUDIT**  
**CHATTANOOGA GAS COMPANY**  
**WEATHER NORMALIZATION ADJUSTMENT (WNA) RIDER**  
**DOCKET NO. 06-00163**

**I. INTRODUCTION AND AUDIT OPINION**

The subject of this compliance audit is the Weather Normalization Adjustment (“WNA”) Rider of Chattanooga Gas Company (“CGC” or “Company”), a wholly owned subsidiary of AGL Resources, Inc. The objective of this audit is to determine if the WNA adjustments were calculated correctly and applied to customers’ bills appropriately between November 2005 and April 2006. As a result of the WNA Rider, the Company surcharged a net \$531,858 and \$438,030 to the residential and commercial customers respectively during the period. The impact of WNA revenues on the Company’s total revenues for these classes is detailed in Section V.

The audit produced no findings. Audit Staff concludes that the Company is correctly implementing the mechanics of the WNA Rider as specified by the Tennessee Regulatory Authority (“TRA” or the “Authority”) and included in the Company’s tariff (See Attachment 1).

**II. SCOPE OF AUDIT**

In meeting the objective of the audit, the Staff compared the following on a daily basis:

- (1) the Company's actual heating degree days to National Oceanic and Atmospheric Administration (“NOAA”) actual heating degree days;
- (2) the Company's normal heating degree days to the normal heating degree days calculated in the last rate case; and
- (3) the Company's calculation of the WNA factor to Staff's calculation for each billing cycle during the WNA period.

The Audit Staff audited a sample of customer bills to verify that the WNA factor had been correctly applied to the bills. The Audit Staff also examined each sample bill to determine whether the Base Rates and Purchased Gas Adjustments were billed correctly. No discrepancies were noted; therefore, the Audit Staff concludes that the Company is accurately billing its customers.

Pat Murphy and Paul Greene of the Utilities Division conducted this audit.

### **III. BACKGROUND INFORMATION ON THE COMPANY**

Chattanooga Gas Company, with its headquarters at 6125 Preservation Drive, Chattanooga, Tennessee, is a wholly owned subsidiary of AGL Resources, Inc., which has its headquarters at Ten Peachtree Place, Atlanta, Georgia. CGC is a gas distributor, which provides service to the cities of Chattanooga and Cleveland and surrounding environs in Hamilton and Bradley counties, all located in Southeast Tennessee. The natural gas used to serve these areas is purchased by Sequent Energy Management ("Sequent" or "SEM")<sup>1</sup> from various suppliers and transported by Tennessee Gas Pipeline ("TGP"), East Tennessee Natural Gas ("ETNG") and Southern Natural Gas ("SNG") under tariffs approved by the Federal Energy Regulatory Commission ("FERC").

### **IV. BACKGROUND ON WEATHER NORMALIZATION ADJUSTMENT RIDER**

On September 26, 1991, the Tennessee Public Service Commission<sup>2</sup> ("PSC") approved a three-year experimental Weather Normalization Adjustment Rider to the tariffs of Chattanooga Gas Company, Nashville Gas Company, a division of Piedmont Gas Company, Inc. and United Cities Gas Company.<sup>3</sup> The WNA Rider was to be applied to residential and commercial customers' bills during the months of October through May of each year (*See Attachment 1*). On June 21, 1994, the PSC issued an Order authorizing the above mentioned gas companies to permanently implement an amended version of the WNA Rider.<sup>4</sup> The TRA Staff audits these calculations annually.

In setting rates, the Tennessee Regulatory Authority uses a normalized level of revenues and expenses for a test year, which is designed to be the most reasonable estimate of the Company's operations during the time the rates are to be in effect. Use of normalized operating levels eliminates unusual fluctuations that may occur during the test period, which causes rates to be set too high or too low.

Specifically, one part of normalizing revenues consists of either increasing or decreasing the test year weather related sales volumes to reflect the difference between the normal and actual heating degree days. (A heating degree day is calculated as the difference in the average daily temperature and 65 degrees Fahrenheit.) This average daily temperature constitutes normal weather and is determined based on the previous thirty years weather data.

Normal weather rarely occurs. This has two impacts:

- (1) The customers' bills fluctuate dramatically due to changes in weather from month to month; and

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<sup>1</sup> Sequent is a marketing affiliate of CGC.

<sup>2</sup> By legislative action, the Public Service Commission was replaced on July 1, 1996 by the Tennessee Regulatory Authority. *See* Act of May 24, 1995, ch. 305, 1995 Tenn. Pub. Acts 450. The TRA retains jurisdiction over the above named gas companies. *See* Tenn. Code Ann. § 65-4-104; *see also* Tenn. Code Ann. § 65-4-101 (a) (defining public utility).

<sup>3</sup> *See* petition of Chattanooga Gas Company, Nashville Gas Company, a Division of Piedmont Natural Gas Company, Inc. and United Cities Gas Company for a Rulemaking Hearing to Adopt a Weather Normalization Adjustment (WNA) Rider, Docket No. 91-01712, *Order* (September 26, 1991).

<sup>4</sup> The amendment directed Chattanooga Gas Company and United Cities Gas Company to eliminate from their WNA Rider the shoulder months of October and May, and Nashville Gas Company to eliminate the shoulder months of October, April and May.

- (2) The gas companies earn more or less than their authorized rate of return. For example, if weather is colder than normal, then more gas than anticipated in the rate case will be sold. This results in higher customer bills and overearnings for the company. On the other hand, if weather is warmer than normal, less gas than anticipated in the rate case will be sold, the customers' bills will be lower and the company will underearn.

In recognition of this fact, the TRA approved an experimental WNA mechanism, which became permanent on June 21, 1994, to reduce the impact abnormal weather has on the customers' bills and on the gas utilities' operations. In periods of weather colder than normal, the customer receives a credit on his bill, while in periods of warmer than normal weather, the customer is billed a surcharge. Thus, customers' monthly bills should not fluctuate as dramatically and the gas company should have a more stable rate of return.

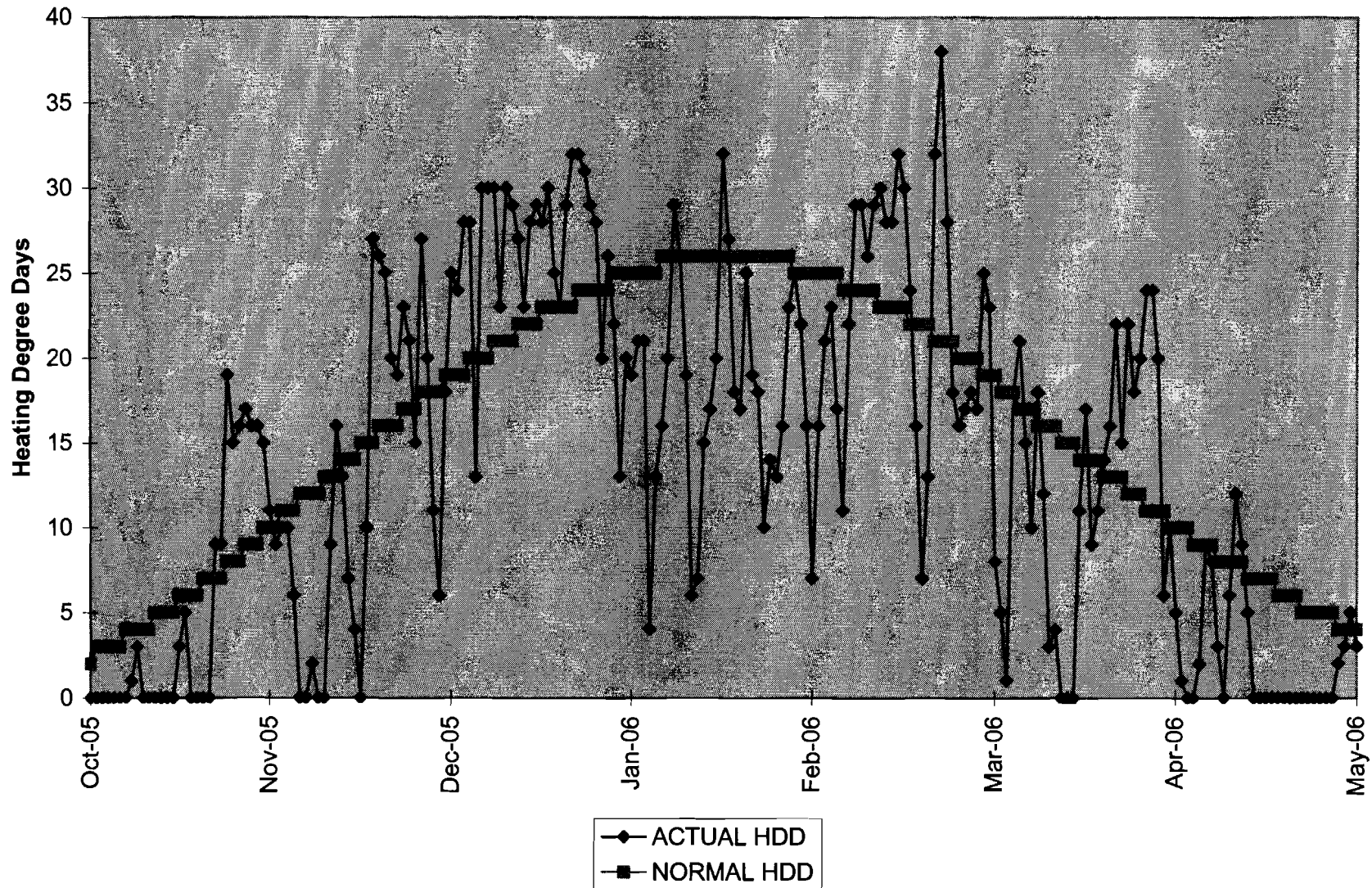
The graph (found at the end of this section) compares the actual heating degree days to normal heating degree days for Chattanooga Gas during the 2005 - 2006 winter heating season. The table below quantifies the number of actual heating degree days by month as compared to the normal heating degree days for that month. It shows that overall the weather was 11.78% warmer than normal, resulting in a net surcharge to CGC's customers for the period.

Month	Actual Heating Degree Days	Normal Heating Degree Days	Warmer/Colder than Normal
October 2005	155	180	Warmer
November 2005	379	442	Warmer
December 2005	800	697	Colder
January 2006	552	797	Warmer
February 2006	634	618	Colder
March 2006	372	432	Warmer
April 2006	73	195	Warmer
Total	2,965	3,361	Warmer



# Chattanooga Gas Company

## Comparison of Actual to Normal Heating Degree Days



## V. IMPACT OF WNA RIDER

The overall winter period for Chattanooga was warmer than normal. As a result, the net impact of the WNA Rider during the November 2005 through April 2006 WNA period was that residential and commercial customers were **surcharged** an additional \$531,858 and \$438,030 respectively. The percentage of total residential and commercial revenue derived from the WNA Rider was 1.15% and 1.03% respectively (See Table 1). This is a decrease from the previous year when the residential and commercial customers were **surcharged** \$1,007,456 and \$814,998 respectively (See Table 2).

Table 1

### **Impact of WNA Rider on Residential & Commercial Revenues November 2005 – April 2006**

	<u>WNA Rider Revenues</u>	<u>Total R&amp;C Revenues</u>	<u>Percentage Impact of WNA Rider on R&amp;C Revenues</u>
Residential Sales	\$531,858	\$46,056,761	1.15%
Commercial Sales	<u>438,030</u>	<u>42,637,127</u>	1.03%
Total	<u>\$969,888</u>	<u>\$ 88,693,888</u>	1.09%

Table 2

### **Amount Surcharged (Refunded) 2003 - 2006**

	<u>Residential</u>	<u>Commercial</u>	<u>Total Surcharge/(Refund)</u>
11/03-4/04	573,722	492,237	1,065,959
11/04-4/05	1,007,456	814,998	1,822,454
11/05-4/06	<u>531,858</u>	<u>438,030</u>	<u>969,888</u>
Total	<u>\$ 2,113,036</u>	<u>\$ 1,745,265</u>	<u>\$ 3,858,301</u>

## **VI. WNA FINDINGS AND CONCLUSIONS**

As noted in Section I of this report, Audit Staff had no findings for the period November 2005 through April 2006. Audit Staff opines that the Company is materially complying with the WNA Rider and billing customers accurately based upon the results of this audit. Audit Staff acknowledges and appreciates the cooperation of CGC personnel during the course of this audit.

**WEATHER NORMALIZATION ADJUSTMENT**

**(WNA) RIDER**

**PROVISION FOR ADJUSTMENT**

The base rate per CCF/therm (100,000 Btu) for gas service set forth in any rate schedules utilized by the Authority in determining normalized test period revenues shall be adjusted by an amount hereinafter described, which amount is referred to as the "Weather Normalization Adjustment."

**DEFINITIONS**

For Purpose of this Rider:

"Authority" means the Tennessee Regulatory Authority.

"Relevant Rate Order" means the final order of the Authority in the most recent litigated rate case of Chattanooga Gas Company (Company) fixing the rates of the Company or the most recent final order of the Authority Specifically prescribing or fixing the factors and procedures to be used in the application of this Rider.

**COMPUTATION OF WEATHER NORMALIZATION ADJUSTMENT**

The Weather Normalization Adjustment shall be computed to the nearest one-hundredth cent per CCF/therm by the following formula:

$$WNA_i = R_i \frac{HSF_i(NDD-ADD)}{(BL_i + (HSF_i \times ADD))}$$

**Where**

- i = any particular Rate Schedule or billing classification within any such particular Rate Schedule that contains more than one billing classification
- $WNA_i$  = Weather Normalization Adjustment Factor for the i th Rate Schedule or classification expressed in cents per CCF/therm
- $R_i$  = weighted average base rate (base rate less any embedded gas cost) of temperature sensitive sales for the i th schedule or classification utilized by the Authority in the Relevant Rate Order for the purpose of determining normalized test year revenues
- $HSF_i$  = heat sensitive factor for the i th schedule or classification utilized by the Authority in the Relevant Rate Order for the purpose of determining normalized test year revenues
- NDD = normal billing cycle heating degree days utilized by the Authority in the Relevant Rate Order for the purpose of determining normalized test year revenues
- ADD = actual billing cycle heating degree days
- $BL_i$  = base load sales for the i th schedule or classification utilized by the Authority in the Relevant Rate Order for the purpose of determining normalized test year revenues

**FILING WITH AUTHORITY**

The Company will file as directed by the Authority (a) a copy of each computation of the Weather Normalization Adjustment, (b) a schedule showing the effective date of each such Weather Normalization Adjustment, and (c) a schedule showing the factors or values derived from the Relevant Rate Order used in calculating such Weather Normalization Adjustment.

CHATTANOOGA GAS COMPANY  
GAS TARIFF  
TRA NO. 1 -

FIFTH REVISED SHEET NO.49A

**WEATHER NORMALIZATION ADJUSTMENT**

**(WNA) RIDER COMPONENTS**

<u>RATE SCHEDULE</u>	<u>WEIGHTED BASE RATE (\$THERM)</u>	<u>HEAT SENSITIVE FACTOR - HSF (THERM)</u>	<u>BASE LOAD - BL (THERM)</u>
<u>(R-1) RESIDENTIAL GENERAL SERVICE</u> Winter (November – April)	.210406	.191495	12.901
<u>(R-4) MULTI-FAMILY HOUSING SERVICE</u> Winter (November - April)	.183110	.098985	18.695
<u>(C-1) COMMERCIAL AND INDUSTRIAL GENERAL SERVICE</u> Winter (November - April)	.255481	.811269	171.926