

FARMER & LUNA

A PROFESSIONAL LIMITED LIABILITY COMPANY

ATTORNEYS AT LAW

333 UNION STREET
SUITE 300
NASHVILLE, TENNESSEE 37201

TELEPHONE (615) 254-9146
TELECOPIER (615) 254-7123
www.farmerluna.com

J.W. Luna
jwluna@farmerluna.com

June 30, 2006

VIA HAND DELIVERY

Chairman Ron Jones
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, Tennessee 37243-00505

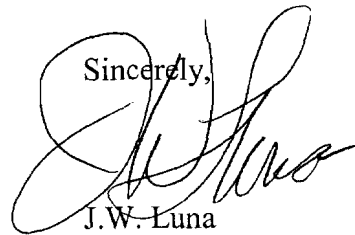
06-00175

Re: Petition of Chattanooga Gas for Approval of Adjustment of its Rates and
Charges, Comprehensive Rate Design Proposal, and Revised Tariff

Dear Chairman Jones:

Enclosed please find the original and thirteen (13) copies and a CD in PDF format of the above referenced Petition of Chattanooga Gas Company and a check for the \$25.00 filing fee. We have included with this filing a proposed Protective Order and a proposed Procedural Schedule.

Sincerely,



J.W. Luna

Enclosures

cc: Elizabeth Wade, Esq.
Steve Lindsey
Archie Hickerson

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

June 30, 2006

IN RE:

**PETITION OF CHATTANOOGA GAS)
COMPANY FOR APPROVAL OF)
ADJUSTMENT OF ITS RATES AND)
CHARGES, COMPREHENSIVE RATE)
DESIGN PROPOSAL, AND REVISED TARIFF)**

Docket No. 06-00175

PETITION

Pursuant to Tennessee Code Annotated § 65-5-103 and the Rules of the Tennessee Regulatory Authority (“TRA” or “Authority”), Chattanooga Gas Company (“CGC” or “Company”) respectfully requests that the Authority approve its Petition for an adjustment to its rates and charges for natural gas service, the implementation of its comprehensive rate design proposal, which includes an Energy Conservation Plan and a Conservation and Usage Adjustment, and the revision of its tariff.

In support of this Petition, CGC submits the following:

Description of CGC

1. CGC is incorporated under the laws of the State of Tennessee and is engaged in the business of transporting, distributing, and selling natural gas in Chattanooga and Cleveland, Tennessee, and in portions of Hamilton and Bradley Counties. CGC is a public utility pursuant to the laws of the State of Tennessee, and its public utility operations are subject to the jurisdiction of the Authority.

2. CGC is a wholly-owned subsidiary of AGL Resources Inc. (“AGLR”), an energy-based services holding company. AGLR is the parent company of utilities operating in five additional states along the east coast from Florida to New Jersey.

3. CGC’s principal office and place of business is located at 2207 Olan Mills Drive, Chattanooga, Tennessee 37421.

**Request for Rate Increase and Approval of the
Comprehensive Rate Design Proposal**

4. CGC was last granted a general rate increase of \$642,777 effective October 1, 2004. Prior to that case, CGC had not had a rate increase since 1998. Since that time, inflation has risen 19.3%, but the average residential customer’s base rates have risen by less than 1%. When the TRA approved the last rate increase, the new base rates were projected to produce a base revenue of approximately \$31 million. However, the projected base revenue for the attrition period (12 months ending December 31, 2007) is approximately \$28.5 million. CGC’s existing rates for natural gas services are not adequate to permit it to recover its operating costs and to earn a fair and reasonable return on its investments.

5. Using current rates during the attrition period, CGC is projected to earn a net operating income of \$5,811,098 on a rate base of \$108,236,153, which will result in an overall rate of return of 5.37%. Such a return is not fair and reasonable. Without rate relief, CGC will incur a revenue deficiency during the attrition period of approximately \$5,844,046.

6. CGC proposes rates that will allow it a reasonable opportunity to alleviate the projected deficit of approximately \$5.8 million and to achieve an overall rate of return of 8.64% and a return on equity of 11.5%. As explained below in paragraph 16, the return on equity would be reduced to 11% if the Authority adopts CGC’s comprehensive rate design proposal, bringing the total revenue deficiency to approximately \$5.4 million.

7. As explained in the testimony of Company witness Lindsey, CGC has worked hard to control its costs since the last rate case. However, these efforts clearly are being offset by lost base revenue. With the continued high natural gas prices, customers have decreased their consumption of natural gas. The Company's distribution costs remain the same even when customers decrease consumption. The Company's current rates are designed to recover its costs, including a just and reasonable return, by charge per therm. When customers decrease consumption, the Company does not have the opportunity to recover its costs and earn a just and reasonable rate of return.

8. Conservation is good for customers, the state, and the country, and CGC must provide leadership in educating and encouraging its customers to conserve energy, which ultimately will serve to keep gas prices down. Under traditional rate design mechanisms, the interests of CGC's customers and the interests of CGC are not properly aligned. The Company's comprehensive rate design proposal is designed to alleviate this issue by both encouraging conservation while at the same time providing CGC an opportunity to earn a just and reasonable return. This proposal will align the interests of the customers and the interests of the Company. Under the Company's proposal, customers who conserve could experience significant decreases in their natural gas bills. Ultimately, the Company's proposal is a comprehensive rate design plan designed to save customers money through proactive measures aimed specifically at reducing consumption.

9. CGC has been successful at managing costs within its control by focusing on both short- and long-term issues and solutions. To date, CGC's efforts have enabled it to control and even reduce certain costs while maintaining or even enhancing customer service and reliability. In fact, although inflation has risen 19.3% since 1998, CGC's average residential customer's

base rates have risen less than 1%. Since 2000, gas prices, however, have risen over 233%, which has led to the primary factor that is counter-balancing CGC's efforts, namely, increased conservation by customers in the face of long-term rising gas prices. The challenge is that conservation limits the Company's ability to earn a just and reasonable return and maintain reliable service under the current rate structure because the Company's base revenue is so heavily dependent on customer usage.

10. CGC also has been very successful at managing the commodity or gas costs that account for approximately 75% of a customer's bill through CGC's asset management program, which has enabled the Company to refund over \$7 million to customers since 2003. In 2005 alone, this program generated approximately \$4.5 million, which enabled CGC to give an approximate \$43 credit to each residential customer's bill during the first quarter of 2006. In light of the significant impact that gas prices have on customers' overall bills, more is required. The Company's proposed comprehensive rate design plan is designed to encourage conservation thereby lowering overall gas costs.

11. CGC's comprehensive rate design proposal consists of three primary components: (1) the Energy Conservation Program ("ECP"), (2) the Conservation and Usage Adjustment ("CUA"), and (3) the Chattanooga Assisted Rate for Energy Service ("CARES") program. In addition, CGC also is introducing specific rate design proposals by class of service that are designed to encourage conservation. All of these programs taken together are designed to align customers' interests and CGC's interests and provide long-term benefits to both.

12. The ECP is designed to encourage customers to conserve, and the CUA is designed to adjust the Company's base revenue so that it has the same opportunity to recover its costs when customers reduce consumption. Components of the ECP include informing

customers and providing financial incentives for a home energy checkup and inspection and a weatherization kit and rebates for the purchase of more efficient furnances and water heaters.

13. Through the CUA, the Company will have the same opportunity to recover the base revenue it would have recovered had customers consumed the same volumes assumed by the Authority when it sets the Company's rates. It is not a guarantee that CGC will be able to earn the return authorized by the Authority. The Company still will have to control costs, as well as maintain and attract new customers. The proposal simply will provide the Company the opportunity to earn the return it would have been able to earn absent conservation and the accompanying loss of base revenue. Under the proposal, while the amount the customer will pay for distribution service will stay flat, the amount of commodity consumed will decrease, which will reduce the commodity or gas cost billed to the customers. The reduction in the volumes consumed and the related cost savings will provide benefits for customers in the form of reduced gas bills.

14. The CARES Program will provide a qualifying low-income senior with a 100% discount on the customer charge portion of CGC's base rates.

15. The Company also is proposing the Bare Steel and Cast Iron Replacement Program, which will allow CGC to recover the costs of replacing the remaining 82 miles of bare steel and cast iron main and related services in the CGC system separate from base rates through a tracker and will eliminate the need for the Company to file rapidly reoccurring rate cases.

16. If CGC's rate design proposal is adopted in full, including the CUA and the Bare Steel and Cast Iron Replacement Tracker, the recommended return on equity will decrease 50 basis points to 11% (as explained in the testimony of Company witness Morin, which is filed

with this Petition), and the Company will reduce its request for a rate increase by approximately \$420,000, bringing the total base-revenue deficiency to approximately \$5.4 million.

17. In further support of its Petition, CGC has attached the following direct testimony and their accompanying exhibits, which are incorporated herein by reference:

- a. **Prepared Direct Testimony of Steve Lindsey** regarding an overview of CGC, the major challenges that CGC and its customers face today and going forward, and a summary of the rate relief requested and the comprehensive rate design proposal.
- b. **Prepared Direct Testimony and Exhibits of Michael J. Morley** concerning CGC's cost of service, determination of rate base and investment in utility, capital structure and cost of debt financing, and the base-revenue deficiency.
- c. **Prepared Direct Testimony and Exhibits of Phillip G. Buchanan** regarding the Company's base revenue, customer attrition, and usage per customer.
- d. **Prepared Direct Testimony and Exhibits of David A. Heintz** regarding the Company's class cost-of-service study.
- e. **Prepared Direct Testimony of Daniel J. Nikolich** regarding the Company's rate design, new proposed commercial customer class, and the comprehensive rate design proposal which includes the ECP, CUA, and CARES program.
- f. **Prepared Direct Testimony of Dr. Roger A. Morin** regarding the required cost of equity.
- g. **Prepared Direct Testimony of Richard R. Lonn** regarding the Company's proposed Bare Steel and Cast Iron Pipeline Replacement Program ("PRP"), including the proposed cost-of-service impact during the attrition period and the expected tracker recovery for the first two years of the PRP tracker.

18. CGC is submitting as part of this Petition a proposed Protective Order and a proposed Procedural Schedule.

19. Along with this Petition, CGC is filing part of the Minimum Filing Requirements (“MFRs”), including some under protective seal pending the entry of a Protective Order. CGC expects to file the remaining MFRs on or before July 14, 2006.

Notice

20. All correspondence and communication with respect to this Petition should be sent to the following:

Steven L. Lindsey, Vice President and General Manager
Chattanooga Gas Company
2207 Olan Mills Drive
Chattanooga, TN 37421
Telephone: (423) 490-4334
Facsimile: (423) 490-4326

Archie Hickerson, Director Regulatory Affairs
AGL Resources Inc.
150 W. Main Street, Suite 1510
Norfolk, VA 23510
Telephone: (757) 616-7510
Facsimile: (757) 616-7508

J.W. Luna, Esq.
Jennifer L. Brundige, Esq.
Farmer & Luna, PLLC
333 Union Street, Suite 300
Nashville, TN 37201
Telephone: (615) 254-9146
Facsimile: (615) 254-7123

Elizabeth Wade, Senior Regulatory Counsel
AGL Resources Inc.
Ten Peachtree Place, N.W., 15th Floor
Atlanta, GA 30309
Telephone: (404) 584-4000
Facsimile: (404) 584-3714

WHEREFORE, CGC prays:

1. That Notice be issued and a hearing be set regarding this Petition;
2. That the Authority find that the existing rates of CGC are inadequate and that the rates proposed by the Company are fair, just, and reasonable and in the public interest;
3. That the Authority approve the Company's comprehensive rate design proposal;
4. That the Authority approve CGC's revised tariff implementing the proposed rates and comprehensive rate design proposal, to become effective January 1, 2007; and
5. That CGC be granted such other and/or further relief as may be warranted.

Respectfully submitted,

FARMER & LUNA, PLLC

By: 

J.W. Luna, Esq. (BPR 5780)

Jennifer L. Brundige, Esq. (BPR 20673)

333 Union Street, Suite 300

Nashville, TN 37201

(615) 254-9146


Attorneys for Chattanooga Gas Company

VERIFICATION

STATE OF GEORGIA

COUNTY OF FULTON

I, Steve L. Lindsey, being duly sworn state that I am Vice President and General Manager of Chattanooga Gas Company, the Petitioner, in the subject proceeding; that I am authorized to make this verification on behalf of Chattanooga Gas Company; that I have read the foregoing Petition and Exhibits and know the content thereof; that the same are true and correct to the best of my knowledge, information and belief.

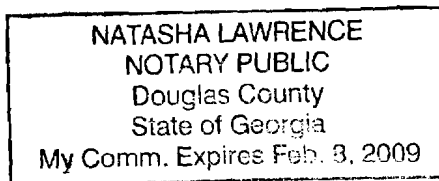


Sworn and subscribed before me this 29 day of June, 2006

Natasha Lawrence

Notary Public

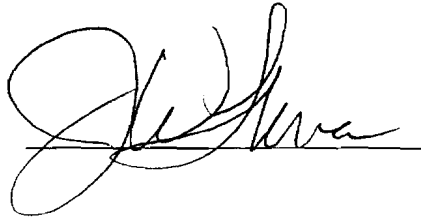
My commission Expires: 28 2009



CERTIFICATE OF SERVICE

I hereby certify that on this 30th day of June 2006, a true and correct copy of the foregoing Petition was served on the person below by hand delivery:

Cynthia Kinser, Deputy
Consumer Advocate and Protection Division
Office of Attorney General
2nd Floor
425 5th Avenue North
Nashville, Tennessee 37243-0491

A handwritten signature in black ink, appearing to read "C. Kinser", is written over a horizontal line.