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VIA ELECTRONIC MAIL AND HAND DELIVERY

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

Re: Docket 06-00175 Petition of Chattanooga Gas Company to Increase Rates, Including a Comprehensive Rate Design Proposal and Revised Tariff

Dear Chairman Kyle:

Chattanooga Gas Company ("CGC") is filing in the above-referenced matter an original and four (4) copies of its responses to discovery requests issued by the Tennessee Regulatory Authority ("TRA") Staff on August 9, 2006. Included are responses to the following TRA Staff requests: 10, 13, 22, 33, and 45-47. As a courtesy, CGC is filing electronically on a CD its responses to requests 27-31 which were filed in paper form on September 5, 2006.

Sincerely yours,

Jennifer L. Brundige

Jennifer L. Brundige

Enclosures

cc: Darlene Standley
Tim Phillips, Esq.
Stephen R. Butler, Esq.
Henry Walker, Esq.
David C. Higney, Esq.
Catharine H. Giannasi, Esq.

Question 10: Has the company considered a plan to provide assistance to low-income customers through voluntary customer contributions such as "the add a dollar plan" and/or through assistance provided by the company, its parent and stockholders and/or universal service fund rather than through an embedded subsidy in rates?

Response: Yes. Not only has Chattanooga Gas Company considered an "add a dollar plan" but has done the following:

- The Company has a "Warm Neighbors" program in which customers can add $1, $2, or $5 amounts to their bill to contribute to the program. From January 1, 2004 through August 9, 2006 customers have donated $88,952.
- CGC contributed $45,000 to the City of Chattanooga Department of Human Services
- CGC contributed $5,000 to the City of Cleveland Bradley-Cleveland Community services to help low-income elderly residents in the Chattanooga area stay warm by providing heating bill assistance.

However, even with these programs and contributions, low income senior citizen households in the Company's service territory pay 15.2% of their income for heating as compared to 2.0% for all CGC customers. In addition senior citizens tend to have a fixed income in their retirement that make them especially hard hit by the current high energy prices. The Company's proposed CARES program is designed to further assist CGC low income senior citizen customers.

Question 13: Please describe the entire process that a subscriber must undergo to qualify for the Chattanooga Assisted Rate for Energy Service (CARES) program. This includes how applications are obtained, where applications are sent, what happens if applications are incomplete, how the Company verifies the income information, any annual recertification processes, etc.

Response: The Company envisions that this would be a joint effort by CGC and the TRA as the Telephone Assistance program is currently a joint effort of the telephone companies and the TRA. The Company also envisions that the enrollment process and standards will be similar to the Telephone Assistance Programs and the same process currently used by the TRA to verify eligibility or recertification of the applicant will be used for CARES. A customer age 65 or older would qualify if they presently receive Food Stamps, TennCare Medicaid , Supplemental Security Income (SSI), Temporary Assistance for Needy Families (TANF), Low Income Home Energy Assistance Program (LIHEAP), National Free School Lunch or live in Federal Housing/Section 8. If a senior customer does not receive any of these public assistance programs, they may qualify if their total household gross monthly income is equal or less than the following:

# of Household members	Monthly Income
1	$781
2	$984
3	$1,118
4	$1,298
5	$1,664
For each additional person add	$353

A customer would obtain an application by calling Chattanooga Gas, downloading an application from our website, calling the TRA, or downloading it from the TRA website. The application would then be mailed in as with Telephone Assistance program.

Question 22: Witnesses repeatedly attribute decline in gas sales to installation of more efficient equipment. Has CGC conducted a study to show what percentage of reduced consumption is attributable to new appliances versus customers voluntarily lowering thermostats?

Response: Yes, as part of producing the forecast for this case, Company witness Philip Buchanan, developed demand models that separate out the effects of long term declining usage from price related to lowering of thermostats or behavioral conservation from declining usage related to installation of more efficient equipment or natural conservation. As can be seen in the witness' exhibit PGB-4, page 1 and work papers from Minimum Filing Guideline number 25, pages 73-81, the following term from his model appears to capture the effect of customers conserving due to dialing down the thermostat or behavioral conservation.

$$(\text{RPGA}_{(\text{lagged 1 Month})} * \text{SDD}_{(\text{base } 65°\text{F})} \text{ per MRD}) \times X_4 \times X_1$$

where:

$\text{RPGA}_{(\text{lagged 1 month})} * \text{SDD}_{(\text{base}65°\text{F})}$ per MRD	=	Coefficient to capture price sensitivity
X_4	=	The inflation adjusted real monthly PGA billing factor
X_1	=	Sales (Cycle Averaged) Heating Degree Days based upon 65°F

While the following terms from the model can best can best be explained as representing the long term effects of customers changing out equipment over time to achieve greater energy efficiency or natural; conservation.

[Trend * SDD(base 55°F) per MRD] * X3 * X5

where:

$\text{Trend*SDD}_{(\text{base } 55°\text{F})}$ per MRD	=	Coefficient to capture time trend sensitivity
X3	=	Sales (Cycle Averaged) Heating Degree Days based upon 55°F
X5	=	Linear time variable to capture the change in equipment efficiency over time

[Trend] * X5

where:

Trend	=	Monthly time trend
X5	=	Linear time variable to capture the change in equipment efficiency over time

Using the forecast model that Mr. Buchanan has submitted in his work papers, and by holding price terms constant and next trend terms constant, allows for projection of the consumption and revenue loss due to natural conservation from increasing energy efficiency to be isolated from behavioral conservation due to customer price reaction. Presented below are the consumption and revenue to be lost for the attrition year, since the test year due to increasing energy efficiency.

	Loss due to			
	Natural Conservation		**Behavioral Conservation**	
	Consumption in Therms	**Base Rate Revenue**	**Consumption in Therms**	**Base Rate Revenue**
Residential	-1,305,300	($268,220)	-657,400	($128,140)
Commercial	-1,200,500	($303,700)	-787,400	($195,600)
Total	-2,505,800	($571,920)	-1,444,800	($323,740)
Percentage	63.4%	63.9%	36.6%	36.1%

Question 33: Provide the amount of image advertising expense incurred by the LDC or directly charged or allocated to the LDC by its parent or affiliates for FY05 and YTD 7/06.

Response:

Chattanooga Gas Company incurred $27,750 of image advertising expense during 2005. The Company has not incurred image advertising expense through July 2006.

Question 45: Provide the Excel spreadsheets on a CD for your response to TRA FG 64. Additionally, update your response to include actual amounts by month through 7/31/06 and projected amounts by month for 8/06 through 12/07. Your response should show resulting monthly balances for each plant account and a reconciliation of the total of each plant account to total plant in service reported on the trial balance. Further, provide the depreciation rates for each plant account and apply the rates to the plant balances to compute depreciation expense.

Response:

Please refer to the enclosed CD, which provides the Company's response to TRA FG 64, an update to TRA FG 64 through July 2006, plant balances by account by month from January 2006 – July 2006 and a calculation of depreciation expense for each month from January 2006 – July 2006.

Please refer to the Company's response to TRA FG Item No. 69 for the development of projected plant in service from August 2006 – December 2007. The Company did not perform this projection at a plant account level. TRA FG Item No. 69 also provides the Company's method for computing depreciation expense for the attrition period. The composite factor of 3.32% used by the Company approximates the composite depreciation rate computed in the monthly calculations of depreciation expense referenced above. Please note that the Company's response to TRA FG Item No. 69 was also filed electronically in its response to CAPD 1-14. Additionally, the detail forecasted plant workpapers were provided in the Company's response to CAPD 1-14 as well.

Question 46: Provide Excel spreadsheets on a CD showing the development of the 13 end of month average account balances for each rate base item reported on the monthly 3.03 reports from 1/05 through the most current report filed and projected amounts by month through 12/07.

Response:

Please refer to enclosed CD for the above requested information from January 2005 – June 2006. Refer to the Company's response to TRA FG No. 69 for the development of rate base through December 31, 2007. The Company's response to TRA FG Item No. 69 was provided electronically in its response to CAPD -1, Question 14.

Question 47: Provide an Excel spreadsheet on CD showing the actual net operating income adjustment amounts reported on the 3.03 reports, by month, for FY05 and YTD06 and the forecasted amounts, by month, through 12/07. Your response should show the total dollar amount for each adjustment and the conversion factor utilized to determine the proper amount of each adjustment to net operating income.

Response:

Please refer to enclosed CD for the above requested information from January 2005 – June 2006. Refer to the exhibits filed with the direct testimony of Michael J. Morley for adjustments to operating income for the attrition period.