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

Jennifer L. Brundige
jbrundige@farmerluna.com

Electronically filed 9/8/06 @ 3:14pm

September 8, 2006

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 Chattanooga Manufacturers Association on August 15, 2006.

Sincerely yours,

Jennifer L. Brundige

Enclosures

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

1. Please provide details of the available volumes of storage made in the Company's Rate Schedule SF-1 filing in 2005, and the posted rates a-f pursuant to the SF-1 tariff. Please provide a listing of the customers who tendered bids for the SF-1 rate and the total volume of gas awarded.

Response:

Maximum Daily Deliverability (MDD): 5,000 Dth/Day
Total Reserved Volume (TRV): 300,000 Dth

Posted Rates:

(a) Minimum acceptable monthly deliverability rate: $13.34 per MDD

(b) Minimum acceptable monthly reservation rate: $ 0.35 per Dth

(c) Supplier Demand Rate: A chare per Dth for volumes delivered under this Rate Schedule during the preceding month. The purpose of this charge is to recover a proportional share of the fixed costs associated with the storage services(s) provided by the interstate pipeline company(ies) underlying this service. The charge shall be the total annual fixed costs divided by the total daily deliverability from storage divided by 151 days. All revenue collected from this charge shall be credited to the Deferred Gas Cost Account as recovered Demand Cost under the Purchased Gas Adjustment provision of the Company's tariff.

Estimated Demand Rate Posted $0.3822 per Dth

(d) Supplier Volumetric Rate: A charge per Dth for volumes delivered under this Rate Schedule during the preceding month. The purpose of this charge is to recover the total variable interstate pipeline costs associated with providing this service, including but not limited to the FT volumetric charge, storage injection and withdrawal charges and any and all associated fuel and surcharges. Revenue collected from this charge shall be credited to the Deferred Gas Cost Account as recovered Commodity cost under the Purchased Gas Adjustment provision of the Company's tariff.

Estimated Supplier Volumetric Rate $0.3817 per Dth.

(e) Commodity Rate = $7.75 per Dth (or $9.53 on days when authorized incremental rate is being made available)

(f) Carrying Cost- The monthly cost for retaining the Reserved Volumes contracted by Customer. The amount charged shall be billed monthly for the preceding month's remaining reserved volumes multiplied by the Company's pretax authorized rate of return.

Estimated Carrying Charge: $0.063 per Dth.

Customers who tendered bids for the SF-1 rate: None

Total volume of gas awarded: None

2. Please provide a detailed description of how the rates for the 2005 SF-1 were determined, by whom the decision was made, and whether any agents or employees of Sequent Energy had input into that decision.

Response:

The SF-1 rates were developed by our Capacity Planning department with input from Gas Operations, Marketing, and Gas Accounting. Sequent was consulted for information on market prices of equivalent services.

It was decided that the minimum rate should closely represent the cost of a "call option" customers could otherwise purchase in the market. Customers had the option of bidding volumes such that the Total Reserved Volume (TRV) was 30 times the Maximum Daily Deliverability (MDD) and nominate that anytime during the winter, giving it at least the value of a 30 day call during the highest price period of the winter such as January. However, they could also nominate it such that the TRV was 150 times the MDD, giving them the value of a call option for all five months of the winter season. It was decided to compromise and set the minimum rates to be the equivalent of a 90 day call option based on the price of purchasing such a service from the market at the time of the posting. The commodity price posted was based on the company's Weighted Average Cost of Gas (WACOG) in storage at that time.

The offering was approved by Mr. Steve Lindsey, Vice President and General Manager for Chattanooga Gas Company

4. Please provide the total revenue paid to CGC in the last 12 months attributed to unauthorized gas usage by T-1 and/or L-1 customers.

Response:

Over the last 12 months the T-1 and L-1 customers were billed $113,322.09 for unauthorized gas usage, of which $28,335.50 was for unauthorized gas use penalty charges and $84,986.59 was for the market price of the gas.

5. For the past 12 months, please provide the total penalties paid by CGC to CGC's pipeline providers for unauthorized gas volumes consumed by CGC.

Response: $0

6. Please provide a description of how the CGC's asset manager can avoid penalties through the aggregation of capacity under the pipeline's Operational Balance Agreements, and general terms of the interstate piepline's tariffs that allow some usage threshold before penalties are assessed.

Response:

Chattanooga Gas Company (CGC) maintains contractual control of its Operating Balancing Agreements (OBA) with East Tennessee Natural Gas (ETNG). Additionally, CGC's transportation imbalance on Southern Natural Gas (SNG) is not aggregated with Sequent Energy Management's (SEM) SNG positions. SEM cannot add to, or change the delivery points assigned to CGC's OBA and thus, SEM is unable to avoid penalties through the aggregation of capacity under the pipeline's OBAs.

DISCOVERY REQUEST NO. 7:

Please provide a working spreadsheet model with all formulas intact of the cost of service study filed in this proceeding.

Response:

CGC will provide the requested working spreadsheet model with all formulas intact upon execution of the attached limited use agreement.

Agreement for Limited use of Concentric Energy Advisors' Cost of Service Model Filed on behalf of Chattanooga Gas Company In Tennessee Regulatory Authority Docket No. 06-00175

The undersigned agrees that he/she will use the proprietary Cost of Service Study model that was developed for Chattanooga Gas Company (CGC) by Concentric Energy Advisors (CEA) and submitted to the Tennessee Regulatory Authority as exhibits related to the Testimony of David Heintz and/or in response to minimum filing guidelines and discovery requests on behalf of CGC in Tennessee Regulatory Authority Docket No. 06-0175, **only in connection with work directly related to this docket**. Furthermore, the undersigned **will not distribute, share or pass along to anyone else** the software or model described as the CGC Cost of Service Model in any of its versions in electronic form or any other form. The undersigned will, upon the completion of his / her work in connection with 06-00175, delete all copies of the CGC model produced and provided by CEA from its computers and any other computers on which it has resided for the limited purposes described herein.

At the completion of work and the issuance of a final order in the above described case, the undersigned will send a letter to David Heintz at Concentric Energy Advisors, Inc., 313 Boston Post Road, Suite 210, Marlborough, MA 01752 verifying that the software has been deleted from his or her computer and any other system or network upon which it may have resided as the result of the work in this docket.

I hereby agree to the terms set forth above.

_____

Printed name _____
Title _____
Organization _____
Date _____

8. Please explain why the Company is proposing to increase the unauthorized use charge from $15 per dekatherm to $25 per dekatherm. Include any cost justifications complete with work papers.

Response:

Like many natural gas local distribution companies, CGC's tariff provides for large volume customers to elect transportation service and purchase gas from third party shippers instead of purchasing gas under the Company's PGA. Most of the time, the Company still utilizes its storage and other assets to manage the daily variances in what these customers and their third party shippers deliver to the system and what the customers actually use. However, on days when the Company's available gas supply or capacity assets are not sufficient to manage these variances meet its obligation as a utility to provide safe and adequate service to its customers, the Company must be able to exert and enforce basic operational control and discipline over deliveries of natural gas into its distribution system. One of the main tools to enforce such operational discipline during these times when the supply of gas or capacity available is potentially insufficient to meet the requirements of all customers leading the Company to declare a curtailment period is the unauthorized use charge. Given the recent supply situations of the past year, it is not inconceivable that a customer or third party supplier may find its gas of more value elsewhere and try to arbitrage or "game" the system by paying the penalty in one jurisdiction to avoid paying a higher penalty in another. This behavior is eminently rational on the part of a customer with facilities in multiple jurisdictions like many of CGC's large volume customers or a third party supplier with customers in multiple jurisdictions. However, this behavior would be at the expense of CGC's small firm residential and commercial sales customers, who may face increased gas costs and/or potential curtailment as a result. Even though, the behavior of customers, marketers and other third party suppliers on CGC's system has not yet appeared to have lead to "gaming" or arbitraging, this does not decrease the need for unauthorized use charges that are at least comparable to other nearby companies such as ATMOS, who already charges $25 per Dth. The comparable $25 per Dth unauthorized use charge would serve as a stop sign to marketers and other third party suppliers to CGC's transportation customers who would take advantage a tight supply situation to game the delivery system. Would placing a stop light at an intersection when traffic becomes busy enough to justify such action, even though no accidents have yet taken place, be unreasonable or unnecessary? Or should we wait until someone gets hit? The reasonable potential for such an accident should be enough to justify that action. As such increasing CGC's unauthorized use charge to a level comparable with other gas companies in order to prevent "gaming" are

reasonable and necessary in light of the changes in how natural gas transportation is provided today and based on the other factors discussed in my testimony.

9. Please explain why the Company is proposing a demand charge for industrial transportation with partial standby of $8 per dekatherm as compared to a charge of $7 per dekatherm for industrial transport with full standby.

Response:

The correct demand charge for industrial transportation with partial standby should be $7 per Dth. CGC inadvertently included an $8 charge in its initial filing. For the revised rate design see the response to TRA-Staff 1 Question No. 26.

10. Please explain why the demand charge for both industrial transport will full standby and with partial standby are $3 under present rates.

Response:

In previous rate proceedings, dating back to at least 1995, the Company had not conducted a cost of service study to base its rates upon. Rates were developed in a manner consistent with the agreement of the Chattanooga Manufacturers Association, the Consumer Advocate Division, and Chattanooga Gas Company at the time of Chattanooga Gas Company's last rate increase in Docket No. 95-02116. In that docket the parties agreed: "Any rate increase awarded in this case will be spread equally, on a percentage basis as applied to the gross margin, among the residential, commercial and industrial classes." [1] The manner chosen in each of these cases was to adjust the volumetric rates to achieve the desired percentage increases. Therefore no changes or consideration to cost causation and class allocation of mains was made in setting the $3.00 per Dth demand charge rate. To the Company's knowledge this is the first case where the Company is using a class cost of service study to aid in designing the rates. Based upon the findings in the class cost of service study conducted by Mr. Heintz, the Company is proposing a change to the level of demand charge to bring it more in line with the cost causation resulting from an allocation of mains' costs to the large volume firm classes.

[1]Joint Settlement Among Chattanooga Gas Company, the Consumer Advocate Division, and Associated Valley Industries/Chattanooga Manufacturers Association Intervention Group Concerning Rate Design Issues filed in Docket 95-02116, paragraph 1.

DISCOVERY REQUEST NO. 11:

Please provide the customer size distribution (measured in therms per year) for Rate T-2 with full standby, Rate T-2 with partial standby and Rate T-1 interruptible.

Response:

Please see Schedule CMA DR 11 for the customer size distribution (measured in therms per year) for Rate T-2 with full standby, Rate T-2 with partial standby and Rate T-1 interruptible.

Chattanooga Gas Company
Customer Distribution for I1/T2, I1/T2+T1, T1, and L1 Customer Classes
Measured in Therms per Year

I1/T2

Account Number	Annual Usage Dths	Annual Usage Therms
28-9-18400	22,498	224,982
28-9-02710	23,677	236,772
28-9-15800	24,250	242,501
28-9-18175	28,376	283,755
28-9-22000	33,450	334,504
28-9-21000	33,720	337,198
28-9-05300	33,833	338,332
28-9-16000	34,125	341,248
60-1-03800	34,544	345,441
28-9-10000	39,108	391,076
28-9-23075	39,739	397,392
28-9-16100	40,495	404,952
60-1-02850	41,277	412,765
28-9-01015	43,882	438,816
60-1-00275	46,048	460,477
28-9-15850	50,396	503,957
60-1-03700	54,175	541,753
28-9-18080	65,711	657,112
28-9-17000	83,149	831,489
28-9-01100	93,839	938,386
28-9-20300	121,632	1,216,323
28-9-18650	195,892	1,958,919
28-9-19800	705,334	7,053,337

I1/T2+T1 Special Contract

Account Number	Annual Usage Dths	Annual Usage Therms
28-9-00650	608,530	6,085,303

I1/T2+T1

Account Number	Annual Usage Dths	Annual Usage Therms
28-9-06600	28,707	287,069
60-1-03200	44,143	441,429
28-9-05300	44,734	447,339
28-9-18000	49,561	495,608
28-9-14300	55,838	558,377
28-9-07750	72,902	729,015
28-9-18100	83,783	837,828
28-9-01150	85,079	850,791
28-9-16550	93,025	930,254
60-1-02050	97,887	978,869
28-9-16700	111,947	1,119,470

Chattanooga Gas Company
Customer Distribution for I1/T2, I1/T2+T1, T1, and L1 Customer Classes
Measured in Therms per Year

28-9-04600	138,601	1,386,005
28-9-16100	145,456	1,454,556
60-1-03100	250,068	2,500,683
28-9-20540	302,804	3,028,041

T-1

Account Number	Annual Usage Dths	Annual Usage Therms
60-1-02150	3	31
28-9-01600	2,846	28,460
28-9-01190	5,471	54,705
28-9-07575	14,802	148,020
60-1-03450	21,047	210,472
28-9-20615	33,556	335,563
28-9-16250	35,116	351,162
60-1-01900	41,785	417,850
60-1-00450	47,788	477,881
28-9-20700	55,576	555,757
60-1-00325	56,795	567,949
28-9-07555	58,072	580,715
28-9-11750	58,513	585,130
60-1-03600	58,526	585,263
60-1-02500	63,682	636,822
28-9-16900	68,169	681,694
28-9-14750	82,454	824,535
28-9-03950	102,448	1,024,475
60-1-02070	113,970	1,139,697
28-9-18200	133,919	1,339,193
28-9-16500	221,439	2,214,392
60-1-01200	317,948	3,179,478
28-9-08450	437,985	4,379,848
28-9-09500	735,911	7,359,108

T-1 SS-1

Account Number	Annual Usage Dths	Annual Usage Therms
28-9-12300	132,637	1,326,367
28-9-13600	135,968	1,359,684
28-9-19050	295,136	2,951,363
28-9-01950	361,091	3,610,908
28-9-08200	509,750	5,097,503

L-1

Account Number	Annual Usage Dths	Annual Usage Therms
28-9-01250	52,398	523,984