

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

**October 16, 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

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**DIRECT TESTIMONY OF TIM SPIRES  
IN BEHALF OF  
CHATTANOOGA MANUFACTURERS ASSOCIATION**

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**Q. Please state your name, business address and occupation.**

A. I am Tim Spires, Vice President of Manufacturing for NA Industries, Inc. ("NA Industries").  
My business address is 2651 Riverport Road, Chattanooga, Tennessee.

**Q. What are your responsibilities as Vice President of Manufacturing for NA Industries?**

A. I am principally responsible for the overall operation of the company.

**Q. Is Chattanooga the only area in which NA Industries operates?**

A. NA Industries is an international company with two (2) manufacturing sites located in the  
United States of America.

**Q. Please outline your educational and professional training and experience.**

A. I received a Bachelor of Chemical Engineering from the University of Cincinnati. I have over  
25 years experience in Engineering and Management.

**Q. Have you submitted testimony for Chattanooga Manufacturers Association ("CMA") to  
this Authority previously?**

A. Yes, approximately 2 years ago when a petition was filed by Chattanooga Gas Company (the “Company”) to increase its rates and impose other charges.

**Q. What is the subject of your testimony?**

A. I will present information concerning the Company’s filing for revised natural gas tariffs in the matter before this Authority.

**Q. Does your company have a facility located in Hamilton County, Tennessee that utilizes fuel supplied by Chattanooga Gas?**

A. Yes. NA Industries has one facility located in Hamilton County, Tennessee that employs over 80 people at wages significantly higher than minimum wage. In addition, one of NA Industries goals is to expand the number of jobs in and around Hamilton County to support our facility.

**Q. Does NA Industries intend to expand its facilities in Chattanooga or Hamilton County, Tennessee?**

A. We hope to do so.

**Q. Does the cost of utility services factor into such expansion plans?**

A. Yes. All costs and expenses factor into such plans for any company that seeks to increase capacity. However, as one of the largest users of natural gas on an annual basis, if not the single largest in the local community, any petition by the gas company for changes and increases to its tariffs requires particular scrutiny from our company.

**Q. What Chattanooga Gas Company Gas Rate Schedule does NA Industries currently subscribe to?**

A. NA Industries is served under the I-1 Commercial and Industrial Large Firm Sales Service and the T-2 Interruptible Transportation Service with Firm Gas Supply Backup.

- Q. Has service under these rate schedules provided NA Industries options beneficial to your company?**
- A. Yes. NA Industries has no backup system, so we enjoy the reliability of firm service contracted through Chattanooga Gas. We also manage our own gas procurement by transporting natural gas through the T-2 Interruptible Transportation Rate. Of course, we would have appreciated the opportunity to use a more competitive alternative through the Semi-Firm Sales Service tariff rate, as discussed later in my testimony.
- Q. Will the proposed rate design changes to the I-1 and T-2 rate schedules increase costs for NA Industries?**
- A. The Company's proposed rate design changes will adversely impact NA Industries, since the Company is proposing to increase the firm demand charge by 133% while eliminating the declining rate blocks. In fact, the rate design changes proposed by the Company will considerably and disproportionately increase costs within the industrial rate classes despite being, overall, largely beneficial for many industrial ratepayers.
- Q. Did Chattanooga Gas Company confer with NA Industries about the proposed changes or ask for comments relative to the potential impact of this tariff?**
- A. No, and this is not the first time. We have previously asked the Company to confer first with large users before proposing rate changes. That is why we are very disappointed that Chattanooga Gas Company did not seek out our company or others for input into the tariff changes before the rate filing was filed. I am unsure whether they truly understand the detrimental cost impacts that customers in our rate class will incur or the effect that such tactics have on ratepayers. Of course, we acknowledge the Company had representatives stop by

CMA to advise the present filing was imminent, but they did not seek our input before proposing these changes.

**Q. Does NA Industries have a recommendation regarding the proposed tariff changes?**

A. NA Industries would be supportive of negotiations with the Company and others on a proposed rate design, once a revenue requirement is agreed upon or approved by the TRA. Any increases or decreases should be allocated equitably within the industrial class, which includes the Company's L-1, T-1, I-1 and T-2 rate classes. Also, we recommend retention of the declining block structure in the rate design since elimination of declining blocks in favor of a single step rate is inconsistent with cost of service principles.

**Q. Is there anything you would support with respect to the Company's Petition?**

A. Yes. We support the findings made in the cost of service study that was performed for the Company and submitted because of the approved settlement in TRA Docket No. 04-00034. In negotiating the resolution of the Company's last request for a rate increase, it was important to CMA and my company to have such a study conducted in conjunction with any further requested increases. I believe Mr. Chalfant's testimony addresses the results of the study.

**Q. Is there anything you would oppose with respect to the tariffs, pricing, or penalty policy Chattanooga Gas Company has recommended in this filing?**

A. Yes. In addition to opposing the elimination of the declining block rate design, we disagree with the Company's proposal to increase penalties to \$25.00/per dekatherm since the previously adopted penalty language provides sufficient incentives that discourage customers from using unauthorized gas volumes. We also oppose the Company's proposal to eliminate the Semi-Firm Sales Service Rate. Also, that tariff should be modified to ensure that minimum

bid requirements are minimal and that ratepayers are allowed to bid on storage gas in order to set the appropriate market level of the gas held in Chattanooga assets.

**Q. How would the Semi-Sales Firm Service (SF-1) assist NA Industries to manage natural gas costs?**

A. Like others, we are impacted by natural gas volatility caused by natural disasters and harsh winters. For example, I am aware that natural gas futures for the 2006-2007 recently traded above \$11.00 in August 2006. It is difficult for NA Industries to secure winter gas with prices at levels like that. The Semi-Firm Sales Service could allow us to the opportunity to bid on storage gas that is priced considerably lower than winter gas pricing. At the same time, NA Industries' exposure to volatility seemingly would be reduced through this provision of a "hedge" against a portion of our gas requirements during the winter.

**Q. Did you bid on the SF-1 natural gas volumes that were posted in 2005?**

A. Our consultant reviewed for us the SF-1 natural gas volumes and pricing posted in August 2005. We concluded that, based on market conditions, the Company's minimum bid requirements, implemented with input from its affiliate, were over-priced and did not provide the necessary value for us to bid. In fact, not one company made a bid.

**Q. What recommendations would you make for the TRA to consider related to the Semi-Sales Firm Service and the Company's storage assets?**

A. If the TRA would allow gas users to establish the value of this service through competitive bid, I am confident this service would provide us with an option to reduce our risk exposure and natural gas costs. More importantly, the value of these underutilized storage assets would be put to use for the undiluted benefit of Chattanooga ratepayers, including manufacturers.

**Q. Does this complete your testimony in this rate increase proceeding?**

A. Yes, I believe this completes my testimony as to issues related to Phase I of this proceeding.

**CERTIFICATE OF SERVICE**

I hereby certify that a copy of the foregoing is being forwarded via email and U.S. mail, postage prepaid, to:

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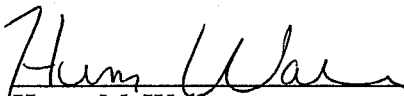
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on this the 16 day of October, 2006.

  
Henry M. Walker