

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

February 21, 2007

IN RE:

**PETITION OF CHATTANOOGA GAS)
COMPANY FOR APPROVAL OF)
ADJUSTMENT OF ITS RATES AND) Docket No. 06-00175
CHARGES, COMPREHENSIVE RATE)
DESIGN PROPOSAL, AND REVISED TARIFF)**

**CHATTANOOGA GAS COMPANY'S OBJECTIONS TO THE
CAPD'S AND THE CMA'S PROPOSED ISSUES LISTS FOR PHASE II**

Chattanooga Gas Company ("CGC" or "Company") has reviewed the filings made by the Consumer Advocate and Protection Division ("CAPD") of the Office of the Attorney General and by the Chattanooga Manufacturers Association ("CMA"), setting forth proposed issues for Phase II of the above referenced proceeding, and respectfully submits the following objections to addressing issues regarding asset management and its related revenue issues in a rate proceeding, as well as to issues relating to procurement of capacity. CGC submits that there are other forums that are appropriate for the parties to address these issues rather than expanding the scope of a rate proceeding.¹

As previously expressed in other dockets, CGC continues to believe that the asset management issues that the CAPD and the CMA are asking the Tennessee Regulatory

¹ The question regarding whether the Actual Cost Adjustment ("ACA") audit docket or a rate proceeding is the appropriate forum for addressing and litigating asset management issues is currently pending before the Tennessee Regulatory Authority in the Atmos proceeding (Docket No. 05-00258) where the Authority convened a rate proceeding upon the CAPD's show cause petition. CGC filed an objection (on September 25, 2006) to having asset management issues, including the revenues generated from non-jurisdictional use of gas supply assets, heard in a rate proceeding and instead argued that the more appropriate procedure would be to convene a rulemaking or alternatively to hear these issues in the ACA audit dockets where these issues are currently being addressed by the Authority. In response to the TRA's request for the parties to further brief the issue, CGC filed its brief (on November 20, 2006) setting forth its position that the ACA audit docket rather than a rate case is the more appropriate forum in which asset management and its related revenue issues should be considered. These briefs are pending before the TRA.

Authority (“TRA” or “Authority”) to address in Phase II of this rate proceeding will establish policies on various asset management issues that will be applied industry-wide. Thus, CGC believes that asset management issues should be addressed in a rulemaking proceeding rather than allowing industry-wide policy regarding asset management to be established through an individual company’s rate case.² Further the Generic Docket (05-00046), which was convened in part to address concerns about the TRA’s ability to regulate natural gas companies consistently, would also allow all interested parties to comment on asset management issues, and any resulting requirement would be consistent for all utilities.

Additionally, when dealing with company specific issues, such as procurement of capacity, CGC believes that the appropriate forum for addressing such issues is the annual Actual Cost Adjustment (“ACA”) and/or “Performance Based Ratemaking (“PBR”) audit dockets. The TRA currently reviews all gas costs associated with its capacity assets and related revenues, including revenues generated from non-jurisdictional use of gas supply assets, in the annual ACA audit through the Purchase Gas Adjustment (“PGA”) Rule. This has been the policy and practice of the TRA under its rules and regulations.

CGC has dockets open for its annual ACA and PBR audits for the year ending June 30, 2006. These dockets (06-00298/299) have been convened as contested cases, so these dockets will afford the parties the same opportunity to discuss and litigate the

² See Tennessee Cable Television Association v. Tennessee Public Service Commission, 844 S.W.2d 151, at 162-63 (Tenn. Ct. App. 1992) (deeming rulemaking necessary when the commission’s action is concerned with broad policy issues that affect a large segment of a regulated industry and when the commission’s action embodies material and significant changes in the commission’s ratemaking process for regulated companies).

capacity and asset management issues that have been listed as the issues to be litigated in Phase II of the rate case.

More specifically, the CAPD and the CMA have raised issues about affiliate transaction guidelines, asset management contracts, and the re-bidding of same. In CGC's 2004 and 2005 audit dockets (04-00402/403 and 05-00321/322), the TRA considered these issues. First, the TRA Staff and the Company worked together to develop appropriate affiliate transaction guidelines, which the TRA approved in 2006 and the Company has incorporated into its tariff. Working with the TRA Staff, the Company has also revised its tariff to include a Request for Proposal ("RFP") bidding process for future asset management agreements, which the TRA has approved. Any new contract resulting from the RFP process must be brought before the TRA for approval. As many of the asset management issues raised by the CAPD and the CMA have already been addressed in CGC's audit dockets, these settled issues should not be re-addressed in another docket or forum, such as a rate case. Further, the issues raised by the CAPD and the CMA, including capacity release and the revenues generated from non-jurisdictional use of gas supply assets, will be considered during the re-bidding of the asset management agreement.

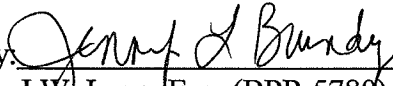
Allowing asset management and capacity issues to be addressed in CGC's rate proceeding will expand rate cases beyond addressing the costs used to calculate a company's rate of return, rate base, operation and maintenance expenses, and net operating income to include addressing gas costs and revenues related to gas supply assets which have always been reviewed and regulated by the TRA through the PGA. Further, the settlement that the parties reached in Phase I addresses all of the traditional

rate case issues, including the Company's rate base, rate of return, traditional rate design issues, and operation and maintenance expenses which include depreciation rates. The investigation as requested by the CAPD and the CMA into asset management and affiliate transactions must not disturb the settlement and resulting tariff that were agreed to by the parties and were approved by the TRA in December 2006, especially since the settlement was agreed to as a whole. Thus, the asset management and related revenue issues, as well as issues relating to procurement of capacity, should continue to be addressed in the annual ACA audit docket, which is the TRA's current practice. Furthermore, some of the issues to be discussed may become moot depending upon the responses that CGC receives to an RFP for a new asset management contract.

Therefore, for purposes of consistency and of following well-established TRA policy and procedure, the asset management and capacity issues proposed for Phase II of this rate proceeding should be addressed in the ACA audit docket.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that on this 21st day of February 2007, a true and correct copy of the foregoing was served on the persons below by U.S. Mail or email:

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