BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

December 17, 2007

IN RE:	)	
	)	
CHATTANOOGA GAS COMPANY ACTUAL COST ADJUSTMENT FOR THE TWELVE MONTHS ENDED JUNE 30, 2006	)))	**DOCKET NO. 06-00298**

ORDER ADOPTING ACA AUDIT REPORT OF TENNESSEE REGULATORY AUTHORITY'S UTILITIES DIVISION

This matter came before Chairman Sara Kyle, Director Eddie Roberson and Director Ron Jones of the Tennessee Regulatory Authority (the "Authority" or "TRA"), the voting panel assigned to this Docket, at a regularly scheduled Authority Conference held on June 25, 2007, for consideration of the report of the Authority's Utilities Division (the "Staff") resulting from the Staff's audit of Chattanooga Gas Company's (the "Company") annual deferred gas cost account filing for the year ended June 30, 2006. The Actual Cost Adjustment ("ACA") Compliance Audit Report (the "Report"), attached hereto as Exhibit 1 and incorporated by this reference, contains no findings by the Staff.

The Company submitted its ACA filing on November 29, 2006, and the Staff completed its audit of the Company's filing on May 25, 2007. The Staff filed its Report with the Authority on June 7, 2007. Staff concluded that the Company had correctly calculated its ACA and made no material findings. At a regularly scheduled Authority Conference held on June 25, 2007, the panel considered and voted unanimously to approve the Report.

IT IS THEREFORE ORDERED THAT:

The Actual Cost Compliance Adjustment Audit Report of Chattanooga Gas Company's annual deferred gas cost account filing for the year ended June 30, 2006, a copy of which is attached to this Order as Exhibit 1, is approved and adopted, and incorporated in this Order as if fully rewritten herein.

Sara Kyle, Chairman

Eddie Roberson, Director

Ron Jones, Director

BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

June 7, 2007

IN RE:	)	
	)	
CHATTANOOGA GAS COMPANY	)	**Docket No. 06-00298**
ACTUAL COST ADJUSTMENT AUDIT	)	

NOTICE OF FILING BY THE UTILITIES DIVISION OF THE TENNESSEE REGULATORY AUTHORITY

Pursuant to Tenn. Code Ann. §§65-4-104, 65-4-111 and 65-3-108, the Utilities Division of the Tennessee Regulatory Authority hereby gives notice of its filing of the Compliance Audit Report of the Actual Cost Adjustment (hereafter "ACA") component of the Purchased Gas Adjustment Rule for Chattanooga Gas Company in this docket and would respectfully state as follows:

1. The present docket was opened by the Authority to hear matters arising out of the ACA audit of Chattanooga Gas Company (the "Company").

2. The Company's ACA filing was received on November 29, 2006, and the Audit Staff completed its audit of same on May 25, 2007. The original 180-day deadline for the Staff's completion of the audit was extended to June 25, 2007 by mutual consent of Chattanooga Gas Company and the TRA Audit Staff as provided for in the Purchased Gas Adjustment Rule (1220-4-7-.03 (2). The extension was necessary due to a change in the date of the Authority Conference in June.

Exhibit 1

3. There were no material findings during the course of the ACA audit.

4. A final ACA audit report (hereafter the "Report") resulted therefrom. The Report is attached hereto as Exhibit A and is fully incorporated herein by this reference.

5. The Utilities Division hereby files its Report with the Tennessee Regulatory Authority for deposit as a public record.

Respectfully Submitted:

Pat Murphy

Pat Murphy
Utilities Division of the
Tennessee Regulatory Authority

CERTIFICATE OF SERVICE

I hereby certify that on this 7th day of June 2007, a true and exact copy of the foregoing has been either hand-delivered or delivered via U.S. Mail, postage pre-paid, to the following persons:

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

Mr. Bryan E. Seas
Vice President and Controller
AGL Resources, Inc.
Location 1686
PO Box 4569
Atlanta, GA 30302-4569

Mr. Archie R. Hickerson
Director – Regulatory Affairs
AGL Resources, Inc.
150 West Main Street, Suite 1510
Norfolk, VA 23510

Pat Murphy

Pat Murphy

COMPLIANCE AUDIT REPORT
of the
ACTUAL COST ADJUSTMENT COMPONENT
of the
PURCHASED GAS ADJUSTMENT RULE
for
CHATTANOOGA GAS COMPANY

Docket No. 06-00298

Prepared by:

THE UTILITIES DIVISION
of the
TENNESSEE REGULATORY AUTHORITY

JUNE 2007

EXHIBIT A

COMPLIANCE AUDIT REPORT
of the
ACTUAL COST ADJUSTMENT COMPONENT
of the
PURCHASED GAS ADJUSTMENT RULE
for
CHATTANOOGA GAS COMPANY
for the Year ended June 30, 2006

Docket No. 06-00298

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I. INTRODUCTION

The subject of this audit is Chattanooga Gas Company's ("Company," "Chattanooga," or "CGC") compliance with the Actual Cost Adjustment and Refund Adjustment of the Purchased Gas Adjustment Rule ("PGA Rule") of the Tennessee Regulatory Authority ("TRA" or the "Authority"). The objective of the audit is to determine whether the purchased gas adjustments, which are encompassed by the Actual Cost Adjustment ("ACA"), as more fully described in section VI., for the year ended June 30, 2006, are calculated correctly in accordance with all TRA rules, orders, and directives applicable to Chattanooga and are supported by appropriate source documentation.

II. AUDIT OPINION

The Audit Staff ("Staff") concludes that the Purchased Gas Adjustment mechanism, as calculated in the Actual Cost Adjustment, appears to be working properly and in accordance with the TRA rules for Chattanooga Gas Company.

III. SUMMARY OF COMPANY FILING

The Company made its Actual Cost Adjustment filing for its Tennessee service area on November 29, 2006. This ACA filing showed $95,655,414 in total gas costs, with $97,075,303 being recovered from customers through rates. Adding a beginning balance in the Deferred Gas Cost account ("ACA account") of negative $1,470,534 in over-recovered gas costs from the preceding ACA period and interest owed to customers for the current period of negative $43,975 resulted in an ACA balance at June 30, 2006 of **negative $2,934,398** in **over-recovered** gas costs. The Company's filing is summarized on the following page.

CHATTANOOGA GAS COMPANY
ACA FILING FOR PERIOD JULY 2005-JUNE 2006

Line		
1	Beginning Balance (July 2004)	$ (1,470,534.01)
2	Purchased Gas Costs (July 2004 – June 2005)	95,655,414.01
3	Gas Costs recovered through rates (July 2004 – June 2005)	97,075,303.37
4	Interest on monthly ACA Account balances	(43,975.00)
5	Ending Balance (June 2005) (Line 1 + Line 2 – Line 3 + Line 4)	$ (2,934,398.37)

A ( ) around a number indicates a negative or credit balance in the ACA Account, which represents an over-recovery of gas costs. Over-recoveries result in a refund due to customers.

The Company filed a tariff, effective January 1, 2007, to begin refunding the balance in the ACA account as of June 30, 2006.

IV. BACKGROUND INFORMATION ON COMPANY

Chattanooga Gas Company, located at 6125 Preservation Drive in Chattanooga, Tennessee, is a wholly owned subsidiary of AGL Resources, Inc., a holding company formed in 2000 in response to the Public Utility Holding Company Act (PUCHA) of 1935. AGL Resources, Inc. is located at Ten Peachtree Place, Atlanta, Georgia. As a local distribution company ("LDC"), Chattanooga Gas provides service to customers in Chattanooga and Cleveland, Tennessee, and environs in Hamilton and Bradley Counties in Tennessee, respectively. The natural gas used to serve these areas is purchased from various suppliers and transported via three natural gas pipelines in accordance with separate and individual tariffs approved by the Federal Energy Regulatory Commission (FERC). The three interstate pipelines are Tennessee Gas Pipeline (TGP), East Tennessee Natural Gas (ETNG), and Southern Natural Gas (SNG).

V. JURISDICTION OF THE TENNESSEE REGULATORY AUTHORITY

Tennessee law provides broad jurisdiction and control over public utilities to the Tennessee Regulatory Authority (hereafter the "Authority" or "TRA"). Tenn. Code Ann. § 65-4-104 states:

> The authority has general supervisory and regulatory power, jurisdiction, and control over all public utilities, and also over their property, property rights, facilities, and franchises, so far as may be necessary for the purpose of carrying out the provisions of this chapter.

Further, Tenn. Code Ann. § 65-4-105 grants the same power to the Authority with reference to all public utilities within its jurisdiction as Tenn. Code Ann., Title 65. Chapters 3 and 5 confer oversight of the railroads to the Department of Transportation or oversight of transportation companies to the Department of Safety. By virtue of Tenn. Code Ann. § 65-3-108, said power includes the right to audit:

> The department of transportation is given full power to examine the books and papers of the companies, and to examine, under oath, the officers, agents, and employees of the companies... to procure the necessary information to intelligently and justly discharge its duties and carry out the provisions of this chapter and chapter 5 of this title.

The Utilities Division of the TRA is responsible for auditing those companies under the Authority's jurisdiction to ensure that each company is abiding by Tennessee statutes as well as the Rules and Regulations of the Authority. Pat Murphy, Michelle Ramsey and Ron Graham of the Utilities Division conducted this audit.

VI. DESCRIPTION OF PURCHASED GAS ADJUSTMENT RULE

Actual Cost Adjustment Audits:

The PGA Rule can be found in Chapter 1220-4-7 of the Rules of the Tennessee Regulatory Authority. The PGA Rule permits the Company to recover, in a timely fashion, the total cost of gas purchased for delivery to its customers and to assure that the Company does not over-collect or under-collect gas costs from its customers.

The PGA consists of three major components:

1. **The Actual Cost Adjustment (hereafter the "ACA")**
2. **The Gas Charge Adjustment (hereafter the "GCA")**
3. **The Refund Adjustment (hereafter the "RA")**

The ACA is the difference between the revenues billed customers by means of the GCA and the cost of gas invoiced the Company by suppliers plus margin loss (if allowed by order of the TRA in another docket) as reflected in the Deferred Gas Cost account. The ACA then "trues-up" the difference between the actual gas costs and the gas costs recovered from customers through a surcharge or a refund. The RA refunds the "true-up" along with other supplier refunds. For a more complete definition of the GCA and RA, please see the PGA Formula in Appendix A of this Report.

Section 1220-4-7-.03 (2) of the PGA rule requires:

> Each year, the Company shall file with the Authority an annual report reflecting the transactions in the Deferred Gas Cost Account. Unless the Authority provides written notification to the Company within one hundred eighty (180) days from the date of filing the report, the Deferred Gas Cost Adjustment Account shall be deemed in compliance with the provisions of these Rules. This 180-day notification period may be extended by mutual consent of the Company and the Authority Staff or by order of the Authority.

Prudence Audit of Gas Purchases:

Section 1220-4-7-.05 of the PGA Rule requires, unless otherwise ordered by the Authority, an audit of Prudence of Gas Purchases by a qualified consultant. This specialized audit evaluates and reports annually on the prudence of any gas costs included in the PGA. At its September 11, 2001, Authority Conference, the Directors voted to approve a Performance-Based Ratemaking Mechanism for Chattanooga (Docket No. 01-00619). The mechanism affects all plan years ending after June 30, 2000, and continues each year unless terminated by the Company or the Authority. For each year that the mechanism is in effect, if CGC's total commodity gas purchases are less than 1% above the total annual benchmark, its purchases are deemed prudent and the requirements of Section 1220-4-7-.05 of the PGA Rule are waived.

VII. SCOPE OF ACA AUDIT

The ACA audit is a compliance audit of the Company's ACA account. The audit goal is to verify that the Company's calculations of gas costs incurred and recovered are materially correct,[1] and that the Company is following all Authority rules, orders and directives with respect to its calculation of the ACA Account balance. Also included in this audit is the Company's PGA filing implementing a customer refund of the ACA Account balance, effective January 1, 2007. Refer to the ACA Account detail provided in Section III, Summary of Company Filing.

To accomplish the audit goal, Staff reviewed gas supply invoices, as well as supplemental schedules and other source documentation provided by Chattanooga. Where appropriate, Staff requested additional information to clarify the filing.

VIII. ACA FINDINGS

After reviewing the Company's filing, the Staff concludes that there are no material findings.

IX. STAFF AUDIT CONCLUSIONS AND RECOMMENDATIONS

As reported in the body of this report, Staff concludes that the Purchased Gas Adjustment mechanism, as calculated in the Actual Cost Adjustment, appears to be working properly and in accordance with the TRA rules for Chattanooga Gas Company. Staff's audit procedures revealed no material findings for the audit period under review.

In the last audit of CGC's Actual Cost Adjustment (Docket 05-00321), Staff made three (3) recommendations as follows:

1. The Authority should extend the timeframe for submission of amendments to the PBR tariff related to affiliate transactions and the RFP bidding process until Audit Staff has met with the Company and a joint tariff revision is crafted for consideration by the Directors.

2. The Authority should order the Company to abide by the directives given in Docket Nos. 03-00516, 04-00402 and 04-00403. These directives should require the Company to rebid its asset management and gas purchase agreements prior to the

[1] The audit goal is not to guarantee that the Company's results are 100% correct. Where it is appropriate, Staff utilizes sampling techniques to determine whether the Company's calculations are materially correct. Material discrepancies would dictate a broadening of the scope of Staff's review.

end of the initial term (March 31, 2007). The new resulting contract between CGC and the winner of the bidding process should be brought before the TRA for its approval prior to the effective date.

3. The Authority should direct Audit Staff to visit Sequent's offices in Houston, Texas for the purpose of reviewing the asset management and gas purchase function Sequent provides for CGC and reviewing the program in place to isolate and track individual transactions made using the assets of Chattanooga Gas Company.[2]

At the August 23, 2006 Authority Conference, the majority of the panel in Docket 05-00321 voted to accept Staff recommendation #2 and reject Staff recommendation #3. Recommendation #1 required no action at that time, because a revised tariff had been filed in Dockets 04-00402 and 04-00403.

While Staff recommendation #2 stated that the Company should be required to rebid its asset management and gas purchase agreements prior to the end of the initial term (March 31, 2007), Chattanooga requested that the current agreement with Sequent be allowed to continue past the March 31, 2007 term, so as to maximize the benefits accruing to the consumers under the agreement.[3] Staff responded to this request by stating that it had no objection to the Company's request for the reasons stated.[4] At the August 23, 2006 Authority Conference, the panel acknowledged and accepted the Company's request by stating in its motion that Chattanooga Gas Company is required to rebid its asset management and gas purchase agreements prior to the end of the **March 31, 2008** term.[5]

While the first RFP process has not yet occurred, Chattanooga has stated that it will keep the Staff informed of the progress of the initial RFP process. Staff will in turn review each RFP process during the annual audits and report the results to the Authority in its audit reports.

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[2] Profits derived from these individual transactions are summarized and reported under CGC's Interruptible Margin Credit Rider (IMCR) for crediting 50% of such profits to Tennessee customers.

[3] Response of Chattanooga Gas Company to the Utilities Division's Compliance Audit Reports (July 17, 2006) and letter from the Company's counsel dated August 11, 2006.

[4] TRA Staff Reply to Chattanooga Gas Company's Response to the Utilities Division's Compliance Audit Report (July 21, 2006).

[5] Transcript of Authority Conference (August 23, 2006), page 39.

APPENDIX A

PGA FORMULA

The computation of the GCA can be broken down into the following formulas:

$$\text{Firm GCA} = \frac{D + DACA}{SF} - DB + \frac{P + T + SR + CACA}{ST} - CB$$

$$\text{Non-Firm GCA} = \frac{P + T + SR\ \ CACA}{ST} - CB$$

where

GCA	=	The Gas Charge Adjustment in dollars per Ccf/Therm, rounded to no more than five decimal places.
D	=	The sum of all fixed Gas Costs.
DACA	=	The demand portion of the ACA.
P	=	The sum of all commodity/gas charges.
T	=	The sum of all transportation charges.
SR	=	The sum of all FERC approved surcharges.
CACA	=	The commodity portion of the ACA.
DB	=	The per unit rate of demand costs or other fixed charges included in base rates in the most recently completed general rate case (which may be zero if the Company so elects and the Commission so approves).
CB	=	The per unit rate of variable gas costs included in base rates in the most recently completed general rate case (which may be zero if the Company so elects and the Commission so approves).
SF	=	Firm Sales.
ST	=	Total Sales.

The computation of the RA can be computed using the following formulas:

$$\text{Firm RA} = \frac{DR1 - DR2}{SFR} + \frac{CR1 - CR2 + CR3 + i}{STR}$$

$$\text{Non-Firm RA} = \frac{CR1 - CR2 + CR3 + i}{STR}$$

where

RA =	The Refund Adjustment in dollars per Ccf/Therm, rounded to no more than five decimal places.
DR1 =	Demand refund not included in a currently effective Refund Adjustment, and received from suppliers by check, wire transfer, or credit memo.
DR2 =	A demand surcharge from a supplier not includable in the GCA, and not included in a currently effective Refund Adjustment.
CR1 =	Commodity refund not included in a currently effective Refund Adjustment, and received from suppliers by check, wire transfer, or credit memo.
CR2 =	A commodity surcharge from a supplier not includable in the GCA, and not included in a currently effective Refund Adjustment.
CR3 =	The residual balance of an expired Refund Adjustment.

i = Interest on the "Refund Due Customers" account, using the average monthly balances based on the beginning and ending monthly balances. The interest rates for each calendar quarter used to compute such interest shall be the arithmetic mean (to the nearest one-hundredth of one percent) of the prime rate value published in the "Federal Reserve Bulletin" or in the Federal Reserve's "Selected Interest Rates" for the 4th, 3rd, and 2nd months preceding the 1st month of the calendar quarter.

SFR = Firm sales as defined in the GCA computation, less sales under a transportation or negotiated rate schedule.

STR = Total sales as defined in the GCA computation, less sales under a transportation or negotiated rate schedule.