

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

June 6, 2008

IN RE:)	
)	
DOCKET TO EVALUATE)	
CHATTANOOGA GAS COMPANY'S)	DOCKET NO. 07-00224
GAS PURCHASES AND RELATED)	
SHARING INCENTIVES)	
)	
)	

**FIRST DISCOVERY REQUESTS TO THE CONSUMER ADVOCATE AND
PROTECTION DIVISION OF THE OFFICE OF THE
ATTORNEY GENERAL OF TENNESSEE**

These Discovery Requests are hereby served upon the Consumer Advocate and Protection Division of the Attorney General and Reporter of the State of Tennessee ("CAPD") by Chattanooga Gas Company ("CGC" or "Company") pursuant to Rules 26, 33, 34 and 36 of the Tennessee Rules of Civil Procedure and Tenn. Comp. R. & Reg. 1220-1-2-.11. CGC requests that full and complete responses be provided, under oath, pursuant to the Tennessee Rules of Civil Procedure.

PRELIMINARY MATTERS AND DEFINITIONS

These Discovery Requests are to be interpreted broadly to fulfill the benefit of full discovery.

Each Discovery Request calls for all knowledge, information, and material available to the CAPD, as a party, whether it be the CAPD, in particular, or knowledge, information, or material possessed or available to the CAPD's attorney or other representative.

These Discovery Requests are to be considered continuing in nature, and are to be

supplemented from time to time as information is received by the CAPD which would make a prior response inaccurate, incomplete, or incorrect.

For each Discovery Request, provide the name of the witness(es) or employee(s) responsible for compiling and providing the information contained in each response.

For purposes of these Discovery Requests, the term "you" shall mean and include the CAPD and all employees, agents, and representatives thereof.

The term "document" shall have the broadest possible meaning under applicable law. "Document" as used herein means any medium upon which intelligence or information can be recorded or retrieved, such as any written, printed, typed, drawn, filmed, taped, or recorded medium in any manner, however produced or reproduced, including but not limited to any writing, drawing, graph, chart, form, photograph, tape recording, computer disk or record, or other data compilation in any form without limitation. You shall produce the original and each copy, regardless of origin or location, of any document, including but not limited to any book, pamphlet, periodical, publication, letter, correspondence, note, report, survey, summary, draft, work paper, memorandum (including memoranda, note or report of a meeting or conversation), projection, comparison, evaluation, telephone call records, transcripts, witness statements, minutes or statistical compilation, spreadsheet, photograph, videotape, audio tape, computer disk, other electronic record or tape or printout, e-mail or electronic email files, or any other written, typed, reported, transcribed, punched, taped, filmed, or graphic matter, however produced or reproduced, which is in your possession, custody or control or which was, but is no longer, in your possession, custody, or control. If any such document or thing was, but no longer is, in your possession or control, state what disposition was made of it and when.

If you produce documents in response to these Discovery Requests, produce the original

of each document or, in the alternative, identify the location of the original document. If the original document is itself a copy, that copy should be produced as the original.

If a document exists in different versions, including any dissimilar copies (such as a duplicate with handwritten notes on one copy), each version shall be treated as a different document and each must be identified and produced.

The terms “and” and “or” shall be construed conjunctively or disjunctively as necessary to include any information that might otherwise be construed outside the scope of these requests.

The term “communication” means any transmission of information by oral, graphic, pictorial or otherwise perceptible means, including but not limited to personal conversations, telephone conversations, letters, memoranda, telegrams, electronic mail, newsletters, recorded or handwritten messages, or otherwise.

If you contend that you are entitled to refuse to fully answer any of the Discovery Requests, state the exact legal basis for each such refusal.

If any of the Discovery Requests are not answered on the basis of privilege or immunity, include in your response to each such request a written statement evidencing:

- a. A complete explanation of the privilege being asserted;
- b. The nature of the communication, document, or information;
- c. The date of the communication, document, or information;
- d. The identity of the persons present at such communication or who prepared the document or information; and
- e. A brief description of the communication, document, or information sufficient to allow the Authority to rule on a motion to compel.

If, for any reason, you are unable to answer a Discovery Request fully, submit as much

information as is available and explain why your answer is incomplete. If precise information cannot be supplied, submit 1) your best estimate, so identified, and your basis for the estimate and 2) such information available to you as comes closest to providing the information requested. If you have reason to believe that other sources of more complete and accurate information exist, identify those sources.

“Identify” or “identifying” or “identification” when used herein with respect to any document means to provide a description of the document, including but not limited to the type of document (e.g., letter, memorandum, etc.), the date of the document, the title or label of the document, the identity of the person(s) who authored the document, was a recipient of the document, or possessed a copy of the document, and the current location of the document. “Identify” or “identifying” or “identification” when used herein with respect to any person or entity means without limitation the name of the person or entity and the current contact information (including but not limited to the daytime telephone number and address).

If any information requested is not furnished as requested, state where and how the information may be obtained or extracted, the person or persons having knowledge of the procedure, and the person instructing that the information be excluded.

FIRST DISCOVERY REQUESTS

Discovery Request No. 1

Identify by name all individuals, not employed by the Office of the Attorney General for the State of Tennessee, with whom an employee or employees of the Consumer Advocate and Protection Division discussed the Asset Management Agreements provided in response to Question 35, Sequent Energy Management's Chart of Accounts provide in response to Question 28, or the Chattanooga IMCR filing and the Chattanooga Book provided in response to Question 24, of the Consumer Advocate and Protection Division's first set of discovery dated March 18, 2008. For each individual identified, provide a copy of the Affidavit required by paragraphs 14 and 4 of the Agreed Protective Order issued March 4, 2008.

Discovery Request No. 2

- a. Identify the jurisdictions and dockets or cases in which Dr. Brown has provided testimony addressing management of natural gas supply assets (pipeline contracts, natural gas storage contracts, etc).
- b. Identify the jurisdictions and dockets or cases in which Mr. Buckner has provided testimony addressing management of natural gas supply assets (pipeline contracts, natural gas storage contracts, etc).

Discovery Request No. 3

Identify the jurisdictions and dockets or cases in which Dr. Brown has provided testimony addressing the amount of pipeline transportation capacity and/or the amount of storage capacity needed by a natural gas local distribution company.

Discovery Request No. 4

Provide copies of all articles, books, reports, etc. authored by Dr. Brown that address the

management of natural gas supply assets (pipeline contracts, natural gas storage contracts or facilities), the amount of pipeline transportation capacity, or the amount of storage capacity needed by a natural gas local distribution company.

Discovery Request No. 5

Produce copies of all documents -- including, without limitation, workpapers, spreadsheets, summaries, charts, notes, exhibits, articles, journals, treatises, periodicals, publications, reports, records, statements, Internet web pages, or financial information -- in your possession that you contend support the factual assertions, conclusions, or opinions of any of your witnesses in this matter and also all such documents that contradict the factual assertions, conclusions, or opinions of any of your witnesses in this matter.

Discovery Request No. 6

Produce copies of all documents -- including, without limitation, workpapers, spreadsheets, summaries, charts, notes, exhibits, articles, journals, treatises, periodicals, publications, reports, records, statements, Internet web pages, or financial information -- relied upon by any of CAPD's witnesses in evaluating, reaching conclusions, or formulating an opinion in this matter.

Discovery Request No. 7

Identify the source and provide the complete definition of the term, "operator" as used by the CAPD in Items 70, 71, 72, and 74 of its first discovery request issued March 18, 2008.

Discovery Request No. 8

On page 3 of his testimony Dr. Brown states:

"The need for CGC's LNG facilities appears to be declining and potentially could be replaced by ETNG's LNG service. CGC's LNG facilities are in CGC's rate base. CGC should provide the TRA with a study explaining the benefits and detriments of using ETNG's LNG service versus maintaining CGC's LNG facilities in the rate base, both operationally and financially. This issue

could also be treated in a triennial independent review.”

- a. Provide all workpapers, studies, reports prepared by or possessed by the Consumer Advocate and Protection Division that address CGC’s use of its LNG facility.
- b. Provide all workpapers, studies, reports prepared by or possessed by the Consumer Advocate and Protection Division that identify the benefits and cost of CGC obtaining LNG service from ETNG.
- c. Provide all workpapers, studies, reports prepared by or possessed by the Consumer Advocate and Protection Division that identify benefits and cost of CGC maintaining its LNG facilities.

Discovery Request No. 9

Admit that the Annual Non Firm Sales volumes identified by Dr. Brown on page 13 of his testimony includes the volumes provided to customers served under the I-1,L-1, F-1, T-1, T-2, and T-3 Rate Schedules. If denied, provide full explanation.

Discovery Request No. 10

Admit that neither Dr. Brown nor other members of the CAPD’s Staff prepared an analysis of Chattanooga Gas Company’s firm customer peak day demand, design day demand, or load duration curves. If denied, provide a full explanation and copies of all such analyses.

Discovery No. 11

On page 21 of his testimony Dr. Brown states:

“For example, the table at page 13 of this testimony shows that nonfirm customers use so much capacity throughout the year that there is no reason to conclude that they avoid on-peak usage. In TRA Docket 06-00175, CGC’s most recent rate case, its witnesses were silent about peak use of the pipeline capacity. They limited their testimony to a discussion of the peak use of the distribution system.”

- a. Admit that pipeline capacity cost is recovered through the Purchased Gas Adjustment / Actual Cost Adjustment (PGA/ACA) mechanism and is not included in CGC's base (distribution) rates. If denied, provide a complete explanation including any supporting documents, workpapers, or analysis.
- b. Admit that the most recent rate case, TRA Docket 06-00175 addressed CGC base (distribution) rates and did not address gas costs (including commodity cost, pipeline reservation, transportation, and storage cost). If denied, provide a complete explanation including any supporting documents, workpapers, or analysis.

Discovery No. 12

On page 21 of his testimony Dr. Brown states:

"As I have already discussed, a portion of CGC's year-round firm pipeline capacity on ETNG could be replaced by seasonal pipeline capacity on ETNG, and there is a potential for CGC's LNG plant to be replaced by ETNG's LNG service. However, based on the data I have used regarding Issue 5, my opinion is that CGC appears not to have a planning process which joins the needs of firm customers to transportation, peaking and storage capacity."

- a. Provide copies of all analysis or studies prepared by Dr. Brown or other employees of the CAPD that quantify or otherwise address the amount of :
 1. firm Tennessee Gas Pipeline capacity needed by CGC,
 2. firm ETNG capacity needed by CGC;
 3. firm SONAT pipeline capacity needed by CGC;
 4. firm pipeline capacity needed by CGC in total;
 5. peaking capacity needed by CGC;
 6. storage capacity needed by CGC.
- b. Identify all data used by Dr. Brown in forming his opinion regarding Issue 5.
- c. Provide copies and identify the source of all data identified in (b) above that is not included in Dr. Brown's testimony or exhibits.

Discovery No. 13

On page 23 of his testimony Dr. Brown states:

“However, the lack of connection between Mr. Buchanan’s peak use on a distribution system and peak use of pipeline capacity is shown in Mr. Heintz’s testimony. At page 9, lines 11-12 Mr. Heintz says “a complete listing of the external and internal allocation factors used in the COSS is shown in Exhibit DAH-3.”

- a. Admit that Mr. Heintz did not include pipeline capacity cost in the class cost of service study filed in Docket 06-00175. If denied, provide complete explanation and supporting documentation.
- b. Admit that Mr. Heintz did not address peak use of pipeline capacity in his testimony or exhibits filed in Docket 06-00175. If denied, provide a complete explanation including supporting documentation.
- c. Admit that the volumes and allocation factors shown on page 24 of Dr. Brown’s testimony as taken from Exhibit DAH-3 in Docket 06-000175 were not proposed for or used in the allocation of pipeline capacity, but were the DDDCs for the different rate classes used in the class cost of service study to allocate the distribution system and reflect the demand put on the distribution system on the design day by the different customer rate classes. If denied, provide a complete explanation including supporting documentation.

Discovery No. 14

On page 75 of his testimony Dr. Brown states:

“CAPD raised that issue in CAPD discovery request 30, which is provided below. For the period January 1, 2004 through March 31, 2007 SEM’s transactions had a value of \$708 million, about 100 times larger than the revenues credited to CGC’s ratepayers. However, the wording of CGC’s reply may suggest that “Sales Volume Dth” may include the throughput volumes displayed at page 10 of this testimony, which are CGC’s overall sales. If this were the case, then the ratio of 100, which I noted above, would decline to 50.”

- a. Admit that the CAPD discovery request 30 asked for Sequent's **total** dollar amount and volumes of sales related to asset management contracts between Sequent and CGC. If denied, provide a complete explanation.
- b. Admit that 50% of the gross margin is to be credited to CGC's rate payers. If denied, provide a complete explanation.
- c. Admit that gross margin is total sales revenue less the cost of gas and is not the same as total dollar amount of sales. If denied, provide a complete explanation.
- d. Admit that in discovery request 30 the CAPD did not request that the gross margin related to asset management contracts be identified. If denied, provide a complete explanation.
- e. Admit that the \$708 million identified in response to CAPD discovery request 30 is the **total** dollar amount of sales as requested and not gross margin related to the asset management contracts between Sequent and CGC. If denied, provide a complete explanation.

Discovery Request No. 15

On page 11 of his testimony, Mr. Buckner includes the following question and answer:

- "Q. How does CGC's ratepayer compensation compare to the ratepayer compensation provided nationally by other LDCs?
- A. When compared to ratepayer compensation in state jurisdictions other than AGL, the ratepayer compensation is too low."
- a. Provide copies of the analysis or studies prepared by Mr. Buckner or other members of the CAPD Staff that compare the ratepayers' compensation in each of the remaining 44 states in which AGLR distribution companies do not operate with CGC's ratepayer compensation. If the analysis or study does not address the ratepayer compensation in each of the remaining 44 states, identify each state that is not included. Identify all assumptions used and the source of all data used in the analysis.
 - b. Provide copies of the analysis or studies prepared by Mr. Buckner or other members of the CAPD Staff that compare the ratepayer compensation for non-AGLR distribution utilities in the 6 states in which AGLR distribution utilities operate with CGC's ratepayer

compensation. Identify the source of all data used in the analysis. Identify all assumptions used and the source of all data used in the analysis.

- c. Provide a copy of each Asset Management Agreement reviewed by Mr. Buckner when comparing CGC ratepayer compensation with the ratepayer compensation for other local distribution companies.
- d. Provide a copy of each regulatory commission order addressing asset management that Mr. Buckner reviewed when comparing CGC ratepayer compensation with the ratepayer compensation for other local distribution companies.

Discovery Request No. 16

On page 11 of his testimony, Mr. Buckner states:

“The Indiana Utility Regulatory Commission, in Cause No. 42973, approved an asset management arrangement in which consumers receive the bulk of the benefits. Part 3-e of the order, starting on page 7, discusses the “Profit Sharing.” The order divides the capacity assets into two equal parts that are treated differently in the method of deriving benefits from them. One half of the capacity is devoted to “a pre-arranged sales process that will solicit bids.” Consumers receive 85% of the value derived from that process. The other half of the capacity is retained by the utility, and the utility markets that half of the capacity itself. Customers receive 75% of the value derived from that process. Obviously, there are differences between this example and the asset management contract at issue in the present docket, but the point is that it is possible and practical for a state regulatory authority to establish a system of marketing capacity assets that is designated primarily to benefit the consumers who have paid 100% of the costs for those assets.”

- a. Provide a copy of the asset management agreement subject to approval in Cause No. 42973 referenced by Mr. Buckner.
- b. Identify and explain the differences in the example and the asset management contract at issue in the present docket that Mr. Buckner recognizes in his testimony.

Discovery Request No. 17

Page 15 of Mr. Buckner's testimony includes the following question and answer:

"Q. If the sharing between CGC and the asset manager is changed to 85% for CGC and 15% for the asset manager, would you expect the potential asset managers would bid smaller amounts for the annual guaranteed minimum than they would under 50%/50% sharing.

A. Most likely, yes."

Provide all analysis or studies prepared by Mr. Buckner or other members of the CAPD Staff that identifies the potential impact on the guaranteed minimum payment, if the sharing percentage were changed from 50%/50%. Identify all assumptions used and the source of all data used in the analysis.

Discovery Request No. 18

On page 16 Mr. Buckner states:

". . . but consumers could be better off over the long term with a higher guaranteed percentage of the sharing rather than with a higher annual guaranteed minimum payment."

- a. Provide all analysis or studies prepared by Mr. Buckner or other members of the CAPD Staff that identifies the potential impact on ratepayers of a higher percentage of sharing rather than a higher annual guaranteed minimum. Identify all assumptions used and the source of all data used in the analysis.

Discovery Request No. 19

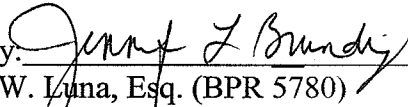
On page 23 Mr. Buckner states:

“Therefore, the amount paid by Sequent for the right to utilize or market assets is not representative of the fair market value of such assets.”

- a. Provide all analysis or studies prepared by Mr. Buckner or other members of the CAPD Staff that identifies the “fair market value of such assets” referenced by Mr. Buckner on page 23 of his testimony. Identify all assumptions used and the source of all data used in the analysis.

Respectfully submitted,

FARMER & LUNA, PLLC

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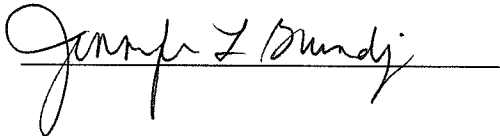
CERTIFICATE OF SERVICE

I hereby certify that on this 6th day of June, 2008, a true and correct copy of the foregoing was served on the persons below via U.S. Mail or email:

Eddie Roberson, Chairman
Tennessee Regulatory Authority
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Nashville, Tennessee 37243-0505

Kelly Cashman-Grams, Hearing Officer
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A handwritten signature in cursive script, appearing to read "Jennifer L. Bandy", is written over a horizontal line.