filed electronically in docket office on 08/27/14

BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE

August 27, 2014

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

CHATTANOOGA GAS COMPANY'S COMMENTS

On August 14, 2014, the Tennessee Regulatory Authority ("TRA" or "Authority") issued notice that the TRA will consider during its September 15, 2014 Authority Conference whether the Authority at this time will order another triennial review of Chattanooga Gas Company's Performance Based Ratemaking Mechanism ("PBRM") transactions and activities. The TRA has instructed any party in the above referenced docket with a position on this issue to submit written comments on or before August 27, 2014. As explained more fully below, Chattanooga Gas Company ("CGC" or "Company") believes that it is not necessary at this time to schedule another triennial review to commence in 2017 or to order a rigid triennial review frequency; rather, the Company believes that it would be more prudent and cost effective for the TRA to rely on the capabilities of the TRA Staff to review and evaluate CGC's gas purchasing and management of its gas supply assets during the annual ACA, PBR, and IMCR reviews and then determine whether any additional independent reviews are necessary based on the future recommendation of the TRA Staff.

BACKGROUND

Docket 07-00224 was opened by the TRA to consider issues concerning asset management and capacity release that the Consumer Advocate and Protection Division of the

Office of the Attorney General and Reporter ("CAPD") raised during CGC's 2006 rate case.[1] In Docket 07-00224, CGC provided testimony and evidence to show that it subscribes to the proper level and mix of storage, peaking, and transportation capacity and that its asset management practices are proper and have greatly benefited CGC's customers.[2] After proceeding to a contested case hearing on July 13, 2009, the TRA panel found that CGC subscribes to an appropriate level and mix of storage, peaking, and transportation capacity.[3] The TRA ordered that a review by an independent third party would occur in 2013 with any future review to be determined at the conclusion of the 2013 review.[4]

In accordance with the procedures adopted by the TRA, CGC issued a Request for Proposals for an independent review of the transactions and activities related to CGC's PBRM tariff provision. In or around September 2013, Exeter Associates, Inc. ("Exeter") was awarded the contract after discussion and agreement of the parties and the TRA Staff. Exeter performed its review and issued its report on or around June 23, 2014. Notably, the report supported the TRA's determination in Docket 07-00224 that CGC has an appropriate level and mix of supply capacity and that the Company is following its PBRM tariff provision.

CGC'S POSITION

In light of the fact that there have been two thorough reviews of CGC's gas supply and capacity planning -- including its asset management practices – conducted since 2009, CGC believes that it is not cost effective to adopt a rigid review schedule and require yet another independent review to be conducted beginning in 2017 at the ratepayers' expense. Instead, CGC

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[1] *See* TRA Order entered Sept. 23, 2009 in Docket 07-00224, at 1.

[2] *See id.* at 4-5.

[3] *See id.* at 5.

[4] *See* TRA Order entered Oct. 13, 2009, at 3.

believes that the TRA's comprehensive annual reporting and review processes for CGC's ACA, PBR, and IMCR tariff provisions provide sufficient oversight of the gas and capacity supply and asset management issues.[5] The TRA, moreover, has the authority to order a future independent review or a contested case if the TRA determines such actions are warranted at any time. Accordingly, the annual TRA procedures and processes are more efficient and cost-effective than establishing a rigid requirement that outside consultants will always be hired at a certain frequency to conduct a review of gas supply and capacity requirements filings. This is especially true for CGC given its size and the fairly static nature of CGC's gas supply and capacity requirements.[6]

In short, proceeding with the existing annual audit process of CGC's gas purchasing and gas supply asset management by TRA Staff will protect CGC's customers and ensure that they continue to receive maximum benefits from CGC's asset management practices rather than having those monetary benefits and credits pay for a rigid, automatic independent triennial review process that will provide little, if any, additional protections. Allowing the TRA Staff to make a recommendation at an appropriate time when, and if, a future independent triennial

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[5] For example, pursuant to the Purchased Gas Adjustment Rule 1220-4-7, the TRA performs annual reviews and audits of the gas costs associated with a gas utility's gas and capacity supply assets and the related revenues, including revenues generated from non-jurisdictional use of these assets. The PGA Rule defines "gas costs" to include all costs of gas, including costs associated with the purchase, storage, or pipeline transportation of gas for a company's system supply. *See* Rule 1220-4-.7-01(1). Additionally, in its annual ACA and PBR audits, CGC must submit to the TRA the invoices associated with its gas costs so that the TRA Staff can determine whether the gas costs, including the costs associated with its pipeline transportation capacity and storage, that are charged to the customers are appropriate and prudent. The TRA Staff, moreover, determines whether customers are receiving the proper credits for any over-recoveries of cost, gas cost refunds, and the gains generated by CGC's asset manager. The Company is also required annually to make its IMCR filing to verify the gross margin that has been generated from the use of CGC's gas and capacity supply assets that are shared with its customers. Although the IMCR and the PBR are separate filings, the Staff conducts a joint review and issues an audit report that addresses both filings.

[6] While Piedmont Natural Gas (f/k/a Nashville Gas) ("Piedmont") and the CAPD negotiated a settlement agreement that requires triennial reviews of certain issues related to Piedmont's incentive plan to be performed by an independent consultant at the ratepayers' expense, the same rigid review process does not make sense for CGC. Indeed, CGC is a much smaller LDC than Piedmont and has fairly modest growth which makes rigid review requirements costly to the ratepayers with very little benefit. Additionally, CGC does not have an incentive plan like Piedmont.

review would be helpful and necessary would be more cost effective and just as beneficial to CGC and its ratepayers.

Respectfully submitted by,

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CERTIFICATE OF SERVICE

I hereby certify that a true and exact copy of the foregoing forwarded via email and U.S. Mail, postage pre-paid, on this the 27th day of August, 2014, to the following:

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