

BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

December 29, 2014

IN RE:

**DOCKET TO EVALUATE CHATTANOOGA
GAS COMPANY'S GAS PURCHASES AND
RELATED SHARING INCENTIVES**

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**DOCKET NO.
07-00224**

ORDER EXTENDING TRIENNIAL REVIEW PROCESS

This matter came before Chairman Herbert H. Hilliard, Director Robin Bennett, and Director James M. Allison of the Tennessee Regulatory Authority (the "Authority" or "TRA"), the voting panel assigned to this docket, at a regularly scheduled Authority Conference held on September 15, 2014 to consider whether to extend the triennial review process established to evaluate the gas procurement activities of Chattanooga Gas Company ("CGC" or the "Company").

RELEVANT BACKGROUND

In accordance with the *Order Regarding Triennial Review Procedures and Criteria* entered in this docket on October 13, 2009, Exeter Associates, Inc. completed its review of CGC's gas procurement activities and released its report on June 23, 2014. For the review period April 2010 through March 2013, Exeter examined the Company's actual gas procurement transactions and costs, including storage activity, and reconciled these transactions to the related Actual Cost Adjustment ("ACA"), Performance Based Ratemaking Mechanism ("PBRM"), and

Interruptible Margin Credit Rider (“IMCR”) filings.¹ Exeter made the following principal findings and conclusions:

1. The Company was in technical compliance with the terms and conditions of the PBRM during the review period;²
2. The Company’s actual gas costs exceeded benchmark costs by \$151,401 during the review period, which is significantly less than one percent of benchmark commodity gas costs of \$84,551,961;³
3. The Company’s design day probability of occurrence for gas supply planning is consistent with observed industry practice;⁴
4. The Company’s review period forecasts of design day demands were reasonable;⁵
5. The Company’s review period use of a five percent (5%) reserve margin for gas supply planning was reasonable;⁶
6. The Company’s storage inventory planning criteria were reasonable;⁷
7. The Company’s review period storage activity was reasonable;⁸
8. The balance between the Company’s review period winter season capacity resources and requirements was reasonable;⁹ and
9. Customer conservation efforts did not have a significant impact on design day demands.¹⁰

¹ See CGC’s Public Version of the Report on the Review of Performance Based Ratemaking Mechanism Transactions and Activities, Dated June 2014 (“Exeter Report”), p. 1 (July 1, 2014).

² *Id.* at 43.

³ *Id.*

⁴ *Id.*

⁵ *Id.*

⁶ *Id.*

⁷ *Id.*

⁸ *Id.*

⁹ *Id.* at 44.

¹⁰ *Id.* at 43.

Exeter also examined the Company's liquefied natural gas ("LNG") activities and noted two issues. First, Exeter found that the Company had improperly included pipeline demand charges for certain purchases of LNG from Sequent Energy, L.P. and recommended that a \$6,305 credit to customers be made to the IMCR to correct this mistake.¹¹ Second, Exeter found that sales of LNG to an affiliate had been improperly excluded from the IMCR and recommended that a credit of \$119,645 be made to customers to account for these sales.¹² The Company stated it would submit "an amended IMCR filing that includes the customer share of the additional LNG margins as identified in the report plus interest."¹³

PARTIES' COMMENTS REGARDING FUTURE TRIENNIAL REVIEWS

The *Order Regarding Triennial Review Procedures and Criteria* provides that the Authority will determine whether any future triennial reviews should be conducted at the conclusion of the initial review. Accordingly, the TRA's General Counsel issued a letter on August 14, 2014 informing the parties that the Authority would consider whether another triennial review of the Company's gas procurement activities should be ordered at this time and invited comments from the parties on this issue.¹⁴ On August 27, 2014, Chattanooga Gas Company filed comments stating that, in light of Exeter's review and the Authority's prior determination that the Company has an appropriate level and mix of gas supply capacity, it is not cost effective to adopt a rigid review schedule for another independent examination of the Company's gas procurement activities.¹⁵ The Company acknowledged, however, that the TRA has authority to order a future independent review at any time the Authority deems appropriate

¹¹ *Id.* at 44.

¹² *Id.*

¹³ See Cover Letter to Exeter Report from J. W. Luna to Earl Taylor dated July 1, 2014 (July 1, 2014). CGC filed a tariff with a credit to CGC customers of \$133, 448.35, which reflects \$119, 645 plus interest.

¹⁴ See Letter to J.W. Luna, Counsel for CGC and Vance Broemel, CAPD, Concerning CGC's Performance Based Ratemaking Mechanism (August 14, 2014).

¹⁵ See CGC's Comments, pp. 2-3 (August 27, 2014).

and stated that TRA Staff should be allowed to make a recommendation at an appropriate time as to when and if a future independent triennial review would be helpful or necessary.¹⁶ The Consumer Advocate did not submit any comments.

SEPTEMBER 15, 2014 AUTHORITY CONFERENCE

At a regularly scheduled Authority Conference held on September 15, 2014, the panel considered whether to extend the triennial review process for CGC. The panel found that Exeter's review of CGC's transactions has provided the Authority with valuable information about the Company's gas procurement activities and its utilization of pipeline transportation and storage assets. In addition, the review identified over \$133,000 in savings that is already being passed through to the benefit of CGC customers. Further, the panel found that the TRA has the authority to audit the books and records of the utilities it regulates, and independent audits, like the one conducted by Exeter in this docket, assist the Authority in its efforts to ensure that public utilities under its jurisdiction are in compliance with the Authority's rules and regulations and providing quality utility service at just and reasonable rates.

Thereafter, upon consideration of the record in this docket, the panel found that future triennial reviews would benefit the Authority and consumers and voted unanimously that the next triennial review of CGC should be commenced during the fall of 2016 and a final report issued by July 1, 2017. The panel also voted unanimously that the next triennial review shall be conducted in accordance with the review procedures adopted by the Authority in this docket, which are attached as Exhibit 1 to the *Order Regarding Triennial Review Procedures and Criteria* issued on October 13, 2009.

¹⁶ *Id.* at 3.

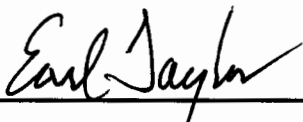
IT IS THEREFORE ORDERED THAT:

1. A triennial review of the gas procurement activities of Chattanooga Gas Company shall commence in the Fall of 2016, and a final report shall be issued by July 1, 2017.

2. The triennial review set to commence in the Fall of 2016 shall be conducted in accordance with the review procedures adopted by the Authority and attached as Exhibit 1 to its *Order Regarding Triennial Review Procedures and Criteria* issued in this docket on October 13, 2009.

Chairman Herbert H. Hilliard, Director Robin Bennett, and Director James M. Allison concur.

ATTEST:



Earl R. Taylor, Executive Director