BEFORE THE TENNESSEE PUBLIC UTILITY COMMISSION

NASHVILLE, TENNESSEE

November 9, 2017

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

ORDER EXTENDING TRIENNIAL REVIEW PROCESS

This matter came before Vice Chairman Robin L. Morrison, Commissioner Herbert H. Hilliard, and Commissioner Keith Jordan of the Tennessee Public Utility Commission ("Commission" or "TPUC"), the voting panel assigned to this docket, at a regularly scheduled Commission Conference held on October 23, 2017 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 December 29, 2014 and the Audit of Prudence of Gas Purchases as ordered by the Commission in Docket No. 16-00098[1], Exeter Associates, Inc. ("Exeter") completed its review of CGC's gas procurement activities relative to its Performance Based Ratemaking Mechanism and the prudence of its gas purchases for the Incentive Plan Year ended June 2016, releasing its report in June 2017. On July 14, 2017, the Company filed the public version of Exeter's report under Docket No. 16-00098, along with a sealed copy of the final

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[1] *In re: Chattanooga Gas Company Annual Incentive Plan Filing for the Twelve Months Ended June 30, 2016*, Docket No. 16-00098, *Order Approving Compliance Audit Report of the Tennessee Regulatory Authority's Utilities Division*, p. 3 (May 25, 2017).

confidential report. For the review period April 2013 through March 2016, 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.[2] Exeter also identified and described the Company's system and markets, including an evaluation of the Company's gas supply portfolio relative to its system load. In addition, Exeter reviewed the Company's gas purchasing decisions for prudency covering the period July 1, 2015 through June 30, 2016, which required extending the original review period by three months.[3]

Exeter made the following findings of fact regarding the review period:

1. CGC contracted for services with Tennessee Gas Pipeline, East Tennessee Natural Gas, and Southern Natural Gas Company;[4]

2. CGC operated under Asset Management Agreements with its affiliate, Sequent Energy Management, which were approved by TPUC;[5]

3. CGC served an average of 63,500 sales and transportation customers, and annual throughput averaged approximately 15 million Dth;[6]

4. CGC's storage inventory planning criteria were reasonable, the Company generally adhered to those criteria and its storage activity was reasonable;[7]

5. CGC realized net margins of $2,332,971 from off-system liquid natural gas ("LNG") sales activities and shared 50/50 with ratepayers;[8]

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[2] *In re: Chattanooga Gas Company Annual Incentive Plan Filing for the Twelve Months Ended June 30, 2016*, Docket No. 16-00098, *Public Redacted Version of the Report on the Report on the PBR* ("Exeter Report") (July 14, 2017).
[3] *Id.*
[4] *Id.* at 51.
[5] *Id.*
[6] *Id.*
[7] *Id.*
[8] *Id.*

6. CGC's design day probability of occurrence is consistent with industry practice;[9]

7. CGC's forecasts of design day demands were reasonable;[10]

8. Customer conservation efforts did not have a significant impact on design day demands;[11]

9. CGC's use of a 5 percent reserve margin, when viewed in conjunction design day criteria of 57 heating degree days, was reasonable;[12]

10. CGC could reduce its interstate pipeline demand costs by decreasing its year-round capacity and instead rely on winter season capacity, but there are currently no opportunities for the Company to do so;[13]

11. Under PBRM, if CGC's total actual commodity gas costs for a Plan Year do not exceed benchmark costs by one percent, those costs are deemed prudent and the audit required by the PGA Rule 1220-4-7-.05(1) (a) is waived. While actual costs for Plan Years ended June 30, 2014 and 2015 did not exceed this threshold, actual costs for Plan Year ended June 30, 2016 exceeded the benchmark by more than three (3) percent;[14]

12. Exeter's review found that CGC's gas costs during the review period including the Plan Year ended June 30, 2016 were prudently incurred;[15]

13. CGC is appropriately monitoring, evaluating and investigating opportunities to reduce gas costs by seeking alternatives to its ETNG Nora Lateral receipt point capacity and

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[9] *Id.*
[10] *Id.*
[11] *Id.*
[12] *Id.*
[13] *Id.*
[14] *Id.* at 51-52.
[15] *Id.* at 52.

securing TGP receipt point capacity providing access to lower cost Marcellus Shale region gas supplies;[16]

14. After the winter of 2013-2014, CGC began benchmarking Nora Lateral daily spot market purchases based on Transco Zone 5 Index. Recently, Inside FERC subdivided this index into Transco Zone 5 delivered North and delivered South. CGC should base its benchmark for these purchases based on Transco Zone 5 delivered South Index;[17] and

15. Since there currently is no appropriate benchmark to evaluate the prudence of CGC's monthly baseload Nora Lateral purchases under the PBRM, Exeter recommends excluding these purchases from the PBRM and instead the Company should file separate reports of these purchases and the Company's efforts to reduce its costs relative to these purchases in conjunction with its annual PBRM filing.[18]

Exeter also described the following areas of concern:

1. The RFP sent by CGC to secure asset management services contains a provision that requires the Asset Manager to identify the net margins associated with the services provided to CGC, if requested by the Company, which may reduce bidder interest from unaffiliated entities;[19]

2. Exeter found that spot market delivered-to-citygate purchases for February 21-23, 2015 were benchmarked by CGC using Transco Zone 5 Index. Since they were not sourced from Transco Zone 5 (actual source unknown), they should have been benchmarked based on

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[16] *Id.*
[17] *Id.*
[18] *Id.*
[19] *Id.* at 51-52.

location of citygate delivery. Making that change, however, would not have changed the results of the benchmark criteria under the PBRM;[20]

3. The fact that CGC included variable transportation charges in the benchmark used for SONAT purchases injected into storage did not materially affect the results under the PBRM, but Exeter recommends these variable charges be excluded from future calculations of the benchmark to provide a proper comparison;[21] and

4. CGC entered into a mutual aid transaction with its affiliate Atlanta Gas Light ("AGL"), whereby 89,850 Dth of LNG was transferred by truck from CGC's LNG facility to AGL's LNG facility. The gas was repaid in kind by AGL, when the market price of gas was less than it was when the initial transfer was made. The difference in market value was approximately $114,300.[22]

FUTURE TRIENNIAL REVIEWS

The *Order Regarding Triennial Review Procedures and Criteria* provides that the Commission will determine whether any future triennial reviews should be conducted at the conclusion of the initial review.[23] The first Triennial Review was commenced in the fall of 2013 and conducted by Exeter. Exeter's review covered the period April 2010 through March 2013, with the final report issued in June 2014. The Commission considered whether to extend the triennial review process at its September 15, 2014 Conference. It was determined that future triennial reviews would benefit the Commission and customers and that the next triennial review should be commenced in the fall of 2016, with final report issued by July 1, 2017.[24] Exeter was

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[20] *Id.* at 53.
[21] *Id.* at 53-54.
[22] *Id.* at54.
[23] *In re: Docket to Evaluate Chattanooga Gas Company's Gas Purchases and Related Sharing Incentives*, Docket No. 07-00224, *Order Regarding Triennial Review Procedures and Criteria*, p. 3 (October 13, 2009).
[24] *In re: Docket to Evaluate Chattanooga Gas Company's Gas Purchases and Related Sharing Incentives*, Docket No. 07-00224, *Order Extending Triennial Review Process*, p. 5 (December 29, 2014).

again selected to conduct the review for the Triennial Review under consideration in the present matter and issued its report in July 2017, as described hereinabove. No other party intervened or submitted comments with regard to this matter.

OCTOBER 23, 2017 AUTHORITY CONFERENCE

At a regularly scheduled Commission Conference held on October 23, 2017, 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 Commission with valuable information about the Company's gas procurement activities and its utilization of pipeline transportation and storage assets. The review identified issues related to the benchmarking of gas purchases and an in-kind exchange of LNG between CGC and its affiliate. The panel found that CGC's approach with regard to the in-kind exchange was in the best interest of its customers and that an adjustment to gas costs is not warranted. Further, the panel found that the Commission 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 Commission in its efforts to ensure that public utility companies under its jurisdiction are continuing to adhere to the Commission's rules and regulations and that quality utility services are being provided to consumers at reasonable and affordable rates.

Thereafter, upon consideration of the record in this docket, the panel found that future triennial reviews would benefit the Commission and consumers and voted unanimously that the next triennial review of CGC should be commenced during the fall of 2019 and a final report issued by July 1, 2020. The panel also voted unanimously that the next triennial review shall be conducted in accordance with the review procedures adopted by the Commission in this docket, which are attached as Exhibit 1 to the *Order Regarding Triennial Review Procedures and Criteria* issued on October 13, 2009.

IT IS THEREFORE ORDERED THAT:

1. A triennial review of the gas procurement activities of Chattanooga Gas Company shall commence in the Fall of 2019, and a final report shall be issued by July 1, 2020.

2. The triennial review set to commence in the Fall of 2019 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.

Vice Chairman Robin L. Morrison, Commissioner Herbert H. Hilliard, and Commissioner Keith Jordan concur.

ATTEST:

Earl Taylor

Earl R. Taylor, Executive Director