

June 30, 2026

Chairman David Jones
Tennessee Public Utility Commission
c/o Ectory Lawless, Esq. Docket Clerk
Andrew Jackson State Office Building
502 Deaderick Street, 4th Floor
Nashville, TN 37243

Electronically Filed in TPUC Docket
Room on June 30, 2026 at 1:40 p.m.

Re: Docket No. 07-00224; Review of Chattanooga Gas Company's Performance
Based Ratemaking Mechanism Transactions and Activities

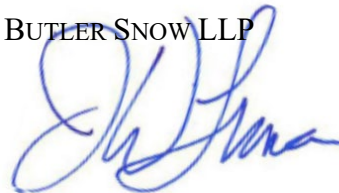
Dear Chairman Jones:

On behalf of Chattanooga Gas Company (the "Company" or "CGC"), enclosed please find for filing with the Tennessee Public Utility Commission ("TPUC") an original and four (4) copies of the public redacted version of the report on the Review of Performance Based Ratemaking Mechanism Transactions and Activities, dated June 2026 which has been prepared by Exeter Associates, Inc. ("Exeter") in compliance with the TPUC Order dated November 6, 2023, in Docket No. 07-00224, and as the Audit of Prudence of Gas Purchases, pursuant to the Term. Comp. R. & Regs. 1220-04-07-.05 and the TPUC Order dated October 13, 2009, in Docket No. 07-00224 (the "Report"). Also included with this letter is a confidential version of the Report, submitted under seal.

Should you have any questions concerning this matter, please do not hesitate to contact me.

Sincerely

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Chattanooga Gas

REVIEW OF PERFORMANCE BASED RATEMAKING MECHANISM TRANSACTIONS AND ACTIVITIES

Prepared for:

UTILITY DIVISION OF THE TENNESSEE PUBLIC UTILITY COMMISSION
CONSUMER ADVOCATE UNIT IN THE FINANCIAL DIVISION OF THE TENNESSEE
ATTORNEY GENERAL'S OFFICE

JUNE 2026

Prepared by:

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1.0 INTRODUCTION AND SCOPE OF INVESTIGATION

On September 11, 2001, the Chattanooga Gas Company (CGC or Company) filed a petition with the Tennessee Public Utility Commission (TPUC or Commission) for approval of a Performance Based Ratemaking Mechanism (PBRM) for its purchased gas costs. On January 8, 2002, the Commission approved CGC's petition. On October 13, 2009, the Commission issued an Order in Docket No. 07-00224 requiring a comprehensive triennial review (or audit) of the transactions and activities related to the Company's PBRM for the period April 2010 – March 2013. This review was to be conducted by an independent consultant. Following a required RFP selection process, Exeter Associates, Inc. (Exeter) was selected as the independent consultant to perform this triennial review. In June 2014, Exeter submitted a report presenting the results of its review of CGC's PBRM for the period April 2010 – March 2013 (2014 Triennial Audit Report).

In an Order issued in Docket No. 07-00224 on December 29, 2014, the TPUC voted to extend the PBRM triennial review process for the period April 2013 – March 2016. Exeter was selected through an RFP process to perform this review. Under its PBRM, CGC's commodity gas costs are compared to a benchmark amount. If CGC's total commodity cost of gas for a Plan Year (12 months ended June) does not exceed the benchmark amount by one percentage point for that Plan Year, CGC's gas costs will be deemed prudent, and the audit required by TPUC Administrative Rule 1220-4-7-.05(1)(a) is waived. On August 26, 2016, CGC submitted its annual PBRM filing for the 12-month period ended June 30, 2016. That filing indicated that CGC's commodity costs exceeded the benchmark amount by 3.3%. As a result, a prudency review of CGC's purchased gas costs was required. On October 10, 2016, CGC filed a motion with the Commission for a waiver of TPUC Administrative Rule 1220-4-7-.05(1)(a), to expand the scope of the previously ordered April 2013 – March 2016 triennial PBRM review to include the review of CGC's PBRM through June 2016, and to address the prudence of CGC's gas costs for the period July 2015 – June 2016. The Utility Division of the TPUC (TPUC Staff) and the Consumer Advocate Unit in the Financial Division of the Tennessee Attorney General's Office (Consumer Advocate) both supported CGC's motion, and the motion was approved in an Order issued on January 31, 2017 in Docket No. 16-00098. Exeter submitted its report for the period April 2013 – June 2016 in July 2017 (2017 Triennial Audit Report).

In an Order issued in Docket No. 07-00224 on November 9, 2017, the TPUC voted to extend the triennial review process for the period July 2016 – March 2019. Exeter was selected through an RFP process to perform this review. Exeter submitted its report for the period July 2016 – March 2019 in June 2020 (2020 Triennial Audit Report).

In an Order issued in Docket No. 07-00224 on October 27, 2020, the TPUC voted to extend the triennial review process for the period April 2019 – March 2022. Exeter was selected through an RFP process to perform this review. Exeter submitted its report for the period April 2019 – March 2022 in June 2023 (2023 Triennial Audit Report).

In an Order issued in Docket No. 07-00224 on November 6, 2023, the TPUC voted to extend the triennial review process for the period April 2022 – March 2025. Exeter has been selected through an

RFP process to perform this review. Exeter has also previously been selected to perform similar audits of the performance-based incentive programs of Piedmont Natural Gas Company (Piedmont) and Atmos Energy Corporation (Atmos).

The scope of this audit is to review and evaluate the reasonableness of CGC's and its affiliates' gas procurement transactions and activities for the period April 2022 – March 2025 (audit period or review period). This audit includes review of: (1) CGC's actual gas procurement transactions and costs, including storage activity, as reported in the Company's Actual Cost Adjustment (ACA) filings, which provides for a reconciliation of CGC's actual gas costs and gas cost recoveries; (2) CGC's annual PBRM filings, which compare CGC's actual commodity gas costs with benchmark amounts to evaluate the Company's performance under the PBRM; and (3) CGC's Interruptible Margin Credit Rider (IMCR) filings, which detail the sharing of revenue generated under the Company's Asset Management and Agency Agreements (AMAs) and from the Company's off-system sales activities.

A draft report presenting the findings, results, and conclusions of Exeter's review was provided to the Company, TPUC Staff, and the Consumer Advocate on April 20, 2026. On May 7, 2026, CGC provided its comments on the draft report to Exeter. CGC's comments provided a few typographical corrections. Exeter has incorporated CGC's comments into this final report (Report).

Exeter's Report consists of five sections in addition to this introductory section. Section 2 of the Report identifies the interstate pipeline transmission companies serving CGC, the services the Company purchases from each pipeline, and the Company's review period gas supply arrangements. Included in Section 2 is a description of the Company's review period AMA with Sequent Energy Management, L.P. (Sequent), a former affiliate of CGC.¹ Section 2 also provides a description of the CGC system and the markets it serves, and provides statistical data identifying the number of customers served and usage by customer class.

Section 3 of the Report summarizes and evaluates CGC's activities and performance under the PBRM. Section 3 also evaluates CGC's citygate purchases which were excluded from the PBRM.² Section 4 evaluates CGC's storage activities. The reasonableness of CGC's capacity portfolio is evaluated in Section 5. This includes an evaluation of CGC's design peak day forecasting procedures and the balance between CGC's capacity resources and its customers' requirements. The final section of the Report summarizes Exeter's conclusions, includes findings of fact, and identifies and describes any areas of concern and improvement that may warrant further consideration.

Previous audit reports prepared by Exeter have evaluated CGC's off-system sales activities. During the April 2022 – March 2025 review period for this Report, CGC did not engage in off-system sales activities. The asset manager under the Company's AMA during the review period, which is discussed in greater detail in Section 2.2 of this Report, was responsible for the optimization of the

¹ Sequent was sold by Southern Company Gas, CGC's corporate parent, to the Williams Companies, Inc. effective July 1, 2021.

² In CGC's base rate proceeding at Docket No. 18-00017, the TPUC approved a proposal presented by CGC to exclude citygate purchases from the PBRM.

CHATTANOOGA GAS
Review of Performance Based Ratemaking Mechanism Transactions and Activities

Company's interstate pipeline transportation and storage assets which included using those assets to engage in off-system sales.

2.0 CHATTANOOGA GAS COMPANY – SYSTEM AND MARKETS

The Chattanooga Gas Company is a wholly owned subsidiary of Southern Company Gas. CGC provides natural gas sales and distribution service to the counties of Hamilton and Bradley, Tennessee, which are referred to as the Chattanooga and Cleveland service territories, respectively. CGC contracted for firm transportation and storage services from three interstate pipelines during the review period: East Tennessee Natural Gas (ETNG), Tennessee Gas Pipeline (TGP), and Southern Natural Gas Company (SONAT). Of these three interstate pipelines, CGC is served directly by ETNG and SONAT. CGC has ten interconnects with ETNG and one interconnect with SONAT. The services and rates of CGC's interstate pipeline service providers are regulated by the Federal Energy Regulatory Commission (FERC).

Figure 1, below, presents a map of the Company's service territory and identifies its interconnects with ETNG and SONAT. The interstate pipeline services reserved by CGC during the audit period are described in Section 2.1. Section 2.1 also describes the facilities of Texas Eastern Transmission Corporation, LP (Texas Eastern). During the review period, CGC purchased a portion of its gas supplies at the Mt. Pleasant Texas Eastern/ETNG interconnect. These purchases were considered citygate purchases which are currently excluded from the PBRM. CGC operated under an AMA with its former affiliate, Sequent, during the review period. CGC's AMA with Sequent is described in Section 2.2 of the Report. CGC's review period gas supply arrangements under the AMA are described in Section 2.3 of the Report. Section 2.4 of the Report summarizes the jurisdictional services provided by CGC, identifies the number of customers served, and provides annual throughput statistics.

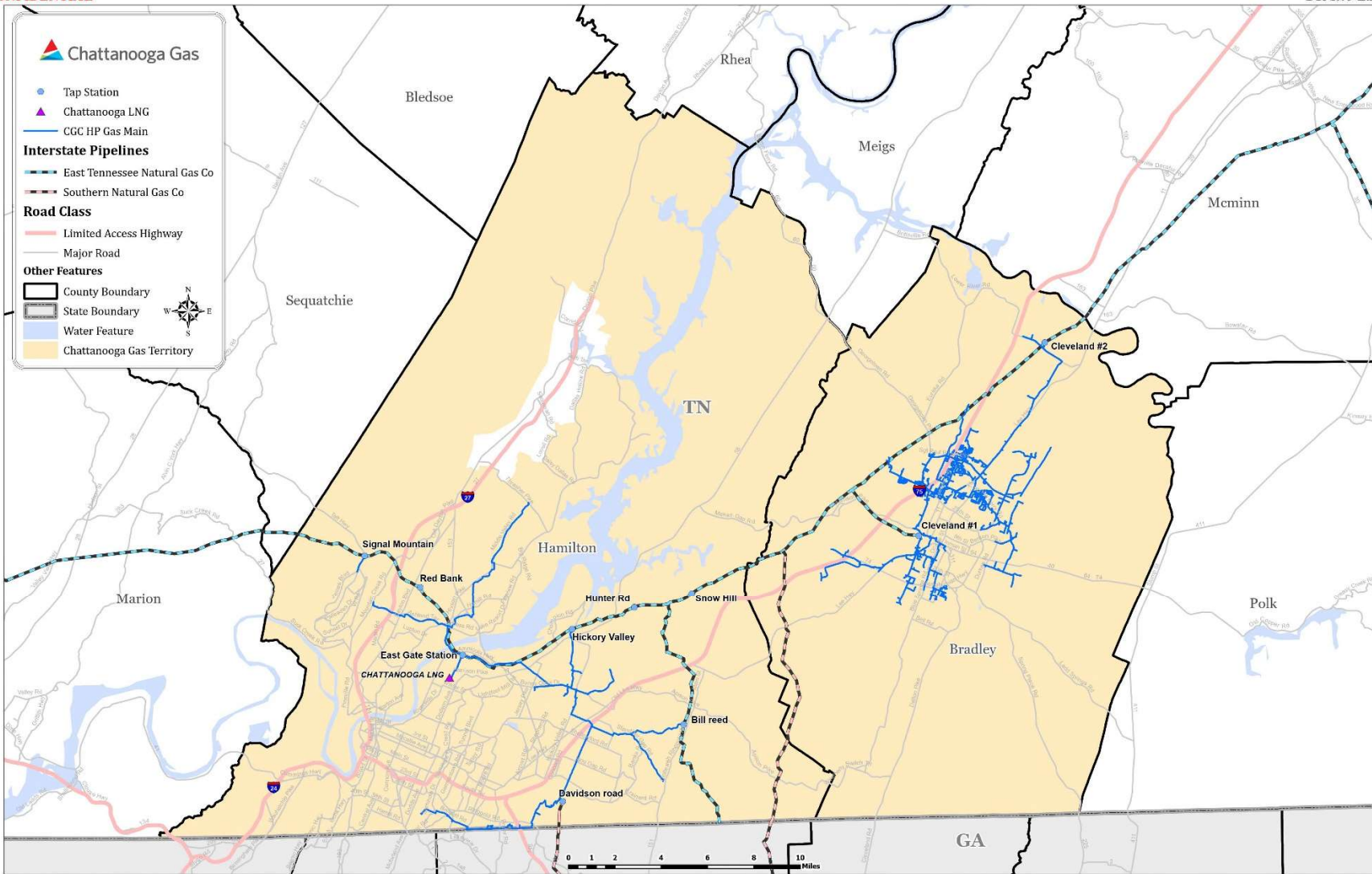
CHATTANOOGA GAS

Review of Performance Based Ratemaking Mechanism Transactions and Activities

Figure 1. CHATTANOOGA GAS COMPANY – System Map

CONFIDENTIAL

DR 1.03 Exhibit



Southern Company Gas, GIS Asset & Data - South, November 2023

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2.1 Interstate Pipeline Transportation Services

CGC's transportation arrangements with ETNG and SONAT provide for the delivery of gas supplies directly to CGC's distribution system (citygate), while TGP provides for the upstream delivery of gas to ETNG. Gas supplies delivered to CGC by ETNG are generally purchased in the Gulf Coast production region on TGP and at the ETNG/Texas Eastern interconnect. Gas supplies delivered to CGC by SONAT are generally purchased in the Gulf Coast production region and delivered directly to CGC. Table 1, below, summarizes the pipeline services purchased by CGC to meet customer requirements at the conclusion of the audit period. This information is provided to assist in evaluating CGC's gas procurement transactions and activities and the reasonableness of CGC's capacity resources.

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Review of Performance Based Ratemaking Mechanism Transactions and Activities

Table 1. CHATTANOOGA GAS COMPANY – Summary of Capacity Resources (March 31, 2025)

Pipeline – Service	Contract No.	MDQ		Winter Season (Dth)	Total Annual Quantity (Dth)	Contract Expiration
		Winter (Dth)	Summer (Dth)			
UPSTREAM RESOURCES						
<u>Tennessee Gas Pipeline</u>						
Firm Transportation (FT-A)	48082	37,819	37,819	5,710,669	13,803,935	10/31/2030
Storage Service (FS-MA) ^[1]	3947	7,741	0	852,286	0	10/31/2030
Storage Service (FS-PA) ^[1]	22923	13,659	0	2,042,390	0	10/31/2030
Total Upstream Resources:		37,819	37,819	5,710,669	13,803,935	
CITYGATE RESOURCES						
<u>East Tennessee Natural Gas</u>						
Firm Transportation (FT-A)	410203	13,000	13,000	1,963,000	4,745,000	10/31/2027
Firm Transportation (FT-A) ^[2]	410204	23,451	23,451	3,541,101	8,559,615	10/31/2028
Firm Transportation (FT-A)	410691	50,000	50,000	7,550,000	18,250,000	10/31/2055
<i>Subtotal ETNG:</i>		<i>86,451</i>	<i>86,451</i>	<i>13,054,101</i>	<i>31,554,615</i>	
<u>Southern Natural Gas</u>						
Firm Transportation (FT)	^[4]	13,221	13,221	1,996,371	4,825,665	08/31/2028
Firm Transportation (FT-NN)	^[5]	14,346	14,346	2,166,246	5,236,290	08/31/2028
Storage Service (CSS) ^[6]	^[7]	14,346	0	710,484	0	08/31/2028
<i>Subtotal SONAT:</i>		<i>27,567</i>	<i>27,567</i>	<i>4,162,617</i>	<i>10,061,955</i>	
CGC LNG		60,000	0	1,207,574	1,207,574	
Total Citygate Resources:		174,018	114,018	18,424,292	42,824,144	

Notes: Dth = dekatherms; MDQ = maximum daily delivery quantity; LNG = liquefied natural gas.

^[1] Delivered under TGP FT-A service.

^[2] Excludes Nora Lateral capacity of 4,899 Dth per day. See Section 2.1.2 for a discussion of the Company's Nora Lateral Capacity.

^[4] Contract No. 450812 - MFTSNG - 456076.

^[5] Contract No. 450811 - MFTSNG - 450814.

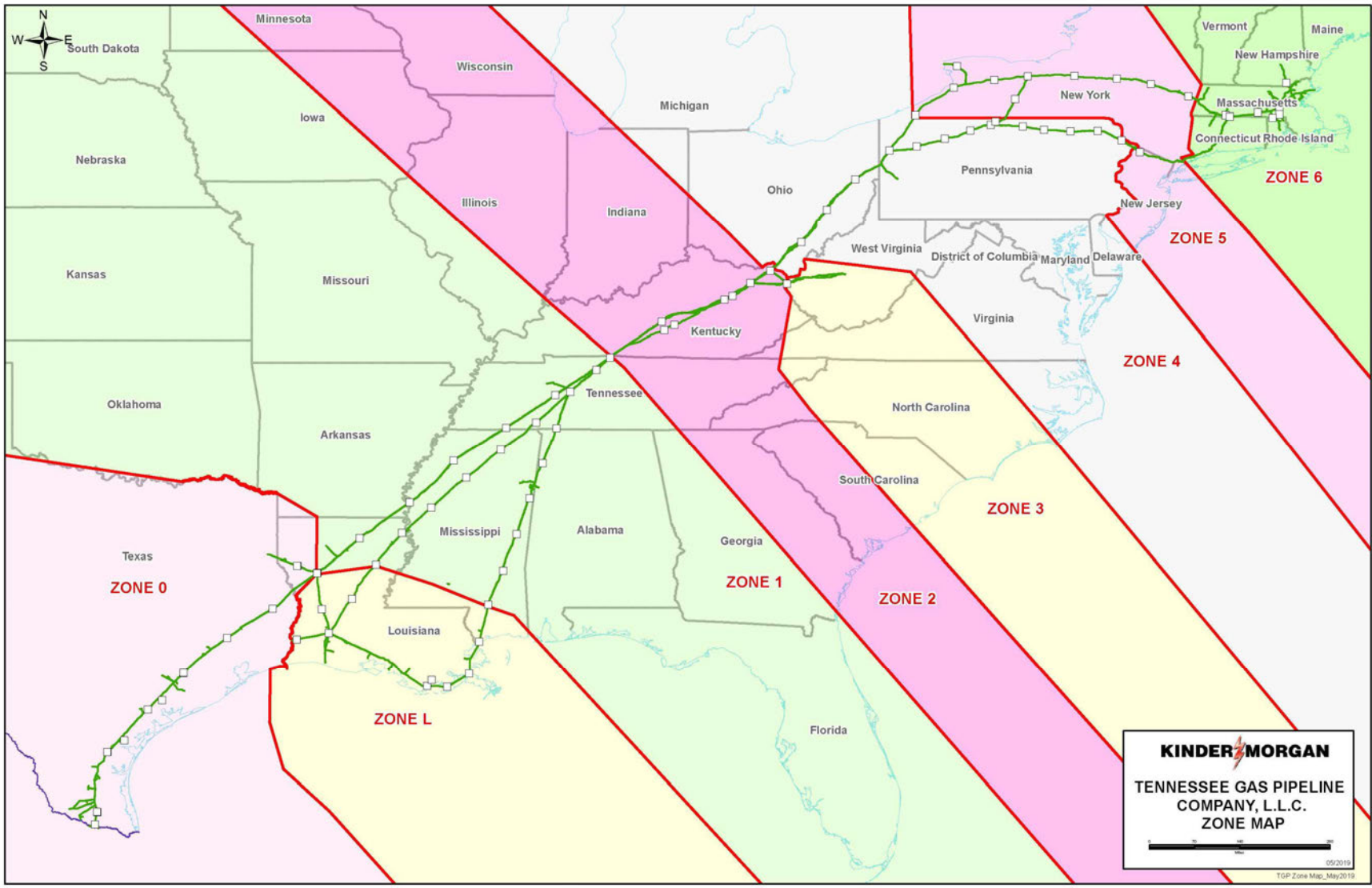
^[6] Delivered under SONAT FT-NN service.

^[7] Contract No. 450813 – MCSSNG – 450819.

2.1.1 Tennessee Gas Pipeline

The TGP system was initially designed to transport gas from the Texas, Louisiana, and Gulf of Mexico (collectively, “Gulf Coast”) natural gas production region to markets in the Northeast. In the Gulf Coast production region, the TGP system consists of three primary transmission lines, referred to as the 100, 500, and 800 Legs. The TGP system is also divided into eight zones (Zones 0, L, and 1-6) for rate purposes. The State of Texas is designed as Zone 0, Zone L consists largely of the State of Louisiana, and Zone 1 extends from the Texas border with northern Louisiana to the Kentucky/Tennessee border. A map of the TGP system is provided below in Figure 2.

Figure 2. TENNESSEE GAS PIPELINE – System Map



During the review period, CGC maintained a firm transportation service arrangement with TGP under Rate Schedule FT-A (Contract No. 48082). This contract provided for the delivery of Gulf Coast supplies directly to ETNG in TGP Zone 1 at two delivery points.³ Contract No. 48082 has a maximum daily delivery quantity (MDQ) of 37,819 Dth. CGC’s primary receipt point capacity under TGP Contract No. 48082 is subdivided by zone and leg as follows:

Tennessee Gas Pipeline Capacity

<u>Zone – Leg</u>	<u>MDQ (Dth)</u>
Zone 0 – 100 Leg	11,090
Zone 1 – 100 Leg	21,139
Zone L – 500 Leg	700
Zone L – 800 Leg	4,890
Total:	37,819

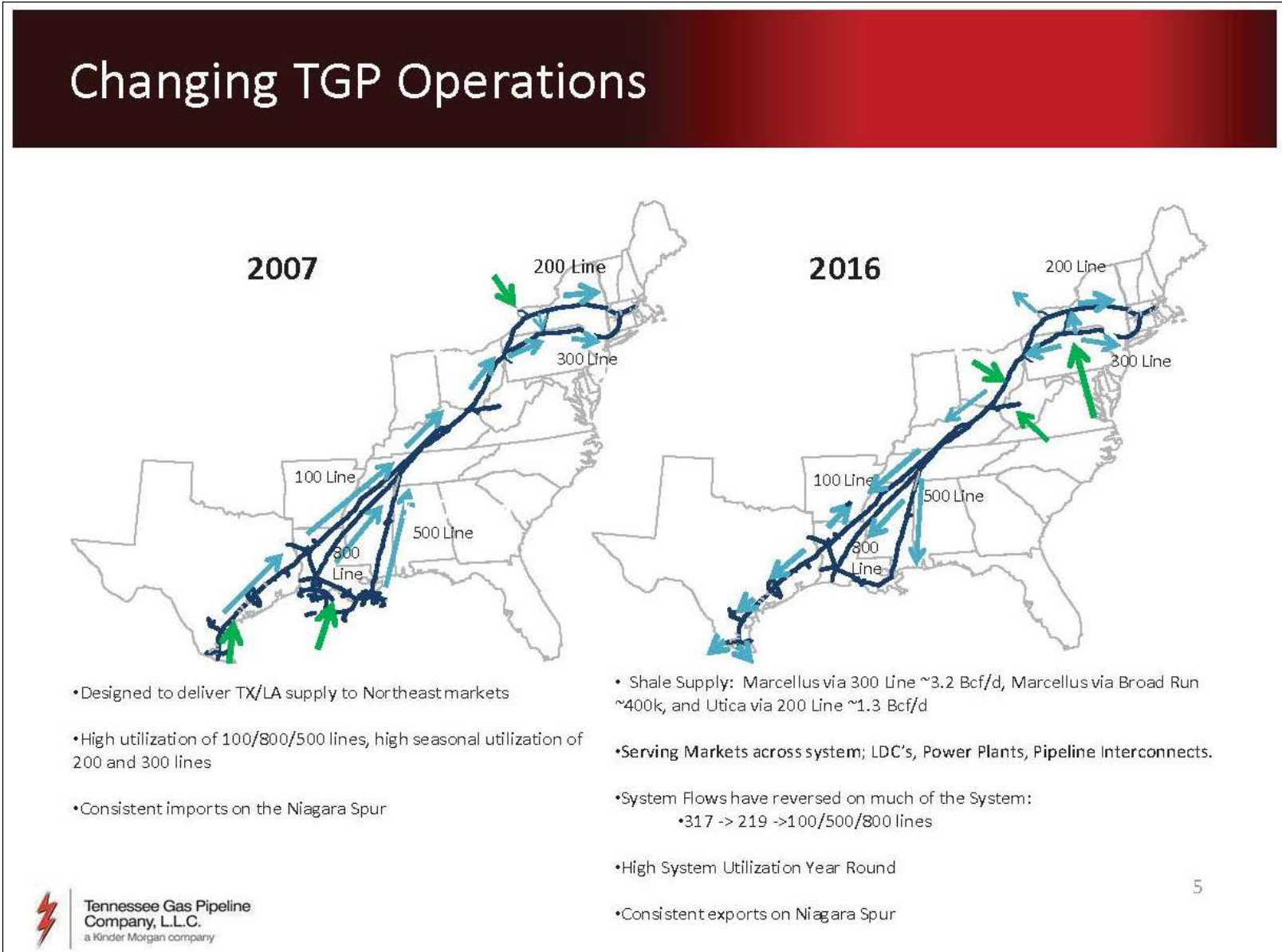
CGC also maintained market area firm storage service with TGP under Rate Schedule FS-MA (Contract No. 3947) and production area firm storage service with TGP under Rate Schedule FS-PA (Contract No. 22923). Gas was delivered to and from FS-MA and FS-PA storage under CGC’s FT-A firm transportation arrangement with TGP. FS-MA provided for a maximum daily withdrawal quantity (MDWQ) of 7,741 Dth, and a maximum winter season deliverability of 852,286 Dth. FS-PA provided for an MDWQ of 13,659 Dth, and a maximum winter season deliverability of 2,042,390 Dth.

The flow of gas supplies on the TGP system has changed dramatically since 2007 as a result of the significant increase in natural gas production in the Marcellus and Utica Shale (collectively, “Marcellus”) region in Pennsylvania, Ohio, West Virginia, and New York. The Marcellus region is now the most prolific natural gas production region in the U.S. As shown below in Figure 3, in 2007, the flow of gas on the TGP system was northerly from the Gulf Coast production region to markets in the Northeast. Today, as also shown in Figure 3, the flow of gas on the TGP system is largely southerly from the Marcellus region to the Gulf Coast production region. Marcellus Shale gas supplies were generally lower cost than Gulf Coast production area supplies during the review [REDACTED].⁴ CGC was unable to access Marcellus Shale supplies during the review period because the Company’s primary receipt points under its FT-A firm transportation arrangement with TGP were in the Gulf Coast production region. The inability of CGC to access Marcellus Shale supplies was confirmed through a discussion with a representative of TGP during the audit conducted by Exeter for the period April 2022 – March 2025.

³ ETNG interconnects with TGP at East Lobelville and Ridgetop, Tennessee.

⁴ Marcellus Shale gas supplies [REDACTED] Gulf Coast supplies during the final twelve months of the review period.

Figure 3. TENNESSEE GAS PIPELINE – Changing Operations

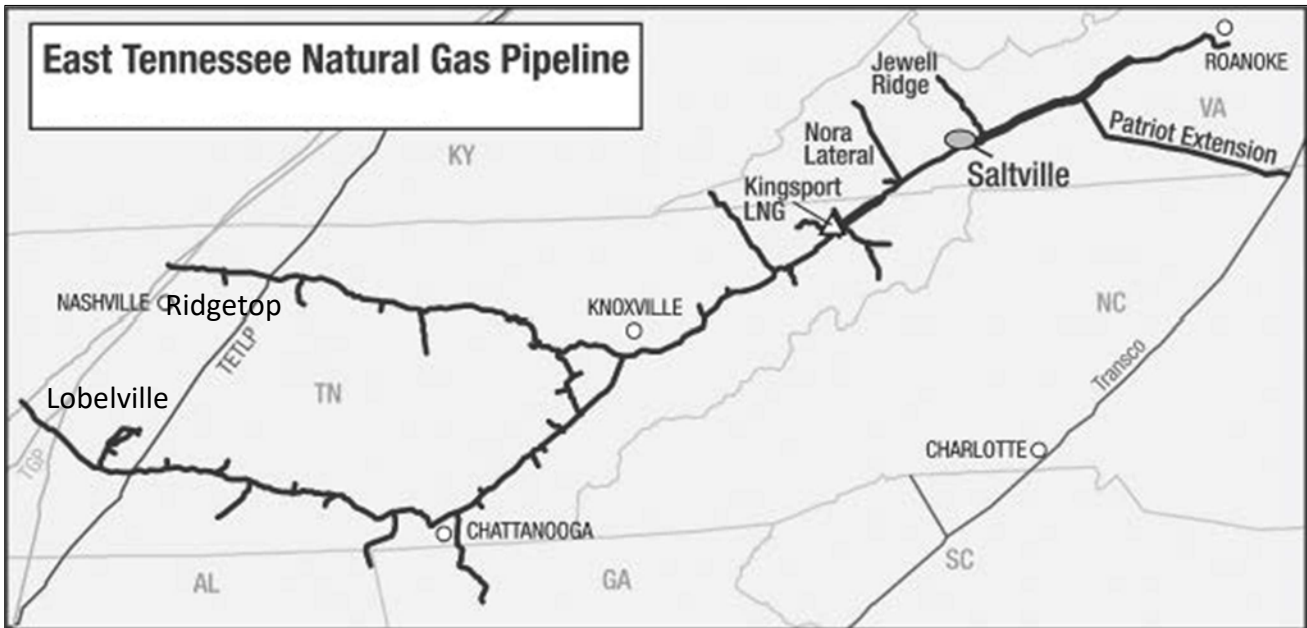


2.1.2 East Tennessee Natural Gas

ETNG consists of two mainline pipeline laterals in central Tennessee that converge near Knoxville and extend to an area just south of Roanoke, Virginia. ETNG generally provides for the delivery of gas supplies to CGC that are initially purchased by CGC on TGP and initially purchased by CGC at the Mt. Pleasant ETNG/Texas Eastern interconnect. A map of the ETNG system is presented below in Figure 4. As shown in Figure 4, ETNG interconnects with TGP at the Ridgetop and Lobelville receipt points. Initially during the April 2019 – March 2022 period reviewed in Exeter’s 2023 Triennial Audit Report, CGC maintained two firm transportation service arrangements with ETNG under Rate Schedule FT-A (Contract Nos. 410203 and 410204). Contract No. 410203 provided for the delivery of 13,000 Dth per day and Contract No. 410204 provided for the delivery of 28,350 Dth per day. At that time, after adjusting for fuel retention, CGC’s ETNG capacity exceeded its delivered TGP capacity by approximately 4,899 Dth per day. The firm receipt point for this 4,899 Dth of capacity was on ETNG’s Nora Lateral located in Dickenson County in southwest Virginia (see Figure 4) under Contract No. 410204. Due to reduced liquidity of supply at ETNG’s Nora Lateral receipt point, the 2023 Triennial Audit Report noted that CGC was unable to rely on this capacity on a firm basis. Exeter’s 2020 Triennial Audit Report for the period July 2016 – March 2019 had recommended that in its next contract negotiation with ETNG, CGC attempt to modify its receipt points under Contract No. 410204 to eliminate the Nora Lateral capacity. Contract No. 410204 was scheduled to expire in 2021. CGC discussed modifying its receipt point entitlements with ETNG, but ETNG’s tariff required that a shipper such as CGC take *pro rata* reductions across all receipt points under a firm transportation contract to effect such a change. CGC elected not to move forward with a modification to its receipt points because it would have required the Company to reduce firm receipt point capacity that was at the time necessary to support firm deliveries to CGC’s system. Effective for the period August 1, 2017 – January 31, 2022, CGC acquired 25,000 Dth per day of released ETNG capacity from Oglethorpe Power Corporation (OPC). The receipt point for this capacity was ETNG’s interconnect with Texas Eastern at Mt. Pleasant in Giles County, Tennessee.

When it released 25,000 Dth per day of capacity to CGC, OPC maintained an FT-A contract with ETNG for 50,000 Dth per day. OPC terminated its FT-A contract with ETNG upon expiration of the contract on January 31, 2022. Therefore, CGC’s capacity release arrangement with OPC also expired January 31, 2022. The 50,000 Dth per day of capacity under the contract OPC had maintained with ETNG was made available through an open season held by ETNG. Under an open season, capacity is awarded to the party offering the bid with the highest net present value for the capacity, and rates are capped at the pipeline’s maximum FERC-approved rates for the capacity being made available. CGC was the successful bidder under ETNG’s open season, and effective February 1, 2022, CGC executed a firm transportation arrangement with ETNG under Rate Schedule FT-A (Contract No. 410691) to replace the expired OPC capacity release arrangement. Contract No. 410691 provided for the delivery of 50,000 Dth per day from ETNG’s interconnect with Texas Eastern at Mt. Pleasant to CGC’s citygate. The term of Contract No. 410691 extends through March 31, 2055. During the period subject to review in this audit, CGC released 2,000 Dth per day of the capacity under Contract No. 410691 for the period February 1, 2022 through March 31, 2023, and 2,500 Dth for the period April 1, 2023 through April 30, 2024 to Jat Oil.

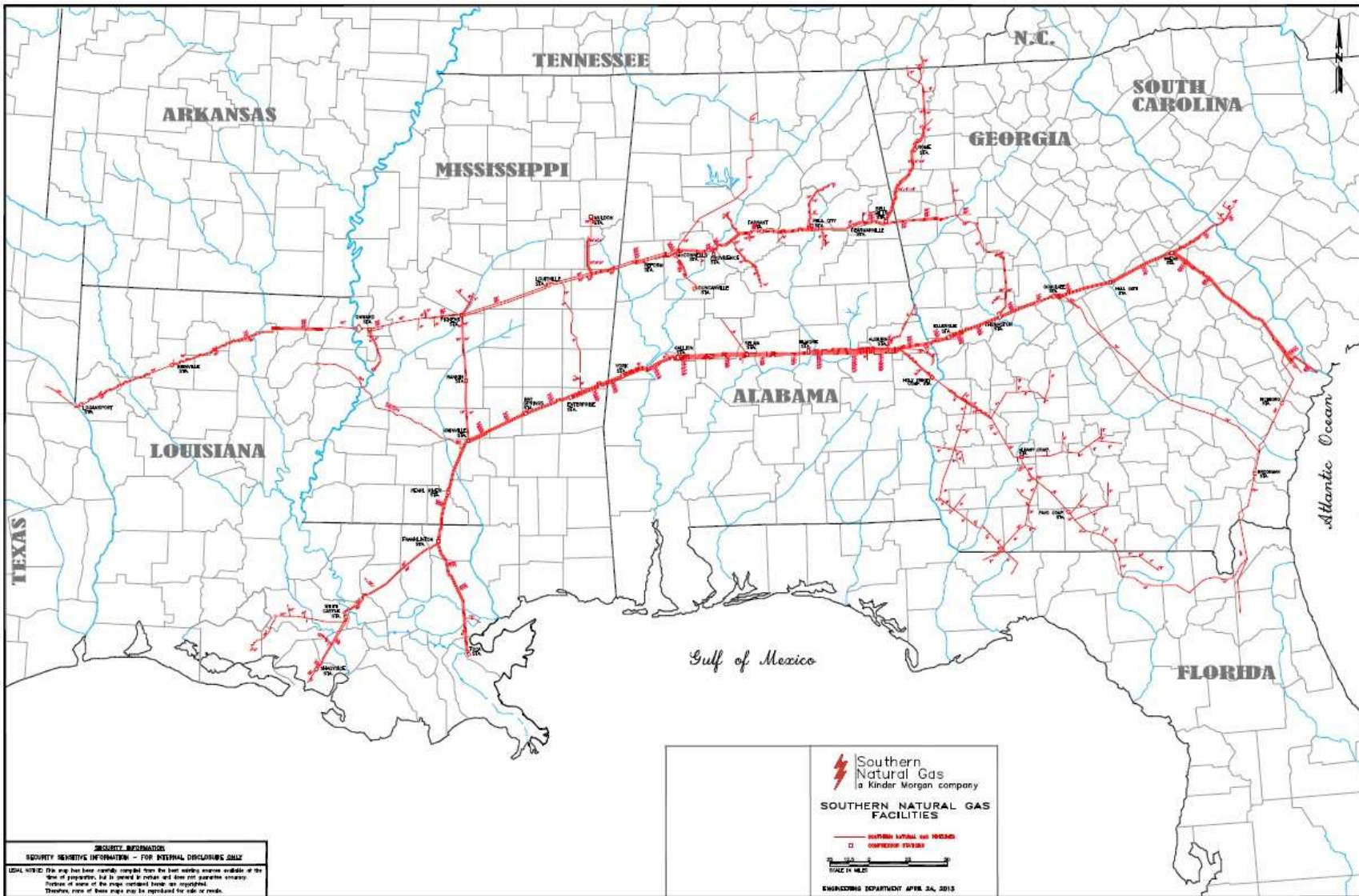
Figure 4. EAST TENNESSEE NATURAL GAS – System Map



2.1.3 Southern Natural Gas

The pipeline facilities of SONAT extend from natural gas supply basins in Texas, Louisiana, Mississippi, Alabama, and the Gulf of Mexico to market areas in Louisiana, Mississippi, Alabama, Florida, Georgia, South Carolina, and Tennessee, including the metropolitan areas of Atlanta and Birmingham. SONAT's system consists of four rate zones (Zones 0-3). CGC is located in Zone 3. A map of the SONAT system is presented below in Figure 5.

Figure 5. SOUTHERN NATURAL GAS – System Map



CGC maintained a firm transportation contract with SONAT under Rate Schedule FT (Contract No. 450812-MFTSNG-456076) during the review period. This contract provided for the delivery of 13,221 Dth per day directly to CGC's distribution system.

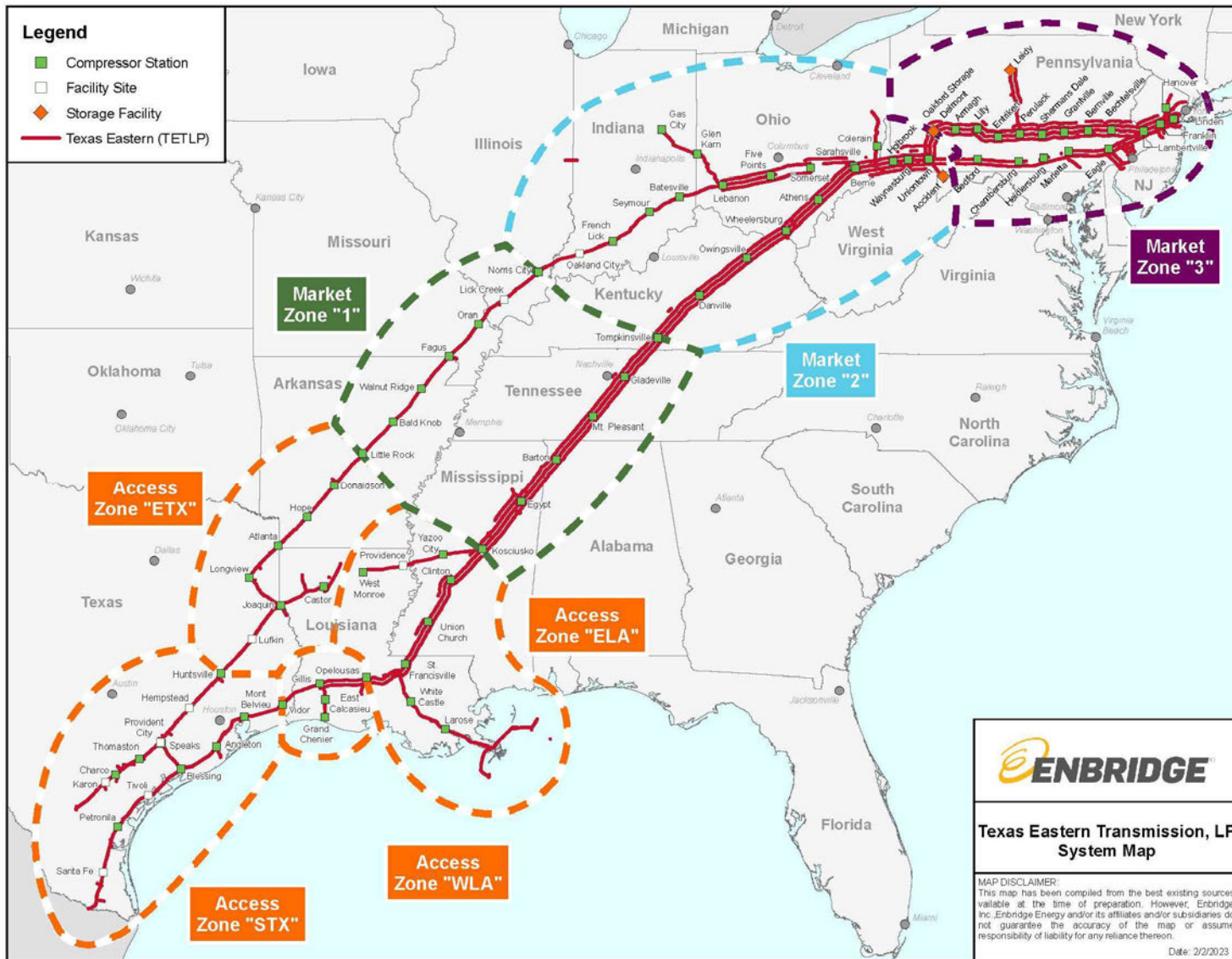
Under SONAT's standard Rate Schedule FT service, the pipeline is generally only obligated to deliver, and the shipper (e.g., CGC) is entitled to take, the quantity of gas delivered to the pipeline on the shipper's behalf on a daily basis. Shippers provide SONAT notice (through nominations) of the quantity of gas to be delivered each day. Under SONAT's no-notice transportation service arrangements, a shipper is permitted to take daily deliveries of gas which vary from the nominated quantity. No-notice service is necessary to maintain system reliability for natural gas distribution companies like CGC serving temperature-sensitive usage customers. CGC maintained no-notice service with SONAT under Rate Schedule FT-NN during the audit period (Contract No. 450811-MFTSNG-450814). Under its FT-NN arrangement, CGC was permitted to take delivery of up to 14,346 Dth per day without notice, subject to the winter season limitation subsequently identified for service under Rate Schedule CSS. CGC was also allowed to use its FT-NN service to take delivery of up to 14,346 Dth per day of nominated supplies.

In conjunction with its FT-NN service, CGC held a firm storage service with SONAT under Rate Schedule CSS (Contract No. 450813-MCSSSNG-450819). This service provided for an MDWQ of 14,346 Dth, and was used to support no-notice deliveries under CGC's SONAT FT-NN service arrangement. The maximum winter season delivery quantity under Rate Schedule CSS was 710,484 Dth.

2.1.4 Texas Eastern Transmission, LP

The Texas Eastern system consists of pipeline facilities that extend from the Gulf Coast production region to markets in the Northeast. The Texas Eastern system consists of four Gulf Coast production area access rate zones and three market area rate zones. The Gulf Coast production area access rate zones are South Texas (STX), East Texas (ETX), West Louisiana (WLA), and East Louisiana (ELA). The three market zones are Market Zones 1, 2, and 3. These zones are identified below in Figure 6. Texas Eastern has an interconnect with ETNG at its Mt. Pleasant, Tennessee compressor station in Texas Eastern Market Zone 1 (M-1). Due to the significant increase in production from the Marcellus region, the historical northerly gas flows from the Gulf Coast production region to the Northeast have changed, and flows on Texas Eastern are now bi-directional. During the review period, CGC purchased gas supplies at the Texas Eastern/ETNG Mt. Pleasant interconnect, which were then delivered to CGC utilizing ETNG FT-A Contract No. 410691.

Figure 6. TEXAS EASTERN TRANSMISSION, LP – System Map



2.1.5 *Liquefied Natural Gas*

CGC operates an on-system liquefied natural gas (LNG) facility. The maximum daily rated deliverability of its LNG facility is currently 120,000 Dth. The actual deliverability from the LNG facility into CGC's distribution system is limited by on-system infrastructure constraints, and load growth allows for slight increases in forecasted LNG deliverability each year. For the winter of 2021-2022, the maximum daily deliverability of LNG supplies into CGC's distribution system was estimated by the Company to be 91,630 Dth. The 91,630 Dth/day was the estimated maximum that could be delivered on an emergency basis. For reliability, the LNG facility has redundant vaporizers, that on a short-term emergency basis may be operated simultaneously. On a non-emergency basis, the maximum reliable deliverability of the LNG facility is 60,000 Dth/day. In past years, the 91,630 Dth volume was required to serve design day load prior to CGC acquiring ETNG FT Contract No. 410691 for 50,000 Dth/day. With the acquisition of the 50,000 Dth/day of FT, the operation of the LNG facility has been returned to its design deliverability. The LNG facility has a storage capacity of 1,207,574 Dth and can reliably produce at the design deliverability of 60,000 Dth/day for approximately 20 days.

2.2 Asset Management and Agency Agreement

CGC operated under an AMA with Sequent during the entire review period. Sequent was selected by CGC through an RFP process in which three bids were received and the AMA was approved by the TPUC for the three-year period April 1, 2022 – March 31, 2025 in Docket No. 21-000134 on January 9, 2022. The AMA provided for a fixed annual payment to CGC of [REDACTED]. For the period April – May 2022, 50% of the fixed annual payment was shared with ratepayers through CGC's IMCR. For the remainder of the review period, 75% of the fixed annual payment was shared with ratepayers under the IMCR.⁵ Under the AMA, with the exception of CGC's SONAT no-notice assets (FT-NN Contract No. 450811-MFTSNG-450814 and CSS Contract No. 450813-MCSSSNG-450819), and any FT-A volume above 25,000 Dth on ETNG Contract No. 410691, CGC's interstate pipeline firm transportation and contract storage capacity assets were managed by Sequent.⁶ The SONAT no-notice assets were identified as "Excluded Assets" in the AMA. The AMA also provided that CGC would purchase the gas supplies delivered under the managed assets from Sequent. While the SONAT Excluded Assets were not managed by Sequent under the AMA, CGC purchased the gas

⁵ In the 2020 Triennial Audit Report, released in June 2020, Exeter noted that in other jurisdictions, sharing percentages from 90% customer/10% utility to 75% customer/25% utility have generally been adopted for AMA fees. Exeter also noted that in Tennessee, AMA fees realized by Atmos are subject to a 75% customer/25% utility sharing incentive, and for Piedmont a 75% customer/25% utility sharing incentive. In December 2020, the Consumer Advocate filed a *Petition* requesting the Commission open a docket to consider modifying CGC's IMCR sharing percentage to a 75% customer /25% Company ratio, and the matter was set for hearing (Docket No. 220-00139). After the submission of direct testimony by the Consumer Advocate and the Company, and the submission of rebuttal testimony by the Consumer Advocate, a hearing was held on March 21, 2022. The hearing panel deliberated this matter on May 9, 2022, and unanimously voted that the AMA sharing percentage be modified to a 75% customer/25%, Company ratio, and directed the Company to file a revised IMCR tariff reflecting its decision. The Company filed the required IMCR tariff modifications on May 19, 2022 with an effective of June 1, 2022.

⁶ The SONAT no-notice assets were excluded from the AMA to enable CGC to use those assets to meet on-system balancing requirements. The no-notice assets were available for use by Sequent to make off-system sales when the assets were deemed unnecessary by the Company to meet on-system balancing requirements.

supplies delivered under the Excluded Assets from Sequent at CGC's SONAT receipt points. CGC maintained control of its LNG facilities under the AMA.

Under the AMA, CGC determined how its pipeline transportation and storage assets should be used on a daily basis to meet its customers' requirements (referred to as "logical dispatch"). On a daily basis, Sequent was entitled to use CGC's assets in the manner determined by CGC, use CGC's assets in a different manner, or use other assets to which it had access as long as Sequent satisfied CGC's requirements. The billing arrangements under the AMA provided that CGC would be responsible for all charges related to the use of CGC's assets regardless of whether those charges reflected CGC's logical dispatch decisions or Sequent's activities, and Sequent would reimburse CGC for the costs that were not incurred consistent with CGC's logical dispatch instructions. On April 11, 2024, CGC filed a request with the Commission to extend its AMA with Sequent for an additional three years through March 31, 2028. The Commission approved CGC's request to extend the AMA with Sequent for an additional three-years on August 7, 2024.

2.3 Gas Supply Arrangements

Under the AMA in effect during the review period, CGC was generally required to purchase from Sequent all of its gas supplies delivered under the transportation arrangements assigned to Sequent and under the SONAT Excluded Assets. Sequent could offer, but was not required to provide, CGC gas supplies delivered under other transportation arrangements. All of CGC's review period gas supplies were purchased through Sequent. [REDACTED]

2.4 Markets Served by CGC

CGC provided firm bundled utility sales service during the review period, and also provided transportation service from its citygates to a customer's premises for those customers who acquire their own gas supplies in the interstate markets and separately arranged for the delivery of those supplies to CGC's citygates. Table 2, below, summarizes the number of CGC customers served and annual throughput by rate schedule for the review period.

CGC provides sales service to Residential customers under Rate Schedule R-1 – Residential General Service. Sales service under Rate Schedule R-4 – Multi-Family Housing Service was closed as of July 31, 2006, and was only available to a public housing authority or private company operating a housing project. Effective October 1, 2020, Rate Schedule R-4 became available to any customer using gas for multi-family Residential housing that contracted for gas service for a period of not less than one year. Small Commercial and Industrial General Service is available under Rate Schedule C-1 to sales customers using less than 400 Dth per year. Medium Commercial and Industrial Service is available under Rate Schedule C-2 to sales customers using more than 400 Dth per year. Commercial and Industrial Large Volume Firm Sales Service under Rate Schedule F-1 is available to customers using a minimum of 36,500 Dth per year. Commercial and Industrial Interruptible Sales Service under Rate Schedule I-1 is available to customers using a minimum of 36,500 Dth per year.

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Table 2. CHATTANOOGA GAS COMPANY – Annual Customers and Volumes, by Class

	April- December 2022	2023	2024	January- March 2025
<u>CUSTOMERS BY RATE SCHEDULE</u>				
Residential Sales (R-1)	60,782	61,623	62,200	63,318
Multi-Family Housing Sales (R-4)	2	2	2	2
Small Commercial & Industrial Sales (C-1)	6,643	6,689	6,577	6,718
Medium Commercial & Industrial Sales (C-2)	1,892	1,906	1,969	2,063
Commercial & Industrial Interruptible Sales (I-1)	0	0	0	0
<u>Large Volume Commercial & Industrial</u>				
Sales/Transportation with Full Standby (F-1/T-2)	36	36	36	38
Sales/Transportation with Partial Standby (F-1/T-2/T-1)	13	13	13	13
Interruptible Transportation (T-1)	17	17	16	15
<u>Low Volume Commercial & Industrial</u>				
Sales/Transportation with Standby (T-3/C-2)	49	48	45	45
Special Contract	2	2	2	2
Total Customers:	69,436	70,336	70,860	72,214
<u>VOLUMES BY RATE SCHEDULE (Dth)</u>				
Residential Sales (R-1)	1,623,066	3,242,659	3,468,702	2,159,762
Multi-Family Housing Sales (R-4)	4,384	8,141	7,967	3,552
Small Commercial & Industrial Sales (C-1)	283,482	615,681	712,187	456,977
Medium Commercial & Industrial Sales (C-2)	1,48,127	2,505,577	2,637,507	1,281,268
Commercial & Industrial Interruptible Sales (I-1)	0	0	0	0
<u>Large Volume Commercial & Industrial</u>				
Sales/Transportation with Full Standby (F-1/T-2)	2,810,890	3,271,086	2,793,514	849,650
Sales/Transportation with Partial Standby (F-1/T-2/T-1)	1,663,296	2,016,584	1,903,267	534,876
Interruptible Transportation (T-1)	1,339,648	1,722,853	1,717,668	389,037
<u>Low Volume Commercial & Industrial</u>				
Sales/Transportation with Standby (T-3/C-2)	465,415	663,267	472,246	178,952
Special Contract	1,002,064	1,310,439	872,679	267,124
Total Volumes:	10,672,372	15,356,287	14,585,738	6,121,198

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Interruptible Transportation Service under Rate Schedule T-1 is available to customers using a minimum of 36,500 Dth per year.

Under Rate Schedule T-1, differences between monthly consumption and deliveries to CGC on the customer's behalf are purchased by CGC or sold to the customer, as applicable, at published index prices. Interruptible Transportation Service with Firm Gas Supply Backup is also available to customers using at least 36,500 Dth per year under Rate Schedule T-2. If a customer under Rate Schedule T-2 consumes more gas during a month than the customer has delivered to the Company, the customer purchases the deficient quantity from the Company under Rate Schedule F-1. Deliveries in excess of monthly consumption are purchased by the Company at published index prices. Low Volume Transport Service is available to customers using more than 400 Dth per year under Rate Schedule T-3. Deliveries in excess of monthly consumption are purchased by the Company at published index prices. If a customer under Rate Schedule T-3 consumes more gas during a month than the customer has delivered to the Company, the customer purchases the deficient quantity from the Company under Rate Schedule C-2.

3.0 PERFORMANCE BASED RATEMAKING MECHANISM RESULTS AND CITYGATE PURCHASES

This section of Exeter’s Report summarizes and evaluates CGC’s activities and performance under the Performance Based Ratemaking Mechanism. The PBRM is designed to encourage the Company to perform its gas purchasing activities at minimum cost. The PBRM establishes monthly benchmarks to which the Company’s gas commodity costs are compared. If CGC’s total monthly commodity gas costs for a Plan Year do not exceed the total benchmark amount by 1%, the Company’s gas costs will be deemed prudent, and the audit required by TPUC Administrative Rule 1220-4-7-.05(1)(a) is waived. The tariff sheets governing CGC’s PBRM are included as Appendix A to the Report. The Company’s PBRM tariff also includes Affiliate Transaction Guidelines.

3.1 *Background*

In the natural gas industry, there are primarily two types of gas supply purchase arrangements—monthly baseload and daily purchase arrangements. Monthly baseload purchases are generally arranged several days prior to the month of delivery, commence flow on the first day of the month, and provide for the delivery of the same quantity of gas on each day during the month. Daily purchases are generally arranged the day prior to delivery. While daily purchases generally flow for one day, daily purchases may also be arranged for multiple consecutive days.

There are various natural gas industry publications that identify, after the fact, the average market price paid for gas supplies at major natural gas trading locations. These average or market prices are referred to as “index prices.” First-of-the-month (FOM) index prices are published in *Inside FERC’s Gas Market Report (Inside FERC)* and are applicable for monthly baseload purchases. Daily prices are published in *Gas Daily* and are applicable for a particular day or weekend/holiday period. Index prices are also included in other natural gas industry publications. Monthly baseload supply can be purchased at a FOM price or prices that would vary daily. The primary gas trading index locations at which CGC purchased gas during the review period were as follows:

Tennessee Gas Pipeline

- Louisiana Zone L – 500 Leg
- Louisiana Zone L – 800 Leg
- Texas Zone 0 – 100 Leg

Southern Natural Gas

- Louisiana

Each of these trading locations is located in the Gulf Coast production region. In addition to baseload and daily purchases at these primary locations, CGC purchased supplies at the Texas Eastern/ETNG Mt. Pleasant interconnect in Texas Eastern Zone M-1. The gas supplies CGC purchased at the Mt. Pleasant interconnect prior to July 2019 were included in the PBRM. After July 2019, Mt. Pleasant purchases were considered to be citygate purchases which are excluded from the PBRM. [REDACTED]

[REDACTED] A summary of CGC’s review

period PBRM purchases is provided in Appendix B. The Mt. Pleasant purchases which are excluded from the PBRM are summarized in Appendix C, and are further discussed in the following section and Section 3.4 of the Report. As subsequently discussed, CGC generally paid the benchmark price for the gas supplies it purchased from Sequent during the review period. The AMA provided that the gas supplies purchased by CGC would be priced based on index prices for the receipt points CGC deemed to be the most cost-effective delivery path for the firm transportation assets assigned to Sequent by CGC. If an index price was not available or published for a receipt point, Sequent and CGC would mutually agree upon a price.

3.2 PBRM Benchmark Calculation

Under the PBRM, CGC's actual monthly commodity cost of gas is compared to a monthly benchmark cost. Actual and benchmark costs are separately determined for each purchase made by CGC during a month, and actual and benchmark costs are compared to evaluate CGC's performance under the PBRM.

For FOM baseload purchases made by CGC, the *Inside FERC* index price for each receipt point transaction location is applied to the actual quantity of gas purchased by CGC at each location to determine the applicable benchmark cost. For daily purchases, the *Gas Daily* index price for each receipt point transaction location is applied to the actual quantity of gas purchased by CGC at that location to determine the applicable benchmark cost. With several exceptions, these benchmarking procedures were applicable under the PBRM for gas delivered to CGC's citygate or injected into storage.

The first exception is for gas injected into SONAT storage. Under the Sequent AMA, CGC purchases the volumes delivered to and injected into SONAT storage. Therefore, the purchases from Sequent that are injected into storage are adjusted to reflect the SONAT fuel charge associated with delivering gas to storage. Another exception is in-ground storage inventory purchases. For these purchases, the interstate pipeline variable transportation fuel charges are included in the benchmark calculation, as are variable storage injection charges.

Prior to July 2019, when Mt. Pleasant purchases were included in the PBRM, gas purchases made by CGC at the Texas Eastern/ETNG Mt. Pleasant [REDACTED]

[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

For the triennial period subject to review in this audit, [REDACTED]
[REDACTED]
[REDACTED] CGC continued to pay the ETNG variable charges associated with delivering Mt. Pleasant purchases to the citygate.

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3.3 PBRM Performance

CGC's performance under the PBRM is included in the *Annual Report of Actual Cost of Gas Purchased and Applicable Indices* filed with the TPUC each year for each Plan Year. As part of Exeter's review, a selected sample of CGC's benchmark and actual cost calculations was reviewed for accuracy and compliance with the terms of the PBRM. Our review found no discrepancies in CGC's calculations.

CGC's performance under the PBRM during the audit period is summarized below in Table 3. Delivered purchases reflect monthly and daily purchases delivered to CGC's citygate. Storage purchases reflect monthly and daily purchases delivered to storage for injection, and in-ground purchases reflect monthly and daily purchases of gas in storage inventory. As shown in Table 3, there was little to no variation between CGC's actual gas costs and benchmark gas costs for delivered supplies during the audit period. This is because CGC generally purchased these supplies from Sequent at the applicable monthly and daily index prices.

**Table 3. CHATTANOOGA GAS COMPANY – Summary of Review Period
Performance Under the PBRM**

Tennessee Gas Pipeline	Purchases (Dth)	Costs		Performance ^[1]	Variance
		Actual	Benchmark		
<i>Zone 0:</i>					
Citygate	4,761,258	\$15,244,201	\$15,244,201	\$(0)	0.0%
Storage	4,792,454	20,141,796	20,141,796	0	0.0%
In-Ground Storage	1,601,850	5,667,998	5,668,628	(630)	0.0%
<i>Zone L 100/500 Leg:</i>					
Citygate	784,752	2,861,188	2,861,192	(4)	0.0%
Storage	0	0	0	0	0.0%
In-Ground Storage	0	0	0	0	0.0%
<i>Zone L 800 Leg:</i>					
Citygate	5,608,857	20,963,928	20,963,894	34	0.0%
Storage	12,756	30,764	30,764	0	0.0%
In-Ground Storage	30,000	58,744	62,614	(3,870)	(6.29%)
<u>Southern Natural Gas</u>					
<i>Zone 1:</i>					
Citygate	3,614,656	\$16,108,869	\$16,108,912	\$(43)	0.0%
Storage	2,030,940	9,042,812	9,042,812	0	0.0%
Total:	23,237,532	\$90,120,299	90,124,812	(4,513)	0.0%

^[1] (+) Costs exceed benchmark; (-) costs below benchmark.

The actual costs of CGC's in-ground storage inventory purchases, or transfers, from Sequent were slightly less than benchmark costs. The benchmark for these purchases is based on the applicable monthly index prices plus the variable pipeline transportation and storage injection charges. During the review period, these in-ground storage purchases were made under CGC's TGP FS-MA and FS-PA storage arrangements.

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Table 4, below, provides a comparison of the monthly *Inside FERC* index prices for the four primary receipt point locations under CGC's firm transportation arrangements with TGP and SONAT. Also shown for comparison purposes are Texas Eastern ELA index prices, and monthly NYMEX settlement prices. As shown in Table 4, the index prices at the four primary locations did not vary significantly from one another. If the variable costs of delivering supplies from each of these four primary receipt point locations to ETNG's citygate is considered, prices at these locations, and in particular the TGP locations, on average, varied by only a few cents, with TGP Zone 0 purchases being the least expensive supply. The delivered cost of monthly SONAT supplies was generally higher than TGP/ETNG delivered supplies regardless of the TGP purchase index location. *Gas Daily* index prices for daily purchases exhibited the same relationship.

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Table 5, below, provides a comparison of CGC’s monthly and daily purchases at each of the Company’s receipt point locations. As shown, consistent with least-cost procurement, CGC

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maximized the purchase of TGP Zone 0 supplies, its lowest-cost supply, generally by base loading these supplies on a monthly basis, and relying on its higher-cost supplies to meet incremental daily purchase requirements.

Table 5. CHATTANOOGA GAS COMPANY – Summary of Monthly and Daily Purchases by Receipt Point Location (Dth)		
Location	Purchases	Percent
<u>Monthly</u>		
TGP Zone 0	9,773,775	90.7%
TGP Zone L 100/500 Leg	17,610	0.2%
TGP Zone L 800 Leg	759,098	7.0%
SONAT	226,240	2.1%
Texas Eastern ^[1]	0	0.0%
<i>Subtotal Monthly:</i>	<i>10,776,723</i>	<i>100.0%</i>
<u>Daily</u>		
TGP Zone 0	1,381,787	9.7%
TGP Zone L 100/500 Leg	767,143	5.4%
TGP Zone L 800 Leg	4,892,524	34.5%
SONAT	5,419,356	38.2%
Texas Eastern ^[1]	1,721,140	12.1%
<i>Subtotal Daily:</i>	<i>14,181,949</i>	<i>100.0%</i>
<u>Total</u>		
TGP Zone 0	11,155,562	44.7%
TGP Zone L 100/500 Leg	784,752	3.1%
TGP Zone L 800 Leg	5,651,622	22.6%
SONAT	5,645,596	22.6%
Texas Eastern ^[1]	1,721,140	6.9%
Total:	24,958,672	100.0%

^[1] Reflects Mt. Pleasant purchases excluded from PBRM.

3.4 Mt. Pleasant Citygate Purchases

As previously discussed in Sections 3.1 and 3.2, Mt. Pleasant purchases were considered citygate purchases after July 2019 and were excluded from the PBRM. Typically under a citygate purchase arrangement, all of the costs associated with delivering gas to the citygate would be paid for by the

supplier. Under the AMA with Sequent, CGC paid the variable costs associated with delivering gas from the ETNG interconnect with Texas Eastern to the citygate. Therefore, the Mt. Pleasant purchases may not technically qualify as citygate purchases. However, as subsequently explained, Exeter finds that excluding the Mt. Pleasant purchases from the PBRM and considering the purchases to be citygate purchases appears to currently be the most appropriate treatment for these purchases.

Including the Mt. Pleasant purchases in the PBRM may not provide for a reasonable assessment of the price CGC paid for these purchases because Mt. Pleasant, which is located in Texas Eastern Rate Zone M-1, is not a liquid trading location, and there are no index prices published for this location. There are index prices published for other locations in Texas Eastern Rate Zone M-1; however, these locations are also not very liquid and index prices for these locations are not published on a regular basis. Based on current market pricing and gas flows on the Texas Eastern system, ELA index prices would serve as a reasonable location to determine a PBRM benchmark for Mt. Pleasant purchases. However, to purchase gas supplies in Texas Eastern Rate Zone ELA, CGC would be required to acquire Texas Eastern firm transportation capacity which provided for the delivery of gas supplies from Rate Zone ELA to Mt. Pleasant in Rate Zone M-1. This would increase CGC's interstate pipeline capacity costs. Exeter believes that the reasonableness of CGC's AMA Mt. Pleasant purchases during the review period is best addressed by directly evaluating the ratepayer benefits associated with CGC's Mt. Pleasant purchases rather than including these purchases in the PBRM. Mt. Pleasant purchases would be necessary to meet design peak day demands of CGC's customers.

CGC presented the ratepayer benefits associated with its Mt. Pleasant purchase arrangements with Sequent in Attachment D of its 2023, 2024, and 2025 PBRM filings. In its 2023 PBRM filing the Company identified a ratepayer benefit of [REDACTED] associated with purchasing Mt. Pleasant supplies from Sequent compared to the cost of acquiring Texas Eastern Rate Zone ELA to Rate Zone M-1 capacity and purchasing gas supplies at ELA index prices. Attachment D of the 2024 PBRM filing identified the benefit to be [REDACTED]. Attachment D of the 2025 PBRM filing identified the benefit to be [REDACTED]. Exeter's review found that Attachment D of the 2023 PBRM filing excluded the ratepayer benefits associated with Mt. Pleasant purchases for January 2023, and Attachment D of the 2024 PBRM filing excluded the ratepayer benefits associated with Mt. Pleasant purchases for January 2024. Had the benefit of the January 2023 Mt. Pleasant purchases been included in Attachment D of the 2023 PBRM filing, the benefit would have increased to [REDACTED], or by [REDACTED], and had the benefit of the January 2024 Mt. Pleasant purchases been included in Attachment D of 2024 PBRM filing the benefits would have increased to [REDACTED], or by [REDACTED]. CGC generally purchased Mt. Pleasant supplies when the delivered prices for its other gas supply commodity options were anticipated to exceed Mt. Pleasant delivered prices. Therefore, Exeter finds that CGC's audit period Mt. Pleasant purchase arrangements with Sequent provided for a significant ratepayer benefit.

4.0 STORAGE ACTIVITY

The scope of this investigation requires the review of CGC’s actual gas procurement transactions and costs, including storage activity, as reported in the Company’s PBRM and Actual Cost Adjustment filings. The ACA filings provide for a reconciliation of CGC’s actual gas costs and gas cost revenues. CGC’s ACA filings include the actual purchases and costs reflected in CGC’s PBRM filings. CGC’s monthly baseload and daily gas supply purchase transactions were reviewed in Section 3.0 of the Report. This section of the Report reviews CGC’s storage activity, including its in-ground storage inventory purchase activity with Sequent.

4.1 Storage Arrangements

As discussed in greater detail in Sections 2.1.1 and 2.1.3 of the Report, CGC maintained contract storage service with TGP and SONAT during the review period. The FSMA and FSPA arrangements with TGP provided for an MDWQ of 21,400 Dth per day and a maximum winter season deliverability of 2,894,676 Dth. CGC’s storage service arrangement with SONAT under Rate Schedule CSS provided for an MDWQ of 14,346 Dth per day and a maximum winter season deliverability of 710,484 Dth. CGC’s TGP FSMA and SONAT CSS storage arrangements include deliverability ratchets under which the MDWQ is reduced as storage inventory declines. Under the TGP FSMA storage arrangement, the MDWQ is reduced by 18% to 6,314 Dth per day when the inventory balance is reduced to 30%. The deliverability ratchets under the SONAT CSS storage arrangement are as follows:

SONAT CSS Deliverability		
<u>Inventory</u>	<u>MDWQ</u>	<u>Percent of MDWQ</u>
60-100%	14,346	100%
50-59%	12,624	88%
25-49%	11,190	78%
0-24%	8,034	56%

In total, the MDWQ of CGC’s contract storage services was 35,746 Dth, and the maximum winter season deliverability was 3,605,160 Dth.

In addition to its contract storage services from TGP and SONAT, CGC operates an LNG facility. The maximum daily production volume of the LNG facility is determined by customer demand in the portion of CGC’s distribution system that can be served by the LNG facility. Therefore, the maximum production volume can change from year to year, and generally increases each year as customer design day demands increase. For the winter of 2024-2025, the maximum production volume was 60,000 Dth per day for 20 days. Table 6, below, identifies the monthly storage activity (injections/withdrawals) and the inventory balances under each of CGC’s interstate pipeline contract storage arrangements and its LNG facility at the conclusion of each month of the audit period.

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Table 6. CHATTANOOGA GAS COMPANY – Summary of Audit Period End-of-Month Storage Inventory Balances (Dth)^[1]

Month	TENNESSEE GAS PIPELINE (FSPA)			TENNESSEE GAS PIPELINE (FSMA)			+	SOUTHERN NATURAL GAS (CSS) ^[2]			+	LIQUEFIED NATURAL GAS ^[3]		
	Chattanooga Gas			Chattanooga Gas				Chattanooga Gas				Chattanooga Gas		
	Activity	Inventory	% Full	Activity	Inventory	% Full		Activity	Inventory	% Full		Activity	Inventory	% Full
April 2022	195,990	533,915	26%	89,610	132,293	16%		(16,229)		13%		86,868	1,174,795	97%
May	202,523	736,438	36%	92,597	224,890	26%		92,292	184,572	26%		(18,251)	1,156,544	96%
June	195,990	932,428	46%	89,610	314,500	37%		113,710	298,282	42%		(18,101)	1,138,443	94%
July	202,523	1,134,951	56%	92,597	407,097	48%		126,458	424,740	60%		(19,103)	1,119,340	93%
August	202,554	1,337,505	65%	92,597	499,694	59%		109,677	534,417	75%		(19,394)	1,099,946	91%
September	195,990	1,533,495	75%	89,610	589,304	69%		104,557	638,974	90%		(18,143)	1,081,803	90%
October	202,554	1,736,049	85%	92,597	681,901	80%		(1,500)	637,474	90%		(13,192)	1,068,610	88%
November	(149,725)	1,586,324	78%	(39,117)	642,784	75%		(43,348)	594,126	84%		(4,921)	1,063,689	88%
December	(376,737)	1,209,587	59%	(118,500)	524,284	62%		(55,530)	538,596	76%		68,004	1,131,693	94%
January 2023	(341,479)	868,108	43%	(153,186)	371,098	44%		(96,833)	441,763	62%		(37,897)	1,093,796	91%
February	(280,915)	587,193	29%	(117,471)	253,627	30%		(96,304)	345,459	49%		(25,315)	1,068,481	88%
March	(285,202)	301,991	15%	(159,179)	94,448	11%		(141,826)	203,633	29%		(16,413)	1,052,068	87%
April 2023	204,540	506,531	25%	85,680	180,128	21%		(57,284)	146,349	21%		(17,614)	1,034,454	86%
May	207,142	713,673	35%	84,537	264,665	31%		102,982	249,331	35%		(16,995)	1,017,459	84%
June	200,460	914,133	45%	81,810	346,475	41%		102,158	351,489	49%		(17,867)	999,592	83%
July	207,142	1,121,275	55%	84,537	431,012	51%		96,776	448,265	63%		(18,588)	981,004	81%
August	207,142	1,328,417	65%	84,537	515,549	60%		94,667	542,932	76%		(19,050)	961,954	80%
September	200,460	1,528,877	75%	81,810	597,359	70%		80,687	623,619	88%		32,133	994,087	82%
October	207,136	1,736,013	85%	84,537	681,896	80%		5,404	629,023	89%		192,561	1,186,648	98%
November	(150,211)	1,585,802	78%	(39,374)	642,522	75%		(73,295)	555,728	78%		(38,705)	1,147,944	95%
December	(349,301)	1,236,501	61%	(162,027)	480,495	56%		(32,339)	523,389	74%		(44,970)	1,102,974	91%
January 2024	(390,938)	845,563	41%	(194,627)	285,868	34%		(187,316)	336,073	47%		(144,463)	958,511	79%
February	(366,687)	478,876	23%	(122,793)	163,075	19%		(67,298)	268,775	38%		(15,494)	943,017	78%
March	(274,736)	204,140	10%	(120,392)	42,683	5%		(137,742)	131,033	18%		(22,381)	920,636	76%
April 2024	214,740	418,880	20%	90,000	132,293	16%		(62,237)	68,796	10%		(17,463)	903,173	75%
May	221,898	640,778	31%	92,876	224,890	26%		112,734	181,530	26%		(18,718)	884,455	73%
June	214,740	855,518	42%	89,880	314,500	37%		116,458	297,988	42%		(18,541)	865,914	72%
July	221,898	1,077,416	53%	92,907	407,097	48%		87,571	385,559	54%		(18,478)	847,436	70%
August	221,898	1,299,314	64%	92,876	499,694	59%		115,404	500,963	71%		(18,258)	829,178	69%
September	214,740	1,514,054	74%	89,910	589,304	69%		103,167	604,130	85%		195,613	1,024,791	85%
October	219,635	1,733,689	85%	92,876	681,901	80%		43,363	647,493	91%		161,857	1,186,648	98%
November	(91,997)	1,641,692	80%	(21,069)	635,049	75%		(68,525)	578,968	81%		(49,130)	1,137,518	94%
December	(390,076)	1,251,616	71%	(91,717)	467,138	55%		(59,237)	519,731	73%		(100,578)	1,036,940	86%
January 2025	(402,846)	848,770	52%	(213,894)	247,631	29%		(161,809)	357,922	50%		(327,851)	709,089	59%
February	(278,804)	569,966	36%	(176,134)	170,752	20%		(46,168)	311,754	44%		(297,911)	411,178	34%
March	(246,615)	323,351	17%	(136,390)	86,798	10%		(144,235)	167,519	24%		(116,273)	294,905	24%
Maximum Seasonal Inventory:		2,042,390			852,286				710,484				1,207,574	

^[1] Negative monthly activity reflects withdrawals; positive monthly activity reflects injections. Monthly activity includes inventory transfers.

^[2] Includes cashouts.

^[3] Volumes in Mcf.

Table 6 also shows CGC's storage inventory balances as a percent of the Company's maximum seasonal contract quantity or capacity. Under the AMA, Sequent, acting as the agent for CGC, was entitled to generate economic gain by managing a portion of CGC's gas inventory under CGC's storage contracts with its interstate pipelines, as long as Sequent met CGC's requirements in the manner directed by CGC. The storage to which Sequent had access was designated as optimization inventory. While the gas was designated as optimization inventory, CGC was entitled to access this inventory and use it if it was necessary for CGC to meet customer requirements. The optimization inventory balances managed by Sequent for asset optimization purposes are also identified in Table 6.

4.2 Storage Planning Guidelines

CGC generally fills its storage capacity during the summer months (April – October). Under the terms of the AMA, CGC is required to ratably fill its TGP FSPA and FSMA storage. That is, CGC is required to inject the same daily quantity during the summer injection period. Such a requirement is common under an AMA. CGC is not required to fill its SONAT CSS or LNG storage on a ratable basis. The monthly storage injection activity reflected above in Table 6 was generally consistent with these requirements. CGC depletes storage inventory during the winter months (November – March). In addition to dispatching gas for storage injection or withdrawal, CGC engages in storage inventory transfers. Under CGC's transportation arrangements with SONAT, differences between the Company's nominated supplies and actual deliveries are reconciled through no-notice storage injections or withdrawals.

CGC has established storage planning guidelines that identify the inventory levels the Company plans to maintain. The planned inventory levels at the start of the storage injection season (April 1) and the planned inventory levels at the start of the storage withdrawal season (November 1), as well as CGC's actual inventory levels during the review period, are identified below in Table 7. As shown, CGC plans to fill its contract storage services to 80-90% of capacity prior to the beginning of the storage withdrawal season on November 1 of each year. This provides CGC with the ability to inject gas into storage during November if warmer-than-normal weather is experienced. CGC plans to fill its LNG facility to 100% of capacity to serve its firm customers during peak demand periods and as a backup supply source to utilize in the event of curtailed supply, pipeline capacity disruptions or force majeure events that prevent the delivery of gas supplies to CGC's system. CGC did not engage in off-system LNG sales during the review period.

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Table 7. CHATTANOOGA GAS COMPANY – Planned and Actual Storage Inventory as a Percent of Seasonal Capacity				
	April 1		November 1	
	Planned	Actual	Planned	Actual
<u>2022</u>				
SONAT CCS	10%	15%	90%	90%
TGP FSPA	10	17	85	85
TGP FSMA	5	5	80	80
LNG	76	90	100	88
<u>2023</u>				
SONAT CCS	10%	29%	90%	89%
TGP FSPA	10	15	85	85
TGP FSMA	5	11	80	80
LNG	76	87	100	98
<u>2024</u>				
SONAT CCS	10%	18%	90%	91%
TGP FSPA	10	10	85	85
TGP FSMA	5	5	80	80
LNG	76	76	100	98
<u>2025</u>				
SONAT CCS	10%	24%		
TGP FSPA	10	16		
TGP FSMA	5	10		
LNG	76	24		

By the conclusion of the storage withdrawal season, CGC plans on depleting its contract storage inventories to 5-10% of capacity. CGC plans to deplete its LNG inventory to 76% of capacity prior to the conclusion of the storage withdrawal season. This level of LNG inventory is consistent with the inventory level that would remain after filling LNG to planned levels and vaporizing the supplies necessary to meet requirements under severe winter weather conditions. CGC does not plan on cycling LNG inventory as it does with contract storage because of the significant fuel requirements associated with liquefying the gas supplies. CGC’s storage planning guidelines are consistent with those of other gas utilities and appear reasonable.

As shown above in Table 7, prior to the commencement of each heating season (November 1) during the review period, CGC’s contract and LNG storage was generally refilled to planned levels. With the

exception of SONAT CSS during the review period and LNG storage at the conclusion of the 2024-2025 winter season, storage was also generally depleted to planned inventory levels at the conclusion of each heating season (April 1). With respect to SONAT CSS, the quantity differences between planned and actual inventory balances were not significant.

With respect to LNG storage, at the conclusion of the 2024–2025 winter season, the inventory was intentionally depleted below planned levels due to elevated ethane concentrations in the LNG storage facility. These elevated ethane concentrations were due to minimal LNG withdrawals during several prior years. This elevated ethane concentration posed a risk to gas quality compliance, potentially producing gas incompatible with customer equipment, and potentially causing pilot light outages and service disruptions. To mitigate this risk, the LNG plant sendout was increased to deplete storage inventory and reduce the elevated ethane concentrations during the 2024-2025 winter season.

Overall, Exeter’s review found CGC’s storage inventory planning criteria to be reasonable and CGC generally adhered to those criteria. Therefore, CGC’s review period storage activity appears reasonable.

4.3 In-Ground Storage Purchases and Transfers

As indicated in Section 3.1.1 of the Report, CGC made a number of in-ground storage inventory purchases from Sequent during the review period. These in-ground storage inventory purchases are summarized below in Table 8.⁷ At times, these in-ground storage inventory purchases reflected a transfer of gas from Sequent’s optimization inventory to CGC, and at other times reflected the transfer of gas in storage held by Sequent under storage arrangements other than the CGC TGP and SONAT arrangements made available under the AMA. As shown in Table 8, these transfers generally occurred during the summer injection period. The in-ground storage inventory transfers were invoiced at costs that were equivalent to the costs CGC would have incurred if the gas had been purchased in the Gulf Coast production region and delivered to and injected into storage.

⁷ The in-ground, storage purchases reflected in Table 8 are also included in Table 6.

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Table 8. CHATTANOOGA GAS COMPANY – Summary of In-Ground Storage Purchases (Dth)

Month/Year	TGP Zone 0 FSPA		TGP Zone 0 FSMA		TGP Zone 0/1 800 Leg FSPA		TGP Zone L 800 Leg FSMA	
	Quantity	Price	Quantity	Price	Quantity	Price	Quantity	Price
April 2022	73,800	█	18,930	█	0	█	0	█
May	143,344	█	46,221	█	0	█	0	█
June	114,630	█	49,800	█	0	█	0	█
October	28,334	█	10,199	█	0	█	0	█
June 2023	0	█	0	█	30,000	█	0	█
August	46,283	█	16,306	█	0	█	0	█
April 2024	214,470	█	77,970	█	0	█	0	█
June	93,540	█	19,770	█	0	█	0	█
July	76,632	█	41,292	█	0	█	0	█
August	85,033	█	29,264	█	0	█	0	█
September	60,750	█	42,780	█	0	█	0	█
October	219,635	█	92,597	█	0	█	0	█
Total	1,156,721		445,129		30,000			

CGC also made other storage inventory transfers during the review period. These transfers were primarily adjustments to SONAT CSS storage to reconcile monthly differences between actual and nominated deliveries to CGC under Rate Schedule FT-NN.

4.4 Mutual Aid Assistance

Atlanta Gas Light Company, an affiliate, provided mutual aid assistance to CGC after tornadoes struck the Company’s service territory in April 2020, and in October 2020 in conjunction with the repair of an 8-inch distribution main. This aid was provided at cost in accordance with the Southern Company Gas affiliate transaction rules. During the wildfires in Boulder, Colorado in January 2022, CGC sent employees with the Southern Company Gas team to Xcel Energy. During the period April 2022 – March 2025 subject to review in this audit, CGC did not request mutual aid assistance. CGC did send an employee to Southern Georgia from early September 2024 to early October 2024 to provide aid to Atlanta Gas Light in the aftermath of Hurricane Helene. The mutual aid provided by CGC during the audit period had no direct impact on the Company’s gas costs.

5.0 EVALUATION OF CAPACITY PORTFOLIO AND LOAD DURATION CURVES

Section 5 of Exeter’s Report evaluates the reasonableness of CGC’s design day forecasting model upon which the Company relies to determine its maximum capacity resource requirements, and presents a history of the Company’s actual annual peak day demands during the review period. This section also evaluates the balance of CGC’s capacity resources and the design day, winter season, and annual requirements of its customers.

5.1 Design Day Forecast

CGC secures sufficient capacity resources to meet the forecasted design day requirements of its sales customers and those transportation customers that select firm backup service. CGC’s design day is a day with a mean temperature of 8°F (57 heating degree days [HDD]). In the last 75 years, there have been seven occurrences where temperatures of 8°F or colder have been experienced. This equates to a design day probability of occurrence of approximately once every 10 years. Temperatures as cold as or colder than CGC’s current design day have been observed as follows:

<u>Year</u>	<u>Mean Temperature</u>
1985	-5°F
1966	1°F
1984	3°F
1982	4°F
1963	5°F
1962	8°F
1996	8°F

The one-in-10-year probability of occurrence design day criteria selected by CGC is within the range of probabilities utilized by other gas distribution utilities, but is somewhat less conservative than the criteria typically utilized. It is Exeter’s experience that other gas utilities typically utilize a design day probability of occurrence of once in 30 years.

Each year separate design day forecasts are prepared by the Company for the sales and transportation customers in the Company’s Chattanooga and Cleveland service territories. Exeter’s audit reviewed the design day forecasts prepared by CGC for the 2023-2024 and 2024-2025 winter seasons.

For each sales customer forecast CGC performed a regression analysis of historical daily data. Each of the regression analysis relied upon to develop the design day forecasts for sales customers included use per customer as the dependent variable. Each of these regression analysis included HDDs, prior day HDDs, and wind speed as independent variables. Other independent variables which differed by year and service territory and were determined to be statistically significant were also included in the Company’s design day sales customer forecasts. These other independent

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variables included in the sales customer forecasts included variables representing certain days of the week and trend variables that are discussed later in this section of the report. Bend points, which aid in capturing the measured change in customer consumption behavior at increasingly colder temperatures deemed to be of statistical significance, were also included as independent variables. The bend points used in forecasts also varied by year and service territory. The regression analysis performed each year is based on daily data from the core winter months (December – March) for the prior five years.

For transportation customers selecting firm backup service, the contracted level of backup service is used in the Company’s design day forecast. The Company’s total design day forecast reflects the anticipated demands of sales customers and transportation customers selecting firm backup service, adjusted for anticipated new load additions. The Company’s forecasted design day requirements by component for the winters of 2023-2024 and 2024-2025, each based on data from the prior five winter seasons and the design day criteria of 8°F, is summarized below in Table 9.

Table 9. CHATTANOOGA GAS COMPANY – Summary of Design Peak Day Requirements (Dth)			
Description	Chattanooga	Cleveland	Total
<u>Winter 2023-2024</u>			
Sales	113,213	14,668	127,881
Transport Firm Backup	20,708	2,015	22,723
Load Additions	5,869	0	5,869
Total:	139,790	16,682	156,472
<u>Winter 2024-2025</u>			
Sales	115,386	14,588	129,974
Transport Firm Backup	20,708	2,015	22,723
Load Additions	9,758	0	9,758
Total:	145,852	16,603	162,455

A requirement of Exeter’s audit is to analyze and evaluate the manner in which CGC includes the effect of energy conservation in its forecast of design day demands. Included in the Company’s design day forecasts are trend variables that account for changes in customer usage per HDD due to energy conservation or other factors. CGC’s design day analysis found that customer usage per HDD is increasing slightly, offsetting any customer energy efficiency or conservation efforts. For CGC’s service territory, the annual increase was approximately 2.0%. Gas utilities in other jurisdictions that evaluate the impact of energy efficiency and customer conservation efforts have found that customer energy efficiency and conservation efforts reduce design day demands by less than 1% per year.

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5.2 Actual Peak Day Demands

Table 10, below, summarizes the requirements of CGC’s sales and transportation customers on the actual peak day observed during each winter season of the review period for each service territory. Also shown are actual HDDs. The reasonableness of CGC’s design day forecast model can be assessed by comparing projected demands under peak day, or near design day, conditions with actual demands. Exeter’s review found that CGC’s day forecasting model generally forecasted sales customer requirements under actual peak day weather conditions within 5% of actual demands. This supports the reasonableness of the Company’s forecasting models.

Table 10. CHATTANOOGA GAS COMPANY – Summary of Actual Firm Peak Day Sendout (Dth)

	2022-2023	2023-2024	2024-2025
	Peak Day: December 23 HDD: 55.4	Peak Day: January 16 HDD: 48.8	Peak Day: January 21 HDD: 45.2
<u>Chattanooga</u>			
Sales	97,784	92,492	89,590
Transport	15,893	23,663	24,409
Total:	113,677	116,154	113,999
<u>Cleveland</u>			
Sales	13,805	13,427	14,237
Transport	2,152	3,067	5,552
Total:	15,958	16,493	19,789
<u>Company Total</u>			
Sales	111,589	105,919	103,827
Transport	18,045	26,729	29,960
Total:	129,634	132,648	133,788

5.3 Balance of Capacity Resources and Customer Requirements

As initially shown on Table 1 in Section 2.1 of the Report, the capacity resources available to meet CGC’s design day requirements for the 2024-2025 winter season totaled 174,018 Dth. For the winter of 2024-2025, as shown previously in Table 9, projected design day requirements were 162,455 Dth. This reflected a capacity reserve margin of 7%. CGC has historically attempted to maintain a capacity reserve margin of approximately 5%, which Exeter did not find unreasonable in prior audits. The capacity reserve margin maintained by CGC for the 2022-2023 winter season was 12%, and the capacity reserve margin maintained by CGC for the 2023-2024 winter season was 10%.⁸ CGC’s

⁸ Reserve margin adjusted to reflect the release of 2,000 Dth of ETNG from transportation capacity to Jat Oil for the period February 2022 – March 2023, and the release of 2,500 Dth of ETNG firm transportation capacity to Jat Oil for the period April 2023 – April 2024, as discussed in Section 2.12 of the Report.

reserve margin exceeded 5% during the review period due to the incremental acquisition of 25,000 Dth per day of ETNG firm transportation capacity effective February 1, 2022, which was previously discussed in Section 2.1.2 of the Report. Prior to February 2022, OPC maintained a FTNG firm transportation contract of 50,000 Dth per day of which it had released 25,000 Dth per day to CGC. Effective January 31, 2022, OPC's firm transportation contract with ETNG expired, as did CGC's capacity release arrangement with OPC for 25,000 Dth per day. Effective February 1, 2022, CGC acquired the 50,000 Dth per day of firm transportation capacity that OPC had maintained with ETNG through an open season under which the capacity was awarded to the bidder offering the highest net present value for the capacity.

Had the capacity made available under the capacity release arrangement with OPC not been replaced, CGC would not have maintained sufficient capacity resources to meet its customers' forecasted design day requirements for the winter of 2022-2023. The design day delivery shortfall would have been nearly 5,000 Dth per day, and would have increased each year by approximately 2,000 to 3,000 Dth per day due to load growth. There is currently no unsubscribed capacity available on ETNG and, therefore, if the OPC capacity had not been available and CGC sought to increase its ETNG firm transportation capacity to eliminate the design day deficiency, ETNG would have been required to construct incremental facilities to meet CGC's additional requirements. The rates charged to CGC for the incremental facilities would have reflected the costs associated with the construction of those facilities, and CGC would not have been assessed ETNG's existing firm transportation rates. ETNG currently provides firm transportation under several rate schedules where incremental facilities were constructed to provide service. Those incremental rate schedules are identified in ETNG's tariff as FT-A (Gateway), FT-A (Wacker), FT-A (Kingsport), and FT-A (Loudon). The rates for those services are significantly higher than ETNG's current rates for non-incremental facility transportation service. Exeter finds CGC's acquisition of the 50,000 Dth per day of ETNG firm transportation capacity through an open season to be appropriate and reasonable, and the only practical option available to CGC. CGC projects that for the 2025-2026 winter season, its capacity reserve margin will decline to 5%.

The overall balance between CGC's capacity portfolio resources and requirements can be assessed by load duration curves, which compare the daily demands of CGC's customers with the capacity resources available to meet those demands. Below, Figure 7 and Figure 8 present load duration curves for CGC's Chattanooga and Cleveland service territories, respectively, under severe weather planning conditions, which CGC identifies as a year in which winter HDDs are 25% higher than normal. The requirements reflected in the load duration curves are those of sales customers on all days except on the design day, which also includes the standby service requirements of transportation customers. The requirements reflected in Figure 7 and Figure 8 also include purchases made for storage injection.⁹

⁹ Storage injections are reflected on days 152 through 365 (the storage injection period), and account for the spike in demand observed on day 152.

Figure 7. CHATTANOOGA GAS COMPANY – Load Duration Curve – Chattanooga Service Territory
2024-2025 Winter Season

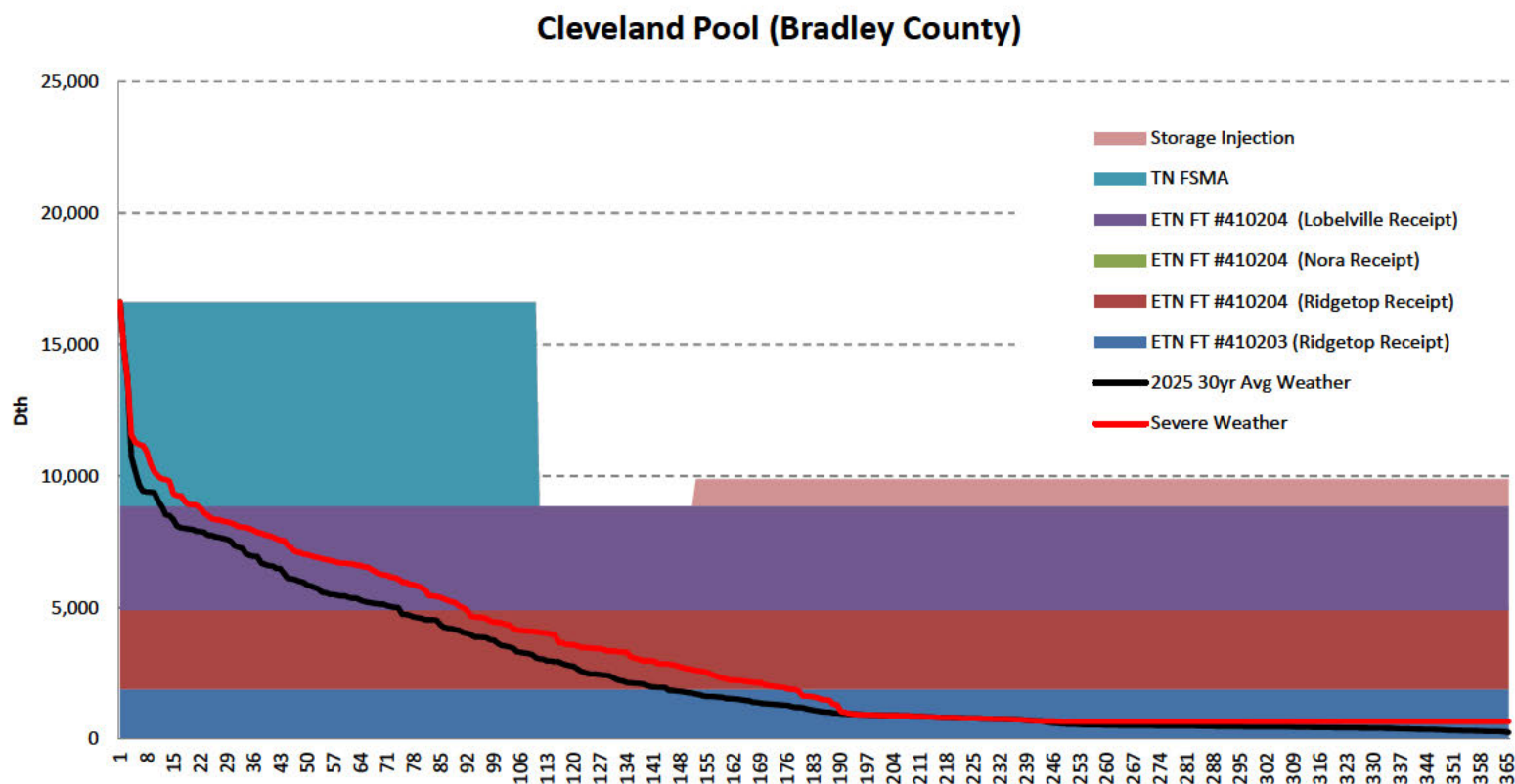


Figure 8. CHATTANOOGA GAS COMPANY – Load Duration Curve – Cleveland Service Territory
2024-2025 Winter Season

Chattanooga Pool (Hamilton County)

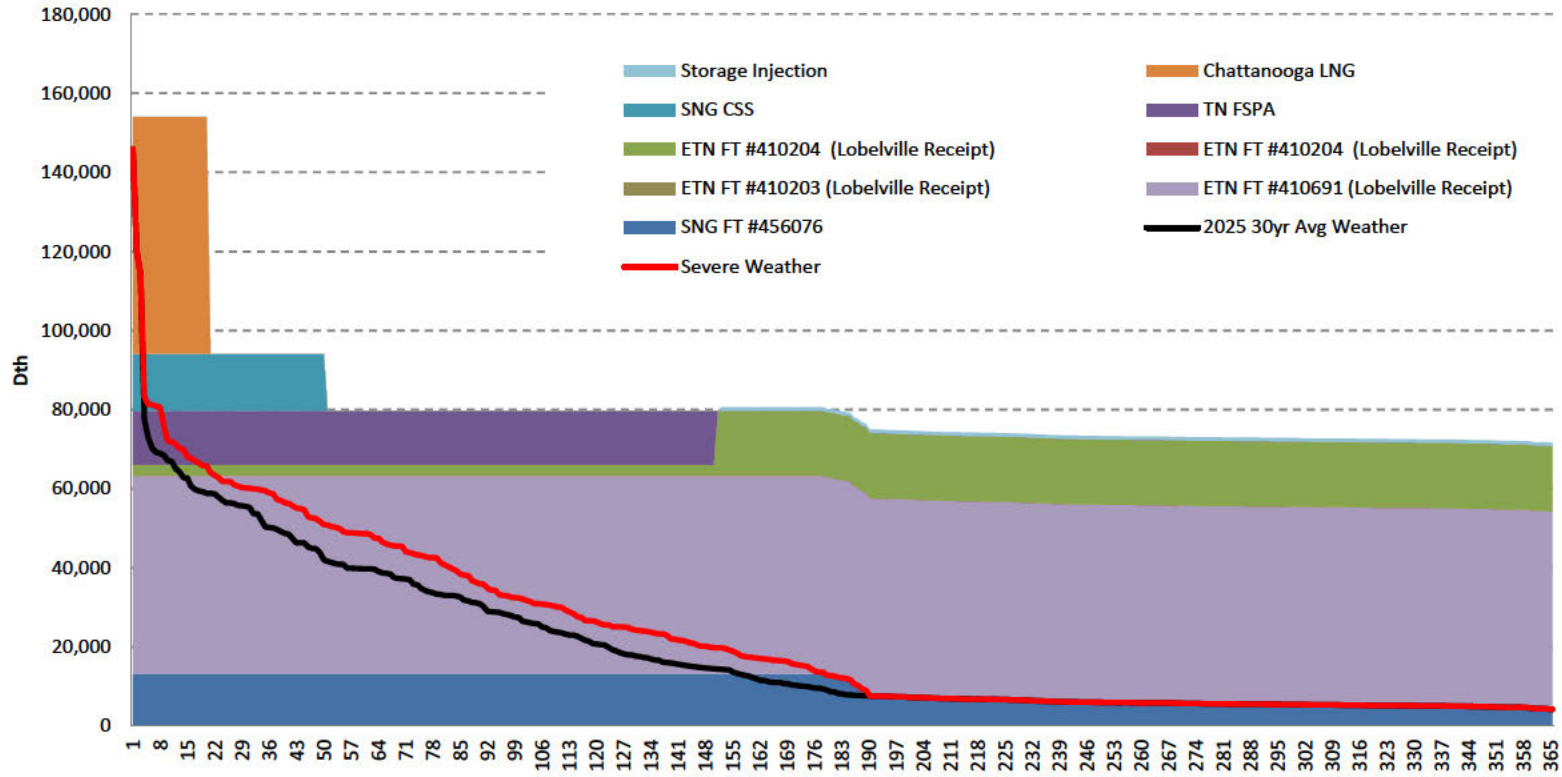


Figure 7 and Figure 8 reveal that under severe weather conditions, as noted by the capacity resources identified above severe weather load, CGC maintains capacity resources significantly in excess of its requirements. CGC's total load requirements during a winter in which severe weather conditions are experienced is projected to be 7,700,000 Dth. As shown previously in Table 1, CGC's winter season capacity resources total 18,400,000 Dth, or more than twice the requirements anticipated under severe weather conditions. CGC's total load requirements during a year in which severe weather conditions are experienced is projected to be 9,500,000 Dth, plus approximately 4,500,000 Dth that may be required to fill its contract storage services and its LNG facility during the summer. As shown in Table 1, CGC's annual capacity resources total 42,800,000 Dth, or more than four times the anticipated annual requirements under severe weather conditions. The potential for CGC to adjust its capacity resources to better match its load requirements is addressed in the next section of the Report.

5.4 Capacity Portfolio Modifications

The RFP scope of work for Exeter's review included examination and identification of: (1) the total fixed cost of CGC's year-round firm transportation capacity to meet design day demand; (2) the total fixed cost of available seasonal firm transportation; and (3) the availability of seasonal firm transportation capacity. Exeter interprets this aspect of the scope of work as requiring an evaluation of whether CGC's annual interstate pipeline demand charges can be reduced by modifying the Company's current capacity portfolio.

The charges associated with each interstate pipeline firm transportation service purchased by CGC at the conclusion of the review period are summarized below in Table 11. As shown, these charges currently total nearly \$16.0 million per year. As indicated in the previous section of the Report, CGC maintains excess year-round firm capacity. If available, the Company could potentially reduce its demand costs by decreasing its year-round capacity and relying on winter season capacity and/or citygate peaking supply services. With respect to citygate peaking supply services, in the past, CGC has issued RFPs to secure such services, but has generally found peaking services to be unavailable.

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Table 11. CHATTANOOGA GAS COMPANY – Summary of Interstate Pipeline Firm Transportation Charges

Pipeline Service/Contract	MDQ (Dth)	Monthly Demand Charge (\$/Dth)	Annual Demand Cost
<u>IGP</u>			
FT-A (48082)	37,819	\$7.43	\$3,373,667
<u>ETNG</u>			
FT-A (410203)	13,000	\$8.35	\$1,302,600
FT-A (410204)	28,350 ^[1]	\$8.35	\$2,840,670
FT-A (661664)	50,000	\$8.35	\$5,010,000
<u>SONAT</u>			
FT ^[2]	13,221	\$10.46	\$1,659,500
FT-NN ^[3]	14,346	\$10.46	\$1,800,710
Total:			\$15,987,147

^[1] Include Nora Lateral capacity of 4,899 Dth per day.

^[2] Contract No. 450812-MFTSNG-456076.

^[3] Contract No. 450811-MFTSNG-450814.

Replacing year-round interstate pipeline capacity arrangements with winter season arrangements could also reduce CGC's annual demand charges. CGC has indicated that winter-only firm transportation was not available during the review period from the interstate pipelines that currently serve its distribution system, and that such services continue to be unavailable as indicated by the pipelines' electronic bulletin boards. Any decrease in the reliance on annual firm transportation capacity and/or increase in the reliance on winter season arrangements is likely to reduce the revenues CGC would receive under future AMAs. Revenues under CGC's AMA would decline because less capacity would be available for optimization by the Asset Manager. Although Exeter has found that CGC's winter and annual capacity resources significantly exceed its requirements, CGC's excess capacity resources are relatively consistent with those of other gas utilities without options to obtain peaking supply services and winter seasonal services.

6.0 FINDINGS OF FACT AND AREAS OF CONCERN

Exeter's review period findings of fact are as follows:

- Chattanooga Gas Company contracted for firm transportation and storage services with Tennessee Gas Pipeline, East Tennessee Natural Gas, and Southern Natural Gas Company during the review period.
- During the review period, CGC operated under an Asset Management and Agency Agreement with Sequent Energy Management, which was an affiliate of CGC until July 1, 2021, that was approved by the Tennessee Public Utility Commission.
- At the conclusion of the review period, CGC served over 72,200 sales and transportation customers with annual throughput of approximately 15,000,000 Dth.
- CGC's interstate pipeline capacity firm transportation and storage service arrangements and entitlements during the review period were reasonable, and CGC's acquisition of 50,000 Dth per day of ETNG firm transportation capacity through an open season was appropriate and reasonable.
- CGC's storage inventory planning criteria were reasonable, CGC generally adhered to those criteria, and CGC's review period storage activity was reasonable.
- CGC engaged in no off-system sales activities during the review period.
- The one-in-10-year probability of occurrence 8°F design day mean day temperature criteria selected by CGC is within the range of probabilities utilized by other gas distribution utilities, but is somewhat less conservative than the criteria typically utilized. However, CGC currently maintains a capacity reserve margin as a result of its incremental acquisition of 25,000 Dth of ETNG firm transportation capacity which can be used to serve customers in the event that temperatures colder than CGC's design day criteria are experienced.
- CGC's review period forecasts of design day demands were reasonable and evaluated the potential impact of customer conservation efforts.
- CGC could reduce its interstate pipeline demand costs by decreasing its year-round capacity and instead rely on winter season capacity; however, there are currently no opportunities for the Company to do so.
- Under the PBRM, if CGC's total actual commodity gas costs for a Plan Year do not exceed benchmark costs by 1%, the Company's gas costs are deemed prudent, and the audit required by TPUC Administrative Rule 1220-4-7-.05(1)(a) is waived. CGC's actual

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gas costs during the Plan Years ended June 30, 2022, June 30, 2023, and June 30, 2024 did not exceed benchmark costs by 1%.

- CGC's treatment of Mt. Pleasant purchases as citygate purchases and the exclusion of those purchases from the PBRM was reasonable, and CGC's audit period Mt. Pleasant purchase arrangements with Sequent provided for significant ratepayer benefits. These benefits are calculated by the Company and presented in Attachment D of each annual PBRM filing. Exeter's review found that the Company had not properly calculated the benefits associated with the Mt. Pleasant purchases in the 2023 and 2024 PBRM filings and understated the benefits by \$353,000.

Exeter's audit noted no areas of concern with the Performance Based Ratemaking Mechanism during the review period.

APPENDIX A

**CHATTANOOGA GAS COMPANY
PERFORMANCE BASED RATEMAKING MECHANISM**

PERFORMANCE-BASED RATEMAKING

APPLICABILITY

This Performance-Based Ratemaking Mechanism (PBRM) is designed to encourage the utility to maximize its gas purchasing activities at minimum cost consistent with efficient operations and service reliability. Each plan year will begin July 1. The annual provision and filings herein will apply to this annual period. The PBRM will continue until it is either (a) terminated at the end of a plan year or by not less than 90 days' notice by the Company to the Commission or (b) modified, amended or terminated by the Commission.

OVERVIEW OF STRUCTURE

The Performance-Based Ratemaking Mechanism establishes predefined monthly benchmark indexes to which the Company's commodity cost is compared.

BENCHMARK INDEX

Each month, Chattanooga Gas Company (Company / Chattanooga) will compare its actual commodity cost of gas to the appropriate benchmark gas cost amount. The benchmark gas cost amount will be computed by multiplying actual quantities purchased during the month, by the applicable benchmark price. All purchases shall be included in the actual commodity cost and benchmark gas cost calculations, including quantities purchased for injection into storage; however, supply purchased at the NORA receipt point with a term of one month or greater and supply purchased at the citygate, shall be excluded from these calculations and reported separately from, but in conjunction with the Company's annual PBRM filing.

First-of-the-Month (FOM) Purchases:

The benchmark price shall be the FOM index price as published in S&P Global *Gas Daily Price Guide* in the table titled "Monthly Bidweek Spot Gas Prices," denoted in the column labeled "Index" and the row for the applicable "purchase locations."

Daily Priced Purchases

The benchmark price shall be the daily index price as published in the issue of S&P Global *Gas Daily* for the applicable gas day in the table title "Final Daily Price Survey-Platts Locations" denoted in the column labeled "Midpoint" and the row for the applicable purchase location. In the event a pricing point location's daily benchmark price is not published for a gas day, the benchmark price shall be the daily index price published for that purchase location for the nearest subsequent gas day.

PERFORMANCE-BASED RATEMAKING
(Continued)

PRUDENCE DETERMINATION

If Chattanooga's total commodity gas cost for the plan year does not exceed the total benchmark amount by one percentage point (1%) for a plan year ending after June 30, 2000, Chattanooga's gas cost will be deemed prudent and the audit required by Tennessee Public Utility Commission's Administrative Rule 1220-4-7-.05 is waived. If during any month of the plan year, the Company's commodity gas cost exceeds the benchmark amount by greater than two percentage points (2%), the Company shall file a report with the Commission fully explaining why the cost exceeded the benchmark.

FILING WITH THE COMMISSION

The Company will file an annual report not later than 60 days following the end of each plan year identifying the actual cost of gas purchased and the applicable index for each month of the plan year. Unless the Commission provides written notification to the Company within 180 days of such reports, the annual filing shall be deemed in compliance with the provisions of this Service Schedule.

PERIODIC INDEX REVISIONS

Because of changes in the natural gas marketplace, the price indices used by Chattanooga and the composition of Chattanooga's purchased gas portfolio may change. The Company shall, within 30 days of identifying a change to a significant component of the mechanism, provide notice of such change to the Commission. Unless the Commission provides written notice to Chattanooga within 30 days of the Company's notice to the Commission, the price indices shall be deemed approved as proposed by the Company.

AFFILIATE TRANSACTION GUIDELINES

Terms used in these affiliate transaction guidelines have the following meanings:

1. Affiliate, when used in reference to any person in this standard, means another entity who controls, is controlled by, or is under common control with, the first entity.
2. Control (including the terms "controlling", "controlled by", and "under common control with") as used in the affiliate transaction guidelines, includes, but is not limited to, the possession, directly or indirectly and whether acting alone or in conjunction with others, of the authority to direct or cause the direction of the management or policies of an entity. Under all circumstances, beneficial ownership of more than ten percent (10%) of voting securities or partnership interest of an entity shall be deemed to confer control for purposes of these affiliate transaction guidelines.
3. Gas supplier is any person who sells or otherwise provides gas to the Company. It does not include customers who transport their gas and as a result of an imbalance in the amount consumed and the amount delivered to the city gate sell gas to the Company in compliance with the Company's approved tariff provisions.

PERFORMANCE-BASED RATEMAKING

(Continued)

Standards of Conduct

The Company must conduct its business to conform to the following standards:

1. All purchases from an affiliated gas supplier of gas for system supply or storage shall be at the price and in accordance with the terms provided in a fully executed contract between the Company and the affiliated gas supplier.
2. The Company and the affiliated gas supplier shall maintain records to show that such purchases are not at a price greater than the market price at the time of the transaction.
3. All sales of gas by the Company to an affiliated gas supplier shall be in accordance with the provisions of the Company's approved tariff or at the price and in accordance with the terms provided in a fully executed contract between the Company and the affiliated gas supplier. Any sale of gas to an affiliate not in accordance with an approved tariff provision shall be at a price that is not less than the greater of the cost as recorded on the Company's books or the market price at the time of the transaction.
4. The Company shall maintain records to show that sales to an affiliated supplier are in accordance with the applicable tariff provision or, if not provided under an approved tariff provision, the price is not less than the greater of the cost as recorded on the Company's books or market price at the time of the transaction.
5. An affiliated gas supplier shall not make sales to any customer's premise that is connected to the Company's distribution facilities.
6. The Company shall not disclose to any affiliated gas supplier any information that the Company receives from a non-affiliated gas supplier that the non-affiliated gas supplier has identified as confidential unless the prior consent of the parties to which the information relates has been voluntarily given.
7. To the maximum extent practicable, the Company's operating employees and the operating employees of an affiliated gas supplier must function independently of each other.
8. The Company must maintain its books of accounts and records separately from those of an affiliated gas supplier.
9. The Company shall maintain sufficiently detailed records of all transactions with any affiliated gas supplier.

APPENDIX B

CHATTANOOGA GAS COMPANY

REVIEW PERIOD PURCHASES

APPENDIX B

CHATTANOOGA GAS COMPANY
Summary of PBRM Review Period Purchases
(Dth)

	TGP ZONE 0			TGP ZONE 0/1 100/500 Leg			TGP ZONE 0/1 800 Leg		
	MONTHLY Quantity	Benchmark \$	DAILY Quantity	MONTHLY Quantity	Benchmark \$	DAILY Quantity	MONTHLY Quantity	Benchmark \$	DAILY Quantity
April 2022	42,600	4,940	0	0	5,230	118,158	105,480	5,2100	141,537
May	21,638	6,930	21,426	0	7,190	16,734	0	7,1700	58,034
June	0	8,580	42,630	0	8,880	4,517	0	8,8600	97,156
July	0	6,130	34,240	0	6,740	6,147	0	6,4500	119,008
August	0	8,180	44,020	0	8,830	7,683	0	8,5500	289,082
September	0	8,540	41,209	0	9,370	0	0	9,0200	249,534
October	44,020	5,080	0	0	6,680	131,156	45,849	6,3400	223,065
November	338,970	4,410	0	0	5,020	7,276	41,880	5,0200	86,353
December	260,741	6,000	83,513	0	6,590	11,515	0	6,4800	194,078
January 2023	350,269	3,900	0	0	4,630	14,720	0	4,5600	65,455
February	170,156	2,450	53,788	0	2,980	0	0	2,9500	50,350
March	16,616	2,070	95,371	17,610	2,270	19,383	0	2,3000	12,922
April 2023	39,240	1,590	0	0	1,920	79,084	0	1,8600	235,355
May	18,600	1,780	30,380	0	2,010	32,342	0	1,9400	174,177
June	0	1,880	34,760	0	2,110	19,261	0	2,0100	137,711
July	0	2,330	35,190	0	2,650	0	0	2,4300	142,140
August	0	2,100	33,180	0	2,560	0	0	2,2400	157,487
September	0	2,180	45,274	0	2,660	0	0	2,2700	181,979
October	44,240	2,280	0	0	2,780	0	119,140	2,4100	401,432
November	332,299	2,500	0	0	3,060	0	9,480	2,7500	73,503
December	269,297	2,310	71,736	0	2,600	26,533	0	2,5400	140,296
January 2024	302,994	2,300	41,300	0	2,560	22,152	0	2,5100	190,676
February	234,900	2,230	53,439	0	2,420	36,920	0	2,4100	46,255
March	70,246	1,270	46,273	0	1,540	0	0	1,5100	7,384
April 2024	24,390	1,260	0	0	1,500	8,228	30,660	1,4700	306,325
May	25,172	1,250	0	0	1,580	5,098	0	1,4400	144,285
June	0	2,080	21,112	0	2,990	0	0	2,2100	135,109
July	25,172	2,270	0	0	2,810	9,545	43,152	2,3700	47,322
August	25,172	1,540	0	0	1,960	4,079	0	1,6800	74,967
September	24,360	1,620	0	0	1,950	3,560	152,610	1,7500	46,454
October	27,528	2,270	0	0	2,590	137,091	106,361	2,4100	119,695
November	268,796	1,930	5,180	0	2,300	28,317	0	2,2000	14,000
December	130,014	3,160	147,651	0	3,550	7,000	0	3,3400	127,899
January 2025	175,553	3,330	161,298	0	3,590	0	0	3,4100	197,863
February	96,488	3,160	132,243	0	3,730	8,701	0	3,4600	155,505
March	0	3,250	106,574	0	4,100	1,942	0	3,8000	48,131
Total	3,379,471		1,381,787	17,610		767,142	716,333		4,892,524

APPENDIX B

CHATTANOOGA GAS COMPANY
Summary of PBRM Review Period Purchases
(Dth)

	TGP ZONE 0 FSPA IN GROUND			TGP ZONE 0 FSMA IN GROUND			TGP ZONE 0 FSPA TO STORAGE		
	MONTHLY		DAILY	MONTHLY		DAILY	MONTHLY		DAILY
	Quantity	Benchmark	Quantity	Quantity	Benchmark	Quantity	Benchmark	Quantity	Benchmark
April 2022	73,800	\$5,1615	0	18,930	\$ 5,1629	0	126,780	\$4,9400	0
May	143,344	7,2264	0	46,221	7,2278	0	61,411	6,9300	0
June	114,630	8,9385	0	49,800	8,9399	0	84,420	8,5800	0
July	0	6,3963	0	0	6,3977	0	96,069	6,1300	0
August	0	8,6234	0	0	8,5248	0	210,149	8,1800	0
September	0	8,8970	0	0	8,8984	0	203,340	8,5400	0
October	28,334	5,3071	0	10,199	5,3085	0	180,792	5,0800	0
November	0	4,6118	0	0	4,6132	0	0	4,1400	0
December	0	6,2616	0	0	6,2630	0	0	6,0000	0
January 2023	0	4,0826	0	0	4,0840	0	0	3,9000	0
February	0	2,5780	0	0	2,5794	0	0	2,4500	0
March	0	2,1837	0	0	2,1851	0	0	2,0700	0
April 2023	0	\$1,6721	0	0	\$ 1,6735	0	210,180	\$1,5035	0
May	0	1,8674	0	0	1,8699	0	212,846	1,6900	0
June	0	1,9701	0	0	1,9715	0	175,140	1,5900	0
July	0	2,4325	0	0	2,4339	0	212,846	2,3300	0
August	46,283	2,1842	0	16,306	2,1947	0	165,292	2,1000	0
September	0	2,2784	0	0	2,2798	0	205,980	2,1800	0
October	0	2,3810	0	0	2,3824	0	217,593	2,2800	0
November	0	2,6072	0	0	2,6086	0	5,174	2,5000	0
December	0	2,4120	0	0	2,4134	0	0	2,3100	0
January 2024	0	2,4017	0	0	2,4031	0	0	2,3000	0
February	0	2,3298	0	0	2,3312	0	0	2,2300	0
March	0	1,3433	0	0	1,3447	0	0	1,2700	0
April 2024	214,740	\$1,3239	0	77,970	\$ 1,3253	0	0	\$1,2600	0
May	0	1,3136	0	0	1,3150	0	227,757	1,2500	0
June	93,540	2,1656	0	19,770	2,1670	0	124,410	2,0800	0
July	76,632	2,3606	0	41,292	2,3620	0	149,110	2,2700	0
August	85,033	1,6113	0	29,264	1,6127	0	140,492	1,5400	0
September	60,750	1,6934	0	42,780	1,6948	0	158,070	1,6200	0
October	219,635	2,3606	0	92,597	2,3620	0	0	2,2700	0
November	0	2,0114	0	0	2,0128	0	45,782	1,9300	0
December	0	3,2739	0	0	3,2753	0	0	3,1600	0
January 2025	0	3,4484	0	0	3,4498	0	0	3,3300	0
February	0	3,2739	0	0	3,2763	0	0	3,1600	0
March	0	3,3663	0	0	3,3677	0	0	3,2500	0
Total	1,156,721		0	445,129		0	3,213,633		0

APPENDIX B

CHATTANOOGA GAS COMPANY

Summary of PBRM Review Period Purchases
(Dth)

	TGP ZONE 0 FSMA TO STORAGE			TGP ZONE 0/1 800 LEG FSPA IN GROUND			TGP ZONE 0/1 800 LEG FSMA IN GROUND			
	MONTHLY		DAILY	MONTHLY		DAILY	MONTHLY		DAILY	
	Quantity	Benchmark	Quantity	Quantity	Benchmark	Quantity	Quantity	Benchmark	Quantity	Benchmark
April 2022	73,320	\$4,9400	0	0	\$0.0000	0	0	\$0.0000	0	\$0.0000
May	48,143	6.9300	0	0	0.0000	0	0	0.0000	0	0.0000
June	41,280	8.5800	0	0	0.0000	0	0	0.0000	0	0.0000
July	210,118	6.1300	0	0	0.0000	0	0	0.0000	0	0.0000
August	96,069	8.1800	0	0	0.0000	0	0	0.0000	0	0.0000
September	92,970	8.5400	0	0	0.0000	0	0	0.0000	0	0.0000
October	85,498	5.0800	0	0	0.0000	0	0	0.0000	0	0.0000
November	0	4.4100	0	0	0.0000	0	0	0.0000	0	0.0000
December	0	6.0000	0	0	0.0000	0	0	0.0000	0	0.0000
January 2023	0	3.9000	0	0	0.0000	0	0	0.0000	0	0.0000
February	0	2.4500	0	0	0.0000	0	0	0.0000	0	0.0000
March	0	2.0700	0	0	0.0000	0	0	0.0000	0	0.0000
April 2023	88,020	\$1,5900	0	0	\$0.0000	0	0	\$0.0000	0	\$0.0000
May	86,893	1.7800	0	0	0.0000	0	0	0.0000	0	0.0000
June	84,090	1.8800	0	0	0.0000	0	0	0.0000	0	0.0000
July	86,893	2.3300	0	0	0.0000	0	0	0.0000	0	0.0000
August	70,122	2.1000	0	0	0.0000	0	0	0.0000	0	0.0000
September	84,090	2.1800	0	0	0.0000	0	0	0.0000	0	0.0000
October	86,893	2.2800	0	0	0.0000	0	0	0.0000	0	0.0000
November	0	2.5000	0	0	0.0000	0	0	0.0000	0	0.0000
December	0	2.3100	0	0	0.0000	0	0	0.0000	0	0.0000
January 2024	0	2.3000	0	0	0.0000	0	0	0.0000	0	0.0000
February	0	2.2300	0	0	0.0000	0	0	0.0000	0	0.0000
March	0	1.2700	0	0	0.0000	0	0	0.0000	0	0.0000
April 2024	11,940	\$1,2600	0	0	\$0.0000	0	0	\$0.0000	0	\$0.0000
May	95,046	1.2500	0	0	0.0000	0	0	0.0000	0	0.0000
June	71,700	2.0800	0	0	0.0000	0	0	0.0000	0	0.0000
July	52,669	2.2700	0	0	0.0000	0	0	0.0000	0	0.0000
August	65,007	1.5400	0	0	0.0000	0	0	0.0000	0	0.0000
September	48,060	1.6200	0	0	0.0000	0	0	0.0000	0	0.0000
October	0	2.2700	0	0	0.0000	0	0	0.0000	0	0.0000
November	0	1.9300	0	0	0.0000	0	0	0.0000	0	0.0000
December	0	3.1600	0	0	0.0000	0	0	0.0000	0	0.0000
January 2025	0	3.3300	0	0	0.0000	0	0	0.0000	0	0.0000
February	0	3.1600	0	0	0.0000	0	0	0.0000	0	0.0000
March	0	3.2500	0	0	0.0000	0	0	0.0000	0	0.0000
Total	1,578,821		0	30,000		0	0		0	

APPENDIX B

CHATTANOOGA GAS COMPANY

Summary of PBRM Review Period Purchases
(Dth)

	TGP_ZONE_0/1_800_LEG_FSPA/FSMA_TO_STORAGE			SONAT			SONAT_TO_STORAGE		
	MONTHLY		BENCHMARK	MONTHLY		BENCHMARK	MONTHLY		BENCHMARK
	Quantity	Benchmark		Quantity	Benchmark		Quantity	Benchmark	
April 2022	0	\$0.0000	0	\$0.0000	0	\$0.0000	0	\$0.0000	
May	0	0.0000	0	0.0000	0	0.0000	0	0.0000	
June	0	0.0000	0	0.0000	0	0.0000	0	0.0000	
July	0	0.0000	0	0.0000	0	0.0000	0	0.0000	
August	0	0.0000	0	0.0000	0	0.0000	0	0.0000	
September	0	0.0000	0	0.0000	0	0.0000	0	0.0000	
October	0	0.0000	0	0.0000	0	0.0000	0	0.0000	
November	0	0.0000	0	0.0000	0	0.0000	0	0.0000	
December	0	0.0000	0	0.0000	0	0.0000	0	0.0000	
January 2023	0	0.0000	0	0.0000	0	0.0000	0	0.0000	
February	0	0.0000	0	0.0000	0	0.0000	0	0.0000	
March	0	0.0000	0	0.0000	0	0.0000	0	0.0000	
April 2023	0	\$0.0000	0	\$0.0000	0	\$0.0000	0	\$0.0000	
May	0	0.0000	0	0.0000	0	0.0000	0	0.0000	
June	0	0.0000	0	0.0000	0	0.0000	0	0.0000	
July	0	0.0000	0	0.0000	0	0.0000	0	0.0000	
August	0	0.0000	0	0.0000	0	0.0000	0	0.0000	
September	0	0.0000	0	0.0000	0	0.0000	0	0.0000	
October	12,765	2,2700	0	2,2700	24,365	1,8279	0	2,1923	
November	0	0.0000	0	0.0000	0	0.0000	0	0.0000	
December	0	0.0000	0	0.0000	0	0.0000	0	0.0000	
January 2024	0	0.0000	0	0.0000	0	0.0000	0	0.0000	
February	0	0.0000	0	0.0000	0	0.0000	0	0.0000	
March	0	0.0000	0	0.0000	0	0.0000	0	0.0000	
April 2024	0	\$0.0000	0	\$0.0000	2,107	\$1,6600	0	\$1,6606	
May	0	0.0000	0	0.0000	0	0.0000	0	0.0000	
June	0	0.0000	0	0.0000	0	0.0000	0	0.0000	
July	0	0.0000	0	0.0000	0	0.0000	0	0.0000	
August	0	0.0000	0	0.0000	0	0.0000	0	0.0000	
September	0	0.0000	0	0.0000	171,328	2,4021	0	2,0943	
October	0	0.0000	0	0.0000	144,538	2,0924	0	2,7603	
November	0	0.0000	0	0.0000	8,215	2,6560	0	2,4499	
December	0	0.0000	0	0.0000	317,604	3,0688	0	3,6819	
January 2025	0	0.0000	0	0.0000	445,988	5,0197	0	3,6648	
February	0	0.0000	0	0.0000	150,573	5,1288	0	3,7872	
March	0	0.0000	0	0.0000	4,0300	0.0000	0	4,1216	
Total	12,765	226,240	0	3,388,416	0	2,030,940	0	0	

APPENDIX C

CHATTANOOGA GAS COMPANY

SUMMARY OF MT. PLEASANT PURCHASES

APPENDIX C

**CHATTANOOGA GAS COMPANY
Summary of Mt. Pleasant Purchases
(Dth)**

	Quantity	Price	Total Cost
July 2022	0	[REDACTED]	
August	0		
September	0		
October	0		
November	127,000		
December	354,400		
January 2023	86,000		
February	15,700		
March	15,000		
Subtotal/Average	<u>598,100</u>		
April 2023	0		
May	0		
June	0		
July	0		
August	0		
September	0		
October	0		
November	0		
December	35,000		
January 2024	365,040		
February	0		
March	0		
Subtotal/Average	<u>400,040</u>		
April 2024	0		
May	0		
June	0		
July	0		
August	0		
September	0		
October	0		
November	0		
December	128,000		
January 2025	451,000		
February	144,000		
March	0		
Subtotal/Average	<u>723,000</u>		
Total/Average	<u><u>1,721,140</u></u>		