

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

**February 25, 2008**

**IN RE:**

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

**Docket No. 07-00224**

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**CHATTANOOGA GAS COMPANY'S RESPONSE TO  
THE CAPD'S STATEMENT OF CLAIMS AND ISSUES**

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Pursuant to the Hearing Officer's February 19, 2008 Order, Chattanooga Gas Company ("CGC" or "Company") is filing its Response to the Statement of Claims and Issues filed by the Consumer Advocate and Protection Division of the Attorney General ("CAPD"), the only intervener in this contested case proceeding, on February 20, 2008.

CGC believes that it has an excellent record of providing great benefit to its customers by returning significant net gains from non-jurisdictional transactions generated by its current asset manager, Sequent Energy Management, L.P. ("Sequent").<sup>1</sup> CGC will continue to provide the Tennessee Regulatory Authority ("TRA" or "Authority") with information about its asset management arrangement and further demonstrate the successes that it has been able to achieve for CGC and its customers. Further, CGC believes that many of the issues that the CAPD has raised in this contested

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<sup>1</sup> The current asset management agreement between CGC and Sequent terminates on March 31, 2008. Pursuant to the Tennessee Regulatory Authority's April 24, 2007 Order in Docket 05-00322, CGC rebid its asset management agreement following the RFP procedures in its Tariff. The new asset management agreement is currently pending before the TRA for approval in Docket 08-00012.

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case proceeding are moot as they have already been addressed by the TRA through final orders in other dockets.

CGC generally objects to the lack of specificity and vagueness of the claims and issues set forth by the CAPD. At the February 11, 2008 status conference, CGC asked for a statement of the claims that the CAPD was asserting against CGC in this docket and the relief being sought by the CAPD. The CAPD responded that an issues list is more appropriate since the CAPD believes the docket was convened to evaluate rather than litigate a specific set of facts. See Transcript of Feb. 11, 2008 Status Conference, at 12-13. CGC objects to framing this contested case proceeding as a generic docket in which the CAPD can engage in an “investigation” which is nothing more than an unlimited fishing expedition into the topic of asset management.

The TRA has convened this docket as a contested case proceeding in which certain legal rights and duties of CGC will be litigated. See Tenn. Code Ann. § 65-2-101. Thus, CGC has the right to know what the CAPD’s claims and complaints against CGC are so that it can adequately prepare for its defense. Further, upon the invitation of CGC and its current asset manager, Sequent, the CAPD traveled to Sequent’s headquarters in Houston, Texas, in early December 2007 to learn first hand about the asset management arrangement and to ask questions regarding asset management. Thus, the CAPD should not assert that it needs discovery in order to set forth its claims with specificity. Rather, the CAPD has been given the opportunity to seek information from Sequent and CGC and should have the information that it needs at this time to set forth its claims and the relief being sought with specificity.

For the record, CGC is attempting to respond to the CAPD's statements of claims and issues as set forth below. To the extent that any allegations have been set forth by the CAPD, CGC generally denies them. CGC is reserving its right to amend or supplement its responses and defenses at a later time. CGC is also reserving its right to seek dismissal of the action being pursued by the CAPD for failure to state a claim.

CAPD Statement No.1: CGC states that it does not sell, lease, release, relinquish, or assign its gas supply, pipeline capacity, and storage assets to its asset manager. CGC denies any allegations contained in statement no. 1.

CAPD Statement No. 2: CGC denies any allegations contained in statement no. 2.

CAPD Statement No. 3: CGC states that the issues regarding affiliate transactions are moot as the TRA issued a final order on April 24, 2006 in Dockets 04-00402 and 04-00403. To the extent that statement no. 3 contains any allegations, CGC denies them.

CAPD Statement No. 4: To the extent that statement no. 4 contains any allegations, CGC denies them.

CAPD Statement No. 5: CGC states that the issues regarding RFP procedures and the resulting asset management agreement are moot as the TRA issued a final order on December 5, 2006 in Dockets 04-00402 and 04-00403. To the extent that statement no. 5 contains any allegations, CGC denies them.

CAPD Statement No. 6: CGC objects to this statement as it is vague and contains no factual issues or claims. To the extent statement no. 6 contains any allegations, CGC denies them.

CGC also sets forth the following issues and/or defenses:

A. The resolution of certain claims and issues raised by the CAPD and/or the scope of remedies available are limited by the preclusive effects of prior final TRA orders.

B. The remedies available in this contested case proceeding are limited by the prohibition against retroactive ratemaking.

C. The remedies available in this contested case proceeding are limited by the constitutional guarantees of the Tennessee and U.S. Constitutions against impairment of contracts.

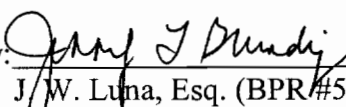
D. CGC relies upon the defense provided by any applicable statute of limitation set forth in Tennessee law, including but not limited to Tenn. Code Ann. § 65-3-122 and Tenn. Code Ann. § 28-3-104(a)(4).

E. CGC asserts that the CAPD has failed to state a claim upon which relief can be granted.

F. CGC seeks to recover the litigation expenses incurred in this proceeding through the PGA.

Respectfully submitted,

FARMER & LUNA, PLLC

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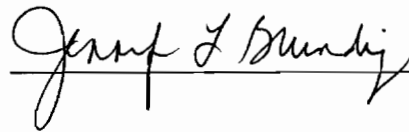
**CERTIFICATE OF SERVICE**

I hereby certify that a true and exact copy of the foregoing has been forwarded by hand delivery on this the 25th day of February, 2008, to the following:

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