

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

February 20, 2008

IN RE:

**REQUEST OF CHATTANOOGA GAS
COMPANY FOR APPROVAL OF
ASSET MANAGEMENT AGREEMENT**

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Docket No. 08-00012

**CHATTANOOGA GAS COMPANY'S BRIEF
REQUESTING APPROVAL OF THE PENDING
ASSET MANAGEMENT AGREEMENT**

Chattanooga Gas Company ("CGC" or "Company") has filed its new asset management agreement with the Tennessee Regulatory Authority ("TRA" or "Authority") for approval as ordered by the TRA. As demonstrated through the information filed by CGC in this docket, CGC has complied with the bidding procedures in its Tariff, and CGC has awarded a new asset management agreement that provides significant benefit to CGC's customers. CGC respectfully requests that the agreement be approved without delay so that asset management services may continue after March 31, 2008.

Background

At the January 23, 2006 Authority Conference, the TRA directed CGC to revise its Tariff to include request for proposal ("RFP") procedures for placing future asset management arrangements out for bid. The TRA directed Staff to meet with the Company to draft proposed RFP procedures. Representatives of the Company met with the Staff on June 27, 2006. As a result of the discussions, CGC filed a tariff revision to include RFP procedures on July 17, 2006.

The Staff agreed with the procedures as filed. In its December 5, 2006 Order in Docket 04-00402, the TRA approved the RFP procedures.

The RFP procedures require the Company to develop a written proposal, advertise the proposal for thirty (30) days, evaluate only written on-time bids, and maintain all RFP documents for four (4) years. See CGC Gas Tariff No. 1, Revised Sheet No. 56B & Original Sheet No. 56C. The procedures also set forth the minimum criteria for evaluating the bids, including the total value of the bid proposal, the bidder's ability to perform the RFP requirements, the bidder's asset management qualifications and experience, and the bidder's financial stability and strength.

In its April 24, 2007 Order in Docket 05-00322, the TRA ordered Chattanooga Gas Company to rebid its asset management agreement prior to the end of March 31, 2008, when the current asset management agreement terminates. The TRA further ordered CGC to submit the new asset management agreement to the TRA for approval.

In compliance with the TRA's directives and the RFP procedures in its Tariff, the Company developed an RFP to entertain bids to contract for asset management services inclusive of gas purchase and sales for storage injection and possible system balancing. The RFP set forth that the services would commence on April 1, 2008, and would continue for an initial term of three (3) years with provisions to extend the agreement. The RFP required bidders to agree to accept the Asset Management Agreement and Gas Purchase and Sale Agreement (attached to the RFP) as the contract that would be executed by both parties. In fact, the bidders were required to include as part of their bids two original partially executed copies of the Asset Management Agreement and Gas Purchase and Sale Agreement. The bidders were instructed to fill in the

annual minimum guarantee amount in Section 4 of the Asset Management Agreement. The RFP also explained that the bids would be treated as confidential.

CGC issued the RFP on November 20, 2007, and submitted a copy of the issued RFP to the TRA. In accordance with its Tariff, the Company identified over twenty potential bidders and provided them with copies of the RFP. The Company also advertised the RFP in the Platts Gas Daily publication on Tuesday, November 27, 2007, and on Tuesday, December 11, 2007. The RFP required all bid proposals to be submitted to the Company on or before December 21, 2007, and provided that the Company would evaluate the proposals and award the contract to the winning bidder on or before January 4, 2008.

CGC received five (5) bids in response to the RFP. CGC evaluated the bids in accordance with the Tariff. CGC has provided the TRA with its internal documentation of its evaluation process and the basis for selecting the winning bid. See CGC's Confidential Response to TRA Staff Data Request No. 5. Upon a careful evaluation of the bids, one bid clearly demonstrated the projected greatest net benefit to CGC and its customers. On January 4, 2008, CGC awarded the contract to this bidder, Sequent Energy Management, L.P. ("Sequent"), and executed the contract to become effective April 1, 2008, pending the TRA's approval.

On January 14, 2008, CGC submitted the new asset management agreement to the TRA for approval as required, and requested that the TRA approve the new contract without delay so that asset management services could continue without interruption or loss of value beyond March 31, 2008. The TRA Staff issued data requests on January 16, 2008, requesting, in part, information about the RFP process and CGC's evaluation of the bids received. CGC has provided the TRA with the requested information under seal.

In its February 1, 2008 Order in the current docket, the TRA convened a contested case and appointed a hearing officer to handle any preliminary matters, including the entry of a protective order. On January 29, 2008, the Consumer Advocate ("CAPD") filed a Petition to Intervene "to advocate the consumers' perspective for the TRA to consider during deliberations regarding whether to approve the proposed asset management and gas purchase agreements". See CAPD's Petition to Intervene (dated Jan. 29, 2008), at ¶ 6. During a February 6, 2008 telephone conference call, the Hearing Officer granted the CAPD's Petition and directed the parties to continue to work toward resolving any disputed issues. The parties were instructed to file status reports on February 8, 2008 regarding the proposed issues as agreed and those that remained in dispute. After attempting to resolve the differences, no agreements could be reached as the CAPD insisted that CGC change the terms of the contract that was issued as part of the RFP and was the basis for the bids received.

The Company believes, as stated in its Status Report filed with the TRA on February 8, 2008, that the purpose of this docket is for the TRA to determine whether CGC has complied with its Tariff in bidding and awarding this agreement and whether the new agreement should be approved. The CAPD has set forth issues that would change the contract that CGC placed out for bid and require a re-negotiation of the agreement and the opportunity for the new asset manager to withdraw from the agreement. CGC continues to believe that a subsequent contract will result in significantly less net benefit for CGC's customers.

CGC'S Position

The TRA has pending before it the executed asset management agreement between CGC and Sequent that resulted from the RFP issued by CGC. As demonstrated through the information filed by CGC in this docket, CGC has followed the RFP procedures set forth in its

Tariff (as approved by the TRA). In fact, there have been no allegations that CGC did not follow its Tariff in bidding and awarding the new agreement. The provisions and terms of the agreement have been determined as a result of the RFP process. The TRA should consider the contract *as a whole* and the value that the contract *as a whole* will provide to CGC and its customers. This agreement, if approved by the TRA, is a legally binding contract between CGC and Sequent based on the contract provisions that were bid through the RFP process. If approved, asset management services will go forward, and CGC will provide significant guaranteed benefits to its customers during the term of the contract. If it is not approved as written, Sequent is no longer bound to its bid and the executed agreement. Also, there will be no asset management agreement in place after March 31, 2008. CGC believes that a subsequent contract would be significantly less beneficial to CGC's customers.

The Company incorporated into the RFP the asset management agreement that the Company would execute as a result of the bid process. The terms and provisions of the agreement issued in the RFP were developed by the experts at CGC who have experience dealing with gas supply issues for the Company and in dealing with asset management arrangements in the marketplace. The bids that were received by the Company in response to the RFP were based upon the terms and provisions in the asset management agreement. The value of the agreement that is currently pending before the TRA for approval is based upon the terms and provisions that were included as part of the RFP. Changing these terms and conditions would result in a different RFP and potentially different bids.

The TRA in approving the RFP procedures in its Tariff gave CGC the responsibility for developing the written RFP and the content requirements for the bid proposals. It appears that the TRA did not intend to dictate the specifics of how CGC should set up its asset management

arrangement but intended for the business experts at the Company to set forth the terms of the arrangement in the RFP. Rather, by requiring the Company to submit the new asset management contract that resulted from the RFP process for approval, the TRA appears to have intended to evaluate the winning asset management contract that emerged from the RFP process *as a whole* and not its individual terms and provisions. In fact, the CAPD concedes that the "TRA must have intended to carefully review the contract *as a whole* prior to making its decision about whether to approve the contract." See Consumer Advocate's Status Report (Filed February 8, 2008), at 1 (emphasis added).

This docket is not about whether different businessmen or their attorneys would have drafted and set forth different contractual language and terms in the RFP. This docket is about whether the contract that was executed through the RFP process and that is currently pending before the TRA is beneficial for the customers of CGC. To date, the CAPD has only raised issues concerning the agreement that "raised concerns for the Consumer Advocate." See Consumer Advocate's Status Report (dated Feb. 8, 2008), at 1. In prior conversations and briefings, the CAPD has not explained how the provisions of the agreement that "raised concerns" for the CAPD make the agreement *as a whole* harmful to CGC's customers or why the new agreement pending before the TRA should not be approved.

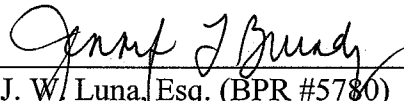
The Company believes that the contract that is before the TRA provides significant benefit to CGC's customers. CGC has always demonstrated success in its past asset management arrangements. For example, over the past thirty-nine months, CGC has returned approximately \$7.9 million in net gains from non-jurisdictional transactions to its customers. Based on the minimum guaranteed value of the new contract pending before the TRA, CGC will continue to ensure that its customers receive substantial benefits.

Conclusion

CGC under its current asset management arrangement has been successful in returning approximately \$7.9 million over thirty-nine months to its customers. The new asset management agreement provides a minimum guarantee that will ensure that CGC's customers continue to receive great benefits. The Company placed this asset management agreement out for bid as ordered by the TRA so that the market could determine and ensure that CGC's customers receive the greatest benefit that the market will allow. This is exactly what has occurred; thus, the agreement should be approved without delay.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that a true and exact copy of the foregoing has been forwarded by electronic mail on this the 20th day of February, 2008, to the following:

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