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NASHVILLE, TENNESSEE

July 31, 2008

IN RE:

CHATTANOOGA GAS COMPANY

WEATHER NORMALIZATION ADJ. (WNA) AUDIT)

)

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) **Docket No. 08-00122**

**NOTICE OF FILING BY THE UTILITIES DIVISION OF THE TENNESSEE
REGULATORY AUTHORITY**

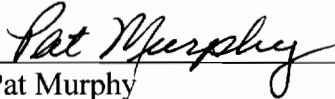
Pursuant to Tenn. Code Ann. §§ 65-4-104, 65-4-111 and 65-3-108, the Utilities Division of the Tennessee Regulatory Authority (the "Utilities Division") hereby gives notice of its filing of the Chattanooga Gas Company WNA Audit Report in this docket and would respectfully state as follows:

1. The present docket was opened by the Authority to hear matters arising out of the audit of Chattanooga Gas Company (the "Company").
2. The Company's WNA filings were received on November 1, 2007 through May 1, 2008, and the Staff completed its audit of same on July 14, 2008.
3. On July 22, 2008, the Utilities Division issued its preliminary WNA audit findings to the Company, and on July 28, 2008, the Company responded thereto.
4. The preliminary WNA audit report was modified to reflect the Company's responses and a final WNA audit report (the "Report") resulted therefrom. The Report is attached hereto as Exhibit A and is fully incorporated herein by this reference. The Report contains

two (2) audit findings of the Utilities Division, the Company's responses thereto and the recommendations of the Utilities Division in connection therewith.

5. The Utilities Division hereby files its Report with the Tennessee Regulatory Authority for deposit as a public record and approval of the findings and recommendations contained therein.

Respectfully Submitted:


Pat Murphy
Utilities Division
Tennessee Regulatory Authority

CERTIFICATE OF SERVICE

I hereby certify that on this 31st day of July 2008, a true and exact copy of the foregoing has been either hand-delivered or delivered via U.S. Mail, postage pre-paid, to the following persons:

Tre Hargett
Chairman
Tennessee Regulatory Authority
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Mr. Archie Hickerson
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Pat Murphy

EXHIBIT A

COMPLIANCE AUDIT REPORT

OF

CHATTANOOGA GAS COMPANY

WEATHER NORMALIZATION ADJUSTMENT (WNA) RIDER

DOCKET NO. 08-00122

PREPARED BY:

PAT MURPHY

TENNESSEE REGULATORY AUTHORITY

UTILITIES DIVISION

July 2008

COMPLIANCE AUDIT
CHATTANOOGA GAS COMPANY
WEATHER NORMALIZATION ADJUSTMENT (WNA) RIDER
Docket No. 08-00122

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ATTACHMENT 1	SECOND REVISED TARIFF SHEET NO. 49 AND SIXTH REVISED SHEET NO. 49A <u>WEATHER NORMALIZATION ADJUSTMENT (WNA) RIDER</u>	

COMPLIANCE AUDIT
CHATTANOOGA GAS COMPANY
WEATHER NORMALIZATION ADJUSTMENT (WNA) RIDER
DOCKET NO. 08-00122

I. INTRODUCTION AND AUDIT OPINION

The subject of this compliance audit is the Weather Normalization Adjustment (“WNA”) Rider of Chattanooga Gas Company (“CGC” or “Company”), a wholly owned subsidiary of AGL Resources, Inc. The objective of this audit was to determine if the WNA adjustments were calculated correctly and applied to customers’ bills appropriately between November 2007 and April 2008 for CGC. As a result of the WNA Rider, the Company surcharged a net \$614,790 and \$395,240 to the residential and commercial customers respectively during the period. The impact of WNA revenues on the Company’s total revenues for these classes is detailed in Section V.

The audit produced two (2) findings. The first finding identified that in certain bill groups incorrect actual heating degree days were used to calculate the WNA factors, resulting in incorrect billing and an under-collection of \$6,305.47. The second finding identified that in certain bill group incorrect normal heating degree days were used to calculate the WNA factors, resulting in an over-collection of \$53,903.80. The combined impact of these findings is an over-collection from CGC’s customers of \$47,598.33. Audit Staff (“Staff”) believes this amount to be immaterial when compared to the total WNA revenue (less than 5%). Staff concludes that except for the above findings, the Company is correctly implementing the mechanics of the WNA Rider as specified by the Tennessee Regulatory Authority (“TRA” or the “Authority”) and included in the Company’s tariff (See Attachment 1). A detailed explanation of Staff’s findings can be found in Section VI.

II. SCOPE OF AUDIT

In meeting the objective of the audit, the Staff compared the following on a daily basis:

- (1) the Company's actual heating degree days to National Oceanic and Atmospheric Administration (“NOAA”) actual heating degree days;
- (2) the Company's normal heating degree days to the normal heating degree days calculated and approved in CGC’s last rate case; and
- (3) the Company's calculation of the WNA factor to Staff's calculation for each billing cycle during the WNA period.

The Staff audited a sample of customer bills to verify that the WNA factor had been correctly applied to the bills. The Staff also examined each sample bill to determine whether the Base Rates and Purchased Gas Adjustments were billed correctly. No discrepancies were noted; therefore, Staff concludes that the Company is accurately billing its customers.

Pat Murphy and Michelle Ramsey of the Utilities Division conducted this audit.

III. BACKGROUND INFORMATION ON THE COMPANY

Chattanooga Gas Company, with its headquarters at 6125 Preservation Drive, Chattanooga, Tennessee, is a wholly owned subsidiary of AGL Resources, Inc., which has its headquarters at Ten Peachtree Place, Atlanta, Georgia. CGC is a gas distributor, which provides service to the cities of Chattanooga and Cleveland and surrounding environs in Hamilton and Bradley counties, all located in Southeast Tennessee. The natural gas used to serve these areas is purchased by Sequent Energy Management ("Sequent" or "SEM")¹ from various suppliers and transported by Tennessee Gas Pipeline ("TGP"), East Tennessee Natural Gas ("ETNG") and Southern Natural Gas ("SNG") under tariffs approved by the Federal Energy Regulatory Commission ("FERC").

IV. BACKGROUND ON WEATHER NORMALIZATION ADJUSTMENT RIDER

On September 26, 1991, the Tennessee Public Service Commission² ("TPSC") approved a three-year experimental Weather Normalization Adjustment Rider to the tariffs of Chattanooga Gas Company, Nashville Gas Company, a division of Piedmont Gas Company, Inc. and United Cities Gas Company.³ The WNA Rider was to be applied to residential and commercial customers' bills during the months of October through May of each year (*See* Attachment 1). On June 21, 1994, the TPSC issued an Order authorizing the above mentioned gas companies to permanently implement an amended version of the WNA Rider.⁴ The TRA Staff audits these calculations annually.

In setting rates, the Tennessee Regulatory Authority uses a normalized level of revenues and expenses for a test year, which is designed to be the most reasonable estimate of the Company's operations during the time the rates are to be in effect. Use of normalized operating levels eliminates unusual fluctuations that may occur during the test period, which causes rates to be set too high or too low.

Specifically, one part of normalizing revenues consists of either increasing or decreasing the test year weather related sales volumes to reflect the difference between the normal and actual heating degree days. (A heating degree day is calculated as the difference in the average daily temperature and 65 degrees Fahrenheit.) This average daily temperature constitutes normal weather and is determined based on the previous thirty years' weather data.

Normal weather rarely occurs. This has two impacts:

- (1) The customers' bills fluctuate dramatically due to changes in weather from month to month; and

¹ Sequent is a marketing affiliate of CGC and Asset Manager for CGC.

² By legislative action, the Public Service Commission was replaced on July 1, 1996 by the Tennessee Regulatory Authority. *See* Act of May 24, 1995, ch. 305, 1995 Tenn. Pub. Acts 450. The TRA retains jurisdiction over the above named gas companies. *See* Tenn. Code Ann. § 65-4-104; *see also* Tenn. Code Ann. § 65-4-101 (a) (defining public utility).

³ *See* petition of Chattanooga Gas Company, Nashville Gas Company, a Division of Piedmont Natural Gas Company, Inc. and United Cities Gas Company for a Rulemaking Hearing to Adopt a Weather Normalization Adjustment (WNA) Rider, Docket No. 91-01712, *Order* (September 26, 1991).

⁴ The amendment directed Chattanooga Gas Company and United Cities Gas Company to eliminate from their WNA Rider the shoulder months of October and May, and Nashville Gas Company to eliminate the shoulder months of October, April and May.

- (2) The gas companies earn more or less than their authorized rate of return. For example, if weather is colder than normal, then more gas than anticipated in the rate case will be sold. This results in higher customer bills and overearnings for the company. On the other hand, if weather is warmer than normal, less gas than anticipated in the rate case will be sold, the customers' bills will be lower and the company will underearn.

In recognition of this fact, the TRA approved an experimental WNA mechanism, which became permanent on June 21, 1994, to reduce the impact abnormal weather has on the customers' bills and on the gas utilities' operations. In periods of weather colder than normal, the customer receives a credit on his bill, while in periods of warmer than normal weather, the customer is billed a surcharge. Thus, customers' monthly bills should not fluctuate as dramatically and the gas company should have a more stable rate of return.

V. IMPACT OF WNA RIDER

The graph appearing at the end of this section compares the actual heating degree days to normal heating degree days for Chattanooga Gas during the 2007 - 2008 winter heating season. The table below quantifies the number of actual heating degree days by month as compared to the normal heating degree days for that month. It shows that overall the weather was 12.6% warmer than normal, resulting in a net surcharge to CGC's customers for the period.

Month	Actual Heating Degree Days	Normal Heating Degree Days	Warmer/Colder than Normal
October 2007	79	165	Warmer
November 2007	401	415	Warmer
December 2007	489	697	Warmer
January 2008	763	795	Warmer
February 2008	571	599	Warmer
March 2008	387	404	Warmer
April 2008	150	175	Warmer
Total	2,840	3,250	Warmer

The overall winter period for Chattanooga was warmer than normal. As a result, the net impact of the WNA Rider during the November 2007 through April 2008 WNA period was that residential and commercial customers were **surcharged** an additional \$614,790 and \$395,240 respectively. The percentage of total residential and commercial revenue derived from the WNA Rider was 1.64% and 1.28% respectively (See Table 1). This is a decrease from the previous year when the residential and commercial customers were **surcharged** \$659,923 and \$539,019 respectively (See Table 2).

Table 1

**Impact of WNA Rider on Residential & Commercial Revenues
November 2007 – April 2008**

	<u>WNA Rider Revenues</u>	<u>Total Revenues</u>	<u>Percentage Impact of WNA Rider on R&C Revenues</u>
Residential Sales	\$614,790	\$37,383,547	1.64%
Commercial Sales	<u>395,240</u>	<u>30,885,005</u>	1.28%
Total	<u>\$1,010,030</u>	<u>\$ 68,268,552</u>	1.48%

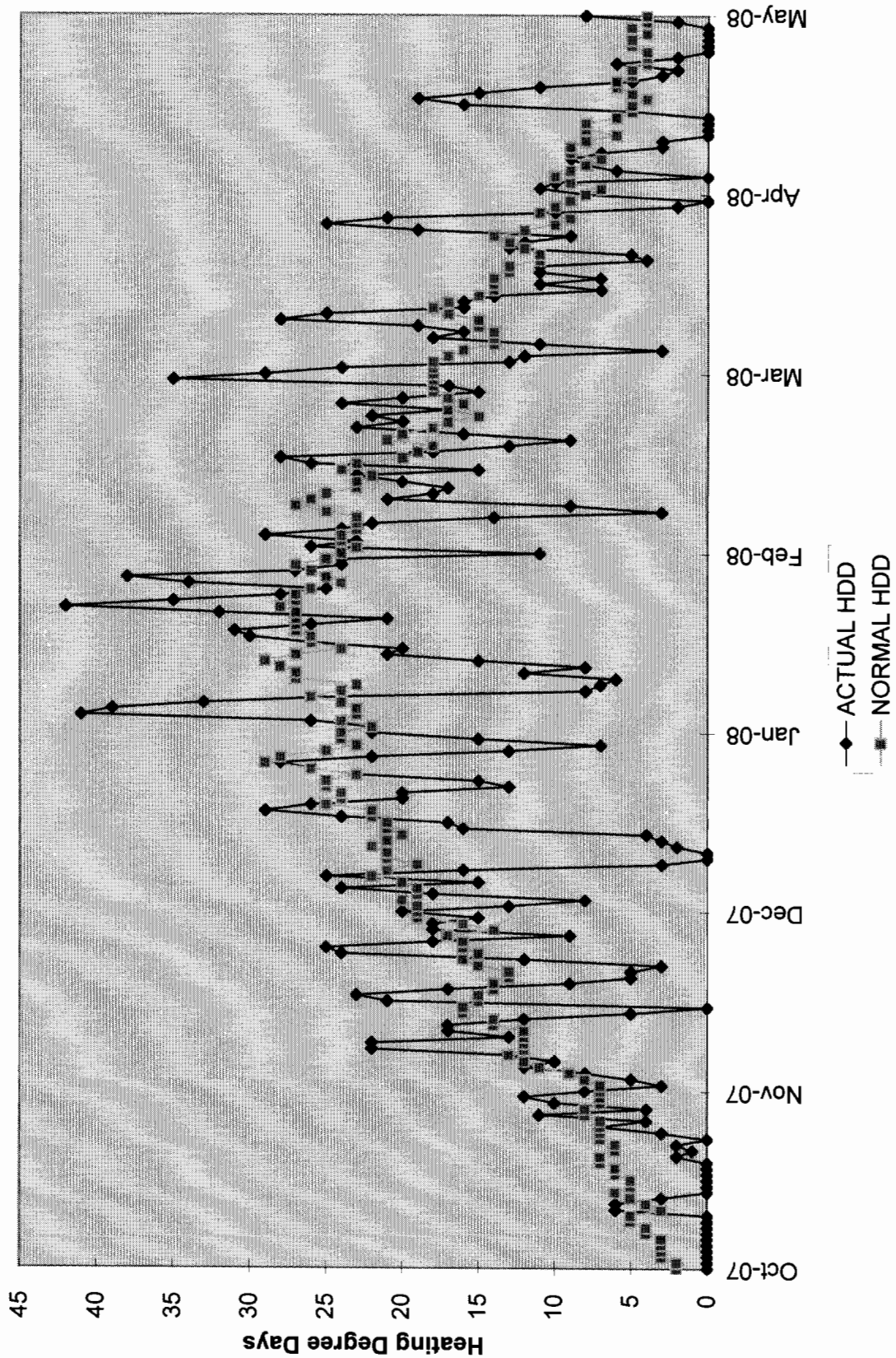
Table 2

**Amount Surcharged (Refunded)
2005 - 2008**

	<u>Residential</u>	<u>Commercial</u>	<u>Total Surcharge/(Refund)</u>
11/05-4/06	\$531,858	\$438,030	\$969,888
11/06-4/07	659,923	539,019	1,198,942
11/07-4/08	<u>614,790</u>	<u>395,240</u>	<u>1,010,030</u>
Total	<u>\$ 1,806,571</u>	<u>\$ 1,372,289</u>	<u>\$ 3,178,860</u>

Chattanooga Gas Company

Comparison of Actual to Normal Heating Degree Days



VI. WNA FINDINGS AND CONCLUSIONS

As noted in Section I of this report, Staff had two (2) findings as a result of the audit of the Company's application of its WNA Rider during the period November 2007 through April 2008. Finding #1 was a \$6,305.47 under-collection and Finding #2 was a \$53,903.80 over-collection resulting in a **net over-collection of \$47,598.33** from CGC's ratepayers. Staff acknowledges and appreciates the cooperation of CGC personnel during the course of this audit.

SUMMARY OF FINDINGS:

				Page
Finding #1	Errors in Actual Heating Degree Days	\$ 6,305.47	Under-collection	6
Finding #2	Errors in Norman Heating Degree Days	<u>53,903.80</u>	Over-collection	7
Total		<u>\$ 47,598.33</u>	Over-collection	

FINDING #1:

Exception

The Company used incorrect actual heating degree days (HDD) in the calculations of the WNA factors.

Discussion

On one (1) day out of the WNA period, the Company reported actual heating degree days that differed from the actual heating degree days published by NOAA. Occasional differences are to be expected since companies are calculating the WNA on a real time basis. If NOAA changes the degree days before publication of its climatological report, then for those days a company would not match NOAA, through no fault of the company. In total, Chattanooga Gas overstated its heating degree days by two (2) degree days. This resulted in incorrect WNA factors billed in twenty-one (21) cycles during the period.

The days involved were:

Date	Daily HDD Used By Company	Daily HDD As Published by NOAA	Degree Day Difference
3/3/08	5	3	-2
Net Difference			-2

Due to the use of incorrect heating degree days, the Company under-collected WNA revenues from its customers. The **under-collection** amounted to **\$6,305.47**.

Recommendation

Since the dollar amount of this finding is immaterial on a per customer basis, Staff recommends including the under-collection in the Company's next Actual Cost Adjustment filing.

Company Response

Chattanooga Gas Company concurs. The company used the 5 HDD originally reported by NOAA for March 3, 2008. NOAA revised the reported minimum temperature for March 3 at some point during the month thus changing the HDD. In the future the company will make any NOAA changes affecting previous days for WNA billing calculations. The company will include the under-collection of \$6,305.47 in the ACA filing made in 2008.

FINDING #2:

Exception

The Company used incorrect normal heating degree days (NDD) in the calculation of the WNA factors.

Discussion

Chattanooga Gas Company filed a rate case with the TRA on June 30, 2006.⁵ On December 5, 2006, the TRA approved new rates for CGC effective January 1, 2007. The rate case also established new normal heating degree days to be used in WNA calculations effective January 1, 2007. The Company neglected to change the normal heating degree days for bill cycle 2 in November 2007, the first bill cycle that utilized the new normal heating degree days for this year's audit. The Company caught this error on bill cycle 19 in November 2007. As a result of this oversight, CGC **over-collected \$53,903.80** from its customers.

Recommendation

Since the dollar amount of this finding is immaterial on a per customer basis, Staff recommends including the over-collection in the Company's next Actual Cost Adjustment filing.

Company Response

Chattanooga Gas Company concurs. Two billing tables are used to hold the normal heating degree days. While one table had been updated to include the normal heating degree days from the most recent rate case the second table had not been updated for October and November. The company will complete the process that updates both tables and keeps them in sync before the next change is made to the normal heating degree days. The company will include the over-collection of \$53,903.80 in the ACA filing made in 2008.

⁵ Docket No. 06-00175.

WEATHER NORMALIZATION ADJUSTMENT

(WNA) RIDER

PROVISION FOR ADJUSTMENT

The base rate per CCF/therm (100,000 Btu) for gas service set forth in any rate schedules utilized by the Authority in determining normalized test period revenues shall be adjusted by an amount hereinafter described, which amount is referred to as the "Weather Normalization Adjustment."

DEFINITIONS

For Purpose of this Rider:

"Authority" means the Tennessee Regulatory Authority.

"Relevant Rate Order" means the final order of the Authority in the most recent litigated rate case of Chattanooga Gas Company (Company) fixing the rates of the Company or the most recent final order of the Authority Specifically prescribing or fixing the factors and procedures to be used in the application of this Rider.

COMPUTATION OF WEATHER NORMALIZATION ADJUSTMENT

The Weather Normalization Adjustment shall be computed to the nearest one-hundredth cent per CCF/therm by the following formula:

$$WNA_i = R_i \frac{HSF_i(NDD-ADD)}{(BL_i + (HSF_i \times ADD))}$$

Where

- | | | |
|------------------|---|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| i | = | any particular Rate Schedule or billing classification within any such particular Rate Schedule that contains more than one billing classification |
| WNA _i | = | Weather Normalization Adjustment Factor for the i th Rate Schedule or classification expressed in cents per CCF/therm |
| R _i | = | weighted average base rate (base rate less any embedded gas cost) of temperature sensitive sales for the i th schedule or classification utilized by the Authority in the Relevant Rate Order for the purpose of determining normalized test year revenues |
| HSF _i | = | heat sensitive factor for the i th schedule or classification utilized by the Authority in the Relevant Rate Order for the purpose of determining normalized test year revenues |
| NDD | = | normal billing cycle heating degree days utilized by the Authority in the Relevant Rate Order for the purpose of determining normalized test year revenues |
| ADD | = | actual billing cycle heating degree days |
| BL _i | = | base load sales for the i th schedule or classification utilized by the Authority in the Relevant Rate Order for the purpose of determining normalized test year revenues |

FILING WITH AUTHORITY

The Company will file as directed by the Authority (a) a copy of each computation of the Weather Normalization Adjustment, (b) a schedule showing the effective date of each such Weather Normalization Adjustment, and (c) a schedule showing the factors or values derived from the Relevant Rate Order used in calculating such Weather Normalization Adjustment.

WEATHER NORMALIZATION ADJUSTMENT

(WNA) RIDER COMPONENTS

<u>RATE SCHEDULE</u>	<u>WEIGHTED BASE RATE (\$THERM)</u>	<u>HEAT SENSITIVE FACTOR - HSF (THERM)</u>	<u>BASE LOAD - BL (THERM)</u>	
<u>(R-1) RESIDENTIAL GENERAL SERVICE</u> Winter (November – April)	.182590	.171325	12.133	C
<u>(R-4) MULTI-FAMILY HOUSING SERVICE</u> Winter (November - April)	.217674	.068798	17.033	C
<u>(C-1) SMALL COMMERCIAL AND INDUSTRIAL GENERAL SERVICE</u> Winter (November - April)	.185810	.240546	9.433	C
<u>(C-2) MEDIUM COMMERCIAL AND INDUSTRIAL GENERAL SERVICE</u> Winter (November - April)	.169998	2.661820	813.367	N