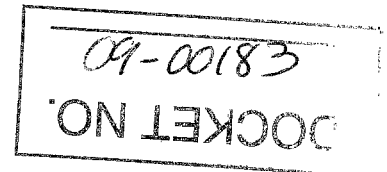


J.W. Luna
jwluna@LunaLawNashville.com

November 16, 2009



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VIA HAND DELIVERY

Chairman Sara Kyle
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, Tennessee 37243-00505

Re: Petition of Chattanooga Gas for Approval of Adjustment of its Rates and
Charges, Modification of its Rate Design, and Revised Tariff

Dear Chairman Kyle:

Enclosed please find the original and four (4) copies of Chattanooga Gas Company's ("Company") electronic filing of the above referenced Petition along with the Company's direct testimony and exhibits, the minimum filing guidelines (some of which are being filed under seal), and the revised Tariff. Included with this filing are a Proposed Protective Order and a Proposed Procedural Schedule. We are also providing the TRA with four (4) CDs of the above referenced filing and the \$25.00 filing fee. A courtesy copy of this filing is being provided to the Consumer Advocate and Protection Division of the Office of Attorney General and Reporter.

Please do not hesitate to contact me if you have any questions or concerns.

Sincerely,

J.W. Luna

Enclosures

cc: Elizabeth Wade, Esq.
Steve Lindsey
Archie Hickerson

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

November 16, 2009

IN RE:

**PETITION OF CHATTANOOGA GAS)
COMPANY FOR APPROVAL OF)
ADJUSTMENT OF ITS RATES AND)
CHARGES, MODIFICATION OF ITS)
RATE DESIGN, AND REVISED TARIFF)**

Docket No. 09-_____

PETITION

Pursuant to Tennessee Code Annotated § 65-5-103 and the Rules of the Tennessee Regulatory Authority (“TRA” or “Authority”), Chattanooga Gas Company (“CGC” or “Company”) respectfully requests that the Authority approve its Petition for an increase in its rates and charges for natural gas service, for the proposed modification of its rate design which includes a revenue decoupling mechanism that will allow the Company the opportunity to earn a fair and reasonable return while implementing and promoting its proposed conservation programs, and for the tariff revisions.

In support of this Petition, CGC submits the following:

Description of CGC

1. CGC is incorporated under the laws of the State of Tennessee and is engaged in the business of transporting, distributing, and selling natural gas in Chattanooga and Cleveland, Tennessee, and in portions of Hamilton and Bradley Counties. CGC is a public utility pursuant to the laws of the State of Tennessee, and its public utility operations are subject to the jurisdiction of the Authority.

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2. CGC is a wholly-owned subsidiary of AGL Resources Inc. (“AGLR”), an energy-based services holding company. AGLR is the parent company of utilities operating in five additional states along the east coast from Florida to New Jersey.

3. CGC’s principal office and place of business is located at 2207 Olan Mills Drive, Chattanooga, Tennessee 37421.

Request for Rate Increase and Modification of Rate Design

4. CGC was last granted a general rate increase of \$1,999,097, after factoring in a revenue shift from the Weather Normalization Adjustment (“WNA”) to base rates, effective January 1, 2007. As a provision of the settlement agreement in that rate case (TRA Docket 06-00175), CGC agreed to file a rate case no later than May 28, 2010. CGC is bringing this rate case, in part, to fulfill this obligation and to address the \$2,572,993 revenue deficiency that CGC is experiencing. CGC is also addressing in this rate case the TRA’s request in Docket 09-00065 for CGC to propose a rate design that aligns the customers’ and the Company’s interests with implementing conservation programs and affording the utility the opportunity to timely recover costs.

5. When the TRA approved the last rate increase, the new base rates were projected to produce base revenues of approximately \$31.9 million. However, the projected base revenue for the attrition period (12 months ending April 30, 2011) is approximately \$30 million, or a decrease of \$1.9 million since the Company’s last rate case. CGC’s existing rates for natural gas services are not adequate to permit it to recover its operating costs and to earn a fair and reasonable return on its investments.

6. Using current rates during the attrition period, CGC is projected to earn a net operating income of \$6,540,320 on a rate base of \$97,759,990, which will result in an overall

rate of return of 6.69%. Such a return is not fair and reasonable. Without rate relief, CGC will incur a revenue deficiency during the attrition period of approximately \$2,572,993.

7. CGC proposes rates that will allow it a reasonable opportunity to alleviate the projected deficit of approximately \$2.6 million and to achieve an overall rate of return of 8.28% and a return on equity of 11%. The return on equity would be reduced to 10.75% if the Authority adopts CGC's proposed conservation programs and proposed rate design modifications, including the revenue decoupling mechanism (explained below in paragraph 13), bringing the total revenue deficiency to approximately \$2.37 million.

8. CGC has been successful at managing costs, in part, by taking advantage of opportunities available to it by being part of the AGLR system. As Company witness Ronald D. Hanson will describe, the operations and maintenance expense included in the cost of service in this case is \$12.0 million, a decrease of almost \$4 million since 2000, most of which is attributable to the synergies and cost savings achieved through AGLR's acquisitions as well as AGLR's substantial investments in technology and implementation of industry "best practices" during the past ten years. While inflation has risen 19% over the same time period, the Company's base rates have increased a modest 6% including CGC's proposed base rate increase in this case.

9. As explained in the testimony of Company witness Steve Lindsey, CGC's efforts to control its costs, however, are being offset by lost base revenue. The Company's distribution costs remain the same even when customers decrease consumption. The Company's current rates, however, are designed to recover its costs, including a just and reasonable return, by charge per therm. When customers decrease consumption, the Company does not have the opportunity to recover its costs and earn a just and reasonable rate of return.

10. Conservation is good for customers, the state, and the country, and CGC must provide leadership in educating and encouraging its customers to conserve energy, which ultimately will help to stabilize gas prices and potentially reduce carbon emissions to the environment. Under traditional rate design mechanisms, the interests of CGC's customers and the interests of CGC are not properly aligned. The Company's proposed rate design modifications are designed to alleviate this issue by both encouraging conservation while at the same time providing CGC an opportunity to earn a just and reasonable return. This proposal will align the interests of the customers and the interests of the Company.

11. Both federal and state governments have recognized the conflicts inherent within traditional rate designs and have adopted policies that address energy efficiency concerns while also addressing aligning utilities' financial interests to help their customers conserve energy and allow the utilities to timely recover costs. The Company's proposed conservation programs and revenue decoupling mechanism implement the requirements set forth in the federal statutes and in Tennessee Code Annotated § 65-4-126 which requires the TRA to implement policy for each Tennessee local distribution company ("LDC") that aligns the utility's financial incentives with helping customers use energy more efficiently.

12. The Company's proposed conservation program called energySMART consists of a Community Outreach and Customer Education Program, five additional components for residential customers, including a low-income home weatherization program and a free programmable thermostat program, and five additional components for commercial customers. As explained in Company witness Donna Peeples' testimony, a residential customer who takes advantage of these programs could potentially save \$280 annually. One of the goals of energySMART is to encourage a behavioral and philosophical change in CGC's customers

that is sustainable and not merely driven by the escalating price of natural gas. Ultimately, the Company's proposed conservation programs along with the revenue decoupling mechanism are designed to save customers money through proactive measures aimed specifically at reducing consumption.

13. Along with its proposed energySMART conservation programs, CGC is proposing rate design modifications, including the Alignment and Usage Adjustment ("AUA") revenue decoupling mechanism, which is designed to normalize total base revenue recovery so that the Company will have the opportunity to earn its authorized rate of return even when actual customer usage varies from the level used to set base rates. By breaking the link between customer usage and CGC's earnings, the TRA will allow changes to occur in the manner in which conservation and energy efficiency opportunities are made available to customers.

14. As emphasized by the Company in its last rate case, CGC is committed to the integrity, safety, and reliability of its distribution system. Therefore, CGC has developed a ten year plan to replace approximately 59 miles of bare steel and cast iron pipe that remain in its distribution system. As part of the settlement of the last rate case, CGC committed to replace almost 21 miles of bare steel and cast iron pipe by December 31, 2010, which the Company is on schedule to accomplish. Once the Company has completed its proposed ten year plan, CGC will have replaced approximately 80 miles of bare steel and cast iron pipe over a thirteen year period.

15. In further support of its Petition, CGC has attached the following direct testimony and their accompanying exhibits, which are incorporated herein by reference:

- a. **Prepared Direct Testimony of Steve Lindsey** regarding an overview of CGC and the major challenges that CGC and its customers face in realizing the full benefits associated with energy efficiency and conservation, and a summary of the rate relief requested, the proposed energySMART conservation program, and the proposed rate design modifications including the AUA revenue decoupling mechanism.

- b. **Prepared Direct Testimony and Exhibits of Donna Peebles** regarding the Company's proposed energySMART conservation programs, including the community outreach and customer education program.
- c. **Prepared Direct Testimony and Exhibits of Ronald D. Hanson** concerning CGC's cost of service, determination of rate base and investment in utility, capital structure and cost of debt financing, and the base-revenue deficiency.
- d. **Prepared Direct Testimony and Exhibits of Marcie H. Shields** regarding the Company's base revenue, customer attrition, and usage per customer.
- e. **Prepared Direct Testimony and Exhibits of Daniel P. Yardley** regarding the proposed changes in the manner the Company recovers base distribution revenue requirement based, in part, on the allocated cost of service study, including the Company's AUA revenue decoupling mechanism.
- f. **Prepared Direct Testimony of Daniel J. Nikolich** regarding the cost benefit analyses of the conservation programs, the proposed recovery mechanism for the program costs, and the proposed changes to CGC's tariff.
- g. **Prepared Direct Testimony of Dr. Roger A. Morin** regarding the required capital structure and cost of equity.
- h. **Prepared Direct Testimony and Exhibits of Rhonda Watts** regarding the Company's proposed depreciation rates based on the Company's depreciation study.

16. CGC is submitting as part of this Petition a proposed Protective Order and a proposed Procedural Schedule.

17. CGC is also filing its tariff revisions to reflect the proposals included in this Petition.

18. Along with this Petition, CGC is filing all but four (4) of the Minimum Filing Guidelines ("MFGs"), including some under protective seal pending the entry of a Protective Order. CGC expects to file the remaining four (4) MFGs on or before November 30, 2009.

Notice

19. All correspondence and communication with respect to this Petition should be sent to the following:

Steven L. Lindsey, Vice President and General Manager
Chattanooga Gas Company
2207 Olan Mills Drive
Chattanooga, TN 37421
Telephone: (423) 490-4334
Facsimile: (423) 490-4326

Archie Hickerson, Director Regulatory Affairs
AGL Resources Inc.
150 W. Main Street, Suite 1510
Norfolk, VA 23510
Telephone: (757) 616-7510
Facsimile: (757) 616-7508

J.W. Luna, Esq.
Jennifer L. Brundige, Esq.
Luna Law Group, PLLC
333 Union Street, Suite 300
Nashville, TN 37201
Telephone: (615) 254-9146
Facsimile: (615) 254-7123

Elizabeth Wade, Senior Regulatory Counsel
AGL Resources Inc.
Ten Peachtree Place, NW, 15th Floor
Atlanta, GA 30309
Telephone: (404) 584-4000
Facsimile: (404) 584-3714

WHEREFORE, CGC prays:

1. That Notice be issued and a hearing be set regarding this Petition;
2. That the Authority find that the existing rates of CGC are inadequate and that the rates proposed by the Company are fair, just, and reasonable and in the public interest;

3. That the Authority approve the Company's proposed energySMART conservation program and proposed rate design modifications, including the AUA revenue decoupling mechanism;
4. That the Authority approve CGC's revised tariff implementing the proposed rates and rate design modifications to become effective May 17, 2010; and
5. That CGC be granted such other and/or further relief as may be warranted.

Respectfully submitted,

LUNA LAW GROUP, PLLC

By: 

J.W. Luna, Esq. (BPR 5780)

Jennifer L. Brundige, Esq. (BPR 20673)

333 Union Street, Suite 300

Nashville, TN 37201

(615) 254-9146

Attorneys for Chattanooga Gas Company

VERIFICATION

STATE OF TENNESSEE)

COUNTY OF ~~HAMILTON~~)
~~DAVIDSON~~

I, Steven L. Lindsey, being duly sworn, state that I am the Vice President and General Manager of Chattanooga Gas Company, the Petitioner, in the subject proceeding; that I am authorized to make this verification on behalf of Chattanooga Gas Company; that I have read the foregoing Petition and exhibits and know the content thereof; that the same are true and correct to the best of my knowledge, information and belief.

Steven L. Lindsey

Sworn and subscribed before me this 16 day of November, 2009.

Carlinda M. Booker NOTARY
Notary Public PUBLIC
AT
LARGE

My Commission Expires: 11-7-2011

