

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

March 18, 2010

IN RE:)	
)	
PETITION OF CHATTANOOGA GAS)	
FOR GENERAL RATE INCREASE,)	Docket No. 09-00183
IMPLEMENTATION OF THE)	
ENERGYSMART CONSERVATION)	
PROGRAMS, AND IMPLEMENTATION OF)	
A REVENUE DECOUPLING MECHANISM)	
)	

**CHATTANOOGA GAS COMPANY'S OBJECTIONS TO
CAPD's REVISED SECOND SET OF DISCOVERY REQUESTS**

Pursuant to the Hearing Officer's Modified Procedural Schedule, Chattanooga Gas Company ("CGC" or "Company") files these Objections to the Revised Second Set of Discovery Requests of the Consumer Advocate and Protection Division ("CAPD") of the Office of the Attorney General and Reporter. To assist the Hearing Officer in evaluating this matter, CGC is setting forth its objections in two parts. Part I sets forth general objections applicable to CGC's discovery responses. Part II sets forth objections to specific discovery requests propounded by the CAPD.

I. GENERAL OBJECTIONS

CGC objects generally to any definitions or instructions to the extent that they are inconsistent with and request information that is beyond the scope of the Tennessee Rules of Civil Procedure. CGC's responses will comply with the requirements of the Tennessee Rules of Civil Procedure.

Any requests for production of documents are interpreted to describe each item or category of items requested with reasonable particularity as required by Tenn. R. Civ. P.

34.02, and the terms used in the requests are not interpreted “broadly”. CGC will produce non-privileged, responsive items and/or data in its possession, custody, or control as required by Tennessee Rules of Civil Procedure.

CGC further objects to these discovery requests to the extent they seek information or documents that are beyond the scope of legitimate discovery in this rate case or that is subject to any privilege, including the attorney-client privilege and/or attorney work product doctrine. Without waiving any of these General Objections, the Company will respond to the CAPD’s discovery requests by providing responsive, non-privileged information. The Company reserves its right to object to the use and admissibility of the information or documents at the hearing on the merits or at any other proceeding in this docket.

These General Objections are continuing and are incorporated by reference into CGC’s responses to all discovery requests to the extent applicable. The statement of the following additional objections to specific discovery requests shall not constitute a waiver of these General Objections.

Additionally, CGC objects to the scope of the terms “identity” and “identify” as used by the CAPD. In particular, CGC objects to providing the date of birth, the current residential address, and the current residential telephone number of persons to be identified on the grounds that the scope of information requested is overly broad, unduly burdensome, and not calculated to lead to the discovery of admissible evidence. CGC further objects to the CAPD’s instructions to produce the “original” of “each copy” of each document requested on the grounds that the request is overly broad, unduly

burdensome, and not calculated to lead to the discovery of admissible evidence. CGC intends to provide copies of original documents as available.

CGC objects to any request in the CAPD's second set of discovery requests that seeks information and/or documents that have already been provided to the CAPD in any form whatsoever in this docket or that are already in the CAPD's possession, custody, or control. It is unduly burdensome to require CGC to re-produce the information or to produce it in another specified format.

CGC further objects to the discovery requests to the extent that they seek information and/or documents that are not in the Company's possession, custody, or control.

Further, to the extent that any of the requests seek information that is confidential, CGC's will produce confidential information pursuant to the Agreed Protective Order entered in this docket on February 19, 2010. Any confidential information must be used only for purposes of this docket and must be disclosed only to the persons designated in the Agreed Protective Order.

II. OBJECTIONS TO SPECIFIC DISCOVERY REQUESTS

CGC is specifically objecting to the following discovery requests propounded by the CAPD as explained in detail below.

REQUEST NOS. 14-26:

CGC objects to the discovery of information regarding South Star Energy Services LLC's ("South Star") profits and other information relating to CGC's gas costs and capacity supply assets which have been litigated for the past two years in Docket 07-

00224. This information is not relevant to the current rate case docket, and these requests are not reasonably calculated to lead to the discovery of admissible evidence. These requests are also excessively cumulative and duplicative. CGC further objects to these requests as being overly broad, unduly burdensome, and ambiguous. In addition, CGC objects to request no. 15 as also seeking privileged information, including but not limited to information protected from disclosure by the attorney client communication privilege and the attorney work product privilege.

The CAPD is seeking information regarding South Star's downstream transactions involving CGC capacity supply assets, if any, purchased from CGC's asset manager, Sequent Energy Management, LP ("Sequent"), and the profits made by South Star on these downstream transactions. These requests are overly broad and unduly burdensome. It would require a tremendous expenditure of time and resources to attempt to determine the answer, if even possible in this proceeding. CGC has been advised by Sequent that it would take one person at Sequent working full-time for two weeks to identify the transactions for one year made to South Star involving the pipelines with which CGC holds capacity contracts. The CAPD has requested information for 7 years (i.e., from 2003 through present). Then it would take several additional weeks to determine whether CGC's pipeline contracts were involved in these transactions with South Star. This is all of the information that Sequent would possess. At that point, the gross gain would be shared with CGC's customers through the Purchased Gas Adjustment ("PGA") Rule in accordance with the current CGC Asset Management Agreement ("AMA"). CGC does not have in its possession, custody, or control any information about the transactions that South Star performs downstream as a marketer

and would be unable to obtain and produce any information about profits generated by South Star from these downstream transactions involving purchased CGC capacity assets. South Star is a separate business entity from CGC with its own marketing and trading and gas supply departments. It has no legal obligation to provide CGC this type of detailed information about South Star's profits or business transactions.

Regardless of whether these requests are deemed to be unduly burdensome, the requests do not seek information relevant to this docket. For two years the CAPD has pursued allegations of many unsubstantiated theories of improper asset management practices and dealings with CGC's gas costs and capacity supply assets. Docket 07-00224 afforded the CAPD the opportunity to look into CGC's affiliate transactions, gas costs and capacity supply planning, and asset management arrangement. The Hearing Officer in Docket 07-00224 established a broad issues list which included affiliate transaction issues and imputation issues. After two years, the TRA entered a final order in that docket and found no improper dealings through affiliate transactions or otherwise and is continuing to allow gross gains generated through the asset management arrangement to be returned to CGC's customers through the Purchase Gas Adjustment ("PGA") Rule.

During the course of Docket 07-00224, the CAPD filed testimony of Dr. Brown, which was later withdrawn days before the hearing on the merits, in which the CAPD raised allegations of improper dealings by CGC and its affiliate asset manager, Sequent Energy Management, LP ("Sequent"), that in part allegedly prevented CGC's ratepayers from receiving their fair share of gains generated by the asset manager's sale of CGC's

unused gas and capacity supply assets on the open market. This was proven not to be the case.

Once again in this rate case, the CAPD is trying to litigate these issues by raising allegations of CGC's and Sequent's attempts to undersell CGC's gas and capacity supply assets so that CGC's ratepayers are harmed and an affiliate marketer, South Star, receives greater profits. In fact, the essence of Mr. Buckner's testimony on pages 30-31, if true, would result in CGC and Sequent violating FERC rules which require the sale of gas and capacity supply to be placed on the open market and the sale to be made to the highest bidder (as long as the bidder has good contract and credit). To do otherwise, would lead to fines and other charges from FERC.

The gross gains that are generated through CGC's current Asset Management Agreement ("AMA") with Sequent are returned to CGC's customers through the PGA as approved by the TRA. Therefore, CGC's firm customers are compensated for the unused capacity assets that are sold on the open market. Nothing about this asset management arrangement which involves the PGA impacts the revenue requirement issues that are part of a rate case. This is a PGA issue, and the CAPD admits that any issues involving South Star should be handled through future asset management agreements or through amending the current AMA. These are issues more appropriate for handling in the annual ACA audit or in a separate docket rather than in a rate case docket.

In addition, it is important for the TRA and the CAPD to understand that the current AMA between CGC and Sequent contains an annual minimum guaranteed payment to CGC. (The annual minimum guaranteed amount is confidential information

and was provided under seal to the TRA and the CAPD in TRA Docket 08-00012). It is also important to note that the AMA involves a 50/50 sharing mechanism between CGC and Sequent, relative to the gross margin generated above the referenced guarantee. As such, Sequent is never incentivized to enter into any transaction with any party, including South Star, at prices that are not reflective of the applicable market clearing rate. In fact, Sequent is always incentivized to sell delivered gas, capacity release, or any other available asset held by the AMA, at the highest possible price to generate the most gross margin.

Furthermore, Sequent is not concerned with the identity of the best bidder, provided that the party is in good contract and credit standing with Sequent. In addition, Sequent has no knowledge of and is not concerned with any of South Star's (or any other potential purchaser's) arrangements, including pricing terms, with downstream parties.

Irrespective of the counterparty, Sequent does not knowingly enter into any transactions at prices that would generate a loss (based on revenues less costs) for the CGC AMA. Sequent's overall performance results would be reduced compared to that obtainable with the better bid, which has a direct impact on Sequent's annual incentive performance plan. Hence, in such an instance, Sequent simply has no incentive to enter into non-market clearing transaction(s).

Additionally, relative to the use of CGC assets, given that CGC has the right to call on the full use of its capacity on a day ahead basis, Sequent bundled sales to the marketplace would be made without assurance as to available assets (including those of CGC) that it will utilize to fulfill the transaction(s). In that regard, Sequent continually

exercises a high degree of caution to ensure it makes the best and highest valued sales that will generate the most gross margin.

Sequent, as CGC's asset manager, extends an invitation and would welcome the CAPD for a return visit to Sequent's Houston office for the purpose of reviewing and understanding Sequent's transactions relative to the CGC AMA. Sequent would be happy to provide the CAPD with further insight and understanding of transactions pursuant to the CGC AMA during such a visit.

The foregoing explanation supports a finding that CAPD discovery request nos. 14-26 do not seek the discovery of relevant information and are not designed to lead to the discovery of admissible evidence. Further, the requests are excessively cumulative in light of the two years of litigation in Docket 07-000224 and the CAPD's three rounds of discovery in that docket regarding these types of issues.

In summary, these discovery requests are another attempt by the CAPD to continue litigating issues from Docket 07-00224, which was resolved by a final order of the TRA. The TRA has determined that the gross gains generated by the non-jurisdictional sale of CGC's unused capacity supply assets are to be returned to CGC's customers through the PGA. This has been settled, and thus, these discovery requests seek information that is not relevant and is not reasonably calculated to lead to the discovery of relevant evidence for this ratemaking docket. Further, these requests are overly broad and unduly burdensome, and the information sought is not in CGC's possession, custody, or control and is beyond the reach of this proceeding. Finally, Request No. 15 as also seeking privileged information, including but not limited to

information protected from disclosure by the attorney client communication privilege and the attorney work product privilege.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that on this 18th day of March 2010, a true and correct copy of the foregoing was served on the persons below by electronic mail:

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