

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

IN RE:

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

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DOCKET NO. 09-00183

**POST HEARING BRIEF OF THE CHATTANOOGA
MANUFACTURER'S ASSOCIATION**

The Chattanooga Manufacturer's Association ("CMA") joins in the Post Hearing Brief submitted by the Consumer Advocate and Protection Division of the Office of the Attorney General on all issues in this case except one: how any rate increase should be allocated among the customer classes i.e., the residential, commercial, and industrial customers, of Chattanooga Gas Company ("CGC").

As CGC witness Daniel Yardley explained (Tr. 281-282), designing the utility's rates is a two-part process. "The first step is to determine the revenue requirements that are going to be allocated to a particular class." Id. The second step is to design rates to recover that revenue requirement from customers within a class. Id. A great deal of attention in this case has been given to the second part of that process and such issues as CGC's proposals for "decoupling" or a "modified fixed variable" rate design and the Consumer Advocate's responses to those proposals. Very little attention, in contrast, has been given to the first step – the allocation of costs among the residential, commercial and industrial classes of customers. The only witness who conducted a cost study and presented a detailed proposal on the allocation of costs among the three classes was Mr. Yardley. No one disputed the findings of his cost study that the company's largest customers are "significantly" subsidizing the residential and small commercial

customers. Id., at 282. To remedy this unfairness, Mr. Yardley said, “It’s important to take some gradual step in this proceeding to address that subsidy.” Id., at 283. Although the company’s cost study indicates that rates for industrial customers should actually be reduced, Mr. Yardley recommended instead that the unfair burden on those large customers be gradually reduced and that while some increase in industrial rates was appropriate, the company proposed to allocate “less of an increase to the largest customers of the system than the smaller ones.” Id., at 282.

CMA agrees with Mr. Yardley’s recommendation. It is clearly unfair for the company’s larger customers to continue “providing significant subsidies to the smaller customers on the system.” Id. Given the precarious economic circumstances of many of CMA’s members (as demonstrated by the testimony of half-a-dozen witnesses at the public hearing on this case), it would be irresponsible for the Authority not to address this inequity by taking a “gradual step” in the direction of fairness. Id., at 283.

The only other testimony on the issue of the allocation of costs among customer classes came from CAPD witness Terry Buckner. He testified primarily on a number of financial issues but also said, almost in passing, that any additional revenue requirement should be allocated to all classes equally i.e., an “across-the-board” allocation that would increase rates for each class by the same percentage. Under cross-examination, Mr. Buckner acknowledged that he had no disagreements with Mr. Yardley’s cost study and, more importantly, that the CAPD generally takes the same “across-the-board” approach in all gas rate cases, regardless of which company is involved. Mr. Buckner could not recall any gas rate case in recent years when his office had recommended anything other than an “across-the-board” increase. In other words, the CAPD simply has a default position that the office takes in virtually every case without regard to the actual facts and specific circumstances of each company. For that reason, the CAPD’s

recommendation on this issue should be given little weight. As Mr. Yardley said, the CAPD's proposal should be "unacceptable" because it "fails to take into account in any way" the unfairness of the current misallocation of costs. Id., at 282.

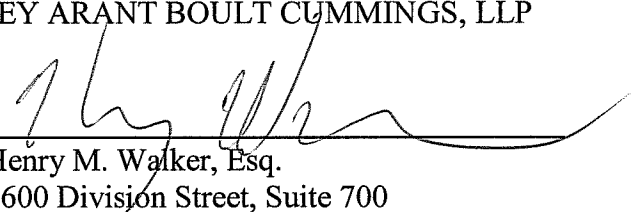
CONCLUSION

In the absence of any dispute concerning the company's cost study – which shows "significant" cross subsidies – and in the absence of any persuasive testimony on the issue of cost allocation other than presented by Mr. Yardley, the Authority should take a gradual step in the direction of equity and fairness by allocating a smaller proportion of any rate increase to those larger customers who are being forced to subsidize the rates of smaller customers. Adoption of an "across-the-board" allocation would only make the current unfairness worse.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that I have on this 7th day of May, 2010 served the foregoing Post Hearing Brief of the Chattanooga Manufacturer's Association, either by fax, electronic transmission, overnight deliver service or first class mail, postage prepaid, to all parties of record at their addresses shown below:

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