

TENNESSEE REGULATORY AUTHORITY



460 James Robertson Parkway
Nashville, Tennessee 37243-0505

May 21, 2010

Chairman Sara Kyle
Director Mary W. Freeman
Tennessee Regulatory Authority
460 James Roberson Parkway
Nashville, TN 37243-0505

RE: Docket 09-00183 -- Petition of Chattanooga Gas Company for a General Rate Increase, Implementation of the Energysmart Conservation Programs and Implementation of a Revenue Decoupling Mechanism.

Dear Chairman Kyle and Director Freeman:

Please find the attached motion that I plan to make at our scheduled Authority Conference on May 24, 2010, in the above-referenced Authority Section 4 agenda item. For your convenience, I am filing this today in order that you may have sufficient time for review before we deliberate.

Sincerely,

A handwritten signature in black ink, appearing to read "Eddie Roberson".

Eddie Roberson
Director

Attachment

**Director Roberson's Motion
Docket No. 09-00183**

I move the following:

Test Period and Attrition Period

Chattanooga Gas Company ("the Company" or "CGC") used the twelve months ended June 30, 2009 as its test period, while the Consumer Advocate ("CAPD") used the twelve months ended December 31, 2009. I move that we adopt the test period that will be the best basis for forecasting individual items for the attrition period. Generally, the test period for the most recent period is preferred, such as the December 31, 2009 test period used by the CAPD; however, circumstances may exist in rare cases which favor the use of the June 30, 2009 test period. I further move that we adopt the twelve months ending April 30, 2011 for the attrition period, since all the parties agree on this attrition period and it represents the period during which the proposed rates would be in effect.

Revenues

Total Operating Margin

I move that we use the sum of stipulated Base Revenues, Other Revenues and Cost of Gas, as agreed to by the parties, and the resulting Allowance for Funds Used During Construction ("AFUDC") as calculated below, resulting in a Total Operating Margin at current rates of \$29,928,703.

Base Revenues

I move that the stipulated Base Revenues of \$29,028,086 be adopted. This total is based on the Consumer Advocate's updated billing determinates and current rates.

Other Revenues

I move that the agreed-upon Other Revenues of \$686,066 be adopted.

Allowance for Funds Used During Construction (AFUDC)

I move that we reject each Party's calculation of AFUDC because, pursuant to this motion, I am proposing a different cost of capital. Instead, I move that the amount of plant additions from May 2010 to April 2011, as agreed upon by both Parties, along with the cost of capital as discussed below, should be used to forecast AFUDC for the attrition period in the amount of \$214,551.

Expenses

Total Operating Expenses

I move that the Authority adopt Total Operating Expense for the attrition period of \$23,006,169, based upon each Expense component discussed below.

Payroll Expense

I move that we adopt the CAPD's price-out method using a test period of December 31, 2009 and a 7.57% capitalization rate. I further move we adopt an attrition period payroll expense of \$2,198,645, as agreed to by the parties.

Employee Benefits

I move that the Authority adopt the CAPD's attrition period forecast of \$1,061,662 for Employee Benefits Expense. I agree with the CAPD that the AIP plan helps both ratepayers and stockholders and that it is fair to share those costs 50/50. Therefore, I move to allow 50% of the Company's AIP plan.

Benefits Capitalized

Consistent with my motion regarding Employee Benefits, I move that the Authority adopt the CAPD's attrition period forecast of \$(82,188) for Benefits Capitalized expense, which is consistent with the treatment of AIP Expense on Employee Benefits Expense.

Fleet Services and Facilities Expense

The CAPD's projection is based upon a later test year amount and properly grown for inflation. For this reason, I move we adopt the parties' agreed-upon Fleet Services and Facilities Expense amount of \$833,649.

Outside Services Expense

I move that the Authority adopt Outside Services Expense for the attrition period of \$1,037,839.

Bad Debt Expense

I move we adopt the agreed-upon bad debt expense of \$229,587.

Sales Promotion Expense

I move that the Authority adopt the CAPD's Sales Promotion Expense amount of \$13,818.

Customer Service and Account Expense

I move we adopt the CAPD's Customer Service and Account Expense amount of \$5,930.

Administrative and General Expense

I move that the Authority allow the Company to recover the total requested \$632,002 of rate case expense for this docket. I further move that the total rate case expense be recovered over three years, resulting in an annual expense of \$210,667. Therefore, I move a total Administrative and General Expense for the attrition period of \$1,001,088.

Administrative and General Expense Capitalized

I move that the Authority adopt the agreed-upon Administrative and General Expense Capitalized Expense amount of \$(38,668).

Other Distribution and Storage Expense

I move that we adopt the CAPD's Other Distribution and Storage Expense amount of \$625,098.

AGL Services Company Allocation Expense

I move that the Authority adopt the attrition period AGL Allocation Expense of \$4,394,930, as calculated by the CAPD.

Depreciation Expense

Based upon the foregoing, I move that the Authority order the reallocation of CGC's accumulated depreciation in conformity with the theoretical reserve as stated in the CAPD's Stipulation and adopt the rates resulting from the Depreciation Study and its forecast for Depreciation Expense of \$5,312,911. I agree with the Stipulation from the CAPD because this amount is inclusive of the Company's new proposed rates, will not include any depreciation for zero or negative book values and is based upon the more recent actual plant balances at December 31, 2009.

Interest on Customer Deposits

I move we adopt the Company's projected Interest on Customer Deposit amounts of \$132,216.

Taxes Other Than Income

Property Taxes

I move that the Authority adopt the CAPD's projected Property Taxes amount of \$1,603,581.

Gross Receipts Tax

I move that we adopt the CAPD's projected Gross Receipts Tax amount of \$699,928.

Franchise Fee

I move that we adopt the CAPD's projected Franchise Fee amount of \$675,947.

TRA Inspection Fee

I move we adopt the Company's projection of TRA Inspection Fees of \$285,537.

Payroll Taxes

I move that the agreed-upon Payroll Tax Expense for the attrition period of \$173,560 be adopted for the attrition period, based upon the Payroll Expense.

Allocated Taxes Other than Income

I move that we adopt the Company's projection of Allocated Taxes Other Than Income of \$142,688.

Income Taxes

Based upon the preceding conclusions, I move adoption of Income Taxes of \$2,241,272.

Net Operating Income

Based on the preceding conclusions, I move adoption of Net Operating Income of \$6,923,840.

Rate Base

I move that the Authority adopt the agreed-upon rate base of \$93,818,504 for the attrition year ending April 30, 2011, based upon my finding that the individual components are reflective of the amounts in this case and are fair and reasonable. The individual components follow:

Utility Plan in Service (UPIS) and Construction Work in Process (CWIP)

I move that the Authority adopt the agreed-upon UPIS and CWIP of \$202,527,956 for the attrition year ending April 30, 2011, based upon my determination of the booked amounts in this case and that this amount is fair and reasonable.

Post Retirement Benefits Other Than Pensions

I move that we adopt \$257,596 for Post Retirement Benefits Other than Pension because it is reasonable and based upon more recent December 31, 2009 balances.

Working Capital

I move that the Authority adopt the agreed-upon Working Capital of \$13,484,033 since it is based upon a later test period of 12 month ended December 31, 2009.

Accumulated Depreciation, Contributions in Aid of Construction, Advances in Aid of Construction, Accumulated Deferred Tax

I move that the Authority adopt the agreed-upon Accumulated Depreciation of \$96,483,074, Contributions in Aid of Construction of \$1,508,644, Advances in Aid of Construction of \$286,394 and Accumulated Deferred Tax of \$24,172,970 for the attrition year ending April 30, 2011, based upon my finding and determination that these amounts are fair and reasonable and that each balance agrees with the later test period date of December 31, 2009.

Revenue Conversion Factor

I move that the Authority adopt a Revenue Conversion Factor of 1.651701, as proposed by the CAPD.

Rate of Return

I move adoption of the calculated historical average capital structure found on Dr. Klein's Exhibit 2 which contains 11.60% short-term debt, 42.34% long-term debt and 46.06% common equity. I further move adoption of the agreed-upon rates for short-term and long-term debt of 2.04% and 6.03%, respectively.

I find an equity return of 10.3%, which is within the zone of reasonableness set by the parties' testimony. Both parties agreed that adoption of the Alignment and Usage Adjustment ("AUA") mechanism would impact the return on equity. I find that the equity return should be reduced by a conservative 25 basis points to 10.05% to reflect decreased risk. Therefore, I move adoption of an equity return of 10.05%. I further move adoption of an overall cost of capital of 7.41%.

Revenue Deficiency

I move that the Authority find that based upon the preceding determinations the Revenue Deficiency is \$60,068 for the attrition period.

Other Issues**Legal Expense from Docket 07-00224**

I move to allow recovery of the full amount of the Docket 07-00224 legal costs, and recovery shall be from the asset management funds.

Consumer Protection Recommendations

I move that the Authority not adopt the service recommendations proposed by the CAPD.

Economic Development Gas Service Tariff (EDGS-1)

I move that the Authority approve the new Economic Development Gas Service Tariff (EDGS-1) as filed.

Miscellaneous Tariff Changes

I move that the Authority approve the language added to Rate Schedule F-1 to clarify establishment of billing demand for service that is provided in conjunction with the companion Rate Schedule T-2.

Rate Design

I move that the Residential R-1 Class fixed monthly charges be increased from \$10.00 in the summer and \$12.00 in the winter to \$13.00 and \$16.00 respectively. I further move that the declining block volumetric rate structure be replaced with a single volumetric rate of \$0.11591 per therm, and that the residential reconnection charge be increased from \$50.00 to \$65.00. These rates are based upon the CAPD's billing determinants for customer bills and the CGC's proposed usage, which was agreed to by the CAPD. My motion does not include any rate changes to any other rate classes.

However, I do move that the Company's proposed AUA mechanism be placed into effect for the R-1 and C-1 customer classes on a three-year trial basis. With this mechanism, the revenue per customer would be calculated from the approved revenues and billing determinants and become the benchmark for comparing the actual revenues earned per customer in future years. I further move adoption of an annual 2.0% cap on margin accruals within the AUA mechanism for the R-1 and C-1 classes, as recommended by the CAPD. At the end of the three-year trial period, I move that the Company provide a report on the AUA mechanism, including its effects on both consumers and the Company and whether it should be continued.

energySMART Program

Tennessee Code Annotated Section 65-4-126 requires that TRA approved energy efficiency programs be 1) cost-effective; 2) measurable; and 3) verifiable in sustaining or enhancing incentives for consumers to use energy more efficiently. The Company proposed an ambitious and forward thinking program called energySMART. In conformance with the statute, I move adoption of only two parts of CGC's energySMART Program: the Programmable Thermostat measure and a more limited Education and Outreach component than proposed by the Company. Regarding the latter, I would move that only half, or \$150,000, be approved for funding CGC's proposed Education and Outreach Programs. With the shareholder money pledged, the first three years of the energySmart Program will cost ratepayers \$275,000 (\$91,666 annually). I believe the two programs in the amounts outlined fit the cost-effective standard of the statute. I would further move that these initiatives be funded through revenues generated by CGC's asset manager and be collected through CGC's IMCR tariff.

As to the measurability standard, I move that we direct Mr. Jerry Kettles to work with the National Regulatory Research Institute ("NRRI") to establish a set of measures sufficient to evaluate the Programmable Thermostat and Education and Outreach components. NRRI is a nationally recognized research organization that can provide the TRA Staff with valuable insights and assistance in crafting an instrument that can be used as a model not only for the instant docket but for other energy conservation programs as well that may be presented to the TRA. The cost of NRRI's assistance will not exceed \$25,000 and should also be funded from revenues generated by CGC's asset manager.

As to the verifiability standard, I further move that the Company be required to file annual reports concurrent with its IMCR tariff detailing the costs incurred with the programmable Thermostat Program and a detailed accounting of all money spent on its Education and Outreach Programs as well as the program evaluation created by the Staff. Copies of these documents shall also be filed concurrently with the Consumer Advocate.

PURPA Standards

After careful consideration of PURPA standards 15 and 16, I find that existing state authority is sufficient to provide oversight of the Company's rate design and energy efficiency planning. Therefore, I move we decline to adopt PURPA standards 15 and 16 for Chattanooga Gas Company.

Research and Development Funding

I agree with the CAPD witness Dr. Chris Klein that it is appropriate for ratepayers to fund consumer-oriented research into natural gas conservation devices and strategies. Therefore, I move that we direct the Company to provide \$20,000 annually during the three-year trial period from asset management funds, when available, to fund such consumer-oriented research. The Company shall file a report with the TRA detailing the contribution to the natural gas research organization of its choice.