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September 26, 2017

Mr. David Jones, Chairman
c/o Sharla Dillon – Docket Room
Tennessee Public Utility Commission
502 Deaderick Street, 4th Floor
Nashville, TN 37243

Re: Report of Chattanooga Gas Company
Docket No. 09-00183; Petition of Chattanooga Gas Company for Approval of Its Rates and Charges, Modification of Its Rate Design and Revised Tariff

Dear Chairman Jones:

Attached is the Report of Chattanooga Gas Company on the trial AUA with Recommendations. This filing is being made pursuant to the Amended Procedural Schedule dated August 9, 2013, in Docket No. 09-00183.

Sincerely,

J. W. Luna

/cb

cc: Monica Smith-Ashford, Deputy General Counsel
Tennessee Public Utility Commission

Vance Broemel, Senior Counsel
Tennessee Attorney General, Consumer Protection and Advocate Division

BEFORE THE TENNESSEE PUBLIC SERVICE COMMISSION
Chattanooga Gas Company
Docket 09-00183
Report of Impact of Trial AUA on Chattanooga Gas Company and Customers Served Under Rate Schedules R-1 (Residential General Service) and Rate Schedule C-1 (Small Commercial and Industrial General Service)

Background

On November 16, 2009, Chattanooga Gas Company, Inc. ("Company or "CGC") filed a general rate case (Docket 09-00183) before the Tennessee Public Utility Commission ("TPUC") (formerly known as the Tennessee Regulatory Authority ("TRA")). Among its various requests, CGC proposed an energySMART conservation program to promote conservation and to assist customers in reducing usage pursuant to the public policy established by the General Assembly in 2009 and codified at T.C.A. § 65-4-126.[1] The proposed energySMART program consisted of ten components including a Community Outreach and Customer Education component, and a Free Residential Programmable Thermostat component.

Concurrently with the request for approval of the energySmart program, CGC proposed that the Weather Normalization Adjustment ("WNA") mechanism be replaced with an Alignment and Usage Adjustment ("AUA") mechanism. The proposed AUA would adjust base (non-gas) rates not only for the impact of weather deviating from normal, but also for the impact of conservation and other factors that result in actual customer usage being different from the calculated usage used for the purposes of establishing rates in the rate case. CGC requested the adoption of the AUA in order for it to actively promote customer conservation efforts without adversely impacting the ability to recover its cost to provide service. The rate case, including the AUA proposal, was heard on April 12, 2010, April 13, 2010, and April 26, 2010, before Chairman Sara Kyle, Director Eddie Roberson, and Director Mary W. Freeman, the panel of TRA Directors designated to hear and decide the case.

At its May 24, 2010 Conference, the panel considered the matter and approved, on a three year trial basis, a modified version of the requested AUA mechanism. As approved, the modified trial AUA would be applicable to customers served under CGC's (R-1) Residential General Service and (C-1) Small Commercial and Industrial General Service Rate Schedules

[1] **65-4-126. State policy on using energy more efficiently.**

The general assembly declares that the policy of this state is that the Tennessee regulatory authority will seek to implement, in appropriate proceedings for each electric and gas utility, with respect to which the authority has rate making authority, a general policy that ensures that utility financial incentives are aligned with helping their customers use energy more efficiently and that provides timely cost recovery and a timely earnings opportunity for utilities associated with cost-effective measurable and verifiable efficiency savings, in a way that sustains or enhances utility customers' incentives to use energy more efficiently.

only and the WNA would be continued for the R-2 and C-2 classification. As approved, the amounts accrued to be recovered from the AUA in a single year is limited to 2% of the gross margin from the applicable Rate Schedule. Concurrent with the approval of the AUA on a trial basis, the TRA also approved, for the same three year period, the Community Outreach and Customer Education component of the Company's conservation program funded at 50% of the level proposed by CGC. The panel also approved the Free Residential Programmable Thermostat component as proposed.

In approving these conservation programs, the TRA directed its Staff to work with the National Regulatory Research Institute ("NRRI") to establish a set of measures sufficient to evaluate the Residential Programmable Thermostat and the Community Outreach and Customer Education programs. With respect to the AUA, the TRA directed that at the end of the three-year trial period, the Company would provide a report to the Authority on the AUA mechanism that would address the impact and effect of the AUA on both consumers and the Company and include recommendations whether the AUA mechanism should be continued. (See, November 8, 2010, Order in Docket 09-00183).

Extension of Trial

After three years, the measures to evaluate the Residential Free Programmable Thermostat and the Community Outreach and Customer Education components of the conservation program had not yet been developed. To provide additional time to evaluate the programs, on April 25, 2013, CGC filed a motion and a proposed tariff to extend the AUA trial and the related components of the energySMART conservation program for an additional three years and to change the cap on the amount to be recovered annually through the AUA from 2% of the margin to 2% of gross revenue from the applicable Rate Schedules.

At the June 17, 2013 Authority Conference, Chairman James M. Allison, Vice Chairman Herbert H. Hilliard, and Director David F. Jones, the panel of Directors considering the filing, found that an evidentiary hearing was needed before considering an increase in the annual cap, and that information related to the thermostat and consumer education programs was needed before the panel would consider an extension of the AUA mechanism. The Authority suspended CGC's April 25, 2013, tariff filing, appointed the General Counsel or her designee as Hearing Officer to prepare the matter for hearing, and directed CGC to file tariffs maintaining the existing AUA mechanism in the interim period. Accordingly, CGC's requested modifications to its conservation programs were not approved. On June 20, 2013 CGC filed the revised tariffs continuing the AUA trial as directed.

On August 9, 2013 the Hearing Officer issued an Order adopting the following Procedural Schedule:

(Summary continues on next page.)

	TRA Staff Report
45 Days After the TRA Staff Report is Filed	Chattanooga Gas Company's Report on the AUA Mechanism, including its impact and effect on both consumer classes and the Company, and Recommendations as to whether the AUA Mechanism should be continued (See Nov. 8, 2010 TRA Order (Docket 09-00183), at p. 57.)
30 Days After CGC's Report is Filed	TRA Party Staffs, CAPD's, and Any Other Intervening Party's Position Papers on CGC's Report and Recommendations
2 Business Days Prior to the Status Conference	Parties' Joint Proposed Issues List and Procedural Schedule Going Forward (If after engaging in discussion and attempting to reach agreement, any party is unable to agree as to either the issues or a procedural schedule, such party shall separately file a proposed issues list and/or proposed procedural schedule.)
TBD	Status Conference to Discuss Procedural Schedule Going Forward and Issues List

On January 10, 2017 the NRRI's reported titled "Evaluating Chattanooga Gas Company's 2012-13 Energy Efficiency Programs and Ideas for Evaluating Future Energy Efficiency Programs in Tennessee" was filed in Docket 09-00183. On September 19, 2017 the TPUC Staff filed its report.

The following is Chattanooga Gas Company's Report on the AUA Mechanism, including its impact and effect on both consumer classes and the Company, and recommendations as to whether the AUA Mechanism should be continued.

Alignment and Usage Mechanism

As explained in the November 8, 2010 Order in Docket 09-00183, the AUA Mechanism was designed to assist CGC in maintaining a more constant revenue stream to recover its cost to serve customers by allowing the Company to recover the average revenue per customer and to address any change in the customers' actual usages from the levels adopted for setting CGC's rates.

To accomplish this, the average revenue amount per customer was calculated for the R-1 and C-1 Rate Schedules for each month using approved rates and billing determinants adopted in the rate case. These monthly amounts are the benchmarks that are compared to the actual revenues per customer on a monthly basis to determine the amount subject to recovery through the AUA mechanism. Since the AUA mechanism adjusts for all variances including that caused by the actual weather departing from normal, the Weather Normalization Adjustment (WNA) mechanism for the R-1 and C-1 Rate Schedules was suspended during the AUA test.

Mechanisms for weather normalization adjustments have been in place for Tennessee's three largest local distribution companies since 1991 and as noted below, the WNA remains in effect for all of CGC's other residential and small commercial rate schedules.

Impact on Customers and Company

In the Order, the Company was directed to provide a report to the Authority on the AUA mechanism, including its impact and effect on both consumer classes and the Company at the end of the trial period. Overall, the AUA has not met its objectives or served the best interests of Customers or the Company. The following table provides a summary of the impact on Customers and the Company for the period of June 1, 2010-May 31, 2017.

(Table continues on next page.)

Row/ Column	A	B	C	D	E	F
1		R-1				
2	12 Months Ended May 31	Authorized Margin	Actual Margin	Revenue (Short Fall) or Excess	Amount (Refunded) or Surcharged	Net Revenue Cumulative (Short Fall) or Excess Excluding Interest
3	2011	$13,320,163	$13,600,123	$279,959	$0	$279,959
4	2012	13,380,512	12,713,076	(667,435)	(200,598)	(588,074)
5	2013	13,475,297	13,551,436	76,139	289,616	(222,318)
6	2014	13,591,063	14,161,261	570,198	306,014	653,893
7	2015	13,710,622	14,155,195	444,573	(249,135)	849,332
8	2016	13,858,617	13,288,363	(570,254)	(220,699)	58,379
9	2017	14,021,304	13,107,270	(914,033)	(39,404)	(895,059)
10		$95,357,578	$94,576,724	($780,853)		
11						
12		C-1				
13	12 Months Ended May 31	Authorized Margin	Actual Margin	Revenue (Short Fall) or Excess	Amount (Refunded) or Surcharged	Net Revenue Cumulative Short Fall Excluding Interest
14	2011	$3,507,637	$3,388,159	$119,478)	$0	$(119,478)
15	2012	3,521,635	3,092,573	(429,062)	48,492	(500,048)
16	2013	3,554,948	3,397,779	(157,170)	78,925	(578,293)
17	2014	3,599,156	3,800,877	201,721	87,213	(289,360)
18	2015	3,539,124	3,562,007	22,883	65,982	(200,495)
19	2016	3,519,032	3,150,069	(368,963)	52,687	(516,772)
20	2017	3,556,069	3,121,499	(434,570)	58,217	(893,125)
21		$24,797,601	$23,512,962	($1,284,639)		
22						
23	Grand Total, Cumulative R-1 and C-1 Net Revenue Short Fall Excluding Interest:					($1,788,184)

As this data shows, there are three fundamental problems with the AUA.

First, in general, the AUA has resulted in a significant cumulative short fall in revenue for both the R-1 and C-1 classes, $895,058 and $893,125, respectively. In other words, after seven years, customers have not paid enough for the gas they have received – in the aggregate,

$1,788,194 less than they should have. And because of the 2% cap each year, even if there are no short falls in future years (which is unlikely), it will take years of surcharges for CGC to collect the cumulative shortfall from customers. Given the variability in weather, and the significant adverse consequences of a warm winter, the under-recovery due from customers can be so significant in one year that it can take many years for the Company to get paid back even if the weather in subsequent years is more in line with expectations, and wild swings in weather can only exacerbate the problem.

Second, for the R-1 customers, as is reflected in cells D3 to D9, the revenues collected are significantly out of synch each year with the authorized margin, and the order of magnitude for the short fall or excess each year has involved significant dollars. Moreover, the swing from excess to short fall for 2015 to 2016 is approximately one million dollars. Worse still, the 2017 shortfall alone is nearly one million dollars. While R-1 customers have had four years of paying too much, this has been more than offset by the three years where there were short falls. Given the substantial size of the $914,033 shortfall for 2017, only $262,145.41 can be surcharged to customers during the next recovery period due to the 2% cap. The bottom line is that net cumulatively, R-1 customers still have a short fall of $895,058.92 they owe to the Company. This is unreasonable and unfair for CGC and its customers.

Third, the situation for the C-1 customers has been more consistent, but equally problematic. The cumulative shortfalls have resulted in a surcharge every year after the first year, even though two years (2014 and 2015, cells D17 and D19) CGC collected revenues in excess of the revenue requirement. However, C-1 customers continued to be surcharged because of the 2% cap that limits annual surcharges or refunds. Thus, as is reflected in cells E15 to E20, the carryover from prior short falls has resulted in a surcharge every year. Today, C-1 customers still owe CGC $893,125. Given the smaller C-1 customer base, it will take significantly longer for CGC to recover this shortfall due to the 2% cap.

AUA Conclusion and Recommendation

In assessing the overall AUA program as a whole, the original goals and objectives are not being met for either customer class. The AUA has not resulted in timely adjustments to customers' bills because adjustments are made once a year instead of monthly. This results in a regulatory timing disparity for the AUA customers because there is a significant disconnect between when events occur and when the corresponding adjustments are made. The extreme and unpredictable weather conditions experienced in the CGC service area over the last several years have exacerbated the annual adjustments by creating significant over or under-recoveries. Moreover, the 2% cap has limited the ability of the Company to timely collect authorized revenue short falls and to refund over-collections, which unnecessarily lengthens the recovery process and increases the regulatory disconnect between use and payment. Assuming no future over-recovery or short falls, it will take years to collect the current deficiencies owed to CGC from its R-1 and C-1 customers.

Under the WNA, which remained applicable to other residential and small commercial rate schedules, adjustments are made immediately based on the actual weather during the billing period. This means bill adjustments are made contemporaneously with the events that are causing the surcharge or refund, which is more easily understood by customers. In addition there is no opportunity to accumulate a significant debt, whether owed by the Company to customers where there is an excess of revenues, or in a surcharge where there is a shortfall in collections.. With the AUA, the adjustment comes a year or more later than the events that caused the adjustment, and as shown above there can be significant accumulations of over or under-recoveries of authorized revenues. As a result, Chattanooga Gas Company recommends that the AUA trial be terminated and the WNA be reactivated for both Rate Schedules R-1 and C-1.

To reactivate the WNA, Tariff Sheets 1A and 10A require revision by replacing:

"Bills for gas service hereunder shall be subject to the provisions of the Alignment and Usage Adjustment (AUA) as approved by the Tennessee Regulatory Authority"

with

"Bills for gas service hereunder shall be subject to the provisions of the Weather Normalization Adjustment (WNA) Rider (Docket No. 91-01712) as approved by the Tennessee Public Utility Commission."

In addition the following WNA factors, that were developed in the rate case, Docket 09-00183, would be inserted on Tariff Sheet 49A.

RATE SCHEDULE	WEIGHTED BASE RATE ($/THERM) (Table Note 1)	HEAT SENSITIVE FACTOR - HSF (THERM) (Table Note 2)	BASE LOAD - BL (THERM) (Table Note 2)
(R-1) RESIDENTIAL GENERAL SERVICE Winter (November – April)	$.115910	.16990	9.309
(C-1) SMALL COMMERCIAL AND INDUSTRIAL GENERAL Winter (November – April)	$.185810	.27570	28.058

Table Note 1: The Weighted Base Rate ($/Therm) are the approved base rates for the applicable Rate Schedules as approved in Docket 09-00183.

Table Note 2: The work papers showing the development of the WNA factors were filed in Minimum Filing Guidelines Item #35, in Docket 09-00183.

The appropriate revised tariff sheets are attached reflecting these changes and the reinstitution of the WNA for the R-1 and C-1 customer classes.

Recommended Treatment of the Accumulated Deferred Revenue

In Docket 09-00183 the TRA directed that the cost of the Free Residential Thermostat and the Community Outreach and Customer Education components of the energySMART program, the cost of NRRI's assistance to the Staff in developing the measures to evaluate the conservation programs, the required research and development funding, and the legal expense incurred in Docket 07-00224 be recovered by CGC from the Customers' share of the of the revenue generate by CGC's asset manager and collected through CGC's IMCR tariff provision. CGC recommends that the deferred revenue or credit that remains at the termination of the AUA trial be treated in the same manner and credited to or recovered by CGC from the Customers' share of the revenue generated by CGC's asset manager and off-system sales of LNG and collected through the IMCR tariff provision. This will provide the best means of efficiently and effectively refunding any credit or recovering a deficit.