

BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

IN RE:	December 15, 2010)	
)	
REQUEST OF CHATTANOOGA GAS COMPANY)	DOCKET NO.
FOR APPROVAL OF AN RFP FOR AN ASSET)	10-00049
MANAGEMENT AGREEMENT AND A GAS)	
PURCHASE AND SALES AGREEMENT)	

ORDER APPROVING ASSET MANAGEMENT AGREEMENT

This matter came before Director Eddie Roberson, Director Kenneth C. Hill and Director Sara Kyle of the Tennessee Regulatory Authority (the “Authority” or “TRA”), the voting panel assigned to this docket, at a regularly scheduled Authority Conference held on November 22, 2010 for consideration of *Chattanooga Gas Company’s Filing of Its Asset Management Agreement for Approval* (“*Filing*”) filed by Chattanooga Gas Company (“CGC” or “Company”) on October 8, 2010.

BACKGROUND

The TRA first ordered Chattanooga Gas Company to file its Asset Management Agreement (“AMA”) for Authority approval in Docket No. 03-00516. In approving the AMA in that docket, the Authority found that CGC had acted in good faith and required CGC to file with the Authority any subsequent AMA for approval in advance of the commencement date of that AMA. On January 14, 2008, CGC filed an AMA for consideration by the Authority in Docket No. 08-00012. In that docket, the Authority considered and ruled on a number of issues raised by the parties pertaining to the bidding process and the terms of the AMA itself. The Authority approved the AMA between CGC and Sequent Energy Management, L.P. (“Sequent”) filed in Docket No. 08-00012 and ordered

that CGC file a notice with the Authority, one year prior to the expiration of the initial three year term of the AMA, as to CGC's intent to exercise its option to extend the AMA.¹

The current AMA, as approved in Docket No. 08-00012, resulted from a Request for Proposal ("RFP") issued by CGC on November 20, 2007. The Company's Performance-Based Ratemaking tariff² set forth procedures to be followed in the RFP process but did not require pre-approval by the Authority of the RFP itself. In Docket No. 07-00224, the RFP process and other asset management activities were opened to further review, and the TRA concluded that CGC must submit all future asset management RFPs to the Authority for prior approval before sending them out for bid.³

This docket was opened upon the filing by CGC on March 31, 2010 notifying the Authority of its intention to issue an RFP for asset management services pursuant to its tariff. The current AMA was approved with an initial three year term expiring on March 31, 2011. On April 9, 2010, CGC filed its RFP in this docket for the TRA's approval.

On May 10, 2010, the Consumer Advocate and Protection Division of the Office of the Attorney General ("Consumer Advocate") filed a *Petition to Intervene*. On May 24, 2010, at a regularly scheduled Authority Conference, this matter came before the panel, and the panel voted unanimously to convene a contested case proceeding and to appoint Director Kenneth C. Hill as Hearing Officer for the purpose of preparing this matter for hearing, including handling preliminary matters, entering a protective order and establishing a procedural schedule to completion.

Subsequently, Hearing Officer Hill held three status conferences with the parties on June 7, 2010, June 21, 2010 and July 13, 2010.⁴ On July 20, 2010, the parties filed their *Joint Stipulation of*

¹ See *In re: Request of Chattanooga Gas Company for Approval of Asset Management Agreement*, Docket No. 08-00012, *Order Approving Asset Management and Agency Agreement* (July 15, 2008).

² See Section titled *RFP Procedures for Selection of Asset Manager and/or Gas Provider*, Revised Sheets 56B and 56C.

³ See *In re: Docket to Evaluate Chattanooga Gas Company's Gas Purchases and Related Sharing Incentives*, Docket No. 07-00224, *Final Order*, p. 6 (September 23, 2009).

⁴ See *Order Granting Petition to Intervene and Reflecting Actions Taken at June 7, 2010, June 21, 2010 and July 13, 2010 Status Conferences* (July 26, 2010).

the Consumer Advocate and Chattanooga Gas Company Regarding the Proposed RFP (“Joint Stipulation”). On July 26, 2010, the Hearing Officer issued the *Approved Protective Order*.

At the regularly scheduled Authority Conference held on July 26, 2010, the panel considered the RFP and subsequent filings. Based on the entire record, the panel voted unanimously to approve the RFP as amended by the *Joint Stipulation*. The panel also directed the Company to file with the Authority a copy of the RFP, along with a list of the recipients, when the RFP is issued. The panel further reminded the Company that tariff procedures require that the RFP be advertised for a minimum of thirty days and published in trade journals as may be reasonably available.⁵

On October 8, 2010, CGC filed its executed Asset Management and Agency Agreement (“AMAA”)⁶ between the Company and Sequent for the Authority’s approval. On October 20, 2010, the Consumer Advocate filed a letter stating that they had reviewed the bids and did not intend to contest the Company’s request for Authority approval of the AMAA.

THE FILING

CGC issued its approved RFP on August 10, 2010 to over thirty qualified bidders, with proposals due on or before September 10, 2010. According to the *Filing*, CGC also advertised its RFP in the Platts Gas Daily publication on August 10, 2010 and August 23, 2010.⁷ CGC received bids from three respondents as a result of the RFP: Sequent, Atmos Energy Marketing, and Tenaska Marketing Ventures.

The RFP specified that each bid must demonstrate a bidder’s credit worthiness, must accept the terms of the agreement, and must include the following components:

1. Annual Fix Fee payment commitment form;
2. Expressed willingness and ability to comply with the audit requirements of the agreement; and

⁵ *Order Approving Request for Proposal* (September 14, 2010).

⁶ According to the *Filing*, a gas purchase agreement is attached as an exhibit to the AMAA.

⁷ In the process of confirming the information in the *Filing*, TRA Staff ascertained that the publication dates were actually August 10, 2010 and August 24, 2010.

3. Demonstration of technical capability/expertise to perform the service.

The *Filing* states that Sequent's bid demonstrated the projected greatest net benefit to CGC and its customers.⁸ On September 17, 2010, CGC awarded the contract to Sequent, pending Authority approval.

FINDINGS AND CONCLUSIONS

The panel found that it appeared that all of the RFP procedures were followed with one exception. The Company did not file the RFP with the list of recipients in the docket at the time of its issuance as it was ordered to do by the panel and filed it at a later time. The Company has not offered an explanation of this failure to do so. Although the Company's failure to comply with the Order on this one issue is troubling, nevertheless, the panel found that the contract with Sequent provides benefit to CGC customers. Therefore, the panel voted unanimously to approve the AMAA, with an effective date of April 1, 2011 and a term of three years.

IT IS THEREFORE ORDERED THAT:

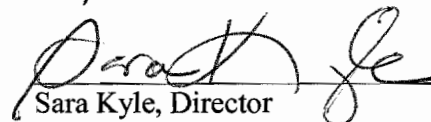
The Asset Management and Agency Agreement between Chattanooga Gas Company and Sequent Energy Management, L.P. filed in this docket on October 8, 2010 is approved, effective April 1, 2011 for a three year term.



Eddie Roberson, Director



Kenneth C. Hill, Director



Sara Kyle, Director

⁸ The Company filed the bids and its internal documentation evaluating the bids under seal pursuant to the *Agreed Protective Order* entered in this docket on July 26, 2010.