

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

June 2, 2011

IN RE:)	
)	
PETITION OF CHATTANOOGA GAS)	Docket No. 11-00048
COMPANY FOR APPROVAL OF)	
NEGOTIATED FRANCHISE AGREEMENT)	
WITH THE CITY OF CHATTANOOGA)	

PROPOSED SETTLEMENT AGREEMENT

For the sole purpose of settling this case, Tennessee Regulatory Authority ("TRA" or "Authority") Docket Number 11-00048, Chattanooga Gas Company ("CGC" or "Company") and Robert E. Cooper, Jr., the Tennessee Attorney General and Reporter, through the Consumer Advocate and Protection Division ("Consumer Advocate"), (collectively the "Parties") respectfully submit this Proposed Settlement Agreement. The Parties stipulate and agree as follows:

1. CGC is incorporated under the laws of the State of Tennessee and is engaged in the business of transportation, distribution, and sale of natural gas in Chattanooga and Cleveland, Tennessee, and in portions of Hamilton and Bradley Counties. CGC is a public utility pursuant to the laws of Tennessee, and its public utility operations are subject to the jurisdiction of the TRA.

2. CGC is a wholly-owned subsidiary of AGL Resources Inc., an energy-based services holding company. CGC's principal office and place of business is located at 2207 Olan Mills Drive, Chattanooga, TN 37421.

3. In CGC's most recent rate case, Docket 09-00183, the TRA fixed utility rates which included \$365,000 in franchise fees, the amount required by a franchise fee agreement between CGC and the City of Chattanooga ("City") which was in effect at that time.¹

4. On April 8, 2011, CGC filed a petition pursuant to Tenn. Code Ann. § 65-4-107 requesting approval of a new franchise agreement between CGC and the City. A copy of the proposed franchise agreement was attached to CGC's petition. The terms of the previous franchise agreement, which included a fixed franchise fee, will no longer be in effect once the proposed franchise fee is approved by the TRA. The proposed franchise agreement includes a franchise fee amount based on a percentage of revenue. As a result of CGC's filing, Docket 11-00048 was opened.

5. The proposed franchise agreement with the City is an increase in the franchise fees that are collected under the previous franchise agreement between the City and CGC. The proposed franchise agreement requires CGC to collect the franchise fee from consumers within the city limits of the City.

6. Tenn. Code Ann. § 65-4-105(e) provides in part that franchise fees shall, insofar as practicable, be billed pro rata to the utility customers receiving local service within the municipality or political subdivision receiving such payments, and shall not otherwise be considered by the authority in fixing the rates and charges of the utility.

7. Following the issuance of data requests by the TRA Staff and corresponding responses provided by CGC filed in Docket 11-00048, the Consumer Advocate filed a Petition to

¹ Docket 09-00183, *Final Order* (November 8, 2010), p. 31-32.

Intervene in this Docket on May 23, 2011, seeking an adjustment in the proposed franchise fee recovery mechanism in the amount of \$365,000 to insure consumers are not required to pay more in franchise fees than is required under the new franchise agreement.

8. The Parties have engaged in a substantial review of the record in this matter and relevant portions of Docket 09-00183 and have undertaken settlement discussions to resolve the disputed issues in this Docket. Based on those discussions, the Parties have agreed to settle the issues pending solely in this Docket. More specifically, subject to TRA approval, the Parties have agreed to the following terms and conditions of compromise and settlement based on the unique facts of this case:

- A. No party to this matter objects to the terms of the proposed franchise agreement between CGC and the City.
- B. CGC does not oppose the Petition to Intervene filed on May 23, 2011 by the Consumer Advocate.
- C. If this Settlement Agreement is approved, consumers of CGC will receive a \$365,000 credit annually beginning on July 1, 2011, in the following manner:
 - 1. Per the Eighty Ninth Revised CGC Tariff Sheet No. 55 (Current Level of Surcharges and Refund Credits) which is attached as Exhibit 1, a credit of \$0.0026 per therm will be applied to the cost of natural gas.
 - 2. The credit adjustment factor of \$0.0026/therm, is computed by dividing the \$365,000 franchise fee included in base rates in Docket 09-00183 by 141,320,373 therms used to establish rates in Docket 09-00183. See attached Exhibit 2.
 - 3. The Fifth Revised Sheet No. 51 is attached to reflect the Chattanooga franchise fee under the proposed franchise agreement. See attached Exhibit 3.
- D. The terms of this settlement, the accounting treatment described above and the attached tariff referenced above will expire at the conclusion of CGC's next rate case when the Authority institutes new rates.
- E. Any subsequent modification or revision to the tariff page subject to this agreement shall not alter the terms and accounting treatment prescribed in this

Proposed Settlement Agreement until the completion of CGC's next rate case when the Authority institutes new rates.

9. The stipulations agreed to in this Proposed Settlement Agreement, which are the product of negotiations and substantial communication and compromise between the Parties, are just and reasonable and in the public interest.

10. The Parties jointly recommend that the Authority issue an order adopting this Proposed Settlement Agreement in its entirety without modification.

11. If the TRA does not accept the Proposed Settlement Agreement in whole and as full and final settlement of the issues in this Docket, this Proposed Settlement Agreement shall terminate and the Parties shall not be bound by any position set forth in this Proposed Settlement Agreement. Should this Proposed Settlement Agreement terminate, it will be considered void and have no binding effect, and the signatories to this Proposed Settlement Agreement reserve their rights to fully participate in all relevant proceedings notwithstanding their agreement to the terms of this Proposed Settlement Agreement. The provisions of this Proposed Settlement Agreement are not severable.

12. By agreeing to this Proposed Settlement Agreement, no Party waives any right to continue litigating this matter should the Proposed Settlement Agreement be rejected by the TRA in whole or in part.

13. No provision of this Proposed Settlement Agreement shall be deemed an admission of any Party.

14. The Parties agree to support this Proposed Settlement Agreement in any proceeding before the Authority in this Docket; however, the Parties further agree and request the Authority to order that the settlement of any issue pursuant to this Proposed Settlement

Agreement shall not be cited by the Parties or any other entity as binding precedent in any other proceeding before the Authority or any court, state or federal.

15. The provisions of this Proposed Settlement Agreement do not necessarily reflect the positions asserted by any Party, and no Party to this Proposed Settlement Agreement waives the right to assert any position in any future proceeding except as expressly stipulated herein. This Proposed Settlement Agreement shall not have precedential effect in any future proceeding or be binding on any Party except to the limited extent necessary to implement the provisions hereof.

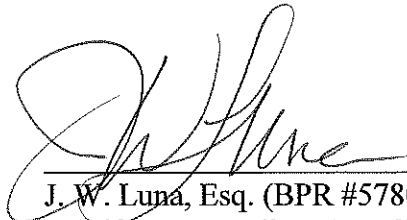
16. The Parties agree to implement this Proposed Settlement Agreement in good faith and with due diligence.

17. This Proposed Settlement Agreement shall be governed by and construed under the laws of the State of Tennessee, notwithstanding conflict of law provisions.

SIGNATURES ON FOLLOWING PAGE

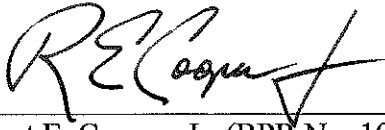
The foregoing Proposed Settlement Agreement of Docket 11-00048 is agreed and stipulated to this 2nd day of June, 2011.

FOR CHATTANOOGA GAS COMPANY:



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Exhibit 1

Proposed Settlement Agreement between CGC and the Consumer Advocate

Docket 11-00048

CURRENT LEVEL OF SURCHARGES AND REFUND CREDITS

AMOUNTS INDICATED BELOW APPLY TO THE BILLING DETERMINANTS
OF EACH INDIVIDUAL TARIFF

	F-1	F-1	I-1	T-2	T-3	R-1	R-4	C-1	C-2	C-2	A/C	V-1
	Commercial and Industrial Large Volume Firm Sales Service Demand	Commercial and Industrial Large Volume Firm Sales Service Commodity	Commercial and Industrial Interruptible Sales Service Commodity	Interruptible Transportation Service With Firm Gas Supply Backup Demand	Low Volume Transport Demand	Residential	Multi-Family	Small Commercial and Industrial	Medium Commercial and Industrial Demand	Medium Commercial and Industrial Commodity	Residential and Commercial Air Conditioning	Natural Gas Vehicle Service
Billing Unit:	DT	DT	DT	DT	DT	Therm	Therm	Therm	DT	Therm	Therm	Therm
IMCR Refund 7/1/2011*	(1.9971)	0.0000	0.0000	(1.9971)	(1.9971)	(0.0519)	(0.0519)	(0.0519)	(1.9971)	0.0000	0.0000	0.0000
ACA 10-10**	(0.2274)	(0.6648)	(0.6648)	(0.2274)	(0.2274)	(0.0719)	(0.0719)	(0.0719)	(0.2274)	(0.0665)	(0.0665)	0.0000
Chattanooga		(0.0258)	(0.0258)			(0.0026)	(0.0026)	(0.0026)		(0.0026)	(0.0026)	
TOTAL	(2.2245)	(0.6906)	(0.6906)	(2.2245)	(2.2245)	(0.1263)	(0.1263)	(0.1263)	(2.2245)	(0.0691)	(0.0691)	0.0000
	=====	=====	=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
Chattanooga			I-1/T-1/T-2/T-3 Commodity Dt (0.0258)									

*IMCR refund made effective July 1, 2010 terminated Effective June 30, 2011

** Effective October 1, 2010. ACA 09-10 Effective October 1, 2009 terminated September 30, 2010.

***Chattanooga Franchise Adj Credit shall be effective July 1, 2011 and continue to be applied until the completion of CGC next general rate case.

EFFECTIVE: July 1, 2011

Exhibit 2

Proposed Settlement Agreement between CGC and the Consumer Advocate

Docket 11-00048

Chattanooga Gas Company

2009 Rate Case Demand and Revenue Forecast

Consumption Table (in Therms)

Firm Sales	May 10	Jun 10	Jul 10	Aug 10	Sep 10	Oct 10	Nov 10	Dec 10	Jan 11	Feb 11	Mar 11	Apr 11	Total
R-1 Residential	1,312,500	681,000	565,000	583,300	560,400	995,100	2,735,900	5,315,300	7,266,900	6,837,500	5,073,300	2,946,000	34,872,200
R-4 Residential	3,266	2,800	3,039	3,558	3,314	3,470	7,163	11,324	11,956	16,263	9,644	6,405	82,204
C-1 Small Commercial & Industrial	360,163	296,239	237,245	213,091	207,616	217,817	455,792	1,011,536	1,539,968	1,562,743	1,180,434	691,042	7,973,685
C-2 Large Commercial & Industrial	1,429,437	1,041,961	769,455	701,909	670,684	743,683	1,367,308	2,574,664	3,605,532	3,584,057	2,932,166	2,109,958	21,530,815
sub-Total Firm Sales	3,105,365	2,022,000	1,574,739	1,501,858	1,442,014	1,980,070	4,556,163	8,912,824	12,424,358	12,000,363	9,195,544	5,753,405	64,458,904
Interruptible Sales													
I-1 Interruptible Service	40,989	55,779	46,945	50,974	49,500	35,200	32,100	27,300	32,004	30,240	49,609	45,529	496,169
sub-Total Interruptible Sales	40,989	55,779	46,945	50,974	49,500	35,200	32,100	27,300	32,004	30,240	49,609	45,529	496,169
sub-Total Sales Service	3,146,355	2,077,779	1,621,684	1,552,832	1,491,514	1,995,270	4,598,263	8,940,124	12,456,360	12,030,603	9,245,153	5,798,934	64,955,073
Transportation													
F1/T2	1,341,800	1,501,800	1,522,700	1,524,800	1,518,200	1,539,300	1,725,300	1,732,100	1,570,600	1,761,900	1,767,500	1,770,200	19,276,200
F1/T2/T1	1,024,900	961,000	1,022,500	1,001,000	1,005,700	1,156,300	1,167,300	1,215,100	1,297,800	1,250,200	1,195,700	1,119,100	13,416,600
T-1 Interruptible Transportation Service	2,410,900	2,823,900	2,675,700	2,876,600	2,789,200	2,891,300	2,710,700	2,549,900	2,590,200	2,516,600	2,539,300	2,583,300	31,957,600
T-3 Low Volume Transportation Service	230,600	194,300	195,900	209,400	227,600	301,200	356,800	391,300	469,600	398,600	353,500	277,900	3,606,700
SS-1 Special Service	0	0	0	0	0	0	0	0	0	0	0	0	0
Special Contracts	723,500	719,600	695,900	832,000	719,600	614,600	678,500	625,000	600,500	556,800	676,700	665,500	8,108,200
sub-Total Transportation	5,731,700	6,200,600	5,112,700	6,443,800	6,250,300	6,502,700	6,838,600	6,513,400	6,526,700	6,484,100	6,532,700	6,416,000	76,365,300
Total Sales and Transportation	8,878,055	8,278,379	7,734,384	7,996,632	7,761,814	8,497,970	11,236,863	15,453,524	18,983,060	18,514,903	15,777,853	12,214,934	141,320,373

Chattanooga Franchise Fee Docket 09-00183
Franchise Fee per Therm presently included in rates Rates \$ 0.0026

Exhibit 3

Proposed Settlement Agreement between CGC and the Consumer Advocate

Docket 11-00048

CURRENT LEVEL OF APPLICABLE TAXES AND LOCAL GOVERNMENT FEES

C

APPLICABILITY

This Schedule shall be applicable to all Rate Schedules and to each Customer rendered gas service hereunder except for those Customers qualifying for specific exemption. A copy of the appropriate State approved exemption certificate form shall be filed with the Company in order to qualify for a State of Tennessee Sale Tax exemption

C

BILLING

The taxes and fees due under this Schedule shall be included in the monthly bill for service rendered and shall be considered as an integral part of the total monthly bill due.

APPLICABLE TAXES

STATE OF TENNESSEE SALES TAX

This Tax shall be billed as follows:

Residential - Tax Exempt Effective July 1, 1985

Multi-Family Housing Service - Billed at rate of 7%.

Commercial and Industrial - Billed at rate of 7% unless Customer qualifies for special 1 1/2% rate or total exemption.

APPLICABLE CITY FEES

CITY OF CLEVELAND FRANCHISE FEE

This Fee shall be billed at the rate of 5% on customer located within the City limits of Cleveland Tennessee.

C

CITY OF CHATTOOGA FRANCHISE FEE

This Fee shall be billed to customers within the City Limits of Chattanooga Tennessee at the rate of:

N

3.15% *for 2011 and 2012

4.15% **for 2013 and 2014

5.15% **for 2015 and beyond. .

* Rate change is effective July 1, 2011

** Rate change effective January 1.