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BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

August 9, 2011

IN RE:

CHATTANOOGA GAS COMPANY

WEATHER NORMALIZATION ADJ. (WNA) AUDIT)

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) **Docket No. 11-00123**

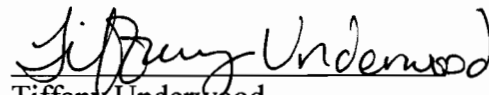
**NOTICE OF FILING BY THE UTILITIES DIVISION OF THE TENNESSEE
REGULATORY AUTHORITY**

Pursuant to Tenn. Code Ann. §§ 65-4-104, 65-4-111 and 65-3-108, the Utilities Division of the Tennessee Regulatory Authority (the "Utilities Division") hereby gives notice of its filing of the Chattanooga Gas Company WNA Audit Report in this docket and would respectfully state as follows:

1. The present docket was opened by the Authority to hear matters arising out of the audit of Chattanooga Gas Company (the "Company").
2. The Company's WNA filings were received on November 1, 2010 through April 30, 2011, and the Staff completed its audit of same on August 8, 2011.
3. The Utilities Division issued a preliminary WNA audit report to the Company on August 8, 2011.
4. The Report is attached hereto as Exhibit A and is fully incorporated herein by this reference. The Report contains the audit findings of the Utilities Division.

5. The Utilities Division hereby files its Report with the Tennessee Regulatory Authority for deposit as a public record and approval of the findings and recommendations contained therein.

Respectfully Submitted:

A handwritten signature in black ink, appearing to read "Tiffany Underwood", is written over a horizontal line.

Tiffany Underwood

Utilities Division

Tennessee Regulatory Authority

CERTIFICATE OF SERVICE

I hereby certify that on this 9th day of August 2011, a true and exact copy of the foregoing has been either hand-delivered or delivered via U.S. Mail, postage pre-paid, to the following persons:

Eddie Roberson
Chairman
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37243

Mr. Archie Hickerson
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AGL Resources, Inc.
10 Peachtree Place NE, 18th Floor
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Glynn Gamble, Regulatory Affairs Assistant
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Atlanta, GA 30309

Mr. Terry Buckner
Office of the Attorney General
Consumer Advocate and Protection Division
P.O. Box 20207
Nashville, TN 37202-0207

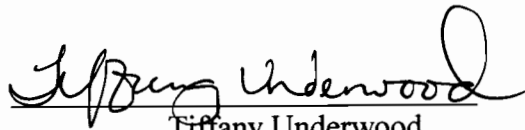

Tiffany Underwood

EXHIBIT A

COMPLIANCE AUDIT REPORT

OF

CHATTANOOGA GAS COMPANY

WEATHER NORMALIZATION ADJUSTMENT (WNA) RIDER

DOCKET NO. 11-00123

TENNESSEE REGULATORY AUTHORITY

UTILITIES DIVISION

August 2011

COMPLIANCE AUDIT
CHATTANOOGA GAS COMPANY
WEATHER NORMALIZATION ADJUSTMENT (WNA) RIDER
Docket No. 11-00123

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COMPLIANCE AUDIT
CHATTANOOGA GAS COMPANY
WEATHER NORMALIZATION ADJUSTMENT (WNA) RIDER
DOCKET NO. 11-00123

I. INTRODUCTION AND AUDIT OPINION

The subject of this compliance audit is the Weather Normalization Adjustment (“WNA”) Rider of Chattanooga Gas Company (“CGC” or “Company”), a wholly owned subsidiary of AGL Resources, Inc. The objective of this audit was to determine if the WNA adjustments were calculated correctly and applied to customers’ bills appropriately between November 2010 and April 2011 for CGC. As a result of the WNA Rider, the Company refunded a net \$82,207 to Medium Commercial and Industrial (C-2) customers and Multi-family Housing (R-4) customers during the period. The impact of WNA revenues on the Company’s total revenues for these classes is detailed in Section V.

The audit produced no material findings regarding the WNA Rider. Therefore, Staff concludes that the Company is correctly implementing the mechanics of the WNA Rider as specified by the Tennessee Regulatory Authority (“TRA” or the “Authority”) and included in the Company’s tariff (See Attachment 1).

II. SCOPE OF AUDIT

In meeting the objective of the audit, the Staff compared the following on a daily basis:

- (1) the Company's actual heating degree days to National Oceanic and Atmospheric Administration (“NOAA”) actual heating degree days;
- (2) the Company's normal heating degree days to the normal heating degree days calculated and approved in CGC’s last rate case;¹ and
- (3) the Company's calculation of the WNA factor to Staff's calculation for each billing cycle during the WNA period.

Staff audited a sample of customer bills to verify that the WNA factor had been correctly applied to the bills. Staff also examined each sample bill to determine whether the Base Rates and Purchased Gas Adjustments were billed correctly. Staff found a discrepancy on a few bills. A description of the error can be found in Section VI.

Tiffany Underwood of the Utilities Division conducted this audit.

¹ *In Re: Petition of Chattanooga Gas Company for a General Rate Increase, Implementation of the Energy Smart Conservation Programs and Implementation of a Revenue Decoupling Mechanism, Docket No. 09-00183.*

III. BACKGROUND INFORMATION ON THE COMPANY

Chattanooga Gas Company, with its headquarters at 6125 Preservation Drive, Chattanooga, Tennessee, is a wholly owned subsidiary of AGL Resources, Inc., which has its headquarters at Ten Peachtree Place, Atlanta, Georgia. CGC is a gas distributor, which provides service to the cities of Chattanooga and Cleveland and surrounding environs in Hamilton and Bradley counties, all located in Southeast Tennessee. The natural gas used to serve these areas is purchased by Sequent Energy Management ("Sequent" or "SEM")^{2 3} from various suppliers and transported by Tennessee Gas Pipeline ("TGP"), East Tennessee Natural Gas ("ETNG") and Southern Natural Gas ("SNG") under tariffs approved by the Federal Energy Regulatory Commission ("FERC").

IV. BACKGROUND ON WEATHER NORMALIZATION ADJUSTMENT RIDER

On September 26, 1991, the Tennessee Public Service Commission⁴ ("TPSC") approved a three-year experimental Weather Normalization Adjustment Rider to the tariffs of Chattanooga Gas Company, Nashville Gas Company, a division of Piedmont Gas Company, Inc. and United Cities Gas Company.⁵ The WNA Rider was to be applied to residential and commercial customers' bills during the months of October through May of each year (*See* Attachment 1). On June 21, 1994, the TPSC issued an Order authorizing the above mentioned gas companies to permanently implement an amended version of the WNA Rider.⁶ The TRA Staff audits these calculations annually.

In setting rates, the Tennessee Regulatory Authority uses a normalized level of revenues and expenses for a test year, which is designed to be the most reasonable estimate of the Company's operations during the time the rates are to be in effect. Use of normalized operating levels eliminates unusual fluctuations that may occur during the test period, which causes rates to be set too high or too low.

Specifically, one part of normalizing revenues consists of either increasing or decreasing the test year weather related sales volumes to reflect the difference between the normal and actual heating degree days. (A heating degree day is calculated as the difference in the average daily temperature and 65 degrees Fahrenheit.) This average daily temperature constitutes normal weather and is determined based on the previous thirty years' weather data.

Normal weather rarely occurs. This has two impacts:

- (1) The customers' bills fluctuate dramatically due to changes in weather from month to month; and

² Sequent is a marketing affiliate of CGC and Asset Manager for CGC.

³ *In Re: Request of Chattanooga Gas Company for Approval of an RFP For an Asset Management Agreement and a Gas Purchase and Sales Agreement*, Docket No. 10-00049.

⁴ By legislative action, the Public Service Commission was replaced on July 1, 1996 by the Tennessee Regulatory Authority. *See* Act of May 24, 1995, ch. 305, 1995 Tenn. Pub. Acts 450. The TRA retains jurisdiction over the above named gas companies. *See* Tenn. Code Ann. § 65-4-104; *see also* Tenn. Code Ann. § 65-4-101 (a) (defining public utility).

⁵ *See* petition of Chattanooga Gas Company, Nashville Gas Company, a Division of Piedmont Natural Gas Company, Inc. and United Cities Gas Company for a Rulemaking Hearing to Adopt a Weather Normalization Adjustment (WNA) Rider, Docket No. 91-01712, *Order* (September 26, 1991).

⁶ The amendment directed Chattanooga Gas Company and United Cities Gas Company to eliminate from their WNA Rider the shoulder months of October and May, and Nashville Gas Company to eliminate the shoulder months of October, April and May.

- (2) The gas companies earn more or less than their authorized rate of return. For example, if weather is colder than normal, then more gas than anticipated in the rate case will be sold. This results in higher customer bills and over-earnings for the company. On the other hand, if weather is warmer than normal, less gas than anticipated in the rate case will be sold, the customers' bills will be lower and the company will under-earn.

In recognition of this fact, the TRA approved an experimental WNA mechanism, which became permanent on June 21, 1994, to reduce the impact abnormal weather has on the customers' bills and on the gas utilities' operations. In periods of weather colder than normal, the customer receives a credit on his bill, while in periods of warmer than normal weather, the customer is billed a surcharge. Thus, customers' monthly bills should not fluctuate as dramatically and the gas company should have a more stable rate of return.

As a result of the Company's last rate case, an Alignment and Usage Adjustment ("AUA") was approved for the Residential R-1 and Small Commercial C-1 customer classes. This mechanism works in a similar manner to the existing WNA, but takes into consideration all effects on revenue recovery associated with usage. Therefore the WNA was removed from all rate codes with the exception of C-2 and R-4 customers.⁷

V. IMPACT OF WNA RIDER

The graph appearing at the end of this section compares the actual heating degree days to normal heating degree days for Chattanooga Gas during the 2010 - 2011 winter heating season. The table below quantifies the number of actual heating degree days by month as compared to the normal heating degree days for that month. It shows that overall the weather was 1.12% colder than normal, resulting in a net refund to CGC's customers for the period.

Month	Actual Heating Degree Days	Normal Heating Degree Days	Warmer/Colder than Normal	Percentage Change
October 2010	103	156	Warmer	33.97%
November 2010	383	409	Warmer	6.36%
December 2010	896	667	Colder	-34.33%
January 2011	847	757	Colder	-11.89%
February 2011	474	564	Warmer	15.96%
March 2011	352	399	Warmer	11.78%
April 2011	105	173	Warmer	39.31%
Total	3160	3125	Colder	-1.12%

⁷ In Re: Petition of Chattanooga Gas Company for a General Rate Increase, Implementation of the Energy Smart Conservation Programs and Implementation of a Revenue Decoupling Mechanism, Docket No. 09-00183, Order, pp. 50-52 (November 8, 2010).

The overall winter period for Chattanooga was colder than normal. As a result, the net impact of the WNA Rider during the November 2010 through April 2011 WNA period was that R-4 and C-2 customers were **refunded** a net \$82,207. The percentage of total revenue derived from the WNA Rider was negative 0.20% (See Table 1). This is a material decrease from the previous year when the residential and commercial customers were **refunded** a net \$813,947 (See Table 2).⁸

Table 1

**Impact of WNA Rider on Residential & Commercial Revenues
November 2010 – April 2011**

	<u>WNA Rider Revenues</u>	<u>Total Revenues</u>	Percentage Impact of WNA Rider on <u>R&C Revenues</u>
Multi-Family (R-4) and Medium Commercial Sales (C-2)	<u>\$ (82,207)</u>	<u>\$ 48,424,849</u>	<u>-.20%</u>

Table 2

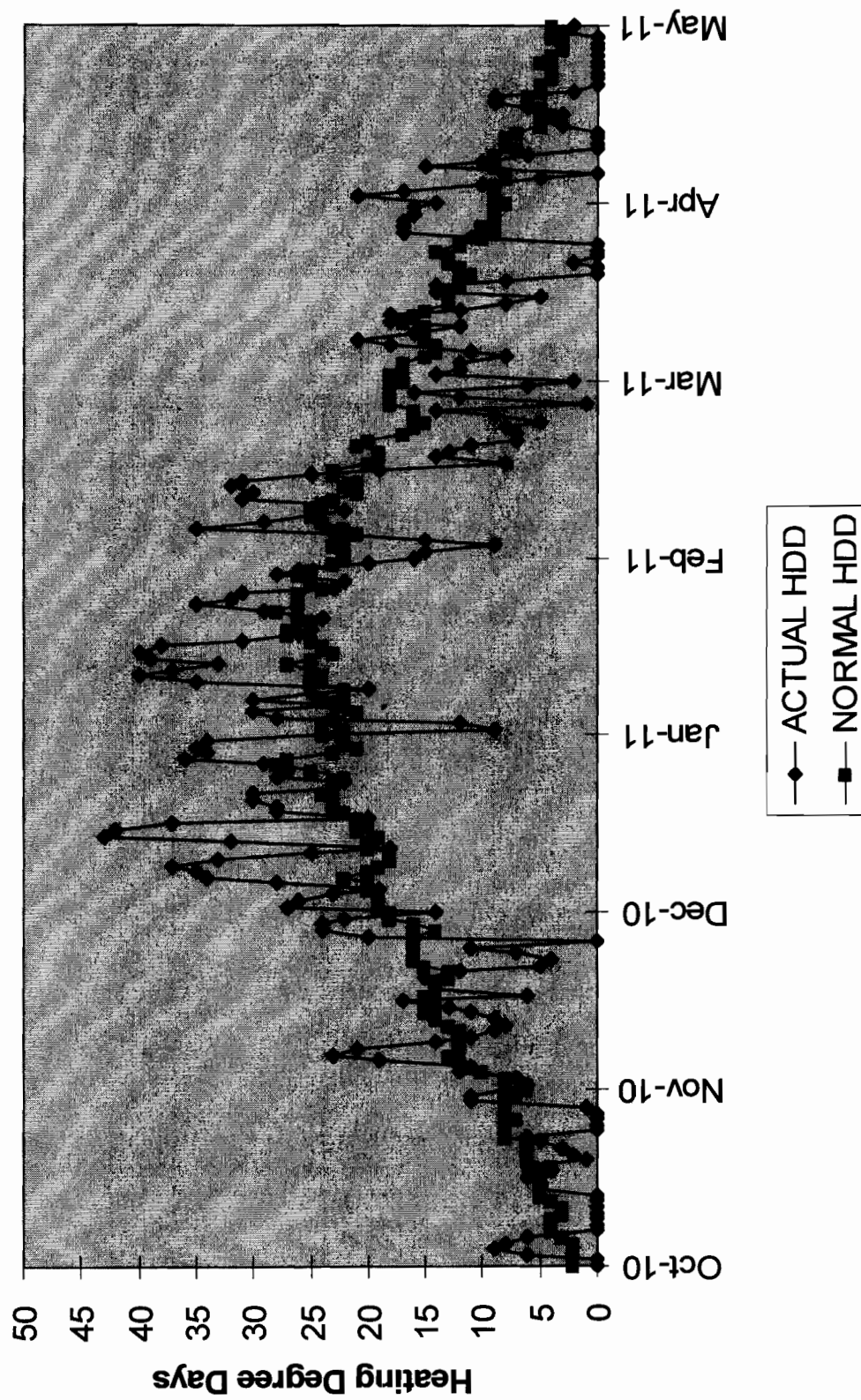
**Amount Surcharged (Refunded)
2008 - 2011**

	<u>Residential</u>	<u>Commercial</u>	Total <u>Surcharge/(Refund)</u>
11/08-4/09	\$110,209	\$77,152	\$187,361
11/09-4/10	(496,540)	(317,407)	(813,947)
11/10-4/11	<u>0</u>	<u>(82,207)</u>	<u>(82,207)</u>
Total	<u>\$ (386,331)</u>	<u>\$ (322,462)</u>	<u>\$ (708,793)</u>

⁸ As explained in Section IV, the WNA was discontinued in Docket 09-00183 for all customer classes except R-4 and C-2 customers.

Chattanooga Gas Company

Comparison of Actual to Normal Heating Degree Days



VI. WNA FINDINGS

As noted in Section I of this report, Staff's WNA audit resulted in no WNA findings. However, while reviewing a sample of customer bills, Staff noted one discrepancy. A description of the error is detailed in Finding #1 below.

FINDING #1:

Exception

The Company billed an incorrect customer charge to C-1 Small Industrial customers (Rate Classes 511 and 513) during the winter months.

Discussion

In reviewing the Base Rates as part of the annual bill audit, Staff noted that the C-1 Small Industrial Customers (Rate Classes 511 and 513) were charged the \$25 summer customer charge instead of the \$29 winter customer charge approved in the tariff for the months of November through April. The billing rates are entered into the billing system at the beginning of each summer and winter period for each individual rate code. The Company failed to change the summer customer charge to a winter customer charge for the C-1 customers. This error affected 66 customers for six months during the winter, resulting in an under-collection of \$1,584 in customer charges.

Company Response

Chattanooga Gas Company concurs. Additional procedures have been implemented to insure that proper rates are entered into the billing system in the future. The Company does not intend to re-bill the 66 affected customers.

VII. CONCLUSIONS AND RECOMMENDATIONS

As noted in Section I of this report, Staff's audit produced no material findings regarding the WNA Rider. Therefore, Staff concludes that the Company is correctly implementing the mechanics of the WNA Rider as specified by the Tennessee Regulatory Authority ("TRA" or the "Authority") and included in the Company's tariff (See Attachment 1).

Regarding the billing discrepancy, this error affected 66 customers for six months during the winter, resulting in an under-collection of \$1,584 in customer charges. The Company is correctly billing the customers the summer rate at this time and will enter the winter rates for the 2011 winter period into the billing system prior to November 1, 2011. Since the charges have been changed going forward and the amount under-billed per customer is immaterial (\$24 per customer), the Company has elected not to back bill these customers. Staff agrees with the Company, since the cost to CGC to individually back bill these 66 customers would outweigh the amount recovered from the customers. Additionally, no consumers are adversely impacted by this decision. The Company has implemented additional review to ensure this mistake does not happen in the future. This review improves the Company's internal control for the billing process. Except for the one discrepancy noted, Staff concludes that the Company is accurately billing its customers.

CHATTANOOGA GAS COMPANY
GAS TARIFF
TRA NO. 1

SECOND REVISED SHEET NO.49

WEATHER NORMALIZATION ADJUSTMENT

(WNA) RIDER

PROVISION FOR ADJUSTMENT

The base rate per CCF/therm (100,000 Btu) for gas service set forth in any rate schedules utilized by the Authority in determining normalized test period revenues shall be adjusted by an amount hereinafter described, which amount is referred to as the "Weather Normalization Adjustment."

DEFINITIONS

For Purpose of this Rider:

"Authority" means the Tennessee Regulatory Authority.

"Relevant Rate Order" means the final order of the Authority in the most recent litigated rate case of Chattanooga Gas Company (Company) fixing the rates of the Company or the most recent final order of the Authority Specifically prescribing or fixing the factors and procedures to be used in the application of this Rider.

COMPUTATION OF WEATHER NORMALIZATION ADJUSTMENT

The Weather Normalization Adjustment shall be computed to the nearest one-hundredth cent per CCF/therm by the following formula:

$$WNA_i = R_i \frac{HSF_i(NDD-ADD)}{(BL_i + (HSF_i \times ADD))}$$

Where

- i = any particular Rate Schedule or billing classification within any such particular Rate Schedule that contains more than one billing classification
- WNA_i = Weather Normalization Adjustment Factor for the i th Rate Schedule or classification expressed in cents per CCF/therm
- R_i = weighted average base rate (base rate less any embedded gas cost) of temperature sensitive sales for the i th schedule or classification utilized by the Authority in the Relevant Rate Order for the purpose of determining normalized test year revenues
- HSF_i = heat sensitive factor for the i th schedule or classification utilized by the Authority in the Relevant Rate Order for the purpose of determining normalized test year revenues
- NDD = normal billing cycle heating degree days utilized by the Authority in the Relevant Rate Order for the purpose of determining normalized test year revenues
- ADD = actual billing cycle heating degree days
- BL_i = base load sales for the i th schedule or classification utilized by the Authority in the Relevant Rate Order for the purpose of determining normalized test year revenues

FILING WITH AUTHORITY

The Company will file as directed by the Authority (a) a copy of each computation of the Weather Normalization Adjustment, (b) a schedule showing the effective date of each such Weather Normalization Adjustment, and (c) a schedule showing the factors or values derived from the Relevant Rate Order used in calculating such Weather Normalization Adjustment.

ISSUED: OCTOBER 11, 2004
ISSUED BY: STEVE LINDSEY, VP

EFFECTIVE: OCTOBER 1, 2004

**WEATHER NORMALIZATION ADJUSTMENT
(WNA) RIDER COMPONENTS**

RATE SCHEDULE	WEIGHTED BASE RATE (<u>\$THERM</u>)	HEAT SENSITIVE FACTOR - HSF (<u>THERM</u>)	BASE LOAD - BL (<u>THERM</u>)	
<u>(R-4) MULTI-FAMILY HOUSING SERVICE</u>	.217669	.084580	14.628	C C
Winter (November - April)				
<u>(C-2) MEDIUM COMMERCIAL AND INDUSTRIAL GENERAL SERVICE</u>	.176772	2.5160	471.807	
Winter (November - April)				