

BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE

August 24, 2012

IN RE:

CHATTANOOGA GAS COMPANY

WEATHER NORMALIZATION ADJ. (WNA) AUDIT)

) Docket No. 12-00084


**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, 2011 through April 30, 2012, and the Staff completed its audit of same on August 8, 2012.
3. On August 9, 2012, the Utilities Division submitted its preliminary WNA audit findings to the Company via e-mail. The Company responded on August 9, 2012 via e-mail and this response has been incorporated into the final report. The Report is attached hereto as Exhibit A and is fully incorporated herein by this reference.

4. 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:



Patsy Fulton
Utilities Division
Tennessee Regulatory Authority

CERTIFICATE OF SERVICE

I hereby certify that on this 24th day of August 2012, 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:

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EXHIBIT A

COMPLIANCE AUDIT REPORT

OF

CHATTANOOGA GAS COMPANY

WEATHER NORMALIZATION ADJUSTMENT (WNA) RIDER

DOCKET NO. 12-00084

TENNESSEE REGULATORY AUTHORITY

UTILITIES DIVISION

August 2012

COMPLIANCE AUDIT
CHATTANOOGA GAS COMPANY
WEATHER NORMALIZATION ADJUSTMENT (WNA) RIDER
Docket No. 12-00084

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COMPLIANCE AUDIT
CHATTANOOGA GAS COMPANY
WEATHER NORMALIZATION ADJUSTMENT (WNA) RIDER
DOCKET NO. 12-00084

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 2011 and April 2012 for CGC. As a result of the WNA Rider, the Company surcharged a net \$691,799 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 Staff's ("Staff") audit resulted in one (1) finding regarding the WNA, showing that the Company **over-collected \$71,955.12** from customers. See Section VI for a description of the Staff's finding. Except for the finding noted in this report, Staff concludes that CGC 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 no discrepancies.

Patsy Fulton 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 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 2011 – 2012 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 23.05% warmer than normal, resulting in a net surcharge to CGC's customers for the period.

Month	Actual Heating Degree Days	Normal Heating Degree Days	Warmer/Colder than Normal	Percentage Change
October 2011	178	156	Colder	-14.10%
November 2011	360	409	Warmer	11.98%
December 2011	566	667	Warmer	15.14%
January 2012	613	757	Warmer	19.02%
February 2012	465	582	Warmer	20.10%
March 2012	127	390	Warmer	67.44%
April 2012	98	167	Warmer	41.32%
Total	2,407	3,128	Warmer	23.05%

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 warmer than normal. As a result, the net impact of the WNA Rider during the November 2011 through April 2012 WNA period was that R-4 and C-2 customers were **surcharged** a net \$691,799. The percentage of total revenue derived from the WNA Rider was 1.44% (See Table 1). This is an increase from the previous year when the residential and commercial customers were **refunded** a net \$82,207 respectively. (See Table 2).⁸

Table 1

**Impact of WNA Rider on Residential & Commercial Revenues
November 2011 – April 2012**

	<u>WNA Rider Revenues</u>	<u>Total Revenues</u>	<u>Percentage Impact of WNA Rider on R&C Revenues</u>
Multi-Family (R-4) and Medium Commercial Sales (C-2)	<u>\$691,799</u>	<u>\$47,974,777</u>	<u>1.44%</u>

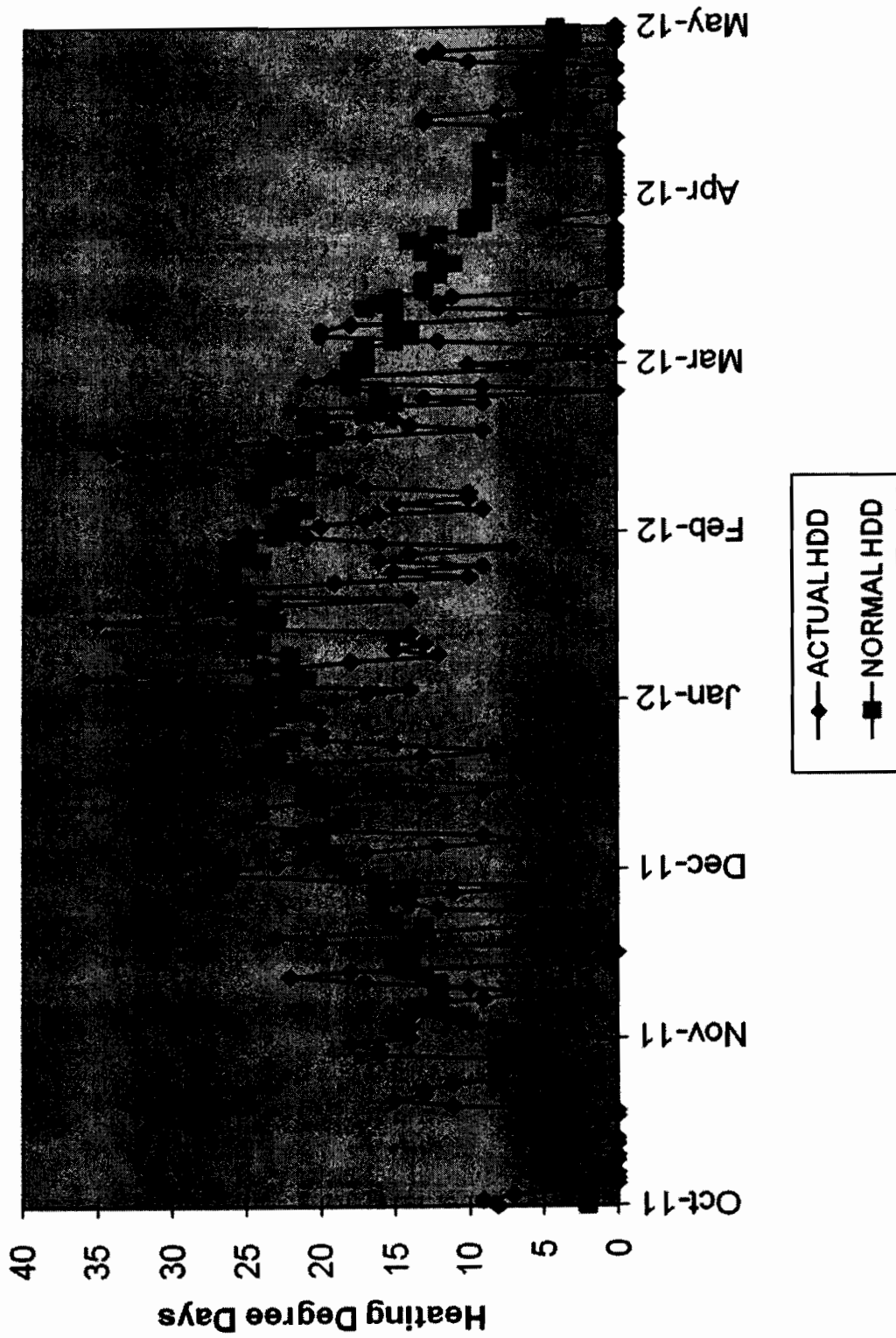
Table 2

**Amount Surcharged (Refunded)
2009 - 2012**

	<u>Residential</u>	<u>Commercial</u>	<u>Total Surcharge/(Refund)</u>
11/09-4/10	(496,540)	(317,407)	(813,947)
11/10-4/11	0	(82,207)	(82,207)
11/11-4/12	<u>835</u>	<u>690,964</u>	<u>691,799</u>
Total	<u>\$ (495,705)</u>	<u>\$ 291,350</u>	<u>\$ (204,355)</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 one WNA finding.

FINDING #1:

Exception

The Company used incorrect actual heating degree days (ADD) and normal heating degree days (NDD) in its weather normalization calculations.

Discussion

The Company used incorrect actual heating degree days (ADD) for Eight (8) billing cycles in the calculation of the WNA factors. In addition the Company used incorrect normal heating degree days (NDD) in the calculation of the WNA factors for the entire WNA period. As a result of these oversights, the Company over-collected \$71,955.12 in WNA revenues from its customers.

Company Response

Chattanooga Gas Company concurs with the finding and has implemented additional measures to verify the correct information is input into the billing system.

VII. CONCLUSIONS AND RECOMMENDATIONS

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). **Staff recommends that since the dollar amount of this finding is immaterial on a per customer basis, that the Company should include the over-collection in it's next Actual Cost Adjustment filing.**

ATTACHMENT 1

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.

**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> Winter (November - April)	.217669	.084580	14.628
<u>(C-2) MEDIUM COMMERCIAL AND INDUSTRIAL GENERAL SERVICE</u> Winter (November - April)	.176772	2.5160	471.807

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