

BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

July 22, 2013

IN RE:

CHATTANOOGA GAS COMPANY

WEATHER NORMALIZATION ADJ. (WNA) AUDIT)

)

)

) **Docket No. 13-00091**


**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, 2012 through April 30, 2013, and the Staff completed its audit of same on June 24, 2013.
3. On July 15, 2013, the Utilities Division submitted its preliminary WNA audit findings to the Company via e-mail. The Company responded on July 17, 2013 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:



Pat Murphy
Utilities Division
Tennessee Regulatory Authority

CERTIFICATE OF SERVICE

I hereby certify that on this 22nd day of July 2013, 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. 13-00091

TENNESSEE REGULATORY AUTHORITY

UTILITIES DIVISION

July 2013

COMPLIANCE AUDIT
CHATTANOOGA GAS COMPANY
WEATHER NORMALIZATION ADJUSTMENT (WNA) RIDER
Docket No. 13-00091

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COMPLIANCE AUDIT
CHATTANOOGA GAS COMPANY
WEATHER NORMALIZATION ADJUSTMENT (WNA) RIDER
DOCKET NO. 13-00091

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 2012 and April 2013 for CGC. As a result of the WNA Rider, the Company surcharged a net \$75,560.80 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 of the WNA factors resulted in one finding that the Company **over-collected a net \$848.54** in WNA revenue from customers during the audit period. A second finding resulted from Staff’s audit of a sample of customer bills. See Section VI for a description of Staff’s findings. Except for the findings 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 (ADD) to National Oceanic and Atmospheric Administration (“NOAA”) actual heating degree days;
- (2) the Company's normal heating degree days (NDD) 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 factors to Staff's independent calculation for each billing cycle during the WNA period.

In addition, Staff audited a sample of customer bills to verify that the WNA factors had been correctly applied to the bills. Staff also examined each sample bill to determine whether the Base Rates, Purchased Gas Adjustments and other billing components were billed correctly. Staff discovered several discrepancies, which are enumerated in Section VI (Finding #2).

Pat Murphy 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

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.³

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) 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, on September 26, 1991, the Tennessee Public Service Commission⁴ ("TPSC") approved a three-year experimental Weather Normalization Adjustment Rider ("WNA Rider") to the tariffs of Chattanooga Gas Company, Nashville Gas Company, a division of Piedmont Natural Gas Company, Inc. and United Cities Gas Company.⁵ In periods of weather

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

³ Weather data is published monthly by the National Oceanic and Atmospheric Administration ("NOAA").

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).

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. The WNA Rider was to be applied to residential and commercial customers' bills during the months of October through May of each year. 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

As a result of the Company's last rate case before this Authority, CGC's WNA Rider tariff was amended to apply to only medium commercial and industrial (C-2) and multi-family (R-4) rate schedules, as revenues billed to residential (R-1) and small commercial customers (C-1) are governed under the Company's Alignment and Usage Adjustment ("AUA").⁷ The AUA mechanism takes into consideration all effects on revenue recovery associated with usage. CGC's current WNA Rider tariff accompanies this Report as Attachment 1. The TRA Staff audits these WNA calculations annually.

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 2012 – 2013 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 during the winter heating season, the weather was 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
October 2012	163	156	Colder
November 2012	454	409	Colder
December 2012	516	667	Warmer
January 2013	599	757	Warmer
February 2013	578	564	Colder
March 2013	551	399	Colder
April 2013	163	173	Warmer
Total	3024	3,125	Warmer

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.

⁷ *In Re: Petition of Chattanooga Gas Company for a General Rate Increase, Implementation of the EnergySmart Conservation Programs and Implementation of a Revenue Decoupling Mechanism*, Docket No. 09-00183, Order, page 57 (November 8, 2010).

The net impact of the WNA Rider during the November 2012 through April 2013 WNA period was that R-4 and C-2 customers were **surcharged** a net \$75,560.80. The percentage of total revenue derived from the WNA Rider was 0.15% (See Table 1). This is a decrease from the previous year when the residential and commercial customers were **surcharged** a net total of \$691,799. (See Table 2)⁸

Table 1

**Impact of WNA Rider on Residential & Commercial Revenues
November 2012 – April 2013**

	<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>\$75,560.80</u>	<u>\$51,946,788</u>	<u>0.15%</u>

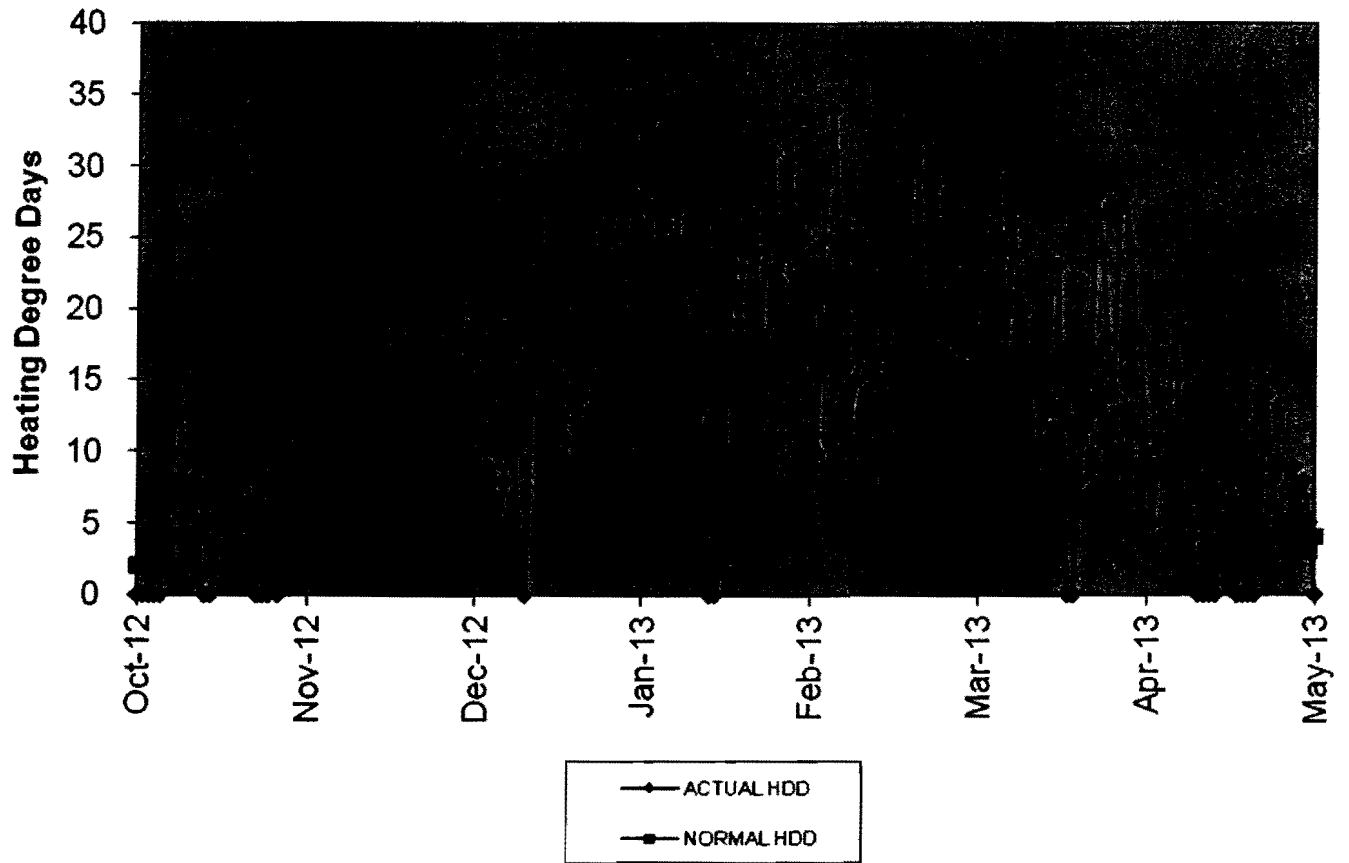
Table 2

**Total WNA Amount Surcharged (Refunded)
2010 - 2013**

11/2010-4/2011	(82,207)
11/2011-4/2012	691,799
11/2012-4/2013	<u>75,561</u>
Total	<u>\$ 685,153</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 two findings.

FINDING #1:

Exception

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

Discussion

The Company used incorrect actual heating degree days (ADD) in April 2013 in its calculation of the WNA factors for Bill Cycles 16 – 21. According to the Company, the average temperature entered into the billing system for April 19, 2013 was overstated resulting in a 5 degree day understatement of the Actual Degree Days used for those cycles. The result of this error was an **over-collection of \$848.54** in WNA revenues from its customers.

Recommendation

Based on the immaterial amount of over-collection, Staff recommends this over-collection be added to the Company's ACA Account Balance in the next ACA audit.

Company Response

Chattanooga Gas Company concurs.

FINDING #2

Exception

The Company billed incorrect rates to its customers.

Discussion

During the course of this audit, Staff requested random samples of customer bills for review and independently recalculated each bill to determine if the correct rates were billed.⁹ For any perceived discrepancies, Staff contacted the Company for an explanation.

The following billing errors were observed during the review:

1. The winter base rate was not properly implemented in November for CGC's one R-4 (multi-family) customer; and
2. The revised 2013 Chattanooga Franchise Fee rate was not timely implemented.

As a result of these errors, customers were **under-charged** and the Company chose not to re-bill. Since customers received the benefit of the under-billing and were not otherwise harmed by the billing error, Staff supports CGC's decision not to re-bill.

In addition, CGC notified Staff of two other billing errors:

1. In January 2013, incorrect Actual Cost Adjustment (ACA) factors were used in billing the Industrial customers (I-1, F-1, T-2 and T-3 Rate Schedules), resulting in an **over-collection of \$5,113**; and
2. In May 2013, incorrect Base Rates were used during the first two (2) billing cycles to bill 1,743 Residential and Commercial customers, resulting in a net **under-collection of approximately \$476.70**.¹⁰

In both of these instances, the Company decided that canceling and re-billing customers would be confusing and cost more to re-bill than the amount of the billing adjustments. Instead, CGC will add these amounts to the ACA Account Balance in the Company's next ACA audit. Staff agrees with the Company's handling of these immaterial amounts.

Company Response

The Company concurs. The Company has implemented additional procedures that require change in rates entered into the billing system to be double verified.

⁹ Base rates plus adjustments, such as the WNA, PGA, ACA, IMCR, AUA, franchise fees and taxes.

¹⁰ Residential customers were over-billed approximately \$502.18 and Commercial customers were under-billed approximately \$978.88.

VII. CONCLUSIONS AND RECOMMENDATIONS

Based on Staff's review of the WNA adjustments during the period November 2012 through April 2013 and the immaterial amount of the findings, Staff concludes that Chattanooga Gas Company is correctly implementing the mechanics of the Weather Normalization (WNA) Rider as approved by the Tennessee Regulatory Authority and included in the Company's tariff (see Attachment 1). The \$848.54 over-collection from customers is immaterial on a per customer basis.¹¹ **Staff, therefore, recommends that the Company record the over-collection in the ACA Account Balance in its next Actual Cost Adjustment (ACA) filing. CGC has agreed to do so.**

Staff became concerned over the number of billing issues detected during the course of this audit, as reported in Finding #2. While the errors made by the Company were significant, they resulted in very small amounts of over- or under-billing on a per customer basis. Staff did not discern that the affected customers were materially harmed. CGC related that as a result of changes in personnel, incorrect rates had been entered into the billing system. To ensure that these types of errors would not occur in the future, the Company implemented additional internal control procedures that included independent verification of any rate changes in the system by a second employee. **Staff, therefore, has assurance that the problem has been corrected. Staff agrees with the Company that any over- or under-billing amounts can be included in the annual true up that takes place in the ACA Account.**

¹¹ Less than \$0.01 per month, based on approximately 8,529 affected customers.

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