

BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

July 8, 2014

IN RE:

CHATTANOOGA GAS COMPANY

WEATHER NORMALIZATION ADJ. (WNA) AUDIT)

)

)

) **Docket No. 14-00064**

**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, 2013 through April 30, 2014, and the Staff completed its audit of same on June 16, 2014.
3. On June 16 and July 7, 2014, the Utilities Division submitted its preliminary WNA audit findings to the Company via e-mail. The Company responded on June 16 and July 8, 2014 via e-mail and these responses have 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 by Michelle Ramsey
Pat Murphy with permission
Utilities Division
Tennessee Regulatory Authority

CERTIFICATE OF SERVICE

I hereby certify that on this 8th day of July 2014, 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. 14-00064

TENNESSEE REGULATORY AUTHORITY

UTILITIES DIVISION

July 2014

COMPLIANCE AUDIT
CHATTANOOGA GAS COMPANY
WEATHER NORMALIZATION ADJUSTMENT (WNA) RIDER
Docket No. 14-00064

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COMPLIANCE AUDIT
CHATTANOOGA GAS COMPANY
WEATHER NORMALIZATION ADJUSTMENT (WNA) RIDER
DOCKET NO. 14-00064

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 2013 and April 2014 for CGC. As a result of the WNA Rider, the Company refunded a net \$228,754.67 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 calculation of the WNA factors produced one finding that resulted in the **under-collection of a net \$2,708.96** in WNA revenue from customers during the audit period. See Section VI for a description of Staff’s finding (Finding #1). Except for this finding, 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). With respect to the correction of audit findings from the prior WNA audit (Docket No. 13-00091), Staff discovered several other errors which are detailed in Findings #2 and #3 of this report.

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. Based on the results of this sample, Staff concludes that CGC is correctly billing its customers.

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.

Pat Murphy of the Utilities Division conducted this audit.

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 natural 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

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).

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 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 2013	129	156	Warmer
November 2013	502	409	Colder
December 2013	617	667	Warmer
January 2014	963	757	Colder
February 2014	583	564	Colder
March 2014	435	399	Colder
April 2014	120	173	Warmer
Total	3349	3125	Colder

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.

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 2013 through April 2014 WNA period was that R-4 and C-2 customers were **refunded** a net \$228,754.67. The percentage of total revenue derived from the WNA Rider was -.4% (See Table 1). This is a decrease from the previous year when the residential and commercial customers were **surcharged** a net total of \$75,561. (See Table 2)⁸

Table 1

**Impact of WNA Rider on Residential & Commercial Revenues
November 2013 – April 2014**

	<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>\$(228,754.67)</u>	<u>\$56,108,833</u>	<u>-0.4%</u>

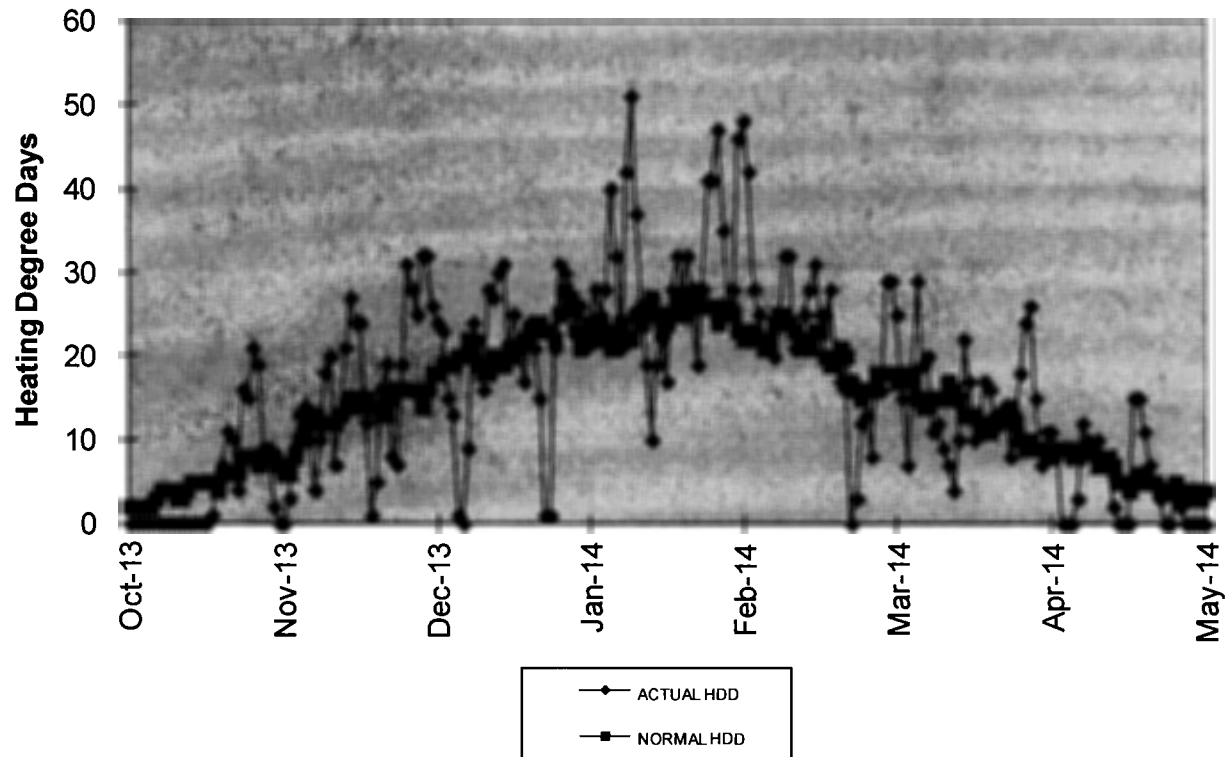
Table 2

**Total WNA Amount Surcharged (Refunded)
2011 - 2014**

11/2011-4/2012	\$ 691,799
11/2012-4/2013	75,561
11/2013-4/2014	<u>(228,754.67)</u>
Total	<u>\$ 538,605.33</u>

⁸ As explained in Section IV, the WNA was discontinued in Docket No. 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 and two additional findings related to prior period audit findings.

FINDING #1:

Exception

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

Discussion

The Company used incorrect actual heating degree days (ADD) in April 2014 in its calculation of the WNA factors for Bill Cycles 10 – 21. Since WNA factors are calculated on a real time basis for billing purposes, Chattanooga receives its daily heating degree day information from a weather service provider. These are preliminary data that have not been finalized by the National Oceanic and Atmospheric Administration ("NOAA").⁹ According to the Company, the number of heating degree days observed and reported for April 11, 2014 was 10. The final NOAA report which is released after the fact, corrected the heating degree days to 2. This difference led to an overstatement of the ADD for the ensuing twelve (12) cycles. The result of this error was an **under-collection of \$2,708.96** in WNA revenues from its customers.

Recommendation

Based on the immaterial amount of under-collection, Staff recommends this under-collection be added to the Company's Actual Cost Adjustment (ACA) Account Balance in the next ACA audit filed with the Authority.

Company Response

Chattanooga Gas Company concurs.

⁹ NOAA is the official standard used by Staff to audit the WNA adjustments.

FINDING #2:**Exception**

The Company incorrectly recorded a WNA adjustment in the ACA Account.

Discussion

In WNA audit Docket No. 13-00091, Audit Staff reported two (2) findings. Finding #1 was an over-collection of \$848.54 in WNA revenues due to the use of incorrect actual heating degree days in the calculation of the WNA factor. This over-collection was considered immaterial in amount and the report's recommendation was that it be refunded in the next Company ACA filing with the Authority. The Company concurred with this recommendation.

During the current WNA audit, Staff reviewed CGC's latest ACA filing¹⁰ to verify that the refund was properly recorded in the ACA Account. Staff discovered that in April 2013 the amount was incorrectly debited rather credited to the ACA Account.

Recommendation

To correct this error, Staff recommends that in its next ACA filing, the Company credit the ACA Account \$1,697.08. This will effectively reverse the incorrect posting and correctly record the refund amount of \$848.54.

Company Response

Chattanooga Gas Company concurs.

¹⁰ *In Re: Chattanooga Gas Company's Actual Cost Adjustment Filing for the Period of July 1, 2012-June 30, 2013*, Docket No. 13-00125.

FINDING #3

Exception

The Company incorrectly recorded billing adjustments in the ACA Account.

Discussion

In WNA audit Docket No. 13-00091, Audit Staff reported two (2) findings. Finding #2 detailed two (2) billing errors that Staff discovered during the course of its annual bill audit. These errors resulted in an under-billing of customers and the Company chose not to re-bill to recoup the lost revenue. Since the customers received the benefit and were not otherwise harmed, Staff supported the Company's decision.

In addition, the Company self reported two (2) additional billing errors which they discovered. One error involved the billing of incorrect Actual Cost Adjustment (ACA) factors during the month of January 2013. At the time the report was released, the Company estimated an over-collected amount of \$5,113. At a later date, Staff was notified that the amount had been revised to a net under-collection of \$13,301.10. This was comprised of a Commodity under-billing of \$13,899.28 and a Demand over-billing of \$598.18.

The second error involved incorrect base rates charged to residential and commercial customers during the first two (2) billing cycles in May 2013. The net under-collection was approximately \$476.70.

In both of these instances, the cost of canceling and re-billing customers would outweigh the amounts of the over/under collections. Staff, therefore agreed with the Company that the errors could be corrected in the ACA Account.

During the current WNA audit, Staff reviewed CGC's latest ACA filing¹¹ to verify that appropriate adjustments were recorded in the ACA Account. Staff discovered several errors in those adjustments:

1. In January 2013, the Company incorrectly credited (refunded) \$13,899.28 to the Demand portion of the ACA Account and incorrectly debited (charged) \$598.18 to the Commodity portion of the ACA Account. While it had initially been determined that the adjustments were to be made to the ACA, based on additional analysis, it has been determined that since the ACA is a summary or true-up of "actual" costs invoiced by suppliers less "actual" **revenues billed** to customers, the adjustments were not appropriate. The revenue the Company actually bills through the Purchased Gas Adjustment factor or the Actual Cost Adjustment factor on a customer's bill is reflected in the Deferred Gas Cost Account, not the revenue that should have been billed. As a result, it was not necessary to adjust for the January 2013 billing error to reflect the actual over/under collection as of the end of the ACA reporting period.
2. In May 2013, the Company incorrectly credited rather than debited \$476.70 to the ACA Account.

¹¹ *In Re: Chattanooga Gas Company's Actual Cost Adjustment Filing for the Period of July 1, 2012-June 30, 2013*, Docket No. 13-00125.

Recommendation

To correct error #1 above, the Company should reverse the \$13,899.28 and \$598.18 entries to the ACA Account, thereby eliminating the January 2013 adjustments. To correct error #2, the Company should debit the ACA Account \$953.40. This will effectively reverse the incorrect posting and correctly record the \$476.70 under-collection. These correcting adjustments should be made to the next ACA filing with the Authority.

Company Response

Chattanooga Gas Company concurs.

CONCLUSIONS AND RECOMMENDATIONS

Based on Staff's review of the WNA adjustments during the period November 2013 through April 2014 and the immaterial amount of the one WNA finding (Finding #1), 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 \$2,708.96 under-collection from customers is immaterial on a per customer basis.¹² **Staff, therefore, recommends that the Company record the under-collection in the ACA Account Balance in its next Actual Cost Adjustment (ACA) filing. CGC has agreed to do so.**

In the last WNA audit covering the 2012-2013 winter season, in addition to the \$848.54 under-collection of WNA revenues, Staff discovered several billing issues which were reported in Finding #2. Since the agreement between Staff and the Company was that all findings would be resolved in the next ensuing ACA filing, Staff reviewed the Company's latest ACA filing (Docket No. 13-00125) covering the reporting period July 1, 2012 through June 30, 2013. Staff discovered several errors made by the Company in posting these adjustments to the Deferred Gas Cost Account (ACA Account). These errors and Staff's recommendation to correct them in the next ACA filing are explained in Findings #2 and #3. The Company has reviewed these findings and agrees to make the corrections as recommended. Staff will review them in its next WNA audit.

Based on the sample bill review conducted this year, Staff is satisfied that the billing errors uncovered in the last WNA audit have been addressed and no further issues arose in this audit. We appreciate the full cooperation extended by Company personnel during this process.

¹² Less than \$0.03 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	C
<u>(C-2) MEDIUM COMMERCIAL AND INDUSTRIAL GENERAL SERVICE</u> Winter (November - April)	.176772	2.5160	471.807	C