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December 10, 2014

VIA EMAIL AND HAND DELIVERY

Executive Director Earl Taylor
c/o Sharla Dillon
Tennessee Regulatory Authority
502 Deaderick Street, 4th Floor
Nashville, Tennessee 37243

Re: TRA Docket 14-00118

Dear Executive Director Taylor:

Enclosed please find the original and four (4) copies of Chattanooga Gas Company's ("Company") electronic filing of its responses to the TRA Staff First Data Request in the above referenced docket. Confidential Exhibit A to the response to data request no. 8 contains confidential Company information about the arm's length negotiations and is being filed under seal for only the TRA's and Consumer Advocate's review. Confidential Exhibit A to the response to data request no. 9 contains confidential rate information regarding the proposed special contract and is being filed under seal.

Please do not hesitate to contact me if you have any questions or concerns.

Sincerely,

J.W. Luna

Enclosures

cc: David Foster
Rick Hitchcock, Esq.
Rachel Newton, Esq.

Chattanooga Gas Company

Responses to TRA Staff's First Set of Data Requests Docket 14-00118

Joint Request of Chattanooga Gas Company and Volkswagen Group of America Chattanooga Operations, LLC for Approval of Special Contract

STF-1-01

Please provide the terms of CGC's agreement to pursue a special contract rate for Volkswagen as part of the incentive package promotion put forth by the City of Chattanooga.

RESPONSE

The effort to attract Volkswagen to Tennessee was led by the Department of Economic and Community Development of the State of Tennessee. The City of Chattanooga, the Chattanooga Chamber of Commerce, Hamilton County, and many others were involved in developing the incentive package. Early in the process, Chattanooga Gas Company ("CGC" or "Company") was asked by State and Local Government officials to work with the group and develop an incentive rate that could be included in the incentive package.

As explained in attached Exhibit A, the letter from Charles H. Wood, Vice President, Economic Development for the Chattanooga Area Chamber of Commerce, the natural gas rate for the project was considered a critical factor in the discussions.

As requested, CGC committed to negotiate and seek the approval of the special contract by the Tennessee Regulatory Authority.

This response prepared by or under the supervision of Archie Hickerson, Director-Rates and Tariff Administration.

CHATTANOOGA AREA
CHAMBER

December 1, 2014

Mr. Paul Leath
AGL Resources
2207 Olan Mills Drive
Chattanooga, TN 37421

RE: VW Special Contract

Dear Paul:

On behalf of the Chattanooga Area Chamber of Commerce, I am writing you to demonstrate our support of the Volkswagen Special Rate.

The natural gas rate for the Volkswagen project was a critical factor in our initial utility discussions with the company. The ability to provide a highly competitive rate, as well as a strong understanding of reliability of our natural gas infrastructure, demonstrated the region's ability to accommodate this project. It also provides Chattanooga with a competitive advantage over other communities for any future projects the company may have.

Approval of this rate aligns with the business-friendly environment our community and state have cultivated to continue growing jobs and attracting investment. Thank you for your support and please contact me at (423)763-4335 or cwood@chattanoogachamber.com if you need additional information.

Sincerely,

Charles H. Wood
Vice President, Economic Development
Chattanooga Area Chamber of Commerce

Chattanooga Gas Company

Responses to TRA Staff's First Set of Data Requests Docket 14-00118

Joint Request of Chattanooga Gas Company and Volkswagen Group of America Chattanooga Operations, LLC for Approval of Special Contract

STF-1-02

What is the distance from the Volkswagen plant to the nearest interstate pipeline?

RESPONSE

The point to point distance is approximately 2.5 miles. The distance by road is approximately 5.4 miles.

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Chattanooga Gas Company

Responses to TRA Staff's First Set of Data Requests Docket 14-00118

Joint Request of Chattanooga Gas Company and Volkswagen Group of America Chattanooga Operations, LLC for Approval of Special Contract

STF-1-03

Has Volkswagen or CGC considered the feasibility and/or conducted any feasibility studies to determine the economic costs and benefits of bypassing CGC's distribution system and connecting directly to the interstate pipeline? If so, please provide a copy of all such studies and/or analysis done to reach the decision to pursue a special contract rate through the TRA.

RESPONSE

There were no studies conducted by either Volkswagen or CGC to compare the cost of bypassing CGC's distribution system versus connecting directly to the interstate pipeline. Per the response to STF-1-02, the point to point distance from the Volkswagen plant to the nearest interstate pipeline is approximately 2.5 miles which exceeds the approximate 2 mile distance from the Volkswagen plant to CGC's distribution system. Connecting to the CGC distribution system also eliminated the need for Volkswagen to purchase a right-of-way, which would have been required if they would have connected directly to the interstate pipeline. CGC's Franchise Agreement with the City of Chattanooga gives the Company access to public right-of-ways at no additional cost.

This response prepared by or under the supervision of Blake O'Farrow, Manager, Regulatory Affairs and Marketer Services.

Chattanooga Gas Company

Responses to TRA Staff's First Set of Data Requests Docket 14-00118

Joint Request of Chattanooga Gas Company and Volkswagen Group of America Chattanooga Operations, LLC for Approval of Special Contract

STF-1-04

Please provide any documentation to demonstrate that should Volkswagen bypass CGC's system, such bypass would be uneconomic to CGC and its customers. (Please provide the amount of stranded investment cost to CGC should Volkswagen make the decision to bypass CGC's distribution system.)

RESPONSE

Volkswagen's plant is currently being serviced by the CGC distribution system, with their current load being serviced under the CGC Tariff Rate Schedule F-1 Commercial and Industrial Large Volume Firm Sales Service. The Company's capital investment required to connect the Volkswagen plant to the CGC distribution plant was approximately $700,000, with Volkswagen paying approximately $400,000 in contribution in aid of construction. The current unrecovered cost is approximately $258,000. Accordingly, it would be uneconomic for CGC and its customers if Volkswagen elected to bypass CGC's system.

As shown in response to STF-1-08, under the proposed special contract the revenues will cover the cost to provide service and provide a contribution to margin that offsets the costs that would otherwise be borne by other CGC customers if Volkswagen chose to bypass CGC and connect directly to the interstate pipeline.

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Chattanooga Gas Company

Responses to TRA Staff's First Set of Data Requests Docket 14-00118

Joint Request of Chattanooga Gas Company and Volkswagen Group of America Chattanooga Operations, LLC for Approval of Special Contract

STF-1-05

Please provide any documentation and/or evidence of negotiations to support the determination that the contract rates and terms are not unduly preferential or discriminatory pursuant to Tenn. Code Ann. § 65-4-104 and that the rates are the highest that could be negotiated.

RESPONSE

Unduly preferential or discriminatory terms or rates are not addressed in Tenn. Code Ann. § 65-4-104.

> **65-4-104. Authority's jurisdiction and control of public utilities.**
>
> The authority has general supervisory and regulatory power, jurisdiction, and control over all public utilities, and also over their property, property rights, facilities, and franchises, so far as may be necessary for the purpose of carrying out the provisions of this chapter. However, such general supervisory and regulatory power and jurisdiction and control shall not apply to street railway companies.

The prohibition of unjust practices and unsafe service is addressed in Tenn. Code Ann § 65-4-115.

> **65-4-115. Unjust practices and unsafe services prohibited.**
>
> No public utility shall adopt, maintain, or enforce any regulation, practice, or measurement which is unjust, unreasonable, unduly preferential or discriminatory, nor shall any public utility provide or maintain any service that is unsafe, improper, or inadequate, or withhold or refuse any service which can reasonably be demanded and furnished when ordered by the authority.

Since service under the proposed special contract is provided in accordance with the provisions of Rate Schedule T-2 (Interruptible Transportation Service With Firm Gas Supply Backup) of the Company's tariff, which has been filed with and approved by the Authority[1], the contract terms are not unduly preferential or discriminatory. Indeed, the terms of this contract are applicable to any customer serviced under Rate Schedule T-2. The rate for service under the contract is different, but is not unduly preferential or discriminatory and would be offered to any similarly situated Customer that creates approximately 2,000 manufacturing jobs directly, makes an estimated $1.0 billion investment in plant and facilities, and provides the indirect benefit of approximately 8,000 regional jobs, provided that the Company has the facilities and capacity to provide such service.

This response prepared by or under the supervision of Archie Hickerson, Director-Rates and Tariff Administration.

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[1] Contract Section 4

Chattanooga Gas Company

Responses to TRA Staff's First Set of Data Requests Docket 14-00118

Joint Request of Chattanooga Gas Company and Volkswagen Group of America Chattanooga Operations, LLC for Approval of Special Contract

STF-1-06

Please provide CGC's rationale for agreeing to the contract term (see Section 5) that metered volumes of gas delivered to the Volkswagen facility will have no adjustment for intrastate fuel use or lost or unaccounted for gas.

RESPONSE

The provision in Section 5 that: " . . . Customer will be billed based on the metered volume of gas delivered to its facility with no adjustment for intrastate fuel use or lost and unaccounted for gas" is consistent with Chattanooga Gas Company's provision of service under all of its Rate Schedules. All Customers are billed based on metered volumes with no adjustment for intrastate fuel use or lost or unaccounted for gas.

This response prepared by or under the supervision of Archie R. Hickerson, Director-Rates and Tariff Administration.

Chattanooga Gas Company

Responses to TRA Staff's First Set of Data Requests Docket 14-00118

Joint Request of Chattanooga Gas Company and Volkswagen Group of America Chattanooga Operations, LLC for Approval of Special Contract

STF-1-07

Page 3 of the Company's Petition states that CGC's other customers will not be adversely impacted by the approval of this negotiated contract. Please explain fully the Company's basis for this statement.

RESPONSE

The proposed special contract was a component of the incentive package offered as an incentive for Volkswagen to locate its manufacturing operation in Chattanooga. The creation of approximately 10,000 jobs (both direct and indirect) in the area provides economic benefits to the residents of the area including the customers of Chattanooga Gas Company at no cost to the customers. As shown on Confidential Exhibit A to the response to STF-1-08, the revenue from the service provided under the proposed special contract will cover the cost of providing service to Volkswagen and provide a contribution to the margin that offsets fixed cost that would otherwise be paid by Chattanooga Gas Company's customers.

This response prepared by or under the supervision of Archie Hickerson, Director-Rates and Tariff Administration.

Chattanooga Gas Company

Responses to TRA Staff's First Set of Data Requests Docket 14-00118

Joint Request of Chattanooga Gas Company and Volkswagen Group of America Chattanooga Operations, LLC for Approval of Special Contract

STF-1-08

Please provide detailed work papers and all supporting documents demonstrating whether the contract rates will cover CGC's cost and contribute to margin by year over the life of the contract.

RESPONSE

Attached Confidential Exhibit A to STF 1-08 provides the analysis of the projected income, investment, and return on investment for the term of the contract (2015-2022). As shown, each year the contract rates produce revenues that cover the cost of service and contribution to margin. Also, please note that the volumes used to compute the revenue in this analysis are based on the actual volumes billed for the 12 months ended October 2014 and do not reflect increased volumes related to the announced expansion of the VW facility.

This response prepared by or under the supervision of Archie Hickerson, Director-Rates and Tariff Administration.

Chattanooga Gas Company

Responses to TRA Staff's First Set of Data Requests Docket 14-00118

Joint Request of Chattanooga Gas Company and Volkswagen Group of America Chattanooga Operations, LLC for Approval of Special Contract

STF-1-09

Provide a schedule calculating a monthly bill for Volkswagen using an estimated usage at the proposed contract rates versus a monthly bill using the tariff rates that would apply to Volkswagen absent a special contract.

RESPONSE

Chattanooga Gas Company (CGC) does not have a Rate Schedule that is directly comparable to the proposed special contract. CGC provides Firm Sales Service under Rate Schedule F-1 and Interruptible Transport with Firm Supply Backup under Rate Schedule T-2, but does not offer firm transportation as provided in the proposed special contract on a tariffed basis.

That information notwithstanding, the following three comparisons are provided in attached Confidential Exhibit A to STF 1-09:

(1) A comparison of service under Rate Schedule T-2, assuming Volkswagen transports 35,000 Dths per month with a Demand Determinant of 1,948 Dths, versus the transportation of 35,000 Dths under the proposed special contract with no firm supply backup;

(2) A comparison of service under Rate Schedule F-1, assuming Volkswagen purchases 35,000 Dths per month with a Demand Determinant of 1,948 Dths, versus the transportation of 35,000 Dths under the proposed special contract with no firm supply backup; and

(3) A comparison of service under Rate Schedule F-1, assuming Volkswagen purchases 35,000 Dths per month with a Demand Determinant of 1,948 Dths, versus the provision of 35,000 Dths under the proposed special contract assuming Volkswagen exercises the option under Section 5 to purchase gas from CGC.

This response prepared by or under the supervision of Archie Hickerson, Director-Rates and Tariff Administration.

Chattanooga Gas Company

Responses to TRA Staff's First Set of Data Requests Docket 14-00118

Joint Request of Chattanooga Gas Company and Volkswagen Group of America Chattanooga Operations, LLC for Approval of Special Contract

STF-1-10

Please discuss all other relevant factors that support approval of this special contract.

RESPONSE

As stated in the proposed special contract, Volkswagen had numerous options for locating its manufacturing operations in other states. In an effort to promote the economic development of the region, numerous entities – including the State of Tennessee, the City of Chattanooga, Hamilton County, and other organizations, including Chattanooga Gas Company -- worked together to create an incentive package that was presented to Volkswagen. The offer for Chattanooga Gas Company to negotiate a special contract for service to the Volkswagen's facilities and to seek approval of the special contract by the Tennessee Regulatory Authority was a component of the incentive package. As set forth in the proposed special contract, it was estimated that Volkswagen would create approximately 2,000 manufacturing jobs directly, make an estimated $1.0 billion investment in plant and facilities, and provide an indirect benefit of adding approximately 8,000 regional jobs because of employee spending and the contracting with suppliers engaged by Volkswagen across the state.

Volkswagen's current investment total in the State of Tennessee has exceeded $1 billion and has successfully created approximately 2,250 new manufacturing jobs. In July 2014, Volkswagen announced its plans to invest an additional $600 million in the Chattanooga facility, create an additional 2,000 jobs, and build a new research and development center.

It should be noted that in 2013, Tenn. Code Ann. § 65-5-103 was amended to provide that "a public utility may request and the authority may authorize a mechanism to recover the operational expenses, capital costs or both related to the expansion of infrastructure for the purpose of economic development, if such expenses or costs are found by the authority to be in the public interest." In this instance, Chattanooga Gas Company has not proposed a mechanism to recover such economic development costs but has negotiated a proposed special contract rate to promote economic development within its service area. The proposed special contract provides for the recovery of the cost of providing service to the customer and does not place a burden on Chattanooga Gas Company's other customers.

The terms set forth in the proposed special contract between CGC and Volkswagen are not unduly preferential or discriminatory and would be offered to any similarly situated customer that is estimated to create the economic development opportunities that Volkswagen is creating for the State of Tennessee.

This response prepared by or under the supervision of Blake O'Farrow, Manager, Regulatory Affairs and Marketer Services.