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July 12, 2016

IN RE:

CHATTANOOGA GAS COMPANY

WEATHER NORMALIZATION ADJ. (WNA) AUDIT)

)

)

) Docket No. 16-00061

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, 2015 through April 30, 2016, and the Staff completed its audit of same on June 22, 2016.
3. On June 22, 2016, the Utilities Division submitted its preliminary WNA audit findings to the Company via e-mail. The Company responded on July 5, 2016 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.

CERTIFICATE OF SERVICE

I hereby certify that on this 12th day of July 2016, 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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Pat Murphy

EXHIBIT A

COMPLIANCE AUDIT REPORT

OF

CHATTANOOGA GAS COMPANY

WEATHER NORMALIZATION ADJUSTMENT (WNA) RIDER

DOCKET NO. 16-00061

TENNESSEE REGULATORY AUTHORITY

UTILITIES DIVISION

July 2016

COMPLIANCE AUDIT
CHATTANOOGA GAS COMPANY
WEATHER NORMALIZATION ADJUSTMENT (WNA) RIDER
Docket No. 16-00061

TABLE OF CONTENTS

<u>NO.</u>	<u>PAGE</u>
I. INTRODUCTION AND AUDIT OPINION	1
II. SCOPE OF AUDIT	1
III. BACKGROUND INFORMATION ON THE COMPANY	2
IV. BACKGROUND ON WEATHER NORMALIZATION ADJ. RIDER	2
V. IMPACT OF WNA RIDER	4
CHART COMPARING ACTUAL TO NORMAL HDD	6
VI. WNA FINDINGS	7
VII. CONCLUSIONS AND RECOMMENDATIONS	11
ATTACHMENT 1: <u>WEATHER NORMALIZATION ADJUSTMENT (WNA) RIDER</u>	

COMPLIANCE AUDIT
CHATTANOOGA GAS COMPANY
WEATHER NORMALIZATION ADJUSTMENT (WNA) RIDER
DOCKET NO. 16-00061

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 2015 and April 2016 for CGC. As a result of the WNA Rider, the Company surcharged a net **\$557,287.32** 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 two findings that resulted in a net **under-collection of \$672,182.41** in WNA revenue from customers during the audit period and a third finding showing a **\$17,574 under-collection** of monthly customer charges based on the Staff’s bill audit. See Section VI for a description of Staff’s findings. Staff considers the basis for the error that resulted in Finding #2 to be a material departure from 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 confirmed that the Findings reported in the last WNA audit report (Docket No. 15-00061) were corrected in the most recent ACA filing with the Authority (Docket No. 15-00076).

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.

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.

During this examination, Staff discovered that Chattanooga incorrectly billed the monthly customer charge to its C-1 (Small Commercial and Industrial) during the summer months May through October 2015. See Finding #3 for a description of the error.

Pat Murphy of the Utilities Division conducted this audit.

III. BACKGROUND INFORMATION ON THE COMPANY

Chattanooga Gas Company, located at 6125 Preservation Drive in Chattanooga, Tennessee, is a wholly owned subsidiary of AGL Resources, Inc., a holding company formed in 2000 in response to the Public Utility Holding Company Act (PUCHA) of 1935. AGL Resources, Inc. is located at Ten Peachtree Place, Atlanta, Georgia. As a local distribution company ("LDC"), Chattanooga provides service to customers in Chattanooga and Cleveland, Tennessee, and surrounding environs in Hamilton and Bradley counties, all located in Southeast Tennessee. The natural gas used to serve these areas is purchased from various suppliers and transported via three natural gas pipelines in accordance with separate and individual tariffs approved by the Federal Energy Regulatory Commission ("FERC"). The three interstate pipelines are Tennessee Natural Gas Pipeline (TGP), East Tennessee Natural Gas (ETNG) and Southern Natural Gas (SNG).

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.²

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.

² Weather data is published monthly by the National Oceanic and Atmospheric Administration ("NOAA").

In recognition of this fact, on September 26, 1991, the Tennessee Public Service Commission³ (“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.⁴ In periods of colder than normal weather, 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.⁵

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”).⁶ 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.

³ 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).

⁴ 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).

⁵ 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.

⁶ *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).

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 2015 – 2016 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 2015	106	156	Warmer
November 2015	271	409	Warmer
December 2015	339	667	Warmer
January 2016	810	757	Colder
February 2016	556	582	Warmer
March 2016	245	399	Warmer
April 2016	125	173	Warmer
Total	2452	3143	Warmer

The net impact of the WNA Rider during the November 2015 through April 2016 WNA period was that R-4 and C-2 customers were **surcharged a net \$557,287.32**. The percentage of total revenue derived from the WNA Rider was 1.3% (See Table 1). Table 2 compares the amount surcharged (refunded) during the past three (3) heating seasons.

Table 1

Impact of WNA Rider on Residential & Commercial Revenues November 2015 – April 2016

	WNA Rider <u>Revenues</u>	Total <u>Revenues</u>	Percentage Impact of WNA Rider on <u>R&C Revenues</u>
Multi-Family (R-4) and Medium Commercial Sales (C-2)	<u>\$557,287.32</u>	<u>\$41,494,121.20</u>	1.3%

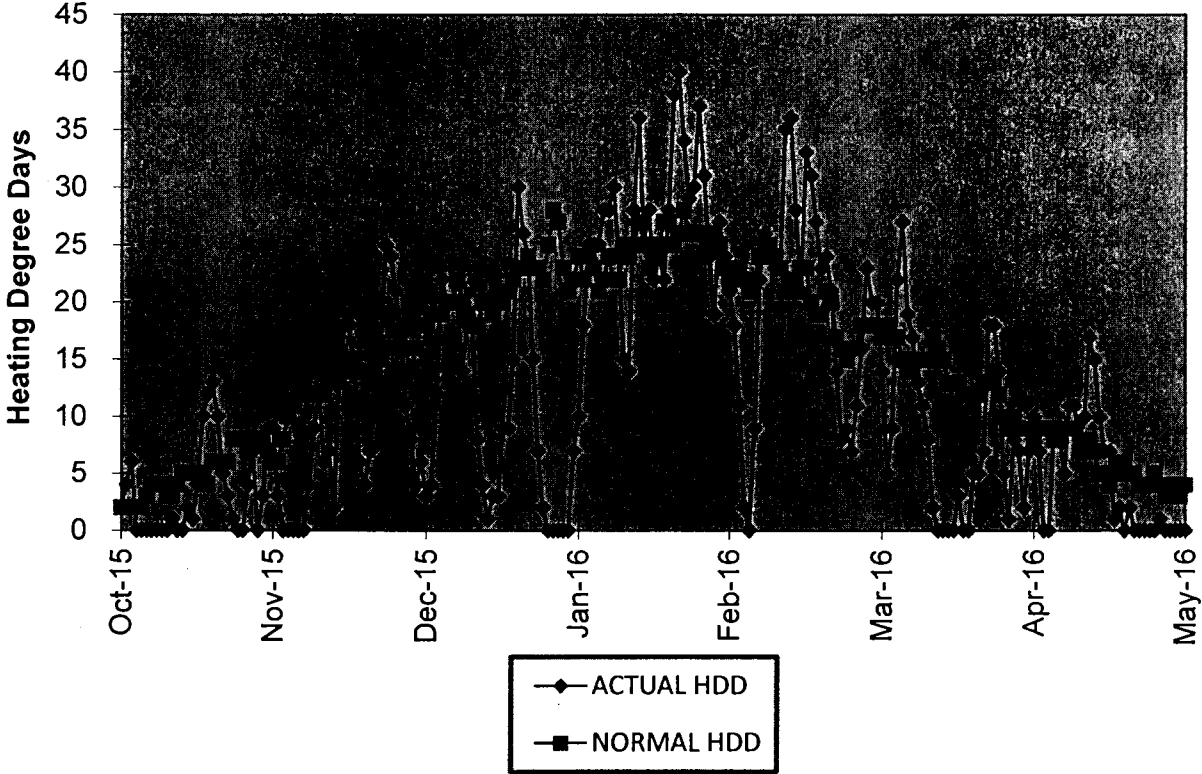
⁷ As explained in Section IV, the WNA was discontinued in Docket No. 09-00183 for all customer classes except R-4 and C-2 customers.

Table 2

**Total WNA Amount Surcharged (Refunded)
2013 - 2016**

11/2013-4/2014	\$ (228,754.67)
11/2014-4/2015	(137,709.95)
11/2015-4/2016	<u>557,287.32</u>
Total	<u>\$ 190,822.70</u>

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 WNA findings. Staff also has a third finding regarding the billing of base rates.

FINDING #1:

Exception

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

Discussion

The Company used incorrect actual heating degree days (ADD) in October and November 2015. These errors affected 8 Bill Cycles in November 2015. 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").⁸ According to the Company, the number of heating degree days observed and reported is as follows. The final NOAA report, which is released after the fact, corrected the heating degree days as noted.

Date	Company	NOAA	Difference
10/3/15	3	6	3
10/26/15	3	4	1
11/12/15	3	2	-1
11/13/15	14	13	-1
11/18/15	5	4	-1
11/22/16	26	25	-1

The result of these errors was an **over-collection of \$1,144.73** in WNA revenues from CGC's customers.

Recommendation

Based on the immaterial amount of over-collection, Staff recommends this over-collection be added to the Company's Actual Cost Adjustment (ACA) Account Balance in the next ACA audit covering the period July 2015 through June 2015 filed with the Authority.

Company Response

The Company agrees with TRA Staff's recommendation and will add the \$1,144.73 over collection in WNA revenues to the ACA account balance in the next ACA filed with the TRA.

⁸ NOAA is the official standard used by Staff to audit the WNA adjustments.

FINDING #2:

Exception

The Company used incorrect daily normal heating degree days (NDD) in its weather normalization adjustment factor calculations for November 2015 through Bill Cycle 7 in January 2016.

Discussion

Normal degree days are established in the context of a rate case and do not change until the next rate case. The normal degree days for CGC were adopted in Docket No. 09-00183 and became effective June 1, 2010. It is very rare, therefore, for there to be a finding related to NDD.

As part of the normal reporting process, CGC reported correct NDD starting in October 2015. During the month of November, however, when Staff was reviewing the first month's WNA calculations, Staff noticed that the cumulative cycle normal degree days were decreasing when they should have been gradually increasing. Early in December 2015, Staff sent an email to the Company asking that they check to see what the problem was. The "problem" as explained by the Company was that the normal daily degree days that are loaded annually into the billing system for the period beginning October 1 were not correctly loaded this year. No NDD were loaded for November through January. As a result the cumulative cycle NDD were understated for each bill cycle ending after November 1, 2015 until the error was discovered and corrected January 7, 2016. Impacted customers were therefore materially under-billed. The Company recomputed each affected bill using the correct normal degree days and called each customer to notify them of the error. Correcting adjustments were placed on customers' bills in February 2016.

Staff calculates its WNA factors using the cycle dates supplied by the Company, the NOAA verified actual daily heating degree days and the normal daily heating degree days from the most recent rate case. Staff then compares its calculations to the Company's reported calculations.⁹ The differences, if any, are then multiplied by the total sales volumes for that class of customers for that cycle. Using this methodology, the result was that the C-2 (Medium Commercial and Industrial) customers were **under-billed a total of \$797,090.85** for the period in question. The Company, however, re-calculated each individually affected customer's bills for the period based on the correct daily normal degree days (including corrected applicable franchise and state taxes). The results of the Company's re-calculations were that the C-2 customers were **under-billed a total of \$673,327.14**¹⁰ for the WNA and an additional \$57,752.86 in associated taxes. Staff requested and the Company supplied a spreadsheet detailing each customer's calculated adjustment that appeared on the February 2016 bill.¹¹

⁹ The WNA calculations the Company reports are verified on a sample basis in the annual bill audit conducted as part of the WNA audit process.

¹⁰ The difference between Staff's calculated under-billing and the Company's calculations results from the Staff using reported customer class data as a whole and the Company actually re-calculating each individual bill.

¹¹ Staff verified on a sample basis that the correct adjustments were made to the customer bills in February 2016.

Recommendation

Based on the fact that the Company recalculated its customers' bills for the period in question (which is the most accurate result) and then adjusted each individual customer bill to correct the error, Staff is in agreement with the Company's approach to remedy the error.

Company Response

Upon being notified by TRA Staff that the cumulative cycle normal degree days were decreasing when they should have been gradually increasing, the Company discovered that the Weather Normalization Adjustment (WNA) factor was incorrectly applied to its C-2 (Medium Commercial and Industrial) customers for November 2015 through Bill Cycle 7 in January 2016. Instead of a charge, customers were erroneously given a credit.

- Weather Normalization Adjustment
 - The Weather Normalization Adjustment (WNA) is designed to reduce the volatility in customer's bill that result from abnormal weather.
 - The WNA reduces that volatility by comparing the actual weather that occurred during a billing period to normal weather and adjusts the distribution portion of the bill to normal weather.
 - This adjustment is a credit to the bill if the weather is colder than normal and a surcharge to the bill if the weather is warmer than normal. No adjustment occurs in normal weather.
- We discovered that the Normal Degree Days (NDD) had not be correctly input into the billing system resulting in the WNA calculations for C-2 (Medium Commercial and Industrial) and R-4 (Multi-Family Housing Service) customers for November 2015 through Bill Cycle 7 in January 2016 being under-billed.
- The error was corrected and all impacted customers were contacted via phone, and a description of the issue was included on each affected customer's bill to explain one-time line item correction on their February bill.

The Company has implemented additional procedures to insure that Normal Degree Days and the Actual Degree Days are verified to insure proper billing.

FINDING #3:

Exception

The Company under-billed its C-1 (Small Commercial and Industrial) customers for the months of May through October 2015.

Discussion

CGC charged each of its C-1 customers a \$24.00 monthly Customer Base Use Charge for the months of May through October 2015. These months are the “summer” months in the Company’s tariff and customers should have been billed the tariffed summer rate of \$25.00 per month. The amount of the finding is **\$17,574 under-billed.**¹²

Recommendation

CGC has acknowledged this error, but states it will not re-bill customers to recover the \$17,574. Staff agrees with the Company’s decision.

Company Response

The Company recognizes it under billed its C-1 customers by \$1 a month during the period of May – October 2015. The Company reviews all customer billing matters and determined in this particular instance to not rebill and collect the \$17,574 under-billed amount.

¹² Total number of C-1 customers billed May through October 2015 (17,574) times \$1.00 difference.

CONCLUSIONS AND RECOMMENDATIONS

Based on Staff's review of the WNA adjustments during the period November 2015 through April 2016, as stated in its Audit Opinion in Section I, Staff considers the basis for the error encompassed in Finding #2, although unintentional, to be a material departure from the mechanics of the WNA calculation found in CGC's approved tariff.¹³ The Company has appropriately addressed this error by notifying and re-billing each individually affected customer. The Company posted a one-time adjustment on customers' bills in February 2016 and supplied the Staff with documentation of the adjustments. Staff confirmed the adjustments by reviewing a sample of the February bills. **Staff, therefore, is satisfied that the Company has remedied Finding #2.** CGC stated in its response to the finding that the Company has implemented additional procedures to verify the Actual and Normal heating degree days to ensure proper customer billing. Therefore, Staff does not expect to see a repeat finding in this area.

With reference to Finding #1, Staff calculated a **\$1,144.73 over-collection** due to the use of inaccurate daily actual heating degree days and the Company agreed with this finding. Due to the immaterial amount of this finding, **Staff recommends that the Company include this amount in the Actual Cost Adjustment balance in its next ACA filing with the Authority, covering the period July 2015 through June 2016.** The Company has agreed to do so.

Finding #3, while not a WNA finding, is a billing error that was discovered during the Staff annual bill audit process. The bill audit is performed to ensure that not only are the WNA factors calculated by the Company correctly billed, but that other approved tariff rates are also correctly billed. In this finding, C-1 Small Commercial customers were under-billed the monthly summer tariff rate for customer charges by \$1.00 per month. The total amount of **\$17,574 under-collection** was in the customers' favor and the Company made the internal decision not to re-bill to recoup this amount. **Staff recommends approval of the Company's decision.**

We appreciate the full cooperation extended by Company personnel during this process.

¹³ See Attachment 1 (Weather Normalization Adjustment (WNA) Rider, Second Revised Sheet No. 49 and Seventh Revised Sheet No. 49A).

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