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August 22, 2016

Chairman David Jones  
Tennessee Regulatory Authority  
C/o Sharla Dillon, Docket Room  
460 James Robertson Parkway  
Nashville, TN 37243-0505

Docket No. 16-00098

Re: Chattanooga Gas Company Annual Report of Actual Cost of Gas Purchased and Applicable Indices for the twelve months ended June 30, 2016.

Dear Chairman Jones

Pursuant to the provisions of the Performance Based Ratemaking Mechanism approved by the Tennessee Regulatory Authority's January 8, 2002 Order in Docket 01-00619, Chattanooga Gas Company ("CGC") is filing an original and three copies of the report of actual gas cost and the applicable index cost for each month of the plan year ended June 30, 2016 (Attachment A). As shown on Attachment A, the commodity cost of gas purchased by CGC during the plan year was approximately 3.3 % above the benchmark cost and therefore was not within the 1% range as provide in the CGC's tariff. Below we detail the reason for being above the benchmark and CGC's proposal to make adjustments to more accurately reflect the reality of the natural gas supply markets.

CGC is responsible for providing safe and reliable natural gas service to its firm customers, which includes ensuring that CGC procures adequate gas supplies to meet customers' needs.

CGC holds firm transport contracts to deliver gas to its gate from three pipelines, Southern Natural Gas ("SNG"), Tennessee Gas Pipeline ("TGP") and East Tennessee Natural Gas ("ETNG"). CGC's ETNG transport has three receipt points it can source supply from, the TGP/ETNG interconnect at Lobelville, the TGP/ETNG interconnect at Ridgetop and the Dickenson County, Virginia receipt point located on ETNG's NORA Line in Dickenson County, Virginia (NORA). The receipt volumes for each receipt point are 22,911 dekatherm (Dth)/day, 13,540 Dth/day, and 4,899 Dth/day respectively. The only supply path a pipeline is contractually obligated to deliver must be scheduled from the shipper's (CGC's) primary receipt point to its primary delivery point. All other scheduling paths are subject to being cut by the pipeline.

While the supply for the Lobelville and Ridgetop interconnects can be purchased at TGP index pricing because it is sourced from TGP, the (NORA) receipt point is not a liquid

point and is not tied to any specific index price location. In addition there is only one supplier that offers gas at that receipt point.

In order for CGC to fill its capacity with firm supply and ensure it could meet both its design day and daily demand for the duration of the winter period, CGC entered into a contract to purchase gas from this supplier. If CGC had not locked in the supply available at the NORA receipt point, there was a high likelihood the supply would have been committed to another purchaser and would not be available to CGC, resulting in the stranding of the 4,899 Dth/day deliverability and put at risk CGC's ability to serve its firm customers during the high demand heating period.

In the past CGC had been able to purchase gas at the NORA receipt point on a seasonal basis during the high demand heating period November-March. However, the supplier rejected the seasonal contract and required CGC to agree to purchase gas during each month of the period of April 1, 2016-March 31, 2017. With the requirement to purchase gas for the additional months, the supplier agreed to a lower price per Dth than under the previous seasonal contracts. However as a result of requiring the 12 month contract, the 12 months period ended June 30, 2016 included gas purchased at the higher seasonal rate for the months of November 2015-March 2016 and purchases at the lower rate for April 2016-June 2016. If the purchases for April 2016-June 2016 are removed the purchased price would have exceeded the benchmark by approximately 2.2% instead of 3.3%.

As previously explained, there is no index price for gas at the NORA receipt point. As a result it is necessary to compute a surrogate benchmark. In the past, CGC has used as a surrogate benchmark Tennessee Gas Pipeline Zone 1 index price adjusted for transportation. This index does not reflect the price of natural gas for the Dickenson County, Virginia areas. In this filing CGC has used the Transcontinental Gas Pipeline Company (Transco) Zone 5 First of Month Price adjusted for transportation as the surrogate benchmark. While this benchmark more closely reflects the price for the area, additional analysis is needed to determine if this is the appropriate index or if another surrogate should be developed.

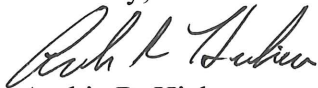
Under CGC's Performance Based Ratemaking, (PBR) provision the requirement for the annual gas cost review under TRA Rule 1220-4-7-.05 is waived if its gas cost is within the 1% of the benchmarked price. Since in docket 07-00224 the TRA ordered a triennial review of CGC gas supply activity to be initiated in the fall of 2016, the process for a prudence review has been initiated and the consultant to conduct the review has been selected. In conjunction with the review, it is proposed that the consultant review the appropriateness of using the adjusted Transco Zone 5 index for the purchases at NORA and/or develop an appropriate benchmark to use for evaluating the purchases at NORA.

For the Authority's convenience, spreadsheets showing the volumes of gas, the indices, and the purchase prices for each month and each day are provided as Attachments B & C respectively. Chattanooga Gas Company considers the detailed information on Attachments B & C to be confidential and proprietary. As a result these Attachments are being filed under seal.

Copies of this filing and the underlying accounting documents needed for the Staff's audit are being provided to the Staff in both hard copy and electronic format.

Should there be any questions, I will be pleased to discuss this filing in further detail. I can be reached at 404 584 4570.

Sincerely,

A handwritten signature in cursive script, appearing to read "Archie R. Hickerson".

Archie R. Hickerson

Director-Rates and Tariff Administration

C: Mr. David Foster

# Summary Gas Cost Over (Under) Benchmark

Chattanooga Gas Company  
PBR Filing  
ACA Year Ended June 30, 2016

Month	SONAT (FOM)	Tenn/ZO (FOM)	Tenn/500leg (FOM)	Tenn/800leg (FOM)	Transco Z 5 (FOM-NORA)	SONAT (FOM-Storage)	Tenn/Z1 & Z0 (FOM-Storage)	Tenn/Z1 (FOM-City Gate)	SONAT (Gas Daily)	Tenn/Zone 0 (Gas Daily)
Jul-15	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	(\$45.06)	\$0.00	\$0.00	\$4.07
Aug-15	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	(\$24.66)	\$0.00	\$0.00	\$0.00
Sep-15	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$3.49
Oct-15	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	(\$14.56)	\$0.00	\$0.01	\$21.89
Nov-15	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$5.72
Dec-15	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$3.51
Jan-16	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$25.65	\$1.66
Feb-16	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	(\$0.09)	(\$12.82)
Mar-16	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$2.67	\$0.68
Apr-16	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	(\$596.83)	\$0.63	\$0.63	(\$0.44)
May-16	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$802.61	\$6.24	\$6.24	(\$7.37)
Jun-16	\$0.00	\$0.00	\$0.00	\$0.00	\$67.417.55	\$0.00	\$0.00	\$0.00	\$5.26	(\$1.16)
<b>% Bench</b>	<b>0.0000%</b>	<b>0.0000%</b>	<b>0.0000%</b>	<b>0.0000%</b>	<b>\$596,097.70</b>	<b>20.3902%</b>	<b>\$131.49</b>	<b>0.0000%</b>	<b>\$40.38</b>	<b>\$19.22</b>
							<b>0.0048%</b>		<b>0.0015%</b>	<b>0.0013%</b>

Total CGC Purchase Gas Cc	\$581,977.98	\$749,562.40	\$0.00	\$57,402.08	\$3,519,550.05	\$0.00	\$4,924,030.07	\$0.00	\$2,763,847.45	\$1,476,089.50
Total Benchmark Purchase C	\$581,977.98	\$749,562.40	\$0.00	\$57,402.08	\$2,923,452.35	\$0.00	\$4,923,898.58	\$0.00	\$2,763,807.07	\$1,476,070.28
Purchase Exceed Benchmark	\$0.00	\$0.00	\$0.00	\$0.00	\$596,097.70	\$0.00	\$131.49	\$0.00	\$40.38	\$19.22
% of Benchmark	0.00%	0.00%	0.00%	0.00%	20.39%	0.00%	0.00267%	0.00%	0.00%	0.00%

FOM - NORA			
Henry Hub Last Day Settle plus			
Nov-15	\$1.045	Calculated	Billed
Dec-15	\$2.0330	\$3.0780	\$3.0780
Jan-16	\$2.2060	\$3.2510	\$3.2575
Feb-16	\$2.3720	\$3.4170	\$3.4170
Mar-16	\$2.1890	\$3.2340	\$3.2340
Mar-16	\$1.7110	\$2.7560	\$2.7560
FOM - NORA			
Last Day Settle			
Apr-16	plus \$0.51	Calculated	Billed
May-16	\$1.9030	\$2.4130	\$2.4130
Jun-16	\$1.9630	\$2.5050	\$2.5050
Jun-16	\$1.9630	\$2.4730	\$2.4730



Summary  
Gas Cost Over (Under) Benchmark

Chattanooga Gas Com  
PBR Filing  
ACA Year Ended June

Month	TennZone 0 (Gas Daily - Storage)	Tenn500L (Gas Daily - Storage)	Tenn800L (Gas Daily - Storage & City Gate)	Transco Zone 5 Gas Daily Index minus (\$0.03)	SONAT (Gas Daily - City Gate)	SONAT (Gas Daily - Storage)	Tenn500L (Gas Daily - City Gate)	Cost Over (Under) Benchmark \$	%
Jul-15	\$0.00	\$0.00	(\$2.52)	\$0.00	-	(\$3,341.75)	\$0.00	(\$3,365.26)	-0.1640%
Aug-15	\$0.00	\$0.00	(\$2.66)	\$0.00	-	(\$3,561.48)	\$0.00	(\$3,586.80)	-0.1590%
Sep-15	\$0.00	(\$0.36)	\$0.70	\$0.00	-	(\$3,658.88)	\$0.00	(\$3,655.05)	-0.2781%
Oct-15	\$0.00	\$0.00	(\$3.90)	\$0.00	-	(\$1,930.60)	\$0.00	(\$1,927.18)	-0.1067%
Nov-15	\$0.00	\$0.00	\$1.98	\$0.00	-	\$0.00	\$0.00	\$125,625.16	13.8797%
Dec-15	\$0.00	\$0.00	\$1.81	\$0.00	-	\$0.00	\$0.00	\$87,625.33	12.2407%
Jan-16	\$0.00	\$0.00	\$17.67	\$0.00	-	\$0.00	\$0.00	\$14,133.45	0.6599%
Feb-16	\$0.00	\$0.00	\$10.81	\$0.00	-	\$0.00	\$0.00	\$23,736.52	1.8164%
Mar-16	\$0.00	\$0.00	\$2.08	\$0.00	-	\$0.00	\$0.00	\$140,158.06	23.7676%
Apr-16	\$0.00	(\$0.52)	(\$3.02)	\$0.00	-	\$0.00	\$0.00	\$66,972.15	4.1162%
May-16	\$0.00	\$0.38	\$1.53	\$0.00	-	(\$3,166.34)	\$0.00	\$66,735.05	3.9943%
Jun-16	\$0.00	\$0.00	(\$0.60)	\$0.00	-	(\$4,337.53)	\$0.00	\$63,886.15	5.1318%
% Bench	0.0000%	-0.0003%	0.0009%	0.0000%	0.0000%	-1.5232%	\$0.00	\$576,315.60	3.2664%

Total CGC Purchase Gas Cc	\$96.04	\$174,420.41	\$2,680,175.38	\$0.00	\$1,292,772.43	\$18,219,923.79
Total Benchmark Purchase C	\$96.04	\$174,420.90	\$2,680,151.50	\$0.00	\$1,312,769.01	\$17,643,608.19
Purchase Exceed Benchmark	\$0.00	(\$0.49)	\$23.88	\$0.00	(\$19,996.58)	\$576,315.60
% of Benchmark	0.00%	0.00%	0.00%	0.00%	-1.52%	3.27%