

**BEFORE THE TENNESSEE REGULATORY AUTHORITY  
NASHVILLE, TENNESSEE**

**November 4, 2016**

<b>IN RE:</b>	)	
	)	
<b>CHATTANOOGA GAS COMPANY</b>	)	<b>Docket No.</b>
<b>ANNUAL INCENTIVE PLAN FILING</b>	)	<b>16-00098</b>
<b>FOR THE TWELVE MONTHS</b>	)	
<b>ENDED JUNE 30, 2016</b>	)	

**CHATTANOOGA GAS COMPANY SUPPLEMENTAL INFORMATION  
IN SUPPORT OF ITS MOTION TO WAIVE RULE  
TO APPROVE AN EXPANSION OF THE SCOPE OF WORK WITH  
EXETER TO INCLUDE A PRUDENCY REVIEW**

Chattanooga Gas Company (“CGC”), pursuant to Tenn. Comp. R. & Regs. 1220-01-1-.05 and 1220-1-2-.06, hereby provides the Tennessee Regulatory Authority (“Authority” or “TRA”) with the following additional information in support of its October 10, 2016 Motion to Waive Rule so as to expand the scope of its triennial review to permit the currently engaged auditor, Exeter Associates, Inc., to also conduct a prudence review of its annual cost of gas without seeking new bids for an auditor. In order to supplement its previously provided information, CGC states as follows;

1. On October 10, 2016, CGC filed its Motion to Waive Tenn. Comp. R. & Regs. 1220-04-07-.05(1)(a), and authorize CGC to expand the scope of its triennial review to permit the currently engaged auditor, Exeter Associates, Inc., to also conduct a prudence review of its annual cost of gas for the Performance Based Ratemaking Mechanism plan year that ended June 30, 2016 (“PBR Report”) without seeking new bids for an auditor. Because the plan year cost of

gas exceeds the 1% threshold for prudence established by the CGC Tariff,<sup>1</sup> pursuant to Tenn. Comp. R. & Regs. 1220-04-07-.05, CGC must perform a prudence review through an independent auditor. Tenn. Comp. R. & Regs. 1220-04-07-.05(1)(a) further provides that CGC shall prepare and issue a request for proposals (“RFP”) unless otherwise ordered by the Authority.

2. CGC is requesting a waiver of the rule requiring an RFP based upon an offer of the presently retained auditors for the triennial review, Exeter Associates, Inc., to conduct the prudence review at a cost of no more than \$2,500. The attached Exhibit A reflects the correspondence between Exeter and CGC associated with this offer. CGC believes this is a very fair and appropriate cost given the scope of work that will benefit the Company’s ratepayers by not incurring the time and cost of a bidding process that would likely cost more than \$2,500.

3. CGC requested an estimate for the additional prudence review from Exeter for several reasons. First, Exeter was the only bidder for the triennial review, recently conducted pursuant to a separate RFP process, and it was the successful bidder three years ago for the Company’s last triennial review. Second, CGC believes that utilizing the existing auditor would be more efficient and cost effective since the auditor would already be engaged in utilizing the same core data for both reviews. Third, given the \$2,500 Exeter proposal and the absence of any other bidders in past bid solicitations, CGC believes that the likelihood of getting anyone else to bid, let alone propose to do the work for less than \$2,500, is highly unlikely. Fourth, the time and cost to go out to bid would most likely cost CGC more than the \$2,500 associated with Exeter’s proposed cost.

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<sup>1</sup> CGC Gas Tariff, TRA No. 1, Second Revised Sheet No. 56A (effective February 1, 2006).


4. CGC acknowledges that the time associated with seeking a separate RFP would not materially or adversely impact the overall audit process. However, the Company's time and cost in preparing a new solicitation, sending out the RFP to potential bidders, and reviewing the bids, if any, and preparing a new contract for such services will, unquestionably, take more than the \$2,500 at issue. The PBR prudency review is important and CGC respects the integrity of the RFP process in order to obtain the benefit of the potentially lower costs. But under these facts and circumstances, there are no such benefits and the likelihood is a greater ultimate cost for ratepayers.

5. CGC has prepared a draft amendment to the written scope of work and is prepared to move forward upon the granting of the Motion for Waiver and approval of the scope of work.

WHEREFORE, Chattanooga Gas Company respectfully requests that the TRA issue an order granting CGC a waiver of Tenn. Comp. R. & Regs. 1220-04-07-.05 (1)(a) and engage Exeter for the prudency review as set forth herein and in the original Motion.

Respectfully submitted,

Floyd R. Self (Florida Bar # 608025)  
Berger Singerman LLP  
313 North Monroe Street, Suite 301  
Tallahassee, Florida 32301  
Direct Telephone: (850) 521-6727  
Facsimile: (850) 561-3013 Email:  
fself@bergersingerman.com



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J. W. Luna, Esq. (No. 5780)  
LUNA LAW GROUP, PLLC  
333 Union Street, Suite 300  
Nashville, TN 37201  
(615) 254-9146  
(615) 254-7123 facsimile  
jwluna@LunaLawNashville.com

*Attorneys for Chattanooga Gas Company*

## Exhibit A

**From:** Jerry Mierzwa [<mailto:jmierzwa@exeterassociates.com>]  
**Sent:** Monday, September 19, 2016 12:14 PM  
**To:** Hickerson, Archie R.; O'Farrow, Blake T.  
**Cc:** Leath, Paul C.  
**Subject:** RE: Triennial Review Expanded Scope

Thanks, Archie. I don't think the expanded scope will require a significant additional amount of effort by Exeter. I assume you were inquiring about budget implications. I would suggest a budget increase of \$2,500. If that works, great, and I can get data requests out. If not, give me a call. Is there paper work that needs to be completed? Thanks.

**From:** Hickerson, Archie R. [<mailto:ahickers@southernco.com>]  
**Sent:** Friday, September 16, 2016 4:07 PM  
**To:** Jerry Mierzwa <[jmierzwa@exeterassociates.com](mailto:jmierzwa@exeterassociates.com)>; O'Farrow, Blake T. <[bofarrow@southernco.com](mailto:bofarrow@southernco.com)>  
**Cc:** Leath, Paul C. <[pleath@southernco.com](mailto:pleath@southernco.com)>  
**Subject:** RE: Triennial Review Expanded Scope

Jerry

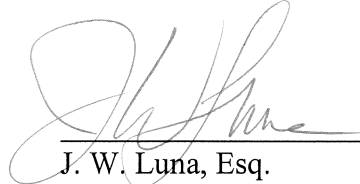
I think that we can have one report that covers April 2013-June 30, 2016, but there should be a discussion within the report that specifically addresses July 1, 2015-June 30, 2016, since CGC was out of limits of the PBR for that period. It wasn't out of limits for the previous period (July 2014-June 2015).

**CERTIFICATE OF SERVICE**

I hereby certify that a true and exact copy of the foregoing has been served on the persons below on this the 4<sup>th</sup> day of November, 2016, by electronic mail:

Jim R. Layman  
Tennessee Regulatory Authority  
502 Deaderick Street  
Nashville, TN 37243  
Jim.R.Layman@tn.gov

Vance Broemel, Esq.  
Office of the Tennessee Attorney General  
Consumer Advocate Protection Division  
P. O. Box 20207  
Nashville, TN 37202  
Vance.Broemel@ag.tn.gov

  
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J. W. Luna, Esq.