

BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

January 31, 2017

IN RE:

CHATTANOOGA GAS COMPANY ANNUAL
INCENTIVE PLAN FILING FOR THE TWELVE
MONTHS ENDED JUNE 30, 2016

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DOCKET NO.
16-00098

ORDER GRANTING MOTION TO EXPAND CONSULTANT SCOPE OF WORK

This matter is before the Hearing Officer for consideration of the *Chattanooga Gas Company Motion to Waive Rule to Approve an Expansion of the Scope of Work with Exeter to Include a Prudency Review* (“*Motion*”) filed by Chattanooga Gas Company (“CGC” or the “Company”) on October 10, 2016.¹

MOTION AND SUPPLEMENTAL INFORMATION

As required in the Tennessee Regulatory Authority (“Authority” or “TRA”) Order issued on September 23, 2009 in TRA Docket No. 07-00224, CGC completed the request for proposal (“RFP”) process for the triennial review of its gas purchases and the related sharing to be conducted pursuant to the Order. The triennial review bid process resulted in an award of the contract to Exeter Associates, Inc. (“Exeter”) for the period of April 1, 2013 through March 30, 2016.²

On August 26, 2016, CGC filed its annual report for actual cost of gas and applicable indices for each month of the Performance Based Ratemaking Mechanism (“PBRM”) which was

¹ On November 4, 2016, CGC filed *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* (“*Supplemental Information*”).

² See *Motion*, p. 3 (October 10, 2016).

approximately 3.3% above the benchmark. CGC's tariff establishes a 1% threshold for prudence of gas costs. Because CGC's cost of gas exceeded this threshold, Tenn. Comp. R. & Regs. 1220-04-07-.05(1)(a) requires that a prudence review of the gas costs included in the Purchased Gas Adjustment ("PGA") account be performed by a qualified consultant chosen through an RFP process.

On October 10, 2016, CGC filed its *Motion* requesting that TRA Rule 1220-04-07-.05(1)(a) be waived to allow CGC to expand the scope of the currently engaged auditor, Exeter, to allow Exeter to also conduct a prudence review of the annual cost of gas. CGC states that the PBR prudence review necessary in the current docket will almost entirely overlap the triennial review period, except the PBR prudence review would include three additional months. Since both the triennial review audit and the PBR audit will review CGC's gas purchases and related activities, "CGC believes that the most efficient and cost effective means to accomplish this independent review would be to expand the scope of work with Exeter Associates[,] Inc. awarded through the recent RFP process and to lengthen the period of time through June 30, 2016 to address the entire PBR plan year."³ CGC states that it has discussed this issue with TRA Staff and the Consumer Protection and Advocate Division of the Office of the Attorney General ("Consumer Advocate"), and both agree with CGC's request.

To further support its position, CGC filed the *Supplemental Information* on November 4, 2016. In the *Supplemental Information*, CGC explains in further detail why Exeter should be allowed to conduct the prudence review. CGC states that Exeter has offered to charge no more than \$2500 to conduct the prudence review.⁴ According to CGC, "this is a very fair and appropriate cost given the scope of work that will benefit the Company's ratepayers by not

³ *Id.* at 2.

⁴ *Supplemental Information*, p. 2 (November 4, 2016).

incurring the time and cost of a bidding process that would likely cost more than \$2500.”⁵ In addition, CGC justifies its request by stating that in the triennial review RFP process, Exeter was the only bidder, and it was also the successful bidder three years ago for CGC’s last triennial review.⁶ Further, CGC points out that choosing Exeter would be “more efficient and cost effective since the auditor would already be engaged in utilizing the same core data for both reviews.”⁷ Finally, according to CGC, it is unlikely that there would be any additional bidders if the RFP process was conducted, and the cost to conduct the RFP process would probably be greater than the \$2500 proposed by Exeter.⁸

FINDINGS AND CONCLUSIONS

TRA Rule 1220-04-07-.05(1)(a) provides:

(1) The audit of prudence of gas purchases shall apply to Class A gas companies only. Class A company gas shall mean a local gas distribution company having annual gas operating revenues of two million five hundred thousand dollars (\$2,500,000) or more.

(a) Unless otherwise ordered by the Authority, the Staff and the LDCs shall prepare and issue a request for proposals and after reviewing the proposals, recommend to the Authority a qualified consultant to evaluate and report annually on the prudence of any Gas Costs included in the PGA. Subject to the approval of the Authority, a contract to perform the audit shall be awarded to the consultant to cover at least two (2) consecutive annual audits.

1. The scope of the evaluation shall be agreed to by the Staff and the LDCs and shall include guidelines to be used by the consultant in performing any such prudence review.

2. Before selecting a consultant, the Staff and the LDCs shall determine the maximum amount to be paid for the audits that will be included in the contract. Each LDC shall pay to the consultant an equal portion of the cost of the audit(s).

3. The amount paid to the consultant by an LDC shall be recorded in the LDC’s Deferred Gas Cost Account and shall be recovered through the procedures set forth in these PGA rules.

In audit matters before the TRA, the Hearing Officer has been given the authority to

⁵ *Id.*

⁶ *Id.*

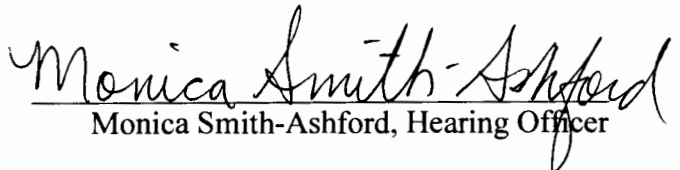
⁷ *Id.*

⁸ *Id.*

determine whether a contested case will be convened and whether a Protective Order will be issued. In addition, the Hearing Officer is authorized to prepare the matter for a determination by the assigned panel of directors. All actions by the Hearing Officer on preliminary matters may be appealed to the panel of directors pursuant to TRA Rule 1220-1-2-.06(6).

Based on the TRA's grant of authority, this matter is before the Hearing Officer to determine whether TRA Rule 1220-04-07-.05(1)(a) should be waived to allow Exeter, the consultant currently conducting CGC's triennial review, to perform the prudency review of its gas costs, instead of conducting an RFP process to solicit another consultant to conduct the review. Based on the information contained in the *Motion* and the *Supplemental Information*, the Hearing Officer finds that it is in the public interest to allow Exeter to conduct the prudency review. Exeter is in the process of conducting a triennial review that includes CGC's gas costs and the prudency review will only involve a few additional months of data for which Exeter will charge no more than \$2500. After due consideration, the Hearing Officer finds this cost is reasonable and that conducting an RFP process would likely be more costly for the ratepayers. Further, the Hearing Officer finds that because Exeter was the only bidder for the current triennial review and was the successful bidder for CGC's previous triennial review, it is unlikely that additional bidders will come forward and be able to conduct the prudency review for \$2500. In addition, CGC, TRA Staff, and the Consumer Advocate all agree that allowing Exeter to conduct the prudency review is the most cost-effective way to proceed, and there have been no objections filed to the *Motion*. Based on the foregoing findings, the *Motion* filed by CGC is **GRANTED**.

IT IS SO ORDERED.


Monica Smith-Ashford, Hearing Officer