

BEFORE THE TENNESSEE PUBLIC UTILITY COMMISSION

NASHVILLE, TENNESSEE

July 19, 2017

IN RE:

CHATTANOOGA GAS COMPANY

WEATHER NORMALIZATION ADJ. (WNA) AUDIT)

)

)

) **Docket No. 17-00062**

**NOTICE OF FILING BY THE UTILITIES DIVISION OF THE TENNESSEE
PUBLIC UTILITY COMMISSION**

Pursuant to Tenn. Code Ann. §§ 65-4-104, 65-4-111 and 65-3-108, the Utilities Division of the Tennessee Public Utility Commission ("TPUC" or the "Commission") hereby gives notice of its filing of the Chattanooga Gas Company WNA Audit Report (the "Report") in this docket and would respectfully state as follows:


1. The present docket was opened by the Commission 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, 2016 through April 30, 2017, and the Staff completed its audit of same on July 17, 2017.

3. The Report is attached hereto as EXHIBIT A and is fully incorporated herein by this reference.

3. The Utilities Division hereby files its Report with the Tennessee Public Utility Commission for deposit as a public record and approval of the findings and recommendations contained therein.

Respectfully Submitted:



Pat Murphy
Utilities Division
Tennessee Public Utility Commission

CERTIFICATE OF SERVICE

I hereby certify that on this 19th day of July 2017, 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. 17-00062

TENNESSEE PUBLIC UTILITY COMMISSION

UTILITIES DIVISION

July 2017

COMPLIANCE AUDIT
CHATTANOOGA GAS COMPANY
WEATHER NORMALIZATION ADJUSTMENT (WNA) RIDER
Docket No. 17-00062

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COMPLIANCE AUDIT
CHATTANOOGA GAS COMPANY
WEATHER NORMALIZATION ADJUSTMENT (WNA) RIDER
DOCKET NO. 17-00062

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 2016 and April 2017 for CGC. As a result of the WNA Rider, the Company surcharged a net **\$695,268.06** 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 produced no findings. Therefore, Staff concludes that the Company is correctly implementing the mechanics of the WNA Rider as specified by the Tennessee Public Utility Commission (“TPUC” or the “Commission”) and included in the Company’s tariff (see Attachment 1).

Staff confirmed that the Finding #1, an over-collection of WNA Revenues due to incorrect actual heating degree days, reported in the last WNA audit report (Docket No. 16-00061), were corrected in the Company’s most recent ACA filing with the Commission (Docket No. 16-00099). The total over-collection amount of \$1,144.73 was credited to the ACA Account in June 2016. Findings #2 and #3 were addressed and remedied contemporaneously during the last WNA audit process.

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

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.

Base Rates, Purchased Gas Adjustments and other billing components were billed correctly. During this examination, Staff confirmed that Chattanooga appears to have corrected the prior audit deficiencies and correctly billed its customers during this review period.

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 Public Utility Commission² 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.³

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 As of April 5, 2017, the name of Tennessee Regulatory Authority has changed to the Tennessee Public Utility Commission and board members of the agency will be known as Commissioners rather than Directors.

³ 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 Commission⁴ (“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.⁵ In periods of colder than normal, 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.⁶

As a result of the Company's last rate case before this Commission, 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”).⁷ 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 TPUC Staff audits these WNA calculations annually.

⁴ 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).

⁵ 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).

⁶ 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.

⁷ *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 (page 6) compares the actual heating degree days to normal heating degree days for Chattanooga Gas during the 2016 – 2017 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 29.9% 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 2016	26	156	Warmer
November 2016	292	409	Warmer
December 2016	621	667	Warmer
January 2017	483	757	Warmer
February 2017	387	564	Warmer
March 2017	328	399	Warmer
April 2017	55	173	Warmer
Total	2192	3125	29.9 % Warmer

The net impact of the WNA Rider during the November 2016 through April 2017 WNA period was that R-4 and C-2 customers were **surcharged a net \$695,268.06**. The percentage of total revenue derived from the WNA Rider was 2.1% (See Table 1). Table 2 compares the amount surcharged (refunded) during the past three (3) heating seasons.⁸

Table 1

Impact of WNA Rider on Residential & Commercial Revenues November 2016 – April 2017

	<u>WNA Rider Revenues</u>	<u>Total Revenues</u>	<u>Percentage Impact of WNA Rider on R&C Revenues</u>
Multi-Family (R-4) and Medium Commercial Sales (C-2)	<u>\$695,268.06</u>	<u>\$33,311,693</u>	2.1%

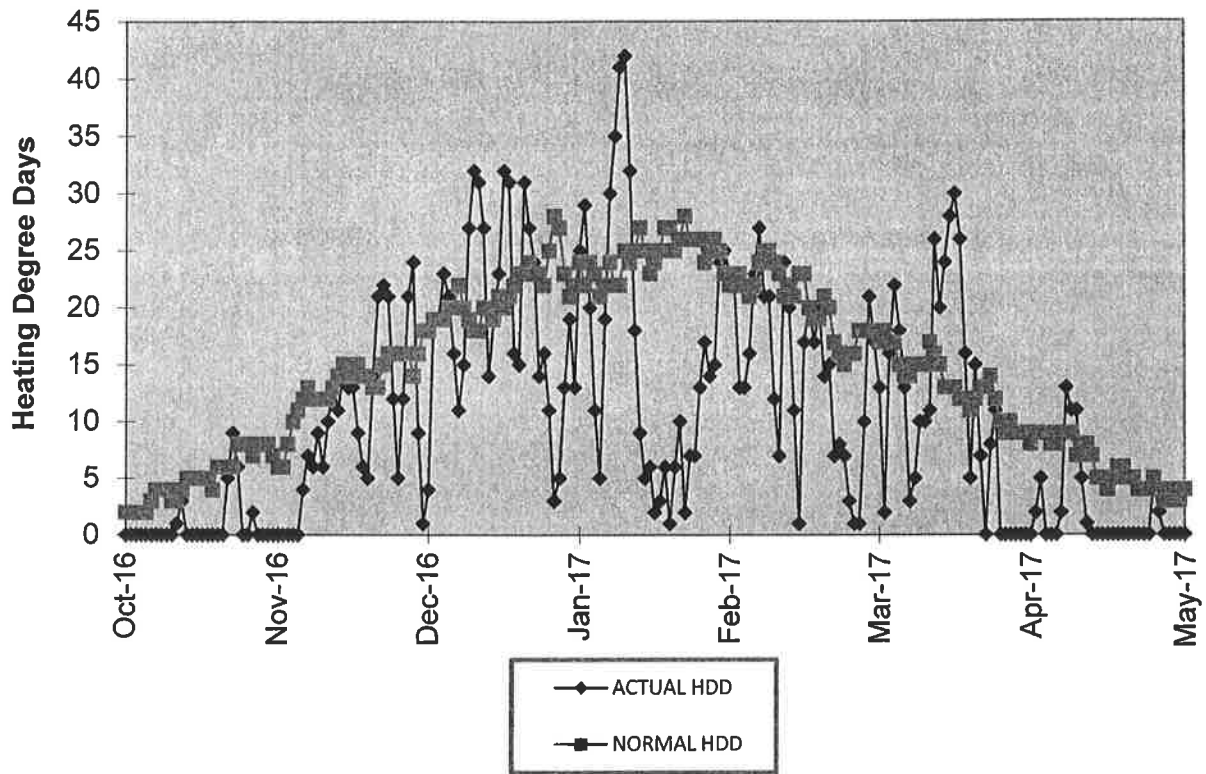
⁸ As explained in Section IV, the WNA was discontinued in Docket No. 09-00183 for all customer classes except R-4 and C-2 customers.

Table 2

**Total WNA Amount Surcharged (Refunded)
2014 - 2017**

11/2014-4/2015	\$ (137,709.95)
11/2015-4/2016	557,287.32
11/2016-4/2017	<u>695,268.06</u>
Total	<u>\$ 1,114,845.43</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 no material findings.

VII. CONCLUSIONS AND RECOMMENDATIONS

Based on Staff's review of the WNA adjustments during the period November 2016 through April 2017, as stated in its Audit Opinion in Section I, Staff found no material errors and concludes that CGC is correctly implementing the mechanics of the WNA Rider to its tariff. All findings from the previous audit (Docket No. 16-00061) have now been appropriately remedied and Staff did not discover any further billing errors. Therefore, **Staff recommends that the Commissioners of the TPUC approve Staff's Audit Report.**

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

ATTACHMENT 1

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

<u>RATE SCHEDULE</u>	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