BEFORE THE TENNESSEE PUBLIC UTILITY COMMISSION

NASHVILLE, TENNESSEE

December 15, 2017

IN RE:	)	
	)	
CHATTANOOGA GAS COMPANY	)	**DOCKET NO.**
ANNUAL INCENTIVE PLAN FILING FOR	)	**17-00089**
THE TWLEVE MONTHS ENDED JUNE 30, 2017	)	
	)	

ORDER ADOPTING COMPLIANCE AUDIT REPORT OF TENNESSEE PUBLIC UTILITY COMMISSION'S UTILITIES DIVISION

This matter came before Commissioner Herbert H. Hilliard, Commissioner Kenneth C. Hill and Commissioner Keith Jordan of the Tennessee Public Utility Commission ("Commission" or "TPUC"), the voting panel assigned to this docket, at a regularly scheduled Commission Conference held on December 12, 2017. The panel considered the Commission's Utilities Division (the "Staff") Compliance Audit Report of the Performance-Based Ratemaking Tariff (the "Incentive Plan" or "IPA"), attached hereto as Exhibit 1 and incorporated by this reference, resulting from the Staff's audit of Chattanooga Gas Company's ("Company") IPA filing for the twelve month period ending June 30, 2017.

On August 30, 2017 the Company's annual IPA report was filed in the docket file. The Staff completed its audit of the Company's IPA filing on November 20, 2017 and noted no material findings during the course of the audit. During the regularly scheduled Commission Conference held on December 12, 2017, the panel considered the IPA Report and voted unanimously to approve the recommendations contained therein.

IT IS THEREFORE ORDERED THAT:

1. The Compliance Audit Report of Chattanooga Gas Company's Incentive Plan Filing for the twelve months ended June 30, 2017, a copy of which is attached to this Order as Exhibit 1, is approved and adopted, and is incorporated in this Order as though fully rewritten herein.

Commissioner Herbert H. Hilliard, Commissioner Kenneth C. Hill and Commissioner Keith Jordan concur.

ATTEST:

Earl Taylor

Earl R. Taylor, Executive Director

EXHIBIT 1

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BEFORE THE TENNESSEE PUBLIC UTILITY COMMISSION

NASHVILLE, TENNESSEE

November 21, 2017

IN RE:	)	
	)	
CHATTANOOGA GAS COMPANY	)	
ANNUAL INCENTIVE PLAN FILING FOR	)	**Docket No. 17-00089**
THE 12 MONTHS ENDED JUNE 30, 2017	)	

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 hereby gives notice of its filing of the Compliance Audit Report of the Performance-Based Ratemaking Tariff (hereafter "Incentive Plan" or "IPA") for Chattanooga Gas Company ("Company") 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 Incentive Plan audit of the Company.

2. The Company's Incentive Plan filing was received on August 30, 2017 and the Audit Staff ("Staff") completed its audit of the same on November 20, 2017.

3. Staff noted no material findings during the course of the Incentive Plan Audit.

4. A final IPA audit report (hereafter the "Report") resulted therefrom. The Report is attached hereto as <u>Exhibit A</u> and is fully incorporated herein by this reference.

5. The Utilities Division hereby files its Report with the Tennessee Public Utility Commission for deposit as a public record.

Respectfully submitted,

Dan Ray

Dan Ray, Utilities Consultant
Utilities Division of the
Tennessee Public Utility Commission

CERTIFICATE OF SERVICE

I hereby certify that on this 21th day of November 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:

David F. Jones, Chairman
Tennessee Regulatory Authority
502 Deaderick Street, 4th Floor
Nashville, TN 37243

Mr. Archie R. Hickerson
Director – Regulatory Affairs & Planning
AGL Resources, Inc.
P.O. Box 4569
Atlanta, GA 30309

Mr. Paul Leath
Director-Government and Community Affairs
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2207 Olan Mills Drive
Chattanooga, TN 37201

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Luna Law Group, PLLC
333 Union Street
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Office of the Tennessee Attorney General
Consumer Advocate and Protection Division
P.O. Box 20207
Nashville, TN 37202-0207

Dan Ray

Dan Ray

COMPLIANCE AUDIT REPORT
of the
PERFORMANCE-BASED RATEMAKING TARIFF
for
CHATTANOOGA GAS COMPANY

Docket No. 17-00089

Prepared by:

THE UTILITIES DIVISION
of the
TENNESSEE PUBLIC UTILITY COMMISSION

November
2017

EXHIBIT A

COMPLIANCE AUDIT REPORT
of the
PERFORMANCE-BASED RATEMAKING TARIFF

for
CHATTANOOGA GAS COMPANY
for the Year ended June 30, 2017

Docket No. 17-00089

TABLE OF CONTENTS

		Page
I.	INTRODUCTION AND AUDIT OPINION	1
II.	BACKGROUND AND DESCRIPTION OF INCENTIVE PLAN	1
III.	ACTUAL PLAN YEAR RESULTS	3
IV.	JURISDICTION OF THE TENNESSEE PUBLIC UTILITY COMMISSION	5
V.	IPA FINDINGS	6
VI.	CONCLUSIONS AND RECOMMENDATIONS	6

ATTACHMENT 1 (PERFORMANCE-BASED RATEMAKING)

I. INTRODUCTION AND AUDIT OPINION

This compliance audit report addresses the Performance-Based Ratemaking tariff ("Incentive Plan") of Chattanooga Gas Company ("Chattanooga," "CGC," or "Company"). The audit objective is to determine whether the Company has complied with the terms and conditions of its Incentive Plan during the twelve (12) months ended June 30, 2017. After reviewing the Company's gas purchases as reported in the Actual Cost Adjustment Audit ("ACA") filing[1], along with the applicable benchmark indexes each month, Audit Staff ("Staff") found no material errors. Staff concludes that the Company met the criteria specified in its tariff during the plan year reviewed. Section III of the report addresses the actual results of the plan year.

II. BACKGROUND AND DESCRIPTION OF INCENTIVE PLAN

On January 8, 2002, the Tennessee Regulatory Authority ("TRA" or "Authority")[2] issued an Order in Docket No. 01-00619 approving a tariff to establish a performance-based ratemaking mechanism for Chattanooga Gas Company. The specific details of the mechanism are included in Chattanooga Gas' tariff entitled Performance-Based Ratemaking, which was issued on January 25, 2002 and made effective on September 11, 2001.[3] The tariff was revised effective February 1, 2006 in Docket No. 04-00402 to include Affiliate Transaction Guidelines, and was further revised effective September 1, 2006 to include RFP Procedures for Selection of Asset Manager and/or Gas Provider. A copy of the current tariff is attached to this report as Attachment 1. The Incentive Plan automatically rolls over for an additional plan year on each July 1st, and continues until the Incentive Plan is either (a) terminated at the end of a plan year or by not less than 90 days notice to the Tennessee Public Utility Commission ("Commission" or "TPUC") by Chattanooga Gas or (b) modified, amended or terminated by the TPUC.

Chattanooga's tariff differs from traditional incentive plans in that the Company does not share in any profits or losses experienced when comparing its actual gas cost purchases against a predetermined benchmark. The "incentive" in Chattanooga Gas's case is a waiver of the prudence audit of gas purchases as required under the TPUC's Purchased Gas Adjustment (PGA) Rule.[4] The terms under which the prudence audit will be waived are found in the section Prudence Determination of the tariff (Second Revised Sheet No. 56A).

> "If Chattanooga's total commodity gas cost for the plan year does not exceed the total benchmark amount by one percentage point (1%) for a plan year ending after June 30, 2000, Chattanooga's gas cost will be deemed prudent and the audit required by Tennessee Regulatory Authority's Administrative Rule 1220-4-7-.05 is waived. If during

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[1] Docket No. 17-00088.

[2] The Tennessee Regulatory Authority is the predecessor of the Tennessee Public Utility Commission.

[3] September 11, 2001 was the date of the Authority Conference during which the Directors voted to approve the Company's tariff petition with certain modifications.

[4] PGA Rule 1220-4-7-.05.

> any month of the plan year, the Company's commodity gas cost exceeds the benchmark amount by greater than two percentage points (2%), the Company shall file a report with the Authority fully explaining why the cost exceeded the benchmark."

The Company first put its asset management contract out for bid following the approved Request for Proposal ("RFP") procedures and brought the fully executed contract before the TRA for approval in Docket No. 08-00012. The TRA approved the contract at its February 25, 2008 Authority Conference to become effective April 1, 2008 as requested by the Company. This contract expired on March 31, 2011.

Docket No. 10-00049 was opened upon the filing by CGC on March 31, 2010 notifying the Authority of its intention to issue a RFP for asset management services pursuant to its tariff on or before May 11, 2010. On April 23, 2010, CGC filed a letter reporting that due to the changing market conditions, Sequent Energy Management[5] ("Sequent") declined to renew the current contract under its current terms because of the amount of the annual guaranteed minimum. The RFP requested a flat rate bid. Sequent was the successful bidder for the new Asset Management Agreement ("Agreement" or "AMA"). The Agreement became effective April 1, 2011 and was set to expire on March 31, 2014. On March 26, 2013, CGC filed its *Request* seeking TRA approval, pursuant to the terms of its current AMA, to extend the termination date by one year to March 31, 2015. At a regularly scheduled Authority Conference held on April 8, 2013, the panel of Directors voted to approve CGC's *Request*.

On October 1, 2014, CGC filed its RFP for an Asset Management Agreement ("AMA") and a Gas Sales and Purchase Agreement for the TRA's approval in Docket No. 14-00101. At the October 10, 2014 Authority Conference, the panel voted to approve the RFP. On November 19, 2014, CGC filed its new AMA between the Company and Sequent for the Authority's approval in Docket No. 14-00137. On December 1, 2014, at a regularly scheduled Authority Conference, the panel voted to approve the AMA with an effective date of April 1, 2015 and a term of three years.

During the reporting period, which is the subject of this audit, Sequent was CGC's asset manager. The terms of the asset management agreement provided that Sequent would supply CGC's gas requirements and manage its assets. Fifty percent (50%) of the proceeds realized by Sequent under the agreement are refunded to the utility's customers via the Interruptible Margin Credit Rider ("IMCR") tariff.[6] Benefits accruing to customers during the audit period are explained more fully in Section III, ACTUAL PLAN YEAR RESULTS. Since the current AMA will expire March 31, 2018, CGC has begun the RFP process to select a new asset manager effective April 1, 2018. CGC issued its RFP in Docket No. 17-00093 on October 24, 2017 following Commission pre-approval. Bid proposals are due November 21, 2017 and the executed AMA will be

[5] Sequent is the unregulated marketing arm of AGL Resources, Inc., the parent company of Chattanooga Gas and therefore, an affiliate of Chattanooga.

[6] Under the IMCR tariff, the utility does not share in the 50% of proceeds that are refunded to customers.

brought before the Commission for approval at the regularly scheduled December 2017 Commission Conference.

Triennial Review

On September 26, 2007, the Authority opened Docket No. 07-00224 to evaluate Chattanooga's gas purchases, asset management activities and related sharing mechanisms. At a regularly scheduled Authority Conference held on September 21, 2009, the panel unanimously voted that a triennial comprehensive review of the Company's capacity planning and gas purchasing activities, as encompassed in the Incentive Plan, shall occur in the fall of 2013 with any future review determined at the conclusion of that review.

The first review process commenced in April of 2013. Exeter Associates, Inc. ("Exeter") submitted the winning bid and a contract was fully executed on September 5, 2013. On July 1, 2014, the Company filed a public redacted version of the triennial report dated June 2014, under Docket No. 07-00224. The panel in its order dated December 29, 2014 determined that future triennial reviews would benefit both the Authority and consumers and voted unanimously that the next triennial review should be commenced during the fall of 2016 and a final report issued by July 1, 2017. Exeter was again selected as the independent auditor. The review period was the three years ended March 31, 2016, but was extended for additional three months to June 30, 2016 to cover the prudency question identified in the last Incentive Plan Docket No. 16-00098. See Section IV Conclusions and Recommendations for a summary of the results.

The October 13, 2009 Order in Docket No. 07-00224 provides that future reviews must be determined at the conclusion of each review. Therefore, the Commission considered Exeter's June 2017 Report at its October 23, 2017 Commission Conference and determined that another review would benefit the Commission and consumers. CGC is ordered to commence its next triennial review in the fall of 2019 with the auditor's report due July 1, 2020.

III. ACTUAL PLAN YEAR RESULTS

On August 30, 2017, Chattanooga filed an annual report as required by its tariff, showing the actual cost of gas invoiced by its affiliate asset manager Sequent and other suppliers, and the applicable benchmark index for each purchase during each month of the plan year ended June 30, 2017. Staff reviewed these supplier invoices filed as part of the Company's ACA audit, and the indexes[7] used to calculate the benchmark each month. The table below summarizes the Company's monthly purchases as compared to the calculated monthly benchmarks.

[7] Inside FERC and Gas Daily.

Cost of Gas			
Month	**Actual Purchase Cost**	**Benchmark Cost**	**Percentage Over/(Under) Benchmark**
July 2016	**$1,774,814.83**	**$1,712,605.42**	**3.6324%**
August 2016	**$2,232,295.60**	**$2,170,057.60**	**2.8680%**
September 2016	**$1,701,824.85**	**$1,640,595.42**	**3.7321%**
October 2016	**$1,742,087.20**	**$1,678,993.24**	**3.7578%**
November 2016	**$1,371,988.81**	**$1,319,874.96**	**3.9484%**
December 2016	**$2,978,794.34**	**$2,992,073.14**	**-.04438%**
January 2017	**$2,882,049.17**	**$3,117,374.12**	**-7.5488%**
February 2017	**$1,629,820.65**	**$1,672,558.74**	**-2.5553%**
March 2017	**$1,173,262.10**	**$1,107,344.79**	**5.9527%**
April 2017	**$2,137,611.98**	**$2,144,503.13**	**-0.3213%**
May 2017	**$2,433,913.00**	**$2,435,108.17**	**-0.0491%**
June 2017	**$1,530,328.66**	**$1,531,379.87**	**-0.0686%**
Annual	**$23,588,791.19**	**$23,522,468.32**	**0.2820%**

In six (6) months of the audit period, gas supply amounts invoiced were below the calculated benchmark for the month. In the remaining six (6) months of the audit period, the invoiced amounts were above the 2% monthly upper limit of the tariff. Purchases at Nora Virginia contributed to the months that the actual purchases were above the calculated benchmark.

The total gas costs invoiced to the Company for the plan year were 0.2820% above the annual benchmark amount, which is well below the 1% plan year upper limit. Therefore, Staff opines that Chattanooga Gas has satisfied the criteria as set forth in its tariff and should be released from the prudence audit for the plan year ended June 30, 2017.

On June 1, 2017, the Authority received Chattanooga's tariff filing[8] to refund the customers' share of profits accruing under the Interruptible Margin Credit Rider ("IMCR"). Effective July 1, 2017, the Company began refunding this amount to its customers.

IV. JURISDICTION OF THE TENNESSEE PUBLIC UTILITY COMMISSION

Tennessee Code Annotated (hereafter "T.C.A.") gave jurisdiction and control over public utilities to the Tennessee Regulatory Authority. T.C.A. § 65-4-104 states:

> The Authority has general supervisory and regulatory power, jurisdiction, and control over all public utilities, and also over their property, property rights, facilities, and franchises, so far as may be necessary for the purpose of carrying out the provisions of this chapter.

Further, T.C.A. § 65-4-105 grants the same power to the Authority with reference to all public utilities within its jurisdiction as Chapters 3 and 5 of Title 65 of the T.C.A. has conferred on the Department of Transportation's oversight of the railroads or the Department of Safety's oversight of transportation companies. By virtue of T.C.A. § 65-3-108, said power includes the right to audit:

> The department is given full power to examine the books and papers of the said companies, and to examine, under oath, the officers, agents, and employees of said companies...to procure the necessary information to intelligently and justly discharge their duties and carry out the provisions of this chapter and chapter 5 of this title.

The Tennessee Public Utility Commission's Utilities Division is responsible for auditing those companies under the Commission's jurisdiction to ensure that each company is abiding by the rules and regulations of the TPUC. This audit was performed by Daniel Ray of the Utilities Division.

[8] Tariff No. 2017-0062.

V. IPA FINDINGS

Staff concludes there are no material findings in the Company's calculations of the comparisons between its actual cost of gas and the appropriate benchmarks.[9]

VI. CONCLUSIONS AND RECOMMENDATIONS

After reviewing the Company's gas purchases activity as reported in the ACA filing[10], along with the applicable benchmark indexes each month, Staff found no material errors in the Company's calculations. There were six (6) months during the review period that the amount of actual gas purchases exceeded the benchmark amount by more than 2%, requiring the Company to provide an explanation. The total annual purchases amount does not exceed the total annual benchmark by more than 1%, thus meeting the criteria set forth in its tariff. Therefore, for the plan year ended June 30, 2017, Staff recommends that the Company be released from the prudence audit requirements encompassed in the Purchased Gas Adjustment Rule ("PGA Rule") 1220-4-7-.05.

As noted in the last Incentive Plan Audit Report in Docket No. 16-00098, CGC's total gas costs for the plan year ended June 30, 2016 exceeded one percent of the total annual benchmark, thereby requiring an audit of the prudency of CGC's gas purchasing decisions in order for the Company to include these costs in the ACA for recovery from customers. CGC requested that Exeter, the independent auditor for the triennial review underway, be engaged to incorporate an audit of the prudency of CGC's gas purchases in his review, which would necessitate extending the review period by an additional three months to June 30, 2016. Exeter agreed to conduct the audit and the Commission approved the request. Exeter reviewed the Company's gas purchasing decisions for prudency and found that CGC's gas costs during the review period including the Incentive Plan Year ended June 30, 2016 were prudently incurred. A copy of Exeter's Report has been filed in Docket No. 16-00098.

Audit Staff recognizes and appreciates the cooperation of the Company personnel during this audit.

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[9] The audit goal is not to guarantee that the Company's results are 100% correct. Where it is appropriate, Staff utilizes sampling techniques to determine whether the Company's calculations are materially correct. Material discrepancies would dictate a broadening of the scope of Staff's review.

[10] Docket # 17-00088.

ATTACHMENT 1

PERFORMANCE-BASED RATEMAKING

APPLICABILITY

This Performance-Based Ratemaking Mechanism (PBRM) is designed to encourage the utility to maximize its gas purchasing activities at minimum cost consistent with efficient operations and service reliability. Each plan year will begin July 1. The annual provision and filings herein will apply to this annual period. The PBRM will continue until it is either (a) terminated at the end of a plan year or by not less than 90 days notice by the Company to the Authority or (b) modified, amended or terminated by the Authority.

OVERVIEW OF STRUCTURE

The Performance-Based Ratemaking Mechanism establishes predefined monthly benchmark indexes to which the Company's commodity cost is compared.

BENCHMARK INDEX

Each month, Chattanooga Gas Company (Company / Chattanooga) will compare its actual commodity cost of gas to the appropriate benchmark amount. The benchmark gas cost will be computed by multiplying actual purchase quantities for the month, including quantities purchased for injection into storage, by the appropriate benchmark price index.

Spot Market Purchases:

The monthly spot market benchmark is the "Index" price published in the first issue of the delivery month of *Inside FERC's Gas Market Report* in the table titled "Price of Spot Gas Delivered to Pipelines," denoted in the column labeled "Index" and the row for the applicable "Pricing Point."

Swing Purchases

For swing purchases, the benchmark " Index" price for gas delivered on any day upon which *Gas Daily* is published, is equal to the Gas Daily-Midpoint price for the immediately following day under the heading "Daily Price Survey." For gas delivered on Saturday, Sunday, or any other day upon which *Gas Daily* is not published, the price index is equal to the Daily-Midpoint for the nearest subsequent day published by *Gas Daily*.

Long-term purchases

For long term purchases, i.e., a term more than one month, the "Index" price published in the first issue of the delivery month of *Inside FERC's Gas Market Report* in the table titled "Price of Spot Gas Delivered to Pipelines" denoted in the column labeled "Index" and the row for the applicable "Pricing Point" will be adjusted for the Company's rolling three-year average premium paid to ensure long-term supply availability during peak periods.

City Gate Purchases

For city gate purchases where gas is delivered by the supplier to the local distribution company, the indexes will be adjusted for the avoided transportation costs that would have been paid if the upstream capacity were purchased versus the demand charges actually paid to the supplier.

PERFORMANCE-BASED RATEMAKING (Continued)

PRUDENCE DETERMINATION

If Chattanooga's total commodity gas cost for the plan year does not exceed the total benchmark amount by one percentage point (1%) for a plan year ending after June 30, 2000, Chattanooga's gas cost will be deemed prudent and the audit required by Tennessee Regulatory Authority's Administrative Rule 1220-4-7-. 05 is waived. If during any month of the plan year, the Company's commodity gas cost exceeds the benchmark amount by greater than two percentage points (2%), the Company shall file a report with the Authority fully explaining why the cost exceeded the benchmark.

FILING WITH THE AUTHORITY

The Company will file an annual report not later than 60 days following the end of each plan year identifying the actual cost of gas purchased and the applicable index for each month of the plan year.

Unless the Authority provides written notification to the Company within 180 days of such reports, the annual filing shall be deemed in compliance with the provisions of this Service Schedule.

PERIODIC INDEX REVISIONS

Because of changes in the natural gas marketplace, the price indices used by Chattanooga and the composition of Chattanooga's purchased gas portfolio may change. The Company shall, within 30 days of identifying a change to a significant component of the mechanism, provide notice of such change to the Authority. Unless the Authority provides written notice to Chattanooga within 30 days of the Company's notice to the Authority, the price indices shall be deemed approved as proposed by the Company.

AFFILIATE TRANSACTION GUIDELINES

Terms used in these affiliate transaction guidelines have the following meanings:

1. Affiliate, when used in reference to any person in this standard, means another entity who controls, is controlled by, or is under common control with, the first entity.

2. Control (including the terms "controlling", "controlled by", and "under common control with") as used in the affiliate transaction guidelines, includes, but is not limited to, the possession, directly or indirectly and whether acting alone or in conjunction with others, of the authority to direct or cause the direction of the management or policies of an entity. Under all circumstances, beneficial ownership of more than ten percent (10%) of voting securities or partnership interest of an entity shall be deemed to confer control for purposes of these affiliate transaction guidelines.

3. Gas supplier is any person who sells or otherwise provides gas to the Company. It does not include customers who transport their gas and as a result of an imbalance in the amount consumed and the amount delivered to the city gate sell gas to the Company in compliance with the Company's approved tariff provisions.

Standards of Conduct

The Company must conduct its business to conform to the following standards:

1. All purchases from an affiliated gas supplier of gas for system supply or storage shall be at the price and in accordance with the terms provided in a fully executed contract between the Company and the affiliated gas supplier.

2. The Company and the affiliated gas supplier shall maintain records to show that such purchases are not at a price greater than the market price at the time of the transaction.

3. All sales of gas by the Company to an affiliated gas supplier shall be in accordance with the provisions of the Company's approved tariff or at the price and in accordance with the terms provided in a fully executed contract between the Company and the affiliated gas supplier. Any sale of gas to an affiliate not in accordance with an approved tariff provision shall be at a price that is not less than the greater of the cost as recorded on the Company's books or the market price at the time of the transaction.

4. The Company shall maintain records to show that sales to an affiliated supplier are in accordance with the applicable tariff provision or, if not provided under an approved tariff provision, the price is not less than the greater of the cost as recorded on the Company's books or market price at the time of the transaction.

5. An affiliated gas supplier shall not make sales to any customer's premise that is connected to the Company's distribution facilities.

6. The Company shall not disclose to any affiliated gas supplier any information that the Company receives from a non-affiliated gas supplier that the non-affiliated gas supplier has identified as confidential unless the prior consent of the parties to which the information relates has been voluntarily given.

7. To the maximum extent practicable, the Company's operating employees and the operating employees of an affiliated gas supplier must function independently of each other.

8. The Company must maintain its books of accounts and records separately from those of an affiliated gas supplier.

9. The Company shall maintain sufficiently detailed records of all transactions with any affiliated gas supplier.

RFP PROCEDURES FOR SELECTION OF ASSET MANAGER AND/OR GAS PROVIDER

1. In each instance in which Chattanooga Gas Company (Company) intends to engage the services of an asset manager to provide system gas supply requirements and/or manage its assets regulated by the Tennessee Regulatory Authority (TRA), the Company shall develop a written request for proposal (RFP) defining the Company's assets to be managed and detailing the Company's minimum service requirements. The RFP shall also describe the content requirements of the bid proposals and shall include procedures for submission and evaluation of the bid proposals.

2. The RFP shall be advertised for a minimum period of thirty (30) days through a systematic notification process that includes, at a minimum, contacting potential asset managers, including past bidders and other approved asset managers, and publication in trade journals as reasonably available. This thirty (30)-day minimum period may be shortened with the written consent of the TRA Staff to a period of not less than fifteen (15) days.

3. The procedures for submission of bid proposals shall require all initial and follow-up bid proposals to be submitted in writing on or before a designated proposal deadline. The Company shall not accept initial or follow-up bid proposals that are not written, or that are submitted after the designated proposal deadline.

PERFORMANCE-BASED RATEMAKING (Continued)

Following receipt of initial bid proposals, and on a non-discriminatory basis, the Company may solicit follow-up bid proposals from those submitting initial bid proposals in an effort to obtain the most overall value for the transaction.

4. All initial and follow-up bid proposals shall be evaluated as they are received. The criteria for choosing the winning bid proposal shall include, at a minimum, the following: (a) the total value of the bid proposal; (b) the bidder's ability to perform the RFP requirements; (c) the bidder's asset management qualifications and experience; and (d) the bidder's financial stability and strength. The winning bid proposal shall be the one with the best combination of attributes based on the evaluation criteria. If, however, the winning bid proposal is lower in amount than any other initial or follow-up bid proposal(s), the Company shall explain in writing to the TRA why it rejected each higher bid proposal in favor of the lower winning bid proposal. The Company shall maintain records demonstrating its compliance with the evaluation and selection procedures.

5. An incumbent asset manager shall not be granted an automatic right to match a winning bid proposal. If the incumbent asset manager desires to continue its asset management relationship with the Company after expiration of its asset management agreement, it shall submit a written bid proposal in accordance with the Company's RFP procedures. The bid proposal shall be evaluated pursuant to the procedures set forth in paragraph 4 above.

6. The Company may develop additional procedures for asset management selection as it deems necessary and appropriate so long as such procedures are consistent with the agreed-upon procedures described herein.

7. The Company shall retain all RFP documents and records for at least four (4) years and such documents and records shall be subject to the review and examination of the TRA Staff. The Asset Manager shall maintain documents and records of all transaction that utilize the Company's gas supply assets. All documents and records of such transactions shall be retained for two years after termination of the agreement and shall be subject to review and examination by the Company and the TRA Staff.

Chattanooga Gas

Archie R. Hickerson

Director-Rates and Tariff Administration

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Atlanta, GA, 30309
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404 416 9975 cell
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August 30, 2017

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

17-00089

Re: Chattanooga Gas Company Annual Report of Actual Cost of Gas Purchased and Applicable Indices for the twelve months ended June 30, 2017

Dear Chairman Jones,

Pursuant to the provisions of the Performance Based Ratemaking Mechanism approved by the Tennessee Public Utility Commission'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, 2017 (Attachment A). As shown on Attachment A, the commodity cost of gas purchased by CGC during the plan year was approximately 0.28% above the index cost and therefore was within the 1% range as provide in the CGC's tariff. As a result of purchase at Nora Virginia the actual cost exceeded the index price during the months of July-November 2016 by more than 2%.

In its June 2017 report on the Review of Chattanooga Gas Company Performance Based Ratemaking Mechanism Transactions and Activities prepared in compliance with the Commission's Orders dated October 13, 2009 in Docket 07-00224 and dated May 25, 2017 in Docket 16-00098, Exeter Associates recommended that the Nora Lateral purchases be excluded from the PBRM, and that CGC be required to report to the Commission its efforts to reduce the costs associated with the Nora Lateral monthly baseload purchases. Consistent with the recommendation, CGC compared the actual cost excluding the Nora purchases with the applicable index cost for each month. The commodity cost excluding the Nora purchases was 0.06% below the index cost as also shown on Attachment A. Since the cost was below the index, it was within the range provided in CGC's tariff. During the next reporting period ending June 30, 2018, CGC will not depend on monthly base load purchased at Nora, and will source gas from locations other than Nora when practical.

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 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,

Archie R. Hickerson, CPA, CGMA
Director-Rates and Tariff Administration

Chattanooga Gas Company
PBR Filing For ACA Year Ended June 30, 2017

Summary Sheet
Gas Cost Over (Under) Benchmark

	SONAT	Tenn/Z0	Tenn/500leg	Tenn/800leg	Tran Z5 South Del.	SONAT	Tenn/Z1 &Z0	Tenn/Z1	SONAT	Tenn/Zone 0
	(FOM)	(FOM)	(FOM)	(FOM)	(FOM-Nora)	(FOM-Storage)	(FOM-Storage)	(FOM-City Gate)	(Gas Daily)	(Gas Daily)
Jul-16	$0.00	$0.00	$0.00	$0.00	$63,183.32	$0.00	($976.91)	$0.00	$5.50	($3.62)
Aug-16	$0.00	$0.00	$0.00	$0.00	$63,005.16	$0.00	($782.76)	$0.00	($8.35)	$25.67
Sep-16	$0.00	$0.00	$0.00	$0.00	$62,054.00	$0.00	($833.46)	$0.00	$0.00	$6.50
Oct-16	$0.00	$0.00	$0.00	$0.00	$63,900.60	$0.00	($820.95)	$0.00	$0.00	$16.12
Nov-16	$0.00	$0.00	$0.00	$0.00	$52,103.97	$0.00	$0.00	$0.00	$7.61	$0.30
Dec-16	$0.00	$0.00	$0.00	$0.00	($13,249.97)	$0.00	$0.00	$0.00	($20.79)	($31.40)
Jan-17	$0.00	$0.00	$0.00	$0.00	($235,222.81)	$0.00	$0.00	$0.00	($29.12)	($0.86)
Feb-17	$0.00	$0.00	$0.00	$0.00	($42,745.22)	$0.00	$0.00	$0.00	$14.52	($13.56)
Mar-17	$0.00	$0.00	$0.00	$0.00	$65,918.89	$0.00	$0.00	$0.00	$2.95	($8.14)
Apr-17	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	($8,912.88)	$0.00	$0.00	$22.89
May-17	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.01
Jun-17	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	($1,048.43)	$0.00	$0.00	$0.00
	$0.00	**$0.00**	**$0.00**	**$0.00**	**$78,947.94**	**$0.00**	**($11,375.41)**	**$0.00**	**($27.69)**	**$13.91**
% Bench	**0.0000%**	**0.0000%**	**0.0000%**	**0.000%**	**1.6494%**	**0.0000%**	**-0.3046%**	**0.0000%**	**-0.0011%**	**0.0006%**

Including NORA Purchases

Total CGC Purchase Gas Cost	$1,079,752.96	$1,628,163.21	$0.00	$505,973.82	$4,865,539.35	$0.00	$5,395,803.43	$0.00	$2,420,309.79	$2,164,403.02
Total Benchmark Purchase Gas Cost	$1,079,752.96	$1,628,163.21	$0.00	$505,973.82	$4,786,591.41	$0.00	$5,407,178.84	$0.00	$2,420,337.48	$2,164,389.11
Purchase Exceed Benchamar by	$0.00	$0.00	$0.00	$0.00	$78,947.94	$0.00	($11,375.41)	$0.00	($27.69)	$13.91
% of Benchmark	0.00%	0.00%	0.00%	0.00%	1.65%	0.00%	-0.21038%	0.00%	0.00%	0.00%

Exclude NORA Purchases

					NORA					
Total CGC Purchase Gas Cost	$1,079,752.96	$1,628,163.21	$0.00	$505,973.82		$0.00	$5,395,803.43	$0.00	$2,420,309.79	$2,164,403.02
Total Benchmark Purchase Gas Cost	$1,079,752.96	$1,628,163.21	$0.00	$505,973.82		$0.00	$5,407,178.84	$0.00	$2,420,337.48	$2,164,389.11
Purchase Exceed Benchamar by	$0.00	$0.00	$0.00	$0.00		$0.00	($11,375.41)	$0.00	($27.69)	$13.91
% of Benchmark	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	-0.21038%	0.00%	0.00%	0.00%

Chattanooga Gas Company
PBR Filing For ACA Year Ended J

Summary Sheet
Gas Cost Over (Under) Benchmark

	Tenn/Zone 0 (Gas Daily - Storage)	Tenn800L (Gas Daily - Storage)	Tenn800L (Gas Daily - Storage & City Gate)	Tran Z5 South Del. (GDD-Nora)	SONAT (Gas Daily - City Gate)	SONAT (Gas Daily - CSS Storage)	Tenn500L (Gas Daily - City Gate)	Cost Over (Under) Benchmark $$	Benchark	%%	Excluding Nora Purchases: Cost Excluding Nora (Under)	Excluding Nora Purchases: Benchark	Excluding Nora Purchases: %%
Jul-16	$0.00	$0.00	$1.13	$0.00	$ -	$0.00	$0.00	$62,209	$1,712,605	3.63%	($973.90)	$1,243,541.36	-0.08%
Aug-16	$0.00	$0.94	($2.37)	$0.00	$ -	$0.00	$0.00	$62,238	$2,170,057	2.87%	($766.89)	$1,791,197.17	-0.04%
Sep-16	$0.00	$0.00	$2.39	$0.00	$ -	$0.00	$0.00	$61,229	$1,640,595	3.73%	($824.57)	$1,198,505.45	-0.07%
Oct-16	$0.00	$0.00	($1.81)	$0.00	$ -	($0.00)	$0.00	$63,084	$1,678,993	3.76%	($806.84)	$1,205,210.62	-0.07%
Nov-16	$0.00	$2.55	($0.59)	$0.00	$ -	$0.00	$0.00	$52,114	$1,319,875	3.95%	$9.87	$879,898.74	0.00%
Dec-16	$0.00	$0.29	$23.08	$0.00	$ -	$0.00	$0.00	($13,279)	$2,992,073	-0.44%	($28.83)	$2,397,653.15	0.00%
Jan-17	$0.00	$0.00	$7.40	$0.00	$ -	$0.00	$0.00	($235,245)	$3,117,374	-7.55%	($22.58)	$2,192,574.91	0.00%
Feb-17	$0.00	$0.00	$6.17	$0.00	$ -	$0.00	$0.00	($42,738)	$1,672,559	-2.56%	$7.13	$1,107,137.20	0.00%
Mar-17	$0.00	$0.00	$3.61	$0.00	$ -	$0.00	$0.00	$65,917	$1,107,345	5.95%	($1.58)	$686,058.21	0.00%
Apr-17	$0.00	$2.47	($3.63)	$0.00	$ -	$0.00	$0.00	($6,891)	$2,144,503	-0.32%	($6,891.15)	$2,144,503.13	-0.32%
May-17	$0.00	$2.73	($0.55)	($1,197.36)	$ -	$0.00	$0.00	($1,195)	$2,435,108	-0.05%	$2.19	$2,915,545.40	0.00%
Jun-17	$0.00	($1.27)	($1.52)	$0.00	$ -	$0.00	$0.00	($1,051)	$1,531,380	-0.07%	($1,051.22)	$1,981,719.68	-0.05%
	$0.00	**$7.72**	**$33.32**	**($1,197.36)**	**$0.00**	**$0.01**	**$0.00**	**$66,402**	**$23,522,468**	**0.28%**	**($11,348)**	**$19,723,641**	**-0.06%**
% Bench	**0.0000%**	**0.0009%**	**0.0010%**	**0.0000%**	**0.0000%**	**0.0000%**	**0.0000%**						

Including NORA Purchases

Total CGC Purchase Gas Cost	$0.00	$829,068.78	$3,248,629.09	$65,283.41	$ -	$1,385,943.89	$0.00	$23,588,870.75
Total Benchmark Purchase Gas Cost	$0.00	$829,061.06	$3,248,595.77	$66,480.77	$ -	$1,385,943.88	$0.00	$23,522,468.32
Purchase Exceed Benchamar by	$0.00	$7.72	$33.32	($1,197.36)		$0.01	$0.00	$66,402.43
% of Benchmark	0.00%	0.00%	0.00%	-1.80%		0.00%	0.00%	0.28%

Exclude NORA Purchases

				NORA				
Total CGC Purchase Gas Cost	$0.00	$829,068.78	$3,248,629.09	$0.00	$ -	$1,385,943.89	$0.00	$18,658,047.99
Total Benchmark Purchase Gas Cost	$0.00	$829,061.06	$3,248,595.77	$0.00	$ -	$1,385,943.88	$0.00	$18,669,396.14
Purchase Exceed Benchamar by	$0.00	$7.72	$33.32	$0.00		$0.01	$0.00	($11,348.15)
% of Benchmark	0.00%	0.00%	0.00%	0.00%		0.00%	0.00%	-0.06%