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April 6, 2018

Chairman David Jones
c/o Sharla Dillon
Tennessee Public Utility Commission
502 Deaderick Street, 4th Floor
Nashville, TN 37243

Re: Chattanooga Gas Company
TPUC Docket No. 18-00017

Dear Chairman Jones:

Enclosed please find the original and four (4) copies of Chattanooga Gas Company's ("CGC") electronic filing of its response to the questions presented on March 21, 2018 by David Foster on behalf of TPUC in the above-referenced docket.

Please do not hesitate to contact me if you have any questions or concerns.

Sincerely,

J.W. Luna

Enclosures

cc: David Foster, Director, Utilities Division
Vance Broemel, Esq.
Wayne Irvin, Esq.
Henry Walker, Esq.
Floyd Self, Esq.

TPUC Request 1: Should the annual review period of an Annual Rate Review Mechanism coincide with the fiscal year end date of the Company? Please discuss any advantages or disadvantages of using the company's fiscal year as the annual review period, specifically addressing issues related to synchronization of taxes and timing issues.

Response: Generally, there is not a substantial advantage or disadvantage from aligning the review period with the fiscal year. The question does not differentiate between using a forecasted or historical fiscal year, but if using a forward looking (forecast) test period, it is necessary to prorate the projected deferred income tax in accordance with the tax normalization rules. If using an historic test period, the normalization rules do not require the same prorations. While the proration of deferred income does require some additional analysis, it does not add a significant amount of work. In reassessing what CGC may refile, we are continuing to analyze whether the Company's new annual rate review filing will be based upon the fiscal year versus some other 12 month period.

TPUC Request 2: Please provide comments on the necessity of having a projected (budgeted) Annual Rate Review Mechanism with a true-up filing vs. having one Annual Rate Review filing which reconciles actual results of the annual review period to the authorized ROE.

Response: In view of the Company's decision to completely withdraw its alternative regulatory request, CGC is reassessing the best approach for an annual rate review. The language in the statute speaks to a utility opting "to file an annual review of its rates based upon the methodology adopted in its most recent rate case," without any guidance as to the process to follow. However, CGC believes that the intent of the annual rate review is to provide an opportunity for the utility's rates to generate sufficient revenues so as to enable the utility to earn its return while ensuring that ratepayers do not overpay for service. Consistent with this intent, CGC believes that an Annual Rate Review Mechanism (ARRM) that has a projected period with a true-up would provide the best means for an alignment between cost causation and cost recovery. An ARRM based on a review of an historical actual period does not share the same alignment. While the mismatch in time period between when costs are created and when they are recovered is not inconsistent with a viable ARRM, it does minimize the distortions caused by the timing mismatch such as customers coming and going from the system and the time value of money associated with over or under recovery of the actual cost causation. Whichever approach is ultimately pursued, CGC believes that the language in the statute requires a single annual review and not a process that involves two separate filings each year.