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**BEFORE THE TENNESSEE PUBLIC UTILITY COMMISSION**

**NASHVILLE, TENNESSEE**

**March 29, 2019**

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| **IN RE:** | ) | |
| | ) | |
| **CHATTANOOGA GAS COMPANY** | ) | |
| **ANNUAL INCENTIVE PLAN FILING FOR** | ) | **Docket No. 18-00103** |
| **THE 12 MONTHS ENDED JUNE 30, 2018** | ) | |

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

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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 September 27, 2018 and the Audit Staff ("Staff") completed its audit of the same on March 20, 2019.

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 29th day of March 2019, 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:

Robin L. Morrison, 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
AGL Resources, Inc.
2207 Olan Mills Drive
Chattanooga, TN 37201

Mr. J.W. Luna
Luna Law Group, PLLC
333 Union Street
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Mr. Vance Broemel
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. 18-00103**

**Prepared by:**


**THE UTILITIES DIVISION**
**of the**
**TENNESSEE PUBLIC UTILITY COMMISSION**


**March**
**2019**

# EXHIBIT A

**COMPLIANCE AUDIT REPORT**
**of the**
# PERFORMANCE-BASED RATEMAKING TARIFF

**for**
**CHATTANOOGA GAS COMPANY**
**for the Year ended June 30, 2018**

**Docket No. 18-00103**

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## 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, 2018. 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. 18-00102.

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 in its tariff in Docket No. 08-00012. Executed contracts are brought before the Commission for approval prior to becoming effective. Since that time, Chattanooga has received approval of its asset management agreements in Docket Nos. 10-00049 and 14-00137. The latest Asset Management Agreement (AMA) and Gas Sales and Purchase Agreement was approved in Docket No. 17-00137, effective April 1, 2018 with a term of three years.

During the reporting period, which is the subject of this audit the terms of the asset management agreement provided that Sequent will 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.[5] Benefits accruing to customers during the audit period are explained more fully in Section III, ACTUAL PLAN YEAR RESULTS.

**<u>Triennial Review</u>**

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.

The Order in Docket No. 07-00224 dated November 9, 2017 regarding Triennial Review Procedures provides that the Commission will determine at the end of each review period whether a future triennial review should be conducted. At its October 23, 2017 Commission Conference, the Commission considered Exeter's report and decided that it

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

provided valuable information regarding the Company's assets and gas procurement activities and that the Company should commence its next triennial review in the fall of 2019 with the independent auditor's report due July 1, 2020.

## III. ACTUAL PLAN YEAR RESULTS

On September 27, 2018, 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, 2018. Staff reviewed these supplier invoices filed as part of the Company's ACA audit, and the indexes[6] used to calculate the benchmark each month. The table below summarizes the Company's monthly purchases as compared to the calculated monthly benchmarks.

[6] Inside FERC and Gas Daily.

| Cost of Gas | | | |
|---|---|---|---|
| **Month** | **Actual Purchase Cost** | **Benchmark Cost** | **Percentage Over/(Under) Benchmark** |
| | | | |
| **July 2017** | **$1,646,992.59** | **$1,653,968.16** | **-0.4217%** |
| **August 2017** | **$1,555,688.68** | **$1,562,554.45** | **-0.4394%** |
| **September 2017** | **$1,660,939.80** | **$1,667,583.78** | **-0.3984%** |
| **October 2017** | **$2,763,091.79** | **$2,778,970.05** | **-0.5714%** |
| **November 2017** | **$896,133.58** | **$898,631.98** | **-0.2780%** |
| **December 2017** | **$2,314,225.67** | **$2,317,580.78** | **-0.1448%** |
| **January 2018** | **$4,553,106.20** | **$4,552,787.14** | **0.0070%** |
| **February 2018** | **$1,678,991.83** | **$1,678,987.59** | **0.0003%** |
| **March 2018** | **$1,764,267.00** | **$1,764,266.38** | **0.0000%** |
| **April 2018** | **$3,357,089.20** | **$3,359,697.72** | **-0.0776%** |
| **May 2018** | **$2,235,481.65** | **$2,235,481.17** | **0.0000%** |
| **June 2018** | **$1,768,017.54** | **$1,767,995.82** | **0.0012%** |
| | | | |
| **Annual** | **$26,194,025.53** | **$26,238,505.02** | **-0.1695%** |

In seven (7) months of the audit period, gas supply amounts invoiced were below the calculated benchmark for the month. In the remaining five (5) months of the audit period, the invoiced amounts were below the 2% monthly upper limit of the tariff.

The total gas costs invoiced to the Company for the plan year were -0.1695% below 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, 2018.

On June 1, 2018, the Authority received Chattanooga's tariff filing[7] to refund the customers' share of profits accruing under the Interruptible Margin Credit Rider ("IMCR"). Effective July 1, 2018, 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.

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[7] Tariff No. 2018-0031.

## 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.[8]

## VI. CONCLUSIONS AND RECOMMENDATIONS

After reviewing the Company's gas purchases activity as reported in the ACA filing[9], along with the applicable benchmark indexes each month, Staff found no material errors in the Company's calculations. 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, 2018, 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.

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

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[8] 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.

[9] Docket # 18-00102.

# 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 Commission or (b) modified, amended or terminated by the Commission. T

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 gas cost amount. The benchmark gas cost amount will be computed by multiplying actual quantities purchased during the month, by the applicable benchmark price. All purchases shall be included in the actual commodity cost and benchmark gas cost calculations, including quantities purchased for injection into storage; however, supply purchased at the NORA receipt point with a term of one month or greater and supply purchased at the citygate, shall be excluded from these calculations and reported separately from, but in conjunction with the Company's annual PBRM filing. C

First-of-the-Month (FOM) Purchases:

The benchmark price shall be the FOM index price as published in S&P Global *Gas Daily Price Guide* in the table titled "Monthly Bidweek Spot Gas Prices," denoted in the column labeled "Index" and the row for the applicable "purchase locations." T

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Daily Priced Purchases

The benchmark price shall be the daily index price as published in the issue of S&S Global *Gas Daily* for the applicable gas day in the table title "Final Daily Price Survey-Platts Locations" denoted in the column labeled "Midpoint" and the row for the applicable purchase location. In the event a pricing point location's daily benchmark price is not published for a gas day, the benchmark price shall be the daily index price published for that purchase location for the nearest subsequent gas day. C

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**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 Public Utility Commission'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 Commission fully explaining why the cost exceeded the benchmark. T

FILING WITH THE COMMISSION T

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 Commission 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. T

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 Commission. Unless the Commission provides written notice to Chattanooga within 30 days of the Company's notice to the Commission, the price indices shall be deemed approved as proposed by the Company. T

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.

**PERFORMANCE-BASED RATEMAKING**
**(Continued)**

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 Public Utility Commission (TPUC), 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. T

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 TPUC Staff to a period of not less than fifteen (15) days. T

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 TPUC 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. T

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 TPUC 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 TPUC Staff. T

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