

**BEFORE THE TENNESSEE PUBLIC UTILITY COMMISSION**

**NASHVILLE, TENNESSEE**

**July 30, 2019**

**IN RE:**

**CHATTANOOGA GAS COMPANY**

**WEATHER NORMALIZATION ADJ. (WNA) AUDIT )**

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) **Docket No. 19-00064**

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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 (“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, 2018 through April 30, 2019, and the Staff completed its audit of same on July 22, 2019.

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:

A handwritten signature in blue ink that reads "Pat Murphy". The signature is written in a cursive style and is positioned above a horizontal line.

Pat Murphy  
Utilities Division  
Tennessee Public Utility Commission

### CERTIFICATE OF SERVICE

I hereby certify that on this 30<sup>th</sup> day of July 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:

Earl Taylor  
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Pat Murphy

# **EXHIBIT A**

**COMPLIANCE AUDIT REPORT**

**OF**

**CHATTANOOGA GAS COMPANY**

**WEATHER NORMALIZATION ADJUSTMENT (WNA) RIDER**

**DOCKET NO. 19-00064**

**TENNESSEE PUBLIC UTILITY COMMISSION**

**UTILITIES DIVISION**

July 2019

**COMPLIANCE AUDIT**  
**CHATTANOOGA GAS COMPANY**  
**WEATHER NORMALIZATION ADJUSTMENT (WNA) RIDER**  
Docket No. 19-00064

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**COMPLIANCE AUDIT**  
**CHATTANOOGA GAS COMPANY**  
**WEATHER NORMALIZATION ADJUSTMENT (WNA) RIDER**  
**DOCKET NO. 19-00064**

**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 Southern Company Gas.<sup>1</sup> The objective of this audit was to determine if the WNA adjustments were calculated correctly and applied to customers’ bills appropriately between November 2018 and April 2019 for CGC. As a result of the WNA Rider, the Company surcharged a net **\$194,542.54** from Residential and Commercial customers during the period. The impact of WNA revenues on the Company’s total revenues for the period is detailed in Section V.

The audit produced no WNA findings. Therefore, Audit Staff (“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). The Company, however, self-reported a billing error which is described in Section II of this report.

**II. SCOPE OF AUDIT**

In meeting the objective of the audit, 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;<sup>2</sup> 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 Base Rates, Purchased Gas Adjustments and other billing components were billed correctly. During the audit, CGC personnel notified Staff that due to a clerical error, the Company did not update the C-2 PGA demand rate in the billing system from the previous rate of \$8.399/Dth to the new rate of \$8.301/Dth which was effective March 1, 2019. The error affected only the month of March 2019 and was corrected for the April 2019 billing. The impact was relatively

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<sup>1</sup> Southern Company Gas, formerly known as AGL Resources, was acquired by Southern Company in 2016.

<sup>2</sup> *In Re: Petition of Chattanooga Gas Company for Approval of an Adjustment in Rates and Tariff; the Termination of the AUA Mechanism and the Related Tariff Changes and Revenue Deficiency Recovery; and an Annual Rate Review Mechanism*, Docket No. 18-00017 (February 15, 2018).

minor and resulted in a \$3,797.50 over-collection for the month. Due to the immaterial amount, the Company expressed the intent to refund this amount in the next Actual Cost Adjustment (ACA) filing with the Commission. Due to the small amount and prior precedent, Staff is in agreement with this remedy. During this examination, therefore, Staff confirmed that except for the immaterial billing error reported by Chattanooga, the Company appears to have correctly billed its customers during this review period.

Pat Murphy and Kevin McClenathan 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 Southern Company Gas, formerly known as AGL Resources, Inc. a holding company formed in 2000 in response to the Public Utility Holding Company Act (PUCHA) of 1935. Southern Company Gas 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 Commission<sup>3</sup> 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 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.<sup>4</sup>

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

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<sup>3</sup> Effective April 5, 2017, the name of Tennessee Regulatory Authority changed to the Tennessee Public Utility Commission and board members of the agency are now known as Commissioners rather than Directors.

<sup>4</sup> Weather data is published monthly by NOAA.

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.

In recognition of this fact, on September 26, 1991, the Tennessee Public Service Commission<sup>5</sup> (“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.<sup>6</sup> In periods of weather colder than normal weather, 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.<sup>7</sup>

As a result of the Company's rate case in Docket No. 09-00183, 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) were governed under the Company's Alignment and Usage Adjustment (“AUA”).<sup>8</sup> In CGC's most recent rate case filing in Docket No. 18-00017, the Company's AUA mechanism was terminated, and the WNA for the Residential (R-1) and Small Commercial (C-1) customers was reinstated, effective November 1, 2018.<sup>9</sup>

CGC's current WNA Rider tariff accompanies this Report as Attachment 1. The TPUC Staff audits these WNA calculations annually.

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<sup>5</sup> 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).

<sup>6</sup> 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).

<sup>7</sup> 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.

<sup>8</sup> 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).

<sup>9</sup> In Re: *Petition of Chattanooga Gas Company for Approval of An Adjustment in Rates and Tariff; the Termination of the AUA Mechanism and the Related Tariff Changes and Revenue Deficiency Recovery; and An Annual Rate Review Mechanism*, Docket No. 18-00017, Order, page 89 (January 11, 2019).



## V. IMPACT OF WNA RIDER

The Graph appearing on page 6 visually compares the actual heating degree days to normal heating degree days for Chattanooga Gas during the 2018 – 2019 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 4.08% 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 2018	137	144	Warmer
November 2018	545	410	Colder
December 2018	599	654	Warmer
January 2019	687	717	Warmer
February 2019	400	560	Warmer
March 2019	422	378	Colder
April 2019	99	149	Warmer
Total	2889	3012	4.08% Warmer

The net impact of the WNA Rider during the November 2018 through April 2019 WNA period was that Residential and Commercial customers were **surcharged a net \$194,542.54**. The percentage of total revenue derived from the WNA Rider was 0.44% (See Table 1). Table 2 compares the amount surcharged (refunded) during the past three (3) heating seasons.

Table 1

### **Impact of WNA Rider on Residential & Commercial Revenues November 2018 – April 2019**

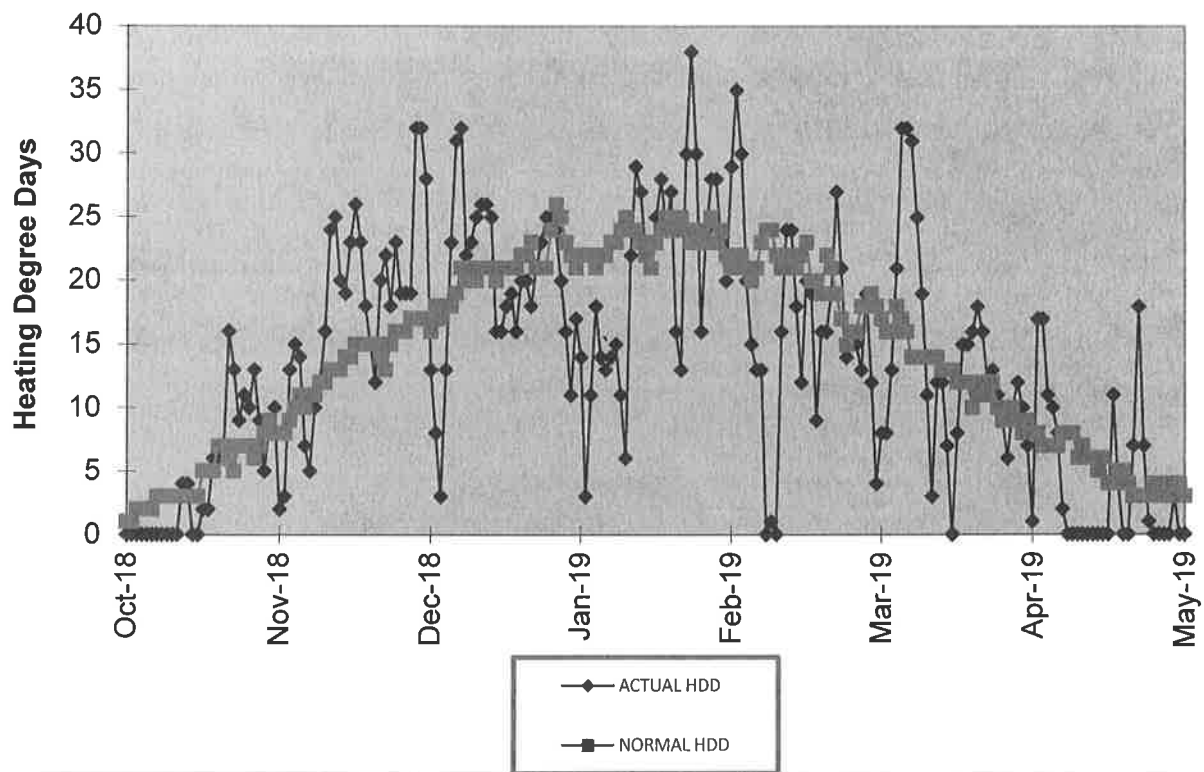
	WNA Rider <u>Revenues</u>	Total <u>Revenues</u>	Percentage Impact of WNA Rider on <u>R&amp;C Revenues</u>
Residential Sales	\$ 94,499.98	\$24,871,284.59	0.38%
Commercial Sales	<u>100,042.56</u>	<u>19,498,889.05</u>	0.51%
Total	<u>\$194,542.54</u>	<u>\$44,370,173.64</u>	0.44%

Table 2

**Total WNA Amount Surcharged (Refunded)  
2016- 2019**

11/2016-4/2017	\$695,268.06
11/2017-4/2018	119,395.19
11/2018-4/2019	<u>194,542.54</u>
Total	<u>\$ 1,009,205.79</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 findings as relates to the WNA calculations.

## **VII. CONCLUSIONS AND RECOMMENDATIONS**

Based on Staff's review of the WNA adjustments during the period November 2018 through April 2019, as stated in its Audit Opinion in Section I, Staff found no errors and concludes that CGC is correctly implementing the mechanics of the WNA Rider to its tariff. Staff also reviewed the last audit report in Docket No. 18-00076 covering the 2017-2018 winter heating season. There was one finding resulting in an over-collection of \$11,903.51 in WNA revenues. The Company and Staff agreed that this amount should be refunded in the annual ACA filing. Staff checked CGC's ACA filing in Docket No. 18-00102 covering the period July 2017 to June 2018. The Company credited \$4,582.73 in December 2017 and \$7,320.78 in March 2018. Therefore, all findings from the previous audit have now been appropriately remedied.

Regarding the billing error of \$3,797.50 over-collection in March 2019 reported by CGC, Staff will check to confirm that this over-collection is credited to the customers in the next available ACA filing with the Commission, as mutually agreed by the Company and Staff.

**Staff, therefore, recommends that the Commission approve Staff's Audit Report and the findings and conclusions therein.**

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 therm (100,000 Btu) for gas service set forth in any rate schedules utilized by the Commission 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:

" Commission" means the Tennessee Public Utility Commission.

"Relevant Rate Order" means the final order of the Commission in the most recent rate case of Chattanooga Gas Company (Company) fixing the rates of the Company or the most recent final order of the Commission 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 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 <sub>i</sub>	=	Weather Normalization Adjustment Factor for the i th Rate Schedule or classification expressed in cents per /therm
R <sub>i</sub>	=	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 Commission in the Relevant Rate Order for the purpose of determining normalized test year revenues
HSF <sub>i</sub>	=	heat sensitive factor for the i th schedule or classification utilized by the Commission in the Relevant Rate Order for the purpose of determining normalized test year revenues
NDD	=	normal billing cycle heating degree days utilized by the Commission in the Relevant Rate Order for the purpose of determining normalized test year revenues
ADD	=	actual billing cycle heating degree days
BL <sub>i</sub>	=	base load sales for the i th schedule or classification utilized by the Commission in the Relevant Rate Order for the purpose of determining normalized test year revenues.

**WEATHER NORMALIZATION ADJUSTMENT**

**(WNA) RIDER**

**FILING WITH COMMISSION**

The Company will file as directed by the Commission (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.

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**(WNA) RIDER COMPONENTS**

<u>RATE SCHEDULE</u>	<u>WEIGHTED BASE RATE (\$THERM)</u>	<u>HEAT SENSITIVE FACTOR - HSF (THERM)</u>	<u>BASE LOAD - BL (THERM)</u>
<u>R-1 RESIDENTIAL</u> <u>Winter(November-April)</u>	.11591	.15024734	13.32898975
<u>(R-4) MULTI-FAMILY</u> <u>HOUSING SERVICE</u> Winter (November - April)	.21768	.06855402	14.46080765
<u>C-1 COMMERCIAL AND</u> <u>INDUSTIRAL GENERAL</u> <u>SERVICE</u> (Winter(November-April)	.18581	.29116094	16.52451922
<u>(C-2) MEDIUM</u> <u>COMMERCIAL AND</u> <u>INDUSTRIAL GENERAL</u> <u>SERVICE</u> Winter (November - April)	.17973	2.11686991	700.30683132

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