

BEFORE THE TENNESSEE PUBLIC UTILITY COMMISSION

NASHVILLE, TENNESSEE

October 21, 2020

IN RE:

**AUDIT OF CHATTANOOGA GAS COMPANY'S
WEATHER NORMALIZATION ADJUSTMENT FOR
THE PERIOD NOVEMBER 1, 2019 TO APRIL 30, 2020**

)
)
)
)
)

**DOCKET NO.
20-00091**

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

This matter came before Chairman Kenneth C. Hill, Vice Chairman Herbert H. Hilliard, and Commissioner David F. Jones of the Tennessee Public Utility Commission (the "Commission" or "TPUC"), the voting panel assigned to this docket, during a regularly scheduled Commission Conference held on September 14, 2020¹ to consider the report of the Commission's Utilities Division (the "Staff") resulting from the Staff's audit of Chattanooga Gas Company's ("CGC" or the "Company") Weather Normalization Adjustment ("WNA") for the year ended April 30, 2020. The WNA Audit Report (the "Report") is attached hereto as Exhibit 1 and incorporated by this reference.

The Company's WNA data was received for the period October 1, 2019 through April 30, 2020. The Staff completed its audit of the Company's filings on August 4, 2020 and filed its

¹ Due to the state of emergency declared by Governor Bill Lee relative to the Coronavirus Disease 2019 ("COVID-19") pandemic in Tenn. Exec. Order No. 14 on March 12, 2020, (superseded by Tenn. Exec. Order No. 15 on March 19, 2020 which was extended until September 30, 2020 in Tenn. Exec. Order No. 59 on August 28, 2020), the Commission Conference was held electronically via WebEx. The public health emergency places limitations on public gatherings and meetings in order to prevent the spread of COVID-19. In convening the Commission Conference electronically, the Commission relied upon Tenn. Exec. Order No. 16 (March 20, 2020), which was extended until September 30, 2020 by Tenn. Exec. Order No. 60 (August 28, 2020), and affirmed on the record that the electronic meeting was necessary to conduct the essential business of the agency and to protect the health, safety, and welfare of Tennesseans.

Report on August 20, 2020. The objective of the audit was to verify that the Company's calculations of the WNA adjustments were materially correct and that the Company has appropriately applied them to customers' bills during the period.

The WNA Audit Report contained two immaterial findings. In the first finding, the Company used incorrect actual daily heating degree days for one day in the period (April 13, 2020) to calculate the WNA factors. This error affected a total of twelve (12) bill cycles covering the period of April 2020. In the second finding, the Company used incorrect normal heating degree days for one day (February 29, 2020) in the period to calculate the WNA factors. This error affected a total of twenty-one (21) bill cycles covering the period of March 2020. The result was a net over-collection of \$5,718.44 in WNA revenues from CGC's customers.² Due to the immateriality of the over-collection on a per customer basis, Staff recommended that the over-collection be added to CGC's Actual Cost Adjustment ("ACA") account balance in its next ACA audit filing with the Commission.

The Company agreed with the Staff's recommendation. Except for the findings noted in the Report, the Staff concluded that CGC appears to be correctly implementing the mechanics of its WNA Rider.³

During the regularly scheduled Commission Conference held on September 14, 2020, the voting panel considered the Staff's WNA Audit Report. The panel unanimously approved the August 20, 2020 WNA Audit Report as filed.

IT IS THEREFORE ORDERED THAT:

1. The Weather Normalization Adjustment Audit Report relative to Chattanooga Gas Company's costs for the year ended April 30, 2020, a copy of which is attached to this Order

² *Notice of Filing*, Exhibit A, pp. 8-9 (August 20, 2020).

³ *Id.* at 10.

as Exhibit 1, is approved and adopted and the conclusions and recommendations contained therein are incorporated in this Order as if fully rewritten herein.

2. Chattanooga Gas Company shall include the over-collected amount in its next Actual Cost Adjustment filing with the Tennessee Public Utility Commission.

3. Any person who is aggrieved by the Commission's decision in this matter may file a Petition for Reconsideration with the Commission within fifteen (15) days from the date of this Order.

4. Any person who is aggrieved by the Commission's decision in this matter has the right to judicial review by filing a Petition for Review in the Tennessee Court of Appeals, Middle Section, within sixty (60) days from the date of this Order.

FOR THE TENNESSEE PUBLIC UTILITY COMMISSION:

**Chairman Kenneth C. Hill,
Vice Chairman Herbert H. Hilliard, and
Commissioner David F. Jones concurring.**

None dissenting.

ATTEST:



Earl R. Taylor, Executive Director

EXHIBIT 1

EXHIBIT A

COMPLIANCE AUDIT REPORT

OF

CHATTANOOGA GAS COMPANY

WEATHER NORMALIZATION ADJUSTMENT (WNA) RIDER

DOCKET NO. 20-00091

TENNESSEE PUBLIC UTILITY COMMISSION

UTILITIES DIVISION

August 2020

COMPLIANCE AUDIT
CHATTANOOGA GAS COMPANY
WEATHER NORMALIZATION ADJUSTMENT (WNA) RIDER

Docket No. 20-00091

TABLE OF CONTENTS

<u>NO.</u>	<u>PAGE</u>
I. INTRODUCTION AND AUDIT OPINION	1
II. SCOPE OF AUDIT	1
III. BACKGROUND INFORMATION ON THE COMPANY	2
IV. BACKGROUND ON WEATHER NORMALIZATION ADJ. RIDER	2
V. IMPACT OF WNA RIDER	4
GRAPH COMPARING ACTUAL TO NORMAL HDD	6
VI. WNA FINDINGS	7
VII. CONCLUSIONS AND RECOMMENDATIONS	10
ATTACHMENT 1: <u>WEATHER NORMALIZATION ADJUSTMENT (WNA) RIDER</u>	

COMPLIANCE AUDIT
CHATTANOOGA GAS COMPANY
WEATHER NORMALIZATION ADJUSTMENT (WNA) RIDER
DOCKET NO. 20-00091

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.¹ The objective of this audit was to determine if the WNA adjustments were calculated correctly and applied to customers’ bills appropriately between November 2019 and April 2020 for CGC. As a result of the WNA Rider, the Company surcharged a net **\$1,330,217** 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 two immaterial WNA findings, which are described in Section VI. 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).

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;² 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. Staff confirmed that the Company appears to have correctly billed its customers during this review period.

Pat Murphy and Cole McCormick of the Utilities Division conducted this audit.

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

² *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).

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 Commission³ 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.⁴

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.

In recognition of this fact, on September 26, 1991, the Tennessee Public Service Commission⁵ (“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

³ 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.

⁴ Weather data is published monthly by NOAA.

⁵ 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).

Piedmont Natural Gas Company, Inc. and United Cities Gas Company.⁶ 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.⁷

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").⁸ 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, 2018.⁹

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

⁶ 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).

⁷ 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.

⁸ *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).

⁹ *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 2019 – 2020 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 18.89% 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 2019	85	144	Warmer
November 2019	455	410	Colder
December 2019	482	654	Warmer
January 2020	546	717	Warmer
February 2020	494	576	Warmer
March 2020	220	378	Warmer
April 2020	174	149	Colder
Total	2456	3028	18.89% Warmer

The net impact of the WNA Rider during the November 2019 through April 2020 WNA period was that Residential and Commercial customers were surcharged a net \$1,330,217.33. The percentage of total revenue derived from the WNA Rider was 3.43% (See Table 1). Table 2 compares the amount surcharged (refunded) during the past three (3) heating seasons.

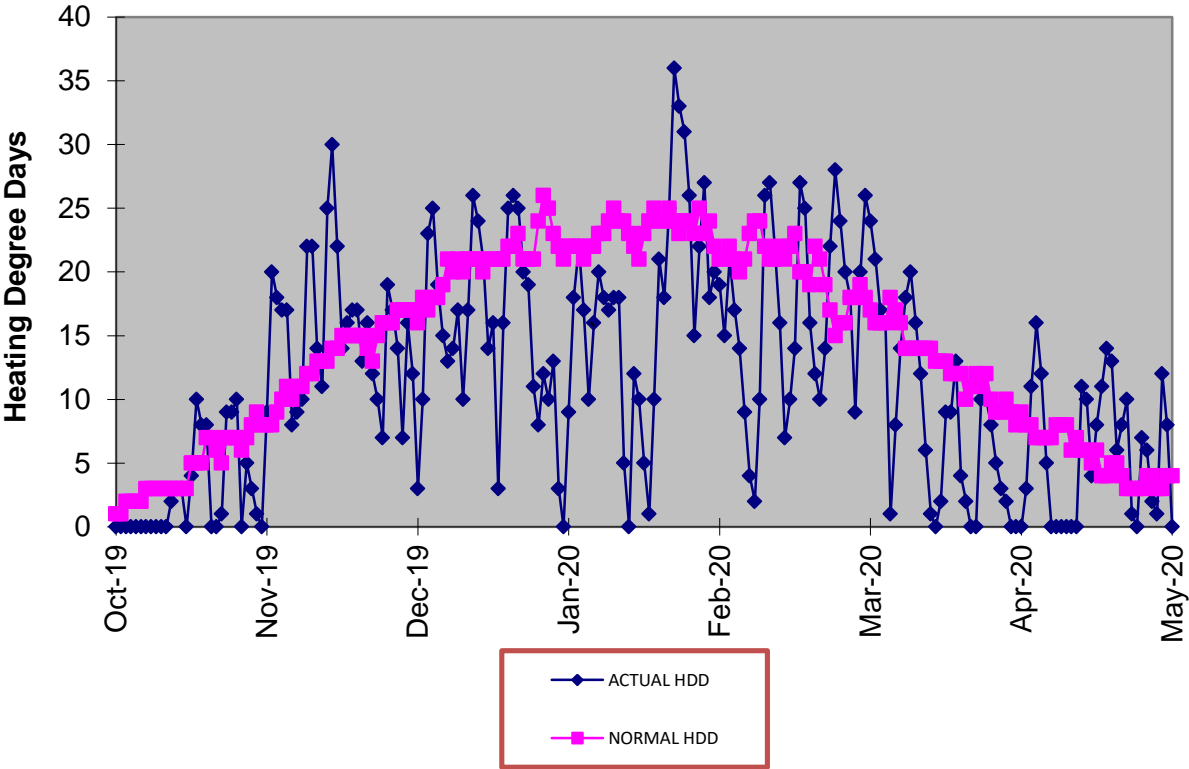
Table 1			
Impact of WNA Rider on Residential & Commercial Revenues November 2019 – April 2020			
	WNA Rider <u>Revenues</u>	Total <u>Revenues</u>	Percentage Impact of WNA Rider on <u>R&C Revenues</u>
Residential Sales	\$ 667,470.87	\$22,276,988.67	3.00%
Commercial Sales	<u>662,746.46</u>	<u>16,483,137.14</u>	4.02%
Total	<u>\$1,330,217.33</u>	<u>\$38,760,125.81</u>	3.43%

Table 2

**Total WNA Amount Surcharged (Refunded)
2017- 2020**

11/2017-4/2018	\$119,395.19
11/2018-4/2019	194,542.54
11/2019-4/2020	<u>1,330,217.33</u>
Total	<u>\$ 1,644,155.06</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 two immaterial findings as relates to the WNA calculations. The total of the findings is an **over-collection** of WNA revenues of **\$5,718.44** as summarized below.

			Page
Finding #1	Incorrect Actual Heating Degree Days	\$ 902.87	8
Finding #2	Incorrect Normal Heating Degree Days	<u>4,815.57</u>	9
Total		<u>\$5,718.44</u>	

FINDING #1:

Exception

The Company used incorrect daily actual heating degree days (ADD) in its weather normalization adjustment factor calculations.

Discussion

The Company used incorrect actual heating degree days (ADD) in April 2020. This error affected 12 Bill Cycles in April. Since WNA factors are calculated on a real time basis for billing purposes, Chattanooga receives its daily heating degree day information from a weather service provider. These are preliminary data that have not been finalized by the National Oceanic and Atmospheric Administration (“NOAA”).¹⁰ According to the Company, the number of heating degree days calculated from the observed high and low temperatures for the following date is as follows. The final NOAA report, which is released after the fact, corrected the heating degree days as noted.

Date	Company	NOAA	Difference
04/13/2020	7	8	1

The result of this error was an **over-collection of \$902.87** in WNA revenues from CGC’s customers.

Recommendation

Based on the immaterial amount of over-collection on a per customer basis, Staff recommends this over-collection be added to the Company’s Actual Cost Adjustment (ACA) Account Balance in the next ACA audit filed with the Commission.

Company Response

The Company agrees with the finding. The Company used the HDDs published at the time by NOAA. The Company recognizes that NOAA made a revision after publishing the original number used by the Company, resulting in the difference of 1 HDD. The Company plans to include an adjustment in the next ACA filing to return the amount of \$902.87.

¹⁰ NOAA is the official standard used by Staff to audit the WNA adjustments.

FINDING #2:

Exception

The Company used inaccurate daily normal heating degree days (NDD) in its weather normalization adjustment factor calculations.

Discussion

The Company apparently used incorrect normal heating degree days for February 29, 2020. While the Company reported the correct daily normal heating degree days for February including leap year February 29, the cumulative NDD used to calculate the WNA factor for each Bill Cycle in March 2020 (21 cycles) was off by a negative 2 degree days.

The result of these errors was an **over-collection of \$4,815.57** in WNA revenues from CGC's customers.

Recommendation

Based on the immaterial amount of over-collection on a per customer basis, Staff also recommends that this over-collection be added to the Company's Actual Cost Adjustment (ACA) Account Balance in the next ACA audit filed with the Commission.

Company Response

The Company agrees with the finding. The difference in normal HDDs for each cycle in March was related to the incorrect number of normal HDDS entered for February 29th. The Company plans to include an adjustment in the next ACA filing to return the amount of \$4,815.57.

VII. CONCLUSIONS AND RECOMMENDATIONS

Based on Staff's review of the WNA adjustments during the period November 2019 through April 2020, as stated in its Audit Opinion in Section I, Staff found two immaterial errors and concludes that CGC is correctly implementing the mechanics of the WNA Rider to its tariff. Staff recommends that the findings totaling **\$5,718.44 over-collection** be added to the ACA Account balance in the next ACA filing and the Company has agreed.

Staff reviewed the findings in the last WNA audit (Docket No. 19-00064) to see if there were any surcharges/refunds to be implemented in the Company's next ACA filing. While there were no WNA findings, the Company reported that due to a clerical error, the Company did not update the C-2 PGA demand rate in the billing system effective March 2019. The billing error continued for one month and was corrected with the April 2019 billing. Audit Staff and the Company agreed that the minor over-collection of \$3,797.50 would be credited to the ACA account in the next ACA filing. Staff verified that the refund was made in the 2018-2019 ACA filing (Docket No. 19-00077). No further action is needed.

Staff 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

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.

(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