

**BEFORE THE TENNESSEE PUBLIC UTILITY COMMISSION**

**NASHVILLE, TENNESSEE**

**July 25, 2022**

**IN RE:**

**CHATTANOOGA GAS COMPANY**

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

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) **Docket No. 22-00051**

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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 from November 1, 2021, through April 30, 2022, and the Staff completed its audit of same on July 21, 2022.
3. The Report is attached hereto as EXHIBIT A and is fully incorporated herein by this reference.
4. 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:

*Craig Cox*

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Craig Cox, CPA  
Financial Regulatory Analyst  
Utilities Division  
Tennessee Public Utility Commission

### **CERTIFICATE OF SERVICE**

I hereby certify that on this 25<sup>th</sup> day of July 2021, 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:

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Craig Cox, CPA

# **EXHIBIT A**

**COMPLIANCE AUDIT REPORT**

**OF**

**CHATTANOOGA GAS COMPANY**

**WEATHER NORMALIZATION ADJUSTMENT (WNA) RIDER**

**DOCKET NO. 22-00051**

**TENNESSEE PUBLIC UTILITY COMMISSION**

**UTILITIES DIVISION**

July 2022

**COMPLIANCE AUDIT**  
**CHATTANOOGA GAS COMPANY**  
**WEATHER NORMALIZATION ADJUSTMENT (WNA) RIDER**  
Docket No. 22-00051

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	9
ATTACHMENT 1: <u>WEATHER NORMALIZATION ADJUSTMENT (WNA) RIDER</u>	

**COMPLIANCE AUDIT**  
**CHATTANOOGA GAS COMPANY**  
**WEATHER NORMALIZATION ADJUSTMENT (WNA) RIDER**  
**DOCKET NO. 22-00051**

**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 2021 and April 2022 for CGC. As a result of the WNA Rider, the Company surcharged a net \$1,007,934 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 resulted in one immaterial WNA finding, which is described in Section VI. Consequently, 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;<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. Staff confirmed that the Company appears to have correctly billed its customers during this review period.

Craig Cox of the Utilities Division conducted this audit.

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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).

### **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 (PUHCA) 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 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

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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.

<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).

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> The company's Annual Rate Review Mechanism (ARRM) filing in docket 20-00049 revised the Weighted Base Rate factors for the Residential (R-1), Multi-family (R-4), Small Commercial (C-1), and Medium commercial and industrial (C-2) customers, the tariff effective October 1, 2020.<sup>10</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>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).

<sup>10</sup> *Re: Docket No. 20-00049; Chattanooga Gas Company's Petition for Approval of Its 2019 Annual Rate Review Filing Pursuant to T.C.A. § 65-5-103(d)(6)*, page 11 (September 23, 2020).



## **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 2021 – 2022 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 12.31% 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 vs. Normal
October 2021	97	144	Warmer
November 2021	480	410	Colder
December 2021	369	654	Warmer
January 2022	761	717	Colder
February 2022	486	560	Warmer
March 2022	292	378	Warmer
April 2022	158	149	Colder
May 2022(1 <sup>st</sup> bill cycle only <sup>11</sup> )	0	2	Warmer
Total	2,643	3,014	12.31% Warmer

The net impact of the WNA Rider during the November 2021 through April 2022 WNA period was that Residential and Commercial customers were surcharged a net \$1,007,934. The percentage of total revenue derived from the WNA Rider was 1.48% (See Table 1). Table 2 compares the amount surcharged (refunded) during the past three (3) heating seasons.

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<sup>11</sup> Per Company, the billing system did not apply a WNA factor to the first bill cycle in November 2021; consequently, the Company extended weather-normalized billing into the first bill cycle in May 2022 to complete the full six months of weather-normalized billing.

Table 1

**Impact of WNA Rider on Residential & Commercial Revenues  
November 2021 – April 2022**

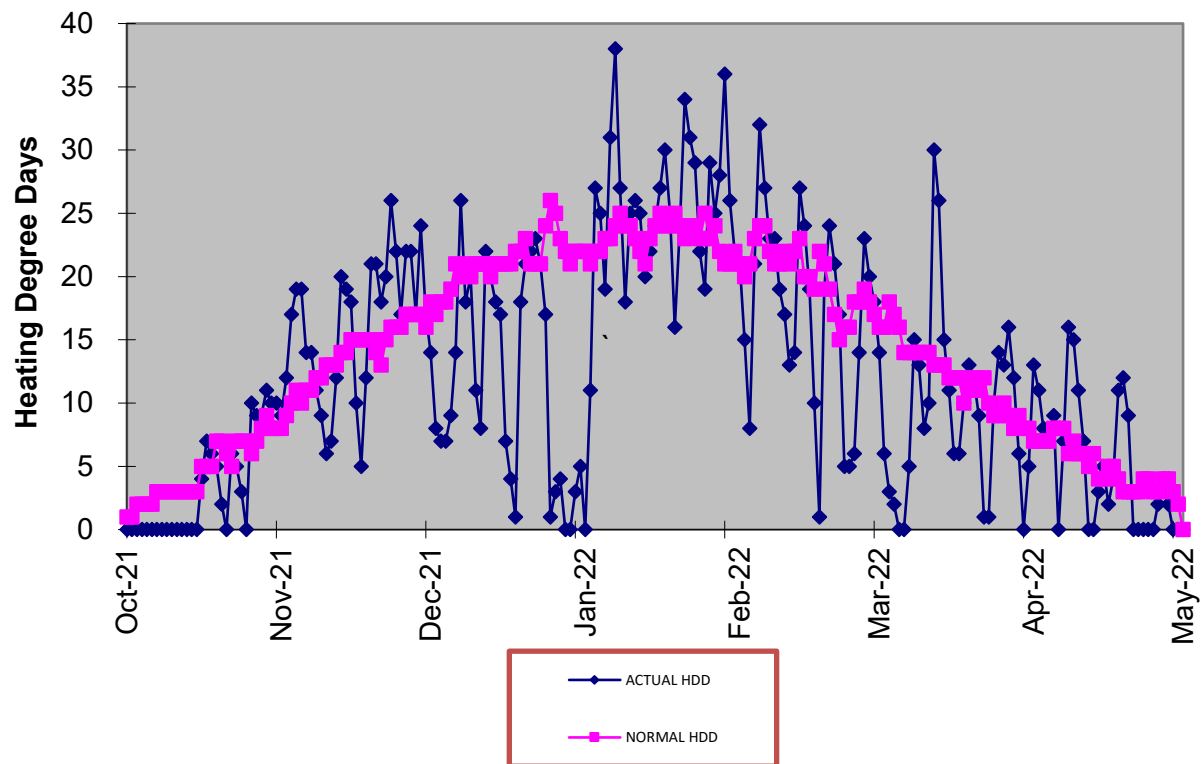
	<u>WNA Rider Revenues</u>	<u>Total Revenues</u>	<u>Percentage Impact of WNA Rider on R&amp;C Revenues</u>
Residential Sales	\$ 503,803.35	\$33,155,658.03	1.52%
Commercial Sales	<u>504,131.03</u>	<u>35,086,156.56</u>	1.44%
Total	<u>\$1,007,934.38</u>	<u>\$68,241,814.59</u>	1.48%

Table 2

**Total WNA Amount Surcharged (Refunded)  
2019- 2022**

11/2019-4/2020	\$1,330,217.33
11/2020-4/2021	1,005,364.53
11/2021-4/2022	1,007,934.38
Total	<u>\$ 3,343,516.24</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 one immaterial finding for the winter heating season of November 2021 through April 2022. This finding is described in detail below.

### **FINDING #1:**

#### **Exception**

The Company used incorrect daily actual heating degree days (ADD) for three days during the audit period in its weather normalization adjustment factor calculations.

#### **Discussion**

The Company used incorrect actual heating degree days (ADD) for one day in February 2022 and two days in April 2022. This error affected six billing cycles in February, five billing cycles in March, eleven billing cycles in April, and the first cycle in May. 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").<sup>12</sup> According to the Company, the heating degree days calculated from the observed high and low temperatures for the following dates are as follows. For the February discrepancy, the final NOAA report, which was released after the Company uploaded data to its billing system, adjusted the official heating degree days as noted below. According to the Company, the two April discrepancies were caused by errors in its internal automated processes.

<b>Date</b>	<b>Company</b>	<b>NOAA</b>	<b>Difference</b>
02/11/22	12	13	-1
04/01/22	14	13	+1
04/05/22	0	9	-9

The result of these errors was an **over-collection of \$32,389.88** in WNA revenues from CGC's customers.

#### **Recommendation**

The Company indicated it has taken action to prevent these types of discrepancies in the future. 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. For the instance on 2/11/22, CGC used the ADD published at the time by NOAA. The Company recognizes that NOAA made a revision after publishing the

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<sup>12</sup> NOAA is the official standard used by Staff to audit the WNA adjustments.

original number used by the Company, resulting in the difference of 1 ADD. For the instances on 4/1/22 and 4/5/22, an issue with the Company's automated processing of degree days caused the differences of 1 and 9 ADD, respectively. CGC plans to include an adjustment in the next ACA filing to return the amount of \$32,389.88.

## **VII. CONCLUSIONS AND RECOMMENDATIONS**

Based on Staff's review of the WNA adjustments during the period November 2021 through April 2022, as stated in its Audit Opinion in Section I, Staff found one immaterial error and concludes that CGC is correctly implementing the mechanics of the WNA Rider to its tariff.

Staff also reviewed the last WNA audit report in Docket No. 21-00081 covering the 2020-2021 winter heating season to determine if any follow-up actions were required for that docket. There were no findings in that docket related to the Company's WNA calculations.

**Staff recommends that the Commission approve Staff's Audit Report and the finding 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 value derived from the Relevant Rate Order used in calculating such Weather Normalization Adjustment.

RATE SCHEDULE	WEIGHTED BASE RATE (THERM)	HEAT SENSITIV E FACTOR	BASELOAD- BL (THERM)
R-1 RESIDENTIAL Winter (November- April)	.15465	.15024734	13.32898975
(R-4) MULTI- FAMILY HOUSING SERVICE Winter (November - April)	.29085	.06855402	14.46080765
C-1 COMMERCIAL AND INDUSTIRAL GENERAL SERVICE Winter (November- April)	.24807	.29116094	16.52451922
(C-2) MEDIUM COMMERCIAL AND INDUSTRIAL GENERAL SERVICE Winter (November - April)	.24082	2.11686991	700.30683132