

BEFORE THE TENNESSEE PUBLIC UTILITY COMMISSION

NASHVILLE, TENNESSEE

July 27, 2023

IN RE:

CHATTANOOGA GAS COMPANY

WEATHER NORMALIZATION ADJ. (WNA) AUDIT)

)

)

) **Docket No. 23-00042**

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

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, 2022, through April 30, 2023, and the Staff completed its audit of same on July 18, 2023.
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

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

CERTIFICATE OF SERVICE

I hereby certify that on this 21st day of July 2023, 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. 23-00042

TENNESSEE PUBLIC UTILITY COMMISSION

UTILITIES DIVISION

July 2023

COMPLIANCE AUDIT
CHATTANOOGA GAS COMPANY
WEATHER NORMALIZATION ADJUSTMENT (WNA) RIDER
Docket No. 23-00042

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COMPLIANCE AUDIT
CHATTANOOGA GAS COMPANY
WEATHER NORMALIZATION ADJUSTMENT (WNA) RIDER
DOCKET NO. 23-00042

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 2022 and April 2023 for CGC. As a result of the WNA Rider, the Company surcharged a net \$2,094,089 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-related findings. 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;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. Though no errors in the Company’s application of its WNA Rider were identified, Staff noted three customers with improper franchise fee charges and two customers with potential sales tax errors. These are discussed in Section VI below.

Craig Cox 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 2207 Olan Mills 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 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 The company's Annual Rate Review Mechanism (ARRM) filing in docket 22-00032 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, with the tariff effective September 1, 2022.¹⁰

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).

¹⁰ *Re: Docket No. 22-00032; Chattanooga Gas Company's Petition for Approval of Its 2021 Annual Rate Review Filing Pursuant to T.C.A. § 65-5-103(d)(6), sheet 49A* (August 18, 2022).

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 2022 – 2023 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 18.51% 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 2022	166	144	Colder
November 2022	371	410	Warmer
December 2022	611	654	Warmer
January 2023	512	717	Warmer
February 2023	327	560	Warmer
March 2023	320	378	Warmer
April 2023	140	149	Warmer
May 2023 (1 st bill cycle only ¹¹)	9	2	Colder
Total	2,456	3,014	18.51% Warmer

The net impact of the WNA Rider during the November 2022 through April 2023 WNA period was that Residential and Commercial customers were surcharged a net \$2,094,089. The percentage of total revenue derived from the WNA Rider was 2.61% (See Table 1). Table 2 compares the amount surcharged (refunded) during the past three (3) heating seasons.

¹¹ Per Company, the billing system did not apply a WNA factor to the first bill cycle in November 2022; consequently, the Company extended weather-normalized billing into the first bill cycle in May 2023 to complete the full six months of weather-normalized billing.

Table 1

**Impact of WNA Rider on Residential & Commercial Revenues
November 2022 – April 2023**

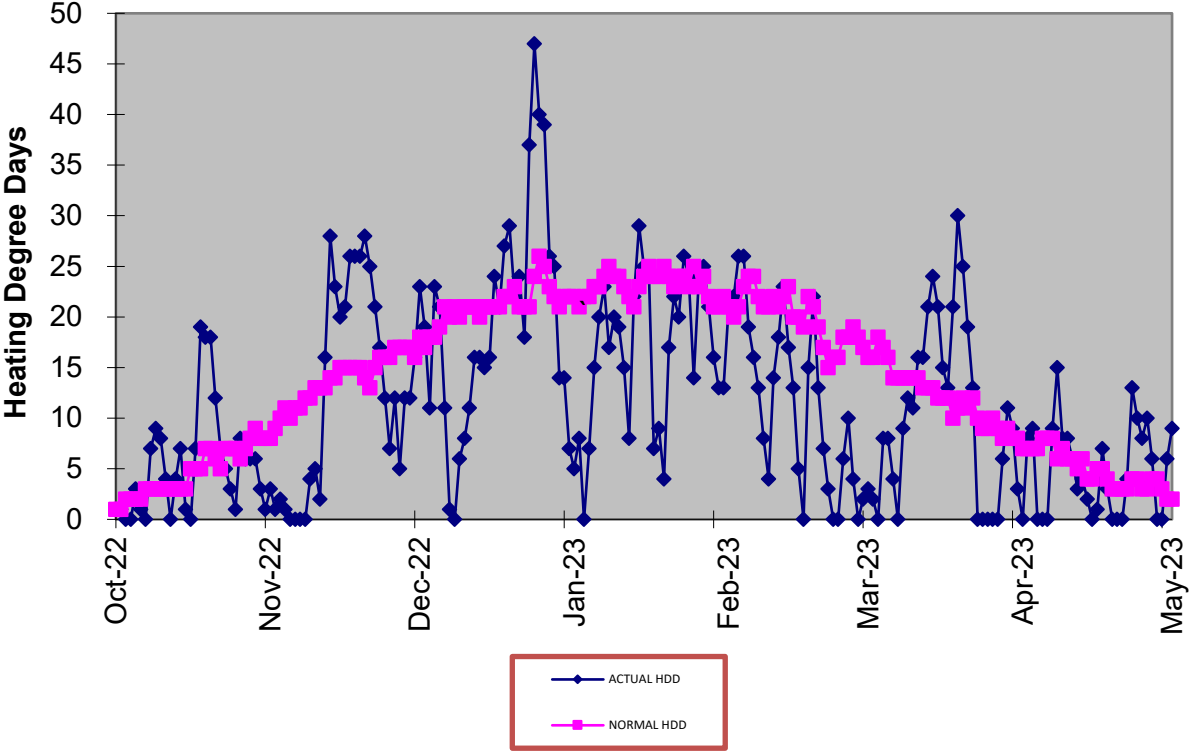
	<u>WNA Rider Revenues</u>	<u>Total Revenues</u>	<u>Percentage Impact of WNA Rider on R&C Revenues</u>
Residential Sales	\$ 1,046,832.86	\$39,193,184.73	2.67%
Commercial Sales	<u>1,047,256.13</u>	<u>41,029,911.25</u>	2.55%
Total	<u>\$2,094,088.99</u>	<u>\$80,223,095.98</u>	2.61%

Table 2

**Total WNA Amount Surcharged (Refunded)
2020 - 2023**

11/2020-4/2021	\$1,005,364.53
11/2021-4/2022	1,007,934.38
11/2022-4/2023	2,094,088.99
Total	<u>\$ 4,107,387.90</u>

Chattanooga Gas Company
Comparison of Actual to Normal Heating Degree Days



VI. AUDIT FINDINGS

As noted in Section II of this report, Staff's WNA audit resulted in no findings relating to the WNA calculations; however, Staff identified five billing errors related to franchise fee and sales tax charges.

FINDING #1:

Exception

The Company incorrectly charged five customers for franchise fees and sales taxes as follows:

- The Company did not charge franchise fees to two residential customers with Chattanooga addresses who should have been charged the franchise fee. Furthermore, the Company incorrectly charged a franchise fee to an ineligible Ooltewah customer.
- The Company charged one commercial customer sales tax at a reduced rate without a proper exception certificate. The Company did not charge one commercial customer any sales tax, and the Company did not have a proper exemption certificate for this customer.

Discussion

In addition to verifying that the Company's WNA factors were correctly applied to its bills, Staff also examined each sample bill to determine whether its Base Rates, Purchased Gas Adjustments, and other billing components were billed correctly. During this audit, Staff found the five errors noted above regarding the Company's application of franchise fees and sales tax to its customers.

Company Response

The accounts noted in the finding have been corrected in the billing system. Accounts that have been overbilled due to incorrect franchise or sales tax charges will additionally be corrected retroactively three years from the date of the discovery of the error, as required by state regulation. Accounts that have been underbilled due to incorrect franchise or sales tax charges will be billed correctly only on a prospective basis.

CGC is working with multiple key internal departments to review current processes to establish new customers, which will include the application of franchise charges and sales tax exemptions, and will develop and/or update controls as needed to mitigate the risk of incorrect billing in this regard.

VII. CONCLUSIONS AND RECOMMENDATIONS

Based on Staff's review of the WNA adjustments during the period November 2022 through the first billing period of May 2023, as stated in its Audit Opinion in Section I, Staff found no WNA-related errors 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. 22-00051 covering the 2021-2022 winter heating season. There was one immaterial finding as relates to the WNA calculations in that report. The total over-collection of WNA revenues associated with that finding was \$32,389.88. The Company and Staff agreed that this amount should be refunded to its customers in the Company's annual ACA filing. Staff examined CGC's ACA filing in Docket No. 22-00094,

which covered the period July 2021 to June 2022, and found the Company properly credited \$32,389.88 in February 2022. Therefore, the finding from the previous audit has now been appropriately remedied.

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 SENSITIVE FACTOR- HSF (THERM)	BASELOAD- BL (THERM)
R-1 RESIDENTIAL Winter (November-April)	\$0.17787	.15024734	13.32898975
(R-4) MULTI-FAMILY HOUSING SERVICE Winter(November - April)	\$0.33351	.06855402	14.46080765
C-1 COMMERCIAL AND INDUSTIRAL GENERAL SERVICE Winter (November-April)	\$0.28445	.29116094	16.52451922
(C-2) MEDIUM COMMERCIAL AND INDUSTRIAL GENERAL SERVICE Winter (November - April)	\$0.27658	2.11686991	700.30683132