BEFORE THE TENNESSEE PUBLIC UTILITY COMMISSION

NASHVILLE, TENNESSEE

April 25, 2025

IN RE:	)	
	)	
CHATTANOOGA GAS COMPANY ANNUAL REPORT OF PERFORMANCE BASED RATEMAKING MECHANISM (PBRM) FOR THE TWELVE MONTHS ENDED JUNE 30, 2024	))))	**DOCKET NO. 24-00064**

ORDER APPROVING STAFF AUDIT OF CHATTANOOGA GAS COMPANY'S ANNUAL PERFORMANCE-BASED RATEMAKING TARIFF

This matter came before Chairman David F. Jones, Vice Chairman John Hie, Commissioner Clay R. Good, Commissioner Kenneth C. Hill, and Commissioner David Crowell 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 February 18, 2025, to consider the Compliance Audit Report ("*Report*") of Chattanooga Gas Company's ("CGC" or the "Company") Annual Performance-Based Ratemaking Tariff for the twelve months ended June 30, 2024, (the "Incentive Plan" or "IPA") filed on December 11, 2024, by the Commission's Utilities Division (the "Staff"), which is attached as Exhibit 1 and incorporated by this reference.

On August 31, 2024, CGC filed its annual report of the shared gas cost savings in its Incentive Plan for the plan year ended June 30, 2024, which the Staff completed its audit of the same on December 10, 2024.[1] Staff found no material errors in CGC's calculations and concluded that CGC meets the criteria set forth in its tariff.[2] Lastly, Staff recommended the approval of its *Report* and that CGC be released from the PGA Rule prudence audit requirement for this plan year.[3]

---

[1] *Report* p. 1 (December 11, 2024).
[2] *Id.* at 5.
[3] *Id.* at 6.

During the regularly scheduled Commission Conference held on February 18, 2025, the panel assigned to this docket considered the *Report* and found that the audit objective was met and that there were no material errors. The panel further found that the incentive plan tariff was correctly applied and meets the criteria in its tariff. The panel, therefore, voted unanimously to approve the *Report* as filed by Staff on December 11, 2024.

IT IS THEREFORE ORDERED THAT:

1. The Compliance Audit Report of Chattanooga Gas Company's Annual Performance-Based Ratemaking Tariff for the twelve months ended June 30, 2024, which is attached hereto as Exhibit 1, is approved and adopted.

2. Any person(s) 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.

3. Any person(s) 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 David F. Jones,
Vice Chairman John Hie,
Commissioner Clay R. Good,
Commissioner Kenneth C. Hill, and
Commissioner David Crowell concurring.

None dissenting.

ATTEST:

Earl Taylor abh

Earl R. Taylor, Executive Director

<u>Exhibit 1</u>

Electronically Filed in TPUC Docket Room on December 11, 2024 at 12:35 p.m.

BEFORE THE TENNESSEE PUBLIC UTILITY COMMISSION

NASHVILLE, TENNESSEE

December 11, 2024

IN RE:	)	
	)	
CHATTANOOGA GAS COMPANY	)	
ANNUAL REPORT OF PERFORMANCE-BASED	)	**Docket No. 24-00064**
RATEMAKING MECHANISM FOR THE TWELVE	)	
MONTHS ENDED JUNE 30, 2024	)	

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 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 August 30, 2024, and the Audit Staff ("Staff") completed its audit of the same on December 10, 2024.

3. Staff noted no material findings during the course of the Incentive Plan Audit.

4. The original 180-day deadline for completion of the audit and approval of Staff's audit report is February 26, 2025.

5. A final IPA audit report (hereafter the "Report") resulted therefrom. The Report is attached hereto as Exhibit A and is fully incorporated herein by this reference.

6. The Utilities Division hereby files its Report with the Tennessee Public Utility Commission for deposit as a public record.

Respectfully submitted,

Craig Cox

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

CERTIFICATE OF SERVICE

I hereby certify that on this 11th day of December 2024, a true and exact copy of the foregoing has been either hand-delivered or delivered via electronic mail to the following persons:

David F. Jones
Chair
Tennessee Public Utility Commission
502 Deaderick Street, 4th Floor
Nashville, TN 37243

Ms. Ashley Vette
Manager, Rates & Tariff Administration
Southern Company Gas
10 Peachtree Place NE, Location 1686
Atlanta, GA 30309

Mr. Jason Willard
Director-External Affairs
Chattanooga Gas Company
2207 Olan Mills Drive
Chattanooga, TN 37421

Mr. J.W. Luna
Butler Snow LLP
The Pinnacle at Symphony Place
150 3rd Avenue South, Suite 1600
Nashville, TN 37201

Ms. Karen Stachowski
Office of the Tennessee Attorney General
Consumer Advocate and Protection Division
P.O. Box 20207
Nashville, TN 37202-0207

Craig Cox

Craig Cox

COMPLIANCE AUDIT REPORT
of the
PERFORMANCE-BASED RATEMAKING TARIFF
for
CHATTANOOGA GAS COMPANY

Docket No. 24-00064

Prepared by:

THE UTILITIES DIVISION
of the
TENNESSEE PUBLIC UTILITY COMMISSION

December
2024

EXHIBIT A

COMPLIANCE AUDIT REPORT
of the
PERFORMANCE-BASED RATEMAKING TARIFF

for
CHATTANOOGA GAS COMPANY
for the Year ended June 30, 2024

Docket No. 24-00064

TABLE OF CONTENTS

I. INTRODUCTION AND AUDIT OPINION

This compliance audit report addresses the Performance-Based Ratemaking tariff ("Incentive Plan") of Chattanooga Gas Company ("Chattanooga," "CGC," or "the 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, 2024. After reviewing the Company's gas purchases as included with its 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 this report addresses the actual results of the plan year.

II. BACKGROUND AND DESCRIPTION OF THE 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 Company's tariff entitled Performance-Based Ratemaking, which was issued on January 25, 2002, and previously 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 again revised effective September 1, 2006, to include RFP Procedures for Selection of Asset Manager and/or Gas Provider.[4] On June 20, 2023, the tariff was further revised effective July 1, 2023, to remove the RFP Procedures for Selection of Asset Manager and/or Gas Provider provisions.[5] A copy of the current tariff's Performance-Based Ratemaking section (Third Revised Sheets 56, 56A, and 56B) is attached to this report as Attachment 1. The Incentive Plan automatically resets for an additional plan year on each July 1st and continues until it has either (a) reached the end of its plan year or been ended by not less than 90 days' notice to the Tennessee Public Utility Commission ("Commission" or "TPUC") by Chattanooga Gas Company or (b) been modified, amended, or terminated by the Commission.

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' plan is a waiver of the prudence audit of gas purchases as required under the Commission's Purchased Gas

---

[1] Docket No. 24-00065.

[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] The RFP Procedures Section was recently revised in Docket No. 21-00067, with an effective date of July 13, 2021. The relevant change was to Paragraph 2, which addressed the advertising of the RFP. See Third Revised Sheet No. 56B.

[5] The RFP Procedures Section was removed from the tariff in Docket No. 23-00024, with an effective date of July 1, 2024. As of July 1, 2021, the Company no longer had an affiliated natural gas supplier and asset manager.

Adjustment (PGA) Rule.[6] The terms under which the prudence audit will be waived are found in the Prudence Determination section 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 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 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, 14-00137, 17-00137, and 21-00134. However, prior to this audit's reporting period, on or about July 1, 2021, the Company's *affiliated* natural gas supplier and asset manager (Sequent) was sold by Southern Company Gas, Chattanooga Gas' parent company.[7] Without an affiliated asset manager and natural gas supplier, the Company's tariff was subsequently modified to remove the RFP procedures for selecting an asset manager and/or supplier as it relates to its Incentive Plan.[8]

The most recent Asset Management and Agency Agreement and Gas Purchase and Sale Agreement were approved in Docket No. 21-00134, effective April 1, 2022, with terms of three years. The terms of the agreements provide that the asset manager, Sequent, will supply CGC's gas requirements and manage its assets. Seventy-five percent (75%) of the net proceeds realized by Sequent under the agreement are to be refunded to the utility's customers via the Interruptible Margin Credit Rider ("IMCR") tariff.[9] Benefits accruing to customers during the audit period are explained more fully in Section III, ACTUAL PLAN YEAR RESULTS.

Triennial Review

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 by the Incentive Plan,

---

6 PGA Rule 1220-4-7-.05.
7 Pre-filed testimony of Chris Bellinger, Docket No. 23-00024 (April 4, 2024).
8 Docket No. 23-00024.
9 Under the IMCR tariff (Docket No. 20-00139), the utility does not share in the 75% of proceeds that are refunded to customers.

should occur in the fall of 2013 with any future reviews determined at the conclusion of that ordered review.

The first review process commenced in April of 2013. Exeter Associates, Inc. ("Exeter") submitted the winning bid and on July 1, 2014, filed its report dated June 2014 in Docket No. 07-00224. The panel, in its order dated December 29, 2014, determined that future triennial reviews would benefit both the Commission and consumers and voted unanimously that the next triennial review should be commenced during the fall of 2016 with a final report issued by July 1, 2017. Exeter was again selected as the independent auditor. The review period of the three years ended March 31, 2016, was extended for additional three months to June 30, 2016, to cover the prudency question identified in the Incentive Plan Docket No. 16-00098.

In accordance with the Order Extending Triennial Review Process entered in Docket No. 07-00224 on October 27, 2020, Exeter completed its review of CGC's gas procurement activities relative to its Performance Based Ratemaking Mechanism for the period April 2019 through March 2022, releasing its report in June 2023; the Company filed this report with the Commission on June 30, 2023. The Commission subsequently determined in its November 6, 2023, Order that a future triennial review would again be beneficial and ordered that the next review will commence in the fall of 2025, covering the period April 2022 through March 2025, with a final report to be issued by July 1, 2026.

III. ACTUAL PLAN YEAR RESULTS

In August 2024, Chattanooga filed an annual report as required by its tariff, showing the actual cost of gas invoiced by its asset manager and other suppliers, and the applicable benchmark index for each purchase during each month of the plan year ended June 30, 2024. Staff reviewed these supplier invoices filed as part of the Company's ACA audit and the indexes[10] used to calculate the benchmark each month. The cost of gas table below summarizes the Company's monthly purchases as compared to the calculated monthly benchmarks.

[10] Inside FERC and Gas Daily.

Cost of Gas			
Month	**Actual Purchase Cost**	**Benchmark Cost**	**Percentage Over/(Under) Benchmark**
Jul-23	**$1,454,314.83**	**$1,454,307.92**	**0.00048%**
Aug-23	**$1,401,855.83**	**$1,402,448.96**	**-0.04229%**
Sep-23	**$1,506,092.66**	**$1,506,087.04**	**0.00037%**
Oct-23	**$2,376,922.51**	**$2,376,906.97**	**0.00065%**
Nov-23	**$1,311,961.08**	**$1,311,962.69**	**-0.00012%**
Dec-23	**$1,804,377.37**	**$1,804,386.67**	**-0.00052%**
Jan-24	**$3,224,935.49**	**$3,224,931.78**	**0.00011%**
Feb-24	**$894,301.90**	**$894,299.67**	**0.00025%**
Mar-24	**$183,617.27**	**$183,621.03**	**-0.00205%**
Apr-24	**$953,514.47**	**$953,516.12**	**-0.00017%**
May-24	**$1,074,467.12**	**$1,074,469.52**	**-0.00022%**
Jun-24	**$1,439,455.76**	**$1,439,453.37**	**0.00017%**
Annual	**$17,625,816.29**	**$17,626,391.73**	**-0.00326%**

In six (6) months during the audit period, gas supply amounts invoiced were below the calculated benchmark for the month. In the other six (6) months of the audit period, the invoiced amounts were just above the calculated benchmark.

The total gas costs invoiced to the Company for the plan year were 0.00326% below the annual benchmark amount, which is well below the 1% plan year upper limit. Therefore, Staff acknowledges 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, 2024.

On May 31, 2024, the Commission received Chattanooga's tariff filing[11] to refund the customers' share of profits accruing under the Interruptible Margin Credit Rider ("IMCR"). Effective July 1, 2024, the Company began refunding this amount to its customers.

[11] Tariff No. 2024-0031.

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. have conferred on the Department of Transportation's oversight of the railroads and 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 Craig Cox and Aisha Salem of the Utilities Division.

V. IPA FINDINGS

Staff concludes there are no findings in the Company's calculations of the comparisons between its actual cost of gas and the appropriate benchmarks.[12]

VI. CONCLUSIONS AND RECOMMENDATIONS

After reviewing the Company's gas purchases activity as reported in its ACA filing,[13] along with verifying the applicable benchmark indexes each month, Staff found no material errors in the Company's calculations. The total annual purchase 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, 2024, Staff recommends that the Company be

---

[12] 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.

[13] Docket No. 24-00065.

released from the prudence audit requirements as specified by the Purchased Gas Adjustment Rule ("PGA Rule") 1220-4-7-.05.

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

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.

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.

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."

Daily Priced Purchases

The benchmark price shall be the daily index price as published in the issue of S&P 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.

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.

FILING WITH THE COMMISSION

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.

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.

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.