

BEFORE THE TENNESSEE PUBLIC SERVICE COMMISSION

Nashville, Tennessee

February 22, 1996

**IN RE: PETITION TO REVISE CHATTANOOGA GAS COMPANY'S RULES
AND REGULATIONS.**

Docket No. 95-03343

SUPPLEMENTAL INITIAL ORDER

This matter is before the Tennessee Public Service Commission upon the Petition of Chattanooga Gas Company to revise its rules and regulations pertaining to its gas service in Hamilton and Bradley Counties, Tennessee and for the purpose of requesting the implementation of a Revenue Adjustment Mechanism to protect the Company from loss of revenues occurring as a result of the foregoing change in the Company's bill payment rules.

An Initial Order implementing the change in payment terms was issued January 24, 1996 in Docket No. 95-03343, the instant docket. The matter was considered at the January 30, 1996 Commission Conference. This Supplemental Initial Order addresses the implementation of the Revenue Adjustment Mechanism.

The matter was heard January 3, 1996, in Nashville, Tennessee, before Ralph B. Christian, II, Administrative Judge, at which time the following appearances were entered:

APPEARANCES:

WILLIAM L. TAYLOR, JR., Attorney at Law, 8th Floor, Blue Cross Building, Chattanooga, Tennessee 37402, appearing on behalf of Petitioner, Chattanooga Gas Company.

HENRY WALKER, Attorney at Law, 414 Union Street, Suite 1600, Nashville, Tennessee 37219, appearing on behalf of Associated Valley Industries Group and Chattanooga Manufacturers Association.

VINCENT WILLIAMS, Attorney at Law, Consumer Advocate, 1504 Parkway Towers, 450 James Robertson Parkway, Nashville, Tennessee 37243-0500, appearing on behalf of the Consumer Advocate Division, Office of the Attorney General.

H. ED PHILLIPS, Associate General Counsel, Tennessee Public Service Commission, 460 James Robertson Parkway, Nashville, Tennessee 37243-0505, appearing on behalf of the Commission Staff.

FINDINGS OF FACT AND CONCLUSIONS OF LAW

Chattanooga Gas Company filed the instant Petition in response to customer complaints arising from changes in the Company's billing procedures implemented, January 1, 1995. Under the billing system in operation prior to January 1, 1995, Chattanooga Gas Company considered a bill paid on the date the payment was mailed by the Customer. Under the new system, however, the Company's equipment cannot read the postmark on a customer's payment. Consequently, the payment is not credited to the customer's account until the Company actually receives the payment. This change in the billing structure effectively shortens the number of days customers have to pay their gas bills without incurring a late penalty.

According to Chattanooga Gas Company, the billing change has caused considerable customer confusion and complaints. Company President Kenneth Royse testified that it could correct the problem by making expensive adjustments to its new billing system, but elected instead to file this tariff change lengthening the time periods.

The Commission recently completed a full-scale investigation of the earnings of Chattanooga Gas Company, determined the Company's revenue requirement, and fixed rates to provide the Utility a reasonable return on its investment. Subsequently, there have undoubtedly been changes in Chattanooga Gas Company's operations that affect its expenses, revenues, and investment. Some changes will increase profits. For example, the Utility recently announced a

major restructuring expected to result in long-term cost savings. Other changes, such as lengthening of the billing period, may reduce profits.*

It would be unfair to ratepayers for the Public Service Commission to consider only the loss of late payment revenue without a complete investigation of all other changes that have occurred since the last rate case. Petitioner has presented no such evidence in this proceeding.

Petitioner avers its revenue adjustment proposal is no different than other rate adjustment mechanisms. For example, the Company is allowed to make automatic rate adjustments to account for fluctuations in weather, the cost of gas, and, in some cases, gas sales to customers. Those adjustments, however, are not similar to the Company's proposal herein. First, the rate adjustment mechanisms now in effect, apply to matters beyond the control of Chattanooga Gas Company and the Public Service Commission. Second, the existing adjustments involve potential changes in revenue or expenses that could have a significant impact upon the Company's earnings and, without an adjustment mechanism, might require the Company to file continual rate cases. The proposal to increase the number of payment days is a one-time adjustment, initiated by the Company itself, and not likely to have a significant impact upon the Utility's earnings.

Mr. Royse acknowledges that had the Company chosen to spend additional money to improve its billing system, it would not be appropriate to increase the Utility's rates for that expense alone. Similarly, it is not appropriate to raise rates solely because the Utility, instead of improving the billing system, elects to lengthen the period for customers to pay their bills. Consumer Advocate witness Joe Werner testified that in his ten years as a utility rate analyst on the Commission Staff and in the Consumer Advocate's Office, he knows of no cases where the Public

* Chattanooga Gas Company does not know the financial impact of the instant tariff proposal. Mr. Royse testified the change will "probably" reduce the number of late payments. He roughly estimates the Company might lose from \$200,000 to \$300,000 annually until the Utility files a new rate case.


Service Commission created a revenue adjustment mechanism for this type of expense or lost revenue.

Chattanooga Gas Company is to be commended for addressing this billing problem. However, any increased billing expense or loss of late payment revenue will have to be considered in the Utility's next general rate case.

WHEREFORE, having considered the testimony, the evidence of record, the Briefs and Reply Briefs of the parties, the Administrative Judge finds that Chattanooga Gas Company's proposed revenue adjustment mechanism should not be adopted.

IT IS THEREFORE ORDERED:

1. That the Petition of Chattanooga Gas Company to revise its tariffs by implementing a Revenue Adjustment Mechanism to reimburse the Utility for revenue shortfall resulting from billing changes be, and the same is hereby **denied**.
2. That any party aggrieved by the Commission's decision in this matter may file a Petition for Reconsideration with the Tennessee Public Service Commission within ten (10) days from and after the date of this Order.
3. That any party aggrieved by the Commission's decision in this matter may file a Petition for Review in the Tennessee Court of Appeals, Middle Section, within sixty (60) days from and after the date of this Order.


RALPH B. CHRISTIAN, II
ADMINISTRATIVE JUDGE

BEFORE THE TENNESSEE PUBLIC SERVICE COMMISSION
Nashville, Tennessee
February 22, 1996

IN RE: PETITION TO REVISE CHATTANOOGA GAS COMPANY'S
RULES AND REGULATIONS

DOCKET NO. 95-03343

ORDER

This matter is before the Tennessee Public Service Commission upon its own motion.

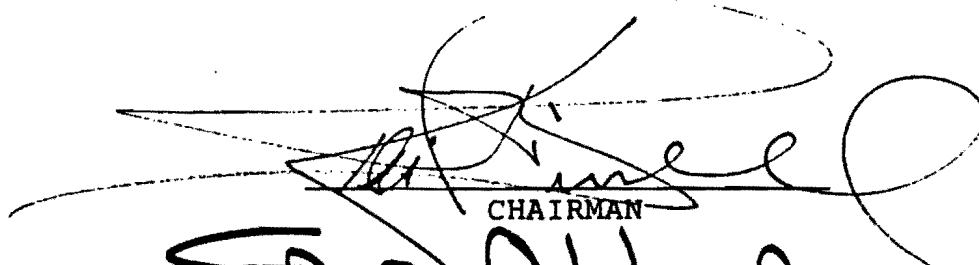
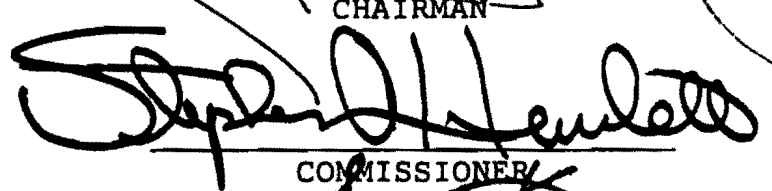

Having reviewed the Supplemental Initial Order in the above captioned matter on February 22, 1996, the Commission, pursuant to T.C.A. Section 4-5-315(b), hereby notifies all parties that it will review all issues raised in the record of this proceeding before the Administrative Judge.

Any party may note an exception to the Supplemental Initial Order by filing a brief with the Commission within ten (10) days of the date of this order. Reply briefs may also be filed within five (5) days after filing exceptions. Any party may request oral argument on the issues raised in the briefs.

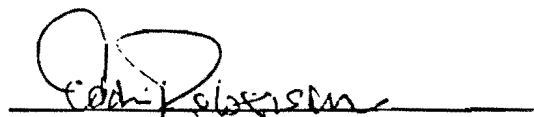
Requests for extensions of time within which to file briefs must be made in writing to the Executive Director of this Commission and accompanied by a proposed order to be signed by the Chairman of this Commission. The request must indicate that

copies of the request and proposed order have been served on all parties.

The Commission decision to review the Initial Order does not affect any party's right to petition the Administrative Judge to reconsider the Initial Order pursuant to T.C.A. 4-5-317. Should such a petition be filed, the time limits set forth in this Order for the submission for exceptions and replies will be suspended and will begin to run ab initio, from the date of the final order disposition of the petition to reconsider.


CHAIRMAN

COMMISSIONER

COMMISSIONER

ATTEST:


EXECUTIVE DIRECTOR