

**BEFORE THE TENNESSEE REGULATORY AUTHORITY**

**NASHVILLE, TENNESSEE**

**December 19, 1996**

**IN THE MATTER OF: )  
PETITION OF CHATTANOOGA GAS )  
COMPANY FOR NEW MAIN AND )  
SERVICE LINE EXTENSION RULES )**

**DOCKET NO. 96-01174**

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**ORDER**

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**I. BACKGROUND**

This matter came before the Tennessee Regulatory Authority (hereafter "Authority") upon the petition of Chattanooga Gas Company (hereafter "Chattanooga Gas") at a regularly scheduled Authority Conference held on October 15, 1996.

In its petition, Chattanooga Gas requested new residential and non-residential main and service line extension rule or policy. This policy allows a gas company such as Chattanooga Gas to recover the costs of extending a natural gas service line to residential or non-residential customers when the cost of extending the line to the customer requesting the extension exceeds a calculated allowable investment to be made by the company.

The basis for this request was the result of Chattanooga Gas responding to recommendations made in the management audit of the Company performed by Stone & Webster at the request of the Tennessee Public Service

Commission. Chattanooga Gas has proposed a rule that is designed to implement certain improvements in economic analyses of the extensions which would provide an evaluation of revenues and costs in determining the feasibility of constructing main and service line extensions. The rule is divided into residential main and service extension and non-residential main and service extensions.

The Consumer Advocate Division, Office of the Attorney General (hereafter "Consumer Advocate") intervened in this cause and, after reviewing the matter and meeting with the Company, agreed that the proposed rule, if implemented, would be just and reasonable. In support of its agreement, the Consumer Advocate filed a letter on September 25, 1996, stating that it had no objection to the petition filed by Chattanooga Gas.

Chattanooga Gas filed revised main and service line extensions with the Authority that altered the original filing. The alterations were agreed to by the Consumer Advocate, and are as follows:

(1) That the company will charge its customers a variable interest rate of prime plus three percent (3%) per annum for financing main or service line extensions. The prime-rate is defined in the Money Rate Section of the Wall Street Journal and will be adjusted on April 1 of each succeeding year after adoption of the proposed rule to reflect the current prime-rate;

(2) That the rule will be an experimental rule for a two year period following the date that it is adopted by the Authority, with a review to be conducted by the Authority at the end of the two years for the purpose of determining whether the rule should be continued, modified or terminated; and

(3) That any filings that will be required to be filed by Chattanooga Gas in relation to the operation of the experimental rule shall be filed with the Authority by April 1 of each year, unless, the accounting records necessary to permit the completion of these filings are not available. In which event, Chattanooga Gas could receive a fifteen day extension for filing such material upon the filing of a written request for an extension of time.

## **II. CONSIDERATION OF THE PROPOSED RULE**

The Authority must find that the proposed experimental rule will establish rates that are just and reasonable in accordance with Tenn. Code Ann. §§ 65-5-201 and 65-5-203. Further, the Authority must determine that this proposed experimental rule is not unjustly discriminatory or unduly preferential under the provisions of Tenn. Code Ann. § 65-5-204.

## **III. FINDINGS AND CONCLUSIONS**

From all the record and exhibits before the Authority, the Authority makes the following findings and conclusions. The experimental rule as agreed to by the parties will allow Chattanooga Gas the ability to recover costs for extending main and service lines to both residential and non-residential customers when the cost of extending the line to the requesting customer exceeds a calculated allowable investment to be made by the company.

Initially the rates to be charged by Chattanooga Gas for these extensions are outlined in Chattanooga Gas Exhibit 4. The rates contained in that exhibit will be updated and filed with the Authority by April 1 of each successive year after the date of this Order. The costs to be recovered for the extensions are just and reasonable. Additionally, the variable interest rate to be charged customers for the financing of any such extension is also just and reasonable.

Finally, both residential and non-residential customers will not be charged rates that are unjustly discriminatory or unduly preferential as prohibited by Tenn. Code Ann. § 65-5-204.

**IT IS THEREFORE, ORDERED:**

1) That the proposed rules for residential and non-residential main and service line extensions as proposed by the Chattanooga Gas and agreed to by the Consumer Advocate, copies of which are attached hereto and incorporated herein by reference, be adopted by the Authority for a two-year experimental period following which a review will be made to determine whether the rule should be continued, modified or terminated;

2) That the Authority has determined based upon the record which includes all pre-filed testimony and exhibits, and the agreement of the parties that the implementation of the rule is just and reasonable under Tenn. Code Ann. §§ 65-5-201 and 65-5-203.

3) That the implementation of the rule does not allow for rates that are unjustly discriminatory or unduly preferential as prohibited by Tenn. Code Ann. § 65-5-204.

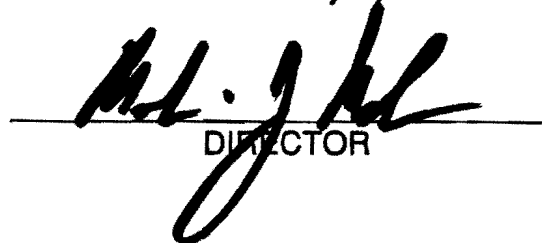
4) That any party aggrieved with the Authority's decision in this matter may file a petition for reconsideration with the Authority within ten (10) days from and after the date of this Order; and

5) That any party aggrieved with the Authority's decision in this matter has the right of judicial review by filing a petition for review with the Tennessee

Court of Appeals, Middle Section, within sixty (60) days from and after the date  
of this Order

  
CHAIRMAN

  
DIRECTOR

  
DIRECTOR

ATTEST:

  
EXECUTIVE SECRETARY

ORD/96-01174

**PROPOSED RULE**

**RESIDENTIAL MAIN AND SERVICE EXTENSIONS**

Service lines and distribution mains necessary to furnish permanent service to Applicants for Residential Service within established service areas of the Company will be constructed by the Company in accordance with the following provisions:

**A. Definitions**

- (1) Approach Main - main constructed outside the property boundaries of the development or premises of the Applicant for which gas service is requested.
- (2) Project Main - main constructed within the property boundaries of the development or premises of the Applicant for which gas service is requested.
- (3) Gas Consumption Bulletin - a bulletin showing the estimated annual consumption of various gas appliances by residential customers as determined from time to time by the Company.
- (4) Infill Potential - the estimated additional gas loads that will be served from the Approach Main at locations outside the development or premises for which gas service is requested.
- (5) Revenues - Revenues shall be computed for the estimated annual consumption at the current rates excluding gas cost, other rider revenues and any taxes added to the customers bill.

**B. General**

The Company will construct, own, operate and maintain gas distribution mains generally along public streets, roads and highways which the Company has the legal right to occupy and, at the Company's election, on public lands and private property across which rights-of-way satisfactory to the Company may be obtained without cost to the Company.

The Company will construct, own, operate and maintain a service line of suitable capacity from its distribution main to the curb or right-of-way line of a public street, highway, road or alley upon which the residential structure to be served faces and abuts at no cost to the Applicant. Additional facilities will be provided pursuant to the following provisions.

C. Extension of Main and Service:

(1) Calculation of Allowable Investment

- a. The allowable investment in metering and regulating equipment, main and service line to be made by the Company without contribution or payment by the Applicant shall not exceed the Estimated Annual Revenues from the extension divided by the Levelized Annual Carrying Charge Rate applicable to the investment.
- b. The Levelized Annual Carrying Charge Rate shall be calculated by using the weighted average cost of capital as determined in the Company's last rate proceeding adjusted for taxes and depreciation required to recover the Company's investment over the expected economic life of the investment as determined from time to time by the Company. These costs will be discounted at the cost of capital.
- c. The required investment in metering and regulating equipment shall be based on engineering cost estimates, and main shall be based on system wide average costs for such equipment and facilities as determined by the Company.
- d. The cost per foot for service lines will be based upon the system wide average unit cost per foot of installing all service lines for the size to be installed.
- e. Estimated Annual Revenues shall be based upon the usage of the appliance that the Applicant has committed contractually to install as shown in the applicable Gas Consumption Bulletin of the Company at the approved rates of the Company in effect when construction of the extension begins less certain direct expenses and infrastructure expenses as approved from time to time.
- f. To the extent that the extension required investment in Approach Main, Estimated Annual Revenues may also include Revenues associated with Infill Potential, as hereinafter defined, provided, however, that revenues associated with Infill Potential may not exceed fifty percent (50%) of Project Revenues.

- g. "Revenues Associated with Infill Potential" means revenues, adjusted for any additional costs, which, based upon analyses of the Company's extensions for residential service in comparable areas, can be expected within a five year period from the Approach Main in addition to Project Revenues.
- h. The economic life factor used in computing the Levelized Annual Carrying Charge Rate hereunder shall not be more than 15 years where natural gas space heating is installed; not more than 10 years where natural gas water heating is installed as the principal gas appliance and not more than 5 years for any other equipment. The Company reserves the right to recognize any conditions that would make the use of a typical economic life factor imprudent.

(2) Order of Application

- a. The allowable investment shall be applied in the following order to the equipment and facilities required in the extension: metering and regulating equipment; service line; Project Main; and Approach Main.
- b. In the event that the allowable investment is not sufficient to cover the cost of the equipment and facilities required in the extension, the Applicant will be required to pay the excess costs, determined in accordance with the provision of subparagraph (1) above.
- c. If the allowable investment is not sufficient to cover the costs of metering and regulating equipment, service line, and Project Main, the Applicant will be required to pay to the Company the excess costs for such equipment and facilities, determined in accordance with the provisions of subparagraph (1) above, without regard to Revenues associated with Infill Potential from the Approach Main.

(3) Limitations

No allowable investment will be made for auxiliary or incidental uses of gas. The Company shall not be required to provide any connection to the Company's system where such connection may have an adverse impact on existing customers unless the Authority has prescribed a tariff



provision designed to eliminate such adverse impact on existing customers.

(4) Length and Location

- a. The length of main required for a main extension or the length of service line will be considered as the distance along the shortest practical route, as determined by the Company, from the Company's nearest distribution main, capable in the opinion of the Company of properly supplying the Applicant. Irrespective of the total allowable investment, the Company shall not be required to extend a main or service line a greater distance than necessary in the judgment of the Company to serve an Applicant.
- b. The service line shall be of the size and type required to supply the principal requirements of the premises served, and shall extend from the curb to the first reasonably acceptable meter location as determined by the Company.
- c. Company reserves the right to designate the locations and specifications for the main taps, service lines, curb cocks, meters and regulators and to determine the amount of space which must be left unobstructed for the installation and maintenance thereof. Applicant may request an alteration of such designation and, if consented to by the Company, the cost of such revised designation in excess of the cost of the original Company design shall be borne by the Applicant regardless of whether the length of service line laid as requested by Applicant comes within the allowable investment provided in this rule.

(5) Extensions Beyond the Free Length

a. Payment Provisions

Extensions of mains or service lines beyond the allowable investment will be made by the Company provided that the Applicant pays to the Company the excess cost of such main or service lines. Such payment may be made over 36 months provided that the Applicant executes an appropriate finance agreement with the Company. Interest on unpaid balances shall accrue from the date construction is completed at a rate equal to the then existing prime rate (as defined in the Money Rates Section

of the Wall Street Journal) plus 3 percent. The interest rate shall be adjusted on the 1st day of April of each succeeding year to the then existing prime rate plus 3 percent.

b. Adjustment of Allowable Investment and Payments

- (i) A survey will be made by the Company within one year after service is commenced to a Customer at a particular residential unit and in any event within three years after the date of completion of the main extension to determine the appliances or equipment in use at the development or premises of the Applicant served by the extension.
- (ii) If, based upon the appliances or equipment found to be in use, there is a lesser allowable investment than that originally granted and a payment is required in addition to any prior payment by the Applicant, such additional payment shall be paid by the Applicant.
- (iii) The Company may grant a reasonable extension of time for the Applicant to install the appliances or equipment originally agreed upon, provided that the failure to install such appliances or equipment was due to reasons beyond the control of the Applicant.

c. No Refund of Payments

There will be no refunds associated with any payments, contributions or advances hereunder.

d. One Service Line for a Single Premises

The Company will not install more than one service line to supply the premises of an individual customer unless for the convenience of the Company or an Applicant requests an additional service line and, in the judgment of the Company, an unreasonable burden would be placed on the Applicant if the additional service line were not installed. When an additional service line is installed under these conditions at the Applicant's request, the Applicant shall pay for the entire length of said additional service line, meter and regulating equipment at the costs provided in subparagraph C (1) above.

e. Relocation of Service

- (i) When in the judgment of the Company the relocation of a service line, including metering and regulating facilities, is necessary to maintain adequate service or for the operating convenience of the Company, the Company shall relocate the same at its expense.
- (ii) If relocation of a service line, including metering and regulating facilities, is for the convenience of the Applicant or the Customer, such relocation shall be performed by the Company at the expense of the Applicant or the Customer.

D. Special Conditions

(1) Contracts

The Applicant will be required to execute a contract covering the terms under which the Company will install mains, services, metering and regulating equipment in accordance with the provisions of these Rules and Regulations. The contract will provide that the Applicant will install, commence using in a bona fide manner within six months after the date of the completion of the extension and continue to so use for a period of five years, those appliances and items on which the Company's allowable investment is based. Such contract will also provide that if the Applicant fails to take service or fails to install one or more of such appliances or items, the Company may calculate and bill the Applicant and the Applicant shall pay an amount according to the Company's residential main and service extension rules in effect at the time the extension was made as if service had been requested on the basis of the actual appliances and equipment installed and utilized. If the Applicant is a developer or builder, the Applicant will install all the appliances on which the extension was based within three years of completion of the total project or shall pay the Company in accordance with the provisions of subparagraph C (5) (b) above.

(2) Periodic Review

The Company will periodically determine the system wide average costs of construction of mains, services and metering and regulating equipment, and publish the average costs on a regular basis.

(3) Extension for Temporary Service

Extension for temporary service or for operations which in the Company's opinion are of a questionable permanence will not be made under this rule, but will be made in accordance with the rule pertaining to temporary service.

(4) Service From High Pressure Mains

Service shall be provided from a normal distribution facility of the Company. Company reserves the right, at its sole option, to refuse to extend facilities from any of its lines operating at pressures in excess of 125 pounds.

(5) Title to Facilities

Legal and equitable title to all mains installed by the Company upon which an advance, contribution, or other payment has been made, shall be and remain in the Company, and the Company shall have the right without the consent of, or any refund to, any party who made such advance, contribution, or other payment:

- a. To extend the gas main or connect additional gas mains to any part of it.
- b. To serve new additional customers at any time through service connections attached to such main or to extended or connected gas mains.

(6) Exceptional Cases

In unusual circumstances when the application of this rule appears impractical or unjust to either party, the Company or the Applicant may refer the matter to the Tennessee Regulatory Authority for special ruling thereon prior to commencing construction.

E. Experimental Rule-Review at End of Two Years

This rule shall be an experimental rule for the 2 year period following the date adopted by the Authority. At the end of such 2 year period, the status of the rule shall be reviewed with the possible results of such review, including, but not limited to, continuing the rule as filed, continuing the rule in a modified form or terminating the rule.

F. Filings With the Authority

Any filings required to be made with the Authority as a result of this rule shall be filed with the Authority on April 1 of each year. In the event the accounting records necessary to make the required filings are not available to the Company prior to the April 1 filing deadline, the Company shall receive an additional 15 days to file upon filing a written extension request with the Authority prior to April 1.

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**PROPOSED RULE**

**NON-RESIDENTIAL MAIN AND SERVICE EXTENSIONS**

Service lines and distribution mains necessary to furnish permanent service to Applicants for Non-Residential Service within established service areas of the Company will be constructed by the Company in accordance with the following provisions:

**A. General**

The Company will construct, own, operate and maintain gas distribution mains generally along public streets, roads and highways which the Company has the legal right to occupy and, at the Company's election, on public lands and private property across which rights-of-way satisfactory to the Company may be obtained without cost to the Company.

The Company will construct, own, operate and maintain a service line of suitable capacity from its distribution main to the premises of the Applicant. All such main and service facilities will be provided pursuant to the following provisions.

**B. Extension of Main and Service:**

**(1) Calculation of Allowable Investment**

- a. The allowable investment in metering and regulating equipment, main and service line to be made by the Company without contribution or payment by the Applicant shall not exceed the Estimated Annual Revenues from the extension divided by the Levelized Annual Carrying Charge Rate applicable to the Investment.
- b. The Levelized Annual Carrying Charge Rate shall be calculated by using the weighted average cost of capital as determined in the Company's last rate proceeding adjusted for taxes and depreciation required to recover the Company's investment over the expected economic life of the investment as determined from time to time by the Company. These costs will be discounted at the Company's cost of capital.
- c. The required investment in Company facilities shall be based upon engineering cost estimates.

- d. The economic life factor used in computing the Levelized Annual Carrying Charge Rate hereunder shall not be more than 15 years for firm service to apartments, office buildings, churches and schools; and not more than ten years to any other firm service including mobile home parks. For interruptible service the economic life factor shall not be more than five years. The Company reserves the right to adjust the economic life factors to recognize any conditions that would make the use of a typical economic life factor imprudent. The economic life of industrial service shall not be greater than the length of gas service contract in years.
- e. Estimated Annual Revenues shall be based upon the contractual commitment of the customer for annual consumption at the approved rates of the Company in effect when construction of the extension begins less certain direct expenses and infrastructure expenses as approved from time to time.

(2) Order of Application

- a. The allowable investment shall be applied in the following order to the equipment and facilities required in the extension: metering and regulating equipment; service line; and main.
- b. In the event that the allowable investment is not sufficient to cover the cost of the equipment and facilities required in the extension, the Applicant will be required to pay the excess costs, determined in accordance with the provision of subparagraph (1) above.

(3) Limitations

No allowable investment will be made for auxiliary or incidental uses of gas. The Company shall not be required to provide any connection to the Company's system where such connection may have an adverse impact on existing customers unless the Authority has prescribed a tariff provision designed to eliminate such adverse impact on existing customers.

(4) Length and Location

- a. The length of main required for a main extension or the length of service line will be considered as

the distance along the shortest practical route, as determined by the Company, from the Company's nearest distribution main, capable in the opinion of the Company of properly supplying the Applicant. Irrespective of the total allowable investment, the Company shall not be required to extend a main or service line a greater distance than necessary in the judgment of the Company to serve an Applicant.

- b. The service line shall be of the size and type required to supply the principal requirements of the premises served, and shall extend from the Company's main to the first reasonable acceptable meter location as determined by the Company.
- c. Company reserves the right to designate the locations and specifications for the main taps, service lines, curb cocks, meters and regulators and to determine the amount of space which must be left unobstructed for the installation and maintenance thereof. Applicant may request an alteration of such designation and, if consented to by the Company, the cost of such revised designation in excess of the cost of the original Company design shall be borne by the Applicant regardless of whether the length of service line laid as requested by Applicant comes within the allowable investment provided in this rule. Further, the Company may require Applicant to provide both power and phone lines to the location of such metering facilities.

(5) Extensions Beyond the Free Length

a. Payment Provisions

Extensions of mains or service lines beyond the allowable investment will be made by the Company provided that the Applicant pays to the Company the excess cost of such main or service lines.

b. Adjustment of Allowable Investment and Payments

- (i) Within one year after service is commenced to a customer, the Company will determine if the annual usage determined in accordance with Section B(I) e above has been met.
- (ii) If, based upon the above determination, there is a lesser allowable investment than that



originally granted, and a payment is required in addition to the prior payment by the Applicant, if any, such additional shall be paid by the Applicant.

- (iii) The Company may grant a reasonable extension of time for the Applicant to raise annual consumption to the level agreed upon, provided that the failure to reach that level of consumption was due to reasons beyond the control of the Applicant.

c. No Refund of Payments

There will be no refunds associated with any payments, contributions or advances hereunder.

d. One Service Line for a Single Premise

The Company will not install more than one service line to supply the premises of an individual customer unless for the convenience of the Company or an Applicant requests an additional service line and, in the judgment of the Company, an unreasonable burden would be placed on the Applicant if the additional service line were not installed. When an additional service line is installed under these conditions at the Applicant's request, the Applicant shall pay for the entire length of said additional service line, meter and regulating equipment at the costs provided in subparagraph B (1) above.

e. Relocation of Service

- (i) When in the judgment of the Company the relocation of a service line, including metering and regulating facilities, is necessary to maintain adequate service or for the operating convenience of the Company, the Company shall relocate the same at its expense.
- (ii) If relocation of a service line, including metering and regulating facilities, is for the convenience of the Applicant or the Customer, such relocation shall be performed by the Company at the expense of the Applicant or the Customer.

C. Special Conditions

(1) Contracts

The Applicant will be required to execute a contract covering the terms under which the Company will install mains, services, metering and regulating equipment in accordance with the provisions of these Rules and Regulations. The contract will provide that the Applicant will install, commence using in a bona fide manner within six months after the date of the completion of the extension and continue to so use for a period of five years, those appliances and items on which the Company's allowable investment is based. Such contract will also provide that if the Applicant fails to take service or fails to consume sufficient gas to produce the Estimated Annual Revenues, the Company may calculate and bill the Applicant and the Applicant shall pay an amount according to the Company's non-residential main and service extension rules in effect at the time the extension was made as if service had been requested on the basis of the actual equipment installed and utilized.

(2) Periodic Review

The Company will periodically determine the system wide average costs of construction of mains, services and metering and regulating equipment, and publish the average costs on a regular basis.

(3) Extension for Temporary Service

Extension for temporary service or for operations which in the Company's opinion are of a questionable permanence will not be made under this rule, but will be made in accordance with the rule pertaining to temporary service.

(4) Service From High Pressure Mains

Service shall be provided from a normal distribution facility of the Company. Company reserves the right, at its sole option, to refuse to extend facilities from any of its lines operating at pressures in excess of 125 pounds.

(5) Title to Facilities

Legal and equitable title to all mains installed by the Company upon which an advance, contribution, or other payment has been made, shall be and remain in the

Company, and the Company shall have the right without the consent of, or any refund to, any party who made such advance, contribution, or other payment:

- a. To extend the gas main or connect additional gas mains to any part of it.
- b. To serve new additional customers at any time through service connections attached to such main or to extended or connected gas mains.

(6) Exceptional Cases

In unusual circumstances when the application of this rule appears impractical or unjust to either party, the Company or the Applicant may refer the matter to the Tennessee Regulatory Authority for special ruling thereon prior to commencing construction.

E. Experimental Rule-Review at End of Two Years

This rule shall be an experimental rule for the 2 year period following the date adopted by the Authority. At the end of such 2 year period, the status of the rule shall be reviewed with the possible results of such review, including, but not limited to, continuing the rule as filed, continuing the rule in a modified form or terminating the rule.

F. Filings With the Authority

Any filings required to be made with the Authority as a result of this rule shall be filed with the Authority on April 1 of each year. In the event the accounting records necessary to make the required filings are not available to the Company prior to the April 1 filing deadline, the Company shall receive an additional 15 days to file upon filing a written extension request with the Authority prior to April 1.