BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

September 28, 2000

IN RE:	)
	)
NASHVILLE GAS COMPANY	) **Docket No. 00-00168**
ACTUAL COST ADJUSTMENT (ACA) AUDIT	)

NOTICE OF FILING BY ENERGY AND WATER DIVISION OF THE TENNESSEE REGULATORY AUTHORITY

Pursuant to Tenn. Code Ann. §§ 65-4-104, 65-4-111 and 65-3-108, the Energy and Water Division of the Tennessee Regulatory Authority hereby gives notice of its filing of the Compliance Audit Report of the Actual Cost Adjustment (hereafter "ACA") Component of the Purchased Gas Adjustment Rule for Nashville Gas Company in this docket and would respectfully state as follows:

1. The present docket was opened by the Authority to hear matters arising out of the audit of Nashville Gas Company (the "Company").

2. The Company's ACA filing was received on February 25, 2000, and the Staff completed its audit of same on September 10, 2000.

3. On September 11, 2000, the Energy and Water Division issued its preliminary ACA audit findings to the Company, and on September 12 and September 20, 2000, the Company responded thereto.

4. The preliminary ACA audit report was modified to reflect the Company's responses and a final ACA audit report (the "Report") resulted therefrom. The Report is attached hereto as Exhibit A and is fully incorporated herein by this reference. The Report contains the audit findings of the Energy and Water Division, the Company's responses thereto and the recommendations of the Energy and Water Division in connection therewith.

5. The Energy and Water Division hereby files its Report with the Tennessee Regulatory Authority for deposit as a public record and approval of the recommendations and findings contained therein.

Respectfully Submitted:

Pat Murphy

Pat Murphy
Energy and Water Division of the
Tennessee Regulatory Authority

CERTIFICATE OF SERVICE

I hereby certify that on this 28th day of September, 2000, 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:

Mr. K. David Waddell
Executive Secretary
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37243

Mr. Bill R. Morris
Director-Rates
Piedmont Natural Gas Company
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Pat Murphy

Pat Murphy

COMPLIANCE AUDIT REPORT

OF

NASHVILLE GAS COMPANY

ACTUAL COST ADJUSTMENT

DOCKET NO. 00-00168

PREPARED BY

TENNESSEE REGULATORY AUTHORITY

ENERGY AND WATER DIVISION

SEPTEMBER 2000

EXHIBIT A

COMPLIANCE AUDIT

NASHVILLE GAS COMPANY

ACTUAL COST ADJUSTMENT

DOCKET NO. 00-00168

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I. <u>INTRODUCTION</u>

The subject of this audit is Nashville Gas Company's ("Company" or "NGC") compliance with the Actual Cost Adjustment and Refund Adjustment of the Purchased Gas Adjustment Rule ("PGA Rule") of the Tennessee Regulatory Authority ("TRA" or the "Authority"). The objective of the audit was to determine whether the Purchased Gas Adjustments, which are encompassed by the Actual Cost Adjustment ("ACA") as more fully described in Section V., for the year ended December 31, 1999, were calculated correctly and were supported by appropriate source documentation.

II. <u>AUDIT OPINION</u>

The Staff concludes that, except for the findings detailed in this report, the Purchased Gas Adjustment mechanism as calculated in the Actual Cost Adjustment appears to be working properly and in accordance with the TRA rules for Nashville Gas Company.

The Company made its Actual Cost Adjustment filing on February 25, 2000. This ACA filing showed $56,088,141 in total gas costs, with $54,680,958 being recovered from customers through rates. Adding a beginning balance in the ACA account of $7,090,792 in overrecovered gas costs from the preceding ACA period and interest due to customers for the current period of $614,799 resulted in an ACA balance at December 31, 1999 of $6,298,409 in overrecovered gas costs. The Company began refunding this amount to its customers on April 1,2000.

The Staff's audit showed total gas costs of $56,099,874, with $54,680,958 being recovered from customers through rates. Thus, total interest due to the customers for the period is $616,011. After adding a corrected beginning balance in the ACA account of $7,090,698 in overrecovered gas costs from the preceding ACA period, the adjusted ACA balance at June 30, 1999 is **$6,287,793** in overrecovered gas costs. The results of the Staff's audit was a **net underrecovery of $10,616** for the audit period. The effect was to decrease the amount of the overrecovered balance by this amount. A detail summary of the ACA account and the Staff's findings is found under <u>ACA Findings</u> on page 5 of this report.

After the Staff's adjustments, the Company's total gas costs incurred for the ACA period under audit totaled $57.1 million. The net **$10,616 underrecovery** calculated by the Staff is less than one-tenth of a percent of the total gas purchases and is not considered material in comparison. Nashville Gas Company customarily makes an adjustment for Staff's findings to the Deferred Gas Cost account in the following audit period. The Staff concurs with this method.

III. BACKGROUND INFORMATION ON COMPANY AND GAS SUPPLIERS

Nashville Gas Company, with headquarters at 665 Mainstream Drive, Nashville, Tennessee, is a division of Piedmont Natural Gas Company, which has its headquarters at 1915 Rexford Road, Charlotte, North Carolina. NGC is a gas distributor that provides service to several communities in the Middle Tennessee area. The natural gas used to serve these areas is purchased from 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 Gas Pipeline (TGP), Columbia Gas Transmission Corporation (CGTC), and Texas Eastern Gas Pipeline (TETCO).

TGP and CGTC provide service to the city of Nashville, and the towns of White House, Greenbrier, and Fairview, and the surrounding areas. TETCO provides service to the Hartsville, Tennessee area.

IV. JURISDICTION OF THE TENNESSEE REGULATORY AUTHORITY

Tennessee Code Annotated (T.C.A.) gave jurisdiction and control over public utilities to the Tennessee Regulatory Authority. T.C.A. §65-4-104 states that:

> The [A]uthority 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 or the Department of Safety's oversight of transportation companies. By virtue of T.C.A. §65-3-108, this power includes the right to audit:

> The department is given full power to examine the books and papers of the companies, and to examine, under oath, the officers, agents, and employees of the companies and any other persons, to procure the necessary information to intelligently and justly discharge its duties and carry out the provisions of this chapter and chapter 5 of this title.

The Energy and Water Division of the TRA is responsible for auditing those companies under the Division's jurisdiction to ensure that each company is abiding by Tennessee statute as well as the Rules and

Regulations of the Authority. Pat Murphy and David McClanahan of the Energy and Water Division performed this audit.

V. DESCRIPTION OF PURCHASED GAS ADJUSTMENT RULE

Actual Cost Adjustment Audits:

The PGA Rule can be found in Chapter 1220-4-7 of the Rules of the Tennessee Regulatory Authority. The PGA Rule permits a gas company to recover, in a timely fashion, the total cost of gas purchased for delivery to its customers and to assure that a company does not over-collect or under-collect gas costs from its customers. The PGA consists of three major components:

1. **The Actual Cost Adjustment (ACA)**
2. **The Gas Charge Adjustment (GCA)**
3. **The Refund Adjustment (RA)**

The ACA is the difference between the revenues billed customers by means of the GCA and the cost of gas invoiced the Company by suppliers plus margin loss (if allowed by order of the TRA in another docket) as reflected in the Deferred Gas Cost account. The ACA then "trues-up" the difference between the actual gas costs and the gas costs recovered from customers through a surcharge or a refund. The RA refunds the "true-up" along with other supplier refunds. For a more complete definition of the GCA and RA, please see the PGA Formula in Appendix A.

Section 1220-4-7-.03(2) of the PGA Rule requires:

> Each year, the Company shall file with the [Authority] an annual report reflecting the transactions in the Deferred Gas Cost Account. Unless the [Authority] provides written notification to the Company within one hundred eighty (180) days from the date of filing the report, the Deferred Gas Cost Adjustment Account shall be deemed in compliance with the provisions of these Rules. This 180-day notification period may be extended by mutual consent of the Company and the [Authority] Staff or by order of the [Authority].

Prudence Audit of Gas Purchases:

Section 1220-4-7-.05 of the PGA Rule requires, unless otherwise ordered by the Authority, an "Audit of Prudence of Gas Purchases" by a qualified consultant. This specialized audit evaluates and reports annually on the prudence of any gas costs included in the PGA. In Docket 96-00805, Nashville Gas was authorized to operate under a

Performance-Based Ratemaking Mechanism ("PBR"), beginning July 1, 1998, and continuing each year unless terminated by the Company or the Authority. For each year that the mechanism is in effect, the requirements of Section 1220-4-7-.05 of the PGA Rule is waived.

VI. SCOPE OF ACTUAL COST ADJUSTMENT AUDIT

The Company submitted its ACA filing on February 25, 2000. On July 10, 2000, the TRA Staff requested an extension of the 180 days notification period to October 6, 2000 and the Company agreed. An extension was needed in order that the Company would have sufficient time to respond to outstanding items in the Staff's requests for additional information and the Staff would have sufficient time to review those responses.

We performed this audit to verify that the Company's calculations of gas costs incurred and recovered were correct. A detail of the ACA account is provided in Section VII (ACA Findings). Also included in this audit was the Company's PGA filing implementing a refund of the ACA account balance at December 31, 1999, effective April 1, 2000.

We also audited a sample of customer bills to determine if the proper PGA rates were applied in the Company's calculation of customer bills during the audit period. Since the Company's billing process is computerized, a sample of 68 bills was tested. These bills were selected to be representative of the residential, commercial, industrial and interruptible customers in the Company's service area. The sample was selected from the twelve-month period April 1999 through March 2000. After recalculating each sample bill, we determined that the calculation methods utilized by the Company are correct.

VII. ACA FINDINGS

As outlined in Section II above, the result of the Staff's audit was a **net underrecovery of $10,616**, which had the effect of decreasing the Company's overrecovery balance in the ACA account by this amount. A summary of the ACA account as filed by the Company and as adjusted by the Staff is shown below, followed by a detail of each finding.

SUMMARY OF THE ACA ACCOUNT:

	Company	Staff	Difference (Findings)
Beginning Balance at 12/31/98	$ -7,090,792.16	$ -7,090,697.93	$ 94.23
Plus Gas Costs	56,088,140.73	56,099,874.10	11,733.37
Minus Recoveries	54,680,957.91	54,680,957.91	0
Ending Balance before Interest	$ -5,683,609.34	$ -5,671,781.74	$ 11,827.60
Plus Interest	-614,799.32	-616,011.07	-1,211.75
Ending Balance at 12/31/99	$ -6,298,408.66	$ -6,287,792.81	$ 10,615.85

SUMMARY OF FINDINGS:

				See page
FINDING #1	ACA Beginning Balance	$ 94.23	Underrecovery	6
FINDING #2	Gas Cost Accrual - Commodity	70.00	Overrecovery	7
FINDING #3	Gas Cost Accrual - Commodity	539.64	Overrecovery	8
FINDING #4	Off System Sales	200.12	Overrecovery	9
FINDING #5	CNG Inventory	42,684.14	Underrecovery	10
FINDING #6	Columbia Inventory	25,927.79	Underrecovery	11
FINDING #7	LNG Inventory	56,068.80	Overrecovery	12
FINDING #8	Interest Expense – Commodity	1,198.99	Overrecovery	13
FINDING #9	Interest Expense – Demand	12.76	Overrecovery	14
	Net Result	**$ 10,615.85**	**Underrecovery**	

FINDING #1:

Exception

The beginning balance in the deferred gas cost account was **understated by $94.23**.

Discussion

The error was the result of a finding in the last ACA audit of the Company. The June 1998 SS inventory injections were understated by $90 which resulted in a $90 overrecovery. The interest effect of this overrecovery was also calculated and reported as a finding. Therefore, the ending balance from the last audit should not be adjusted and should be the beginning balance for the current period. The findings from the last audit were appropriately adjusted in the current audit period. However, on its books, the Company made the adjustment in June of 1999. The combination of the adjustment and the interest effect understated the ending balance at December 31, 1998 and thus the beginning balance of this audit period. The effect was a double correction.

Company Response

The Company agrees with this finding.

FINDING #2:

Exception

The Staff calculated an **overrecovery of $70.00** in the commodity gas cost accrual for November 1999.

Discussion

The Company booked $90,265.10 in reservation fees. The actual cost was $90,195.10.

Company Response

The Company agrees with this finding.

FINDING #3:

Exception

The Staff calculated an **overrecovery of $539.64** in the commodity gas cost accrual for August 1999.

Discussion

The Company booked $13,904.13 in commodity gas costs from a supplier. The actual cost was $13,364.49.

Company Response

The Company agrees with this finding.

FINDING #4:

Exception

The Staff calculated an **overrecovery of $200.12** in Off System Sales profit booked to the ACA account.

Discussion

In March 1999, the Company credited an Off System Sales profit of $165,078.93 to the ACA. The correct amount of profit was $165,279.05.

Company Response

The Company agrees with this finding.

FINDING #5:

Exception

The Staff calculated an **underrecovery of $42,684.14** in the CNG inventory injections for August, September, and October, 1999.

Discussion

Due to changes in billing/accounting methods for inventory charges, the Company recorded incorrect injection amounts for the months of August, September, and October. The total injection dollars credited to the ACA for these months were $482,284.00. The correct amount should have been $439,599.86.

Company Response

The Company agrees with this finding.

FINDING #6:

Exception

The Staff calculated an **underrecovery of $25,927.79** in the Columbia inventory injections for August, September, and October, 1999.

Discussion

Due to changes in billing/accounting methods for inventory charges, the Company recorded incorrect injection amounts for the months of August, September, and October. The total injection dollars credited to the ACA for these months were $762,100.15. The correct amount should have been $736,172.36.

Company Response

The Company agrees with this finding.

FINDING #7:

Exception

The Staff calculated an **overrecovery of $56,068.80** in the LNG inventory injections for August 1999.

Discussion

The Company used an incorrect commodity rate to calculate the LNG injections for August. The Company used $2.6324 per Dekatherm. The correct rate was $3.0709 per Dekatherm.

Company Response

The Company agrees with this finding.

FINDING #8:

Exception

The Staff calculated an overrecovery of $1,198.99 in the interest expense for the commodity portion of the ACA.

Discussion

The Staff recalculated the interest expense based upon Finding #1 through #3 and Findings #5 through #7.

Company Response

The Company agrees with this finding.

FINDING #9:

Exception

The Staff calculated an overrecovery of $12.76 in the interest expense for the demand portion of the ACA.

Discussion

The Staff recalculated the interest expense based upon Finding #4.

Company Response

The Company agrees with this finding.

APPENDIX A

PGA FORMULA

The computation of the GCA can be broken down into the following formulas:

$$\text{Firm GCA} = \frac{D + DACA}{SF} - DB + \frac{P + T + SR + CACA}{ST} - CB$$

$$\text{Non-Firm GCA} = \frac{P + T + SR \;\; CACA}{ST} - CB$$

where

GCA = The Gas Charge Adjustment in dollars per Ccf/Therm, rounded to no more than five decimal places.

D = The sum of all fixed Gas Costs.

DACA = The demand portion of the ACA.

P = The sum of all commodity/gas charges.

T = The sum of all transportation charges.

SR = The sum of all FERC approved surcharges.

CACA = The commodity portion of the ACA.

DB = The per unit rate of demand costs or other fixed charges included in base rates in the most recently completed general rate case (which may be zero if the Company so elects and the Commission so approves).

CB = The per unit rate of variable gas costs included in base rates in the most recently completed general rate case (which may be zero if the Company so elects and the Commission so approves).

SF = Firm Sales.

ST = Total Sales.

The computation of the RA can be computed using the following formulas:

$$\text{Firm RA} = \frac{DR1 - DR2}{SFR} + \frac{CR1 - CR2 + CR3 + i}{STR}$$

$$\text{Non-Firm RA} = \frac{CR1 - CR2 + CR3 + i}{STR}$$

where

RA = The Refund Adjustment in dollars per Ccf/Therm, rounded to no more than five decimal places.

DR1 = Demand refund not included in a currently effective Refund Adjustment, and received from suppliers by check, wire transfer, or credit memo.

DR2 = A demand surcharge from a supplier not includable in the GCA, and not included in a currently effective Refund Adjustment.

CR1 = Commodity refund not included in a currently effective Refund Adjustment, and received from suppliers by check, wire transfer, or credit memo.

CR2 = A commodity surcharge from a supplier not includable in the GCA, and not included in a currently effective Refund Adjustment.

CR3 = The residual balance of an expired Refund Adjustment.

i = Interest on the "Refund Due Customers" account, using the average monthly balances based on the beginning and ending monthly balances. The interest rates for each calendar quarter used to compute such interest shall be the arithmetic mean (to the nearest one-hundredth of one percent) of the prime rate value published in the "Federal Reserve Bulletin" or in the Federal Reserve's "Selected Interest Rates" for the 4th, 3rd, and 2nd months preceding the 1st month of the calendar quarter.

SFR = Firm sales as defined in the GCA computation, less sales under a transportation or negotiated rate schedule.

STR = Total sales as defined in the GCA computation, less sales under a transportation or negotiated rate schedule.