

BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

April 18, 2001

IN RE:	)	
	)	
COUNCE NATURAL GAS COMPANY	)	DOCKET NO.
ACTUAL COST ADJUSTMENT (ACA) AUDIT	)	01-00140

**ORDER ADOPTING ACA AUDIT REPORT OF TENNESSEE REGULATORY
AUTHORITY'S ENERGY AND WATER DIVISION**

This matter came before the Tennessee Regulatory Authority (the "Authority") at a regularly scheduled Authority Conference held on April 3, 2001, for consideration of the report of the Authority's Energy and Water Division (the "Staff") resulting from the Staff's audit of Counce Natural Gas Company's ("Counce" or the "Company") annual deferred gas cost account filing for the year ended September 30, 2000. The Actual Cost Adjustment ("ACA") Audit Report (the "Report"), attached hereto as Exhibit 1, contains the audit findings of the Staff, the responses thereto of the Company, and the recommendations of the Staff to the Company in addressing the findings.

The Company submitted its ACA filing on February 8, 2001, and the Staff completed its audit of the Company's filing on March 2, 2001. On March 6, 2001, the Staff issued its preliminary ACA audit findings to the Company, and the Company responded to these findings on March 15, 2001. The Staff filed its Report with the Authority on March 19, 2001. The Report contains two findings. The first is that the Company understated its gas costs for the audit period by \$7,842.02. The second is that the Company understated the interest on its ACA

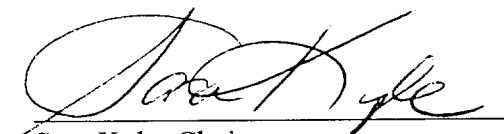
account balance by \$1,103.72. As further stated in the Report, the Company agreed with each of the Staff's findings.

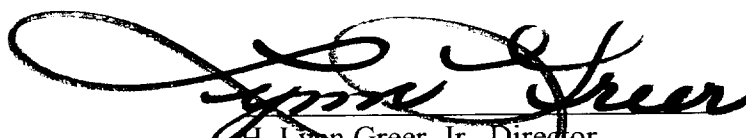
The Report states that the corrected balance in the Company's ACA account as of September 30, 2000 is \$7,342.78 in under-collected gas costs. The Report states that the Company is authorized, beginning with its April 2001 billing, to include an ACA adjustment factor of \$0.5246 per MCF in its gas rate, resulting in a new billing rate of \$9.2742 per MCF.

After consideration of the Report, the Authority unanimously approved and adopted the findings and recommendations contained therein.

IT IS THEREFORE ORDERED THAT:

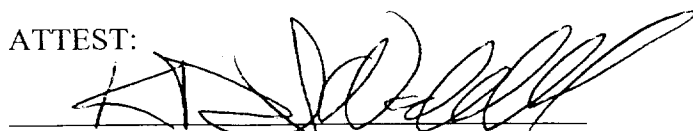
1. The Actual Cost Adjustment Audit Report, a copy of which is attached to this order as Exhibit 1, is approved and adopted, and the findings and recommendations contained therein are incorporated in this Order as if fully rewritten herein; and
2. Any party aggrieved by the Authority's decision in this matter may file a Petition for Reconsideration with the Authority within fifteen (15) days from the date of this Order.


Sara Kyle, Chairman


H. Lynn Greer, Jr., Director


Melvin J. Malone, Director

ATTEST:


K. David Waddell, Executive Secretary

REC'D TN
REGULATORY AUTH.

BEFORE THE TENNESSEE REGULATORY AUTHORITY
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NASHVILLE, TENNESSEE
OFFICE OF THE
EXECUTIVE SECRETARY

March 19, 2001

IN RE:)
)
COUNCE NATURAL GAS COMPANY) Docket No. 01-00140
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 gives notice of its filing of the Counce Natural Gas Company's ACA Audit Report in this docket and would respectfully state as follows:

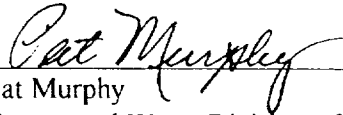
1. The present docket was opened by the Authority to hear matters arising out of the audit of Counce Natural Gas Company (the "Company").
2. The Company's ACA filing was received on February 8, 2001, and the Staff completed its audit of same on March 2, 2001.
3. On March 6, 2001, the Energy and Water Division issued its preliminary ACA audit findings to the Company, and on March 15, 2001, 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
Energy and Water Division of the
Tennessee Regulatory Authority

CERTIFICATE OF SERVICE

I hereby certify that on this 19th day of March, 2001, 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. Mike Horton, President
Counce Natural Gas Company
P.O. Box 285
Burnsville, MS 38833

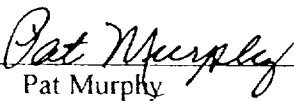

Pat Murphy

EXHIBIT A

COMPLIANCE AUDIT REPORT

OF

COUNCE NATURAL GAS COMPANY

ACTUAL COST ADJUSTMENT

DOCKET #01-00140

PREPARED BY THE

TENNESSEE REGULATORY AUTHORITY

ENERGY AND WATER DIVISION

March 2001

COMPLIANCE AUDIT
COUNCE NATURAL GAS COMPANY
ACTUAL COST ADJUSTMENT
DOCKET #01-00140

TABLE OF CONTENTS

	Page
I. JURISDICTION AND POWER OF THE TENNESSEE REGULATORY AUTHORITY	3
II. PURPOSE OF COMPLIANCE AUDITS	4
III. DESCRIPTION OF PURCHASED GAS ADJUSTMENT (PGA) RULE	4
IV. AUDIT TEAM	4
V. OBJECTIVE AND SCOPE OF AUDIT	5
VI. COMPANY BACKGROUND	5
VII. ACA FINDINGS	6
VIII. CONCLUSIONS AND RECOMMENDATIONS	9

I. JURISDICTION AND POWER OF THE TENNESSEE REGULATORY AUTHORITY

Tennessee Code Annotated (T.C.A.) §65-4-104 gave jurisdiction and control over public utilities to the Tennessee Public Service Commission. By virtue of Chapter 305 of the Public Acts of 1995, jurisdiction and control over public utilities were transferred from the Tennessee Public Service Commission (TPSC or Commission) to the Tennessee Regulatory Authority (the "TRA" or "Authority") on July 01, 1996. T.C.A. §65-4-104 states that:

The Authority shall have general supervision and regulation of, jurisdiction, and control over, all public utilities...

T.C.A. §65-4-111 gives the TRA the power to require public utilities to maintain a Uniform System of Accounts. T.C.A. §65-4-111 states that:

The Authority shall have the power after hearing, upon notice, by order in writing to require every public utility... to keep its books, records, and accounts so as to afford an intelligent understanding of the conduct of its business, and to that end to require every public utility of the same class to adopt a uniform system of accounting. Such system shall conform, where applicable, to any system adopted or approved by the Interstate Commerce Commission of the United States. And to furnish annually, or at other times as the authority may require, a detailed report of finances and operations as shown by said system of accounts.

The TRA responded to T.C.A. §65-4-111 by establishing Rule 1220-4-1-1.11 regarding the uniform system of accounts which public utilities should maintain. The TRA's rule provides that all utilities follow the Uniform System of Accounts as adopted and amended by the National Association of Regulatory Utility Commissioners (NARUC).

The TRA received its authority to examine the books and records of public utilities from T.C.A. §65-3-108 which states that the TRA shall possess:

...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.

II. PURPOSE OF COMPLIANCE AUDITS

The two basic reasons for compliance audits are to assure compliance with the Uniform System of Accounts (USOA) and to assure that the utility is following all rules, regulations and directives adopted by the TRA.

Compliance audits provide the foundation of assurance underlying the basic objective of regulatory accounting, which is to provide a uniform method of recording transactions among similar companies. This uniform record keeping is accomplished through the adoption of the USOA and insures the integrity, reliability, and comparability of the financial data contained in financial reports filed with the TRA which provides the TRA one of its most useful regulatory tools for establishing just and reasonable rates.

III. DESCRIPTION OF PURCHASED GAS ADJUSTMENT (PGA) RULE

The Tennessee Regulatory Authority issued an Order in Docket No. G-86-1, which adopted a new PGA rule beginning July 1, 1992. The PGA Rider is intended to permit the Company to recover, in a timely fashion, the total cost of gas purchased for delivery to its customers and to assure that the Company does not over-collect or under-collect gas costs from its customers. This 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 "true-up" the difference between the actual gas costs and the gas costs recovered from the customer through a surcharge or a refund. The RA refunds the "true-up" along with other supplier refunds.

IV. AUDIT TEAM

The TRA's Energy and Water Division is responsible for conducting compliance audits of gas, water, and electric utilities. Pat Murphy, of the Energy and Water Division, conducted this audit.

V. OBJECTIVE AND SCOPE OF AUDIT

The order for Docket G-86-1 required that the Company

each year...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 this Rule...

The objective of this audit was to determine that Purchased Gas Adjustments, which are encompassed by the ACA and were described above, approved by the TRA during the period from October 1, 1999 to September 30, 2000, had been calculated correctly and were supported by appropriate source documentation. To accomplish this task, the Staff conducted in-house audit work during which the Company's gas supplier invoices were examined and calculations of gas costs recovered were made.

The Staff also audited a sample of customer bills to determine if the proper PGA rates were being applied in the Company's calculation of the customers' bills. These bills were selected to be representative of the residential, commercial and industrial customers. The sample was selected from all twelve months of the audit period.

The Staff's last ACA audit of Counce Natural Gas was conducted in 1999-2000 and covered the period October 1, 1998 through September 30, 1999.

VI. COMPANY BACKGROUND

Counce Natural Gas Company (Counce), with its headquarters in Burnsville, MS, is a wholly owned subsidiary of Tumlinson Engineering, Inc., and was formed in 1995 for the purpose of acquiring the operating authority of Hardin County Gas Company and providing natural gas service to customers in Hardin County, Tennessee. Hardin County Gas Company's certificate of convenience and necessity (CCN) was transferred to Counce on December 22, 1995, per Docket #95-03379. In October 2000, ownership of Tumlinson Engineering, Inc. was transferred from Ted Tumlinson to Mike Horton. The natural gas used to serve this area is purchased from Midcoast Marketing, Inc. The gas purchases are made in accordance with separate and individual tariffs approved by the Federal Energy Regulatory Commission, while the gas transported is purchased under contract or on the spot market.

VII. ACA FINDINGS

The Company submitted its ACA filing on February 8, 2001, covering the period October 1, 1999 to September 30, 2000. The filing reflected gas costs during the period of \$42,993.78 with \$48,664.09 being recovered from the ratepayers through rates. Over-collected gas costs during the period, including interest, was \$6,753.09. The over-collection was abated by the over-refunding of the balance due customers from the last audit (ACA refunds), leaving an ending balance at the end of the period of \$1,602.96 due to the Company's customers. The Staff's audit results show findings of **\$8,945.74** in **under-collected** gas costs (including interest). This brings the ending balance at the end of the period to \$7,342.78 in under-collected gas costs from the customers. 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 10/01/99	\$ -12,286.46	\$ -12,286.46	\$ 0
Plus Gas Costs	42,993.78	50,835.80	7,842.02
Minus Gas Cost Recoveries	48,664.09	48,664.09	0
Plus ACA Refunds	<u>17,436.60</u>	<u>17,436.60</u>	<u>0</u>
Ending Balance before Interest	\$ -520.17	\$ 7,321.85	\$ 7,842.02
Plus Interest	<u>-1,082.78</u>	<u>20.94</u>	<u>1,103.72</u>
Ending Balance at 9/30/00	\$ -1,602.95	\$ 7,342.78	\$ 8,945.74

SUMMARY OF FINDINGS:

FINDING #1	Gas Costs	\$7,842.02	Under-collection
FINDING #2	Interest Calculation	<u>1,103.72</u>	Under-collection
	NET RESULT	<u>\$8,945.74</u>	Under-collection

FINDING #1

Exception

The Company incorrectly calculated its gas costs for the period. Total gas costs were understated by \$7,842.02.

Discussion

After reviewing the Company's invoices, Staff discovered that the Company made several errors in calculating its total gas costs:

1. The Company used the September 1999 invoice for **October 1999**, instead of the correct October 1999 invoice.
2. The Company used the October 1999 invoice for **November 1999**, instead of the correct November 1999 invoice.
3. The Company used a Burnsville invoice for **April 2000**, instead of the correct Counce invoice.
4. Demand cost was increased by the supplier in **September 2000**. The Company failed to include the increased cost.

Company Response

The Company agrees with this finding.

FINDING #2

Exception

The Company incorrectly calculated the interest on account balance. Interest was understated by \$1,103.72.

Discussion

Interest was understated due to two factors:

1. Gas Costs were understated in four (4) out of twelve (12) months. This resulted in **understatement of interest in the amount of \$422.24.**
2. In copying the total gas cost recoveries to the interest calculation schedule, the Company copied the formulas from the first schedule to the interest schedule, instead of copying the values only. This resulted in the overstatement of the recoveries by \$11,844.29 and an **understatement of interest in the amount of \$681.48.**

Company Response

The Company agrees with this finding.

VIII. CONCLUSIONS AND RECOMMENDATIONS

As stated in the Background of the Company (Section VI.), Counce Natural Gas Company is a wholly owned subsidiary of Tumlinson Engineering, Inc. In October 2000, after the close of this audit period, ownership of Tumlinson Engineering was transferred from Mr. Ted Tumlinson to Mr. Mike Horton. When we became aware of the new owner, we made contact with Mr. Horton and discussed reporting requirements, including the need to file an Actual Cost Adjustment as soon as possible. The filing was due 60 days following the close of the audit period on November 30, 2000. We provided assistance as needed to Mr. Horton to familiarize him with the filing process and the schedules and supporting data required. On February 8, 2001, Mr. Horton submitted the Company's ACA filing to the Authority. We have tried to complete the audit as soon as possible, so that the Company can begin billing the correct rates in April 2001.

The corrected balance in the ACA account as of September 30, 2000 is **\$7,342.78 in under-collected gas costs**. The Staff's calculation of this balance is shown in **Attachment 1**. The balance is the sum of \$2,171.70 in under-collected gas costs, \$20.94 in interest due from customers and \$5,150.14 in over-refunded beginning balance due customers, as shown in **Attachment 2**. Spreading the balance over the 12 month-to-date September 2000 sales of 13,996 MCF produces an **ACA adjustment factor of \$0.5246 per MCF**.

Therefore, beginning with the April 2001 billing, Counce Natural Gas is authorized to implement its **new billing rate of \$9.2742**. The rate is composed of \$2.13 base rate plus the approved \$6.6196 purchased gas adjustment plus the current \$0.5246 ACA adjustment. In order to avoid going into an over-collection situation during the coming year, Counce should monitor its commodity cost of gas and file a new Purchased Gas Adjustment with the TRA should its cost change significantly from the current \$5.77 per MCF.

ATTACHMENT 1

COUNCE NATURAL GAS COMPANY

Actual Cost Adjustment

10/1/99 - 09/30/00

Interest Calculation

Line No.	Month (a)	Beginning Balance (b)	Costs (c)	Recoveries (d)	Costs Minus Recoveries (e)	Ending Balance (Before Int.) (f)	Average Monthly Balance (g)	Interest (h)	A/	Ending Balance With Interest (i)
1	Oct-99	(12,286.46)	2,829.58	1,174.43	1,655.15	(10,631.31)	(11,458.89)	(75.82)		(10,707.13)
2	Nov-99	(10,707.13)	4,214.32	2,400.30	1,814.01	(8,893.12)	(9,800.12)	(64.84)		(8,957.96)
3	Dec-99	(8,957.96)	8,712.84	3,597.10	5,115.74	(3,842.22)	(6,400.09)	(42.35)		(3,884.57)
4	Jan-00	(3,884.57)	9,983.71	5,892.26	4,091.45	206.88	(1,838.84)	(12.70)		194.18
5	Feb-00	194.18	7,948.92	7,431.50	517.42	711.59	452.88	3.13		714.72
6	Mar-00	714.72	4,638.58	2,988.63	1,649.94	2,364.66	1,539.69	10.64		2,375.30
7	Apr-00	2,375.30	3,462.15	3,017.59	444.56	2,819.86	2,597.58	18.57		2,838.43
8	May-00	2,838.43	2,098.01	1,278.30	819.71	3,658.14	3,248.28	23.23		3,681.36
9	Jun-00	3,681.36	1,808.46	966.52	841.94	4,523.30	4,102.33	29.33		4,552.63
10	Jul-00	4,552.63	1,684.43	935.34	749.09	5,301.72	4,927.17	37.04		5,338.75
11	Aug-00	5,338.75	1,647.27	721.55	925.72	6,264.47	5,801.61	43.61		6,308.08
12	Sep-00	6,308.08	1,807.58	823.99	983.59	7,291.67	6,799.87	51.11		7,342.78
			<u>50,835.80</u>	<u>31,227.49</u>	<u>19,608.30</u>			<u>20.94</u>		

A/ Interest rates for the audit period are as follows:

4th Q 1999	7.94%
1st Q 2000	8.29%
2nd Q 2000	8.58%
3rd Q 2000	9.02%

ATTACHMENT 2

Counce Natural Gas Corporation

Calculation of the ACA factor

Line No.	Factor to be applied to residential, commercial and industrial customers:		
1	Cost of Gas Purchased (10/99 - 09/00)	50,835.80	
2	Cost of Gas Recovered (10/99 - 09/00)	<u>48,664.09</u>	
3	Under/(Over) Recovery	2,171.70	
4	Interest on Average Monthly Balances	20.94	
5	ACA Refunds (10/99 - 09/00)	17,436.60	
6	Beginning Balance (10/01/99)	<u>(12,286.46)</u>	
7	Balance at 9/30/00	<u><u>7,342.78</u></u>	Under Recovery
8	Sales Volumes (Actual 12 month ended 9/30/00)	13,996	MCF
9	ACA Factor (line 7 divided by line 8)	<u><u>0.5246</u></u>	Per MCF