

BEFORE THE TENNESSEE REGULATORY AUTHORITY

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NASHVILLE, TENNESSEE

April 2, 2003

TN REGULATORY AUTHORITY
DOCKET ROOM

IN RE:

ATMOS ENERGY CORPORATION

ACTUAL COST ADJUSTMENT ("ACA") AUDIT

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) **Docket No. 02-01015**

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

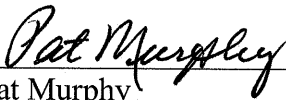
Pursuant to Tenn. Code Ann. §§65-4-104, 65-4-111 and 65-3-108, the Energy and Water Division of the Tennessee Regulatory Authority ("Authority") gives notice of its filing of Atmos Energy Corporation's ACA Audit Report in this docket and would respectfully state as follows:

1. The present docket was opened by the Authority to hear matters arising out of the audit of Atmos Energy Corporation (the "Company").
2. The Company's ACA filing was received on September 3, 2002, and the Staff completed its audit of same on February 19, 2003.
3. On February 25, 2003, the Energy and Water Division issued its preliminary ACA audit findings to the Company, and on March 11, 2003, the Company responded thereto. Further discussions ensued regarding the preliminary findings and the Company's final response was received on March 25, 2003.

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 2nd day of April, 2003, 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:

Sara Kyle
Chairman
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37243

Ms. Patricia Childers
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Manager - Rate Administration
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Pat Murphy

COMPLIANCE AUDIT REPORT

OF

ATMOS ENERGY COMPANY

ACTUAL COST ADJUSTMENT

DOCKET NO. 02-01015

PREPARED BY

TENNESSEE REGULATORY AUTHORITY

ENERGY AND WATER DIVISION

APRIL 2003

EXHIBIT A

COMPLIANCE AUDIT
ATMOS ENERGY COMPANY
ACTUAL COST ADJUSTMENT
DOCKET NO. 02-01015
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I. INTRODUCTION

The subject of this audit is Atmos Energy Corporation's ("Company" or "Atmos") 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 IV, for the year ended June 30, 2002 were calculated correctly and were supported by appropriate source documentation.

II. AUDIT OPINION

The Staff concludes that 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 Atmos Energy Corporation. The findings contained herein are not material with respect to the total gas costs.

III. SUMMARY OF COMPANY FILING

The Company made its Actual Cost Adjustment filing for its Tennessee service areas on September 3, 2002. This ACA filing showed \$73,672,521 in total gas costs, with \$66,788,620 being recovered from customers through rates. Adding a beginning balance in the ACA account of negative \$6,694,993 in over-recovered gas costs from the preceding ACA period and interest due to customers for the current period of \$232,552 resulted in an ACA balance at June 30, 2002 of negative \$43,645 in over-recovered gas costs. The Company's filing is summarized in the table below:

ATMOS ENERGY CORPORATION ACA FILING FOR PERIOD JULY 2001-JUNE 2002

<u>Line</u>		<u>Union City</u>	<u>Other TN Towns</u>	<u>Total</u>
1	Beginning Balance (July 2001)	\$ 509,256.89	\$ (7,204,250.13)	\$ (6,694,993.24)
2	Purchased Gas Costs	1,308,733.24	72,363,787.23	73,672,520.47
3	Gas Costs recovered through rates	2,588,490.25	64,200,130.21	66,788,620.46
4	Interest on monthly balances	<u>(2,342.76)</u>	<u>(230,208.80)</u>	<u>(232,551.56)</u>
5	Ending Balance (June 2002) (Line 1 + Line 2 – Line 3 + Line 4)	<u>\$ (772,842.88)</u>	<u>\$ 729,198.09</u>	<u>\$ (43,644.79)</u>

**A number in () is a negative or credit balance which represents an over-collection of gas costs.

The Company began a refund to its Union City customers and a surcharge to its customers in other Tennessee service areas on October 1, 2002, to recover the balances in the ACA accounts as of June 30, 2002. The Staff's findings resulting from this audit are described in detail in Section VIII of this report.

IV. 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 manner, 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 Rule 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 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 97-01364, Atmos Energy was authorized to operate under a Performance-Based Ratemaking Mechanism ("PBR"), beginning April 1, 1999, 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.

V. SCOPE OF ACTUAL COST ADJUSTMENT AUDIT

The ACA audit is a limited compliance audit of the Company's Deferred Gas Cost account ("ACA Account"). The audit goal was to verify that the Company's calculations of gas costs incurred and recovered were materially correct,¹ and that the Company is following all Authority orders and directives with respect to its calculation of the ACA account balance. Also included in this audit is the Company's PGA filing implementing a net refund of the ACA account balances, effective October 1, 2002. Refer to the ACA Account detail provided in Section II, Audit Opinion.

To accomplish the audit goal, Staff reviewed gas supply invoices, as well as supplemental schedules and other source documentation provided by Atmos. Where appropriate, Staff requested additional information to clarify the filing. Staff 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 twelve month audit period. Since the Company's billing process is computerized, a sample of 245 bills was tested. These bills were selected to be representative of the residential, commercial, industrial and interruptible customers in each of the Company's service areas. After recalculating each sample bill, Staff determined that the Company's calculation methods are correct.

VI. BACKGROUND INFORMATION ON COMPANY AND GAS SUPPLIERS

Atmos Energy Corporation, with its corporate headquarters located in Dallas, Texas, has its local offices in Franklin, Tennessee. On October 4, 2002, the Company filed tariffs to officially change its name from United Cities Gas Company to Atmos Energy Corporation. Atmos is a multi-state gas distributor, providing service to customers in twelve cities and surrounding areas in Tennessee. The natural gas used to serve these areas is purchased from four natural gas pipelines in accordance with separate and individual tariffs approved by the Federal Energy Regulatory Commission (FERC). The interstate pipelines are Tennessee Gas Pipeline (TGP), East Tennessee Natural Gas (ETNG), Texas Gas Transmission Corporation (TGTC), and Texas Eastern Transmission Corporation (TETC).

TGP and ETNG provide service to east Tennessee towns, which include Columbia, Shelbyville, Maryville, Morristown, Elizabethton, Greeneville, Johnson City, Kingsport, Bristol and adjacent areas in Maury, Bedford, Moore, Blount, Hamblen, Sullivan, Carter, Washington, and Greene Counties.

TETC provides service to Atmos in Murfreesboro and Franklin and adjacent areas in Rutherford and Williamson Counties.

TGTC provides service to Atmos in Union City and adjacent areas in Obion County.

¹ 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.

VII. 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 TRA's Energy and Water Division is responsible for auditing those gas, electric, and water companies under its 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 conducted this audit.

VIII. ACA FINDINGS

Staff's audit findings totaled a **net over-recovery of \$5,299.94**. This amount is the net total of two (2) findings and represents an additional over-recovered amount, which when added to the Company's calculated balance, results in a net ending balance in the ACA account of a negative \$48,944.73 in over-recovered gas costs. A summary of the ACA account as filed by the Company and as adjusted by the Staff is shown below, followed by a description of each finding.

SUMMARY OF THE ACA ACCOUNT:

<u>Line</u>		<u>Atmos Filing</u>	<u>Staff Results</u>	<u>Difference (Findings)</u>
1	Beginning Balance (July 2001)	\$ (6,694,993.24)	\$ (6,694,993.24)	\$ 0.00
2	Purchased Gas Costs	73,672,520.47	73,672,520.47	0.00
3	Gas Costs recovered through rates	66,788,620.46	66,788,620.46	0.00
4	Interest on monthly balances	<u>(232,551.56)</u>	<u>(237,851.50)</u>	<u>(5,299.94)</u>
5	Ending Balance (June 2002) (Line 1 + Line 2 – Line 3 + Line 4)	<u>\$ (43,644.79)</u>	<u>\$ (48,944.73)</u>	<u>\$ (5,299.94)</u>

**A number in () is a negative or credit balance which represents an over-collection of gas costs.

SUMMARY OF FINDINGS:

			<u>See page</u>
FINDING #1	All Other Towns – Interest Calculation	(5,268.53) Over-recovery	7
FINDING #2	Union City – Interest Calculation	<u>(31.41) Over-recovery</u>	8
	Net Result	\$ <u>(5,299.94) Over-recovery</u>	

FINDING #1:

Exception

The Company miscalculated the beginning balance for the interest calculation in its "All Other Tennessee Towns" filing.

Discussion

After the Company filed its ACA report for the July 2000 – June 2001 audit period, it made various adjustments to the ACA Account which were related to transactions in the 2000-2001 period ("pre-July 2001 adjustments"). These pre-July 2001 adjustments are not part of the July 2001 transactions. Historically, the Company has adjusted the beginning balance in the ACA Account for these types of adjustments in the subsequent audit period. Staff is in agreement with this approach.

In the current filing, Atmos had prior period adjustments to both the gas costs and the gas cost recoveries. In its beginning balance for the interest calculation, the Company made an adjustment for the gas costs adjustments, but failed to make the adjustment for the gas cost recoveries adjustments. The beginning balance was over-stated by \$81,882.53, which resulted in a corresponding misstatement of the interest amount by a **negative \$5,268.53**, which represents an over-recovery of gas costs.

Company Response

Atmos Energy agrees with this finding.

FINDING #2:

Exception

The Company miscalculated the beginning balance for the interest calculation in its "Union City" filing.

Discussion

See the discussion under Finding #1. The Company repeated this error in its Union City filing. The beginning balance was over-stated by \$488.08, resulting in a difference in the interest amount of **negative \$31.41**, which represents an over-recovery of gas costs.

Company Response

Atmos Energy agrees with this finding.

APPENDIX A

PGA FORMULA

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

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

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

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:

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

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

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.