BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

March 4, 2004

IN RE:	)	
	)	
COUNCE NATURAL GAS COMPANY	)	**DOCKET NO.**
ACTUAL COST ADJUSTMENT (ACA) AUDIT	)	**03-00613**

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

This matter came before Chairman Deborah Taylor Tate, Director Pat Miller and Director Ron Jones of the Tennessee Regulatory Authority (the "Authority"), the voting panel assigned to this docket, at a regularly scheduled Authority Conference held on December 15, 2003, 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 (the "Company") annual deferred gas cost account filing for the year ended September 30, 2003. The Actual Cost Adjustment ("ACA") Audit Report (the "Report"), attached hereto as Exhibit 1 and incorporated by this reference, 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 November 24, 2003, and the Staff completed its audit of the Company's filing on December 1, 2003. On December 1, 2003, the Staff issued its preliminary ACA audit findings to the Company, and the Company responded to these findings on December 2, 2003. The Staff filed its Report with the Authority on

December 2, 2003. The Report contains three findings. The first finding is that the Company did not bill the PGA factor of $6.40 to its customers in June 2003, as reported in the annual filing. Therefore, the PGA recoveries were overstated in the Company's filing by $566.74, resulting in an under-recovery of the Company's gas cost. The second finding is that the Company did not bill the ACA factor of negative $0.82 to its customers in October 2002, as it reported in the annual filing. Therefore, the ACA refunds were overstated by $117.40, which represents an over-recovery of the Company's gas cost. The third finding is that the Company calculated the wrong interest amount. The difference between the Company's calculation and the Staff's calculation resulted from a correction of the two previous findings. The difference of $1.95 represents an under-recovery of the Company's gas cost. 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, 2003 is negative $3,665.74, which represents over-collected gas costs. The Report states that the Company is authorized, beginning with its November 2003 billing, to include an ACA adjustment factor of -$0.1653 (refund) per MCF in its gas rate, resulting in a new billing rate of $8.9151 per MCF.

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

IT IS THEREFORE ORDERED THAT:

1. The Actual Cost Adjustment Audit Report relative to Counce Natural Gas Company relative to the year ended September 30, 2003, 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.

Deborah Taylor Tate, Chairman

Pat Miller, Director

Ron Jones, Director

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BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

December 2, 2003

IN RE:	)	
	)	
COUNCE NATURAL GAS COMPANY	) Docket No. 03-00613	
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 November 24, 2003, and the Staff completed its audit of same on December 1, 2003.

3. On December 1, 2003, the Energy and Water Division issued its preliminary ACA audit findings to the Company, and on December 2, 2003, 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

EXHIBIT

1

attached hereto as <u>Exhibit A</u> 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 2nd day of December, 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

Deborah Taylor Tate
Chairman
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
Pat Murphy

EXHIBIT A

COMPLIANCE AUDIT REPORT

OF

COUNCE NATURAL GAS COMPANY

ACTUAL COST ADJUSTMENT

DOCKET #03-00613

PREPARED BY THE

TENNESSEE REGULATORY AUTHORITY

ENERGY AND WATER DIVISION

December 2003

COUNCE NATURAL GAS COMPANY

COMPLIANCE AUDIT REPORT OF ACTUAL COST ADJUSTMENT

DOCKET NO. 03-00613

TABLE OF CONTENTS

I. INTRODUCTION

The subject of this audit is Counce Natural Gas Company's ("Company" or "Counce") 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")[1], for the twelve (12) months ended September 30, 2003, were calculated correctly and were supported by appropriate source documentation.

II. AUDIT OPINION

On November 24, 2003, Staff received Counce's ACA filing supporting the activity in its deferred gas cost account ("ACA account") for the period October 1, 2002 through September 30, 2003 For the period under audit, this ACA filing showed $135,521 82 in total gas costs, with $122,832 71 being recovered from customers through rates Adding a beginning balance in the ACA account of **negative** $16,445.50 in over-collected gas costs from the preceding ACA period and interest due to customers for the current period of $360 64 resulted in an ACA balance at September 30, 2003 of **negative $4,117.03 in over-recovered gas costs** Small gas companies, such as Counce, do not automatically surcharge or refund the balance in the ACA account until the Staff's audit is complete and the surcharge or refund factor is determined by the TRA.

SUMMARY OF THE ACA ACCOUNT:[2]

Line No		Company (as filed)	Staff (as corrected)	Difference (Findings)
1	Beginning Balance at 10/01/02	$-16,445 50	$-16,445 50	$ 0
2	**Activity During Current Period:**			
3	Plus Gas Costs	$135,521 82	$135,521 82	$ 0
4	Minus ACA Recoveries	-18,180.22	-18,062.82	117 40
5	Minus PGA Recoveries	141,012 93	140,446 19	-566 74
6	Ending Balance before Interest (line 1 + line 3 – line 4 – line 5)	$ -3,756.39	$ -3,307 05	$449.34
7	Plus Interest	-360.64	-358 69	1 95
8	**Ending Balance Including Interest at 09/30/03 (line 6 + line 7)**	**$ -4,117.03**	**$ -3,665.74**	**$451.29**

[1] The ACA is more fully described in Section V

[2] A negative number represents an over-recovery (or over-collection) of gas costs

Staff's audit resulted in three (3) findings[3] The net amount of these findings is a **positive $451.29 in over-recovered gas costs.**[4] Staff's correction of the Company's reported September 30, 2003 balance of negative $4,117 03 produced an ending balance in the ACA account of **negative $3,665.74 in over-recovered gas costs.**[5] The amount of the Company's errors represents <u>less than one percent</u> of its total gas invoices, and is therefore immaterial by comparison. Therefore, Staff concludes that except for the findings noted in this report, Counce is correctly implementing its Purchased Gas Adjustment Rider as calculated in the Actual Cost Adjustment, in accordance with the TRA rules for Counce Natural Gas Company.

III. <u>BACKGROUND INFORMATION ON COMPANY AND GAS SUPPLIERS</u>

Counce Natural Gas Company, 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 Enbridge Marketing (U S), L.P 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.

IV. <u>JURISDICTION OF THE TENNESSEE REGULATORY AUTHORITY</u>

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

[3] Refer to Section VII for a description of the findings
[4] Refer to Chart, page 1
[5] Company's negative $4,117 03 balance reduced by Staff findings of $451 29

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 energy and water utilities under the Authority's jurisdiction to ensure that each company is abiding by Tennessee statute as well as the Rules and Regulations of the Authority. Pat Murphy of the Energy and Water Division conducted this audit.

V. DESCRIPTION OF PURCHASED GAS ADJUSTMENT RULE

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 to this report

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].

VI. SCOPE OF ACTUAL COST ADJUSTMENT AUDIT

The ACA audit is a limited compliance audit of Counce's ACA account The audit goal was to verify that the Company's calculations of gas costs incurred and recovered were materially correct,[6] and that the Company is following all Authority orders and directives with respect to its calculation of the ACA account balance Refer to the ACA Account detail provided in Section II, Summary of ACA Account.

To accomplish the audit goal, Staff reviewed gas supply invoices, as well as supplemental schedules and other source documentation provided by the Company Where appropriate, Staff requested additional information to clarify the filing Staff also audited a sample of customer bills to determine if the proper tariff rates, as well as PGA and ACA rates were applied in the Company's calculation of customer bills during the twelve month audit period. After recalculating each sample bill, Staff determined that the Company's calculation methods are correct.

[6] 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. ACA AUDIT FINDINGS

The result of the Staff's audit was a **net under-recovery of $451.29,** which had the net effect of decreasing the Company's over-recovery (negative) balance in the ACA account by this amount A summary of the ACA account was presented in Section II. See a summary of Staff's findings below, followed by a detailed description of each finding.

SUMMARY OF FINDINGS:

FINDING #1	PGA Recovery Factor	$566 74	Under-recovery
FINDING #2	ACA Recovery Factor	-117.40	Over-recovery
FINDING #3	Interest Calculation	1 95	Under-recovery
	Net Results	**$451.29**	**Under-recovery**

FINDING #1:

Exception

Counce did not bill the PGA factor of $6 40 to its customers in June 2003, as it reported in the annual filing

Discussion

Counce filed a PGA (tariff no. 03-00387) with the TRA for $6 40, to be effective with its June 2003 billing The tariff request was approved. However, a bill audit revealed that the Company failed to bill this new factor in June and actually billed $5 54, the factor that was effective for May 2003. Therefore, the PGA recoveries were overstated in the Company's filing by $566.74 This represents an **under-recovery** of Counce's gas costs.

Company Response

In response to the TRA findings of not billing the customers the right PGA, it was caught after the bills had been mailed. To insure that this problem does not occur again, the billings process is being monitored and checked before mailing.

FINDING #2:

Exception

Counce did not bill the ACA factor of negative $0.82 to its customers in October 2002, as it reported in the annual filing.

Discussion

In Docket 02-01182 (the Staff's last audit of Counce's ACA), the new ACA factor, approved to be effective November 2002, was negative $0 82 In this filing, the Company reported an ACA factor for October 2002 of negative $0.82 However, the bill audit revealed that the Company actually billed its customers a negative $0 6643 for October 2002, the correct ACA factor as established in Docket 02-00066 Therefore, the ACA refunds were overstated by $117.40. This represents an **over-recovery** of Counce's gas costs.

Company Response

In response to the $.82 being placed in the spreadsheet was due to an error in my filling out the ACA filing This process was rushed this time and we will take more precautions to make sure that the spreadsheet is filled out correctly

FINDING #3:

Exception

The Company calculated the wrong interest amount.

Discussion

Counce used the correct interest rates in calculating the interest on account balance each month of the audit period The difference between the Company's calculation and the Staff's calculation resulted from a correction of the above two (2) findings The difference of $1.95 represents an **under-recovery** of Counce's gas costs.

Company Response

The Company agrees with this finding.

VIII. CONCLUSIONS AND RECOMMENDATIONS

The corrected balance in the ACA account as of September 30, 2003 is a **negative $3,665.74 in over-recovered (over-collected) gas costs**. Staff's calculation of this balance is shown in **the Summary of the ACA Account in Section II** The balance is the sum of $13,138 45 in under-collected gas costs for the period, negative $358.69 in interest due to customers, and negative $16,445.50 in the over-collected beginning balance at October 1, 2002 [7] Spreading the negative $3,665.74 balance over the 12 month-to-date September 2003 sales of 22,171 MCF produces an **ACA adjustment factor of negative $0.1653 (refund) per MCF** [8] Therefore, Counce's **new billing rate is $8.9151 per MCF for residential, commercial, and industrial customers.** It is composed of $2 1304 base rate plus the currently approved $6.95 purchased gas adjustment plus the new negative $0.1653 ACA adjustment Staff recommends that the new rate be effective with the Company's November 2003 billing,[9] and continue until the completion of the Staff's next audit.

[7] Counce has refunded $12,780 of the $16,446 over-recovery balance from the last audit

[8] See Attachment 1 for detail of calculation of the ACA factor

[9] The Company's current rate of refund ($0 82 per MCF) could, depending on sales, result in an under-recovered position for the Company if continued Mr Horton, the Company's President, has stated that Counce is in great need of a general rate increase, and he is in the process of filing a rate case petition with the TRA Therefore, he has requested that he be able to start billing the $0 17 refund factor immediately, beginning with the end of month November billing Staff agrees with this request, and has completed its audit as quickly as possible

Attachment 1

Counce Natural Gas Corporation

Calculation of the ACA factor

Line No.	Factor to be applied to residential, commercial and industrial customers:	
1	Invoiced Gas Costs (10/1/02 - 9/30/03)	135,521 82
2	Gas Cost Recovered (10/1/02 - 9/30/03)	140,446 19
3	Under/(Over) Recovery (line 1 minus line 2)	(4,924 37)
4	Interest on Average Monthly Balances	(358.69)
5	ACA Surcharges/(Refunds) (10/1/02 - 9/30/03)	(18,062 82)
6	Beginning Balance at 10/01/02	(16,445 50)
7	**ACA BALANCE INCLUDING INTEREST at 9/30/03** **(line 3 + line 4 - line 5 + line 6)**	**(3,665.74)** **Over-Recovery**
8	Sales Volumes (Actual MCF for 12 month ended 9/30/03)	22,171
9	ACA Factor per MCF (line 7 divided by line 8)	**(0.1653)**

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