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**BEFORE THE TENNESSEE REGULATORY AUTHORITY**

**NASHVILLE, TENNESSEE**

**December 21, 2005**

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| **IN RE:** | **)** |
| | **)** |
| **GASCO DISTRIBUTION SYSTEMS, INC.** | **) Docket No. 05-00246** |
| **ACTUAL COST ADJUSTMENT (ACA) AUDIT** | **)** |

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**NOTICE OF FILING BY THE UTILITIES DIVISION OF THE TENNESSEE REGULATORY AUTHORITY**

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Pursuant to Tenn. Code Ann. §§ 65-4-104, 65-4-111 and 65-3-108, the Utilities Division of the Tennessee Regulatory Authority gives notice of its filing of the Gasco Distribution Systems, Inc.'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 Gasco Distribution Systems, Inc.'s (the "Company") ACA filing covering the period July 1, 2004 to June 30, 2005.

2. The Company's ACA filing was received on September 6, 2005, and the Staff completed its audit of same on December 13, 2005.

3. The Staff's audit revealed four immaterial findings. The Report is attached hereto as Exhibit A and is fully incorporated herein by this reference.

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

Respectfully Submitted:

Gary Lamb, Financial Analyst
Utilities Division of the
Tennessee Regulatory Authority

## CERTIFICATE OF SERVICE

I hereby certify that on this 21st day of December 2005, 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:

Ron Jones
Chairman
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37243

Mr. Fred Steele
President and Chief Executive Officer
Gasco Distribution Systems, Inc.
4435 East Pike
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Gary Lamb

# EXHIBIT A

COMPLIANCE AUDIT REPORT

OF

**GASCO DISTRIBUTIONS SYSTEMS, INC.**

**ACTUAL COST ADJUSTMENT**

**Docket # 05-00246**

PREPARED BY

**TENNESSEE REGULATORY AUTHORITY**

UTILITIES DIVISION

DECEMBER 2005

COMPLIANCE AUDIT

**GASCO DISTRIBUTIONS SYSTEMS, INC.**

**ACTUAL COST ADJUSTMENT**

**Docket # 05-00246**

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## I. INTRODUCTION

The subject of this audit is Gasco Distribution Systems Inc.'s ("Gasco" or the "Company") compliance with the Actual Cost Adjustment ("ACA") and Refund Adjustment ("RA") of the Purchased Gas Adjustment Rule ("PGA Rule") of the Tennessee Regulatory Authority ("TRA" or the "Authority").[1] The objective of the audit was to determine whether the purchased gas adjustments, which are encompassed by the ACA, and approved by the TRA for the twelve (12) months ended June 30, 2005, were calculated correctly and were supported by appropriate source documentation.

## II. AUDIT OPINION

The Staff's audit resulted in four (4) immaterial findings. The Staff concludes that, except for the findings noted in Section X, 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 Gasco Distribution Systems, Inc. The amount of the findings contained herein, however, are not material with respect to the total gas costs.

## III. BACKGROUND INFORMATION ON COMPANY AND GAS SUPPLIERS

Gasco Distribution Systems, Inc., with its office located in Jellico, Tennessee, is a subsidiary of The Titan Energy Group, Inc., which has its headquarters at 4435 East Pike, Zanesville, Ohio. The Company is a gas distributor, which provides service to the City of Jellico (Campbell County), City of Byrdstown (Pickett County) and a few customers in Fentress County, all of which are located in northeast Tennessee. It has approximately 600 customers and an annual sales volume of approximately 54,000 MCF. In addition to Tennessee, Gasco also operates in Kentucky, Ohio, Pennsylvania, and West Virginia.

GASCO, INC. (the fuel manager) provides the natural gas used to serve these areas, through long-term contracts with nonaffiliated third parties that deliver gas to the city gate.

## IV. 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 was transferred from the Tennessee Public Service Commission to the Tennessee Regulatory Authority (the "TRA" or "Authority") on July 01, 1996. T.C.A. §65-4-104 states that:

[1] See TRA Rule 1220-4-7 The ACA is more fully described in Section VI

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

T.C.A. states further in §65-4-111 that the public utilities are to maintain a Uniform System of Accounts:

> 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 its own rule 1220-4-1-.11 regarding the uniform system of accounts which public utilities should maintain. The TRA's rule provides:

> The following uniform system of accounting will be followed by utilities and other companies making periodic reports to the Authority:
>
> 1. For Classes A and B gas companies - Uniform System of Accounts as adopted by the National Association of Regulatory Utility Commissioners as revised June 30, 1972, and any amendments or revisions pertaining thereto.

The TRA received its authority to examine the books and records of public utilities from T.C.A. §65-4-105 which states that the TRA would possess all the other powers conferred on the TRA. T.C.A. §65-3-108 gives the TRA:

> full power to examine the books and papers of the said companies, and to examine, under oath, the officers, agents, and employees of said companies...to procure the necessary information to intelligently and justly discharge their duties and carry out the provisions of this chapter and chapter 5 of this title.

## V. 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 ensures the integrity, reliability, and comparability of the financial data contained in financial reports filed with the TRA, which provides the TRA with one of its most useful regulatory tools for establishing just and reasonable rates.

## VI. DESCRIPTION OF PURCHASED GAS ADJUSTMENT (PGA) RULE

The Tennessee Public Service Commission issued an Order in Docket No. G-86-1, which adopted a new PGA rule beginning July 1, 1992. This 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 "trues-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. 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].

## VII. AUDIT TEAM

The TRA's Energy and Water Section of the Utilities Division is responsible for conducting ACA audits. Gary Lamb of the Energy and Water Section conducted this audit of Gasco Distribution Systems, Inc.

## VIII. SCOPE OF AUDIT

To accomplish the audit objective, the Staff conducted in-house audit work, during which the Company's calculations of gas costs incurred and gas costs recovered were tested. The Staff also audited a sample of customer bills to determine if the proper PGA rates and ACA 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 in each of the Company's service areas. The sample was selected from all twelve months of the audit period. After recalculating each sample bill, Staff is satisfied that customers were billed appropriately.

## IX. SUMMARY OF COMPANY FILINGS

The Company submitted its ACA filings on September 6, 2005, covering the period July 1, 2004, to June 30, 2005. There were separate filings for the Jellico Division and the Byrdstown/Fentress Division. The <u>Jellico Division</u> filing reflected a net balance in its ACA account at June 30, 2005, of **positive $98,989.64**, which represents an **under-collection** of gas costs from customers. The <u>Brydstown/Fentress Divisions</u> filing reflected a net balance in its ACA account at June 30, 2005, of **negative $715.94**, which represents an **over-collection** of gas costs from customers. The tables on the following page provide a summary of each ACA account as submitted by the Company.[2]

[2] The positive balance on line 9 of the Jellico table indicates that the Company has under-collected these amounts from its customers as of June 30, 2005, while the negative balance on line 9 of the Byrdstown/Fentress table indicates an over-collection The ACA factors derived by dividing these amounts by the projected sales volumes for the next twelve (12) months will attempt to surcharge (refund) these amounts over a twelve month period However, there are timing differences between the close of the audit period (6/30/05) and the effective date of a new factor (February 2006) When the next audit period (12 months ended 6/30/06) is audited the factor will have been in effect for only five (5) months There is always regulatory lag inherent in the true-up process Larger companies are capable of calculating ACA factors and implementing them immediately, prior to audit. However, the smaller companies are encouraged to await the results of the Staff's audit before implementing an ACA factor

## Jellico Division

| Line No. | | Amount |
|---|---|---|
| 1 | Cost of gas purchased (7/1/04 to 6/30/05) | $ 463,880.52 |
| 2 | Cost of gas recovered from customers through PGA rates | 430,325.38 |
| 3 | Under/(Over) Recovery of gas costs (Line 1-Line 2) | $ 33,555.14 |
| 4 | | |
| 5 | ACA surcharges/(refunds) (7/1/04 – 6/30/05) | 73,966.19 |
| 6 | Interest calculated on average monthly balance in account | 6,314.16 |
| 7 | Beginning ACA balance at 7/1/04 | 133,086.53 |
| 8 | | |
| 9 | **Balance in ACA account at 6/30/05 (Line 3-Line 5+Line 6+Line 7)** | **$ 98,989.64** |

## Byrdstown/Fentress Division

| Line No. | | Amount |
|---|---|---|
| 1 | Cost of gas purchased (7/1/04 to 6/30/05) | $ 32,194.75 |
| 2 | Cost of gas recovered from customers through PGA rates | 33,656.41 |
| 3 | Under/(Over) Recovery of gas costs (Line 1-Line 2) | $ (1,461.66) |
| 4 | | |
| 5 | ACA surcharges/(refunds) (7/1/04 – 6/30/05) | 10,074.09 |
| 6 | Interest calculated on average monthly balance in account | 300.79 |
| 7 | Beginning ACA balance at 7/1/04 | 10,519.02 |
| 8 | | |
| 9 | **Balance in ACA account at 6/30/05 (Line 3-Line 5+Line 6+Line 7)** | **$ (715.94)** |

## X. ACA AUDIT FINDINGS

Staff's audit findings totaled a **net under-recovery of $494.09**. This amount is the net total of four (4) findings and represents an additional under-recovered amount, which when added to the Company's calculated balance, results in a net ending balance in the ACA account of a **positive $98,767.79** in under-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.

**Jellico Division**

| | **Company** | **Staff** | **Difference** |
|---|---|---|---|
| Cost of Gas Purchased | 463,880.52 | 463,880.52 | 0.00 |
| Cost of Gas Recovered Through Rates | (430,325.38) | (430,325.38) | 0.00 |
| Under/(Over) Recovery | 33,555.14 | 33,555.14 | 0.00 |
| Interest on Average Monthly Balance | 6,314.16 | 6,334.55 | 20.39 |
| ACA Surcharges (7/04 to 6/05) | (73,966.19) | (73,966.19) | 0.00 |
| Beginning ACA Balance @ 7/04 | 133,086.53 | 133,523.53 | 437.00 |
| **ACA Balance @ 6/30/05** | **98,989.64** | **99,447.03** | **457.39** |

**Byrdstown-Fentress Division**

| | **Company** | **Staff** | **Difference** |
|---|---|---|---|
| Cost of Gas Purchased | 32,194.75 | 32,194.75 | 0.00 |
| Cost of Gas Recovered Through Rates | (33,656.41) | (33,656.41) | 0.00 |
| Under/(Over) Recovery | (1,461.66) | (1,461.66) | 0.00 |
| Interest on Average Monthly Balance | 300.79 | 302.43 | 1.64 |
| ACA Surcharges (7/04 to 6/05) | (10,074.09) | (10,074.09) | 0.00 |
| Beginning ACA Balance @ 7/04 | 10,519.02 | 10,554.08 | 35.06 |
| **ACA Balance @ 6/30/05** | **(715.94)** | **(679.24)** | **36.70** |
| **Total ACA Account Balance @ 6/30/05** | **98,273.70** | **98,767.79** | **494.09** |

**SUMMARY OF FINDINGS:**

| | | | | See page |
|---|---|---|---|---|
| FINDING #1 | Jellico Beginning Balance | $ 437.00 | Under-recovery | 8 |
| FINDING #2 | Byrdstown/Fentress Beginning Balance | 35.06 | Under-recovery | 9 |
| FINDING #3 | Jellico Interest Calculation | 20.39 | Under-recovery | 10 |
| FINDING #4 | Byrdstown/Fentress Interest Calculation | 1.64 | Under-recovery | 11 |
| | **Net Result** | **$ 494.09** | **Under-recovery** | |

**FINDING #1:**

**Exception**

The Company understated the ACA beginning balance for its Jellico Division filing.

**Discussion**

The Company submitted an incorrect beginning ACA balance in its filing for its Jellico Division. The beginning balance was understated by **$437.00**, resulting in an **under-recovery** of gas costs from its customers in that amount.

**Company Response**

The company is in agreement with this finding.

**FINDING #2:**

**Exception**

The Company understated the ACA beginning balance for its Byrdstown/Fentress Division filing.

**Discussion**

The Company submitted an incorrect beginning ACA balance in its filing for its Byrdstown/Fentress Division. The beginning balance was understated by **$35.06**, resulting in an **under-recovery** of gas costs from its customers in that amount.

**Company Response**

The company is in agreement with this finding.

**FINDING #3:**

**Exception**

The Company understated the amount of interest due from customers in its Jellico Division filing.

**Discussion**

Staff recalculated the amount of interest on monthly account balances that were related to a correction for Finding #1. This resulted in a difference in the interest amount of **$20.39** for the Jellico filing. The difference represents an **under-recovery** of gas costs.

**Company Response**

The company is in agreement with this finding.

**FINDING #4:**

**Exception**

The Company understated the amount of interest due from customers in its Byrdstown/Fentress Division filing.

**Discussion**

Staff recalculated the amount of interest on monthly account balances that were related to a correction for Finding #2. This resulted in a difference in the interest amount of **$1.64** for the Byrdstown/Fentress filing. The difference represents an **under-recovery** of gas costs.

**Company Response**

The company is in agreement with this finding.

## XI. CONCLUSIONS AND RECOMMENDATIONS

**Audit Conclusions:**

Staff reviewed the gas costs and recoveries of Gasco Distribution Systems, Inc. for the 12-month period ended June 30, 2005. Based on the summaries provided in Section X, the **net balance** in the refund due customers account (ACA Account) as of June 30, 2005 should be a **positive $98,767.79**. This means that as of June 30, 2005 the Company had under-collected this amount from its customers. The net balance is composed of an **under-collection from Jellico customers of $99,447.03** and an **over-collection from Byrdstown/Fentress customers of $679.24.** In order to surcharge the Jellico balance and credit the Byrdstown/Fentress balance, the correct ACA adjustment factor to be applied to customer bills in the **Jellico Division** is a **positive $2.0044 per MCF** (see Attachment 1). The correct ACA adjustment factor to be applied to customer bills in the **Byrdstown/Fentress Division** is a **negative $0.1777 per MCF** (see Attachment 2). Staff recommends that these factors be implemented beginning with the Company's **January 2006** billing period and should remain in effect until the Staff's next audit, at which time new factors will be calculated. The Staff's next audit of Gasco will cover the period July 2005 through June 2006.

As Staff has stated in prior audits, it is important for Gasco to monitor its ACA balance on a monthly basis. As actual data is gathered at the end of each month, the ACA schedule can be updated to the latest balance. This balance, along with gas cost increases and decreases in the market, should be a factor in the Company's decision whether a PGA filing to adjust the PGA adjustment factor is needed.

## APPENDIX A

## PGA FORMULA

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

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

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

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.

# ATTACHMENT 1

## Gasco Distribution Systems, Inc.

### Calculation of the ACA Factor
(for Jellico customers)

| Line No. | Factor to be applied to residential, commercial and industrial customers: | | | |
|---|---|---|---|---|
| 1 | Cost of Gas purchased (7/1/04 - 6/30/05) | $ | 463,880 52 | |
| 2 | Cost of Gas recovered from customers through PGA rates | | 430,325 38 | |
| 3 | Under/(Over) Collection (Line 1 - Line 2) | $ | 33,555 14 | |
| 4 | ACA surcharges/(refunds) (7/1/04 - 6/30/05) | | 73,966 19 | |
| 5 | Interest calculated on average monthly balance in account | | 6,334 55 | |
| 6 | Beginning balance at 6/30/04 | | 133,523 53 | |
| 7 | **Balance in ACA account at 6/30/05** (Line 3 - Line 4 + Line 5 + Line 6) | $ | **99,447.03** | **Under-Collection** |
| 8 | Sales Volumes ** | | 49,615 | MCF |
| 9 | ACA Factor - surcharge/(refund) (Line 7 divided by Line 8) | $ | 2 0044 | Per MCF |

** Historical sales volumes for 12 months ending 6/30/05

## ATTACHMENT 2

**Gasco Distribution Systems, Inc.**

**Calculation of the ACA Factor**
(for Byrdstown/Fentress customers)

| Line No. | **Factor to be applied to residential, commercial and industrial customers:** | | |
|---|---|---|---|
| 1 | Cost of Gas purchased (7/1/04 - 6/30/05) | $ 32,194 75 | |
| 2 | Cost of Gas recovered from customers through PGA rates | 33,656 41 | |
| 3 | Under/(Over) Collection (Line 1 - Line 2) | $ (1,461 66) | |
| 4 | ACA surcharges/(refunds) (7/1/04 - 6/30/05) | 10,074 09 | |
| 5 | Interest calculated on average monthly balance in account | 302 43 | |
| 6 | Beginning balance at 6/30/04 | 10,554 08 | |
| 7 | **Balance in ACA account at 6/30/05**<br>(Line 3 - Line 4 + Line 5 + Line 6) | $ **(679.24)** | **Over-Collection** |
| 8 | Sales Volumes ** | 3,823 | MCF |
| 9 | ACA Factor - surcharge/(refund)<br>(Line 7 divided by Line 8) | $ (0 1777) | Per MCF |

** Historical sales volumes for 12 months ending 6/30/05