BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

April 21, 2006

IN RE:	)
	)
ATMOS ENERGY CORPORATION	) **Docket No. 05-00253**
ACTUAL COST ADJUSTMENT ("ACA") AUDIT	)

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

Pursuant to Tenn. Code Ann. §§65-4-104, 65-4-111 and 65-3-108, the Utilities 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 15, 2005, and the Staff completed its audit of same on April 5, 2006. The original 180-day deadline for the Staff's completion of the audit was extended from March 14, 2006 to May 15, 2006 by mutual consent of the Company and the TRA Staff as provided for in the Purchased Gas Adjustment Rule (1220-4-7-.03 (2)).

3. On April 5, 2006, the Utilities Division submitted its preliminary ACA audit findings to the Company via e-mail. The Company responded on April 19, 2006 via e-mail and their responses have been incorporated into the final report.

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 Utilities Division, the Company's responses thereto and the recommendations of the Utilities Division in connection therewith.

5. The Utilities 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:

Gary Lamb
Utilities Division of the
Tennessee Regulatory Authority

CERTIFICATE OF SERVICE

I hereby certify that on this 21st day of April, 2006, 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
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Ms. Patricia Childers
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Gary Lamb

COMPLIANCE AUDIT REPORT

OF

ATMOS ENERGY CORPORATION

ACTUAL COST ADJUSTMENT

DOCKET NO. 05-00253

PREPARED BY

TENNESSEE REGULATORY AUTHORITY

UTILITIES DIVISION

APRIL 2006

EXHIBIT A

COMPLIANCE AUDIT

ATMOS ENERGY CORPORATION

ACTUAL COST ADJUSTMENT

DOCKET NO. 05-00253

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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 is 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, 2005 are calculated correctly and are supported by appropriate source documentation.

II. AUDIT OPINION

The Audit Staff concludes that, except for the findings noted in Section VIII, 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 amount of the findings contained herein are not material with respect to the total gas costs.

III. SUMMARY OF COMPANY FILING

The Company filed its annual report of the transactions in the Deferred Gas Costs Account ("ACA Account") for its Tennessee service areas on September 15, 2005. This ACA filing showed $125,200,401 in total gas costs, with $111,877,800 being recovered from customers through rates. Adding a beginning balance in the ACA account of negative $7,361,694 in net over-recovered gas costs from the preceding ACA period and interest due from customers for the current period of $178,356 resulted in an ACA Account balance at June 30, 2005 of positive $6,139,264 in under-recovered gas costs. The Company's filing is summarized in the table below:

ATMOS ENERGY CORPORATION
ACA FILING FOR PERIOD JULY 2004-JUNE 2005

Line		Union City	Other TN Towns	Total
1	Beginning Balance (July 2004)	$(458,790.94)	$(6,902,902.75)	$(7,361,693.69)
2	Purchased Gas Costs	3,756,547.68	121,443,853.63	125,200,401.31
3	Gas Costs recovered through rates	3,289,865.83	108,587,934.15	111,877,799.98
4	Interest on monthly balances	(5,937.56)	184,293.97	178,356.41
5	Ending Balance (June 2005) (Line 1 + Line 2 – Line 3 + Line 4)	$ 1,953.35	$ 6,137,310.70)	$ 6,139,264.05

**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 customers in other Tennessee service areas on October 1, 2005, to distribute the balances in the ACA accounts as of June 30, 2005. The Audit 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 "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 Adjusment 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 surcharge of the ACA account balances, effective October 1, 2005. Refer to the ACA Account detail provided in Section III, Summary of Company Filing.

To accomplish the audit goal, Audit 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.

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 Utilities 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. Gary Lamb and Paul Greene of the Utilities Division conducted this audit.

VIII. ACA FINDINGS

Audit Staff's audit findings totaled a **net over-recovery of $137,836.12**. This amount is the net total of seven (7) findings and represents a reduction of the 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 **$6,001,427.93** 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.

SUMMARY OF THE ACA ACCOUNT**:

Line		Atmos Combined Filing	Staff Audit Results	Difference (Findings)
1	Adj. Beginning Balance (July 2004)	$ (7,361,693.69)	$ (7,403,329.94)	$ (41,636.25)
2	Purchased Gas Costs	125,200,401.31	125,100,474.31	(99,927.00)
3	Gas Costs recovered through rates	111,877,799.98	111,877,675.11	(124.87)
4	Interest on monthly balances	178,356.41	181,958.67	3,602.26
5	Ending Balance (June 2005) (Line 1 + Line 2 – Line 3 + Line 4)	$ 6,139,264.05	$ 6,001,427.93	$ (137,836.12)

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

SUMMARY OF FINDINGS:

				See page
FINDING #1	ETN–Commodity Recoveries	$ 75,007.46	Under-recovery	7
FINDING #1	ETN–Demand Recoveries	(75,007.46)	Over-recovery	7
FINDING #2	Union City–Commodity Recoveries	(427.67)	Over-recovery	8
FINDING #2	ETN-Commodity Recoveries	552.54	Under-recovery	8
FINDING #3	ETN-Bad Dept Expense	(136,537.75)	Over-recovery	9
FINDING #3	Union City-Bad Dept Expense	(5,025.51)	Over-recovery	9
FINDING #4	Repayments on written off accounts	0.00	N/A	10
FINDING #5	ACA and PGA Recovery adjustments	0.00	N/A	11
FINDING #6	ETN-Allocation percentage	0.00	N/A	12
FINDING #7	ETN-Interest	3,775.61	Under-recovery	13
FINDING #7	Union City-Interest	(173.34)	Over-recovery	13
	Net Result	**$ (137,836.12)**	**Over-recovery**	

FINDING #1:

Exception

The Company misclassified some recoveries as Commodity recoveries when in fact they were Demand recoveries for the "All Other Tennessee Towns" filing.

Discussion

The Company made large billing adjustments to business customers in the months of September 2004, November 2004 and January 2005 and recorded them as Commodity Adjustments. However the Audit Staff found that **$75,007.46** of the adjustments should have been made to the Demand recoveries. This resulted in an **overstatement of $75,007.46** of recoveries for the Commodity portion of the ACA and an **understatement of $75,007.46** in the Demand portion.

Company Response

Atmos Energy agrees with this finding. A new procedure is being adapted to identify and make corrections (if necessary) for any large adjustments showing up in the Commodity Adjustments section of the ACA recoveries to ensure proper classification between demand and commodity recoveries.

FINDING #2:

Exception

The Company misclassified some commodity recoveries for "Union City" as recoveries for "All Other Tennessee Towns" in the months of July through September 2004.

Discussion

The Company credited 738 units of natural gas sold as "All Other Tennessee Towns" sales when in reality the sales were "Union City" sales. By applying the appropriate recovery rates of $ 0.5795 per ccf for "Union City" and $ 0.7487 per ccf for "All Other Tennessee Towns", "All Other Tennessee Towns" recoveries were **overstated $552.54**, while Union City recoveries were understated **by $427.67.**

Company Response

Atmos Energy agrees with this finding. This problem was identified and corrected beginning October 2004 but the company failed to correct the prior periods listed above.

FINDING #3:

Exception

The Company overstated its Bad Debt Cost by a total of **$141,563.26.**

Discussion

The Company included actual net bad debt expense in both their "Union City" and "All Other Tennessee Towns" ACA filings for the period of February 2004 through June 2005[2]. However, they did not offset their actual expense with the amount already provided for uncollected gas costs in their base rates, which is **$99,927.00 annually**. The Staff reduced the Company's reported gas costs by this amount for the filing period. In addition, the Audit Staff prorated the annual amount for five months in the last audit period (February through June, 2004) and reduced the beginning balance at July 1, 2004 by a total of **$41,636.26,** for a total adjustment of **$141,563.26**. Using the number of customers as the allocation method, bad debt expense should have been reduced by **$5,025.51 for "Union City"** and **$136,537.75 for "All Other Tennessee Towns".**

Company Response

Atmos Energy agrees with this finding. The amounts above will be deducted from the 2005 2006 beginning ACA balance and the 2005 2006 ACA Bad Debt expense pertaining to gas costs will be adjusted in each ACA year going forward.

[2] Atmos did not make an entry for bad debt expense in the ACA Account in its last annual filing.

FINDING #4:

Exception

The Company did not properly credit partial payments on bad debt accounts.

Discussion

As part of a combined three-company response[3] to a TRA Motion adopted at the April 4, 2005 Conference in Docket No. 03-00209, Atmos Energy agreed to pro-rate partial payments on uncollected accounts between gas costs and margin using one of two methods. The Company agreed to either prorate the payment using the same percentage as the original write-off, or credit 100% of all payments to gas costs first until the gas cost portion of a written off account is paid in full and then remaining payments to the margin portion. During the audit review, the Staff sampled partial payments and found that Atmos did not consistently follow the agreement. The sample indicted that the total dollar error would not be material. Therefore, Audit Staff did not attempt to recalculate the prorated payments for all transactions during the audit period.

Company Response

Atmos Energy agrees with this finding. The company attempted to have the billing system follow the procedures described above, however, the billing system reporting was not able to. The company will attempt to make correcting entries prior to the end of each ACA period to comply with the intent of Docket No. 03-00209.

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[3] Atmos, Nashville Gas and Chattanooga Gas filed a joint response on June 1, 2005.

FINDING #5:

Exception

The Company did not file documentation with its ACA annual report sufficient to allow Staff to verify billing adjustments.

Discussion

In past audits, the Company has not routinely provided backup documentation for the billing adjustments made to the ACA and PGA calculated recoveries recorded in the ACA Account each month. These adjustments have usually been immaterial in nature. This audit period, however, billing adjustments totaled $650,564.86 which reduced the Commodity recoveries for the "All Other Tennessee Towns" filing by this amount. The Audit Staff requested an explanation for the large adjustment amounts. The Company provided documentation for adjustments made to four large industrial customers that accounted for a significant portion of the total adjustments. After reviewing these four adjustments, Audit Staff determined that a portion of the adjustments should have been credited to Demand recoveries instead of Commodity recoveries (see Finding #1). At a minimum, the Company should supply the Audit Staff a summary report detailing all billing adjustments that affect recovery amounts recorded in ACA filing.

Company Response

Atmos Energy agrees to provide staff with support for any large adjustments. If during this process volume adjustments are required, Atmos Energy will make those adjustments on the various reports supporting the ACA and the ACA calculations.

FINDING #6:

Exception

The Company has not updated their allocation percentage for shared demand costs between Tennessee and Virginia customers since its July 1997 - June 1998 ACA filing.

Discussion

The Company currently utilizes percentages of 69.5% for Tennessee and 30.5% for Virginia to allocate shared demand costs between the states. During this audit review, the Audit Staff requested that the Company recalculate these percentages to see if the percentages were still valid. Based on the updated calculation, the current allocation percentages should be 64% of shared demand costs charged to Tennessee customers and 36% charged to Virginia customers. Since the ACA filing in Virginia for the July 2004 – June 2005 audit period has already been finalized by the Virginia State Corporate Commission, the Company would not be able to recover 100% of these demand costs if a percentage change was applied unilaterally to Tennessee. Therefore, Audit Staff recommends that the updated percentages be utilized effective July 1, 2005 for the July 2005 – June 2006 ACA filing in both states. Audit Staff also recommends that the allocation percentages be updated at a minimum of every three (3) years or sooner if circumstances warrant.

Company Response

Atmos Energy agrees with this finding and will utilize the new demand allocation % in the upcoming ACA period beginning July, 1 2005. Atmos Energy also agrees the allocation percentages be updated at a minimum of every three (3) years or sooner if circumstances warrant.

FINDING #7:

Exception

The Company understated the amount of interest due from customers.

Discussion

The Company did not include Net Bad Dept Expense in their calculation of "Other Tennessee Towns" interest in the months of July 2004 through January 2005. Factoring this error in along with Findings #2 and #3, the Audit Staff recalculated the amount of interest on monthly account balances. The result was an **understatement of $3,775.61 interest due from customers** for the "All Other Tennessee Towns" filing and an **understatement of $173.34 interest due to customers** for the "Union City" filing. The total difference of **$3,602.27** represents an **under recovery** of gas costs.

Company Response

Atmos Energy agrees with this finding and has corrected the worksheet calculation interest for future filings.

IX. STAFF CONCLUSIONS AND RECOMMENDATIONS

Audit Conclusions

The audit of the Company's ACA filing revealed three (3) primary issues that Audit Staff believes need to be addressed and corrected before the next annual filing. One issue is the documentation of recovery adjustments (billing adjustments) made by the Company. In the past the amounts have been immaterial and Staff did not require the Company to provide supporting documentation for the adjustments. In this filing, however, the adjustments amounted to approximately $650,000 in additional costs. As the Company stated in its response to Finding #5, Atmos agrees to provide documentation for material billing adjustments with its ACA filing in future audits.

Audit Staff also found that the percentages used to allocate shared demand costs between Virginia and Tennessee ratepayers had not been updated since 1998. Audit Staff requested an updated calculation, which showed a significant shift in the percentages, with less cost attributable to Tennessee. Audit Staff recommends and the Company agrees that the percentages should be updated at a minimum of every three (3) years or sooner if circumstances warrant. The new percentages calculated in this audit will be used for the audit period beginning July 1, 2005.

The last issue involves the partial repayments of written off accounts. Docket 03-00209 contains a joint agreement between Atmos, Nashville Gas and Chattanooga Gas on the methodology for crediting back to the ratepayers any subsequent partial payments on previously written off accounts. The companies agreed to either credit the payments 100% to the gas cost portion first (with any remainder to the margin portion) or prorate the payment at the same percentage as the original write-off. In Atmos' case, however, a sample of the write-offs found that the Company is not using either method when recording a partial payment. In its response to Finding #4, the Company states that its current billing system cannot automatically credit the correct amounts according to the agreement, but the Company will try to manually make to adjustments necessary to comply with the agreement.

Asset Management Agreement

In addition to auditing the Company's ACA filing, the Audit Staff also reviewed the asset management agreement in place between Atmos and its affiliate Atmos Energy Management ("AEM").[4] The Audit Staff discovered several issues that it considers problematic. <u>One issue</u> relates to the RFP process. Audit Staff obtained additional information from the Company as to the procedures followed in its RFP process. The response indicates that the RFP letter was dated March 14, 2004 for overnight delivery on March 15, 2004 and allowed prospective bidders ten (10) days to respond. Written responses had to be delivered to Atmos by US mail, courier service or hand delivery by midnight of March 25, 2004. While the Company states that ten (10) days is sufficient time for a company to respond to this type of RFP, Audit Staff disagrees.

[4] Atmos stated in response to a Staff data request that the Company has not shared in any asset management payments and that all payments have been credited 100% to the ratepayers.

Also, Audit Staff finds that the Company appears to be restricting RFP recipients to the same list it has used for a number of years. The Company does not publicly notice its RFP in an industry wide publication. During the most recent RFP offering, the only proposal received was from its affiliate AEM.

Another issue involves Audit Staff concerns about the amount of payment by AEM for the use of ratepayer assets and the calculation of the credit that was given to ratepayers in the current audit period. The amount credited to ratepayers[5] seems to be significantly less than the amounts paid for the use of Nashville Gas and Chattanooga Gas assets. Since Atmos is dealing with its affiliate, Staff has concerns that Tennessee ratepayers are not receiving a fair amount for the use of the assets they have paid for. Without knowing the total profits that AEM is making, which in turn benefit the Company's stockholders, Audit Staff cannot report that Tennessee ratepayers are being treated fairly under the current agreement.

Staff Recommendations

Based on the findings and conclusions reached in this audit, the Audit Staff urges the Authority to adopt the following recommendations:

1. The Company allowed only ten (10) days for third party prospective asset managers to submit bids on its RFP for asset management. In addition the Company sent the RFP only to an established list of bidders. The result was the one bid received from its affiliate. Given the complexities of the asset management agreement, Audit Staff believes the length of time given was too short for a prospective bidder to consider the proposal and submit a bid. At a minimum, the Audit Staff recommends the following:

   a. The Company should allow at least thirty (30) days for a prospective bidder to respond to its RFP.
   b. The Company should advertise the RFP in appropriate trade publications.

2. The Company awarded its asset management contract to its affiliate AEM. The contract calls for AEM to pay Atmos $782,978 annually for the right to sell the Company's excess pipeline capacity. This amount is credited 100% to the Company's ratepayers. Compared to similar agreements in place for the other TRA regulated gas companies,[6] the amount paid for the right to use these assets appears to be extremely low. The Audit Staff believes that since AEM is an affiliate of Atmos, customers are entitled to a reasonable percentage of the <u>total</u> profits realized by AEM in the sale of the *ratepayer's assets.*

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[5] The asset management agreement provides for a $782,978 payment by AEM to Atmos Tennessee operations for the use of Tennessee assets and a payment of $282,978 from Atmos Tennessee operations to AEM for services provided to Tennessee in the gas procurement function. The net credit given to Tennessee ratepayers as a result of this agreement was $500,000.

[6] One company has a third party manager and the other has an affiliate manager.

Audit Staff therefore, recommends the following:

a. The Company should provide Audit Staff documentation of the total profits realized by AEM from the sale of customer assets. This documentation should be provided in its annual Actual Cost Audit filing.
b. The Company should credit 100% of this profit to ratepayers in its ACA Account.
c. The Authority should open a separate docket to address the inclusion of asset management fees in the Company's Performance Based Ratemaking Rider ("PBR") and the appropriate sharing mechanism and percentage applicable to these fees.
d. The Authority should direct the TRA Staff and Company to submit a proposed revision of the affiliate rules currently included in the PBR to provide additional guidance to the Company in the selection of the asset manager.

3. The Authority should direct the Company to file all future proposed asset management and gas procurement agreements or renewal of the current contract with the TRA for prior approval of the Authority.

4. The Company should provide a summary report listing all billing adjustments made to the ACA recoveries in each annual ACA filing.

5. The Company should use the updated demand allocation percentage between Tennessee and Virginia customers in its next ACA filing for the 2005-2006 audit period. The Company should also recalculate and adjust their demand allocation percentages at a minimum of every three (3) years or sooner if circumstances warrant.

6. In recording partial bad debt payments, the Company should abide by the joint agreement submitted by the three gas companies and either credit the gas cost portion of the bad debt first, or at the margin/gas cost percentage of the original write-off.

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.