

BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

March 10, 2006

IN RE:

**COUNCE NATURAL GAS COMPANY'S ACTUAL
COST ADJUSTMENT FILING FOR THE 12-MONTH
PERIOD ENDING SEPTEMBER 30, 2005**

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**DOCKET NO.
05-00316**

**ORDER ADOPTING ACA AUDIT REPORT OF
TENNESSEE REGULATORY AUTHORITY'S UTILITIES DIVISION**

This matter came before Chairman Ron Jones, Director Pat Miller and Director Sara Kyle of the Tennessee Regulatory Authority (the "Authority"), the voting panel assigned to this docket, at a regularly scheduled Authority Conference held on January 23, 2006 for consideration of the report of the Authority's Utilities 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, 2005. 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 28, 2005. On December 22, 2005, the Staff completed its audit of the Company's filing and issued preliminary ACA audit findings to the Company and the Company responded to the findings. On January 5, 2006, the Staff issued its Report. The Report contains four immaterial findings made by Staff.¹ The net amount

¹ See *Notice of Filing by the Utilities Division of the Tennessee Regulatory Authority*, pp 6-9 of Exhibit A (January 5, 2006).

of these findings is \$1485.36 in over-recovered gas costs, which when taken into account with the ending ACA balance, results in \$9,868.09 in under-recovered gas costs. In order to recover these gas costs, the Company began assessing a surcharge of \$0.47 per MCF in December 2005. Except for the findings noted in the Report, the Company is correctly implementing the Purchase Gas Adjustment rider as calculated in the ACA. The Company has agreed to all of the Staff's findings contained in the audit report with no further disputes in this audit period.

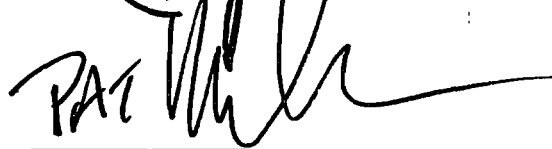
After consideration of the Report, the voting panel unanimously approved and adopted the findings and recommendations contained therein.

IT IS THEREFORE ORDERED THAT:

The Actual Cost Adjustment Audit Report relative to Counce Natural Gas Company's gas costs for the year ended September 30, 2005, 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.



Ron Jones, Chairman



Pat Miller, Director



Sara Kyle, Director

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BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

January 5, 2006

IN RE:)
)
COUNCE NATURAL GAS COMPANY) **Docket No. 05-00316**
ACTUAL COST ADJUSTMENT (ACA) AUDIT)

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

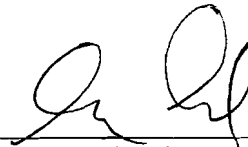
Pursuant to Tenn. Code Ann. §§ 65-4-104, 65-4-111 and 65-3-108, the Energy and Water Compliance Staff ("Staff") of the Utilities Division of the Tennessee Regulatory Authority gives notice of its filing of the Counce Natural Gas Company's ACA Audit Report in this docket and would respectfully state as 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 28, 2005, and the Staff completed its audit of same on December 22, 2005.
3. On December 22, 2005, the Staff issued its preliminary ACA audit findings to the Company, and on December 22, 2005, the Company responded thereto.
4. The preliminary ACA audit report was modified to reflect the Company's responses and a final ACA audit report (the "Report") resulted therefrom. The Report is attached hereto as Exhibit A and is fully incorporated herein by this reference. The Report

contains the audit findings of the Staff, the Company's responses thereto and the recommendations of the Staff in connection therewith.

5. The Utilities Division Staff 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:

A handwritten signature in black ink, appearing to read 'G. Lamb', is written over a horizontal line.

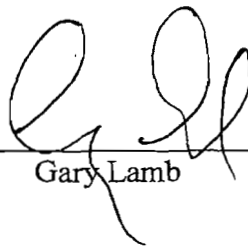
Gary Lamb, Financial Analyst
Utilities Division
Tennessee Regulatory Authority

CERTIFICATE OF SERVICE

I hereby certify that on this 5th day of January 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
Nashville, TN 37243

Mr. Mike Horton, President
Counce Natural Gas Company
P.O. Box 385
Burnsville, MS 38833



Gary Lamb

EXHIBIT A

COMPLIANCE AUDIT REPORT

OF

COUNCE NATURAL GAS COMPANY

ACTUAL COST ADJUSTMENT

DOCKET #05-00316

PREPARED BY THE

TENNESSEE REGULATORY AUTHORITY

THE UTILITIES DIVISION

January 2006

COUNCE NATURAL GAS COMPANY
**COMPLIANCE AUDIT REPORT OF
ACTUAL COST ADJUSTMENT FILING**
DOCKET NO. 05-00316

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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, 2005, were calculated correctly and were supported by appropriate source documentation.

II. AUDIT OPINION

On November 28, 2005, Staff received Counce's ACA filing supporting the activity in its deferred gas cost account ("ACA account") for the period October 1, 2004 through September 30, 2005. For the period under audit, this ACA filing showed \$164,012.23 in total gas costs, with \$153,378.57 being recovered from customers through rates. Adding a beginning balance in the ACA account of **positive \$5,397.17** in under-collected gas costs from the preceding ACA period and interest due from customers for the current period of \$581.41 resulted in an **ACA balance at September 30, 2005 of positive \$11,353.45 in under-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

<u>Line No.</u>		<u>Company (as filed)</u>	<u>Staff (as corrected)</u>	<u>Difference (Findings)</u>
1	Beginning Balance at 10/01/04	\$ 5,397.17	\$ 5,397.17	\$0.00
2	<u>Activity During Current Period:</u>			
3	Plus Gas Costs	\$164,012.23	\$164,012.23	\$ 0.00
4	Minus ACA Recoveries	5,258.79	5,037.12	221.67
5	Minus PGA Recoveries	<u>153,378.57</u>	<u>154,962.11</u>	<u>-1,583.54</u>
6	Ending Balance before Interest (line 1 + line 3 - line 4 - line 5)	\$ 10,772.04	\$ 9,410.17	\$-1,361.87
7	Plus Interest	<u>581.41</u>	<u>457.92</u>	<u>-123.49</u>
8	Ending Balance Including Interest at 09/30/05 (line 6 + line 7)	<u>\$11,353.45</u>	<u>\$ 9,868.09</u>	<u>\$-1,485.36</u>

¹ The ACA is more fully described in Section V.

² A negative number represents an over-recovery (or over-collection) of gas costs, a positive number represents an under-recovery (or under-collection) of gas costs.

Staff's audit resulted in four (4) findings.³ The net amount of these findings is a **negative \$1,485.36 in over-recovered gas costs.**⁴ Staff's correction of the Company's reported September 30, 2005 balance of positive \$11,353.45 produced an ending balance in the ACA account of **positive \$9,868.09 in under-recovered gas costs.**⁵

The amount of the Company's errors represents less than one percent of its total gas invoices, and is therefore immaterial by comparison. Also, Findings #1, #2 and #4 associated with the ACA Account were primarily reporting errors and not actual errors in billing its customers. Since the Company does not surcharge (refund) its ACA account balance until after Staff's audit, the customers were not affected by the reporting errors. Staff, therefore, 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. BACKGROUND INFORMATION ON COMPANY AND GAS SUPPLIERS

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. 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.

³ Refer to Section VII for a description of the findings.

⁴ Refer to Chart, page 1.

⁵ Company's positive \$11,353.45 balance decreased by Staff findings of \$1,485.36.

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 Utilities Division of the TRA is responsible for auditing those energy, water and communications 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. Gary Lamb of the Utilities 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 "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 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. However, an error occurred in the July 2005 billing that is described in Staff Finding #3.

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 over-recovery of \$1,485.36**, which had the net effect of decreasing the Company's under-recovery (positive) 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	Incorrect ACA Factor Used in Oct 04	\$ 221.67	Under-recovery
FINDING #2	Incorrect PGA Factor Used in 4 Months	(2,241.54)	Over-recovery
FINDING #3	Incorrect PGA Factor Billed in Jul 05	658.00	Under-recovery
FINDING #4	Interest Calculations	<u>(123.49)</u>	Over-recovery
	Net Results	<u>\$ (1,485.36)</u>	Over-recovery

FINDING #1:**Exception**

Counce used an incorrect ACA factor in the calculation of the ACA gas cost recoveries for October 2004.

Discussion

The Company did not use an ACA factor in its customer billings for October 2004. They did however calculate their October 2004 recoveries using an ACA factor of \$0.27 per MCF. Because of this error, they overstated their actual ACA recoveries in the amount of \$221.27 for October 2004. This amount represents an **under-recovery** of Counce's gas costs.

Company Response

Our company had not received the ACA factor, at the time of billing, for the month of October.

FINDING #2:

Exception

In four (4) months of the audit period, Counce used a different PGA factor to calculate the PGA recoveries than the factor filed with the TRA and used in billing customers.

Discussion

For the months of November and December 2004 and the months of April and May 2005, the Company billed their customers the PGA rate filed with the TRA. In the ACA filing however, they calculated their PGA recoveries for those months based on a different PGA rate. This resulted in the Company **understating** their actual PGA recoveries in those four months by a total of **\$2,242.54**. This amount represents a net **over-recovery** of Counce's gas costs.

Company Response

This was an Enbridge error. Our company was given the wrong rate, for fuel, for these months.

FINDING #3:

Exception

The Company billed their customers an incorrect PGA factor in July 2005.

Discussion

Counce billed their customers a PGA factor of \$6.61 instead of \$7.71 that was filed with the TRA for July 2005. The Company used the correct factor of \$7.71 in the calculation of the PGA recoveries. This resulted in an **overstatement** of actual PGA recoveries of **\$658.00** which represents an **under-recovery** of Counce's gas costs.

Company Response

This was a calculation error on our part. The company will work harder in the future to prevent this from occurring.

FINDING #4:

Exception

The Company used the wrong interest rates in their interest calculation.

Discussion

The Company used the interest rate that applied to the following quarter instead of the current quarter in calculating interest. Applying the correct interest rates and adjusting the interest calculation to incorporate Staff's audit findings, Staff recalculated the amount of interest on account balance for each month of the audit period. The Staff's recalculation of interest resulted in a **decrease** of interest owed to the Company by its customers of **\$123.49**. This amount represents **an over-recovery** of Counce's gas costs.

Company Response

The wrong interest rate was used.

VIII. CONCLUSIONS AND RECOMMENDATIONS

The corrected balance in the ACA account as of September 30, 2005 is a **positive \$9,868.09 in under-recovered (under-collected) gas costs**. Staff's calculation of this balance is shown in the **Summary of the ACA Account in Section II**. Spreading the positive \$9,868.09 balance over the 12 month-to-date September 2005 sales of 20,832 MCF produces an **ACA adjustment factor of a positive \$0.47 (surcharge) per MCF**.⁷ Counce has agreed to apply the new ACA rate in its December 2005 customer billings, and continue until the completion of the Staff's next audit.

All draft findings except #3 were a result of reporting errors the Company made in its ACA filing. The Staff recommends the Company take these steps to help eliminate the errors in their future filings:

- 1) Update the Company's ACA spreadsheet monthly, as soon as the correct numbers are known.
- 2) Make sure that the ACA and PGA factors used in the Company's ACA computations are the same factors used in billing its customers.
- 3) Double check all numbers used in the Company's ACA filing with the proper company documents before filing its annual report with the TRA.

⁷ See Attachment 1 for detail of calculation of the ACA factor.

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.

ATTACHMENT 1

Counce Natural Gas Corporation

Calculation of the ACA factor

Docket No. 05-00316

Line No.	Factor to be applied to residential, commercial and industrial customers:	
1	Invoiced Gas Costs (10/1/04 - 9/30/05)	164,012.23
2	Gas Cost Recovered (10/1/04 - 9/30/05)	<u>154,962.11</u>
3	Under/(Over) Recovery (line 1 minus line 2)	9,050.12
4	Interest on Average Monthly Balances	457.92
5	ACA Surcharges/(Refunds) (10/1/04 - 9/30/05)	5,037.12
6	Beginning Balance at 10/01/04	<u>5,397.17</u>
7	ACA BALANCE INCLUDING INTEREST at 9/30/05 (line 3 + line 4 - line 5 + line 6)	<u>9,868.09</u> Under-Recovery
8	Sales Volumes (Actual MCF for 12 month ended 9/30/05)	20,832
9	ACA Factor per MCF (line 7 divided by line 8)	<u><u>0.4737</u></u>