BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

February 5, 2008

IN RE:	)
	)
COUNCE NATURAL GAS COMPANY	**) Docket No. 07-00261**
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 hereby gives notice of its filing of the Compliance Audit Report of the Actual Cost Adjustment ("ACA") Component of the Purchased Gas Adjustment Rule ("PGA Rule") for Counce Natural Gas Company (the "Company") 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 the Company's ACA filing for the period October 1, 2006 through September 30, 2007.

2. The Company's ACA filing was received on November 27, 2007, and the Compliance Audit Staff ("Staff") completed its audit of same on January 29, 2008.

3. On January 29, 2008, the Staff issued its preliminary ACA audit findings to the Company, and on February 4, 2006, 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 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:

Ron Graham

Ron Graham, Utility Consultant
Utilities Division
Tennessee Regulatory Authority

CERTIFICATE OF SERVICE

I hereby certify that on this 5th day of February 2008, 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:

Eddie Roberson
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

Ron Graham

Ron Graham

EXHIBIT A

COMPLIANCE AUDIT REPORT

OF

COUNCE NATURAL GAS COMPANY

ACTUAL COST ADJUSTMENT

DOCKET #07-00261

PREPARED BY THE

TENNESSEE REGULATORY AUTHORITY

THE UTILITIES DIVISION

February 2008

COUNCE NATURAL GAS COMPANY

COMPLIANCE AUDIT REPORT OF ACTUAL COST ADJUSTMENT FILING

DOCKET NO. 07-00261

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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, 2007, were calculated correctly and were supported by appropriate source documentation.

II. AUDIT OPINION

On November 26, 2007, Staff received Counce's ACA filing supporting the activity in its deferred gas cost account ("ACA Account") for the period October 1, 2006 through September 30, 2007. For the period under audit, this ACA filing showed $203,721.01 in total gas costs, with $217,671.57[2] being recovered from customers through rates. Adding a beginning balance in the ACA account of **positive** $21,700.98 in under-collected gas costs from the preceding ACA period and interest due from customers for the current period of $1,853.07[3] resulted in a reported ACA balance at September 30, 2007 of **positive $9,603.49 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:[4]

Line No.		Company (as filed)	Staff (as corrected)	Difference (Findings)
1	Beginning Balance at 10/01/06	$ 21,700.98	$ 23,079.79	$1,378.81
2	**Activity During Current Period:**			
3	Plus Gas Costs	$203,721.01	$146,010.56	$(57,710.45)
4	Minus ACA Recoveries	19,468.48	19,002.09	(466.39)
5	Minus PGA Recoveries	198,203.09	134,512.35	(63,690.74)
6	Ending Balance before Interest (line 1 + line 3 – line 4 – line 5)	$ 7,750.42	$ 15,575.91	$7,825.49
7	Plus Interest	$ 1,853.07	$ 1,700.29	$152.78

[1] The ACA is more fully described in Section V.
[2] This amount includes PGA adjustment recoveries and ACA adjustment recoveries.
[3] Interest amount as calculated by the Company.
[4] 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.

8	**Ending Balance Including Interest at 09/30/07 (line 6 + line 7)**	**$9,603.49**	**$ 17,276.20**	**$7,672.71**

Staff's audit resulted in three (3) findings.[5] The result of the Staff's audit was a **net under-collection of $7,672.71,** which had the net effect of increasing the Company's under-recovery (positive) balance in the ACA account by this amount.

In calculating the interest on the monthly balances and the ending balance in the ACA Account, the Company had multiple spreadsheet formula errors.[6] Counce, however, correctly billed its customers during the audit period and reported the correct amount of invoiced gas costs and dollars recovered from customers through rates billed. For this reason, Staff concludes that except for the findings related to reporting noted in this report, Counce is correctly implementing the Gas Charge Adjustment, the Refund Adjustment and the Actual Cost Adjustment in accordance with the Purchased Gas Adjustment Rules for TRA regulated gas companies.

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

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[5] Refer to Section VII for a description of the findings.

[6] Refer to Section VIII for Staff recommendations to correct these types of errors in future filings.

> 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 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. Ron Graham 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 "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,[7] 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, Audit Opinion.

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.

[7] 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-collection of $7,672.71,** which had the net effect of increasing the Company's under-recovery (positive) balance in the ACA Account by this amount. See a summary of Staff's findings below, followed by a detailed description of each finding.

SUMMARY OF FINDINGS:

FINDING #1	Incorrect Beginning Balance	$1,378.81	Under-collection
FINDING #2	Incorrect Interest Calculation	$(152.78)	Over-collection
FINDING #3	Spreadsheet Errors	$6,446.68	Under-collection
	Net Results	**$7,672.71**	**Under-collection**

FINDING #1:

Exception

Counce under-stated the amount of the beginning ACA balance.

Discussion

The Company used an incorrect beginning ACA balance at October 1, 2006. Counce used the ending balance without interest that was reported by the Company in the previous ACA filing in Docket No. 06-00278 rather than the corrected ending balance with interest as determined by Staff.[8] Because of this error, Counce under-stated the beginning balance by **$1,378.81**. This amount represents an **under-collection** of Counce's gas costs.

Company Response

We used an incorrect beginning balance at October 1, 2006. We will be more careful when entering the beginning balance next time.

[8] ACA Audit Report in Docket No. 06-00278.

FINDING #2:

Exception

Counce over-stated the amount of interest due from customers.

Discussion

The Company incorrectly calculated the interest in the ACA Account at September 30, 2007, due to formula and other spreadsheet errors used to make the calculation. The Company applied the correct interest rates to incorrect average monthly balances. Staff recalculated the interest based on the correct underlying information supplied by the Company. This correction resulted in a finding of **$152.78 in over-collected** gas costs.

Company Response

We incorrectly entered the interest at September 30, 2007. We will be more careful to enter the correct interest amount next time.

FINDING #3:

Exception

Counce under-stated the ending balance in the ACA Account at September 30, 2007.

Discussion

The Company incorrectly calculated the ending balance in the ACA Account at September 30, 2007, due to formula and other spreadsheet errors used to make the calculation. Therefore, Counce reported an incorrect ending balance even though the gas costs and recoveries were correctly implemented by the Company during the ACA period. Staff re-stated the ending balance based on the correct underlying information supplied by the Company. This correction resulted in a finding of **$6,446.68 in under-collected** gas costs during the period.

Company Response

We had data entry errors throughout the spreadsheet. We however did correctly bill our customers. We will be more careful next time when entering data. We will also check and recheck our data before submitting the spreadsheet from now on.

VIII. CONCLUSIONS AND RECOMMENDATIONS

The corrected balance in the ACA account as of September 30, 2007 is a **positive $17,276.20 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 $17,276.20 balance over the 12 month-to-date September 2007 sales of 17,456 MCF produces an **ACA adjustment factor of a positive $0.99 (surcharge) per MCF.**[9] In order to begin collecting the under-recovered gas costs at the correct rate as soon as possible, Counce has agreed to apply the new ACA rate in its January 2008 customer billings, and continue until the completion of the Staff's next audit.

The two findings were a result of reporting and calculation errors the Company made in its ACA filing. Staff recommends the Company take these steps to help eliminate these types of errors in their future filings:

1) Make sure that the interest rates used in the Company's ACA computations are the rates supplied by the TRA Staff;
2) Update the Company's ACA spreadsheet monthly, using formulas contained in the spreadsheet; and
3) Check the Company's filing carefully before submitting for audit.

Staff intends to follow up with the Company to provide continued assistance where needed.

[9] 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:

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

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

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.

ATTACHMENT 1

Counce Natural Gas Corporation

Calculation of the ACA factor

Docket No. 07-00261

Line No.	Factor to be applied to residential, commercial and industrial customers:		
1	Invoiced Gas Costs (10/1/06 - 9/30/07)	$	146,010.56
2	Gas Cost Recovered (10/1/06 - 9/30/07)		134,512.35
3	Under/(Over) Recovery (line 1 minus line 2)	$	11,498.21
4	Interest on Average Monthly Balances		1,700.29
5	ACA Surcharges/(Refunds) (10/1/06 - 9/30/07)		19,002.09
6	Beginning Balance at 10/01/06		23,079.79
7	**ACA BALANCE INCLUDING INTEREST at 9/30/07 (line 3 + line 4 - line 5 + line 6)**	$	**17,276.20** **Under-Recovery**
8	Sales Volumes (Actual MCF for 12 month ended 9/30/07)		17,456
9	ACA Factor per MCF (line 7 divided by line 8)	$	**0.99**