

BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

November 3, 2008

IN RE:	)	
	)	
GASCO DISTRIBUTION SYSTEM, INC.'S	)	DOCKET NO.
ACTUAL COST ADJUSTMENT FILING FOR THE	)	08-00160
JELICO DIVISION AND THE	)	
BYRDSTOWN/FENTRESS DIVISIONS FOR	)	
THE 12-MONTH PERIOD ENDING JUNE 30, 2008	)	

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

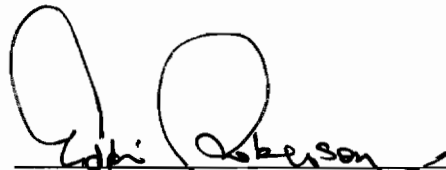
This matter came before Director Eddie Roberson, Director Sara Kyle and Director Mary W. Freeman of the Tennessee Regulatory Authority (the "Authority"), the voting panel assigned to this docket, at a regularly scheduled Authority Conference held on October 20, 2008 for consideration of the report of the Authority's Utilities Division (the "Staff") resulting from the Staff's audit of Gasco Distribution Systems, Inc.'s (the "Company") annual deferred gas cost account filing for the year ended June 30, 2008. The Actual Cost Adjustment ("ACA") Audit Report (the "Report") is attached hereto as Exhibit 1 and incorporated by this reference.

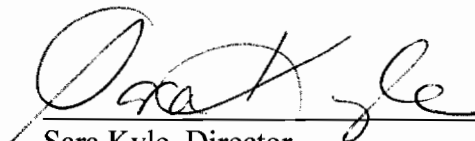
On September 25, 2008, the Staff issued its Report which revealed no findings. During the October 20, 2008 Authority Conference, the voting panel unanimously approved and adopted the Staff's Report. The panel further voted to direct the Company to file a tariff reflecting the new ACA factors set out in the Report.

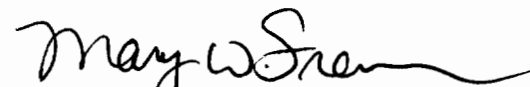
IT IS THEREFORE ORDERED THAT:

1. The Actual Cost Adjustment Audit Report of Gasco Distribution Systems, Inc.'s annual deferred gas cost account filing for the year ended June 30, 2008, a copy of which is attached to this Order as Exhibit 1, is approved and adopted.

2. Gasco Distribution Systems, Inc. shall file a tariff to become effective with the November 2008 billing reflecting the new Actual Cost Adjustment factors set out in the Audit Report.



Eddie Roberson, Director

Sara Kyle, Director

Mary W. Freeman, Director

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BEFORE THE TENNESSEE REGULATORY AUTHORITY
T.R.A. DOCKET ROOM
NASHVILLE, TENNESSEE Ⓢ

September 25, 2008

IN RE:)
)
GASCO DISTRIBUTION SYSTEMS, INC.) **Docket No. 08-00160**
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 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, 2007 to June 30, 2008.
2. The Company's ACA filing was received on September 2, 2008, and the Staff completed its audit of same on September 18, 2008.
3. The Staff's audit revealed no findings. The Report is attached hereto as Exhibit A and is fully incorporated herein by this reference.

EXHIBIT

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:


Ron Graham, Utility Consultant
Utilities Division of the
Tennessee Regulatory Authority

EXHIBIT A

COMPLIANCE AUDIT REPORT

OF

GASCO DISTRIBUTIONS SYSTEMS, INC.

ACTUAL COST ADJUSTMENT

Docket # 08-00160

PREPARED BY

TENNESSEE REGULATORY AUTHORITY

UTILITIES DIVISION

September 2008

COMPLIANCE AUDIT
GASCO DISTRIBUTIONS SYSTEMS, INC.

ACTUAL COST ADJUSTMENT

Docket # 08-00160

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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, 2008, were calculated correctly and were supported by appropriate source documentation.

II. AUDIT OPINION

The Audit Staff's ("Staff") audit resulted in no findings. Therefore, Staff concludes that 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.

III. SUMMARY OF COMPANY FILING

The Company submitted its ACA filings on September 2, 2008, covering the period July 1, 2007, to June 30, 2008. There were separate filings for the Jellico Division and the Byrdstown/Fentress Division. The Jellico Division filing reflected a net balance in its ACA account at June 30, 2008, of **positive \$19,348.89**, which represents an **under-collection** of gas costs from customers. The Byrdstown/Fentress Divisions filing reflected a net balance in its ACA account at June 30, 2008, of **positive \$7,834.83**, which represents an **under-collection** of gas costs from its customers. The tables below provide a summary of each ACA account as submitted by the Company.²

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

² The positive balances on line 9 of both the Jellico and Byrdstown/Fentress tables indicate that the Company has under-collected these amounts from its customers as of June 30, 2008. The ACA factors derived by dividing these amounts by the projected sales volumes for the next twelve (12) months will attempt to surcharge these amounts over a twelve month period. However, there are timing differences between the close of the audit period and the effective date of a new factor. 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.		<u>Amount</u>
1	Cost of gas purchased (7/1/07 to 6/30/08)	\$ 453,547.05
2	Cost of gas recovered from customers through PGA rates	<u>388,106.77</u>
3	Under/(Over) Recovery of gas costs (Line 1-Line 2)	\$ 65,440.28
4		
5	ACA surcharges/(refunds) (7/1/07 – 6/30/08)	132,453.54
6	Interest calculated on average monthly balance in account	3,025.67
7	Beginning ACA balance at 7/1/07	<u>83,336.48</u>
8		
9	Balance in ACA account at 6/30/08 (Line 3-Line 5+Line 6+Line 7)	<u>\$ 19,348.89</u>

Byrdstown/Fentress Division

Line No.		<u>Amount</u>
1	Cost of gas purchased (7/1/07 to 6/30/08)	\$ 47,551.66
2	Cost of gas recovered from customers through PGA rates	<u>40,363.95</u>
3	Under/(Over) Recovery of gas costs (Line 1-Line 2)	\$ 7,187.71
4		
5	ACA surcharges/(refunds) (7/1/07 – 6/30/08)	9,505.98
6	Interest calculated on average monthly balance in account	711.90
7	Beginning ACA balance at 7/1/07	<u>9,441.20</u>
8		
9	Balance in ACA account at 6/30/08 (Line 3-Line 5+Line 6+Line 7)	<u>\$ 7,834.83</u>

Total Company ACA Account Balance at 6/30/08 \$27,183.72

IV. BACKGROUND INFORMATION ON COMPANY

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 550 customers and an annual sales volume of approximately 50,000 MCF. In addition to Tennessee, Gasco also operates in Kentucky, Ohio, Pennsylvania, and West Virginia.

Gasco purchases the natural gas used to serve these areas from Delta Natural Gas Company, Inc., Titan Energy Group, Inc., and East Tennessee Natural Gas, LLC.

V. 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:

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.

The Utilities Division of the TRA is responsible for auditing those companies under the Authority's jurisdiction to ensure that each company is abiding by Tennessee statutes as well as the Rules and Regulations of the Authority. Ron Graham of the Utilities Division conducted this audit.

VI. DESCRIPTION OF PURCHASED GAS ADJUSTMENT (PGA) 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 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.

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 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. 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.

VIII. ACA AUDIT FINDINGS

Staff agrees with the ACA Account Balances as calculated by the Company (see Section III). Therefore, there are no findings.

IX. CONCLUSIONS AND RECOMMENDATIONS

Staff reviewed the gas costs and recoveries of Gasco Distribution Systems, Inc. for the 12-month period ended June 30, 2008. Based on the filing as shown in Section III, the **net balance** in the refund due customers account (ACA Account) as of June 30, 2008 should be a **positive \$27,183.72**. This means that as of June 30, 2008 the Company had under-collected this amount from its customers. The net balance is composed of an **under-collection from Jellico customers of \$19,348.89** and an **under-collection from Byrdstown/Fentress customers of \$7,834.83**. In order to surcharge the Jellico balance and Byrdstown/Fentress balances, the correct ACA adjustment factor to be applied to customer bills in the **Jellico Division** is a **positive \$0.4473 per MCF** (see Attachment 1), and the correct ACA adjustment factor to be applied to customer bills in the **Byrdstown/Fentress Division** is a **positive \$1.7303 per MCF** (see Attachment 2). Staff recommends that these factors be implemented beginning with the Company's **November 2008** billing and should remain in effect until the Staff's next audit, at which time new factors will be calculated. The next audit of Gasco will cover the period July 2008 through June 2009.

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 tariff 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:

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

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

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.

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 (7/1/07 - 6/30/08)	\$ 453,547.05	
2	Cost of Gas recovered from customers through PGA rates	<u>388,106.77</u>	
3	Under/(Over) Collection (Line 1 - Line 2)	\$ 65,440.28	
4	ACA surcharges/(refunds) (7/1/07 - 6/30/08)	132,453.54	
5	Interest calculated on average monthly balance in account	3,025.68	
6	Beginning balance at 6/30/07	<u>83,336.48</u>	
7	Balance in ACA account at 6/30/08 (Line 3 - Line 4 + Line 5 + Line 6)	\$ <u>19,348.90</u>	Under-Collection
8	Sales Volumes **	43,259	MCF
9	ACA Factor - surcharge/(refund) (Line 7 divided by Line 8)	\$ <u>0.4473</u>	Per MCF

** Historical sales volumes for 12 months ending 6/30/08.

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 (7/1/07 - 6/30/08)	\$ 47,551.66	
2	Cost of Gas recovered from customers through PGA rates	<u>40,363.95</u>	
3	Under/(Over) Collection (Line 1 - Line 2)	\$ 7,187.71	
4	ACA surcharges/(refunds) (7/1/07 - 6/30/08)	9,505.98	
5	Interest calculated on average monthly balance in account	711.91	
6	Beginning balance at 6/30/07	9,441.20	
7	Balance in ACA account at 6/30/08 (Line 3 - Line 4 + Line 5 + Line 6)	\$ <u>7,834.84</u>	Under-Collection
8	Sales Volumes **	4,528	MCF
9	ACA Factor - surcharge/(refund) (Line 7 divided by Line 8)	\$ <u>1.7303</u>	Per MCF

** Historical sales volumes for 12 months ending 6/30/08.