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T.R.A. DOG. ET. ROOM

BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

April 21, 2009

IN RE:)	
)	
CHATTANOOGA GAS COMPANY)	Docket No. 08-00206
ACTUAL COST ADJUSTMENT 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 (hereafter "ACA") component of the Purchased Gas Adjustment Rule for Chattanooga Gas 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 ACA audit of Chattanooga Gas Company (the "Company").
2. The Company's ACA filing was received on November 3, 2008, and the Audit Staff completed its audit of same on April 20, 2009. The original 180-day deadline for the Staff's completion of the audit was extended to May 18, 2009 by mutual consent of

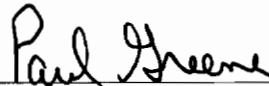
Chattanooga Gas Company and the TRA Audit Staff as provided for in the Purchased Gas Adjustment Rule 1220-4-7-.03(2).

3. There were two (2) findings during the course of the ACA audit. Neither of the findings were considered material and therefore there is no need to adjust the ACA factor put into effect January 1, 2009.

4. A final ACA audit report (hereafter the "Report") resulted therefrom. The Report is attached hereto as Exhibit A and is fully incorporated herein by this reference.

5. The Utilities Division hereby files its Report with the Tennessee Regulatory Authority for deposit as a public record.

Respectfully Submitted:

A handwritten signature in cursive script that reads "Paul Greene". The signature is written in black ink and is positioned above a horizontal line.

Paul Greene
Utilities Division of the
Tennessee Regulatory Authority

**COMPLIANCE AUDIT REPORT
of the
ACTUAL COST ADJUSTMENT COMPONENT
of the
PURCHASED GAS ADJUSTMENT RULE
for
CHATTANOOGA GAS COMPANY**

Docket No. 08-00206

Prepared by:

**THE UTILITIES DIVISION
of the
TENNESSEE REGULATORY AUTHORITY**

April 2009

EXHIBIT A

**COMPLIANCE AUDIT REPORT
of the
ACTUAL COST ADJUSTMENT COMPONENT
of the
PURCHASED GAS ADJUSTMENT RULE
for
CHATTANOOGA GAS COMPANY
for the Year ended June 30, 2008**

Docket No. 08-00206

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I. INTRODUCTION

The subject of this audit is Chattanooga Gas Company's ("Company," "Chattanooga," or "CGC") 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 VI., for the year ended June 30, 2008, are calculated correctly in accordance with all TRA rules, orders, and directives applicable to Chattanooga and are supported by appropriate source documentation.

II. AUDIT OPINION

Audit Staff's ("Staff") audit resulted in two (2) findings.¹ The net amount of these findings is **\$2,961.67 in over-recovered gas costs**. The Company's reported June 30, 2008 balance of **\$187,329.54 in under-collected** gas costs is decreased by the \$2,961.67 over-collected gas costs determined in this audit. The corrected balance in the ACA account at June 30, 2008 is **\$184,367.87 in under-recovered gas costs**. The amount of the Company's errors represent less than one percent of its total gas invoices, and is therefore immaterial by comparison.

Staff concludes that, except for the findings noted in this report, 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 Chattanooga Gas Company.

III. SUMMARY OF COMPANY FILING

The Company made its Actual Cost Adjustment filing for its Tennessee service area on November 3, 2008. This ACA filing showed \$81,749,263.17 in total gas costs, with \$78,351,753.96 being recovered from customers through rates. Adding a beginning balance in the Deferred Gas Cost account ("ACA account") of negative \$2,986,120.67 in over-recovered gas costs from the preceding ACA period and interest owed to customers for the current period of \$224,059.00 (represented as a negative number) resulted in an ACA balance at June 30, 2008 of **positive \$187,329.54 in under-recovered** gas costs. The Company's filing is summarized on the following page.

¹ Refer to Section VIII for a description of the findings.

**CHATTANOOGA GAS COMPANY
ACA FILING FOR PERIOD JULY 2007-JUNE 2008**

<u>Line</u>	
1 Beginning Balance (July 2007)	\$ (2,986,120.67)
2 Purchased Gas Costs (July 2007 – June 2008)	81,749,263.17
3 Gas Costs recovered through rates (July 2007 – June 2008)	78,351,753.96
4 Interest on monthly ACA Account balances	<u>(224,059.00)</u>
5 Ending Balance (June 2008) (Line 1 + Line 2 – Line 3 + Line 4)	<u>\$ 187,329.54</u>

A () around a number indicates a negative or credit balance in the ACA Account, which represents an over-recovery of gas costs. Over-recoveries result in a refund due to customers.

The Company filed a tariff, effective January 1, 2009, to begin surcharging the balance in the ACA account as of June 30, 2008.

IV. BACKGROUND INFORMATION ON COMPANY

Chattanooga Gas Company, located at 6125 Preservation Drive in Chattanooga, Tennessee, is a wholly owned subsidiary of AGL Resources, Inc., a holding company formed in 2000 in response to the Public Utility Holding Company Act (PUCHA) of 1935. AGL Resources, Inc. is located at Ten Peachtree Place, Atlanta, Georgia. As a local distribution company (“LDC”), Chattanooga Gas provides service to customers in Chattanooga and Cleveland, Tennessee, and environs in Hamilton and Bradley Counties in Tennessee, respectively. The natural gas used to serve these areas is purchased from various suppliers and transported via three natural gas pipelines in accordance with separate and individual tariffs approved by the Federal Energy Regulatory Commission (FERC). The three interstate pipelines are Tennessee Gas Pipeline (TGP), East Tennessee Natural Gas (ETNG), and Southern Natural Gas (SNG).

V. JURISDICTION OF THE TENNESSEE REGULATORY AUTHORITY

Tennessee law provides broad jurisdiction and control over public utilities to the Tennessee Regulatory Authority (hereafter the “Authority” or “TRA”). Tenn. Code Ann. § 65-4-104 states:

The authority 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, Tenn. Code Ann. § 65-4-105 grants the same power to the Authority with reference to all public utilities within its jurisdiction as Tenn. Code Ann., Title 65. Chapters 3 and 5 confer oversight of the railroads to the Department of Transportation or oversight of transportation companies to the Department of Safety. By virtue of Tenn. Code Ann. § 65-3-108, said power includes the right to audit:

The department of transportation 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... 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 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. Paul Greene and Ron Graham of the Utilities Division conducted this audit.

VI. 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 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 (hereafter the "ACA")**
- 2. The Gas Charge Adjustment (hereafter the "GCA")**
- 3. The Refund Adjustment (hereafter the "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 of 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.

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. At its September 11, 2001, Authority Conference, the Directors voted to approve a Performance-Based Ratemaking Mechanism for Chattanooga (Docket No. 01-00619). The mechanism affects all plan years ending after June 30, 2000, and continues each year unless terminated by the Company or the Authority. For each year that the mechanism is in effect, if CGC's total commodity gas purchases are less than 1% above the total annual benchmark, its purchases are deemed prudent and the requirements of Section 1220-4-7-.05 of the PGA Rule are waived. Staff reviewed these gas purchases as part of the Compliance Audit in Docket No. 08-00207. Staff's Audit revealed that the Company met the requirements of its tariff and recommended that the Company be released from the prudence audit.

VII. SCOPE OF ACA AUDIT

The ACA audit is a compliance audit of the Company's ACA Account. The audit goal is to verify that the Company's calculations of gas costs incurred and recovered are materially correct,² and that the Company is following all Authority rules, orders and directives with respect to its calculation of the ACA Account balance.

To accomplish the audit goal, Staff reviewed gas supply invoices, as well as supplemental schedules and other source documentation provided by Chattanooga. Where appropriate, Staff requested additional information to clarify the filing.

² 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.

VIII. ACA FINDINGS

The result of the Staff's audit was a **net over-recovery of \$2,962** which has the effect of decreasing the Company's under-recovered balance at June 30, 2008 by this amount. A summary of the account as filed by the Company and as adjusted by the Staff is shown below, followed by a detailed description of each finding.

SUMMARY OF THE ACA ACCOUNT:

	Company	Staff	Difference (Findings)
Commodity Balance at 6/30/07	\$ -3,355,519.08	\$ -3,355,519.08	\$ 0.00
Plus Gas Costs	\$70,644,269.20	\$70,641,586.53	\$ -2,682.67
Minus Recoveries	<u>69,551,830.83</u>	<u>69,551,830.83</u>	<u>0.00</u>
Ending Balance before Interest	\$ -2,263,080.71	\$ -2,265,763.38	\$ -2,682.67
Plus Interest	<u>-368,233.00</u>	<u>-368,512.00</u>	<u>-279.00</u>
Commodity Balance at 6/30/08	<u>\$ -2,631,313.71</u>	<u>\$ -2,634,275.38</u>	<u>\$ -2,961.67</u>
Demand Balance at 6/30/07	\$ 369,398.41	\$ 369,398.41	\$ 0.00
Plus Gas Costs	11,104,993.97	11,104,993.97	0.00
Minus Recoveries	<u>8,799,923.13</u>	<u>8,799,923.13</u>	<u>0.00</u>
Ending Balance before Interest	\$ 2,674,469.25	\$ 2,674,469.25	\$ 0.00
Plus Interest	<u>144,174.00</u>	<u>144,174.00</u>	<u>0.00</u>
Demand Balance at 6/30/08	<u>\$ 2,818,643.25</u>	<u>\$ 2,818,643.25</u>	<u>\$ 0.00</u>
Total ACA Ending Balance at 6/30/08	<u>\$ 187,329.54</u>	<u>\$ 184,367.87</u>	<u>\$ -2,961.67</u>

Note: A negative number indicates an over-recovery of gas costs.

SUMMARY OF FINDINGS:

FINDING #1	Uncollectible Gas Costs	\$ 2,683	Over-recovery
FINDING #2	Interest Adjustment	<u>\$ 279</u>	Over-recovery
	Net Result	<u>\$ 2,962</u>	Over-recovery

FINDING #1:

Exception

The Company overstated the amount of its uncollectible gas costs in the ACA filing.

Discussion

The Company reported total uncollected gas costs of \$422,399 in its ACA filing. This amount did not tie to the total of the uncollectible reports filed monthly with the TRA Staff, pursuant to the proposed PGA Rule.³ Staff requested that the Company reconcile this discrepancy. The amounts recorded in the ACA for five months of the audit period did not tie to original reports submitted to Staff. The Company stated that September and November 2007 were recorded incorrectly in the ACA and the reports provided to Staff were correct. The remaining differences in January through March 2008 were the result of reports revised subsequent to filing with Staff. Two of these three months had already been identified by Company staff and were reflected correctly in the ACA filing. The remaining month of February 2008 was still incorrect in the ACA. The three months of September and November 2007 and February 2008 are the basis of this finding. Correct revised monthly reports were supplied to Staff during the course of this audit.

In total, the difference between the \$422,399 reported in the ACA filing and the corrected amount of \$419,717 results in a finding of **negative \$2,683** which represents an **over-recovery** in the ACA Account. The over-collected balance in the Commodity portion of the ACA is increased by this amount.

It is apparent that the Company was aware of some or all of the revised reports at the time of filing. However, the Company failed to provide the revised reports until Staff requested them during the audit. In the future, Staff requests that the Company file any revised reports immediately with the Staff.

Company Response

The Company concurs with the Staff's findings. There was a formula error in the calculation of recovered charge-off balances resulting in an overstated uncollected gas cost for the periods of September 2007 and February 2008 totaling \$2,646.54. In November 2007 there was a collected payment of \$36.13 not reported on the ACA filing. For the next filing to be completed after July 2009 a coordinated effort will be conducted for the purpose of assuring the monthly filings will agree with the annual ACA filing.

³ "Gas Cost," as defined in the Purchased Gas Adjustment (PGA Rule), was modified to include the gas cost portion of uncollectible accounts. Proposed procedures were established whereby gas utilities can recover these amounts from other customers via the Actual Cost Adjustment (See Docket 03-00209). As part of these proposed procedures, gas utilities are required to file monthly reports detailing activity in the uncollectible accounts in a manner prescribed by the TRA Staff.

FINDING #2:

Exception

The Company overstated the amount of interest on the monthly account balance in the Commodity portion of the ACA.

Discussion

The Company calculated the total interest on monthly account balance in the Commodity portion of the ACA to be a negative \$368,233, which represents interest owed to the ratepayer. As a result of the audit, Staff calculated total interest owed to the ratepayer of \$368,512 (represented by negative number). The difference of **negative \$279** represents an **over-collection** of gas costs by the Company.

Two errors contributed to this finding. First, the WNA audit adjustment⁴ from a prior WNA audit of negative \$47,598, which was recorded in the ACA Account in July 2007, was not included in the calculation of interest for that month. The result of this error was a negative \$176. Second, the Staff recalculated interest based on the corrections identified in Finding #1. The resulting difference was a negative \$103.

Company Response

The Company concurs with the Staff's findings.

⁴ Any adjustments resulting from Staff's audit of the WNA are typically debited or credited to the ACA Account. The level of materiality of these adjustments on a per customer basis does not warrant a separate adjustment on the customer's bill and the WNA Rider does not mandate a methodology for implementing this adjustment. Material over or underrecoveries usually result from an error where the specific customers involved can be identified and a refund or surcharge can then be billed to those specific customers.

IX. STAFF AUDIT CONCLUSIONS AND RECOMMENDATIONS

As reported in the body of this report, 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 Chattanooga Gas Company. Staff's audit revealed two (2) findings for the audit period.

Going forward, Staff would like to gain greater assurance that the injections and withdrawals reported in the inventory accounts for all gas companies are properly documented by supplier invoices. **To that end, Staff recommends that the Company provide detailed explanations of selected transactions as was provided during this audit.**

Staff acknowledges and greatly appreciates the cooperation and assistance provided by the Company Staff during this audit.

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.