BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

February 10, 2009

IN RE:	)	
	)	
COUNCE NATURAL GAS COMPANY'S ACTUAL COST ADJUSTMENT FILING FOR THE 12-MONTH PERIOD ENDING SEPTEMBER 30, 2008	)))	**DOCKET NO. 08-00217**

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

This matter came before Chairman 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 January 26, 2009 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 ("Counce" or the "Company") annual deferred gas cost account filing for the year ended September 30, 2008. The Actual Cost Adjustment ("ACA") Compliance Audit Report (the "Report"), attached hereto as Exhibit A and incorporated by this reference, contains one audit finding by the Staff, the response thereto of the Company, and the recommendations of the Staff to the Company.

The Company submitted its ACA filing on November 20, 2008. On December 18, 2008, the Staff completed its audit of the Company's filing. On December 18, 2008, Staff issued preliminary ACA audit findings to the Company and the Company responded to the findings on January 5, 2009. On January 8, 2009, the Staff issued its Report. The Report contains one finding made by Staff which totaled a net over-recovery of $7,908.62; the Company agreed with the finding. Correcting this error results in a September 30, 20078 ACA actual balance of $7,388.12 in under-recovered gas costs.

The Company agreed to apply the ACA adjustment factor of a positive $0.42 (surcharge) per 1,000 cubic feet (MCF) as of its January 2009 customer billings and continue until the completion of the Staff's next audit in order to begin collecting the under-recovered gas costs at the correct rate as soon as possible. After consideration of the Report, the voting panel unanimously approved and adopted the finding and recommendations contained therein, including directing the Company to file a tariff to reflect the change to the ACA adjustment factor.

IT IS THEREFORE ORDERED THAT:

The Actual Cost Adjustment Compliance Audit Report relative to Counce Natural Gas Company's gas costs for the year ended September 30, 2008, a copy of which is attached to this Order as Exhibit A, is approved and adopted, and the finding and recommendations contained therein are incorporated in this Order as if fully rewritten herein.

Eddie Roberson, Chairman

Sara Kyle, Director

Mary W. Freeman, Director

BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

January 8, 2009

IN RE:	)
	)
COUNCE NATURAL GAS COMPANY	**) Docket No. 08-00217**
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, 2007 through September 30, 2008.

2. The Company's ACA filing was received on November 20, 2008, and the Compliance Audit Staff ("Staff") completed its audit of same on December 18, 2008.

3. On December 18, 2008, the Staff issued its preliminary ACA audit findings to the Company, and on January 5, 2009, the Company responded thereto.

Exhibit A

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 8th day of January 2009, 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:

Tre Hargett
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 #08-00217

PREPARED BY THE

TENNESSEE REGULATORY AUTHORITY

THE UTILITIES DIVISION

January 2009

COUNCE NATURAL GAS COMPANY

COMPLIANCE AUDIT REPORT OF ACTUAL COST ADJUSTMENT FILING

DOCKET NO. 08-00217

TABLE OF CONTENTS

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

II. AUDIT OPINION

On November 20, 2008, Audit Staff ("Staff") received Counce's ACA filing supporting the activity in its deferred gas cost account ("ACA Account") for the period October 1, 2007 through September 30, 2008. For the period under audit, this ACA filing showed $167,761.67 in total gas costs, with $178,478.66[2] being recovered from customers through rates. Adding a beginning balance in the ACA account of **positive** $17,276.20 in under-collected gas costs from the preceding ACA period and interest due from customers for the current period of $828.91[3] resulted in a reported ACA balance at September 30, 2008 of **positive $7,388.12 in over-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 10/01/07	$ 1,858.58	$ 17,276.20	$15,417.62
2	**Activity During Current Period:**			
3	Plus Gas Costs	$167,761.67	$167,761.67	$0
4	Minus ACA Recoveries	$19,452.45	$19,680.84	$228.39
5	Minus PGA Recoveries	$135,178.51	$158,797.82	$23,619.31
6	Ending Balance before Interest (line 1 + line 3 – line 4 – line 5)	$14,989.29	$6,559.21	($8,430.08)
7	Plus Interest	$307.45	$828.91	$521.46

[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 09/30/08 (line 6 + line 7)**	**$15,296.74**	**$7,388.12**	**($7,908.62)**

Staff's audit resulted in one (1) finding.[5] The result of the Staff's audit was a **net over-recovery of $7,908.62,** which had the net effect of decreasing 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, in 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

[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 billing rates are correct.

VII. ACA AUDIT FINDINGS

The result of the Staff's audit was a **net over-recovery of $ 7,908.62,** which had the net effect of **decreasing** the Company's reported **under-recovery (positive) ending balance of $15,296.74** in the ACA Account by this amount. See Section II of the report for a Summary of the ACA Account showing a comparison of the Company's filing and Staff's audit results. See a summary of the findings below, followed by a detailed description of each finding.

SUMMARY OF FINDINGS:

FINDING #1	Reporting Errors	**$7,908.62**	Over-recovery

[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.

FINDING #1:

Exception

Counce over-stated the ending balance in the ACA Account at September 30, 2008.

Discussion

By reviewing the Company's customer billing each month, Staff determined that Counce correctly billed its customers during the period under audit. It used the base rates, PGA rates and ACA rates contained in its tariff. However, in the calculation of the ending balance in the ACA Account at September 30, 2008, Counce incorrectly stated the beginning balance, used incorrect ACA factors, used incorrect PGA factors, incorrectly stated interest rates, and used incorrect sales volumes in calculating the PGA recoveries. In addition, Counce made other Excel spreadsheet errors, such as changing formulas to hard coded numbers leading to using incorrect numbers in some instances.

Recognizing that the majority of the errors were made in the presentation of the data needed to calculate the ending balance, Staff recalculated the Company's ending balance using the correct billing rates (which Counce used to correctly bill its customers) and correcting spreadsheet errors to arrive at a restated ending balance of $15,296.74.

The difference between the Company's stated $15,296.74 in under-recovered gas costs and Staff's audit results of $7,388.12 in under-recovered gas costs is a **negative $7,908.62, which represents a reported over-recovery of gas costs** for the period. This variance was due to the Company using an incorrect beginning balance in the ACA Account at October 1, 2007, using different sales volumes to calculate the ACA and PGA recoveries, and using incorrect interest rates.

Company Response

The company used the wrong numbers in filling out the ACA report. We will correct this problem. The company will meet with the PSC staff to insure that the problem is corrected.

VIII. CONCLUSIONS AND RECOMMENDATIONS

The corrected balance in the ACA account as of September 30, 2008 is a **positive $7,388.12 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 $7,388.12 balance over the 12 month-to-date September 2008 sales of 17,441 MCF produces an **ACA adjustment factor of a positive $0.42 (surcharge) per MCF.**[8] 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 finding was 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 or arrange for a meeting with TRA Staff to review report preparation prior to filing.

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

[8] 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.