

RECEIVED

2010 JAN -8 AM 11:35

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

**January 7, 2010**

**IN RE:**

**COUNCE NATURAL GAS COMPANY  
ACTUAL COST ADJUSTMENT (ACA) AUDIT**

)  
)  
) **Docket No. 09-00192**  
)

---

**NOTICE OF FILING BY THE UTILITIES DIVISION OF THE TENNESSEE  
REGULATORY AUTHORITY**

---

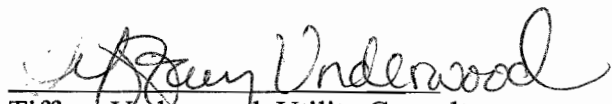
Pursuant to Tenn. Code Ann. §§ 65-4-104, 65-4-111 and 65-3-108, the Utilities Division of the Tennessee Regulatory Authority hereby gives notice of its filing of the Compliance Audit Report of the Actual Cost Adjustment ("ACA") Component of the Purchased Gas Adjustment Rule ("PGA Rule") for Counce Natural 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, 2008 through September 30, 2009.
2. The Company's ACA filing was received on December 3, 2009, and the Compliance Audit Staff ("Staff") completed its audit of same on December 17, 2009.
3. On January 4, 2010, the Staff issued its preliminary ACA audit findings to the Company, and on January 4, 2010 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:

  
Tiffany Underwood, Utility Consultant  
Utilities Division  
Tennessee Regulatory Authority

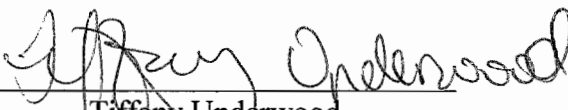
### **CERTIFICATE OF SERVICE**

I hereby certify that on this 7th day of January 2010, 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:

Sara Kyle  
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

Mr. Terry Buckner  
Office of the Attorney General  
Consumer Advocate and Protection Division  
P. O. Box 20207  
Nashville, TN 37202

  
\_\_\_\_\_  
Tiffany Underwood

**EXHIBIT A**

**COMPLIANCE AUDIT REPORT**

**OF**

**COUNCE NATURAL GAS COMPANY**

**ACTUAL COST ADJUSTMENT**

**DOCKET No. 09-00192**

**PREPARED BY THE**

**TENNESSEE REGULATORY AUTHORITY**

**THE UTILITIES DIVISION**

**January 2010**

**COUNCE NATURAL GAS COMPANY**  
**COMPLIANCE AUDIT REPORT OF**  
**ACTUAL COST ADJUSTMENT FILING**  
**DOCKET NO. 09-00192**

TABLE OF CONTENTS

	<u>PAGE NO.</u>
I. INTRODUCTION	1
II. AUDIT OPINION	1
III. SUMMARY OF COMPANY FILING	1
IV. BACKGROUND INFORMATION ON COMPANY AND GAS SUPPLIERS	2
V. JURISDICTION OF THE TENNESSEE REGULATORY AUTHORITY	3
VI. DESCRIPTION OF PURCHASED GAS ADJUSTMENT RULE	3
VII. SCOPE OF ACTUAL COST ADJUSTMENT AUDIT	4
VIII. ACA AUDIT FINDINGS	5
IX. CONCLUSIONS AND RECOMMENDATIONS	7
APPENDIX A - <u>PGA FORMULA</u>	8
ATTACHMENT 1 (CALCULATION OF ACA FACTOR)	

## **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<sup>1</sup> ("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")<sup>2</sup>, for the twelve (12) months ended September 30, 2009, were calculated correctly and were supported by appropriate source documentation.

## **II. AUDIT OPINION**

Staff reviewed the Company's filing and the underlying documentation. In calculating the interest expense on the monthly balances and the ending balance in the ACA Account, the Company had spreadsheet formula errors.<sup>3</sup> Counce, however, correctly billed its customers during the audit period, reported the correct amount of invoiced gas costs, and reported the correct amount of dollars recovered from customers through the rates billed. For this reason, Staff concludes that except for the finding 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. SUMMARY OF COMPANY FILING**

On December 3, 2009, Audit Staff ("Staff") received Counce's ACA filing supporting the activity in its deferred gas cost account ("ACA Account") for the period October 1, 2008 through September 30, 2009. For the period under audit, the Company's ACA filing showed a positive beginning balance of \$7,388.12, \$119,600.70 in total gas costs, \$117,460.72<sup>4</sup> in recoveries from customers and \$44.61 in interest due from customers. resulting in a reported ACA balance at September 30, 2009 of \$9,572.71. *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.*

---

<sup>1</sup> TRA Rule 1220-4-7.

<sup>2</sup> The ACA is more fully described in Section VI.

<sup>3</sup> Refer to Section IX for Staff recommendations to correct these types of errors in future filings.

<sup>4</sup> This amount includes PGA adjustment recoveries and ACA adjustment recoveries.

**SUMMARY OF THE ACA ACCOUNT:<sup>5</sup>**

Line No.		Company (as filed)	Staff (as corrected)	Difference (Findings)
1	Beginning Balance at 10/01/08	\$ 7,388.12	\$ 7,388.12	\$0
2	<b><u>Activity During Current Period:</u></b>			
3	Plus Gas Costs	119,600.70	119,600.70	0
4	Minus ACA Recoveries	10,654.56	10,654.56	0
5	Minus PGA Recoveries	<u>106,806.16</u>	<u>106,806.16</u>	<u>0</u>
6	Ending Balance before Interest (line 1 + line 3 – line 4 – line 5)	9,528.10	9528.10	0
7	Plus Interest	<u>44.61</u>	<u>373.64</u>	<u>329.03</u>
8	<b>Ending Balance Including Interest at 09/30/09 (line 6 + line 7)</b>	<b><u>\$9,572.71</u></b>	<b><u>\$9,901.74</u></b>	<b><u>\$329.03</u></b>

Staff's audit resulted in one (1) finding.<sup>6</sup> The result of the Staff's audit was a **net under-recovery of \$329.03**, which had the net effect of increasing the Company's under-recovered (positive) balance in the ACA account by this amount.

**IV. 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.

<sup>5</sup> 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.

<sup>6</sup> Refer to Section VIII for a description of the findings.

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.

## **V. JURISDICTION OF THE TENNESSEE REGULATORY AUTHORITY**

Tennessee Code Annotated (T.C.A.) gives jurisdiction and control over public utilities to the Tennessee Regulatory Authority. T.C.A. §65-4-104 states:

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.

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 energy, water and communications utilities under its jurisdiction to ensure that each company is abiding by Tennessee statute as well as the Rules and Regulations of the Authority. Tiffany Underwood of the Utilities Division conducted this audit.

## **VI. DESCRIPTION OF PURCHASED GAS ADJUSTMENT RULE**

The PGA Rule is located at 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) and related interest 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. The RA refunds the "true-up" along with other supplier refunds. For a more complete definition of the GCA and RA, refer to 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].

## **VII. SCOPE OF ACTUAL COST ADJUSTMENT AUDIT**

The ACA audit is a limited compliance audit of Counce's deferred gas cost account. The objective of the audit is to verify that the Company's calculations of gas costs incurred and recovered were materially correct,<sup>7</sup> 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 III, Summary of Company Filing.

---

<sup>7</sup> 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.

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 audit period. After sampling Company bills, Staff determined that the Company's billing rates appear to be correct.

**VIII. ACA AUDIT FINDINGS**

The result of Staff's audit was a **net under-recovery of \$329.03**, which had the net effect of **increasing** the Company's reported **under-recovered (positive) ending balance of \$9,572.71** in the ACA Account, resulting in the corrected ending balance at September 30, 2009 of **\$9,901.74**. See Section III of the report for a Summary of the ACA Account showing a comparison of the Company's filing and Staff's audit results.

**SUMMARY OF FINDING:**

FINDING #1	Interest Errors	<b>\$329.03</b>	Under-recovery
------------	-----------------	-----------------	----------------

## **FINDING #1:**

### **Exception**

Counce under-stated the amount of monthly interest due from customers, resulting in an under-statement of the ending balance in the ACA account at September 30, 2009.

### **Discussion**

The Company used incorrect interest rates for the first and second quarters of 2009. The interest rates should have been 4.52% and 3.37% respectively, as opposed to 3.37% and 3.25% utilized by the Company. Additionally, the Company added the interest rates (converting them to dollars) to the ending balances each month of the ACA period instead of calculating the correct interest expense based on the quarterly interest rates. The combined effect of these errors is an **under-recovery of \$329.03**. The effect of this finding changes the ending balance from \$9,572.71 under-recovery as calculated by the Company to a corrected ending balance at September 30, 2009 of \$9,901.74 in under-recovered gas costs.

### **Company Response**

**The company agrees with the finding.**

## **IX. CONCLUSIONS AND RECOMMENDATIONS**

The corrected balance in the ACA account as of September 30, 2009 is a **positive \$9,901.74 in under-recovered (under-collected) gas costs.**<sup>8</sup> Staff's calculation of this balance is shown in **the Summary of the ACA Account in Section III.** Spreading the positive \$9,901.74 balance over the 12 month-to-date September 2009 sales of 17,483 MCF produces an **ACA adjustment factor of a positive \$0.57 (surcharge) per MCF.**<sup>9</sup> 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 2010 customer billings, and continue until the completion of the Staff's next audit.

The finding was a result of errors in the calculation of interest expense by the Company 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 agrees to follow up with the Company to provide continued assistance where needed.

---

<sup>8</sup> Company is directed to use this corrected balance as the beginning balance for the October 2009-September 2010 filing.

<sup>9</sup> 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. 09-00192

<b>Line No.</b>	<b>Factor to be applied to residential, commercial and industrial customers:</b>	
1	Invoiced Gas Costs (10/1/08 - 9/30/09)	\$ 119,600.70
2	Gas Cost Recovered (10/1/08 - 9/30/09)	<u>106,806.16</u>
3	Under/(Over) Recovery (line 1 minus line 2)	\$ 12,794.54
4	Interest on Average Monthly Balances	373.64
5	ACA Surcharges/(Refunds) (10/1/08 - 9/30/09)	10,654.56
6	Beginning Balance at 10/01/08	<u>7,388.12</u>
7	<b>ACA BALANCE INCLUDING INTEREST at 9/30/09 (line 3 + line 4 - line 5 + line 6)</b>	<b>\$ <u>9,901.74</u> Under-Recovery</b>
8	Sales Volumes (Actual MCF for 12 month ended 9/30/09)	17,483
9	ACA Factor per MCF (line 7 divided by line 8)	<b>\$ <u>0.56636</u></b>