

**BEFORE THE TENNESSEE REGULATORY AUTHORITY**

**NASHVILLE, TENNESSEE**

**March 28, 2013**

<b>IN RE:</b>	)	
	)	
<b>CHATTANOOGA GAS COMPANY</b>	)	<b>Docket No. 12-00105</b>
<b>ACTUAL COST ADJUSTMENT AUDIT</b>	)	

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

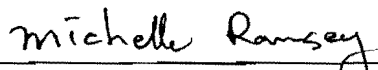
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Pursuant to Tenn. Code Ann. §§65-4-104, 65-4-111 and 65-3-108, the Utilities Division of the Tennessee Regulatory Authority hereby gives notice of its filing of the Compliance Audit Report ("Report") of the Actual Cost Adjustment (hereafter "ACA") component of the Purchased Gas Adjustment Rule for Chattanooga Gas Company (hereafter 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 July 2011 through June 2012.
2. The Company's ACA filing was received on September 12, 2012, and the Audit Staff completed its audit of same on March 26, 2013. There were no material audit findings.
3. The original 180-day deadline for the Staff's completion of the audit was extended to April 30, 2013 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).

4. The Utilities Division hereby files its Report, attached as Exhibit A, with the Tennessee Regulatory Authority for deposit as a public record and approval of the Report and recommendations contained therein.

Respectfully Submitted:

  
Michelle Ramsey, Audit Manager  
Utilities Division of the  
Tennessee Regulatory Authority

**CERTIFICATE OF SERVICE**

I hereby certify that on this 28th day of March 2013, 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:

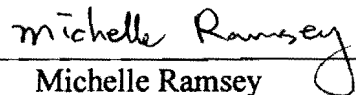
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**COMPLIANCE AUDIT REPORT  
of the  
ACTUAL COST ADJUSTMENT COMPONENT  
of the  
PURCHASED GAS ADJUSTMENT RULE  
for  
CHATTANOOGA GAS COMPANY**

**Docket No. 12-00105**

**Prepared by:**

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

**March 2013**

**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, 2012**

**Docket No. 12-00105**

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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 twelve months ended June 30, 2012, 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**

On September 12, 2012, the TRA Audit Staff (hereafter "Staff") received CGC's ACA filing supporting the activity in its Deferred Gas Cost Account ("ACA Account") for the period July 1, 2011 through June 30, 2012. After reviewing the Company's filing, Staff found no material errors.<sup>1</sup> Staff concludes that CGC is correctly implementing its Purchased Gas Adjustment Rider as calculated in the Actual Cost Adjustment, in accordance with TRA rules for Chattanooga Gas Company.

## **III. 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 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).

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<sup>1</sup> Refer to Section VIII for a description of the findings.

#### **IV. 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. Michelle Ramsey and Patsy Fulton of the Utilities Division conducted this audit.

#### **V. 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. 12-00106 which was approved by the Authority on December 17, 2012. Staff's Audit revealed that the Company met the requirements of its tariff and recommended that the Company be released from the prudence audit.

## **VI. SCOPE OF ACTUAL COST ADJUSTMENT 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,<sup>2</sup> and that the Company is following all Authority rules, orders and directives with respect to its calculation of the ACA Account balance. On September 12, 2012 the Company filed a PGA<sup>3</sup> to change the ACA factor to begin refunding the unaudited balance in the ACA Account at June 30, 2012, effective November 1, 2012.

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<sup>2</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.

<sup>3</sup> Tariff Filing No. 2012-0322.

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.

## VII. ACA FINDINGS

This ACA filing showed \$36,873,317.05 in total gas costs, with \$35,824,093.97 being recovered from customers through rates. Adding a beginning balance in the ACA Account of negative \$4,446,232.30 in over-recovered gas costs from the preceding ACA period and interest owed to customers for the current period of \$107,298.00 (represented as a negative number) resulted in an ACA balance at June 30, 2012 of **negative \$3,504,307.22 in over-recovered** gas costs.

Staff agrees with the ACA Account balances as calculated by the Company. Therefore, there are no findings. A summary of the account as filed by the Company is shown below.

### SUMMARY OF THE ACA ACCOUNT:

	<u>Company</u>
Commodity Balance at 6/30/11	(\$4,089,039.89)
Plus Gas Costs	23,538,734.53
Minus Recoveries	<u>24,031,927.71</u>
Ending Balance before Interest	(\$4,582,233.07)
Plus Interest	<u>(144,035.00)</u>
Commodity Balance at 6/30/12	<u><u>(\$4,726,268.07)</u></u>
 Demand Balance at 6/30/11	 (\$357,192.41)
Plus Gas Costs	13,334,582.52
Minus Recoveries	<u>11,792,166.26</u>
Ending Balance before Interest	\$1,185,223.85
Plus Interest	<u>36,737.00</u>
Demand Balance at 6/30/12	\$1,221,960.85
Total ACA Ending Balance at 6/30/12	<u><u>(\$3,504,307.22)</u></u>

Note: 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.

## **VIII. STAFF AUDIT CONCLUSIONS AND RECOMMENDATIONS**

Staff reviewed the gas costs and recoveries of Chattanooga Gas Company for the 12-month period ended June 30, 2012. 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 CGC. Based on the Company's filing, the net balance in the ACA Account as of June 30, 2012 was a negative \$3,504,307.22. This means that as of June 30, 2012 the Company had over-collected this amount from its customers. This balance will become the beginning balance at July 1, 2012 in the Company's next ACA filing. **Staff recommends approval of the Company's ACA Account balances.**

## 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.