

BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

June 18, 2015

| | | |
|-------------------------------------|---|----------------------------|
| IN RE: |) | |
| |) | |
| CHATTANOOGA GAS COMPANY |) | Docket No. 14-00084 |
| 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 ("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 2013 through June 2014.
2. The Company's ACA filing was received on August 29, 2014, and the Audit Staff completed its audit of same on June 15, 2015. The original 180-day deadline for the Staff's completion of the audit was extended to April 26, 2015 and again to June 30, 2015 by mutual consent of Company and the TRA Audit Staff as provided for in the Purchased Gas Adjustment Rule 1220-4-7-.03(2).

3. On June 16, 2015 the Utilities Division submitted its preliminary ACA audit findings to the Company via e-mail. The Company responded on June 18, 2015 via e-mail and the responses have been incorporated into the final report. The Report is attached hereto as Exhibit A and is fully incorporated herein by this reference.

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:



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

CERTIFICATE OF SERVICE

I hereby certify that on this 18th day of June 2015, 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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Michelle Ramsey

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

Docket No. 14-00084

Prepared by:

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

June 2015

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, 2014**

Docket No. 14-00084

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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, 2014, 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 three (3) findings.¹ The net amount of these findings is \$2,744.96 in under-recovered gas costs. The Company's reported June 30, 2014 balance of negative \$4,214,307.53 in over-collected gas costs is decreased by the \$2,744.96 under-collected gas costs determined in this audit. The corrected balance in the ACA account at June 30, 2014 is negative \$4,211,562.57 in over-recovered gas costs. These findings represent less than one percent of its total gas invoices, and are 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 ACA filing showed \$51,216,477.28 in total gas costs, with \$48,938,538.01 being recovered from customers through rates. Adding a beginning balance in the Deferred Gas Cost Account ("ACA Account") of negative \$6,351,700.80 in over-recovered gas costs from the preceding ACA period and interest owed to customers for the current period of \$140,546.00 (represented as a negative number) resulted in an ACA balance at June 30, 2014 of negative \$4,214,307.53 in over-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 2013-JUNE 2014

Line

| | | |
|---|---|-------------------------|
| 1 | Beginning Balance (July 2013) | (\$6,351,700.80) |
| 2 | Plus Purchased Gas Costs | 51,216,477.28 |
| 3 | Minus Gas Costs recovered through rates | 48,938,538.01 |
| 4 | Plus Interest on monthly balances | <u>(140,546.00)</u> |
| 5 | Ending Balance (June 2014) (Line 1 + Line 2 – Line 3 + Line 4) | <u>(\$4,214,307.53)</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.

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 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. Michelle Ramsey and Patsy Fulton 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. 14-00083, which was approved by the Authority on April 20, 2015. 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 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,² and that the Company is following all Authority rules, orders and directives with respect to its calculation of the ACA Account balance. On August 27, 2014 the Company filed a PGA³ to change the ACA factor to begin refunding the unaudited balance in the ACA Account at June 30, 2014, effective October 1, 2014.

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.

³ Tariff Filing No. 2014-0124.

VIII. ACA FINDINGS

The result of the Staff's audit was a net **under-recovery of \$2,744.96** which has the effect of decreasing the Company's over-recovered balance at June 30, 2014 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 6/30/13 | (\$2,463,747.69) | (\$2,463,747.69) | \$ 0.00 |
| Plus Gas Costs | 35,548,826.14 | 35,551,553.10 | 2,726.96 |
| Minus Recoveries | <u>35,791,474.20</u> | <u>35,791,474.20</u> | <u>0.00</u> |
| Ending Balance before Interest | (\$706,395.75) | (\$703,668.79) | \$2,726.96 |
| Plus Interest | <u>(25,908.00)</u> | <u>(25,890.00)</u> | <u>18.00</u> |
| Commodity Balance at 6/30/14 | <u>(\$732,303.75)</u> | <u>(\$729,558.79)</u> | <u>\$2,744.96</u> |
| | | | |
| Demand Balance at 6/30/13 | (\$3,887,953.11) | (\$3,887,953.11) | \$ 0.00 |
| Plus Gas Costs | 13,667,651.14 | 13,667,651.14 | 0.00 |
| Minus Recoveries | <u>13,147,063.81</u> | <u>13,147,063.81</u> | <u>0.00</u> |
| Ending Balance before Interest | (\$3,367,365.78) | (\$3,367,365.78) | \$ 0.00 |
| Plus Interest | <u>(114,638.00)</u> | <u>(114,638.00)</u> | <u>0.00</u> |
| Demand Balance at 6/30/14 | (\$3,482,003.78) | (\$3,482,003.78) | \$ 0.00 |
| Total ACA Ending Balance at 6/30/14 | <u>(\$4,214,307.53)</u> | <u>(\$4,211,562.57)</u> | <u>\$2,744.96</u> |

Note: The negative Ending Balance number indicates an over-recovery of gas costs.

SUMMARY OF FINDINGS:

| | | | <u>See page</u> |
|------------|----------------------------------|---------------------------|-----------------------|
| FINDING #1 | WNA audit adjustment | \$2,708.96 | Under-recovery 6 |
| FINDING #2 | Prior Period Interest Adjustment | 18.00 | Under-recovery 7 |
| FINDING #3 | Interest-Commodity | <u>18.00</u> | Under-recovery 8 |
| | Net Result | <u>\$ 2,744.96</u> | Under-recovery |

FINDING #1

Exception

The Company did not include the prior year's WNA audit adjustment in the ACA Account.

Discussion

The Company did not record the Finding #1 from the Company's WNA audit for the period November 1, 2013 through April 30, 2014 (Docket No. 14-00064). This Finding was an under-collection in WNA revenues due to the use of incorrect actual heating degree days in April 2014 in the calculation of the WNA factors. This under-collection was considered immaterial in amount and the Report's recommendation was that it be added to the next Company ACA filing with the Authority. The Company concurred with this recommendation. Therefore, Staff made this adjustment in the ACA Account. The result of this error is an increase of **\$2,708.96 (under-recovery)** in the ACA Commodity gas costs.

Company Response

The company agrees.

FINDING #2

Exception

The Company incorrectly included a Prior Period Interest adjustment in the ACA Account.

Discussion

In WNA audit Docket No. 13-00091, Audit Staff reported two (2) Findings and recommended the associated amounts be added to the next Company ACA filing with the Authority. The Company concurred with this recommendation. However the Company recorded these adjustments incorrectly in the 2012-2013 ACA (Docket No.13-00125). Therefore, the Company corrected these in the current ACA filing. In addition the Company included an Interest adjustment for each of these prior period adjustments. While the Company calculated a (\$18.00) Commodity interest adjustment and a \$208.00 Demand interest adjustment, it included only the Commodity interest adjustment in the ACA balance calculation.

Audit Staff's position has always been that additional interest cannot be added for prior period adjustments. Prior period adjustments are added to the ACA Account balance in the month recorded and become part of the monthly balance on which interest is calculated in accordance with the PGA Rule.

The result of this error is an increase of **\$18.00 (under-recovery)** in the ACA Commodity gas costs.

Company Response

The company agrees.

FINDING #3

Exception

The Company overstated the amount of interest due to customers in the Commodity component of the ACA filing.

Discussion

Staff recalculated interest based upon the results of the audit findings above. The result of this finding is a decrease to the reported interest **due to customers of \$18.00 (under-recovery)**.

Company Response

The company agrees.

IX. STAFF AUDIT CONCLUSIONS AND RECOMMENDATIONS

Staff reviewed the gas costs and recoveries of Chattanooga Gas Company for the 12-month period ended June 30, 2014. 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. Staff's audit revealed three (3) findings for the audit period with which the Company concurs. Based on the Company's filing and the audit adjustments by Staff, the net balance in the ACA Account as of June 30, 2014 was a negative \$4,211,562.57. This means that as of June 30, 2014 the Company had over-collected this amount from its customers. This balance will become the beginning balance at July 1, 2014 in the Company's next ACA filing. **Staff recommends approval of the Company's adjusted 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.