BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

September 25, 2015

IN RE:	)	
	)	**DOCKET NO.**
ACTUAL COST ADJUSTMENT FILING FOR	)	**15-00040**
THE NAVITAS TN NG, LLC JELLICO AND	)	
BYRDSTOWN SYSTEMS	)	

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

This matter came before Chairman Herbert H. Hilliard, Director Kenneth C. Hill, and Director Robin Bennett of the Tennessee Regulatory Authority (the "Authority" or "TRA"), the voting panel assigned to this Docket, at a regularly scheduled Authority Conference held on September 14, 2015, for consideration of the report of the Authority's Utilities Division (the "Staff") resulting from the Staff's audit of Navitas TN NG, LLC's ("Navitas" or the "Company") annual deferred gas cost account filing for the year ended December 31, 2014. The Actual Cost Adjustment ("ACA") Compliance Audit Report (the "Report"), attached hereto as Exhibit 1 and incorporated by this reference, contains the audit finding of the Staff and the response thereto of the Company.

Navitas submitted its ACA filing on April 1, 2015. On August 19, 2015, the Staff completed its audit of the Company's filing. On September 1, 2015, the Staff filed its Report in this docket. The objective of the audit was to determine whether the purchased gas adjustments within the ACA and approved by the TRA for the twelve (12) months ended December 31, 2014, were calculated correctly and were supported by appropriate source documentation.

The Report contains one (1) non-monetary finding, and Navitas concurred with the finding. The Staff determined that the net balance in the ACA Account is a positive $30,266.35

for the Jellico Division and a positive $44,978.87 for the Byrdstown/Fentress Division, representing an under-collection of these amounts from customers.

Based upon the Company filing and except for the finding noted, the Staff concluded that the Purchased Gas Adjustment mechanism as calculated in the ACA appears to be working properly and in accordance with the TRA Rules in all material respects. After consideration of the Report, the voting panel unanimously approved and adopted the Report filed September 1, 2015, including the conclusions and recommendations contained therein. The panel further ordered Navitas to continue calculating separate ACA Account balances for its Jellico and Byrdstown/Fentress Divisions and to file a tariff within thirty (30) days to begin collecting the approved balances in the ACA Accounts.

IT IS THEREFORE ORDERED THAT:

1. The Actual Cost Adjustment Compliance Audit Report of Navitas TN NG, LLC's gas costs for the twelve months ended December 31, 2014, a copy of which is attached to this Order as Exhibit 1, is approved and adopted, and the conclusions and recommendations contained therein are incorporated in this Order as if fully rewritten herein.

2. Navitas TN NG, LLC shall continue calculating separate ACA Account balances for its Jellico and Byrdstown/Fentress Divisions.

3. Navitas TN NG, LLC shall file a tariff within thirty (30) days to begin collecting the approved balances in its ACA Accounts.

Chairman Herbert H. Hilliard, Director Kenneth C. Hill, and Director Robin Bennett concur.

ATTEST:

Earl Taylor

Earl R. Taylor, Executive Director

EXHIBIT 1

COMPLIANCE AUDIT

NAVITAS TN NG, LLC.

ACTUAL COST ADJUSTMENT

Docket # 15-00040

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I. INTRODUCTION

The subject of this audit is Navitas TN NG, LLC.'s ("Navitas" or "Company") compliance with the Actual Cost Adjustment ("ACA") and Refund Adjustment ("RA") of the Purchased Gas Adjustment Rule ("PGA Rule") of the Tennessee Regulatory Authority ("TRA" or "Authority").[1] The objective of the audit was to determine whether the purchased gas adjustments, which are encompassed by the ACA, and approved by the TRA for the twelve (12) months ended December 31, 2014, were calculated correctly and were supported by appropriate source documentation.

II. AUDIT OPINION

Audit Staff's ("Staff") audit resulted in **one (1) non-monetary finding.**[2] Except for the findings mentioned above, 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 Navitas TN NG, LLC.

III. SUMMARY OF COMPANY FILING

The Company submitted its ACA filings on April 1, 2015, covering the period January 1, 2014 to December 31, 2014. There were separate filings for the Jellico Division and the Byrdstown/Fentress Division. The Jellico Division filing reflected a net balance in its ACA account at December 31, 2014, of **positive $30,266.35**, which represents an **under-collection** of gas costs from customers. The Brydstown/Fentress Division filing reflected a net balance in its ACA account at December 31, 2014, of **positive $44,978.87**, which represents an **under-collection** of gas costs from its customers. The tables below provide a summary of each ACA account as submitted by the Company.[3]

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[1] See TRA Rule 1220-4-7. The ACA is more fully described in Section VI.

[2] Refer to Section VIII for a description of the findings.

[3] The positive ending balances of Navitas's Jellico and Byrdstown/Fentress ACA accounts indicate that the Company has under-collected these amounts from its customers as of December 31, 2014. The ACA factors are derived for each division by dividing these amounts by the projected sales volumes for the next twelve (12) months in an attempt to surcharge these amounts over a twelve month period. See Attachment 1 and Attachment 2. However, there are timing differences between the close of the audit period and the effective date of a new factor. There is always regulatory lag inherent in the true-up process. Larger companies are capable of calculating ACA factors and implementing them immediately, prior to audit. However, the smaller companies are encouraged to await the results of the Staff's audit before implementing an ACA factor.

SUMMARY OF THE ACA ACCOUNTS[4]

Jellico Division

Line No.		Company (as filed)
1	Beginning Balance at 1/1/14	$4,638.67
2	**Activity During Current Period:**	
3	Plus Purchased Gas Costs	248,939.44
4	Minus Gas Costs Recovered	225,145.52
5	Plus Interest	1,833.76
6	**Ending Balance Including Interest at 12/31/14**	$30,266.35

Byrdstown/Fentress Division

Line No.		Company (as filed)
1	Beginning Balance at 1/1/14	$25,067.10
2	**Activity During Current Period:**	
3	Plus Purchased Gas Costs	119,941.03
4	Minus Gas Costs Recovered	101,751.66
5	Plus Interest	1,722.40
6	**Ending Balance Including Interest at 12/31/14**	$44,978.87

IV. BACKGROUND INFORMATION ON COMPANY

Navitas TN NG, LLC (local distribution company), with its local office located at 613 Sunset Trail, Jellico, Tennessee, is a wholly owned subsidiary of Navitas Assets, LLC (parent company), which has its headquarters at 3186-D Airway Ave., Costa Mesa, California. On December 20, 2010, Navitas was awarded its Certificate of Public Convenience and Necessity (CCN) when the Authority voted unanimously to approve the transfer of control and authority from Gasco Distribution Systems ("Gasco") to Navitas.[5]

[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.

[5] In Re: *Joint Petition of Navitas TN NG LLC and Gasco Distribution Systems, Inc. for Approval of Transfer of Control and Authority of Gasco Distribution Systems, Inc.*, Docket No. 10-00220, TRA Order (December 30, 2010).

Navitas is a natural gas distributor, which provides service to approximately 564 customers[6] in the City of Jellico (Campbell County), City of Byrdstown (Pickett County) and a few customers in Fentress County, all of which are located in northeast Tennessee. In addition to Tennessee, the parent company also operates in Oklahoma, Kentucky and Ohio. Navitas purchases the natural gas used to serve these areas from Delgasco, Inc, Petrol Energy, LLC, and B&W Pipeline. Navitas uses B&W Pipeline and Spectra Energy, Inc. to transport the gas.

V. JURISDICTION AND POWER OF THE TENNESSEE REGULATORY AUTHORITY

Tennessee Code Annotated (T.C.A.) §65-4-104 gave jurisdiction and control over public utilities to the Tennessee Public Service Commission. By virtue of Chapter 305 of the Public Acts of 1995, jurisdiction and control over public utilities was transferred from the Tennessee Public Service Commission to the Tennessee Regulatory Authority (the "TRA" or "Authority") on July 01, 1996. T.C.A. §65-4-104 states that:

> The Authority shall have general supervision and regulation of, jurisdiction, and control over, all public utilities...

T.C.A. states further in §65-4-111 that the public utilities are to maintain a Uniform System of Accounts:

> The Authority shall have the power after hearing, upon notice, by order in writing to require every public utility... to keep its books, records, and accounts so as to afford an intelligent understanding of the conduct of its business, and to that end to require every public utility of the same class to adopt a uniform system of accounting. Such system shall conform, where applicable to any system adopted or approved by the Interstate Commerce Commission of the United States. And to furnish annually, or at other times as the Authority may require, a detailed report of finances and operations as shown by said system of accounts.

The TRA responded to T.C.A. §65-4-111 by establishing its own rule 1220-4-1-.11 regarding the uniform system of accounts which public utilities should maintain. The TRA's rule provides:

> The following uniform system of accounting will be followed by utilities and other companies making periodic reports to the Authority:

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[6] Annual Report period ending December 31, 2014.

1. For Classes A and B gas companies - Uniform System of Accounts as adopted by the National Association of Regulatory Utility Commissioners as revised June 30, 1972, and any amendments or revisions pertaining thereto.

The TRA received its authority to examine the books and records of public utilities from T.C.A. §65-4-105 which states that the TRA would possess all the other powers conferred on the TRA. T.C.A. §65-3-108 gives the TRA:

> full power to examine the books and papers of the said companies, and to examine, under oath, the officers, agents, and employees of said companies...to procure the necessary information to intelligently and justly discharge their 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. Tiffany Underwood of the Utilities Division conducted this audit.

VI. DESCRIPTION OF PURCHASED GAS ADJUSTMENT (PGA) 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 (ACA)**
2) **The Gas Charge Adjustment (GCA)**
3) **The Refund Adjustment (RA)**

The ACA is the difference between the revenues billed to customers by means of the GCA and the cost of gas invoiced to 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 the customer 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.

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 AUDIT

To accomplish the audit objective, the Staff conducted in-house audit work, during which the Company's calculations of gas costs incurred and gas costs recovered were examined. The Staff also audited a sample of customer bills to determine if the proper PGA rates and ACA rates were being applied in the Company's calculation of the customers' bills. These bills were selected to be representative of the residential, commercial and industrial customers in each of the Company's service areas. The sample was selected from all twelve months of the audit period. Staff found billing errors for Jellico and Byrdstown-Fentress customers for October and November of 2014. A description of the errors can be found in Section VIII (Finding 1).

VIII. ACA FINDINGS

The ACA filing showed $368,880.47 in total gas costs, with $326,897.18 already recovered from customers through rates. Adding the beginning balance in the ACA Account of $29,705.77 in under-recovered gas costs from the preceding ACA period and interest owed from customers for the current period of $3,556.16 to the difference between gas costs and gas recoveries, results in an ACA balance at December 31, 2014 of **$75,245.22** in **under-recovered** gas costs.[7]

Staff agrees with the ACA balances as calculated by the Company. Therefore, there are no monetary findings. However, Staff's audit found one (1) nonmonetary finding. A summary of the ACA account as filed by the Company is shown below.

SUMMARY OF THE ACA ACCOUNT:**

Line		Navitas Combined Filing
1	Beginning Balance at 1/1/2014	$ 29,705.77
2	Plus Purchased Gas Costs	368,880.47
3	Minus Gas Costs Recovered	326,897.18
4	Plus Interest	3,556.16
5	Ending Balance at 12/31/2014	$ 75,245.22

**A number in ( ) is a negative or credit balance which represents an over-collection of gas costs.

SUMMARY OF FINDINGS:

FINDING #1	Billing Errors	No $$ Effect

[7] The ending balance is made up of $30,266.35 for the Jellico Division and $44,978.87 for the Byrdstown/Fentress Division.

FINDING #1:

Exception

The Company billed its Jellico and Byrdstown-Fentress customers rates that are not supported by its tariffs.

Discussion

For October and November 2014, Navitas inadvertently omitted the ACA rates in the Company's billing system for its Jellico and Byrdstown-Fentress customers. The Company should have billed an ACA factor of $0.0093 per CCF for its Jellico Division and $0.2517 per CCF for its Byrdstown-Fentress Division, during these months.

Although Navitas billed incorrect rates instead of the TRA approved tariff rates for the months indicated, the calculation of the Ending Balances in the Actual Cost Adjustment Accounts is based on gas costs *actually paid* versus gas costs *actually recovered.* Staff verified the Company used the actual rates billed as verified in the sample bill audits to calculate the Ending Balances of the ACA. Therefore, this is a nonmonetary finding.

While discovery of incorrect billing rates does not result in a monetary adjustment to the ACA Account, it is a violation of its tariff, which Navitas is admonished not to repeat going forward.

Company Response

The company agrees with this finding and regrets undercharging the customers.

IX. CONCLUSIONS AND RECOMMENDATIONS

Staff reviewed the gas costs and recoveries of Navitas TN NG, LLC. for the twelve (12) month period ended December 31, 2014. Based on the filing as shown in Section VIII, the **net balance** in the surcharge due customers account (ACA Account) as of December 31, 2014 should be a **positive $30,266.35 for the Jellico Division and a positive $44,978.87 for the Byrdstown/Fentress Division.** This means that as of December 31, 2014 the Company had under-collected these amounts from its Jellico and Byrdstown/Fentress customers.

In order to recover the Jellico and the Byrdstown/Fentress balances, the correct ACA adjustment factor to be applied to customer bills in the **Jellico Division** is a **positive $0.0646 per CCF** (see Attachment 1), and the correct ACA adjustment factor to be applied to customer bills in the **Byrdstown/Fentress Division** is a **positive $0.3754 per CCF** (see Attachment 2).

Staff recommends that these factors be implemented beginning with the Company's October 2015 billing and should stay in effect until new factors are calculated and approved in Navitas' next ACA filing covering the period January 1, 2015 through December 31, 2015.

In the cover letter of the Company's audit filing dated March 30, 2015, Navitas requested that it be allowed to combine the Jellico and Byrdstown ACA balances and move forward with one ACA adjustment for both divisions in the future. This request is the same request that Navitas made in the Company's preious ACA filing in Docket No. 14-00021.

Navitas states that the Company has had frequent customer complaints about the bills being too high in Byrdstown-Fentress and that combining the two ACA accounts would spread the total costs across Navitas's entire system. If the ACA for both divisions is combined, however, the rate change for Byrdstown customers' bills would be smaller because they would be subsidized by the Jellico Division customers.

After reviewing the Company's request, Staff opines that the Company's request is not reasonable and fair to Jellico customers. **The Jellico and Byrdstown-Fentress Divisions are operated like two separate companies, with different vendors, cost and customer sales volumes. Further, the gas costs for the Byrdstown-Fentress Division is more uncertain now than last year as a result of a rate case filed by B &W Pipeline.[8] It is unfair to the Jellico customers to pay for gas costs that do not serve their area. Jellico customers also should not pay for increased gas costs where they receive no benefits. Staff opines that it is more critical for the Company to file separate ACA balances than it was last year, especially with the uncertainty in gas costs for the Byrdstown-Fentress Division. Therefore, Staff recommends that the Company continue to file ACA adjustments separately and maintain separate ACA Accounts for each division.**

[8] *In Re: Petition of B&W Pipeline, LLC for an Increase in Rates,* Docket No. 15-00042.

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.

Attachment 1

Navitas TN NG, LLC
Calculation of the ACA Factor
(for Jellico customers)

Line No.	Factor to be applied to residential, commercial and industrial customers:			
1	Beginning Balance at 1/1/14	$	4,638.67	
2	Plus Purchased Gas Costs		248,939.44	
3	Minus Gas Costs Recovered		225,145.52	
4	Plus Interest		1,833.76	
5	Ending Balance Including Interest at 12/31/14	$	**30,266.35**	
6	Sales Volumes **		468,594	CCF
7	**ACA Factor - surcharge/(refund)** (Line 5 divided by Line 6)	$	**0.0646**	**Per CCF**

** Historical sales volumes for 12 months ending 12/31/14.

Attachment 2

Navitas TN NG, LLC
Calculation of the ACA Factor
(for Byrdstown/Fentress customers)

Line No.	**Factor to be applied to residential, commercial and industrial customers:**			
1	Beginning Balance at 1/1/14	$	25,067.10	
2	Purchased Gas Costs		119,941.03	
3	Gas Costs Recovered		101,751.66	
4	Plus Interest		1,722.40	
5	Ending Balance Including Interest at 12/31/14		**44,978.87**	
6	Sales Volumes **		119,801	CCF
7	**ACA Factor - surcharge/(refund)** (Line 5 divided by Line 6)	**$**	**0.3754**	**Per CCF**

** Historical sales volumes for 12 months ending 12/31/14.