

**BEFORE THE TENNESSEE REGULATORY AUTHORITY**

**NASHVILLE, TENNESSEE**

**April 21, 2016**

<b>IN RE:</b>	)	
	)	
<b>ATMOS ENERGY CORPORATION TENNESSEE</b>	)	<b>DOCKET NO. 15-00082</b>
<b>AND UNION CITY, TENNESSEE 2014-2015 ACA</b>	)	
<b>FILING</b>	)	

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**ORDER APPROVING COMPLIANCE AUDIT REPORT OF  
TENNESSEE REGULATORY AUTHORITY'S UTILITIES DIVISION**

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This matter came before Vice Chairman David F. Jones, Director Kenneth C. Hill and Director Robin L. Morrison of the Tennessee Regulatory Authority ("TRA" or the "Authority"), the voting panel assigned to this docket, at a regularly scheduled Authority Conference held on April 15, 2016, for consideration of the Actual Cost Adjustment ("ACA") Audit filing for Atmos Energy Corporation ("Atmos" or the "Company") for the twelve (12) months ended June 30, 2015. The Compliance Audit Report ("ACA Report" or "Report"), attached hereto as Exhibit 1, and incorporated into this document as if fully rewritten herein, contains the conclusions and recommendations of the Authority's Utilities Division Staff ("Staff").

On September 4, 2015, Atmos submitted its annual report of the transactions in its ACA Account for Union City, Tennessee and its ACA Account for all other Tennessee towns for the period of July 1, 2014 through June 30, 2015. On February 10, 2016, the Company and Staff mutually agreed to extend the Authority's 180 day notification deadline found in TRA Rule

1220-4-7-.03(2) to April 30, 2016.<sup>1</sup> Staff completed its audit of the Company's filing on March 31, 2016, and filed its ACA Report with the Authority on April 4, 2016.

The Report found that despite one immaterial finding, the Company's Purchased Gas Adjustment mechanism, as calculated in the ACA, appears to be working properly and in accordance with TRA rules.<sup>2</sup> The Report contained the following immaterial audit finding:

1. The Company overstated the amount of interest due to customers in the ACA filing.<sup>3</sup>

The result of this finding was an overstatement of \$133.85 due to customers for the Union City, Tennessee filing, representing an over-recovery of gas costs.<sup>4</sup> The Report found that the dollar amount of this finding is not material when compared with total amount of gas costs.<sup>5</sup> Atmos agreed with this finding and made the appropriate adjustment to its Union City, Tennessee ACA account beginning balance for the twelve months ending June 30, 2016.<sup>6</sup> Based on the Company's filing and this audit adjustment, the total ACA balance for the two accounts beginning June 30, 2015 is an over-collection from customers in the amount of \$6,719,134.04.<sup>7</sup> The net balance is composed of a total over-collection from Union City customers of \$242,636.29 and a total over-collection from customers in all other Tennessee towns of \$6,476,497.75.<sup>8</sup>

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<sup>1</sup> *Memorandum*, p. 2 (February 10, 2016).

<sup>2</sup> *ACA Report*, Exhibit A to *Notice of Filing by the Utilities Division of the Tennessee Regulatory Authority*, p. 7 (April 4, 2016).

<sup>3</sup> *Id.* at 6.

<sup>4</sup> *Id.*

<sup>5</sup> *Id.* at 1.

<sup>6</sup> *Id.* at 6.

<sup>7</sup> *Id.* at 7.

<sup>8</sup> *Id.*

**IT IS THEREFORE ORDERED THAT:**

At the regularly scheduled Authority Conference held on April 15, 2016, the panel considered the Company's ACA filing and Staff's ACA Report. The Compliance Audit Report of Atmos Energy Corporation's Actual Cost Adjustment Account filing for the twelve (12) months ended June 30, 2015, a copy of which is attached to this Order as Exhibit 1, is approved and adopted, and it is incorporated in this Order as if fully rewritten herein.

**Vice Chairman David F. Jones, Director Kenneth C. Hill and Director Robin L. Morrison concur.**

**ATTEST:**

A handwritten signature in cursive script, appearing to read "Earl Taylor", written in black ink.

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**Earl R. Taylor, Executive Director**

# **EXHIBIT 1**

**BEFORE THE TENNESSEE REGULATORY AUTHORITY**

**NASHVILLE, TENNESSEE**

**April 4, 2016**

**IN RE:** )  
 )  
**ATMOS ENERGY CORPORATION** ) **Docket No. 15-00082**  
**ACTUAL COST ADJUSTMENT ("ACA") AUDIT** )

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

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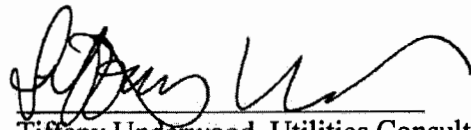
Pursuant to Tenn. Code Ann. §§65-4-104, 65-4-111 and 65-3-108, the Utilities Division of the Tennessee Regulatory Authority ("Authority") hereby gives notice of its filing of the Compliance Audit Report of the Actual Cost Adjustment Audit (hereafter "ACA") component of the Purchased Gas Adjustment Rule for Atmos Energy Corporation (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 1, 2014 through June 30, 2015.
2. The Company's ACA filing was received on September 4, 2015, and the Staff completed its audit of same on March 31, 2016. The original 180-day deadline for the Staff's completion of the audit was extended to April 30, 2016 by mutual consent of Atmos Energy Corporation and the TRA Audit Staff as provided for in the Purchased Gas Adjustment Rule 1220-4-7-.03(2).

3. On April 4, 2016, the Utilities Division submitted its preliminary ACA audit findings to the Company via e-mail. The Company responded on April 4, 2016 via e-mail and this response has 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:

A handwritten signature in black ink, appearing to read 'Tiffany Underwood', is written over a horizontal line.

Tiffany Underwood, Utilities Consultant  
Utilities Division of the  
Tennessee Regulatory Authority

**CERTIFICATE OF SERVICE**

I hereby certify that on this 4th day of April, 2016, 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:

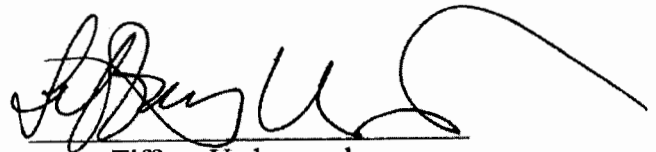
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Tiffany Underwood

**COMPLIANCE AUDIT REPORT**  
**OF**  
**ATMOS ENERGY CORPORATION**  
**ACTUAL COST ADJUSTMENT**  
**DOCKET NO. 15-00082**

**PREPARED BY**  
**TENNESSEE REGULATORY AUTHORITY**  
**UTILITIES DIVISION**

**April 2016**

**EXHIBIT A**



COMPLIANCE AUDIT  
**ATMOS ENERGY CORPORATION**  
**ACTUAL COST ADJUSTMENT**  
**DOCKET NO. 15-00082**  
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## **I. INTRODUCTION**

The subject of this audit is Atmos Energy Corporation's ("Company" or "Atmos") 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 IV, for the year ended June 30, 2015 are calculated correctly and are supported by appropriate source documentation.

## **II. AUDIT OPINION**

The Audit Staff ("Staff") concludes that, except for the finding noted in Section VIII, 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 Atmos Energy Corporation. The amount of the findings contained herein is not material with respect to the total gas costs.

## **III. SUMMARY OF COMPANY FILING**

The Company filed its annual report of the transactions in the Deferred Gas Costs Account ("ACA Account") for its Tennessee service areas on September 4, 2015. This ACA filing showed \$76,804,101.38 in total gas costs, with \$85,437,598.40 being recovered from customers through rates. Adding a beginning balance in the ACA account of \$1,847,334.76 in net under-recovered gas costs from the preceding ACA period and interest due from customers for the current period of \$67,162.07 resulted in an ACA Account balance at June 30, 2015 of \$6,719,000.19 in over-recovered gas costs.<sup>1</sup>

### **ATMOS ENERGY CORPORATION SUMMARY OF ACA FILING FOR PERIOD JULY 2014-JUNE 2015**

<u>Line</u>		<u>Union City</u>	<u>Other TN Towns</u>	<u>Total</u>
1	Beginning Balance (July 2014)	\$278,512.30	\$1,568,822.46	\$1,847,334.76
2	Purchased Gas Costs	1,772,120.06	75,031,981.32	76,804,101.38
3	Gas Costs recovered through rates	2,300,028.74	83,137,569.66	85,437,598.40
4	Interest on monthly balances	<u>6,893.94</u>	<u>60,268.13</u>	<u>67,162.07</u>
5	Ending Balance (June 2015) (Line 1 + Line 2 – Line 3 + Line 4)	<u>(\$242,502.44)</u>	<u>(\$6,476,497.75)</u>	<u>(\$6,719,000.19)</u>

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

<sup>1</sup> The filing was comprised individually of a \$242,502.44 over-recovered balance in the Union City service area and a \$6,476,497.75 over-recovered balance in the remaining Tennessee towns service area.

The Company began a refund to its Union City customers and customers in other Tennessee service areas on October 1, 2015, to distribute the balances in the ACA accounts as of June 30, 2015.<sup>2</sup> Staff's finding resulting from this audit is described in detail in Section VIII of this report.

#### **IV. 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 a gas company to recover, in a timely manner, 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 Rule 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 "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.

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].

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<sup>2</sup> Tariff Filing No. 2015-0154 for ETN and 2015-0153 for Union City.

## **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. In Docket 97-01364, Atmos Energy was authorized to operate under a Performance-Based Ratemaking Mechanism (“PBR”), beginning April 1, 1999, and continuing each year unless terminated by the Company or the Authority. For each year that the mechanism is in effect, the requirements of Section 1220-4-7-.05 of the PGA Rule is waived.

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

The ACA audit is a limited 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 were materially correct,<sup>3</sup> and that the Company is following all Authority orders and directives with respect to its calculation of the ACA Account balance. Also included in this audit is the Company’s PGA filing implementing a net refund of the ACA Account balance, effective October 1, 2015. Refer to the ACA Account detail provided in Section III, Summary of Company Filing.

To accomplish the audit goal, Audit Staff reviewed gas supply invoices, as well as supplemental schedules and other source documentation provided by Atmos. Where appropriate, Staff requested additional information to clarify the filing.

## **VI. BACKGROUND INFORMATION ON COMPANY AND GAS SUPPLIERS**

Atmos Energy Corporation, with its corporate headquarters located in Dallas, Texas, has its local offices in Franklin, Tennessee. On October 4, 2002, the Company filed tariffs to officially change its name from United Cities Gas Company to Atmos Energy Corporation. Atmos is a multi-state gas distributor, providing service to customers in twelve cities and surrounding areas in Tennessee. The natural gas used to serve these areas is purchased from four natural gas pipelines in accordance with separate and individual tariffs approved by the Federal Energy Regulatory Commission (FERC). The interstate pipelines are Tennessee Gas Pipeline (TGP), East Tennessee Natural Gas (ETNG), Texas Gas Transmission Corporation (TGTC), and Texas Eastern Transmission Corporation (TETC).

TGP and ETNG provide service to east Tennessee towns, which include Columbia, Shelbyville, Maryville, Morristown, Elizabethton, Greeneville, Johnson City, Kingsport, Bristol and adjacent areas in Maury, Bedford, Moore, Blount, Hamblen, Sullivan, Carter, Washington, and Greene Counties.

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<sup>3</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.

TETC provides service to Atmos in Murfreesboro and Franklin and adjacent areas in Rutherford and Williamson Counties. TGTC provides service to Atmos in Union City and adjacent areas in Obion County.

Atmos' gas Commodity requirements were met under a contract between Atmos and its affiliate Atmos Energy Marketing (AEM) approved by the Authority in Docket No. 14-00009 and in Docket No. 15-00009. Asset Management fees are shared with ratepayers according to the terms of the contract as a credit to the ACA Account.

## **VII. 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 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 TRA's Utilities Division is responsible for auditing those gas, electric, and water companies 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.

## VIII. ACA FINDINGS

Staff's audit findings totaled a **net over-recovery of \$133.85**. This amount results from the net total of one (1) finding and represents an increase to the Company's reported over-recovered amount of \$6,719,000.19. The finding added to the Company's calculated balance results in a **net ending balance in the ACA account of \$6,719,134.04 in over-recovered gas costs.**<sup>4</sup> A summary of the ACA account as filed by the Company and as adjusted by the Staff is shown below, followed by a description of the findings.

### SUMMARY OF THE ACA ACCOUNT\*\*:

<u>Line</u>		<u>Atmos Combined Filing</u>	<u>Staff Audit Results</u>	<u>Difference (Findings)</u>
1	Adj. Beginning Balance (July 2014)	\$1,847,334.76	\$1,847,334.76	\$0.00
2	Purchased Gas Costs	76,804,101.38	76,804,101.38	0.00
3	Gas Costs recovered through rates	85,437,598.40	85,437,598.40	0.00
4	Interest on monthly balances	<u>67,162.07</u>	<u>67,028.22</u>	<u>(133.85)</u>
5	Ending Balance (June 2015) (Line 1 + Line 2 – Line 3 + Line 4)	<u>(\$6,719,000.19)</u>	<u>(\$6,719,134.04)</u>	<u>(\$133.85)</u>

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

### SUMMARY OF FINDINGS:

			<u>See page</u>
FINDING #1	Interest-Union City	<u>(\$133.85)</u>	Over-recovery 6
	<b>Net Result</b>	<b><u>(\$133.85)</u></b>	<b>Over-recovery</b>

<sup>4</sup> The ending balance is made up of \$242,636.29 over-recovery for the Union City filing and \$6,476,497.75 over-recovery for the ETN filing.

## **FINDING #1:**

### **Exception**

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

### **Discussion**

For the months of July 2014, April 2015 and May 2015, the Company erroneously used an incorrect “Assumed Liability Price” to calculate Imbalance Activities for the “**Union City**” filing.

To calculate the July 2014 “Assumed Liability Price”, the Company used a two month weighted average calculation of September and October of 2014, instead of a three month weighted average calculation using August to October of 2014. The effect of this error did not change the total Texas Gas Imbalance Commodity Costs included in the ACA, but the error did affect the monthly imbalance activity for July 2014 and August 2014, which changed the monthly interest calculation.

In April 2015, the Company began operating under a new Asset Management Agreement, which contained a discount for Union City. The Company began applying this discount to its “Assumed Liability Price” in June 2015, but should have included the discount in its calculation of the “Assumed Liability Price” for April and May of 2015, which was when the Asset Management Agreement became effective. The effect of this error did not change the total Texas Gas Imbalance Commodity Costs included in the ACA, but the error did affect the monthly imbalance activity for April through June 2015, which changed the monthly interest calculation.

Staff recalculated total interest based on the corrected monthly imbalance activity. The result of this finding was an **overstatement of \$133.85 interest due to customers** for the “**Union City**” filing, **representing an over-recovery of gas costs.**

### **Company Response**

Atmos Energy agrees with this finding and has made the appropriate adjustment to the 2015 2016 beginning Commodity balance for Union City.

## **IX. STAFF CONCLUSIONS AND RECOMMENDATIONS**

Staff reviewed the gas costs and recoveries of Atmos Energy Corporation for the 12-month period ended June 30, 2015. 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 Atmos. Staff's audit procedures revealed one finding reported in Section VIII, 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, 2015 was **negative \$6,719,134.04**. This means that as of June 30, 2015 the Company had over-collected this amount from its customers. The net balance is composed of a **total over-collection from Union City customers of \$242,636.29** and a **total over-collection from customers in Other Tennessee towns of \$6,476,497.75**. 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.