



BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

December 28, 2015

IN RE:)
)
COUNCE NATURAL GAS COMPANY) **Docket No. 15-00103**
ACTUAL COST ADJUSTMENT (ACA) 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 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, 2014 through September 30, 2015.
2. The Company's ACA filing was received on November 4, 2015, and the Compliance Audit Staff ("Staff") completed its audit of same on December 17, 2015.
3. On December 17, 2015, the Utilities Division submitted its preliminary ACA audit findings to the Company via e-mail. The Company responded on December 18, 2015 via e-mail and this response has been incorporated into the final report.

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:



Patsy Fulton, Utility Rate Specialist IV
Utilities Division
Tennessee Regulatory Authority

CERTIFICATE OF SERVICE

I hereby certify that on this 28th day of December 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:

Herbert Hilliard
Chairman
Tennessee Regulatory Authority
502 Deaderick Street, 4th Floor
Nashville, TN 37243

Mr. Mike Horton, President
Counce Natural Gas Company
P.O. Box 385
Burnsville, MS 38833

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



Patsy Fulton

EXHIBIT A

COMPLIANCE AUDIT REPORT

OF

COUNCE NATURAL GAS COMPANY

ACTUAL COST ADJUSTMENT

Docket No. 15-00103

PREPARED BY THE

TENNESSEE REGULATORY AUTHORITY

UTILITIES DIVISION

December 28, 2015

COUNCE NATURAL GAS COMPANY
**COMPLIANCE AUDIT REPORT OF
ACTUAL COST ADJUSTMENT FILING**
DOCKET NO. 15-00103

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	11
APPENDIX A - <u>PGA FORMULA</u>	13
ATTACHMENT 1 (CALCULATION OF ACA FACTOR)	16

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 Rule¹ ("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")², for the twelve (12) months ended September 30, 2015, were calculated correctly and were supported by appropriate source documentation.

II. AUDIT OPINION

Audit Staff ("Staff") reviewed the Company's ACA filing and the underlying documentation supporting its calculation of the ending balance of the ACA account. Staff's review using a random sampling of bills determined that customers were billed without error during the period October 1, 2014 thru September 30, 2015; however, the audit resulted in four (4) findings, described in Section VIII, which taken as a whole represent a material departure from acceptable reporting practices. For this reason, Staff cannot provide assurance that Counce is correctly reporting 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.

To correct these deficiencies going forward, Staff provides its recommendations to the Company in Section IX, Conclusions and Recommendations.

III. SUMMARY OF COMPANY FILING

On November 4, 2015, Staff received Counce's ACA filing supporting the activity in its deferred gas cost account ("ACA Account") for the period October 1, 2014 through September 30, 2015. For the period under review, the Company's ACA filing showed a negative beginning balance of (\$23,245.24) in over-collected gas costs from the prior ACA period, \$69,322.52 in total gas costs for the current period, \$64,681.71³ recovered from customers through rates and \$686.08 in interest due to customers, resulting in a reported negative ACA balance at September 30, 2015 of (\$19,290.51) in over-collected gas costs.

¹ TRA Rule 1220-4-7.

² The ACA is more fully described in Section VI.

³ This amount includes PGA adjustment recoveries and ACA adjustment recoveries.

**COUNCE NATURAL GAS COMPANY
ACA FILING OCTOBER 2014 TO SEPTEMBER 2015:⁴**

Line No.		Company (as filed)
1	Beginning Balance at 10/01/14	\$ (23,245.24)
2	<u>Activity During Current Period:</u>	
3	Plus Gas Costs	69,322.52
4	Minus ACA Recoveries (refund)	(2,269.80)
5	Minus PGA Recoveries (surcharge)	<u>66,951.51</u>
6	Ending Balance before Interest (line 1 + line 3 – line 4 – line 5)	(18,604.43)
7	Plus Interest	<u>(686.08)</u>
8	Ending Balance Including Interest at 09/30/15 (line 6 + line 7)	<u>(\$19,290.51)</u>

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 No. 95-03379. In October 2000, ownership of Tumlinson Engineering, Inc. was transferred from Ted Tumlinson to Mike Horton.

The natural gas used to serve this area is purchased from Horton Enterprises, Inc (an affiliate), which is owned by Mike Horton. Horton Enterprises, Inc operates as a reseller of gas from Atmos Energy Marketing.

⁴ A negative balance in the ACA Account represents an over-collection (or over-recovery) of gas costs; a positive balance represents an under-collection (or under-recovery) of gas costs.

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. Patsy Fulton and Pat Murphy 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) surcharges the "true-up" along with other supplier refunds. For a

more complete definition of the GCA and RA, refer to the PGA Formula attached as 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 ("ACA Account"). The objective of the audit is to verify that the Company's calculations of gas costs incurred and recovered were materially correct,⁵ 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, (Counce's ACA filing for October 2014 to September 2015).

To accomplish the audit goal, Staff reviewed gas supply invoices, copies of the Company's canceled checks, 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.

⁵ 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.

VIII. ACA FINDINGS

Staff's audit findings totaled a **net under-collection of \$4,472.62**. This amount is the net total of three (3) findings and represents a decrease of the Company's reported over-collected amount. The findings, when added to the Company's calculated balance, results in a net ending balance in the ACA Account of a **negative \$14,817.89 in over-collected gas costs**. 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. In addition, Counce is in violation of the Authority's Order filed in Docket 14-00157, resulting in Finding # 4.

SUMMARY OF THE ACA ACCOUNT: **

****A Negative balance in the ACA Account represents an over-collection of gas costs.**

Line No.		Company (as filed)	Staff (as adjusted)	Difference (Findings)
1	Beginning Balance at 9/30/14	(\$23,245.24)	(\$23,245.24)	0
2	<u>Activity During Current Period:</u>			
	Plus:			
3	Gas Costs	69,322.52	69,322.52	0
	Minus:			
4	ACA Recoveries	(2,269.80)	(8,455.58)	(6,185.78)
5	PGA Recoveries	<u>66,951.51</u>	<u>68,766.38</u>	<u>1,814.87</u>
6	Ending Balance before Interest (line 1 + line 3 – line 4 – line 5)	(18,604.43)	(14,233.52)	4,370.91
	Plus:			
7	Interest	<u>(686.08)</u>	<u>(584.37)</u>	<u>101.71</u>
8	Ending Balance Including Interest at 09/30/15 (line 6 + line 7)	<u>(\$19,290.51)</u>	<u>(\$14,817.89)</u>	<u>\$4,472.62</u>

SUMMARY OF FINDINGS:

FINDING #1	ACA Recoveries	6,185.78	Under-Collection
FINDING #2	PGA Recoveries	1,814.87	Over-collection
FINDING #3	Interest	101.71	Under-collection
FINDING #4	Order Violation	<u> </u>	No Monetary Value

Net Result**\$ 4,472.62 Under-collection**

FINDING #1:

Exception

The Company overstated its ACA recoveries.

Discussion

The ACA recoveries are calculated by multiplying the monthly sales volumes by the ACA rates actually billed by the Company. In calculating its ACA recoveries, even though the Company billed the correct TRA approved tariff rate of (\$0.42) per MCF October 2014 thru May 2015, it reported incorrect ACA rates of \$0.50 for October 2014; \$0.51 for November 2014 and \$0.00 for December 2014 thru May 2015. In addition, the Company reported incorrect sales volumes of 1486 MCF for the month of March 2015 instead of 1543 MCF. This resulted in the Company overstating the ACA recoveries by \$6,185.78 in its calculation of the ending balance in its ACA Account.

The above error represents a **\$6,185.78 under-collection** of gas costs.

Company Response

The Company agrees to findings.

FINDING #2:

Exception

The Company understated its PGA Recoveries.

Discussion

The PGA (or gas cost) recoveries are calculated by multiplying the monthly sales volumes by the PGA rates actually billed by the Company. From October 2014 to September 2015, the Company billed the correct TRA approved PGA rates; however, Counce reported incorrect rates in its ACA filing for each month of the reporting period (as shown in the table below). In addition, the Company reported incorrect sales volumes for the month of March 2015 of 1486 MCF instead of 1543 MCF. This resulted in the Company understating the Gas Cost Recoveries by \$1,814.87.

<u>Month</u>	<u>Billed PGA Rate</u>	<u>Reported PGA Rate</u>	<u>Tariffed PGA Rate</u>
Oct-14	\$5.57	\$4.91	\$5.57
Nov-14	4.88	4.61	4.88
Dec-14	4.88	4.82	4.88
Jan-15	4.88	4.92	4.88
Feb-15	4.88	4.41	4.88
Mar-15	4.88	4.73	4.88
Apr-15	4.88	5.33	4.88
May-15	4.88	5.27	4.88
Jun-15	4.88	4.73	4.88
Jul-15	4.88	4.81	4.88
Aug-15	4.88	4.82	4.88
Sep-15	4.88	4.75	4.88

This reporting error represents a \$1,814.47 **over-collection** of gas costs.

Company Response

The Company agrees to findings.

FINDING # 3:

Exception

The Company overstated the amount of interest due to customers for the review period.

Discussion

Staff recalculated interest based upon Audit Findings Nos. 1 and 2. This resulted in a decrease of reported interest due to customers of \$101.71, which represents an under-collection of gas costs.

Company Response

The Company agrees to findings.

FINDING #: 4

Exception

Order Violation

Discussion

The Order in Docket number 14-00157 directed Counce Natural Gas Company to send a summary of its Actual Cost Adjustment (ACA) Account electronically to Authority Staff on a quarterly basis for review. Counce failed to comply with the Authority's Order during the entire review period.

Company Response

The Company agrees to findings, we will monitor and file quarterly from here on.

IX. CONCLUSIONS AND RECOMMENDATIONS

The Staff corrected balance in the ACA Account as of September 30, 2015 is a **negative \$14,817.89 in over-collected (over-recovered) gas costs.**⁶ This balance will be used as the beginning balance for the October 2015 – September 2016 ACA filing. Spreading the negative \$14,817.89 balance over the 12 month-to-date September 2015 sales of 13,999 MCF produces an **ACA adjustment factor**⁷ of **negative \$1.06 (refund) per MCF.**⁸

During the audit, Staff found that Counce had billed the correct TRA approved PGA and ACA tariff rates; however Staff found numerous reporting errors.

The Actual Cost Adjustment is the difference between the **actual** invoiced gas costs paid by the utility and the **actual** gas costs recovered (or collected) by the utility from its customers via their approved tariff rates. In the case of Counce, this utility appears to not understand that the recovery rates to be reported on the ACA Account annual reporting schedule are to be the **actual** rates that the utility billed to its customers each month. During this review period, Staff found the reporting of rates for nearly every month had no relationship to the actual rates billed by the utility. There should never be a difference between the rates reported and the rates billed. Therefore, ideally, there should never be a finding related to reporting errors. Staff has found, however, that this has been a repeated finding for Counce. It was noted in the last audit also (Docket No. 14-00157), which led to the Authority ordering the Company to send a summary of its ACA Account electronically to the Authority Staff quarterly for review (see Finding #4). As noted in Finding #4, Counce did not comply with this directive during the entire review period.

Recommendations

To help ensure that Counce bills and reports the correct rates and complies with its tariff on a going-forward basis, Staff makes and requests approval by the TRA of the following recommendations:

1. Counce is directed to file as soon as possible a PGA tariff to implement its new ACA rate and to continue billing this ACA rate until the completion of Staff's next audit;
2. Counce is directed to file its billing rates for the period with Staff prior to billing its customers;
3. Counce is directed to send its ACA summary electronically to Staff on a quarterly basis for review;⁹ no later than the following dates: January 30, 2016 for quarter ending December 31, 2015; April 30, 2016 for quarter ending March 30, 2016; and July 30, 2016 for quarter ending June 30, 2016 and October 30, 2016 for quarter ending September 30, 2016. Non-compliance could result in the Company being subject to penalties.

⁶ Staff's calculation of this balance is shown in Section VIII, ACA Findings.

⁷ 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.

⁸ See Attachment 1 for detail of the calculation of the ACA factor.

⁹ This review will not be a part of the annual audit process.

4. Counce is directed to use the **negative** \$14,817.89 corrected ACA ending balance at September 30, 2015 as the beginning balance in the next ACA filing.

The intent of these recommendations is to assist Counce, by ensuring that the Company bills the TRA approved rates and correctly reports these rates in its ACA Account. The recommendations will also provide a mechanism for Staff to timely monitor the ACA Account balance and be aware if the balance becomes significantly over- or under-collected. In that instance, an interim tariff filing to adjust the PGA rate may be necessary.

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 Company

Calculation of the ACA Factor

Line

No. Factor to be applied to residential, commercial and industrial customers:

1	Cost of Gas purchased (10/1/14 - 9/30/15)	\$	69,322.52	
2	Cost of Gas recovered from customers through PGA rates		<u>68,766.38</u>	
3	Under/(Over) Collection (Line 1 - Line 2)	\$	556.14	
4	ACA surcharges/(refunds) (10/1/14 - 9/30/15)		(8,455.58)	
5	Interest calculated on average monthly balance in account		(584.37)	
6	Beginning balance at 9/30/14		<u>(23,245.24)</u>	
7	Balance in ACA account at 9/30/15 (Line 3 - Line 4 + Line 5 + Line 6)	\$	<u>(14,817.89)</u>	
8	Sales Volumes **		13,999	MCF
9	ACA Factor - surcharge/(refund) (Line 7 divided by Line 8)	\$	<u>(1.06)</u>	Per MCF

**** Historical sales volume for 12 months ending 9/30/16**