

BEFORE THE TENNESSEE PUBLIC UTILITY COMMISSION

NASHVILLE, TENNESSEE

February 6, 2018

IN RE:)
)
ATMOS ENERGY CORPORATION) **Docket No. 17-00092**
ACTUAL COST ADJUSTMENT ("ACA") AUDIT)

**NOTICE OF FILING BY THE UTILITIES DIVISION OF THE TENNESSEE
PUBLIC UTILITY COMMISSION**

Pursuant to Tenn. Code Ann. §§65-4-104, 65-4-111 and 65-3-108, the Utilities Division of the Tennessee Public Utility Commission ("TPUC" or the "Commission") 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 Commission to hear matters arising out of the audit of the Company's ACA filing for the period July 1, 2016 through June 30, 2017.
2. The Company's ACA filing was received on August 31, 2017, and the Staff completed its audit of same on January 24, 2018.
3. On January 24, 2018, the Utilities Division submitted its preliminary ACA audit findings to the Company via e-mail. The Company responded on January 31, 2018 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 Public Utility Commission 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 Public Utility Commission

CERTIFICATE OF SERVICE

I hereby certify that on this 6th day of February 2018, 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:

David F. Jones
Chairman
Tennessee Public Utility Commission
502 Deaderick Street 4th Floor
Nashville, TN 37243

Mr. Mark A. Martin
Vice President of Rates and Regulatory Affairs
Atmos Energy Corporation
3275 Highland Point Dr.
Owensboro, KY 42303-7835

Mr. Stellie S. Jackson
Rate Administration Analyst
Atmos Energy Corporation
P.O. Box 650205
Dallas, TX 75265-0205

A. Scott Ross, Esq.
Neal & Harwell, PLC
1201 Demonbreun Street
Suite 1000
Nashville, TN 37203

Mr. Wayne M. Irvin
Office of the Attorney General
Consumer Advocate and Protection Division
P. O. Box 20207
Nashville, TN 37202



Michelle Ramsey

COMPLIANCE AUDIT REPORT
OF
ATMOS ENERGY CORPORATION
ACTUAL COST ADJUSTMENT
DOCKET NO. 17-00092

PREPARED BY
TENNESSEE PUBLIC UTILITY COMMISSION
UTILITIES DIVISION
February 2018

EXHIBIT A

COMPLIANCE AUDIT
ATMOS ENERGY CORPORATION
ACTUAL COST ADJUSTMENT
DOCKET NO. 17-00092
TABLE OF CONTENTS

	<u>PAGE NO.</u>
I. INTRODUCTION	1
II. AUDIT OPINION	1
III. SUMMARY OF COMPANY FILING	1
IV. DESCRIPTION OF THE PURCHASED GAS ADJUSTMENT RULE	2
V. SCOPE OF ACTUAL COST ADJUSTMENT AUDIT	3
VI. BACKGROUND INFORMATION ON COMPANY AND GAS SUPPLIERS	3
VII. JURISDICTION OF THE TENNESSEE REGULATORY AUTHORITY	4
VIII. ACA FINDINGS	5
IX. STAFF CONCLUSIONS AND RECOMMENDATIONS	9
APPENDIX A – PGA FORMULA	10

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 Public Utility Commission ("TPUC" or the "Commission")¹. 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, 2017 are calculated correctly and are supported by appropriate source documentation.

II. AUDIT OPINION

The Audit Staff ("Staff") concludes that, except for the findings noted in Section VIII, the Purchased Gas Adjustment mechanism as calculated in the Actual Cost Adjustment appears to be working properly and is in accordance with the TPUC 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 August 31, 2017. This ACA filing showed \$52,618,412.48 in total gas costs, with \$49,264,465.95 being recovered from customers through rates. Adding a beginning balance in the ACA account of \$1,071,312.70 in net over-recovered gas costs from the preceding ACA period and interest due to customers for the current period of \$93,854.82 resulted in an ACA Account balance at June 30, 2017 of \$2,376,488.65 in under-recovered gas costs.²

ATMOS ENERGY CORPORATION SUMMARY OF ACA FILING FOR PERIOD JULY 2016-JUNE 2017

<u>Line</u>		<u>Union City</u>	<u>Other TN Towns</u>	<u>Total</u>
1	Beginning Balance (July 2016)	\$82,658.75	(\$1,153,971.45)	(\$1,071,312.70)
2	Purchased Gas Costs	1,169,017.02	51,449,395.46	52,618,412.48
3	Gas Costs recovered through rates	1,234,082.23	48,030,383.72	49,264,465.95
4	Interest on monthly balances	<u>4,671.92</u>	<u>89,182.90</u>	<u>93,854.82</u>
5	Ending Balance (June 2017) (Line 1 + Line 2 – Line 3 + Line 4)	<u>\$22,265.46</u>	<u>\$2,354,223.19</u>	<u>\$2,376,488.65</u>

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

¹ As of April 5, 2017, the name of Tennessee Regulatory Authority has changed to the Tennessee Public Utility Commission and board members of the agency will be known as Commissioners rather than Directors.

² The filing was comprised individually of a \$22,265.46 under-recovered balance in the Union City service area and a \$2,354,223.19 under-recovered balance in the remaining Tennessee towns service area.

The Company began to recover the amount from its Union City customers and customers in other Tennessee service areas on October 1, 2017, to distribute the balances in the ACA accounts as of June 30, 2017.³ 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, now the Tennessee Public Utility Commission. 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 TPUC 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 [Commission] an annual report reflecting the transactions in the Deferred Gas Cost Account. Unless the [Commission] 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 [Commission] Staff or by order of the [Commission]."

³ Tariff Filing No. 2017-0087 for ETN and 2017-0088 for Union City.

Prudence Audit of Gas Purchases:

Section 1220-4-7-.05 of the PGA Rule requires, unless otherwise ordered by the Commission, 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 Commission. 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,⁴ and that the Company is following all Commission 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 recovery of the ACA Account balance, effective October 1, 2017. 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.

⁴ 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. 15-00009 and in Docket No. 16-00008. 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 PUBLIC UTILITY COMMISSION

Tennessee Code Annotated (T.C.A.) gave jurisdiction and control over public utilities to the Tennessee Public Utility Commission, formerly 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 Commission 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 TPUC'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 Commission. Michelle Ramsey and Tricia Hicks of the Utilities Division conducted this audit.

VIII. ACA FINDINGS

Staff's audit findings totaled a **net under-recovery of \$17,298.38**. This amount results from the net total of three (3) finding and represents an increase to the Company's reported under-recovered ending balance in the ACA Account on June 30, 2017 of \$2,376,488.65. The finding when added to the Company's calculated balance results in a net ending balance in the ACA account of **\$2,393,787.03 in under-recovered gas costs.**⁵ 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**:

Line		Atmos Combined Filing	Staff Audit Results	Difference (Findings)
1	Adj. Beginning Balance (July 2016)	(\$1,071,312.70)	(\$1,071,312.70)	\$0.00
2	Purchased Gas Costs	52,618,412.48	52,635,684.16	17,271.68
3	Gas Costs recovered through rates	49,264,465.95	49,264,465.95	0.00
4	Interest on monthly balances	<u>93,854.82</u>	<u>93,881.52</u>	<u>26.70</u>
5	Ending Balance (June 2017) (Line 1 + Line 2 – Line 3 + Line 4)	<u>\$2,376,488.65</u>	<u>\$2,393,787.03</u>	<u>\$17,298.38</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	Uncollectible Gas Costs (Bad Debt)	\$17,299.52	Under-recovery 6
FINDING #2	Gas Used By Company	\$27.84	Over-recovery 7
FINDING #3	Interest	<u>\$26.70</u>	Under-recovery 8
	Net Result	= <u>\$17,298.38</u>	Under-recovery

⁵ The ending balance is made up of \$24,106.45 under-recovery for the Union City filing and \$2,369,680.58 under-recovery for the ETN filing.

FINDING #1:

Exception

The Company erroneously understated the total Uncollectible Gas Costs (Bad Debt) amount in the ACA filing.

Discussion

In June 2017, the Company erroneously recorded the Bad Debt total as a negative when it should have been a positive number. Correcting this error changed the Bad Debt total for the year from \$51,914.35 to \$69,213.87, a difference of **\$17,299.52**. This represents an under-recovery of gas costs.

Company Response

Atmos Energy, the Company, agrees that Bad Debt total for June 2017 in Tennessee (excluding Union City) and Union City should be a positive number, and that the Bad Debt total should equal \$69,213.87. The Company will make the appropriate corrections for the 2017-2018 ACA period.

FINDING #2:

Exception

The Company understated the amount of gas used by the Company in its ACA filing.

Discussion

In June 2017, the Company used an incorrect PGA Non-Firm rate for both Tennessee and Union City to calculate Gas Used By Company amounts. The Company used the July rates from Tariffs 2017-0063 and 2017-0064 when the May rates from Tariffs 2017-0051 and 2017-0052 should have been used. The corrected amounts changed the Gas Used By Company total amount from \$16,982.02 to \$17,009.66, a difference of **\$27.64**. Since gas that is used by a utility in its internal operations (such as heating in office spaces) is not recovered from customers, these amounts are removed (subtracted) from gas costs in the ACA filing. An increase in these costs represents an over-recovery of gas costs.

Company Response

Atmos Energy, the Company, agrees that the July 2017 PGA Non-Firm rates for Tennessee (excluding Union City) and Union City were used instead June 2017 PGA Non-Firm rates, and that Gas Used by the Company should have be \$17,009.66. The Company will make the appropriate corrections for the 2017-2018 ACA period

FINDING #3:

Exception

The Company understated the amount of interest payable to customers by company in its ACA filing.

Discussion

Due to the under-recovery in Finding #1 and over-recovery in Finding #2, the reported interest calculation was incorrect for the ACA filing. Total interest on monthly balances was reported as \$93,854.82 in the Company filing and has been recalculated by staff as \$93,881.52, a difference of **\$26.70**. This represents an under-recovery of gas costs.

Company Response

Atmos Energy, the Company, agrees that due to the under-recovery in Finding #1 and over-recovery in Finding #2, that the total interest on monthly balances for Tennessee (excluding Union City) and Union City should report \$93,881.52. The Company will make the appropriate corrections for the 2017-2018 ACA period.

IX. STAFF CONCLUSIONS AND RECOMMENDATIONS

Staff reviewed the gas costs and recoveries of Atmos Energy Corporation for the 12-month period ended June 30, 2017. 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 TPUC rules for Atmos. Staff's audit procedures revealed three findings 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, 2017 was **positive \$2,393,787.03**. This means that as of June 30, 2017 the Company had under-collected this amount from its customers. The net balance is composed of a **total under-collection from Union City customers of \$24,106.45 and a total under-collection from customers in Other Tennessee towns of \$2,369,680.58**. 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.