BEFORE THE TENNESSEE PUBLIC UTILITY COMMISSION

NASHVILLE, TENNESSEE

November 13, 2018

IN RE:	)	
	)	
ACA FILING FOR NAVITAS TN NG, LLC JELLICO AND BYRDSTOWN SYSTEMS	)	**DOCKET NO. 18-00024**
	)	
	)	

ORDER ADOPTING ACA AUDIT REPORT OF TENNESSEE PUBLIC UTILITY COMMISSION'S UTILITIES DIVISION

This matter came before Chair Robin Morrison, Vice Chair Kenneth C. Hill, and Commissioner Herbert H. Hilliard of the Tennessee Public Utility Commission ("Commission" or "TPUC"), the voting panel assigned to this docket, at a regularly scheduled Commission Conference held on September 21, 2018. The panel considered the Commission's Utilities Division (the "Staff") Actual Cost Adjustment ("ACA") Compliance Audit Report (the "Audit Report"), attached hereto as Exhibit 1 and incorporated by this reference, resulting from the Staff's audit of Navitas TN NG, LLC's ("Navitas" or "Company") annual deferred gas cost account filing for the period January 1, 2017 through December 31, 2017.

On March 16, 2018, Navitas filed its annual report of the transactions in the ACA Accounts for the Jellico and Byrdstown/Fentress systems. Navitas incurred combined total gas costs for both systems of $217,381.36 during the period January 1, 2017 through December 31, 2017. During the same period, Navitas reported a total recovery of $151,375.84 of those gas costs from customers in their monthly rates, resulting in under-collected gas costs of $66,005.52

for the period. Adding to the amount (1) a total combined net interest of negative $969.28[1] on the monthly account balances and (2) a reported beginning balance on January 1, 2017 of $64,649.01 in over-collected gas costs from the prior period, the reported ending balance in the ACA Accounts was a combined total under-collection of $387.23 at December 31, 2017 from its Jellico and Byrdstown/Fentress customers.[2] The Staff completed its audit of the Company's ACA filing on September 5, 2018 and filed its Report in this docket on September 11, 2018.[3]

The Audit Report contains two findings. The first finding is the Company billed its Byrdstown-Fentress customers' rates that are not supported by its tariff. For March and October 2017, Navitas used incorrect Purchased Gas Adjustment ("PGA") and ACA factors in the Company's billing system for its Byrdstown-Fentress customers.

The Company should have billed a PGA factor of $0.4812 and an ACA factor of $0.0654 per CCF in March and a PGA factor of $0.8485 and an ACA factor of $0.1470 per CCF in October for its Byrdstown-Fentress Divisions. Although, Navitas billed incorrect rates instead of the Commission approved tariff rates for the months indicated, the calculation of the ending balances in the ACA is based on gas costs *actually paid* versus gas costs *actually recovered.*

In its sample bill audits, Staff verified the Company used the actual rates billed to calculate the ending balance in the ACA. Therefore, this is a nonmonetary finding. Incorrect billing rates do not result in a monetary adjustment to the ACA account; however, this is a violation of its tariff, which Navitas has agreed not to repeat going forward. The Company

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[1] A negative amount signifies interest owed to the customers.

[2] The ending balances were a negative $3,235.53 for the Jellico Division and a positive $3,622.76 for the Byrdstown/Fentress Division.

[3] The original deadline for the completion and approval of the ACA audit was September 12, 2018. Audit Staff by rule has 180 days to complete its audit. The audit deadline, however, may be extended by mutual agreement between Staff and the Company or by action of the Commission. See Commission PGA Rule 1220-4-7-.03(2). Since the next scheduled Commission Conference was September 21, 2018, the Staff requested an extension of the audit deadline. As evidenced by the Staff memo filed in this docket on August 24, 2018, Staff and Navitas mutually agreed to extend the deadline to September 21, 2018.

agrees with the Staff's finding. The second finding is that the Company used incorrect interest rates for the months of April through December of 2017, for both its Jellico and Byrdstown-Fentress Divisions. The result of this error is the interest due to customers is increased by ($75.48), which represents an over-recovery of gas costs. Navitas agreed with the Staff's findings and recommendations.

The Staff calculated the ACA factors that Navitas should bill to its customers starting in October 2018 going forward until the results of the next audit. These new factors will attempt to refund to customers of Jellico and surcharge to customers of Byrdstown, as closely as possible, the ending balances in their ACA Accounts[4] over the next twelve-month period.

Staff recommended that Navitas monitor the ending balances in the ACA Accounts monthly in conjunction with the market swings in gas costs to determine whether the Company should file a tariff to adjust its PGA factor. More frequent adjustments should decrease the amount of the ACA adjustments needed in the true-up process, thereby lessening potential annual rate shock to customers. Staff further recommended that the Company monitor its ACA Account balance closely and continue to report the balance quarterly to Commission Staff to determine if a PGA tariff filing is needed.

The Staff concluded that, except for the reported findings, the PGA mechanism as calculated in the ACA appears to be working properly and in accordance with the TPUC rules for Navitas.[5] At the regularly scheduled Commission Conference held on September 21, 2018, the panel considered the Audit Report. Thereafter, the panel voted unanimously to approve the

[4] The Ending Balance in the Jellico ACA Account is a negative $3,295.22 over-collection, and the Ending Balance in the Byrdstown/Fentress ACA Account is a positive $3,606.97 under-collection.
[5] Audit Report, p. 1 (September 11, 2018).

September 11, 2018, Staff Audit Report as filed, including the findings and recommendations contained therein.

IT IS THEREFORE ORDERED THAT:

1. The September 11, 2018, Staff Audit Report for the year ended December 31, 2017, a copy of which is attached to this Order as Exhibit 1, is approved and adopted, and it is incorporated in this Order as though fully rewritten herein.

2. Navitas TN NG, LLC shall informally file, on a quarterly basis, its Actual Cost Adjustment Account balances with the Tennessee Public Utility Commission Staff.

3. Navitas TN NG, LLC shall file a tariff within thirty (30) days to begin refunding or surcharging, as appropriate, the approved balances in the Actual Cost Adjustment Accounts, effective with its October 2018 customer billing.

Chair Robin Morrison, Vice Chair Kenneth C. Hill and Commissioner Herbert H. Hilliard concur.

ATTEST:

Earl Taylor

Earl R. Taylor, Executive Director

EXHIBIT 1

EXHIBIT A

COMPLIANCE AUDIT REPORT

OF

NAVITAS TN NG, LLC.

ACTUAL COST ADJUSTMENT

Docket # 18-00024

PREPARED BY

TENNESSEE PUBLIC UTILITIES COMMISSION

UTILITIES DIVISION

September 2018

COMPLIANCE AUDIT

NAVITAS TN NG, LLC.

ACTUAL COST ADJUSTMENT

Docket # 18-00024

TABLE OF CONTENTS

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 Public Utility Commission ("TPUC" or "Commission").[1] The objective of the audit was to determine whether the purchased gas adjustments, which are encompassed by the ACA, and approved by the TPUC for the twelve (12) months ended December 31, 2017, were calculated correctly and were supported by appropriate source documentation.

II. AUDIT OPINION

The Audit Staff's ("Staff") audit resulted in **one (1) monetary finding and one (1) non-monetary finding.**[2] The net amount of the findings is **$75.48 in over-recovered gas costs**. 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 TPUC rules for Navitas TN NG, LLC.

III. SUMMARY OF COMPANY FILING

The Company submitted its ACA filings on March 16, 2018, covering the period January 1, 2017 to December 31, 2017. 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, 2017, of **negative $3,235.53**, which represents an **over-collection** of gas costs from customers. The Brydstown/Fentress Division filing reflected a net balance in its ACA account at December 31, 2017, of **positive $3,622.76**, 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] As of April 5, 2017 the name of the Tennessee Regulatory Authority has changed to Tennessee Public Utility Commission ans board members of the agency will be known as Commissioners rather than Directors

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

[3] The negative ending balance of Navitas's Jellico ACA account indicates that the Company has over-collected this amount from its customers as of December 31, 2017. The positive ending balance of Navitas's Byrdstown/Fentress ACA account indicates that the Company has under-collected this amount from its customers as of December 31, 2017. The ACA factors are derived for each division by dividing Staff's corrected amounts by the projected sales volumes for the next twelve (12) months in an attempt to refund 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 1/1/17	($49,617.81)
2	**Activity During Current Period:**	
3	Plus Purchased Gas Costs	145,703.63
4	Minus Gas Costs Recovered	98,561.78
5	Plus Interest	(759.57)
6	**Ending Balance Including Interest at 12/31/17**	($3,235.53)

Byrdstown/Fentress Division

Line No.		Company (as filed)
1	Beginning Balance at 1/1/17	($15,031.20)
2	**Activity During Current Period:**	
3	Plus Purchased Gas Costs	71,677.73
4	Minus Gas Costs Recovered	52,814.06
5	Plus Interest	(209.71)
6	**Ending Balance Including Interest at 12/31/17**	$3,622.76

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

[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.

Necessity (CCN) when the Authority voted unanimously to approve the transfer of control and authority from Gasco Distribution Systems ("Gasco") to Navitas.[5]

Navitas is a natural gas distributor, which provides service to approximately 484 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 PUBLIC UTILITY COMMISSION

Tennessee Code Annotated (T.C.A.) §65-4-104 gave jurisdiction and control over public utilities to the Tennessee Regulatory Authority, now 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.[7]

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[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).

[6] Annual Report period ending December 31, 2017.

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:
>
> 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 TPUC 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 Commission. Lisa Foust and Michelle Mairs 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 Public Utility Commission. 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 TPUC 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. Based on the customer bills reviewed, Staff opines that Navitas is correctly billing it's customers.

VIII. ACA FINDINGS

Staff's audit findings totaled an over collection of $75.48. This is the result of one (1) monetary finding and represents an over-recovered amount, which when added to the Company's calculated balance, results in a net ending balance in the ACA account of **$311.75.**[8] 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		Navitas Combined Filing	Staff Audit Results	Difference (Findings)
1	Beginning Balance at 1/1/2017	($ 64,649.01)	($64,649.01)	$ 0.00
2	Plus Purchased Gas Costs	217,381.36	217,381.36	0.00
3	Minus Gas Costs Recovered	151,375.84	151,375.84	0.00
4	Plus Interest	(969.28)	(1,044.76)	(75.48)
5	Ending Balance at 12/31/2017	$387.23	$311.75	($75.28)

**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	
FINDING #2	Interest	(75.48)	Over-Recovery
	Net Result	**($75.48)**	**Over-Recovery**

[8] The ending balance is made up of ($3,295.22) for the Jellico Division and $3,606.97 for the Byrdstown/Fentress Division.

FINDING #1:

Exception

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

Discussion

For March and October 2017, Navitas used incorrect PGA and ACA factors in the Company's billing system for its Byrdstown-Fentress customers. The Company should have billed a PGA factor of $0.4812 and an ACA factor of $0.0654 per CCF in March and a PGA factor of $0.8485 and an ACA factor of $0.1470 per CCF in October for its Byrdstown-Fentress Divisions.

Although Navitas billed incorrect rates instead of the Commission 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.* In its sample bill audits, Staff verified the Company used the actual rates billed to calculate the Ending Balances in 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.

FINDING #2:

Exception

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

Discussion

The Company used incorrect interest rates for April through December of 2017. Staff recalculated interest based on a correction of the interest rates for April through December of 2017.[9] Therefore, interest due to customers is increased by ($75.48) for the Jellico and Byrdstown divisions, which represents an over-recovery of gas costs.

Company Response

The Company agrees with this finding.

[9] The Commission calculates the monthly interest rates in compliance with PGA Rule 1220-04-07-.03(1)(b)(2).(viii) and notifies each company of the correct montly interest rates to bue used in calculating the ending balance in the ACA Account.

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, 2017. Based on the filing as shown in Section VIII, the **net balance** in the surcharge due customers account (ACA Account) as of December 31, 2017 should be a **negative $3,295.22 (over-collection) for the Jellico Division and $3,606.97 (under-collection) for the Byrdstown/Fentress Division.** The net ending balance in the combined Navitas filing, as summarized in Section VIII of the Report is $311.75 under-collection.

In order to adjust the Jellico and the Byrdstown/Fentress balances, the correct ACA adjustment factor to be applied to customer bills in the **Jellico Division** is **negative ($0.0098) per CCF** (see Attachment 1), and the correct ACA adjustment factor to be applied to customer bills in the **Byrdstown/Fentress Division** is **$0.0369 per CCF** (see Attachment 2).

Staff recommends that these factors be implemented beginning with the Company's October 2018 billing and should stay in effect until new factors are calculated and approved in Navitas' next ACA filing covering the period January 1, 2018 through December 31, 2018.

It is important for Navitas to closely monitor its ACA balance on a monthly basis. As actual data is gathered at the end of each month, the ACA schedule can be updated to the latest balance. This balance, along with gas cost increases and decreases in the market, should be a factor in the Company's decision whether a tariff filing to adjust the PGA adjustment factor is needed. If the Company filed more frequent PGA adjustments customers would see smaller increases or decreases throughout the year, instead of a drastic change in rates at the end of the audit. **Staff, therefore, recommends that the Company monitor its ACA balances more closely and report these balances quarterly to TPUC Staff to determine if a PGA filing is warranted.**[10]

[10] TPUC Rule 1220-04-07 (PGA Rule) does not require the Company to quarterly file its ACA balance with TPUC Staff nor does it prevent the Commission from ordering it. These reports could ensure that the gas costs are more evenly spread to customers over the year.

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 1/1/17	$ (49,617.81)	
2	Plus Purchased Gas Costs	145,703.63	
3	Minus Gas Costs Recovered	98,561.78	
4	Plus Interest	(819.26)	
5	Ending Balance Including Interest at 12/31/17	$ **(3,295.22)**	
6	Sales Volumes **	335,783	CCF
7	**ACA Factor - surcharge/(refund)** (Line 5 divided by Line 6)	$ **(0.0098)**	**Per CCF**

** Historical sales volumes for 12 months ending 12/31/17

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 1/1/17	$ (15,031.20)	
2	Purchased Gas Costs	71,677.73	
3	Gas Costs Recovered	52,814.06	
4	Plus Interest	(225.50)	
5	Ending Balance Including Interest at 12/31/17	**3,606.97**	
6	Sales Volumes **	97,707	CCF
7	**ACA Factor - surcharge/(refund)** (Line 5 divided by Line 6)	$ **0.0369**	**Per CCF**

** Historical sales volumes for 12 months ending 12/31/17

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.