BEFORE THE TENNESSEE PUBLIC UTILITY COMMISSION

NASHVILLE, TENNESSEE

September 28, 2020

IN RE:	**)**	
	)	
CHATTANOOGA GAS COMPANY'S ACTUAL COST ADJUSTMENT FILING FOR THE PERIOD OF JULY 1, 2018 THROUGH JUNE 30, 2019	**)))**	**DOCKET NO. 19-00077**

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

This matter came before Commissioner Herbert H. Hilliard, Commissioner John Hie, and Commissioner David F. Jones of the Tennessee Public Utility Commission (the "Commission" or "TPUC"), the voting panel assigned to this docket, during a regularly scheduled Commission Conference held on August 10, 2020[1] to consider the report of the Commission's Utilities Division (the "Staff") resulting from the Staff's audit of Chattanooga Gas Company ("CGC" or the "Company") annual deferred gas cost account filing for the period of July 1, 2018 through June 30, 2019. The Actual Cost Adjustment ("ACA") Compliance Audit Report (the "Report") is attached hereto as <u>Exhibit 1</u> and incorporated by this reference.

The Company filed its ACA filing on August 30, 2019. The Staff completed its audit of the Company's filing on June 16, 2020 and filed its Report on July 17, 2020. The objective of the audit was to verify that the Company's calculations of gas costs incurred and recovered were

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[1] Due to the state of emergency declared by Governor Bill Lee relative to the Coronavirus Disease 2019 ("COVID-19") pandemic in Tenn. Exec. Order No. 14 on March 12, 2020, (superseded by Tenn. Exec. Order No. 15 on March 19, 2020 which was extended until June 30, 2020 in Tenn. Exec. Order No. 36 on May 12, 2020), the Commission Conference was held electronically via WebEx. The public health emergency places limitations on public gatherings and meetings in order to prevent the spread of COVID-19. In convening the Commission Conference electronically, the Commission relied upon Tenn. Exec. Order No. 16 (March 20, 2020), which was extended until June 30, 2020 and August 29, 2020 by Tenn. Exec. Order Nos. 34 (May 6, 2020) and 51 (June 29, 2020), and affirmed on the record that the electronic meeting was necessary to conduct the essential business of the agency and to protect the health, safety, and welfare of Tennesseans.

materially correct and that the Company has followed all Commission orders and directives with respect to the ACA account balance. The original 180-day deadline for staff's completion of the audit, which may be extended by mutual agreement, was February 15, 2020.[2] The Company and staff agreed to extend the audit deadline to May 31, 2020[3] and subsequently to August 31, 2020.[4] Based on the Company's filing and staff's audit of the same, the over-collected ending balance reported by CGC in the ACA Account as of June 30, 2019 was $3,212,506.70 in over-collected gas costs.[5] The Report included immaterial findings.[6]

During the regularly scheduled Commission Conference held on August 10, 2020, the voting panel considered the Company's ACA filing and Staff's Compliance Audit Report. The panel unanimously approved the Compliance Audit Report as filed.

IT IS THEREFORE ORDERED THAT:

1. The Actual Cost Adjustment Compliance Audit Report relative to Chattanooga Gas Company's gas costs for the period of July 1, 2018 through June 30, 2019, a copy of which is attached to this Order as Exhibit 1, is approved and adopted and the conclusions and recommendations contained therein are incorporated in this Order as if fully rewritten herein.

2. Chattanooga Gas Company shall informally file, on a quarterly basis, its Actual Cost Adjustment Account balances with the Tennessee Public Utility Commission Staff.

3. Chattanooga Gas Company shall file a tariff within thirty (30) days to begin surcharging the approved balances in the Actual Cost Adjustment Accounts, effective with its October 2019 customer billing.

4. Any person who is aggrieved by the Commission's decision in this matter may

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[2] See Tenn. Comp. R & Regs. 1220-04-07-.03(2).
[3] *Memorandum* (February 20, 2020).
[4] *Memorandum* (July 7, 2020).
[5] *Notice of Filing by the Utilities Division of the Tennessee Public Utility Commission*, Exh. A, p. 1 (July 17, 2020).
[6] *Id.*

file a Petition for Reconsideration with the Commission within fifteen (15) days from the date of this Order.

5. Any person who is aggrieved by the Commission's decision in this matter has the right to judicial review by filing a Petition for Review in the Tennessee Court of Appeals, Middle Section, within sixty (60) days from the date of this Order.

FOR THE TENNESSEE PUBLIC UTILITY COMMISSION:

Commissioner Herbert H. Hilliard,
Commissioner John Hie, and
Commissioner David F. Jones concurring.

None dissenting.

ATTEST:

Earl Taylor

Earl R. Taylor, Executive Director

EXHIBIT 1

EXHIBIT A

COMPLIANCE AUDIT REPORT

OF

Chattanooga Gas Company

ACTUAL COST ADJUSTMENT

DOCKET NO. 19-00077

PREPARED BY

TENNESSEE PUBLIC UTILITY COMMISSION

UTILITIES DIVISION

July 2020

EXHIBIT A

COMPLIANCE AUDIT REPORT
of the
ACTUAL COST ADJUSTMENT COMPONENT
of the
PURCHASED GAS ADJUSTMENT RULE
for
CHATTANOOGA GAS COMPANY
for the Year ended June 30, 2019

Docket No. 19-00077

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I. INTRODUCTION

The subject of this audit is Chattanooga Gas Company's ("Company," "Chattanooga,"or "CGC") 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 VI., for the twelve months ended June 30, 2019, are calculated correctly in accordance with all TPUC rules, orders, and directives applicable to Chattanooga and are supported by appropriate source documentation.

II. AUDIT OPINION

Audit Staff's ("Staff") audit resulted in two (2) findings.[2] The net amount of these findings is $220,967.38 in over-recovered[3] gas costs. The Company's reported June 30, 2019 balance of negative $2,991,539.32 in over-collected gas costs is increased by the $220,967.38 over-collected gas costs determined in this audit. The corrected balance in the ACA account at June 30, 2019 is negative $3,212,506.70 in over-recovered gas costs. These findings represent less than one percent of the total gas invoices and are, therefore, immaterial by comparison.

Staff concludes that, except for the findings noted in this report, 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 Chattanooga Gas Company.

III. SUMMARY OF COMPANY FILING

The ACA filing showed $40,533,081.61 in total gas costs, with $38,646,393.17 being recovered from customers through rates. Adding a beginning balance in the Deferred Gas Cost Account ("ACA Account") of negative $4,722,916.76 in over-recovered gas costs from the preceding ACA period and interest owed to customers for the current period of $175,311.00 (represented as a negative number) resulted in an ACA Account balance at June 30, 2019 of negative $2,991,539.32 in over-recovered gas costs. The Company's filing is summarized on the following page.

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

[3] Over-recovered means that the Company over-collected it gas costs from customers. Likewise, an under-recovery means that the Company under-collected its gas costs from customers. The words "recovery" and "collection" may be used interchangeably in the report.

CHATTANOOGA GAS COMPANY
ACA FILING FOR PERIOD JULY 2018-JUNE 2019

Line		
1	Beginning Balance (July 2018)	($4,722,916.76)
2	Plus Purchased Gas Costs	40,533,081.61
3	Minus Gas Costs recovered through rates	38,646,393.17
4	Plus Interest on monthly balances	($175,311.00)
5	Ending Balance (June 2019) (Line 1 + Line 2 – Line 3 + Line 4)	($2,991,539.32)

A ( ) around a number indicates a negative or credit balance in the ACA Account, which represents an over-recovery of gas costs. Over-recoveries result in a refund due to customers.

IV. BACKGROUND INFORMATION ON COMPANY

Chattanooga Gas Company, located at 6125 Preservation Drive in Chattanooga, Tennessee, is a wholly owned subsidiary of Southern Company Gas[4], a holding company formed in 2000 in response to the Public Utility Holding Company Act (PUCHA) of 1935. Southern Company Gas is located at Ten Peachtree Place, Atlanta, Georgia. As a local distribution company ("LDC"), Chattanooga provides service to customers in Chattanooga and Cleveland, Tennessee, and environs in Hamilton and Bradley Counties in Tennessee, respectively. The natural gas used to serve these areas is purchased from various suppliers and transported via three natural gas pipelines in accordance with separate and individual tariffs approved by the Federal Energy Regulatory Commission (FERC). The three interstate pipelines are Tennessee Gas Pipeline (TGP), East Tennessee Natural Gas (ETNG), and Southern Natural Gas (SNG).

V. JURISDICTION OF THE TENNESSEE PUBLIC UTILITY COMMISSION

Tennessee law provides broad jurisdiction and control over public utilities to the Tennessee Public Utility Commission. Tenn. Code Ann. § 65-4-104 states:

> The authority has general supervisory and regulatory power, jurisdiction, and control over all public utilities, and also over their property, property rights,

[4] Formerly known as AGL Resources, Inc.

> facilities, and franchises, so far as may be necessary for the purpose of carrying out the provisions of this chapter.

Further, Tenn. Code Ann. § 65-4-105 grants the same power to the Commission with reference to all public utilities within its jurisdiction as Tenn. Code Ann., Title 65. Chapters 3 and 5 confer oversight of the railroads to the Department of Transportation or oversight of transportation companies to the Department of Safety. By virtue of Tenn. Code Ann. § 65-3-108, said power includes the right to audit:

> The department of transportation 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... 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 TPUC is responsible for auditing those companies under the Commission's jurisdiction to ensure that each company is abiding by Tennessee statutes as well as the Rules and Regulations of the Commission. Michelle Mairs, Kevin McClenathan, and Cole McCormick of the Utilities Division conducted this audit.

VI. 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 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 (hereafter the "ACA")**
2. **The Gas Charge Adjustment (hereafter the "GCA")**
3. **The Refund Adjustment (hereafter the "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 "trues-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 of 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."

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. At its September 11, 2001 Authority Conference, the Directors voted to approve a Performance-Based Ratemaking Mechanism ("PBRM") for Chattanooga (Docket No. 01-00619). The mechanism affects all plan years ending after June 30, 2000, and continues each year unless terminated by the Company or the Commission. For each year that the mechanism is in effect, if CGC's total commodity gas purchases are less than 1% above the total annual benchmark, its purchases are deemed prudent and the requirements of Section 1220-4-7-.05 of the PGA Rule are waived. Staff reviewed these gas purchases as part of the Compliance Audit in Docket No. 19-00078 which was approved by the Commission on March 23, 2020. Staff's Audit revealed that the Company met the requirements of its tariff and recommended that the Company be released from the prudence audit.

VII. SCOPE OF ACTUAL COST ADJUSTMENT AUDIT

The ACA audit is a 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 are materially correct,[5] and that the Company is following all Commission rules, orders and directives with respect to its calculation of the ACA Account balance. On August 30, 2019 the Company filed a PGA[6] to change the ACA factor to begin refunding the unaudited balance in the ACA Account at June 30, 2019, effective October 1, 2019.

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

[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.

[6] Tariff Filing No. 2019-0046.

VIII. ACA FINDINGS

The result of the Staff's audit was a net **over-recovery of $220,967.38** which has the effect of increasing the Company's over-recovered balance at June 30, 2019 by this amount. A summary of the account as filed by the Company and as adjusted by the Staff is shown below, followed by a detailed description of each finding.

SUMMARY OF THE ACA ACCOUNT[7]**:**

	Company	Staff	Difference (Findings)
Commodity Balance at 6/30/18	($1,991,161.35)	($1,991,161.35)	$ 0.00
Plus Gas Costs	25,882,904.71	25,882,904.71	0.00
Minus Recoveries	26,599,450.37	26,734,571.20	135,120.83
Ending Balance before Interest	($2,707,707.01)	($2,842,827.84)	($135,120.83)
Plus Interest	($110,920.00)	($117,308.00)	(6,388.00)
Commodity Balance at 6/30/19	($2,818,627.01)	($2,960,135.84)	($141,508.83)
Demand Balance at 6/30/18	($2,731,755.41)	($2,731,755.41)	$ 0.00
Plus Gas Costs	14,670,176.90	14,670,176.90	0.00
Minus Recoveries	12,046,942.80	12,122,802.35	75,859.55
Ending Balance before Interest	($108,521.31)	($184,380.86)	($75,859.55)
Plus Interest	($64,391.00)	($67,990.00)	(3,599.00)
Demand Balance at 6/30/19	($172,912.31)	($252,370.86)	($79,458.55)
Total ACA Ending Balance at 6/30/19	($2,991,539.32)	($3,212,506.70)	(220,967.38)

Note: **A ( ) around a number indicates a negative or credit balance in the ACA Account, which represents an over-recovery of gas costs. Over-recoveries result in a refund due to customers.**

SUMMARY OF FINDINGS:

				See page
FINDING #1	Gas cost Recoveries	(210,980.38)	Over-recovery	6
FINDING #2	Interest-Commodity and Demand	(9,987.00)	Over-recovery	7
	Net Result	**$ (220,967.38)**	**Over-recovery**	

[7] Total gas costs are separated into Commodity (those costs related to the gas commodity itself) and Demand (those costs incurred to secure and transport the gas to the customers).

FINDING #1

Exception

The Company understated its gas cost recoveries.

Discussion

The PGA recoveries are calculated by multiplying the sales volumes by the applicable PGA rate. The Company's workpapers had formula errors within the July 2018 to June 2019 monthly reports. The result of this error is an increase of **$135,120.83** in the Commodity gas cost recoveries and **$75,859.55** in the Demand gas cost recoveries **(over-recovery).**

Company Response

The Company agrees with FINDING #1.

FINDING #2

Exception

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

Discussion

The Company used the correct interest rates. However, based on Staff's correction discussed in Finding #1, Staff recalculated interest. The result was an understatement of **$9,987.00** interest due to customers **(over-recovery).**

Company Response

The Company agrees with FINDING #2.

IX. STAFF AUDIT CONCLUSIONS AND RECOMMENDATIONS

Staff reviewed the gas costs and gas cost recoveries of Chattanooga Gas Company for the 12-month period ended June 30, 2019. 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 CGC. Staff's audit revealed two (2) findings for the audit period 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, 2019 is a negative $3,212,506.70. This means that as of June 30, 2019 the Company had over-collected this amount from its customers. This balance will become the beginning balance at July 1, 2019 in the Company's next ACA filing. **Staff recommends approval of the Company's ACA Account balances, as amended by Staff.**

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.