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BEFORE THE TENNESSEE PUBLIC UTILITY COMMISSION

NASHVILLE, TENNESSEE

September 16, 2020

IN RE:	**)**
	)
NAVITAS TN NG, LLC	**) Docket No. 20-00036**
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 gives notice of its filing of the Navitas TN NG, LLC.'s ACA Audit Report 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 Navitas TN NG, LLC.'s (hereafter the "Company") ACA filing covering the period January 1, 2019 to December 31, 2019.

2. The Company's ACA filing was received on March 5, 2020, and the Audit Staff (hereafter the "Staff") completed its audit of same on September 9, 2020.

3. On September 10, 2020, the Utilities Division submitted its preliminary ACA audit findings to the Company via e-mail. The Company responded on September 15, 2020 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 Public Utility Commission for deposit as a public record and approval of the findings and the recommendations contained therein.

Respectfully Submitted:

Lisa Foust

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Lisa Foust
Utilities Division of the
Tennessee Public Utility Commission

CERTIFICATE OF SERVICE

I hereby certify that on this 16th day of September 2020 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:

Chair Kenneth C. Hill
Tennessee Public Utility Commission
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Nashville, TN 37242

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Lisa Foust

Lisa Foust

EXHIBIT A

COMPLIANCE AUDIT REPORT

OF

NAVITAS TN NG, LLC.

ACTUAL COST ADJUSTMENT

Docket # 20-00036

PREPARED BY

TENNESSEE PUBLIC UTILITIES COMMISSION

UTILITIES DIVISION

September 2020

COMPLIANCE AUDIT

NAVITAS TN NG, LLC.

ACTUAL COST ADJUSTMENT

Docket # 20-00036

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, 2019, were calculated correctly and were supported by appropriate source documentation.

II. AUDIT OPINION

The Audit Staff's ("Staff") audit resulted in **four (4) monetary findings**.[2] The net amount of the findings is **$5,190.38 in under-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 5, 2020, covering the period January 1, 2019 to December 31, 2019. 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, 2019, of **negative $26,783.71**, 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, 2019, of **negative $5,995.91**, which represents an **over-collection** of gas costs from its customers. The tables below provide a summary of each ACA account as submitted by the Company.[3]

[1] As of April 5, 2017 the name of the Tennessee Regulatory Authority has changed to 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] 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, 2019. The negative ending balance of Navitas's Byrdstown/Fentress ACA account indicates that the Company has over-collected this amount from its customers as of December 31, 2019. 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 1/1/19	$4,442.90
2	**Activity During Current Period:**	
3	Plus Purchased Gas Costs	115,453.48
4	Minus Gas Costs Recovered	146,370.98
5	Plus Interest	(309.11)
6	**Ending Balance Including Interest at 12/31/19**	($26,783.71)

Byrdstown/Fentress Division

Line No.		Company (as filed)
1	Beginning Balance at 1/1/19	$16,304.03
2	**Activity During Current Period:**	
3	Plus Purchased Gas Costs	82,617.94
4	Minus Gas Costs Recovered	105,387.37
5	Plus Interest	469.49
6	**Ending Balance Including Interest at 12/31/19**	($5,995.91)

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

[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.

[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).

Navitas is a natural gas distributor, which provides service to approximately 564 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 Utility 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]

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:

[6] Annual Report period ending December 31, 2019.

> 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 Commission'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 except for the billing errors identified in Finding #3 in section VIII, Navitas is correctly billing its customers.

VIII. ACA FINDINGS

Staff's audit findings totaled an under-collection of $5,190.38. This is the result of four (4) monetary findings and represents an under-recovered amount, which when added to the Company's calculated balance, results in a net ending balance in the ACA Account of $(27,589.24)[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 1/1/2019	$20,746.93	$20,737.30	$(9.63)
2	Plus Purchased Gas Costs	198,071.42	195,766.13	(2,305.29)
3	Minus Gas Costs Recovered	251,758.35	244,160.73	(7,597.62)
4	Plus Interest	160.38	68.06	(92.32)
5	Ending Balance at 12/31/2019	$(32,779.62)	$(27,589.24)	$ 5,190.38

**A number in ( ) is a negative or credit balance which represents an over-collection of gas costs. A negative or credit balance for Gas Costs Recovered is the opposite or an under-collection of gas costs.

SUMMARY OF FINDINGS:

FINDING #1	Incorrect Beginning Balances	$ (9.63)	Over-Recovery
FINDING #2	Invoice Gas Cost	(2,305.29)	Over-Recovery
FINDING #3	Gas Cost Recovery	7,597.62	Under-Recovery
FINDING #4	Interest	(92.32)	Over-Recovery
	Net Result	**$ 5,190.38**	**Under-Recovery**

[8] The ending balance is made up of $(35,001.33) over-collection for the Jellico Division and $7,412.09 under-collection for the Byrdstown/Fentress Division.

FINDING #1:

Exception

The Company used incorrect beginning balances for its Byrdstown/Fentress and Jellico Divisions.

Discussion

Beginning balance(s) for an ACA filing should tie to the Commission approved ending balance(s) in the prior year's filing. In the current ACA filing, Navitas shows a beginning balance at January 1, 2019 for Byrdstown/Fentress Division of $16,304.03 and a beginning balance for the Jellico Division of $4,442.90 for a net combined beginning balance of $20,746.93 in under-collected gas costs at January 1, 2019. Based on the results of the prior audit in Docket No.19-00033, the Staff corrected ending balance at December 31, 2018 for the Byrdstown/Fentress Division was $16,298.32 and the ending balance for the Jellico Division was $4,438.98 for a net combined ending balance of $20,737.30 in under-collected gas costs at December 31, 2018. These Staff corrected approved ending balances should have been used as the beginning balances in the current filing. The difference in the net balances is a **negative $9.63 in over-collected gas costs for the period.**

Company Response

The Company agrees with this finding.

FINDING #2:

Exception

The Company used incorrect invoiced gas cost amounts for its Byrdstown/Fentress and Jellico Divisions.

Discussion

Byrdstown/Fentress Division - In its total invoiced gas costs for the Byrdstown/Fentress Division, the Company incorrectly included interest on late payments to Enbridge/Spectra in the amount of $63.72.

The Company also used incorrect allocation percentages for the Kentucky and Byrdstown/Fentress Divisions. In its filing, the Company reported $82,617.94 in invoiced gas costs for its Byrdstown/Fentress Division. Staff used the information provided in the Company's Sales for Kentucky and Byrdstown/Fentress Divisions to compute the Byrdstown/Fentress Division total allocations. Staff removed the interest on late payment amounts (noted above) and computed the correct amount of invoiced gas costs to be allocated to the Byrdstown/Fentress Division to be $80,310.55 The result was a **decrease to purchase gas costs of $2,307.39 (over-collection) for the Byrdstown/Fentress Division.**

Jellico Division - The difference between the Company's invoiced gas costs and the amount calculated by staff amounts to rounding of the invoice amounts by the Company. Staff calculated the full invoiced amounts, which resulted in an **increase to purchase gas costs of $2.10 (under-collection) for the Jellico Division.**

Company Response

The Company agrees with this finding.

FINDING #3:

Exception

The Company used incorrect gas cost recovery amounts for its Byrdstown/Fentress and Jellico Divisions.

Discussion

Byrdstown/Fentress Division - For January 2019 through September 2019, Navitas used incorrect ACA factors in the Company's billing system for its Byrdstown/Fentress customers. The Company should have billed a PGA/ACA factor of $(0.0369) per CCF, but instead the Company billed the ACA factor of $0.00. Staff used the Company's reported sales volume amounts to calculate gas cost recoveries for January 2019 through September 2019. The result was a **decrease in gas cost recoveries of $12,540.04 and a decrease in the ACA surcharge in the amount of $2,749.04.**

Jellico Division **–**Navitas used incorrect ACA factors in the Company's billing system for its Jellico customers. For January 2019, The Company should have used an ACA factor of $(0.0098) per CCF, but instead the Company billed an ACA factor of $0.00. For August and September 2019, the Company should have used an ACA factor of $(0.0098) per CCF, but instead the Company used an ACA factor of $(0.4555). Staff used the Company's reported sales volume amounts to calculate gas cost recoveries for January, August and September 2019. The result was **an increase in gas cost recoveries of $14,033.78 and a decrease in the ACA surcharge in the amount of $6,342.31.**

The net total of these corrections is a **decrease to the gas cost recoveries of $7,597.62,** which represents **an under-collection of gas costs by this amount.**

Company Response

The Company agrees with this finding.

FINDING #4:

Exception

The Company understated the amount of interest due to the Company.

Discussion

Based on the Staff corrections discussed in Finding #1, #2 and #3, Staff recalculated the correct amount of interest due on the average monthly balances in the ACA Account. The result was a decrease in the amount of interest due to the Company of **$92.32**, which represents an **over-collection of gas costs**.

Company Response

The Company agrees with this finding.

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, 2019. Based on the filing as shown in Section VIII, the **net balance** in the ACA Account as of December 31, 2019 should be (**$35,001.33) (over-collection) for the Jellico Division and $7,412.09 (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 ($27,589.24) over-collection.

In order to adjust the Jellico and the Byrdstown/Fentress ACA balances, the correct ACA adjustment factor to be applied to customer bills in the **Jellico Division** is (**$0.1120) per CCF** (see Attachment 1), and the correct ACA adjustment factor to be applied to customer bills in the **Byrdstown/Fentress Division** is **$0.0648 per CCF** (see Attachment 2).

Staff recommends that these factors be implemented beginning with the Company's November 2020 billing and should stay in effect until new factors are calculated and approved in Navitas' next ACA filing covering the period January 1, 2020 through December 31, 2020.

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.**[9]

[9] 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.

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 1/1/19	$	4,438.98	
2	Plus Purchased Gas Costs		115,455.58	
3	Minus Gas Costs Recovered		154,062.45	
4	Plus Interest		(833.44)	
5	Ending Balance Including Interest at 12/31/19	$	**(35,001.33)**	
6	Sales Volumes **		312,477	CCF
7	**ACA Factor - surcharge/(refund)** (Line 5 divided by Line 6)	$	**(0.1120)**	**Per CCF**

** Historical sales volumes for 12 months ending 12/31/19

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 1/1/19	$	16,298.32	
2	Purchased Gas Costs		80,310.55	
3	Gas Costs Recovered		90,098.28	
4	Plus Interest		901.50	
5	Ending Balance Including Interest at 12/31/19		**7,412.09**	
6	Sales Volumes **		114,442	CCF
7	**ACA Factor - surcharge/(refund)** (Line 5 divided by Line 6)	$	**0.0648**	**Per CCF**

** Historical sales volumes for 12 months ending 12/31/19

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.