BEFORE THE TENNESSEE PUBLIC UTILITY COMMISSION

NASHVILLE, TENNESSEE

July 27, 2023

IN RE:	)	
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CHATTANOOGA GAS COMPANY ACTUAL COST ADJUSTMENT (ACA) FILING FOR THE PERIOD OF JULY 1, 2021 THROUGH JUNE 30, 2022	)))	**DOCKET NO. 22-00094**

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

This matter came before Vice Chairman David F. Jones, Commissioner Clay R. Good, Commissioner Kenneth C. Hill, Commissioner David Crowell, and Commissioner John Hie 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 June 20, 2023 to consider the report of the Commission's Utilities Division (the "Staff") resulting from the Staff's audit of Chattanooga Gas Company's ("CGC" or the "Company") annual deferred gas cost account filing for the period ended June 30, 2022. The Actual Cost Adjustment ("ACA") Compliance Audit Report (the "Report") is attached hereto as Exhibit 1 and incorporated by this reference.

The Company filed its ACA filing on September 30, 2022. The Staff completed its audit of the Company's filing and filed its Report on June 5, 2023.[1] The objective of the audit was to verify that the Company's calculations of gas costs incurred and recovered were materially correct and that the Company has followed all Commission orders and directives with respect to the ACA account

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[1] The original deadline for the completion and approval of the ACA Audit was March 29, 2023. 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 1220-04-07-.03(2). The Staff requested an extension of the audit deadline as evidenced by the Staff memo filed in this docket on March 3, 2023. The deadline was initially extended to May 31, 2023 and subsequently to June 30, 2023 by mutual consent of Staff and CGC as evidenced by the memos filed in the docket on March 3, 2023 and April 24, 2023.

balance. Based on the Company's filing and staff's audit of the same, the ending balance reported by CGC in the ACA Account as of June 30, 2022, was $41,972.12 in over-recovered gas costs.[2] The Report included no material findings and that the audit objective was met.[3]

Staff noted that according to the filing, CGC incurred total gas costs of $63,461,047.00 during the period July 1, 2021, through June 30, 2022. During the same period, CGC recovered a total of $62,600,787.99 in gas costs from customers via their monthly rates. Adding total net interest of $7,820.00 owed to customers on the monthly account balances, $32,389.88 WNA over-recovered balance, and a beginning balance at July 1, 2021 of $862,021.25 in over-recovered (over-collected) gas costs from the prior audit period resulted in a reported net ending balance in the ACA Account of $41,972.12 in over-collected gas costs from customers as of June 30, 2022. On September 30, 2022, CGC filed a tariff[4] to begin refunding this over-recovery effective November 1, 2022. In addition, on February 9, 2023, Commission Staff filed its Notice of Designation of Staff Participating as a Party, stating these Staff members would not participate in an advisory capacity in the Docket.[5] However, no party intervened in this docket.

During the regularly scheduled Commission Conference held on June 20, 2023, the voting panel considered the Company's ACA filing and Staff's Compliance Audit Report. The panel found that CGC is correctly implementing its Purchased Gas Adjustment ("PGA") mechanism, as calculated in the ACA. Further, the panel found that the correct ending balance in the ACA Account at June 30, 2022 is $41,972.12 in over-collected gas costs, as reported in the CGC filing. The panel unanimously approved the Compliance Audit Report as filed.

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[2] *Notice of Filing by the Utilities Division of the Tennessee Public Utility Commission,* Exh. A, p. 4 (June 5, 2023).
[3] *Id.* at 4.
[4] Tariff Filing No. 2022-0078. Amount to be refunded was based on the unaudited balance in the ACA Account as of June 30, 2022.
[5] Tennessee Public Utility Commission Notice Of Designation Of Staff Participating As A Party (February 9, 2023).

IT IS THEREFORE ORDERED THAT:

1. The Actual Cost Adjustment Compliance Audit Report relative to Chattanooga Gas Company's gas costs for the period ended June 30, 2022, 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. Any person who is aggrieved by the Commission's decision in this matter may file a Petition for Reconsideration with the Commission within fifteen (15) days from the date of this Order.

3. 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:

Vice Chairman David F. Jones,
Commissioner Clay R. Good,
Commissioner Kenneth C. Hill,
Commissioner David Crowell and
Commissioner John Hie concurring.

None dissenting.

ATTEST:

Earl Taylor abh

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Earl R. Taylor, Executive Director

EXHIBIT 1

COMPLIANCE AUDIT REPORT

OF

Chattanooga Gas Company

ACTUAL COST ADJUSTMENT

DOCKET NO. 22-00094

PREPARED BY

TENNESSEE PUBLIC UTILITY COMMISSION

UTILITIES DIVISION

June 2023

EXHIBIT 1

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, 2022

Docket No. 22-00094

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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 audit's objective is to determine whether the purchased gas adjustments, which are encompassed by the Actual Cost Adjustment ("ACA"), as more fully described in Section V., for the twelve months ended June 30, 2022, are calculated correctly in accordance with all Commission rules, orders, and directives applicable to Chattanooga and are supported by appropriate source documentation.

II. AUDIT OPINION

On September 30, 2022, the TPUC Audit Staff (hereafter "Staff") received CGC's ACA filing supporting the activity in its deferred gas cost account ("ACA Account") for the period July 1, 2021, through June 30, 2022. After reviewing the Company's filing, Staff found no material errors.[2] 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 Chattanooga Gas Company.

III. BACKGROUND INFORMATION ON COMPANY

Chattanooga Gas Company, located at 2207 Olan Mills Drive in Chattanooga, Tennessee, is a wholly owned subsidiary of Southern Company Gas[3], a holding company formed in 2000 in response to the Public Utility Holding Company Act (PUCHA) of 1935. Southern Company Gas is located at 10 Peachtree Place NE, Atlanta, Georgia. As a local distribution company ("LDC"), Chattanooga provides service to customers in Chattanooga and Cleveland, Tennessee, and locations in Hamilton and Bradley Counties in Tennessee. 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).

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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] Formerly known as AGL Resources, Inc.

IV. 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, 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 to the Department of Transportation in its oversight of the railroads and to the Department of Safety in its oversight of transportation companies. 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. Craig Cox, Grace Marek, and Emily Qingshe of the Utilities Division conducted this audit.

V. 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, CGC's purchases are deemed prudent and the requirements of Section 1220-4-7-.05 of the PGA Rule are waived if CGC's total commodity gas purchases are less than 1% above the total annual benchmark. Staff reviewed these gas purchases as part of the Compliance Audit in Docket No. 22-00093. Staff's Audit Report, which was filed under the docket on April 4, 2023, states that the Company met the requirements of its tariff and recommends that the Company be released from the prudence audit.

VI. 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[4] and that the Company is following all Commission rules, orders, and directives with respect to its calculation of the ACA Account balance. On September 30, 2022, the Company filed a PGA[5] to change the ACA factor to begin refunding the unaudited balance in the ACA Account as of June 30, 2022, effective November 1, 2022.

[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.

[5] Tariff Filing No. 2022-0078.

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.

VII. SUMMARY OF COMPANY FILING

The ACA filing showed $63,461,047.00 in total gas costs, with $62,600,787.99 being recovered from customers through rates. Adding a beginning balance in the Deferred Gas Cost Account ("ACA Account") of *negative* $862,021.25 in over-recovered gas costs from the preceding ACA period, the *negative* $32,389.88 WNA audit's over-recovered balance, and interest owed to customers for the current period of *negative* $7,820.00, resulted in an ACA Account balance at June 30, 2022 of *negative* $41,972.12 in over-recovered gas costs. The Company's filing is summarized as follows.

SUMMARY OF THE ACA ACCOUNT:

	Company
Commodity Balance at 6/30/21	($675,767.17)
Plus WNA Audit Adjustment	(32,389.88)
Plus Gas Costs	47,328,350.08
Minus Recoveries	45,313,882.52
Ending Balance before Interest	$1,306,310.51
Plus Interest	17,081.00
Commodity Balance at 6/30/22	**$1,323,391.51**
Demand Balance at 6/30/21	($186,254.08)
Plus Gas Costs	16,132,696.92
Minus Recoveries	17,286,905.47
Ending Balance before Interest	($1,340,462,63)
Plus Interest	(24,901.00)
Demand Balance at 6/30/22	**($1,365,363.63)**
Total ACA Ending Balance at 6/30/22	**($41,972.12)**

Note: The negative Ending Balance number indicates an over-recovery of gas costs.

VIII. ACA FINDINGS

Staff agrees with the ACA Account balances as calculated by the Company. Therefore, there are no findings. A summary of the account, as filed by the Company, is shown above.

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, 2022. 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. Based on the Company's filing, the net balance in the ACA Account as of June 30, 2022, is a negative $41,972.12. This means that as of June 30, 2022, the Company had over-collected this amount from its customers. This amount will represent the beginning balance in the Company's next ACA filing. **Staff recommends approval of the Company's ACA Account balances.**

APPENDIX A

PGA FORMULA

The computation of the GCA can be broken down into the following formulas:

$$\text{Firm GCA} = \frac{D + DACA}{SF} - DB + \frac{P + T + SR + CACA}{ST} - CB$$

$$\text{Non-Firm GCA} = \frac{P + T + SR \;\; CACA}{ST} - CB$$

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.