

BEFORE THE TENNESSEE PUBLIC UTILITY COMMISSION

NASHVILLE, TENNESSEE

June 2, 2023

IN RE:)
)
COUNCE NATURAL GAS COMPANY) **Docket No. 23-00028**
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 hereby gives notice of its filing of the Compliance Audit Report of the Actual Cost Adjustment (“ACA”) Component of the Purchased Gas Adjustment Rule (“PGA Rule”) for Counce Natural Gas Company (the “Company”) in this docket and would respectfully state as follows:

1. The present docket was opened by the Commission to hear matters arising out of the audit of the Company’s ACA filing for the period October 1, 2021, through September 30, 2022.
2. The Company’s ACA filing was received on April 14, 2023, and the Compliance Audit Staff (“Staff”) completed its audit of same on June 1, 2023.
3. On May 17, 2023, the Utilities Division submitted its preliminary ACA audit findings to the Company via e-mail. The Company responded on May 18, 2023, and June 2, 2023, via E-mail and these responses have 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 Report and recommendations contained therein.

Respectfully Submitted:

A handwritten signature in cursive script that reads "Emily Qingshe".

Emily Qingshe, Audit Manager
Utilities Division of the
Tennessee Public Utility Commission

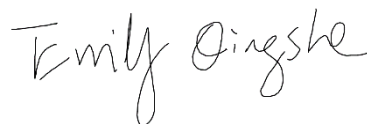
CERTIFICATE OF SERVICE

I hereby certify that on this 2nd day of June 2023, 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:

Herbert H. Hilliard, Chair
Tennessee Public Utility Commission
502 Deaderick Street, 4th Floor
Nashville, TN 37243

Mr. Mike Horton, President
Counce Natural Gas Company
P.O. Box 385
Burnsville, MS 38833

Ms. Karen Stachowski
Office of the Attorney General
Consumer Advocate and Protection Division
P. O. Box 20207
Nashville, TN 37202

A handwritten signature in black ink that reads "Emily Qingshe". The signature is written in a cursive, flowing style.

Emily Qingshe

EXHIBIT A

COMPLIANCE AUDIT REPORT

OF

COUNCE NATURAL GAS COMPANY

ACTUAL COST ADJUSTMENT

Docket No. 23-00028

PREPARED BY THE

TENNESSEE PUBLIC UTILITY COMMISSION

UTILITIES DIVISION

June 2023

COUNCE NATURAL GAS COMPANY
COMPLIANCE AUDIT REPORT OF
ACTUAL COST ADJUSTMENT FILING
DOCKET NO. 23-00028

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I. INTRODUCTION

The subject of this audit is Counce Natural Gas Company's ("Company" or "Counce") compliance with the Actual Cost Adjustment and Refund Adjustment of the Purchased Gas Adjustment Rule¹ ("PGA Rule") of the Tennessee Public Utility Commission ("Commission"). The objective of the audit was to determine whether the Purchased Gas Adjustments, which are encompassed by the Actual Cost Adjustment ("ACA")², for the twelve (12) months, ended September 30, 2022, were calculated correctly, and were supported by appropriate source documentation.

II. AUDIT OPINION

Audit Staff ("Staff") reviewed the Company's ACA filing and the underlying documentation supporting its calculation of the ending balance of the ACA account. Staff's review using a random sampling of bills determined that customers were billed correctly during the audit period with three (3) immaterial exceptions. Two (2) findings resulted in a monetary value of \$996.16 in over-collected gas costs. In addition, the Company failed to implement the approved tariff rate for the period of June 2022 - September 2022. All three (3) findings are explained in Section VIII. With the exception of these findings, Staff can provide assurance that Counce is correctly reporting the Gas Charge Adjustment, the Refund Adjustment, and the Actual Cost Adjustment in accordance with the Purchased Gas Adjustment Rules for the Tennessee Public Utility Commission regulated gas companies.

Staff provides its recommendations to the Company in Section IX, Conclusions and Recommendations.

III. SUMMARY OF COMPANY FILING

On April 14, 2023, Staff received Counce's ACA filing supporting the activity in its deferred gas cost account ("ACA Account") for the period October 1, 2021, through September 30, 2022. For the period under audit, the Company's ACA filing showed a negative beginning balance of \$9,139.28 in over-recovered gas costs from the prior ACA period, \$50,783.26 in total gas costs for the current period, \$51,911.50³ recovered from customers through rates, and \$385.18 in interest due to customers. These balances resulted in a reported ACA balance at September 30, 2022, of negative \$10,652.70, where the negative balance represents an over-recovery of gas costs.

¹ Commission Rule 1220-4-7.

² The ACA is more fully described in Section VI.

³ This amount includes PGA adjustment recoveries and ACA adjustment refunds.

**COUNCE NATURAL GAS COMPANY
ACA FILING OCTOBER 2021 TO SEPTEMBER 2022:⁴**

<u>Line No.</u>		Company (As filed)
1	Beginning Balance at 10/01/21	(\$ 9,139.28)
2	<u>Activity During Current Period:</u>	
3	Plus Gas Costs	50,783.26
4	Minus ACA Refunds	(1,257.84)
5	Minus PGA Recoveries	<u>53,169.34</u>
6	Ending Balance before Interest (Line 1 + Line 3 – Line 4 – Line 5)	(10,267.52)
7	Plus Interest	<u>(385.18)</u>
8	Ending Balance Including Interest at 09/30/22 (Line 6 + Line 7)	<u>(\$10,652.70)</u>

IV. BACKGROUND INFORMATION ON COMPANY AND GAS SUPPLIERS

Counce Natural Gas Company, with its headquarters in Burnsville, MS, is a wholly owned subsidiary of Tumlinson Engineering, Inc., and was formed in 1995 for the purpose of acquiring the operating authority of Hardin County Gas Company and providing natural gas service to customers in Hardin County, Tennessee. Hardin County Gas Company's certificate of convenience and necessity ("CCN") was transferred to Counce on December 22, 1995, in Docket No. 95-03379. In October 2000, ownership of Tumlinson Engineering, Inc. was transferred from Ted Tumlinson to Mike Horton.

The natural gas used to serve this area is purchased from Horton Enterprises, Inc (an affiliate), which is owned by Mike Horton. Horton Enterprises, Inc operates as a reseller of gas from Atmos Energy Marketing.

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.

V. JURISDICTION OF THE TENNESSEE PUBLIC UTILITY COMMISSION

Tennessee Code Annotated (T.C.A.) gives jurisdiction and control over public utilities to the Tennessee Public Utility Commission. T.C.A. §65-4-104 states:

The Commission has general supervisory and regulatory power, jurisdiction, and control over all public utilities, and also over their property, property rights, facilities, and franchises, so far as may be necessary for the purpose of carrying out the provisions of this chapter.

Further, T.C.A. §65-4-105 grants the same power to the Commission with reference to all public utilities within its jurisdiction as chapters 3 and 5 of Title 65 of the T.C.A. have conferred on the Department of Transportation's oversight of the railroads or the Department of Safety's oversight of transportation companies. By virtue of T.C.A. §65-3-108, this power includes the right to audit:

The department is given full power to examine the books and papers of the companies, and to examine, under oath, the officers, agents, and employees of the companies and any other persons, to procure the necessary information to intelligently and justly discharge its duties and carry out the provisions of this chapter and chapter 5 of this title.

The Utilities Division of the Tennessee Public Utilities Commission is responsible for auditing energy, water, and communications utilities under its jurisdiction to ensure that each company is abiding by Tennessee statute as well as the Rules and Regulations of the Commission. Grace Marek and Emily Qingshe of the Utilities Division conducted this audit.

VI. DESCRIPTION OF PURCHASED GAS ADJUSTMENT RULE

The PGA Rule is located at Chapter 1220-4-7 of the Rules of the Tennessee Public Utility Commission. The PGA Rule permits a gas company to recover, in a timely fashion, the total cost of gas purchased for delivery to its customers and to assure that a company does not over-collect or under-collect gas costs from its customers. The PGA consists of three major components:

- 1) **The Actual Cost Adjustment (ACA)**
- 2) **The Gas Charge Adjustment (GCA)**
- 3) **The Refund Adjustment (RA)**

The ACA is the difference between the revenues billed customers by means of the GCA and the cost of gas invoiced the Company by suppliers plus margin loss (if allowed by order of the Commission in another docket) and related interest as reflected in the Deferred Gas Cost account. The ACA then "true-up" the difference between the actual gas costs and the gas costs recovered from customers. The RA (refunds) surcharges the "true-up" along with other supplier refunds. For a more complete definition of the GCA and RA, refer to the PGA Formula attached as Appendix A to this report.

Section 1220-4-7-.03(2) of the PGA Rule requires:

Each year, the Company shall file with the [Commission] an annual report reflecting the transactions in the Deferred Gas Cost Account. Unless the [Commission] provides written notification to the Company within one hundred eighty (180) days from the date of filing the report, the Deferred Gas Cost Adjustment Account shall be deemed in compliance with the provisions of these Rules. This 180-day notification period may be extended by mutual consent of the Company and the [Commission] Staff or by order of the [Commission].

VII. SCOPE OF ACTUAL COST ADJUSTMENT AUDIT

The ACA audit is a limited compliance audit of Counce's deferred gas cost account ("ACA Account"). The objective of the audit is to verify that the Company's calculations of gas costs incurred and recovered were materially correct,⁵ and that the Company is following all Commission orders and directives with respect to its calculation of the ACA Account balance. Refer to the ACA Account detail provided in Section III, Counce ACA filing October 2021 to September 2022.

To accomplish the audit goal, Staff reviewed gas supply invoices, copies of the Company's checks, as well as supplemental schedules, and other source documentation provided by the Company. Where appropriate, Staff requested additional information to clarify the filing. Staff also audited a sample of customer bills to determine if the proper tariff rates, as well as PGA and ACA rates were applied in the Company's calculation of customer bills during the audit period. After sampling Company bills, Staff determined that, except for the findings in Section VIII, the Company's billing rates appear to be correct.

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.

VIII. ACA FINDINGS

Staff's audit findings totaled a **net over-recovery of \$996.16**. This amount is derived from the sum of three (3) findings: two monetary and one non-monetary. The findings, when added to the Company's calculated balance, result in a **net ending balance in the ACA account of a \$11,648.86 in over-recovered gas costs**. 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 No.		Company (As filed)	Staff (As adjusted)	Difference (Findings)
1	Beginning Balance at 10/01/21	(\$9,139.28)	(\$9,139.28)	\$0.00
2	<u>Activity During Current Period:</u>			
	Plus:			
3	Gas Costs	50,783.26	50,783.26	0.00
	Minus:			
4	ACA Refunds	(1,257.84)	(269.55)	988.29
5	PGA Recoveries	<u>53,169.34</u>	<u>53,169.34</u>	<u>0.00</u>
6	Ending Balance before Interest (Line 1 + Line 3 – Line 4 – Line 5)	(10,267.52)	(11,255.81)	(988.29)
	Plus:			
7	Interest	<u>(385.18)</u>	<u>(393.05)</u>	<u>(7.87)</u>
8	Ending Balance Including Interest at 09/30/22 (Line 6 + Line 7)	<u>(\$10,652.67)</u>	<u>(\$11,648.86)</u>	<u>(\$996.16)</u>

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

SUMMARY OF FINDINGS:

FINDING #1	ACA Recoveries	(988.29)	Over-collection
FINDING #2	Interest from ACA Recoveries	(7.87)	Over-collection
FINDING #3	Billing Error	(0)	Over-collection
Net Result		<u>(\$996.16)</u>	Over-collection

FINDING #1:**Exception**

The Company overstated its ACA Refunds.

Discussion

Staff conducts a bill audit during the ACA audit to ensure customers are being charged according to the correct tariff rates. During this bill audit, Staff discovered that for the months of May, June, July, August, and September 2022 the Company billed customers at the ACA refund rate of (0.20) but reported the ACA refund rate of (.6841) in its filing. The Company's filing does not accurately represent the actual ACA rates billed from May 2022 to September 2022. Staff recalculated the ACA account balance based on the ACA rates that were actually charged to customers for the period, representing the amount actually recovered by the Company.

Month	<u>Billed</u> ACA Rate	<u>Reported</u> ACA Rate
May 2022	(\$0.20)	(\$0.6841)
June 2022	(\$0.20)	(\$0.6841)
July 2022	(\$0.20)	(\$0.6841)
August 2022	(\$0.20)	(\$0.6841)
September 2022	(\$0.20)	(\$0.6841)

This finding represents an **over-collection of gas costs of \$988.29.**

Company Response

The Company regrets the error in failing to change the actual rate billed to customers. We will ensure that the proper rate is billed in the future. This was an oversight on our part. The tariff rate that was filed and reported on the ACA audit spreadsheet should have been the one that was billed to the customer. The ACA factor was changed on everything but the billing software. We apologize for the error and will do whatever is necessary to ensure that this doesn't happen again.

FINDING #2:

Exception

The Company understated the amount of interest due to customers for the review period.

Discussion

Staff recalculated interest based upon Audit Finding #1. This adjustment resulted in an increase **of reported net interest due to customers**, correspondingly, the finding increases the Company's reported over-recovered ACA Account Balance by the same amount of \$7.87.

Company Response

The company accepts this finding and will endeavor to keep this from happening again in the future.

FINDING #3:

Exception

The Company billed customers rates that are not supported by its tariff.

Discussion

As shown in the table below, the Company billed its customers using an ACA rate that is different from the approved tariff rate for four (4) months during the ACA period.

<u>Month</u>	<u>Billed ACA Rate</u>	<u>Approved ACA Rate</u>
June 2022	(\$0.20)	(\$0.6841)
July 2022	(\$0.20)	(\$0.6841)
August 2022	(\$0.20)	(\$0.6841)
September 2022	(\$0.20)	(\$0.6841)

Although Counce billed incorrect rates instead of the Commission approved tariff rates for the months indicated, the calculation of the Ending Balance in the Actual Cost Adjustment Account is based on actual gas costs *paid* versus *recovered*. Staff is responsible to verify the Company's calculation of the Ending Balance using the actual rates billed as verified in the sample bill audit. The Company continued to bill the ACA rate from the previous tariff and failed to implement the newly approved tariff rate effective from May 31, 2022. The discovery of the incorrect billing rate does not lead to a monetary adjustment of the ACA Account balance.

Company Response

This was due to an oversight that caused a failure to change the billing rate to reflect the approved tariff rate for this time period. In the future, the company will ensure that this doesn't happen again.

The company accepts all findings in this report and will do whatever is required to ensure that these errors and oversights do not happen in the future.

IX. CONCLUSIONS AND RECOMMENDATIONS

Based on the Company's filing and audit adjustments by the Staff, the correct balance in the ACA account as of September 30, 2022, is **\$11,648.86 in over-recovered (over-collected) gas costs.**⁶ This balance will be used as the beginning balance for the Company's October 2022 – September 2023 ACA filing. Allocating the negative \$11,648.86 balance over the 12 months-to-date September 2022 sales of 14,810.40 MCF yields an **ACA adjustment factor⁷ of negative \$.7865 (customer refund) per MCF.**⁸

During the audit, Staff found that Counce continued to bill the ACA rate from the previous tariff and failed to implement the newly approved tariff rate effective May 31, 2022, during the months June through September. The discovery of the incorrect billing rate does not lead to a monetary adjustment of the ACA Account balance.

During the audit, Staff also found one (1) reporting error in ACA refund rates, which consequently lead to one (1) interest adjustment. Reporting errors are differences between the rates reported in the ACA account and the rates actually billed by the Company to its customers. There should never be a difference between the rates reported and the rates billed. Therefore, ideally, there should never be a finding related to reporting errors.

During the audit, Staff also found the Company's proposed ACA rate factor was incorrectly computed due to the Company referencing units purchased rather than units sold. This incorrect ACA rate factor has not been made effective and implemented for customer billings and, as such, has no associated monetary impact on either the Company's ACA balance or amounts charged to customers during the audit period. Staff made the proper ACA rate factor computation as noted in this report, and the Company should implement this corrected factor in its future customer billings.

Recommendations

To help ensure that Counce bills and reports the correct rates and complies with its tariff on a going-forward basis, Staff makes and requests approval by the Commission of the following recommendations:

1. Counce is directed to file a PGA tariff by June 30, 2023, to implement its new negative ACA rate (\$.7865) and to continue billing this ACA rate until the completion of Staff's next audit;
2. Counce is directed to file its billing rates for the period with Staff prior to billing its customers;
3. Counce is directed to send its ACA summary electronically to Staff on a quarterly basis for review;⁹ and

⁶ Staff's calculation of this balance is shown in Section VIII, ACA Findings.

⁷ Small gas companies, such as Counce, do not automatically surcharge or refund the balance in the ACA account until the Staff's audit is complete and the surcharge or refund factor is determined by the Commission.

⁸ See Attachment 1 for detail of the calculation of the ACA factor.

⁹ This review will not be a part of the annual audit process.

4. Counce is directed to use the **negative** \$11,648.86 corrected ACA ending balance at September 30, 2022, as the beginning balance in the next ACA filing.

The intent of these recommendations is to assist Counce, by ensuring that the Company bills the Commission approved rates and correctly reports these rates in its ACA Account. The recommendations will also provide a mechanism to monitor the ACA balance. Monitoring the ACA balance quarterly will help both the Company and Staff to be timely aware of when the balance becomes significantly over- or under-recovered and an interim tariff filing to adjust the PGA rate may be necessary.

APPENDIX A

PGA FORMULA

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

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

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

where

GCA = The Gas Charge Adjustment in dollars per Ccf/Therm, rounded to no more than five decimal places.

D = The sum of all fixed Gas Costs.

DACA = The demand portion of the ACA.

P = The sum of all commodity/gas charges.

T = The sum of all transportation charges.

SR = The sum of all FERC approved surcharges.

CACA = The commodity portion of the ACA.

DB = The per unit rate of demand costs or other fixed charges included in base rates in the most recently completed general rate case (which may be zero if the Company so elects and the Commission so approves).

CB = The per unit rate of variable gas costs included in base rates in the most recently completed general rate case (which may be zero if the Company so elects and the Commission so approves).

SF = Firm Sales.

ST = Total Sales.

The computation of the RA can be computed using the following formulas:

$$\text{Firm RA} = \frac{\text{DR1} - \text{DR2}}{\text{SFR}} + \frac{\text{CR1} - \text{CR2} + \text{CR3} + i}{\text{STR}}$$

$$\text{Non-Firm RA} = \frac{\text{CR1} - \text{CR2} + \text{CR3} + i}{\text{STR}}$$

where

- RA = The Refund Adjustment in dollars per Ccf/Therm, rounded to no more than five decimal places.
- DR1 = Demand refund not included in a currently effective Refund Adjustment, and received from suppliers by check, wire transfer, or credit memo.
- DR2 = A demand surcharge from a supplier not includable in the GCA, and not included in a currently effective Refund Adjustment.
- CR1 = Commodity refund not included in a currently effective Refund Adjustment, and received from suppliers by check, wire transfer, or credit memo.
- CR2 = A commodity surcharge from a supplier not includable in the GCA, and not included in a currently effective Refund Adjustment.
- CR3 = The residual balance of an expired Refund Adjustment.
- i = Interest on the "Refund Due Customers" account, using the average monthly balances based on the beginning and ending monthly balances. The interest rates for each calendar quarter used to compute such interest shall be the arithmetic mean (to the nearest one-hundredth of one percent) of the prime rate value published in the "Federal Reserve Bulletin" or in the Federal Reserve's "Selected Interest Rates" for the 4th, 3rd, and 2nd months preceding the 1st month of the calendar quarter.

SFR = Firm sales as defined in the GCA computation, less sales under a transportation or negotiated rate schedule.

STR = Total sales as defined in the GCA computation, less sales under a transportation or negotiated rate schedule.

ATTACHMENT 1

ATTACHMENT 1

Counce Natural Gas Corporation

Calculation of the ACA factor

Docket No. 23-00028

<u>Line No.</u>	Factor to be applied to residential, commercial and industrial customers:	
1	Invoiced Gas Costs (10/1/2021 - 9/30/2022)	\$ <u>50,783.26</u>
2	Gas Cost (PGA) Recovered (10/1/2021 - 9/30/2022)	<u>53,169.34</u>
3	Under/(Over) Recovery (Line 1 minus Line 2)	\$ (2,386.08)
4	Interest on Average Monthly Balances	(393.05)
5	ACA Surcharges/(Refunds) (10/1/2021 - 9/30/2022)	(269.55)
6	Beginning Balance at 10/01/2021	<u>(9,139.28)</u>
7	ACA BALANCE INCLUDING INTEREST at 9/30/2022 (Line 3 + Line 4 - Line 5 + Line 6)	\$ <u>(11,648.86)</u>
8	Sales Volumes (Actual MCF for 12 month ended 9/30/2022)	14,810.40
9	ACA Factor per MCF (Line 7 divided by Line 8)	\$ <u>(0.7865)</u>