BEFORE THE TENNESSEE PUBLIC UTILITY COMMISSION

NASHVILLE, TENNESSEE

January 16, 2024

IN RE:	**)**
	)
COUNCE NATURAL GAS COMPANY	**) Docket No. 23-00082**
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, 2022, through September 30, 2023.

2. The Company's ACA filing was received on December 11, 2023, and the Compliance Audit Staff ("Staff") completed its audit of same on January 16, 2024.

3. On January 12, 2024, the Utilities Division submitted its preliminary ACA audit findings to the Company via e-mail. The Company responded on January 12, 2024, 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 Report and recommendations contained therein.

Respectfully Submitted:

Craig Cox

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Craig Cox, CPA
Financial Regulatory Analyst
Utilities Division
Tennessee Public Utility Commission

CERTIFICATE OF SERVICE

I hereby certify that on this 16th day of January 2024, 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:

Mr. 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

Craig Cox

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Craig Cox

EXHIBIT A

COMPLIANCE AUDIT REPORT

OF

COUNCE NATURAL GAS COMPANY

ACTUAL COST ADJUSTMENT

Docket No. 23-00082

PREPARED BY THE

TENNESSEE PUBLIC UTILITY COMMISSION

UTILITIES DIVISION

January 16, 2024

COUNCE NATURAL GAS COMPANY

COMPLIANCE AUDIT REPORT OF
ACTUAL COST ADJUSTMENT FILING

DOCKET NO. 23-00082

TABLE OF CONTENTS

		PAGE NO.
I.	INTRODUCTION	1
II.	AUDIT OPINION	1
III.	SUMMARY OF COMPANY FILING	1
IV.	BACKGROUND INFORMATION ON COMPANY AND GAS SUPPLIERS	2
V.	JURISDICTION OF THE TENNESSEE PUBLIC UTILITY COMMISSION	3
VI.	DESCRIPTION OF PURCHASED GAS ADJUSTMENT RULE	3
VII.	SCOPE OF ACTUAL COST ADJUSTMENT AUDIT	4
VIII.	ACA FINDINGS	5
IX.	CONCLUSIONS AND RECOMMENDATIONS	8
APPENDIX A - PGA FORMULA		10
ATTACHMENT 1 (CALCULATION OF ACA FACTOR)		13

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 Rule[1] ("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, 2023, were calculated correctly and supported by appropriate source documentation.

II. AUDIT OPINION

Audit Staff ("Staff") reviewed the Company's ACA filing and supporting documentation for its calculation of the ending ACA account balance. Staff's review, which included a random sampling of bills, resulted in two findings. The first finding revealed the Company failed to implement its approved ACA rate from Docket No. 21-00139 for the period from October 2022 through April 2023; this finding resulted in a $5,440.07 over-collection from customers. The second finding represents a $286.45 understatement of interest due to customers; this miscalculation is a byproduct of Finding #1. Each finding is explained more fully in Section VIII. Aside from 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's regulated gas companies.

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

III. SUMMARY OF COMPANY FILING

On December 11, 2023, Staff received Counce's ACA filing supporting the activity in its deferred gas cost account ("ACA Account") for the period October 1, 2022, through September 30, 2023. For this twelve-month period, the Company's ACA filing showed a negative beginning balance of $11,648.86 in over-recovered gas costs from the prior ACA period, $61,380.90 in total gas costs for the current period, $41,973.07[3] net recovered from customers through rates, and $179.53 in interest payable to Counce. These balances, which are summarized below, resulted in a reported ACA account balance at September 30, 2023, of $7,938.50, where the positive balance represents an under-recovery of gas costs.

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[1] Commission Rule 1220-4-7.
[2] The ACA is more fully described in Section VI.
[3] This amount includes both PGA adjustment recoveries and ACA adjustment recoveries.

COUNCE NATURAL GAS COMPANY
ACA FILING OCTOBER 2022 TO SEPTEMBER 2023:[4]

Line No.		Company (as filed)
1	Beginning Balance at 10/01/22	($ 11,648.86)
2	**Activity During Current Period:**	
3	Plus Gas Costs	61,380.90
4	Minus ACA Credits	(10,099.88)
5	Minus PGA Recoveries	52,072.95
6	Ending Balance before Interest (line 1 + line 3 - line 4 – line 5)	$ 7,758.97
7	Plus Interest	179.53
8	**Ending Balance Including Interest at 09/30/23 (line 6 + line 7)**	**$ 7,938.50**

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. Craig Cox 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 "trues-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 2022 to September 2023.

To accomplish the audit goal, Staff reviewed gas supply invoices, copies of the Company's supplier account balances, 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 discussed 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

The Staff's audit resulted in a net over-recovery adjustment of $(5,726.52), decreasing the Company's under-recovered balance on September 30, 2023, by this amount. A summary of the account filed by the Company and adjusted by the Staff is shown below, followed by a detailed description of each finding.

SUMMARY OF THE ACA ACCOUNT: **

Line No.		Company (as filed)	Staff (as adjusted)	Difference (Findings)
1	Beginning Balance at 10/01/22	(11,648.86)	(11,648.86)	0.00
2	Plus Gas Costs	61,380.90	61,380.90	0.00
3	Minus ACA Credits	(10,099.88)	(4,659.81)	5,440.07
4	Minus PGA Recoveries	52,072.95	52,072.95	0.00
5	Ending Balance before Interest	7,758.97	2,318.90	(5,440.07)
6	Plus Interest	179.53	(106.92)	(286.45)
7	**Ending Balance Including Interest at 09/30/23 (line 5 + line 6)**	**7,938.50**	**2,211.98**	**(5,726.52)**

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

SUMMARY OF FINDINGS:

FINDING #1	Billing error (reporting error)	$ (5,440.07)	Over-Recovery
FINDING #2	Understated interest due customer	(286.45)	Over-Recovery
	Net Result	**$ (5,726.52)**	

FINDING #1:

Exception
The Company failed to implement its revised ACA credit factor during the first seven (7) months of its ACA review period, yet the Company used the approved (correct) ACA factor to compute its ending ACA account balance.

Discussion
As shown in the table below, the Company billed its customers using an ACA rate that was different from its approved tariff rate for the initial seven (7) months of its ACA review period. Furthermore, the Company reported that it (a) billed properly and (b) used the proper tariff rates in computing its September 30, 2023, ending ACA account balance.

Month	Billed ACA Rate	Company's Rate per its ACA Spreadsheet	Approved ACA Rate per 21-00139
October 2022	($0.2000)	($0.6841)	($0.6841)
November 2022	($0.2000)	($0.6841)	($0.6841)
December 2022	($0.2000)	($0.6841)	($0.6841)
January 2023	($0.2000)	($0.6841)	($0.6841)
February 2023	($0.2000)	($0.6841)	($0.6841)
March 2023	($0.2000)	($0.6841)	($0.6841)
April 2023	($0.2000)	($0.6841)	($0.6841)

Staff employed a random sampling of bills that revealed the Company failed to implement its revised ACA credit factor ($0.6841/MCF) as approved in Docket No. 21-00139 for the period from October 2022 through April 2023. Although the Company billed customers with the incorrect ACA factor for those seven months, the Company reported in its ACA spreadsheet that it used its approved (correct) ACA factor for that period to compute its ending under-recovered ACA account balance. This imbalance resulted in a $5,440.07 over-collection from customers during these months and an equal overstatement in the Company's calculated ACA balance at September 30, 2023.

Company Response
The Company accepts this finding. It was an unintentional oversight on the company's part and the company will endeavor to not let this happen again in the future.

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 in net interest due to customers. As a result, this finding decreases the Company's reported under-recovered ACA Account Balance by an additional $286.45.

Company Response

The Company accepts this finding.

IX. CONCLUSIONS AND RECOMMENDATIONS

The correct balance in the ACA account as of September 30, 2023, is **$2,211.98 in under-recovered (under-collected) gas costs**.[6] This balance will be used as the beginning balance for the Company's October 2023 through September 2024 ACA filing. Spreading the $2,211.98 under-collected balance over the 12 months-to-date September 2023 gas sales of 14,505.00 MCF yields an **ACA adjustment factor[7] of $0.1525 customer surcharge per MCF**.[8]

During the audit, Staff found that Counce failed to implement its revised ACA factor during the period from October 2022 through April 2023, yet reported it charged the proper rate during this period. This seven-month discrepancy resulted in customer overcharges and additional interest payable to its customers. The incorrectly billed ACA credit factor led to an increase of $5,440.07 in gas cost recovery and $286.45 in additional interest due to customers, for a total $5,726.52 Staff-adjusted reduction in the Company's reported ACA ending balance. In its response to these findings, the Company admitted its mistake in applying its tariff rates for the initial seven months of the audit period and indicated its intention to prevent this error in the future.

During the audit, Staff also found that the Company's proposed new ACA rate factor was incorrectly computed due to using *purchase* volumes rather than *sales* volumes. 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 ACA factor of $0.1525/MCF in its future customer billings.

Recommendations

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

1. As soon as possible, Counce is directed to file a PGA tariff to implement its new ACA rate surcharge of $0.1525/MCF and continue billing this ACA rate until the completion of Staff's next audit;
2. Counce is directed to file its revised tariff with its new billing rates with Staff ***prior*** to implementing and billing the new rate factor to its customers;
3. Counce is directed to send its ACA account summary electronically to Staff on a ***quarterly basis*** for review;[9] and
4. Counce is directed to use the $2,211.98 ACA account's ending under-recovered balance at September 30, 2023, as the beginning balance in its next ACA filing.

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[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.

The intent of these recommendations is to assist Counce by ensuring that the Company bills the Commission-approved rates and correctly records these rates in its ACA Account. The recommendations will also provide a mechanism for monitoring the ACA balance. Reviewing the ACA account balance quarterly will assist both the Company and Staff in being timely aware of any significant over- or under-recovered gas costs, which may require an interim tariff filing for a revised PGA factor.

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.

ATTACHMENT 1

ATTACHMENT 1

Counce Natural Gas Corporation

Calculation of the ACA factor

Docket No. 23-00082

Line No.	Volumetric factor to be applied to residential, commercial, and industrial customers		
1	Invoiced Gas Costs (10/1/2022 - 9/30/23)	$	61,380.90
2	Gas Cost (PGA) Recovered (10/1/2022 - 9/30/23)		52,072.95
3	Under/(Over) Recovery (line 1 minus line 2)	$	9,307.95
4	Interest on Average Monthly Balances		(106.92)
5	ACA Surcharges/(Refunds) (10/1/2022 - 9/30/23)		(4,659.81)
6	Beginning Balance at 10/01/22		(11,648.86)
7	**ACA BALANCE INCLUDING INTEREST at 9/30/23 (line 3 + line 4 - line 5 + line 6)**	$	**2,211.98**
8	Sales Volumes (Actual MCF for 12 months ended 9/30/23)		14,505.00
9	ACA Factor per MCF (line 7 divided by line 8)	$	**0.1525**