

BEFORE THE TENNESSEE PUBLIC UTILITY COMMISSION

NASHVILLE, TENNESSEE

March 3, 2026

IN RE:)
)
COUNCE NATURAL GAS COMPANY) **Docket No. 25-00094**
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, 2024, through September 30, 2025.
2. The Company’s ACA filing was received on December 16, 2025, and the Compliance Audit Staff (“Staff”) completed its audit of same on March 3, 2026.
3. On February 23, 2026, the Utilities Division submitted its preliminary ACA audit findings to the Company via e-mail. The Company responded on February 24, 2026, 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:

Aisha Salem

Aisha Salem
Utilities Consultant
Utilities Division of the
Tennessee Public Utility Commission

CERTIFICATE OF SERVICE

I hereby certify that on this 3rd day of March 2026, a copy of the foregoing has been either hand-delivered or delivered via email, to the following persons:

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Tennessee Public Utility Commission
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Mrs. Candy Horton
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Aisha Salem

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EXHIBIT A

COMPLIANCE AUDIT REPORT

OF

COUNCE NATURAL GAS COMPANY

ACTUAL COST ADJUSTMENT

Docket No. 25-00094

PREPARED BY THE

TENNESSEE PUBLIC UTILITY COMMISSION

UTILITIES DIVISION

March 2026

COUNCE NATURAL GAS COMPANY
COMPLIANCE AUDIT REPORT OF
ACTUAL COST ADJUSTMENT FILING
DOCKET NO. 25-00094

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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, 2025, 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 audit, which included a random sampling of bills, resulted in three total findings: two monetary and one non-monetary. The first finding identified that the Company overstated its ACA Recoveries, resulting in an under-recovery of gas costs of \$130.89. The second finding, which stems from the misstatement in finding #1, resulted in an additional under-collection of \$3.81 related to understated interests due from customers. The third finding concerns noncompliance with the Company's approved tariff, specifically, the Company's billed PGA and ACA rates were not supported by its tariff. Although this finding does not affect the overall ACA balance, billing customers at an unauthorized rate is a violation of the Commission-approved tariff. Each finding is explained more fully in Section VIII.

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

III. SUMMARY OF COMPANY FILING

On December 16, 2025, Staff received Counce's ACA filing supporting the activity in its deferred gas cost account ("ACA Account") for the period October 1, 2024, through September 30, 2025. For these twelve months, the Company's ACA filing showed a positive beginning balance of \$5,913.03 in under-recovered gas costs from the prior ACA period, \$63,144.91 in total gas costs for the current period, \$67,011.74³ net recovered from customers through rates, and \$335.51 in interest due from customers. These balances, which are summarized below, resulted in a reported ACA account balance at September 30, 2025, of \$2,381.71, where the positive balance represents an under-recovery of gas costs.

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 2024 TO SEPTEMBER 2025:⁴**

<u>Line No.</u>		Company (as filed)
1	Beginning Balance at 10/01/24	\$ 5,913.03
2	<u>Activity During Current Period:</u>	
3	Plus Gas Costs	63,144.91
4	Minus ACA Refunds	2,781.97
5	Minus PGA Recoveries	<u>64,229.77</u>
6	Ending Balance before Interest (line 1 + line 3 - line 4 – line 5)	\$ 2,046.20
7	Plus Interest	<u>335.51</u>
8	Ending Balance Including Interest at 09/30/25 (line 6 + line 7)	<u>\$ 2,381.71</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.

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:

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.

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. Aisha Salem and Grace Marek 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 2024 to September 2025.

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.

VIII. ACA FINDINGS

Staff reviewed the gas costs and recoveries of Counce Natural Gas Company for the 12-month period ending September 30, 2025. The Staff’s audit findings totaled a net under-recovery adjustment of \$134.69, which increases the Company’s calculated under-recovered balance on September 30, 2025, by the same 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.

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.

SUMMARY OF THE ACA ACCOUNT: **

Line No.		Company (as filed)	Staff (as adjusted)	Difference (Findings)
1	Beginning Balance at 10/01/24	5,913.03	5,913.03	0.00
2	Plus Gas Costs	63,144.91	63,144.91	0.00
3	Minus ACA Recoveries	2,781.97	2,651.09	(130.89)
4	Minus PGA Recoveries	64,229.77	64,229.77	0.00
5	Ending Balance before Interest	2,046.20	2,177.08	130.89
6	Plus Interest	335.51	339.32	3.81
7	Ending Balance Including Interest at 09/30/25 (line 5 + line 6)	2,381.71	2,516.40	134.69

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

SUMMARY OF FINDINGS:

FINDING #1: Billing error from incorrect ACA factors	\$ 130.89	Under-Recovery
FINDING #2: Understated Interest due from Customers	\$ 3.81	Under-Recovery

Net Result	\$134.69	Under-Recovery

Non-Monetary Findings:

FINDING #3: The Company implemented PGA and ACA rates that are not supported by its tariff.

FINDING #1:

Exception

The Company overstated its ACA Recoveries.

Discussion

The ACA recoveries are calculated by multiplying the monthly sales volumes by the ACA rates actually billed by the Company. During the bill audit, the Audit Staff discovered that the Company reported different ACA recovery rates than what was actually billed to customers in its filing for March 2025, April 2025, and May 2025. The Company’s filing does not accurately reflect the actual ACA rates charged to customers during that time. Staff recalculated the ACA account balance using the actual rates billed to customers during this period, reflecting the true amount recovered by the company.

	<u>Billed</u> ACA Rate	<u>Reported</u> ACA Rate
March 2025	.1500	.1525
April 2025	.1500	.1525
May 2025	.1500	.4500

This finding represents an under-recovery of gas costs of \$130.89.

Company Response

The company accepts the finding and will use all of the decimal places going forward.

FINDING #2:

Exception

The Company understated the amount of interest due from customers in the review period.

Discussion

Staff recalculated interest based upon Audit Finding #1. This adjustment increased net interest due from customers. Consequently, this finding increases the Company’s reported under-recovered ACA Account Balance by an additional \$3.81.

Company Response

The Company accepts the finding.

FINDING #3:

Exception

The Company billed PGA and ACA rates that are not supported by its tariff.

Discussion

As shown in the table below, the Company billed its customers using ACA rates that were rounded from the full decimal rates approved in its tariff during the first eight (8) months of the Audit review period. In addition, the Company implemented a new rate in June 2025, prior to the effective date of the tariff rate on June 30, 2025. The new tariff rate should only have been applied prospectively to usage occurring on and after the effective date.

For utilities that issue monthly bills, the new rate may either be prorated based on the number of days before and after the rate change or applied beginning with the next full billing cycle. From October 2024 to May 2025, the Company continued to bill customers at a rounded ACA rate rather than the full decimal rate approved in its tariff.

	<u>Approved ACA Rate</u>	<u>Billed PGA Rate</u>
Oct-24	0.1525	0.1500
Nov-24	0.1525	0.1500
Dec-24	0.1525	0.1500
Jan-25	0.1525	0.1500
Feb-25	0.1525	0.1500
Mar-25	0.1525	0.1500
Apr-25	0.1525	0.1500
May-25	0.1525	0.1500
Jun-25	0.1525	0.4500

As shown in the table below, the Company billed its customers using PGA rates, which differed from approved tariff rates throughout all twelve (12) months of its Audit review period.

	<u>Approved PGA Rate</u>	<u>Billed PGA Rate</u>
Oct-24	3.22	4.16
Nov-24	3.22	4.16
Dec-24	3.22	4.16
Jan-25	3.22	5.38
Feb-25	3.22	4.37
Mar-25	3.22	4.37
Apr-25	3.22	4.37
May-25	3.22	4.37
Jun-25	3.22	4.17
Jul-25	3.22	4.17
Aug-25	3.22	4.17
Sep-25	3.22	4.17

Although Counce billed incorrect rates instead of the Commission-approved tariff rates, the calculation of the Ending Balance in the Actual Cost Adjustment Account is based on gas costs incurred compared to the gas costs actually recovered from customers. Therefore, Staff must verify the Company's calculation of the Ending Balance using the rates actually billed, as confirmed through the sample bill audit.

The discovery of incorrect billing rates does not result in a monetary adjustment to the ACA Account; however, it does represent a serious finding. Billing customers at rates not approved by the Commission is a violation of the Company's tariff. Any attempt by the Company to manage or adjust its ACA Account balance by altering billing rates is inappropriate and not authorized. Changes to the PGA rates must be made through a tariff filing submitted in accordance with Commission Rules.

Company Response

The company accepts the finding and will endeavor to comply with stated rules and regulations going forward. The PGA rate changes were not meant in any way as an attempt to manipulate the ACA and were only made to reflect the cost of gas purchased. The company sometimes does not have access to the current PGA rate until the day of billing. This makes it difficult to get approval from the Commission. The Company will do its best to get approval for our PGA rates in the future.

VIII. CONCLUSIONS AND RECOMMENDATIONS

The correct balance in the ACA account as of September 30, 2025, is **\$2,516.40 in under-recovered (under-collected) gas costs.**⁶ This balance will be used as the beginning balance for the Company's October 2025 through September 2026 ACA filing. Spreading the \$2,516.40 under collected balance over the 12 months-to-date September 2025 gas sales of 14,926 MCF yields an ACA adjustment factor⁷ of \$0.1686 customer surcharge per MCF.⁸

During the audit, Staff found that Counce reported different ACA recoveries than what was actually billed for three months during the audit period: March 2025, April 2025, and May 2025. This error resulted in an under-collection of gas costs from customers, totaling \$130.89. After correcting this misstatement, Staff recalculated interest and determined that the adjustment results in an increase of \$3.81 in net interest due from customers, as the corrected ACA balance reflects a higher under-recovery.

In addition, Staff audit revealed that the Company billed both Purchase Gas Adjustment (PGA) and Actual Cost Adjustment (ACA) rates that were inconsistent with those approved in its tariff. Specifically, ACA rates were rounded rather than using the authorized full decimal value, and a new ACA rate was implemented before its approved effective date. Additionally, the Company billed PGA rates that deviated from the Commission-approved rates. Although the finding does not result in a monetary adjustment to the ACA account, it raises serious concerns regarding tariff compliance. Any unauthorized deviation from approved rates undermines regulatory oversight, and any changes to PGA or ACA rates must be submitted through an appropriate tariff filing process.

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 Commission of the following recommendations:

1. Counce is directed to file ACA tariffs to implement any new ACA rates 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 \$2,516.40 ACA account's ending under-recovered balance at September 30, 2025, as the beginning balance in its next ACA filing.

The intent of these recommendations is to assist Counce by ensuring that the Company bills the

⁶ Staff's calculation of this balance is detailed 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.

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 promptly aware of any significant over- or under-recovered gas costs, which may require an interim tariff filing to revise the PGA factor.

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. 25-00094

<u>Line No.</u>	Volumetric factor to be applied to residential, commercial, and industrial customers	
1	Invoiced Gas Costs (10/1/2024 - 9/30/25)	\$ <u>63,144.91</u>
2	Gas Cost (PGA) Recovered (10/1/2024 - 9/30/25)	<u>64,229.77</u>
3	Under/(Over) Recovery (line 1 minus line 2)	\$ (1,084.86)
4	Interest on Average Monthly Balances	339.32
5	ACA Surcharges/(Refunds) (10/1/2024 - 9/30/25)	2,651.09
6	Beginning Balance at 10/01/24	<u>5,913.03</u>
7	ACA BALANCE INCLUDING INTEREST at 9/30/25 (line 3 + line 4 - line 5 + line 6)	\$ <u>2,516.40</u>
8	Sales Volumes (Actual MCF for 12 months ended 9/30/25)	14,926.00
9	ACA Factor per MCF (line 7 divided by line 8)	\$ <u>0.1686</u>