BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE

JULY 29, 1999

IN RE:	)	
GASCO DISTRIBUTION SYSTEMS, INC.	)	**DOCKET NO.: 98-00607**
ACTUAL COST ADJUSTMENT (ACA) AUDIT	)	

ORDER ADOPTING ACA AUDIT REPORT OF AUTHORITY'S STAFF

This matter came before the Tennessee Regulatory Authority (hereafter the "Authority") at a regularly scheduled Authority Conference held on February 16, 1999, for consideration of the report of the Authority's Energy and Water Division (hereafter the "Staff") resulting from the Staff's audit of Gasco Distribution Systems Inc.'s (hereafter "Gasco" or the "Company) annual deferred gas cost account filing for the year ended June 30, 1998. The ACA Audit Report (hereafter the "Report"), attached hereto as Exhibit A, contains the audit findings of the Staff, the responses thereto of Gasco, and the Staff's recommendations in addressing its findings. As stated in the Report, the Company agreed with each of the Staff's findings. The Company's initial filing indicated an under-recovery of gas costs in the amount of $10,801.41. The Staff's audit findings, however, reduced the Company's under-recovery by $74.85 to $10,726.56.

After consideration of the ACA Audit Report, the Authority unanimously approved and adopted the findings and recommendations contained therein.

IT IS THEREFORE ORDERED THAT:

1. The ACA Audit Report is approved and adopted, including the findings and recommendations contained therein; and

2. Any party aggrieved by the Authority's decision in this matter may file a Petition for Reconsideration with the Authority within ten (10) days from the date of this Order.

Melvin J. Malone, Chairman

H. Lynn Greer, Jr., Director

Sara Kyle, Director

ATTEST:

K. David Waddell, Executive Secretary

COMPLIANCE AUDIT REPORT

OF

GASCO DISTRIBUTIONS SYSTEMS, INC.

ACTUAL COST ADJUSTMENT

PREPARED BY

TENNESSEE REGULATORY AUTHORITY

ENERGY AND WATER DIVISION

FEBRUARY, 1999

EXHIBIT A

COMPLIANCE AUDIT

GASCO DISTRIBUTIONS SYSTEMS, INC.

ACTUAL COST ADJUSTMENT

TABLE OF CONTENTS

I. JURISDICTION AND POWER OF THE TENNESSEE REGULATORY AUTHORITY

Tennessee Code Annotated (T.C.A.) §65-4-104 gave jurisdiction and control over public utilities to the Tennessee Public Service 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.

The TRA responded to T.C.A. §65-4-111 by establishing its own rule 1220-4-1-1.11 regarding the uniform system of accounts which public utilities should maintain. The TRA's rule provides:

> 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.

II. PURPOSE OF COMPLIANCE AUDITS

The two basic reasons for compliance audits are to assure compliance with the Uniform System of Accounts (USOA) and to assure that the utility is following all rules, regulations and directives adopted by the TRA.

Compliance audits provide the foundation of assurance underlying the basic objective of regulatory accounting, which is to provide a uniform method of recording transactions among similar companies. This uniform record keeping is accomplished through the adoption of the USOA and insures the integrity, reliability, and comparability of the financial data contained in financial reports filed with the TRA, which provides the TRA with one of its most useful regulatory tools for establishing just and reasonable rates.

III. DESCRIPTION OF PURCHASED GAS ADJUSTMENT (PGA) RULE

The Tennessee Regulatory Authority issued an Order in Docket No. G-86-1, which adopted a new PGA rule beginning July 1, 1992. The PGA Rider is intended to permit 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. This 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 TRA 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.

IV. AUDIT TEAM

The TRA's Energy and Water Division is responsible for conducting ACA audits. The audit was conducted by Pat Murphy and Bob Poff of the Energy and Water Division.

V. OBJECTIVE AND SCOPE OF AUDIT

The order for Docket G-86-1 required that the Company

> each year...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 this Rule...

The objective of this audit was to determine that Purchased Gas Adjustments, which are encompassed by the ACA and were described earlier, approved by the TRA during the period from July 1, 1997, to June 30, 1998, had been calculated correctly and were supported by appropriate source documentation. To accomplish this task, the Staff conducted in-house audit work, during which the Company's calculations of gas costs incurred and gas costs recovered were tested

The Staff also audited a sample of customer bills to determine if the proper PGA rates were being applied in the Company's calculation of the customers' bills. These bills were selected to be representative of the residential, commercial, industrial and interruptible customers in each of the Company's service areas. The sample was selected from all twelve months of the audit period. After recalculating each sample bill, the Staff was in agreement with the Company's calculations in deriving the amount on each bill. Therefore, the Staff contends that, as a result of this sample, the Company is correctly calculating its bills to all customers.

The Staff's last ACA audit of Gasco Distribution Systems, Inc. was conducted in 1997 covering the period from July 1, 1996 to June 30, 1997.

VI. BACKGROUND INFORMATION ON COMPANY AND GAS SUPPLIERS

Gasco Distribution Systems, Inc. (Company), with its office located in Jellico, Tennessee, is a subsidiary of The Titan Energy Group, Inc., which has its headquarters at 4435 East Pike, Zanesville, Ohio. The Company is a gas distributor which provides service to the City of Jellico, located in northeast Tennessee in Campbell county. It has approximately 335 customers and an annual sales volume of approximately 43,000 MCF. In addition to Tennessee, Gasco Distributions Systems also operates in Kentucky, Ohio, Pennsylvania, and West Virginia.

The natural gas used to serve this area is provided by GASCO, Inc. (the fuel manager), through long-term contracts with nonaffiliated third parties that deliver gas to the city gate.

VII. ACA FINDINGS

The Company began refunding in April, 1997 the over-collection of $31,595.36 found in a previous audit. In Docket Nos. 97-00160 and 97-00293 the TRA ordered that this over-collection be refunded over a three-year period. As of June 30, 1998, the Company has refunded $13,458.45.

An ACA filing was submitted by the Company on September 1, 1998, covering the period July 1, 1997, to June 30, 1998. This filing reflected an under-collection of gas costs from Tennessee customers for the period of $10,801.41. The Staff's audit results showed an over-collection in the ACA account of $74.85. A list of the exceptions noted is summarized below.

SUMMARY:

FINDING #1	Gas Costs	$ 3.00	overrecovery
FINDING #2	Interest on Account Balance	71.85	overrecovery
	Net Result	**$74.85**	**overrecovery**

FINDING #1:

Exception

The Company incorrectly stated Gas Costs for the month of May, 1998.

Discussion

For the month of May, 1998, the Company included in its filing, purchases in the amount of $7,054.50. Supporting documentation in the form of copies of two invoices equaled $7,051.50. The difference resulted in an overrecovery of Gas Costs in the amount of $3.00.

Company Response

The Commpany agrees with the audit findings.

FINDING #2:

Exception

The Company understated the interest due customers by $71.85.

Discussion

The Purchased Gas Adjustment Rule states that the balance in the ACA account "shall be adjusted for interest at the rate provided for the calculation of interest.with respect to the Refund Adjustment". The Company used an incorrect interest rate for the entire audit period. The Company used 8.25% for all four quarters when the correct interest rate was 8.43% for the 3rd quarter of 1997 and 8.5% for the 4th quarter of 1997 and the 1st and 2nd quarters of 1998. When the Staff took into account Finding #1 and the difference resulting from the use of incorrect interest rates, the total additional interest due to customers is $71.85.

Company Response

The Company agrees with the audit findings.

VIII. CONCLUSIONS AND RECOMMENDATIONS

The Staff reviewed the gas costs and recoveries of Gasco Distribution Systems, Inc. for the 12 month period ended June 30, 1998. Based on Findings #1 and #2, the balance in the refund due customers account as of June 30, 1998 should be a negative $18,662.86. The correct ACA adjustment factor to be applied to customer bills, beginning with the February 28, 1998 billing, is a negative $0.3012 (see Attachment 1). This factor takes into account the over-collection calculated in this audit period and will continue the three year refund ordered by the TRA in Docket Nos. 97-00160 and 97-00293. This factor will stay in effect until the Staff's next audit, at which time a new factor will be calculated. The Company's next filing will cover the period July 1, 1998 to June 30, 1999.

In its conclusions and recommendations for the July 1, 1996 to June 30, 1997 ACA audit, the Staff reported that the Company had not complied with the filing requirements of the TRA as ordered in Docket Nos. 97-00160 and 97-00293. At its December 16, 1997 Authority Conference, the Directors reviewed the Staff's report and concluded that a hearing was necessary to determine if the Company had complied with the TRA's May 23, 1997 Order. A Show Cause Hearing was held on September 24, 1998 before Hearing Officer, Chairman Melvin Malone. The resulting October 1, 1998 TRA Order ordered that the Company "cease and desist from its pattern and practice of non-compliance with TRA Rule 1220-4-1-.10" (paragraph 1) and "remit the fines imposed herein to the Authority as stated herein" (paragraph 2).

The Staff has monitored the Company's compliance with the above Order and notes that the Company has met the filing requirements to date. The quarterly report for the quarter ended September 30, 1998 was due on November 30, 1998 and was received on November 30, 1998. The quarterly report for the quarter ended December 31, 1998 will be due on February 28, 1999. The first installment of fines levied against the Company was due January 1, 1999. The TRA received payment of $1,000 from the Company on January 6, 1999.

APPENDIX A

PGA FORMULA

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

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

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

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.