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BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE
February 10, 2000
EXECUTIVE SECRETARY

IN RE:)
)
COUNCE NATURAL GAS COMPANY) Docket No. 99-00928
ACTUAL COST ADJUSTMENT (ACA) AUDIT)

**NOTICE OF FILING BY ENERGY AND WATER DIVISION OF THE TENNESSEE
REGULATORY AUTHORITY**

Pursuant to Tenn. Code Ann. §§ 65-4-104, 65-4-111 and 65-3-108, Energy and Water Division of the Tennessee Regulatory Authority gives notice of its filing of the Counce Natural Gas Company's ACA Audit Report in this docket and would respectfully state as follows:

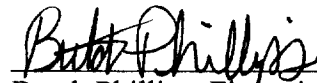
1. The present docket was opened by the Authority to hear matters arising out of the audit of Counce Natural Gas Company (the "Company").
2. The Company's ACA filing was received on November 29, 1999, and the Staff completed its audit of same on February 7, 2000.
3. On February 8, 2000, the Energy and Water Division issued its preliminary ACA audit findings to the Company, and on February 9, 2000, the Company responded thereto.
4. The preliminary ACA audit report was modified to reflect the Company's responses and a final ACA audit report (the "Report") resulted therefrom. The Report is

POSTED
2-10-2000

attached hereto as Exhibit A and is fully incorporated herein by this reference. The Report contains the audit findings of the Energy and Water Division, the Company's responses thereto and the recommendations of the Energy and Water Division in connection therewith.

5. The Energy and Water Division hereby files its Report with the Tennessee Regulatory Authority for deposit as a public record and approval of the recommendations and findings contained therein.

Respectfully Submitted:

A handwritten signature in black ink, appearing to read "Butch Phillips", is written over a horizontal line.

Butch Phillips, Financial Analyst
Energy and Water Division of the
Tennessee Regulatory Authority

CERTIFICATE OF SERVICE

I hereby certify that on this 10 day of February, 2000, 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. K. David Waddell
Executive Secretary
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37243

Mr. Ted Tumlinson, President
Counce Natural Gas Company
P.O. Box 736
West Point, MS 39773



Butch Phillips

COMPLIANCE AUDIT REPORT

OF

COUNCE NATURAL GAS COMPANY

ACTUAL COST ADJUSTMENT

DOCKET #99-00928

PREPARED BY THE

TENNESSEE REGULATORY AUTHORITY

ENERGY AND WATER DIVISION

February, 2000

POSTED
2-10-2002

COMPLIANCE AUDIT
COUNCE NATURAL GAS COMPANY
ACTUAL COST ADJUSTMENT
DOCKET #99-00928

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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 were transferred from the Tennessee Public Service Commission (TPSC or 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. §65-4-111 gives the TRA the power to require public utilities to maintain a Uniform System of Accounts. T.C.A. §65-4-111 states that:

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 Rule 1220-4-1-1.11 regarding the uniform system of accounts which public utilities should maintain. The TRA’s rule provides that all utilities follow the Uniform System of Accounts as adopted and amended by the National Association of Regulatory Utility Commissioners (NARUC).

The TRA received its authority to examine the books and records of public utilities from T.C.A. §65-3-108 which states that the TRA shall possess:

...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.

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 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 "true-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.

IV. AUDIT TEAM

The TRA's Energy and Water Division is responsible for conducting compliance audits of gas, water, and electric utilities. This audit was conducted by Butch Phillips 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 above, approved by the TRA during the period from October 1, 1998 to September 30, 1999, 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 gas supplier invoices were examined and calculations of gas costs recovered were made.

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 and industrial customers. The sample was selected from all twelve months of the audit period.

The Staff's last ACA audit of Counce Natural Gas was conducted in 1999 and covered the period October 1, 1997 through September 30, 1998.

VI. COMPANY BACKGROUND

Counce Natural Gas Company (Counce), with its headquarters in West Point, 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, per Docket #95-03379. The natural gas used to serve this area is purchased from Midcoast Marketing, Inc. The gas purchases are made in accordance with separate and individual tariffs approved by the Federal Energy Regulatory Commission, while the gas transported is purchased under contract or on the spot market.

VII. ACA FINDINGS

Since Counce is a small Company without benefit of an accounting staff, it did not make an official ACA filing. By letter dated November 16, 1999, the Staff requested that the Company supply information detailing its gas purchases and gas sales for the period October 1, 1998 through September 30, 1999, to enable the Staff to calculate gas costs incurred and gas costs recovered from its customers. On November 29, 1999, the Company responded to the request. The Staff's audit results show an **over-collection** (including interest) of gas costs during the ACA period of **\$1,603.26**.

The Company began the audit period with \$19,662.86 (see Attachment 2) in over recovered gas costs yet to be refunded to its customers accrued from the last ACA audit conducted by the TRA. Counce has made great strides in attempting to refund (the company has refunded \$8,989.66 from the last audit) the excess gas costs, however the company experienced lower than expected gas sales for the audit period and incurred an additional small over recovery for this audit period of \$208.33. Thus, bringing the new balance, including interest, \$12,286.46

SUMMARY:

FINDING #1	Incorrect Customer Billing		No effect
FINDING #2	Incorrect PGA Adjustments	\$208.33	Over-collection
FINDING #3	Interest Adjustment	<u>1,394.93</u>	Over-collection
NET RESULT		<u>\$1,603.26</u>	Over-collection

FINDING #1

Exception

The Company failed to correctly apply its tariff when billing its customers.

Discussion

After reviewing a sample of the Company's customer bills, it was found that the approved tariff was not being consistently applied to all customers. The Company is authorized to charge a monthly customer charge, regardless of usage, that is was not billing certain customers. The incorrect billings did not affect the Purchased Gas Adjustment rate (PGA).

Company Response

The Company agrees with Staff findings.

FINDING #2

Exception

*The Company has charged incorrect PGA rates in billing its customers, resulting in an **over-collection** of gas costs in the amount of \$208.33.*

Discussion

The Company charged an incorrect PGA factor during part of the audit period, October 1998 through February 1999. As a result of difficulties with prior rate proceedings, the staff during the previous PGA proceeding worked with Mr. Evan Tumlinson, owner of Counce, to ensure proper billing by him. Mr. Tumlinson was directed to submit customer bills from March 1999 to verify that the correct PGA factor was being applied. After reviewing the bills it was determined that the correct factor was being used beginning with the March 1999 customer billing.

Company Response

The Company agrees with Staff findings.

FINDING #3

Exception

*Based on Finding #1, the Company has **over-collected** additional gas costs of **\$1,394.93** in monthly interest due customers.*

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”. Those interest rates are determined by the TRA on a quarterly basis. Applying the interest rates to the monthly balances referred to in Finding #1 produces interest due customers in the amount of \$1,394.93. (See Attachment 1)

Company Response

The Company agrees with Staff findings.

VIII. CONCLUSIONS AND RECOMMENDATIONS

During October 1998 through February 1999 of the audit period, the PGA mechanism was not carried out properly by the Company. This was due in part to a timing difference between preparing audit and notifying the Company of the new PGA rate. The Staff in the prior ACA proceeding worked with Mr. Tumlinson to make sure the correct rates were in effect. The new billing rate calculated during the last audit period was \$4.37 per MCF and was to take effect beginning with the March 1999 customer billing. The Company did comply by assessing the correct rate during March 1999.

The company has reduced its prior over collections by a substantial amount since the last PGA filing. In order to refund the current over-collection balance at 9/30/99 of \$12,286.46 over a 12 month period, the Staff has calculated the refund adjustment to be **-\$1.2545** per MCF. (See Attachment 2) The Staff has notified Mr. Tumlinson by letter dated February 10, 2000 that the correct billing rate for its customers beginning with the February, 2000 billing is **\$4.35** per MCF. The rate is made up of the \$2.13 base rate plus the \$3.48 approved purchased gas adjustment plus the **-\$1.25** refund adjustment. In order to assure that Mr. Tumlinson understands the current approved rate, Staff has requested that the rate change be made to his billing system and proof be submitted to Staff that the change was made effective with February 2000 billing. Staff will review the documentation upon receipt and will work with the Company to ensure that the correct rate is put into place.

ATTACHMENT 1

COUNCE NATURAL GAS COMPANY Actual Cost Adjustment 10/1/97 - 09/30/98 Interest Calculation

Line No.	Month (a)	Beginning Balance (b)	Costs (c)	Recoveries (d)	Costs Minus Recoveries (e)	Ending Balance (Before Int.) (f)	Average Monthly Balance (g)	Interest (h)	A/	Ending Balance With Interest (i)
1	Oct-98	(19,662.86)	2,262.13	1,718.11	544.02	(19,118.84)	(19,390.85)	(137.35)		(19,256.19)
2	Nov-98	(19,256.19)	4,709.83	4,377.76	332.07	(18,924.12)	(19,090.16)	(135.22)		(19,059.34)
3	Dec-98	(19,059.34)	8,784.35	6,558.60	2,225.75	(16,833.59)	(17,946.47)	(127.12)		(16,960.71)
4	Jan-99	(16,960.71)	9,697.76	13,044.27	(3,346.51)	(20,307.22)	(18,633.97)	(126.87)		(20,434.09)
5	Feb-99	(20,434.09)	7,235.14	9,427.88	(2,192.74)	(22,626.83)	(21,530.46)	(146.59)		(22,773.42)
6	Mar-99	(22,773.42)	7,575.43	2,474.57	5,100.86	(17,672.56)	(20,222.99)	(137.68)		(17,810.24)
7	Apr-99	(17,810.24)	2,456.15	1,325.20	1,130.95	(16,679.29)	(17,244.77)	(111.37)		(16,790.66)
8	May-99	(16,790.66)	1,803.18	1,098.37	704.81	(16,085.85)	(16,438.26)	(106.16)		(16,192.02)
9	Jun-99	(16,192.02)	1,662.41	549.18	1,113.23	(15,078.79)	(15,635.40)	(100.98)		(15,179.77)
10	Jul-99	(15,179.77)	1,573.36	512.72	1,060.64	(14,119.13)	(14,649.45)	(94.61)		(14,213.74)
11	Aug-99	(14,213.74)	1,480.83	487.22	993.61	(13,220.13)	(13,716.93)	(88.59)		(13,308.72)
12	Sep-99	(13,308.72)	1,639.29	534.64	1,104.65	(12,204.07)	(12,756.39)	(82.39)		(12,286.45)
			<u>50,879.86</u>	<u>42,108.52</u>	<u>8,771.34</u>			<u>(1,394.93)</u>		

A/ Interest rates for the audit period are as follows:

4th Q 1997	8.50%
1st Q 1998	8.17%
2nd Q 1998	7.75%
3rd Q 1998	7.75%

ATTACHMENT 2

Counce Natural Gas Corporation

Calculation of the ACA factor

Line No.	Factor to be applied to residential, commercial and industrial customers:		
1	Cost of Gas Purchased (10/98 - 09/99)	50,879.86	
2	Cost of Gas Recovered	<u>51,088.19</u>	
3	Under/(Over) Recovery	(208.33)	
4	Interest on Average Monthly Balances	(1,394.93)	
5	ACA Refunds (10/98 - 09/99)	8,979.66	
6	Beginning Balance (10/01/98)	<u>(19,662.86)</u>	
7	Balance at 9/30/99	<u>(12,286.46)</u>	Over Recovery
8	Sales Volumes (Actual 12 month ended 9/30/98)	9,794	MCF
9	ACA Factor (line 7 divided by line 8)	<u>(1.2545)</u>	Per MCF