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**Division of Publications**  
 312 Rosa L. Parks Avenue, 8th Floor Tennessee Tower  
 Nashville, TN 37243  
 Phone: 615-741-2650  
 Fax: 615-741-5133  
 Email: sos.information@state.tn.us

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 Effective Date: 9/16/12

# Rulemaking Hearing Rule(s) Filing Form

*Rulemaking Hearing Rules are rules filed after and as a result of a rulemaking hearing. TCA Section 4-5-205*

<b>Agency/Board/Commission:</b>	Tennessee Regulatory Authority
<b>Division:</b>	
<b>Contact Person:</b>	Jean A. Stone, General Counsel
<b>Address:</b>	460 James Robertson Parkway Nashville, Tennessee
<b>Zip:</b>	37243-0505
<b>Phone:</b>	615-741-3191 ext. 170
<b>Email:</b>	jean.a.stone@tn.gov

**Revision Type (check all that apply):**

- Amendment  
 New  
 Repeal

**Rule(s) Revised (ALL chapters and rules contained in filing must be listed here. If needed, copy and paste additional tables. Please enter only ONE Rule Number/RuleTitle per row)**

Chapter Number	Chapter Title
1220-04-07	Purchase Gas Adjustment Rules
Rule Number	Rule Title
1220-04-07-.01	Definitions
1220-04-07-.03	Computations and Application of the Purchased Gas Adjustment (PGA)
1220-04-07-.06	Procedures for Uncollected Gas Cost Recovery Adjustment

(Place substance of rules and other info here. Statutory authority must be given for each rule change. For information on formatting rules go to <http://state.tn.us/sos/rules/1360/1360.htm>)

Chapter 1220-4-7  
Purchased Gas Adjustment Rules

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1220-04-07-.05	Audit of Prudence of Gas Purchases
1220-04-07-.06	Procedures for Uncollected Gas Cost Recovery

Amendments

Paragraph (1) of rule 1220-4-7-.01 Definitions is amended by deleting the text of the paragraph in its entirety and substituting instead the following language so that, as amended, the paragraph shall read:

- (1) "Gas Costs" shall mean the total delivered cost of gas paid or to be paid to Suppliers, including, but not limited to, all commodity/gas charges, demand charges, peaking charges, surcharges, emergency gas purchases, over-run charges, capacity charges, standby charges, gas inventory charges, minimum bill charges, minimum take charges, take-or-pay charges and take-and-pay charges, storage charges, service fees and transportation charges and any other similar charges which are paid by the Company to its gas suppliers in connection with the purchase, storage or transportation of gas for the Company's system supply. Gas costs shall also include uncollected gas costs that have been both billed and determined to be uncollectible and are in excess of the amount of uncollectible gas costs that were approved in the last rate case for each Company.

Authority: Tenn. Code Ann. § 65-2-102, 65-4-104, 65-5-101.

Rule 1220-4-7-.01 Definitions is amended by adding a new definition as paragraph (10) and shall read as follows:

- (10) "Written-off" shall mean determined or deemed to be uncollectible by the Company.

Authority: Tenn. Code Ann. § 65-2-102, 65-4-104.

Subparts (i) & (ii) of part 1. of subparagraph (1)(b) of rule 1220-4-7-.03 Computations and Application of the Purchased Gas Adjustment (PGA) is amended by deleting the text of subpart (i) & (ii) in its entirety and substituting instead the following language so that, as amended, the subparts shall read:

$$(i) \quad \text{Firm RA} = \left( \frac{\text{DR1} - \text{DR2}}{\text{SFR}} \right) + \left( \frac{\text{CR1} - \text{CR2} \pm \text{CR3} \pm \text{U} \pm i}{\text{STR}} \right)$$

$$(ii) \quad \text{Non-Firm RA} = \left( \frac{\text{CR1} - \text{CR2} \pm \text{CR3} \pm \text{U} \pm i}{\text{STR}} \right)$$

Authority: Tenn. Code Ann. § 65-2-102, 65-4-104.

Proposed new subpart (x) of part 2. of subparagraph (1)(b) of rule 1220-4-7-.03 Computations and Application of the Purchased Gas Adjustment (PGA) shall read:

- (x) U = Eligible uncollected gas costs surcharged or refunded under this Rule.

Authority: Tenn. Code Ann. § 65-2-102, 65-4-104.

#### New Rule

Proposed New Rule 1220-4-7-.06 Procedures for Uncollected Gas Cost Recovery shall read:

- (1) Recovery of uncollected gas costs using the modified Refund Adjustment Formula is optional. Any Company electing to recover uncollected gas costs in its annual ACA filing using the modified Refund Adjustment Formula shall comply fully with the following procedures:
  - (a) At the time a customer account balance is written-off, the gas cost and the margin portion of the uncollected amount for each customer account shall be specifically identified from actual amounts billed and a percentage of total gas costs to the total amount written-off established.
  - (b) For purposes of the calculation in (a), other charges, such as late fees, applicable state and local taxes, and collection fees shall not be included in the calculation of the percentage of gas costs to the total amount written-off.
  - (c) If the account balance written-off is later collected in full, the uncollected gas costs shall be credited with the full amount of the gas cost portion of the account.
  - (d) If the account balance written-off is not collected in full, the partial payment shall be allocated and credited to uncollected gas costs using the same percentage established for gas costs in (a).
  - (e) If a Company's billing system (including both computer and manual functions) is not capable of accurately allocating a partial payment, the partial payment shall be credited 100% to uncollected gas costs first, with any remainder treated as recovered margin.
  - (f) For those Companies whose allowance for uncollectible accounts (recovered in base rates) contains a gas cost portion, the amount of that portion shall be netted with the eligible uncollected gas costs included for recovery in the ACA. Each such Company shall submit its calculation of the amount to be netted with actual uncollected gas cost amounts as part of the annual ACA filing.
  - (g) The gas cost portion of written-off account balances and the amount of gas costs recovered from subsequent payments on these accounts shall be charged or credited, as appropriate, to the ACA account at least annually for inclusion in the ACA filing.
  - (h) Any variance between amounts charged or credited in the annual filing of the ACA and the amounts recorded in the monthly reports required in subparagraph (2) shall be reconciled and documented by the Company for review by the TRA Compliance Staff (Staff) during the annual audit of the ACA.
  - (i) Each Company shall file its policy (internal procedures followed) for determining the uncollectibility of a customer account balance, disconnection of a customer's service for non-payment, collection attempts made by the company both before and after an account balance is written-off, and conditions a customer must fulfill to be reconnected to the gas system. This written policy shall be filed with the TRA within thirty (30) days of the effective date of this Rule part.

- (2) Each Company electing to recover uncollected gas costs in the ACA shall comply with the following reporting requirements:
- (a) Customer account balances written-off shall be tracked separately in sufficient detail, so as to permit the Staff to audit write-offs and subsequent payments on written-off accounts.
  - (b) Each Company shall submit a monthly summary report detailing each write-off and each payment to a written-off account for that month and the total amount eligible for recovery in the ACA no later than the first business day of the third month following the reported month, using a format acceptable to the Staff. Corrections or adjustments to these monthly reports shall be timely filed. Failure to submit a required monthly report may result in disallowance of recovery in the ACA of the uncollected gas costs for that month. The Company is responsible for contacting Staff should an extraordinary event prevent the timely filing of this report.
  - (c) Monthly reports shall be electronically filed in Excel format and shall contain, at a minimum, the following information:
    - 1. Information reported at the time an uncollected account balance is written-off:
      - (i) Customer account numbers, with spreadsheet data sorted by account number in ascending order;
      - (ii) Date that account balance is written-off;
      - (iii) Amount of total gas cost written-off;
      - (iv) Amount of total margin written-off;
      - (v) Total amount of gas cost and margin written-off ((iii) plus (iv));
      - (vi) Gas cost percentage of total amount written-off ((iii) divided by (v)); and
      - (vii) Margin percentage of total amount written-off ((iv) divided by (v)).
    - 2. Information reported at the time a full or partial payment is received on an account balance that has been written-off:
      - (i) Customer account numbers, with spreadsheet data sorted by account number in ascending order;
      - (ii) Date that payment was received;
      - (iii) Original write-off date of the account balance applicable to this payment;
      - (iv) Gas cost payment credited to written-off account balance;
      - (v) Margin payment credited to written-off account balance;
      - (vi) Total of gas cost payment (recovery) and margin payment (recovery) ((iv) plus (v));
      - (vii) Gas cost payment percentage of total amount recovered credited to customer account ((iv) divided by (vi)); and
      - (viii) Margin payment percentage of total amount recovered ((v) divided by (vi)).

- (3) Each Company electing to recover uncollected gas costs in its annual ACA filing shall sufficiently demonstrate to Staff that it is making reasonable efforts to collect delinquent accounts prior to the account balance being written-off. As part of the ACA filing, the Company shall submit a report showing the amount of uncollected gas costs by month, the total revenues by month, and the percentage of uncollected gas costs compared to total revenues by month and in total. The Company shall provide an explanation of any significant increase in this percentage from one month to the next.
- (4) Failure of a Company to fully comply with the procedures and/or reporting requirements contained in this Rule part may result in the disallowance of all or a portion of uncollected gas costs eligible for recovery in the ACA during the annual ACA audit.
- (5) Once a Company makes the election to recover uncollected gas costs in the ACA, the Company must continue to file its uncollected gas costs for recovery in the ACA in compliance with this Rule.

Authority: Tenn. Code Ann. § 65-2-102, 65-4-104.

\* If a roll-call vote was necessary, the vote by the Agency on these rulemaking hearing rules was as follows:

Board Member	Aye	No	Abstain	Absent	Signature (if required)
Eddie Roberson, Chairman	X				n/a
Pat Miller, Director	X				
Sara Kyle, Director	X				
Ron Jones, Director	X				

I certify that this is an accurate and complete copy of rulemaking hearing rules, lawfully promulgated and adopted by the Tennessee Regulatory Authority (board/commission/ other authority) on 09/10/2007, and is in compliance with the provisions of TCA 4-5-222.

I further certify the following:

Notice of Rulemaking Hearing filed with the Department of State on: 01/24/2007

Notice published in the Tennessee Administrative Register on: 02/15/2007

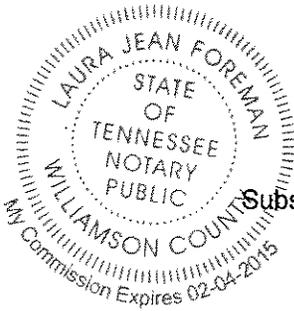
Rulemaking Hearing(s) Conducted on: (add more dates). 03/26/2007

Date: 03/07/2012

Signature: *Kenneth C. Hill*

Name of Officer: Kenneth C. Hill

Title of Officer: Chairman



Subscribed and sworn to before me on: MARCH 7, 2012

Notary Public Signature: *Laura Jean Foreman*

My commission expires on: 02/04/2015

All rulemaking hearing rules provided for herein have been examined by the Attorney General and Reporter of the State of Tennessee and are approved as to legality pursuant to the provisions of the Administrative Procedures Act, Tennessee Code Annotated, Title 4, Chapter 5.

*RE Cooper Jr*

Robert E. Cooper, Jr.  
Attorney General and Reporter

5-24-12  
Date

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Filed with the Department of State on: 6/19/12

Effective on: 9/16/12

*Tre Hargett*  
Tre Hargett

Secretary of State

## **Public Hearing Comments**

One copy of a document containing responses to comments made at the public hearing must accompany the filing pursuant to T.C.A. §4-5-222. Agencies shall include only their responses to public hearing comments, which can be summarized. No letters of inquiry from parties questioning the rule will be accepted. When no comments are received at the public hearing, the agency need only draft a memorandum stating such and include it with the Rulemaking Hearing Rule filing. Minutes of the meeting will not be accepted.

On March 22, 2007, the Petitioners filed joint comments supporting the new rule as proposed by the Authority. The hearing on this matter took place on March 26, 2007. Although no comments were provided at the hearing the Consumer Advocate ("CAPD") request additional time to comment. The request was granted and the CAPD was given until April 9, 2007 to file comments.

### **Comments filed by CAPD on April 9, 2007**

The CAPD's comments can be summarized as follows:

1. The CAPD remains opposed to the Authority's decision to include uncollectible gas costs within the definition of gas costs;
2. The CAPD is concerned that gas companies will have no incentive to expend efforts to collect delinquent accounts;
3. To address this concern, the gas companies should be required to file their proposed internal collection policy procedures well before the effective date of the proposed rules; and
4. The proposed new Rule 1220-4-7-.06(1)(i)<sup>1</sup> should be amended to address this concern.

### **Response to Comments**

Proposed Rule 1220-4-7-.06(1)(i) requires each gas company to file in writing its internal collection policy within thirty (30) days of the effective date of the rules.

Proposed Rule 1220-4-7-.06(2) sets forth monthly reporting requirements.

Proposed Rule 1220-4-7-.06(3) requires accountability from the gas company as to its collection efforts and provides for Staff monitoring of these efforts.

Proposed Rule 1220-4-7-.06(4) gives Staff an avenue to recommend to the Authority the disallowance of all or part of uncollected gas costs as part of the annual ACA audit if a gas company fails to fully comply with the rules.

Proposed Rule 1220-4-7-.06(5) prevents a gas company from making an annual election to recover gas costs in the ACA, based on whether or not net gas cost recoveries exceed net gas costs.

The TRA believes that the CAPD's concerns have been sufficiently addressed in the rules themselves. The CAPD provided no suggested change in the language contained in proposed Rule 1220-4-7-.06(1)(i). Therefore, TRA opines that requiring the filing of written procedures within thirty (30) days of the effective date of the rules is fair and reasonable.

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<sup>1</sup> Proposed Rule part 1220-4-7-.06(1)(i) reads: "Each Company shall file its policy (internal procedures followed) for determining the uncollectibility of a customer account balance, disconnection of a customer's service for non-payment, collection attempts made by the Company both before and after an account balance is written-off, and conditions a customer must fulfill to be reconnected to the gas system. This written policy shall be filed with the TRA within thirty (30) days of the effective date of this Rule part.

**Regulatory Flexibility Addendum**

Pursuant to Public Chapter 464 of the 105<sup>th</sup> General Assembly, prior to initiating the rule making process as described in § 4-5-202(a)(3) and § 4-5-202(a), all agencies shall conduct a review of whether a proposed rule or rule affects small businesses.

N/A

## Additional Information Required by Joint Government Operations Committee

All agencies, upon filing a rule, must also submit the following pursuant to TCA 4-5-226(i)(1).

- (A) A brief summary of the rule and a description of all relevant changes in previous regulations effectuated by such rule;

Proposed Rule 1220-4-7-.06(1)(i) requires each gas company to file in writing its internal collection policy within thirty (30) days of the effective date of the rules. Proposed Rule 1220-4-7-.06(2) sets forth monthly reporting requirements. Proposed Rule 1220-4-7-.06(3) requires accountability from the gas company as to its collection efforts and provides for Staff monitoring of these efforts. Proposed Rule 1220-4-7-.06(4) gives Staff an avenue to recommend to the Authority the disallowance of all or part of uncollected gas costs as part of the annual ACA audit if a gas company fails to fully comply with the rules. Proposed Rule 1220-4-7-.06(5) prevents a gas company from making an annual election to recover gas costs in the ACA, based on whether or not net gas cost recoveries exceed net gas costs. Additionally, current subsections of Rule 1220-4-7.03(1)(a)(4) concerning modification of formulas in the computation and application of purchased gas adjustment (PGA) have been deleted.

- (B) A citation to and brief description of any federal law or regulation or any state law or regulation mandating promulgation of such rule or establishing guidelines relevant thereto;

Guidelines were established in *Order Denying Consumer Advocate's Motion for Summary Judgment, Granting, in Part, and Denying, in Part, Petitioners' Motion for Summary Judgment, Denying Petition for a Declaratory Ruling and Modifying Refund Adjustment Formula*, TRA Docket No. 03-00209 (Feb. 9, 2005).

- (C) Identification of persons, organizations, corporations or governmental entities most directly affected by this rule, and whether those persons, organizations, corporations or governmental entities urge adoption or rejection of this rule;

Natural Gas Providers

- (D) Identification of any opinions of the attorney general and reporter or any judicial ruling that directly relates to the rule;

N/A

- (E) An estimate of the probable increase or decrease in state and local government revenues and expenditures, if any, resulting from the promulgation of this rule, and assumptions and reasoning upon which the estimate is based. An agency shall not state that the fiscal impact is minimal if the fiscal impact is more than two percent (2%) of the agency's annual budget or five hundred thousand dollars (\$500,000), whichever is less;

None

- (F) Identification of the appropriate agency representative or representatives, possessing substantial knowledge and understanding of the rule;

Shilina Chatterjee Brown, Counsel

- (G) Identification of the appropriate agency representative or representatives who will explain the rule at a scheduled meeting of the committees;

Shilina Chatterjee Brown, Counsel

- (H) Office address and telephone number of the agency representative or representatives who will explain the rule at a scheduled meeting of the committees; and

460 James Robertson Parkway, Nashville, TN 37243  
615-741-3191 ext. 154

(I) Any additional information relevant to the rule proposed for continuation that the committee requests.

N/A

## **Impact on Local Governments**

Pursuant to T.C.A. §§ 4-5-220 and 4-5-228 “any rule proposed to be promulgated shall state in a simple declarative sentence, without additional comments on the merits of the policy of the rules or regulation, whether the rule or regulation may have a projected impact on local governments.” (See Public Chapter Number 1070) (<http://state.tn.us/sos/acts/106/pub/pc1070.pdf>) of the 2010 Session of the General Assembly)

(Insert statement here)

The rule is not projected to have an impact on local governments.

**RULES  
OF  
TENNESSEE REGULATORY AUTHORITY  
DIVISION OF PUBLIC UTILITIES**

**CHAPTER 1220-4-7  
PURCHASED GAS ADJUSTMENT RULES**

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1220-4-7-.03	Computations and Application of the Purchased Gas <b>Adjustment (PGA)</b>	1220-4-7-.06	<b>(PGA)Procedures for Uncollected Gas Cost Recovery</b>

**1220-4-7-.01 DEFINITIONS.**

- (1) "Gas Costs" shall mean the total delivered cost of gas paid or to be paid to Suppliers, including, but not limited to, all commodity/gas charges, demand charges, peaking charges, surcharges, emergency gas purchases, over-run charges, capacity charges, standby charges, gas inventory charges, minimum bill charges, minimum take charges, take-or-pay charges and take-and-pay charges, storage charges, service fees and transportation charges and any other similar charges which are paid by the Company to its gas suppliers in connection with the purchase, storage or transportation of gas for the Company's system supply. **Gas costs shall also include uncollected gas costs that have been both billed and determined to be uncollectible that are in excess of the amount of uncollectible gas costs that were approved in the last rate case for each Company.**
- (2) "Company" or "LDC" shall mean local gas distribution company regulated by the Tennessee Regulatory Authority.
- (3) "Fixed Gas Costs" shall mean all Gas Costs based on the Company's right to demand gas or transportation on a daily or seasonal peak; but unless otherwise ordered by the Authority, shall not include other charges paid for gas reserve dedication (*e.g.*, reservation fees and gas inventory charges), minimum bill charges, minimum take charges, overrun charges. Emergency gas charges, take-or-pay and take-and-pay charges (all of which shall be considered commodity costs).
- (4) "Gas Charge Adjustment" shall mean the per unit amount billed by the Company to its customers solely for Gas Costs. The Gas Charge Adjustment shall be separately stated for firm customers and for non-firm customers.
- (5) "Suppliers" shall mean any person or entity, including affiliates of the Company, who locates, purchases, sells, stores and/or transports natural gas or its equivalent for or on behalf of the Company. Suppliers may include, but not be limited to interstate pipeline transmission companies, producers, brokers, marketers, associations, intrastate pipeline transmission companies, joint ventures, providers of liquefied natural gas (LNG), liquefied petroleum gas (LPG), substitute, supplemental or synthetic natural gas (SNG), and other hydrocarbons used as feed-stock, other distribution companies and end-users.
- (6) "Computation Period" shall mean the twelve (12) month period utilized to compute Gas Costs. Such period shall be the twelve (12) month period ending on the last day of a month which is no more than 62 days prior to the filing date of a Purchased Gas Adjustment (PGA).
- (7) "Demand Billing Determinants" shall mean the annualized volumes for which the Company has contracted with Suppliers as of the first day of the Filing Month.
- (8) "Commodity Billing Determinants" shall mean the total metered throughput, regardless of source, during the Computation Period, adjusted for known and measurable changes. Should the Company

(Rule 1220-4-7-.01, continued)

expect to purchase commodity gas from several suppliers, the company shall allocate to each supplier a percentage of the total metered throughput, regardless of source, during the Computation Period, adjusted for known and measurable changes. The percentage used to allocate among suppliers shall be based on historical takes during the Computation Period, if appropriate; otherwise it shall be based upon the best estimate of the Company.

(9) "Authority" -shall mean Tennessee Regulatory Authority.

(10) "Written-off" shall mean determined or deemed to be uncollectible by the Company.

*Authority:* T.C.A. §§65-2-102 and 65-4-104. *Administrative History:* Original rule filed October 29, 1993; effective March 1, 1994. Editorial changes made by the Secretary of State pursuant to Public Chapter 305 of 1995; "Commission" and references to the "Commission" were changed to "Authority" and references to the "Authority"; effective March 28, 2003.

#### 1220-4-7-.02 GENERAL PROVISIONS

- (1) These Purchased Gas Adjustment (PGA) Rules are intended to permit the Company to recover, in 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.
- (2) These Rules are intended to apply to all Gas Costs incurred in connection with the purchase, transportation and/or storage of gas purchased for general system supply, including, but not limited to, natural gas purchased from interstate pipeline transmission companies, producers, brokers, marketers, associations, intrastate pipeline transmission companies, joint ventures, providers of liquefied natural gas (LNG), liquefied petroleum gas (LPG), substitute, supplemental or synthetic natural gas (SNG), and other hydrocarbons used as feed-stock, other distribution companies and end-users, whether or not the Gas Costs are regulated by the Federal Energy Regulatory Commission and whether or not the provider of the gas, transportation or storage is affiliated with the Company.
- (3) To the extent, practicable, any revision in the PGA shall be filed with the Authority no less than thirty (30) days in advance of the proposed effective date and shall be accompanied by the computations and information required by these Rules. It is recognized, however, that in many instances the Company receives less than thirty (30) days notice from its suppliers and that other conditions may exist which prevent the Company from providing thirty (30) days advance notice. Therefore, should circumstances occur where information necessary for the determination of an adjustment under these Rules is not available to the Company so that the thirty (30) days requirement can be met, the Authority may permit the Company to place rates into effect with shorter advance notice, upon good cause shown.
- (4) The rates for gas service set forth in all of the Rate Schedules of the Company shall be adjusted pursuant to the terms of the PGA, or any specified portion of the PGA as determined by individual Rate Schedule(s).
- (5) No provisions of these rules shall supersede any provision of a special contract approved by the Authority.

*Authority:* T.C.A. §§65 -2-102 and 65-4-104. *Administrative History:* Original rule filed October 29, 1993; effective March 1, 1994. Editorial changes made by the Secretary of State pursuant to Public Chapter 305 of 1995; "Commission" and references to the "Commission" were changed to "Authority" and references to the "Authority"; effective March 28, 2003.

(Rule 1220-4-7-.03, continued)

**1220-4-7-.03 COMPUTATIONS AND APPLICATION OF THE PURCHASED GAS ADJUSTMENT (PGA).**

- (1) The PGA shall consist of three major components: (a) the Gas Charge Adjustment; (b) the Refund Adjustment and (c) the Actual Cost Adjustment (ACA).

- (a) Computation of Gas Charge Adjustment. The Company shall compute the jurisdictional Gas Charge Adjustment at such time that the Company determines that there is a significant change in its Gas Costs.

1. Formulas. The following formulas shall be used to compute the Gas Charge Adjustment:

- (i) Firm GCA =

$$\left( \left( \frac{D \pm DACA}{SF} \right) - DB \right) + \left( \left( \frac{P + T + SR \pm CACA}{ST} \right) - CB \right)$$

- (ii) Non-Firm GCA

$$\left( \frac{P + T + SR \pm CACA}{ST} \right) - CB$$

2. Definitions of Formula Components.

- (i) GCA = The Gas Charge Adjustment in dollars per Ccf/Therm, rounded to no more than five decimal places
- (ii) D = The sum of all fixed Gas Costs.
- (iii) DACA = The demand portion of the ACA.
- (iv) P = The sum of all commodity/gas charges.
- (v) T = The sum of all transportation charges.
- (vi) SR = The sum of all FERC approved surcharges.
- (vii) CACA = The commodity portion of the ACA.
- (viii) DB = The per unit 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 Authority so approves.)
- (ix) 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 Authority so approves).
- (x) SF = Firm sales.

(Rule 1220-4-7-.03, continued)

(xi) ST = Total sales.

## 3. Determination of Factors Gas Charge Adjustment.

## (i) Demand Charges (Factor D)

All fixed Gas Costs that do not vary with the amount of gas purchased or transported, including, but not limited to, the product resulting from the multiplication of (1) the respective Demand Billing Determinants by (2) the respective supplier demand rates that are effective, known or reasonably anticipated at the time the PGA is filed with the Authority and (3) any fixed storage charges.

## (ii) Demand Actual Cost Adjustment (Factor DACA)

See subsection (1)(c) Actual Cost Adjustment

## (iii) Purchased Commodity Charges (Factor P)

All commodity or other variable gas costs associated with the amount of gas purchased or transported including, but not limited to, the product resulting from the multiplication of (1) the respective Demand Billing Determinants by (2) the respective supplier demand rates that are effective, known or reasonably anticipated at the time the PGA is filed with the Authority and (3) any fixed storage charges.

## (iv) Transportation Charges (Factor T)

The transportation charges actually invoiced to the Company during the Computation Period or expected to be involved in the Company during the current period.

## (v) FERC Approved Surcharges (Factor SR)

The sum of all FERC approved surcharges, including gas inventory charges or its equivalent, actually invoiced or expected to be invoiced to the Company during the Computation Period or that are effective, known or reasonably anticipated at the time the PGA is filed with the Authority.

## (vi) Actual Cost Adjustment (Factor ACA)

See subsection (1)(c) Actual Cost Adjustment.

## (viii) Total Sales (Factor ST)

Total volumes billed to all the Company's customers during the Computation Period, regardless of source, adjusted for known measurable changes.

~~4. Modification of Formulas.~~

~~The formulas set forth above are not designed for use with two-part demand/commodity rate schedules; however, the formulas may be modified from time to time to carry out the intent of these PGA Rules. Any proposed modification to the formulas shall contain a proposed effective date. The Authority may suspend the modification within thirty (30)~~

(Rule 1220-4-7-.03, continued)

~~days of filing, in which case the proposed modification shall be subject to notice and hearing; otherwise, the modification to the formula shall be effective on the proposed effective date.~~

54. Filing with the Authority.

- (i) The computation of the Gas Charge Adjustment shall be filed in accordance with the notice requirements specified in Rule 1220-4-7-.02(3) shall remain in effect until a revised Gas Charge Adjustment is computed and filed pursuant to these Rules.
  - (ii) The Company shall file with the Authority a transmittal letter, an exhibit showing the computation of the Gas Charge Adjustment, a PGA tariff sheet, and any applicable revised tariff sheets issued by suppliers. The transmittal letter shall state the PGA tariff sheet number, the service area(s), the primary reasons for revision, and the effective date.
  - (iii) If the Company proposes to recover any Gas Costs relating to (1) any payments to an affiliate or (2) any payments to a nonaffiliate for emergency gas, over-run charges, or (3) the payment of any demand or fixed charges in connection with an increase in contract demand, the Company must file with the Authority a statement setting forth the reasons why such charges were incurred and sufficient information to permit the Authority to determine if such payments were prudently made under the conditions which existed at the time the purchase decisions were made.
  - (iv) Any filing of a rate change under these Rules shall be effective on the proposed effective date unless the Authority shall act to suspend the proposed change within thirty (30) days after the filing, in which case the filing shall be subject to notice and hearing.
- (b) Refund Adjustment. The Refund Adjustment shall be separately stated for firm and non-firm customers, and may be either positive or negative.

1. Computation of Refund Adjustment. The Company shall compute a Refund Adjustment on the last day of each calendar quarter using the following formulas:

$$(i) \quad \text{Firm -RA} = \left[ \frac{DR_{t+1} - DR_t}{SFR} \right] + \left[ \frac{-CR_1 - CR_2 \pm CR_3 \pm U \pm i}{STR} \right]$$

$$(ii) \quad \text{Non-Firm RA} = \left[ \frac{-CR_1 - CR_2 \pm CR_3 \pm U \pm i}{STR} \right]$$

2. Definitions of Formula Components.

- (i) RA = the Refund Adjustment in dollars per Ccf/therm, rounded to no more than five decimal places.
- (ii) DRI = Demand refund not included in a currently effective Refund Adjustment and received from suppliers by check, wire transfer, or credit memo.
- (iii) DR2 = a demand surcharge from a supplier not includable in the Gas Charge Adjustment, and not included in a currently effective refund adjustment.

(Rule 1220-4-7-.03, continued)

- (iv) CR1 = Commodity refund not included in a currently effective Refund Adjustment, and received from suppliers by check, wire transfer, or credit memo.
- (v) CR2 = A commodity surcharge from a supplier not includable in the Gas Charge Adjustment, and not included in a currently effective Refund Adjustment.
- (vi) CR3 = The residual balance of an expired Refund Adjustment.
- (vii) I = Interest on the "Refund Due Customers' Account", using the average monthly balance based on the beginning and ending monthly balances. The interest rates for each calendar quarter used to compute such interest shall be a rate equal to 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.
- (viii) SFR = Firm sales as defined in the Gas Charge Adjustment computations, less sales under a transportation or negotiated rate schedule.
- (ix) STR = Total sales as defined in the Gas Charge Adjustment computation, less sales under a transportation or negotiated rate schedule.
- (x) U = Eligible uncollected gas costs surcharged or refunded under this Rule.

~~3. Modification of Formula. The formulas set forth above are not designed for use with two-part demand/commodity rate schedules; however, the formulas may be modified from time to time to carry out the intent of these PGA Rules. Any proposed modification to the formulas shall contain a proposed effective date. The Authority may suspend the modification within thirty (30) days of filing, in which case the proposed modification shall be subject to notice and hearing; otherwise, the modification to the formula shall be effective on the proposed effective date.~~

43. Filing with the Authority.

- (i) The computation of the Refund adjustment shall be filed in accordance with the notice requirements specified in Rule 1220-4-7-.02(3) and shall remain in effect for a period of twelve (12) months or for such longer or shorter period of time as required to appropriately refund the applicable refund amount.
- (ii) The eCompany shall file with the Authority a transmittal letter, exhibits showing the computation of the Refund Adjustment and interest calculations, and a PGA tariff sheet. The transmittal letter shall state the PGA tariff sheet number, the service area(s), the reason for adjustment, and the effective date. Should the Company have a Gas Charge Adjustment filing to become effective the same date as a Refund Adjustment, a separate transmittal letter and PGA tariff sheet shall not be necessary.

(c) Actual Cost Adjustment.

- 1. Commencing with the initial effective date of these Rules, the Company shall calculate the ACA monthly. The Company shall be required to include the ACA in its calculation of the Gas Charge Adjustment at least monthly. Should the Company or Authority sStaff determine it appropriate to include the ACA in the Gas Charge Adjustment more frequently than once per year, then the company may be allowed/directed to do so. The

(Rule 1220-4-7-.03, continued)

Authority shall resolve disputes between the Company and the Staff regarding timing of such ACAs.

2. The ACA shall be the difference between (1) revenues billed customers by means of the Gas Charge Adjustment and (2) the cost of gas invoiced the Company by suppliers plus margin loss (if allowed by order of the Authority in another docket) as reflected in the Deferred Gas Cost account. The balance of said account shall be adjusted for interest at the rate provided for the calculation of interest with respect to the Refund Adjustment. The ACA shall be segregated into demand and commodity, and shall be added to or deducted from, as appropriate, the respective demand and commodity costs included in the Gas Charge Adjustment. Supplemental sheets showing the calculations of margin losses and cost savings shall also be provided.
  3. Adjustments to Prior Period ACAs. In the event that circumstances warrant a correction to or restatement of a prior period ACA, such correction or restatement shall be made in accordance with the ACA calculation in effect for the time period(s) to which the correction or restatement relates. The resulting adjustment shall then be added to or deducted from the appropriate ACA in the next ensuing ACA filing with the Authority.
- (2) Annual Filing with the Authority. Each year, the Company 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 these Rules. This 180 day notification period may be extended by mutual consent of the Company and the Authority Staff or by order of the Authority.

*Authority:* T.C.A. §§65-2-102 and 65-4-104. *Administrative History:* Original rule filed October 29, 1993; effective March 1, 1994. Editorial changes made by the Secretary of State pursuant to Public Chapter 305 of 1995; "Commission" and references to the "Commission" were changed to "Authority" and references to the "Authority"; effective March 28, 2003.

**1220-4-7-.04 GAS COST ACCOUNTING.** To appropriately match revenues with cost of purchased gas as contemplated under these Rules, the Company shall originally record the cost of purchased gas in a "Deferred Gas Cost" account. Monthly, the Company shall debit "Natural Gas Purchases" with an amount equal to any gas cost component included in the Company's base tariff rates (base rate) plus the PGA rate, as calculated hereunder, multiplied by the appropriate volumes sold or billed to customers. The corresponding monthly credit entry shall be made to the "Deferred Gas Cost" account.

*Authority:* T.C.A. §§65-2-102 and 65-4-104. *Administrative History:* Original rule filed October 29, 1993; effective March 1, 1994.

**1220-4-7-.05 AUDIT OF PRUDENCE OF GAS PURCHASES.**

- (1) The audit of prudence of gas purchases shall apply to Class A gas companies only. Class A gas company shall mean a local gas distribution company having annual gas operating revenues of two million five hundred thousand dollars (\$2,500,000) or more.
  - (a) Unless otherwise ordered by the Authority, the Staff and the LDCs shall prepare and issue a request for proposals and after reviewing the proposals, recommend to the Authority a qualified consultant to evaluate and report annually on the prudence of any gas costs included in the PGA. Subject to the approval of the Authority, a contract to perform the audit shall be awarded to the consultant to cover at least two consecutive annual audits.
    1. The scope of the evaluation shall be agreed to by the Staff and the LDCs and shall include guidelines to be used by the consultant in performing any such prudence review.

(Rule 1220-4-7-.05, continued)

2. Before selecting a consultant, the Staff and the LDCs shall determine the maximum amount to be paid for the audits that will be included in the contract. Each LDC shall pay to the consultant an equal portion of the cost of the audit(s).
  3. The amount paid to the consultant by an LDC shall be recorded in the LDC's Deferred Gas Cost Account and shall be recovered through the procedures set forth in these PGA rules.
- (b) Each LDC shall file a non-binding gas purchase plan with the Authority at least annually.
1. An LDC may, at its option, update the plan whenever it deems appropriate.
  2. The gas purchase plan shall include a general statement of the company's gas purchasing policies (*e.g.*, the consideration given by the Company to the cost of gas, the security of the gas supply, the ability to obtain deliverability of the gas and other factors deemed relevant by the Company) which are established under the guidelines adopted under subsection (1)(a) of this Rule.
  3. All such plans shall be confidential and may be filed under appropriate protective orders.
- (c) In connection with the filing of the annual report of transactions in the Deferred Gas Cost Account required by Rule 1220-4-7-.03(2), each Class A LDC shall file a summary report detailing its gas purchasing practice during the period covered by the annual report. This requirement may be satisfied by the inclusion of such summary report information in the consultant's report that is required under section (1) of this Rule.
1. Within ninety (90) days after receipt of the gas purchase practices report information and the consultant's report, the Authority, in its discretion, may order a hearing to review the prudence of an LDC's gas purchasing practices and subject to the hearing, order the LDC to refund any imprudent gas costs collected under the provisions of the PGA Rules during the annual period under review. Any such order shall be subject to appeal in accordance with applicable law.
- (3) If the Authority does not order a hearing within the ninety (90) day period, the LDC gas purchasing practices shall be deemed prudent.

#### **1220-4-7-.06 PROCEDURES FOR UNCOLLECTED GAS COST RECOVERY.**

- (1) Recovery of uncollected gas costs using the modified Refund Adjustment Formula is optional. Any Company electing to recover uncollected gas costs in its annual ACA filing using the modified Refund Adjustment Formula shall comply fully with the following procedures:
  - (a) At the time a customer account balance is written-off, the gas cost and the margin portion of the uncollected amount for each customer account shall be specifically identified from actual amounts billed and a percentage of total gas costs to the total amount written-off established.
  - (b) For purposes of the calculation in (a), other charges, such as late fees, applicable state and local taxes, and collection fees shall not be included in the calculation of the percentage of gas costs to the total amount written-off.
  - (c) If the account balance written-off is later collected in full, the uncollected gas costs shall be credited with the full amount of the gas cost portion of the account.

(Rule 1220-4-7-.05, continued)

- (d) If the account balance written-off is not collected in full, the partial payment shall be allocated and credited to uncollected gas costs using the same percentage established for gas costs in (a).
  - (e) If a Company's billing system (including both computer and manual functions) is not capable of accurately allocating a partial payment, the partial payment shall be credited 100% to uncollected gas costs first, with any remainder treated as recovered margin.
  - (f) For those Companies whose allowance for uncollectible accounts (recovered in base rates) contains a gas cost portion, the amount of that portion shall be netted with the eligible uncollected gas costs included for recovery in the ACA. Each such Company shall submit its calculation of the amount to be netted with actual uncollected gas cost amounts as part of the annual ACA filing.
  - (g) The gas cost portion of written-off account balances and the amount of gas costs recovered from subsequent payments on these accounts shall be charged or credited, as appropriate, to the ACA account at least annually for inclusion in the ACA filing.
  - (h) Any variance between amounts charged or credited in the annual filing of the ACA and the amounts recorded in the monthly reports required in subparagraph (2) shall be reconciled and documented by the Company for review by the TRA Compliance Staff (Staff) during the annual audit of the ACA.
  - (i) Each Company shall file its policy (internal procedures followed) for determining the uncollectibility of a customer account balance, disconnection of a customer's service for non-payment, collection attempts made by the company both before and after an account balance is written-off, and conditions a customer must fulfill to be reconnected to the gas system. This written policy shall be filed with the TRA within thirty (30) days of the effective date of this Rule part.
- (2) Each Company electing to recover uncollected gas costs in the ACA shall comply with the following reporting requirements:
- (a) Customer account balances written-off shall be tracked separately in sufficient detail, so as to permit the Staff to audit write-offs and subsequent payments on written-off accounts.
  - (b) Each Company shall submit a monthly summary report detailing each write-off and each payment to a written-off account for that month and the total amount eligible for recovery in the ACA no later than the first business day of the third month following the reported month, using a format acceptable to the Staff. Corrections or adjustments to these monthly reports shall be timely filed. Failure to submit a required monthly report may result in disallowance of recovery in the ACA of the uncollected gas costs for that month. The Company is responsible for contacting Staff should an extraordinary event prevent the timely filing of this report.
  - (c) Monthly reports shall be electronically filed in Excel format and shall contain, at a minimum, the following information:
    - 1. Information reported at the time an uncollected account balance is written-off:
      - (i) Customer account numbers, with spreadsheet data sorted by account number in ascending order;
      - (ii) Date that account balance is written-off;
      - (iii) Amount of total gas cost written-off;

(Rule 1220-4-7-.05, continued)

- (iv). Amount of total margin written-off;
  - (v). Total amount of gas cost and margin written-off ((iii) plus (iv));
  - (vi). Gas cost percentage of total amount written-off ((iii) divided (v)); and
  - (vii). Margin percentage of total amount written-off ((iv) divided by (v)).
2. Information reported at the time a full or partial payment is received on an account balance that has been written-off:
- (i) Customer account numbers, with spreadsheet data sorted by account number in ascending order;
  - (ii) Date that payment was received;
  - (iii) Original write-off date of the account balance applicable to this payment;
  - (iv) Gas cost payment credited to written-off account balance;
  - (v) Margin payment credited to written-off account balance;
  - (vi) Total of gas cost payment (recovery) and margin payment (recovery) ((iv) plus (v));
  - (vii) Gas cost payment percentage of total amount recovered credited to customer account ((iv) divided by (vi)); and
  - (viii) Margin payment percentage of total amount recovered ((v) divided by (vi)).
- (3) Each Company electing to recover uncollected gas costs in its annual ACA filing shall sufficiently demonstrate to Staff that it is making reasonable efforts to collect delinquent accounts prior to the account balance being written off. As part of the ACA filing, the Company shall submit a report showing the amount of uncollected gas costs by month, the total revenues by month, and the percentage of uncollected gas costs compared to total revenues by month and in total. The Company shall provide an explanation of any significant increase in this percentage from one month to the next.
- (4) Failure of a Company to fully comply with the procedures and/or reporting requirements contained in this Rule part may result in the disallowance of all or a portion of uncollected gas costs eligible for recovery in the ACA during the annual ACA audit.
- (5) Once a Company makes the election to recover uncollected gas costs in the ACA, the Company must continue to file its uncollected gas costs for recovery in the ACA in compliance with this Rule.

**Authority:** T.C.A. §§65 -2-102 and 65-4-104. **Administrative History:** Original rule filed October 29, 1993; effective March 1, 1994. Editorial changes made by the Secretary of State pursuant to Public Chapter 305 of 1995; "Commission" and references to the "Commission" were changed to "Authority" and references to the "Authority"; effective March 28, 2003.