

**OFFICE OF GENERAL COUNSEL**  
**GUD Docket No. 9620**

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**STATEMENT OF INTENT FILED BY ARANSAS NATURAL GAS COMPANY TO  
CHANGE RATES IN THE ENVIRONS OF THE CITIES OF ROCKPORT AND FULTON**

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**APPEARANCES:**

**FOR APPLICANT:**

Thomas K. Anson  
Strasburger & Price, L.L.P.  
600 Congress Ave., #1600  
Austin, Texas 78701

Aransas Natural Gas Company (ANGC)

**PROPOSAL FOR DECISION**

**PROCEDURAL HISTORY**

<b>STATEMENT OF INTENT:</b>	October 14, 2005
<b>HEARD BY:</b>	Gene Montes, Hearings Examiner Mark Evarts, Technical Examiner
<b>RECORD CLOSED:</b>	February 9, 2006
<b>PFD CIRCULATION DATE:</b>	February 10, 2006
<b>STATUTORY DEADLINE:</b>	April 14, 2006

**STATEMENT OF THE CASE**

The *Statement of Intent* filed by ANGC in this case seeks to implement residential and commercial rates for the Environs of the city of Fulton and Rockport that are identical to the rates approved by the those cities within their municipal jurisdiction. The last rate increase in the environs of Fulton and Rockport was effective in January of 1990.<sup>1</sup> After the Statement of Intent was filed with the city of Rockport, the city approved an increase in ANGC's rates on November 1, 2005. The Town of Fulton approved the identical increase in rates on November 14, 2005. The proposed increase in rates to all customers is expected to increase total annual operating revenues of ANGC by approximately \$202,475 or 9.7%. Of that amount, \$74,749 will be generated from increased rates of the environs customers.

The table below summarizes the recovery of the proposed increase among the various jurisdictions.

**Table 1  
Allocation of Revenue Increase Among Various Jurisdictions**

Jurisdiction	Revenue Increase	Percentage Allocation
Environs	\$74,749	37%
Rockport	\$104,057	52%
Fulton	\$22,683	11%
Total Increase	\$202,475	

The Examiners recommend that the proposed rates and tariffs be adopted subject to three adjustments:

1. Adjustment to the tariff language regarding the Seasonal Service Restoration Fee;
2. Adjustment to the tariff language regarding the Meter Tests;
3. Removal of the adjustment to invested capital to reflect the average balance.

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<sup>1</sup> GUD No. 7505, *Statement of Intent filed by Aransas Natural Gas Company to change rates in the environs of the City of Rockport*, (January 29, 1990) (final order).

Only the third adjustment directly impacts the total amount of increase requested by ANGC. Specifically, ANGC seeks to include as part of invested capital, an adjustment for prepaid expenses to reflect the average balance of unrecovered rate case expenses. As this adjustment will allow the utility to recover a return on the prepaid portion of rate case expenses after rate case expenses have been paid, the Examiners propose that the adjustment be rejected. The total revenue increase is reduced by \$2,285 on a system-wide basis to \$200,190. On a system-wide basis the percentage of the allocation of the rate increase would remain the same as reflected in Table 1, above.

Those adjustments are reflected in the Schedules and Tariffs attached as Exhibit 1, to this Proposal for Decision and the Examiners recommend approval of the rates reflected in the attached schedules and tariff.

### **SUMMARY OF MAJOR ISSUES**

- A proposed seasonal service restoration fee would be applied to customers who disconnect on a temporary basis. The Examiners recommend that the proposed fee be changed to limit the impact of that fee.
- The Examiners recommend a change to one item in the proposed miscellaneous service fees to more closely track the language of the Commission's regulations.
- The Examiners recommend that no adjustment be made to invested capital to reflect a portion of prepaid rate case expenses.
- The test year applied in this case is the twelve month ended December 31, 2004.
- Depreciation rates have been recalculated using service lives generally accepted for gas distribution systems for rate making purposes.
- ANGC seeks an overall rate of return of 13.25%.
- ANGC seeks to modify its rate design and remove gas costs from its base rates and have all gas costs recovered through a revised purchased gas adjustment clause.

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**I. Procedural History and Notice**

On October 14, 2005, ANGC filed a *Statement of Intent* to increase rates within the cities of Rockport and Fulton and a *Statement of Intent to Change Rates in the Environs of Rockport and Fulton*. ANGC seeks to implement rates in the environs identical to the rates approved by the cities of Rockport and Fulton on November 1, 2005 and November 15, 2005, respectively. Pursuant to TEX. UTIL. CODE ANN. § 104.102, ANGC notified the Environs customers by publication in the *Rockport Pilot* on October 19 2005, October 26, 2005, November 2, 2005, and November 9, 2005.

No protests or interventions were filed in this case. ANGC has requested that the rates be reviewed as expeditiously as possible. The proposed rate constitutes a major change, as that term is defined by the Texas Utilities Code.<sup>2</sup> Although a hearing is required in every case in which the increase constitute a major change, the Texas Utilities Code provides that the regulatory authority may use an informal proceeding if the regulatory authority does not receive a complaint before the expiration of 45 days after the date notice of the increase is filed. After reviewing the *Statement of Intent*, the prefiled testimony, workpapers, and schedules the Examiners determined that review of this rate request may proceed on an informal basis. The following documents were stipulated into the record of this case: (1) the Statement of Intent; (2) prefiled testimony of Thomas A. Graves; (3) Affidavit of Publication, (4) Notice of the city of Rockport approval of rate increase dated November 1, 2005, (5) Notice of the City of Fulton approval of rate increase dated November 15, 2005; and (6) Supplemental Testimony Regarding the Seasonal Service Restoration Fee.

**II. Jurisdiction**

The Commission has jurisdiction over ANGC and over the matters at issue in this proceeding pursuant to TEX. UTIL. CODE ANN. §§ 102.001, 103.003, 103.051, 104.001, 121.051, 121.052, and 121.151 (Vernon 2004). The statutes and rules involved in this proceeding include, but are not limited to, TEX. UTIL. CODE ANN. §§ 104.101, 104.102, 104.103, 104.105, 104.106, 104.107, 104.110, 104.301, and 16 TEX. ADMIN. CODE Chapter 7.

**III. Discussion of the Proposed Rate Increase**

Thomas A. Graves provided testimony that ANGC, formed in 1948, provides natural gas distribution service to retail residential, commercial and industrial customers in Rockport, Fulton, and unincorporated areas of Aransas County. Since the creation of the gas distribution system it has been expanded and extended over the years as needed to meet the demands of customer growth. Mains are generally constructed of polyethylene or steel, and range up to 4 inches in diameter. The system serves over 4,500 residential and commercial customers. Approximately 37% of those

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<sup>2</sup> Tex. Util. Code Ann. § 104.101.

customers are located in the environs areas under the Commission's original jurisdiction. ANGC has not raised rates since January 1990. ANGC initiated this proceeding because, due to increases in the cost of doing business, its present rates no longer yield a level of operating revenues sufficient to maintain financial integrity. Except for three issues that will be discussed below, the Examiners find that the proposed rates are reasonable and otherwise recommend approval of the requested rates.

a. *The Seasonal Service Restoration Fee.*

ANGC estimates that during the test year 372 customers temporarily disconnected, and 365 customers turned service back on from having previously temporarily disconnected. The average temporary disconnection period is five months. ANGC has proposed the following seasonal reconnect fee:

If a customer voluntarily discontinues service and applies to restore service at the same location within twelve months of termination, the customer shall pay a seasonal reconnect fee equal to the applicable minimum monthly bill times the number of months that service was terminated, in addition to any applicable fees or charges under this tariff or Commission rules.

ANGC estimates that the revenue impact of this provision is approximately \$20,000. For purposes of the calculation ANGC has rounded the number of disconnections to 400 and assumed that the period of the disconnect is five months.

An identical provision was included in the *Statement of Intent* filed with the City of Rockport and the Town of Fulton. The municipalities have adopted that provision. The provision is similar to the provision recently proposed by Mitchell County Utility Company in GUD No. 9605, *Statement of Intent filed by Mitchell County Utility Company to change Rates in the Environs of the City of Westbrook*, (August 18, 2005) (Statement of Intent).

ANGC notes that the Seasonal Service Restoration Fee would charge the customer the minimum monthly bill for the period the customer was voluntarily off of the system, up to a maximum of twelve months. The proposed minimum monthly bill is \$10. At that rate, if the voluntary disconnection period was three months, the Seasonal Service Restoration Fee would be \$30, if six month, it would be \$60, and so on. ANGC estimates that the seasonal disconnection period would most likely be approximately five months, and for a five month seasonal disconnection period the Seasonal Service Restoration Fee would be \$50. Pursuant to the terms of the proposed tariff, the Turn Off (Temporary Disconnect) fee of \$10 and the Turn On (After Temporary Disconnect) fee of \$20 also apply. Thus, all applicable fees added together would, in the five month example above, result in a total of \$80. The maximum amount for a temporary disconnect of one year would be \$150.

ANGC correctly pointed out that the Seasonal Service Restoration Fee, the Turn Off fee, and

the Turn On fee, address different costs. The Turn On and Turn Off fees are intended to recover the costs of removing and then physically reconnecting and reactivating the customer and customer account on the system. The Seasonal Service Restoration Fee is designed to recover the portion of the fixed costs that has been allocated to individual customers through the minimum monthly bill. The minimum monthly bill is intended to recover a portion of those fixed costs associated with providing service to the customer, which include meters and pipe. Those costs are incurred regardless of whether the customer receives service during any particular month, *i.e.*, the pipes and meters remain in place. The approved rates are intended to recover costs associated with those assets, such as a depreciation expense, and to allow the utility a reasonable return on those assets. A customer who has temporarily disconnected could avoid paying its share of the fixed costs and the return on invested capital.

Reconnect fees vary throughout the state. In a sampling of nearly ninety different reconnect fees charged by utilities throughout the state the Examiners identified a range of fees from \$5.00 to \$70.00.<sup>3</sup> It should be noted that the \$70.00 fee is an after-hours fee. In that case, the reconnect fee during normal business hours was \$50.00. That fee was approved in Tex. R.R. Comm'n, *Statement of Intent filed by West Texas Gas, Inc.*, Docket Nos. 9488 - 9512, 9520, 9521, & 9526 (Gas Utils. Div. November 23, 2004) (final order granting application).

In Tex. R.R. Comm'n, *TXU Gas Company Statement of Intent to Change Rates in the Company's Statewide Gas Utility System*, Docket No. 9400 (May 25, 2005) (final order granting application) (GUD 9400), the Commission approved a seasonal reconnect fee of \$65.00 in addition to the regular connection fee of \$65.00. As explained by the Examiners in that case, the charge was

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<sup>3</sup> The sample included fees approved by the Commission: Tex. R.R. Comm'n, *Statement of Intent filed by CenterPoint Energy Entex to Change Rates in the Environs of the City of Houston Texas*, Docket No. 9469 (Gas Utils. Div. June 8, 2005) (final order granting application) (**Reconnect Fee, 40.00**); Tex. R.R. Comm'n, *Statement of Intent filed by CenterPoint Energy Entex to Change Rates in the Environs of Conroe, Texas*, Docket No. 9528 (Gas Utils. Div. January 13, 2005) (final order granting application) (**Reconnect Fee, 40.00**); Tex. R.R. Comm'n, *Statement of Intent filed by Atmos Energy Corporation to Change gas Rate in the Environs of Lubbock*, Docket No. 9563 (Gas Utils. Div. June 21, 2005) (final order granting application) (**Reconnect Fee, 37.50**); Tex. R.R. Comm'n, *Statement of Intent filed by Atmos Energy Corporation to Increase Rates and Change Tariffs in the Environs of the Est Texas Service Area*, Docket No. 9573 (Gas Utils. Div. March 22, 2005) (final order granting application) (**Reconnect Fee, 37.50**).

in addition to the connection charge. The charge was designed to recover the lost customer charge revenue during the five-month duration of the average temporary disconnection of gas service. In that case, the Examiners found that the temporary discontinuance-of-service charge would prevent the costs associated with idle customer meter from being borne by other customers that remain connected to the system.<sup>4</sup>

In GUD No. 9605, *Statement of Intent filed by Mitchell County Utility Company to change Rates in the Environs of the City of Westbrook*, (August 18, 2005) (final order) the Commission approved a seasonal reconnect fee that limited the impact of the fee to a six month disconnection period. The Examiners recommend that the Commission adopt a similar modification in this case and ANGC has indicated that it does not object to the change:

If a customer voluntarily discontinues service and applies to restore service at the same location within twelve months of termination, the customer shall pay a seasonal reconnect fee. The seasonal reconnect fee shall be equal to the applicable minimum monthly bill times the number of months that service was terminated. The seasonal reconnect fee shall not exceed \$60.00 and shall be in addition to any applicable fees or charges under this tariff or the Commission's rules.

The recommended modification would allow ANGC to recover a fee for the typical residential customer who temporarily disconnects for a period of five months.

*b. Miscellaneous service fees*

ANGC has proposed several changes to the miscellaneous service fees. The Examiners find the proposed changes, as reflected in the attached tariffs, are reasonable and only recommend modification of the language associated with the proposed fee related to meter tests to more clearly match the requirements of Section 7.45(7)(b)(iv). Pursuant to that rule, if a meter test has not been conducted within the previous four years the test is to be performed without charge. The tariff provides that the meter test on request of customer is \$15.00. Therefore, instead of "meter test on request of customer," the provision in the tariff should read, "meter test on request of customer where a test has been performed for the same customer at the same location within the previous four years." ANGC has indicated that it does not object to this change.

*c. Invested Capital and rate case expenses*

As will be discussed below, ANGC proposed to recover a 13.25% rate of return on invested capital. ANGC, through the testimony of Mr. Graves, argues that total invested capital is

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<sup>4</sup> See, GUD 9400, Examiners' Responses to Commissioners' Questions.



\$1,203,803. As noted below, the Examiners agree that a 13.25% rate of return for this utility is reasonable. The Examiners do not agree that total invested capital proposed by the utility is reasonable because ANGC proposed to include, as part of invested capital, an amount for prepaid expenses to reflect the average balance of unrecovered rate case expenses. Normally, no amount related to rate case expenses is included in rate base.

Rate case expenses are typically recovered only through a surcharge, which is no longer charged once rate case expenses have been recovered. In this case, ANGC seeks to recover rate case expenses in the amount of \$34,000 through a surcharge, but also argues that because rate case expenses are a prepaid expense, the prepaid portion represents capital invested by the utility upon which the utility is entitled to earn a return. Accordingly, ANGC proposes to include a portion of rate case expenses into rate base. Thus, the utility would earn a return on a portion of the rate case expenses. The municipalities have approved this treatment for rate case expenses and ANGC has requested that the Commission allow it to recover its rate case expenses in the same manner from the Environs customers.

The Examiners agree, based on the testimony of Mr. Graves, that the amount of rate case expenses of \$34,000 is reasonable. The Examiners agree that a surcharge for the recovery of rate case expenses is reasonable. The Examiners, however, do not agree that an adjustment should be made to invested capital to reflect the average balance of unrecovered rate case expenses. Although the overall effect on rates would be around .02¢ per Ccf, the Examiners are unaware of this treatment in any other case, and recommend that the proposed treatment be rejected. Otherwise, once the rate case expenses are paid, through the proposed surcharge, ANGC would continue to earn a return on that portion of invested capital that has been classified as a prepaid expense until its next rate case. As already noted, the last rate case was nearly fifteen years ago. If ANGC does not return for a rate adjustment for fifteen years, customers will continue to pay a return on the prepaid expense associated with rate case expenses for over ten years after those expenses have been paid through a surcharge. The Examiners do not recommend that the proposed treatment of rate case expenses be adopted in this case.

The Examiners agree with Mr. Graves that, if it is determined that there should be no rate base allowance for deferred rate case expenses, the surcharge provision should include a provision for interest on the declining balance. The Examiners note that in several prior rate cases a provision for interest on the declining balance has not been included granted by the Commission.<sup>5</sup> In two

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<sup>5</sup> Tex. R.R. Comm'n, *Appeal of TXU Gas Distribution from the action of the City of Dallas, City of University Park and the Town of Highland Park and the Statement of Intent filed by TXU Gas Distribution to Increase Rates charged in the Environs of the City of Dallas*, Docket Nos. 9145 - 9148 (Gas Utils. Div. November 20, 2000) (final order granting application); Tex. R.R. Comm'n, *Statement of Intent filed by TXU Gas Distribution to Change Rates in the Environs of the Cities in the East Region Distribution System*, Docket No. 9361, (Gas Utils. Div. July 8, 2003) (final order granting application); Tex. R.R. Comm'n, *Statement of Intent filed by TXU Gas Distribution to Change Rates in the Environs of the Cities of Dallas Region Distribution System*, Docket No. 9365, (Gas Utils. Div. July 8, 2003) (final order

recent cases, however, a provision to allow recovery of interest on interest on the declining balance has been granted. The Examiners recommend that the interest rate in this case be set at the current market rate for AAA corporate bonds, which is consistent with those prior dockets.<sup>6</sup> The current market rate for AAA corporate bonds, as evidenced by the Bondtrack, Inc. bond market data, for three years is 4.98%. Mr. Graves estimates that the recovery of rate case expenses is a little over three years and it is dependent upon the per Ccf consumption. Accordingly, since it will take longer than three years for ANGC to recover the rate case expenses, and the precise time frame is uncertain, the Examiners recommend that the current market rate for AAA corporate bonds for five years be adopted, which is 5.01%.

*d. Test Year and Cost of Service Calculation*

Mr. Graves testified that the test year used in this case was the twelve months ended December 31, 2004. This is the most recent accounting period for which full financial and operating data are available. A meter error regarding the city gate meter of one of ANGC's suppliers prevents the use of a more contemporaneous test year. The meter error resulted in an apparent gain on the system and has subsequently been corrected. The test year data coincides with the data contained in the most recent Distribution Annual Report to the Commission. Mr. Graves testified that the

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granting application); Tex. R.R. Comm'n, *Statement of Intent filed by TXU Gas Distribution to Change Rates in the Environs of the cities in the West Region Distribution System*, Docket No. 9366 (Gas Utils. Div. July 8, 2003) (final order granting application); Tex. R.R. Comm'n, *Statement of Intent filed by TXU Gas Distribution to Change Rates in the Environs of the Cities in the South Region Distribution System*, Docket No. 9370 (Gas Utils. Div. July 8, 2003) (final order granting application); Tex. R.R. Comm'n, *Statement of Intent filed by TXU Gas Distribution to Change Rates in the Environs of the Cities of the Northwest Region Distribution System*, Docket No. 9376, (Gas Utils. Div. July 8, 2003) (final order granting application); Tex. R.R. Comm'n, *Statement of Intent filed by TXU Gas Distribution to Change Rates in the Environs of the Cities in the North Texas Metroplex Distribution System*, Docket No. 9377, (Gas Utils. Div. July 8, 2003) (final order granting application); Tex. R.R. Comm'n, *Statement of Intent filed by TXU Gas Distribution to Change Rates in the Environs of the Cities in the Longview Distribution System*, Docket No. 9379 (Gas Utils. Div. July 8, 2003) (final order granting application); Tex. R.R. Comm'n, *Appeal of Texas Gas Service Company from the Action from the Cities of Port Neches, Nederland, Groves*, Docket No. 9465 (Gas Utils. Div. July 22, 2004) (final order granting application); Tex. R.R. Comm'n, *Statement of Intent filed by CenterPoint Energy Entex to Change Rates in the Environs of the City of Houston*, Docket No. 9469 (Gas Utils. Div. June 8, 2004) (final order granting application);, *Statement of Intent filed by West Texas Gas, Inc. to Increase Special Rates*, Docket Nos. 9488 - 9512, 9520, 9521 & 9526 (Gas Utils. Div. November 24, 2004) (final order granting application); and, *Statement of Intent filed by CenterPoint Energy Entex to Change Rates in the Environs of Conroe, Texas*, Docket No. 9528 (Gas Utils. Div. January 13, 2005) (final order granting application).

<sup>6</sup> Tex. R.R. Comm'n, *Rate Case Expenses Severed From Gas Utilities Docket Nos. 9533 and 9534*, Docket No. 9576 (Gas Utils. Div. September 7, 2005) (final order granting application, finding of fact no. 9). The rationale for selecting this rate is also discussed in the Proposal for Decision at p. 3. Tex. R.R. Comm'n, *Rate Case Expenses Severed from Gas Utilities Docket No. 9400, Docket No. 9517* (Gas Utils. Div. January 25, 2005) (final order granting application, finding of fact nos. 15 & 16). Again, the rationale for selecting this rate is discussed in the Proposal for Decision at p. 16.

schedule established a revenue deficiency in base sales rates of \$194,259. By removing the rate case expense portion proposed to be included in invested capital, discussed in section 3c above, that revenue deficiency would be \$191,974.

*e. Depreciation Rates.*

Mr. Graves testified that the service lives used by ANGC for book and tax purpose and reported in its Distribution Annual Report are not appropriate for regulatory purposes. Mr. Graves recalculated accumulated depreciation and depreciation expense using service lives generally accepted for gas distribution systems for rate making purposes. The effect of the restatement is a depreciation calculation for the test year of \$83,729. The Examiners find that the overall depreciation amount calculated by Mr. Graves, reflected in Schedule 1, and the deprecation rates set out in Schedule 3a reasonable, and recommend approval of those rates.

*f. Rate Base, Cost of debt, cost of equity and the overall rate of return.*

Mr. Graves noted that the ANGC's capital structure consists of 100% equity and its cost of equity is the same as its overall cost of capital. Mr. Graves points out that the cost of equity of a company is a measure of investor expectations of the risks associated with the commitment of funds to the common stock of that company. The greater the risks undertaken, the greater is the investor's expected return. A rational investor maximizes the return on his portfolio only if the expected returns on investments of comparable risk are the same. If a given investment yields a lower return than other investments at the same level of risk, the investor will switch to those investments offering higher returns for the same level of risk. Mr. Graves concludes that this implies that a utility will be unable to attract equity capital if the expected return on that capital is less than returns available on alternative investments of similar risk.

Mr. Graves testified that investment in ANGC, as compared to other larger and diversified utilities, involves substantially greater risk. Other factors that contribute to ANGC's risk exposure include the following: small size of the utility; localized operation; access to capital; and, fluctuations in customer base. Mr. Graves argues that for this utility, and its concomitant risk, a cost of equity of 13.25% is reasonable. Thus, the overall rate of return will be 13.25%. The Examiners agree and recommend that the Commission approve the proposed cost of equity and overall rate of return.

As the Examiners have recommended that the rate case expenses be removed from rate base, the recommended return imbedded in the cost of service schedule is less than proposed by the utility. Instead of \$159,504 allocated to return, the Examiners recommend that \$158,170, be allocated to return.

*g. Rate design*

ANGC seeks a change in the billing methodology from a block rate to a more simplified single rate combined with a minimum charge. ANGC also proposes to remove all gas costs from the rate and recover gas costs through a separate purchase gas adjustment clause. Table 2 summarizes the proposed change, and illustrates the effect on rates of the proposed change recommended by the Examiners in section 3c above.

**Table 2  
Comparison of Current Rates to Proposed Rates**

Current Rates (includes a portion of gas costs: \$2.97)	Proposed Rates (excludes all gas costs)	Recommended Rates
\$8.35 First 1000 cf	\$10.00 minimum bill	\$10.00 minimum bill
\$5.40 Next 2000 cf	\$1.77 per Mcf	\$1.75 per Mcf
\$5.29 All over 3000 cf		

The effect of the Examiners' recommended rates on a customer using 6 Mcf is as follow. An average monthly residential bill, including gas costs, would increase from \$67.72 under current rates, to \$71.02; an increase of 5%. An average monthly residential bill, excluding gas costs, would increase from \$17.20 under current rates, to \$20.50; an increase of 19%. The Examiners find that the proposed rate design is reasonable and recommend approval. The Railroad Commission has adopted flat rates in the past and the proposed rate design is reasonable.<sup>7</sup>

<sup>7</sup> See, Tex. R.R. Comm'n, *Statement of Intent filed by West Texas Gas, Inc. to Increase Special Rates in the Unincorporated Towns and Rural Areas, Environs, and Appeals from the Decision os the Cities of Balmorhea, Claude, Darrouzzett, Eden, Farwell, Follett, Groom, Higgins, Junction, Menard, Miami, Mobeetie, Shamrock, Stratford, Texhoma, Wheeler, Paint Rock, Cactus, Canadian, Kermit, Natalia, Somerset, Sonora, and Texline* Docket Nos. 9488 - 9512, 9520, 9521 & 9526 (Gas Utils. Div. November 23, 2004) (final order granting application). Tex. R.R. Comm'n, *Appeal of Southern Union Gas Company from the Action of the Cities of Groves, Nederland, Port Arthur and Port Neches, Texas*, Docket No. 9465 ( Gas Utils. Div. June 29, 1992) (Order on Motion for Rehearing). Tex. R.R. Comm'n, *Statement of Intent Filed by Southern Gas Company to Increase Rates within the Environs of Andrews, Texas* (May 23, 2000) (final order granting application); Tex. R.R. Comm'n, *Statement of Intent filed by Markham Gas Corporation for the Unincorporated Area of Markham, Texas* (November 12, 1996) and, *Statement of Intent filed by Atmos Energy Coproation to Change Gas Rates in the City of Lubbock, Texas*, Docket No. 9563 (Gas Utils. Div. June 21, 2005) (final order granting application)

*h. Purchase Gas Cost Adjustment (PGA) clause and Lost and Unaccounted for Gas (LUG).*

The proposed minimum bill and volume charge contain no gas cost. ANGC proposed that all eligible gas costs be recovered through a gas cost recovery mechanism and be included as a separate item on each monthly bill. During this proceeding, the Examiners requested comments from the Utility Audit Section regarding an audit of the operation of ANGC's previous purchase gas adjustment clause. Edward Abrahamson, Director, Utility Audit, noted that the compliance phase of an audit was still ongoing as of December 29, 2005. In that letter, he explained that if a billing issue arises between a supplier and the distribution utility anomalies can occur, and in the case of ANGC, did occur. He outlined several changes that could be made to a purchase gas adjustment clause that might avoid those types of issues in the future.

The PGA provision proposed by ANGC generally meets the criteria outlined by Mr. Abrahamson, and is materially different from the purchased gas adjustment clause currently in place under the currently effective rate schedule. In addition, Mr. Graves has made an adjustment to his cost of service calculation to eliminate non-recurring purchased gas cost adjustment. The proposed gas cost recovery mechanism is reasonable and the Examiners recommend that it be approved.

At the time of the last rate filing, ANGC was experiencing losses at or slightly above the allowed rate of 5%. Throughout most of the 1990s, ANGC lost percentage has averaged less than 5%. Errors regarding the city gate meter of one of ANGC's suppliers has resulted in an apparent gain on the system. That error has been corrected and the utility is proposing a gas cost recovery provision that provides for recovery of actual LUG not to exceed 5% of gas metered into the system.

Until ANGC has accurate measurement results for the twelve months ended June 30, 2006, a loss percentage of 5% will be assumed. Thereafter, the gas cost recovery calculation will be based upon actual LUG or 5%, whichever is less. The Examiners agree that the proposed treatment of LUG is reasonable.

#### **4. Conclusion**

The Examiners recommend that the requested rate increase be approved with the adjustments outlined above:

- Adjustment to the the Seasonal Service Restoration Fee tariff language;
- Adjustment to the tariff language regarding the Meter Tests; and,

- Removal of the adjustment to invested capital to reflect the average balance of unrecovered rate case expenses.

Both the City of Rockport and the City of Fulton have adopted the rates as proposed by ANGC without the changes recommended by the Examiners. The Examiners believe that, subject to the three adjustments above, the requested rate increase is reasonable. In particular, the overall revenue increase requested is reasonable in light of the fact that ANGC has not sought a rate increase in over fifteen years. Further, the Examiners believe that the rates reflected in the attached schedules and tariff are reasonable. Except for the issues outlined above, ANGC, through the testimony of Thomas A. Graves, accompanying schedules, and workpapers has met its burden of proof.

Issued this 9<sup>th</sup> day of February, 2006

Respectfully submitted,

Eugene Montes  
Hearings Examiner  
General Counsel Division

Mark Evarts  
Technical Examiner  
Gas Services Division