

GUD No. 9839

STATEMENT OF INTENT FILED BY	§	
TEXAS GAS SERVICE COMPANY TO	§	BEFORE THE
CHANGE THE RATES WITHIN THE	§	RAILROAD COMMISSION
ENVIRONS OF THE NORTH TEXAS	§	OF TEXAS
SERVICE AREA	§	

**SETTLEMENT AGREEMENT**

This Settlement Agreement is entered into by and between Texas Gas Service Company ("Texas Gas") and the Railroad Commission Staff ("Staff").

WHEREAS, this Settlement Agreement resolves all issues relating to the Texas Gas Statement of Intent filed with the Railroad Commission of Texas on December 1, 2008, in a manner that Texas Gas and Staff (collectively "the Signatories") believe is consistent with the public interest, and the Signatories represent diverse interests;

WHEREAS, the Signatories believe that a fully contested hearing in the case would be time-consuming and entail substantial additional expense and that the public interest will be best served by issuance of an order consistent with the Settlement Agreement and implementation of the rate schedules and tariffs attached hereto as Exhibit A;

NOW, THEREFORE, in consideration of the mutual agreements and covenants established herein, the Signatories, through their undersigned representatives, agree to and recommend for approval by the Commission the following Settlement Terms as a means of fully resolving all Staff issues raised in the December 1, 2008 Statement of Intent filed by Texas Gas on behalf of its North Texas Service Area environs:

**Settlement Terms**

1. Texas Gas and Staff agree to the rates, terms and conditions reflected in the rate schedules and tariffs attached to this Settlement Agreement as Exhibit A. Said tariffs would allow Texas Gas an additional \$73,776 in annual revenue, which amount represents the environs' share of rates currently in effect for the cities in the North Texas Service Area. Texas Gas and Staff further agree that the rates, terms and conditions reflected in Exhibit A to this Settlement Agreement comply with the rate-setting requirements of Chapter 104 of the Texas Utilities Code.
2. Included as part of Exhibit A is a Cost of Service Adjustment ("COSA") tariff (Rate Schedule No. COSA-2) that provides for an annual rate adjustment to reflect changes in operating and maintenance expense, depreciation expense, other taxes expense, and revenues as well as changes in capital investment and associated changes in gross revenue related taxes. This COSA contains modifications to address concerns raised by Staff and by the Examiners prior to hearing.
3. The calculation of a yearly COSA adjustment shall be based on the following rate of return, which is the same rate of return included in the municipal rates approved by agreement with the North Texas cities. The Signatories agree that the use of this rate of

return for the purposes of calculating a COSA adjustment shall not be construed as precedent for establishing a return on equity in any future proceeding. The Signatories agree to ask the Examiners to include findings in the proposal for decision and proposed order that expressly limit the application of this agreed rate of return to the facts of this case.

4. The Signatories agree that approval of a COSA in this docket is not inconsistent with current Railroad Commission Rule 7.220(c), and that the rule should be interpreted in light of the Commission's recent adoption of a COSA for the cities and environs of CenterPoint Energy Resources Corp.'s Texas Coast Service Area. The Signatories also agree that the reference to a "cost of service adjustment clause" in Railroad Commission Rule 7.220(c) is specifically defined in the Commission's Rule 7.115(p) to mean a clause "which operates to increase or decrease rates *without prior consent or authority of the appropriate regulatory authority.*" The Signatories agree that Rule 7.220(c) does not refer to the COSA tariff attached hereto because the proposed COSA expressly calls for regulatory oversight by the appropriate regulatory authority. The Signatories agree to request that the Examiners include findings and conclusions in the proposal for decision and the proposed order that reconcile the proposed COSA with Rule 7.220(c) in accordance with this interpretation.
5. The Signatories agree that Texas Gas in any future Statement of Intent filing made with the Commission that includes a COSA will also include an applicable Conservation and Energy Efficiency ("CEE") tariff. The Signatories acknowledge that the Railroad Commission has initiated a rulemaking proceeding to establish guidelines for adopting future CEE tariffs that will align the interests of a gas utility with principles of conservation and energy efficiency. The Signatories agree that the Company in any new Statement of Intent filed with its municipal regulators or the Commission following the conclusion of that rulemaking will comply with the policy and/or rule resulting from such rulemaking. In the event Texas Gas files a new Statement of Intent with its municipal regulators or the Commission prior to the conclusion of the rulemaking, Texas Gas will include a conservation/energy efficiency mechanism which provides financial incentives to consumers to conserve natural gas and improve efficiency, the amount of incentives to be consistent with the scope of the number of customers included in the program.
6. The Signatories agree that the terms of the Settlement Agreement are interdependent and indivisible, and that if the Commission enters an order that is inconsistent with this Settlement Agreement, then any Signatory may withdraw without being deemed to have waived any procedural right or to have taken any substantive position on any fact or issue by virtue of that Signatory's entry into the Settlement Agreement or its subsequent withdrawal.
7. The Signatories agree that all negotiations, discussion, and conferences related to the Settlement Agreement are privileged, inadmissible, and not relevant to prove or disprove any issues associated with the December 1, 2008 Statement of Intent filed by Texas Gas on behalf of its North Texas Service Area environs pursuant to Texas law.
8. The Signatories agree that neither this Settlement Agreement nor any oral or written statements or representations made during the course of settlement negotiations may be

used for any purpose other than as necessary to support the entry by the Commission of an order implementing this Settlement Agreement.

9. The Signatories agree that this Settlement Agreement is binding on each Signatory only for the purpose of settling the issues set forth herein and for no other purposes, and, except to the extent the Settlement Agreement governs a Signatory's rights and obligations for future periods, this Settlement Agreement shall not be binding or precedential upon a Signatory outside this proceeding.

10. The Signatories agree that this Settlement Agreement may be executed in multiple counterparts and may be filed with facsimile signatures.

Agreed to this 7th day of April, 2009.

TEXAS GAS SERVICE COMPANY


By:

  
Dane Mckaughan

Attorney for Texas Gas Service Company

RAILROAD COMMISSION STAFF

By:

  
John Pierce Griffin

Railroad Commission of Texas

**WEATHER NORMALIZATION ADJUSTMENT CLAUSE****A. APPLICABILITY**

The Weather Normalization Adjustment Clause (WNA) shall apply to the following general service rate schedules of Texas Gas Service Company in the incorporated areas of Weatherford, Aledo, Hudson Oaks, Willow Park, Mineral Wells, Graford, Millsap, Breckenridge, Graham, Jacksboro and Bryson: 10, 20, 25, 40, and 45 as well as general service rate schedules 1A, 2A, 2B, 4A and 4B in the unincorporated areas of the above towns and the towns of Jermyn, Palo Pinto, Perrin, Whitt, Possum Kingdom and Punkin Center. The WNA shall be effective during the September through May billing cycles.

**B. PURPOSE**

The WNA refunds over-collections or surcharges under-collections of revenue due to colder or warmer than normal weather, as established in the Company's most recent rate filing.

**C. WNA MECHANISM**

In order to reflect weather effects in a timely and accurate manner, the WNA adjustment shall be calculated separately for each billing cycle and rate schedule. The weather factor, determined for each rate schedule in the most recent rate case, shows the effect of one heating degree day on consumption for that rate schedule. During each billing cycle, the weather factor is multiplied by the difference between normal and actual heating degree days for the billing period and by the number of customers billed. This WNA volume adjustment is priced at the current cost of service rate per Ccf to determine a WNA revenue adjustment, which is spread to the customers in the billing cycle on a prorata basis.

Supersedes Same Sheet Dated  
Sept. 22, 2000 (Incorporated Weatherford),  
Oct. 31, 2000 (Incorporated Willow Park, Aledo and Hudson Oaks),  
May 25, 2001 (Incorporated Mineral Wells),  
July 26, 2001 (Incorporated Graford and Millsap)

Meters Read On and After  
April 28, 2006 (Incorp. Graham, Jacksboro, Bryson,  
Mineral Wells, Graford, Millsap, Weatherford,  
Aledo, Hudson Oaks & Willow Park)  
June 5, 2006 (Incorporated Breckenridge)  
(Unincorporated areas)

# TEXAS GAS SERVICE COMPANY

North Texas Area

## RATE SCHEDULE WNA

Page 2 of 2

### WEATHER NORMALIZATION ADJUSTMENT CLAUSE

(Continued)

#### C. WNA MECHANISM (Continued)

The WNA for each billing cycle and rate schedule shall be based on the following formula:

$$\text{WNA Rate} = \frac{\text{WNAD}}{\text{CV}}, \text{ where}$$

WNAD = Weather Normalization Adjustment Dollars to be collected from each billing cycle and rate schedule. This factor shall be based on the following formula:

$$\text{WNAD} = (\text{HDD}_{\text{Diff}} * \text{CB} * \text{WF}) * \text{COS}_{\text{rate}}, \text{ where}$$

$\text{HDD}_{\text{Diff}} = (\text{Normal HDD} - \text{Actual HDD})$ , the difference between normal and actual heating degree days for the billing period.

CB = Number of customers billed for the billing period.

WF = Weather factor determined for each rate schedule in the most recent rate case as listed below.

CV = Current Volumes for the billing period.

Weather Factors from most recent rate case by class:

Residential 0.13197

Commercial 0.37721

Large Commercial 10.64749

Public Authority 1.73743

Large Public Authority 15.61800

Applicable weather station is Abilene, Texas.

#### D. FILING WITH THE CITIES AND THE RAILROAD COMMISSION OF TEXAS (RRC)

The Company will file with the Cities and the RRC monthly reports showing the rate adjustments for each applicable rate schedule. Supporting documentation will be made available for review upon request. By each October 1, the Company will file with the Cities and the RRC an annual report verifying the past year's WNA collections or refunds.

Supersedes Same Sheet Dated  
Sept. 22, 2000 (Incorporated Weatherford),  
Oct. 31, 2000 (Incorporated Willow Park, Aledo and Hudson Oaks),  
May 25, 2001 (Incorporated Mineral Wells),  
July 26, 2001 (Incorporated Graford and Millsap)

Meters Read On and After  
April 28, 2006 (Incorp. Graham, Jacksboro, Bryson,  
Mineral Wells, Graford, Millsap, Weatherford,  
Aledo, Hudson Oaks & Willow Park)  
June 5, 2006 (Incorporated Breckenridge)  
(Unincorporated areas)

## COST OF GAS CLAUSE

A. APPLICABILITY

This Cost of Gas Clause shall apply to all general service rate schedules of Texas Gas Service Company ("The Company") in the unincorporated areas of Weatherford, Aledo, Hudson Oaks, Willow Park, Mineral Wells, Graford, Millsap, Breckenridge, Graham, Jacksboro, Bryson, Jermyn, Palo Pinto, Perrin, Whitt, Possum Kingdom, and Punkin Center, Texas.

B. DEFINITIONS

1. Cost of Gas - The rate per billing unit or the total calculation under this clause, consisting of the commodity cost, a Reconciliation Component and related fees and taxes, and other purchased gas expenses.
2. Commodity Cost - The Cost of Purchased Gas multiplied by the Purchase Sales Ratio.
3. Cost of Purchased Gas - The estimated cost for gas purchased by the Company from its suppliers or the estimated weighted average cost for gas purchased by the Company from all sources where applicable. Such cost shall include not only the purchase cost of natural gas, but shall also include all reasonable fees for services such as gathering, treating, processing, transportation, capacity and/or supply reservation fees, storage, balancing, and swing services necessary for the movement of gas to the Company's citygate delivery points. The Cost of Purchased Gas shall also include gains or losses from the utilization of natural gas financial instruments that are executed by the Company for the purpose of mitigating high prices and price volatility.
4. Reconciliation Component - The amount to be returned to or recovered from customers each month from December through August as a result of the Reconciliation Audit.
5. Reconciliation Audit - An annual review of the Company's books and records for each twelve month period ending with the production month of August to determine the amount of over or under collection occurring during such twelve month period. The audit shall determine: (a) the total amount paid for gas purchased by the Company (per Section B(3) above) to provide service to its general service customers during the period, (b) the revenues received from operation of the provisions of this cost of gas, (c) the total amount of refunds made to customers during the period and any other revenues or credits received by the Company as a result of relevant gas purchases or operation of this Cost of Gas Clause, (d) the total amount of uncollectible accounts that are attributable to charges calculated under this tariff during the period, not to exceed 0.82% of cost of gas revenues and (e) an adjustment, if necessary, to exclude lost and unaccounted for gas during the period in excess of five (5) percent of purchases.

Supersedes Rate Schedules:

1-ENV dated 5/25/01 (Unincorp. Breckenridge)

1 dated 8/24/01 (Unincorp. Graham)

1 dated 8/24/01 (Unincorp. Jacksboro, Bryson & Jermyn)

1 dated 11/26/01 (Unincorp. Min. Wells, Graford, Millsap, Palo Pinto, Whitt, and Perrin)

1 dated 7/26/01 (Unincorp. Possum Kingdom)

1 dated 8/24/01 (Unincorp. Weatherford, Aledo, Hudson Oaks, Willow Park, & Punkin Center)

Meters Read On and After

COST OF GAS CLAUSE  
(Continued)

6. Purchase/Sales Ratio - A ratio determined by dividing the total volumes purchased of a general service customer during the twelve (12) month period ending June 30 by the sum of the volumes sold to general service customers during the same period. For the purpose of this computation all volumes shall be stated at 14.65 psia. Such ratio as determined shall in no event exceed 1.0526 i.e.  $1/(1 - .05)$  unless expressly authorized by the applicable regulatory authority.
7. Reconciliation Account - The account maintained by the Company to assure that over time it will neither over nor under collect revenues as a result of the operation of the cost of gas clause. Entries shall be made monthly to reflect, (a) the total amounts paid to the Company's supplier(s) for gas applicable to general service customers as recorded on the Company's books and records, (per Section B(3) above) (b) the revenues produced by the operation of this cost of gas clause, (c) refunds, payments, or charges provided for herein or as approved by the regulatory authority, (d) the total amount of uncollectible accounts that are attributable to charges calculated under this tariff during the period, not to exceed 0.82% of cost of gas revenues and (e) an adjustment, if necessary, to exclude lost and unaccounted for gas during the period in excess of five (5) percent of purchases.
8. General Service Customers - those customers served under general service rate schedules.

C. COST OF GAS

In addition to the cost of service as provided under its general service rate schedules, the Company shall bill each general service customer for the Cost of Gas incurred during the billing period. The Cost of Gas shall be clearly identified on each customer bill.

D. DETERMINATION AND APPLICATION OF THE RECONCILIATION COMPONENT

If the Reconciliation Audit reflects either an over recovery or under recovery of revenues, such amount, plus or minus the amount of interest calculated pursuant to Section E below, if any, shall be divided by the general service sales volumes, adjusted for the effects of weather, growth, and conservation for the period beginning with the December billing cycle last preceding through the August billing cycle. The Reconciliation Component so determined to collect any revenue shortfall or to return any excess revenue shall be applied for a nine (9) month period beginning with the next following December billing cycle and continuing through the next following August billing cycle at which time it will terminate until a new Reconciliation Component is determined.

Supersedes Rate Schedules:

1-ENV dated 5/25/01 (Unincorp. Breckenridge)

1 dated 8/24/01 (Unincorp. Graham)

1 dated 8/24/01 (Unincorp. Jacksboro, Bryson & Jermyn)

1 dated 11/26/01 (Unincorp. Min. Wells, Graford, Millsap, Palo Pinto, Whitt, and Perrin)

1 dated 7/26/01 (Unincorp. Possum Kingdom)

1 dated 8/24/01 (Unincorp. Weatherford, Alado, Hudson Oaks, Willow Park, & Punkin Center)

Meters Read On and After

COST OF GAS CLAUSE  
(Continued)E. PAYMENT FOR FUNDS

Concurrently with the Reconciliation Audit, the Company shall determine the amount by which the Cost of Gas was over or under collected for each month including any cost of gas inventory in storage within the period of audit. If, on the average, the Company had overcollected during the period, it shall credit into the Reconciliation Account during November an amount equal to the average balance multiplied by nine percent (9%). If on the average, the Company had undercollected during the period, it shall debit into the Reconciliation Account during November an amount equal to the average balance multiplied by nine percent (9%).

F. SURCHARGE OR REFUND PROCEDURES

In the event that the rates and charges of the Company's supplier are retroactively reduced and a refund of any previous payments is made to the Company, the Company shall make a similar refund to its general service customers. Similarly, the Company may surcharge its general service customers for retroactive payments made for gas previously delivered into the system. Any surcharge or refund amount will be included in the Reconciliation Account.

Refunds or charges shall be entered into the Reconciliation Account as they are collected from or returned to the customers. For the purpose of this Section F, the entry shall be made on the same basis used to determine the refund or charge component of the Cost of Gas and shall be subject to the calculation set forth in Section (E) Payment for Funds, above.

G. COST OF GAS STATEMENT

The Company shall file a Cost of Gas Statement with the Regulatory Authority by the beginning of each billing month. The Cost of Gas Statement shall set forth (a) the Cost of Purchased Gas; (b) that cost multiplied by the Purchase/Sales Ratio; (c) the amount of the cost of gas caused by any surcharge or refund; (d) the Reconciliation Component; and (e) the Cost of Gas which is the total of items (b) through (d). The statement shall include all data necessary for the Regulatory Authority to review and verify the calculations of the Cost of Gas. Along with the Cost of Gas Statement, the Company shall include a detailed description of financial instruments executed by the Company as described in Section B.3. Definition of Cost of Purchased Gas. The date on which billing using the Cost of Gas is to begin is to be specified in the statement.

## Supersedes Rate Schedules:

1-ENV dated 5/25/01 (Unincorp. Breckenridge)1 dated 8/24/01 (Unincorp. Graham)1 dated 8/24/01 (Unincorp. Jacksboro, Bryson & Jermyn)1 dated 11/26/01 (Unincorp. Min. Wells, Graford, Millsap, Palo Pinto, Whitt, and Perrin)1 dated 7/26/01 (Unincorp. Possum Kingdom)1 dated 8/24/01 (Unincorp. Weatherford, Aledo, Hudson Oaks, Willow Park, & Punkin Center)

Meters Read On and After

**COST OF GAS CLAUSE**  
(Continued)

**H. ANNUAL RECONCILIATION REPORT**

The Company shall file an annual report with the Regulatory Authority which shall include but not necessarily be limited to:

1. A tabulation of volumes of gas purchased and costs incurred by month for the twelve months ending August 31.
2. A tabulation of gas units sold to general service customers and related Cost of Gas clause revenues.
3. A summary of all other costs and refunds made during the year and the status of the operations of the Cost of Gas Clause to date.
4. A tabulation of the uncollectible accounts attributable to charges calculated under this tariff, including monthly amounts charged off, and monthly charged off amounts later collected, if any.
5. A detailed description of the settlement and impact of financial instruments utilized by the Company as described in Section B.3.
6. An affidavit signed by an officer of the utility stating that neither TGS, its parent company ONEOK, Inc., nor an affiliate has made a profit on the utilization of financial instruments that are executed by the Company for the purpose of mitigating price volatility, as described in Section B.3.
7. This report shall be filed concurrently with the Cost of Gas Statement for October. If the Regulatory Authority thereafter determines that an adjustment to the Reconciliation Component is required, such adjustment shall be included in the Reconciliation Component for the next annual Reconciliation Audit following the date of such determination.

5.8. Transition from the preceeding Cost of Gas Clauses to this Cost of Gas Clause will occur simultaneously with the effective date of this tariff. All existing under or over recoveries will be aggregated to an area wide reconciliation. The first reconciliation under this new tariff will be filed on a North Texas Area wide basis for 12 months ending August in the next reconciliation report.

This report shall be filed concurrently with the Cost of Gas Statement for December.

**Supersedes Rate Schedules:**

1-ENV dated 5/25/01 (Unincorp. Breckenridge)

1 dated 8/24/01 (Unincorp. Graham)

1 dated 8/24/01 (Unincorp. Jacksboro, Bryson & Jermyn)

1 dated 11/26/01 (Unincorp. Min. Wells, Grafard, Millsap, Palo Pinto, Whitt, and Perrin)

1 dated 7/26/01 (Unincorp. Possum Kingdom)

1 dated 8/24/01 (Unincorp. Weatherford, Aledo, Hudson Oaks, Willow Park, & Punkin Center)

**Meters Read On and After**

\_\_\_\_\_

## COST OF SERVICE ADJUSTMENT CLAUSE

A. APPLICABILITY

This Cost of Service Adjustment Clause applies to all general service rate schedules of Texas Gas Service Company currently in force in the Company's service area within the ~~incorporated and-unincorporated~~ areas of Aledo, Hudson Oaks, Willow Park, Mineral Wells, Graford, Millsap, Breckenridge, Graham, Jacksboro, Bryson, Jermyn, Palo Pinto, Perrin, Whitt, Possum Kingdom and Punkin Center, Texas.

A filing under this tariff is made in lieu of a filing under the Gas Reliability Infrastructure Program ("GRIP") statute, Texas Utilities Code Ann, § 104.301. The Company may not seek recovery under both the COSA tariff and the GRIP statute for the same time period.

B. EFFECTIVE DATE

Rate adjustments shall be made in accordance with the procedures described below on an annual basis. The Company shall make its annual filing no later than April 1, with rate adjustments to be effective the first billing cycle of August each year.

C. COMPONENTS OF RATE ADJUSTMENT

Calculation of the rate adjustment will be based on calendar year operating expenses, return on investment, federal income taxes and revenue related taxes. All information will be presented by FERC account number with supporting calculations at the time of filing.

The actual percentage change in the revenue requirement ~~after gross-ups~~ in any year shall not exceed the percentage change in the Consumer Price Index for All Urban Consumers (CPI-U) from December of the prior calendar year to December of the current calendar year. The actual percentage change in the revenue requirement ~~after gross-ups~~ is computed by comparing the revenue requirement ~~after gross-ups~~ for the current calendar year to the revenue requirement after gross-ups for the prior calendar year. The rate adjustment will be spread evenly across all weather-normalized gas sales volumes for the calendar year to determine an adjustment amount per Ccf to be added to existing rates for each rate code.

COST OF SERVICE ADJUSTMENT CLAUSE

(Continued)

C. COMPONENTS OF RATE ADJUSTMENT (CONT.)

1. Operating Expenses

Operating expenses will be determined by the ending balances for the applicable calendar year. The applicable expenses are:

Depreciation and Amortization Expense (Account No. 403-405)\*

Taxes Other Than FIT (Account No. 408)\*\*

Distribution Expenses (Account Nos. 870-894)

Customer Related Expenses (Account Nos. 901-916)

Administrative & General Expenses (Account Nos. 920-932, except 928)

Interest on Customer Deposits (Account No. 431)

Uncollectible expense factor to remain constant at 0.0078684.

\* Based on the last city and Commission (RRC) approved depreciation methods and lives.

\*\* Excluding City Franchise, Gross Receipts, and any other revenue-based tax.

~~This information will be presented with supporting calculations.~~

2. Return on Investment

The rate of return will remain constant at the level authorized in the most recent rate case. The return on investment is the rate of return multiplied by the rate base balance for the applicable calendar year end. The rate base balance is composed of:

	Net Plant in Service
Plus:	Other Rate Base Items*
Less:	Customer Deposits (Account No. 235)
	Customer Advances (Account No. 252)
	Deferred Federal Income Taxes

\* These items will reflect the Materials and Supplies inventories and prepayments levels approved in the most recent general rate case.

COST OF SERVICE ADJUSTMENT CLAUSE

(Continued)

C. COMPONENTS OF RATE ADJUSTMENT (CONT.)

3. Federal Income Taxes

Calendar year federal income taxes will be calculated as follows:

Net Taxable Income (calendar year end rate base multiplied by rate  
of return from the most recent general rate case)  
Less: Interest on Long Term Debt (debt cost component of return from the  
most recent general rate case multiplied by rate base)  
Multiplied by: Tax Factor (.35/(1-.35) or .53846)

4. Cost of Service Adjustment Rate

The amount to be collected through the cost of service adjustment rate will be the sum of the amounts from Sections DC.1 through DC.34 (the revenue requirement) less the calendar year customer charge revenue and other revenue (i.e., transportation revenue and service charges). Dividing this amount by weather-normalized gas sales volumes for the applicable calendar year will yield a per unit rate for the calendar year. The difference between this calendar year per unit rate and the per unit rate from the most recent rate case (\*) will result in the cost of service adjustment rate for the calendar year. The cost of service adjustment rate for the calendar year will be shown as a separate line item on the customer's monthly bill added to the cost of service rate approved in the most recent rate case for each rate code.

\* The per unit rate from the most recent rate case will be the weighted average per unit cost of service rate for all classes of gas sales service.

5. Attestation

A sworn statement shall be filed by the Company's Chief Accounting Officer of Texas Gas Service Company, affirming that the filed schedules are in compliance with the provisions of this tariff and are true and correct to the best of his/her knowledge, information, and belief. No testimony shall be filed.

6. Proof of Revenues

The Company shall also provide a schedule demonstrating the "proof of revenues" relied upon to calculate the proposed cost of service adjustment rate. The proposed rates shall conform as closely as practicable to the revenue allocation principles in effect prior to the adjustment.

7. Notice

Notice of the annual Cost of Service Adjustment shall be published in a newspaper having general circulation in a form similar to that required under Section 104.103, TEX. UTIL. CODE ANN. no later than forty-five (45) days after the Company makes its annual filing pursuant to this rate schedule with the regulatory authority. The notice to customers shall include the following information:

a) a description of the proposed revision of rates and schedules;

b) the effect the proposed revision of rates is expected to have on the rates applicable to each

customer class and on an average bill for each affected customer class;

- c) the service area or areas in which the proposed rate adjustment would apply;
- d) the date the proposed rate adjustment was filed with the regulatory authority; and
- e) the Company's address, telephone number, and website where information concerning the proposed cost of service adjustment may be obtained.

#### D. REGULATORY REVIEW OF ANNUAL RATE ADJUSTMENT

~~The cities and the RRC will have a period of not less than ninety (90) days within which to review the proposed annual rate adjustment prior to its taking effect with the first billing cycle of August of each year. If the Cities and the RRC takes no action within ninety (90) days, the proposed annual rate adjustment will be deemed approved by the RRC. A city or group of cities may retain a consultant to review the annual rate adjustment filing, and the Company agrees to reimburse the actual, aggregate cost of such the RRC's review(s) up to an amount not to exceed \$15,000 per year. Any reimbursement of such costs will be recoverable through the Company's annual cost of service adjustment rate. This Cost of Service Adjustment Clause does not limit the legal rights and duties of the cities or the RRC. Texas Gas Service Company's annual rate adjustment will be made in accordance with all applicable laws. Texas Gas Service Company will provide proof of notice to customers prior to the rates taking effect. Texas Gas Service Company shall not appeal to the Railroad Commission of Texas the denial of its annual rate adjustment by one or more of the cities or the RRC. However, such denial shall not preclude Texas Gas Service Company from filing a Statement of Intent to increase rates pursuant to section 104.102 of the Texas Utilities Code in such cities and their environs.~~

**COST OF SERVICE ADJUSTMENT RIDER****A. APPLICABILITY**

This Cost of Service Adjustment Rider applies to all general service rate schedules of Texas Gas Service Company (Company) currently in force in the unincorporated areas of the North Texas Service Area. Applicable rate schedules include 1A, 2A, 2B, 3A, 3B, 4A, and 4B.

**B. BILLING**

The following Cost of Service Adjustment will be added to the applicable Rate Schedule volumetric rate per Ccf for each monthly billing period:

2008 Cost of Service Adjustment	\$0.0100 per Ccf
---------------------------------	------------------

All applicable fees and taxes will be added to the above rate.

Supersedes Same Sheet Dated  
Initial Rate Schedule

Meters Read On and After  
\_\_\_\_\_

# TEXAS GAS SERVICE COMPANY

North Texas Area

## RATE SCHEDULE 1A

### RESIDENTIAL SERVICE RATE

#### APPLICABILITY

Applicable to a residential customer in a single dwelling, or in a dwelling unit of a multiple dwelling or residential apartment, for domestic purposes.

#### TERRITORY

All customers served by the Company in the unincorporated areas of Weatherford, Aledo, Hudson Oaks, Willow Park, Mineral Wells, Graford, Millsap, Breckenridge, Graham, Jacksboro, Bryson, Jermyn, Palo Pinto, Perrin, Whitt, Possum Kingdom, and Punkin Center, Texas.

#### COST OF SERVICE RATE

During each monthly billing period:

A Customer Charge of	\$ 10.75 plus
All Ccf at	\$ .20270 per Ccf

#### OTHER ADJUSTMENTS

Cost of Gas Component: The basic rates for cost of service set forth above shall be increased by the amount of the Cost of Gas Component for the billing month computed in accordance with the provisions of Rate Schedule 1-ENV.

Weather Normalization Adjustment: The billing shall reflect adjustments in accordance with the provisions of the Weather Normalization Adjustment Clause, Rate Schedule WNA.

Cost of Service Adjustment: The billing shall reflect adjustments in accordance with the provisions of the Cost of Service Adjustment Rider, Rate Schedule 1-1-ENV RIDER.

Taxes: Plus applicable taxes and fees related to above.

#### CONDITIONS

1. Subject to all applicable laws and orders, and the Company's Rules and Regulations on file with the regulatory authority.
2. Residential service shall have priority in supply.

This Rate Schedule replaces Residential Rate Schedules:

- 1Z dated 05/25/01 (Unincorp. Breckenridge), 01/28/91 (Unincorp. Graham), 11/27/00 (Unincorp. Jacksboro and Jermyn), 11/26/01 (Unincorp. Mineral Wells, Graford, Millsap, Palo Pinto, Perrin & Whitt), 08/24/01 (Unincorp. Possum Kingdom), 5/25/01 (Unincorp. Weatherford, Aledo, Hudson Oaks, Willow Park and Punkin Center)
- 1Y dated 11/27/00 (Unincorp. Bryson)

Supersedes  
See list above

Meters Read On and After

# TEXAS GAS SERVICE COMPANY

North Texas Area

## RATE SCHEDULE 2A

### COMMERCIAL SERVICE RATE

#### APPLICABILITY

Applicable to commercial consumers and to consumers not otherwise specifically provided for under any other rate schedule, with monthly usage of 2,900 Ccf or less, on average.

#### TERRITORY

All customers served by the Company in the unincorporated areas of Weatherford, Aledo, Hudson Oaks, Willow Park, Mineral Wells, Graford, Millsap, Breckenridge, Graham, Jacksboro, Bryson, Jermyn, Palo Pinto, Perrin, Whitt, Possum Kingdom, and Punkin Center, Texas.

#### COST OF SERVICE RATE

During each monthly billing period:

A Customer Charge of	\$ 22.50 plus
All Ccf at	\$ 0.19380 per Ccf

#### OTHER ADJUSTMENTS

Cost of Gas Component: The basic rates for cost of service set forth above shall be increased by the amount of the Cost of Gas Component for the billing month computed in accordance with the provisions of Rate Schedule 1-ENV.

Weather Normalization Adjustment: The billing shall reflect adjustments in accordance with the provisions of the Weather Normalization Adjustment Clause, Rate Schedule WNA.

Cost of Service Adjustment: The billing shall reflect adjustments in accordance with the provisions of the Cost of Service Adjustment Rider, Rate Schedule 1-1-ENV RIDER.

Taxes: Plus applicable taxes and fees related to above.

#### CONDITIONS

1. Subject to all applicable laws and orders, and the Company's Rules and Regulations on file with the regulatory authority.
2. Delivery of gas hereunder may be interrupted or curtailed at the discretion of the Company, in case of shortage or threatened shortage of gas supply from any cause whatsoever, to conserve gas for residential and other consumers served.

This Rate Schedule replaces Commercial Rate Schedules:

2Z dated 05/25/01 (Unincorp. Breckenridge), 01/28/91 (Unincorp. Graham), 11/27/00 (Unincorp. Jacksboro and Jermyn), 11/26/01 (Unincorp. Mineral Wells, Graford, Millsap, Palo Pinto, Perrin & Whitt), 08/24/01 (Unincorp. Possum Kingdom), 5/25/01 (Unincorp. Weatherford, Aledo, Hudson Oaks, Willow Park and Punkin Center)  
2Y dated 11/27/00 (Unincorp. Bryson)

Supersedes  
See list above

Meters Read On and After

# TEXAS GAS SERVICE COMPANY

North Texas Area

## RATE SCHEDULE 2B

### LARGE VOLUME COMMERCIAL SERVICE RATE

#### APPLICABILITY

Applicable to commercial customers and to customers not otherwise specifically provided for under any other rate schedule, with monthly usage greater than 2,900 Ccf, on average.

#### TERRITORY

All customers served by the Company in the unincorporated areas of Weatherford, Aledo, Hudson Oaks, Willow Park, Mineral Wells, Graford, Millsap, Breckenridge, Graham, Jacksboro, Bryson, Jermyn, Palo Pinto, Perrin, Whitt, Possum Kingdom, and Punkin Center, Texas.

#### COST OF SERVICE RATE

During each monthly billing period:

A Customer Charge of	\$ 400.00 plus
All Ccf at	\$ 0.17380 per Ccf

#### OTHER ADJUSTMENTS

Cost of Gas Component: The basic rates for cost of service set forth above shall be increased by the amount of the Cost of Gas Component for the billing month computed in accordance with the provisions of Rate Schedule 1-ENV.

Weather Normalization Adjustment: The billing shall reflect adjustments in accordance with the provisions of the Weather Normalization Clause, Rate Schedule WNA.

Cost of Service Adjustment: The billing shall reflect adjustments in accordance with the provisions of the Cost of Service Adjustment Rider, Rate Schedule 1-1-ENV RIDER.

Taxes: Plus applicable taxes and fees related to above.

#### CONDITIONS

1. Subject to all applicable laws and orders, and the Company's Rules and Regulations on file with the regulatory authority.
2. Delivery of gas hereunder may be interrupted or curtailed at the discretion of the Company, in case of shortage or threatened shortage of gas supply from any cause whatsoever, to conserve gas for residential and other customers served.

This Rate Schedule replaces Large Volume Commercial Rate Schedules:

2A dated 11/27/00 (Unincorp. Jacksboro and Jermyn)

2B dated 11/27/00 (Unincorp. Bryson)

2C dated 5/25/01 (Unincorp. Weatherford, Aledo, Hudson Oaks, Willow Park and Punkin Center)

2F dated 11/26/01 (Unincorp. Mineral Wells, Graford, Millsap, Palo Pinto, Perrin & Whitt)

Supersedes  
See list above

Meters Read On and After

# TEXAS GAS SERVICE COMPANY

## North Texas Area

## RATE SCHEDULE 3A

### INDUSTRIAL SERVICE RATE

#### APPLICABILITY

Service under this rate schedule is available to any customer whose primary business activity at the location served is included in one of the following classifications of the Standard Industrial Classification Manual of the U.S. Government, with monthly usage of 2,900 Ccf or less, on average.

Division B - Mining - all Major Groups  
Division D - Manufacturing - all Major Groups  
Divisions E and J - Utility and Government - facilities generating power for resale only.

#### TERRITORY

All customers served by the Company in the unincorporated areas of Weatherford, Aledo, Hudson Oaks, Willow Park, Mineral Wells, Graford, Millsap, Breckenridge, Graham, Jacksboro, Bryson, Jermyn, Palo Pinto, Perrin, Whitt, Possum Kingdom, and Punkin Center, Texas.

#### COST OF SERVICE RATE

During each monthly billing period:

A Customer Charge of \$ 50.00 plus  
All Ccf at \$ 0.15680 per Ccf

#### OTHER ADJUSTMENTS

Cost of Gas Component: The basic rates for cost of service set forth above shall be increased by the amount of the Cost of Gas Component for the billing month computed in accordance with the provisions of Rate Schedule 1-ENV.

Cost of Service Adjustment: The billing shall reflect adjustments in accordance with the provisions of the Cost of Service Adjustment Rider, Rate Schedule 1-1-ENV RIDER.

Taxes: Plus applicable taxes and fees related to above.

#### CONDITIONS

1. Subject to all applicable laws and orders, and the Company's Rules and Regulations on file with the regulatory authority.
2. Delivery of gas hereunder may be interrupted or curtailed at the discretion of the Company, in case of shortage or threatened shortage of gas supply from any cause whatsoever, to conserve gas for residential and other consumers served.

This Rate Schedule replaces Industrial Rate Schedules:

3Z dated 05/25/01 (Unincorp. Breckenridge), 01/28/91 (Unincorp. Graham), 11/27/00 (Unincorp. Jacksboro and Jermyn), 11/26/01 (Unincorp. Mineral Wells, Graford, Millsap, Palo Pinto, Perrin & Whitt), 08/24/01 (Unincorp. Possum Kingdom), 5/25/01 (Unincorp. Weatherford, Aledo, Hudson Oaks, Willow Park and Punkin Center)

3Y dated 11/27/00 (Unincorp. Bryson)

Supersedes  
See list above

Meters Read On and After

# TEXAS GAS SERVICE COMPANY

North Texas Area

RATE SCHEDULE 3B

## LARGE VOLUME INDUSTRIAL SERVICE RATE

### APPLICABILITY

Service under this rate schedule is available to any customer whose primary business activity at the location served is included in one of the following classifications of the Standard Industrial Classification Manual of the U.S. Government, with monthly usage greater than 2,900 Ccf, on average.

Division B	- Mining – all Major Groups
Division D	- Manufacturing - all Major Groups
Divisions E and J	- Utility and Government - facilities generating power for Resale only.

### TERRITORY

All customers served by the Company in the unincorporated areas of Weatherford, Aledo, Hudson Oaks, Willow Park, Mineral Wells, Graford, Millsap, Breckenridge, Graham, Jacksboro, Bryson, Jermyn, Palo Pinto, Perrin, Whitt, Possum Kingdom, and Punkin Center, Texas.

### COST OF SERVICE RATE

During each monthly billing period:

A Customer Charge of	\$ 400.00 plus
All Ccf at	\$ 0.13680 per Ccf

### OTHER ADJUSTMENTS

Cost of Gas Component: The basic rates for cost of service set forth above shall be increased by the amount of the Cost of Gas Component for the billing month computed in accordance with the provisions of Rate Schedule 1-ENV.

Cost of Service Adjustment: The billing shall reflect adjustments in accordance with the provisions of the Cost of Service Adjustment Rider, Rate Schedule 1-1-ENV RIDER.

Taxes: Plus applicable taxes and fees related to above.

### CONDITIONS

1. Subject to all applicable laws and orders, and the Company's Rules and Regulations on file with the regulatory authority.
2. Delivery of gas hereunder may be interrupted or curtailed at the discretion of the Company, in case of shortage or threatened shortage of gas supply from any cause whatsoever, to conserve gas for residential and other consumers served.

This Rate Schedule replaces Large Volume Industrial Rate Schedules:

3A dated 11/27/00 (Unincorp. Jacksboro and Jermyn)

3C dated 5/25/01 (Unincorp. Weatherford, Aledo, Hudson Oaks, Willow Park and Punkin Center)

3B dated 11/27/00 (Unincorp. Bryson)

3F dated 11/26/01 (Unincorp. Mineral Wells, Graford, Millsap, Palo Pinto, Perrin & Whitt)

Supersedes  
See list above

Meters Read On and After

# TEXAS GAS SERVICE COMPANY

North Texas Area

RATE SCHEDULE 4A

## PUBLIC AUTHORITY SERVICE RATE

### APPLICABILITY

Applicable to all public and parochial schools and colleges, and to all facilities operated by Governmental agencies not specifically provided for in other rate schedules or special contracts, with monthly usage of 2,900 Ccf or less, on average.

### TERRITORY

All customers served by the Company in the unincorporated areas of Weatherford, Aledo, Hudson Oaks, Willow Park, Mineral Wells, Graford, Millsap, Breckenridge, Graham, Jacksboro, Bryson, Jermyn, Palo Pinto, Perrin, Whitt, Possum Kingdom, and Punkin Center, Texas.

### COST OF SERVICE RATE

During each monthly billing period:

A Customer Charge of	\$ 40.00 plus
All Ccf at	\$ 0.18670 per Ccf

### OTHER ADJUSTMENTS

Cost of Gas Component: The basic rates for cost of service set forth above shall be increased by the amount of the Cost of Gas Component for the billing month computed in accordance with the provisions of Rate Schedule 1-ENV.

Weather Normalization Adjustment: The billing shall reflect adjustments in accordance with the provisions of the Weather Normalization Adjustment Clause, Rate Schedule WNA.

Cost of Service Adjustment: The billing shall reflect adjustments in accordance with the provisions of the Cost of Service Adjustment Rider, Rate Schedule 1-1-ENV RIDER.

Taxes: Plus applicable taxes and fees related to above.

### CONDITIONS

1. Subject to all applicable laws and orders, and the Company's Rules and Regulations on file with the regulatory authority.
2. Delivery of gas hereunder may be interrupted or curtailed at the discretion of the Company, in case of shortage or threatened shortage of gas supply from any cause whatsoever, to conserve gas for residential and other consumers served.

This Rate Schedule replaces Public Authority Rate Schedules:

4Z dated 05/25/01 (Unincorp. Breckenridge), 01/28/91 (Unincorp. Graham), 11/27/00 (Unincorp. Jacksboro and Jermyn), 11/26/01 (Unincorp. Mineral Wells, Graford, Millsap, Palo Pinto, Perrin & Whitt), 08/24/01 (Unincorp. Possum Kingdom), 5/25/01 (Unincorp. Weatherford, Aledo, Hudson Oaks, Willow Park and Punkin Center)

4Y dated 11/27/00 (Unincorp. Bryson)

Supersedes  
See list above

Meters Read On and After

# TEXAS GAS SERVICE COMPANY

North Texas Area

## RATE SCHEDULE 4B

### LARGE VOLUME PUBLIC AUTHORITY SERVICE RATE

#### APPLICABILITY

Applicable to all public and parochial schools and colleges, and to all facilities operated by Governmental agencies not specifically provided for in other rate schedules or special contracts, with monthly usage greater than 2,900 Ccf, on average.

#### TERRITORY

All customers served by the Company in the unincorporated areas of Weatherford, Aledo, Hudson Oaks, Willow Park, Mineral Wells, Graford, Millsap, Breckenridge, Graham, Jacksboro, Bryson, Jermyn, Palo Pinto, Perrin, Whitt, Possum Kingdom, and Punkin Center, Texas.

#### COST OF SERVICE RATE

During each monthly billing period:

A Customer Charge of	\$ 400.00 plus
All Ccf at	\$ 0.16670 per Ccf

#### OTHER ADJUSTMENTS

Cost of Gas Component: The basic rates for cost of service set forth above shall be increased by the amount of the Cost of Gas Component for the billing month computed in accordance with the provisions of Rate Schedule 1-ENV.

Weather Normalization Adjustment: The billing shall reflect adjustments in accordance with the provisions of the Weather Normalization Adjustment Clause, Rate Schedule WNA.

Cost of Service Adjustment: The billing shall reflect adjustments in accordance with the provisions of the Cost of Service Adjustment Rider, Rate Schedule 1-1-ENV RIDER.

Taxes: Plus applicable taxes and fees related to above.

#### CONDITIONS

1. Subject to all applicable laws and orders, and the Company's Rules and Regulations on file with the regulatory authority.
2. Delivery of gas hereunder may be interrupted or curtailed at the discretion of the Company, in case of shortage or threatened shortage of gas supply from any cause whatsoever, to conserve gas for residential and other customers served.

This Rate Schedule replaces Large Volume Public Authority Rate Schedules:

4A dated 11/27/00 (Unincorp. Jacksboro and Jermyn)

4B dated 11/27/00 (Unincorp. Bryson)

4C dated 5/25/01 (Unincorp. Weatherford, Aledo, Hudson Oaks, Willow Park and Punkin Center)

4F dated 11/26/01 (Unincorp. Mineral Wells, Graford, Millsap, Palo Pinto, Perrin & Whitt)

Supersedes  
See list above

Meters Read On and After