

**RAILROAD COMMISSION OF TEXAS**

**STATEMENT OF INTENT FILED BY §  
NATGAS INC. TO INCREASE RATES IN §  
AND AROUND THE UNINCORPORATED §  
COMMUNITY OF OZONA, TEXAS §  
§**

**GAS UTILITIES DOCKET  
NO. 9951**

**FINAL ORDER**

Notice of Open Meeting to consider this Order was duly posted with the Secretary of State within the time period provided by law pursuant to TEX. GOV'T CODE ANN. Chapter 551, et seq. (Vernon 1994 & Supp. 2004). The Railroad Commission of Texas adopts the following findings of fact and conclusions of law and orders as follows:

**FINDINGS OF FACT**

1. Natgas, Inc. ("Natgas") is a utility as that term is defined in the Gas Utility Regulatory Act.
2. Natgas owns and operates a gas distribution system that provides gas service to customers in and around the unincorporated community of Ozona, Texas in Crockett County, Texas.
3. On February 11, 2010, Natgas filed a statement of intent to increase rates on customers located in and around the unincorporated community of Ozona, Texas.
4. On March 9, 2010, the Commission suspended the implementation of Natgas's proposed rate changes for environs customers for up to 150 days pursuant to TEX. UTIL. CODE ANN. §104.107(a)(2).
5. Natgas requested April 1, 2010 as the effective date for its proposed rate increase.
6. The statutory deadline for Commission action on this docket is August 29, 2010.
7. Three individuals filed objections to the Natgas' proposed rate increase. Notice of the final hearing in this matter was sent to these objectors. No individual filed a motion to intervene, attended the final hearing, or otherwise participated in this proceeding.
8. A final hearing was conducted in Austin on June 30, 2010, to take testimony, other evidence, and legal argument on all issues of law and fact that were raised in or relevant to Natgas's statement of intent, for the purpose of developing a record that the Commission will use in setting rates.
9. Natgas completed its notice requirements by mailing notice directly to each affected customer.
10. The data submitted by Natgas in this docket encompass a full test-year, i.e. the twelve-month period ending December 31, 2008.

11. Natgas proposed rates for the following two classes of customers: residential and small commercial; and, large commercial.
12. There are approximately 1,080 residential, and 167 commercial customers that will be affected by Natgas' rate changes.
13. A capital structure of 24.43 percent long-term debt and 75.57 percent common equity is reasonable.
14. A cost of long-term debt for Natgas of 8.50 percent is reasonable.
15. It is reasonable under the facts for Natgas to use the same cost of equity approved in its last rate case, GUD No. 9234, of 12.75 percent because Natgas has been unprofitable for the past three years, needs to replace several segments of line, its customer base is stable, and the utility's rates for gas service are within the average range of gas rates for similarly sized gas distribution companies in Texas.
16. An overall rate of return of 11.71 percent based on the weighted average cost of capital is reasonable.
17. It is reasonable to set Natgas's system-wide operating revenues at the level indicated in Examiners' Exhibit 1, attached hereto, for purposes of establishing Natgas's overall cost of service.
18. It is reasonable to set Natgas's system-wide operating expenses at the level indicated in Examiners' Exhibit 1, attached hereto, for purposes of establishing Natgas's overall cost of service.
19. It is reasonable to set Natgas's system-wide accumulated depreciation at the level indicated in Examiners' Exhibit 1, attached hereto, for purposes of establishing Natgas's overall cost of service.
20. It is reasonable to set Natgas's system-wide rate base at the level indicated in Examiners' Exhibit 1, attached hereto, for purposes of establishing Natgas's overall cost of service.
21. The residential and small commercial service rate, as shown on Examiners' Exhibit 1, is reasonable.
22. The large commercial service rate, as shown on Examiners' Exhibit 1, is reasonable.

### **CONCLUSIONS OF LAW**

1. Natgas, LLC ("Natgas") is a "Gas Utility" as defined in TEX. UTIL. CODE ANN. §101.003(7) (Vernon 2007 & Supp. 2008) and §121.001(2007) and is therefore subject to the jurisdiction of the Railroad Commission ("Commission") of Texas.
2. The Railroad Commission of Texas has jurisdiction over Natgas and Natgas's statement of intent under TEX. UTIL. CODE ANN. §§ 102.001, 104.001, 104.001 and 104.201 (Vernon 2007 & Supp. 2008).



3. Under TEX. UTIL. CODE ANN. §102.001 (Vernon 2007 & Supp. 2008), the Commission has exclusive original jurisdiction over the rates and services of a gas utility that distributes natural gas in areas outside of a municipality and over the rates and services of a gas utility that transmits, transports, delivers, or sells natural gas to a gas utility that distributes the gas to the public.
4. This Statement of Intent was processed in accordance with the requirements of the Gas Utility regulatory Act (GURA), and the Administrative Procedure Act, TEX. GOV'T CODE ANN. §§2001.001-2001.902 (Vernon 2000 and Supp. 2004) (APA).
5. In accordance with the stated purpose of the Texas Utilities Code, Subtitle A, expressed under TEX. UTIL. CODE ANN. §101.002 (Vernon 1998), the Commission has assured that the rates, operations, and services established in this docket are just and reasonable to customers and to the utilities.
6. TEX. UTIL. CODE ANN. §104.107 (Vernon 2007 & Supp. 2008) provides the Commission's authority to suspend the operation of the schedule of proposed rates for 150 days from the date the schedule would otherwise go into effect.
7. In accordance with TEX. UTIL. CODE §104.103 (Vernon 2007 & Supp. 2008), 16 TEX. ADMIN. CODE ANN. §7.230 (2002), and 16 TEX. ADMIN. CODE ANN. §7.235 (2002), adequate notice was properly provided.
8. In accordance with the provisions of TEX. UTIL. CODE ANN. §104.102 (Vernon 2007 & Supp. 2008), 16 TEX. ADMIN. CODE ANN. §7.205 (2002), and 16 TEX. ADMIN. CODE §7.210 (2002), Natgas filed its Statement of Intent to change rates.
9. The revenue, rates, rate design, and service charges proposed by Natgas and identified in the schedules attached to this order, are just and reasonable, are not unreasonably preferential, prejudicial, or discriminatory, and are sufficient, equitable, and consistent in application to each class of consumer, as required by TEX. UTIL. CODE ANN. §104.003 (Vernon 2007 & Supp. 2008).
10. The overall revenues as established by the findings of fact and attached schedules are reasonable; fix an overall level of revenues for Natgas that will permit the company a reasonable opportunity to earn a reasonable return on its invested capital used and useful in providing service to the public over and above its reasonable and necessary operating expenses, as required by TEX. UTIL. CODE ANN. § 104.051 (Vernon 2007 & Supp. 2008); and otherwise comply with Chapter 104 of the Texas Utilities Code.
11. The revenue, rates, rate design, and service charges proposed will not yield to Natgas more than a fair return on the adjusted value of the invested capital used and useful in rendering service to the public, as required by TEX. UTIL. CODE ANN. § 104.052 (Vernon 2007 & Supp. 2008).
12. The rates established in this docket comport with the requirements of TEX. UTIL. CODE ANN. §104.053 (Vernon 2007 & Supp. 2008) and are based upon the adjusted value of invested capital used and useful, where the adjusted value is a reasonable balance between the original cost, less depreciation, and current cost, less adjustment for present age and condition.

13. In accordance with TEX. UTIL. CODE ANN. §104.054 (Vernon 2007 & Supp. 2008) and TEX. ADMIN. CODE §7.5252, book depreciation and amortization was calculated on a straight line basis over the useful life expectancy of Natgas's property and facilities.

14. In this proceeding, Natgas has the burden of proof under TEX. UTIL. CODE ANN. §104.008 (Vernon 2007 & Supp. 2008) to show that the proposed rate changes are just and reasonable.

15. It is reasonable for the Commission to allow Natgas to include a Purchase Gas Adjustment Clause in its rates to provide for the recovery of all of its gas costs, in accordance with 16 TEX. ADMIN. CODE § 7.5519 (2002).

16. All expenses for lost and unaccounted for gas in excess of 5.0 percent shall be disallowed, consistent with TEX. ADMIN. CODE § 7.5519 (2002).

17. Natgas is required by 16 TEX. ADMIN. CODE §7.315 (2002) to file electronic tariffs incorporating rates consistent with this Order within thirty days of the date of this Order.

18. The rate setting methodologies set forth in TEX. UTIL. CODE ANN. §104.051 et seq. were used to set the rates in this proceeding.

**IT IS THEREFORE ORDERED** that Natgas's proposed schedule of rates is hereby **DENIED**.

**IT IS FURTHER ORDERED** that the rates, rate design, and service charges established in the findings of fact and conclusions of law and in the attached Schedules for Natgas are **APPROVED**.

**IT IS FURTHER ORDERED** that, in accordance with 16 TEX. ADMIN. CODE §7.315, within 30 days of the date this Order is signed, Natgas shall file tariffs with the Gas Services Division. The tariffs shall incorporate rates, rate design, and service charges consistent with this Order, as stated in the findings of fact and conclusions of law and shown in the attached Schedules.

**IT IS FURTHER ORDERED** that Natgas file an annual statement of its operations concurrent with its annual report. The annual statement of operation shall be filed with the Gas Services Division and shall contain information required by Gas Services Division staff.

**IT IS FURTHER ORDERED** that all proposed findings of fact and conclusions of law not specifically adopted in this Order are hereby **DENIED**. **IT IS ALSO ORDERED** that all pending motions and requests for relief not previously granted or granted herein are hereby **DENIED**.

**IT IS FURTHER ORDERED THAT** within 30 days of this order Natgas **SHALL** electronically file tariffs and rates schedules in proper form that accurately reflect the rates approved by the Commission in this Order.

This Order will not be final and effective until 20 days after a party is notified of the Commission's order. A party is presumed to have been notified of the Commission's order three days after the date on which the notice is actually mailed. If a timely motion for rehearing is filed by any party at interest, this



order shall not become final and effective until such motion is overruled, or if such motion is granted, this order shall be subject to further action by the Commission. Pursuant to TEX. GOV'T CODE §2001.146(e), the time allotted for Commission action on a motion for rehearing in this case prior to its being overruled by operation of law, is hereby extended until 90 days from the date the order is served on the parties.


Each exception to the examiners' proposal for decision not expressly granted herein is overruled. All requested findings of fact and conclusions of law which are not expressly adopted herein are denied. All pending motions and requests for relief not previously granted or granted herein are denied.

**SIGNED** this 10<sup>th</sup> day of August, 2010.

**RAILROAD COMMISSION OF TEXAS**

  
\_\_\_\_\_  
CHAIRMAN VICTOR G. CARRILLO

  
\_\_\_\_\_  
COMMISSIONER ELIZABETH A. JONES

  
\_\_\_\_\_  
COMMISSIONER MICHAEL L. WILLIAMS

**ATTEST:**

  
Deputy SECRETARY

## Natgas Inc.

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# Natgas Inc.

## SCHEDULE 1

Utility Name:	Natgas Inc.
Address:	3838 Oak Lawn Ave., Ste. 1525 Dallas, TX 75219
Telephone:	214-526-6273 214-526-8437
President:	Norman W. Smith President 60%
Vice President:	N/A
Secretary:	Norman W. Smith Secretary same as above
Treasurer:	N/A
Person Responsible for this Filing:	Pamela S. Joyce Controller Employee
Area Served:	Ozona Texas
Number of Customers:	Residential: 1080 Commercial: 167
Gas Supplier:	J Cleo Thompson & J Cleo Thompson Jr.
Gas Supply Pricing:	Month to Month Average Sales Price of Supplier
Current Rate Case:	GUD Docket No. Date Filed: Notice to Customers: Notice Method: Newspaper Test Year: 12/31/2008 Capital Structure: 1/3 Common Equity: 75.57% Cost of Equity: 12.75% Weighted Average Cost of Capital: 9.64% Return on Rate Base: 11.71% Rate Case Expenses: Long Term Debt: \$ 150,685.00

**Current Tariff Filing:**

Tariff No.  
Tariff No.  
Tariff No.  
Tariff No.  
Tariff No.

**Previous Tariff Filing:**

Tariff No. DS 01  
Tariff No. DS 02  
Tariff No.  
Tariff No.  
Tariff No.

**Source Documentation:**

**Cost of Service Model:** 2008 ANNUAL DISTRIBUTION REPORT

Atmos Energy Corp., Mid-Tex Division RRC Tariff No. 20650:  
Sterling Natural Gas, Inc. RRC Tariff No. 1: West

**Copies of Tariffs of neighboring communities:** Texas Gas, Inc. RRC Tariff No. 12451

**Known and Measurable Changes:** N/A

**Cost of Equity Calculation:** GUD No. 9234

**Debt Calculation:** GUD No. 9234

**Interest on Customer Deposits:** RRC GUIB NO. 833

**If Amounts in COS Model do NOT tie to the  
Utility's Annual Report to the RRC, state Reason  
and Reconcile all differences.** Used Straight Line Depreciation on COS Model vs. MACRS  
Depreciation on the Annual Report.



## Natgas Inc.

### NET REVENUE DEFICIENCY EXCLUDING GAS COST

#### SCHEDULE 2

Operation & Maintenance Expenses (Schedule 4)	309,238
Taxes Other Than Income Taxes (Schedule 5)	13,164
Depreciation (Schedule 6)	25,327
Return On Rate Base (Schedule 7)	57,534
Income Tax (Schedule 9)	9,483
Interest Expense On Customer Deposits ( $\$13,200 * 4.69\%$ )	619
Service Revenues credited to Cost of Service	(3,555)
	<hr/>
TOTAL COST OF SERVICE	\$411,810
Revenue At Present Rates (Schedule 10)	<hr/> 260,254
NET REVENUE DEFICIENCY	<hr/> <hr/> \$151,557

## Natgas Inc.

### REVENUE REQUIREMENT INCLUDING GAS COST

#### SCHEDULE 2A

Gas Cost ( Schedule 3)	\$578,496
Operation & Maintenance Expenses (Schedule 4)	309,238
Taxes Other Than Income Taxes (Schedule 5)	13,164
Depreciation (Schedule 6)	25,327
Return On Rate Base (Schedule 7)	57,534
Income Tax (Schedule 9)	9,483
Interest Expense On Customer Deposits (4.69%)	619
Service Revenues credited to Cost of Service	(3,555)
TOTAL REVENUE REQUIREMENT	<u>990,307</u>

## Natgas Inc.

### GAS COST

#### SCHEDULE 3

GAS PURCHASED (MCF @ 14.65)	90,080
GAS SOLD (MCF @ 14.65)	<u>85,073</u>
LOST AND UNACCOUNTED FOR GAS (MCF)	<u>5,007</u>
PERCENTAGE OF LOST AND UNACCOUNTED FOR GAS	5.56%
TOTAL GAS COST (acc 804)	<u>\$612,405</u>
AVERAGE COST OF GAS (\$/Mcf)	\$6.80
COST OF GAS FOR TEST YEAR (\$6.80*85073)	<u>\$578,496</u>



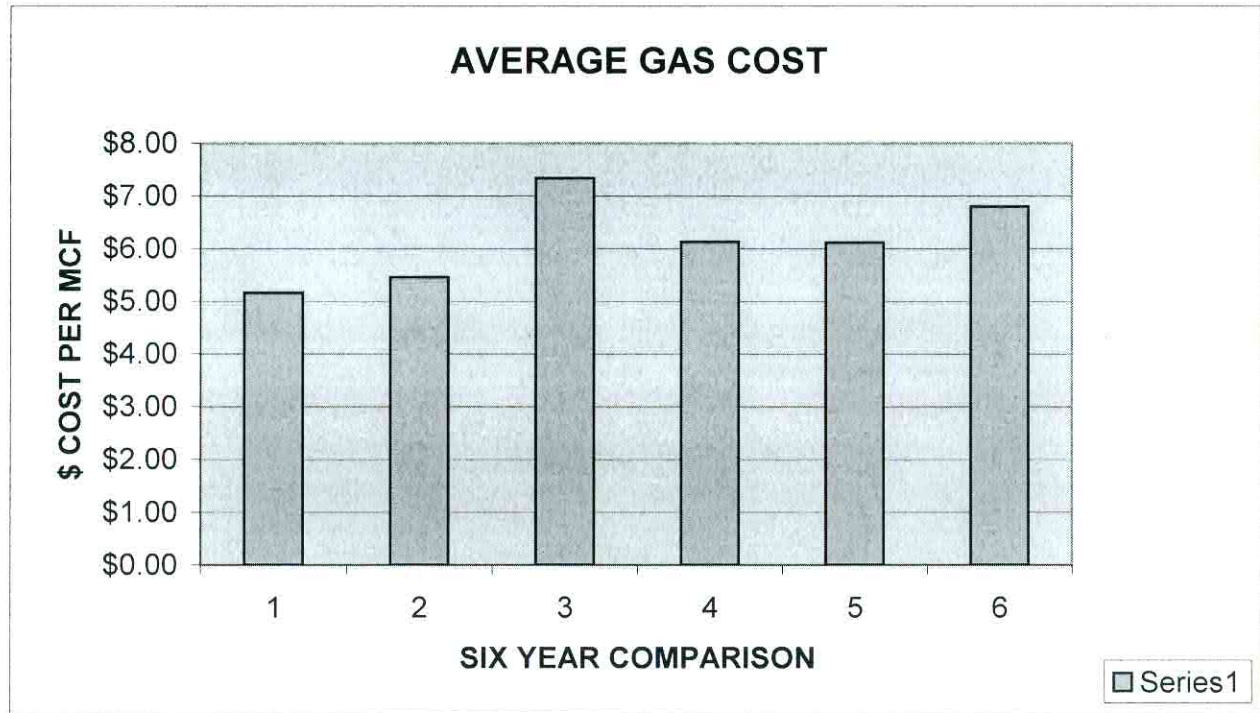
# Natgas Inc.

## GAS COST

### SCHEDULE 3A

**Table Illustrating Changing Gas Cost**

Year	Gas Purchased in mcf	Purchase Amount	Aver. Gas Cost
2003	93,948	\$484,776	\$5.16
2004	91,540	\$499,232	\$5.45
2005	86,145	\$632,358	\$7.34
2006	85,410	\$523,508	\$6.13
2007	99,520	\$608,335	\$6.11
2008	90,080	\$612,405	\$6.80
six year average cost			\$6.17



# Natgas Inc.

## O & M EXPENSES

### SCHEDULE 4

Account No.	Description	
870 - 894	Distribution Expenses	\$88,086
901 - 905	Customer Accounts	126,890
907 - 910	Customer Service and Customer Informational Expenses	2,355
911 - 916	Sales Expenses	4,442
920 - 932	Administrative & General Expense	91,099
Total O&M Expense		\$312,872
930.2	Misc. Gen. Exp.	(3,634)
Adjusted Total O & M Expense		\$309,238
403 -411	Other Operating Expenses	63,460
Total Operating Expenses		\$372,698
(less gas cost)		

# Natgas Inc.

## SCHEDULE 5

### Taxes Other Than Income Taxes

Acc 408.1			<u>\$13,164</u>
	Total Taxes	Utility Allocation	
Property Taxes	14,518.43	10,598.45	
Franchise tax	<u>3,514.90</u>	<u>2,565.88</u>	
	<u>18,033.33</u>	<u>13,164.33</u>	

Note: Taxes are allocated based on income from various business ventures. Utility activity is approximately 73% of total income for Natgas, Inc.



# Natgas Inc.

## DEPRECIATION

### SCHEDULE 6

Account No.	Description	Cost	Utility Allocation	Residual Value	Useful Life	Depreciation	Utility Allocation
Distribution Plant							
374	Land & Land Rights	\$3,545	\$3,545	\$355		\$106	\$106
375	Structures & Improvements	35	\$35	\$4	30	\$1	\$1
376	Mains	355,700	\$355,700	\$35,570	30	\$11,211	\$11,211
378	Meas. & Reg. Station equipment	89,213	\$89,213	\$8,921	30	\$2,676	\$2,676
380	Services	47,925	\$47,925	\$4,793	30	\$1,438	\$1,438
381-4	Meters&House Regulators	93,485	\$93,485	\$9,349	15	\$2,806	\$2,806
386-7	Other Prop. & Equipment	5,271	\$5,271	\$527	7	\$150	\$150
	Subtotal	\$595,174	\$595,174			\$18,388	\$18,388
General Plant							
389	Land & Land Rights	\$0	\$0				
390	Structures & Improvement	\$123,967	92,975	\$12,397	39	\$1,946	\$1,421
391	Office Furniture & Equipment	39,182	29,387	\$3,918	7	\$2,428	1,772
392	Transportation Equipment	61,918	46,439	\$6,192	5	\$4,893	3,572
393-6	Stores, tools, pwr equipment	8,551	6,413	\$855	5	\$0	-
397	Communication Equipment	1,940	1,455	\$194	7	\$0	-
398-9	Misc. & Other Equipment	19,042	14,282	\$1,904	5	238	174
	Subtotal	\$254,600	\$190,950			\$9,505	\$6,939
TOTAL:		\$849,774	\$786,124			\$27,893	\$25,327

Note: Schedule is using straight line depreciation.

# Natgas Inc.

## NET PLANT

### SCHEDULE 6 a

Account No.	Description	Cost	Utility Allocation	Residual Value	Useful Life	Accumulated Depreciation	Utility Allocation
Distribution Plant							
374	Land & Land Rights	\$3,545	\$3,545	\$355	30	\$1,534	\$1,534
375	Structures & Improvements	35	\$35	\$4	30	\$17	\$17
376	Mains	355,700	\$355,700	\$35,570	30	\$147,557	\$147,557
378	Meas. & Reg. Station equipment	89,213	\$89,213	\$8,921	30	\$39,346	\$39,346
380	Services	47,925	\$47,925	\$4,793	30	\$25,871	\$25,871
381-4	Meters&House Regulators	93,485	\$93,485	\$9,349	30	\$30,646	\$30,646
386-7	Other Prop. & Equipment	5,271	\$5,271	\$527	30	\$2,908	\$2,908
	Subtotal	\$595,174	\$595,174			\$247,879	\$247,879
General Plant							
390	Structures & Improvement	\$123,967	\$92,975	\$12,397	39	\$19,453	14,201
391	Office Furniture & Equipment	39,182	29,387	\$3,918	10	\$21,836	15,940
392	Transportation Equipment	61,918	46,439	\$6,192	5	\$31,595	23,064
393-6	Stores, tools, pwr equipment	8,551	6,413	\$855	10	\$7,700	5,621
397	Communication Equipment	1,940	1,455	\$194	10	\$1,740	1,270
398-9	Misc. & Other Equipment	19,042	14,282	\$1,904	10	\$16,821	12,279
	Subtotal	\$254,600	190,950			\$99,145	72,376
	TOTAL:	\$849,774	\$786,124			\$347,024	320,255
	NET PLANT:					\$502,750	\$465,869

### Schedule 6 a

All depreciation is figured straight-line claiming 10% residual value. Accumulated depreciation differs from reported depreciation on annual reports due to tax depreciation being reported on annual reports. All General plant assets and are allocated 73% to the Utility and 27% to the Appliance store using revenue as the allocation basis.

# Natgas Inc.

## NET PLANT

### SCHEDULE 6 b

Account No.	Description	Cost	Utility Allocation	Accumulated Depreciation	Utility Allocation
<b>Distribution Plant</b>					
374	Land & Land Rights	\$3,545	\$3,545	\$1,752	\$1,752
375	Structures & Improvements	35	\$35	\$14	\$14
376	Mains	355,700	\$355,700	\$207,327	\$207,327
378	Meas. & Reg. Station equipment	89,213	\$89,213	\$59,251	\$59,251
380	Services	47,925	\$47,925	\$27,683	\$27,683
381-4	Meters&House Regulators	93,485	\$93,485	\$30,570	\$30,570
386-7	Other Prop. & Equipment	5,271	\$5,271	\$2,610	\$2,610
	<b>Subtotal</b>	<b>\$595,174</b>	<b>\$595,174</b>	<b>\$329,207</b>	<b>\$329,207</b>
<b>General Plant</b>					
390	Structures & Improvement	\$123,967	\$92,975	\$43,693	32,770
391	Office Furniture & Equipment	39,182	29,387	\$14,670	11,003
392	Transportation Equipment	61,918	46,439	\$51,298	38,474
393-6	Stores, tools, pwr equipment	8,551	6,413	\$4,392	3,294
397	Communication Equipment	1,940	1,455	\$1,940	1,455
398-9	Misc. & Other Equipment	19,042	14,282	\$8,317	6,238
	<b>Subtotal</b>	<b>\$254,600</b>	<b>190,950</b>	<b>124,310</b>	<b>93,233</b>
	<b>TOTAL:</b>	<b>\$849,774</b>	<b>\$786,124</b>	<b>\$453,517</b>	<b>\$422,440</b>
	<b>NET PLANT:</b>			<b>\$396,257</b>	<b>\$363,685</b>

Note: Scheule 6b is used to support the 2008 Distribution Annual Report. Tax depreciation was used for the 2008 Distribution report. Current depreciation was estimated at time of report.



# Natgas Inc.

## RATE OF RETURN

### SCHEDULE 7

Net Original Cost (Schedule 6a)	\$465,869
Working Capital (Schedule 4 * 12.5%)	38,655
Customer Deposits	(13,200)
	<hr/>
Total Rate Base	\$491,324
Return at 11.71% (Schedule 8)	11.71%
	<hr/>
Return Requirement	<u><u>\$57,534</u></u>

# Natgas Inc.

## CAPITAL STRUCTURE

### SCHEDULE 8

	Amount	Cost	% of Total	Weighted Avg.
Long-Term Debt	\$150,685	8.50%	24.43%	2.08%
Common Equity	<u>466,183</u>	<u>12.75%</u>	<u>75.57%</u>	<u>9.64%</u>
TOTAL	\$616,868		100.00%	<u><u>11.71%</u></u>

Footnote - Same cost of Common Equity and Long-Term Debt used as in 2002 rate increase proposal.

# Natgas Inc.

## FEDERAL INCOME TAX

### SCHEDULE 9

Total Rate Base	491,324
Rate of Return (Schedule 8)	<u>11.71%</u>
Return Requirement	57,534
Less: Interest on Long Term Debt (1)	<u>(10,220)</u>
Net After Tax Income	47,314
Gross-Up Factor [1 / (1-0.1833)]	1.224439819
Net Taxable Income	\$57,933
Tax Rate	<u>16.37%</u>
Federal Income Tax	<u><u>\$9,483</u></u>

Note (1)

Debt Component of Return	2.08%
Rate Base	<u>491,324</u>
Interest on Long-Term Debt	<u><u>\$ 10,220</u></u>



# Natgas Inc.

## REVENUES AT PRESENT RATES

### SCHEDULE 10

Actual Gas Sales Revenue	\$838,750
Eliminate Puchase Expense (Schedule 3)	(578,496)
	<hr/>
Revenue at Present Rates	<u><u>\$260,254</u></u>

# Natgas Inc.

## PROPOSED RATE DESIGN

### SCHEDULE 11

Total Cost of Service (Schedule 2)		\$411,810
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Proposed Monthly Charge	\$ 5.00	
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Total number of bills during test year	14,965	
[Total bills during test year]		

Amount to be recovered from Monthly Bill		\$ 74,825
[\$5 * 14965]		

Revenues to be recovered through volumetric rates		\$336,985
[\$1,019,816-74,825]		

#### GENERAL RESIDENTIAL & SMALL COMMERCIAL

Proposed Volumetric Charge less Base Gas Cost	\$ 4.03	
[7.03 - 3.00]		

Volumes (Mcf) sold during the Test Year	72,913	
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Revenues to be recovered from the General Residential and Small Commercial Classes		293,839
[\$4.03* 72913]		

#### LARGE COMMERCIAL

Proposed Volumetric Charge less Base Gas Cost	\$ 3.64	
[6.64 - 3.00]		

Volumes (Mcf) sold during the Test Year	12,160	
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Revenues to be recovered from the Large Commercial Class		\$44,262
[\$3.64 *12160]		

Net Un-Recovered Revenue Requirement		(\$1,116)
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# Natgas Inc.

## Calculation Excluding the Gas Cost

### SCHEDULE 12

#### Residential & Small Commercial Customers:

##### Present Rates as of:

###### Area Served

					Usage (Mcf)	x	Rate	=	Amount
Minimum Monthly Bill									0.00
ALL CONSUMPTION	6.0	Mcf @	\$3.1700	per Mcf	6.0	x	3.1700	=	19.02
Total Bill Base:					6.0				\$19.02
PGA	6.0	Mcf @	\$0.0000	per Mcf	6.0	x	0.0000	=	\$0.00
Total Bill:									\$19.02

##### Proposed Rates

					Usage (Mcf)	x	Rate	=	Amount
Monthly Bill			\$5.00						5.00
ALL CONSUMPTION	6.0	Mcf @	\$4.03	per Mcf	6.0	x	4.03	=	24.18
Total Bill Base:					6.0				\$29.18
PGA	6.0	Mcf @	\$0.0000	per Mcf	6.0	x	0.0000	=	\$0.00
Total Bill:									\$29.18

Percentage Increase: 53.42%

# Natgas Inc.

## Calculation Excluding the Gas Cost

### SCHEDULE 12A

#### Large Commercial

#### Present Rates as of:

##### Area Served

					Usage (Mcf)	x	Rate	=	Amount
Minimum Monthly Bill			\$0.00						0.00
ALL CONSUMPTION	6.0	Mcf @	\$2.8500	per Mcf	6.0	x	2.8500	=	17.10
<b>Total Bill Base:</b>					6.0				\$17.10
PGA	6.0	Mcf @	\$0.0000	per Mcf	6.0	x	0.0000	=	\$0.00
<b>Total Bill:</b>									<u>\$17.10</u>

#### Proposed Rates

					Usage (Mcf)	x	Rate	=	Amount
Monthly Bill			\$5.00						5.00
ALL CONSUMPTION	6.0	Mcf @	\$3.64	per Mcf	6.0	x	3.64	=	21.84
<b>Total Bill Base:</b>					6.0				\$26.84
PGA	6.0	Mcf @	\$0.0000	per Mcf	6.0	x	0.0000	=	\$0.00
<b>Total Bill:</b>									<u>\$26.84</u>

**Percentage Increase:** 56.96%



# Natgas Inc.

## Calculation Including the Gas Cost

### SCHEDULE 13

#### Residential & Small Commercial Customers:

#### Present Rates as of:

##### Area Served

					Usage (Mcf)	x	Rate	=	Amount
Minimum Monthly Bill			\$0.00						0.00
ALL CONSUMPTION	6.0	Mcf @	\$6.1700	per Mcf	6.0	x	6.1700	=	37.02
<b>Total Bill Base:</b>					6.0				\$37.02
PGA	6.0	Mcf @	\$3.8000	per Mcf	6.0	x	3.8000	=	\$22.80
(PGA has a \$3 base cost)									
(6.80 - 3 = 3.80)									
<b>Total Bill:</b>									<u>\$59.82</u>

#### Proposed Rates

					Usage (Mcf)	x	Rate	=	Amount
Minimum Monthly Bill			\$5.00						5.00
ALL CONSUMPTION	6.0	Mcf @	\$7.03	per Mcf	6.0	x	7.03	=	42.18
<b>Total Bill Base:</b>					6.0				\$47.18
PGA	6.0	Mcf @	\$3.8000	per Mcf	6.0	x	3.8000	=	\$22.80
using test year gas cost									
<b>Total Bill:</b>									<u>\$69.98</u>

**Percentage Increase:** 16.98%

Minimum Monthly Bill			\$5.00						5.00
ALL CONSUMPTION	6.0	Mcf @	\$7.03	per Mcf	6.0	x	7.03	=	42.18
<b>Total Bill Base:</b>					6.0				\$47.18
PGA	6.0	Mcf @	\$3.1700	per Mcf	6.0	x	3.1700	=	\$19.02
using avg from gas cost table									
<b>Total Bill:</b>									<u>\$66.20</u>

**Percentage Increase:** 10.67%

# Natgas Inc.

## Calculation Including the Gas Cost

### SCHEDULE 13A

#### Large Commercial Customers:

#### Present Rates as of:

##### Area Served

					Usage (Mcf)	x	Rate	=	Amount
Minimum Monthly Bill			\$0.00						0.00
ALL CONSUMPTION	6.0	Mcf @	\$5.8500	per Mcf	6.0	x	5.8500	=	35.10
<b>Total Bill Base:</b>					6.0				\$35.10
PGA	6.0	Mcf @	\$3.8000	per Mcf	6.0	x	3.8000	=	\$22.80
(PGA has a \$3 base cost)									
(6.80 - 3 = 3.80)									
<b>Total Bill:</b>									<u>\$57.90</u>

#### Proposed Rates

					Usage (Mcf)	x	Rate	=	Amount
Minimum Monthly Bill			\$5.00						5.00
ALL CONSUMPTION	6.0	Mcf @	\$6.64	per Mcf	6.0	x	6.64	=	39.84
<b>Total Bill Base:</b>					6.0				\$44.84
PGA	6.0	Mcf @	\$3.8000	per Mcf	6.0	x	3.8000	=	\$22.80
using test year gas cost									
<b>Total Bill:</b>									<u>\$67.64</u>

Percentage Increase: 16.82%

Minimum Monthly Bill			\$5.00						5.00
ALL CONSUMPTION	6.0	Mcf @	\$6.64	per Mcf	6.0	x	6.64	=	39.84
<b>Total Bill Base:</b>					6.0				\$44.84
PGA	6.0	Mcf @	\$3.1700	per Mcf	6.0	x	3.1700	=	\$19.02
using avg from gas cost table									
<b>Total Bill:</b>									<u>\$63.86</u>

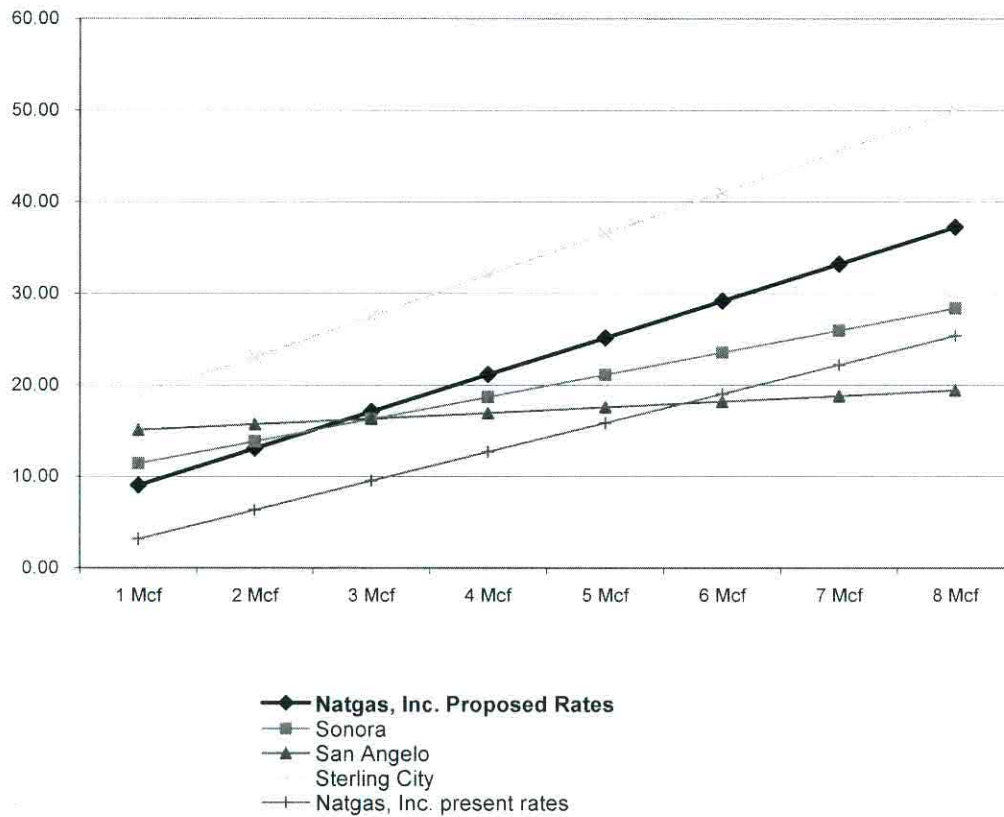
Percentage Increase: 10.29%

**Natgas Inc.**  
**Graph Comparison of Area Rates**

**SCHEDULE 14**

	1 Mcf	2 Mcf	3 Mcf	4 Mcf	5 Mcf	6 Mcf	7 Mcf	8 Mcf	Company
<b>Natgas, Inc. Proposed Rates</b>	9.03	13.06	17.09	21.12	25.15	29.18	33.21	37.24	
Natgas, Inc. present rates	3.17	6.34	9.51	12.68	15.85	19.02	22.19	25.36	
Sonora	11.42	13.84	16.26	18.68	21.10	23.52	25.94	28.36	West Texas Gas, Inc.
San Angelo	15.09	15.70	16.32	16.94	17.55	18.17	18.78	19.40	Atmos Energy Corp.
Sterling City	19.00	23.00	27.50	32.00	36.50	41.00	45.50	50.00	Sterling Natural Gas, Inc.

**Rates Comparison for Residential Bills  
Excluding Gas Costs**

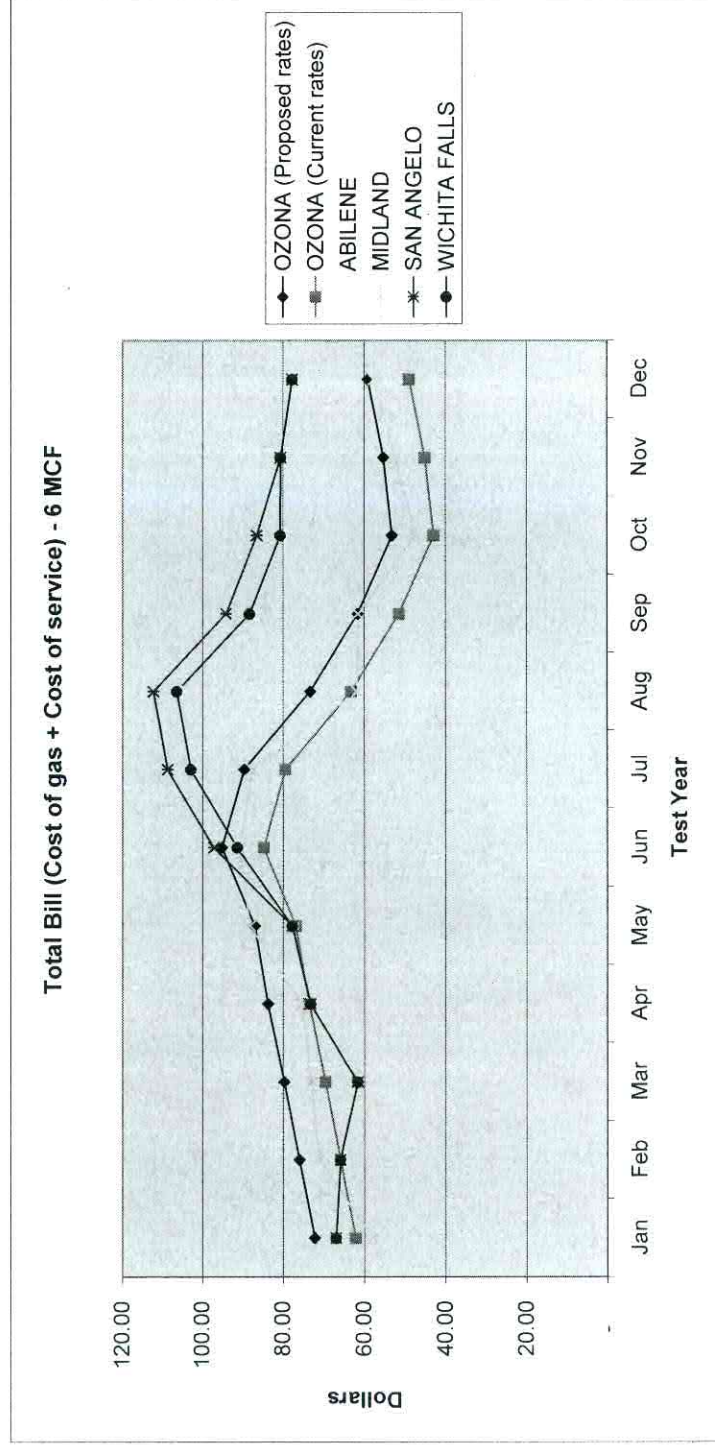


Natgas Inc.  
GRAPH COMPARISON OF RATES AT 6 MCF

**SCHEDULE 15**

TEXAS CITIES	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
OZONA (Proposed rates)	72.19	75.99	79.71	83.72	87.00	95.14	89.66	73.28	61.58	53.05	55.19	58.98
OZONA (Current rates)	62.03	65.83	69.55	73.56	76.84	84.72	79.50	63.12	51.42	42.89	45.03	48.82
ABILENE	66.89	65.80	61.57	73.23	77.71	91.32	102.89	106.40	88.28	80.65	80.56	77.72
MIDLAND	57.78	71.04	72.96	75.31	88.20	90.84	87.54	61.74	61.50	47.16	52.26	57.54
SAN ANGELO	66.89	65.80	61.57	73.23	77.71	97.14	108.71	112.22	94.10	86.47	80.56	77.72
WICHITA FALLS	66.89	65.80	61.57	73.23	77.71	91.32	102.89	106.40	88.28	80.65	80.56	77.72

\* Test years gas prices used.



Source: Six MCF Residential Gas Bill Analysis For Twenty Five Texas Cities for January through December 2008



## GAS SUMMARY

### SCHEDULE 16

#### Gas Summary 1-1-08 to 12-31-08

Total Gas Purchased	90,080	
Total Gas Sales	85,073	0.05558
Lost and Unaccounted for Gas	5,007	

\* We believe the overage lost and unaccounted gas is primarily the result of measurement issues on the sales side. Our residential meters have not been changed out, unless faulty in 10+ years. We have begun to replace outdated meters on a regular basis. We have also employed a gas leak survey crew and detected and fixed leaks in 2009.

#### Gas Summary 7-1-07 to 6-30-08

Total Gas Purchased	88,958	
Total Gas Sales	79,731	
Lost and Unaccounted for Gas	9227	0.10372

## FOOTNOTES

### SCHEDULE 17

- SCH 3 Gas cost was calculated by using the average gas cost for the test year of \$6.80 and multiplying by 85,073 which was total gas sales for the test year. Total lost gas was 5.56% for the test year. In 2009, we used new technology in finding leaks at a cost of \$6,330. We have spent over \$15,000 in fixing the leaks and will continue to use this technology to reduce lost gas.
- SCH 5 Taxes are allocated based on income from the utility vs. income from the appliance store. The utility generates approximately 73% of the income and would therefore account for the tax value of the business.
- SCH 6 All depreciation is figured straight-line claiming 10% residual value. Accumulated depreciation differs from reported depreciation on annual reports due to tax depreciation being reported on annual reports. Schedule 6b represents the accumulated depreciation as reported on the annual reports. All General plant assets are shared assets and are allocated 73% to the Utility and 27% to the Appliance store using revenue as the allocation method.
- SCH 7 Utility is requesting Working Capital rate of 12.5%.
- SCH 8 Utility is using the same rates for cost of longterm debt and cost of equity as was used in 2002 rate increase proposal. (GUD No. 9234)
- SCH 11 Utility is proposing a \$5 customer charge along with a 13.94% and 13.50% volumetric rate increase respectively for the residential/small commercial customers and the large commercial customers. The Utility has lost a significant amount of money in the past few years. The increase in rates are not significantly more than rates for gas in the surrounding areas. Utility used an average PGA of 3.80 computed by taking average gas price of \$6.80 less the \$3.00 base cost.
- SCH 14 All rates are without gas cost included. Natgas Inc. Proposed rates were calculated by adding \$5 customer charge plus \$7.03 less the \$3.00 gas base cost per mcf. Natgas Inc. current rates were calculated by using the present \$6.17 volumetric rate less the \$3.00 gas base cost per number of mcf. Sonora rates were calculated by using the West Texas Gas, Inc. Tariff no. 12451 with a customer charge of \$9.00 and consumption charge of \$2.42 per mcf. San Angelo rates were calculated using the Atmos Energy Corp., Mid-Tex Division Tariff No. 20650 with a Customer charge of \$14.47 and a consumption charge of .6164 per mcf. Sterling City rates were calculated by using Sterling Natural Gas, Inc. Tariff No. 1 with a Customer charge of \$15.00 and a consumption charge of \$4.00 for the first 2 mcf and \$4.50 for the next 8 mcf.
- SCH 16 We believe the overage lost and unaccounted gas is primarily the result of measurement issues on the sales side. Our residential meters have not been changed out, unless faulty in 10+ years. We have begun to replace outdated meters on a regular basis. We have also employed a gas leak survey crew and detected and fixed leaks in 2009.

NATGAS, INC.  
RRC TARIFF CODE: DS  
RRC TARIFF NO: 1

Rate Schedule: 470  
Applicable To: Ozona Unincorporated service area  
Effective Date: August 10, 2010

Application  
Applicable to Residential and Small Commercial Customers

Monthly Rate  
Monthly customer charge of \$5.00 and volumetric rate of \$7.03/Mcf plus a cost of gas adjustment determined in accordance with the Gas Cost Rider.

Gas Cost Rider  
Gas bills issued under rate schedules to which this rider applies will include adjustments to reflect decreases or increases in purchased gas costs or taxes from the base level of those expenses embedded in the rates. Any such adjustments shall be filed with the appropriate regulatory authority before the beginning of the month in which the adjustment will be applied to the bills. The amount of each adjustment shall be computed as follows:

Gas Cost Adjustment (CGA)  
The CGA to be applied to each MCF billed shall be computed as follows and rounded to the nearest \$.0001:

$$CGA = (G/S - \text{Base} + CF)$$

Where:

1. "G" in dollars, is the expected cost of gas for the expected sales billing units.
2. "S" in MCF at 14.65 PSIA, is the expected sales billing units to be billed to the Company's Ozona, Texas service area.
3. "CF" in \$/MCF at 14.65 PSIA, is a correction factor charge per MCF to adjust for cumulative monthly differences between the cost of gas purchased by the Company and the amount of gas cost billed to the customer.
4. Once a year, on a 12 months ended September basis, the Company shall review the percentage of lost and unaccounted for gas and if this percentage exceeds 5% of the amount metered in, the correcting account balance will be reduced so that the customer will effectively be charged a maximum of 5% for lost and unaccounted for gas while the Company will absorb the excess.
5. "Base" in \$/MCF at 14.65 PSIA, is the base cost of gas of \$3.00/MCF that is included in the base rate.



NATGAS, INC.  
RRC TARIFF CODE: DS  
RRC TARIFF NO: 2

Rate Schedule: 490  
Applicable To: Ozona Unincorporated service area  
Effective Date: August 10, 2010

Application  
Applicable to Large Commercial Customers

Monthly Rate  
Monthly customer charge of \$5.00 and volumetric rate of \$6.64/MCF plus a cost of gas adjustment determined in accordance with the Gas Cost Rider.

Gas Cost Rider  
Gas bills issued under rate schedules to which this rider applies will include adjustments to reflect decreases or increases in purchased gas costs or taxes from the base level of those expenses embedded in the rates. Any such adjustments shall be filed with the appropriate regulatory authority before the beginning of the month in which the adjustment will be applied to the bills. The amount of each adjustment shall be computed as follows:

Gas Cost Adjustment (CGA)  
The CGA to be applied to each MCF billed shall be computed as follows and rounded to the nearest \$.0001:

$$CGA = (G/S - \text{Base} + CF)$$

Where:

6. "G" in dollars, is the expected cost of gas for the expected sales billing units.
7. "S" in MCF at 14.65 PSIA is the expected sales billing units to be billed to the Company's Ozona, Texas service area.
8. "CF" in \$/MCF at 14.65 PSIA, is a correction factor charge per MCF to adjust for cumulative monthly differences between the cost of gas purchased by the Company and the amount of gas cost billed to the customer.
9. Once a year, on a 12 months ended September basis, the Company shall review the percentage of lost and unaccounted for gas and if this percentage exceeds 5% of the amount metered in, the correcting account balance will be reduced so that the customer will effectively be charged a maximum of 5% for lost and unaccounted for gas while the Company will absorb the excess.
10. "Base" in \$/MCF at 14.65 PSIA, is the base cost of gas of \$3.00/MCF that is included in the base rate.