

**BEFORE THE  
RAILROAD COMMISSION OF TEXAS**

**RATE CASE EXPENSES SEVERED §  
FROM GUD NO. 09988, PETITION OF §  
THE DE NOVO REVIEW OF THE §  
DENIAL OF THE STATEMENTS OF §  
INTENT FILED BY TEXAS GAS § GAS UTILITIES DOCKET NO. 10016  
SERVICE COMPANY BY THE CITIES §  
OF EL PASO, ANTHONY, CLINT, §  
HORIZON CITY, SOCORRO, AND §  
VILLAGE OF VINTON, TEXAS §**

**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. § 551.001, *et seq.*, (Vernon 2004 & Supp. 2011). The Railroad Commission of Texas adopts the following findings of fact and conclusions of law and orders as follows:

**FINDINGS OF FACT**

1. Texas Gas Service Company, a division of ONEOK, Inc. ("TGS"), is a gas utility as that term is defined in the Texas Utility Code, and is subject to the jurisdiction of the Railroad Commission of Texas ("Commission").
2. TGS owns and operates a natural gas distribution system that provides gas service in the municipalities of El Paso, Socorro, Clint, Anthony, Horizon City, and Vinton (collectively, the "Cities") and their environs (together, the "El Paso Service Area" or the "EPSA").
3. On May 12, 2010, TGS filed an appeal with the Commission from the rate setting actions of the City of El Paso denying the Statement of Intent and request for a rate increase filed previously with the City on December 3, 2009. That appeal was docketed by the Commission as GUD No. 9988.
4. On May 24, 2010, TGS filed an appeal from the rate setting actions of the other municipalities in the EPSA (Anthony, Clint, Horizon City, Socorro, and Vinton) also denying the Company's Statements of Intent as previously filed with those municipalities on December 3, 2009. That appeal was docketed by the Commission as GUD No. 9992.
5. GUD No. 9992 was consolidated as two appeals by TGS under GUD No. 9988 on June 3, 2010.
6. On August 20, 2010, the recovery of the reasonable and necessary rate case expenses of TGS and the City was severed from GUD No. 9988 and docketed as GUD No. 10016.

7. The Commission entered its Final Order in GUD No. 9988 on December 14, 2010. That Final Order became final and appealable on February 22, 2011, when the Commission overruled the motions for rehearing of TGS and the City.
8. Both the City and TGS filed appeals requesting judicial review of the Commission's Final Order in GUD No. 9988 in the Travis County District Court, where they remain pending.
9. The Final Order in GUD No. 9988 severed the issues of TGS' recovery of Pipeline Integrity Testing ("PIT") Expenses by a reconcilable rider ("PIT Rider") and docketed the PIT expense issues as GUD No. 10049.
10. TGS, the City, the Texas State Agencies, and the Commission Staff reached a settlement of all issues pending in GUD Nos. 9988, 10016 and 10049, which settlement was memorialized in their Stipulation and Settlement Agreement ("Agreement") dated December 2, 2011, attached and incorporated herein as "Attachment B" to this Final Order.
11. In support of the Agreement, the Signatories filed the Direct Testimony of Stacey L. McTaggart in Support of the Parties' Stipulation & Settlement Agreement. (Exh. SLM-1)
12. The Agreement provides for a total recovery of \$4,757,679 from TGS customers for GUD No. 10016 for rate case expenses and GUD No. 10049 for pipeline integrity testing expenses.
13. The Agreement provides that TGS is to recover a total of \$3,993,000 and the City is to recover \$764,679 between GUD No. 10016 for rate case expenses and GUD No. 10049 for pipeline integrity testing expenses.
14. The Agreement provides that the \$3,993,000 total recoverable amount for TGS shall be composed of \$1,795,154 in actual and reasonably estimated fees and expenses for Rate Case Expenses and \$2,197,846 in PIT Expenses.
15. The agreed upon \$1,795,154 amount for TGS' actual and reasonably estimated fees and expenses for Rate Case Expenses represents a reduction in actual fees and expenses of \$1,143,963.
16. The division of the total recoverable amount between rate case expenses of \$1,795,154 and PIT Expenses of \$2,197,846 is reasonable.
17. On December 22, 2011, the City revised the amount for recovery by the City for Rate Case Expenses to \$746,523, which is comprised of \$739,023 in actual fees and expenses and \$7,500 in reasonably estimated fees and expenses.
18. This adjustment by the City to its actual and reasonably estimated fees and expenses results in a reduction of \$18,156, bringing the overall recovered amount to TGS customers for GUD No. 10016 for rate case expenses and GUD No. 10049 for pipeline integrity testing expenses to \$4,739,523.

19. It is reasonable to require the City to file with the Commission within 90 days of the Final Order in this docket, a reconciliation of the \$7,500 estimated rate case expenses that are approved by the Final Order providing invoices for the total authorized recovery of the estimated rate case expenses.
20. There will be no further true-up of the recoverable amounts of Rate Case Expenses or PIT Expenses, other than for recovery of the agreed upon amounts, plus interest accruing on any underrecoveries or overrecoveries.
21. It is reasonable that interest on any overrecoveries and underrecoveries of either PIT Expenses or rate case expenses shall accrue at TGS' cost of long-term debt (6.21%) found in GUD No. 9988, as set forth in the Agreement.
22. The Agreement provides that the parties agree to dismiss their respective appeals of GUD No. 9988 currently pending in the Travis County District Court.
23. Based on the records in GUD Nos. 10016, 10049, and 9988, the Agreement, and the amounts, terms and conditions set forth therein, are reasonable and should be approved.
24. The total amount of rate case expenses to be recovered for GUD No. 9988, GUD Nos. 10016 and 10049, and the appeals arising from GUD No. 9988 shall be fixed for TGS at \$1,795,154, and for the City at \$746,523.
25. The City's recovery is subject to adjustment for a reconciliation of the estimated rate case expenses of \$7,500.
26. TGS has reduced its total actual and reasonably estimated rate case expenses of \$2,939,117 through the Agreement by \$1,143,963, thus TGS shall not be required to submit a reconciliation of the remaining \$219,000 estimated rate case expenses.
27. The rate case expenses recoveries shall be limited by the interest on any underrecoveries or overrecoveries as set forth in the Agreement.
28. The City's total rate case expenses of \$746,523 for GUD Nos. 9988, 10016 and 10049 are to be recovered under the Agreement.
29. The City's rate case expenses of \$746,523 are reasonable and necessary. It is reasonable that TGS reimburse the City any portion of this amount not previously reimbursed by the Company, and that TGS recover all reimbursed City rate case expenses in addition to its own.
30. The amount of TGS' rate case expenses recoverable under the Agreement for GUD Nos. 9988, 10016 and 10049 of \$1,795,154 is reasonable and necessary.
31. The evidence establishes that all billings and invoices by TGS and the City do not include any double-billing, excess charges, inappropriate documentation of work, excessive entertainment and dining expenses, or other charges that were not incurred as a direct result of TGS and the City prosecuting GUD Nos. 9988, 10016 and 10049.



32. The evidence establishes that all billings and invoices by TGS and the City include reasonable hourly rates charged by consulting attorneys and special service consultants and the number of consulting attorneys working on the dockets were minimized.
33. The evidence establishes that the invoices and billings accurately document hours worked and services provided, no time entries exceeding 12.0 hours per day, and there are no disbursements that are subject to special scrutiny.
34. The evidence establishes that the invoices and billings include no expenses charged for first-class airfare, non-commercial aircraft, luxury hotels, limousine service, alcoholic beverages, sporting events or other entertainment, except for one meal of \$31, there were no meals in excess of \$25 per person.
35. The evidence establishes that the expenses for travel, hotel, meals, parking, telephone, postage, photocopying, couriers, supplies, court reporting and publication of notice were reasonable and necessary.
36. The evidence demonstrates that the amount of work required to litigate GUD Nos. 9988, 10016 and 10049 justifies the work performed by the utility's attorneys and consultants and that there was no duplication of services or testimony and that the work performed by the parties' attorneys and consultants and that all work was relevant and reasonably necessary to the proceeding.
37. The evidence shows that the request for a rate change was warranted as the Commission approved an increase of \$845,791 to the overall cost of service for TGS in Docket No. 9988 after a thorough evaluation of the evidence in the record.
38. The evidence demonstrates that the complexity and expense of the work was commensurate with both the complexity of the issues in Docket Nos. 9988, 10016 and 10049 and that the amount of time spent is commensurate with the number, complexity, and gravity of the issues posed by the Company's filings since these cases involved complex and novel issues covering a 23 month period with over 20 litigated issues.
39. The evidence demonstrates that the work involved in Docket Nos. 9988, 10016 and 10049 was not disproportionate to the complexity of the issues or the amount of revenue increase sought.
40. The evidence shows that there are no specific amounts, expenditures, fees or expenses that are different from similar fees and expenses approved by the Commission in prior rate cases.
41. The recoverable amount of rate case expenses shall be recovered from all customer classes, except Special Contract Customers, within the corporate limits of the EPSA municipalities.

42. The recoverable amount shall be recovered through volumetric charges over a period of three years in accordance with the agreed Rate Case Expense ("RCE") Rider, which is attached and included in this Final Order as Attachment "C."
43. The terms and conditions of the RCE Rider are reasonable.
44. The terms and conditions of the Agreement related to the recovery of the City's and TGS' rate case expenses through the RCE Rider are reasonable.

### CONCLUSIONS OF LAW

1. Texas Gas Service Company ("TGS") is a gas utility as defined in TEX. UTIL. CODE ANN. §§ 101.003(7) and 121.001 (Vernon 2007 and Supp. 2011) and is therefore subject to the jurisdiction of the Railroad Commission of Texas. ("Commission")
2. The Commission has jurisdiction over TGS and the subject matter of these cases under TEX. UTIL. CODE ANN. §§ 102.001, 103.022, 103.054, 103.054, 103.055, 104.001, and 104.201. (Vernon 2007 and Supp. 2011)
3. Under TEX. UTIL. CODE ANN. § 102.001 (Vernon 2007 and Supp. 2011), 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 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 proceeding was conducted in accordance with the requirements of the Gas Utility Regulatory Act (GURA), and the Administrative Procedure Act, TEX. GOV'T CODE ANN. §§ 2001.001 *et seq.* (Vernon 2008 & Supp. 2011) ("APA").
5. The Commission has assured that the rates, operations, and services established in this docket are just and reasonable to customers and to the utilities in accordance with the stated purpose of the Texas Utilities Code, Subtitle A, expressed under TEX. UTIL. CODE ANN. § 101.002 (Vernon 2007 and Supp. 2011).
6. TEX. UTIL. CODE ANN. § 103.022 provides for the recovery of rate case expenses by a municipality and a utility involved in a ratemaking proceeding.
7. TGS and the City have established their burden of proof by a preponderance of the credible evidence for the reasonableness of such rate case expenses for all professional services as set out in the criteria established by 16 TEX. ADMIN. CODE ANN. § 7.5530.
8. The rate case expenses enumerated in the findings of fact herein are reasonable and comply with 16 TEX. ADMIN. CODE ANN. § 7.5530.

9. The Commission has the authority to allow TGS to recover rate case expenses through a surcharge on its rates, under TEX. UTIL. CODE ANN. § 104.051 (Vernon 2007 and Supp. 2011).

**IT IS THEREFORE ORDERED** that Texas Gas Service Company is authorized to recover all rate case expenses incurred in GUD No. 9988, 10016, and 10049 and approved by this order by means of a surcharge on its rates charged to ratepayers subject to the final orders issued in GUD Nos. 09988, 10016 and 10049. A surcharge on rates shall be charged at \$0.0053 per Ccf on all gas volumes for all customer classes, commencing on the date this final order becomes effective. The \$0.0053 per Ccf surcharge shall be a separate line item on each customer's bill clearly identifying the recovery rate and amount recovered each month. Texas Gas Service Company's Rate Case Expense Surcharge is approved.

**IT IS FURTHER ORDERED** that Texas Gas Service shall true-up any amounts over-recovered or under-recovered for the amounts as set forth in the Stipulation and Settlement Agreement. All over-recovered amounts shall be refunded, with interest, in the following billing cycle.

**IT IS FURTHER ORDERED** that any proposed findings of fact and conclusions of law not specifically adopted herein are **DENIED**. **IT IS ALSO ORDERED** that each exception to the Examiners' Memorandum not expressly granted herein is overruled and all pending motions and requests for relief not previously granted herein are hereby **DENIED**.

**IT IS FURTHER ORDERED** that Texas Gas Service Company may begin surcharging rates for rate case expenses on and after the date of this order. This Order will not be final and appealable 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 appealable 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. UTIL. CODE ANN. § 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.

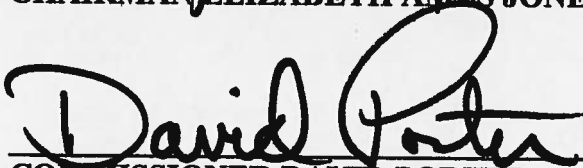
**IT IS THEREFORE ORDERED** that the *Stipulation and Settlement Agreement* of the parties is **HEREBY** approved and adopted.

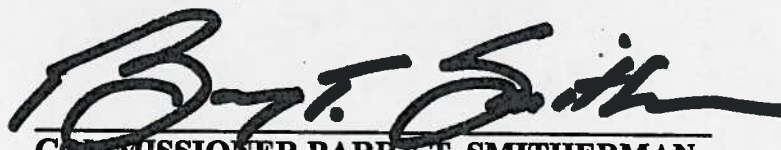
**IT IS FURTHER ORDERED** that the entry of this Order consistent with the *Stipulation and Settlement Agreement* does not indicate the Commission's endorsement of any principle or method that may underlie the *Stipulation and Settlement Agreement*. Neither should entry of this Order be regarded as precedent as to the appropriateness of any principle or methodology underlying the *Stipulation and Settlement Agreement*.

SIGNED this 10<sup>th</sup> day of January, 2012.

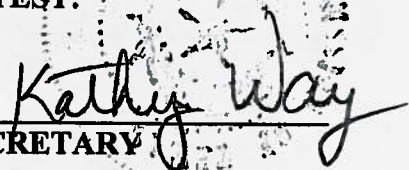
RAILROAD COMMISSION OF TEXAS

  
CHAIRMAN ELIZABETH AMES JONES

  
COMMISSIONER DAVID PORTER

  
COMMISSIONER BARRY T. SMITHERMAN

ATTEST:

  
SECRETARY



# GUD No. 10016 Final Order Attachment "A"

## Rate Case Expense Rider - Company and City Expenses

Customer Class	Amount	Volumes Excluding Enviorns	Volumes Over Three Years	RCE Rate Per CCF	Average Monthly Use Per Customer	Average Monthly Bill Impact
All Classes	\$ 2,559,833	161,036,597	483,109,791	\$ 0.0053	42 \$	0.22
Residential				\$ 0.0053	226 \$	1.20
Commercial and A/C				\$ 0.0053	3,062 \$	16.22
Industrial and Standby				\$ 0.0053	1,077 \$	5.71
Public Authority and A/C				\$ 0.0053	6,580 \$	34.86
Municipal Water Pumping				\$ 0.0053	24,341 \$	128.97
Comm. Transportation				\$ 0.0053	43,732 \$	231.72
Ind. Transportation				\$ 0.0053	13,748 \$	72.84
Pub. Auth. Transportation				\$ 0.0053	27,527 \$	145.85
Ft. Bliss						

\* Source: GUD Nos. 10016 & 10049 Stipulation and Settlement Agreement; Attachment "B".



**GAS UTILITIES DOCKET NO. 10016**

**RATE CASE EXPENSES SEVERED  
FROM  
GAS UTILITIES DOCKET NO. 9988**

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**BEFORE THE  
RAILROAD COMMISSION  
OF TEXAS**

**GAS UTILITIES DOCKET NO. 10049**

**PIPELINE TESTING EXPENSE RIDER  
SEVERED FROM  
GAS UTILITIES DOCKET NO. 9988**

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**BEFORE THE  
RAILROAD COMMISSION  
OF TEXAS**

**STIPULATION AND SETTLEMENT AGREEMENT**

This Stipulation and Settlement Agreement ("Agreement") is entered into by Texas Gas Service Company ("TGS" or the "Company"), a Division of ONEOK, Inc.; the City of El Paso (the "City"); the Attorney General of Texas in its representation of the various agencies and institutions of higher education (the "Texas State Agencies" or "State Agencies") served by the Company in its El Paso Service Area ("EPSA"); and the Staff of the Railroad Commission of Texas (the "Commission Staff" or "Staff"), all acting by and through their duly authorized representatives (together, the "Signatories" to this Agreement). The Signatories hereby agree and stipulate as follows:

**I. BACKGROUND**

1. On May 12, 2010, TGS filed an appeal with the Railroad Commission of Texas ("Commission") from the ratesetting actions of the City of El Paso denying the Statement of Intent and request for a rate increase previously with the City on December 3, 2009. That appeal was docketed by the Railroad Commission of Texas ("RRC" or the "Commission") as GUD No.

9988. On May 24, 2010, TGS filed an appeal from the ratesetting actions of the other municipalities in the EPSA (Anthony, Clint, Horizon City, Socorro, and Vinton) also denying the Company's Statements of Intent as previously filed with those municipalities on December 3, 2009. That appeal was docketed by the Commission as GUD No. 9992. In Examiners' Letter No. 1, the Examiners in those dockets consolidated the two appeals under GUD No. 9988.

2. On Joint Motion filed on August 20, 2010, by TGS, the City, and the Commission Staff, rate case expenses were severed from GUD No. 9988 by the Examiners during the hearing on the merits in that docket. The adjudication of rate case expenses was docketed as GUD No. 10016, one of the two dockets presently before the Commission.

3. The Commission entered its Final Order in GUD No. 9988 on December 14, 2010. That Final Order became final and appealable on February 22, 2011, when the Commission overruled the motions for rehearing of TGS and the City. Both the City and TGS subsequently filed appeals requesting judicial review of the Commission's Final Order in GUD No. 9988 by the Travis County District Court, where they remain pending.

4. In its Final Order in GUD No. 9988, the Commission also decided that the Company's Pipeline Integrity Testing ("PIT") Expenses should be recovered through a reconcilable rider (the "PIT Rider") and severed out certain issues relating to the PIT Rider for determination in a separate proceeding. The severed issues were docketed as GUD No. 10049, the other docket presently before the Commission.

5. TGS and the City have been engaged in settlement negotiations from time to time during the pendency of both GUD No. 9988 and the instant dockets, GUD No. 10016 and GUD No. 10049. Those efforts have finally produced an agreed resolution of the issues in GUD Nos. 10016 and 10049, as well as the two district court appeals arising from GUD No. 9988. The

terms of that settlement are set forth in this Agreement between and among the Signatories TGS, the City, the Texas State Agencies, and the Commission Staff, the only parties who have actively participated in said proceedings. The Signatories agree and submit that the terms of their Agreement, as set forth below, are (1) fair and reasonable to both the Company and its customers and (2) will advance the public interest by producing a reasonable outcome to said proceedings, by avoiding the cost and effort that would be required to further prosecute those proceedings, and by bringing dispute and controversy among the parties to an end.

## **II. THE AGREEMENT OF THE PARTIES**

The Signatories have reached this negotiated Agreement settling and resolving all issues in GUD No. 10016, GUD No. 10049, and the judicial appeals arising from GUD No. 9988. The Signatories agree that the Commission should enter an order consistent with this Agreement, as follows:

1. The Signatories agree that the City shall recover all rate case expenses incurred by the City in GUD No. 9988 and related proceedings<sup>1</sup> through the date that Final Orders are issued by the Commission in GUD Nos. 10016 and 10049 approving the terms of this Agreement. The total amount of said expenses actually incurred from inception to date and reasonably estimated to be incurred in order to complete said proceedings pursuant to the terms hereof is \$764,679, as shown on Attachment "A" to this Agreement, which is incorporated herein. Of this total amount, TGS has to date reimbursed the City \$694,104 (subject to Commission approval of same), and agrees to reimburse the remainder of the City's actually incurred rate case expenses upon

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<sup>1</sup> The rate case expenses of the Company and City addressed by this Stipulation and Settlement Agreement include those incurred in connection with (1) both the municipal-level and Commission proceedings in GUD No. 9988, (2) GUD No. 10016 (Rate Case Expenses), (3) GUD No. 10049 (Pipeline Integrity Testing Rider), and (4) the judicial appeals arising from GUD No. 9988.

Commission approval of the Signatories' Agreement in its entirety, up to the total of \$764,679 specified above. It is further agreed that TGS shall in turn recover from its customers in the EPSA Cities all such amounts reimbursed by TGS to the City.

2. The Signatories agree that TGS shall recover (a) Rate Case Expenses incurred by the Company in GUD No. 9988 and related proceedings and (b) Pipeline Integrity Expenses for the Company's 2010-2013 testing cycle in a total amount for these two expense categories of \$3,993,000. For recovery purposes, this total recoverable amount shall be divided between Rate Case Expenses and Pipeline Integrity Expenses as follows:

- a. *Rate Case Expenses (GUD No. 10016): \$1,795,154.*
- b. *Pipeline Integrity Expenses (GUD No. 10049): \$2,197,846.*

The total amount of Rate Case Expenses incurred by TGS to date and estimated to be incurred in order to complete said proceedings pursuant to the terms hereof is \$2,939,117, as shown on Attachment "A". The portion of this total amount that shall be recoverable under the terms of this Agreement of \$1,795,154 thus represents an agreed reduction of \$1,143,963, also as shown on said Attachment.

3. The Signatories agree that there will be no further true-up of the recoverable amounts of Rate Case Expenses or Pipeline Integrity Expenses, other than for recovery of the agreed upon amounts, plus interest accruing on any underrecoveries or overrecoveries, as provided below. However, the issue of whether expenditures made in connection with Pipeline Integrity activities were properly recorded as capital expenditures will remain an open issue for regulatory review in any future proceeding in which TGS requests such expenditures as a part of invested capital (rate base).



4. *Recoverable Pipeline Integrity Expenses:* The Signatories further agree as follows with respect to the allocation and recovery of the Pipeline Integrity Expenses to be recovered hereunder:

a. The amount of recoverable expense shall be fixed at the total amount identified in subparagraph II.2.b. above, plus or minus interest on overrecoveries and underrecoveries as provided in subparagraphs II.4.f. and II.4.g. below.

b. The recoverable amount shall be recovered from all customers in the El Paso Service Area other than Special Contract Customers, including customers in all of the EPSA municipalities and customers in the environs, and shall be allocated to those classes on the basis of class demand.

c. The recoverable amount allocated to each class shall be recovered through volumetric charges over a period of four years, in accordance with the agreed Pipeline Integrity Testing ("PIT") Rider attached hereto as Attachment "C" and incorporated by reference herein.

d. There will be no return paid on any balance deferred by TGS.

e. The initial rate per ccf for each customer class will be as shown on Attachment "B" to this Agreement, which is incorporated by reference herein.

f. The total amount to be recovered shall be adjusted annually to reflect interest from a prior year on any underrecoveries to be recovered by TGS and interest on any overrecoveries to be refunded or credited to customers.

g. Interest on any overrecoveries and underrecoveries shall accrue and be calculated based upon the Company's cost of long-term debt (6.21%) as approved by the RRC in GUD No. 9988.

h. Compressed Natural Gas ("CNG") expenses shall be included as a Pipeline Integrity Expense and shall not be passed through or recovered through the Company's Cost of Gas Clause.

i. The Signatories agree that the agreed Pipeline Integrity Testing ("PIT") Rider as revised to reflect the terms of this Agreement, which is appended hereto as Attachment "C" and incorporated herein, is just and reasonable and should be expeditiously approved by the Commission so that it can be implemented and applied by TGS effective January 1, 2012.

5. *Recoverable Rate Case Expenses:* The Signatories further agree as follows with respect to the allocation and recovery of the Rate Case Expenses to be recovered hereunder:

a. The total amount of Rate Case Expenses recoverable hereunder shall be fixed at \$2,559,833 for Company and City rate case expenses combined, as identified in paragraph II.1. and subparagraph II.2.a. above, plus or minus interest on any overrecoveries and underrecoveries as provided in subparagraphs II.5.f. and II.5.g. below.

b. The recoverable amount of Rate Case Expenses shall be recovered (i) from all customer classes except Special Contract customers and (ii) only within the EPSA municipalities and not from environs customers.

c. The recoverable amount shall be recovered through volumetric charges over a period of three years, in accordance with the agreed Rate Case Expense ("RCE") Rider attached hereto as Attachment "D" and incorporated by reference herein.

d. The Initial Amount of recoverable Rate Case Expenses shall be recovered through a charge \$0.0053 per ccf, as shown on Attachment "B" to this Agreement.

e. The total amount to be recovered shall be adjusted annually to reflect interest from a prior year on any underrecoveries to be recovered by TGS and any interest on overrecoveries to be refunded or credited to customers.

f. Interest on any overrecoveries and underrecoveries shall accrue and be calculated based upon the Company's cost of long-term debt (6.21%) as approved by the Commission in GUD No. 9988.

6. The Signatories further agree that Texas Gas Service Company shall withdraw and dismiss with prejudice its appeal to the District Court of Travis County (*Texas Gas Service v. Railroad Commission of Texas*, No. D-GV-11-000889), and the City shall withdraw and dismiss with prejudice its appeals to the District Court of Travis County (*City of El Paso v. Railroad Commission of Texas*, No. D-GV-000367 and D-1-GN-11-000889), of the Commission's Final Order in GUD No. 9988.

7. The Signatories agree to join in and support the City's request for the Commission to abate the deadline otherwise applicable to the City's Interim Appeal of Examiner's Letter No. 5 in GUD 10049 pending the Commission's approval of this Agreement.

8. Subject to the terms of paragraphs II.9. and II.13. below, the Signatories agree to conditionally waive their respective rights to a hearing in both GUD No. 10016 and GUD No. 10049.

9. This Agreement is contingent upon and subject to (a) obtaining the agreement of all four active parties to these proceedings (TGS, the City, the Texas State Agencies, and the Commission Staff) to either support or not oppose this settlement, and (b) the approval by the Commission of this Agreement in its entirety, and the settlement of the Signatories reflected herein.

10. The Signatories agree that they will diligently, actively, and in good faith seek and support Commission approval of this Agreement and entry of a final Commission order or orders in GUD Nos. 10016 and 10049 consistent with the terms set forth herein.

11. The Signatories agree that the terms of this Agreement may not be used as an admission or concession of any sort or as evidence in any other proceeding, except insofar as reasonable and necessary to implement, recognize, or enforce the terms hereof. The Signatories further agree that all oral or written statements made during the course of their settlement negotiations may not be used for any purpose and are governed by TEX. R. EVID. 408. The obligations set forth in this paragraph shall continue and be enforceable, even if this Agreement is terminated as provided below.

12. This Agreement is binding on each Signatory only for the purpose of settling the proceedings and issues as set forth herein and for no other purpose. Except to the extent that this Agreement expressly governs a Signatory's rights and obligations for future periods, this Agreement, including all terms provided herein, shall not be binding or precedential on a Signatory outside of these dockets. The Signatories acknowledge and agree that a Signatory's support of the matters contained in this Agreement may differ from its position or testimony in other proceedings not referenced in this Agreement. To the extent there is a difference, a Signatory does not waive its position in such other proceedings. A Signatory's agreement to entry of a final order of the Commission consistent with this Agreement should not be regarded as an agreement to the appropriateness or correctness of any assumptions, methodology, or legal or regulatory principle that may be reflected in the terms of this Agreement or may have been employed in reaching same.



13. This Agreement reflects a compromise, settlement, and accommodation among the Signatories, and the Signatories agree that the terms and conditions stated herein are interdependent. If the Commission does not accept this Agreement as presented and requested, or enters an order that is inconsistent with any material term of this Agreement, then each Signatory shall have the right to withdraw from all commitments and obligations hereunder and to seek a hearing on any and all issues, present evidence, and advance any positions it desires in GUD Nos. 10016 and 10049, and to fully pursue or participate in the judicial appeals arising from GUD No. 9988, as if the Signatory had never entered into this Agreement.

14. This Agreement contains the entire understanding and agreement of the Signatories, and supersedes all other written and oral exchanges or negotiations among them or their representatives with respect to the subjects contained herein. Neither this Agreement nor any of the terms hereof may be altered, amended, waived, terminated, or modified, except by a writing properly executed by the Signatories.

15. This Agreement represents a complete resolution of all contested issues in these proceedings.

16. The Signatories agree that this document may be executed in multiple counterparts and filed with facsimile signatures. The Signatories agree that they will use their best efforts to obtain expeditious approval and implementation of this Agreement through Commission entry of an appropriate order or orders.

SIGNED AND EXECUTED this 2<sup>nd</sup> day of December, 2011, by:

  
\_\_\_\_\_  
J. Alan Holman

State Bar No. 09903500

James W. Checkley, Jr.

State Bar No. 04170500

John K. Arnold

State Bar No. 24013829

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ATTORNEYS FOR TEXAS GAS SERVICE COMPANY,  
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\_\_\_\_\_  
Norman L. Gordon

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ATTORNEYS FOR THE CITY OF EL PASO

  
\_\_\_\_\_  
John Pierce Griffin

Railroad Commission of Texas

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ATTORNEY FOR THE STAFF OF THE RAILROAD COMMISSION OF TEXAS



*Larry C. Buck*

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Office of the Attorney General  
Consumer Protection Division  
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**ATTORNEY FOR THE TEXAS STATE AGENCIES**

Texas Gas Service  
 GUD No. 10016  
 Rate Case expenses incurred in GUD No. 9988

Attachment "A"

Summary of El Paso Rate case expenses  
 Including invoices received but not yet paid and estimated costs from September through November.

Employee / Supplier	Description	Fees paid through September 30, 2011	Invoices received but not yet paid	Estimate for Expenses incurred but not billed (Sept - Nov)	Fees Accumulated as of October 28, 2011
<b>Company Costs</b>					
DAVE HOWARD & ASSOCIATES	Court Reporter	15,505			15,505
DIVELY & ASSOCIATES PLLC	Revenue Requirement	144,219			144,219
DUNCAN WEINBERG GENZER & PEMBROKE PC	Legal Firm	883			883
FEDERAL EXPRESS CORPORATION	Shipping	812			812
FINANCIAL CONCEPTS AND	Cost of Capital - Bruce Fairchild	62,686			62,686
FOSTER ASSOCIATES INC	Depreciation - Ron White	195,927			195,927
KEMP SMITH LLP	El Paso Legal Firm	54,632			54,632
LOCKE LORD BISSELL & LIDDELL LLP	Legal Firm	1,567,976	412,049	204,000	2,184,026
MEDIACENTRIC LLC	Publications	27,029			27,029
NATIONALDEPO	Depositions	491			491
PARSLEY COFFIN RENNER LLP	Legal Firm	1,024			1,024
RUHTER & REYNOLDS INC	Cost allocation and rate design	200,714			200,714
SMITH TROSTLE LLP	Rate case expense consulting attorney	5,895		15,000	20,895
UPS	Shipping	301			301
EMPLOYEE EXPENSES		29,974			29,974
<b>Total Company Costs</b>		<b>2,308,067</b>	<b>412,049</b>	<b>219,000</b>	<b>2,939,117</b>
<b>Potential Settlement offer</b>					<b>(1,143,963)</b>
<b>Company Cost Less potential settlement</b>					<b>1,795,154</b>
<b>City of El Paso Costs</b>					
CITY OF EL PASO		694,104		70,575	764,679
<b>City of El Paso Costs</b>		<b>694,104</b>	<b>-</b>	<b>70,575</b>	<b>764,679</b>
<b>Company and City Costs w/o settlement offer</b>		<b>3,002,171</b>	<b>412,049</b>	<b>289,575</b>	<b>3,703,796</b>
<b>Company and City Costs including settlement offer</b>					<b>2,559,833</b>
<b>Pipeline Integrity Costs</b>					
PIPELINE INTEGRITY 2010 - Actual		881,510			881,510
PIPELINE INTEGRITY 2011 Estimate				363,672	363,672
PIPELINE INTEGRITY 2013 - Estimate				952,664	952,664
<b>Total Pipeline Integrity costs</b>		<b>881,510</b>	<b>-</b>	<b>1,316,336</b>	<b>2,197,846</b>
<b>Company &amp; Pipeline Integrity Cost w/o settlement offer</b>		<b>3,189,577</b>	<b>412,049</b>	<b>1,535,336</b>	<b>5,136,963</b>
<b>Company &amp; Pipeline Integrity Cost incl. settlement offer</b>		<b>881,510</b>	<b>-</b>	<b>1,316,336</b>	<b>3,993,000</b>
<b>Company, City, pipeline integrity Cost</b>		<b>3,883,681</b>	<b>412,049</b>	<b>1,605,911</b>	<b>5,901,642</b>
<b>Company, City, pipeline integrity Cost including settlement offer</b>		<b>3,883,681</b>	<b>412,049</b>	<b>1,605,911</b>	<b>4,757,679</b>



## PIPELINE INTEGRITY TESTING RIDER

CUSTOMER CLASS	DEMAND COST PER APPROVED COST OF SERVICE STUDY	AMOUNT PER CLASS	VOLUMES PER CLASS	VOLUMES OVER FOUR YEARS	PIT RATE PER CCF	AVERAGE MONTHLY USE PER CUSTOMER	AVERAGE MONTHLY BILL IMPACT
Residential	59.85%	1,315,411	104,636,443	418,545,772	\$ 0.0031	42	\$ 0.13
Commercial and A/C	19.41%	426,602	32,621,741	130,486,984	\$ 0.0033	226	\$ 0.74
Industrial & Stand By	0.88%	19,341	1,596,388	6,385,551	\$ 0.0030	3,062	\$ 9.27
Public Authority and A/C	10.00%	219,785	11,522,431	46,089,722	\$ 0.0048	1,077	\$ 5.14
Municipal Water Pumping	0.49%	10,769	1,605,924	6,423,697	\$ 0.0017	6,580	\$ 11.03
Comm. Transportation	1.50%	32,968	5,432,164	21,728,658	\$ 0.0015	24,341	\$ 36.93
Ind. Transportation	0.87%	19,121	6,341,139	25,384,556	\$ 0.0008	43,732	\$ 32.97
Pub. Auth. Transportation	1.21%	26,594	2,309,616	9,238,462	\$ 0.0029	13,748	\$ 39.57
Ft. Bliss	5.79%	127,255	6,936,683	27,746,733	\$ 0.0046	27,527	\$ 126.25
	100.00%	\$2,197,846	173,002,529	692,010,115			

## RATE CASE EXPENSE RIDER - COMPANY AND CITY EXPENSES

CUSTOMER CLASS	AMOUNT	VOLUMES EXCLUDING ENVRONS	VOLUMES OVER THREE YEARS	RCE RATE PER CCF	AVERAGE MONTHLY USE PER CUSTOMER	AVERAGE MONTHLY BILL IMPACT
ALL CLASSES	\$ 2,559,833	161,036,597	483,109,791	\$ 0.0053		
Residential				\$ 0.0053	42	\$ 0.22
Commercial and A/C				\$ 0.0053	226	\$ 1.20
Industrial & Stand By				\$ 0.0053	3,062	\$ 16.22
Public Authority and A/C				\$ 0.0053	1,077	\$ 5.71
Municipal Water Pumping				\$ 0.0053	6,580	\$ 34.86
Comm. Transportation				\$ 0.0053	24,341	\$ 128.97
Ind. Transportation				\$ 0.0053	43,732	\$ 231.72
Pub. Auth. Transportation				\$ 0.0053	13,748	\$ 72.84
Ft. Bliss				\$ 0.0053	27,527	\$ 145.85

**RATE CASE EXPENSE RIDER - COMPANY EXPENSES ONLY**

CUSTOMER CLASS	AMOUNT	VOLUMES EXCLUDING ENVIRONS	VOLUMES OVER THREE YEARS	RCE RATE PER CCF	AVERAGE MONTHLY USE PER CUSTOMER	AVERAGE MONTHLY BILL IMPACT
ALL CLASSES	\$ 1,795,154	161,036,597	483,109,791	\$ 0.0037		
Residential				\$ 0.0037	42	\$ 0.15
Commercial and A/C				\$ 0.0037	226	\$ 0.84
Industrial & Stand By				\$ 0.0037	3,062	\$ 11.38
Public Authority and A/C				\$ 0.0037	1,077	\$ 4.00
Municipal Water Pumping				\$ 0.0037	6,580	\$ 24.45
Comm. Transportation				\$ 0.0037	24,341	\$ 90.45
Ind. Transportation				\$ 0.0037	43,732	\$ 162.50
Pub. Auth. Transportation				\$ 0.0037	13,748	\$ 51.08
Ft. Bliss				\$ 0.0037	27,527	\$ 102.28

**PIPELINE INTEGRITY TESTING (PIT) RIDER**

**PURPOSE**

The purpose of this Pipeline Integrity Testing Rider is to promote the public interest in pipeline safety by enabling the Company to recover over a four-year period the reasonable and necessary Pipeline Integrity Safety Testing expenses incurred by the Company during the four-year testing cycle from January 1, 2010, through December 31, 2013 (including contractor costs but excluding the labor cost of TGS employees), in the amount of \$2,197,846. These legally mandated operating and maintenance expenses shall be recovered through a separate monthly volumetric charge (the Pipeline Integrity Testing or "PIT" Surcharge) that shall be shown as a separate line item on the customer's monthly bill and calculated for each customer class as described below. Capital expenditures associated with the Pipeline Integrity Program shall continue to be recovered through base rates and any interim rate adjustments implemented pursuant to Section 104.301 of the Gas Utility Regulatory Act.

**APPLICABILITY**

This Rider shall be applied to all gas sales and transportation customers within the service territory designated below, except special contract customers.

**TERRITORY**

This Rider shall apply to customers in that portion of the Company's El Paso Service Area ("EPSA") that is within the incorporated municipal limits of El Paso, Anthony, Clint, Horizon City, Socorro, and Vinton, Texas (collectively, the "EPSA Cities").

**QUALIFYING EXPENSES**

This Rider applies only to the legally mandated safety testing of the Company's transmission lines in the EPSA under the Pipeline Integrity Safety Testing Program. The operating and maintenance expense items that qualify for recovery under this Rider shall include the contractor costs associated with land and leak survey, permitting, and job order preparation and completion; the clearing of right-of-way; any needed notifications to adjacent businesses and residences; traffic control equipment and personnel; Direct Current Voltage Gradient ("DCVG"), Close Interval ("CI"), and other surveys to ensure the integrity of the pipeline system; any required rigid bypasses; flushing of the lines and testing and disposal of the flush water; hydrostatic testing of the lines and analysis and disposal of the test water; any required "pigging" of the lines in connection with safety testing; any required x-ray welding; metallurgical testing of the pipeline or components thereof; site restoration, painting, and clean-up; expenses associated with providing a supply of compressed natural gas ("CNG") to ensure uninterrupted service to customers during testing; and any other operating and maintenance expenses reasonably necessary to safely and effectively perform required safety testing of the Company's



transmission pipelines in the EPSA. Neither capital expenditures by the Company, nor the labor cost of TGS employees, shall be recovered under this Rider.

### **CALCULATION OF PIT SURCHARGES**

The Pipeline Integrity Testing Surcharges established under this Rider shall be designed so as to recover the Total Testing Expense of \$2,197,846 in Pipeline Integrity Safety Testing expenses incurred by the Company over the four-year testing cycle from January 1, 2010, through December 31, 2013, and shall be calculated as follows:

First, the Total Testing Expense shall be allocated among the applicable customer classes in the same proportion that demand costs were assigned to those classes in the Class Cost of Service Study approved in the Company's most recent rate case in which rates were set by the Railroad Commission of Texas (the "Commission") for customers in the EPSA Cities.

$$\begin{array}{lcl} \text{Each Class' Total Allocated} & & \\ \text{Testing Expense} & = & \frac{\text{Total Testing Expense} \times \text{Each Class' Demand}}{\text{Total Demand of the Applicable Classes}} \end{array}$$

Second, the total dollar amount allocated to each customer class in the foregoing manner shall be divided by forty-eight (48) monthly billing cycles, so as to derive the amount that shall be ratably recovered from each class on a monthly basis during the four-year recovery period:

$$\text{Monthly Recovery from Each Class} = \frac{\text{Each Class' Total Allocated Testing Expense}}{48 \text{ Months}}$$

Third, the total amount that is to be recovered on a monthly basis from each class shall be divided by the estimated average monthly usage for each class to produce the monthly PIT Surcharge for each class.

$$\text{Each Class' PIT Surcharge} = \frac{\text{Monthly Recovery from Each Class}}{\text{Estimated Monthly Usage of Each Class}}$$

Based upon customer data for the prior calendar year and any other relevant factors, the estimated monthly usage for each class may be revised annually to account for customer growth, and the resulting revised PIT Surcharge shall be applied to each class for the ensuing 12-month recovery period.

### **ANNUAL RECONCILIATION**

After completion of each of the first three annual recovery periods, the total revenues collected under this Rider for that year shall be reconciled against the revenues previously calculated to be collected for that year, and the PIT Surcharge for each class shall be adjusted upward or downward so that the Company recovers any underrecoveries or refunds any overrecoveries that



may have accrued under the Rider, plus monthly interest on those underrecoveries or overrecoveries at the cost of long-term debt approved in the Company's most recent general rate case in which rates were set by the Commission for application to customers in the EPSA Cities. The reconciliation shall be filed with the regulatory authority on or before February 21st of each year, and the regulatory authority shall complete its review of the reconciliation on or before March 21st of each year, so that the Company can implement the reconciled PIT Surcharges beginning with the first billing cycle for April of each succeeding year of the four-year recovery period.

#### **DEFERRED ACCOUNTING**

The Company is authorized and directed to defer, as a regulatory asset, all Pipeline Integrity Safety Testing expenses incurred during the testing cycle starting on January 1, 2010, and ending on December 31, 2013, and all revenues specifically collected under this Rider shall be applied to the deferred expense account. The Company shall not earn a return on any regulatory asset created under this provision, and no such regulatory asset shall be included in the Company's invested capital (rate base) for ratemaking purposes.

#### **ANNUAL REPORT & APPLICABLE PSCC**

On or before February 21st after each calendar year of the testing cycle, the Company shall file a report with the Commission and the EPSA Cities showing all Pipeline Integrity Safety Testing expenses incurred during the previous calendar year and verifying the prior year's collections and any underrecoveries or overrecoveries accruing to date under this Rider. The report shall separately identify and list such expenses by account number and project number. Prior to the effective date of this Rider and on or before February 21st of each succeeding year while this Rider is in effect, the Company shall also file an Addendum to this Rider with the Commission and the EPSA Cities (a) identifying the PIT Surcharges that will be applied during the ensuing 12-month recovery period from April 1st through March 31st, and (b) providing the underlying data and calculations on which each PIT Surcharge for that period is based.

#### **NOTICE TO AFFECTED CUSTOMERS**

In addition to the annual report and Addendum to this Rider required above, the Company shall provide, on or before March 31st after each calendar year of the testing cycle, written notice to each affected customer of (a) the PIT Surcharge that will be applied during the ensuing 12-month period from April 1st through March 31st, and (b) the effect the PIT Surcharge is expected to have on the average monthly bill for each affected customer class. The written notice shall be provided in both English and Spanish, shall be the only information contained on the piece of paper on which it is printed, and may be provided either by separate mailing or by insert included with the Company's monthly billing statements. The Company shall also file an affidavit annually with the Commission and the EPSA Cities certifying that notice has been provided to customers in this manner. The notice shall be presumed to be complete three calendar days after the date the separate mailing or billing statement is deposited in a postage-paid, properly

addressed wrapper in a post office or official depository under care of the United States Postal Service. The initial notice shall be filed with, reviewed, and approved by the regulatory authority, and each subsequent notice shall follow the same format as that of the approved initial notice.

**FINAL REVIEW, RECONCILIATION, AND TERMINATION**

After the end of the four-year recovery period, the Company shall file a final reconciliation with the regulatory authority identifying all PIT Expenses recovered to date under this Rider, as well as any interest on overrecoveries refunded or credited to customers and any interest on underrecoveries recovered from customers during that period. In the event the total amount recovered differs from the total amount that TGS is authorized to recover under this Rider, then the Company shall include a calculation of the final surcharge, refund, or credit required to eliminate any such difference and shall implement same over a period of not more than four months. This Rider shall cease to be operable upon collection in this manner of the Total Testing Expenses authorized for collection hereunder, plus or minus any interest accruing on underrecoveries and overrecoveries, or sooner if ordered by the Commission or agreed upon by the Company and the EPSA Cities.

**TEXAS GAS SERVICE COMPANY**  
**El Paso Service Area - Incorporated****RATE SCHEDULE RCE RIDER**  
**Page 1 of 2****RATE CASE EXPENSE (RCE) SURCHARGE****A. APPLICABILITY**

Pursuant to the Final Order in GUD No. 10016, the Rate Case Expense (RCE) Surcharge set forth in Section B. below shall apply to all gas sales customers (except special contract customers) located in that portion of the Company's El Paso Service Area ("EPSA") that is within the incorporated municipal limits of El Paso, Anthony, Clint, Horizon City, Socorro, and Vinton, Texas, including customers served under Rate Schedules 10, 20, 21, 25, 26, 27, 40, C-1, SS, and T-1.

**B. RCE SURCHARGE**

The initial RCE Surcharge per Ccf for each billing period shall be: \$0.0053

This rate, as adjusted pursuant to Section C. below, shall be designed to recover the approved level of Company and City rate case expenses of \$2,559,833 over a recovery period of three years. However, if the authorized level of rate case expenses, plus or minus interest on any overrecoveries or underrecoveries, is collected in less than three years, then this Rider shall cease to be operable and the Company shall cease to apply the Rate Case Expense Surcharge. If the authorized level of rate case expenses, plus or minus interest on any overrecoveries or underrecoveries, has not been collected by the end of the three-year recovery period, then this Rider shall remain in effect beyond the three-year recovery period only until all approved rate case expenses have been recovered under the applicable rate schedules, and any interest accruing on overrecoveries or underrecoveries has been recovered from or refunded or credited to the Company's customers.

**C. OTHER ADJUSTMENTS**

The applicable RCE Surcharge shall be adjusted annually to reflect interest on any underrecoveries or overrecoveries calculated at the Company's 6.21% cost of long-term debt as determined by the Railroad Commission of Texas in GUD No. 9988. In addition to the RCE Surcharge, applicable revenue-related taxes and fees, including franchise fees, shall also be recovered based on the revenue amounts collected hereunder.

Initial Rate

Meters Read On and After

**RATE CASE EXPENSE (RCE) SURCHARGE**  
**(Cont.)**

**D. ANNUAL COMPLIANCE FILING**

On or before February 21st following each calendar year in which an RCE Surcharge was applied to recover rate case expenses under this Rider, the Company shall file a written report with the Commission and the EPSA Cities showing the total amount of rate case expenses (including any adjustments made to reflect interest on overrecoveries or underrecoveries accruing to the Company or its customers) that (a) were recovered during the preceding calendar year, (b) have been cumulatively recovered since the effective date of the Rider, and (c) still remain to be recovered through the Rider pursuant to the Commission's Final Order in GUD No. 10016. The report shall also include a calculation of the RCE Surcharge that is to be applied during the ensuing recovery period.

**E. CONDITIONS**

Service under this rate schedule shall be subject to all applicable laws and orders and to the Company's rules and regulations on file with the regulatory authority.

**Initial Rate**

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



## GAS UTILITIES DOCKET NO. 10016

RATE CASE EXPENSES SEVERED  
FROM GAS UTILITIES DOCKET  
NO. 9988

§  
§  
§

BEFORE THE  
RAILROAD COMMISSION  
OF TEXAS

**AFFIDAVIT OF NORMAN J. GORDON REGARDING ATTORNEYS' FEES  
AND EXPENSES AND RATE CASE EXPENSES IN DOCKETS 9988 10016 and 10049**

THE STATE OF TEXAS     )  
                                      )  
COUNTY OF EL PASO     )

BEFORE ME, the undersigned authority, on this day personally appeared NORMAN J. GORDON, known to me to be the person whose name is subscribed hereto, and being by me duly sworn, upon his oath, stated as follows:

1. My name is Norman J. Gordon. I am over eighteen years of age and I am not disqualified from making this affidavit.
2. I am an attorney licensed in the States of Texas and Illinois, and numerous federal courts. I graduated from the University Of Illinois College Of Law. I have been in private practice of law in El Paso since completing my military obligation with the Judge Advocate General's Corps of the United States Army. I am board certified in Civil Trial Law by the Texas Board of Legal Specialization, and have been so certified since 1983. One of the areas of my practice is in the area of utility regulation. Since 1978, I have been counsel for parties in many major rate cases, rule making proceedings, and other administrative dockets before City Councils, the Railroad Commission of Texas, the Public Utility Commission of Texas, State District Courts, United States Bankruptcy Court, Texas Appellate Courts, including the Supreme Court of Texas. I have also filed testimony on rate case expense issues before the Railroad Commission of Texas. I have testified as an expert witness on rate case expenses before the Public Utility Commission of Texas. I have also taught principles of regulation to members of the Public Utility Regulation Board of the City of El Paso, an advisory board on utility matters.
3. I am a shareholder in the El Paso firm of Mounce, Green Myers, Safi, Paxson and Galatzan, A Professional Corporation, and have been a shareholder in that firm since October 2003. Prior to that time my private practice was with El Paso law firm Diamond Rash Gordon & Jackson, P.C., where I was a shareholder.
4. The City of El Paso engaged Mounce, Green, Myers, Safi, Paxson & Galatzan to act as counsel for the City of El Paso in the case that was originally filed before the City in December 2009 as well as the appeal which was consolidated with and into Gas Utilities Docket 9988, as well as the severed dockets GUD No. 10016 and GUD No. 10049.

5. I am familiar with the Railroad Commission Rule on Rate Case Expenses, 16 T.A.C. §7.5530. In this proceeding, for the City of El Paso, in conjunction with direction from the office of the city Attorney, we organized the work for the case before the City, including extensive negotiations with Texas Gas Service, an extended hearing before the City's Public Utility Regulation board and the work to represent the City before the Commission including hearings and briefing on the severed dockets, and the filing of the appeal. My firm was responsible for all matters that were filed, the engagement of the consultants and expert witnesses, the conduct of the hearing itself before the commission, and all post hearing matters. In the course of this case, we used extensive time of two attorneys, as well as some assistance from others in the firm which in my opinion was reasonable given the number of issues and witnesses.
6. All of the work done by my firm was necessary and reasonable with respect to both time and amount considering the nature, extent, and difficulty of the work, the originality of the issues presented including the nature of the issues raised and addressed by the City of El Paso in this proceeding, and the amount of time spent by and charges by others for work of a similar nature in this and other proceedings.
7. I have reviewed my firm's statements. There were no expenses charged for any luxury items. There was no first-class airfare or charges for use of non-commercial aircraft, no luxury hotel charges, no limousine service, no meals charged in excess of \$25 per person, no charges for sporting events, alcoholic drinks, or other entertainment. The charges for telephone, copies, printing, overnight courier service, transcripts, and other expenses and costs were necessary for the prosecution of the case and are reasonable.
8. I was also responsible for the engagement of the City's expert witnesses and consultants. The City utilized Diversified Utility Consultants, Inc., the Law Offices of James Z. Brazell, Chesapeake Regulatory Consultants, Inc., and Acadian Consulting Group, to provide consulting and expert witness testimony in the cases.
9. The witnesses from Diversified Utility Consultants, Inc. were Jacob Pous and Sara Coleman. They addressed most of the rate base and accounting issues in the case, as well as the overall revenue requirement. Diversified Utility Consultants was also engaged to provide testimony regarding the City's rate case expenses in the event that such testimony needed to be filed. The witness from Chesapeake Regulatory Consultants Inc. was Basil L. Copeland, Jr. Mr. Copeland addressed rate of return issues including capital structure, cost of debt and cost of equity. The witness from Acadian Consulting Group was David E. Dismukes, Ph.D. Dr. Dismukes mainly addressed issues related to revenue adjustments for weather and customer growth, class cost allocation and rate design. Mr. James Z. Brazell was engaged to analyze the rate case expenses incurred by TGS with the possibility that he would provide expert testimony if appropriate. All of these consultants are highly qualified and have extensive experience in analysis and expert testimony in rate proceedings as well as other proceedings. Since all of the consulting firms were engaged through my firm, with the approval of the City, I personally reviewed each of the statements before they were submitted for payment. Based on my experience and knowledge of the case, the number of hours and hourly rates

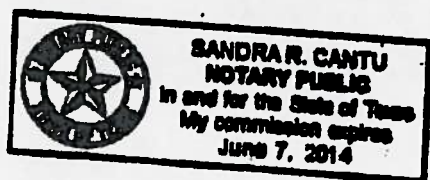
charged were reasonable to provide assistance to the City and the prosecution of the case. The total amounts charged by those firms were also reasonable.

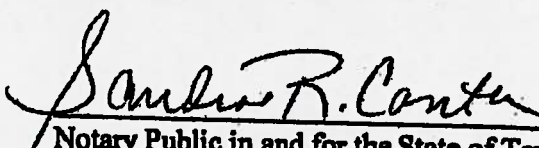
10. I also reviewed the expenses charged by those firms. The only travel expenses for the witnesses were for travel to El Paso for the hearing and City Council presentation, and travel to Austin by Mr. Copeland for the hearing itself. There were no expenses charged for any luxury items. There was no first-class airfare or charges for use of non-commercial aircraft, no luxury hotel charges, no limousine service, no meals charged in excess of \$25 per person, no charges for sporting events, alcoholic drinks, or other entertainment. In my opinion the expenses charged by the City's consultants and witnesses was also reasonable.
11. The total amount billed identified as billed in the filing made on September 22, 2011 was \$694,104. The difference between that amount and the total amount of \$764,679 (\$70,575) are additional time for the preliminary work in GUD No. 10016 for (\$12,292.) Mr. Brazell and (\$6,476.06) Mr. Pous and Ms. Coleman, as well as attorney time in connection with both dockets, the settlement negotiations and completion of the settlement agreement. In my opinion all of the additional work was necessary and the fees charged were reasonable.

Further Affiant Says Not.

  
Norman J. Gordon

2ND SUBSCRIBED AND SWORN TO, BEFORE ME, by the said Norman J. Gordon, this  
day of December, 2011, to certify which witness my hand and seal of office.



  
Notary Public in and for the State of Texas



**ATTACHMENT C**

**TEXAS GAS SERVICE COMPANY**  
**El Paso Service Area - Incorporated**

**RATE SCHEDULE RCE RIDER**  
**Page 1 of 2**

**RATE CASE EXPENSE (RCE) SURCHARGE**

**A. APPLICABILITY**

Pursuant to the Final Order in GUD No. 10016, the Rate Case Expense (RCE) Surcharge set forth in Section B. below shall apply to all gas sales customers (except special contract customers) located in that portion of the Company's El Paso Service Area ("EPSA") that is within the incorporated municipal limits of El Paso, Anthony, Clint, Horizon City, Socorro, and Vinton, Texas, including customers served under Rate Schedules 10, 20, 21, 25, 26, 27, 40, C-1, SS, and T-1.

**B. RCE SURCHARGE**

The initial RCE Surcharge per Ccf for each billing period shall be: \$0.0053

This rate, as adjusted pursuant to Section C. below, shall be designed to recover the approved level of Company and City rate case expenses of \$2,559,833 over a recovery period of three years. However, if the authorized level of rate case expenses, plus or minus interest on any overrecoveries or underrecoveries, is collected in less than three years, then this Rider shall cease to be operable and the Company shall cease to apply the Rate Case Expense Surcharge. If the authorized level of rate case expenses, plus or minus interest on any overrecoveries or underrecoveries, has not been collected by the end of the three-year recovery period, then this Rider shall remain in effect beyond the three-year recovery period only until all approved rate case expenses have been recovered under the applicable rate schedules, and any interest accruing on overrecoveries or underrecoveries has been recovered from or refunded or credited to the Company's customers.

**C. OTHER ADJUSTMENTS**

The applicable RCE Surcharge shall be adjusted annually to reflect interest on any underrecoveries or overrecoveries calculated at the Company's 6.21% cost of long-term debt as determined by the Railroad Commission of Texas in GUD No. 9988. In addition to the RCE Surcharge, applicable revenue-related taxes and fees, including franchise fees, shall also be recovered based on the revenue amounts collected hereunder.



Initial Rate

Meters Read On and After  
January 10, 2012

**TEXAS GAS SERVICE COMPANY**  
**El Paso Service Area - Incorporated**

**RATE SCHEDULE RCE RIDER**  
**Page 2 of 2**

**RATE CASE EXPENSE (RCE) SURCHARGE**  
**(Cont.)**

**D. ANNUAL COMPLIANCE FILING**

On or before February 21st following each calendar year in which an RCE Surcharge was applied to recover rate case expenses under this Rider, the Company shall file a written report with the Commission and the EPSA Cities showing the total amount of rate case expenses (including any adjustments made to reflect interest on overrecoveries or underrecoveries accruing to the Company or its customers) that (a) were recovered during the preceding calendar year, (b) have been cumulatively recovered since the effective date of the Rider, and (c) still remain to be recovered through the Rider pursuant to the Commission's Final Order in GUD No. 10016. The report shall also include a calculation of the RCE Surcharge that is to be applied during the ensuing recovery period.

**E. CONDITIONS**

Service under this rate schedule shall be subject to all applicable laws and orders and to the Company's rules and regulations on file with the regulatory authority.

Initial Rate

Meters Read On and After  
January 10, 2012