



RAILROAD COMMISSION OF TEXAS

OFFICE OF GENERAL COUNSEL

GUD NO. 10094

Statement of Intent of Texas Gas Service Company to Change Rates within the Environs of the North Texas Service Area

APPEARANCES:

APPLICANT: TEXAS GAS SERVICE COMPANY

Dane McKaughan
Parsley Coffin Renner
98 San Jacinto Boulevard, Suite 1450
Austin, Texas 78701

RAILROAD COMMISSION STAFF:

John Griffin
Railroad Commission of Texas
1701 N. Congress Ave.
Austin, TX 78701

PROCEDURAL HISTORY:

Docket Established:	June 23, 2011
Final Hearing Date:	May 14, 2011
Heard By:	Gene Montes, Hearings Examiner Mark Brock, Technical Examiner

Record Closed:	May 16, 2011
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STATEMENT OF THE CASE

Texas Gas Service Company (TGS) owns and operates a gas distribution system, referred to as the North Texas Service Area (NTSA). The NTSA consists of TGS' gas distribution system located within five counties: Young, Jack, Stephens, Palo Pinto, and Parker Counties, Texas. The cities and unincorporated communities of Breckenridge, Graham, Jacksboro, Bryson, Jermyn, Mineral Wells, Graford, Millsap, Palo Pinto, Whitt, Perrin, Weatherford, Aledo, Hudson, Hudson Oaks, Willow Park, Punkin Center, and Possum Kingdom, Texas and their surrounding environs are located within the NTSA. On June 23, 2011, TGS filed a statement of intent to increase rates in the unincorporated areas of the NTSA. Staff of the Railroad Commission of Texas ("Staff") intervened as a party to this proceeding.

TGS' filing with the Commission seeks to implement the same rates as those currently in effect in the NTSA municipalities. Additionally, TGS requested that the currently effective cost of service adjustment tariff be withdrawn for its NTSA environs customers. The parties to this proceeding filed a proposed Settlement Agreement on April 20, 2012. The Settlement Agreement implements the same rates as those currently in effect in the NTSA municipalities and would result in an overall revenue increase of approximately \$78,665.

The cost of service data submitted by TGS in this proceeding established that a \$78,665 base revenue increase from NTSA environs customers will allow TGS to recover its reasonable and necessary expenses associated with providing gas service to NTSA environs customers and allow TGS the opportunity to recover a reasonable rate of return on capital investment used to provide gas service. This is the amount of the proposed increase contemplated by the proposed Settlement Agreement.

As set forth below, the Examiners find that the requested increase is just and reasonable. Subject to certain modifications, the Examiners recommend that the *Settlement Agreement* be adopted. Namely, the Examiners recommend that the factors used to calculate the rate increase approved in this case be the same factors applied to any future interim rate adjustment.

TABLE OF CONTENTS

1.	Procedural History	1
2.	Jurisdiction.....	1
3.	Books and Records	2
4.	Overview of Requests.....	2
5.	Settlement Agreement	3
6.	Recommendation on Rates	7
7.	Recommendation on Future Interim Rate Adjustment and Rates	9
8.	Rate Case Expenses	9
9.	Conclusion	10

PROPOSAL FOR DECISION

1. Procedural History

On June 23, 2011, Texas Gas Service Company ("TGS") filed a *Statement of Intent* to change rates within the environs of the North Texas Service Area ("NTSA"). The NTSA Environs includes the unincorporated areas surrounding the cities of Breckenridge, Graham, Jacksboro, Bryson, Mineral Wells, Graford, Millsap, Weatherford, Aledo, Hudson Oaks, and Willow Park, Texas as well as the unincorporated cities of Jermyn, Palo Pinto, Whitt, Perrin, Punkin Center, and Possum Kingdom, Texas.

At the time of the filing, TGS had a Cost of Service Adjustment ("COSA") tariff on file with each of the municipalities within the NTSA and with the Commission for areas over which the Commission has original jurisdiction.¹ In 2011, TGS filed a COSA adjustment with all jurisdictions within the NTSA. The COSA calculation evidenced a per books revenue deficiency for the entire NTSA area of \$930,629.² The COSA tariff, however, limited an annual adjustment. As a result of the adjustment, TGS was unable to recover \$672,885 of the calculated revenue deficiency.

After the completion of the COSA adjustment cases, TGS filed a *Statement of Intent* proceeding with the regulatory authorities exercising jurisdiction within the NTSA in order to implement rates that would recover the revenue deficiency that was not recovered in the previous COSA filings, i.e. \$672,885. The NTSA municipalities have approved the revenue increase request. In this proceeding, TGS asserts that it seeks approval of the same rates already approved in the municipalities. Unlike the approval within the municipalities, however, TGS in this filing seeks to remove the COSA tariff and establish factors for an interim rate adjustment ("IRA") for future filings.

Staff of the Railroad Commission intervened in this docket. A Notice of Hearing was issued on April 19, 2012. The parties to this proceeding filed a *Settlement Agreement* on April 20, 2012, and request approval of the *Settlement Agreement*. As no other parties intervened in this proceeding, the hearing scheduled for April 30, 2012 was cancelled. The settlement documents were admitted into the record of the case. In order to address additional questions regarding the *Settlement Agreement* a hearing was convened on Monday, May 14, 2012.

2. Jurisdiction

The Commission has jurisdiction over the applicant, associated affiliates and over the matters at issue in this proceeding pursuant to Tex. Util. Code Ann. §§ 102.001, 103.003, 103.051, 104.001, 121.051, 121.052, and 121.151 (Vernon 2007 and Supp. 2010). The statutes and rules involved in this proceeding include, but are not limited to Tex. Util. Code Ann. §§ 104.101, 104.102, 104.103, 104.105, 104.106, 104.107, 104.110, 104.301, and 16 Tex. Admin. Code Chapter 7.

¹ The COSA adjustment request for areas over which the Commission has original jurisdiction was docketed as GUD No. 10068.

² The COSA tariff limited any annual adjustment of the same percentage change as experienced in the Consumer Price Index ("CPI") during the prior calendar year, which for calendar year 2010 was approximately 1.5%.

3. Books and Records

Commission Rule 7.310 requires that utilities utilize the FERC USOA.³ Stacey McTaggart, the Manager of Rates and Regulatory Affairs for TGS, affirmed that the books and records are kept in accordance with the Federal Energy Regulatory Commission ("FERC") Uniform System of Accounts ("USOA"). Ms. McTaggart provided detailed testimony outlining the accounting process and affirmed that the company complied with the requirement of the FERC USOA. She asserted that the company's system of internal controls and its adherence to FERC USOA assured compliance with Commission Rule 7.310. As a result, Ms. McTaggart concluded that the company is entitled to the presumption encapsulated in Commission Rule 7.503. That rule provides that the amounts shown on the company's books and records as well as summaries and excerpts taken from those records shall be considered *prima facie* evidence of the amount of investment or expense reflected when introduced into evidence, and such amounts are presumed to have been reasonably incurred. The Examiners find that TGS has established that the company maintains its books and records in accordance with FERC USOA. Accordingly, the books and records are accorded the presumption found in Commission Rule 7.503.

4. Overview of the Company's Rate Request

TGS is a division of ONEOK, Inc., an Oklahoma corporation. ONEOK has three local distribution company operations: (1) TGS, (2) Oklahoma Natural Gas, and (3) Kansas Gas Service. The three gas utilities are supported by several departments located at ONEOK's headquarters, including employee benefits and payroll, information technology, legal, accounting, and other corporate services. TGS has nine service areas, which are North Texas, South Texas, Borger, South Jefferson, Rio Grande Valley, El Paso, Galveston, Permian, and Austin. These service areas include ninety-three cities across Texas, with approximately 575,000 customers.

The NTSA is within portions of Jack, Palo Pinto, Parker, Stephens and Young counties. Within that area, TGS serves approximately 16,699 customers, of which 14,459 receive residential service. The NTSA includes more than 596 miles of gas main, plus services and gas meters to serve those customers. TGS serves 1,858 total customers in the environs areas of the NTSA. This includes 1,644 residential customers, 180 commercial customers, 1 large volume commercial customer, 1 industrial customer, 1 large volume industrial customers and 31 public authority customers.

TGS has field customer service, billing, walk-in customer service centers, and pipeline operations personnel located in the NTSA. Other functions, such as accounting, engineering, information technology, rates and regulatory, and legal services are provided from the division office in Austin, TX and in some cases, from the corporate headquarters in Tulsa, OK.

The Commission approved a COSA Tariff in GUD No. 9839. That case was a *Statement of Intent* proceeding filed on December 1, 2008. In that case, the Commission approved rates for the NTSA Environs consistent with rates approved by the NTSA Cities pursuant to a settlement

³ TEX. ADMIN. CODE § 7.310 (Tex. R.R. Comm'n, System of Accounts) (Commission Rule 7.310).

agreement. Additionally, the Commission in that docket approved an increase in rates that had become effective in the NTSA municipalities pursuant to a COSA tariff previously approved by those municipalities. Finally, the Commission approved for the NTSA Environs a COSA tariff substantially similar to the one that was previously approved and effective in the NTSA municipalities. Two subsequent COSA adjustments have been filed with the Commission. Those cases were docketed as GUD No. 9963 and GUD No. 10068.

In GUD No. 9963, TGS's COSA calculation established a per books revenue deficiency of \$333,891. Of that amount, \$30,562 was attributable to the NTSA environs. The CPI cap limitation contained in the COSA limited the COSA adjustment to \$294,207. Of that amount, \$26,930 was attributable to the NTSA environs. Similarly, in GUD No. 10068, the company established a per books revenue deficiency of \$930,629. Of that amount \$61,344 was attributable to the NTSA environs. Again, the CPI cap contained in the COSA tariff operated to limit the COSA adjustments.

5. Settlement Agreement

a. Introduction

Once the case was filed, Staff and TGS entered settlement negotiations. As set forth in the *Settlement Agreement* itself, Staff requested that TGS file additional testimony and updated cost of service schedules to further substantiate the calculated revenue deficiency. TGS, maintained that the original filing was sufficient, appropriate and consistent with Commission regulations. In the interest of settlement, however, TGS agreed to make a supplemental filing. The supplemental filing was submitted on November 21, 2011.

Essentially, the initial filing was based upon the original COSA adjustment filing. In this proceeding, TGS sought to have rates approved that were not limited by the cap contained in the COSA tariff. TGS filed the same documentation in support of its *Statement of Intent* proceeding as was filed in the COSA rate adjustment proceeding. As a result of negotiations with Staff, TGS filed documentation in support of the COSA rates that it would have filed in a *Statement of Intent* proceeding.

The company made a supplemental filing which established the reasonableness of the company's initial filing. The parties subsequently filed a *Settlement Agreement* which, in summary, included the following components:

- Approval of the rates initially proposed by TGS.
- Removal of the existing COSA tariff applicable to the environs.
- Approval of rate components for future interim adjustments different, in some respects, from the components contained in the initial filing and different from those components used to adjust future filings with the NTSA municipalities.

b. *Updated filing of November 15, 2011.*

The additional documentation filed on November 15, 2011, supported a higher revenue requirement than initially requested. The revenue requirement originally requested was \$6,921,313. The supplemental documentation filed by the company evidenced a revenue requirement of \$7,033,629. Table 1 below summarizes the cost of service components included in each filing.

Table 1
Comparison of Cost of Service Components: Original Filing and Supplemental

Line No	Description	Original	Supplemental
1	Rate Base	\$23,325,742	\$22,976,867
2	Rate of Return	8.5840%	8.6490%
3	Required Return	\$2,002,282	1,987,269
4	Depreciation & Amortization Expense	608,090	641,412
5	Taxes Other than Income Taxes	169,105	201,986
6	Interest on Customer Deposits	1,700	1,010
7	Distribution Expense	1,858,981	1,858,981
8	Customer Accounts Expense	603,713	603,712
9	Administrative and General Expense	982,372	982,207
10	Federal Income Tax	695,069	757,052
11	Total Revenue Requirement	\$6,921,313	\$7,033,629

Except for the three items highlighted in Table 1, all cost of service items were adjusted in the update. Ms. McTaggart explained that the difference was due to rate case adjustments that are not performed under the COSA analysis, such as *pro forma* depreciation expense, updated materials and supplies and prepayment balances, gross-up for uncollectible expenses and an updated cost of capital. Those changes impacted other flow through calculations such as federal income taxes.

Rate Base

The change in rate base was due to the update of three factors that were not updated when with the company's COSA calculation: (1) materials and supplies Inventory, (2) prepayments, and (3) cash working capital. Taken together these factors contributed \$357,102 to the calculation of rate base in the original filing. In the revised filing, these factors contributed only \$8,227. For purposes of the update, TGS requested a zero cash working capital component. As set out in the Commission's "Natural Gas Rate Review Handbook" ("Handbook"), the Commission prefers the use of a **lead-lag study** to determine working capital. If a utility does not have the means to perform or to hire a consultant to perform a lead-lag study, Commission practice, as set out in the Handbook, is to provide for 45 days or 12.5 percent of operating expense, excluding cost of gas purchased, depreciation and taxes, plus the 13-month average amount of materials and supplies and the average prepayments. Ms. McTaggart testified that in

order to reduce the costs of this relatively small filing, TGS chose to forgo a lengthy and expensive lead-lag study and instead requested a cash working capital of zero. She asserted that a zero cash working capital requirement is most likely a conservative estimate as the most recent lead lag studies performed by TGS resulted in positive cash working capital requirements.

Depreciation Rates

For *direct plant*, TGS included in its calculation the depreciation rates that were in place for the incorporated areas of the NTSA. The depreciation rates were supported by a depreciation study by Black and Veatch and were approved by the NTSA municipalities in 2008. Those rates were adopted by the Commission in 2009 in GUD No. 9839. Ms. McTaggart contended that it was important that TGS retain the same depreciation rates in the environs as those approved for the incorporated areas because the plant records do not and cannot be segregated for environs plant from incorporated area plant. As to allocated *corporate and division plant*, TGS relied upon the same rates approved by the Commission in GUD No. 9988. The Commission issued in its Final Order in that case less than a year ago. Table 2, summarizes the sources for the depreciation rates TGS adopted in its updated study:

Table 2
Sources of Depreciation Rate for Direct Plant and Corporate and Division Plant

Direct Plant	Corporate and Division Plant
Black and Veatch approved by NTSA municipalities in 2009	Foster and Associates study
Adopted by Commission in GUD No. 9839	Adopted by Commission in GUD No. 9988

Cost of Capital

In the updated filing, TGS's maintained that a 8.6490% overall rate of return was just and reasonable. This rate of return is slightly higher than the rate of return included in the initial filing of 8.5840%. Table 3, below sets out the relevant components included in each filing.

Table 3
Comparison of Rate of Return: Original and Updated Filing

	Original			Updated		
	Ratio	Cost Rate	Composite Rate	Ratio	Cost Rate	Composite Rate
Long-Term Debt	0.4900	6.220%	3.0500%	0.4076	6.210%	2.5300%
Preferred Stock	0.0000	0.000%	0.0000%	0.0000	0.000%	0.0000%
Common Equity	0.5100	10.850%	5.5340%	0.5924	10.330	6.1190%
Overall Rate of Return	8.5840%			8.6490%		

Ms. McTaggart testified that rather than incur the substantial cost associated with engaging a consultant to conduct a cost of capital study for this relatively small filing, TGS elected to rely upon the capital structure and cost of capital approved by the Commission in the company's most recent litigated case before the Commission, which was GUD No. 9988. That

case involved the company's El Paso service area. In the Final Order in that docket, approved on December 14, 2010, the Commission approved a weighted average cost of capital of 8.649%, based upon the factors outlined in column B, of Table 3 above. That case was litigated less than one year ago and TGS offered the testimony of Mr. Bruce Fairchild in that case.

The cost of capital analysis in that case evaluated TGS on a company-wide basis and was not limited to the El Paso service area. After weighing the evidence, the Commission determined the appropriate weighted average cost of capital in that case. Ms. McTaggart, contended that the analysis and Commission's finding in that case are attributable equally to the NTSA.

c. *Rates and Interim Rate Adjustment Factors adopted by the Settlement Agreement.*

Essentially, the *Settlement Agreement* contemplates that rates be set based as requested in the initial filing. The Examiners find, based upon all of the evidence included in the initial filing and produced in the supplemental filing that the requested rate increase is just and reasonable. As discussed below, however, the Examiners recommend that the *Settlement Agreement* be amended because of its proposed treatment of future interim rate adjustment filings.

The *Settlement Agreement* requests approval of certain terms to be applicable in future interim rate proceedings:

- Weighted Average Cost of Capital shall be 8.649% based upon a capital structure of 40.76% debt and 59.24% equity, with a 6.21% cost of debt and a 10.33% cost of equity.
- For the initial interim rate adjustment (IRA) filing, the Net Investment which includes detail of Plant in Service amounts along with associated depreciation rate for each account shall be those amounts shown on Settlement Agreement Exhibit B.
- For the initial IRA filing, the beginning amount of ad valorem taxes at the NTSA level is \$187,935.
- For the initial IRA filing, the rate base amount is \$22,976,867 for calculating the federal income tax.
- For the initial IRA filing, the customer charge approved in this proceeding will be the starting rate to apply any IRA adjustment.
- The Settlement Agreement also set out the allocation factors to be used to spread any change in the IRA increase or decrease to the appropriate customer classes.

Section 104.301 provides that in interim rate adjustment filings, the utility shall use the return on investment, depreciation, and incremental federal income tax factors reflected in the final order issued by or settlement agreement approved by the regulatory authority establishing the gas utility's latest effective rates for the area in which the tariff or rate schedule is implemented:

A gas utility may only adjust the utility's rates under the tariff or rate schedule for the return on investment, depreciation expense, ad valorem taxes, revenue related

taxes, and incremental federal income taxes related to the difference in the value of the invested capital as determined under Subsection (b). The return on investment, depreciation, and incremental federal income tax factors used in the computation *must be the same as the factors reflected in the final order issued by or settlement agreement approved by the regulatory authority establishing the gas utility's latest effective rates for the area in which the tariff or rate schedule is implemented.* (Emphasis added).

By its terms, the *Settlement Agreement* appears to contemplate that certain cost of service components used to set rates in this proceeding are not the same components applied to future interim rate adjustments. For example, the approved rates are to be set based upon a rate of return of 8.5840%. On the other hand, the parties request that for purposes of future interim rate adjustments, the interim rates be adjusted based upon a rate of return of 8.6490%. Section 104.301, however, does not appear to contemplate this.

The statute provides that the factors to be applied in future rate interim rate adjustment filings must be the same as the factors reflected in the final order issued by or settlement agreement approved by the regulatory authority "establishing the gas utility's latest effective rates." The factors used to establish the rates in the *Settlement Agreement* are the factors included in the company's original filing. On the other hand, the parties seek the application of certain different factors included in paragraph 3 of the Settlement Agreement. Specifically, the following three factors included in paragraph 3 of the Settlement Agreement are not factors used in the calculation of rates to be approved:

- Weighted Average Cost of Capital shall be 8.649% based upon a capital structure of 40.76% debt and 59.24% equity, with a 6.21% cost of debt and a 10.33% cost of equity.
- For the initial IRA filing, the beginning amount of ad valorem taxes at the NTSA level is \$187,935.
- For the initial IRA filing, the rate base amount is \$22,976,867 for calculating the federal income tax.

Furthermore, the proposed allocation requested in the Settlement Agreement is not the same allocation factors used to allocate the increase requested in this proceeding.

As the statute does not contemplate the establishment of interim rate adjustment factors that are different from the factors used to establish rates, the Examiners recommend that the proposed *Settlement Agreement* be amended to reflect the factors used to set rates in this case. TGS does not oppose the amended terms.

6. Recommendation on Rates

As noted above, the Examiners recommend that the requested rates be approved. TGS has established that costs of service components in its initial filing are just and reasonable. The initial filing included a rate base component of \$23,325,742. This is higher than the rate base component in the amount of \$22,976,867 included in the supplemental filing. Thus, the rate base component included in the initial filing exceeded the amount provided in the supplemental filing

by \$348,875. As noted above, however, TGS did not include in its supplemental filing a cash working capital component when it calculated rate base. As noted, the Commission's Handbook contemplates that, in the absence of a lead-lag study, that the company may calculate its cash working capital component on the basis of 1/8 of operating expense, excluding cost of gas purchased, depreciation and taxes, plus the 13-month average amount of materials and supplies and the average prepayments. Based upon the documentation provided in this case, the cash working capital component calculated as 12.5 percent of operating expense is approximately \$430,739. Once this amount is included in the calculation of rate base provided in the supplemental filing, the total rate base exceeds the amount included in the initial filing. Thus, the Examiners find that the rate base calculation included in the initial filing is just and reasonable for purposes of calculating the company's rates.

The updated filing of November 15, 2011, included a rate of return of 8.6490% which was higher than the rate of return included in the initial filing. The rate of return included in the initial filing was 8.5840%. The initial rate of return was based upon a capital structure and associated cost of debt and cost of equity established by the Commission in GUD No. 9839. A Final Order was issued in that case in April 28, 2009. The *Settlement Agreement* contemplates that the rate of return be based upon the capital structure recently approved in GUD No. 9988. That order was issued by the Commission on December 14, 2010.

Although the parties contemplate adopting a lower cost of common equity, the overall rate of return increased due to a change in the capital structure of the company. The percentage of long term debt decreased from 49% in the initial filing to 40.76% in the revised filing. The corresponding change to the common equity was an increase from 51% to 59.24%. This change in the capital structure in a little over a year would result in an increase to the rate of return. The Examiners find that the rate of return included in the original filing is consistent with the precedent applicable to the NTSA and the recently decided cases for this system. Furthermore, it is consistent with the overall average capital structure approved by the Commission.⁴

TGS has established that the initially requested amounts for depreciation expense, amortization expense, taxes other than income taxes, interest on customer deposits, distribution expense, customer accounts expense, administrative and general expenses and federal income taxes are just and reasonable. Except for expenses associated with interest on customer deposits, the supplemental information established that the requested expenses associated with each of these cost of service components was either the same or less than the amounts included in the initial filings. The expense associated with customer deposits was \$690 higher in the initial filing. The change appears to be due to updated figures and the difference has no material effect on the proposed rates. Accordingly, the Examiners recommend that the requested rate change be approved.

Finally, the Examiners recommend that any future Interim Rate Adjustments be allocated in the same manner that the proposed increase recommended in this proceeding be allocated. Namely, the base rate revenue allocation factors to spread any change in IRA increase/decrease to the appropriate customer classes shall be as follows: Residential, 57.52%, Commercial,

⁴ Examiners' Ex. 1.

26.52%, Large Commercial, 6.76%, Industrial, 0.42%, Large Industrial, 0.37%, Public Authority, 6.74% and Large Public Authority, 1.45%.

7. Recommendation on Future Interim Rate Adjustments and the COSA Tariff.

In this proceeding, TGS has stated that it seeks removal of the COSA tariff for the NTSA environs. Ms. McTaggart noted that within the municipalities, TGS sought to modify the COSA tariff to remove or modify the language contained in the COSA tariff imposing a cap or limitation. As discussed by Ms. McTaggart, the municipalities approved the proposed rate change but declined to modify the language of the COSA tariff at this time. Thus, within the municipalities, TGS has implemented the requested rate change and continues to implement future rate adjustments through its COSA tariff.

The Commission may order that the COSA tariff remain in effect for the NTSA environs. Maintaining the COSA tariff in the environs will ensure that rates are the same throughout the entire NTSA service. As noted by Ms. McTaggart, the company operates the NTSA system as a single entity. Further, in response to a request for information issued by the Examiners, TGS noted that there is no material difference in the nature of service provided to NTSA customers residing in municipalities versus those residing in the environs.

The Examiners recommend, however, that the Commission allow TGS to withdraw its COSA tariff and amend the *Settlement Agreement* such that the factors approved for future interim rate adjustments are the same as the factors used to set rates in this case:

- Weighted Average Cost of Capital shall be 8.5840% based upon a capital structure of 49.00% debt and 51.00% equity, with a 6.22% cost of debt and a 10.85% cost of equity.
- For the initial interim rate adjustment (IRA) filing, the Net Investment which includes detail of Plan in Service amounts along with associated depreciation rate for each account shall be those amounts used to calculate the depreciation expense in the initial filing.
- For the initial IRA filing, the beginning amount of ad valorem taxes at the NTSA level is \$169,105.
- For the initial IRA filing, the rate base amount is \$23,325,742 for calculating the federal income tax.
- For the initial IRA filing, the customer charge approved in this proceeding will be the starting rate to apply any IRA adjustment.
- The allocation factors to be used to spread any change in the IRA increase or decrease to the appropriate customer classes shall be the same as the factors used to set rates in this case.

8. Rate Case Expenses

As set out in the *Settlement Agreement*, TGS has incurred approximately \$46,500 in actual rate case expenses to date. TGS estimated that the rate case expenses required to fully litigate the case was approximately \$75,000. TGS agreed to seek recovery of only \$43,000 in rate case expenses, which is less than its actual rate case expenses as of the date of the *Settlement Agreement*. TGS has submitted documentation in support of its rate case expenses, and the Examiners find that the requested rate case expenses are just and reasonable.

9. Conclusion

In conclusion, the Examiners find that the requested increase is just and reasonable. Subject to the modifications described herein, the Examiners recommend that the *Settlement Agreement*. Specifically, the Examiners recommend that the factors used to calculate the rate increase be the factors applied to any future interim rate adjustment.

Respectfully submitted,



Gene Montes
Hearings Examiner
Office of General Counsel



Mark Brock
Technical Examiner
Gas Services Division

RAILROAD COMMISSION OF TEXAS

STATEMENT OF INTENT FILED BY TEXAS GAS SERVICE COMPANY TO CHANGE RATES WITHIN THE ENVIRONS OF THE NORTH TEXAS SERVICE AREA.	§ § § § § §	GAS UTILITIES DOCKET NO. 10094
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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 2008 & Supp. 2010). 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 (TGS) is a 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 gas distribution system, referred to as the North Texas Service Area (NTSA).
3. The NTSA consists of TGS' gas distribution system located within five counties: Young, Jack, Stephens, Palo Pinto, and Parker Counties, Texas. The cities and unincorporated communities of Breckenridge, Graham, Jacksboro, Bryson, Jermyn, Mineral Wells, Graford, Millsap, Palo Pinto, Whitt, Perrin, Weatherford, Aledo, Hudson, Hudson Oaks, Willow Park, Punkin Center, and Possum Kingdom, Texas and their surrounding environs are located within the NTSA.
4. On June 23, 2011, TGS filed a statement of intent to increase rates in the unincorporated areas of the NTSA.
5. The test-year for the cost of service analysis included in the statement of intent filing was the twelve-month period ended December 31, 2010.
6. On July 11, 2011, the Commission suspended the implementation of TGS' proposed rate changes for up to 150 days.
7. Staff of the Railroad Commission of Texas ("Staff") intervened as a party to this proceeding.
8. TGS' filing with the Commission seeks to implement the same rates as those currently in effect in the NTSA municipalities.

9. TGS requested that the currently effective cost of service adjustment tariff be withdrawn for its NTSA environs customers.
10. TGS mailed notice of the proposed rate changes by United States mail, postage prepaid, to the billing address of each affected customers. Lori Moreno, Manager of Communications for ONEOK, Inc., filed an affidavit stating that notice was mailed to all environs customers directly or by bill insert on August 17, 2011.
11. The notice mailed by TGS contained information pertaining to the proposed revision of rates and schedules; details of the proposed changes; the expected revenue effect on the company; the classes and numbers of customers affected; the filing date; a statement that the proposed rates do not constitute a "major change;" that the proposed rates are sought to be at the same level as the municipal rates; where to obtain information concerning the proposed rate change; and a statement that any affected person may file in writing comments or a protest concerning the proposed change in the environs rates with the Railroad Commission of Texas.
12. A notice of hearing was issued on April 19, 2012 and a hearing was held in this matter on May 14, 2012.
13. The parties to this proceeding filed a proposed Settlement Agreement on April 20, 2012.
14. The Settlement Agreement implements the same rates as those currently in effect in the NTSA municipalities.
15. The Settlement Agreement also included certain factors to be applicable to future Interim Rate Adjustment filings made for the NTSA environs pursuant to GURA § 104.301.
16. The Settlement Agreement establishes a base revenue increase attributable to the NTSA environs of \$78,665 as requested by TGS in its statement of intent filed with the Commission.
17. The cost of service data submitted by TGS in this proceeding establishes that a \$78,665 base revenue increase from NTSA environs customers will allow TGS to recover its reasonable and necessary expenses associated with providing gas service to NTSA environs customers and allow TGS the opportunity to recover a reasonable rate of return on capital investment used to provide gas service.
18. The cost of service data submitted by TGS in this proceeding establishes that an overall rate of return of 8.5840 percent for invested capital is reasonable under current financial conditions.
19. 8.5840 percent rate of return is comprised of the following cost of capital components

DESCRIPTION	RATIO	COST RATE %	COMPOSITE RATE %
Long-Term Debt	0.4900	6.220%	3.0500%
Preferred Stock	0.0000	0.000%	0.0000%
Common Equity	0.5100	10.850%	5.5340%
Total	1.0000		8.5840%

20. TGS maintains its books and records in accordance with the FERC Uniform System of Accounts.
21. The rate base established for the test-year in the amount of \$23,325,742 is just and reasonable.
22. The test-year depreciation and amortization expense in the amount of \$608,090 is just and reasonable.
23. The test-year calculation for taxes other than federal income taxes in the amount of \$169,105 is just and reasonable.
24. Distribution expenses calculated for the test-year in the amount of \$1,858,981 are just and reasonable.
25. Customer related expenses in the amount of \$603,713, administrative and general expense in the amount of \$982,372, and interest on customers deposits in the amount of \$1,700 for the test-year are just and reasonable.
26. A calculated revenue requirement of \$6,921,313 for the NTSA for the test year is just and reasonable.
27. Residential service rates, as shown on the attached Rate Schedule 1A, consisting of a monthly customer charge of \$10.75 and a single volumetric charge of \$0.29090 per Ccf on all gas volumes, are reasonable.
28. Commercial service rates, as shown on the attached Rate Schedule 2A, consisting of a monthly customer charge of \$22.50 and a single volumetric charge of \$0.28200 per Ccf on all gas volumes, are reasonable.
29. Large volume commercial service rates, as shown on the attached Rate Schedule 2B, consisting of a monthly customer charge of \$400.00 and a single volumetric charge of \$0.26200 per Ccf on all gas volumes, are reasonable.

30. Industrial service rates, as shown on the attached Rate Schedule 3A, consisting of a monthly customer charge of \$50.00 and a single volumetric charge of \$0.24500 per Ccf on all gas volumes, are reasonable.
31. Large volume industrial service rates, as shown on the attached Rate Schedule 3B, consisting of a monthly customer charge of \$400.00 and a single volumetric charge of \$0.22500 per Ccf on all gas volumes, are reasonable.
32. Public authority service rates, as shown on the attached Rate Schedule 4A, consisting of a monthly customer charge of \$40.00 and a single volumetric charge of \$0.27490 per Ccf on all gas volumes, are reasonable.
33. Large volume public authority service rates, as shown on the attached Rate Schedule 4B, consisting of a monthly customer charge of \$400.00 and a single volumetric charge of \$0.25490 per Ccf on all gas volumes, are reasonable.
34. It is reasonable that the proposed Settlement Agreement be amended to that the factors used to calculate rates in this proceeding are the factors used to calculate rates in any future interim rate adjustment filings.
35. Accordingly, it is reasonable that paragraph 3 of the Settlement Agreement be amended as follows regarding future Interim Rate Adjustment filings made for the NTSA environs pursuant to GURA § 104.301:
 - Weighted Average Cost of Capital shall be 8.5640% based upon a capital structure of 49.00% debt and 51.00% equity, with a 6.220% cost of debt and a 10.850% cost of equity.
 - For the initial IRA filing, the Net Investment which includes detail of Plan in Service amounts along with associated depreciation account shall be shown on Exhibit B to the Settlement Agreement.
 - For the initial IRA filing, the beginning amount of ad valorem taxes at the NTSA level is \$169,105.
 - For the Initial IRA filing the rate base amount is \$23,325,742 for calculating the federal income tax.
 - For the initial filing, the customer charge as noted in item 2 of the Settlement Agreement will be the starting rate to apply any IRA adjustment. The average use per month per customer class in order to determine the current and proposed bill information in future IRA filings will be as follows: residential at 41 Ccf, commercial at 189 Ccf, large volume commercial at 6,088 Ccf, industrial at 1,811 Ccf, large volume industrial at 1,485 Ccf, public authority at 513 Ccf and large volume public authority at 9,287 Ccf.
 - The base rate revenue allocation factors to spread any change in IRA increase/decrease to the appropriate customer classes shall be as follows: Residential, 57.52%, Commercial, 26.52%, Large Commercial, 6.76%, Industrial, 0.42%, Large Industrial, 0.37%, Public Authority, 6.74% and Large Public Authority, 1.45%.

36. TGS incurred \$46,500 in actual rate case expenses and estimated that to fully litigate the case rate case expenses would total \$75,000.
37. As part of the Settlement Agreement, TGS seeks recovery of only \$43,000 in rate case expenses.
38. The rate case expense request of \$43,000 is just and reasonable and it is reasonable that TGS recover this expense through a surcharge over a twenty-four month period through a volumetric rate.

CONCLUSIONS OF LAW

1. Texas Gas Service Company (TGS) is a "gas utility" as defined in TEX. UTIL. CODE ANN. § 101.003(7) (Vernon 2009) and § 121.001(2009) and is therefore subject to the jurisdiction of the Railroad Commission of Texas (Commission).
2. The Commission has jurisdiction over TGS and TGS' COSA filing under TEX. UTIL. CODE ANN. §§ 102.001 and 104.001 (Vernon 2009).
3. Under TEX. UTIL. CODE ANN. § 102.001 (Vernon 2009), 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. In accordance with the stated purpose of the TEXAS UTILITIES CODE, Subtitle A, expressed under TEX. UTIL. CODE ANN. § 101.002 (Vernon 2009), the Commission has assured that the rates, operations, and services established in this docket are just and reasonable to customers and to the utility.
5. The revenue, rates, rate design, and service charges proposed by TGS, as amended by TGS and the Commission 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 2009), Exhibit B – COSA Schedules.
6. The rates established in this docket comport with the requirements of TEX. UTIL. CODE ANN. § 104.053 (Vernon 2009) and are in part 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.

IT IS THEREFORE ORDERED that the rates established in the findings of fact and conclusions of law and in the attached Schedules, attached as Exhibit A, for TGS 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, TGS shall file its tariff(s) with the Gas Services Division. The tariffs, attached as Exhibit B, to be effective as of the date this Final Order is signed, incorporate rates consistent with this Commission Order, as stated in the findings of fact and conclusions of law and shown on the attached rate schedules.

IT IS FURTHER ORDERED that the proposed *Settlement Agreement* of the Parties attached as Exhibit C, as amended in Finding of Fact No. 34 is hereby approved.

IT IS FURTHER ORDERED that all proposed findings of fact and conclusions of law not specifically adopted in this Order are hereby **DENIED**.

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.

SIGNED this 12th day of June, 2012.

RAILROAD COMMISSION OF TEXAS

CHAIRMAN BARRY T. SMITHERMAN

DAVID PORTER COMMISSIONER

BUDDY GARCIA COMMISSIONER

ATTEST:

SECRETARY

EXHIBIT A

TEXAS GAS SERVICE COMPANY
NORTH TEXAS SERVICE AREA
12 MONTHS ENDED December 31, 2010
SUMMARY OF RATE ADJUSTMENT

Schedule 1
Page 1 of 2

Description	12 Months Ended 12/10
1 Rate Base	\$23,325,742
2 Rate of Return	8.5840%
3 Required Return	\$2,002,282
4 Depreciation and Amortization	608,090
5 Taxes Other Than FIT	169,105
6 Distribution Expenses	1,858,981
7 Customer Related Expenses	603,713
8 Administrative & General	982,372
9 Interest on Customer Deposits	1,700
10 Federal Income Tax	695,069
11 Revenue Requirement	\$6,921,313
12 Test Year Adjusted Customer Charge Revenue and Other Revenue	(2,775,171)
13 Total Adjusted Cost of Service	\$4,146,141
14 Weather Normalized Sales Volumes in @ Ccf	14,691,809
15 Rate per Ccf	\$0.2822
16 Rate per Ccf from most recent rate case	\$0.1940
17 Cost of Service Adjustment Rate per Ccf (current calendar year)	\$0.0882

TEXAS GAS SERVICE COMPANY
NORTH TEXAS SERVICE AREA
12 MONTHS ENDED December 31, 2010
SUMMARY OF RATE ADJUSTMENT

Schedule 1
Page 2 of 2

NOTES TO SCHEDULE 1:

Note on calculation of revenue impact:

Rate per Ccf for Residential eff 2007 (last rate case)	\$0.2027
Cost of Service Adjustment Rate per Ccf (current year)	\$0.0882
New Residential Cost of Service rate per Ccf effective August 2011	\$0.2909
Current Residential COS Rate per Ccf eff. August 2010	0.2451

Difference in rate per Ccf from current rates to new rates	\$0.0458
Weather Normalized Sales Volumes in @ Ccf (current year)	14,691,809
Revenue impact of current year's adjustment	\$672,885

% share of revenue increase based on current volumes:		
	% share of current volumes	% share of revenue impact
Aledo	2.40%	\$16,146
Breckenridge	7.70%	\$51,796
Bryson	0.59%	\$3,943
Graford	0.46%	\$3,109
Graham	13.73%	\$92,364
Hudson Oaks	1.25%	\$8,420
Jacksboro	4.96%	\$33,386
Millsap	0.52%	\$3,477
Mineral Wells	26.00%	\$174,925
Weatherford	32.25%	\$217,023
Willow Park	1.03%	\$6,953
Environs	9.12%	\$61,344
Total	100.00%	\$672,885

TEXAS GAS SERVICE COMPANY
NORTH TEXAS SERVICE AREA
12 MONTHS ENDED December 31, 2010
ALLOWABLE EXPENSES

Schedule 2

Description	Account Numbers	12 Months Ended 12/10
1 Depreciation and Amortization	403-405	\$608,090
2 Taxes Other Than FIT	408 *	169,105
3 Distribution Expenses	870-894	1,858,981
4 Customer Related Expenses	901-916	603,713
5 Administrative & General	920-932	982,372
6 Interest on Customer Deposits	431	<u>1,700</u>
7 Total		<u>\$4,223,962</u>

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

TEXAS GAS SERVICE COMPANY
NORTH TEXAS SERVICE AREA
12 MONTHS ENDED December 31, 2010
RETURN ON INVESTMENT

Schedule 3

Description		12 Months Ended 12/10
1	Net Plant in Service	\$29,943,218
2	Other Rate Base Items	* 357,102
3	Customers Deposits (Acct. 235)	(531,829)
4	Customer Advances (Acct.252)	(480,432)
5	Deferred Income Taxes	<u>(5,962,318)</u>
6	Rate Base	\$23,325,742
7	Rate of Return	** <u>8.5840%</u>
8	Return on Investment	<u>\$2,002,282</u>

* Amount from most recent rate case for Materials and Supplies inventories and prepayments.

** Settled rate of return in most recent rate case

TEXAS GAS SERVICE COMPANY
NORTH TEXAS SERVICE AREA
12 MONTHS ENDED December 31, 2010
FEDERAL INCOME TAXES

Schedule 4

Description	12 Months Ended 12/10
1 Taxable Income (Schedule 3, Line 8)	\$2,002,282
2 Interest On Long Term Debt (Schedule 3, Line 6 x 3.05%)	* (711,435)
3 Net Taxable Income	\$1,290,847
4 Federal Income Taxes (0.53846 times line 3) (Line 6 less lines 7 and 8)	** \$695,069

* Interest on Long Term Debt is the Debt Cost Component of Return (3.05%) multiplied by rate base

** Tax factor of 0.53846 is the income tax rate of 35% divided by (1 minus the 35% tax rate).

TEXAS GAS SERVICE COMPANY
NORTH TEXAS SERVICE AREA
12 MONTHS ENDED DECEMBER 31, 2010

COST OF CAPITAL

LINE NO.	DESCRIPTION	RATIO (a)	COST RATE % (b)	COMPOSITE RATE % (c)
1	Long-Term Debt	0.4900	6.220%	3.0500%
2	Preferred Stock	0.0000	0.000%	0.0000%
3	Common Equity	<u>0.5100</u>	10.850%	<u>5.5340%</u>
4	Total	<u><u>1.0000</u></u>		<u><u>8.5840%</u></u>

TEXAS GAS SERVICE COMPANY
NORTH TEXAS SERVICE AREA
TWELVE MONTHS ENDED DECEMBER 31, 2010

TOTAL PLANT

LINE NO.	DESCRIPTION	NORTH TX DIRECT PLANT	TGS DIV & CORP ALLOCATED PLANT	TOTAL NORTH TX PLANT
INTANGIBLE PLANT				
1	(301) Organization	\$89,582	\$0	\$89,582
2	(302) Franchises & Consents	118	0	118
3	(303) Misc. Intangible	12,674	0	12,674
4	Total Intangible Plant	<u>\$102,374</u>	<u>\$0</u>	<u>\$102,374</u>
TRANSMISSION PLANT				
	(365.2) Rights-Of-Way	\$113,362		\$113,362
	(367) Mains	1,339,425		1,339,425
	(369) Measure/Reg Station Equip	514,961		514,961
	Total Transmission Plant	<u>\$1,967,748</u>		<u>\$1,967,748</u>
DISTRIBUTION PLANT				
5	(374) Land & Land Rights	\$63,659	\$0	\$63,659
6	(375) Structures & Improvements	25,191	0	25,191
7	(376) Mains	22,954,826	0	22,954,826
8	(378) Meas. & Reg. Station - General	652,651	0	652,651
9	(379) Meas. & Reg. Station - C.G.	281,377	0	281,377
10	(380) Services	7,268,967	0	7,268,967
11	(381) Meters	1,346,841	0	1,346,841
12	(383) House Regulators	419,471	0	419,471
13	(385) Indust. Meas. & Reg. Stat. Equipment	295,994	0	295,994
14	(386) Other Property on Customer Premises	2,830	0	2,830
15	Total Distribution Plant	<u>\$33,311,807</u>	<u>\$0</u>	<u>\$33,311,807</u>
GENERAL PLANT				
16	(389) Land & Land Rights	\$77,592	\$805	\$78,398
17	(390) Structures & Improvements	741,254	14,714	755,968
18	(391) Office Furniture & Equipment	117,671	618,314	735,985
19	(392) Transportation Equipment	337,337	201	337,537
20	(393) Stores Equipment	17,207	0	17,207
21	(394) Tools, Shop & Garage	770,669	674	771,343
22	(395) Laboratory Equipment	0	0	0
23	(396) Power operated Equipment	320,362	0	320,362
24	(397) Communication Equipment	45,654	37,227	82,881
25	(398) Miscellaneous General Plant	15,470	124	15,595
26	Total General plant	<u>2,443,217</u>	<u>672,059</u>	<u>3,115,276</u>
27	Total Orig Cost Plant in Service	<u>\$37,825,145</u>	<u>\$672,059</u>	<u>\$38,497,204</u>

TEXAS GAS SERVICE COMPANY
NORTH TEXAS SERVICE AREA
TWELVE MONTHS ENDED DECEMBER 31, 2010

PLANT IN SERVICE
NORTH TEXAS DIRECT

YTD BALANCE AT ADJUSTMENT: ADJUSTED
DEC 31, 2010 12 MOS.

LINE NO.	DESCRIPTION	YTD BALANCE AT ADJUSTMENT: DEC 31, 2010	ADJUSTED 12 MOS.
	INTANGIBLE PLANT		
1	(301) Organization	\$89,582	\$0 \$89,582
2	(302) Franchises & Consents	118	0 118
3	(303) Misc. Intangible	12,674	0 12,674
4	Total Intangible Plant	<u>\$102,374</u>	<u>\$0 \$102,374</u>
	TRANSMISSION PLANT		
5	(365.2) Rights-Of-Way	\$113,362	\$0 \$113,362
6	(367) Mains	1,339,425	0 1,339,425
7	(369) Measure/Reg Station Equip	514,961	0 514,961
8	Total Transmission Plant	<u>\$1,967,748</u>	<u>\$0 \$1,967,748</u>
	DISTRIBUTION PLANT		
9	(374) Land & Land Rights	\$63,659	\$0 \$63,659
10	(375) Structures & Improvements	25,191	0 25,191
11	(376) Mains	22,954,826	0 22,954,826
12	(378) Meas. & Reg. Station - General	652,651	0 652,651
13	(379) Meas. & Reg. Station - C.G.	281,377	0 281,377
14	(380) Services	7,268,967	0 7,268,967
15	(381) Meters	1,346,841	0 1,346,841
16	(383) House Regulators	419,471	0 419,471
17	(385) Indust. Meas. & Reg. Stat. Equipment	295,994	0 295,994
18	(386) Other Property on Customer Premises	2,830	0 2,830
19	(387) Other Equipment	0	0 0
20	Total Distribution Plant	<u>\$33,311,807</u>	<u>\$0 \$33,311,807</u>
	GENERAL PLANT		
21	(389) Land & Land Rights	\$77,592	\$0 \$77,592
22	(390) Structures & Improvements	741,254	0 741,254
23	(391) Office Furniture & Equipment	117,671	0 117,671
24	(392) Transportation Equipment	337,337	0 337,337
25	(393) Stores Equipment	17,207	0 17,207
26	(394) Tools, Shop & Garage	770,669	0 770,669
27	(395) Laboratory Equipment	0	0 0
28	(396) Power operated Equipment	320,362	0 320,362
29	(397) Communication Equipment	45,654	0 45,654
30	(398) Miscellaneous General Plant	15,470	0 15,470
31	Total General plant	<u>\$2,443,217</u>	<u>\$0 \$2,443,217</u>
32	Total Orig Cost Plant in Service	<u>\$37,825,145</u>	<u>\$0 \$37,825,145</u>

TEXAS GAS SERVICE COMPANY
NORTH TEXAS SERVICE AREA
TWELVE MONTHS ENDED DECEMBER 31, 2010

PLANT IN SERVICE
TGS DIVISION AND CORPORATE ALLOCATED TO TGS DIVISION

ALLOCATE TO

LINE NO.	DESCRIPTION	TGS DIVISION @12/31/10	ALLOCATED CORPORATE PLANT TO TGS DIV @12/31/10	TOTAL @12/31/10	NORTH TX 2.73610% (Based on customers)
INTANGIBLE PLANT					
1	(301) Organization	\$0	\$0	\$0	\$0
2	(302) Franchises & Consents	0	0	0	0
3	(303) Misc. Intangible	0	0	0	0
4	Total Intangible Plant	\$0	\$0	\$0	\$0
DISTRIBUTION PLANT					
5	(374) Land & Land Rights	\$0	\$0	\$0	\$0
6	(375) Structures & Improvements	0	0	0	0
7	(376) Mains	0	0	0	0
8	(378) Meas. & Reg. Station - General	0	0	0	0
9	(379) Meas. & Reg. Station - C.G.	0	0	0	0
10	(380) Services	0	0	0	0
11	(381) Meters	0	0	0	0
12	(383) House Regulators	0	0	0	0
13	(385) Indust. Meas. & Reg. Stat. Equipment	0	0	0	0
14	(386) Other Property on Customer Premises	0	0	0	0
15	Total Distribution Plant	\$0	\$0	\$0	\$0
GENERAL PLANT					
16	(389) Land & Land Rights	\$0	\$29,428	\$29,428	\$805
17	(390) Structures & Improvements	60,770	477,017	537,787	14,714
18	(391) Office Furniture & Equipment	2,024,289	20,574,082	22,598,371	618,314
19	(392) Transportation Equipment	0	7,332	7,332	201
20	(393) Stores Equipment	0	0	0	0
21	(394) Tools, Shop & Garage	24,633	0	24,633	674
22	(395) Laboratory Equipment	0	0	0	0
23	(396) Power operated Equipment	0	0	0	0
24	(397) Communication Equipment	1,321,520	39,062	1,360,582	37,227
25	(398) Miscellaneous General Plant	4,539	0	4,539	124
26	Total General plant	\$3,435,751	\$21,126,921	\$24,562,672	\$672,059
27	Total Orig Cost Plant in Service	\$3,435,751	\$21,126,921	\$24,562,672	\$672,059

TEXAS GAS SERVICE COMPANY
NORTH TEXAS SERVICE AREA
TWELVE MONTHS ENDED DECEMBER 31, 2010

TOTAL COMPLETED CONSTRUCTION NOT CLASSIFIED (CCNC)

LINE NO.	DESCRIPTION	NORTH TX DIRECT CCNC	TGS DIV & CORP ALLOCATED CCNC	TOTAL NORTH TX CCNC
	<u>INTANGIBLE PLANT</u>			
1	(301) Organization	\$0	\$0	\$0
2	(302) Franchises & Consents	0	0	0
3	(303) Misc. Intangible	0	0	0
4	Total Intangible CCNC	\$0	\$0	\$0
5	<u>TRANSMISSION PLANT</u>			
6	(367) Mains	\$1,086	\$0	\$1,086
	Total Transmission CCNC	\$1,086	\$0	\$1,086
	<u>DISTRIBUTION PLANT</u>			
7	(374) Land & Land Rights	\$0	\$0	\$0
8	(375) Structures & Improvements	0	0	0
9	(376) Mains	1,052,803	0	1,052,803
10	(378) Meas. & Reg. Station - General	113,987	0	113,987
11	(379) Meas. & Reg. Station - C.G.	6,548	0	6,548
12	(380) Services	49,522	0	49,522
13	(381) Meters	1,965	0	1,965
14	(382) Meter Installations	23,257	0	23,257
15	(383) House Regulators	25	0	25
16	(385) Indust. Meas. & Reg. Stat. Equipment	0	0	0
17	(386) Other Property on Customer Premises	0	0	0
18	Total Distribution CCNC	\$1,248,105	\$0	\$1,248,105
	<u>GENERAL PLANT</u>			
19	(389) Land & Land Rights	\$0	\$0	\$0
20	(390) Structures & Improvements	0	3,267	3,267
21	(391) Office Furniture & Equipment	689	39,645	40,334
22	(392) Transportation Equipment	266,030	0	266,030
23	(393) Stores Equipment	0	0	0
24	(394) Tools, Shop & Garage	21,220	0	21,220
25	(395) Laboratory Equipment	0	0	0
26	(396) Power operated Equipment	0	0	0
27	(397) Communication Equipment	0	0	0
28	(398) Miscellaneous General Plant	0	0	0
29	Total General CCNC	\$287,938	\$42,912	\$330,850
30	Total Orig Cost CCNC	\$1,537,130	\$42,912	\$1,580,042

TEXAS GAS SERVICE COMPANY
NORTH TEXAS SERVICE AREA
TWELVE MONTHS ENDED DECEMBER 31, 2010

COMPLETED CONSTRUCTION NOT CLASSIFIED (CCNC)
NORTH TEXAS DIRECT

LINE NO.	DESCRIPTION	YTD BALANCE AT ADJUSTMENTS DEC 31, 2010	ADJUSTED 12 MOS.
INTANGIBLE PLANT			
1	(301) Organization	\$0	\$0
2	(302) Franchises & Consents	0	0
3	(303) Misc. Intangible	0	0
4	Total Intangible CCNC	\$0	\$0
TRANSMISSION PLANT			
5	(367) Mains	1,086	\$0
6	Total Transmission CCNC	\$1,086	\$1,086
DISTRIBUTION PLANT			
7	(374) Land & Land Rights	\$0	\$0
8	(375) Structures & Improvements	0	0
9	(376) Mains	1,052,802.58	0
10	(378) Meas. & Reg. Station - General	113,986.87	0
11	(379) Meas. & Reg. Station - C.G.	6,548.40	0
12	(380) Services	49,521.72	0
13	(381) Meters	1,964.70	0
14	(382) Meter Installations	23,256.58	0
15	(383) House Regulators	24.61	0
16	(385) Indust. Meas. & Reg. Stat. Equipment	0	0
17	(386) Other Property on Customer Premises	0	0
18	(387) Other Equipment	0	0
19	Total Distribution CCNC	\$1,248,105	\$0
GENERAL PLANT			
20	(389) Land & Land Rights	\$0	\$0
21	(390) Structures & Improvements	0	0
22	(391) Office Furniture & Equipment	688.92	0
23	(392) Transportation Equipment	266,029.77	0
24	(393) Stores Equipment	0	0
25	(394) Tools, Shop & Garage	21,219.72	0
26	(395) Laboratory Equipment	0	0
27	(396) Power operated Equipment	0	0
28	(397) Communication Equipment	0	0
29	(398) Miscellaneous General Plant	0	0
30	Total General CCNC	\$287,938	\$0
31	Total Orig Cost CCNC	\$1,537,130	\$0

TEXAS GAS SERVICE COMPANY
NORTH TEXAS SERVICE AREA
TWELVE MONTHS ENDED DECEMBER 31, 2010

COMPLETED CONSTRUCTION NOT CLASSIFIED (CCNC)
TGS DIVISION AND CORPORATE ALLOCATED TO TGS DIVISION

ALLOCATE TO

LINE NO.	DESCRIPTION	TGS DIVISION @12/31/10	ALLOCATED CORPORATE TO TGS DIV @12/31/10	TOTAL @12/31/10	NTX 2.73610% (Based on customers)
INTANGIBLE PLANT					
1	(301) Organization	\$0	\$0	\$0	\$0
2	(302) Franchises & Consents	0	0	0	0
3	(303) Misc. Intangible	0	0	0	0
4	Total Intangible CCNC	\$0	\$0	\$0	\$0
TRANSMISSION PLANT					
5	(367) Mains	\$0	\$0	\$0	\$0
6	Total Transmission CCNC	\$0	\$0	\$0	\$0
DISTRIBUTION PLANT					
7	(374) Land & Land Rights	\$0	\$0	\$0	\$0
8	(375) Structures & Improvements	0	0	0	0
9	(376) Mains	0	0	0	0
10	(378) Meas. & Reg. Station - General	0	0	0	0
11	(379) Meas. & Reg. Station - C.G.	0	0	0	0
12	(380) Services	0	0	0	0
13	(381) Meters	0	0	0	0
14	(383) House Regulators	0	0	0	0
15	(385) Indust. Meas. & Reg. Stat. Equipment	0	0	0	0
16	(386) Other Property on Customer Premises	0	0	0	0
17	Total Distribution CCNC	\$0	\$0	\$0	\$0
GENERAL PLANT					
18	(389) Land & Land Rights	\$0	\$0	\$0	\$0
19	(390) Structures & Improvements	119,397	0	119,397	3,267
20	(391) Office Furniture & Equipment	1,448,949	0	1,448,949	39,645
21	(392) Transportation Equipment	0	0	0	0
22	(393) Stores Equipment	0	0	0	0
23	(394) Tools, Shop & Garage	0	0	0	0
24	(395) Laboratory Equipment	0	0	0	0
25	(396) Power operated Equipment	0	0	0	0
26	(397) Communication Equipment	0	0	0	0
27	(398) Miscellaneous General Plant	0	0	0	0
28	Total General CCNC	\$1,568,346	\$0	\$1,568,346	\$42,912
29	Total Orig Cost CCNC	\$1,568,346	\$0	\$1,568,346	\$42,912

TEXAS GAS SERVICE COMPANY
NORTH TEXAS SERVICE AREA
TWELVE MONTHS ENDED DECEMBER 31, 2010

TOTAL ACCUMULATED RESERVES FOR DEPRECIATION AND AMORTIZATION

LINE NO.	DESCRIPTION	NORTH TX DIRECT ACCUM DEPR	TGS DIV & CORP ALLOCATED ACCUM DEPR	TOTAL NORTH TX ACCUM DEPR
INTANGIBLE PLANT				
1	(301) Organization	(\$49,568)	\$0	(\$49,568)
2	(302) Franchises & Consents	17,681	0	17,681
3	(303) Misc. Intangible	(3,376)	0	(3,376)
4	Total Intangible Plant	(\$35,264)	\$0	(\$35,264)
TRANSMISSION PLANT				
5	(365.2) Rights-Of-Way	\$0		\$0
6	(367) Mains	(16,626)		(16,626)
7	(369) Measure/Reg Station Equip	(4,470)		(4,470)
8	Total Transmission Plant	(\$21,096)		(\$21,096)
DISTRIBUTION PLANT				
9	(374) Land & Land Rights	(\$31)	\$0	(\$31)
10	(375) Structures & Improvements	(31,405)	0	(31,405)
11	(376) Mains	(6,304,704)	0	(6,304,704)
12	(378) Meas. & Reg. Station - General	(226,832)	0	(226,832)
13	(379) Meas. & Reg. Station - C.G.	(177,749)	0	(177,749)
14	(380) Services	(1,550,380)	0	(1,550,380)
15	(381) Meters	(231,303)	0	(231,303)
16	(382) Meter Installations	(2,948)	0	(2,948)
17	(383) House Regulators	(191,894)	0	(191,894)
18	(385) Indust. Meas. & Reg. Stat. Equipment	(55,401)	0	(55,401)
19	(386) Other Property on Customer Premises	(1,708)	0	(1,708)
20	(387) Other Equipment	0	0	0
21	Total Distribution Plant	(\$8,774,357)	\$0	(\$8,774,357)
GENERAL PLANT				
22	(389) Land & Land Rights	\$0	\$0	\$0
23	(390) Structures & Improvements	(252,787)	(12,475)	(265,262)
24	(391) Office Furniture & Equipment	(88,613)	(289,490)	(378,103)
25	(392) Transportation Equipment	(132,834)	(74)	(132,908)
26	(393) Stores Equipment	(13,328)	0	(13,328)
27	(394) Tools, Shop & Garage	(381,796)	(257)	(382,053)
28	(395) Laboratory Equipment	(42)	0	(42)
29	(396) Power operated Equipment	(70,445)	0	(70,445)
30	(397) Communication Equipment	(7,283)	(6,744)	(14,027)
31	(398) Miscellaneous General Plant	(47,050)	(94)	(47,144)
32	Total General plant	(\$994,178)	(\$309,134)	(\$1,303,311)
33	Total Accumulated Reserves For Depreciation	(\$9,824,894)	(\$309,134)	(\$10,134,028)

TEXAS GAS SERVICE COMPANY
NORTH TEXAS SERVICE AREA
TWELVE MONTHS ENDED DECEMBER 31, 2010

ACCUMULATED RESERVES FOR DEPRECIATION AND AMORTIZATION
NORTH TEXAS DIRECT

1080100 & 1110000

YTD BALANCE AT ADJUSTMENT: ADJUSTED
@12/31/10 12 MOS.

LINE NO.	DESCRIPTION	@12/31/10		ADJUSTED 12 MOS.
	INTANGIBLE PLANT			
1	(301) Organization	(49,568.40)	\$0	(\$49,568)
2	(302) Franchises & Consents	17,680.63	0	17,681
3	(303) Misc. Intangible	(3,376.32)	0	(3,376)
4	Total Intangible Plant	(35,264.09)	\$0	(\$35,264)
	TRANSMISSION PLANT			
5	(365.2) Rights-Of-Way	0.00	\$0	\$0
6	(367) Mains	(16,625.97)	0	(16,626)
7	(369) Measure/Reg Station Equip	(4,469.85)	0	(4,470)
8	Total Transmission Plant	(21,095.82)	\$0	(\$21,096)
	DISTRIBUTION PLANT			
9	(374) Land & Land Rights	(31.49)	\$0	(\$31)
10	(375) Structures & Improvements	(31,405.14)	0	(31,405)
11	(376) Mains	(6,304,704.24)	0	(6,304,704)
12	(378) Meas. & Reg. Station - General	(226,832.34)	0	(226,832)
13	(379) Meas. & Reg. Station - C.G.	(177,749.17)	0	(177,749)
14	(380) Services	(1,550,380.27)	0	(1,550,380)
15	(381) Meters	(231,302.59)	0	(231,303)
16	(382) Meter Installations	(2,947.75)	0	(2,948)
17	(383) House Regulators	(191,894.36)	0	(191,894)
18	(385) Indust. Meas. & Reg. Stat. Equipment	(55,401.30)	0	(55,401)
19	(386) Other Property on Customer Premises	(1,708.05)	0	(1,708)
20	(387) Other Equipment	0.00	0	0
21	Total Distribution Plant	(8,774,356.70)	\$0	(\$8,774,357)
	GENERAL PLANT			
22	(389) Land & Land Rights	0.00	\$0	\$0
23	(390) Structures & Improvements	(252,786.67)	0	(252,787)
24	(391) Office Furniture & Equipment	(88,613.27)	0	(88,613)
25	(392) Transportation Equipment	(132,834.19)	0	(132,834)
26	(393) Stores Equipment	(13,328.08)	0	(13,328)
27	(394) Tools, Shop & Garage	(381,796.19)	0	(381,796)
28	(395) Laboratory Equipment	(41.55)	0	(42)
29	(396) Power operated Equipment	(70,444.55)	0	(70,445)
30	(397) Communication Equipment	(7,283.37)	0	(7,283)
31	(398) Miscellaneous General Plant	(47,049.83)	0	(47,050)
32	Total General plant	(994,177.70)	\$0	(\$994,178)
33	Total Accumulated Reserves For Depreciation	(9,824,894.31)	\$0	(\$9,824,894)

TEXAS GAS SERVICE COMPANY
NORTH TEXAS SERVICE AREA
TWELVE MONTHS ENDED DECEMBER 31, 2010

ACCUMULATED RESERVES FOR DEPRECIATION AND AMORTIZATION
TGS DIVISION AND CORPORATE ALLOCATED TO TGS DIVISION

ALLOCATE TO

LINE NO.	DESCRIPTION	TGS DIVISION @12/31/10	ALLOCATED CORPORATE TO TGS DIV @12/31/10	TOTAL @12/31/10	NORTH TX 2.73610% (Based on customers)
INTANGIBLE PLANT					
1	(301) Organization	\$0	\$0	\$0	\$0
2	(302) Franchises & Consents	0	0	0	0
3	(303) Misc. Intangible	0	0	0	0
4	Total Intangible Plant	\$0	\$0	\$0	\$0
DISTRIBUTION PLANT					
5	(374) Land & Land Rights	\$0	\$0	\$0	\$0
6	(375) Structures & Improvements	0	0	0	0
7	(376) Mains	0	0	0	0
8	(378) Meas. & Reg. Station - General	0	0	0	0
9	(379) Meas. & Reg. Station - C.G.	0	0	0	0
10	(380) Services	0	0	0	0
11	(381) Meters	0	0	0	0
12	(382) Meter Installations	0	0	0	0
13	(383) House Regulators	0	0	0	0
14	(385) Indust. Meas. & Reg. Stat. Equipment	0	0	0	0
15	(386) Other Property on Customer Premises	0	0	0	0
16	(387) Other Equipment	0	0	0	0
17	Total Distribution Plant	\$0	\$0	\$0	\$0
GENERAL PLANT					
18	(389) Land & Land Rights	\$0	\$0	\$0	\$0
19	(390) Structures & Improvements	(71,663)	(384,278)	(455,941)	(12,475)
20	(391) Office Furniture & Equipment	(818,438)	(9,761,956)	(10,580,394)	(289,490)
21	(392) Transportation Equipment	0	(2,691)	(2,691)	(74)
22	(393) Stores Equipment	0	0	0	0
23	(394) Tools, Shop & Garage	(9,381)	0	(9,381)	(257)
24	(395) Laboratory Equipment	0	0	0	0
25	(396) Power operated Equipment	0	0	0	0
26	(397) Communication Equipment	(243,579)	(2,891)	(246,470)	(6,744)
27	(398) Miscellaneous General Plant	(3,453)	0	(3,453)	(94)
28	Total General plant	(\$1,146,514)	(\$10,151,816)	(\$11,298,330)	(\$309,134)
29	Total Accumulated Reserves For Depreciat	(\$1,146,514)	(\$10,151,816)	(\$11,298,330)	(\$309,134)

TEXAS GAS SERVICE COMPANY
NORTH TEXAS SERVICE AREA
TWELVE MONTHS ENDED DECEMBER 31, 2010

SUMMARY OF ADJUSTED EXPENSES

DESCRIPTION	ACCT. NO.	NORTH TX DIRECT EXPENSES	NORTH TX REGION ALLOCATED EXPENSES	EASTERN REGION ALLOCATED EXPENSES	TGS DIV & CORP ALLOCATED EXPENSES	TOTAL NORTH TX EXPENSES
<u>Deprec. & Amort. Expense</u>						
Depreciation Expense	4030	\$555,909.29	\$0.00	\$0.00	\$51,759.13	\$607,668.42
Amortization Expense	4040	422.04	0.00	0.00	0.00	422.04
Total Depr. & Amort.		\$556,331.33	\$0.00	\$0.00	\$51,759.13	\$608,090.46
<u>Taxes Other Than Income</u>						
Taxes Other Than Income	4081	\$169,104.66	\$0.00	\$0.00	\$0.00	\$169,104.66
Total Taxes Other Than Income		\$169,104.66	\$0.00	\$0.00	\$0.00	\$169,104.66
<u>Interest on Customer Deposits</u>						
	4310	\$1,700.35	\$0.00	\$0.00	\$0.00	\$1,700.35
<u>Distribution Operations</u>						
Supervision and Engineering	8700	\$18,798.06	\$60,101.04	\$0.00	\$0.00	\$78,899.10
Distribution Load Dispatch	8710	0.00	7,290.41	0.00	0.00	7,290.41
Mains & Services	8740	167,969.53	34.49	0.00	0.00	168,004.02
Meas. Stat. Exp. - General	8750	158.70	49,509.64	0.00	0.00	49,668.34
Meter & House Reg. Exp. - Ind.	8760	0.00	0.00	0.00	0.00	0.00
Meter & House Reg. Exp.-City Ga	8770	0.00	0.00	0.00	0.00	0.00
Meter & House Reg. Exp.	8780	541,986.46	0.00	0.00	0.00	541,986.46
Customer Inst. Reg.	8790	0.00	0.00	0.00	0.00	0.00
Other	8800	174,471.74	194,529.18	267.14	0.00	369,268.06
Rents	8810	0.00	6,938.40	0.00	0.00	6,938.40
Joint Expenses Credit	8820	0.00	0.00	0.00	0.00	0.00
Total Distribution Operations		\$903,384.49	\$318,403.16	\$267.14	\$0.00	\$1,222,054.79
<u>Distribution Maintenance</u>						
Supervision and Engineering	8850	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Struct. & Improv.	8860	0.00	0.00	0.00	0.00	0.00
Mains	8870	513,842.14	9,430.50	0.00	0.00	523,272.64
Meas. & Reg. Stat. Exp. - Gen	8890	5,989.25	0.00	0.00	0.00	5,989.25
Meas. & Reg. Stat. Exp. - Ind.	8900	0.00	0.00	0.00	0.00	0.00
Meas. & Reg. Stat. Exp. - City Ga	8910	69,620.56	0.00	0.00	0.00	69,620.56
Steel Services	8920	38,173.46	0.00	0.00	0.00	38,173.46
Meters & House Reg.	8930	(130.00)	0.00	0.00	0.00	(130.00)
Gas Street Lights	8940	0.00	0.00	0.00	0.00	0.00
Clearing - Meter Shop	8950	0.00	0.00	0.00	0.00	0.00
Clearing - Meter Shop	8960	0.00	0.00	0.00	0.00	0.00
Total Distribution Maintenance		\$627,495.41	\$9,430.50	\$0.00	\$0.00	\$636,925.91
Total Distribution		\$1,530,879.90	\$327,833.66	\$267.14	\$0.00	\$1,858,980.70
<u>Customer Accounting</u>						
Supervision	9010	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Meter Reading	9020	206,131.95	0.00	0.00	0.00	206,131.95
Customer Accounting	9030	188,868.34	83,007.99	0.00	0.00	271,876.33
Bad Debts	9040	48,080.47	0.00	0.00	0.00	48,080.47
Miscellaneous	9050	48,572.11	0.00	22,457.21	0.00	71,029.32
Total Customer Accounting		\$491,652.87	\$83,007.99	\$22,457.21	\$0.00	\$597,118.07
<u>Customer Information</u>						
Supervision	9070	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Customer Assistance Expense	9080	0.00	0.00	0.00	0.00	0.00
Inform. & Instruct. Adv. Exp.	9090	0.00	3,870.68	0.00	0.00	3,870.68
Communications	9100	0.00	0.00	0.00	0.00	0.00
Total Customer Information		\$0.00	\$3,870.68	\$0.00	\$0.00	\$3,870.68
<u>Sales</u>						
Media Expense	9130	\$0.00	\$0.00	\$2,724.71	\$0.00	\$2,724.71
Promotion Expense	9140	0.00	0.00	0.00	0.00	0.00
Misc. - Civic Contributions & Dona	9163	0.00	0.00	0.00	0.00	0.00
		\$0.00	\$0.00	\$2,724.71	\$0.00	\$2,724.71
Total Customer Accounts Expense		\$491,652.87	\$86,878.66	\$25,181.93	\$0.00	\$603,713.47
<u>A & G Operations</u>						
Salaries	9200	\$101,510.03	\$65,211.55	\$27,717.77	\$0.00	\$194,439.36
Office Supplies & Expenses	9210	62,652.20	4,722.09	5,748.61	0.00	73,122.90
Transferred Credit	9220	0.00	0.00	0.00	0.00	0.00
Outside Services	9230	49,474.74	527.94	444.35	615,516.00	665,963.03
Injuries & Damages	9250	0.00	15,416.01	0.00	0.00	15,416.01
Employee Pensions & Benefits	9260	1,361.16	0.00	9.17	0.00	1,370.33
Reg. Comm. Exp.	9280	15,000.00	0.00	0.00	0.00	15,000.00
Misc. General Expenses	930*	12,969.58	0.00	3,623.19	0.00	16,592.77
Rents	931*	0.00	188.30	279.51	0.00	467.82
Maintenance of General Plant	932*	0.00	0.00	0.00	0.00	0.00
Total A&G Operations		\$242,967.71	\$86,065.89	\$37,822.61	\$615,516.00	\$982,372.21
Total Operations Expense		\$2,992,636.83	\$500,778.22	\$63,271.68	\$667,275.13	\$4,223,961.85

TEXAS GAS SERVICE COMPANY
NORTH TEXAS SERVICE AREA
TWELVE MONTHS ENDED DECEMBER 31, 2010
NORTH TEXAS DIRECT EXPENSES

NORTH TEXAS DIRECT EXPENSES											
DESCRIPTION	ACCT. NO.	NTX DIRECT PER BOOKS 12 MOS ENDED @12/31/10	CUSTOMER INFO CENTER ALLOCATION	AD VALOREM TAX ADJUSTMENT	BAD DEBT ADJUSTMENT	ADJUSTMENTS					NET 12 MOS.
						TEXAS STATE FRANCHISE TAX ADJUSTMENT	RECLASS BORGER EXPENSES	REMOVE BRECKENRIDGE OUTAGE EXPENSE	REMOVE MEALS & TRAVEL EXPENSE	REMOVE NON-RECURRING EXPENSE	
Deprec. & Amort. Expense								\$0.00		\$0.00	\$555,909.29
Depreciation Expense	4030100	\$555,909.29						0.00		0.00	422.04
Amortization Expense	4050100	422.04					\$0.00	\$0.00	\$0.00	\$0.00	\$556,331.33
Total Depr. & Amort.		\$556,331.33	\$0.00	\$0.00							
Taxes Other Than Income				\$155,053.34		\$14,051.32	0.00	0.00		\$0.00	\$169,104.66
Taxes Other Than Income (EXCLUDES REV. RELATED TX)	4081*	\$0.00	\$0.00	\$155,053.34		\$14,051.32	\$0.00	\$0.00	\$0.00	\$0.00	\$169,104.66
Total Taxes Other Than Income		\$0.00	\$0.00	\$155,053.34		\$14,051.32	\$0.00	\$0.00	\$1.00	\$0.00	\$1,701.35
Interest on Customer Deposits	4310	\$1,700.35	\$0.00	\$0.00							
Distribution Operations								(\$3,074.49)	(\$355.00)	(\$152.08)	\$18,798.06
Supervision and Engineering	8700	\$22,379.63						0.00		0.00	0.00
Distribution Load Dispatch	8710	0.00					(302.87)	(24,610.72)	(5,272.00)	(4,122.21)	167,969.53
Mains & Services	8740	202,277.33						(49.21)	(49.00)	0.00	158.70
Meas. Stat. Exp. - General	8750	256.91						0.00		0.00	0.00
Meter & House Reg. Exp. - Ind.	8760	0.00						0.00		0.00	0.00
Meter & House Reg. Exp. - City G.	8770	0.00						(2,634.07)	(1,417.00)	0.00	541,986.46
Meter & House Reg. Exp.	8780	546,037.53						0.00		0.00	0.00
Customer Inst. Reg.	8790	0.00					(1,445.64)	(526.16)	(3,611.00)	(580.04)	174,471.74
Other	8800	180,634.58						0.00		0.00	0.00
Rents	8810	0.00						0.00		0.00	0.00
Joint Expenses Credit	8820	0.00				\$0.00	(\$1,748.51)	(\$30,894.65)	(\$10,704.00)	(\$4,854.33)	\$903,384.49
Total Distribution Operations		\$951,585.98	\$0.00	\$0.00		\$0.00	(\$1,748.51)	(\$30,894.65)	(\$10,704.00)	(\$4,854.33)	\$0.00
Distribution Maintenance								\$0.00		\$0.00	\$0.00
Supervision and Engineering	8850	\$0.00						0.00		0.00	0.00
Struct. & Improv.	8860	0.00					(6,727.35)	(40,284.13)	(17,184.00)	(28,260.43)	513,842.14
Mains	8870	606,298.05						(3,366.13)	(2,866.00)	0.00	5,989.25
Meas. & Reg. Stat. Exp. - Gen	8890	12,221.38						0.00		0.00	0.00
Meas. & Reg. Stat. Exp. - Ind.	8900	0.00						(74.33)	(56.00)	0.00	69,620.56
Meas. & Reg. Stat. Exp. - City G.	8910	69,750.89						(642.78)		0.00	38,173.46
Steel Services	8920	38,816.24						(152.54)	(130.00)	0.00	(130.00)
Meters & House Reg.	8930	152.54						0.00		0.00	0.00
Street Lights	8940	0.00						0.00		0.00	0.00
Clearing - Meter Shop	8950	0.00						0.00		0.00	0.00
Clearing - Meter Shop	8960	0.00				\$0.00	(\$6,727.35)	(\$44,519.91)	(\$20,236.00)	(\$28,260.43)	\$627,496.41
Total Distribution Maintenance		\$727,239.10	\$0.00	\$0.00		\$0.00	(\$6,727.35)	(\$44,519.91)	(\$20,236.00)	(\$28,260.43)	\$1,530,879.90
Total Distribution		\$1,678,825.08	\$0.00	\$0.00		\$0.00	(\$8,475.86)	(\$75,414.56)	(\$30,940.00)	(\$33,114.78)	\$0.00
Customer Accounting								\$0.00		\$0.00	\$0.00
Supervision	9010	\$0.00						(12.78)		0.00	206,131.95
Meter Reading	9020	206,144.73						0.00	(57.00)	0.00	188,868.34
Customer Accounting	9030	42,787.34	146,138.00					0.00		0.00	48,080.47
Bad Debts	9040	0.00			48,080.47			0.00		0.00	48,572.11
Miscellaneous	9050	48,572.11				\$0.00	\$0.00	(\$12.78)	(\$57.00)	\$0.00	\$491,652.87
Total Customer Accounting		\$297,504.18	\$146,138.00	\$0.00	\$48,080.47	\$0.00	\$0.00	(\$12.78)	(\$57.00)	\$0.00	\$0.00
Customer Information								\$0.00		\$0.00	\$0.00
Supervision	9070	\$0.00						0.00		0.00	0.00
Customer Assistance Expense	9080	0.00						0.00		0.00	0.00
Inform. & Instruct. Adver. Exp.	9090	0.00						0.00		0.00	0.00
Communications	9100	0.00				\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Total Customer Information		\$0.00	\$0.00	\$0.00		\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Sales								\$0.00		\$0.00	\$0.00
Media Expense	9130	\$0.00						0.00		0.00	0.00
Promotion Expense	9140	0.00						0.00		0.00	0.00
Misc. - Civic Contributions & Don.	9163	0.00				\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Total Customer Accounts Expense		\$297,504.18	\$146,138.00	\$0.00	\$48,080.47	\$0.00	\$0.00	(\$12.78)	(\$57.00)	\$0.00	\$491,652.87
A & G Operations								\$0.00		\$0.00	\$101,510.03
Salaries	9200	\$101,510.03						(323.79)	(15,023.00)	(3,284.81)	62,652.20
Office Supplies & Expenses	9210	81,283.80						0.00		0.00	0.00
Transferred Credit	9220	0.00			0.00			0.00		0.00	49,474.74
Outside Services	9230	49,474.74						0.00		0.00	0.00
Injuries & Damages	9250	0.00						0.00	(873.00)	0.00	1,361.16
Employee Pensions & Benefits	9260	2,234.16						0.00		0.00	15,000.00
Reg. Comm. Exp.	9280	15,000.00						(831.04)	(38.00)	0.00	12,969.58
Misc. General Expenses	930*	13,838.62						0.00		0.00	0.00
Rents	9310	0.00						0.00		0.00	0.00
Maintenance of General Plant	9320	0.00						0.00		0.00	0.00
Total A&G Operations		\$263,341.35	\$0.00	\$0.00		\$0.00	\$0.00	(\$1,154.83)	(\$15,934.00)	(\$3,284.81)	\$242,967.71
Total Operations Expense		\$2,797,702.29	\$146,138.00	\$155,053.34	\$48,080.47	\$14,051.32	(\$8,475.86)	(\$76,582.17)	(\$46,930.00)	(\$36,399.57)	\$2,992,637.83

TEXAS GAS SERVICE COMPANY
NORTH TEXAS SERVICE AREA
TWELVE MONTHS ENDED DECEMBER 31, 2010

NORTH TX REGION EXPENSES

DESCRIPTION	ACCT. NO.	PER BOOKS NORTH TX REGION @12/31/10	AD VALOREM TAX ADJUSTMENT	Remove Eastern Region Allocated Expense	Remove Bad Debt (See Adj in Direct)	REMOVE MEALS & TRAVEL EXPENSE	TOTAL ALLOCABLE NTX REGION @12/31/10	Allocate to NORTH TX 73.27000%	(Based on Customers)
Deprec. & Amort. Expense									
Depreciation Expense	4030	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	
Amortization Expense	4040	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Total Depr. & Amort.		\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	
Taxes Other Than Income									
Taxes Other Than Income	4081	241,604.00	(\$241,604.00)	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	
Total Taxes Other Than Income		\$241,604.00	(\$241,604.00)	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	
Interest on Customer Deposits	4310	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	
Distribution Operations									
Supervision and Engineering	8700	\$83,138.81	\$0.00	\$0.00	\$0.00	(\$1,112.00)	\$82,026.81	\$60,101.04	
Distribution Load Dispatch	8710	9,950.06	0.00	0.00	0.00	0.00	9,950.06	7,290.41	
Mains & Services	8740	47.07	0.00	0.00	0.00	0.00	47.07	34.49	
Meas. Stat. Exp. - General	8750	67,571.50	0.00	0.00	0.00	0.00	67,571.50	49,509.64	
Meter & House Reg. Exp. - Ind.	8760	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Meter & House Reg. Exp. - City	8770	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Meter & House Reg. Exp.	8780	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Customer Inst. Reg.	8790	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Other	8800	331,997.01	0.00	(52,778.65)	0.00	(13,722.00)	265,496.36	194,529.18	
Rents	8810	9,469.63	0.00	0.00	0.00	0.00	9,469.63	6,938.40	
Joint Expenses Credit	8820	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Total Distribution Operations		\$502,174.08	\$0.00	(\$52,778.65)	\$0.00	(\$14,834.00)	\$434,561.43	\$318,403.16	
Distribution Maintenance									
Supervision and Engineering	8850	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	
Struct. & Improv.	8860	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Mains	8870	12,870.89	0.00	0.00	0.00	0.00	12,870.89	9,430.50	
Meas. & Reg. Stat. Exp. - Gen	8890	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Meas. & Reg. Stat. Exp. - Ind.	8900	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Meas. & Reg. Stat. Exp. - City	8910	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Steel Services	8920	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Meters & House Reg.	8930	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Gas Street Lights	8940	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Clearing - Meter Shop	8950	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Clearing - Meter Shop	8960	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Total Distribution Maintenance		\$12,870.89	\$0.00	\$0.00	\$0.00	\$0.00	\$12,870.89	\$9,430.50	
Total Distribution		\$515,044.97	\$0.00	(\$52,778.65)	\$0.00	(\$14,834.00)	\$447,432.32	\$327,833.66	
Customer Accounting									
Supervision	9010	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	
Meter Reading	9020	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Customer Accounting	9030	113,290.55	0.00	0.00	0.00	0.00	113,290.55	83,007.99	
Bad Debts	9040	42,195.42	0.00	0.00	(42,195.42)	0.00	0.00	0.00	
Miscellaneous	9050	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Total Customer Accounting		\$155,485.97	\$0.00	\$0.00	(\$42,195.42)	\$0.00	\$113,290.55	\$83,007.99	
Customer Information									
Supervision	9070	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	
Customer Assistance Expense	9080	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Inform. & Instruct. Adver. Exp.	9090	5,282.76	0.00	0.00	0.00	0.00	5,282.76	3,870.68	
Communications	9100	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Total Customer Information		\$5,282.76	\$0.00	\$0.00	\$0.00	\$0.00	\$5,282.76	\$3,870.68	
Sales									
Media Expense	9130	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	
Promotion Expense	9140	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Misc. - Civic Contributions & Do	9163	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Total Customer Accounts Expense		\$160,768.73	\$0.00	\$0.00	(\$42,195.42)	\$0.00	\$118,573.31	\$86,878.66	
A & G Operations									
Salaries	9200	\$89,001.71	\$0.00	\$0.00	\$0.00	\$0.00	\$89,001.71	\$65,211.55	
Office Supplies & Expenses	9210	7,160.78	0.00	0.00	0.00	(716.00)	6,444.78	4,722.09	
Transferred Credit	9220	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Outside Services	9230	720.54	0.00	0.00	0.00	0.00	720.54	527.94	
Injuries & Damages	9250	21,040.00	0.00	0.00	0.00	0.00	21,040.00	15,416.01	
Employee Pensions & Benefits	9260	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Reg. Comm. Exp.	9280	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Misc. General Expenses	930*	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Rents	931*	257.00	0.00	0.00	0.00	0.00	257.00	188.30	
Maintenance of General Plant	932*	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Total A&G Operations		\$118,180.03	\$0.00	\$0.00	\$0.00	(\$716.00)	\$117,464.03	\$86,065.89	
Total Operations Expense		\$1,035,597.73	(\$241,604.00)	(\$52,778.65)	(\$42,195.42)	(\$15,550.00)	\$683,469.66	\$500,778.22	

TEXAS GAS SERVICE COMPANY
NORTH TEXAS SERVICE AREA
TWELVE MONTHS ENDED DECEMBER 31, 2010

SUMMARY OF EASTERN REGION COSTS ALLOCABLE TO NORTH TEXAS

5.52400%
% allocable to NTX

DESCRIPTION	ACCT. NO.	TOTAL EASTERN REGION ALLOCABLE TO NTX	GRAND TOTAL ALLOCATED EXPENSE TO NORTH TX
<u>Deprec. & Amort. Expense</u>			
Depreciation Expense	4030	\$0.00	\$0.00
Amortization Expense	4040	0.00	0.00
Total Depr. & Amort.		<u>\$0.00</u>	<u>\$0.00</u>
<u>Taxes Other Than Income</u>			
Taxes Other Than Income	4081	\$0.00	\$0.00
Total Taxes Other Than Income		<u>\$0.00</u>	<u>\$0.00</u>
<u>Interest on Customer Deposits</u>			
	4310	<u>\$0.00</u>	<u>\$0.00</u>
<u>Distribution Operations</u>			
Supervision and Engineering	8700	0.00	\$0.00
Distribution Load Dispatch	8710	0.00	0.00
Mains & Services	8740	0.00	0.00
Meas. Stat. Exp. - General	8750	0.00	0.00
Meter & House Reg. Exp. - Ind.	8760	0.00	0.00
Meter & House Reg. Exp.-City Gate	8770	0.00	0.00
Meter & House Reg. Exp.	8780	0.00	0.00
Customer Inst. Reg.	8790	0.00	0.00
Other	8800	4,836.00	267.14
Rents	8810	0.00	0.00
Joint Expenses Credit	8820	0.00	0.00
Total Distribution Operations		<u>\$4,836.00</u>	<u>\$267.14</u>
<u>Distribution Maintenance</u>			
Supervision and Engineering	8850	\$0.00	\$0.00
Struct. & Improv.	8860	0.00	0.00
Mains	8870	0.00	0.00
Meas. & Reg. Stat. Exp. - Gen	8890	0.00	0.00
Meas. & Reg. Stat. Exp. - Ind.	8900	0.00	0.00
Meas. & Reg. Stat. Exp. - City Gate	8910	0.00	0.00
Steel Services	8920	0.00	0.00
Meters & House Reg.	8930	0.00	0.00
Gas Street Lights	8940	0.00	0.00
Clearing - Meter Shop	8950	0.00	0.00
Clearing - Meter Shop	8960	0.00	0.00
Total Distribution Maintenance		<u>\$0.00</u>	<u>\$0.00</u>
Total Distribution		<u>\$4,836.00</u>	<u>\$267.14</u>
<u>Customer Accounting</u>			
Supervision	9010	\$0.00	\$0.00
Meter Reading	9020	0.00	0.00
Customer Accounting	9030	0.00	0.00
Bad Debts	9040	0.00	0.00
Miscellaneous	9050	406,539.00	22,457.21
Total Customer Accounting		<u>\$406,539.00</u>	<u>\$22,457.21</u>
<u>Customer Information</u>			
Supervision	9070	\$0.00	\$0.00
Customer Assistance Expense	9080	0.00	0.00
Inform. & Instruct. Adver. Exp.	9090	0.00	0.00
Communications	9100	0.00	0.00
Total Customer Information		<u>\$0.00</u>	<u>\$0.00</u>
<u>Sales</u>			
Media Expense	9130	\$49,325.00	\$2,724.71
Promotion Expense	9140	0.00	0.00
Misc. - Civic Contributions & Dona.	9163	0.00	0.00
		<u>\$49,325.00</u>	<u>\$2,724.71</u>
Total Customer Accounts Expense		<u>\$455,864.00</u>	<u>\$25,181.93</u>
<u>A & G Operations</u>			
Salaries	9200	\$501,770.00	\$27,717.77
Office Supplies & Expenses	9210	104,066.00	5,748.61
Transferred Credit	9220	0.00	0.00
Outside Services	9230	8,044.00	444.35
Injuries & Damages	9250	0.00	0.00
Employee Pensions & Benefits	9260	166.00	9.17
Reg. Comm. Exp.	9280	0.00	0.00
Misc. General Expenses	930*	65,590.00	3,623.19
Rents	931*	5,060.00	279.51
Maintenance of General Plant	932*	0.00	0.00
Total A&G Operations		<u>\$684,696.00</u>	<u>\$37,822.61</u>
Total Operations Expense		<u>\$1,145,396.00</u>	<u>\$63,271.68</u>

TEXAS GAS SERVICE COMPANY
NORTH TEXAS SERVICE AREA
TWELVE MONTHS ENDED DECEMBER 31, 2010
TGS DIVISION'S DIRECT AND CORPORATE ALLOCATED EXPENSE

DESCRIPTION	ACCT. NO.	Allocate to NTX 2.73610% (Based on Customers)
<u>Deprec. & Amort. Expense</u>		
		Depr. and amort.(TGS division & corporate allocated to TGS)
Depreciation Expense	4030	\$51,759.13
Amortization Expense	4040	0.00
Total Depr. & Amort.		<u>\$51,759.13</u>
<u>Taxes Other Than Income</u>		
Taxes Other Than Income	4081	\$0.00
Total Taxes Other Than Income		<u>\$0.00</u>
<u>Interest on Customer Deposits</u>		
	4310	<u>\$0.00</u>
<u>Distribution Operations</u>		
Supervision and Engineering	8700	\$0.00
Distribution Load Dispatch	8710	0.00
Mains & Services	8740	0.00
Meas. Stat. Exp. - General	8750	0.00
Meter & House Reg. Exp. - Ind.	8760	0.00
Meter & House Reg. Exp.-City Gate	8770	0.00
Meter & House Reg. Exp.	8780	0.00
Customer Inst. Reg.	8790	0.00
Other	8800	0.00
Rents	8810	0.00
Joint Expenses Credit	8820	0.00
Total Distribution Operations		<u>\$0.00</u>
<u>Distribution Maintenance</u>		
Supervision and Engineering	8850	\$0.00
Struct. & Improv.	8860	0.00
Mains	8870	0.00
Meas. & Reg. Stat. Exp. - Gen	8890	0.00
Meas. & Reg. Stat. Exp. - Ind.	8900	0.00
Meas. & Reg. Stat. Exp. - City Gate	8910	0.00
Steel Services	8920	0.00
Meters & House Reg.	8930	0.00
Gas Street Lights	8940	0.00
Clearing - Meter Shop	8950	0.00
Clearing - Meter Shop	8960	0.00
Total Distribution Maintenance		<u>\$0.00</u>
Total Distribution		<u>\$0.00</u>
<u>Customer Accounting</u>		
Supervision	9010	\$0.00
Meter Reading	9020	0.00
Customer Accounting	9030	0.00
Bad Debts	9040	0.00
Miscellaneous	9050	0.00
Total Customer Accounting		<u>\$0.00</u>
<u>Customer Information</u>		
Supervision	9070	\$0.00
Customer Assistance Expense	9080	0.00
Inform. & Instruct. Adver. Exp.	9090	0.00
Communications	9100	0.00
Total Customer Information		<u>\$0.00</u>
<u>Sales</u>		
Media Expense	9130	\$0.00
Promotion Expense	9140	0.00
Misc. - Civic Contributions & Dona.	9163	0.00
Total Customer Accounts Expense		<u>\$0.00</u>
<u>A & G Operations</u>		
Salaries	9200	\$0.00
Office Supplies & Expenses	9210	0.00
Transferred Credit	9220	0.00
Outside Services	9230	615,516.00
Injuries & Damages	9250	0.00
Employee Pensions & Benefits	9260	0.00
Reg.Comm.Exp.	9280	0.00
Misc. General Expenses	930*	0.00
Rents	931*	0.00
Maintenance of General Plant	932*	0.00
Total A&G Operations		<u>\$615,516.00</u>
Total Operations Expense		<u>\$667,275.13</u>

EXHIBIT B

RESIDENTIAL SERVICE RATE

APPLICABILITY

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

TERRITORY

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

COST OF SERVICE RATE

During each monthly billing period:

A Customer Charge of	\$ 10.75 plus
All Ccf at	\$.29090 per Ccf

OTHER ADJUSTMENTS

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

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

Taxes: Plus applicable taxes and fees related to above.

CONDITIONS

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

COMMERCIAL SERVICE RATE

APPLICABILITY

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

TERRITORY

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

COST OF SERVICE RATE

During each monthly billing period:

A Customer Charge of	\$ 22.50 plus
All Ccf at	\$ 0.28200 per Ccf

OTHER ADJUSTMENTS

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

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

Taxes: Plus applicable taxes and fees related to above.

CONDITIONS

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

LARGE VOLUME COMMERCIAL SERVICE RATE

APPLICABILITY

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

TERRITORY

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

COST OF SERVICE RATE

During each monthly billing period:

A Customer Charge of	\$ 400.00 plus
All Ccf at	\$ 0.26200 per Ccf

OTHER ADJUSTMENTS

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

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

Taxes: Plus applicable taxes and fees related to above.

CONDITIONS

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

TEXAS GAS SERVICE COMPANY

North Texas Area

RATE SCHEDULE 3A

INDUSTRIAL SERVICE RATE

APPLICABILITY

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

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

TERRITORY

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

COST OF SERVICE RATE

During each monthly billing period:

A Customer Charge of	\$ 50.00 plus
All Ccf at	\$ 0.24500 per Ccf

OTHER ADJUSTMENTS

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

Taxes: Plus applicable taxes and fees related to above.

CONDITIONS

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

Supersedes
April 30, 2009

Meters Read On and After
(Date Final Order in GUD No. 10094 is signed)

LARGE VOLUME INDUSTRIAL SERVICE RATE

APPLICABILITY

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

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

TERRITORY

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

COST OF SERVICE RATE

During each monthly billing period:

A Customer Charge of	\$ 400.00 plus
All Ccf at	\$ 0.22500 per Ccf

OTHER ADJUSTMENTS

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

Taxes: Plus applicable taxes and fees related to above.

CONDITIONS

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

PUBLIC AUTHORITY SERVICE RATE

APPLICABILITY

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

TERRITORY

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

COST OF SERVICE RATE

During each monthly billing period:

A Customer Charge of	\$ 40.00 plus
All Ccf at	\$ 0.27490 per Ccf

OTHER ADJUSTMENTS

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

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

Taxes: Plus applicable taxes and fees related to above.

CONDITIONS

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

LARGE VOLUME PUBLIC AUTHORITY SERVICE RATE

APPLICABILITY

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

TERRITORY

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

COST OF SERVICE RATE

During each monthly billing period:

A Customer Charge of	\$ 400.00 plus
All Ccf at	\$ 0.25490 per Ccf

OTHER ADJUSTMENTS

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

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

Taxes: Plus applicable taxes and fees related to above.

CONDITIONS

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

OIL & GAS DOCKET NO. 06-0274438
MAY 16, 2012

PAGE 2

Service List:

BILLY DENMAN
PEGASI ENERGY RESOURCES CORP.
P.O. BOX 2033
TYLER, TX 75710

MCBEE OPERATING COMPANY, LLC
4311 OAK LAWN AVE., STE 310
DALLAS, TX 75219

STROUD PETROLEUM, INC.
P.O. BOX 565
SHREVEPORT, LA 71162

JAMES E. SMITH, PE
JAMES E. SMITH AND ASSOCIATES, INC.
310 S. VINE
TYLER, TX 75702

EXHIBIT C

GUD NO. 10094

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

SETTLEMENT AGREEMENT

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

WHEREAS, this Settlement Agreement resolves all issues relating to the Texas Gas Statement of Intent filed with the Railroad Commission of Texas ("Commission") on June 23, 2011, in a manner that Texas Gas and Staff (collectively "the Signatories") believe is consistent with the public interest, and the Signatories represent diverse interests;

WHEREAS, Texas Gas filed its Statement of Intent to Change Rates Within the Environs of the North Texas Service Area ("NTSA");

WHEREAS, the NTSA includes the incorporated cities of Breckenridge, Graham, Jacksboro, Bryson, Mineral Wells, Graford, Millsap, Weatherford, Aledo, Hudson Oaks, and Willow Park, Texas and the unincorporated cities of Jermyn, Palo Pinto, Whitt, Perrin, Punkin Center and Possum Kingdom, Texas (collectively, the "NTSA Cities") along with their surrounding environs;

WHEREAS, Texas Gas by its Statement of Intent filed with the Commission sought to implement the same rates in the NTSA environs that had already been approved by the NTSA Cities;

WHEREAS, the NTSA environs' share of the rates previously approved by the NTSA Cities would increase the Company's revenues by \$78,665;

WHEREAS, Texas Gas included in its Statement of Intent the following: (1) Cost of Service Adjustment schedules evidencing the revenue deficiency that were submitted to the NTSA Cities; (2) Municipal ordinances passed by the NTSA Cities approving the requested increase; (3) proposed rate schedules; (4) proposed notice; and (5) the Direct Testimony of Stacey McTaggart;

WHEREAS, on July 19, 2011, Staff intervened in the docket;

WHEREAS, Staff, after initial settlement discussions, requested that Texas Gas file additional testimony and updated cost of service schedules to further substantiate the calculated revenue deficiency;

WHEREAS, Texas Gas agreed to file supplemental cost of service information and extended the jurisdictional deadline to allow for the additional analysis and testimony preparation;

WHEREAS, on November 15, 2011, Texas Gas made its agreed supplemental filing, which included a full cost of service review, cost of service schedules, and the Supplemental Direct Testimonies of Stacey McTaggart, Jesus Ramos, and Teresa Swensen;

WHEREAS, Texas Gas' full cost of service analysis revealed a revenue deficiency for the NTSA environs of \$86,584, which is greater than the \$78,665 revenue increase previously requested;

WHEREAS, Texas Gas' full cost of service analysis included the same cost of capital approved for Texas Gas by the Commission in GUD No. 9988 on December 14, 2010 for its El Paso Service Area;

WHEREAS, Texas Gas' full cost of service analysis relied on the same depreciation rates supported by a Black and Veatch depreciation study that were approved by the NTSA Cities in 2008, and by the Commission in 2009 as part of a subsequent environs filing (GUD No. 9839) for its direct plant. For allocated corporate and division plant, Texas Gas relied on the same depreciation rates approved by the Commission in GUD No. 9988;

WHEREAS, Texas Gas' full cost of service analysis relied upon the same rate design already in place for the NTSA Cities, which would keep the amount of the monthly customer charge at \$10.75 for the residential class;

WHEREAS, Texas Gas, in order to reduce the rate case expenses consequent to performing an expensive lead-lag study, requested a Cash Working Capital of \$0.00, consistent with the Commission's precedent for the Company established in GUD Nos. 9770 and 9988;

WHEREAS, Texas Gas removed from its rate request all meals in excess of \$25 per person and hotel expense greater than \$150 per night;

WHEREAS, Texas Gas put forth evidence demonstrating that it maintains its books and records in accordance with Commission Rule § 7.310 and is therefore entitled to the legal presumption established by Commission Rule § 7.503 that the costs contained within the books and records have been reasonably and necessarily incurred;

WHEREAS, Texas Gas did not include in its request the recovery of any expenses exempt under Texas Administrative Code § 7.5414;

WHEREAS, Texas Gas did not include in its proposed revenue requirement any payments to affiliates for the cost of a service, property, right or other item or for interest expenses to be included as a capital cost or expense;

WHEREAS, Staff propounded, and Texas Gas responded to, five sets of requests for information;

WHEREAS, Texas Gas again extended the jurisdictional deadline to provide for additional discovery by Staff and to accommodate further settlement discussions;

WHEREAS, settlement of this docket will conserve Commission resources and eliminate the need to incur rate case expenses for preparation of rebuttal testimony, participation in hearing, drafting of briefing and potential exceptions, and filing and participating in potential appeal;

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

NOW, THEREFORE, in consideration of the mutual agreements and covenants established herein, the Signatories, through their undersigned representatives, agree to and recommend for approval by the Commission the following Settlement Terms as a means of fully resolving all issues raised in the June 23, 2011 Statement of Intent filed by Texas Gas on behalf of its North Texas Service Area environs:

Settlement Terms

1. Texas Gas and Staff agree to the rates, terms and conditions reflected in the rate schedules and tariffs attached to this Settlement Agreement as Exhibit A. Said tariffs would allow Texas Gas an additional \$78,665 in annual revenue, which amount represents the environs' share of rates currently in effect for the NTSA Cities. Texas Gas and Staff further agree that the rates, terms and conditions reflected in Exhibit A to this Settlement Agreement comply with the rate-setting requirements of Chapter 104 of the Texas Utilities Code.
2. The Signatories agree to the following customer charges and single block volumetric rates:

RESIDENTIAL	
Customer Charge	\$ 10.75
Volumetric Charge (All Ccf)	\$ 0.29090
COMMERCIAL	
Customer Charge	\$ 22.50
Volumetric Charge - (All Ccf)	\$ 0.28200
LG COMMERCIAL	
Customer Charge	\$ 400.00
Volumetric Charge - (All Ccf)	\$ 0.26200
INDUSTRIAL	
Customer Charge	\$ 50.00
Volumetric Charge - (All Ccf)	\$ 0.24500
LG INDUSTRIAL	
Customer Charge	\$ 400.00
Volumetric Charge - (All Ccf)	\$ 0.22500

PUBLIC AUTHORITY	
Customer Charge	\$ 40.00
Volumetric Charge - (All Ccf)	\$ 0.27490
LG PUBLIC AUTHORITY	
Customer Charge	\$ 400.00
Volumetric Charge - (All Ccf)	\$ 0.25490

3. Texas Gas and Staff agree that Texas Gas will withdraw its Cost of Service Adjustment Rate Schedule applicable to the NTSA environs, and that future Interim Rate Adjustment ("IRA") filings made for the NTSA environs pursuant to GURA § 104.301 shall rely on the following Cost of Service factors:

- Weighted Average Cost of Capital shall be 8.649% based upon a capital structure of 40.76% debt and 59.24% equity, with a 6.21% cost of debt and a 10.33% cost of equity.
- For the initial IRA filing, the Net Investment which includes detail of Plant in Service amounts along with the associated depreciation rate for each account shall be as shown on Exhibit B.
- For the initial IRA filing, the beginning amount of ad valorem taxes at the North Texas Service Area level is \$187,935.
- For the initial IRA filing, the rate base amount is \$22,976,867 for calculating the federal income tax.
- For the initial IRA filing, the customer charge as noted in item 2 above will be the starting rate to apply any IRA adjustment. The average use per month per customer class in order to determine the current and proposed bill information in future IRA filings is as follows: residential at 41 Ccf, commercial at 189 Ccf, large volume commercial at 6,088 Ccf, industrial at 1,811 Ccf, large volume industrial at 1,485 Ccf, public authority at 513 Ccf and large volume public authority at 9,287Ccf.
- The base rate revenue allocation factors to spread any change in IRA increase/decrease to the appropriate customer classes is as follows:

Customer Class	Allocated Increase
Residential	57.75%
Commercial	26.51%
Large Commercial	6.76%
Industrial	0.42%
Large Industrial	0.37%
Public Authority	6.74%
Large Public Authority	1.45%
Total	100.00%

4. Texas Gas and Staff agree on the admissibility of the following evidentiary record:

- Statement of Intent to Change Rates Within the Environs of the North Texas Service Area, filed on June 23, 2011, inclusive of attached Municipal Ordinances and Cost of Service schedules;
- Direct Testimony of Stacey McTaggart;


- Supplemental Revenue Requirement Analysis filed on November 15, 2011, inclusive of Cost of Service Filing Schedules;
 - Supplemental Direct Testimony of Stacey McTaggart;
 - Supplemental Testimony of Jesus Ramos;
 - Supplemental Testimony of Teresa Swensen;
 - Texas Gas response to Staff RFI 1-01 (Affidavit of Lori Moreno attesting to Public Notice);
 - Texas Gas response to Staff RFI 1-11 (Affidavit of Dane McKaughan attesting to Rate Case expenses);
 - Texas Gas response to Staff RFI 1-03 (affidavit of Paul Wilson); and
 - Texas Gas response to Staff RFI 1-02.
4. Texas Gas has incurred approximately \$46,500 in actual rate case expenses to date. Texas Gas estimates that rate case expenses to fully litigate the case would likely increase this amount to more than \$75,000. Approval of this settlement agreement will likely limit actual rate case expenses to about \$50,000.
 5. In the interests of settlement, Texas Gas agrees to seek recovery of only \$43,000 in rate case expenses, which is less than its actual rate case expenses to date and less than half of the total revenue deficiency of \$86,584 evidenced by the cost of service analysis. Further, Texas Gas agrees to surcharge this amount, without interest, over a twenty-four month period through a volumetric rate.
 6. The Signatories agree that the terms of the Settlement Agreement are interdependent and indivisible, and that if the Commission enters an order that is inconsistent with this Settlement Agreement, then any Signatory may withdraw without being deemed to have waived any procedural right or to have taken any substantive position on any fact or issue by virtue of that Signatory's entry into the Settlement Agreement or its subsequent withdrawal.
 7. The Signatories agree that all negotiations, discussion, and conferences related to the Settlement Agreement are privileged, inadmissible, and not relevant to prove or disprove any issues associated with the June 23, 2011 Statement of Intent filed by Texas Gas on behalf of its NTSA environs pursuant to Texas law.
 8. The Signatories agree that neither this Settlement Agreement nor any oral or written statements or representations made during the course of settlement negotiations may be used for any purpose other than as necessary to support the entry by the Commission of an order implementing this Settlement Agreement.
 9. The Signatories agree that this Settlement Agreement is binding on each Signatory only for the purpose of settling the issues set forth herein and for no other purposes, and, except to the extent the Settlement Agreement governs a Signatory's rights and obligations for future periods, this Settlement Agreement shall not be binding or precedential upon a Signatory outside this proceeding.

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

Agreed to this 11th day of April, 2012.

TEXAS GAS SERVICE COMPANY

By:


Dane McKaughan
Attorney for Texas Gas Service Company

RAILROAD COMMISSION STAFF

By:

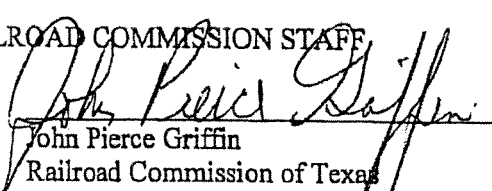

John Pierce Griffin
Railroad Commission of Texas

EXHIBIT A

TARIFFS

TEXAS GAS SERVICE COMPANY

North Texas Area

RATE SCHEDULE 1A

RESIDENTIAL SERVICE RATE

APPLICABILITY

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

TERRITORY

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

COST OF SERVICE RATE

During each monthly billing period:

A Customer Charge of	\$ 10.75 plus
All Ccf at	\$.29090 per Ccf

OTHER ADJUSTMENTS

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

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

Taxes: Plus applicable taxes and fees related to above.

CONDITIONS

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

Supersedes
April 30, 2009

Meters Read On and After
April 27, 2012

TEXAS GAS SERVICE COMPANY
North Texas Area

RATE SCHEDULE 2A

COMMERCIAL SERVICE RATE

APPLICABILITY

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

TERRITORY

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

COST OF SERVICE RATE

During each monthly billing period:

A Customer Charge of	\$ 22.50 plus
All Ccf at	\$ 0.28200 per Ccf

OTHER ADJUSTMENTS

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

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

Taxes: Plus applicable taxes and fees related to above.

CONDITIONS

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

Supersedes
April 30, 2009

Meters Read On and After
April 27, 2012

TEXAS GAS SERVICE COMPANY
North Texas Area

RATE SCHEDULE 2B

LARGE VOLUME COMMERCIAL SERVICE RATE

APPLICABILITY

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

TERRITORY

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

COST OF SERVICE RATE

During each monthly billing period:

A Customer Charge of	\$ 400.00 plus
All Ccf at	\$ 0.26200 per Ccf

OTHER ADJUSTMENTS

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

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

Taxes: Plus applicable taxes and fees related to above.

CONDITIONS

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

Supersedes
April 30, 2009

Meters Read On and After
April 27, 2012

TEXAS GAS SERVICE COMPANY
North Texas Area

RATE SCHEDULE 3A

INDUSTRIAL SERVICE RATE

APPLICABILITY

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

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

TERRITORY

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

COST OF SERVICE RATE

During each monthly billing period:

A Customer Charge of	\$ 50.00 plus
All Ccf at	\$ 0.24500 per Ccf

OTHER ADJUSTMENTS

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

Taxes: Plus applicable taxes and fees related to above.

CONDITIONS

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

Supersedes
April 30, 2009

Meters Read On and After
April 27, 2012

TEXAS GAS SERVICE COMPANY
North Texas Area

RATE SCHEDULE 3B

LARGE VOLUME INDUSTRIAL SERVICE RATE

APPLICABILITY

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

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

TERRITORY

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

COST OF SERVICE RATE

During each monthly billing period:

A Customer Charge of	\$ 400.00 plus
All Ccf at	\$ 0.22500 per Ccf

OTHER ADJUSTMENTS

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

Taxes: Plus applicable taxes and fees related to above.

CONDITIONS

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

TEXAS GAS SERVICE COMPANY

North Texas Area

RATE SCHEDULE 4A

PUBLIC AUTHORITY SERVICE RATE

APPLICABILITY

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

TERRITORY

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

COST OF SERVICE RATE

During each monthly billing period:

A Customer Charge of	\$ 40.00 plus
All Ccf at	\$ 0.27490 per Ccf

OTHER ADJUSTMENTS

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

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

Taxes: Plus applicable taxes and fees related to above.

CONDITIONS

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

Supersedes
April 30, 2009

Meters Read On and After
April 27, 2012

TEXAS GAS SERVICE COMPANY

North Texas Area

RATE SCHEDULE 4B

LARGE VOLUME PUBLIC AUTHORITY SERVICE RATE

APPLICABILITY

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

TERRITORY

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

COST OF SERVICE RATE

During each monthly billing period:

A Customer Charge of	\$ 400.00 plus
All Ccf at	\$ 0.25490 per Ccf

OTHER ADJUSTMENTS

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

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

Taxes: Plus applicable taxes and fees related to above.

CONDITIONS

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

Supersedes
April 30, 2009

Meters Read On and After
April 27, 2012

EXHIBIT B

DEPRECIATION RATES

TEXAS GAS SERVICE COMPANY
NORTH TEXAS SERVICE AREA

DEPRECIATION AND AMORTIZATION RATES

LINE NO.	DESCRIPTION	NTX DIRECT RATE (a)	TGS DIVISION RATE (b)
1	(301) Organization	3.5000%	N/A
2	(302) Franchises & Consents	3.9700%	N/A
3	(303) Misc. Intangible	3.3300%	N/A
4	(375) Structures & Improvements	3.3800%	N/A
5	(367) Transmission Mians	1.2400%	N/A
6	(369) Transmission Meas & Reg. Station	1.0800%	N/A
7	(376) Mains	1.2400%	N/A
8	(378) Meas. & Reg. Station - General	1.0800%	N/A
9	(379) Meas. & Reg. Station - C.G.	2.4600%	N/A
10	(380) Services	1.7800%	N/A
11	(381) Meters	3.6700%	N/A
12	(382) Meter Installations	3.6700%	N/A
13	(383) House Regulators	2.8900%	N/A
14	(385) Indust. Meas. & Reg. Stat. Equipment	2.9700%	N/A
15	(386) Other Property on Customer Premises	3.8700%	N/A
16	(390.1) Structures & Improvements	1.1800%	-85.3100%
17	(391.1) Office Furniture & Equipment	10.2700%	6.6600%
18	(391.6) Banner Software	N/A	6.6600%
19	(391.9) Computers & Electronic Equipment	10.2700%	4.0600%
20	(392) Transportation Equipment	10.6300%	12.5000%
21	(392.2) Pickup Trucks and Vans	N/A	12.5000%
22	(393) Stores Equipment	5.0000%	5.0000%
23	(394) Tools, Shop & Garage	3.3300%	6.6700%
24	(395) CNG Equipment	8.0400%	N/A
25	(396) Major Work Equipment	6.6700%	12.5000%
26	(397) Communication Equipment	6.6700%	6.6600%
27	(398) Miscellaneous General Plant	4.5400%	6.6700%

N/A = Not Applicable