GUD NO. 10112

STATEMENT OF INTENT OF BLUEBONNET NATURAL GAS, LLC TO COLLECT A SYSTEM REPLENISHMENT FEE IN HARDIN, JEFFERSON, LIBERTY, NACOGDOCHES, RUSK, AND TYLER COUNTIES, TEXAS

APPEARANCES

FOR APPLICANT

Bluebonnet Natural Gas LLC
Mr. Rene Garza, President
1717 St. James Place, Suite 340
Houston, Texas 77056

PROPOSAL FOR DECISION

PROCEDURAL HISTORY:

Date Filed and Docket Established:	September 2, 2011
Proposed Effective Date:	December 1, 2011
Suspension Order Date:	October 11, 2011
Hearing on the Merits:	January 12, 2012
Statutory Deadline:	April 27, 2012
Record Closed:	May 16, 2012
Proposal For Decision Circulation Date:	May 16, 2012
Heard By:	Mark Brock Technical Examiner Gene Montes Hearings Examiner

STATEMENT OF THE CASE

Bluebonnet Natural Gas LLC (Bluebonnet) requests a System Replenishment Fee (SRF) for the environs customers. The purpose of the SRF is to provide Bluebonnet a financing mechanism to replace aging main lines. Bluebonnet is a natural gas distribution utility serving seven (7) separate, non-contiguous natural gas distribution systems located in Hardin, Jefferson, Liberty, Nacogdoches, Rusk and Tyler Counties, Texas. Bluebonnet serves approximately 1,221 customers (1,134 Residential, 73 Small

Commercial and 14 Agricultural customers) on these seven distribution systems.[1] The proposed SRF is to be applied system wide to all customer classes.[2] The proposed SRF rate of $1.25 per MCF is to be charged as a line item on the customer's bill for a period of ten (10) years. If approved, the SRF is expected to generate approximately $97,725 annually from all customer classes, or a 10% increase. This amount is comprised of approximately $46,048 from the environs customers, $18,235 from the incorporated customers, and $33,443 from the irrigation customers.

After careful consideration of the evidence presented in this case, the Examiners recommend that the requested SRF be approved. The evidence demonstrates that the utility's mains are aging and that the systems are experiencing higher than average lost and unaccounted for gas (LUG). Bluebonnet has limited options to acquire the financing for the necessary system improvements. The evidence shows that all customers will benefit from the safety enhancements and lower utility operating costs if the SRF is approved.

I. Jurisdiction

The Commission has original jurisdiction over Bluebonnet Natural Gas LLC and the matters in this proceeding pursuant to *TEX. UTIL. CODE ANN.* §§ 102.001, 103.003, 103.051, 104.001, 121.051, 121.052, 122.151 (Vernon 2007 and Supp. 2011). 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, 121.003, 123.001, 123.002, 123.021, 123.022, 123.023, 123.024, and 16 *TEX. ADMIN. CODE* Chapter 7 (Vernon 2007 and Supp. 2011).

II. Procedural History

On September 2, 2011, Bluebonnet filed a *Statement of Intent* to collect a System Replenishment Fee in the unincorporated areas of its seven (7) separate, non-contiguous natural gas distribution systems located in Hardin, Jefferson, Liberty, Nacogdoches, Rusk and Tyler Counties, Texas. The SRF is proposed as a financing mechanism to replace aging and mains in its service area. The utility serves approximately 1,221 customers (1,134 Residential, 73 Small Commercial and 14 Agricultural customers). The proposed rates were suspended on October 11, 2012.

A hearing on the merits was held on January 12, 2012. Initial notice was filed by bill insert on January 20, 2012, to all affected customers with a proposed effective date of November 30, 2012, in accordance with TEX. UTIL. CODE ANN. § 104.103(b). The

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[1] The Examiners note that the Commission is without jurisdiction related to the assessment of a SRF to Bluebonnet's agricultural customers.

[2] Mr. Garza testified that he intends to apply the SRF to all customer classes, including the company's agricultural customers. TEX. UTIL. CODE ANN. § 121.003 provides that the act or acts of transporting, delivering, selling, or otherwise making available natural gas for fuel, either directly or indirectly, to an owner of an irrigation well, or the sale, transportation, or delivery of natural gas for any other direct use in an agricultural activity, does not make a person a gas utility, or make the person subject to the jurisdiction, control, and regulation of the Railroad Commission as a gas utility.

hearing was recessed to allow an opportunity for affected individuals to protest or intervene and present evidence. The notice informed affected persons to file written comments or to request to intervene no later than February 29, 2012. No protests were filed.

III. DISCUSSION OF THE PROPOSED SYSTEM REPLENISHMENT FEE

A. Pipeline Integrity Testing

Effective as of March 2011, operators of a natural gas distribution system must make a risk assessment of their pipeline according to service line leak rates, as follows: (1) Priority 1 – Segments with an annualized steel service line leak rate of 7.5% or greater, and an operator must complete the removal or replacement by June 30, 2013; (2) Priority 2 – Segments with an annualized steel service line leak rate of 5% or greater but less than 7.5%, and an operator must remove or replace no less than 10% of the original inventory per year; and (3) Priority 3 – Segments with an annualized steel service line leak rate of less than 5%, an operator is not required to remove or replace any Priority 3 segments; however, upon discovery of a leak on a Priority 3 segment, the operator must remove or replace rather than repair those lines.

In accordance with this Commission rule, Bluebonnet is required to implement the replacement of substandard mains.[3] Mr. Garza testified that Bluebonnet's distribution systems on average were installed in the 1960s and include over 42 miles of pipeline.[4] The high LUG percentages for Bluebonnet's systems demonstrate that the utility must assess the status of these lines and replace them in accordance with the applicable law.

B. Background

Bluebonnet's last general system wide rate increase of $219,991 annually was approved by the Railroad Commission of Texas (Commission) on November 12, 2008.[5] Moreover, Bluebonnet is currently charging a surcharge for the recovery of costs related to the relocation of a main line in the Douglas Service Area for the expansion of State Highway 21. This surcharge arose as the result of an application filed by Bluebonnet on June 3, 2010, after the Texas Department of Transportation requested Bluebonnet relocate the main line. That application was docketed as GUD No. 9993. Bluebonnet's request was approved administratively by the Commission on June 25, 2010 and allows the recovery of $150,362.62 from all customers served by Bluebonnet at the rate of $1.286 per Mcf.

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[3] 16 TEX. ADMIN. CODE § 8.209

[4] Direct Testimony of Rene A. Garza, pg. 3, ln. 4

[5] That matter was GUD No. 9810, which also included consolidated dockets GUD Nos. 9823 and 9820 (Petition for De Novo Review of the Denial of the Statement of Intent filed by Bluebonnet Natural Gas, LLC by the City of Devers, Texas and Petition for De Novo Review of the Denial of the Statement of Intent filed by Bluebonnet Natural Gas, LLC by the City of Mt. Enterprise, Texas), respectively.

Rene Garza, President of Bluebonnet Natural Gas LLC, testified at the hearing on the merits of the instant docket that as of December 31, 2011, Bluebonnet has recovered $75,055.33, leaving the relocation surcharge remaining balance at $75,307.29. Mr. Garza testified further that in an effort to minimize the impact on rate payers that he agrees to delay the proposed effective date for the SRF to November 30, 2012. This timing will allow the $1.286 per Mcf for the relocation recovery fee to conclude prior to the implementation of the $1.25 per Mcf for the SRF and result in a seamless transition for the two fees.

Mr. Garza testified that Bluebonnet's systems are approximately 40 years old and the pipes are comprised of a mix of materials that include PVC, steel and plastic poly. Even though Bluebonnet received a rate increase in 2008, the evidence presented at the hearing on the merits in the instant docket, demonstrates that the utility has been operating at a loss, ($171,334) in 2008, ($43,110) in 2009, and ($91,108) in 2010.[6]

Of further concern for the utility is that the Lost and Unaccounted for Gas (LUG) is increasing. By Commission Rule 16 TAC § 7.5525, the utility may recover up to 5% of its LUG gas cost. Any amount over 5% is not recoverable from the customer and results in a loss to the utility. In nearly every distribution system, Bluebonnet's loss is over the maximum recoverable amount of 5%. The following table illustrates the LUG for each system:

Table 1.0
Lost and Unaccounted For Gas (LUG)
Twelve Months Ended June 30[7]

System	2009	2010	2011
Raywood	8.87 %	10.11 %	12.91 %
Devers	12.03 %	22.54 %	30.09 %
Hull	13.19 %	18.33 %	18.79 %
Nome	19.44 %	8.78 %	21.84 %
Wildwood	4.87 %	6.98 %	7.26 %
Mt. Enterprise	2.53 %	9.53 %	11.17 %
Douglas	10.29 %	5.70 %	3.21 %
Overall LUG	7.14 %	10.23 %	12.39 %

C. Utility's Request

Bluebonnet requests that the Commission approve a System Replenishment Fee (SRF) for the specific purpose of replacing aging mains on their distribution systems. Bluebonnet proposes to collect a total of approximately $97,725 annually with a surcharge of $1.25 per Mcf. The utility proposes to collect from all classes of customers,

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[6] Exh. RAG 4, Response to Ex. RFI No. 2-2, Income Tax Schedule C for 2008, 2009 and 2010.
[7] Exh. RAG-4, p. 3

residential, small commercial, public authority and irrigation because all classes will benefit from the replaced mains by both improved safety and lower operating costs. While the Commission does not have original jurisdiction to approve rates in the incorporated areas and does not have jurisdiction over rates charged the irrigation customers, the evidence in the record demonstrates that the utility intends to collect from all classes of customer.

The following table shows the breakdown of the customer count by classes for each of Bluebonnet's systems.

Table 2.1
Customer Count[8]

Avg. Customer Count - 2010	Raywood	Devers	Hull	Nome	Wildwood	Mt. Enterprise	Douglas
Residential	156	95	115	89	132	447	102
Sm. Commercial	4	4	5	4	5	7	3
Public Auth.	5	9	1	3	0	16	5
Ag. - Farm	1	0	0	0	0	8	4
Total	166	108	121	96	137	478	114

Based on the sales volume for 2010, if the proposed $1.25 Mcf SRF is approved, Bluebonnet anticipates collecting approximately $97,725 annually from the sales volumes by system, as follows:

Table 2.2
Sales Volumes[9]

Sales in Mcf – 2010	Raywood	Devers	Hull	Nome	Wildwood	Mt. Enterprise	Douglas	Total Vol – Mcf
Residential	5,997	3,732	3,867	3,085	4,101	18,231	4,976	43,879
Sm. Commercial	135	95	266	486	371	842	718	2,913
Public Auth.	271	506	506	63	0	1,655	1,633	4,634
Ag. - Farm	7,629	0	0	0	0	13,501	5,624	26,754
Total	14,032	4,333	4,639	3,634	4,472	34,229	12,951	78,180

Table 2.3
System Replenishment $ Fee Amounts

	Raywood	Devers	Hull	Nome	Wildwood	Mt.	Douglas	Total

[8] Exh. RAG-3, Response to Ex. RFI No. 1-1, Supplemental information
[9] Exh. RAG-3, Response to Ex. RFI No. 1-1, Supplemental information

						Enterprise		Vol – Mcf
Total Mcf	14,032	4,333	4,639	3,634	4,472	34,229	12,951	78,180
SRF Per Mcf	$ 1.25	$ 1.25	$ 1.25	$ 1.25	$ 1.25	$ 1.25	$ 1.25	$ 1.25
Total $ SRF	$ 17,290	$ 5,799	$ 5,416	$ 4,542	$ 5,590	$ 42,899	$ 16,189	$ 97,725

The utility's request is a specific fee proposed over a ten (10) year period for a specific purpose for the replacement of its main lines. Because the SRF has a specific designation for main line replacement, the SRF is a contribution in aid of construction and is not considered income or revenue to the utility. The amounts collected will not be used for the replacement of service lines, risers and meters.

Bluebonnet proposes to provide an annual report for monitoring purposes to the Commission that will provide details of the previous year's replacement project and forecast the next ten (10) year's annual projects. Each annual report will assess the previous year's improvement benefit to the system and the customer from both safety and economic standpoint. Each annual report shall include a beginning balance and ending balance, the specific main line replaced, amounts expended, a complete accounting of the project for the previous year, a detailed analysis of projects forecasted by year for the next ten (10) years, to include a reassessment of the forecast projects by risk, need and safety issues, and the benefit to the customer relative to the previous year's completed project and the forecasted projects.

The Commission has previously approved a System Replenishment Fee in GUD No. 9703, *Statement of Intent filed by T & L Gas Co. to Change Rates in the Inincorporated Rural Area of Conroe, Texas in Montgomery County*. The Commission approved rates, including the SRF tariff, on March 29, 2007. The SRF approved in GUD No. 9703 is a surcharge of $0.50 per Mcf from all classes of customers. T & L Gas Co. (T & L) files a report annually showing the amounts collected, projects completed and future projects proposed. The reports show T & L has successfully completed 5 projects since approved by the Commission and another project is in mid-completion. T & L has collected $50,302 from customers in CIAC and completed $47,510 in replacement of 7,900 feet of pipe.

The utility has agreed to delay the implementation of the proposed effective date for the SRF is set to commence after the remaining $75,307 balance for the relocation recovery surcharge[10] has been completed, which will be approximately November 30, 2012. Mr. Garza testified that the proposed timing is in an effort for a seamless transition between the two surcharges and to minimize an adverse impact on the utility's predominantly rural customers.

D. Books of Account

Bluebonnet is required to operate under and adopt the Federal Energy Regulatory Commission's (FERC) Uniform System of Accounts (USOA).[11] The amounts collected

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[10] As discussed above, the relocation surcharge was approved in GUD No. 9993.
[11] 16 TEX. ADMIN. CODE § 7.310.

from the customer under the proposed SRF will be accounted for and recorded pursuant to the FERC USOA's specific guidelines for gas plant construction when Contributions in Aid of Construction (CIAC) are involved. Gas Plant Instruction (2)(D)[12] states,

> The gas plant accounts shall not include the cost or other value of gas plant contributed to the company. Contributions in the form of money or its equivalent toward the construction of gas plant shall be credited to the accounts charged with the cost of such construction. Plant constructed from contributions of cash or its equivalent shall be shown as a reduction to gross plant constructed when assembling cost data in work orders for posting to plant ledger of accounts. The accumulated gross costs of plant accumulated in the work order shall be recorded as a debit in the plant ledger of accounts along with the related amount of contributions concurrently being recorded as a credit.

Pursuant to FERC USOA, utility plant is recorded in Account No. 101, Gas Plant in Service. Account No. 101 is sub-accounted into the following:

Table 3.0
Distribution Plant Accounts

Acct. No.	Account Description
374	Land and Land Rights
375	Structures and Improvements
376	Mains
377	Compressor Station Equipment
378	Measuring and Regulating Station Equipment - General
379	Measuring and Regulating Station Equipment – City Gate Check Stations
380	Services
381	Meters
382	Meter Installations
383	House Regulators
384	House Regulatory Installations
385	Industrial Measuring and Regulating Station Equipment
386	Other Property on Customers' Premises
387	Other Equipment

Mr. Garza testified that Bluebonnet will maintain the proper FERC accounting in relation to the SRF.[13] Mr. Garza testified that he understands that this means that the

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[12] Examiners' Exh. 1

[13] Exh. RAG-3. In addition to the testimony by Mr. Garza at the hearing on the merits, Bluebonnet confirmed in the utility's response to Examiner RFI No. 1-2(b) that the utility will maintain the proper FERC procedures in relation to the SRF.

amounts collected through the SRF will be in accordance with the FERC USOA Gas Plant Instructions for original cost provisions and General Instructions for Accounting. Mr. Garza also testified that Bluebonnet will not use the SRF collected amounts for replacement of assets that are properly accounted for in Account Nos. 377 – 387. System mains are the only assets eligible for the use of the funds collected from the SRF, which are properly attributed to Account No. 376. With one exception, however, it may be possible that Account Nos. 374 and 375 may be used if the asset relates to main replacement. Similarly, Mr. Garza testified that the proposed SRF will not be used for service lines, risers, meters or other non-infrastructure equipment. Additionally, the proposed SRF will not be used to compensate employees, replace general plant, vehicles, or items normally expensed such as office supplies or for operations and maintenance expenses.

Mr. Garza testified that he is aware that the SRF collected from customers are properly categorized as a credit to the account Contributions in Aid of Construction (CIAC), which serve to reduce, or have the net effect, on invested capital. Because of this FERC USOA accounting procedure, Bluebonnet will not be allowed to earn a rate of return on CIAC as invested capital.

E. Interim Rate Adjustment

Utilization of TEX. UTIL. CODE ANN. § 104.301, Interim Adjustment for Changes in Investment, is typically used by utilities that have infrastructure improvements between rate cases. It allows the utility, subject to subsequent review and refund, an incremental adjustment to approved rates for the increase in infrastructure. This Code provision and Commission rule, TEX. ADMIN. CODE § 7.7101, provides that a utility may only request the rate adjustment if the investment in infrastructure is complete and in service. This necessitates that the utility has the ready capital to invest, complete the replacement, place it in service and only then may the utility request a rate adjustment. The evidence shows in this case that Bluebonnet does not have the ready capital nor the financial means to finance the system replacement projects.

F. Bluebonnet's Financial Position

The evidence presented at the hearing on the merits demonstrates that Bluebonnet does not have the means through cash flow or available financing to make the required system improvements. Mr. Garza testified that Bluebonnet has operated at a loss for the last three years, 2008 through 2010, ($171,334), ($43,110), and ($91,108), respectively. This is further substantiated by an examination of Bluebonnet's Schedule C, Profit or Loss From a Business.[14] Moreover, current daily and monthly operation expenses appear reasonable and necessary for the utility as shown by an independent audit report of the utility.[15] This evidence shows that the utility is operating in a reasonable manner, yet does not have the cash flow necessary for the required replacement of mains.

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[14] Exh. RAG 4, Response to Ex. RFI No. 2-2, Schedule C for 2008, 2009 and 2010
[15] Exh. RAG-3

Furthermore, this lack of capital for improvements does not stem from any past management or operations performance. As previously mentioned, Bluebonnet received an annual rate increase of $219,991 in 2008. In that case, GUD No. 9810, the Commission found that the utility operated in a just and reasonable manner and the expenses related to general administrative, distribution, customer accounting and collections, operation and maintenance, depreciation, income tax and other taxes were reasonable and necessary, as adjusted.[16] Likewise, in GUD No. 9810, the utility demonstrated a just and reasonable use of funds and revenue.

What is more, Mr. Garza testified that he met with his banker to request the $100,000 over 10 years in capital required for the system improvements. Bluebonnet's lender analyzed Bluebonnet's financial position and issued a written statement denying the utility's request.[17]

Bluebonnet has not yet filed its proposed increase with the incorporated cities within its service area and Mr. Garza testified that he intends to file these applications after the conclusion of this docket.

G. Rate Case Expenses

Bluebonnet is not requesting reimbursement of rate case expenses at this time. Bluebonnet has not employed outside consultants or counsel for the SRF request in an effort to reduce costs to its customers. As of the date of the hearing, Mr. Garza stated that his only expenses related to the SRF were his time and gasoline and that he was not requesting reimbursement for those items.

IV. Tariff

Attached to this Proposal for Decision is a proposed tariff. The tariff includes a detailed reporting compliance requirement that will allow the Commission an annual monitoring of amounts collected and main replacement. The Examiners have reviewed the proposed tariff for compliance with the Commission's rules, completeness, content and recommend its adoption, if the Commission approves Bluebonnet's request.

V. Conclusion and Examiner's Recommendation

The Examiners have reviewed the application, conducted an analysis of the request, submitted two sets of requests for information for clarification of the application and discovery purposes, and reviewed statutes and rules for jurisdiction and reasonableness. It is the Examiners' opinion that Bluebonnet has few alternatives for raising the necessary capital for replacement of mains. Bluebonnet is limited to a 5% recovery of purchased gas expense. As Table 1 above shows, the LUG is increasing and contributes to the losses of earnings of Bluebonnet. In the Examiners' judgment, Bluebonnet does not have the cash flow or funds to make the necessary replacement of

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[16] GUD No. 9810, FOFs 29, 30, and 31.
[17] Testimony of Rene Garza and Exh. RAG-3

mains to reduce its LUG and comply with pipeline integrity safety requirements. Bluebonnet has provided evidence that it cannot raise the capital necessary to use TEX. UTIL. CODE § 104.301 and cannot raise the funds by borrowing. Bluebonnet's alternative is a SRF that will provide the funds for main replacements. The Examiners recommend approving the System Replenishment Fee. The Examiners' also recommend the SRF begin and become effective when the relocation fee has recovered 100% of the remaining $75,307.29.

Respectfully submitted,

Mark Brock
Mark Brock
Technical Examiner
Gas Services Division

Gene Montes
Gene Montes
Hearings Examiner
Office of General Counsel

BEFORE THE
RAILROAD COMMISSION OF TEXAS

STATEMENT OF INTENT OF BLUEBONNET NATURAL GAS, LLC TO COLLECT A SYSTEM REPLENISHMENT FEE IN HARDIN, JEFFERSON, LIBERTY, NACOGDOCHES, RUSK, AND TYLER COUNTIES, TEXAS	**§ § § § § § §**	**GAS UTILITIES DOCKET NO. 10112**

PROPOSED 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. CHAP 551, *et seq*. (Vernon 2008 & Supp. 2011). The Railroad Commission adopts the following findings of fact and conclusions of law and orders as follows:

FINDINGS OF FACT

1. Bluebonnet Natural Gas LLC ("BNG") is a gas utility as that term is defined in the Texas Utility Code.

2. BNG operates its regulated activities through 7 separate, non-contiguous natural gas distribution systems in approximately 6 counties in the Southeast portion of Texas.

3. BNG serves unincorporated residential and small commercial customers that are within the original jurisdiction of the Railroad Commission of Texas ("Commission").

4. BNG serves incorporated residential and small commercial customers in the City of Devers and Mt. Enterprise that are within the appellate jurisdiction of the Railroad Commission of Texas ("Commission").

5. The Commission has jurisdiction over BNG 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. 2011). 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.

6. BNG also serves agricultural customers that are specifically exempt from economic regulation by the Commission, in accordance with TEX. UTIL. CODE ANN. §§ 101.003(7)(B)(iii), 123.001, *et seq.*,and 16 TEX. ADMIN. CODE § 7.351(d)(3), however,

the Commission maintains safety jurisdiction over the pipeline operations, pursuant to TEX. UTIL. CODE ANN. §§ 121.001, *et seq.*, and 16 TEX. ADMIN. CODE Chapter 8.

7. On September 2, 2011, Bluebonnet Natural Gas LLC filed a *Statement of Intent* to establish a System Replenishment Fee and related tariff.

8. BNG proposed an effective date of December 1, 2011.

9. On October 11, 2011, the Commission suspended the implementation of the rate.

10. Notice of the proposed increase was provided as a separate mailing for all affected customers on January 12, 2012, satisfying the requirements of 16 TEX. ADMIN. CODE §§1.45, 7.230 and 7.235, TEX. UTIL. CODE ANN. § 104.103, and TEX. GOV'T. CODE ANN. § 2001.052.

11. BNG's last rate case, GUD No. 9810, provided an increase of $219,991 annually and was approved in November 2008.

12. In June 2010, the Commission approved recovery of relocated pipeline in the amount of $150,362.62 to be recovered at a rate of $1.286 per Mcf.

13. As of December 31, 2011, BNG recovered $75,055.33 of the $150,362.62, leaving $75,307.29 to be recovered from the customer.

14. BNG requests approval of a System Replenishment Fee (SRF) to be uniformly assessed to all customer classes throughout the unincorporated areas of its service area.

15. BNG projects the SRF to generate $97,725 annually on a company-wide basis from its customers based on test year volumes at a rate of $1.25 per Mcf.

16. Effective March 2011, BNG must make a risk assessment of its pipeline systems under Commission rules.

17. BNG has approximately 42 miles of pipeline that requires integrity testing.

18. For the twelve months ended June 30, 2011, BNG's Lost and Unaccounted For Gas (LUG) ranged from 3.21% to 30.09%.

19. It is reasonable that BNG is only allowed to recover its actual LUG, up to a maximum of 5% loss.

20. The customer will benefit from replacement of pipeline that exceeds 5% LUG from a safety aspect.

21. BNG will benefit from replacement of pipeline that exceeds 5% by reducing its losses of gas cost that cannot be passed on to the customer.

22. The proposed SRF would increase the amount received by the company from the customer by approximately10%.

23. The proposed SRF is a Contribution In Aid of Construction (CIAC).

24. BNG is not seeking rate case expense reimbursement.

25. Notice of the Hearing was given to all parties entitled to notice, and the hearing on the merits in this matter was held on January 12, 2012.

26. BNG does not have the capital or the cash flow to utilize an Interim Rate Adjustment to replace the pipe that has an LUG exceeding 5%.

27. BNG was not able to secure financing to replace the pipe that has an LUG exceeding 5%.

28. BNG has been operating at a loss for the last three years, 2008 through 2010, ($171,334), ($43,110), and ($91,108), respectively.

29. BNG is not seeking rate case reimbursement.

30. It is reasonable that BNG collect $1.25 per Mcf from all classes of customers for the sole purpose of main replacement, as necessary.

Books and Records

31. BNG must maintain its books and records in accordance with Federal Energy Regulatory Commission (FERC) Uniform System of Accounts (USOA) and Commission Rule 7.310.

32. BNG must account for funds received from the customer in the form of CIAC according to Gas Plant Instruction (2)(D) in the FERC USOA.

33. It is reasonable that the amounts collected through the SRF be accounted for as Contribution in Aid of Construction (CIAC).

34. It is reasonable for BNG to account for all SRF amounts collected from the customer monthly by class of customer, maintain detailed records of amounts expended for each replacement by project, and maintain detailed descriptions of each project.

35. It is reasonable that BNG forecast and reassess for each of the ten-years through on-going risk analysis each proposed project and re-prioritize, as needed, each project annually.

36. It is reasonable that BNG maintain detailed records on each project describing the leak repair history, the lost and unaccounted for gas loss for the twelve-months ended June 30 prior to replacement and a comparison of LUG to the current twelve-months ended June

30, improvements in repair history, safety improvements and compliance with Texas statutes and commission regulations.

37. It is reasonable for BNG to estimate annually the volumes and amounts to be collected for the current year.

38. BNG will not be able to earn a return on the capital investment that has been replaced using the funds obtained from the customers through the SRF in future rate cases.

39. It is reasonable that BNG not earn a return on the capital investment that is associated with the CIAC.

40. BNG is currently in compliance with the FERC USOA.

Tariff

41. It is reasonable that the tariff's intended application of the SRF is to all classes of customers.

42. It is reasonable that the tariff approved in this docket is only applicable to customer under the original jurisdiction of the Commission.

43. It is reasonable that BNG file a System Replenishment Fee Annual Report 45 days after the end of each calendar year as described in the tariff. (Attachment A)

CONCLUSIONS OF LAW

1. Bluebonnet Natural Gas LLC is a "Gas Utility" as defined in TEX. UTIL. CODE ANN. §101.003(7) (Vernon 2007 & Supp. 2011) and §121.001(2007) and is therefore subject to the jurisdiction of the Railroad Commission of Texas (Commission).

2. The Commission has jurisdiction over Bluebonnet Natural Gas LLC and its *Statement of Intent* under TEX. UTIL. CODE ANN. §§ 102.001, 103.022, 103.054, & 103.055, 104.001, and 104.201 (Vernon 2007 and Supp. 2011).

3. Under TEX. UTIL. CODE ANN. §102.001 (Vernon 2007 and Supp. 2011), the Commission has exclusive original jurisdiction over the rates and services of a gas utility that distributes natural gas in areas outside of a municipality and over the rates and services of a gas utility that transmits, transports, delivers, or sells natural gas to a gas utility that distributes the gas to the public.

4. This Statement of Intent was conducted in accordance with the requirements of the Gas Utility Regulatory Act (GURA), and the Administrative Procedure Act, TEX. GOV'T CODE ANN. §§2001.001-2001.902 (Vernon 2008 and Supp. 2011) (APA).

5. TEX. UTIL. CODE ANN. §104.107 (Vernon 2007 and Supp. 2011) provides the Commission's authority to suspend the operation of the proposed rate for 150 days from the date the schedule would otherwise go into effect.

6. The proposed rate constitutes a major change as defined by TEX. UTIL. CODE ANN. §104.101 (Vernon 2007 and Supp. 2011).

7. In accordance with TEX. UTIL. CODE ANN. §104.103 (Vernon 2007 and Supp. 2011), 16 TEX. ADMIN. CODE ANN. §§ 7.230 and 7.235, adequate notice was properly provided.

8. In accordance with TEX. UTIL. CODE ANN. §104.102 (Vernon 2007 and Supp. 2011), 16 TEX. ADMIN. CODE ANN. §§ 7.205 and 7.210, Bluebonnet Natural Gas LLC filed its Statement of Intent to change its gas distribution rate.

9. The rate and rate design proposed by Bluebonnet Natural Gas LLC are found to be just and reasonable, are not unreasonably preferential, prejudicial, or discriminatory, and are sufficient, equitable, and consistent in application to each class of consumer, as required by TEX. UTIL. CODE ANN. §104.003 (Vernon 2007 and Supp. 2011).

10. In accordance with the stated purpose of the Texas Utilities Code, Subtitle A, expressed under TEX. UTIL. CODE ANN. §101.002 (Vernon 2007 and Supp. 2011), the Commission has assured that the rates, operations, and services established in this docket are just and reasonable to customers and to the utilities.

11. In this proceeding, Bluebonnet Natural Gas LLC has the burden of proof under TEX. UTIL. CODE ANN. §104.008 (Vernon 2007 and Supp. 2011) to show that the proposed rate change is just and reasonable.

12. Bluebonnet Natural Gas LLC is required by 16 TEX. ADMIN. CODE §7.315 to file electronic tariffs incorporating rates consistent with this Order within thirty days of the date of this Order.

13. Bluebonnet Natural Gas LLC is required by 16 TEX. ADMIN. CODE § 7.310 to utilize the Federal Energy Regulatory Commission's (FERC) Uniform System of Accounts (USOA) prescribed for natural gas companies.

14. Under TEX. UTIL. CODE ANN. §§ 102.101, 102.003, and 102.202, the Commission has the authority to prescribe the records, reports and forms for reports to be kept by a utility.

IT IS THEREFORE ORDERED that Bluebonnet Natural Gas LLC proposed rate is hereby **APPROVED.**

IT IS FURTHER ORDERED that the System Replenishment Fee Annual Report content established in the findings of fact and conclusions of law and shown on the attached tariff for Bluebonnet Natural Gas LLC is **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, Bluebonnet Natural Gas LLC shall electronically file its tariff with the Gas Services Division. The tariff shall incorporate the rate and report requirements consistent with this Order, as stated in the findings of fact and conclusions of law and shown on the attached Tariff.

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

IT IS ALSO ORDERED that all pending motions and requests for relief not previously granted or granted herein are hereby **DENIED.**

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 ANN. §2001.146(e), the time allotted for Commission action on a motion for rehearing in this case prior to its being overruled by operation of law, is hereby extended until 90 days from the date the order is served on the parties.

SIGNED this 6th day of June, 2012.

RAILROAD COMMISSION OF TEXAS

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CHAIRMAN BARRY T. SMITHERMAN

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DAVID PORTER COMMISSIONER

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BUDDY GARCIA COMMISSIONER

ATTEST:

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SECRETARY

ATTACHMENT A

BLUEBONNET NATURAL GAS LLC
TARIFF - SYSTEM REPLENISHMENT FEE
GUD NO. 10112

Bluebonnet Natural Gas LLC	No.:
1717 St. James Place – Suite 340	Effective Date:
Houston, Texas 77056	Revision No.:
	Page 1 of 2

All Classes of Customers in Hardin, Jefferson, Liberty, Nacogdoches, Rusk and Tyler Counties, Texas.

System Replenishment Fee

This shall be an individual line item charge, which is designated for construction costs and replacement of gas mains. This will be utilized for a period of up to ten (10) years. The necessity of the System Replenishment Fee (SRF) shall be determined annually by the utility at the end of each calendar year. A report of the utility's need for continuation of the fee, the replacements made in the previous calendar year and the proposed replacements for the current period shall be made and filed with the Director of the Gas Services Division within 45 days after the end of each calendar year.

A charge of $1.25 per Mcf will be applied to all consumption by all classes of customers.

The SRF of $1.25 per Mcf is for a period of no more than ten (10) years. The SRF shall be used to replace the distribution systems main infrastructure. The SRF shall not be used to compensate the utility's employees, replace office equipment, vehicles, office supplies, normal operation and maintenance expenses, meters, risers, service lines or other non-infrastructure equipment. The utility shall maintain a separate auditable account of the monies collected and expended on system replacement.

System Replenishment Fee Annual Report

The SRF Annual Report shall include the following:

1.) The utility's reassessment of the necessity of the continuation of the fee by determining:
   a) A detailed description of the replacements that have been made in the previous 12-month period and the dollars expended on those replacements;
   b) The beginning balance at January 1st and the ending balance at December 31st;

Bluebonnet Natural Gas LLC
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Houston, Texas 77056

c) A detailed description of the overall replacement or repairs that still need to be made;

d) An estimate of the volumes for the current year and the amount of the estimated fees that will be collected;

e) A reassessment of the remaining replacements plans for each of the remaining years by year to include revised estimates of costs.

f) For each replacement a detailed description of the leak repair history and loss and unaccounted for gas for the year prior to the replacement and a comparison to the year following the replacement showing any improvement in repair history, loss and unaccounted for gas, safety and compliance with Statutes and Commission Rules.

2.) A detailed list of the materials and estimated costs in the current years proposed replacement plan;

3.) A list of the contractors and suppliers of materials for the previous years replacement project.

4.) A reconciliation of the previous year's project expenditures by identifying each contractor and supplier to the dollars expended for each contractor and supplier.