



RAILROAD COMMISSION OF TEXAS

HEARINGS DIVISION

GUD NO. 10142

**STATEMENT OF INTENT TO CHANGE GAS RATES
BY APPROVING PIPELINE INTEGRITY TESTING RIDER
IN THE ENVIRONS OF THE EL PASO SERVICE AREA**

APPEARANCES:

APPLICANT: Texas Gas Service Company, a Division of ONEOK, Inc.

J. Alan Holman
Locke Lord LLP
100 Congress Ave., Suite 300
Austin, TX 78701
(512) 305-4700 - office
(512) 305-4800 - fax

RAILROAD COMMISSION OF TEXAS:

John Pierce Griffin
Assistant Director of Appellate Law
Railroad Commission of Texas
1701 N. Congress
P.O. Box 12967
Austin, Texas 78711-2967
(512) 475-3433 - office
(512) 463-6684 – fax

PROCEDURAL HISTORY:

Docket Established:	February 10, 2012
Interim Order for Early Implementation of Rates:	February 28, 2012
Suspension Order:	February 28, 2012
Final Testimony Submissions:	May 23, 2012 (via pre-filed)
	July 13, 2012
Stipulation and Settlement Agreement	July 13, 2012
Heard By:	Cecile Hanna, Hearings Examiner
	Rose Ruiz, Technical Examiner
Record Closed:	December 14, 2012
PFD Circulation:	December 14, 2012
Statutory Deadline:	None – Waived by Applicant

STATEMENT OF THE CASE

On February 10, 2012, Texas Gas Service Company (TGS or company), which is a division of ONEOK, Inc. (ONEOK), filed a proceeding to recover Pipeline Integrity Testing (PIT) expenses for the environs of the El Paso Service Area (EPSA). TGS and the Railroad Commission Staff (Staff) filed a Stipulation and Settlement Agreement (Agreement) on July 13, 2012, that contemplates an identical PIT surcharge rate for the environs as the in-city ratepayers for the EPSA. The PIT Rider proposes to increase the company's revenues from its environs customers by approximately \$135,284 over four years, or approximately \$33,821 per year (plus or minus any interest accruing on underrecoveries and overrecoveries). TGS has also requested recovery of rate case expenses in the amount of \$36,306.89 and proposes that those expenses be recovered through a 25¢ per bill surcharge over an approximately one year period. Unless clarified in exceptions, due to a discrepancy in the expense for mailing of public notice, the Examiners recommend that the Stipulation and Settlement Agreement be adopted with an adjustment limiting the total rate case expense recovery to \$36,256.89.

PROPOSAL FOR DECISION

I. Introduction

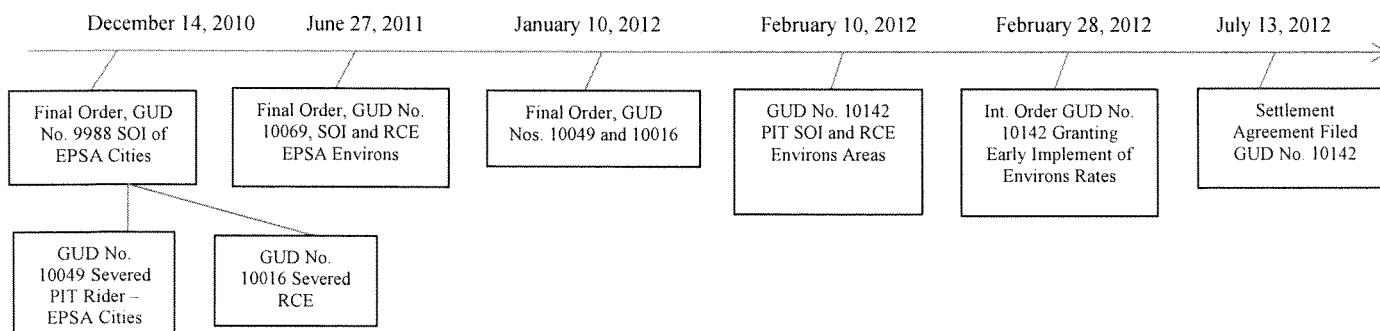
The specific issue presented in this case is whether the Railroad Commission (Commission) should approve the Stipulation and Settlement Agreement (Settlement Agreement) of the parties regarding Pipeline Integrity Testing (PIT) expenses for the environs of the El Paso Service Area (EPSA) for Texas Gas Service Company (TGS or company), which is a division of ONEOK, Inc. (ONEOK). The settlement agreement was filed on July 13, 2012, settling all issues in dispute in this docket between TGS and Railroad Commission Staff (Staff). The settlement agreement proposes a PIT surcharge rate schedule, which is identical to that approved for the in-city ratepayers, also be approved for the environs. The settlement agreement proposes for the company to recover the PIT expenses via the PIT Rider instead of through base rates. The PIT Rider proposes to increase the company's revenues from its environs customers by approximately \$135,284 over four years, or approximately \$33,821 per year (plus or minus any interest accruing on underrecoveries and overrecoveries).

Furthermore, the settlement agreement provides that TGS has incurred reasonable and necessary rate case expenses of \$36,306.89 and proposes that those expenses be recovered through a 25¢ per bill surcharge over an approximately one year period. The Examiners recommend approval of the settlement agreement with one downward adjustment of \$50 to the requested rate case expenses.

II. Background and Procedural History

A. Background

This docket, GUD No. 10142, is related to prior Commission dockets. A timeline of the relevant dockets and events may be useful as a review of the background of this case, as follows:



On May 12 and May 24, 2010, Texas Gas Service Company (TGS) filed appeals with the Commission from rate setting actions of (1) the City of El Paso and (2) the other cities and towns comprising the El Paso Service Area (EPSA), respectively. Those appeals were docketed as GUD No. 9988 and GUD No. 9992, and were eventually consolidated under GUD No. 9988.

The Commission approved an increase in TGS' revenue requirement and established new rates and charges by Final Order dated December 14, 2010, for GUD No. 9988. The rates established by that Final Order were implemented by TGS within the corporate boundaries of the Cities beginning with bills rendered on January 19, 2011. Identical rates were thereafter approved by the Commission for the environs of the EPSA by Final order issued in GUD No. 10069 on June 27, 2011.

As part of its Final Order in GUD No. 9988, the Commission severed the issues regarding TGS' recovery of Pipeline Integrity Testing (PIT) expenses through a reconcilable rider and docketed those issues as GUD No. 10049. Similarly, the rate case expense issues for both GUD No. 9988 and 10049 were severed into a separate proceeding as GUD No. 10016.

The parties to GUD No. 10049 ultimately entered into a Stipulation and Settlement Agreement that resolved the issues in dispute. The Commission adopted the Settlement Agreement by Final Order in GUD No. 10049 on January 10, 2012. The Final Order contains a PIT Rider that provides for the recovery of the PIT expenses in the EPSA Cities. The company calculated the PIT Rider rate for each customer class using system wide data for both the in-city and environs operations. GUD No. 10049, however, did not approve the EPSA environs PIT surcharge.

B. Early Implementation of Rates

In this docket, GUD No. 10142, the Commission issued an Interim Order Granting Early Implementation of Rate Change¹ on February 28, 2012. This Interim Order allowed TGS to implement the PIT Rider in the environs of the EPSA on March 1, 2012, which is the same date that the Rider became effective in the incorporated areas pursuant to the Final Order issued in GUD No. 10049. TGS asserted that early simultaneous implementation of the Rider in the environs would enable TGS to merge and simplify administration of the Rider on a coordinated basis throughout the entire EPSA. This will in turn, make the revenue tracking process and required reporting much less burdensome for TGS and simpler for its customers and regulatory authorities to track.

The Interim Order authorized the early implementation of the PIT fees for the EPSA environs customers prior to the required notice period to rate payers and an opportunity for hearing. Now, the Commission has before it the merits of the case for a final decision through a Stipulation and Settlement Agreement, as there has been notice to rate payers by mailing and an opportunity for hearing. No protests to the Statement of Intent were filed. If the proposed Rider is ultimately rejected or approved in an amended form by the Commission, the Interim Order provides that TGS will refund, credit, or surcharge affected customers.

III. Jurisdiction and Notice

The Commission has jurisdiction over the applicant, associated affiliates, the proposed recovery of rate case expenses, and over the matters at issue in this proceeding pursuant to TEX.

¹ TGS based the request for early implementation of the PIT fees in the EPSA environs, on GURA §104.104(a) and Commission Rule §7.220(b).

UTIL. CODE ANN. §§ 102.001, 103.003, 103.033, 103.051, 104.001, 121.051, 121.052, and 121.151 (Vernon 2007 and Supp. 2012). The statutes and rules involved in this proceeding include, but are not limited to TEX. UTIL. CODE ANN. §§ 104.051, 104.101, 104.102, 104.103, 104.105, 104.106, 104.107, 104.110, 104.301, and 16 TEX. ADMIN. CODE Chapter 7.

On February 28, 2012, the Commission suspended the implementation of TGS' proposed rates for up to 150 days. TGS, however, has waived² the proposed effective date of the rates in this case, thereby waiving the statutory deadline. TGS notified its EPSA environs customers of the proposed changes in gas rates by separate mailing under GURA § 104.103(b)(1) and 16 TEX. ADMIN. CODE § 7.230(c) on March 19, 2012. No protests to the Statement of Intent were filed and the only parties are the company and Railroad Commission of Texas Staff. The parties reached an agreed resolution of all issues in dispute and filed a Stipulation and Settlement Agreement (Settlement) on July 13, 2012.

IV. Analysis of the Proposed Stipulation and Settlement Agreement

The Examiners have reviewed the proposed settlement agreement and recommend that it be approved with the exception of a \$50 downward adjustment to rate case expenses. The following exhibits are admitted into the record:

- (a) Stipulation and Settlement Agreement, *Ex. 1*
- (b) Affidavit of Notice of Lori Moreno, *Ex. 2*
- (c) Prefiled Direct Testimony of Stacey L. McTaggart, including Corrected Testimony, *Ex. 3*
- (d) Affidavit of Stacey L. McTaggart on Rate Case Expenses, *Ex. 4*
- (e) Substitute Set of Invoices, *Ex. 5* (un-redacted copies)

A. Pipeline Integrity Testing Expenses

TGS is required under a combined federal and state regulatory initiative to regularly test the structural integrity of pipelines. The program requires Pipeline Integrity Safety Testing for its entire transmission pipeline system within 10 years of program commencement, which began in 2003 and to retest those same facilities at least once every seven years thereafter. The PIT expenses for the 2010-2013 testing cycle at issue fall within the period where these two testing requirements overlap. As a result of commencing testing in 2010, the company is required to test the entirety of its 55.6 mile EPSA transmission system during this four year testing cycle. Testing is scheduled on a line and segment basis and also a prioritized testing schedule that reflects a relative risk assessment of its transmission pipelines and the coordination of testing activities between its various Texas service areas to test in an efficient and cost effective manner. The testing cycle for the EPSA is scheduled, as follows: 2010 – 22.3 miles of pipe, 2011 – 9.2 miles of pipe, 2012 – zero miles as crews test other service areas, 2013 – 24.1 miles of pipe. No further retesting is scheduled until 2017.

² (1) SOI to Change Gas Rates by Approving PIT Rider in the Environs of the EPSA and Motion for Early Implementation, footnote 16, February 10, 2012; (2) TGS' Proposed Interim Order, p. 4, February 16, 2012, and (3) Interim Order Granting Early Implementation of Rate Change, Ordering Provision p. 4, February 28, 2012.

B. Proposed PIT Rider Request for El Paso Service Area Environs

The instant case, GUD No. 10142, is the *Statement of Intent to Change Gas Rates By Approving Pipeline Integrity Testing Rider in the Environs of the El Paso Service Area*. The principal change to rates sought by TGS in this case is the implementation of the Rate Schedule PIT Rider in the EPSA environs, which is the same as the PIT Rider adopted in GUD No. 10049 for customers inside the corporate limits of the EPSA cities. The settlement agreement proposes that the company recover the PIT expenses via a rider allocated among the customer classes on the basis of demand rather than base revenues. The total EPSA system wide PIT rider expenses were fixed at \$2,197,846, plus or minus any interest accruing on overrecoveries and underrecoveries, in GUD No. 10049. The portion attributable to the environs customers from the system wide expenses is approximately \$135,284 over four years, or approximately \$33,821 per year (plus or minus any interest accruing on underrecoveries and overrecoveries).

TGS maintains that the requested PIT Rider is necessary in order to recover the level of PIT expenses already found reasonable and necessary in GUD No. 10049. The company maintains that their request through the settlement agreement is consistent with 16 TEX. ADMIN. CODE § 7.220(a)(1), which provides that “[t]he environs rates may be the same rates as those in effect in the nearest incorporated areas in Texas served by the same utility.

The company’s testing is through the hydrostatic method that uses water instead of nitrogen gas to pressure test the transmission lines. According to the company, this method of testing is much safer for testing crews and the public, although more expensive than using nitrogen. The PIT expenses are costs of third-party contractors whose invoiced charges may be tracked and recovered through the term of the proposed rider. These testing expenses include a variety of operating and maintenance expense contractor costs associated with a land and leak survey, permitting, and job order preparation and completion, as well as, others enumerated in the PIT Rider. The labor cost of any TGS employee involved in the PIT program is excluded from recovery under the Rider. Moreover, expenses associated with providing a supply of compressed natural gas to ensure uninterrupted service to customers during the testing are to be recovered via the PIT Rider rather than the Cost of Gas clause.

Excluded from recovery under the rider, are capital expenditures associated with pipeline integrity testing that would continue to be recovered in the same manner as other increments to invested capital either in a general rate case or on an interim basis under the interim rate adjustment statute and rule. Recovering these expenses through a rider allows the company to obviate concerns about the possible overrecovery of costs through a base rate assessment.

C. Calculation of PIT Surcharges

(1) **System Wide.** The settlement agreement proposes a system wide surcharge for the EPSA as shown in Table 3.1 below. These same rates have been charged since the March 2012 billing cycle for customers of the cities within the EPSA. Likewise, the rates below have been assessed to the environs customers since the March billing cycle pursuant to the Interim Order Granting Early Implementation of Rate Change issued by the Commission on February 28, 2012.

Table 3.1
Calculation of System Wide
PIT Surcharges

CUSTOMER CLASS	DEMAND COST PER APPROVED COST OF SERVICE STUDY	AMOUNT PER CLASS	VOLUMES PER CLASS	VOLUMES OVER FOUR YEARS	PIT RATE PER CCF	AVERAGE MONTHLY USE PER CUSTOMER	AVERAGE MONTHLY BILL IMPACT
Residential	59.85%	1,315,411	104,636,443	418,545,772	\$ 0.0031	42	\$ 0.13
Commercial and A/C	19.41%	426,602	32,621,741	130,486,964	\$ 0.0033	226	\$ 0.74
Industrial & Stand By	0.88%	19,341	1,596,388	6,385,551	\$ 0.0030	3,062	\$ 9.27
Public Authority and A/C	10.00%	219,785	11,522,431	46,089,722	\$ 0.0048	1,077	\$ 5.14
Municipal Water Pumping	0.49%	10,769	1,605,924	6,423,697	\$ 0.0017	6,580	\$ 11.03
Comm. Transportation	1.50%	32,968	5,432,164	21,728,658	\$ 0.0015	24,341	\$ 36.93
Ind. Transportation	0.87%	19,121	6,341,139	25,364,556	\$ 0.0008	43,732	\$ 32.97
Pub. Auth. Transportation	1.21%	26,594	2,309,616	9,238,462	\$ 0.0029	13,748	\$ 39.57
Ft. Bliss	5.79%	127,255	6,936,683	27,746,733	\$ 0.0046	27,527	\$ 126.25
	100.00%	\$2,197,846	173,002,529	692,010,115			

The proposed rates set out in Table 3.1 above show the recoverable amount of PIT expenses to be recovered for a four year period under volumetric surcharges applicable to all customer classes except special contract customers. The PIT Rider surcharges exclude special contract customers because the company believes that the appropriate ratemaking approach is to take the revenues these customers generate and apply them as a credit to the company's overall revenue requirement, thereby reducing the total revenue responsibility assigned to customers served under tariffed rates. Special contract customers pay a negotiated rate and TGS maintains that these customers will leave the system if their negotiated rate is changed by the PIT Rider. According to TGS, these customers have access to alternative natural gas supplies and if they leave the system the company's cost to operate the system will not decrease appreciably because a large portion of operating costs are fixed.

(2) Rates Specific to Environs. Rate Schedule PIT Rider³ proposes to impact all customers within the environs of the EPSA except as previously stated excluding special contract customers. There are approximately 15,577 tariff customers (15,030 residential, 441 commercial, 95 public authority, 7 industrial, 2 industrial transportation, and 2 municipal water pumping customers) within the environs of the EPSA. Based on recovery of the total service area increase of \$2,197,846 approved in GUD No. 10049, implementation of the proposed PIT Rider for the environs would increase the company's annual revenues from its environs customers by approximately \$135,284 over four years, or approximately \$33,821 per year (plus or minus any interest accruing on underrecoveries and overrecoveries).

³ Attachment "A" to the Stipulation and Settlement Agreement and "Exhibit A" to the Final Order Approved Tariffs

The average monthly bill impacts on the various environs customer classes are shown below in Table 3.2.⁴ The PIT Rider surcharges are structured to recover the total amount of testing expenses over a four-year period allocated among the customer classes on the basis of demand rather than base revenues.

Table 3.2
Environs Estimated Revenue Collections
By Customer Class

CUSTOMER CLASS	PIT RATE PER CCF	ENVIRONS ANNUAL VOLUMES	ENVIRONS ANNUAL COLLECTION	ENVIRONS TOTAL COLLECTION
Residential	\$ 0.0031	7,560,852	\$ 23,762.34	\$ 95,049.35
Commercial and A/C	\$ 0.0033	1,036,405	\$ 3,388.33	\$ 13,553.31
Industrial & Stand By	\$ 0.0030	522,511	\$ 1,582.62	\$ 6,330.49
Public Authority and A/C	\$ 0.0048	672,640	\$ 3,207.57	\$ 12,830.28
Municipal Water Pumping	\$ 0.0017	261,901	\$ 439.08	\$ 1,756.33
Comm. Transportation	\$ 0.0015	0	\$ -	\$ -
Ind. Transportation	\$ 0.0008	1,911,622	\$ 1,441.09	\$ 5,764.36
Pub. Auth. Transportation	\$ 0.0029	0	\$ -	\$ -
Ft. Bliss	\$ 0.0046	0	\$ -	\$ -
		11,965,932	\$ 33,821.03	\$ 135,284.12

(3) Annual Reconciliation

Because the volumes for each class cannot be estimated with precision and may vary from the calculated surcharge rate, the company may collect somewhat more or less than the intended amount for each class. At the end of the year, the amounts recovered by the company are required to be reconciled as per the terms of Rate Schedule PIT over the course of the recovery period. The reconciliation process entails a true-up of revenues collected under the Rider against the stipulated amount that is to be recovered, rather than a true-up against the level of PIT expenses actually incurred. The reconciliation provision also requires that the rate for each class be adjusted upward or downward annually so as to include monthly interest on under- and overrecoveries. TGS is required to perform a final review and reconciliation of the PIT Rider following the end of the four-year recovery period. Rate Schedule PIT will cease to operate upon collection of the total testing expenses authorized for collection under the Rider, plus or minus any interest accruing on underrecoveries and overrecoveries due to volumetric differences.

⁴ Contained in Attachment "B" to the Stipulation and Settlement Agreement

(4) Interest Applied to PIT Rider

The settlement agreement also proposes an interest rate component to reimburse either the company or ratepayers for the time value of their money in the event that PIT expenses are recovered at either a slower or faster rate than intended due to the variation in volumetric usage for each customer class. According to the proposed settlement agreement, the rate of interest on underrecoveries and overrecoveries is to be calculated at the company's approved cost of long-term debt in GUD No. 10069 of 6.21% rather than at the company's approved weighted average cost of capital of 8.65%.⁵ This proposed interest rate component was negotiated for the cities during GUD No. 10049 and then carried forward in the environs proposed settlement agreement.

(5) Annual Report Requirement

Under the terms of the settlement agreement, TGS is required to file an annual report before February 21st with the Commission, to monitor the progress of recoveries under the PIT Rider detailing PIT expenditures and collections during the prior year. The report is required to contain provisions in an addendum showing the calculation of all PIT surcharges for the upcoming 12-month recovery period.

(6) Other Requirements

In order to ensure that affected customers are aware of the PIT surcharges as they are adjusted from year-to-year during the four-year recovery period, the proposed settlement requires the company to provide notice each year by mail, in both English and Spanish, of the PIT surcharges that will be applied to each customer class during the upcoming 12-month recovery period, along with the expected impact on customer bills.

(7) Examiners' Recommendation

Pipeline safety testing is legally mandated and benefits all customers and the public. The Examiners recommend that the proposed Settlement Agreement fairly allocates costs among the customer classes based on the demand factors consistent with GUD Nos. 10069 and 10049. The Examiners find that the agreed amount of \$135,284 for environs PIT expenses over four years, calculated as \$33,821 per year, is reasonable and necessary for the company in providing safe and reliable service. The Examiners agree that a monthly surcharge assessed per volumetric usage among customer classes is a reasonable method to recover PIT expenses. These amounts collected will be reconciled against the amount approved to remedy any overrecovery or underrecovery in fairness to both the customers and TGS. The initial PIT surcharges that the company will apply to each customer class under the Rider during the initial recovery period are shown in Tables 3.1 & 3.2, and the PIT Rider identified as "Exhibit A" to the Approved Tariffs, which is incorporated into the final order. The Examiners believe that the proposed PIT Rider and Surcharges are just, reasonable, and nondiscriminatory rates for reasonable and necessary PIT expenses. The Examiners also recommend that the PIT surcharges collected pursuant to the Interim Order on February 28, 2012, be incorporated into the final order in this proceeding.

⁵ GUD No. 10069 Statement of Intent to Change Rates in the Environs of the El Paso Service Area, Final Order June 27, 2011, Finding of Fact Nos. 28 and 29.

V. Rate Case Expenses

A. Introduction

Rule 7.5530 provides that in any rate proceeding, any utility and/or municipality claiming reimbursement for its rate case expenses pursuant to Texas Utilities Code, § 103.022(b), shall have the burden to prove the reasonableness of such rate case expenses by a preponderance of the evidence. Each gas utility and/or municipality shall detail and itemize all rate case expenses and allocations. In § 7.5530(a), each entity seeking recovery of rate case expenses must provide evidence showing the reasonableness of the cost of all professional services, including but not limited to:

- (1) the amount of work done;
- (2) the time and labor required to accomplish the work;
- (3) the nature, extent, and difficulty of the work done;
- (4) the originality of the work;
- (5) the charges by others for work of the same or similar nature; and
- (6) any other factors taken into account in setting the amount of the compensation.

What is more, Commission Rule § 7.5530(b) mandates that in determining the reasonableness of the rate case expenses, the Commission shall consider all relevant factors including but not limited to those set out previously, and shall also consider whether the request for a rate change was warranted, whether there was duplication of services or testimony, whether the work was relevant and reasonably necessary to the proceeding, and whether the complexity and expense of the work was commensurate with both the complexity of the issues in the proceeding and the amount of the increase sought as well as the amount of any increase granted.

B. Evaluation of Criteria in 16 TEX. AMDIN. CODE § 7.5530

The Stipulation and Settlement Agreement proposes that TGS recover \$36,306.89 in rate case expenses. According to the settlement agreement this amount was incurred, as follows: (1) providing notice by direct mail to the company's environs customers of \$3,981.45; (2) employee mileage expenses of \$5.44; and (3) legal fees and expenses of \$32,320. The legal fees and expenses were incurred through May 20, 2012, less an agreed reduction of \$5,000. What is more, TGS agrees to forego recovery of all additional legal fees and expenses incurred after May 20, 2012, related to this *Statement of Intent*.

In support of the proposed rate case expense recovery, TGS prefiled Direct Testimony of Stacey L. McTaggart and an Affidavit of Stacey L. McTaggart on Rate Case Expenses.⁶ Ms. McTaggart affirms that she is familiar with the standards that a utility must satisfy before the Commission in order to recover rate case expenses. She states that the included expenses⁷ satisfy the requirements of Rule 7.5530. Ms. McTaggart affirms that the legal fees and expenses, employee expenses, and notice publication expenses incurred by or on behalf of the company in

⁶ Exs. 3 and 4, respectively

⁷ Ex. 5

this docket are reasonable in nature and amount, and were necessary to represent the company's interests and properly prosecute its application for rate relief.

The Examiners reviewed all billings, invoices and evidence submitted by TGS. The Examiners have found no evidence of double-billing, inappropriate documentation of work, excessive entertainment and dining expenses, or other charges that were not incurred as a direct result of representing TGS in GUD No. 10142. The invoices, testimony and other evidence submitted by TGS address the requirements under §7.5530(a). Two attorneys performed the legal work on behalf of TGS. J. Alan Holman bills at an hourly rate of \$375 and J. W. Checkley bills at an hourly rate of \$350. These ranges of hourly billing are within the range of rates considered reasonable for attorneys in the public utility practice area. Furthermore, the number of consulting attorneys working on the underlying docket was minimized; the invoices accurately document hours worked and services provided; and there were no time entries exceeding 12.0 hours per day.

A review of the expense invoices showed that there are no expenses charged for first-class airfare, non-commercial aircraft, luxury hotels, limousine service, alcoholic beverages, sporting events or other entertainment. There were no meals in excess of \$25 per person. The expenses were minimal and were reasonable and necessary. Accordingly, the Examiners recommend that the evidence indicates that the amount of work required to litigate GUD No. 10142 justifies the work performed by the utility's attorneys and consultants pursuant to the requirements of §7.5530(a).⁸

Rule 7.5530(b)⁹ sets out four additional factors that the Commission is to consider when determining the reasonableness of rate case expenses. A review of the evidence submitted demonstrates that there was no duplication of services or testimony and that the work performed by the TGS attorneys and consultants was relevant and reasonably necessary to the proceeding.

One factor the Commission is required to consider is whether the request for a rate change was warranted. This case is the environs companion to GUD No. 10049 for a system wide Rider for the company's legally mandated pipeline integrity testing. The Commission approved the same surcharge in GUD No. 10049. The Examiners recommend that the company's request for this surcharge is warranted. Thus, the Examiners find that that the PIT expenses related to GUD No. 10142 are reasonable, necessary and warranted.

⁸ 16 TEX. ADMIN. CODE § 7.5530(a)(2010). In any rate proceeding, any utility and/or municipality claiming reimbursement for its rate case expenses pursuant to Texas Utilities Code, §103.022(b), shall have the burden to prove the reasonableness of such rate case expenses by a preponderance of the evidence. Each gas utility and/or municipality shall detail and itemize all rate case expenses and allocations and shall provide evidence showing the reasonableness of the cost of all professional services, including but not limited to: (1) the amount of work done; (2) the time and labor required to accomplish the work; (3) the nature, extent, and difficulty of the work done; (4) the originality of the work; (5) the charges by others for work of the same or similar nature; and (6) any other factors taken into account in setting the amount of the compensation.

⁹ 16 TEX. ADMIN. CODE § 7.5530(b) (2010). In determining the reasonableness of the rate case expenses, the Commission shall consider all relevant factors including but not limited to those set out previously, and shall also consider whether the request for a rate change was warranted, whether there was duplication of services or testimony, whether the work was relevant and reasonably necessary to the proceeding, and whether the complexity and expense of the work was commensurate with both the complexity of the issues in the proceeding and the amount of the increase sought as well as the amount of any increase granted.

The remaining factor requires the Commission to consider whether the complexity and expense of the work was commensurate with both the complexity of the issues in the proceeding and the amount of the increase sought, as well as, the amount of any increase granted. After reviewing the evidence presented, the Examiners find that the amount of time spent is commensurate with the number, complexity, and gravity of the issues posed by the Company's filing and the related proceedings. The Examiners find that the work involved in these proceedings was not disproportionate to the complexity of the issues or the amount of revenue increase sought. Further, the Examiners have not identified any specific amounts, expenditures, fees, and expenses actually incurred in these proceedings that are different from the types of fees and expenses approved by the Commission in prior rate cases.

The Examiners note, however, that there is a minor discrepancy regarding the rate case expenses for public notice. The Affidavit of Stacey L. McTaggart on Rate Case Expenses¹⁰ includes a description of the proposed fees and expenses, as follows:

Vendor	Description	Invoice Date	Amount
Computer Services Inc.	Public Notice	March 30, 2012	3,847.94
	Tax	March 30, 2012	<u>83.51</u>
			3,931.45
Employee Expense	Mileage		5.44
Locke, Lord, Bissell & Liddell	Legal	March 22, 2012	9,968.75
Locke, Lord, Bissell & Liddell	Legal	March 28, 2012	22,956.25
Locke, Lord, Bissell & Liddell	Legal	April 14, 2012	845.80
Locke, Lord, Bissell & Liddell	Legal	May 16, 2012	281.25
Locke, Lord, Bissell & Liddell	Legal	May 21, 2012	<u>3,268.75</u>
			\$37,320.80
			<u><u>\$41,257.69</u></u>

As part of the settlement, TGS agreed to a \$5,000 overall reduction in legal fees,¹¹ arriving at an agreed legal fee amount of \$32,320.¹²

Furthermore, the settlement agreement reflects a \$50 discrepancy for public notice expenses. The affidavits of both Ms. McTaggart and Ms. Moreno¹³ related to public notice expenses indicate that the amount for public notice is \$3,931.45. On the other hand, Paragraph II.B.1. of the settlement agreement reflects \$3,981.45 in public notice costs. The Examiners recommend that the Stipulation and Settlement Agreement be adopted and that Paragraph II.B.1. be amended to reflect public notice expenses of \$3,931.45. This \$50 downward adjustment to the agreed amount results in a total just and reasonable rate case expense amount of \$36,256.89. [\$3,931.45 + \$5.44 + \$32,320.00 = \$36,256.89]

¹⁰ Ex. 4

¹¹ Ex. 1, Paragraph II.B.1.

¹² Note that the agreed amount of legal fees omits the .80¢ figure in the total actual amount of \$37,320.80.

¹³ Exs. 4 and 2, respectively

Rate case expenses are proposed to be recovered from all customers in the ESPA environs except Special Contract customers through a monthly surcharge of 25¢ per customer bill. In GUD No. 10069, the last general rate case for the EPSA environs, a 25¢ per bill surcharge for rate case expenses went into effect in July 2011. The settlement agreement states that this surcharge will be substantially, if not fully, recovered in that prior docket by the time the agreed rate case expense surcharge in this docket would go into effect. The signatories to the settlement agree that it is fair and reasonable to continue the 25¢ per bill surcharge for this proceeding for another 12 months after the conclusion of the 25¢ surcharge in GUD No. 10069. The company maintains that the rate case expenses are reasonable, necessary and nondiscriminatory.

VI. Conclusion

The Examiners recommend that TGS be authorized to recover pipeline integrity testing expenses for the testing cycle from 2010 to 2013 in the amount of \$135,284, which is \$33,821 per year (plus or minus any interest accruing on underrecoveries and overrecoveries) as agreed by the parties in the Stipulation and Settlement Agreement. The Examiners recommend the utility recover these amounts by means of a surcharge on its rates over a four year period. The surcharge on rates will be charged at a rate per Ccf on all gas volumes for all customer classes, except special contract customers. The Examiners recommend that the pipeline integrity testing (PIT) surcharge be a separate line item on each customer's bill clearly identifying the recovery rate and amount recovered each month. The PIT Rider is "Exhibit A" to the proposed Final Order Approved Tariffs. The Initially Applicable PIT Rider Surcharges and Estimated Revenue Changes by Class is "Exhibit B" to the proposed Final Order. Also, the Examiners recommend that TGS recover \$36,256.89 for reasonable rate case expenses litigating this case. The Examiners find that the requested rate case expenses, as adjusted by the Examiners, are necessary, just and reasonable as set forth in the Examiners' Environs Rate Case Expense Surcharge Rider, which is "Exhibit C" to the proposed Final Order.

Respectfully submitted,



Cecile Hanna
Hearings Examiner
Hearings Division

**BEFORE THE
RAILROAD COMMISSION OF TEXAS**

STATEMENT OF INTENT FILED BY	§	
TEXAS GAS SERVICE CO., A DIVISION	§	
OF ONEOK, INC., TO CHANGE GAS	§	GAS UTILITIES DOCKET NO. 10142
RATES BY APPROVING PIPELINE	§	
INTEGRITY TESTING RIDER IN THE	§	
ENVIRONS OF THE EL PASO SERVICE	§	
AREA	§	

FINAL ORDER

Notice of Open Meeting to consider this Order was duly posted with the Secretary of State within the time period provided by law pursuant to TEX. GOV'T CODE ANN. § 551.001, *et seq.*, (Vernon 2008 & Supp. 2012). The Railroad Commission of Texas adopts the following findings of fact and conclusions of law and orders as follows:

FINDINGS OF FACT

1. Texas Gas Service Company, a division of ONEOK, Inc. (TGS or company), is a gas utility as that term is defined in the Texas Utility Code, and is subject to the jurisdiction of the Railroad Commission of Texas (Commission).
2. TGS owns and operates a natural gas distribution system that provides gas service in the municipalities of El Paso, Socorro, Clint, Anthony, Horizon City, and Vinton (collectively, the Cities) and their environs (together, the El Paso Service Area or the EPSA).
3. On May 12 and May 24, 2010, Texas Gas Service Company (TGS) filed appeals with the Commission from rate setting actions of the City of El Paso and the other cities and towns comprising the El Paso Service Area (EPSA).
4. Those appeals were docketed as GUD No. 9988 and GUD No. 9992, respectively and were eventually consolidated under GUD No. 9988.
5. The Commission approved an increase in TGS' revenue requirement by Final Order dated December 14, 2010, for GUD No. 9988.
6. Identical rates were thereafter approved by the Commission for the environs of the EPSA by Final order issued in GUD No. 10069 on June 27, 2011.
7. As part of its Final Order in GUD No. 9988, the Commission severed the issues regarding TGS' recovery of Pipeline Integrity Testing (PIT) expenses for the municipalities through a reconcilable rider and docketed those issues as GUD No. 10049.

8. The rate case expense issues for both GUD No. 9988 and 10049 were severed into a separate proceeding as GUD No. 10016.
9. The issues in dispute for GUD No. 10049 and GUD No. 10016 were settled through a Stipulation and Settlement Agreement, which was adopted by the Commission in Final Orders on January 10, 2012; The PIT Rider provides for the recovery of the PIT expenses in the EPSA Cities using calculations for each customer class on system wide operations.
10. GUD No. 10142 is the Statement of Intent relating to the EPSA environs portion of the system wide PIT expenses, which is identical to that approved for the in-city ratepayers.
11. TGS notified its EPSA environs customers of the proposed changes in gas rates by separate mailing under GURA § 104.103(b)(1) and 16 TEX. ADMIN. CODE § 7.230(c) on March 19, 2012.
12. The manner of public notice in this case meets the statutory and rule requirements of notice and provides sufficient information to ratepayers about the *Statement of Intent*.
13. Approval and implementation of the proposed PIT Rider will not increase the Company's aggregate annual revenues from the EPSA environs by more than the greater of \$100,000 or 2½ % and, therefore, will not constitute a "major change" as that phrase is defined by GURA Section 104.101.
14. In GUD No. 10142, the Commission issued an Interim Order Granting Early Implementation of Rate Change on February 28, 2012. This Interim Order allowed TGS to implement the PIT Rider in the environs of the EPSA on March 1, 2012, which is the same date that the Rider became effective in the incorporated areas pursuant to the Final Order issued in GUD No. 10049.
15. On February 28, 2012, the Commission suspended the implementation of TGS' proposed rates for up to 150 days; TGS, however, has waived the proposed effective date of the rates in this case, thereby waiving the statutory deadline.
16. TGS and the Railroad Commission of Texas Staff (Staff) reached a settlement of all issues pending in GUD No. 10142, which settlement was memorialized in their Stipulation and Settlement Agreement (Agreement) dated July 13, 2012, attached and incorporated herein to this Final Order.
17. The Agreement provides for an increase in the company's revenues from its environs customers by \$135,284 over four years, or approximately \$33,821 per year (plus or minus any interest accruing on underrecoveries and overrecoveries) for pipeline integrity testing expenses through a PIT Rider instead of through base rates.
18. Under the terms of the Agreement, TGS will recover pipeline integrity testing expenses for the 2010 through 2013 testing cycle in the amount of \$135,284 from all environs customers in the EPSA, except Special Contract Customers.

19. Under the terms of the Agreement, TGS will recover the fixed amount of \$135,284, plus or minus interest on overrecoveries or underrecoveries due to volumetric differences.
20. Interest on any overrecoveries or underrecoveries will accrue and be calculated based on the company's cost of long-term debt of 6.21%.
21. The recoverable amount of pipeline integrity testing expense shall be allocated to the customer classes on the basis of demand through initial volumetric surcharges over a four year period, as shown below and in "Exhibit B" to the Final Order Approved Tariffs:

Customer Class	PIT Rate Per CCF
Residential	\$ 0.0031
Commercial and A/C	\$ 0.0033
Industrial and Standby	\$ 0.0030
Public Authority and A/C	\$ 0.0048
Municipal Water Pumping	\$ 0.0017
Comm. Transportation	\$ 0.0015
Ind. Transportation	\$ 0.0008
Pub. Auth. Transportation	\$ 0.0029
Ft. Bliss	\$ 0.0046

22. The amount to be recovered will be adjusted annually to reflect interest from a prior year on any underrecoveries or overrecoveries to be refunded or credited to customers.
23. Compressed natural gas expenses associated with testing will be included as a PIT expense and will not be subject to pass-through or recovery in the company's cost of gas clause.
24. The pipeline integrity testing expenses related to GUD No. 10142 are reasonable, necessary and warranted.
25. The recoverable amount shall be recovered in accordance with the terms and conditions set forth in the agreed PIT Rider, which is attached and included as "Exhibit A" to the Final Order Approved Tariffs.
26. The terms and conditions set forth in the PIT Rider are reasonable.
27. The terms and conditions of the Agreement related to the recovery of PIT Expenses through the PIT Rider are reasonable.
28. It is reasonable for TGS to file a report annually by February 21st with the Commission detailing the PIT expenditures and collections during the prior year and providing an addendum showing the calculation of all PIT surcharges for the upcoming 12-month recovery period.

29. It is reasonable for the company to provide notice each year by mail to affected customers in English and Spanish to inform customers of the upcoming 12-month recovery period for PIT surcharges.
30. The Agreement also provides that TGS recover a total of \$36,306.89 for actual rate case expenses for GUD No. 10142 through a surcharge of 25¢ per bill over an approximately one year period.
31. The Agreement provides that the \$36,306.89 is comprised of (a) \$3,981.45 in public notice expense; (b) \$5.44 in employee mileage expense; and (c) \$32,320 in reasonable and necessary legal fees and expenses through May 20, 2012.
32. The agreed upon \$32,320 amount for TGS' actual legal fees and expenses for rate case expenses represents an agreed overall reduction in actual legal fees and expenses of \$5,000.
33. TGS will forego recovery of all additional legal fees and expenses incurred after May 20, 2012, related to this *Statement of Intent*.
34. A downward adjustment of \$50 to the agreed upon rate case expenses is reasonable due to the preponderance of the credible evidence demonstrating that the public notice expense is \$3,931.45, rather than the amount of \$3,981.45 that is reflected in the Stipulation and Settlement Agreement.
35. TGS has established that total rate case expenses of \$36,256.89 are just and reasonable.
36. It is reasonable that the recovery of rate case expenses shall be over an approximate one year period, not to exceed the amount of \$36,256.89.
37. It is reasonable that rate case expenses surcharge be separately stated on the bill.
38. The tariffs attached to this Final Order are just and reasonable.
39. Based on the record in GUD No. 10142, the Stipulation and Settlement Agreement, and the amounts, terms and conditions set forth therein, are just and reasonable and should be approved, with the \$50 downward adjustment to rate case expenses.

CONCLUSIONS OF LAW

1. Texas Gas Service Company (TGS) is a gas utility as defined in TEX. UTIL. CODE ANN §§101.003(7) and 121.001 (Vernon 2007 and Supp. 2012) and is therefore subject to the jurisdiction of the Railroad Commission of Texas. (Commission)
2. The Commission has jurisdiction over TGS and the subject matter of these cases under TEX. UTIL. CODE ANN. §§ 102.001, 103.022, 103.054, 103.054, 103.055, 104.001, and 104.201. (Vernon 2007 and Supp. 2012)

3. Under TEX. UTIL. CODE ANN. § 102.001 (Vernon 2007 and Supp. 2012), the Commission has exclusive original jurisdiction over the rates and services of a gas utility that distributes natural gas in areas outside of a municipality and over rates and services of a gas utility that transmits, transports, delivers, or sells natural gas to a gas utility that distributes the gas to the public.
4. This proceeding was conducted in accordance with the requirements of the Gas Utility Regulatory Act (GURA), and the Administrative Procedure Act, TEX. GOV'T CODE ANN. §§ 2001.001 *et seq.* (Vernon 2008 & Supp. 2012) ("APA").
5. Approval and implementation of the PIT Rider will not increase the Company's aggregate annual revenues from the EPSA environs by more than the greater of \$100,000 or 2½ % and, therefore, will not constitute a "major change" as that phrase is defined by GURA Section 104.101.
6. In accordance with TEX. UTIL. CODE ANN. §104.103 (Vernon 2007 and Supp. 2012), 16 TEX. ADMIN. CODE ANN. §§ 7.230 and 7.235, adequate notice was properly provided.
7. In accordance with TEX. UTIL. CODE ANN. §104.102 (Vernon 2007 and Supp. 2012), 16 TEX. ADMIN. CODE ANN. §§ 7.205 and 7.210, TGS filed its Statement of Intent to change gas rates by approving pipeline integrity testing rider.
8. The revenue, rates, rate design, and service charges proposed by TGS, as amended by 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. (Vernon 2007 and Supp. 2012).
9. The Commission has assured that the rates, operations, and services established in this docket are just and reasonable to customers and to the utilities in accordance with the stated purpose of the Texas Utilities Code, Subtitle A, expressed under TEX. UTIL. CODE ANN. §101.002 (Vernon 2007 and Supp. 2012).
10. The Commission has the authority to allow TGS to recover pipeline integrity testing expenses through a surcharge on its rates, as a gas utility is required to perform pipeline integrity testing pursuant to state and federal law, and the reasonable and necessary costs associated with such testing are recoverable by the utility, under TEX. UTIL. CODE ANN. §§ 102.001, 103.022, 103.054, 103.054, 103.055, 104.001, and 104.201. (Vernon 2007 and Supp. 2012).

IT IS FURTHER ORDERED that the rates, rate design, and service charges established in the findings of fact and conclusions of law shown on the attached riders and tariffs for TGS are **APPROVED**.

IT IS FURTHER ORDERED that the Stipulation and Settlement Agreement of the parties, subject to the correction reflected in Findings of Fact Nos. 34, 35 and 39 related to rate case expenses, attached to this Final Order are hereby 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 electronically file tariffs and rate schedules with the Gas Services Division. The tariffs shall incorporate rates, rate design, and service charges consistent with this Order, as stated in the findings of fact and conclusions of law and shown on the attached Riders and Schedules.

IT IS FURTHER ORDERED that any proposed findings of fact and conclusions of law not specifically adopted herein are **DENIED**.

IT IS ALSO ORDERED that each exception to this proposal for decision not expressly granted herein is overruled and all pending motions and requests for relief not previously 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 29th day of January, 2013.

RAILROAD COMMISSION OF TEXAS

CHAIRMAN BARRY T. SMITHERMAN

COMMISSIONER DAVID PORTER

ATTEST:

SECRETARY

GUD NO. 10142

Final Order

Attachment 1

Stipulation and Settlement Agreement

GAS UTILITIES DOCKET NO. 10142

STATEMENT OF INTENT TO CHANGE §
RATES BY THE APPLICATION OF §
TEXAS GAS SERVICE COMPANY, A §
DIVISION OF ONEOK, INC., FOR §
APPROVAL OF PIPELINE INTEGRITY §
TESTING RIDER IN THE ENVIRONS §
OF ITS EL PASO SERVICE AREA §

**BEFORE THE
RAILROAD COMMISSION
OF TEXAS**

OFFICE OF GEN COUNSEL
RAILROAD COMMISSION
OF TEXAS

2012 JUL 13 PM 4:00

FILED

STIPULATION AND SETTLEMENT AGREEMENT

This Stipulation and Settlement Agreement (“Agreement”) is entered into by Texas Gas Service Company (“TGS” or the “Company”), a Division of ONEOK, Inc., and the Staff of the Railroad Commission of Texas (the “Commission Staff” or “Staff”)(together, the “Signatories” to this Agreement and the only “Parties” in this docket), both acting by and through their duly authorized representatives. The Signatories hereby agree and stipulate as follows:

I. BACKGROUND & PROCEDURAL HISTORY

This case is the last in a series of five related Commission dockets (GUD Nos. 9988, 10016, 10049, 10069, and 10142) arising from a general rate case in TGS’ El Paso Service Area (“EPSA”) originally filed at the municipal level in December of 2009, as explained below.

1. On December 3, 2009, TGS filed a Statement of Intent and request for a rate increase with the City of El Paso and five other municipalities (Anthony, Clint, Horizon City, Socorro, and Vinton)(collectively, the six “EPSA Cities”). Included in that filing was a request for recovery of the Company’s Pipeline Integrity Testing Expenses (“PIT Expenses”). The Company’s requested rate increase was ultimately denied in its entirety by each of the EPSA Cities, including its request for recovery of PIT Expenses.

2. On May 12 and May 24, 2010, TGS filed companion appeals with the Railroad Commission of Texas (“RRC” or the “Commission”) from the ratesetting actions of the EPSA Cities denying the Company’s requested rate increase. Those appeals were initially docketed as GUD Nos. 9988 and 9992, and then subsequently consolidated under GUD No. 9988.

3. In its Final Order in GUD No. 9988 issued on December 14, 2010, the Commission determined the base rates to be applied to customers within the EPSA Cities, but decided that the Company’s PIT Expenses should be recovered through a reconcilable rider (the “PIT Rider”). Remaining issues relating to the specific design of the Rider and the reasonable level of PIT Expenses to be recovered thereunder were severed by the Commission for determination in a separate proceeding later docketed as GUD No. 10049. The Commission also severed all issues relating to the rate case expenses of TGS and the City of El Paso into a separate proceeding designated as GUD No. 10016. Both the City of El Paso and TGS subsequently appealed the Commission’s Final Order in GUD No. 9988 to the District Court of Travis County.

4. On April 8, 2011, TGS initiated an environs rate case, GUD No. 10069, requesting Commission authorization to implement the same base rates approved in GUD No. 9988 to customers in unincorporated areas of the EPSA. That authorization was granted by Final Order of the Commission on June 27, 2011.

5. In the fall of 2011, all of the parties who had actively participated in GUD No. 9988, including TGS and the Commission Staff, engaged in a concerted and ultimately successful effort to settle the severed PIT Rider and rate case expense dockets as well as the pending judicial appeals. Their stipulation and settlement agreement dated December 2, 2011, was approved and adopted by the Commission in separate final orders issued in GUD Nos.

10016 and 10049 on January 10, 2012, and TGS proceeded to immediately implement the PIT Rider as approved and ordered by the Commission beginning with its March 2012 billing cycle.

6. On February 10, 2012, TGS filed the Statement of Intent initiating the instant proceeding, GUD No. 10142, therein requesting authorization to implement in the EPSA environs the same PIT Rider that had been approved in GUD No. 10049 for application to customers inside the EPSA Cities. Included in TGS' Statement of Intent was a Motion for Early Implementation requesting authorization under Section 104.104 of the Gas Utility Regulatory Act ("GURA") and §7.220(b)(3) of the Commission Rules to implement the proposed PIT Rider on an interim basis in the EPSA environs on the same date the Rider was to be implemented within the EPSA Cities under the Commission's Final Order in GUD No. 10049. On February 28, 2012, the Commission issued its Interim Order granting the Company's Motion for Early Implementation, subject to refund, credit, or surcharge in the event and to the extent the interim revenues collected by TGS from environs customers vary from those ultimately authorized in this docket. On March 19, 2012, TGS completed notice to its environs customers by separate mailing in compliance with Section 104.103(b) of GURA and §7.230(c) of the Commission's Rules, but no customers protested TGS' Statement of Intent and rate request or sought to intervene in this proceeding.

7. On July 13, 2012, TGS and the Commission Staff reached an agreed resolution of all issues in this proceeding, as set forth in the terms of this Agreement. On the merits, the Signatories have agreed that the requested PIT Rider that was approved in GUD No. 10049 for implementation in the EPSA Cities (and on an interim basis in this docket by the Commission's Interim Order of February 28th) should likewise be approved for application to customers in the EPSA environs. With regard to rate case expenses, the Signatories have agreed that TGS has

incurred reasonable and necessary rate case expenses of \$36,306, and that those expenses should be recovered through continued application of the existing 25¢ per bill surcharge approved in GUD No. 10069 until the approved rate case expenses from that docket and this one have been recovered, as explained in greater detail below.

II. THE AGREEMENT OF THE PARTIES

The Signatories agree and submit that the terms of this Agreement are (1) fair and reasonable to both the Company and its customers, and (2) will advance the public interest by avoiding the cost and effort that would be required to litigate this proceeding as a contested case, and bringing conclusion to the matter. Accordingly, the Signatories agree that the Commission should enter a Final Order consistent with this Agreement, as set forth below. The Signatories further agree as follows:

A. Agreement on the Merits

1. The Company's requested level of PIT Expenses is reasonable, necessary, and properly recoverable through the proposed PIT Rider, and the proposed Rider is just, reasonable, and nondiscriminatory and should be approved by the Commission in this proceeding. The proposed PIT Rider is appended to this Agreement as Attachment "A".

2. The PIT Rider proposed by TGS in this docket for application in the EPSA environs is identical to the PIT Rider that was approved by the Commission in GUD No. 10049 on January 10, 2012, for application within the EPSA Cities.

3. The PIT Rider proposed by TGS and previously approved by the Commission in GUD No. 10049 is based on total cost and usage data for the entire EPSA system, including operations in the environs as well as within the EPSA Cities.

4. As the Commission previously found in GUD No. 10049, the \$2,197,846 in PIT Expenses for the 2010-2013 testing cycle (plus or minus interest on underrecoveries and overrecoveries at TGS' weighted average cost of debt of 6.21%) that the Rider is designed to recover *on a total system basis* from in-city and environs customers over a four-year period is a reasonable and necessary amount.

5. PIT Expenses in the amount of \$135,284 (plus or minus interest on underrecoveries and overrecoveries at TGS' weighted average cost of debt of 6.21%) that the Company has requested herein and that its proposed PIT Rider is designed to recover *from environs customers* over the four-year recovery period is fair, reasonable, and necessary, and is thus properly recoverable from environs customers. This is the residual amount that the Commission did not allocate to in-city customers in GUD No. 10049 in contemplation that it would instead be allocated to environs customers as their fair share of the \$2,197,846 of total PIT Expenses approved as reasonable in that prior docket.

6. As the Commission previously found in GUD No. 10049, the terms and conditions set forth in the proposed PIT Rider, including the Rider's cost reporting, revenue-tracking, and reconciliation provisions, are reasonable and appropriate, and recovery through the Rider of the authorized level of PIT expenses (plus or minus interest on underrecoveries and overrecoveries at TGS' weighted average cost of debt of 6.21%) from EPSA customers is reasonable.

7. Approval and implementation of the proposed PIT Rider will not increase the Company's aggregate annual revenues from the EPSA environs by more than the greater of \$100,000 or 2½% and, therefore, will not constitute a "major change" as that phrase is defined by Section 104.101 of GURA.

8. Approval of the PIT Rider in this proceeding will not result in environs rates that exceed the 115% limitation of Section 104.006 of GURA.

9. Consistent with the approach approved by the Commission in GUD No. 10049, the level of recoverable PIT Expenses agreed to herein is a fixed amount, and the only required true-up shall be to reconcile on an annual basis actual recoveries under the PIT Rider against the agreed level of recoverable PIT Expenses, plus or minus interest on overrecoveries and underrecoveries to recognize differences between projected and actual volumes of gas sold.

10. Both the level of recoverable PIT Expenses and the form of the Rider agreed upon herein are identical to the level of recoverable PIT Expenses and form of Rider that were authorized by the Commission's Interim Order Granting Early Implementation of Rate Change issued on February 28, 2012. Therefore, if this Agreement is approved by the Commission, no *separate* reconciliation will be necessary (and no refunds, credits, or surcharges will need be made) to true-up the revenues collected by TGS on an interim basis against those ultimately authorized in this docket. The only required reconciliation will be that specified and agreed upon in paragraph 9 above.

11. It is reasonable to calculate interest on overrecoveries and underrecoveries using an interest rate of 6.21%, the Company's weighted average cost of debt found by the Commission in GUD No. 9988 and the same interest rate that was deemed reasonable and approved by the Commission for calculating interest on overrecoveries and underrecoveries under the PIT Rider in GUD No. 10049.

12. Consistent with the approach approved by the Commission in GUD No. 10049, the agreed amount shall be recovered over a four-year recovery period from all customers in the EPSA environs other than Special Contract Customers, as described in the proposed Rider.

13. Consistent with the approach approved by the Commission in GUD No. 10049, the agreed amount shall be allocated to the customer classes on the basis of demand and recovered through volumetric surcharges over the four-year recovery period. The initially applicable surcharges are shown on Attachment “B” to this Agreement and Exhibit D to the Statement of Intent filed in this docket on February 10, 2012. Said testimony shall be admitted into the record as support for the proposed PIT Rider and the terms of this Agreement.

14. Consistent with the approach approved by the Commission in GUD No. 10049, Compressed Natural Gas (“CNG”) expenses shall be included as a Pipeline Integrity Expense and shall not be passed through or recovered through the Company’s Cost of Gas Clause.

15. Consistent with the approach approved by the Commission in GUD No. 10049, TGS shall file a report annually with the Commission detailing expenditures and collections during the prior year, along with an addendum showing the calculation of all PIT surcharges for the upcoming 12-month recovery period.

16. Consistent with the approach approved by the Commission in GUD No. 10049, TGS shall provide notice by mail each year to affected customers in both English and Spanish to inform them of the surcharges to be applied under the PIT Rider during the upcoming 12-month recovery period.

B. Agreement on Rate Case Expenses

1. TGS shall recover \$36,306.89 as its reasonable and necessary rate case expenses in this proceeding. This amount includes \$3,981.45 in costs incurred to provide notice by direct mail to the Company’s environs customers, employee mileage expense of \$5.44, and legal fees and expenses of \$32,320 for outside counsel, Locke Lord LLP. The agreed amount of legal fees and expenses is equivalent to the amount actually incurred for services rendered in this

proceeding through May 20, 2012 (i.e., the amount included in the Company's rate case expense submission of May 23, 2012), less an agreed reduction of \$5,000. In addition, TGS agrees to forego recovery of all additional legal fees and expenses incurred after May 20, 2012. If this Agreement is not approved, then TGS expressly reserves the right to seek full recovery of all legal fees and other rate case expenses actually incurred and yet to be incurred in this proceeding.

2. The agreed level of rate case expenses shall be recovered from all customers in the EPSA environs except Special Contract customers through the same monthly surcharge of 25¢ per customer bill that was approved for the recovery of rate case expenses from environs customers in GUD No. 10069. Under this approach, the amount of the surcharge approved in GUD No. 10069 would not be increased; instead, the 25¢ per bill surcharge would simply remain in effect until all rate case expenses approved and expended in both GUD No. 10069 and the instant docket have been collected. The Signatories anticipate that the existing 25¢ per bill surcharge authorized in GUD No. 10069, which went into effect in July of 2011, will have substantially, if not fully, recovered the rate case expenses approved in that prior docket by the time the agreed rate case expense surcharge in this docket would go into effect, and that the extended application of that 25¢ per bill surcharge would similarly recover the agreed amount of rate case expenses in this proceeding in another 12 months. The Signatories agree that this is a fair and reasonable approach to the recovery of rate case expenses in this particular case and that the Company's proposed Rate Case Expense Surcharge Rider (Rate Schedule RC-ENV-Rider), appended hereto as Attachment "C" and supported by both the prefiled Direct Testimony and Affidavit on Rate Case Expenses of TGS witness McTaggart, is just, reasonable, and nondiscriminatory and should be approved by the Commission.

C. General Provisions

1. Subject to the terms of paragraphs C.2. and C.3. below, the Signatories agree to conditionally waive their respective rights to a contested case hearing in GUD No. 10142.

2. This Agreement reflects a compromise, settlement, and accommodation among the Signatories, and the terms and conditions stated herein are interdependent. If the Commission does not accept this Agreement as presented and requested, or enters an order that is inconsistent with any material term of this Agreement, then each Signatory shall have the right to withdraw from all commitments and obligations hereunder and to seek an evidentiary hearing on any and all issues, present evidence, and advance any positions it desires in GUD No. 10142 or any other proceeding, as if the Signatory had never entered into this Agreement.

3. This Agreement is contingent upon and subject to the Signatories' obtaining Commission approval of this Agreement in its entirety and the settlement of the Signatories reflected herein.

4. The Signatories will diligently, actively, and in good faith seek and support expeditious Commission approval of this Agreement and issuance of a Final Order of the Commission in this docket that is consistent with the terms set forth herein.

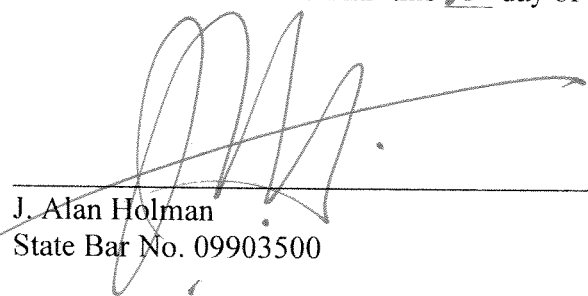
5. The terms of this Agreement may not be used as an admission or concession of any sort or as evidence in any other proceeding, except insofar as reasonable and necessary to implement, recognize, or enforce the terms hereof. All oral or written statements made during the course of the Signatories' settlement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

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

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

8. The Signatories agree that this document may be executed in multiple counterparts and filed with facsimile signatures.

SIGNED AND EXECUTED this 13th day of July, 2012, by:

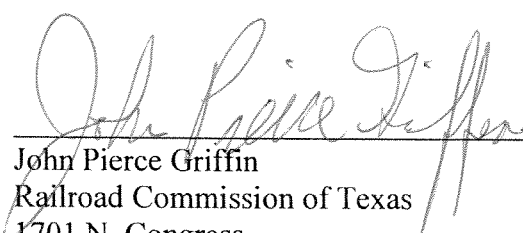


J. Alan Holman
State Bar No. 09903500

William B. Steele, III
State Bar No. 19107400

LOCKE LORD LLP
100 Congress Avenue, Suite 300
Austin, Texas 78701
Telephone: (512) 305-4730/-4734
Facsimile: (512) 305-4800

ATTORNEYS FOR TEXAS GAS SERVICE COMPANY,
a Division of ONEOK, INC.



John Pierce Griffin
Railroad Commission of Texas
1701 N. Congress
P.O. Box 12967
Austin, TX 78711-2967
Telephone: 512-475-3433
Facsimile: 512-463-6684

ATTORNEY FOR THE STAFF OF THE RAILROAD COMMISSION OF TEXAS

ATTACHMENT “A”
To
Stipulation & Settlement Agreement

Proposed Pipeline Integrity Testing (“PIT”) Rider

TEXAS GAS SERVICE COMPANY
El Paso Service Area – West Texas Region

RATE SCHEDULE PIT RIDER
Page 1 of 4

PIPELINE INTEGRITY TESTING (PIT) RIDER

PURPOSE

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

APPLICABILITY

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

TERRITORY

This Rider shall apply throughout the Company's El Paso Service Area ("EPSA"), both within the incorporated municipal limits of El Paso, Anthony, Clint, Horizon City, Socorro, and Vinton, Texas (collectively, the "EPSA Cities"), and in the unincorporated areas (environs) adjacent to the EPSA Cities.

QUALIFYING EXPENSES

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

TEXAS GAS SERVICE COMPANY
El Paso Service Area – West Texas Region

RATE SCHEDULE PIT RIDER
Page 2 of 4

customers during testing; and any other operating and maintenance expenses reasonably necessary to safely and effectively perform required safety testing of the Company's transmission pipelines in the EPSA. Neither capital expenditures by the Company, nor the labor cost of TGS employees, shall be recovered under this Rider.

CALCULATION OF PIT SURCHARGES

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

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

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

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

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

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

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

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

TEXAS GAS SERVICE COMPANY
El Paso Service Area – West Texas Region

RATE SCHEDULE PIT RIDER
Page 3 of 4

ANNUAL RECONCILIATION

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

DEFERRED ACCOUNTING

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

ANNUAL REPORT & APPLICABLE PSCC

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

NOTICE TO AFFECTED CUSTOMERS

In addition to the annual report and Addendum to this Rider required above, the Company shall provide, on or before March 31st after each calendar year of the testing cycle, written notice to each affected customer of (a) the PIT Surcharge that will be applied during the ensuing 12-month

**TEXAS GAS SERVICE COMPANY
El Paso Service Area – West Texas Region****RATE SCHEDULE PIT RIDER
Page 4 of 4**

period from April 1st through March 31st, and (b) the effect the PIT Surcharge is expected to have on the average monthly bill for each affected customer class. The written notice shall be provided in both English and Spanish, shall be the only information contained on the piece of paper on which it is printed, and may be provided either by separate mailing or by insert included with the Company's monthly billing statements. The Company shall also file an affidavit annually with the Commission and the EPSA Cities certifying that notice has been provided to customers in this manner. The notice shall be presumed to be complete three calendar days after the date the separate mailing or billing statement is deposited in a postage-paid, properly addressed wrapper in a post office or official depository under care of the United States Postal Service. The initial notice shall be filed with, reviewed, and approved by the regulatory authority, and each subsequent notice shall follow the same format as that of the approved initial notice.

FINAL REVIEW, RECONCILIATION, AND TERMINATION

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

ATTACHMENT “B”
To
Stipulation & Settlement Agreement

Initially Applicable PIT Rider Surcharges and
Estimated Revenue Changes by Class

PIPELINE INTEGRITY TESTING RIDER

CUSTOMER CLASS	PIT RATE PER CCF	ENVIRONS ANNUAL VOLUMES	ENVIRONS ANNUAL COLLECTION	ENVIRONS TOTAL COLLECTION
Residential	\$ 0.0031	7,560,852	\$ 23,762.34	\$ 95,049.35
Commercial and A/C	\$ 0.0033	1,036,405	\$ 3,388.33	\$ 13,553.31
Industrial & Stand By	\$ 0.0030	522,511	\$ 1,582.62	\$ 6,330.49
Public Authority and A/C	\$ 0.0048	672,640	\$ 3,207.57	\$ 12,830.28
Municipal Water Pumping	\$ 0.0017	261,901	\$ 439.08	\$ 1,756.33
Comm. Transportation	\$ 0.0015	0	\$ -	\$ -
Ind. Transportation	\$ 0.0008	1,911,622	\$ 1,441.09	\$ 5,764.36
Pub. Auth. Transportation	\$ 0.0029	0	\$ -	\$ -
Ft. Bliss	\$ 0.0046	0	\$ -	\$ -
		11,965,932	\$ 33,821.03	\$ 135,284.12

ATTACHMENT “C”
To
Stipulation & Settlement Agreement

Rate Case Expense Rider

TEXAS GAS SERVICE COMPANY
El Paso Service Area - Environs

RATE SCHEDULE RC-ENV-RIDER

ENVIRONS RATE CASE EXPENSE SURCHARGE**A. APPLICABILITY**

The Rate Case Expense Surcharge (RCE) rate as set forth in Section (B) below is pursuant to Final Orders in GUD 10069 and GUD 10142. This rate shall apply to the following rate schedules of Texas Gas Service Company in the unincorporated areas of the El Paso Service Area including El Paso, Anthony, Clint, Horizon City, Socorro, and Vinton Texas: 1Z, 2A, 2E, 2F, 2Z, 4Z, C-1, SS-Env, and T-1-Env.

B. RCE RATE

Per bill for each billing period: \$0.25

This rate will be in effect until all approved and expended rate case expenses are recovered under the applicable rate schedules.

C. OTHER ADJUSTMENTS

Taxes: Plus applicable taxes and fees (including franchises fees) related to above.

D. CONDITIONS

Subject to all applicable laws and orders, and the Company's rules and regulations on file with the regulatory authority.

Initial Rate Schedule
July 29, 2011

Meters Read On and After

GUD NO. 10142

Final Order

Attachment 2

Approved Tariffs

**TEXAS GAS SERVICE COMPANY
El Paso Service Area – West Texas Region****RATE SCHEDULE PIT
Page 1 of 4****PIPELINE INTEGRITY TESTING (PIT) RIDER****PURPOSE**

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

APPLICABILITY

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

TERRITORY

This Rider shall apply throughout the Company’s El Paso Service Area (“EPSA”), both within the incorporated municipal limits of El Paso, Anthony, Clint, Horizon City, Socorro, and Vinton, Texas (collectively, the “EPSA Cities”), and in the unincorporated areas (environs) adjacent to the EPSA Cities.

QUALIFYING EXPENSES

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

TEXAS GAS SERVICE COMPANY
El Paso Service Area – West Texas Region

RATE SCHEDULE PIT
Page 2 of 4

customers during testing; and any other operating and maintenance expenses reasonably necessary to safely and effectively perform required safety testing of the Company's transmission pipelines in the EPSA. Neither capital expenditures by the Company, nor the labor cost of TGS employees, shall be recovered under this Rider.

CALCULATION OF PIT SURCHARGES

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

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

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

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

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

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

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

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

**TEXAS GAS SERVICE COMPANY
El Paso Service Area – West Texas Region****RATE SCHEDULE PIT
Page 3 of 4****ANNUAL RECONCILIATION**

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

DEFERRED ACCOUNTING

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

ANNUAL REPORT & APPLICABLE PSSC

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

NOTICE TO AFFECTED CUSTOMERS

In addition to the annual report and Addendum to this Rider required above, the Company shall provide, on or before March 31st after each calendar year of the testing cycle, written notice to each affected customer of (a) the PIT Surcharge that will be applied during the ensuing 12-month

**TEXAS GAS SERVICE COMPANY
El Paso Service Area – West Texas Region****RATE SCHEDULE PIT
Page 4 of 4**

period from April 1st through March 31st, and (b) the effect the PIT Surcharge is expected to have on the average monthly bill for each affected customer class. The written notice shall be provided in both English and Spanish, shall be the only information contained on the piece of paper on which it is printed, and may be provided either by separate mailing or by insert included with the Company's monthly billing statements. The Company shall also file an affidavit annually with the Commission and the EPSA Cities certifying that notice has been provided to customers in this manner. The notice shall be presumed to be complete three calendar days after the date the separate mailing or billing statement is deposited in a postage-paid, properly addressed wrapper in a post office or official depository under care of the United States Postal Service. The initial notice shall be filed with, reviewed, and approved by the regulatory authority, and each subsequent notice shall follow the same format as that of the approved initial notice.

FINAL REVIEW, RECONCILIATION, AND TERMINATION

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

PIPELINE INTEGRITY TESTING RIDER

CUSTOMER CLASS	PIT RATE PER CCF	ENVIRONS ANNUAL VOLUMES	ENVIRONS ANNUAL COLLECTION	ENVIRONS TOTAL COLLECTION
Residential	\$ 0.0031	7,560,852	\$ 23,762.34	\$ 95,049.35
Commercial and A/C	\$ 0.0033	1,036,405	\$ 3,388.33	\$ 13,553.31
Industrial & Stand By	\$ 0.0030	522,511	\$ 1,582.62	\$ 6,330.49
Public Authority and A/C	\$ 0.0048	672,640	\$ 3,207.57	\$ 12,830.28
Municipal Water Pumping	\$ 0.0017	261,901	\$ 439.08	\$ 1,756.33
Comm. Transportation	\$ 0.0015	0	\$ -	\$ -
Ind. Transportation	\$ 0.0008	1,911,622	\$ 1,441.09	\$ 5,764.36
Pub. Auth. Transportation	\$ 0.0029	0	\$ -	\$ -
Ft. Bliss	\$ 0.0046	0	\$ -	\$ -
		11,965,932	\$ 33,821.03	\$ 135,284.12

TEXAS GAS SERVICE COMPANY

El Paso Service Area - Environs

RATE SCHEDULE RC-ENV-RIDER

ENVIRONS RATE CASE EXPENSE SURCHARGE

A. APPLICABILITY

The Rate Case Expense Surcharge (RCE) rate as set forth in Section (B) below is pursuant to the Final Order in GUD 10142. This rate shall apply to the following rate schedules of Texas Gas Service Company in the unincorporated areas served in El Paso Service Area including El Paso, Anthony, Clint, Horizon City, Socorro, and Vinton Texas: 1Z, 2A, 2E, 2F, 2G, 2Z, 4Z C-1, SS-Env, and T-1Env.

B. RCE RATE

Per bill for each billing period: \$0.25

This rate will be in effect for approximately 12 months from the date of the Final Order in GUD No. 10142 until all approved and expended rate case expense are recovered under the applicable rate schedules. Not to exceed \$36,256.89.

C. OTHER ADJUSTMENTS

Taxes: Plus applicable taxes and fees related to the above.

D. CONDITIONS

Subject to all applicable laws and orders, and the Company’s rules and regulations on file with the regulatory authority.

E. COMPLIANCE REPORT

Within 45 days the final collection month, TGS shall file a reconciliation report. TGS shall file the report with the Commission, addressed to the Director of the Gas Services Division and referencing Gas Utilities Docket No. 10142, *Rate Case Expense Recovery Report*. The report shall include:

- the meters billed by month by customer class during the applicable period,
- the amount of Rate Case Expense recovered, by month
- the outstanding balance, by month