

**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.

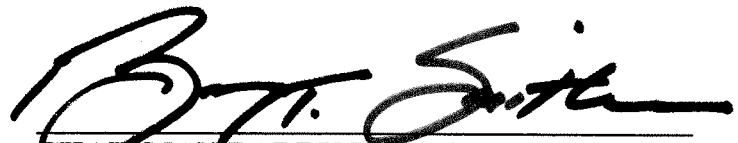
IT IS FURTHER ORDERED that any proposed findings of fact and conclusions of law not specifically adopted herein are **DENIED**.

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



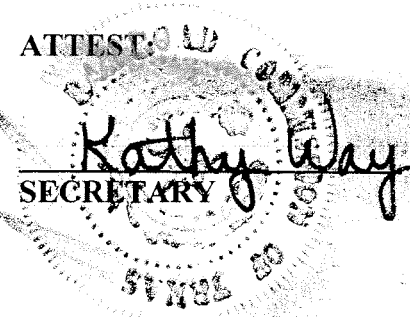
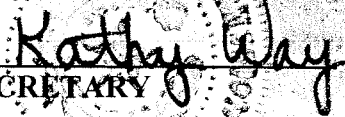
CHAIRMAN BARRY T. SMITHERMAN



COMMISSIONER DAVID PORTER



COMMISSIONER CHRISTI CRADDICK

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**

2012 JUL 13 PM 11:00
OFFICE OF GEN COUNSEL
RAILROAD COMMISSION
OF TEXAS

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.

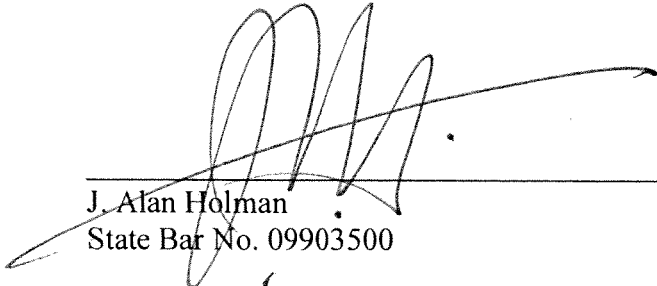
5. The terms of this Agreement may not be used as an admission or concession of any sort or as evidence in any other proceeding, except insofar as reasonable and necessary to implement, recognize, or enforce the terms hereof. All oral or written statements made during the course of the Signatories' settlement 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:

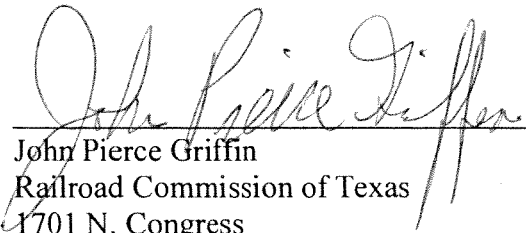


J. Alan Holman
State Bar No. 09903500

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
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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

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El Paso Service Area – West Texas Region

RATE SCHEDULE PIT RIDER
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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

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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 CGF	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
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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

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El Paso Service Area – West Texas Region**

**RATE SCHEDULE PIT
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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

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

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:

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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 PSCC

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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
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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	\$ -	\$ -
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Pub. Auth. Transportation	\$ 0.0029	0	\$ -	\$ -
Ft. Bliss	\$ 0.0046	0	\$ -	\$ -
		11,965,932	\$ 33,821.03	\$ 135,284.12

Exhibit C – Examiners’ Schedule – PFD GUD No. 10142

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