



RAILROAD COMMISSION OF TEXAS

HEARINGS DIVISION

GUD NO. 10285

**STATEMENT OF INTENT FILED BY TEXAS GAS SERVICE COMPANY
TO INCREASE GAS UTILITY RATES WITHIN THE
UNINCORPORATED AREAS OF THE RIO GRANDE VALLEY SERVICE AREA**

APPEARANCES:

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PROCEDURAL HISTORY:

Docket Established:	June 28, 2013
Rates Suspended:	July 9, 2013
Technical Conference:	July 29, 2013
Heard By:	Cecile Hanna, Legal Examiner Rose Ruiz, Technical Examiner Christina Poole, Technical Examiner

Settlement Agreement:
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September 27, 2013
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November 7, 2013
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STATEMENT OF THE CASE

Texas Gas Service Company (TGS) filed this proceeding to increase gas utility rates in the unincorporated areas of the company's Rio Grande Valley Service Area (RGVSA). The proposed increase is based on a system-wide revenue requirement of \$24,645,181, with revenues of \$22,905,748, producing a revenue deficiency of \$1,739,433. This proposed increase is 7.59% over current revenue. The environs share of the revenue deficiency is allocated at \$168,036, which was reduced through a "black box" *Settlement Agreement* to \$143,036. Thus, the *Settlement Agreement* proposes to reduce the environs share of the revenue deficiency by \$25,000 or 14.9% from the amount originally proposed.

TGS is seeking the establishment of special rates that are not tied to rates for the incorporated areas because TGS has recovered its costs and expenses differently in the RGVSA environs and cities. For the incorporated areas of the RGVSA, TGS has recovered operating expenses and capital investment largely through the Cost of Service Adjustment (COSA) tariff approved by those cities. Conversely, in the environs, TGS has made annual interim rate adjustment filings to recover costs associated with capital investments. TGS is requesting a finding supporting the reasonableness and prudence of the capital investments contained in the interim rate adjustment filings from October 1, 2005 through December 31, 2010. In the *Settlement Agreement*, the signatories also propose future IRA factors for any future interim rate adjustment filings.

Finally, the signatories to the *Settlement Agreement* agree on the recovery of actually incurred rate case expenses of \$219,700.72 and reasonably estimated rate case expenses of \$10,000 for a total of actual and estimated rate case expenses of \$229,700.72. The parties propose that rate case expenses be recovered through a surcharge of \$0.02072 per Ccf over an approximate 24 month period.

The Examiners recommend approval of the proposed *Settlement Agreement* with one adjustment to the proposed RCE-Rider to require that the company file the annual compliance report with the RRC Gas Services Division annually, due on or before December 31st, commencing in 2014. The report shall detail the volumes used by month by customer class, the monthly collections for the RCE surcharge, and indicate the outstanding balance.

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PROPOSAL FOR DECISION

1. Procedural History

On June 28, 2013, Texas Gas Service Company, a division of ONEOK, Inc. ("TGS") filed a *Statement of Intent* with the Railroad Commission of Texas ("Commission") to increase rates within the environs of the company's Rio Grande Valley Service Area ("RGVSA").¹ TGS sought to increase its rates to recover operating expenses, which include pipeline integrity testing ("PIT"). In addition, the company was required to file a rate case on or before January 25, 2014, pursuant to the Interim Rate Adjustment provisions of the Texas Utilities Code § 104.301. ("IRA" or "GRIP") TGS proposed an increase to the rates for gas service provided to the following classes of customers: (1) Residential, (2) Commercial, (3) Church, (4) Public Authority, (5) Industrial, (6) Transportation T-1, and (7) Transportation T-2.

The proposed increase is based on a system-wide revenue requirement of \$24,645,181, with revenues of \$22,905,748, producing a revenue deficiency of \$1,739,433. This proposed increase is 7.59% over current revenue. The environs share of the revenue deficiency is allocated at \$168,036, which was reduced through a "black box" *Settlement Agreement* to \$143,036.² Thus, the *Settlement Agreement* proposes to reduce the environs share of the revenue deficiency by \$25,000 or 14.9% from the amount originally proposed. The proposed increase constitutes a "major change" as that term is defined by Section 104.101 of the Texas Utilities Code.

The last *Statement of Intent* proceeding for the RGVSA was docketed as GUD No. 9708. In GUD No. 9708, the Commission approved the same rates for the RGVSA environs as approved by the municipalities in the RGVSA. The Final Order was issued on April 10, 2007. Since the last full rate proceeding for the RGVSA environs, TGS has filed for five interim rate adjustments. The interim rate adjustment process allows the company to seek recovery of costs related to incremental capital investments but not for increases in operations and maintenance expenses.

Notice of the proposed increase in this case was provided through direct mail on August 14, 2013.³ Staff of the Railroad Commission intervened in this proceeding. No protests were filed and no additional request to intervene in this proceeding was made. A technical conference was held on July 29, 2013. The Notice of Hearing was issued on August 1, 2013. The hearing on the merits was scheduled for October 7-8, 2013. On September 27, 2013, the parties filed a Joint Motion for Approval of Settlement Agreement (*Settlement Agreement*) and Admission of Stipulated Evidence.

¹ The environs of the RGVSA includes customers residing in the unincorporated areas of Alamo, Alton, Brownsville, Combes, Donna, Edcouch, Edinburg, Elsa, Harlingen, Hidalgo, La Feria, La Joya, La Villa, Laguna Vista, Los Fresnos, Lyford, McAllen, Mercedes, Mission, Palm Valley, Palmhurst, Palmview, Penitas, Pharr, Port Isabel, Primera, Progreso, Rancho Viejo, Raymondville, Rio Hondo, San Benito, San Juan, Santa Rosa, and Weslaco, Texas. The environs of the RGVSA also include the unincorporated cities of Bayview, Laguna Heights, Monte Alto, Olmito, and San Carlos and the unincorporated areas of Jim Hogg and Starr Counties.

² Joint Ex. 1, *Statement of Intent* and Prefiled Direct Testimony, Janet M. Simpson, p. 5.

³ Joint Ex. 2, Affidavit of Janet Buchanan.

In order to evaluate the *Settlement Agreement*, the following documents are admitted into the record in this case:

- Joint Ex. 1, *Statement of Intent*, Prefiled Direct Testimony, and company's proposed schedules
- Joint Ex. 2, Affidavit of Janet Buchanan, Public Notice, August 15, 2013
- Joint Ex. 3, Affidavit of Dane McKaughan, Rate Case Expenses
- Joint Ex. 4, Bill Impact Analysis
- Examiners' Ex. 1, Response to Examiners' First RFI to TGS
- Examiners' Ex. 2, Response to Examiners' Second RFI to Staff, 2-1, 2-2, 2-3
- Examiners' Ex. 3, Response to Examiners' Third RFI to Staff, 3-1
- Examiners' Ex. 4, Response to Examiners' Third RFI to TGS, 3-1
- Examiners' Ex. 5, Response to Examiners' Fourth RFI to Staff, 4-1
- Examiners' Ex. 6, Response to Examiners' Fourth RFI to TGS, 4-1
- Examiners' Ex. 7, Response to Examiners' Fifth RFI to TGS, 5-1, 5-2, 5-3
- Examiners' Ex. 8, Response to Examiners' Fifth RFI to Staff, 5-1, 5-2, 5-3
- Examiners' Ex. 9, TGS Response to Examiners' Ltr. No. 17
- Examiners' Ex. 10, Response to Examiners' Sixth RFI to TGS, 6-1, 6-2, 6-3, 6-4
- Examiners' Ex. 11, Response to Examiners' Seventh RFI to TGS, 7-1
- Examiners' Ex. 12, TGS Letter to Examiners dated October 16, 2013
- Examiners' Ex. 13, August 13, 2013, Letter from TGS to Examiners updating data from the Technical Conference update
- Examiners' Ex. 14, GUD No. 9800, TGS 2006 GRIP Rate Adjustment for the Unincorporated RGVSA filed April 30, 2008 (pp.1-4), and Schedule IRA-3
- Examiners' Ex. 15, GUD No. 9871, TGS 2007 GRIP Rate Adjustment for the Unincorporated RGVSA filed May 1, 2009 (pp.1-5), and Schedule IRA-3
- Examiners' Ex. 16, GUD No. 9996, TGS Revised 2008 GRIP Rate Adjustment for the Unincorporated RGVSA filed October 15, 2010 (pp.1-4), and Schedule IRA-3
- Examiners' Ex. 17, GUD No. 10035, TGS 2009 GRIP Rate Adjustment for the Unincorporated RGVSA filed November 19, 2010 (pp.1-4), and Schedule IRA-3
- Examiners' Ex. 18, GUD No. 10127, TGS 2010 GRIP Rate Adjustment for the Unincorporated RGVSA filed November 2, 2011 (pp.1-4), and Schedule IRA-3

Moreover, the Examiners officially notice the Interim Orders in the following TGS interim rate adjustment dockets for the RGVSA: GUD Nos. 9800, 9871, 9996, 10035, and 10127.

2. Jurisdiction

The Commission has jurisdiction over the applicant, associated affiliates and over the matters at issue in this proceeding pursuant to TEX. UTIL. CODE ANN. §§ 102.001, 103.003, 103.051, 104.001, 121.051, 121.052, and 121.151 (Vernon 2007 and Supp. 2013). The statutes and rules involved in this proceeding include, but are not limited to TEX. UTIL. CODE ANN. §§104.101, 104.102, 104.103, 104.105, 104.106, 104.107, 104.110, 104.301, and 16 TEX. ADMIN. CODE Chapter 7.

The proposed increase is filed under the Commission's original jurisdiction seeking the establishment of special rates for the RGVSA environs that are not tied to rates for the incorporated areas.⁴

3. Overview of the Company

TGS is a division of ONEOK, Inc., an Oklahoma corporation. ONEOK has three local distribution company operations: TGS, Oklahoma Natural Gas, and Kansas Gas Service. Collectively these three gas utilities serve approximately 2,000,000 customers. The gas utilities are supported by several departments located at ONEOK's headquarters in Tulsa, Oklahoma, including employee benefits and payroll, information technology, legal, accounting, and other corporate services.

In Texas, TGS has ten service areas, which are Central Texas, North Texas, South Texas, Borger-Skellytown, South Jefferson County, Rio Grande Valley, El Paso, Galveston, Permian, and Dell City. These service areas include one hundred municipalities across Texas, with approximately 625,434 customers in total. The RGVSA serves approximately 68,900 customers. Of those customers, 3,860 are located in the environs. The environs customers are comprised of 3,597 residential customers, 163 commercial customers, 10 church customers, 15 industrial customers, 50 public authority customers, and 26 standard transportation customers.

4. Books and Records

Janet Buchanan, Manager of Rates and Regulatory Affairs, testified that TGS maintains its books and records in accordance with the Commission's regulations. Namely, Rule 7.310 requires that each gas utility utilize the Federal Energy Regulatory Commission's (FERC) Uniform System of Accounts prescribed for Natural Gas Companies subject to the provision of the Natural Gas Act for all operating and reporting purposes. The FERC Uniform System of Accounts is applicable to all gas utility and gas utility related operations. Ms. Buchanan asserted that the company maintains its books and records in accordance with Commission Rule 7.310 and the amounts included therein are therefore subject to the presumption that they are reasonable and necessary.⁵ TGS has established that it has fully complied with the requirements of Rule 7.310 and the Examiners find that the amounts noted therein are subject to the presumption encapsulated in Rule 7.503.

5. Settlement Agreement

A. Revenue Requirement and Rates

TGS filed the *Statement of Intent* based upon a test year ending December 31, 2012.⁶ TGS contends that the request was driven by the need for a revenue increase to recover the environs customers' share of increased operating expenses. TGS maintains that operating

⁴ 16 TEX. ADMIN. CODE § 7.115(33), Joint Ex. No. 1, *Statement of Intent* and Examiners' Ex. 4, Response of TGS to Examiners' RFI 3-1.

⁵ Joint Ex. 1, *Statement of Intent* and Prefiled Direct Testimony, Janet Buchanan, pp. 11-12.

⁶ Joint Ex. 1, *Statement of Intent* and Prefiled Direct Testimony, Janet Buchanan, p. 10 and Janet M. Simpson, p. 4.

expenses have increased about \$2.9 million on a system-wide basis since the test year in GUD No. 9708, and that about \$2.4 million, or 82% is attributable to mandatory compliance with pipeline integrity testing requirements.⁷ What is more, TGS has filed five interim rate adjustments from 2006 through 2010, so the company is required to file a rate case on or before January 25, 2014,⁸ pursuant to the interim rate adjustment provisions of the Texas Utilities Code.⁹

The proposed increase is based on a system-wide revenue requirement of \$24,645,181, with current revenues of \$22,905,748, producing a system-wide revenue deficiency of \$1,739,433. This proposed increase is 7.59% over current revenue. The environs' share of the revenue deficiency, as originally proposed, was based on the proposed cost of service allocation of \$168,036, which was reduced through a "black box" *Settlement Agreement* to \$143,036.¹⁰ Thus, in the *Settlement Agreement*, Texas Gas Service Company seeks approval of rates in the environs that generate revenues that are \$25,000 or 14.9% less than the amount originally proposed for the environs.

This *Statement of Intent* was filed seeking the establishment of special rates for the RGVSA environs that are not tied to rates for the incorporated areas.¹¹ Since the last full rate case, TGS has recovered its costs and expenses differently in the RGVSA environs and cities. For the incorporated areas of the RGVSA, TGS has recovered expenses largely through the Cost of Service Adjustment (COSA) tariff approved by those cities. TGS reached an agreement on the 2013 COSA with the RGVSA cities on July 24, 2013.¹² This tariff authorizes annual adjustments to rates to account for changes in both capital investments and operating expenses.¹³

On the other hand, in the RGVSA environs, TGS has made annual filings pursuant to the interim rate adjustment provisions, which allows the company to recover the increased costs associated with incremental capital investment. The IRA filings do not allow, however, for changes in rates to account for annual increases in expenses. While the Texas Utility Code allows interim rate adjustments to be applied to either the customer charge or the volumetric charge, Ms. Buchanan testified that TGS has applied IRA increases to the customer charge in the RGVSA environs because most of the cost of distributing natural gas to customers is fixed.¹⁴ Conversely, all increases in the cities have been applied to the volumetric charge in accordance with the COSA tariff. The company maintains that because the RGVSA cities and environs rates

⁷ Joint Ex. 1, *Statement of Intent* and Prefiled Direct Testimony, Dean LaFever, p. 6.

⁸ GURA § 104.301 requires a utility to file a Statement of Intent not later than 180 days after the fifth anniversary of the date on which its first interim rate adjustment takes effect. In the RGVSA environs, the first interim rate adjustment subsequent to GUD NO. 9800 was final on July 29, 2008. Adding 180 days to this anniversary results in a required filing date of January 25, 2014. The Interim Order in GUD No. 10127, however, states in Finding of Fact No. 43 that TGS is required to file a rate case by January 25, 2013. TGS obtained confirmation from the Railroad Commission of Texas Gas Services Division that Finding of Fact No. 43 contained an error and that the correct date for the required filing is January 25, 2014. Joint Ex. 1, *Statement of Intent* and Prefiled Direct Testimony, Janet Buchanan, p. 4 and Ex. JB-2.

⁹ TEX. UTIL. CODE ANN. § 104.301(h). (Referred to as IRA and GRIP) and Joint Ex. 1, *Statement of Intent* and Prefiled Direct Testimony, Dean LaFever, p. 7.

¹⁰ Joint Ex. 1, *Statement of Intent* and Prefiled Direct Testimony, Janet M. Simpson, p. 5.

¹¹ 16 TEX. ADMIN. CODE § 7.115(33) and Examiners' Ex. 4, Response of TGS to Examiners' RFI 3-1.

¹² Examiners' Ex. 13, August 13, 2013 Letter from TGS to Examiners – Technical Conference update, Attachment B and Joint Ex. 1, *Statement of Intent* and Prefiled Direct Testimony, Janet Buchanan, pp. 6-7.

¹³ Joint Ex. 1, *Statement of Intent* and Prefiled Direct Testimony, Dean LaFever, pp. 6-7.

¹⁴ Joint Ex. 1, *Statement of Intent* and Prefiled Direct Testimony, Janet Buchanan, p. 8.

will continue to change according to these separate mechanisms, the specific rates designed to recover the revenue requirement will continue to differ.¹⁵ Staff points out that the current situation is similar to the Atmos Mid-Tex rates approved by the Commission in unincorporated areas, which resulted in customer charges that differed from the customer charges in the incorporated areas from COSA like mechanisms, the RRM and DARR.¹⁶

Turning to the proposed settlement rates, it is important to first recognize that in the company's filing, the customer charge used to calculate the current percentage increase in rates is not the customer charge from the last full rate case, GUD No. 9708, but rather the rate approved in the last IRA filing, GUD No. 10127. The customer charge in GUD No. 9708 for residential was \$9.50 and \$25.00 for commercial, which have been increased through the IRA dockets to the rate shown in the "Current" column below in Table 5.1. This table demonstrates the residential and commercial current,¹⁷ proposed and settlement rates.

Table 5.1
Residential and Commercial Rates - Current, Proposed and Settlement

	Incorporated	Environs		
Residential	Current	Current	Proposed	Settlement
Customer Charge	\$11.25	\$12.08	\$12.08	\$12.08
All Ccf	\$0.4712	\$0.1635	\$0.2303	\$0.1784
Mcf	\$4.712	\$1.635	\$2.303	\$1.784
Commercial				
Customer Charge	\$31.25	\$41.67	\$41.67	\$41.67
All Ccf	\$0.3442	\$0.1450	\$0.1960	\$0.1796
Mcf	\$3.442	\$1.450	\$1.960	\$1.796

The revenue requirement is recovered from customer rates as set out in the proposed *Settlement Agreement*. The proposed environs customer charge for residential of \$12.08 contemplated by the *Settlement Agreement* is the same as originally proposed and it also matches the customer charge in the last IRA docket, GUD No. 10127. The environs residential volumetric rate currently is \$0.1635 per Ccf. As originally proposed this volumetric rate would increase to \$0.2303, which is reduced to \$0.1784 for all Ccf by the *Settlement Agreement*. Similarly, the proposed settlement customer charge for environs commercial customers is also unchanged from the last interim rate adjustment docket at \$41.67. The environs proposed commercial customer settlement amount for volumetric rate would change from \$0.1450 to \$0.1796 for all Ccf. The \$11.25 customer charge for the RGVSA cities resulted from a "black

¹⁵ Joint Ex. 1, *Statement of Intent* and Prefiled Direct Testimony, Janet Buchanan, p. 7 and Examiners' Ex. 4, Response of TGS to Examiners' RFI 3-1.

¹⁶ Examiners' Ex. 5, Staff's Response to Examiners' RFI 4-1, citing GUD No. 10170 (and consolidated cases), *Statement of Intent* filed by Atmos Energy Corporation to Increase Gas Utility Rates within the Unincorporated Areas Served by the Atmos Mid-Texas Division, Final Order December 4, 2012.

¹⁷ The Examiners note that the company's use of the rate in GUD No. 10127, the last interim rate adjustment rate, as "current" rates (as opposed the "current" rate stated as the rate in the last full rate case) is justified in the instant case because those rates are just and reasonable. The Commission is not precluded, however, from altering the interim rate adjustment rates contained in the Interim Orders to determine just and reasonable rates in future dockets as provided by 16 TAC 7.7101(j).

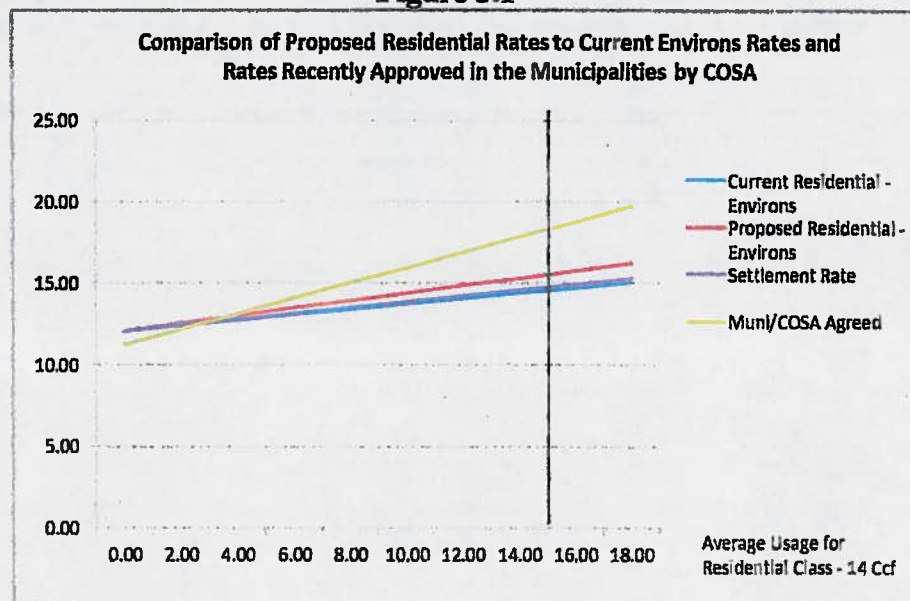
box” settlement agreement from an August 2009 Statement of Intent filed with the cities that included adoption of a COSA tariff. The customer charge hasn’t changed for the cities since that time although the volumetric charge has increased through the COSA.¹⁸ What is more, the impact of the proposed change on residential and commercial customers is shown below in Table 5.2. As calculated, the average residential customer, who consumes 14 Ccf¹⁹ will experience a rate increase, without the cost of gas, of 1.45%.

Table 5.2
Average Bill Impact by Customer Class
Proposed and Settlement Rates

CUSTOMER CLASS	AVERAGE Ccf	CURRENT RATE	PROPOSED RATE	SETTLEMENT RATE	PROPOSED PERCENT INCREASE	SETTLEMENT PERCENT INCREASE
Residential	14	\$14.37	\$15.30	\$14.58	6.5%	1.45%
Commercial	414	\$101.70	\$122.80	\$116.02	20.75%	14.09%
Church	31	\$33.66	\$35.25	\$34.74	4.69%	3.19%
Industrial	3,240	\$538.47	\$613.32	\$607.97	13.90%	12.91%
Public Authority	316	\$95.25	\$109.32	\$104.57	14.77%	9.78%
T-1 Transportation	9,356	\$1089.42	\$1118.90	\$1345.04	2.71%	23.46%
T-2 Transportation	28,556	\$1117.48	\$1174.22	\$1892.69	5.08%	69.37%

Likewise, Figures 5.1 and 5.2 show the comparisons of current to proposed and recommended settlement rates for residential and commercial customers, respectively.²⁰

Figure 5.1

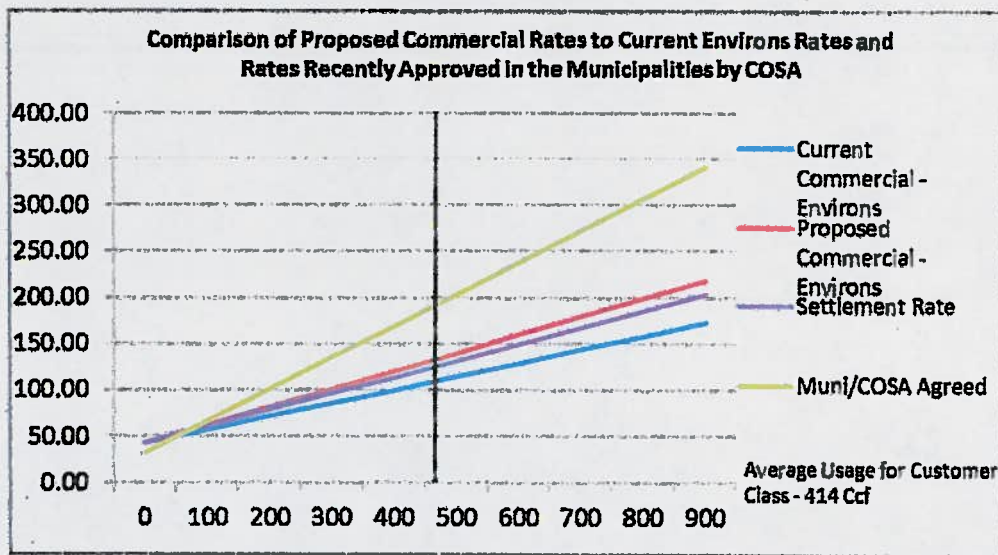


¹⁸ Examiners’ Ex. 4, Response of TGS to Examiners’ RFI 3-1.

¹⁹ Based upon the 2012 average usage for each customer class, Joint Ex. 2, Public Notice and Affidavit of Janet Buchanan.

²⁰ The remaining customer classes’ comparisons of current to proposed and recommended settlement rates are attached as “Proposal for Decision Attachment B.”

Figure 5.2



Ms. Buchanan testified that the rate design process began with determining the amount of revenue to be recovered from the incorporated customers by applying the proposed COSA rates to the incorporated billing determinants for each customer class. The remaining shortfall is to be recovered from the environs customers in a manner that is generally consistent with those already in place for the RGVSA environs customers.²¹ TGS maintains that a reasonable monthly service charge was established and then the company calculated a commodity rate to recover the remaining cost of service. The proof of revenue assures that the rates do not exceed the overall revenue requirement. TGS asserts that this is consistent with other dockets with relatively small numbers of customers.²²

In the *Settlement Agreement*, TGS agrees to a \$25,000 reduced revenue requirement for the environs share of the system-wide cost of service. TGS submitted evidence in this proceeding in support of its original rate request. The *Settlement Agreement* is a “black box” settlement and the individual components or adjustments may not be determined. Nevertheless, based upon the evidence in the record, the Examiners find that the *Settlement Agreement* is just and reasonable and consistent with Commission precedent.²³ The Examiners recommend granting the Joint Motion for Approval of Settlement Agreement and the approval of rates consistent with the *Settlement Agreement* with one adjustment to rate case expenses as discussed in Section No. 7 of this proposal for decision.

²¹ Joint Ex. 1, *Statement of Intent* and Prefiled Direct Testimony, Janet Buchanan, pp. 16-17.

²² Examiners’ Ex. 13, August 13, 2013 Letter from TGS to Examiners – Technical Conference update. GUD No. 10196, *Statement of Intent* filed by Bluebonnet Natural Gas, LLC to Increase Rates in Hardin, Jefferson, Liberty, Nacogdoches, Rusk and Tyler Counties, Texas, and consolidated dockets, Final Order December 4, 2012; and GUD No. 10021, *Statement of Intent* to Increase Rates in Armstrong, Bailey, Borden, Briscoe, Carson, Castro, Cochran, Crosby, Dawson, Deaf Smith, Dickens, Donley, Floyd, Gaines, Garza, Hale, Hall, Hockley, Kent, Lamb, Lubbock, Lynn, Motley, Oldham, Parmer, Potter, Randall, Swisher, Terry and Yoakum Counties, Texas, Final Order April 24, 2012.

²³ GUD No. 10170 (and consolidated cases), *Statement of Intent* filed by Atmos Energy Corporation to Increase Gas Utility Rates within the Unincorporated Areas Served by the Atmos Mid-Texas Division, Final Order December 4, 2012.

B. Pipeline Integrity Expenses

Pipeline integrity testing (PIT) is required by both federal and state regulations to ensure the safe transportation of natural gas by pipeline through regularly testing the structural integrity of gas pipelines. The Commission administers and enforces the program's requirements as applied to intrastate pipelines.²⁴ Mr. LaFever testified that TGS began the initial testing in 2003 and under the program, the company is required to test all transmission facilities subject to regulations in a Baseline Assessment over a ten-year period, and then reassess those same facilities at least once every seven years.²⁵

TGS has approximately 294 miles of gas transmission main in the RGVSA subject to required testing. Mr. LaFever testified that after the risk assessment and testing schedule has been established, TGS prioritizes, coordinates and schedules testing in the most efficient and cost-effective manner possible. As a result, the length of pipe tested and the associated level of expenses in a given year may change.²⁶ During the test year, the company primarily employed a hydrostatic, pressure test method to perform integrity tests on transmission lines in the RGVSA.²⁷

Mr. LaFever testified further that the amount of pipeline integrity testing cost incurred during the test year is about \$3.4 million. The amounts incurred for pipeline integrity testing are deferred on the company's balance sheet and are amortized the following year. The total pipeline integrity expense included in the company's test year cost of service, as originally proposed, is \$2,365,014. The most recent three year average for pipeline integrity expenses is \$2,778,975. This is comprised from years 2010 through 2012, as follows: 2010 - \$1,904,927; 2011 - \$3,067,558; and 2012 - \$3,364,439. It is the company's position that the amount of pipeline integrity expense included in the cost of service is reasonable because it is equal to the test year expense, which represents amortization of historical pipeline integrity costs. No adjustment to the test year level of expense was proposed in the original filing because it is representative of the average annual expenditures incurred for the pipeline integrity program in recent years.²⁸

The Examiners inquired as to whether the pipeline integrity expenses should be recovered through a surcharge that captures the actual expenses and eliminates any over and under recoveries by the company as approved by the Commission in GUD No. 10142 for the El Paso Service Area environs. Both Staff and the company were opposed to this method of recovery for the PIT expenses.²⁹ The parties point out that the PIT Rider in GUD No. 10142 set recovery of PIT expenses in both incorporated and unincorporated areas of the El Paso Service Area. A rider for the RGVSA for only the environs would necessarily differ. According to Staff and TGS, PIT expenses are an eligible part of the cost of service and the incorporated rates already are based upon these expenses.³⁰ Staff asserts that to date, the Commission has approved recovery of PIT

²⁴ Joint Ex. 1, *Statement of Intent* and Prefiled Direct Testimony, Dean LaFever, p. 11.

²⁵ Joint Ex. 1, *Statement of Intent* and Prefiled Direct Testimony, Dean LaFever, p. 11.

²⁶ Joint Ex. 1, *Statement of Intent* and Prefiled Direct Testimony, Dean LaFever, p. 12.

²⁷ Joint Ex. 1, *Statement of Intent* and Prefiled Direct Testimony, Dean LaFever, p. 12.

²⁸ Examiners' Ex. 11, Response of TGS to Examiners' RFI 7-1.

²⁹ Examiners' Ex. 7, Response of TGS to Examiners' RFI 5-1 - 5-3 and Examiners' Ex. 8, Response of Staff to RFI 5-1 - 5-3.

³⁰ Examiners' Ex. 7, Response of TGS to Examiners' RFI 5-1 - 5-3 and Examiners' Ex. 8, Response of Staff to RFI 5-1 - 5-3.

expenses in the cost of service in previous cases, and as a separate rider only in the El Paso Service Area environs.³¹ Staff maintains that integrity management expenses have been included in a utility's cost of service from the first rate setting docket at the Commission and that it has only been in recent years that integrity management expenses have become a focus of a utility's expenses. Staff believes this is traced directly to the federal and state regulatory requirements. Prior to the enactment of rules and laws governing specific integrity management, each utility determined its own integrity management strategy for facility replacement and those costs were capitalized or expensed as the utility replaced or maintained its system.³²

Furthermore, it is Staff's position that the inclusion of \$2.3 million of PIT expenses in the cost of service for the test year is reasonable. Staff points out that some future fluctuation from the test year amount is expected. According to Staff, the risk that the company might over-recover at some point is allayed by the actually incurred expenses from 2009-2011 totaling \$5.25 million in the RGVSA that has not been recovered yet through rates. In 2013, PIT expense is projected to be approximately \$3.4 million, exceeding test year PIT by about \$1 million. Based upon the proposed rates, TGS will under-recover PIT expense for 2013 by \$1 million.³³

The interim rate adjustment provisions allow the company to recover for incremental capital investment. Therefore, current rates for the RGVSA environs have not been adjusted to reflect the increases in pipeline integrity testing since the last rate case, GUD No. 9708.³⁴ Given the nature of the "black box" settlement, the individual components or adjustments may not be determined. Based on the evidence in the record, the Examiners find that the recovery of the PIT expenses through the cost of service in the proposed *Settlement Agreement* is just and reasonable.

C. Interim Rate Adjustment Review

i. Background

Pursuant to GURA §104.301 and TEX. ADMIN. CODE §7.7101 a gas utility may file an interim rate adjustment (IRA) request. That provision provides utilities a mechanism to adjust rates annually with an interim adjustment for capital investment. Prior to this statute, a utility's rate could be increased only through a full *Statement of Intent* proceeding. Once a utility files its first IRA filing, it is required to make an IRA filing annually. The amounts are subject to review for prudence in a subsequent proceeding and any amounts collected through the adjusted rates are subject to refund until the subsequent *Statement of Intent* proceeding. After the fifth anniversary of the first IRA filing, the utility must undertake a *Statement of Intent* proceeding.

³¹ Examiners' Ex. 8, Response of Staff to RFI 5-1 – 5-3. Staff notes that Staff does not maintain records that track integrity management expense but has identified the following cases that include the cost of service in the rates: GUD No. 9869 (consolidated), *Petition for De Novo Review of the Denial of the Statement of Intent Filed by Atmos Energy Corp., Mid-Tex Division by the City of Dallas*; *Statement of Intent filed by Atmos Energy Corp., Mid-Tex Division to Increase Gas Utility Rates in the Unincorporated Areas Served by the Mid-Tex Division*, Final Order January 26, 2010 and Final Order Nunc Pro Tunc February 23, 2010; GUD No. 9902, *Statement of Intent of CenterPoint Energy Resources Corp., D/B/A CenterPoint Energy Entex and CenterPoint Energy Texas Gas to Rates in the Houston Division*, Final Order February 23, 2010; GUD No. 10235 (consolidated), *Statement of Intent of West Texas Gas, Inc. to Increase Gas Distribution Rates in the Unincorporated Areas of Texas*, Final Order June 13, 2013.

³² Examiners' Ex. 7, Response of TGS to Examiners' RFI 5-1 – 5-3 and Examiners' Ex. 8, Response of Staff to RFI 5-1 – 5-3.

³³ Examiners' Ex. 7, Response of TGS to Examiners' RFI 5-1 – 5-3 and Examiners' Ex. 8, Response of Staff to RFI 5-1 – 5-3.

³⁴ Joint Ex. 1, *Statement of Intent* and Prefiled Direct Testimony, Dean LaFever, p. 13.

In the prior Statement of Intent for the TGS RGVSA, GUD No. 9708, the Commission approved the following rate factors for the company to use when calculating IRAs pursuant to Texas Utilities Code §104.301.

1. For the purpose of future GRIP filings, rate base as of September 30, 2005 shall be \$32,275,081.
2. For the purpose of future GRIP filings, the overall rate of return on new investment shall be 8.055%.
3. For the purpose of future GRIP filings, the overall rate of return for use in the utility's annual earnings monitoring report required by TEX. Util. Code Ann. §104.301(f) shall be 8.4%.
4. Depreciation rates shall be consistent with those depreciation rates included in the Company's Statement of Intent filed on March 30, 2006.
5. The incremental federal income tax rate shall be 35%.
6. Any investment in plant for the combined RGV system recorded after September 30, 2005 shall be recoverable through future GRIP filings.
7. Any future GRIP filings shall not include increased investment in allocated division or corporate plant with exception of investment in the centralized call center and investment in computer systems.

After the last Statement of Intent, GUD No. 9708, TGS filed the following five IRA applications for the environs of the RGVSA.

Tex. R.R. Comm'n, Application of Texas Gas Service Company for the 2006 Annual Gas Reliability Infrastructure Program Rate Adjustment for the Unincorporated Areas of the Rio Grande Valley Service Area, Docket No. 9800, (Gas Utils. Div. July 29, 2008).

Tex. R.R. Comm'n, Application of Texas Gas Service Company for the 2007 Annual Gas Reliability Infrastructure Program Rate Adjustment for the Unincorporated Areas of the Rio Grande Valley Service Area, Docket No. 9871, (Gas Utils. Div. July 14, 2009).

Tex. R.R. Comm'n, Application of Texas Gas Service Company for the 2008 Annual Gas Reliability Infrastructure Program Rate Adjustment for the Unincorporated Areas of the Rio Grande Valley Service Area, Docket No. 9996, (Gas Utils. Div. December 14, 2010).

Tex. R.R. Comm'n, Application of Texas Gas Service Company for the 2009 Annual Gas Reliability Infrastructure Program Rate Adjustment for the Unincorporated Areas of the Rio Grande Valley Service Area, Docket No. 10035, (Gas Utils. Div. March 8, 2011).

Tex. R.R. Comm'n, Application of Texas Gas Service Company for the 2010 Annual Gas Reliability Infrastructure Program Rate Adjustment for the Unincorporated Areas of the Rio Grande Valley Service Area, Docket No. 10127, (Gas Utils. Div. January 24, 2012).

The chart below contains key information from each of the five IRA filings:

Table 5.3
Annual IRA Key Information

IRA Year	2006 ³⁵	2007	2008	2009	2010
GUD No.	9800	9871	9996	10035	10127
Increase in Net Investment (Note 1)	\$4,359,680	\$2,432,982	\$2,477,820	\$5,033,281	\$5,608,759
Change in Revenue Requirement (Note 1)	\$684,904	\$417,939	\$435,853	\$647,212	\$800,788
Environs Allocated Share of Revenue Requirement (Note 2)	\$43,868	\$26,069	\$29,155	\$43,293	\$55,869

Note 1: Annual IRA filings, Schedule, IRA-3, lines 2 and 8. Examiners' Exhibits 14-18, respectively.

Note 2: Annual IRA filings, TGS RGVSA GRIP Rate Adjustments for the Unincorporated RGVSA. Examiners' Exhibits, 14-18, respectively.

TGS witness, Janet Buchanan, testified that because most of the cost of distributing natural gas to customers is fixed, the cost of providing service does not vary with the amount of natural gas provided. Therefore, it is appropriate to recover such costs through a fixed charge. Thus, the Company elects to apply the IRAs to the customer charge. Ms. Buchanan testified that this is consistent with how other gas utilities apply the IRA statute.³⁶ Over the course of the five IRA filings, the residential customer charge has increased from \$9.50 to \$12.08. The annual customer charge impact for each customer class is shown below:

Table 5.4
RGVSA Environs Customer Charge Changes from GUD 9708 to Current³⁷

Rate Schedule	Customer Class	Current Customer Charge	2006 Interim Rate Adjustment	2007 Interim Rate Adjustment	2008 Interim Rate Adjustment	2009 Interim Rate Adjustment	2010 Interim Rate Adjustment	Total
1Z	Residential	\$9.50	\$0.58	\$0.36	\$0.38	\$0.56	\$0.70	\$12.08
2Z	Church	\$12.50	\$3.92	\$2.33	\$2.40	\$3.57	\$4.45	\$29.17
2Z	Commercial	\$25.00	\$3.92	\$2.33	\$2.40	\$3.57	\$4.45	\$41.67
3Z	Industrial	\$50.00	\$10.95	\$5.90	\$1.73	\$2.58	\$2.86	\$74.02
4Z	Public Authority	\$30.00	\$3.53	\$2.18	\$2.34	\$3.48	\$3.98	\$45.51
T-1	T-1 Transportation	\$50.00	\$47.35	\$30.47	\$27.34	\$40.61	\$46.65	\$242.42
T-2	T-2 Transportation	\$250.00	\$47.35	\$30.47	\$27.34	\$40.61	\$46.65	\$442.42
	Docket Numbers	9708	9800	9871	9996	10035	10127	

³⁵ 15 month period ended 12/31/06.

³⁶ Joint Ex. 1, *Statement of Intent* and Prefiled Direct Testimony, Janet Buchanan, p. 8.

³⁷ Joint Ex. 1, *Statement of Intent* and Prefiled Direct Testimony, Janet Buchanan, p. 4.

ii. Prudence Determination

Until the issuance of a final order, all amounts collected under the interim adjustment rate increases are subject to refund at the next rate case.³⁸ Once the Commission issues a final order in the full rate case following the interim adjustments, the revenues that the utility received from interim rate adjustments from capital investments will no longer be subject to refund. Thus, Commission rules³⁹ provide for a prudence review related to the reasonableness and prudence of the capital expenditures contained in the interim rate adjustment filings. TGS seeks a finding supporting the reasonableness and prudence of the IRA capital investments from October 1, 2005 through December 31, 2010.

In support of its investment, Mr. Dean LaFever provided testimony of all capital expenditures and provided a detailed list of every capital project undertaken from October 1, 2005 through December 31, 2010.⁴⁰ Mr. LaFever stated that from September 30, 2005 through December 31, 2012, the Company has invested more than \$40 million in the RGVSA to ensure a safe and reliable system. He testified that of this total, \$21.6 million was included in the IRA filings, as well as, investments totaling approximately \$2.4 million in Corporate Plant that was not included in the prior IRA filings. Another approximately \$16 million has been invested in the RGVSA in calendar years 2011 and 2012. Accounting for depreciation, this represents a net increase in capital investment of more than \$40 million.⁴¹

Mr. LaFever testified that the Company did not include certain capitalized meal and travel costs that the Commission removed from rate base in prior IRA filings, and has removed all capitalized meal and travel expense for the test year in excess of \$25 per person per meal and \$150 per night hotel expense.⁴² Additionally, TGS did not include in any IRA filings, either with the cities or the Commission, increased investment in allocated division or corporate plant except as allowed by the terms of the agreement. However, the investment in division and corporate plant, used and useful, has been included in rate base in this *Statement of Intent* filing.⁴³ He also affirmed that all plant included in the previous five IRA filings through test year ended December 31, 2012, as proposed in rate base, represents plant presently in service and used and useful in the provision of gas utility service to RGVSA customers. Mr. LaFever either reviewed or participated in approval of each investment included and in his opinion each investment was prudently made, reasonable in amount, and necessary in order for TGS to maintain a safe, reliable and regulatory-compliant system and provide an appropriate level and quality of gas utility service to customers in the RGVSA.⁴⁴

iii. Commission Staff's Review of IRA Filings

In response to Examiner's RFI-2, Staff identified all projects removed from each annual IRA filing. Staff also responded that in GUD Nos. 9800 and 9871, facility improvements of

³⁸ TEX. UTIL. CODE ANN. § 104.301(a).

³⁹ 16 TEX. ADMIN. CODE § 7.7101(j).

⁴⁰ Joint Ex. 1, *Statement of Intent* and Prefiled Direct Testimony, Dean LaFever, Exhibit DL-1.

⁴¹ Joint Ex. 1, *Statement of Intent* and Prefiled Direct Testimony, Dean LaFever, p. 9.

⁴² Joint Ex. 1, *Statement of Intent* and Prefiled Direct Testimony, Dean LaFever, p. 8.

⁴³ Joint Ex. 1, *Statement of Intent* and Prefiled Direct Testimony, Dean LaFever, p. 9.

⁴⁴ Joint Ex. 1, *Statement of Intent* and Prefiled Direct Testimony, Dean LaFever, p. 10.

\$57,554 were not included. Additionally, in GUD No. 9871, CNG cylinders and storage tank removal totaling \$58,868 were not included as rate base in the interim filings as part of the settlement with the cities. However, these projects have been included in rate base in this docket.

The joint *Settlement Agreement* terms state that Staff conducted a thorough review of each interim rate adjustment docket related to the current docket. Staff examined each docket, which included an evaluation of plant during the administrative review and approval of each IRA at the time each docket was filed, affirming the review process was complete. Additional review was conducted during GUD No. 10285 of plant included in each IRA. A sample of plant put into service during calendar years 2011 and 2012 was also reviewed to ensure that plant investment from this period was just and reasonable.

Adjustments to meals and hotel expenses made in IRA filings, GUD Nos. 9800, 9871, 9996, 10035, and 10127, were carried through to GUD 10285. Staff affirmed that the amounts removed from each IRA filing was appropriate at the time. Staff reviewed the instant docket to affirm that any previously removed amounts were not included in this case or, if included, that the utility had provided sufficient justification to include previously removed amounts in gas plant and the associated accumulated depreciation in this docket. Staff affirms that the amounts included in gross plant and associated accumulated depreciation in this docket are reasonable and prudent under 7.7101(j). Staff affirms that refunds under 16 TEX. ADMIN. CODE § 7.7101(i) are not recommended or necessary.⁴⁵

iv. *Settlement Agreement* – Future IRA Factors

TGS and Staff agree that any future IRA filings made for the RGVSA Environs pursuant to GURA § 104.301 shall rely on the following Cost of Service factors:

- Weighted Average Cost of Capital shall be 8.0845% based upon a capital structure of 44.61% debt and 55.39% equity, with a 10.33% cost of equity.
- For the initial IRA filing, the Net Investment which includes detail of Plant in Service amounts along with the associated depreciation rate for each account shall be as shown on Exhibit B, to the *Settlement Agreement*.
- For the initial IRA filing, the beginning amount of ad valorem taxes at the RGVSA level is \$627,090.
- For the initial IRA filing, the net plant in service is \$73,629,650 for calculating the federal income tax.
- For the initial IRA filing, the customer charge as noted in item 2⁴⁶ above will be the starting rate to apply any IRA adjustment.
- The allocation factors to spread any change in IRA increase/decrease to the appropriate customer classes is, as follows:

⁴⁵ *Settlement Agreement*, Paragraph 12, p. 6 and Examiners' Ex. 2. Staff's Response to Examiners' RFI 2-1, 2-2, and 2-3.

⁴⁶ "Item 2" in the *Settlement Agreement* contains customer charges as found in the settlement rate column of Table 5.1 in this Proposal for Decision.

Table 5.5
Future IRA Allocation Percentages

Customer Class	Allocated Increase
Residential	58.10%
Commercial and Church	29.24%
Industrial	2.66%
Public Authority	4.23%
T-1 Transportation	3.38%
T-2 Transportation	2.39%
Total	100.00%

v. Depreciation Rates

(a) Background

The current depreciation rates are those established in the last full rate case for the RGVSA environs, GUD No. 9708. In that docket, the Commission approved the same depreciation rates as the municipalities that arose from a settlement dated July 7, 2006. The depreciation rates for TGS Division were developed in a 2003 update, based on March 31, 2002, plant and reserves, of a preliminary study conducted for six Southern Union districts identified as West Texas, Galveston, North Texas, Port Arthur, Austin, and Rio Grande.⁴⁷

(b) Settlement Proposed Depreciation Rates

The *Settlement Agreement* proposes to use the same depreciation rates, including production and gathering rates, as those used for the RGVSA cities that were approved under a 2009 settlement agreement between TGS and the RGVSA cities.⁴⁸ The depreciation rates approved with the settlement with the cities had the majority of the rates coming from the RGVSA direct plant depreciation rates at amounts that were developed in 2008 from a depreciation study conducted by Dr. Ronald E. White of Foster Associates. TGS witness, Janet Simpson, sponsors the study for use in this environs case. Ms. Simpson testified that the production and gathering plant rates were developed in studies commissioned by Southern Union Company prior to the acquisition of TGS by ONEOK, Inc.⁴⁹

The proposed depreciation rates were derived from a system composed of straight-line method, vintage group procedure, and remaining-life technique.⁵⁰ For the RGVSA direct assets, the study recommended primary account depreciation rates equivalent to a composite rate of 1.34 percent. Depreciation expense is currently accrued at rates that composite to 3.60 percent. Therefore, the recommended change in the composite depreciation rate is a reduction of 2.26 percentage points. Of the 26 plant accounts included in the 2008 study, Foster Associates

⁴⁷ Joint Ex. 1, *Statement of Intent* and Prefiled Direct Testimony, Janet M. Simpson, Exhibit JMS-2, pp. 6-7.

⁴⁸ Joint Ex. 1, *Statement of Intent* and Prefiled Direct Testimony, Janet M. Simpson, p.17.

⁴⁹ Joint Ex. 1, *Statement of Intent* and Prefiled Direct Testimony, Janet M. Simpson, p.17.

⁵⁰ Joint Ex. 1, *Statement of Intent* and Prefiled Direct Testimony, Janet M. Simpson, Exhibit JMS-2, p. 8.

recommended rate reductions for 23 accounts and rate increases for three accounts, presented in the table below.⁵¹

Texas Gas Service – RGVSA
Current and Proposed Accrual Rates⁵²
Table No. 5.6

Account No.	Account Description	Current Accrual Rate	Proposed Accrual Rate
	Transmission Plant		
366.20	Structures and Improvements	2.50%	2.98%
367.00	Mains	2.50%	1.96%
368.00	Compressor Station Equipment	2.50%	2.52%
369.00	Meas. and Reg. Station Equipment	2.50%	2.46%
371.00	Other Equipment	2.50%	2.29%
	Total Transmission Plant	2.50%	2.10%
	Distribution Plant		
375.10	Structures and Improvements	3.50%	2.58%
375.20	Other System Structures	3.50%	2.16%
376.00	Mains	3.50%	1.49%
378.00	Meas. and Reg. Station Equip. – General	3.50%	1.45%
379.00	Meas. and Reg. Station Equip. – City Gate	3.50%	1.48%
380.00	Services	3.50%	1.59%
381.00	Meters	3.50%	0.73%
382.00	Meter Installations	3.50%	3.47%
383.00	House Regulators	3.50%	-0.65%
385.00	Industrial Meas. and Reg. Station Equip.	3.50%	1.54%
386.00	Other Property on Customers' Premises	3.50%	1.06%
387.00	Other Equipment	3.50%	-19.97%
	Total Distribution Plant	3.50%	1.15%
	General Plant - Depreciable		
390.10	Structures and Improvements	4.50%	1.95%
392.00	Transportation Equipment	12.50%	-14.83%
396.00	Power Operated Equipment	12.50%	-19.50%
	Total Depreciable	6.67%	-3.53%
	General Plant - Amortizable		
391.10	Office Furniture and Fixtures	9.00%	6.67%
391.90	Computers and Electronic Equipment	9.00%	13.95%
393.00	Stores Equipment	9.00%	6.67%
394.00	Tools, Shop and Garage Equipment	9.00%	6.67%
397.00	Communication Equipment	9.00%	5.64%
398.00	Miscellaneous Equipment	9.00%	6.67%
	Total Amortizable	9.00%	7.51%
	Total General Plant	7.97%	2.64%
	TOTAL GAS OPERATIONS	3.60%	1.34%

⁵¹ Joint Ex. 1, *Statement of Intent* and Prefiled Direct Testimony, Janet M. Simpson, Exhibit JMS-2, pp. 9-10.

⁵² Joint Ex. 1, *Statement of Intent* and Prefiled Direct Testimony, Janet M. Simpson, Exhibit JMS-2, p. 24.

For the TGS Division assets, the study recommended primary account depreciation rates equivalent to a composite rate of 5.15 percent. Depreciation expense is currently accrued at rates that composite to 9.46 percent. The recommended change in the composite depreciation rate is, therefore, a reduction of 4.31 percentage points. Of the 6 plant accounts included in the 2008 study, Foster Associates is recommending rate reductions for four accounts and rate increases for two accounts, presented in the table below.⁵³

Table No. 5.7
TGS Division Current and Proposed Accrual Rates⁵⁴

Account No.	Account Description	Current Accrual Rate	Proposed Accrual Rate
	General Plant - Depreciable		
390.10	Structures and Improvements	10.00%	-85.31%
	Total Depreciable	10.01%	-85.32%
	General Plant- Amortizable		
391.10	Office Furniture and Fixtures	10.27%	6.66%
391.90	Computers and Electronic Equipment	10.27%	4.06%
394.00	Tools, Shop and Garage Equipment	3.33%	6.67%
397.00	Communication Equipment	6.67%	6.66%
398.00	Miscellaneous Equipment	5.00%	6.67%
	Total Amortizable	9.46%	5.43%
	Total General Plant	9.46%	5.15%
	TOTAL GAS OPERATIONS	9.46%	5.15%

In addition to proposed depreciation rates, TGS requests amortization accounting for selected general support asset categories in which the unit cost of equipment is small in relation to the cost of maintaining the detailed accounting records. Depreciation accounting would replace amortization accounting for the asset categories summarized below:⁵⁵

Texas Gas Service – RGVSA
Proposed Amortization Accounts⁵⁶

Table No. 5.8

Account No.	Description	Amortization Period
391.10	Office Furniture and Fixtures	15 yrs.
391.90	Computers and Electronic Equipment	7 yrs.
393.00	Stores Equipment	15 yrs.
394.0	Tools, Shop and Garage Equipment	15 yrs.
397.00	Communication Equipment	15 yrs.
398.00	Miscellaneous Equipment	15 yrs.

⁵³ Joint Ex. 1, *Statement of Intent* and Prefiled Direct Testimony, Janet M. Simpson, Exhibit JMS-2, p. 10.

⁵⁴ Joint Ex. 1, *Statement of Intent* and Prefiled Direct Testimony, Janet M. Simpson, Exhibit JMS-2, p. 32.

⁵⁵ The recommendation to implement amortization accounting is consistent with the treatment adopted by Kansas Gas Service and Oklahoma Natural Gas, Exhibit JMS-2, p.8, fn. 1.

⁵⁶ Joint Ex. 1, *Statement of Intent* and Prefiled Direct Testimony, Janet M. Simpson, Exhibit JMS-2, p. 9.

(c) *Settlement Agreement*

Per the terms of the *Settlement Agreement*, the Signatories agree that TGS shall file a depreciation study not older than 12-months for TGS assets for inclusion in its next statement of intent proceeding involving one or more of its El Paso, Rio Grande Valley, or Austin Service Areas.⁵⁷

Also, the *Settlement Agreement* states that ONEOK, Inc., the parent company of TGS, has announced that it will split into two separate legal entities, one exclusively regulated (ONE Gas, Inc.), and one exclusively unregulated, sometime following the first quarter of 2014. As part of this separation, the current corporate assets of ONEOK, Inc. will be assigned to one or the other of the two companies. The Signatories agree that within a reasonable time following the creation of ONE Gas, Inc. when the corporate assets of the newly formed regulated company are known, the Company will perform a study to update the level of corporate depreciation expense allocated to TGS.⁵⁸

vi. **Current and Proposed Bill Information – Future IRA Filings**

The *Settlement Agreement* also establishes the following average usage per month per customer class in order to determine the current and proposed bill information in future IRA filings, as follows:⁵⁹

Table 5.3
Settlement Average Usage Per Month

Customer Class	Average Usage Per Month (Ccf)
Residential	14
Commercial	414
Church	31
Public Authority	316
Industrial	3,240 ⁶⁰
T-1 Transportation	9,356
T-2 Transportation	28,556

vii. **Rate of Return**

The *Settlement Agreement* includes specific components related to the cost of capital to be applied in future interim rate adjustment proceedings. The parties agree that the use of ONEOK, Inc.'s unconsolidated capital structure ratios of 44.61% debt and 55.39% common

⁵⁷ *Settlement Agreement*, paragraph 7.

⁵⁸ *Settlement Agreement*, paragraph 8.

⁵⁹ *Settlement Agreement*, Page 5, Paragraph No. 4.

⁶⁰ The correct number for future IRA filings for the average Ccf for the Industrial Customer Class is 3,240, however, the *Settlement Agreement*, Page 5, Paragraph No. 4, incorrectly states that this figure is 3,241. Examiners' Ex. 12, Response of TGS to Examiners' Ltr. No. 25.

equity is reflective of LDC industry standards and is just and reasonable.⁶¹ The company originally proposed a cost of equity of 10.75% that has been reduced through the *Settlement Agreement* to 10.33%. The parties also agree to reduce the weighted average cost of capital from the proposed amount of 8.26% to 8.0845%. The *Settlement Agreement* does not mention the cost of debt. In its filing, Dr. Bruce H. Fairchild testified for TGS that the average embedded cost of debt at December 31, 2012, of the approximately \$1.7 billion of long-term debt issued by ONEOK, Inc., is approximately 5.17%.⁶² He testified further that the use of ONEOK, Inc.'s cost of debt is consistent with using ONEOK, Inc.'s stand-alone capital structure.

viii. Examiners' Recommendation

The Examiners find that the use of ONEOK's unconsolidated capital structure and cost of debt is just and reasonable and consistent with Commission precedent.⁶³ The Examiners note, however, when utilizing the *Settlement Agreement* components and the original cost of debt of 5.17%, the overall rate of return is calculated as 8.0265%. Whereas, in the *Settlement Agreement*, the weighted average cost of capital, or overall rate of return, is proposed slightly higher at 8.0845%. This is a "black box" settlement agreement and the individual components or adjustments may not be determined. The overall rate of return and the individual components contained in the *Settlement Agreement* are consistent with recent Commission precedent.⁶⁴ The Examiners find that the elements of the rate of return and the overall rate of return contained in the *Settlement Agreement* are just and reasonable.

Table 5.9
Rate of Return

	Capital Structure	Debt/Equity Cost	Weighted Cost of Capital
Long-Term Debt	44.61%	5.17%	2.30%
Common Equity	55.39%	10.33%	5.72%
Rate of Return	100%		8.0265%
Recommended and Settlement ROR			8.0845%

Moreover, the Examiners find that, based upon the evidence in this case, the company has established that its investments pursuant to the interim rate adjustment filings outlined above

⁶¹ Joint Ex. 1, *Statement of Intent* and Prefiled Direct Testimony, Bruce H. Fairchild, p. 18 and ONEOK, Inc.'s 2012 Form 10-K.

⁶² Joint Ex. 1, *Statement of Intent* and Prefiled Direct Testimony, Bruce H. Fairchild, p. 18 and Exhibit BHF-1, Schedule BHF-3.

⁶³ Joint Ex. 1, *Statement of Intent* and Prefiled Direct Testimony, Bruce H. Fairchild, p. 18 and GUD No. 9988, Petition of the De Novo Review of the Denial of the Statement of Intent filed by Texas Gas Service Company by the Cities of El Paso, Anthony, Clint, Horizon City, Socorro, and Village of Vinton, Texas, Final Order December 14, 2010.

⁶⁴ Examiners' Ex. No. 3, Staff's Response to Examiners' RFI 3-1, updated Rate of Return Components Awarded in Recent Years.

are just and reasonable. Accordingly, no refund of any of those investments is required. The Examiners also find that the capital investments allowed in the five interim rate adjustment dockets for the RGVSA, GUD Nos. 9800, 9871, 9996, 10035, and 10127, were prudent and reasonable.

Furthermore, the *Settlement Agreement* included Net Investment calculations detailing Plant in Service amounts along with associated depreciation.⁶⁵ The parties stipulated to the factors for *ad valorem* taxes and federal income taxes to be included in the first interim rate adjustment. The parties also stipulated to the initial customer charge applicable to interim rate adjustments and base rate revenue allocation factors. The *Settlement Agreement* sets out requirements for new depreciation studies for TGS Corporate and Division. The Examiners recommend approval of the depreciation rates presented in Exhibit B to the *Settlement Agreement*. The Examiners find that the calculations and factors contained in the *Settlement Agreement* for future IRA filings are just and reasonable.

6. Affiliate Transactions

As to affiliate transactions, Ms. Buchanan testified that there are no affiliate expenses in this filing. TGS is a division of ONEOK and not an affiliate. Accordingly, none of the transactions included in the *Statement of Intent* filings are subject to the affiliate transaction standard.⁶⁶

7. 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. 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 compensation.

Furthermore, Commission rules mandate 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

⁶⁵ *Settlement Agreement*, Exhibit B.

⁶⁶ Joint Ex. 1, *Statement of Intent* and Prefiled Direct Testimony, Janet Buchanan, pp. 15-16.

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. Overall Request

TGS filed detailed reports related to the rate case expenses, including legal and consulting invoices. In addition to the invoices, TGS also filed an affidavit in support of the request attesting to the reasonableness of the rates charged.⁶⁷ The request includes actual rate case expenses of \$219,700.72 incurred through August 31, 2013, plus reasonably estimated rate case expenses of \$10,000 from September 1, 2013, through the conclusion of the docket. The company has proposed it will recover these amounts under a volumetric surcharge of \$0.02072 per Ccf, as allocated to customer classes for rate case expenses over a 24 month period. The *Settlement Agreement* also contemplates that TGS shall recover estimated rate case expenses only to the extent that they are actually incurred and TGS will not include an interest calculation in its recovery. The requested rate case expenses are as follows:

Table 7.1
Actual Rate Case Expenses for GUD No. 10285
Through August 31, 2013

Parsley Coffin Renner LP -- Legal fees and Expenses	\$167,533.17
Dively & Assoc.	\$ 43,230.00
Financial Concepts and Applications	\$ 7,175.00
CSI (Direct Mail Notice)	\$ 1,762.55
Total Request	\$219,700.72

The total amount of actual rate case expenses to be recovered under the joint *Settlement Agreement* will be \$219,700.72. These amounts incurred relate to a combination of legal fees and expenses, as well as, costs the company incurred by professional consultants retained to provide direct testimony, public notice and incidental expenses.

Dane McKaughan, is a partner of Parsley Coffin Renner LLP and legal counsel for TGS. Mr. McKaughan filed an affidavit supporting documents related to TGS' rate case expenses.⁶⁸ Mr. McKaughan affirms that the legal invoices reflect rate case expenses incurred by TGS through August 31, 2013, in the amount of \$167,533.17. The amount reflects legal expenses incurred preparing the filing, reviewing witness testimony, discovery, hearing attendance, settlement negotiations, and other litigation at the Commission. Mr. McKaughan attested that the billings accurately reflect the time spent and the expenditures incurred by Parsley Coffin Renner LLP on behalf of TGS.

⁶⁷ Joint Ex. 3, Affidavit of Dane McKaughan, Rate Case Expenses.

⁶⁸ Joint Ex. 3, Affidavit of Dane McKaughan, Rate Case Expenses.

The hourly rates for attorneys billing on this docket are between \$350 to \$500. Mr. McKaughan affirms that he is the attorney billing the majority of time on the case and his hourly rate is \$380. The billing was for the hours he spent performing the legal tasks that were necessary for this type of rate case proceeding. Mr. McKaughan states that his hourly rate is within the range deemed reasonable in prior rate cases, for lawyers having similar experience and for providing similar services. Moreover, Mr. McKaughan asserts that this is the first full cost of service proceeding for Rio Grande Valley environs since 2007. He indicates that efforts were made to minimize rate cases expenses because of the small number of customers impacted by the new rates. TGS was required, however, to file a full cost of service case, in addition to reconciling incremental capital investments from prior interim rate adjustment filings, pursuant to TEX. UTIL. CODE § 104.301. Therefore, the rate case expenses were legally necessary.

In addition to legal expenses, TGS incurred expenses to hire outside experts to aid in preparing its case. An expert was used to perform a cost of capital analysis and prepare direct testimony and his expenses are \$7,175. Another expert worked on developing the company's cost of service schedules and prepared direct testimony on accounting issues. Her expenses are \$43,230. The total consulting service fees totaled \$50,405.

In addition to legal and consulting fees, TGS incurred expenses of \$1,762.55 for direct mail of the notice.⁶⁹

The Examiners have reviewed all billing, invoices, and supporting documents and do not find evidence of any prohibited expenses. The Examiners found no evidence of double-billing, excess charges, inappropriate documentation of work, or other charges that were not incurred as a direct result of the parties prosecuting or defending this docket pursuant to the requirements of 16 TAC § 7.5530(b).⁷⁰ These filings demonstrate that no expenses were charged for any luxury items, that there were no first – class fares or use of non-commercial aircraft, no luxury hotel charges, no limousine service, no meals in excess of \$25 per person, no charges for sporting events, alcoholic drinks or other entertainment. Further, the Examiners did not identify 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 find that the work involved in these proceedings was not disproportionate to the complexity of the issues or the amount of revenue increase sought. Accordingly, the Examiners find that the evidence indicates that the amount of work required to litigate GUD No. 10285 justifies the work performed by both the utility's attorneys and consultants pursuant to the requirements of 16 TAC § 7.5530(a).⁷¹

⁶⁹ Joint Ex. 2, Affidavit of Janet Buchanan, Public Notice, August 15, 2013.

⁷⁰ 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.

⁷¹ 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 TEX. UTIL. CODE ANN., §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;

As for the estimated rate case expenses from September 1, 2013, through completion of the case, Mr. McKaughan anticipates an additional \$10,000 in rate case expenses. Mr. McKaughan explains that the work to complete the case includes preparing and finalizing settlement documents, presentation of the settlement to the Examiners, potential discovery and briefing before the Examiners, and attending Commission conferences. TGS will supplement additional invoices as they are processed and seeks recovery only of those expenses that are actually incurred and authorized. The total actual and estimated rate case expenses through the completion of this case is \$229,700.72. The signatories of the joint *Settlement Agreement* agree this amount is reasonable and appropriately recoverable.

C. Rate Case Expense Rider

The *Settlement Agreement* proposes for TGS to recover rate case expenses under a volumetric surcharge as allocated to each customer class over an estimated 24 month period applying an RCE Surcharge of \$0.02072 per Ccf, as reflected in the Rate Case Expense Surcharge Rider. TGS will recover estimated rate case expenses only to the extent they are actually incurred. TGS will not include an interest calculation in its recovery of rate case expenses.

D. Examiners' Recommendation

In sum, the Examiners recommend that the Commission find that the actually incurred rate case expenses of \$219,700.72 and reasonably estimated rate case expenses of \$10,000 for a total of actual and estimated rate case expenses contained in the joint *Settlement Agreement*, of \$229,700.72, are just and reasonable. The Examiners recommend further that in regard to the estimated rate case expenses, the parties file with the Commission supporting documentation of actually incurred expenses through completion of the case within 30-days of the Final Order so as to not over-recover the reasonably estimated rate case expenses.

The Examiners recommend that the proposed rate case expense surcharge of \$0.02072 per Ccf be approved over an approximate 24 month period for TGS to recover rate case expenses of \$229,700.72.

The Examiners recommend an adjustment to the proposed RCE-Rider contained in the *Settlement Agreement*, by including a new paragraph "E" for compliance, which is consistent with the guidelines in the Gas Services Division *Natural Gas Rate Review Handbook*.⁷² The recommended compliance provisions will require that within 45 days following the first 12 month period and after the final collection month, TGS file a reconciliation report. TGS shall file the report with the RRC Gas Services Division annually, due on or before December 31st, commencing in 2014. The report shall detail the following: (1) the volumes used by month by customer class during the applicable period; (2) the amount of rate case expense recovered, by month; and (3) the outstanding balance, by month.

(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.

⁷² Railroad Commission of Texas *Natural Gas Rate Review Handbook*, Chapter III, Section 5, p. 43.

8. Tariffs

A. Introduction

TGS serves several classes of customers: Residential, Commercial - Commercial and Church, Industrial, Public Authority, and Transportation T-1 and T-2. The joint *Settlement Agreement* includes an agreement on the following tariffs and rider⁷³ that would be applicable to the unincorporated areas of the RGVSA served by TGS and will go into effect as of the date of the Final Order in this case:⁷⁴

- Rate Schedule 1Z - Residential Service Rate
- Rate Schedule 2Z - Commercial Service Rate
- Rate Schedule 3Z - Industrial Service Rate
- Rate Schedule 4Z - Public Service Authority Rate
- Rate Schedule T-1 - Transportation Service Rate
- Rate Schedule T-2 - Transportation Service Rate
- Rate Schedule 1-ENV - Cost of Gas Clause
- Rate Schedule IRA-ENV - Interim Rate Adjustment (deleted)
- Rate Schedule T-GTC - General Terms and Conditions for Transportation
- Rate Schedule RCE - Rider, Rate Case Expense Surcharge

TGS proposes rate schedules for its various classes of general sales customers through the direct testimony of Janet Buchanan.⁷⁵ Other than the resulting rate changes from increases in revenue requirement, TGS also proposes to delete the Interim Rate Adjustment text from the "Other Adjustment" Section and from the "Additional Charges" Section, of each rate schedule. The Interim Rate Adjustment will be added as an adjustment amount to the "Cost of Service" rate section as a line item and referenced as a footnote on each rate schedule. Furthermore, TGS also proposes language changes to its Cost of Gas tariff and Rate Schedule 1-ENV to authorize the recovery of uncollectible cost of gas through the cost of gas clause. In addition, TGS proposes to withdraw its current Rate Schedule T-GEN and replace it with Rate Schedule T-GTC. This rate schedule will establish the general terms and conditions for the provisions of transportation service and was a similar rate schedule T-GTC was recently approved in GUD No. 10217.⁷⁶ Finally, TGS proposes a Rate Schedule RCE-Rider for the reimbursement of rate case expenses.

The signatories to the joint *Settlement Agreement* agree to the rates, terms and conditions as noted in the rate schedules and tariffs, as outlined in the table below. The proposed tariffs will allow TGS an additional \$143,036 in annual revenue from the environs customers, which

⁷³ *Settlement Agreement*, Paragraph 11, p. 6, and Exhibit A.

⁷⁴ The Company's RGVSA includes the unincorporated areas of Alamo, Alton, Brownsville, Combes, Donna, Edcouch, Edinburg, Elsa, Harlingen, Hidalgo, La Feria, La Joya, La Villa, Laguna Vista, Los Fresnos, Lyford, McAllen, Mercedes, Mission, Palm Valley, Palmhurst, Palmview, Penitas, Pharr, Port Isabel, Primera, Progreso, Rancho Viejo, Raymondville, Rio Hondo, San Benito, San Juan, Santa Rosa, and Weslaco, Texas, along with the unincorporated cities of Bayview, Laguna Heights, Monte Alto, Olmito, and San Carlos and the unincorporated areas of Jim Hogg and Starr counties (collectively, the RGVSA).

⁷⁵ Joint Ex. 1, *Statement of Intent* and Prefiled Direct Testimony, Janet Buchanan, pp. 20-23.

⁷⁶ Examiners' Ex. 6, Response to Examiners' Fourth RFI to TGS, 4-1.

represents the amount of the environs' share of the system-wide revenue deficiency. The settlement amount is \$25,000 less than the \$168,036 revenue increase originally proposed by the company.

Table 8.1 below summarizes the changes to the rate schedules and tariffs:

Table 8.1
Summary of Tariff Revisions

	RATE SCHEDULE	SECTION	CURRENT	PROPOSED IN SETTLEMENT	EXAMINERS RECOMMENDED
1.	IRA-ENV – Interim Rate Adjustment	B - Billing	Separate tariff detailing the Annual Billing by customer class.	Delete the IRA-ENV tariff. Include IRA adjustment amount with the COS rate as a line item and footnote on each affected customer class.	Examiners recommend adoption of proposed tariff per Settlement Agreement.
2.	1-ENV - Cost of Gas Clause	B - Definitions	n/a	The formula to calculate the Uncollectible Cost of Gas was added. The formula to calculate the Monthly Cost of Gas and the Annual Reconciliation was included in the Cost of Gas Clause. The Commodity Cost definition was removed and included as part of the Monthly Cost of Gas formula. "Accounting month" was changed to "Production month" in the Reconciliation Audit definition.	Examiners recommend adoption of proposed tariff per Settlement Agreement.
3.	1-ENV - Cost of Gas Clause	F- Surcharge and Refund Procedures	Separated Surcharge and Refund provision.	Remove Section F and add to Cost of Purchased Gas Definition.	Examiners recommend adoption of proposed tariff per Settlement Agreement.

	RATE SCHEDULE	SECTION	CURRENT	PROPOSED IN SETTLEMENT	EXAMINERS RECOMMENDED
4.	1Z - Residential Service Rate	Cost of Service Rate	Customer Charge \$9.50 approved in GUD 9708. Customer Charge as of 2010 IRA filing: \$12.08. All consumption Ccf \$0.16354.	Customer Charge \$12.08. All consumption Ccf \$0.01784.	Examiners recommend adoption of proposed tariff per Settlement Agreement.
5.	1Z - Residential Service Rate	Other Adjustments	Contains reference to Interim Rate Adjustment.	Remove Interim Rate Adjustment text and add the IRA adjustment amount to COS rate as a line item and footnote.	Examiners recommend adoption of proposed tariff per Settlement Agreement.
6.	2Z - Commercial Service Rate	Cost of Service Rate	Customer Charge \$25.00 approved in GUD 9708. Customer Charge as of 2010 IRA filing: \$41.67. All consumption Ccf \$0.14499.	Customer Charge \$41.67. All consumption Ccf \$0.1796.	Examiners recommend adoption of proposed tariff per Settlement Agreement.
7.	2Z - Commercial Service Rate	Other Adjustments	Contains reference to Interim Rate Adjustment.	Remove Interim Rate Adjustment text and add the IRA adjustment amount to COS rate as a line item and footnote.	Examiners recommend adoption of proposed tariff per Settlement Agreement.
8.	2Z - Church Service Rate	Cost of Service Rate	Customer Charge \$12.50 approved in GUD 9708. Customer Charge as of 2010 IRA filing: \$29.17. All consumption Ccf \$0.14499.	Customer Charge \$29.17. All consumption Ccf \$0.1796.	Examiners recommend adoption of proposed tariff per Settlement Agreement.

	RATE SCHEDULE	SECTION	CURRENT	PROPOSED IN SETTLEMENT	EXAMINERS RECOMMENDED
9.	2Z - Church Service Rate	Other Adjustments	Contains reference to Interim Rate Adjustment Rider.	Remove Interim Rate Adjustment text and add the IRA adjustment amount and footnote.	Examiners recommend adoption of proposed tariff per Settlement Agreement.
10.	3Z - Industrial Service Rate	Cost of Service Rate	Customer Charge \$50.00 approved in GUD 9708. Customer Charge as of 2010 IRA filing: \$74.02. All consumption Ccf \$0.14335.	Customer Charge \$74.02. All consumption Ccf \$0.1648.	Examiners recommend adoption of proposed tariff per Settlement Agreement.
11.	3Z - Industrial Service Rate	Other Adjustments	Contains reference to Interim Rate Adjustment.	Remove Interim Rate Adjustment text and add the IRA adjustment amount and footnote.	Examiners recommend adoption of proposed tariff per Settlement Agreement.
12.	4Z - Public Authority Service Rate	Cost of Service Rate	Customer Charge \$30.00 approved in GUD 9708. Customer Charge as of 2010 IRA filing: \$45.51. All consumption Ccf \$0.15741.	Customer Charge \$45.51. All consumption Ccf \$0.1869.	Examiners recommend adoption of proposed tariff per Settlement Agreement.
13.	4Z - Public Authority Service Rate	Other Adjustments	Contains reference to Interim Rate Adjustment.	Remove Interim Rate Adjustment text and add the IRA adjustment amount and footnote.	Examiners recommend adoption of proposed tariff per Settlement Agreement.
14.	T-1 - Transportation Service Rate	Cost of Service Rate	Customer Charge \$50.00 approved in GUD 9708. Customer Charge as of 2010 IRA filing: \$242.42. All consumption Ccf \$0.09053.	Customer Charge \$127.82. All consumption Ccf \$0.1301.	Examiners recommend adoption of proposed tariff per Settlement Agreement.

	RATE SCHEDULE	SECTION	CURRENT	PROPOSED IN SETTLEMENT	EXAMINERS RECOMMENDED
15.	T-1 - Transportation Service Rate	Additional Charges	Contains references to Interim Rate Adjustment. The statute in No. 1 references Article 6060 TEX. REV. CIV. STAT.	Remove Interim Rate Adjustment text and add the IRA adjustment amount and footnote. Replace statute reference to Texas Utilities Code, Chapter 122.	Examiners recommend adoption of proposed tariff per Settlement Agreement.
16.	T-2 - Transportation Service Rate	Cost of Service Rate	Customer Charge \$250.00 approved in GUD 9708. Customer Charge as of 2010 IRA filing: \$442.42. All consumption Ccf \$0.02364. The minimum bill charge \$1,500.	Customer Charge \$327.82. All consumption Ccf \$0.0548. The new minimum bill charge \$1,500.	Examiners recommend adoption of proposed tariff per Settlement Agreement.
17.	T-2 - Transportation Service Rate	Additional Charges.	References Interim Rate Adjustment.	Remove Interim Rate Adjustment text and add the IRA adjustment amount and footnote.	Examiners recommend adoption of proposed tariff per Settlement Agreement.
18.	T-GEN- General Terms and Conditions for Transportation	n/a	n/a	Remove T-GEN tariff and replace with T- GTC tariff.	Examiners recommend adoption of proposed tariff per Settlement Agreement.
19.	T-GTC	n/a	n/a	New tariff, as approved in GUD No. 10217.	Examiners recommend adoption of proposed tariff per Settlement Agreement.
20.	RCE-Rider	n/a	n/a	New tariff to be in effect for approximately 24 months, which will be collected as a Surcharge rate of \$0.02072 per Ccf.	Examiners recommend adoption of proposed tariff per Settlement Agreement, with the addition of a compliance report, Paragraph E.

B. Rate Case Expense Rider

The *Settlement Agreement* proposes the changes as outlined in the table above. The RCE tariff, agreed to by the parties, limits the recovery amount to \$229,700.72, which will be collected from all environs' customers by a surcharge rate of \$0.02072 per Ccf. A Rate Case Expense Surcharge Rider has been added for the recovery of the rate case expenses, which shall be collected over an estimated 24 month period. The rider limits the company's recovery to actual expenses, does not allow for interest calculations, and requires the rate case expenses to be listed as a surcharge on the bill.

However, the joint *Settlement Agreement* RCE rider does not include a requirement for the filing of an annual compliance report. The Examiners recommend an adjustment to the proposed RCE-Rider contained in the *Settlement Agreement*, by including Paragraph E for compliance, which is consistent with the guidelines in the Gas Services Division *Natural Gas Rate Review Handbook*.⁷⁷ This adjustment will require that the company file the annual compliance report with the RRC Gas Services Division annually, due on or before December 31st, commencing in 2014. The report shall detail the volumes used by month by customer class, the monthly collections for the RCE surcharge, and indicate the outstanding balance.

C. Examiners' Recommendation

The Examiners find that the tariffs and rider, as proposed in the joint *Settlement Agreement*, with the adjustment to the Rate Case Expense Rider, are just and reasonable and recommend approval.

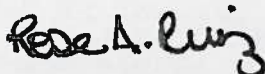
9. Conclusion

The Examiners find that the rate elements agreed to by the parties in the *Settlement Agreement* are just and reasonable and recommend approval of rates consistent with the settlement with the one adjustment to the Rate Case Expense Rider to include an annual compliance report.

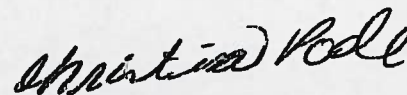
Respectfully submitted,



Cecile Hanna
Legal Examiner
Hearings Division



Rose Ruiz
Technical Examiner
Hearings Division



Christina Poole
Technical Examiner
Hearings Division

⁷⁷ The Railroad Commission of Texas *Natural Gas Rate Review Handbook*, Chapter III, Section 5, p. 43, recommends requiring a periodic report of the utility's collection of rate case expense for docket compliance.

Proposal for Decision

Attachment A

Proof of Revenue

TEXAS GAS SERVICE COMPANY - RIO GRANDE SERVICE AREA
TWELVE MONTHS ENDED DECEMBER 31, 2012

PROOF OF SETTLEMENT REVENUE

LINE NO.	DESCRIPTION	AGREED SETTLEMENT RATES	AS ADJ BILLS	AS ADJ VOLS	TEST YEAR AS ADJ. REVENUE	TEST YEAR REVENUE AT PROPOSED RATES	ENVIRON'S INCREASE	INCORP REV INCREASE	ACHIEVED ALLOCATION OF INCREASE
1	RESIDENTIAL								
2	Environ's	\$ 12.08 \$	43,185		\$ 521,438 \$	521,438			
3	Customer Charge	\$ 0.1635 \$	0.1794	574,113	58,890	102,422			
4	All Ccf								
5	Total Residential - Env.		43,185	574,113	\$ 615,329 \$	623,860	\$ 8,531		
6									
7	Incorporated								
8	Customer Charge	\$ 11.25 \$	733,680	10,097,429	\$ 8,253,898 \$	8,253,898			
9	All Ccf	\$ 0.4194 \$	0.4712	733,680	4,173,772	4,759,312			
10	Total Residential - Inc.		733,680	10,097,429	\$ 12,427,670 \$	13,012,211		\$ 584,540	
11									
12	TOTAL RESIDENTIAL		776,845	10,671,542	\$ 13,042,999 \$	13,636,071			58.15%
13									
14	COMMERCIAL								
15	Environ's	\$ 41.57 \$	1,953		\$ 81,395 \$	81,395			
16	Customer Charge	\$ 0.1450 \$	0.1798	850,769	123,353	152,788			
17	All Ccf		1,953	850,769	\$ 204,746 \$	254,185	\$ 29,445		
18	Total Commercial - Env.		1,953	850,769					
19									
20	Incorporated								
21	Customer Charge	\$ 31.25 \$	37,557	15,487,955	\$ 1,173,894 \$	1,173,894			
22	All Ccf	\$ 0.3027 \$	0.3442	37,557	4,089,487	5,329,973			
23	Total Commercial - Inc.		37,557	15,487,955	\$ 5,952,151 \$	6,503,637		\$ 641,486	
24									
25	TOTAL COMMERCIAL		39,511	16,338,124	\$ 6,066,899 \$	6,737,830			
26									
27	CHURCH								
28	Environ's	\$ 29.17 \$	29.17	120	\$ 3,508 \$	3,508			
29	Customer Charge	\$ 0.1450 \$	0.1796	9,198	1,394	1,852			
30	All Ccf		120	9,198	\$ 4,942 \$	5,160	\$ 318		
31	Total Church - Env.								
32									
33	Incorporated								
34	Customer Charge	\$ 18.75 \$	3,828	105,389	\$ 68,048 \$	68,048			
35	All Ccf	\$ 0.3027 \$	0.3442	3,828	31,905	39,270			
36	Total Church - Inc.		3,828	105,389	\$ 99,952 \$	104,317		\$ 4,365	
37									
38	TOTAL CHURCH		3,749	114,587	\$ 104,794 \$	109,477			29.20%
39									
40	PUBLIC AUTHORITY								
41	Environ's	\$ 45.51 \$	45.51	604	\$ 27,488 \$	27,488			
42	Customer Charge	\$ 0.1574 \$	0.1899	139,250	21,919	26,026			
43	All Ccf		604	139,250	\$ 48,407 \$	53,514	\$ 4,106		
44	Total Public Authority - Env.								
45									
46	Incorporated								
47	Customer Charge	\$ 35.71 \$	8,082	1,973,315	\$ 217,201 \$	217,201			
48	All Ccf	\$ 0.3291 \$	0.3653	8,082	648,319	720,911			
49	Total Public Authority - Inc.		8,082	1,973,315	\$ 865,521 \$	938,113		\$ 71,592	
50									
51	TOTAL PUBLIC AUTHORITY		6,698	2,112,598	\$ 915,928 \$	991,826			4.23%
52									
53	INDUSTRIAL								
54	Environ's	\$ 74.02 \$	74.02	187	\$ 13,839 \$	13,839			
55	Customer Charge	\$ 0.1494 \$	0.1848	760,164	108,970	125,275			
56	All Ccf		187	760,164	\$ 122,809 \$	138,114	\$ 18,306		
57	Total Industrial - Env.								
58									
59	Incorporated								
60	Customer Charge	\$ 68.85 \$	68.85	397	\$ 28,557 \$	28,557			
61	All Ccf	\$ 0.3528 \$	0.4092	397	399,346	456,715			
62	Total Industrial - Inc.		397	1,132,641	\$ 425,504 \$	483,272		\$ 57,368	
63									
64	Variance				\$ 10,346				
65	TOTAL INDUSTRIAL		594	1,892,805	\$ 559,058 \$	622,396			2.65%
66									
67									
68	Subtotal Gas Sales		827,376	31,129,623	\$ 20,689,678 \$	22,067,390			
69									
70	TRANSPORTATION T-1								
71	Environ's	\$ 242.42 \$	127.82	276	\$ 68,908 \$	35,278			
72	Customer Charge	\$ 0.0905 \$	0.1307	276	218,468	311,085			
73	All Ccf		276	2,991,120	\$ 283,378 \$	346,363	\$ 62,987		
74	Total T-1 - Env.								
75									
76	Incorporated								
77	Customer Charge	\$ 127.82 \$	127.82	216	\$ 27,609 \$	27,609			
78	All Ccf	\$ 0.1671 \$	0.1692	216	369,685	418,528			
79	Total T-1 - Inc.		216	2,212,091	\$ 397,294 \$	446,137		\$ 48,843	
80									
81	Variance				\$ (2,335)				
82	TOTAL T-1		482	4,603,211	\$ 678,335 \$	782,500			3.38%
83									
84	TRANSPORTATION T-2								
85	Environ's	\$ 442.42 \$	327.82	36	\$ 15,927 \$	11,802			
86	Customer Charge	\$ 0.0236 \$	0.0548	36	19,353	44,893			
87	All Ccf		1,500	818,674	\$ 0	0			
88	Minimum Bill (\$1,500)								
89	Total T-2 - Env.		36	818,674	\$ 35,281 \$	59,685	\$ 21,384		
90									
91	Incorporated								
92	Customer Charge	\$ 327.82 \$	327.82	240	\$ 78,577 \$	78,577			
93	All Ccf	\$ 0.0517 \$	0.0547	7,062,760	365,366	388,403			
94	Minimum Bill (\$1,500)		1,500		60,786	39,739			
95	Total T-2 - Inc.		240	7,062,760	\$ 504,518 \$	504,518			
96									
97	Variance				\$ 315				
98	TOTAL T-2		276	7,881,424	\$ 540,414 \$	561,483			2.98%
99									5.77%
100	Total Gas Sales and Standard Transport		828,144	43,614,258	\$ 21,908,427 \$	23,451,378	\$ 143,078	\$ 1,408,195	100.00%
101									
102	Total system-wide deficiency							\$ 1,551,273	
103									
104	Custom Transport								
105	Service Fees (Acct 4890)				\$ 582,774 \$	582,774			
106									
107	Other Revenue (Acct 4850)				414,284	414,284			
108	Variance				283				
109	Total As Adjusted Revenues				\$ 22,905,748 \$	24,448,431			
110	Original requested revenues					\$ 24,645,181			
111	Environ's Proposed Increase less Settlement Increase				\$ (24,958)				

Proposal for Decision
Attachment A

ATTACHMENT A

Proposal for Decision

Attachment B

Current, Proposed, and Settlement Rates All Customer Classes

RATE COMPARISON
(Excluding Gas Cost)

Residential Bill	Customer	Volumetric Charge	Ccf										Average customer Ccf Usage
			0.00	2.00	4.00	6.00	8.00	10.00	12.00	14.00	16.00	18.00	14
Current	\$12.08	\$0.16354	\$ 12.08	\$ 12.41	\$ 12.73	\$ 13.06	\$13.39	\$13.72	\$14.04	\$14.37	\$14.70	\$15.02	\$14.37
Proposed	\$12.08	\$0.23028	\$ 12.08	\$ 12.54	\$ 13.00	\$ 13.46	\$13.92	\$14.38	\$14.84	\$15.30	\$15.76	\$16.23	\$15.30
Settlement Rate	\$12.08	\$0.17840	\$ 12.08	\$ 12.44	\$ 12.79	\$ 13.15	\$13.51	\$13.86	\$14.22	\$14.58	\$14.93	\$15.29	\$14.58
Muni/COSA Agreed	\$11.25	\$0.47124	\$ 11.25	\$ 12.19	\$ 13.13	\$ 14.08	\$15.02	\$15.96	\$16.90	\$17.85	\$18.79	\$19.73	\$17.85

Commercial	Customer	Volumetric Charge	Ccf										Usage
			0	100	200	300	400	500	600	700	800	900	414
Current	\$41.67	\$0.14499	\$ 41.67	\$ 56.17	\$ 70.67	\$ 85.17	\$ 99.67	\$ 114.17	\$ 128.66	\$ 143.16	\$ 157.66	\$172.16	\$101.70
Proposed	\$41.67	\$0.19597	\$ 41.67	\$ 61.27	\$ 80.86	\$ 100.46	\$ 120.06	\$ 139.66	\$ 159.25	\$ 178.85	\$ 198.45	\$218.04	\$122.80
Settlement Rate	\$41.67	\$0.17960	\$ 41.67	\$ 59.63	\$ 77.59	\$ 95.55	\$ 113.51	\$ 131.47	\$ 149.43	\$ 167.39	\$ 185.35	\$203.31	\$116.02
Muni/COSA Agreed	\$31.25	\$0.34415	\$ 31.25	\$ 65.67	\$ 100.08	\$ 134.50	\$ 168.91	\$ 203.33	\$ 237.74	\$ 272.16	\$ 306.57	\$340.99	\$173.73

Commercial	Customer	Volumetric Charge	Ccf										Usage
			5	10	15	20	25	30	35	40	45	50	31
Current	\$29.17	\$0.14499	\$ 29.89	\$ 30.62	\$ 31.34	\$ 32.07	\$ 32.79	\$ 33.52	\$ 34.24	\$ 34.97	\$ 35.69	\$36.42	\$33.66
Proposed	\$29.17	\$0.19597	\$ 30.15	\$ 31.13	\$ 32.11	\$ 33.09	\$ 34.07	\$ 35.05	\$ 36.03	\$ 37.01	\$ 37.99	\$38.97	\$35.25
Settlement Rate	\$29.17	\$0.17960	\$ 30.07	\$ 30.97	\$ 31.86	\$ 32.76	\$ 33.66	\$ 34.56	\$ 35.46	\$ 36.35	\$ 37.25	\$38.15	\$34.74
Muni/COSA Agreed	\$18.75	\$0.34415	\$ 20.47	\$ 22.19	\$ 23.91	\$ 25.63	\$ 27.35	\$ 29.07	\$ 30.80	\$ 32.52	\$ 34.24	\$35.96	\$29.42

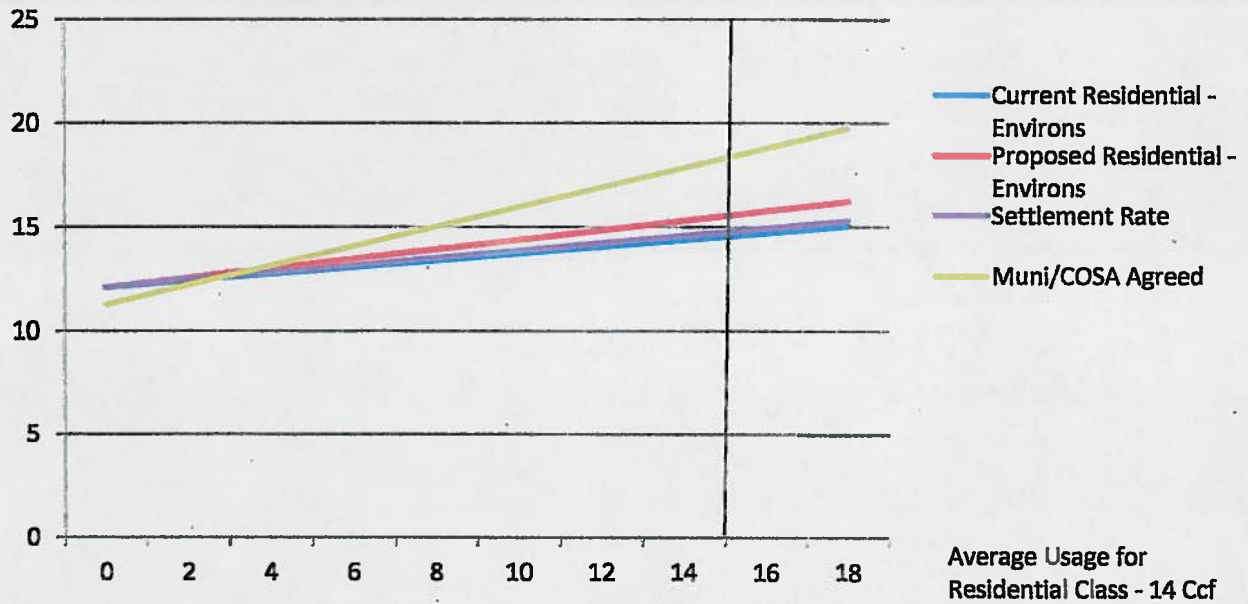
Industrial	Customer	Volumetric Charge	Ccf										Usage
			1000	2000	3000	4000	5000	6000	7000	8000	9000	10000	3240
Current	\$74.02	\$0.14335	\$ 217.37	\$ 360.72	\$ 504.07	\$ 647.42	\$ 790.77	\$ 934.12	\$ 1,077.47	\$ 1,220.82	\$ 1,364.17	\$1,507.52	\$538.47
Proposed	\$74.02	\$0.16645	\$ 240.47	\$ 406.92	\$ 573.37	\$ 739.82	\$ 906.27	\$ 1,072.72	\$ 1,239.17	\$ 1,405.62	\$ 1,572.07	\$1,738.52	\$613.32
Settlement Rate	\$74.02	\$0.16480	\$ 238.82	\$ 403.62	\$ 568.42	\$ 733.22	\$ 898.02	\$ 1,062.82	\$ 1,227.62	\$ 1,392.42	\$ 1,557.22	\$1,722.02	\$607.97
Muni/COSA Agreed	\$66.85	\$0.40323	\$ 470.08	\$ 873.31	\$ 1,276.54	\$ 1,679.77	\$ 2,083.00	\$ 2,486.23	\$ 2,889.46	\$ 3,292.69	\$ 3,695.92	\$ 4,099.15	\$1,373.32

Public Authority	Customer	Volumetric Charge	Ccf										Usage
			50	100	150	200	250	300	350	400	450	500	316
Current	\$45.51	\$0.15741	\$ 53.38	\$ 61.25	\$ 69.12	\$ 76.99	\$ 84.86	\$ 92.73	\$ 100.60	\$ 108.47	\$ 116.34	\$124.22	\$95.25
Proposed	\$45.51	\$0.20192	\$ 55.61	\$ 65.70	\$ 75.80	\$ 85.89	\$ 95.99	\$ 106.09	\$ 116.18	\$ 126.28	\$ 136.37	\$146.47	\$109.32
Settlement Rate	\$45.51	\$0.18690	\$ 54.86	\$ 64.20	\$ 73.55	\$ 82.89	\$ 92.24	\$ 101.58	\$ 110.93	\$ 120.27	\$ 129.62	\$ 138.96	\$104.57
Muni/COSA Agreed	\$35.71	\$0.36533	\$ 53.98	\$ 72.24	\$ 90.51	\$ 108.78	\$ 127.04	\$ 145.31	\$ 163.58	\$ 181.84	\$ 200.11	\$ 218.38	\$151.15

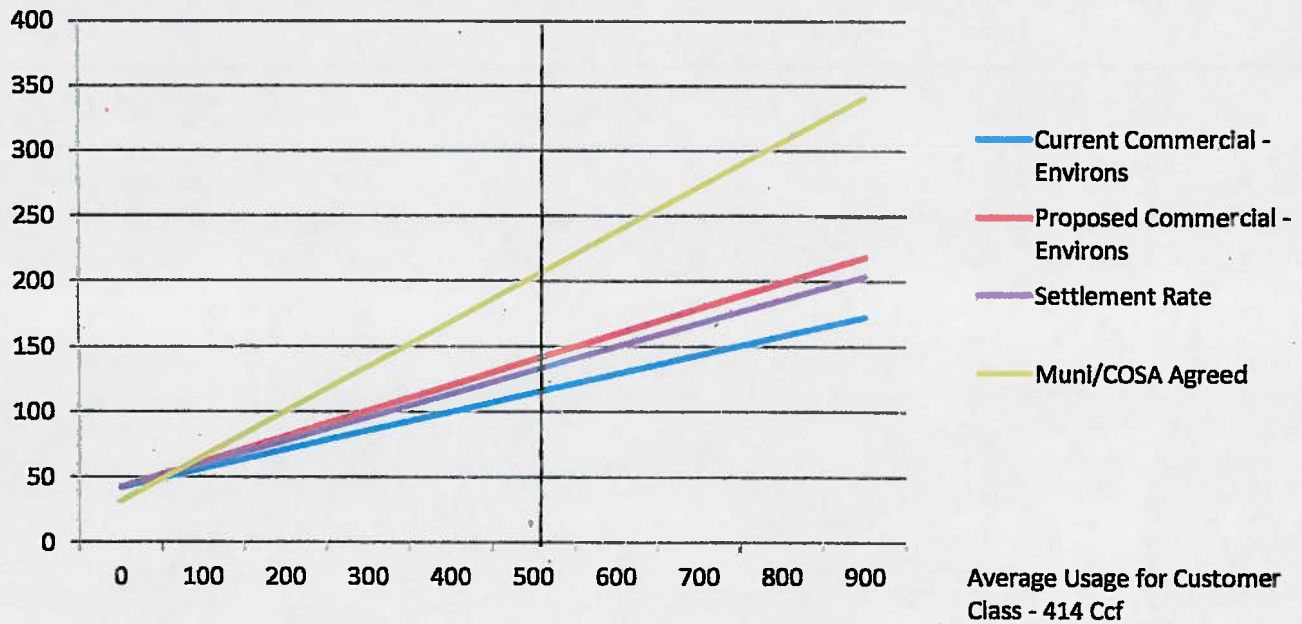
T-1 Transportation	Customer	Volumetric	Ccf												9356
			5000	6000	7000	8000	9000	10000	11000	12000	13000	14000			
Charge	Charge	Charge	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
\$242.42	\$0.09053		695.07	785.60	876.13	966.66	1,057.19	1,147.72	1,238.25	1,328.78	1,419.31	1,509.84	\$1,089.42		
Current													\$1,118.90		
Proposed													\$1,345.04		
Settlement Rate													\$1,897.98		
Muni/COSA Agreed													\$1,897.98		

T-2 Transportation	Customer	Volumetric	Ccf												28556
			5000	10000	15000	20000	25000	30000	35000	40000	45000	50000			
Charge	Charge	Charge	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Current Min. Bill \$1500	\$442.42	\$0.02364	\$	\$1,500.00	\$1,500.00	\$1,500.00	\$1,500.00	\$1,500.00	\$1,500.00	\$1,500.00	\$1,506.22	\$1,624.42	\$1,117.48	\$1,117.48	\$1,117.48
Current	\$442.42	\$0.02364	\$	\$560.62	\$678.82	\$797.02	\$915.22	\$1,033.42	\$1,151.62	\$1,269.82	\$1,388.02	\$1,506.22	\$1,624.42	\$1,174.22	\$1,174.22
Proposed Min. Bill \$256	\$327.82	\$0.02964	\$	\$2,561.00	\$2,561.00	\$2,561.00	\$2,561.00	\$2,561.00	\$2,561.00	\$2,561.00	\$2,561.00	\$2,561.00	\$2,561.00	\$1,742.22	\$1,742.22
Proposed	\$327.82	\$0.02964	\$	\$476.02	\$624.22	\$772.42	\$920.62	\$1,068.82	\$1,217.02	\$1,365.22	\$1,513.42	\$1,661.62	\$1,809.82	\$1,742.22	\$1,742.22
Settlement Rate Min.															
Bill \$1500	\$327.82	\$0.05480	\$	\$1,500.00	\$1,500.00	\$1,500.00	\$1,500.00	\$1,697.82	\$1,971.82	\$2,245.82	\$2,519.82	\$2,793.82	\$3,067.82	\$1,892.69	\$1,892.69
Settlement	\$327.82	\$0.05480	\$	\$601.82	\$875.82	\$1,149.82	\$1,423.82	\$1,697.82	\$1,971.82	\$2,245.82	\$2,519.82	\$2,793.82	\$3,067.82	\$1,892.69	\$1,892.69
MUNI/COSA Agreed															
Min. Bill \$1500	\$327.82	\$0.05471	\$	\$1,500.00	\$1,500.00	\$1,500.00	\$1,500.00	\$1,695.57	\$1,969.12	\$2,242.67	\$2,516.22	\$2,789.77	\$3,063.32	\$1,890.12	\$1,890.12
MUNI/COSA	\$327.82	\$0.05471	\$	\$601.37	\$874.92	\$1,148.47	\$1,422.02	\$1,695.57	\$1,969.12	\$2,242.67	\$2,516.22	\$2,789.77	\$3,063.32	\$1,890.12	\$1,890.12

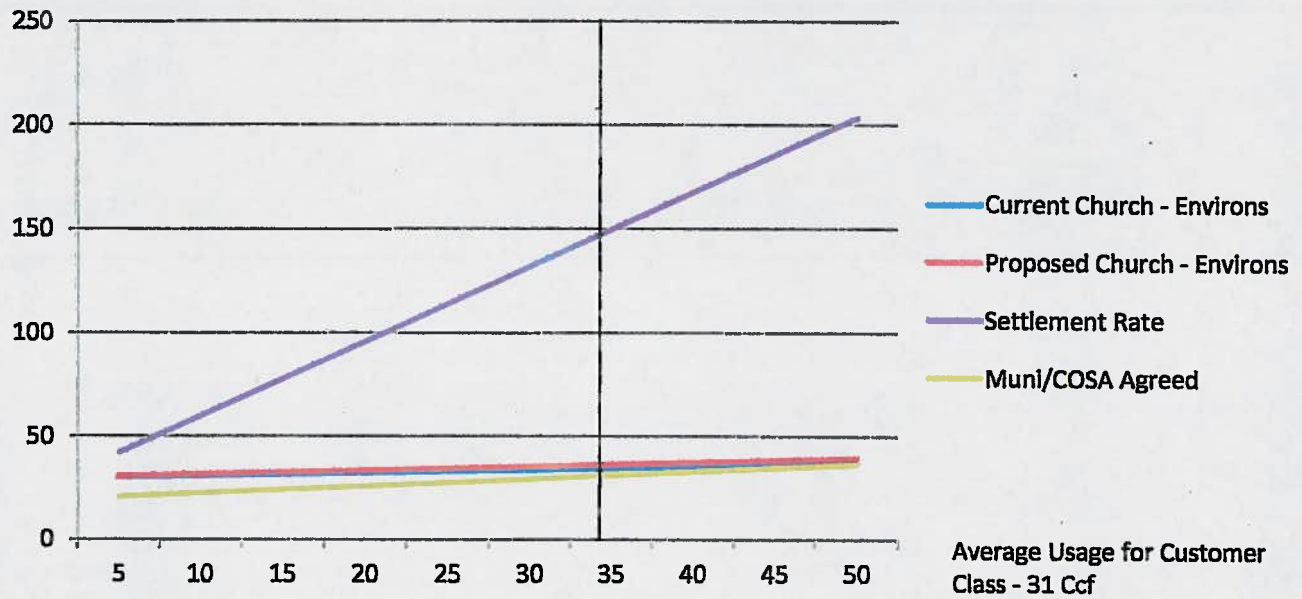
Comparison of Proposed Residential Rates to Current Environs Rates and Rates Recently Approved in the Municipalities by COSA



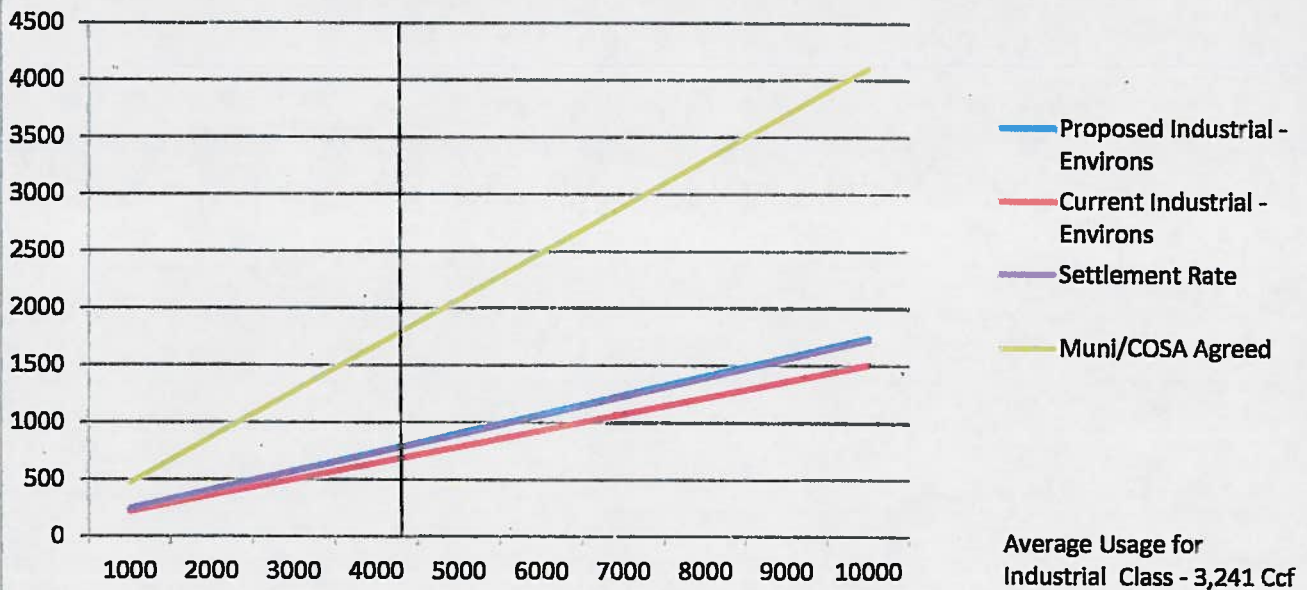
Comparison of Proposed Commercial Rates to Current Environs Rates and Rates Recently Approved in the Municipalities by COSA



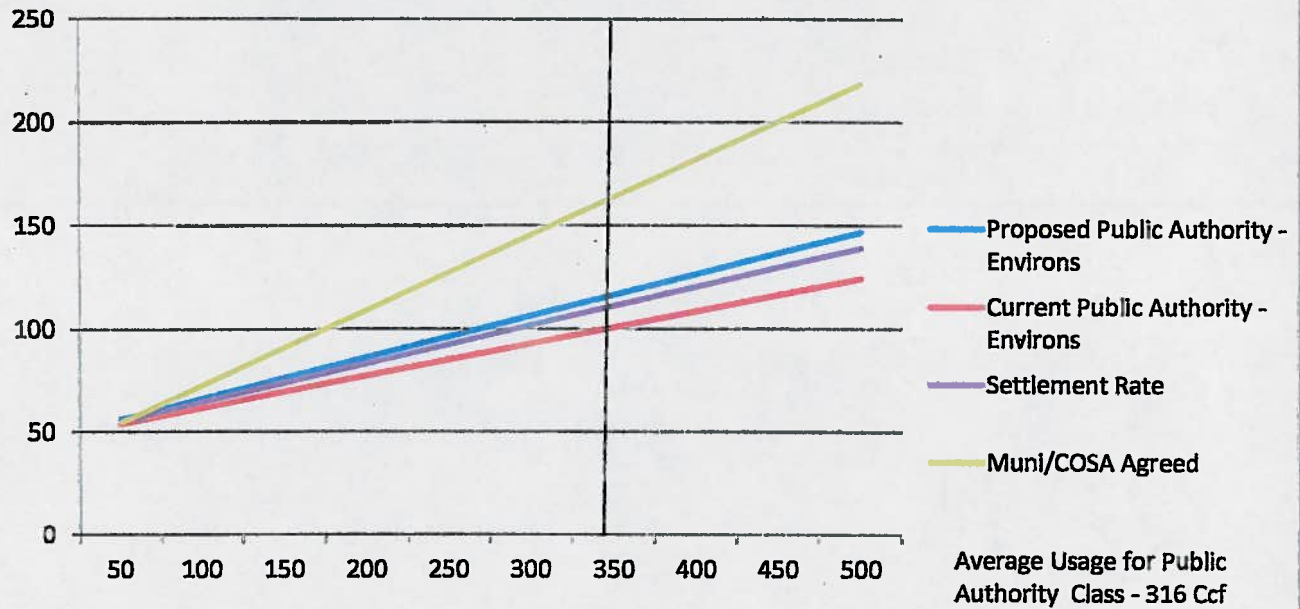
Comparison of Proposed Church Rates to Current Environs Rates and Rates Recently Approved in the Municipalities by COSA



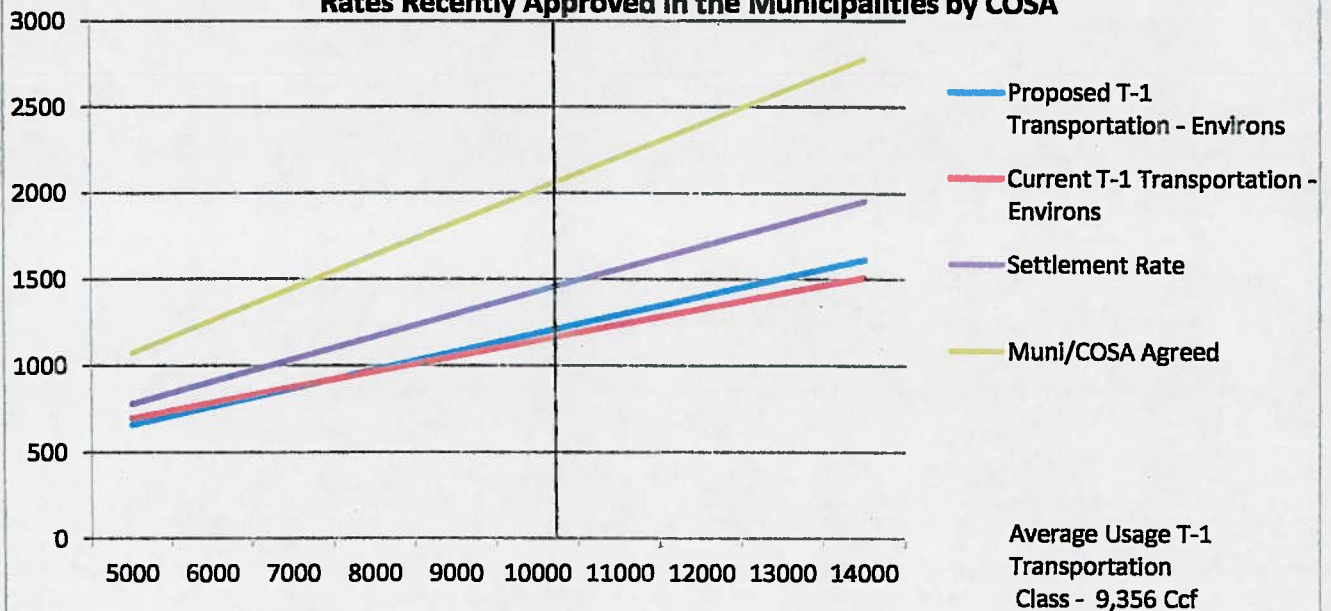
Comparison of Proposed Industrial Rates to Current Environs Rates and Rates Recently Approved in the Municipalities by COSA

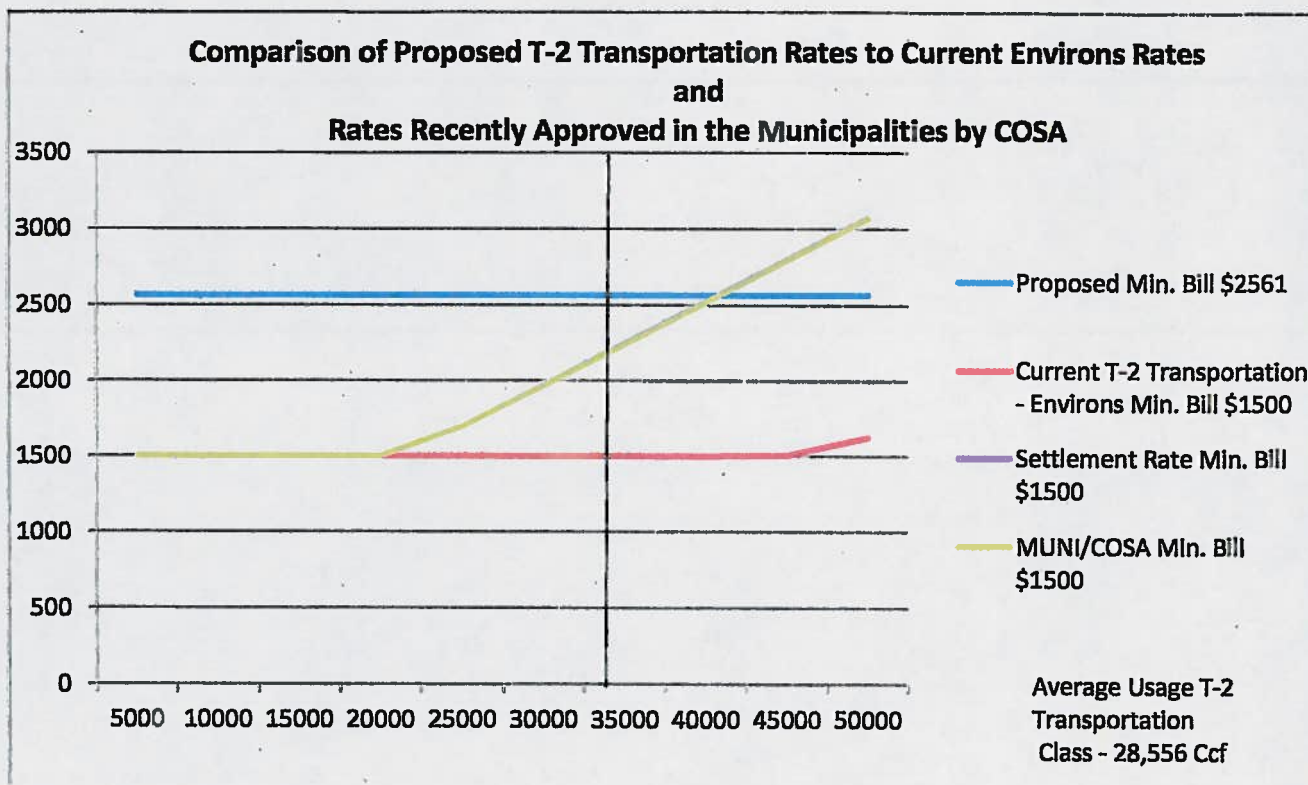


Comparison of Proposed Public Authority Rates to Current Environs Rates and Rates Recently Approved in the Municipalities by COSA



Comparison of Proposed T-1 Transportation Rates to Current Environs Rates and Rates Recently Approved in the Municipalities by COSA





Proposal for Decision

Attachment C

Rate of Return Components Awarded in Recent Years

RATE OF RETURN COMPONENTS AWARDED IN RECENT YEARS

Line No.	GUD No.	Utility Name	Capital Structure Debt / Equity			Cost of Debt		Return on Equity	Rate of Return	Date Approved	Type of Utility	No. of Customers	Comment
			Debt	Other	Equity	Debt	Other						
Statements of Intent													
1	9721	Texas Gas Service Company									Distribution		Withdrawn by Utility
2													
3	9762	Altos Energy Corp., Mid-Tex Divisi	51.730%		48.270%	6.100%		10.000%	7.980%	6/29/2008	Distribution	1,500,000	Consolidated with GUD No. 9770
4	9774	Texas Gas Service Company									Distribution		Consolidated with GUD No. 9770
5	9791	CenterPoint Energy Entex	44.800%		55.400%	7.238%		10.060%	8.802%	10/20/2008	Distribution	250,000	Stipulated by Agreement of Parties
6	9797	Universal Natural Gas Inc	67.780%	3.870%	28.340%	9.650%	4.000%	12.500%	10.240%	12/16/2008	Distribution	4,900	Short term debt is included
7	9799	SI Energy, LP	45.100%	0.200%	54.700%	8.290%	4.700%	11.000%	8.867%	11/12/2008	Distribution	5,300	Preferred equity included
8	9810	Bluebonnet Natural Gas LLC	68.600%		33.400%	7.650%		12.500%	9.270%	11/6/2008	Distribution	1,250	
9	9837	LDC, LLC	44.810%		55.090%	7.500%		8.500%	8.061%	7/14/2009	Distribution	480	
10	9839	Texas Gas Service Company	48.000%		51.000%	6.220%		10.850%	8.580%	4/28/2009	Distribution	2,200	
11	9852	Zia Natural Gas Company	47.500%		52.500%	8.100%		10.270%	8.280%	4/14/2009	Distribution	33	
12	9870	Altos Energy Corp., Mid-Tex Division									Distribution		Consolidated with GUD No. 9889
13	9902	CenterPoint Energy Entex	44.400%		55.600%	8.330%		10.500%	8.660%	2/23/2010	Distribution	929,000	
14	9909	CoServ Gas								3/9/2010	Distribution	64,000	Information not included in Final Order
15													
16	10000	Altos Pipeline - Texas	49.500%		50.500%	6.870%		11.800%	9.361%	6/27/2011	Transmissior	200	Cost of debt and equity was not disclosed in the Final Order
17	10020	Greenlight Gas	55.140%		44.860%				8.000%	4/18/2011	Distribution		
18	10021	AgriTexGas, LP									Distribution	2,400	Subject Docket not completed
19	10034	West Texas Gas, Inc.	NA			NA		NA	NA	4/18/2011	Distribution		Rate was for pass-through of gas cost associated with integrity testing
20	10038	CenterPoint Energy Entex	44.560%		55.440%	7.134%		10.050%	8.750%	4/18/2011	Distribution		Settlement agreement
21	10041	Altos Energy Corp., West Texas	49.900%		50.100%	6.870%		10.700%	8.790%	7/26/2011	Distribution	2,650	
22	10069	Texas Gas Service Company	40.760%		59.240%	6.210%		10.330%	8.650%	12/14/2010	Distribution		Same as GUD No. 9988
23	10083	Hughes Natural Gas Company									Distribution		Docket Dismissed

RATE OF RETURN COMPONENTS AWARDED IN RECENT YEARS

Line No.	GUD No.	Utility Name	Capital Structure Debt / Equity			Cost of Debt		Return on Equity	Rate of Return	Date Approved	Type of Utility	No. of Customers	Comment
			Debt	Other	Equity	Debt	Other						
24	10084	Division (Lubbock)					6.970%		8.720%	11/8/2011	Distribution		Settlement agreement
25	10085	Division					6.970%		8.720%	11/8/2011	Distribution		Settlement agreement
26	10096	Dal-Mar Energy, Inc.								1/24/2012	Distribution		Rates Denied
27	10112	Bluebonnet Natural Gas LLC									Distribution		Docket not completed
28	10118	West Texas Gas, Inc.									Distribution		Withdrawn by Utility
29	10170	Atmos Mid-Tex	41.380%		51.690%		6.500%	10.500%	8.570%	12/4/2012	Distribution		
30	10174	Atmos West Texas	41.380%		51.690%		6.500%	10.500%	8.570%	12/4/2012	Distribution		
31	10182	CenterPoint Energy Entex	42.000%		58.000%		8.480%	10.000%	8.510%	12/4/2012	Distribution		Settlement
32	10190	Hughes Natural Gas Inc.	44.500%		55.500%		7.000%	10.800%	9.000%	3/23/2013	Distribution		Settlement
33	10196	Bluebonnet Natural Gas	48.000%		52.000%		7.650%	10.250%	9.000%	12/4/2012	Distribution		Settlement
34	10217	Texas Gas Service - STSA	42.000%		58.000%		8.161%	10.350%	8.579%	3/28/2013	Distribution		Settlement
35	10235	West Texas Gas	50.000%		50.000%		5.320%	10.500%	7.910%	8/13/2013	Distribution		Settlement
36	10238	Onalaska Water & Gas Supply	45.000%		55.000%		7.000%	10.500%	8.930%	8/6/2013	Distribution		Settlement

Appeals

29	9770	Texas Gas Service Company	45.100%	0.200%	54.700%	6.290%	4.700%	10.425%	8.551%	4/24/2008	Distribution		Preferred Stock was included
30	9869	Atmos Energy Corp., Mid-Tex Divisi	51.090%		48.910%		8.880%	10.400%	8.600%	2/23/2010	Distribution	1,500,000	
31	9988	Texas Gas Service Company (El Pe	40.760%		59.240%		6.210%	10.330%	8.650%	12/14/2010	Distribution		
32	9763	Atmos Energy Corp., Mid-Tex Division									Distribution		Consolidated with GUD No. 9762
33	9764	Atmos Energy Corp., Mid-Tex Division									Distribution		Consolidated with GUD No. 9762
34	9771	Atmos Energy Corp., Mid-Tex Division									Distribution		Consolidated with GUD No. 9770
35	9773	Texas Gas Service Company									Distribution		Consolidated with GUD No. 9762
36	9777	Atmos Energy Corp., Mid-Tex Division									Distribution		Consolidated with GUD No. 9762
37	9781	Atmos Energy Corp., Mid-Tex Division									Distribution		Consolidated with GUD No. 9762
38	9785	Atmos Energy Corp., Mid-Tex Division									Distribution		Consolidated with GUD No. 9762
39	9786	Atmos Energy Corp., Mid-Tex Division									Distribution		Consolidated with GUD No. 9762
	9796	CenterPoint Energy Entex (Baytown)									Distribution		Consolidated with GUD No. 9791

RATE OF RETURN COMPONENTS AWARDED IN RECENT YEARS

Line No.	GUD No.	Utility Name	Capital Structure Debt / Equity			Return on Equity	Rate of Return	Date Approved	Type of Utility	No. of Customers	Comment
			Debt	Other	Equity						
40	9803	CenterPoint Energy Entex							Distribution		Consolidated with GUD No. 9791
41	9808	CenterPoint Energy Entex (League City)							Distribution		Consolidated with GUD No. 9791
42	9809	Universal Natural Gas, Inc							Distribution		Consolidated with GUD No. 9797
43	9823	Bluebonnet Natural Gas LLC							Distribution		Consolidated with GUD No. 9810
44	9827	Bluebonnet Natural Gas LLC							Distribution		Consolidated with GUD No. 9810
45	9875	CoServ Gas							Distribution		Consolidated with GUD No. 9808
46	9908	CenterPoint Energy Entex (Hedwig Village)							Distribution		Consolidated with GUD No. 9802
47	9916	CenterPoint Energy Entex							Distribution		Consolidated Docket
48	9919	CenterPoint Energy Entex (League City)							Distribution		Consolidated with GUD No. 9802
49	9929	CenterPoint Energy Entex							Distribution		Consolidated Docket
50	9941	CenterPoint Energy Entex							Distribution		Consolidated with GUD No. 9888
51	9982	Texas Gas Service Company (Anthony)							Distribution		Consolidated Docket
52	10018	CenterPoint Energy Entex (West Columbia)							Distribution		Consolidated with GUD No. 10038
53	10047	CenterPoint Energy Entex							Distribution		Consolidated with GUD No. 10038
54	10052	CenterPoint Energy Entex							Distribution		Consolidated with GUD No. 10038
55	10058	CenterPoint Energy Entex							Distribution		Consolidated with GUD No. 10038
56	10070	CenterPoint Energy Entex							Distribution		Consolidated with GUD No. 10038
57	10071	CenterPoint Energy Entex							Distribution		Consolidated with GUD No. 10038
58	10077	CenterPoint Energy Entex							Distribution		Consolidated Docket
59	10093	Hughes Natural Gas, Inc.							Distribution		Consolidated with GUD No. 10083
60	10128	West Texas Gas, Inc.							Distribution		
61											

Inquiries

9836	CPR Pipeline	74.080%	25.920%	7.850%	13.750%	9.230%	6/27/2011	Pipeline	1
Average		48.722%	1.423%	50.580%	10.686%	8.708%			
Average w/o "Other" Cap Structure		50.932%	49.067%						

= No data available or consolidated with another docket.
Source: Proposals for Decision and Final Orders issued by the Commission
Prepared By: M. Brock/WF.Tomczak 8/8/2013

Outliers Removed

9731	Hughes Natural Gas Company	0.000%	100.000%	0.000%	10.250%	10.250%	11/6/2007	Distribution	1,882
9951	NatGas, Inc.	24.430%	75.570%	8.500%	12.750%	11.710%	8/10/2010	Distribution	1,150

**STATEMENT OF INTENT OF
TEXAS GAS SERVICE COMPANY
TO INCREASE GAS UTILITY RATES
WITHIN THE UNINCORPORATED
AREAS OF THE RIO GRANDE
VALLEY SERVICE AREA**

www.pearsoned.com

FINAL ORDER

FINDINGS OF FACT

1. Texas Gas Service Company (TGS), a division of ONEOK, Inc., is a gas utility as that term is defined in the Texas Utility Code Annotated and is subject to the jurisdiction of the Railroad Commission of Texas (Commission).
2. TGS has ten service areas in Texas and this docket relates to the Rio Grande Valley Service Area (RGVSA), which serves portions of Cameron, Hidalgo, Willacy, Jim Hogg and Starr Counties.
3. The environs of the RGVSA includes customers residing in the unincorporated areas of Alamo, Alton, Brownsville, Combes, Donna, Edcouch, Edinburg, Elsa, Harlingen, Hidalgo, La Feria, La Joya, La Villa, Laguna Vista, Los Fresnos, Lyford, McAllen, Mercedes, Mission, Palm Valley, Palmhurst, Palmview, Penitas, Pharr, Port Isabel, Primera, Progreso, Rancho Viejo, Raymondville, Rio Hondo, San Benito, San Juan, Santa Rosa, Weslaco, and the unincorporated cities of Bayview, Laguna Heights, Monte Alto, Olmito, and San Carlos and the unincorporated areas of Jim Hogg and Starr Counties, Texas.
4. On June 28, 2013, TGS filed the *Statement of Intent* of Texas Gas Service Company to Increase Gas Utility Rates within the Unincorporated Areas of the Rio Grande Valley Service Area.
5. The data submitted by TGS in this docket encompass a full test-year, ending the twelve-month period as of December 31, 2012, adjusted for known and measurable changes.

6. The RGVSA contains seven classes of customers: Residential, Commercial, Church, Industrial, Public Authority, T-1 Transportation, and T-2 Transportation.
7. The RGVSA serves approximately 68,900 customers. There are approximately 3,860 customers located in the environs comprised of 3,597 residential customers, 163 commercial customers, 10 church customers, 15 industrial customers, 50 public authority customers, and 26 standard transportation customers.
8. On July 9, 2013, the Commission suspended the implementation of TGS' proposed rates for up to 150 days.
9. Staff of the Railroad Commission (Staff) intervened in this proceeding on July 8, 2013.
10. No protests were filed with the Commission regarding the proposed new rate schedules for the RGVSA; no customers or municipality filed a petition to intervene or otherwise participated in this proceeding.
11. Notice of the proposed increase in this case was provided to customers through First Class U.S. direct mail on August 14, 2013. No protests were filed and no additional request to intervene in this proceeding was made.
12. The direct mail of notice meets the statutory and rule requirements of notice and provides sufficient information to ratepayers about the statement of intent.
13. On September 27, 2013, the parties filed a joint Settlement Agreement that resolved all issues in this proceeding.
14. A copy of the Settlement Agreement is attached to this Final Order as "Attachment A."
15. As part of the Settlement Agreement the parties requested admission of stipulated evidence.
16. The following evidence was admitted into the record of this case:
 - Joint Ex. 1, *Statement of Intent*, Prefiled Direct Testimony, and company's proposed schedules
 - Joint Ex. 2, Affidavit of Janet Buchanan, Public Notice, August 15, 2013
 - Joint Ex. 3, Affidavit of Dane McKaughan, Rate Case Expenses
 - Joint Ex. 4, Bill Impact Analysis
 - Examiners' Ex. 1, Response to Examiners' First RFI to TGS
 - Examiners' Ex. 2, Response to Examiners' Second RFI to Staff, 2-1, 2-2, 2-3
 - Examiners' Ex. 3, Response to Examiners' Third RFI to Staff, 3-1
 - Examiners' Ex. 4, Response to Examiners' Third RFI to TGS, 3-1
 - Examiners' Ex. 5, Response to Examiners' Fourth RFI to Staff, 4-1
 - Examiners' Ex. 6, Response to Examiners' Fourth RFI to TGS, 4-1

- Examiners' Ex. 7, Response to Examiners' Fifth RFI to TGS, 5-1, 5-2, 5-3
 - Examiners' Ex. 8, Response to Examiners' Fifth RFI to Staff, 5-1, 5-2, 5-3
 - Examiners' Ex. 9, TGS Response to Examiners' Ltr. No. 17
 - Examiners' Ex. 10, Response to Examiners' Sixth RFI to TGS, 6-1, 6-2, 6-3, 6-4
 - Examiners' Ex. 11, Response to Examiners' Seventh RFI to TGS, 7-1
 - Examiners' Ex. 12, TGS Letter to Examiners dated October 16, 2013
 - Examiners' Ex. 13, August 13, 2013, Letter from TGS to Examiners updating data from the Technical Conference update
 - Examiners' Ex. 14, GUD No. 9800, TGS 2006 GRIP Rate Adjustment for the Unincorporated RGVSA filed April 30, 2008 (pp.1-4), and Schedule IRA-3
 - Examiners' Ex. 15, GUD No. 9871, TGS 2007 GRIP Rate Adjustment for the Unincorporated RGVSA filed May 1, 2009 (pp.1-5), and Schedule IRA-3
 - Examiners' Ex. 16, GUD No. 9996, TGS Revised 2008 GRIP Rate Adjustment for the Unincorporated RGVSA filed October 15, 2010 (pp.1-4), and Schedule IRA-3
 - Examiners' Ex. 17, GUD No. 10035, TGS 2009 GRIP Rate Adjustment for the Unincorporated RGVSA filed November 19, 2010 (pp.1-4), and Schedule IRA-3
 - Examiners' Ex. 18, GUD No. 10127, TGS 2010 GRIP Rate Adjustment for the Unincorporated RGVSA filed November 2, 2011 (pp.1-4), and Schedule IRA-3
17. Official notice was taken of the Interim Orders in the following TGS Interim Rate Adjustment dockets (IRA) for the RGVSA: GUD Nos. 9800, 9871, 9996, 10035, and 10127.
18. TGS established that the utility maintains its books and records in accordance with the Federal Energy Regulatory Commission's (FERC) Uniform System of Accounts prescribed for Natural Gas Companies.
19. TGS established that the utility has fully complied with the books and records requirements of Rule 7.310 and the amounts included therein are therefore subject to the presumption encapsulated in Rule 7.503 that these amounts are reasonable and necessary.
20. The company initially requested a system-wide revenue requirement increase of \$1,739,433 representing a 7.59% increase over current revenue.
21. The RGVSA environs share of the proposed revenue deficiency was allocated at \$168,036.
22. The Settlement Agreement contemplates a reduction of the RGVSA environs share of the revenue deficiency to \$143,036, which is a \$25,000 reduction or 14.9% from the amount originally proposed.
23. TGS seeks approval of rates that generate revenues of \$143,036.
24. The parties have established that the proposed revenue increase in the Settlement Agreement of \$143,036 for the RGVSA environs is just and reasonable.

25. The following customer charges and per Ccf volumetric rates are just and reasonable.

	Rate
Residential	
Customer Charge	\$12.080
Usage Rate	\$0.17840
Commercial	
Customer Charge	\$41.670
Usage Rate	\$0.17960
Church	
Customer Charge	\$29.17
Usage Rate	\$0.17960
Public Authority	
Customer Charge	\$45.51
Usage Rate	\$0.18690
Industrial	
Customer Charge	\$74.02
Usage Rate	\$0.16480
Transportation T-1	
Customer Charge	\$127.82
Usage Rate	\$0.1301
Transportation T-2	
Customer Charge	\$327.82
Usage Rate	\$0.0548
Minimum Bill	\$1,500

26. It is just and reasonable that any future Interim Rate Adjustment (IRA) filing in the RGVSA pursuant to TEX. UTIL. CODE ANN. § 104.301 be required to use the following factors set out in the Settlement Agreement until changed by a subsequent rate proceeding:

- Weighted Average Cost of Capital shall be 8.0845% based upon a capital structure of 44.61% debt and 55.39% equity, with a 10.33% cost of equity.
- For the initial IRA filing, the Net Investment which includes detail of Plant in Service amounts along with the associated depreciation rate for each account shall be as shown on Exhibit B, to the *Settlement Agreement*.
- For the initial IRA filing, the beginning amount of ad valorem taxes at the RGVSA level is \$627,090.
- For the initial IRA filing, the net plant in service is \$73,629,650 for calculating the federal income tax.

- For the initial IRA filing, the customer charge as noted in Finding of Fact No. 25 above, and Paragraph 2 of the Settlement Agreement, will be the starting rate to apply any IRA adjustment.
- The allocation factors to spread any change in IRA increase/decrease to the appropriate customer classes is, as follows:

Customer Class	Allocated Increase
Residential	58.10%
Commercial and Church	29.24%
Industrial	2.66%
Public Authority	4.23%
T-1 Transportation	3.38%
T-2 Transportation	2.39%
Total	100.00%

27. It is reasonable to set the average use per month per customer class in order to determine the current and proposed bill information in future interim rate adjustment filings as follows: residential at 14 Ccf, commercial at 414 Ccf, church at 31 Ccf, industrial at 3,240 Ccf, public authority at 316 Ccf, transportation T-1 at 9,356 and transportation T-2 at 28,556 Ccf.
28. TGS shall include a lead-lag study to establish cash working capital with its next filed Statement of Intent proceeding involving one or more of its El Paso, Rio Grande Valley, or Austin Service Areas. The resulting lead-lag study shall be designed to be applicable to all TGS Service Areas.
29. TGS prepared a RGVSA and TGS Division depreciation study for its Plant in Service in December 2008.
30. TGS shall file a depreciation study not older than 12-months for TGS assets for inclusion of its next Statement of Intent proceeding involving one or more of its El Paso Rio Grande Valley, or Austin Service Areas.
31. TGS shall within a reasonable time following the creation of ONE Gas, Inc. when the corporate assets of the newly formed regulated company are known, perform a study to update the level of corporate depreciation expense allocated to TGS.
32. It is reasonable and appropriate for TGS to seek recovery of incentive compensation expenses according to the methodology approved by the Commission in GUD Nos. 9791 and 9902.

33. The following tariffs proposed by the signatories to the Settlement Agreement are just and reasonable, with one adjustment for compliance requirements to the Rate Case Expense Rider (RCE-Rider):
- Rate Schedule 1Z - Residential Service Rate
 - Rate Schedule 2Z - Commercial Service Rate
 - Rate Schedule 3Z - Industrial Service Rate
 - Rate Schedule 4Z - Public Service Authority Rate
 - Rate Schedule T-1 - Transportation Service Rate
 - Rate Schedule T-2 - Transportation Service Rate
 - Rate Schedule 1-ENV - Cost of Gas Clause
 - Rate Schedule IRA-ENV - Interim Rate Adjustment (deleted)
 - Rate Schedule T-GTC - General Terms and Conditions for Transportation
 - Rate Schedule RCE - Rider, Rate Case Expense Surcharge
34. The proposed Rate Schedule T-GTC is intended to replace the existing Rate Schedule T-GEN.
35. The Rate Schedule T-GTC provides transparency for transportation customers of TGS and ensures that transportation service is offered on a non-discriminatory basis.
36. The Rate Schedule T-GTC is consistent with other tariffs on file at the Commission and it is just and reasonable.
37. TGS has established that its actual rate case expenses of \$219,700.72 and estimated rate case expenses of \$10,000, which total \$229,700.72 are just and reasonable.
38. The rate case expenses were comprised of attorneys' fees and expenses, consultants' fees and expenses, and fees related to notice.
39. The hourly rates charged by attorneys and consultants were reasonable rates charged by firms in cases addressing utility rate matters.
40. The attorneys and consultants did not charge any expenses for luxury items and did not incur any airline, lodging, or meal expenses.
41. The amount of work done and the time and labor required to accomplish the work was reasonable given the nature of the issues addressed.
42. The complexity and expense of the work was relevant and reasonably necessary to the proceeding, and was commensurate with both the complexity of the issues and necessary to completing the matter before the Commission.
43. The rate case expense request is just and reasonable and a rate case expense surcharge of \$0.02072 per Ccf over an approximately 24 month period is just and reasonable.

44. It is reasonable that the RCE rider limit the company's recovery to actual expenses, does not allow for interest calculations, and requires the rate case expenses to be listed as a surcharge on the bill.
45. It is reasonable to adjust the proposed RCE-Rider contained in the Settlement Agreement, by including a new "Paragraph E" for compliance, that requires the company to file the annual compliance report with the RRC Gas Services Division annually, due on or before December 31st, commencing in 2014 with the report detailing the volumes used by month by customer class, the monthly collections for the RCE surcharge, and indicate the outstanding balance.
46. The tariffs and Rate Case Expense Rider (RCE-Rider) attached to this Final Order are just and reasonable.

CONCLUSIONS OF LAW

1. Texas Gas Service Company (TGS) is a Gas Utility as defined in TEX. UTIL. CODE ANN. §101.003(7) and 121.001 (Vernon 2007 and Supp. 2013) and is therefore subject to the jurisdiction of the Railroad Commission (Commission) of Texas.
2. The Commission has jurisdiction over TGS and TGS' Statement of Intent under TEX. UTIL. CODE ANN. §§ 102.001, 103.022, 103.054, & 103.055, 104.001, 104.001 and 104.201 (Vernon 2007 and Supp. 2013).
3. Under TEX. UTIL. CODE ANN. §102.001 (Vernon 2007 and Supp. 2013), the Commission has exclusive original jurisdiction over the rates and services of a gas utility that distributes natural gas in areas outside of a municipality and over the rates and services of a gas utility that transmits, transports, delivers, or sells natural gas to a gas utility that distributes the gas to the public.
4. This 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 and Supp. 2013) (APA).
5. In accordance with the stated purpose of the TEX. UTIL. CODE ANN., Subtitle A, expressed under TEX. UTIL. CODE ANN. §101.002 (Vernon 2007 and Supp. 2013), the Commission has assured that the rates, operations, and services established in this docket are just and reasonable to customers and to the utilities.
6. TEX. UTIL. CODE ANN. §104.107 (Vernon 2007 and Supp. 2013) provides the Commission's authority to suspend the operation of the schedule of proposed rates for 150 days from the date the schedule would otherwise go into effect.

7. The proposed rates constitute a major change as defined by TEX. UTIL. CODE ANN. §104.101 (Vernon 2007 and Supp. 2013).
8. In accordance with TEX. UTIL. CODE ANN. §104.103 (Vernon 2007 and Supp. 2013), 16 TEX. ADMIN. CODE ANN. §§ 7.230 and 7.235, adequate notice was properly provided.
9. In accordance with TEX. UTIL. CODE ANN. §104.102 (Vernon 2007 and Supp. 2013), 16 TEX. ADMIN. CODE ANN. §§ 7.205 and 7.210, TGS filed its *Statement of Intent* to increase gas distribution rates.
10. In this proceeding, TGS has the burden of proof under TEX. UTIL. CODE ANN. §104.008 (Vernon 2007 and Supp. 2013) to show that the proposed rate changes are just and reasonable.
11. TGS failed to meet its burden of proof in accordance with the provisions of TEX. UTIL. CODE ANN. §104.008 (Vernon 2007 and Supp. 2013) on the elements of its requested rate increase identified in this order.
12. The revenue, rates, rate design, and service charges proposed by TGS are not found to be just and reasonable, not unreasonably preferential, prejudicial, or discriminatory, and are not sufficient, equitable, and consistent in application to each class of consumer, as required by TEX. UTIL. CODE ANN. §104.003 (Vernon 2007 and Supp. 2013).
13. The revenue, rates, rate design, and service charges proposed by TGS, as amended by the Examiners and the Settlement Agreement 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. 2013).
14. The overall revenues as established by the findings of fact and attached tariffs contained in the Settlement Agreement, as adjusted by the Examiners, are reasonable; fix an overall level of revenues for TGS that will permit the company a reasonable opportunity to earn a reasonable return on its invested capital used and useful in providing service to the public over and above its reasonable and necessary operating expenses, as required by TEX. UTIL. CODE ANN. § 104.051 (Vernon 2007 and Supp. 2013); and otherwise comply with Chapter 104 of the Texas Utilities Code Annotated.
15. The revenue, rates, rate design, and service charges proposed will not yield to TGS more than a fair return on the adjusted value of the invested capital used and useful in rendering service to the public, as required by TEX. UTIL. CODE ANN. § 104.052 (Vernon 2007 and Supp. 2013).
16. The rates established in this docket comport with the requirements of TEX. UTIL. CODE ANN. §104.053 (Vernon 2007 and Supp. 2012) and are based upon the adjusted value of invested capital used and useful, where the adjusted value is a reasonable balance

between the original cost, less depreciation, and current cost, less adjustment for present age and condition.

17. It is reasonable for the Commission to allow TGS to include a Cost of Gas Clause in its rates to provide for the recovery of all of its gas costs, in accordance with 16 TEX. ADMIN. CODE § 7.5519.
18. TGS is required by 16 TEX. ADMIN. CODE § 7.315 to file electronic tariffs incorporating rates consistent with this Order within thirty days of the date of this Order.

IT IS THEREFORE ORDERED that TGS' proposed schedule of rates is hereby **DENIED**.

IT IS FURTHER ORDERED that the rates, rate design, and service charges established in the findings of fact and conclusions of law and shown in the Settlement Agreement, as adjusted by the Examiners for compliance of rate case expenses, on the attached tariffs for TGS are **APPROVED**.

IT IS FURTHER ORDERED that the factors established for future interim rate adjustments in Findings of Fact No. 26 and included in Paragraph 3 of the settlement terms of the Settlement Agreement are **APPROVED**.

IT IS FURTHER ORDERED that the tariffs attached to this order as Final Order Attachment B are hereby approved.

IT IS FURTHER ORDERED that final actually incurred rate case expenses be filed with the Commission through completion of the case within 30-days of issuance of the Final Order.

IT IS FURTHER ORDERED that an annual collections report for rate case expense recovery be filed with the Gas Services Division, due on or before the 31st of each December, commencing in 2014, with the report detailing the volumes used by month by customer class, the monthly collections for the RCE surcharge, and indicate the outstanding balance.

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 Schedules.

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

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

This Order will not be final and effective until 20 days after a party is notified of the Commission's order. A party is presumed to have been notified of the Commission's order three days after the date on which the notice is actually mailed. If a timely motion for rehearing is filed by any party at interest, this order shall not become final and effective until such motion is overruled, or if such motion is granted, this order shall be subject to further action by the Commission. Pursuant to TEX. GOV'T CODE ANN. §2001.146(e), the time allotted for Commission action on a motion for rehearing in this case prior to its being overruled by operation of law, is hereby extended until 90 days from the date the order is served on the parties.

SIGNED this 26th day of November, 2013.

RAILROAD COMMISSION OF TEXAS

CHAIRMAN BARRY T. SMITHERMAN

COMMISSIONER DAVID PORTER

COMMISSIONER CHRISTI CRADDICK

ATTEST:

SECRETARY

Final Order

Attachment A

Proposed Joint Settlement Agreement

GUD NO. 10285

STATEMENT OF INTENT OF
TEXAS GAS SERVICE COMPANY
TO INCREASE GAS UTILITY RATES
WITHIN THE UNINCORPORATED
AREAS OF THE RIO GRANDE
VALLEY SERVICE AREA

§
§
§
§
§
§

BEFORE THE
RAILROAD COMMISSION
OF TEXAS

SETTLEMENT AGREEMENT

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

WHEREAS, this Settlement Agreement resolves all issues relating to the Texas Gas Statement of Intent to Increase Gas Utility Rates Within the Unincorporated Areas of the Rio Grande Valley Service Area filed with the Railroad Commission of Texas ("Commission") on June 28, 2013, in a manner that Texas Gas and Staff (collectively "the Signatories") believe is consistent with the public interest, and the Signatories represent diverse interests;

WHEREAS, the Company's Rio Grande Valley Service Area ("RGVSA") includes the unincorporated areas of Alamo, Alton, Brownsville, Combes, Donna, Edcouch, Edinburg, Elsa, Harlingen, Hidalgo, La Feria, La Joya, La Villa, Laguna Vista, Los Fresnos, Lyford, McAllen, Mercedes, Mission, Palm Valley, Palmhurst, Palmview, Penitas, Pharr, Port Isabel, Primera, Progreso, Rancho Viejo, Raymondville, Rio Hondo, San Benito, San Juan, Santa Rosa, and Weslaco, Texas, along with the unincorporated cities of Bayview, Laguna Heights, Monte Alto, Olmito, and San Carlos and the unincorporated areas of Jim Hogg and Starr counties (collectively, the "RGVSA Environs");

WHEREAS, the last full rate proceeding setting rates for the RGVSA Environs was docketed as GUD No. 9708, and the Commission issued its final order on April 10, 2007;

WHEREAS, since GUD No. 9708, the RGVSA Cities have adopted a Cost of Service Adjustment tariff that changes rates annually to reflect increases or decreases in rate base and expenses;

WHEREAS, since GUD No. 9708, rates for the RGVSA Environs have changed annually pursuant to TEX. UTIL. CODE § 104.301, which authorizes increases in rates on an interim basis for incremental capital investment, but does not address changes in expenses from year to year;

WHEREAS, the Company filed and the Commission approved five Interim Rate Adjustments pursuant to TEX. UTIL. CODE § 104.301 for the RGVSA Environs since the Commission issued its order in GUD No. 9708. The docket numbers for these interim rate adjustments are 9800, 9871, 9996, 10035, and 10127, and they were issued on July 29, 2008, July 14, 2009, December 14, 2010, March 8, 2011, and January 24, 2012, respectively;

WHEREAS, TEX. UTIL. CODE § 104.301 requires that a gas utility file a full Statement of Intent rate proceeding within 180 days following the fifth anniversary of the Commission

approving an initial interim rate adjustment. Thus, Texas Gas was required by statute to file a full Statement of Intent rate proceeding for the RGVSA Environs on or before January 25, 2014;

WHEREAS, on June 28, 2013, Texas Gas filed its Statement of Intent to Increase Rates within the Unincorporated Areas of the RGVSA, docketed as GUD No. 10285;

WHEREAS, Texas Gas by its Statement of Intent invoked the Commission's original jurisdiction to set special rates for residential and commercial customers that are not specifically keyed to the rates charged in any incorporated area (Commission Rule 7.115(33));

WHEREAS, Commission rules require that a utility's Statement of Intent seeking to establish special rates under the Commission's original jurisdiction include all direct evidence necessary to support the proposed rate increase, prepared testimony of all witnesses, and exhibits (Commission Rule 7.205);

WHEREAS, Texas Gas included with its Statement of Intent the following: (A) Cost of Service Schedules; (B) Proposed Revenue Increase by Class; (C) Average Bill by Class; (D) Direct Testimony of seven witnesses; (E) Proposed Rate Schedules and Tariffs; (F) Proposed Notice; (G) Proposed Protective Order, and (H) Workpapers;

WHEREAS, the Company's Statement of Intent and supporting evidence demonstrated a system-wide revenue requirement of \$24,645,181, with revenues of \$22,905,748, producing a revenue deficiency of \$1,739,433;

WHEREAS, the RGVSA Environs' share of this proposed revenue deficiency is \$168,036;

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

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

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

WHEREAS, Texas Gas proposed that the new rates become effective on August 7, 2013;

WHEREAS, the Commission on July 9, 2013 suspended the proposed effective date for an additional 150 days;

WHEREAS, on July 8, 2013, Staff's motion to intervene in the docket was granted;

WHEREAS, on July 25, 2013, the Examiners by Letter No. 10 approved the Company's proposed form of notice;

WHEREAS, on August 14, 2013, the Company provided public notice by direct mail to customers in the RGVSA Environs in the form approved by the Examiners;

WHEREAS, both Staff and the Examiners propounded requests for information on the Company regarding the filed Statement of Intent and supporting evidence;

WHEREAS, a Technical Conference in this docket was held on July 29, 2013;

WHEREAS, after the conclusion of the Technical Conference and discovery, Staff and Texas Gas entered into settlement negotiations;

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

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

WHEREAS, additional litigation of this case through hearing and briefing would likely increase rate case expenses by an estimated \$75,000-100,000 or more;

NOW, THEREFORE, in consideration of the mutual agreements and covenants established herein, the Signatories, through their undersigned representatives, agree to and recommend for approval by the Commission the following Settlement Terms as a means of fully resolving all issues raised in the June 28, 2013 Statement of Intent filed by Texas Gas on behalf of its Rio Grande Valley Service Area Environs:

Settlement Terms

1. Texas Gas and Staff agree to the rates, terms and conditions reflected in the rate schedules and tariffs attached to this Settlement Agreement as Exhibit A. Said tariffs would allow Texas Gas an additional \$143,036 in annual revenue, which amount represents the Environs' share of the system-wide revenue deficiency and is \$25,000 less than the revenue increase proposed by the Company. Texas Gas and Staff further agree that the rates, terms and conditions reflected in Exhibit A to this Settlement Agreement comply with the rate-setting requirements of Chapter 104 of the Texas Utilities Code.
2. The Signatories agree to the following customer charges and volumetric rates by class:

	Proposed Rate
Residential	
Customer Charge	\$ 12.08
Usage Rate	\$ 0.1784
Commercial	
Customer Charge	\$ 41.67
Usage Rate	\$ 0.1796
Church	
Customer Charge	\$ 29.17
Usage Rate	\$ 0.1796
Public Authority	
Customer Charge	\$ 45.51
Usage Rate	\$ 0.1869
Industrial	
Customer Charge	\$ 74.02
Usage Rate	\$ 0.1648
T-1 Transportation	
Customer Charge	\$ 127.82
Usage Rate	\$ 0.1301
T-2 Transportation	
Customer Charge	\$ 327.82
Usage Rate	\$ 0.0548
Minimum Bill	\$ 1,500

3. Texas Gas and Staff agree that future Interim Rate Adjustment ("IRA") filings made for the RGVSA Environs pursuant to GURA § 104.301 shall rely on the following Cost of Service factors:

- Weighted Average Cost of Capital shall be 8.0845% based upon a capital structure of 44.61% debt and 55.39% equity, with a 10.33% cost of equity.
- For the initial IRA filing, the Net Investment which includes detail of Plant in Service amounts along with the associated depreciation rate for each account shall be as shown on Exhibit B.
- For the initial IRA filing, the beginning amount of ad valorem taxes at the RGVSA level is \$627,090.
- For the initial IRA filing, the net plant in service is \$73,629,650 for calculating the federal income tax.
- For the initial IRA filing, the customer charge as noted in item 2 above will be the starting rate to apply any IRA adjustment.
- The allocation factors to spread any change in IRA increase/decrease to the appropriate customer classes is as follows:

Customer Class	Allocated Increase
Residential	58.10%
Commercial and Church	29.24%
Industrial	2.66%
Public Authority	4.23%
T-1 Transportation	3.38%
T-2 Transportation	2.39%
Total	100.00%

4. The average use per month per customer class in order to determine the current and proposed bill information in future IRA filings is as follows: residential at 14 Ccf, commercial at 414 Ccf, church at 31 Ccf, public authority at 316 Ccf, industrial at 3,241 Ccf, T-1 transportation at 9,356 and T-2 transportation at 28,556 Ccf.
5. Texas Gas and Staff agree on the admissibility of the following evidentiary record:
 - Statement of Intent of Texas Gas Service to Increase Rates Within the Unincorporated Areas of the Rio Grande Valley Service Area, filed on June 28, 2013, inclusive of all attachments, including the direct testimony of the following witnesses:
 - Dean LaFever;
 - Janet Buchanan, as amended by the Errata filing of August 16, 2013;
 - Janet Simpson;
 - Teresa Swensen;
 - Stacey Borgstadt;
 - Angela Wells;
 - Bruce Fairchild;
 - Affidavit of Janet Buchanan attesting to Public Notice (filed August 15, 2013);
 - Affidavit of Dane McKaughan attesting to the reasonableness of Rate Case expenses, attached as Exhibit C to this Settlement Agreement; and
 - Bill Impact Analysis, attached as Exhibit D to this Settlement Agreement.
6. The Signatories agree that Texas Gas shall include a lead-lag study to establish cash working capital with its next filed Statement of Intent proceeding involving one or more of its El Paso, Rio Grande Valley, or Austin Service Areas. The resulting lead-lag study will be designed to be applicable to all TGS Service Areas.
7. The Signatories agree that Texas Gas shall file a depreciation study not older than 12-months for Texas Gas assets for inclusion in its next Statement of Intent proceeding involving one or more of its El Paso, Rio Grande Valley, or Austin Service Areas.
8. ONEOK, Inc., the parent company of Texas Gas, has announced that it will split into two separate legal entities, one exclusively regulated (ONE Gas, Inc.), and one exclusively unregulated, sometime following the first quarter of 2014. As part of this separation, the current corporate assets of ONEOK, Inc. will be assigned to one or the other of the two companies. The Signatories agree that within a reasonable time following the creation of

ONE Gas, Inc. when the corporate assets of the newly formed regulated company are known, the Company will perform a study to update the level of corporate depreciation expense allocated to Texas Gas.

9. The Signatories agree on the following statement: "The Signatories agree that it is reasonable and appropriate for Texas Gas to seek recovery of incentive compensation expense according to the methodology approved by the Commission in GUD Nos. 9791 and 9902."
10. Texas Gas has incurred approximately \$219,700.72 in actual rate case expenses through August 31, 2013, as evidenced by the attached affidavit of Mr. Dane McKaughan. This amount includes legal expenses, outside expert consultant expenses, and public notice expenses. Estimated rate case expenses from September 1, 2013 through completion of this case are \$10,000. This amount includes or will include settlement negotiations, drafting settlement documents, support of settlement agreement before the Examiners and the Commission, and Commission Conference attendance. Assuming approval of this Settlement Agreement, total actual expenses and estimated expenses through the completion of the case are expected to be about \$229,700.72. The Signatories agree that this amount is reasonable and appropriately recoverable. Recovery of this amount over an estimated twenty-four month period results in a Rate Case Expense Surcharge of \$0.02072 per Ccf, as reflected in the Rate Case Expense Surcharge Rider attached as part of Exhibit A. Texas Gas shall recover estimated rate case expenses only to the extent they are actually incurred. Texas Gas shall not include an interest calculation in its recovery.
11. The tariffs presented in Exhibit A encompass all proposed and settled rate and tariff changes. The settled tariffs comply with the Commission's tariff rule, 7.315.
12. Staff conducted a thorough review of each Interim Rate Adjustment docket that is associated with this instant docket, GUD 10285. Those IRA dockets are 9800, 9871, 9996, 10035, and 10127. Staff examined each docket, which included a review of Staff's evaluation at the time each docket was filed, affirming the review process was complete. Staff affirmed that the amounts removed from each IRA filing was appropriate at that time. Staff reviewed the instant docket to affirm that any previously removed amounts were not included in this instant docket or, if included, that the utility had provided sufficient justification to include previously removed amounts in gas plant and the associated accumulated depreciation in this docket. Staff affirms that the amounts included in gross plant and the associated accumulated depreciation in this docket are reasonable and necessary under 7.7101(j). Staff affirms that refunds under Commission Rule 7.7101(i) are not recommended or necessary.
13. To the extent that approval of this Settlement Agreement is denied in whole or in part, Texas Gas reserves the right to update its rate case expenses associated with this proceeding.
14. The Signatories agree that the terms of the Settlement Agreement are interdependent and indivisible, and that if the Commission enters an order that is inconsistent with this Settlement Agreement, then any Signatory may withdraw without being deemed to have

waived any procedural right or to have taken any substantive position on any fact or issue by virtue of that Signatory's entry into the Settlement Agreement or its subsequent withdrawal.

15. The Signatories agree that all negotiations, discussion, and conferences related to the Settlement Agreement are privileged, inadmissible, and not relevant to prove or disprove any issues associated with the June 28, 2013, Statement of Intent filed by Texas Gas on behalf of its RGVSA Environs pursuant to Texas law.
16. The Signatories agree that neither this Settlement Agreement nor any oral or written statements or representations made during the course of settlement negotiations may be used for any purpose other than as necessary to support the entry by the Commission of an order implementing this Settlement Agreement.
17. The Signatories agree that this Settlement Agreement is binding on each Signatory only for the purpose of settling the issues set forth herein and for no other purposes, and, except to the extent the Settlement Agreement governs a Signatory's rights and obligations for future periods, this Settlement Agreement shall not be binding or precedential upon a Signatory outside this proceeding.
18. The Signatories agree that this Settlement Agreement may be executed in multiple counterparts and may be filed with facsimile signatures.

Agreed to this 26th day of September, 2013.

TEXAS GAS SERVICE COMPANY

By:


Dana McKaughan
Attorney for Texas Gas Service Company

RAILROAD COMMISSION STAFF

By:


John Pierce Griffin
Railroad Commission of Texas

Exhibit A to the proposed joint Settlement Agreement

Proposed Rate Case Expense (RCE) Rider and Withdrawn T-Gen

Exhibit A to the joint Settlement Agreement includes the signatories proposed tariffs, withdrawn T-GEN, and Rate Case Expense (RCE) Rider. The Examiners recommend adoption of the proposed tariffs, withdrawal of T-GEN, and adjustments to the RCE-Rider. The proposed tariffs were not copied, as they are the Examiners' Recommended Tariffs and are Attachment B to the proposed Final Order. The withdrawn T-GEN and RCE rider, as proposed, is included in this Exhibit A to the joint Settlement Agreement.

RATE CASE EXPENSE RATE

A. APPLICABILITY

The Rate Case Expense (RCE) rate as set forth in Section (B) below is pursuant to Gas Utilities Docket No. 10285: Statement of Intent Filed by Texas Gas Service Company to Change Rates in the Environs of the Rio Grande Valley Service Area, Final Order Finding of Fact No. . This rate shall apply to the following rate schedules of Texas Gas Service Company in the unincorporated areas served in Rio Grande Valley Area of Texas including Alamo, Alton, Bayview, Brownsville, Combes, Donna, Edcouch, Edinburg, Elsa, Harlingen, Hidalgo, La Feria, La Joya, La Villa, Laguna Heights, Laguna Vista, Los Fresnos, Lyford, McAllen, Mercedes, Mission, Monte Alto, Olmito, Palm Valley, Palmview, Penitas, Pharr, Port Isabel, Primera, Progreso, Rancho Viejo, Raymondville, Rio Hondo, San Benito, San Carlos, San Juan, Santa Rosa, and Weslaco, Texas: 1Z, 2Z, 3Z, 4Z, T-1 and T-2.

B. RCE RATE

All Ccf during each billing period: \$ 0.02072 per Ccf

This rate will be in effect for approximately 24-months until all approved and expended rate case expenses are recovered under the applicable rate schedules. Texas Gas Service Company will recover \$219,700.72 in actual expense and up to \$10,000.00 in estimated expense, not to exceed actual expense. Texas Gas Service Company will not include any interest calculations in the recovery. The Rate Case Expense Surcharge will be a separate line item on the bill.

C. OTHER ADJUSTMENTS

Taxes: Plus applicable taxes and fees (including franchise 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.

TEXAS GAS SERVICE COMPANY
Rio Grande Valley Service Area

RATE SCHEDULE T-GEN
Page 1 of 8

GENERAL CHARGES, PROVISIONS AND CONDITIONS

APPLICABILITY

Applicable to Transportation Rate Schedules.

TERRITORY

All areas served by the Company in its Rio Grande Valley Service Area.

ADDITIONAL CHARGES TO COST OF SERVICE RATE

During each monthly billing period, the following charges will be added in addition to any charges specifically stated on the applicable rate schedule:

Plus:

A charge representing the customer's proportionate share of lost and unaccounted (LAUF) gas volume within the Service Area. The customer's share of LAUF gas will be determined by multiplying (i) the actual volumes delivered to the customer by (ii) the purchase/sales ratio, minus one, for the Service Area for the twelve month period ended the preceding June 30, as defined in the Company's applicable Cost of Gas Clause (Rate Schedule 1 for the incorporated areas or Rate Schedule 1-ENV for the unincorporated areas). Purchase/sales ratios will be recalculated annually with the filing of the annual reconciliation required by the Company's Cost of Gas Clause, for application to deliveries commencing in the succeeding October.

The LAUF factor as determined above shall in no event exceed .0526 i.e. $[1/1-.05]-1$ and must fall within the range of zero (0) to 5.26%.

The Company will require the customer to satisfy its lost and unaccounted for obligation by payment in kind ("PIK"). PIK volumes will be added to the customer usage volume to equal the total amount of gas required to be delivered at the Company's receipt points and shall be included for purposes of calculating imbalances in accordance with Special Provision 6 below. For customers or qualified suppliers shipping excess gas off the distribution system, PIK shall in no event exceed 1%.

Plus:

A charge will be made each month to recover the cost of gross receipts taxes paid to the State of Texas pursuant to the provision of Article 6060 TEX. REV. CIV. STAT., as such may be amended from time to time, which are attributable to the transportation service performed hereunder.

Plus:

Any franchise fees, street rental fees, or other similar privilege fees attributable to the Company's services under this tariff and payable to any municipality wherein the customer receives gas delivered hereunder.

Plus: Additional charges may be made at the Company's sole discretion for compression, treating, or similar services if the customer or qualified supplier is shipping excess gas off the distribution system.

Initial - Supersedes Rate Sheet Dated
October 1, 1993 T-1 and T-2 (General Terms
and Conditions for Firm Transportation)

Meters Read On and After
July 31, 2006 (Incorporated)
July 15, 2009(Unincorporated)

Rate Schedule Withdrawn

TEXAS GAS SERVICE COMPANY
Rio Grande Valley Service Area

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GENERAL CHARGES, PROVISIONS AND CONDITIONS
(Continued)

ADDITIONAL CHARGES TO COST OF SERVICE RATE (Continued)

Plus:

Notwithstanding anything herein to the contrary, in addition to the Rates set forth above, the Company shall bill each transportation customer, in the incorporated area of McAllen only, a surcharge of \$0.12 per Mcf during the billing period in accordance with the Settlement Agreement dated March 10, 2003 and Amendment dated May 5, 2003 between the Company and the City of McAllen, Texas. The surcharge shall be effective only until the settlement payment allocated to transportation customers pursuant to the Settlement Agreement and Amendment is collected by the Company.

Plus:

Notwithstanding anything herein to the contrary, in addition to the Cost of Gas, the Company shall bill each transportation customer, in the incorporated areas of the Rio Grande Valley Service Area a rate case expense surcharge of \$0.00511 per Ccf during the billing period in accordance with the Settlement Agreement and Term Sheet dated July 10, 2006 and the applicable city ordinance by and among the Company and the Cities in regard to the Company's Statement of Intent to Increase rates filed on March 30, 2006. The rate case expense surcharge shall be effective only until the rate case expenses are collected.

Plus:

Interim Rate Adjustment: The basic rates for gas service shall include the amount of the Interim Rate Adjustment in accordance with the provisions of Rate Schedule IRA-ENV.

SPECIAL PROVISIONS

- 1. Definitions:** As used in this tariff, the following terms will have the meanings indicated:

Aggregation Pool – One or more transportation service accounts served by the same Qualified Supplier and aggregated pursuant to Special Provision 3 of this tariff for operational purposes, including, without limitation, nominating, scheduling and balancing gas deliveries at designated receipt points within the service area.

Cumulative Operational Imbalance (COI) – As of the effective date of this tariff, the initial COI for any Aggregation Pool shall be determined by aggregating the cumulative imbalances of all accounts participating in such Aggregation Pool, calculated as of the effective date of this tariff. Thereafter, the COI shall be adjusted to include MOI volumes which have not been cashed out pursuant to Section 6 below.

Initial - Supersedes Sheet Dated
October 1, 1993 T-1 and T-2 (General Terms
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GENERAL CHARGES, PROVISIONS AND CONDITIONS **(Continued)**

Cumulative Tolerance Limit – With respect to any Aggregation Pool, five percent (5%) of historical annual Deliveries to the participants of such pool for the most recent year ended on June 30. For new participants having no historical delivery information, such calculation shall be based on forecasted volumes which the Company determines to be reasonably reliable and reasonably accurate. The Cumulative Tolerance Limit will be adjusted annually in October. Upon request of a Qualified Supplier, prior to the commencement of any flow month, the Cumulative Tolerance Limit shall be adjusted prospectively to reflect changes to the Aggregation Pool and other known changes to anticipated volumetric loads that the Company determines to be reasonably reliable and reasonably accurate.

Monthly Operational Imbalance (MOI) – For any month, the difference between the aggregate Receipts for an Aggregation Pool and the sum of (i) the aggregate Deliveries for such Aggregation Pool during the same time period, and (ii) the aggregate PIK Volumes assessed for such period. The resulting volume shall be adjusted to reflect any PPA. Any PPA shall be included in the MOI calculation for the month during which the PPA is reported and the prior period MOI will not be recalculated due to PPA unless the PPA results in new or revised cash out charges.

Deliveries – Volumes of natural gas delivered to the customer's premises pursuant to this tariff.

Imbalance Volumes – The volume by which the Qualified Supplier's MOI exceeds the Monthly Tolerance Limit or the Qualified Supplier's COI exceeds the Cumulative Tolerance Limit.

Monthly Tolerance Limit – With respect to any Aggregation Pool, ten percent (10%) of the aggregate Deliveries for such month.

PIK Volumes – Volumes of gas to be delivered by the customer to the Company in satisfaction of the customer's LAUF gas obligation.

Prior Period Adjustment (PPA) – For any Aggregation Pool, a revision to the Receipts or Deliveries for any prior flow month which would result in an increase or decrease to the previously stated MOI for such month.

Receipts – Volumes of natural gas received into the Company's natural gas distribution system for delivery to a customer pursuant to this tariff.

Qualified Supplier – A supplier of natural gas for transportation to customers through the Company's natural gas distribution system who meets the requirements of Section 8 of this tariff and has a currently effective Supplier Service Agreement with the Company.

Supplier Service Agreement – a contract setting forth the terms upon which a supplier of natural gas may make deliveries of customer-owned gas into the Company's distribution system for delivery to one or more of the Company's customers taking service under this tariff.

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GENERAL CHARGES, PROVISIONS AND CONDITIONS
(Continued)

Transportation Agreement – a contract between the Company and the customer detailing the terms and conditions upon which the customer will receive service under this tariff.

Upstream Balancing Agreement – A contract between a Qualified Supplier and its gas supplier whereby such gas supplier agrees to retain imbalances upstream of the Company's natural gas distribution system.

- 2. Qualified Supplier Required** – As a condition of receiving service under this Rate Schedule, the customer must appoint no more than one Qualified Supplier for each agreement. The Qualified Supplier shall act on behalf of the customer to procure gas supplies and to deliver them to the receipt points designated in the relevant Transportation Agreement, and shall act as the Customer's agent with respect to nominations and operational notices required under the Customer's Transportation Agreement and with respect to the resolution of imbalances under this Rate Schedule. A customer that meets the requirements of Special Provision 8 below may act as its own Qualified Supplier.

2.1 Change of Qualified Supplier – The customer may change its Qualified Supplier effective only on the first day of the calendar month. The customer shall notify the Company in writing at least thirty (30) days in advance of any change of Qualified Supplier. Upon receipt of notification of change of supplier, the Company will verify notification of termination of current supplier, verify all documentation of qualification of new supplier is executed, and establish an effective date for the change.

- 3. Aggregation Pool** – The Qualified Supplier shall designate no more than one Aggregation Pool within the Service Area, and shall notify the Company as to the identity of the customer accounts comprising such Aggregation Pool. With respect to all accounts included in any Aggregation Pool, the Qualified Supplier shall (i) make nominations on an aggregated basis at least six (6) business days prior to the first of the calendar month; and (ii) resolve operational imbalances on an aggregated basis in accordance with Special Provision 6 below.

- 4. Customer Volume Information** – The Company shall supply to the Qualified Supplier, designated by the customer, information as to such customer's delivery volumes each month, with the imbalance statements described at Special Provision 6.4 below.

5. Imbalances

5.1 Monthly Imbalances – The Qualified Supplier shall not allow its MOI for any Aggregation Pool to exceed the Monthly Tolerance Limit in any month. In the event the MOI exceeds the Monthly Tolerance Limit, the parties shall resolve the value of such Imbalance Volumes using the cashout procedure set forth in Special Provision 6 below. MOI amounts that do not exceed the Monthly Tolerance Limit shall be added to the Qualified Supplier's COL.

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GENERAL CHARGES, PROVISIONS AND CONDITIONS
(Continued)

5.2 Cumulative Imbalances – The Qualified Supplier shall not allow its COI for any Aggregation Pool to exceed the Cumulative Tolerance Limit at any time. In the event the Qualified Supplier's COI exceeds the Cumulative Tolerance Limit, the parties shall resolve the value of such Imbalance Volumes using the cashout procedure set forth in Special Provision 6 below. The initial COI for any Aggregation Pool shall be calculated using the imbalance volumes attributable to the participants for the flow month immediately preceding the effective date hereof.

5.3 Upstream Imbalances – For purposes of Special Provisions 5 and 6 herein, no imbalances will be attributed to a Qualified Supplier on account of volumes delivered subject to an Upstream Balancing Agreement which has been acknowledged in writing by the upstream transporter retaining the imbalance.

6. Cashout Procedure

6.1 Over Deliveries – For MOI's or COI's where receipts exceed deliveries by more than the applicable tolerance limit, the Company shall pay to the Qualified Supplier an amount equal to: (i) the Imbalance Volume, stated in MMBtu, multiplied by 90% of the "Delivered Spot-Gas Prices Houston Ship Channel/Beaumont, Texas" Index (large packages only) as published in the first issue of *Inside F.E.R.C.'s Gas Market Report* for the month in which the applicable tolerance limit was exceeded.

6.2 Under Deliveries – For MOI's or COI's where deliveries exceed receipts by more than the applicable tolerance limit, the Qualified Supplier shall pay to the Company an amount equal to: (i) the Imbalance Volume, stated in MMBtu, multiplied by 110% of the "Delivered Spot-Gas Prices Houston Ship Channel/Beaumont, Texas" Index (large packages only) as published in the first issue of *Inside F.E.R.C.'s Gas Market Report* for the month in which the applicable tolerance limit was exceeded, plus (ii) any applicable franchise fees assessed on such payment by the municipality in which deliveries were made to participants in the Aggregation Pool which generated the Imbalance, plus (iii) any other taxes, user fees or other sums assessed on such payment by any governmental authority.

6.3 Exemption from Fees and Taxes – If the Qualified Supplier claims that any Imbalance volumes are exempt from applicable franchise fees, taxes, user fees or other governmental assessments, the Qualified Supplier shall provide to the Company such evidence of the exemption as the Company might reasonably require. In addition, the Qualified Supplier shall provide to the Company each month such supporting documentation as the Company may reasonably require to determine what portion of the payment described at Special Provision 6.2 above is exempt from such assessments.

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GENERAL CHARGES, PROVISIONS AND CONDITIONS **(Continued)**

- 6.4 Invoicing/Payment** – For each flow month, within thirty (30) days following the Company's receipt of volume statements from the upstream pipelines making deliveries into the Company's system for an Aggregation Pool, the Company shall provide to the Qualified Supplier an imbalance statement stating the MOI, COI, any resulting cashout payments as calculated pursuant to Sections 6.1 and 6.2 above, as well as usage and PIK volumes for each customer served by the supplier. Payments shall be due no later than fifteen (15) days following the invoice date.
- 6.5 Effect of Cashout on PGA** – All amounts accrued under this Special Provision 6 excluding franchise fees and sales tax if found to be applicable shall be recorded to the PGA "Reconciliation Account" as defined in Rate Schedule 1 for the incorporated areas or Rate Schedule 1-ENV for the unincorporated areas.
- 6.6 Allocation to Pool Participants** – The Qualified Supplier shall be responsible for collecting from or remitting to its customers all funds received or paid under this Special Provision 6 that are due to or from the customer.
- 7. Company's Liability for Cashout** – The Company shall have no liability to any customer in connection with the failure of the customer's Qualified Supplier to remit to the customer any cashout payment made by the Company to the Qualified Supplier.
- 8. Supplier Qualifications** – The Company may refuse to accept deliveries of gas into its system from any supplier who has failed to meet the following conditions:
- 8.1 Financial Integrity** – The Company shall have the right to establish reasonable financial and non-discriminatory credit standards for Qualified Suppliers. Any supplier desiring to become a Qualified Supplier must submit to the Company an audited balance sheet and financial statements for the previous three (3) years, along with two (2) trade and at least one (1) banking reference. To the extent that such information is not publicly available, the supplier shall supply the Company with a list of all corporate affiliates, parent companies, subsidiaries and affiliated partnerships. Any supplier who becomes a Qualified Supplier must provide updated financial information at the Company's request.
- 8.2 Credit Enhancement** – In the event a supplier fails to demonstrate to the Company's reasonable satisfaction that it has met the Company credit standards, the Company shall require such supplier to provide one of the following: (i) a cash deposit; (ii) an irrevocable letter of credit issued by a commercial bank reasonably acceptable to the Company; (iii) a surety bond issued by a reputable insurance company listed in AM Best's Insurance Ratings with a rating of "B+ VII" or better, and authorized to engage in the business of insurance in the State of Texas; or (iv) a financial guaranty from a guarantor who meets the Company's credit standards.

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GENERAL CHARGES, PROVISIONS AND CONDITIONS

(Continued)

8.3 Termination of Qualified Supplier – The Company shall have the right to terminate a Qualified Supplier's Supplier Service Agreement and its eligibility to make deliveries into the Company's local distribution system in the event that such Qualified Supplier fails to comply with or perform any of the obligations on its part established in this tariff or in the Supplier Service Agreement. Notice shall be given to the Qualified Supplier no less than ten days prior to the end of the calendar month, and shall be effective upon the first day of the succeeding month unless, within such ten day period, the Qualified Supplier shall remedy such failure to the full satisfaction of the Company. Termination of such Qualified Supplier's eligibility and its Supplier Service Agreement shall not release the Qualified Supplier from its obligation to make payments due to the Company for transactions occurring prior to the effective date of termination.

9. Withdrawal of Qualified Supplier – If a Qualified Supplier ceases for any reason (including the Company's termination of the Supplier Service Agreement) to supply customers within the Service Area, the final COI for the affected Aggregation Pool shall be calculated as of the end of the flow month in which such cessation occurs, and shall be cashed out as follows:

9.1 Over Deliveries – For final COI's where receipts exceed deliveries, the Company shall pay to the Supplier an amount equal to: (i) the final COI volume, stated in MMBtu, multiplied by 90% of the "Delivered Spot-Gas Prices Houston Ship Channel/Beaumont, Texas" Index (large packages only) as published in the first issue of *Inside F.E.R.C.'s Gas Market Report* for the month for which the final COI was calculated.

9.2 Under Deliveries – For final COI's where deliveries exceed receipts limit, the Supplier shall pay to the Company an amount equal to: (i) the final COI volume, stated in MMBtu, multiplied by 110% of the "Delivered Spot-Gas Prices Houston Ship Channel/Beaumont, Texas" Index (large packages only) as published in the first issue of *Inside F.E.R.C.'s Gas Market Report* for the month in which the month for which the final COI was calculated, plus (ii) any applicable franchise fees assessed on such payment by the municipality in which deliveries were made to participants in the Aggregation Pool which generated the Imbalance, plus (iii) any other taxes, user fees or other sums assessed on such payment by any governmental authority.

9.3 Invoicing/Payment – The final cashout payment shall be invoiced and paid in accordance with Special Provision 6.4 above.

9.4 Continued Service – Upon the withdrawal of a Qualified Supplier, at the customer's request, the Company shall provide continued service under the applicable general service rate schedule until the customer designates a successor Qualified Supplier. In the event sales service commences on any day other than the first day of a calendar month, all volumes delivered to the customer within such month shall be deemed sales volumes for purposes of invoicing the customer and for calculating the final COI. Such sales shall be subject to curtailment plans approved from time to time by the Railroad Commission of Texas or in the absence of an applicable plan, consistent with Transporter's policies regarding curtailment and stand-by supplies of transport gas, as such policies may change in Transporter's reasonable discretion.

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GENERAL CHARGES, PROVISIONS AND CONDITIONS
(Continued)

CONDITIONS

1. Services rendered under this tariff are subject in all respects to applicable laws, rules, and regulations from time-to-time in effect.
2. All volumes of gas transported pursuant to this tariff shall be natural gas of equal or higher quality than natural gas currently available from the Company's supplier(s). All gas delivered to the customer shall be deemed to be the same quality as that gas received by the Company for transportation.
3. Service under this tariff is conditioned upon the customer's execution of and subject in all respects to the terms and conditions of the Transportation Agreement and all amendments and modifications thereto.
4. Transportation of natural gas hereunder may be interrupted or curtailed to preserve the operational safety, reliability, or integrity of the distribution system on the basis of shortage or threatened shortage of gas supply from any cause whatsoever, to conserve gas for residential and other higher priority customers served. The curtailment priority of any customer served under this schedule shall be the same as the curtailment priority established for other customers served pursuant to the Company's applicable general service rate schedule which would otherwise be available to such customer.
5. The Company shall have the right to terminate service under this tariff in the event the customer is no longer served by a Qualified Supplier. Termination of service shall not relieve the customer of any liability accrued prior to the effective date of such termination. The Company shall provide continued service under the applicable general service rate schedule until the customer designates a successor Qualified Supplier. In the event sales service commences on any day other than the first day of a calendar month, all volumes delivered to the customer within such month shall be deemed sales volumes for purposes of invoicing the customer and for calculating the final COL. Such sales shall be subject to curtailment plans approved from time to time by the Railroad Commission of Texas or in the absence of an applicable plan, consistent with Transporter's policies regarding curtailment and stand-by supplies of transport gas, as such policies may change in Transporter's reasonable discretion.
6. If applicable, air conditioning equipment must be inspected and verified as safe and in service by qualified company personnel.

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Exhibit B to the proposed joint Settlement Agreement

Plant in Service and Depreciation Rates

TEXAS GAS SERVICE COMPANY
RIO GRANDE VALLEY SERVICE AREA
TWELVE MONTHS ENDED DECEMBER 31, 2012

LINE NO.	DESCRIPTION	TOTAL RGV AREA PLANT	TOTAL RGV AREA CCNC	TOTAL RGV AREA PLANT AND CCNC	TOTAL RGV AREA ACCUMULATED DEPRECIATION	TOTAL RGV AREA NET PLANT
INTANGIBLE PLANT						
1	(301) Organization	\$0	\$0	\$0	\$0	\$0
2	(302) Franchises & Consents	0	0	0	0	0
3	(303) Misc. Intangible	0	0	0	0	0
4	Total Intangible Plant	\$0	\$0	\$0	\$0	\$0
GATHERING AND TRANSMISSION PLANT						
5	(325) Land & Land Rights	\$19,858	\$0	\$19,858	\$0	\$19,858
6	(327) Field Compres Station Structures	0	0	0	0	0
7	(328) Field Meas/Reg Station Structures	2,640	0	2,640	578	2,064
8	(329) Other Structures	1	0	1	0	1
9	(332) Field Lines	543,422	0	543,422	118,561	424,861
10	(333) Field Compressor Station Equip	0	0	0	0	0
11	(334) Field Meas/Reg Station Equipment	74,834	0	74,834	18,284	58,551
12	(336) Purification Equip	1,488	0	1,488	324	1,162
13	(337) Other Equip	21,748	0	21,748	4,744	17,002
14	(365) Land & Land Rights	41,200	0	41,200	0	41,200
15	(368) Meas/Reg Station Structures	169,380	0	169,380	26,529	142,850
16	(367) Mains	7,889,289	2,841,631	10,730,920	(2,238,422)	12,967,342
17	(368) Compressor Station Equip	26,823	0	26,823	5,932	20,891
18	(369) Measure/Reg. Station Equipment	3,422,271	1,079,940	4,502,212	(786,110)	5,288,321
19	(371) Other Equipment	156,540	1,638	158,177	(10,888)	168,863
20	Total Gathering and Transmission Plant	\$12,389,088	\$3,923,209	\$16,292,297	(\$2,860,269)	\$19,152,556
DISTRIBUTION PLANT						
21	(374) Land & Land Rights	\$40,409	\$0	\$40,409	\$38,497	\$1,911
22	(375) Structures & Improvements	103,433	72,141	175,574	80,064	95,510
23	(376) Mains	36,936,993	1,072,531	38,011,524	11,061,608	28,949,915
24	(377) Compressor Station Equipment	0	0	0	0	0
25	(378) Meas. & Reg. Station - General	2,808,818	178,381	2,988,199	308,295	2,681,904
26	(379) Meas. & Reg. Station - C.G.	440,430	395,980	836,411	(35,820)	872,231
27	(380) Services	21,085,278	47,080	21,132,358	7,760,844	13,371,514
28	(381) Meters	8,386,182	215,558	8,601,740	5,641,719	2,960,021
29	(382) Meter Installations	0	495	495	3,098	(2,603)
30	(383) House Regulators	7,017,900	44,915	7,062,815	7,390,185	(327,350)
31	(385) Indust. Meas. & Reg. Stat. Equipment	242,888	0	242,888	(125,411)	368,280
32	(386) Other Property on Customer Premises	8,144	0	8,144	5,885	259
33	(387) Meas. & Reg. Stat. Equipment	206,871	0	206,871	232,318	(25,447)
34	Total Distribution Plant	\$77,277,326	\$2,028,082	\$79,305,407	\$32,359,262	\$46,946,145
GENERAL PLANT						
35	(389) Land & Land Rights	\$130,471	\$0	\$130,471	\$0	\$130,471
36	(390) Structures & Improvements	1,360,899	268,637	1,627,537	717,610	909,928
37	(391) Office Furniture & Equipment	3,833,855	961,336	4,795,191	2,185,974	2,609,217
38	(392) Transportation Equipment	1,436,539	298,817	1,735,356	444	1,734,912
39	(393) Stores Equipment	35,885	0	35,885	28,100	9,785
40	(394) Tools, Shop & Garage	1,940,566	173,498	2,114,064	696,237	1,417,827
41	(395) CNG Equipment	0	0	0	0	0
42	(396) Major Work Equipment	233,674	65,005	298,679	245,809	52,870
43	(397) Communication Equipment	922,305	0	922,305	257,078	665,227
44	(398) Miscellaneous General Plant	4,210	0	4,210	3,506	704
45	Total General Plant	\$9,898,405	\$1,765,293	\$11,663,698	\$4,132,758	\$7,530,939
46	Total	\$99,544,819	\$7,716,583	\$107,261,402	\$33,631,752	\$73,629,650
				\$107,261,402		\$73,629,650

TEXAS GAS SERVICE COMPANY
RIO GRANDE VALLEY SERVICE AREA
TWELVE MONTHS ENDED DECEMBER 31, 2012

LINE NO.	DESCRIPTION	ANNUAL DEPRECIATION RATES - DIRECT	ANNUAL DEPRECIATION RATES - DIVISION
<u>INTANGIBLE PLANT</u>			
1	(301) Organization	0.0000%	
2	(302) Franchises & Consents	0.0000%	
3	(303) Misc. Intangible	0.0000%	
4	Total Intangible Plant		
<u>GATHERING AND TRANSMISSION PLANT</u>			
5	(325) Land & Land Rights	0.0000%	
6	(327) Field Compres Station Structures	5.0000%	
7	(328) Field Meas/Reg Station Structures	5.0000%	
8	(329) Other Structures	5.0000%	
9	(332) Field Lines	5.0000%	
10	(333) Field Compressor Station Equip	5.0000%	
11	(334) Field Meas/Reg Station Equipment	5.0000%	
12	(336) Purification Equip	5.0000%	
13	(337) Other Equip	5.0000%	
14	(365) Land & Land Rights	0.0000%	
15	(366) Meas/Reg Station Structures	2.9800%	
16	(367) Mains	1.9600%	
17	(368) Compressor Station Equip	2.5200%	
18	(369) Measure/Reg. Station Equipment	2.4800%	
19	(371) Other Equipment	2.2900%	
20	Total Gathering and Transmission Plant		
<u>DISTRIBUTION PLANT</u>			
21	(374) Land & Land Rights	0.0000%	
22	(375.1) Structures & Improvements	2.6800%	
23	(375.2) Other System Structures	2.1800%	
24	(376) Mains	1.4900%	
25	(377) Compressor Station Equipment	0.0000%	
26	(378) Meas. & Reg. Station - General	1.4500%	
27	(379) Meas. & Reg. Station - C.G.	1.4800%	
28	(380) Services	1.5900%	
29	(381) Meters	0.7300%	
30	(382) Meter Installations	3.4700%	
31	(383) House Regulators	-0.6500%	
32	(385) Indust. Meas. & Reg. Stat. Equipment	1.5400%	
33	(386) Other Property on Customer Premises	1.0600%	
34	(387) Meas. & Reg. Stat. Equipment	-19.9700%	
35	Total Distribution Plant		
<u>GENERAL PLANT</u>			
36	(389) Land & Land Rights	0.0000%	
37	(390) Structures & Improvements	1.9500%	
38	(391.1) Office Furniture & Equipment	6.6667%	6.6600%
39	(391.9) Computers & Electronic Equipment	14.2860%	4.0600%
40	(392) Transportation Equipment	0.0000%	
41	(393) Stores Equipment	6.6667%	
42	(394) Tools, Shop & Garage	6.6667%	6.6700%
43	(395) CNG Equipment	0.0000%	
44	(396) Major Work Equipment	0.0000%	
45	(397) Communication Equipment	6.6667%	6.6600%
46	(398) Miscellaneous General Plant	6.6667%	6.6700%
47	Total General Plant		

Exhibit C to the proposed joint Settlement Agreement

**Affidavit on Rate Case Expense
Michael Dane McKaughan, Jr.**

GUD NO. 10285

**STATEMENT OF INTENT OF
TEXAS GAS SERVICE COMPANY
TO INCREASE GAS UTILITY RATES
WITHIN THE UNINCORPORATED
AREAS OF THE RIO GRANDE
VALLEY SERVICE AREA**

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§

**BEFORE THE
RAILROAD COMMISSION
OF TEXAS**

AFFIDAVIT OF MICHAEL DANE MCKAUGHAN, JR.

Before me, the undersigned authority, on this date personally appeared Michael Dane McKaughan, Jr., known to me to be the person whose name is subscribed below, and being by me first duly sworn, stated upon oath as follows:

"My name is Michael Dane McKaughan, Jr. I am a partner in the Austin, Texas law firm of Parsley Coffin Renner LLP, and have practiced law in Travis County since 1998. I have extensive experience representing and defending clients before the Railroad Commission of Texas and Public Utility Commission of Texas. I am over 18 years of age, of sound mind, and fully competent to make this affidavit. Each statement of fact herein is true and of my own personal knowledge.

I am counsel of record for Texas Gas Service Company, a division of ONEOK, Inc. ("Texas Gas" or the "Company") in Gas Utilities Docket No. 10285. Attached as Exhibit 1 to this Affidavit are legal invoices documenting the amount of rate case expenses incurred by Texas Gas in this docket through August 31, 2013, which amount is \$167,533.17. This amount includes legal expenses incurred preparing the filing, reviewing witness testimony, discovery, hearing attendance, settlement negotiations, and other litigation at the Commission. I have reviewed the billings of Parsley Coffin Renner LLP submitted to Texas Gas for legal services performed in GUD No. 10285 through August 31, 2013, and I affirm that those billings accurately reflect the time spent and expenditures incurred by Parsley Coffin Renner LLP on Texas Gas' behalf.

The attorneys billing on the file have hourly rates of between \$350 and \$500, with the majority of the time billed by myself. My hourly billing rate is \$380, which is within the range deemed reasonable in prior rate cases for lawyers having similar experience providing similar services. The hours spent to perform the tasks assigned to Parsley Coffin Renner LLP were necessary to complete those tasks in a professional manner on a timely basis. The nature of the work performed is typical of a contested rate proceeding such as this. This is the first full cost of service proceeding for the Rio Grande Valley environs since 2007. Given the small number of customers impacted by the new rates and the rate case expenses, efforts were taken to minimize costs. However, Texas Gas must follow the same required procedures and meet the same burden of proof regardless of the number of customers impacted. Notably, the filing of this case was required by TEX. UTIL. CODE § 104.301, and pursuant to that statute the Company was required to put forward a full cost of service case in addition to reconciling incremental capital investment from prior Interim Rate Adjustment filings. Thus, the transaction costs associated with this docket were legally necessary and largely unavoidable.

In addition to legal expenses, Texas Gas incurred expenses to hire outside experts to aid in preparing its case. Specifically, Dr. Bruce Fairchild performed a cost of capital analysis and prepared direct testimony. Ms. Janet Simpson worked closely with the Company in developing its cost of service, sponsored the majority of the cost of service schedules, and prepared direct testimony on accounting issues. Dr. Fairchild and Ms. Simpson's expenses are \$7,175.00 and \$43,230.00, respectively. Consulting invoices documenting these amounts are also included in Exhibit 1. In my experience, these expenses fall well within the range of reasonableness for experienced experts performing similar tasks and providing similar work product. The total amount of outside consultant fees is \$50,405.00.

In addition to the amounts incurred through August 31, 2013, Texas Gas will incur additional legal expenses to complete the case. Work performed for completion of the case includes preparing and finalizing settlement documents, presentation of settlement to Examiners, potential discovery and briefing before the Examiners, and attending Commission conferences. Based on my experience in administrative proceedings, including proceedings in which the parties seek approval of a Unanimous Settlement Agreement as in this case, I estimate that legal expenses from September 1, 2013 through completion of the case will be approximately \$10,000. Texas Gas requests that the Commission authorize recovery of a total amount of legal and consulting expense related to this docket of \$227,938.17. Texas Gas will supplement this filing with additional invoices as they are processed. Texas Gas seeks recovery only of those expenses that are actually incurred, and any rate case expense surcharge will collect from ratepayers only the amount actually incurred and authorized by the Commission. This legal expense estimate presumes adoption by the Commission of the Settlement Agreement and no appeal of the Commission order. To the extent the Commission does not adopt the Settlement Agreement and the docket must be litigated through hearing and briefing and/or appealed to Travis County District Court, I estimate that Texas Gas will incur approximately \$75,000-\$100,000 in additional legal expenses. Texas Gas reserves the right to revise this estimate to the extent that additional litigation becomes necessary.

In addition to legal and consultant expenses, Texas Gas incurred other rate case expenses, which include expenses regarding public notice. Texas Gas provided notice by direct mail as required by GURA § 104.103(b)(1), as explained in the affidavit of Ms. Janet Buchanan. Costs incurred to direct mail the notice equaled \$1,762.55 and an invoice documenting this amount is included in Exhibit 1. The provision of public notice is required by statute, and the Company reasonably controlled costs by providing direct mail rather than publishing the notice in local newspapers. Thus, the total amount of rate case expenses incurred through August 31, 2013, inclusive of legal and consultant fees is \$219,700.72. The total actual and estimated rate case expenses through completion of the case, inclusive of legal and consultant fees, is \$229,700.72, which is reflected in the Unanimous Settlement Agreement. Again, this presumes approval of the Unanimous Settlement Agreement and no appeal by a party of the Commission decision, and this amount may need to be revised if additional litigation is required. It is my opinion that this amount is reasonable and meets the standard for recovery set forth in Commission Rule 7.3330."


Dane McKaughan

SWORN AND SUBSCRIBED before me on this 23rd day of September, 2013.



Shelley Morgan
Notary Public in and for the State of Texas

Exhibit D to the proposed joint Settlement Agreement

TGS RGSVA Rates Current and Proposed (R&C)

GUD 10285 - TGS RGVSA Rates Current & Proposed (R&C)

Residential	Incorporated	
	Current	
Customer Charge	\$	11.25
All Ccf	\$	0.4712
Mcf	\$	4.712

Commercial		
Customer Charge	\$	31.25
All Ccf	\$	0.3442
Mcf	\$	3.442

Environs					
Current		Proposed		Settlement	
\$	12.08	\$	12.08	\$	12.08
\$	0.1635	\$	0.2303	\$	0.1784
\$	1.635	\$	2.303	\$	1.784

\$	41.67	\$	41.67	\$	41.67
\$	0.1450	\$	0.1960	\$	0.1796
\$	1.450	\$	1.960	\$	1.796

Residential Consumption Comparison

Cost of Gas/Mcf (COG)	\$	2.8530
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Environs:

Usage (Mcf)	Base Rates			COG Included		
	Current	Proposed	Settlement	Current	Proposed	Settlement
1	\$ 13.72	\$ 14.38	\$ 13.86	\$ 16.57	\$ 17.24	\$ 16.72
1.4	\$ 14.37	\$ 15.30	\$ 14.58	\$ 18.36	\$ 19.30	\$ 18.57
2	\$ 15.35	\$ 16.69	\$ 15.65	\$ 21.06	\$ 22.39	\$ 21.35
3	\$ 16.99	\$ 18.99	\$ 17.43	\$ 25.54	\$ 27.55	\$ 25.99
4	\$ 18.62	\$ 21.29	\$ 19.22	\$ 30.03	\$ 32.70	\$ 30.63
5	\$ 20.26	\$ 23.60	\$ 21.00	\$ 34.52	\$ 37.86	\$ 35.27
6	\$ 21.89	\$ 25.90	\$ 22.78	\$ 39.01	\$ 43.02	\$ 39.90
7	\$ 23.53	\$ 28.20	\$ 24.57	\$ 43.50	\$ 48.17	\$ 44.54
8	\$ 25.16	\$ 30.50	\$ 26.35	\$ 47.98	\$ 53.33	\$ 49.18
9	\$ 26.80	\$ 32.81	\$ 28.14	\$ 52.47	\$ 58.48	\$ 53.81

Incorporated:

Usage (Mcf)	Current		Current - COG Included	
1	\$	15.96	\$	18.82
1.4	\$	17.85	\$	21.84
2	\$	20.67	\$	26.38
3	\$	25.39	\$	33.95
4	\$	30.10	\$	41.51
5	\$	34.81	\$	49.08
6	\$	39.52	\$	56.64
7	\$	44.24	\$	64.21
8	\$	48.95	\$	71.77
9	\$	53.66	\$	79.34

* 1.4 Mcf identified by TGS as average level of Residential consumption.

GUD 10285 - Environs Rates

Cost of Gas/Mcf (COG)	Current	Proposed	Settlement
	\$ 2.8530		

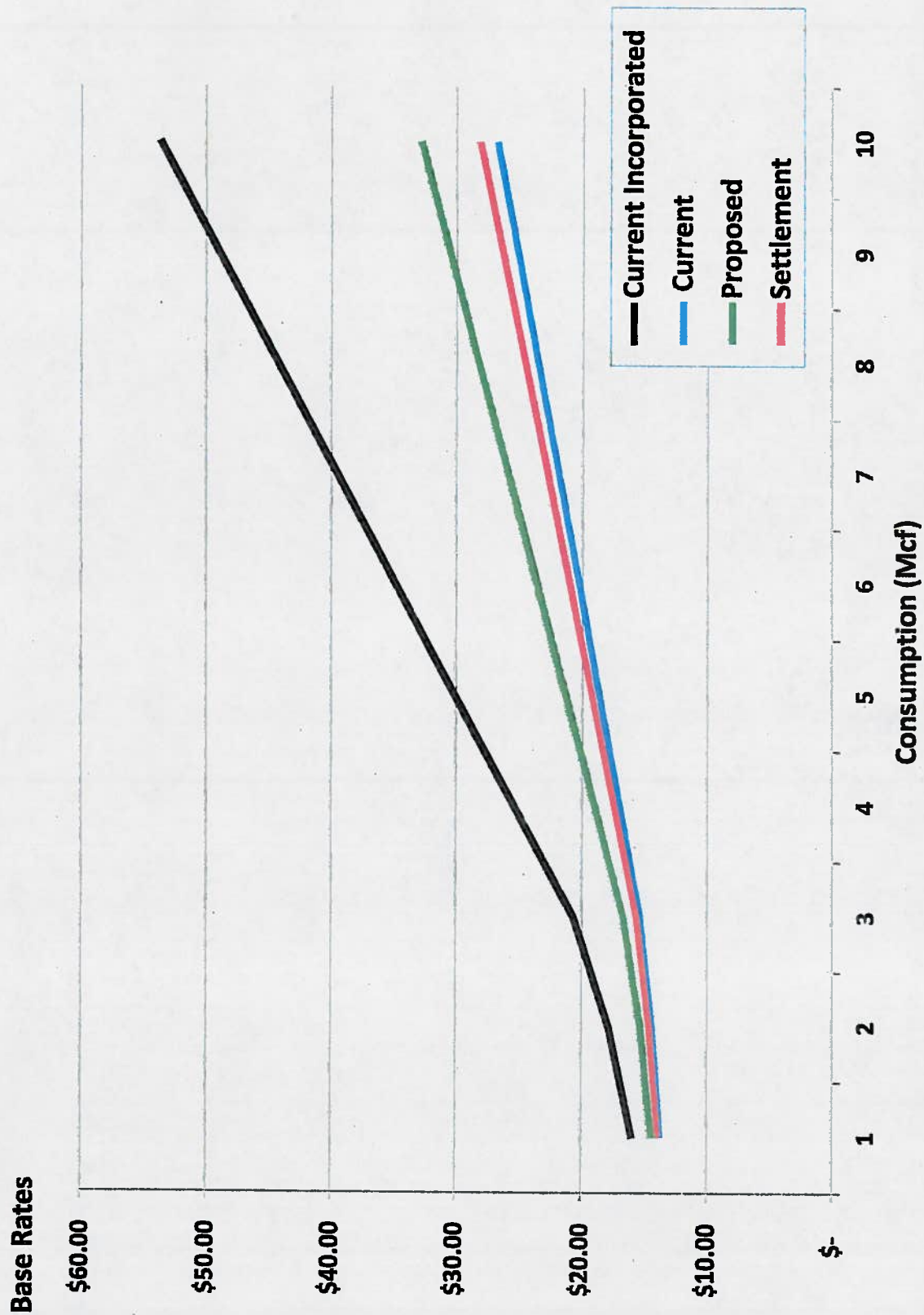
Residential							
Customer Charge	\$	12.08	\$	12.08	\$	12.08	\$ 12.08
All Ccf	\$	0.1635	\$	0.2303	\$	0.1784	\$ 0.1784
Mcf	\$	1.635	\$	2.303	\$	1.784	\$ 1.784
Commercial							
Customer Charge	\$	41.67	\$	41.67	\$	41.67	\$ 41.67
All Ccf	\$	0.1450	\$	0.1796	\$	0.1796	\$ 0.1796
Mcf	\$	1.450	\$	1.796	\$	1.796	\$ 1.796

GUD 10285 Environs Rates

Residential	Base Rates				With COG			
	Environs				Environs			
	Current	Proposed	Settlement	Current	Proposed	Settlement	% Increase in Base Rates under Settlement	
Usage (Mcf)	Incorporated	Current	Proposed	Settlement	Incorporated	Current	Proposed	Settlement
1	\$ 15.96	\$ 13.72	\$ 14.38	\$ 13.86	\$ 18.82	\$ 16.57	\$ 17.24	\$ 16.72
1.4	\$ 17.85	\$ 14.37	\$ 15.30	\$ 14.58	\$ 21.84	\$ 18.36	\$ 19.30	\$ 18.57
2	\$ 20.67	\$ 15.35	\$ 16.69	\$ 15.65	\$ 26.38	\$ 21.06	\$ 22.39	\$ 21.35
3	\$ 25.39	\$ 16.99	\$ 18.99	\$ 17.43	\$ 33.95	\$ 25.54	\$ 27.55	\$ 25.99
4	\$ 30.10	\$ 18.62	\$ 21.29	\$ 19.22	\$ 41.51	\$ 30.03	\$ 32.70	\$ 30.63
5	\$ 34.81	\$ 20.26	\$ 23.60	\$ 21.00	\$ 49.08	\$ 34.52	\$ 37.86	\$ 35.27
6	\$ 39.52	\$ 21.89	\$ 25.90	\$ 22.78	\$ 56.64	\$ 39.01	\$ 43.02	\$ 39.90
7	\$ 44.24	\$ 23.53	\$ 28.20	\$ 24.57	\$ 64.21	\$ 43.50	\$ 48.17	\$ 44.54
8	\$ 48.95	\$ 25.16	\$ 30.50	\$ 26.35	\$ 71.77	\$ 47.98	\$ 53.33	\$ 49.18
9	\$ 53.66	\$ 26.80	\$ 32.81	\$ 28.14	\$ 79.34	\$ 52.47	\$ 58.48	\$ 53.81

* 1.4 Mcf identified by TGS as average level of Residential consumption.

Comparison of Current & Proposed Environs Rates - RGVSA



Final Order

Attachment B

Examiners' Recommended Tariffs and Rate Case Expense (RCE) Rider

RESIDENTIAL SERVICE RATE

APPLICABILITY

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

TERRITORY

All customers in the unincorporated areas served by the Company in its Rio Grande Valley Service Area.

COST OF SERVICE RATE

During each monthly billing period:

A Customer Charge per meter per month of	\$12.08 plus -
Interim Rate Adjustments (IRA)	\$ per month (Footnote 1)
Total Customer Charge	\$12.08 per month

All Ccf per monthly billing period @ \$ 0.1784 per Ccf

OTHER ADJUSTMENTS

In addition to the Cost of Service set forth above, each customer's bill shall include the following adjustments:

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

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

Taxes: Plus applicable taxes and fees related to above.

CONDITIONS

Subject in all respects to applicable laws, rules, and regulations from time to time in effect.

Footnote:

COMMERCIAL SERVICE RATE

APPLICABILITY

Applicable to commercial consumers and to consumers not otherwise specifically provided for under any other rate schedule.

TERRITORY

All customers in the unincorporated areas served by the Company in its Rio Grande Valley Service Area.

COST OF SERVICE RATE

During each monthly billing period:

A Customer Charge per meter per month of	\$41.67 plus (For Commercial Service)
Interim Rate Adjustments (IRA)	\$ per month (Footnote 1)
Total Customer Charge	\$41.67 per month

A Customer Charge per meter per month of	\$29.17 plus (For Church Service)
Interim Rate Adjustments (IRA)	\$ per month (Footnote 2)
Total Customer Charge	\$29.17 per month

All Ccf per monthly billing period @ \$ 0.1769 per Ccf

OTHER ADJUSTMENTS

In addition to the Cost of Service set forth above, each customer's bill shall include the following adjustments:

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

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

Taxes: Plus applicable taxes and fees related to above.

CONDITIONS

1. Subject in all respects to applicable laws, rules, and regulations from time to time in effect.
2. Delivery of Gas hereunder may be interrupted or curtailed at the discretion of the Company, in case of shortage or threatened shortage of gas supply from any cause whatsoever, to conserve gas for residences, hospitals, schools, churches, and other human needs customers as prioritized in the Company's approved Curtailment Program.

Footnote 1

Footnote 2

INDUSTRIAL SERVICE RATE

APPLICABILITY

Service under this rate schedule is available to any customer whose primary business activity at the location served is included in one of the following classifications of the Standard Industrial Classification Manual of the U.S. Government.

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

TERRITORY

All customers in the unincorporated areas served by the Company in its Rio Grande Valley Service Area.

COST OF SERVICE RATE

During each monthly billing period:

A Customer Charge per meter per month of	\$74.02 plus -
Interim Rate Adjustments (IRA)	\$ per month (Footnote 1)
Total Customer Charge	\$74.02 per month

All Ccf per monthly billing period @ \$0.1648 per Ccf

OTHER ADJUSTMENTS

In addition to the Cost of Service set forth above, each customer's bill shall include the following adjustments:

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

Taxes: Plus applicable taxes and fees related to above.

CONDITIONS

1. Subject in all respects to applicable laws, rules, and regulations from time to time in effect.
2. Delivery of gas hereunder may be interrupted or curtailed at the discretion of the Company, in case of shortage or threatened shortage of gas supply from any cause whatsoever, to conserve gas for residences, hospitals, schools, churches, and other human needs customers as prioritized in the Company's approved Curtailment Program.

Footnote 1:

Supersedes Same Sheet Dated
July 15, 2009

Meters Read On and After

PUBLIC AUTHORITY SERVICE RATE

APPLICABILITY

Applicable to all public and parochial schools and colleges, and to all facilities operated by Governmental agencies not specifically provided for in other rate schedules or special contracts.

TERRITORY

All customers in the unincorporated areas served by the Company in its Rio Grande Valley Service Area.

COST OF SERVICE RATE

During each monthly billing period:

A Customer Charge per meter per month of	\$45.51 plus –
Interim Rate Adjustments (IRA)	\$ per month (Footnote 1)
Total Customer Charge	\$45.51 per month

All Ccf per monthly billing period @ \$0.1869 per Ccf

OTHER ADJUSTMENTS

In addition to the Cost of Service set forth above, each customer's bill shall include the following adjustments:

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

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

Taxes: Plus applicable taxes and fees related to above.

CONDITIONS

1. Subject in all respects to applicable laws, rules, and regulations from time to time in effect.
2. Delivery of gas hereunder may be interrupted or curtailed at the discretion of the Company, in case of shortage or threatened shortage of gas supply from any cause whatsoever, to conserve gas for residences, hospitals, schools, churches, and other human needs customers as prioritized in the Company's approved Curtailment Program.

Footnote 1:

TRANSPORTATION SERVICE RATE

APPLICABILITY

Service under this rate schedule is available to any customer of Texas Gas Service Company ("Company") and to Qualified Suppliers or Producers supplying natural gas to be transported, pursuant to Rate Schedule T-GTC (General Terms and Conditions) for the transportation of customer owned natural gas through the Company's Rio Grande Valley distribution system for use by customers within the Company's Rio Grande Valley's Service Area or delivered to connecting pipelines. The customer must arrange with its gas supplier to have the customer's gas delivered to one of the Company's existing receipt points for transportation by the Company to the customer's facilities at the customer's delivery point. The receipt points shall be specified by the Company at its reasonable discretion, taking into consideration available capacity, operational constraints, and integrity of the distribution system.

Prior to the execution of a Gas Transportation Service Agreement, customer must represent and certify that its usage shall average five hundred (500) Mcf of gas per month or six thousand (6,000) Mcf annually. The Company shall have the right at all reasonable times, upon prior notice to Customer, to enter onto Customer's premises and inspect Customer's facilities and operations to verify such capability. Customer must agree to notify the Company within a reasonable time if there is any change in Customer's usage. Should Customer's usage capability average less than five hundred (500) Mcf per month or six thousand (6,000) Mcf annually, Customer must so notify the Company and the Company may discontinue service hereunder except as provided in the Gas Transportation Service Agreement.

AVAILABILITY

Natural gas service under this rate schedule is available to any qualified individually metered, transport customer for the transportation of customer owned natural gas through the Company's Rio Grande Valley distribution system. Such service shall be provided at any point on the Company's System where adequate capacity and gas supply exists, or where such capacity and gas supply can be provided in accordance with the applicable rules and regulations and at a reasonable cost as determined by the Company in its sole opinion.

Electronic flow measurement (EFM) may be required for Customers under this tariff at the Company's sole discretion. The customer may be required to reimburse the Company for any cost related to the installation of the EFM as well as provide for or reimburse the Company for any on-going maintenance, repair, or communications costs. In the alternative, Customer may elect to discontinue service under this tariff and to receive service under the applicable sales tariff.

TEXAS GAS SERVICE COMPANY
Rio Grande Valley Service Area

RATE SCHEDULE T-1
Page 2 of 3

Service is not available under this rate schedule for resale to others or for service for a term less than twelve (12) months.

Under this tariff the Company shall perform or cause to be performed all functions necessary to transport the gas commodity from the Point of Receipt to the end use Customer. The Customer is responsible for acquiring the gas commodity from a third party supplier. Such gas supply must be delivered to the pipeline providing upstream services for the system from which the Customer is served.

Customer shall deliver to Company each month, as reimbursement for lost and unaccounted for gas in the form of Payment in Kind (PIK), a volume of gas equal to the Purchase/Sales ratio authorized to be collected in the Cost of Gas clause times the volume of gas delivered by the Company for the account of Customer for transportation.

TERRITORY

All areas served by the Company in its Rio Grande Valley Service Area.

RATE

This rate shall be the sum of Part A, Part B, and Part C as described below:

Part A: A customer charge of	\$127.82 per meter per month plus
Interim Rate Adjustment (IRA)	\$ (Footnote 1)
Total Customer Charge	\$127.82

Part B: All volumes of natural gas transported during each month in accordance with this schedule shall be billed at the following Ccf charge:

All Ccf @ \$0.1301 per Ccf

Part C: "Additional Charges to Cost of Service Rate" pursuant to Rate Schedule T-GTC (General Terms and Conditions for Transportation).

ADDITIONAL CHARGES

1) A charge will be made each month to recover the cost of gross receipts taxes paid to the State of Texas pursuant to the provision of TEXAS UTILITIES CODE, Chapter 122 as such may be amended from time to time which are attributable to the transportation service performed hereunder.

Footnote 1:

Supersedes Same Rate Sheet Dated
April 30, 2007 (Unincorporated)

Meters Read On and After

Final Order
Attachment B

TEXAS GAS SERVICE COMPANY
Rio Grande Valley Service Area

RATE SCHEDULE T-1
Page 3 of 3

2) A charge will be made each month to recover any franchise fees, street rental fees, or other similar privilege fees attributable to the Company's services under this tariff and payable to any municipality wherein the customer receives gas delivered hereunder.

3) In the event the Company incurs a demand or reservation charge from its gas supplier(s) or transportation providers in the Rio Grande Valley Service Area, the customer may be charged its proportionate share of the demand or reservation charge based on benefit received by the customer.

4) Additional charges may be made at the Company's sole discretion for compression, treating, or similar services if the customer or qualified supplier is shipping excess gas off the distribution system.

SPECIAL PROVISIONS

Tariff

General Terms and Conditions for Transportation

T-GTC

OTHER CONDITIONS

Transportation of Customer owned natural gas hereunder is subject in all respects to the Transportation Agreement entered into between the Customer and Company prior to commencement of service and all amendments and modifications thereto.

Transportation of natural gas hereunder may be interrupted or curtailed at the discretion of the Company in case of shortage or threatened shortage of gas supply from any cause whatsoever, to conserve gas for residential and other higher priority customers served. The curtailment priority of any customer served under this schedule shall be the same as the curtailment priority established for other customers served pursuant to the Company's rate schedule which would otherwise be available to such customer.

PAYMENT

Bills are to be paid within 15 days after the date of Company's bill to Customer.

TRANSPORTATION SERVICE RATE

APPLICABILITY

Service under this rate schedule is available to any customer of Texas Gas Service Company ("Company") and to Qualified Suppliers or Producers supplying natural gas to be transported, pursuant to Rate Schedule T- GTC (General Terms and Conditions) for the transportation of customer owned natural gas through the Company's Rio Grande Valley distribution system for use by customers within the Company's Rio Grande Valley's Service Area or delivered to connecting pipelines. This rate schedule requires a one year commitment for transportation service. The customer must arrange with its gas supplier to have the customer's gas delivered to one of the Company's existing receipt points for transportation by the Company to the customer's facilities at the customer's delivery point. The receipt points shall be specified by the Company at its reasonable discretion, taking into consideration available capacity, operational constraints, and integrity of the distribution system.

AVAILABILITY

Natural gas service under this rate schedule is available to any qualified individually metered, transport customer for the transportation of customer owned natural gas through the Company's Rio Grande Valley distribution system. Such service shall be provided at any point on the Company's System where adequate capacity and gas supply exists, or where such capacity and gas supply can be provided in accordance with the applicable rules and regulations and at a reasonable cost as determined by the Company in its sole opinion.

Electronic flow measurement (EFM) may be required for Customers under this tariff at the Company's sole discretion. The customer may be required to reimburse the Company for any cost related to the installation of the EFM as well as provide for or reimburse the Company for any on- going maintenance, repair, or communications costs. In the alternative, Customer may elect to discontinue service under this tariff and to receive service under the applicable sales tariff.

Service is not available under this rate schedule for resale to others or for service for a term less than twelve (12) months.

Under this tariff the Company shall perform or cause to be performed all functions necessary to transport the gas commodity from the Point of Receipt to the end use Customer. The Customer is responsible for acquiring the gas commodity from a third party supplier. Such gas supply must be delivered to the pipeline providing upstream services for the system from which the Customer is served.

TEXAS GAS SERVICE COMPANY
Rio Grande Valley Service Area

RATE SCHEDULE T-2
Page 2 of 3

Customer shall deliver to Company each month, as reimbursement for lost and unaccounted for gas in the form of Payment in Kind (PIK), a volume of gas equal to the Purchase/Sales ratio authorized to be collected in the Cost of Gas clause times the volume of gas delivered by the Company for the account of Customer for transportation.

TERRITORY

All areas served by the Company in its Rio Grande Valley Service Area.

RATE

This rate shall be the sum of Part A, Part B, and Part C as described below:

Part A: A customer charge of	\$327.82 per meter per month plus
Interim Rate Adjustment (IRA)	\$ (Footnote 1)
Total Customer Charge	\$327.82

Part B: All volumes of natural gas transported during each month in accordance with this schedule shall be billed at the following Ccf charge:

All Ccf @ \$0.0548 per Ccf

Part C: "Additional Charges to Cost of Service Rate" pursuant to Rate Schedule T-GTC (General Terms and Conditions for Transportation).

Minimum Monthly Bill of \$1,500 (from the sum of Part A and Part B)

ADDITIONAL CHARGES

- 1) A charge will be made each month to recover the cost of gross receipts taxes paid to the State of Texas pursuant to the provision of TEXAS UTILITIES CODE, Chapter 122 as such may be amended from time to time which are attributable to the transportation service performed hereunder.
- 2) A charge will be made each month to recover any franchise fees, street rental fees, or other similar privilege fees attributable to the Company's services under this tariff and payable to any municipality wherein the customer receives gas delivered hereunder.
- 3) In the event the Company incurs a demand or reservation charge from its gas supplier(s) or transportation providers in the Rio Grande Valley Service Area, the customer may be charged its proportionate share of the demand or reservation charge based on benefit received by the customer.

Footnote 1:

Supersedes Same Rate Sheet Dated
April 30, 2007 (Unincorporated)

Meters Read On and After

Final Order
Attachment B

TEXAS GAS SERVICE COMPANY
Rio Grande Valley Service Area

RATE SCHEDULE T-2
Page 3 of 3

4) Additional charges may be made at the Company's sole discretion for compression, treating, or similar services if the customer or qualified supplier is shipping excess gas off the distribution system.

SPECIAL PROVISIONS

Tariff

General Terms and Conditions for Transportation

T-GTC

OTHER CONDITIONS

Transportation of Customer owned natural gas hereunder is subject in all respects to the Transportation Agreement entered into between the Customer and Company prior to commencement of service and all amendments and modifications thereto.

Transportation of natural gas hereunder may be interrupted or curtailed at the discretion of the Company in case of shortage or threatened shortage of gas supply from any cause whatsoever, to conserve gas for residential and other higher priority customers served. The curtailment priority of any customer served under this schedule shall be the same as the curtailment priority established for other customers served pursuant to the Company's rate schedule which would otherwise be available to such customer.

PAYMENT

Bills are to be paid within 15 days after the date of Company's bill to Customer.

COST OF GAS CLAUSE

A. APPLICABILITY

This Cost of Gas Clause shall apply to all general service rate schedules of Texas Gas Service Company ("The Company") in its unincorporated areas in the Rio Grande Valley Service Area.

B. DEFINITIONS

1. **Cost of Gas** - The rate per billing unit or the total calculation under this clause, consisting of the commodity cost, a reconciliation component and related fees and taxes, if applicable and other purchased gas expenses. The rate shall be calculated according to the following formula:

Monthly Cost of Gas Rate = ((2) * (5)) plus or minus (3) plus any fees or taxes.

2. **Cost of Purchased Gas** - The estimated cost for gas purchased by the Company from its suppliers or the estimated weighted average cost for gas purchased by the Company from all sources where applicable. Such cost shall include not only the purchase cost of natural gas, but shall also include all reasonable fees for services such as gathering, treating, processing, transportation, capacity and/or supply reservation fees, storage, balancing, and swing services necessary for the movement of gas to the Company's citygate delivery points. The Cost of Purchased Gas shall also include any surcharge or refund the Company may incur from its gas suppliers or service providers and adjustment for any known and quantifiable under or over collection prior to the end of the reconciliation period. The Cost of Purchased Gas shall also include the value of gas withdrawn from storage and shall include gains or losses from the utilization of natural gas financial instruments which are executed by the Company in an effort to mitigate price volatility.
3. **Reconciliation Component** - The amount to be returned to or recovered from customers each month from December through August as a result of the Reconciliation Audit.
4. **Reconciliation Audit** - An annual review of the Company's books and records for each twelve month period ending with the production month of August to determine the amount of over or under collection occurring during such twelve month period. The audit shall determine: (a) the total amount paid for gas purchased by the Company (per Section B(2) above) to provide service to its general service customers during the period, (b) the revenues received from operation of the provisions of this cost of gas clause (c) the total amount of refunds made to customers during the period and any other revenues or credits received by the Company as a result of relevant gas purchases or operation of this Cost of Gas Clause, and (d) the total amount accrued during the period for imbalances under the transportation rate schedule(s) net of fees and applicable taxes, (e) the total amount of Uncollectible Cost of Gas during the period, and (f) an adjustment, if necessary, to exclude lost and unaccounted for gas during the period in excess of five (5) percent of purchases.

Supersedes Same Sheet Dated
April 30, 2007

Meters Read On and After

COST OF GAS CLAUSE
(Continued)

5. Purchase/Sales Ratio - A ratio determined by dividing the total volumes received into the distribution system during the twelve (12) month period ending June 30 by the sum of the volumes delivered off the distribution system during the same period. For the purpose of this computation all volumes shall be stated at 14.65 psia. Such ratio as determined shall in no event exceed 1.0526 i.e. $1/(1 - .05)$ unless expressly authorized by the applicable regulatory authority.
6. Reconciliation Account - The account maintained by the Company to assure that over time it will neither over nor under collect revenues as a result of the operation of the cost of gas clause. Entries shall be made monthly to reflect, (a) the total amounts paid to the Company's supplier(s) for gas applicable to general service customers as recorded on the Company's books and records, (b) the revenues produced by the operation of this cost of gas clause, and (c) refunds, payments, or charges provided for herein or as approved by the regulatory authority, (d) the total amount accrued during the period for imbalances under the transportation rate schedule(s) net of applicable fees and taxes, (e) the total amount of Uncollectible Cost of Gas during the period, and (f) an adjustment, if necessary, for lost and unaccounted for gas during the period in excess of five (5) percent of purchases.
7. Uncollectible Cost of Gas-The amounts actually written off after the effective date of this rate schedule related to cost of gas will be tracked along with any subsequent recovery/credits related to the cost of gas clause. Annually the charge offs minus recoveries will be included in the annual reconciliation and factored into the resulting reconciliation component.

C. COST OF GAS

In addition to the cost of service as provided under its general service rate schedules, the Company shall bill each general service customer for the Cost of Gas incurred during the billing period. The Cost of Gas shall be clearly identified on each customer bill.

D. DETERMINATION AND APPLICATION OF THE RECONCILIATION COMPONENT

If the Reconciliation Audit reflects either an over recovery or under recovery of revenues, such amount, if any, shall be divided by the general service sales volumes, adjusted for the effects of weather, growth, and conservation for the period beginning with the December billing cycle last preceding through the August billing cycle. The Reconciliation Component so determined to collect any revenue shortfall or to return any excess revenue shall be applied for a nine (9) month period beginning with the next following December billing cycle and continuing through the next following August billing cycle at which time it will terminate until a new Reconciliation Component is determined. The reconciliation factor shall be calculated as below:

COST OF GAS CLAUSE
(Continued)

$(B \pm I) / S$ = Reconciliation Factor

B = Result of Annual Reconciliation Audit Balance (Section B.4)

I = Interest on Funds (Section E)

S = Sales volumes adjusted for weather and growth for recent period December through August

E. INTEREST ON FUNDS

Concurrently with the Reconciliation Audit, the Company shall determine the amount by which the Cost of Gas was over or under collected for each month within the period of audit. The Company shall debit or credit to the Reconciliation Account for each month of the reconciliation period: (1) an amount equal to the outstanding over collected balance multiplied by interest of 6% per annum compounded monthly; or, (2) an amount equal to the outstanding under collected balance multiplied by interest of 6% per annum compounded monthly.

F. SALE OF EXCESS GAS SUPPLY

For the purposes of this section, "Excess Gas Sales" shall mean the gas sold by the Company in excess of the gas utilized to provide natural gas sales pursuant to this Rate Schedule. "Excess Gas Sales Margin" shall mean the annual difference for the twelve month period ending July 31 between the revenues received from Excess Gas Sales and the cost of the Excess Gas purchased, plus any cost related to the delivery or processing of the gas to the custody transfer point of sale beyond the RGV distribution system. Annually, the Company shall reimburse the Cities served under this Rate Schedule up to a total of \$5,000 for the cost of reviewing the calculation of profits and losses attributable to Excess Gas Sales. This \$5,000 shall be deducted from the annual Excess Gas Sales Margin prior to the allocation between the Company and ratepayers. For any one-year period (August 1-July 31), the Company shall record the first \$235,543 in Excess Gas Sales Margin to the Reconciliation Account. The \$235,543 reimburses the rate payers for all costs associated with transporting excess gas across the RGV distribution system. Any Excess Gas Sales Margin exceeding \$240,543 shall be allocated between the Company and ratepayers at the conclusion of the one-year period, with 65% going to the Company without further obligation to refund or credit, in any form, such revenue to its customers and 35% credited to customers. The Excess Gas Sales Margin allocated to ratepayers shall be credited to ratepayers through an adjustment of the Reconciliation Account as determined in the Annual Reconciliation filing. The Company shall be fully responsible for any aggregate annual net losses incurred from Excess Gas Sales and no such annual losses shall be paid by the ratepayers.

COST OF GAS CLAUSE
(Continued)

G. COST OF GAS STATEMENT

The Company shall file a Cost of Gas Statement with the Regulatory Authority by the beginning of each billing month.

The Cost of Gas Statement shall set forth (a) the estimated Cost of Purchased Gas; (b) that cost multiplied by the Purchase/Sales Ratio; (c) the Reconciliation Component; (d) surcharge or refunds and (e) any fees or taxes. The statement shall include all data necessary for the Regulatory Authority to review and verify the calculations of the Cost of Gas. The date on which billing using the Cost of Gas is to begin (bills prepared) is to be specified in the statement.

H. ANNUAL RECONCILIATION REPORT

The Company shall file an annual report with the Regulatory Authority which shall include but not necessarily be limited to:

1. A tabulation of volumes of gas purchased and costs incurred by month for the twelve months ending August 31.
2. A tabulation of gas units sold to general service customers and related Cost of Gas clause revenues.
3. A summary of all other costs and refunds made during the year and the status of the operations of the Cost of Gas Clause to date.
4. A description of the imbalance payments made to and received from the Company's transportation customers within the service area, including monthly imbalances incurred, the monthly imbalances resolved, and the amount of the cumulative imbalance. The description should reflect the system imbalance and imbalance amount for each supplier using the Company's distribution system during the reconciliation period.
5. A calculation of the net margin on sales of excess gas for the reconciliation period, and the amount allocated to customers.
6. A summary of all gains and losses due to the use of financial instruments during the reconciliation period.
7. A description of Uncollectible Cost of Gas during the period and the effect on the Cost of Gas Clause.

This report shall be filed concurrently with the Cost of Gas Statement for December.

**GENERAL TERMS AND CONDITIONS
FOR TRANSPORTATION**

Rate schedule T-GTC general charges, provisions and conditions applicable to: Transportation Rate Schedules T-1 and T-2 in the areas served by the Company in its Rio Grande Valley Texas Service Area.

ARTICLE 1
DEFINITIONS

- 1.1 "Affiliate" shall mean any person, entity, or business section, or division that directly or through one or more intermediaries' controls, is controlled by, or is under common control with the entity in question.
- 1.2 "Agreement" shall mean the agreement to which the General Terms and Conditions for Transportation apply.
- 1.3 "Btu" shall mean British thermal unit(s) and shall be computed on a temperature base of sixty degrees (60°) Fahrenheit and a pressure base of fourteen and sixty-five hundredths (14.65) psia and on a gross-real-dry basis and shall not be corrected for real water vapor as obtained by means commonly acceptable to the industry, and "MMBtu" shall mean one million (1,000,000) Btu.
- 1.4 "Commission" shall mean the Railroad Commission of Texas.
- 1.5 "Company" shall mean Texas Gas Service, a division of ONEOK, Inc., when it is acting as Company on the Pipeline System.
- 1.6 "Cumulative Tolerance Limit" shall mean five percent (5%) of aggregate historical annual deliveries of a Qualified Supplier's pool of customers for the most recent year ended on June 30. The Company, at its sole discretion, may make adjustments to the Cumulative Tolerance Limit to reflect changes to the pool of customers and other known changes to anticipated deliveries that the Company determines to be reasonably reliable and accurate.
- 1.7 "Customer" shall mean a consumer which subscribes to natural gas services provided by Texas Gas Service.
- 1.8 "Dekatherm" (Dth) shall mean 1,000,000 Btu's (1 MMBtu). This unit will be on a dry basis.
- 1.9 "Day" shall mean the 24-hour period commencing at 9:00 a.m. (central clock time) on one calendar day and ending at 9:00 a.m. (central clock time) the following calendar day.
- 1.10 "Dry" shall mean the heating value calculation being determined with no water vapor present.

- 1.11 "Effective Date" shall mean the date specified in the Agreement.
- 1.12 "Gas" or "natural gas" shall mean the effluent vapor stream in its natural, gaseous state, including gas-well gas, casing head gas, residue gas resulting from processing both casing head gas and gas-well gas, and all other hydrocarbon and non-hydrocarbon components thereof.
- 1.13 "Gas Transportation Order" shall mean a completed Exhibit A relating to the applicable gas transportation service Agreement.
- 1.14 "Gross Heating Value" or "Gross" shall mean the amount of energy transferred as heat per mass or mole from the complete combustion of the gas with oxygen (from air), at a base temperature in which all water formed by the reaction condenses to liquid.
- 1.15 "Mcf" shall mean one thousand (1,000) cubic feet of Gas.
- 1.16 "Month" shall mean the period beginning at 9:00 a.m. central clock time on the first Day of each calendar month and ending at 9:00 a.m. Central clock time on the first Day of the next succeeding calendar month, except where references not involving Gas measurement volumes are involved, in which case the calendar month shall be deemed to be referred to.
- 1.17 "Monthly Tolerance Limit" shall mean ten percent (10%) of the aggregate deliveries for a Qualified Suppliers pool of customers for such month.
- 1.18 "PDA" shall mean a predetermined allocation method.
- 1.19 "Pipeline System" shall mean the current existing utility distribution facilities of Company located in the State of Texas.
- 1.20 "Point of Delivery" shall mean the point or points where Gas is delivered from the Pipeline System to or for the account of Customer and are shown on the applicable Gas Transportation Order.
- 1.21 "Point Operator" shall mean the person or entity that controls the Point of Receipt or Point of Delivery.
- 1.22 "Point of Receipt" shall mean the point or points where Company shall receive Gas into the Pipeline System from Customer, as described on the applicable Gas Transportation Order.
- 1.23 "Psia" shall mean pounds per square inch, absolute.
- 1.24 "Psig" shall mean pounds per square inch, gauge.

- 1.25 "Qualified Supplier" shall mean a supplier of natural gas for transportation to customers through the Company's pipeline system that meets the requirements of and has executed a Supplier Service Agreement.
- 1.26 "Real" shall mean the division of the ideal heating value by the compressibility of the gas. This creates an ideal Gross Heating Value per Real cubic foot.
- 1.27 "Supplier Service Agreement" shall mean a contract setting forth the requirements and terms upon which a supplier of natural gas may make deliveries of customer owned gas into the Company's pipeline system for delivery to one or more of the Company's customers receiving service under this tariff.
- 1.28 "Tariff" shall mean every rate schedule, or provision thereof, and all terms, conditions, rules and regulations for furnishing gas service filed with the regulatory authorities or agencies having jurisdiction over Company or the services provided hereunder.
- 1.29 "Week" shall mean a period of seven (7) consecutive Days beginning at 9:00 a.m. central clock time on each Monday and ending at the same time on the next succeeding Monday.
- 1.30 "Year" shall mean a period of three hundred sixty-five (365) consecutive Days, or three hundred sixty-six (366) consecutive Days when such period includes a February 29.

ARTICLE 2
RESTRICTIONS AND RESERVATIONS

- 2.1 It is understood and agreed that Customer has only the right to transportation service in the Pipeline System and all equipment, including (but not in any way limited thereto) all pipe, valves, fittings, and meters comprising the Pipeline System and all other property and capacity rights and interests, shall at all times during the term of the Agreement remain the property of Company. Customer agrees not to cause or permit any liens or encumbrances to be filed with respect to the Pipeline System by reason of Customer's actions. Customer's Gas shall at all times remain the property of Customer, and Company shall have no right or property interest therein.
- 2.2 Company reserves the right in its sole discretion to remove, relocate, expand, or rebuild, without approval of Customer, any portion of the Pipeline System. Customer shall make no alterations, additions, or repairs to or on the Pipeline System, nor shall Customer bear any cost of any alterations, additions, repairs, maintenance or replacements made to or on said Pipeline System.
- 2.3 Customer agrees not to connect or cause the connection of any third party to the Pipeline System for any purpose without the express written approval and consent of Company to be granted in Company's sole discretion. Customer further agrees not to transport or cause to

be transported any Gas for any third party. If either of these conditions is breached by Customer, Company shall have the right and option, notwithstanding any other provision of the Agreement or the General Terms and Conditions for Transportation, to terminate the Agreement including the Exhibits thereto immediately and without further obligation to Customer.

- 2.4 Company presently is transporting Gas to third parties on the Pipeline System and shall have the right in the future to transport additional Gas for such purposes and to transport Gas to additional third parties as it may desire, and Company shall have the right to make additional connections to the Pipeline System as may be required to serve presently existing and new customers, all of which is subject to the provisions of the Agreement. Company's transportation of Gas hereunder shall not obligate Company in any manner beyond the terms of the Agreement and the Exhibits attached thereto.
- 2.5 Company shall own any and all liquids which are recovered from the Pipeline System and may use, sell or transfer all liquids without having to account in any manner, or pay any monies or other consideration to Customer.
- 2.6 The Company reserves the unilateral right from time to time to seek regulatory approval to make any changes to, or to supersede, the rates, charges and any terms stated in the tariffs, rate schedules, the agreements, and the General Terms and Conditions.

ARTICLE 3

OPERATIONS

- 3.1 Customer shall deliver its Gas into the Pipeline System at the Points of Receipt described on the applicable Gas Transportation Order, as it now exists and as it may be amended. Customer shall have no right to require Gas to be received at any particular Point of Receipt and Company may delete such points or modify the capacity thereof from time to time and at any time in its sole discretion with no further obligation to Customer with respect to such Point of Receipt. All supplies of Gas delivered to the Pipeline System must comply with the terms and conditions of the Agreement and the exhibits attached thereto. In no event shall Company be required to expand, modify, construct, rearrange, or change the operations of the Pipeline System in order to receive Gas from or on behalf of Customer or in order to deliver Gas to Customer at any existing Points of Delivery.
- 3.2 Customer shall advise (in a method and format approved by Company in its sole discretion) Company with respect to each Day, Week and Month the name of each supplier with whom it has a contract (and the name of the individual with such supplier responsible for Customer's account), which source of supply is delivering to Company, how much Gas is nominated to be delivered to Company from each source of supply (i.e., each well, plant, or other desired Point of Receipt) and the anticipated deliveries at each Point of Delivery. Customer's nomination shall be in good faith, in balance between Points of Receipt and Points of Delivery, and shall be based on Customer's commercially reasonable best efforts to estimate usage for Hour, Day, Week, and Month. Customer will cause their Qualified

Supplier to act as their agent in the nomination process. Qualified Supplier shall not intentionally nominate more or less Gas than is anticipated for consumption by Customer(s), except as may be needed for balancing purposes to the extent Company accepts such nomination. Qualified Supplier shall submit nominations to the Company's gas scheduling department in accordance with their currently effective nomination process which can be provided to the parties upon request. Customer and Qualified Supplier shall exercise commercially reasonable best efforts to deliver to the Pipeline System Dths of Gas that Company is to deliver from the Pipeline System to Customer during any particular Hour, Day, Week and Month, including but not limited to volumes needed for peak Day usage for Customer's facilities.

- 3.3 Before the start of the Gas Day, the Point Operator and Company shall establish a predetermined allocation (PDA) method to specify how Gas received or delivered by Company shall be allocated in accordance with confirmed nominations at such point. Only one PDA methodology shall be applied per allocation period.
- 3.4 Customer's Gas shall be delivered to Customer from the Pipeline System at the Points of Delivery. To the extent that Customer's acts or omissions cause Company to incur, directly or indirectly, fees, charges, expenses, or penalties from a supplier or transporter for failure to satisfy such supplier's or transporter's balancing or nomination requirements, then Customer agrees to reimburse Company for such fees, charges, expenses, or penalties, and defend, indemnify, and hold Company harmless with respect thereto. Any fees, charges, expenses or penalties which were determined to be in error will be credited back to the Customer.
- 3.5 The Point of Receipt and Point of Delivery may be, or may later become points through which other quantities of Gas are being measured; therefore, the measurement of Gas under the Agreement may involve the allocation of Gas deliveries. In such event, each party hereto will furnish, or cause to be furnished, to the other all data required to accurately account for all Gas.
- 3.6 Except as may be set forth on a Gas Transportation Order, Company shall receive and deliver Gas hereunder as nearly as practicable at uniform hourly and daily rates of flow. It is recognized that it may be physically impracticable, because of measurement, Gas control limitations and other operating conditions, to stay in zero (0) imbalance each hour and each Day; therefore, the daily and hourly quantities received may, due to the aforementioned reasons, vary above or below the daily and hourly quantities delivered. If the quantities received and the quantities delivered hereunder should create an imbalance at the end of any hour, Day, Week, or Month, then Company and Customer shall adjust receipts and/or deliveries at any time to the end that the quantities received and delivered shall be kept as near to zero (0) imbalance as practicable.

3.7 Imbalances

Customer must designate no more than one Qualified Supplier. The Qualified Supplier shall

act on behalf of the Customer to procure gas supplies, deliver gas supplies to points of receipt designated in the Gas Transportation Order, and shall act as the Customer's agent with respect to nominations, operational notices required under the Gas Transportation Agreement or applicable tariffs and with respect to resolution of imbalances under this Rate Schedule.

(A) The following cash out provisions shall be applied to the Qualified Supplier for its aggregate pool of Customers that are being provided service pursuant to a Rate Schedule or some other form of transportation service:

- 1) Qualified Supplier shall not deliver into the Pipeline System more Dths of Gas than Company delivers to the aggregate pool of Customers at the Points of Delivery during a Month. At the end of the Month in which an over-delivery occurred and exceeded the Monthly Tolerance Limit or the Cumulative Tolerance Limit, Qualified Supplier shall sell such excess Gas to Company at 95% of Inside FERC's FOM Houston Ship Channel index price.
- 2) If Company receives less Dths of Gas than are delivered to the aggregate pool of Customers at the Points of Delivery in excess of the Monthly Tolerance Limit or Cumulative Tolerance Limit in any particular Month, then Qualified Supplier shall purchase such under-delivered volumes at 105% of Inside FERC's FOM Houston Ship Channel index price.

The Company will provide monthly imbalance statements along with calculations of the cash out charges in accordance with the aforementioned cash out provisions to the Qualified Supplier each month. Payments for cash out charges will be due each month within 15 business days of the imbalance statement date. The Company may elect at its sole discretion to accrue the monthly cash out provisions each month and only require periodic settlement rather than monthly payments.

The monthly transport payments shall not be abated with respect to a Month in which under-deliveries occurred except as provided in Article 9 and Article 10 hereof.

- 3.8 Customer and Company shall exercise their commercially reasonable best efforts to comply with all of the standards established by the North American Energy Standards Board, Inc. ("NAESB"), but in no event shall either party be required to comply with the NAESB standards if such compliance has a material adverse affect upon such party.
- 3.9 In the event Customer's source of gas supply is terminated by Customer's supplier due to non-payment or other reasons, or if customer is otherwise unable to continue as a transportation customer, Customer may, upon the giving of five (5) business days advance notice to Company, obtain service from Company under the general sales tariff applicable to Customer. Prior to commencing such service, Company may, in its sole discretion, require Customer to post a deposit or bond in accordance with the provisions of Article 5 hereof.

ARTICLE 4
PRESSURE AND QUALITY OF GAS

- 4.1 Customer shall deliver (or cause to be delivered) the Gas to the Pipeline System at the Point of Receipt at a pressure sufficient to effect delivery into the Pipeline System at that point. If necessary, Customer shall provide additional compression to make such deliveries hereunder, and Company shall not have any cost or responsibility in that regard.
- 4.2 Subject to the provisions of Section 4.1 above, the Gas shall be delivered to Customer from the Pipeline System at the Points of Delivery at pressures sufficient to effect deliveries to Customer's facilities, but not to exceed the maximum pressure that has existed for each Point of Delivery.
- 4.3 Gas delivered by and to Customer shall be commercially free of dust, gums, gum-forming constituents, gasoline, water, and any other substance that may become separated from the Gas during the handling hereof. All Gas received shall conform to the following additional specifications:
- (A) Contain not more than one-quarter (1/4) grain of hydrogen sulfide per 100 cubic feet, as determined by a method generally acceptable for use in the gas industry;
 - (B) Contain not more than five (5) grains of total sulfur per 100 cubic feet;
 - (C) Contain not more than two percent (2%) by volume of carbon dioxide;
 - (D) Contain not more than four percent (4%) by volume of total inerts, including carbon dioxide and nitrogen;
 - (E) Contain not more than two-tenths of one percent (.2%) by volume of oxygen;
 - (F) Contain a gross heating value equivalent to at least 980 British Thermal Units per cubic foot and not to exceed 1080 British Thermal Units per cubic foot;
 - (G) Have a temperature of not more than one hundred twenty degrees (120°) Fahrenheit and not less than forty degrees (40 °) Fahrenheit;
 - (H) Contain no water or hydrocarbons in liquid form;
 - (I) Contain not more than 7 pounds of water in vapor stage per 1,000 Mcf of gas; and
 - (J) Be interchangeable with the Company's system Gas at the Point of Receipt or delivered to the nearest customer, city border station, or other pipeline interconnected with such receiving facility or downstream of the Point of Receipt.

- 4.4 The Company, at its option, may refuse to accept delivery of any gas not meeting the quality specifications set out above. Thereafter, Customer or Qualified Supplier shall have the right to conform or cause the gas to be conformed to the above specifications. If the Customer or Qualified Supplier does not elect to conform the gas to said specifications, then the Company at its sole option may accept or reject any such gas.
- 4.5 Notwithstanding anything to the contrary contained herein, the gas which the Company transports and delivers to the Customer shall be odorized by the Company. In the event Customer desires to remove the odorant, such removal shall be solely at Customer's risk and expense.

ARTICLE 5
PAYMENT

- 5.1 Should Customer fail to pay or deliver any or all of the amount of the transportation payment and/or other fees due under any exhibit when such amount is due (which in no event shall be later than the last Day of the applicable Month), interest on the unpaid portion shall accrue at a rate (which in no event shall be higher than the maximum rate permitted by applicable law) equal to one and one-half percent (1 ½%) per month from the due date until the date of payment. If such failure to pay continues for fifteen (15) Days after payment is due, Company, in addition to any other remedy it may have, may suspend further receipts and deliveries of Gas until such amount is paid; provided, however, that if Customer in good faith shall dispute in writing the amount of any such bill or part thereof and shall pay to Company such amounts as it concedes to be correct and, at any time thereafter within thirty (30) Days of the due date of such payment, shall furnish a good and sufficient surety bond in an amount and with surety satisfactory to Company, guaranteeing payment to Company of the amount ultimately found due upon such bills, including interest thereon, after a final determination which may be reached either by agreement or judgment of the courts, as may be the case, then Company shall not be entitled to suspend further receipts and withdrawals of Gas unless and until default be made in the conditions of such bond. As an alternative to posting a bond, Customer may pay the portion of any amount in dispute without waiving its rights to recoup any monies improperly billed.

If the portion of any amount in dispute is ultimately determined to be incorrect, such amount shall be refunded by Company to Customer together with interest thereon at a rate (which in no event shall be higher than the maximum allowed by law) equal to one and one-half percent (1½%) per Month for the period from the date of payment to Company to the date of refund by Company.

- 5.2 Customer agrees to pay any amounts due pursuant to the Agreement and the General Terms and Conditions for Transportation to Company within fifteen (15) Business Days after receipt of an invoice from Company.

- 5.3 Company reserves the right, prior to initiation of service, to require a cash deposit or bond in favor of Texas Gas Service in order to assure payment of amounts that may become due pursuant to the Agreement and the exhibits attached thereto. In the event Customer's financial condition materially weakens or Customer fails to make timely payment in accordance with Article 5 after the execution of the Agreement, then upon written request from Company, Customer agrees to deposit cash with Texas Gas Service or secure a bond in favor of Texas Gas Service in order to assure the payment of amounts that may become due pursuant to the Agreement and the exhibits attached thereto. Such deposit or bond shall be furnished to Texas Gas Service within fifteen (15) days after a request by Texas Gas Service is made for such deposit or bond and shall be made in a form and amount satisfactory to Texas Gas Service. If such deposit or bond is not furnished in a timely manner, or if a bond expires or is canceled prior to the end of the period specified below, or if the cash deposit or bond is not increased as specified below, then leasing of capacity and the rendering of all other services may be suspended by Texas Gas Service in its sole discretion until such deposit or bond is furnished, renewed or increased, as applicable.
- 5.4 Nothing in this Article 5 shall be deemed to supersede the respective rights and obligations of Company and Customer as provided by Texas statutes, rules, and/or regulation, as such statutes, rules, or regulations may be amended from time to time, with respect to adjustments to the amounts owed by Customer as a result of errors in Customer's meter or errors in reading Customer's meter. Customer shall be responsible for payment of the amounts owed Company for transportation service and gas supply provided to Customer during the applicable period for which it has been determined that Customer's meter was in error to the favor of Customer.

ARTICLE 6
STATEMENTS AND RECORDS

- 6.1 On or about fifteen (15) days after the Company receives necessary volumetric information from other parties for each calendar month after commencement of Gas receipts and deliveries hereunder, Company shall render to the Qualified Supplier a statement for the preceding Month showing the total Dths of Gas received and delivered and each Point of Receipt and Point of Delivery. If information necessary for statement purposes is in the possession of Customer, Customer shall furnish such information to Company on or before the sixth (6th) Day of the Month in which the statement requiring such data is to be rendered.
- 6.2 Both parties hereto shall have the right at any and all reasonable times within twenty four (24) months from the time period in question, to examine the books and records of the other to the extent necessary to verify the accuracy of any statement, computation, or demand made hereunder.
- 6.3 Customer agrees to supply to Company, at Company's request at any time and from time to time, a sample of the liquids removed from the gas stream of the facilities which deliver gas to Company which sample is to be taken from a point upstream from the Point of Receipt.

Said sample shall not contain any toxic, hazardous, or deleterious materials or any materials which Company, in its sole discretion, deems in any way harmful to its facilities, personnel or the environment, including, but not limited to, polychlorinated byphenyls (PCBs), and substances or materials considered hazardous or other similar terms, or requiring investigation, remediation or removal under any federal, state or local statute, regulation, rule or ordinance or any amendments thereof whether now in effect or as may be in effect in the future. If such samples contain any such materials or substances, Company shall have the right, in its sole discretion and in addition to other remedies available to it, to immediately cease receipt of Gas through the Point of Receipt until such time as all such materials or substances are eliminated from the Gas such that Company, in its sole discretion, elects to again receive such Gas through the Point of Receipt. Should Customer fail or refuse to eliminate all such materials or substances within a reasonable time, Company shall have the right, upon written notice, to terminate this Agreement. Customer hereby expressly agrees to indemnify and hold Company and Company's affiliates harmless from and against any and all liabilities, losses, claims, damages, actions, costs, fines, and expenses of whatever nature, including, but not limited to, court costs, and attorney's fees arising out of or in any manner relating to the presence of PCBs and/or any other toxic, hazardous, deleterious, harmful, or unsafe materials as described above in Gas delivered by or on behalf of Customer into Company's system.

ARTICLE 7
MEASUREMENT AND TESTS OF GAS AND EQUIPMENT

The measurement and tests for quality of Gas delivered and delivered by Customer hereunder shall be governed as follows:

- 7.1 The quantities of Gas received and delivered shall be measured by means of meters of standard type which conform to the American Gas Association Measurement Committee Reports and other industry standards as to construction and installation.
- 7.2 The unit of volume for purposes of measurement shall be one (1) cubic foot of Gas at a temperature base of sixty degrees (60°) Fahrenheit and at a pressure base of fourteen and seventy-three hundredths (14.73) pounds per square inch absolute. Customer agrees that the Btu content per Mcf of the gas volumes delivered by the Company at the Point of Delivery shall be assumed to be equal to the Btu content per Mcf of the gas volumes delivered by Customer at the Point of Receipt, when corrected for differences in pressure base.
- 7.3 The temperature shall be adjusted to standard conditions by a compensation device included with the meter or such other method as the Company shall deem appropriate. Corrections shall be made in accordance with industry practice.
- 7.4 Specific gravity shall be determined with accuracy to the nearest one thousandth (.001) by use of an instrument that conforms to industry standards.

- 7.5 Whenever the conditions of pressure and temperature differ from the standards, conversion of the volumes from these conditions to the standard conditions shall be in accordance with the Ideal Gas Laws corrected for deviation from Boyle's Law, all to be in accordance with methods and tables set out in the American Gas Association Measurement Committee Reports, or by other accepted methods that may be used from time to time.
- 7.6 The gross heating value of the Gas shall be determined by means of a sampling method of general use in the Gas industry. The location of the sampling equipment shall be determined by Company in its sole discretion but shall be at a location where a representative sample of the Gas to which it applies may be taken.
- 7.7 Tests to determine total sulfur, hydrogen sulfide, oxygen, carbon dioxide, total inerts, and water vapor shall be made by approved standards methods in general use by the Gas industry. Such tests shall be made at the request of either party hereto. If a test is performed at Customer's request and shows that the quality specifications as set forth in Section 4.3 hereof have been satisfied, Customer shall pay all costs and expenses of Company related to such test.
- 7.8 Except as may be otherwise provided, all measuring and testing equipment, housing devices, and materials shall be standard manufacture and type and shall, with all related equipment, appliances, and buildings, be owned, installed, maintained and operated or caused to be installed, maintained and operated by Company at the Points of Receipt and Points of Delivery. Customer may install and operate check measuring and testing equipment, which equipment and the operation thereof shall not interfere with the operation of Company's equipment.
- 7.9 The accuracy of the measuring and testing equipment shall be verified according to Company's standard for the device being used and at other reasonable times upon request of Customer or Company. Gas quality tests may be made at times of equipment testing or at other reasonable times. Unless a test is requested by Customer, notice of the time and nature of each test shall not be given by Company. If a test is requested by a Customer, then Company shall give Customer notice sufficiently in advance to permit Customer to have a representative present. Representatives of both Customer and Company may be present to observe such tests. The results of any such tests shall be considered accurate until the next tests are made. All tests of measuring equipment shall be made at Company's expense, except that Customer shall bear the expense of tests made at its request if the inaccuracy found is two percent (2%) or less.
- 7.10 If, at any time, any of the measuring or testing equipment is found to be out of service, or registering inaccurately of any percentage, it shall be adjusted at once to read accurately within the limits prescribed by the manufacturer. If such equipment is out of service or inaccurate by an amount exceeding two percent (2%) at a reading corresponding to the average rate of flow for the period since the last preceding test, the previous reading of such equipment shall be disregarded for any period definitely known or agreed upon, or if not so known or agreed upon, for a period of time equal to one-half of the elapsed time since the

last test. The volume of Gas delivered during such period shall be estimated (i) by using the data recorded by any check measuring equipment if installed and accurately registering, or if not installed or registering accurately, (ii) by correcting the error if the percentage of error is ascertainable by calibration, test, or mathematical calculation, or if neither such method is feasible, (iii) by estimating the quantity or quality delivered based upon deliveries under similar conditions during a period when the equipment was registering accurately. No adjustment shall be made for recorded inaccuracies of two percent (2%) or less.

- 7.11 The parties hereto shall have the right to inspect equipment installed or furnished by the other or third-party operators and the charts and other measurement or testing data of all such parties at all times during business hours; but the reading, calibration, and adjustment of such equipment and changing of charts shall be done only by the party installing and furnishing the same. The parties hereto shall preserve all original test data, charts, and other similar records in such party's possession for a period of at least twenty-four (24) months. Measurement data corrections should be processed within six (6) months of the production month with a three (3) month rebuttal period. This standard shall not apply in the case of deliberate omission or misrepresentation or mutual mistake of fact. Parties' other statutory or contractual rights shall not otherwise be diminished by this standard.
- 7.12 At every Point of Receipt and every Point of Delivery, the party having control over such facility shall allow the other party immediate access to the receipt and delivery information as it is generated by the party having such control. With respect to all Points of Receipt and Points of Delivery that have electronic flow measurement, both parties shall have remote telephone and electronic access to the receipt and delivery information generated at such Point of Receipt and Point of Delivery.

ARTICLE 8
TITLE TO AND RESPONSIBILITY FOR GAS

- 8.1 Customer and Company, respectively, warrant title to all Gas delivered by it into or from the Pipeline System hereunder, and each of Customer and Company, respectively, warrant and represent each has the right to deliver the Gas hereunder, and that such Gas is free from liens and adverse claims of every kind. Customer agrees to indemnify and save Company harmless from and against all loss, damage, claims, and expense of every character with respect to Gas delivered by it on account of royalties, taxes, payments, liens, or other charges or claims arising (i) before or created upon delivery of said Gas into the Pipeline System, and (ii) upon and after delivery of said Gas from the Pipeline System to Customer.
- 8.2 Subject to compliance with the provisions of Section 8.1 above, Company warrants that title to all Gas delivered hereunder by Customer is free from liens and adverse claims of every kind. Company agrees to indemnify and save Customer harmless from and against all loss, damage, claims, and expense of every character with respect to Gas to be delivered at the Point of Delivery on account of royalties, taxes, payments, liens, or other charges or claims

arising after delivery of Gas to and before withdrawal thereof from the Pipeline System by Customer.

- 8.3 As between the parties hereto, Customer or its supplier shall be deemed to be in the exclusive control and possession of the Gas until such Gas has been delivered to Company at the Point of Receipt, and after its withdrawal by Customer at the Point of Delivery. After Customer's or Customer's suppliers' delivery of such Gas at the Point of Receipt, Company shall thereafter be deemed to be in the exclusive control and possession of such Gas until its withdrawal by Customer at the Point of Delivery. The party which shall be in the exclusive control and possession of such Gas shall be responsible for all injury or damage caused thereby and shall be responsible for any loss of Gas while in its possession, except with regard to injury, damage or loss caused by or arising out of the negligence of the nonpossessory party.
- 8.4 The Pipeline System shall at all times remain the property of Company, and Customer shall have no right or property interest therein but only the right for the transportation of Gas.

ARTICLE 9

FORCE MAJEURE AND CASUALTY

- 9.1 If either Company or Customer is rendered unable, wholly or in part, by reason of force majeure or any other cause of any kind not reasonably within its control, other than financial, to perform or comply with their obligations hereunder, then such party's obligations or conditions shall be suspended during the continuance of such inability and such party shall be relieved of liability for failure to perform the same during such period; provided, however, obligations to make payments when due hereunder shall not be suspended. Any force majeure event (other than labor disputes, strikes, or lockouts) shall be remedied so far as possible with reasonable dispatch. Settlement of strikes, lockouts, and labor disputes shall be wholly within the discretion of the party having the difficulty. The term "force majeure" shall include, but is not limited to, the following: acts of God and the public enemy; the elements; fire, accidents, breakdowns, strikes; any industrial, civil, or public disturbance; inability to obtain or delay in obtaining rights-of-way, material, supplies, permits, or labor; any act or omission by parties not subject to control by the party hereunder having the difficulty; and any laws, orders, rules, regulations, acts or restraints of any governmental body or authority, civil or military. If pursuant to the foregoing Company curtails or temporarily discontinues the receipt or delivery of Gas hereunder, Customer agrees to hold Company harmless from any loss, claim, damage, or expense that Customer may incur by reason of such curtailment or discontinuance.
- 9.2 If a portion of the Pipeline System required to make the transportation service available is partially damaged by fire or other casualty, the damage may be repaired by Company, at its option and in its sole discretion, as speedily as practicable, due allowance being made for the time taken for the settlement of insurance claims. Until such repairs are made, the payments shall be apportioned in proportion to the portion of the capacity of the Pipeline System which is still available for the purposes hereof, such determination to be made in the

sole discretion of Company. If the damage is so extensive as to render the Pipeline System wholly unusable, in Company's sole opinion, the payments, if any, shall cease until such time as the Pipeline System is again useable. In case the damage shall, in Company's sole opinion, amount substantially to a destruction of the portion of the Pipeline System available for the transportation of Gas and Company shall elect not to repair the damage, then the Agreement shall terminate at the time of such damage, and Company shall not be liable to Customer for any liability, damage, or claim which arises out of any failure to make repairs.

ARTICLE 10
GOVERNMENTAL RULES, REGULATIONS,
AND AUTHORIZATIONS: INTERPRETATION OF AGREEMENT

- 10.1 The Agreement is subject to all valid orders, laws, rules, and regulations of duly constituted municipal, State and Federal governmental authorities and agencies having jurisdiction or control over the parties, their facilities or Gas supplies, the Agreement, or any provision hereof. The Company reserves the right to seek modification or termination of any of the General Terms and Conditions, the Gas Transportation Agreement, and any of the tariffs to which it applies.
- 10.2 The Agreement shall be interpreted under the laws of the State of Texas, excluding any law thereof directing the application of the laws of another jurisdiction.

ARTICLE 11
MISCELLANEOUS

- 11.1 Any modification of terms, or amendment of any provisions hereof, shall become effective only by supplemental written agreement between the parties.
- 11.2 (A) Any of the following events or conditions shall constitute a default of Customer under the Agreement:
- (1) Default in the delivery of any payment or any sums hereunder for a period of sixty (60) Days after the same becomes due;
 - (2) Any other breach of the material terms and conditions of the Agreement and the failure of Customer to cure such breach within thirty (30) Days after written demand by Company or such longer period of time after such notice as may be reasonably required to cure such breach if the breach is not reasonably curable within such thirty (30) Day period, provided that Customer shall have commenced such cure within such thirty (30) Day period and thereafter diligently continues its efforts to cure such breach until such breach shall have been fully cured;

- (3) Customer shall (i) apply for or consent to the appointment of or taking of possession by a receiver or liquidator of itself or substantially all of its property, (ii) make a general assignment for the benefit of its creditors, (iii) commence a voluntary case under the Federal Bankruptcy Code, or (iv) file a petition seeking to take advantage of any other law relating to bankruptcy, insolvency, reorganization, winding-up or composition or adjustment of debts of Customer;
 - (4) A proceeding or case shall be commenced, without the application or consent of the affected party, in any court of competent jurisdiction, seeking (i) liquidation, reorganization, dissolution, winding-up or composition or adjustment of debts of Customer (ii) the appointment of a trustee, receiver, liquidator or custodian of such party or of all or substantially all of its assets, or (iii) similar relief under any law relating to bankruptcy or insolvency, and such proceeding or case shall continue undismissed, or an order, judgment or decree approving or ordering any of the foregoing shall be entered and continue unstayed, for a period of ninety (90) Days; or
 - (5) If any certificate, statement, representation, or warranty furnished by Customer proves to be false or incomplete in any material respect.
- (B) Upon the happening of any event of default as set forth in subparagraph 11.2(A) above, Company shall have the right to do any one or more of the following without demand or notice of any kind:
- (1) Declare due, sue for, and receive from Customer the sum of all transportation payments and all other amounts due and owing under the Agreement plus the sum of all transportation payments and other amounts to become payable during the balance of the term of the Agreement;
 - (2) Retake possession of the entire capacity of the Pipeline System without any court order or other process of law and without any rights of Company being thereupon terminated;
 - (3) Terminate the Agreement and the Exhibits;
 - (4) Pursue any other remedy at law or in equity.
- (C) Any of the following events or conditions shall constitute an Event of Default with respect to Company under the Agreement:
- (1) Default in the crediting of any sums due to Customer or in the payment of any other sums due to Customer under the Agreement for a period of ninety (90) Days after the same is established by Company to have become due;

- (2) Company's breach of any material term or condition of the Agreement and the failure of Company to cure such breach within thirty (30) Days after written demand by Customer or such longer period of time after such notice as may be reasonably required to cure such breach if the breach is not reasonably curable within such thirty (30) Day period, provided that Company shall have commenced such cure within such thirty (30) Day period and thereafter diligently continues its efforts to cure such breach until such breach shall have been fully cured.
- (3) Company shall (i) apply for or consent to the appointment of or taking of possession by a receiver or liquidator of itself or substantially all of its property, (ii) make a general assignment for the benefit of its creditors, (iii) commence a voluntary case under the Federal Bankruptcy Code, or (iv) file a petition seeking to take advantage of any other law relating to bankruptcy, insolvency, reorganization, winding-up or composition or adjustment of debts of Company;
- (4) A proceeding or case shall be commenced, without the application or consent of the affected party, in any court of competent jurisdiction, seeking (i) liquidation, reorganization, dissolution, winding-up or composition or adjustment of debts of Company, (ii) the appointment of a trustee, receiver, liquidator or custodian of such party or of all or substantially all of its assets, or (iii) similar relief under any law relating to bankruptcy or insolvency, and such proceeding or case shall continue undismissed, or an order, judgment or decree approving or ordering any of the foregoing shall be entered and continue unstayed, for a period of ninety (90) Days;
- (D) Upon the happening of any event of default as set forth in subparagraph 11.2(C) above, Customer shall have the right to do any one or more of the following without demand or notice of any kind:
 - (1) Declare due, sue for, and receive from Company the sum of all outstanding credits and other amounts due and owing under the Agreement;
 - (2) Terminate the Agreement and the Exhibits;
 - (3) Pursue any other remedy at law or in equity.
- (E) The rights granted to Company and Customer hereunder shall be cumulative as to each and action on one shall not be deemed to constitute an election or waiver of any other right to which Company or Customer may be entitled.
- (F) Upon the termination of the Agreement, whether by lapse or time or otherwise, Customer will surrender any and all rights in the Pipeline System immediately.

- 11.3 Company shall not be liable for damages resulting from interruption of service, when such interruption is necessary to make repairs, changes, or adjustments in Company's equipment and facilities.
- 11.4 No waiver by Company or Customer of any default or the other under the Agreement shall operate as a waiver of any future default, whether of a like or different character.
- 11.5 The Agreement shall be binding upon, and inure to the benefit of, the parties hereto and their successors and assigns. In the event Customer sells, leases or otherwise transfers its distribution system to a third party, whether voluntarily or involuntarily, then Customer agrees, as a part of such sale, lease or transfer, to assign to such third party and to require such third party to accept the assignment of the Agreement and the Exhibits included therein, subject to the provisions of the following sentence. Neither the Agreement nor the Exhibits attached thereto nor the rights and obligations of Customer hereunder may be assigned without the consent of Company, which consent shall not be unreasonably withheld.
- 11.6 Customer will not mortgage, create a security interest in, or encumber the Agreement, or sublet the rights granted hereby, or permit its use by others, or pledge, loan, sublet, create a security interest in, or in any other manner attempt to dispose of such rights, or permit its use by others, or suffer any liens or legal process to be incurred or levied thereon; provided, however, that Customer may grant a security interest or similar encumbrance in connection with any existing financing arrangement associated with Customer's facility.
- 11.7 Except as provided below, Customer shall pay all fees, taxes, charges, and assessments imposed by or on behalf of any governmental entity in connection with the Agreement or in connection with the purchase, transportation, and disposition of Gas by or on behalf of Customer pursuant to the Agreement including but not limited to municipal and/or supplemental fees, franchise fees and any supplements thereto and taxes; provided that Company shall pay all ad valorem taxes and assessments levied on the Pipeline System and all appurtenant facilities. Company shall file all returns required for the Pipeline System and all appurtenant facilities. Customer will furnish Company with any information available to Customer in connection with Company's obligations under this section.
- 11.8 Company and Customer agree to exercise and take reasonable steps necessary to safeguard and cause their officers, directors, employees, agents, advisers, and representatives to safeguard the confidentiality of the Agreement and the terms and conditions thereof (as contrasted with the existence and effectiveness of the Agreement which are not confidential) and not to disclose any part of it or any information derived there from or any negotiations relating thereto to any party or person except that limited number of people within Company's and Customer's organizations, and their advisers, lenders and potential investors, as may need to know the terms and conditions hereof in order to evaluate, understand, execute and perform the Agreement. Company and Customer agree not to copy or permit the copying of the Agreement, except as may be necessary for their operations. In the event Customer or Company or any of their officers, directors, employees, agents, or

Representatives, is requested or required (by oral or written question or request for information or documents in legal proceedings, interrogatories, subpoena, Civil Investigative Demand or similar process) to disclose any information concerning the Agreement or the terms and conditions thereof or any negotiations relating thereto, it is agreed that the party receiving such question or request will provide the other parties with prompt notice thereof so that such other parties may seek a protective order or other appropriate relief or a release from the other parties. It is further agreed that if, in the absence of a protective order or receipt of a release, the other party is compelled to disclose such information or else stand liable for contempt or suffer other censure or penalty or adverse effect, then such party may disclose such information. The parties hereto are further authorized to make disclosure of the Agreement as may be required by Federal, state, or local regulation or agency or as may be required by auditors or accountants in connection with the preparation of financial statements or tax returns. Disclosure hereunder shall not constitute a basis for defense, termination, or modification of the Agreement.

ARTICLE 12
DISPUTE RESOLUTION

- 12.1 Any dispute arising out of or relating to this Agreement for which a claim or demand is asserted that is equal to or exceeds a value of \$25,000 shall be resolved in accordance with the procedures specified in this Article 12, which shall be the sole and exclusive procedures for the resolution of any such disputes. The cost of conducting the dispute resolution process, including the fees and expenses of any arbitrators, shall be shared equally by the parties, and each party shall bear its own costs, including any attorneys' fees or other expenses incurred in the process. Each party is required to continue to perform its obligations under this Agreement pending final resolution of any dispute arising out of or relating to this Agreement, unless to do so would be impossible or impracticable under the circumstances.
- 12.2 Negotiation. The parties shall attempt in good faith to resolve any dispute arising out of or relating to this Agreement promptly by negotiation between management level personnel who have authority to settle the controversy. Any person may give the other party written notice of any dispute not resolved in the normal course of business. Within fifteen (15) days after delivery of the notice, the receiving party shall submit to the other a written response. Within thirty (30) days after delivery of the initial notice, the designated managing personnel of both parties shall meet at a mutually acceptable time and place, and thereafter as often as they reasonably deem necessary to attempt to resolve the dispute. All reasonable requests for information made by one party to the other will be honored. All negotiations pursuant to this clause are confidential and shall be treated as compromise and settlement negotiations for purposes of applicable rules of evidence.
- 12.3 Arbitration. Any dispute arising out of or relating to this Agreement, including the breach, termination or validity thereof, which has not been resolved by negotiation as provided above within sixty (60) days after initiation of negotiations shall be finally resolved by arbitration in accordance with the CPR Rules for Non-Administered Arbitration then

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currently in effect by (i) a sole arbitrator agreed upon by the parties if the dispute is between \$25,000 and \$250,000, or (ii) three independent and impartial arbitrators, of whom each party shall designate one, if the dispute is in excess of \$250,000. All arbitrators shall be knowledgeable in the natural gas industry. The arbitrator(s) shall have no authority to award consequential, punitive or exemplary damages. Provided, however, if one party fails to participate in the negotiation as agreed herein, the other party can commence arbitration prior to the expiration of the time periods set forth. The arbitration shall be governed by the Federal Arbitration Act, 9 U.S.C. §§ 1-16, and judgment upon the award rendered by the arbitrator(s) may be entered by any court having jurisdiction thereof. Unless otherwise agreed, the place of arbitration shall be Austin, Texas.

RATE CASE EXPENSE RATE**A. APPLICABILITY**

The Rate Case Expense (RCE) rate as set forth in Section (B) below is pursuant to Gas Utilities Docket No. 10285: Statement of Intent Filed by Texas Gas Service Company to Change Rates in the Environs of the Rio Grande Valley Service Area, Final Order Finding of Fact No. 43. This rate shall apply to the following rate schedules of Texas Gas Service Company in the unincorporated areas served in Rio Grande Valley Area of Texas including Alamo, Alton, Bayview, Brownsville, Combes, Donna, Edcouch, Edinburg, Elsa, Harlingen, Hidalgo, La Feria, La Joya, La Villa, Laguna Heights, Laguna Vista, Los Fresnos, Lyford, McAllen, Mercedes, Mission, Monte Alto, Olmito, Palm Valley, Palmview, Penitas, Pharr, Port Isabel, Primera, Progreso, Rancho Viejo, Raymondville, Rio Hondo, San Benito, San Carlos, San Juan, Santa Rosa, and Weslaco, Texas: 1Z, 2Z, 3Z, 4Z, T-1 and T-2.

B. RCE RATE

All Ccf during each billing period: \$ 0.02072 per Ccf

This rate will be in effect for approximately 24 months until all approved and expended rate case expenses are recovered under the applicable rate schedules. Texas Gas Service Company will recover \$219,700.72 in actual expense and up to \$10,000.00 in estimated expense, not to exceed actual expense. Texas Gas Service Company will not include any interest calculations in the recovery. The Rate Case Expense Surcharge will be a separate line item on the bill.

C. OTHER ADJUSTMENTS

Taxes: Plus applicable taxes and fees (including franchise 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.

E. COMPLIANCE

TGS shall file a reconciliation report annually on or before December 31st, commencing in 2014. TGS shall file the report with the Commission, Addressed to the Director of Gas Services Division and referencing Gas Utilities Docket No. 10285, Rate Case Expense Recovery Report. The report shall include:

- The volumes used by month by customer class during the applicable period,
- The amount of Rate Case Expense recovered, by month
- The outstanding balance, by month

Effective Date:

Issuance date of Final Order in GUD No. 10285