

**BEFORE THE  
RAILROAD COMMISSION OF TEXAS**

**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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**GAS UTILITIES DOCKET NO. 10285**

**FINAL ORDER**

Notice of Open Meeting to consider this Order was duly posted with the Secretary of State within the time period provided by law pursuant to TEX. GOV'T CODE ANN. Chapter 551, *et seq.* (Vernon 2008 & Supp. 2013). The Railroad Commission of Texas adopts the following findings of fact and conclusions of law and orders as follows:

**FINDINGS OF FACT**

1. Texas Gas Service Company (TGS), 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
<b>Residential</b>	
Customer Charge	\$12.080
Usage Rate	\$0.17840
<b>Commercial</b>	
Customer Charge	\$41.670
Usage Rate	\$0.17960
<b>Church</b>	
Customer Charge	\$29.17
Usage Rate	\$0.17960
<b>Public Authority</b>	
Customer Charge	\$45.51
Usage Rate	\$0.18690
<b>Industrial</b>	
Customer Charge	\$74.02
Usage Rate	\$0.16480
<b>Transportation T-1</b>	
Customer Charge	\$127.82
Usage Rate	\$0.1301
<b>Transportation T-2</b>	
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:

<b>Customer Class</b>	<b>Allocated Increase</b>
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%
<b>Total</b>	<b>100.00%</b>

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 31<sup>st</sup> 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 26<sup>th</sup> 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

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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
<b>Residential</b>	
Customer Charge	\$ 12.08
Usage Rate	\$ 0.1784
<b>Commercial</b>	
Customer Charge	\$ 41.67
Usage Rate	\$ 0.1796
<b>Church</b>	
Customer Charge	\$ 29.17
Usage Rate	\$ 0.1796
<b>Public Authority</b>	
Customer Charge	\$ 45.51
Usage Rate	\$ 0.1869
<b>Industrial</b>	
Customer Charge	\$ 74.02
Usage Rate	\$ 0.1648
<b>T-1 Transportation</b>	
Customer Charge	\$ 127.82
Usage Rate	\$ 0.1301
<b>T-2 Transportation</b>	
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 this 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 26<sup>th</sup> day of September, 2013.


TEXAS GAS SERVICE COMPANY

By:

  
Dane McLaughlin  
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 determined 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.

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July 31, 2006 (Incorporated)  
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**Rio Grande Valley Service Area**

**RATE SCHEDULE T-GEN**  
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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.

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**TEXAS GAS SERVICE COMPANY**  
**Rio Grande Valley Service Area**

**RATE SCHEDULE T-GEN**  
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**Rate Schedule Withdrawn**

## 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 recomputed 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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**TEXAS GAS SERVICE COMPANY**  
**Rio Grande Valley Service Area**

**RATE SCHEDULE T-GEN**  
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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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Rate Schedule Withdrawn

**TEXAS GAS SERVICE COMPANY**  
**Rio Grande Valley Service Area**

**RATE SCHEDULE T-GEN**  
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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 hereof, 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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**RATE SCHEDULE T-GEN**  
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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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**RATE SCHEDULE T-GEN**  
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**Rate Schedule Withdrawn**

## 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.

Initial - Supersedes Sheet Dated  
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**TEXAS GAS SERVICE COMPANY**  
**Rio Grande Valley Service Area**

**RATE SCHEDULE T-GEN**  
**Page 8 of 8**

**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 a 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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and Conditions for Firm Transportation)

Meters Read On and After  
July 31, 2006 (Incorporated)  
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Rate Schedule Withdrawn

# **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 CCNG	TOTAL RGV AREA PLANT AND CCNG	TOTAL RGV AREA ACCUMULATED DEPRECIATION	TOTAL RGV AREA NET PLANT
<b>INTANGIBLE PLANT</b>						
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
<b>GATHERING AND TRANSMISSION PLANT</b>						
5	(325) Land & Land Rights	\$19,858	\$0	\$19,858	\$0	\$19,858
6	(327) Field Compress Station Structures	0	0	0	0	0
7	(328) Field Meas/Reg Station Structures	2,840	0	2,840	578	2,084
8	(329) Other Structures	1	0	1	0	1
9	(332) Field Lines	543,422	0	543,422	118,581	424,881
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	58,351
12	(336) Purification Equip	1,488	0	1,488	324	1,182
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	(366) Meas/Reg Station Structures	189,380	0	189,380	28,529	142,850
16	(367) Mains	7,889,289	2,841,831	10,730,920	(2,236,422)	12,987,342
17	(368) Compressor Station Equip	28,823	0	28,823	5,932	20,891
18	(369) Measure/Reg. Station Equipment	3,422,271	1,079,940	4,502,212	(788,110)	5,288,321
19	(371) Other Equipment	156,540	1,838	158,177	(10,888)	188,863
20	Total Gathering and Transmission Plant	\$12,389,088	\$3,923,209	\$16,292,297	(\$2,860,269)	\$19,152,555
<b>DISTRIBUTION PLANT</b>						
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	36,938,993	1,072,531	38,011,524	11,081,808	26,949,915
24	(377) Compressor Station Equipment	0	0	0	0	0
25	(378) Meas. & Reg. Station - General	2,808,818	179,381	2,988,199	308,295	2,881,904
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	7,780,844	13,371,514
28	(381) Meters	8,386,182	215,558	8,601,740	5,841,719	2,960,021
29	(382) Meter Installations	0	495	495	3,098	(2,803)
30	(383) House Regulators	7,017,900	44,915	7,062,815	7,390,165	(327,350)
31	(385) Indust. Meas. & Reg. Stat. Equipment	242,868	0	242,868	(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	208,871	0	208,871	232,318	(25,447)
34	Total Distribution Plant	\$77,277,328	\$2,028,082	\$79,305,407	\$32,359,262	\$46,946,145
<b>GENERAL PLANT</b>						
35	(389) Land & Land Rights	\$130,471	\$0	\$130,471	\$0	\$130,471
36	(390) Structures & Improvements	1,380,899	288,637	1,627,537	717,810	909,928
37	(391) Office Furniture & Equipment	3,833,855	981,336	4,795,191	2,185,974	2,608,217
38	(392) Transportation Equipment	1,438,539	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	233,874	85,005	298,879	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	3,508	704
45	Total General Plant	\$9,898,405	\$1,785,293	\$11,683,698	\$4,132,758	\$7,530,939
46	Total	\$99,544,819	\$7,718,583	\$107,261,402	\$33,831,752	\$73,829,650
				\$107,281,402		\$73,829,650

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 Compress 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	1.9800%	
17	(368) Compressor Station Equip	2.5200%	
18	(369) Meas/Reg. Station Equipment	2.4600%	
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	2.5800%	
23	(375.2) Other System Structures	2.1600%	
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	1.0800%	
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 23<sup>rd</sup> 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)

	Incorporated	
	Current	
Residential		
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
-----------------------	----	--------

### 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
1	\$ 15.96
1.4	\$ 17.85
2	\$ 20.67
3	\$ 25.39
4	\$ 30.10
5	\$ 34.81
6	\$ 39.52
7	\$ 44.24
8	\$ 48.95
9	\$ 53.66

Current - COG Included
\$ 18.82
\$ 21.84
\$ 26.38
\$ 33.95
\$ 41.51
\$ 49.08
\$ 56.64
\$ 64.21
\$ 71.77
\$ 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		

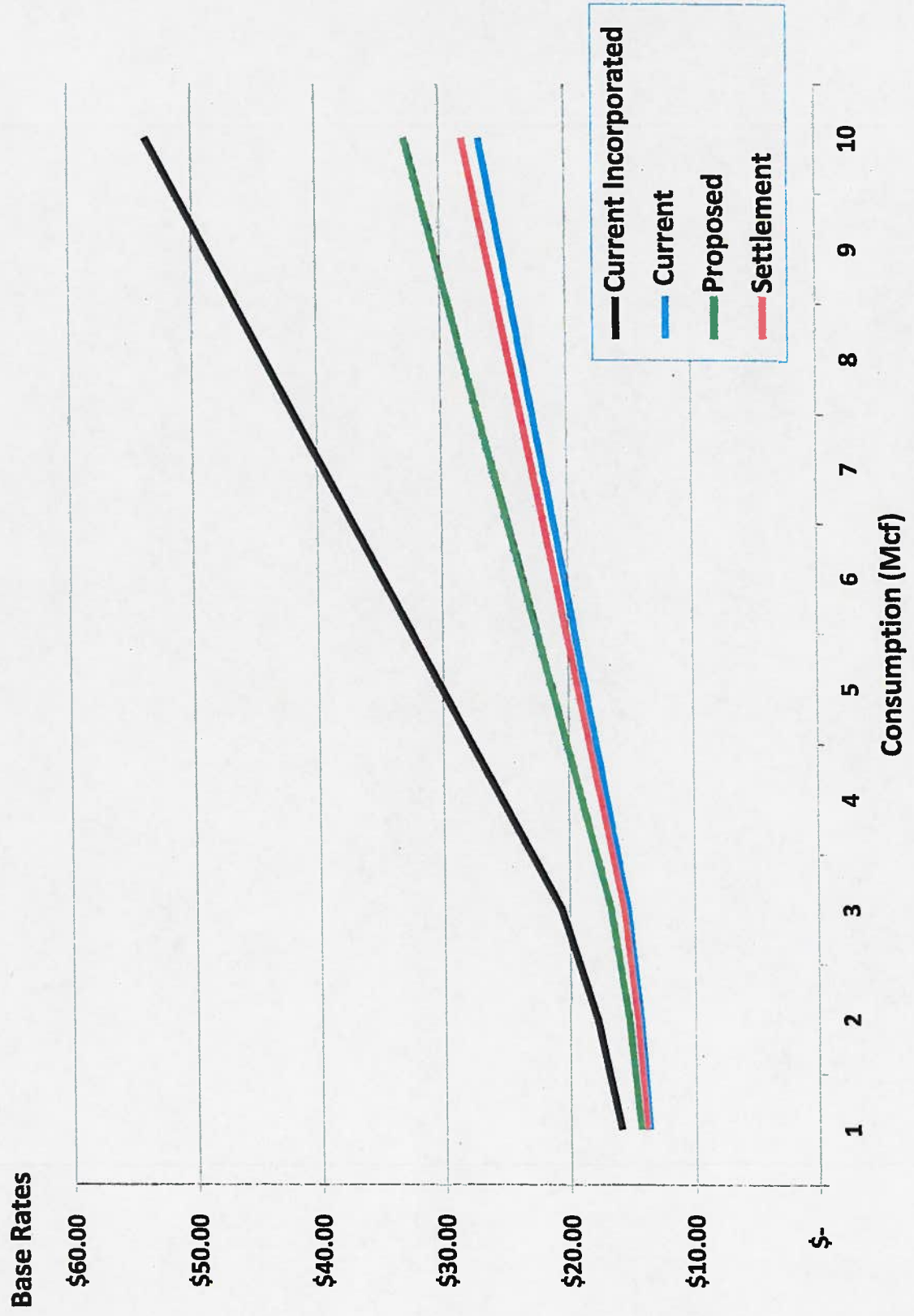
<b>Residential</b>									
Customer Charge	\$	12.08	\$	12.08	\$	12.08	\$	12.08	
All Ccf	\$	0.1635	\$	0.2303	\$	0.1784	\$	0.1784	
Mcf	\$	1.635	\$	2.303	\$	1.784	\$	1.784	
<b>Commercial</b>									
Customer Charge	\$	41.67	\$	41.67	\$	41.67	\$	41.67	
All Ccf	\$	0.1450	\$	0.1796	\$	0.1796	\$	0.1796	
Mcf	\$	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)								
1	\$ 15.96	\$ 13.72	\$ 14.38	\$ 18.82	\$ 16.57	\$ 17.24	1.09%	
1.4	\$ 17.85	\$ 14.37	\$ 15.30	\$ 21.84	\$ 18.36	\$ 19.30	1.45%	
2	\$ 20.67	\$ 15.35	\$ 16.69	\$ 26.38	\$ 21.06	\$ 22.39	1.94%	
3	\$ 25.39	\$ 16.99	\$ 18.99	\$ 33.95	\$ 25.54	\$ 27.55	2.63%	
4	\$ 30.10	\$ 18.62	\$ 21.29	\$ 41.51	\$ 30.03	\$ 32.70	3.20%	
5	\$ 34.81	\$ 20.26	\$ 23.60	\$ 49.08	\$ 34.52	\$ 37.86	3.68%	
6	\$ 39.52	\$ 21.89	\$ 25.90	\$ 56.64	\$ 39.01	\$ 43.02	4.08%	
7	\$ 44.24	\$ 23.53	\$ 28.20	\$ 64.21	\$ 43.50	\$ 48.17	4.43%	
8	\$ 48.95	\$ 25.16	\$ 30.50	\$ 71.77	\$ 47.98	\$ 53.33	4.74%	
9	\$ 53.66	\$ 26.80	\$ 32.81	\$ 79.34	\$ 52.47	\$ 58.48	5.00%	

\* 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:

**TEXAS GAS SERVICE COMPANY**  
**Rio Grande Valley Service Area**

**RATE SCHEDULE 2Z**

**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

Supersedes Same Sheet Dated  
July 15, 2009

Meters Read On and After

**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:

**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:

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**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**

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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:

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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.

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**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**

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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:**

Supercedes 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**

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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.

Supersedes Same Sheet Dated  
April 30, 2007

Meters Read On and After

**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 biphenyls (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

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 31<sup>st</sup>, 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

Initial Rate Schedule

Final Order

Meters Read On and After