

**BEFORE THE  
RAILROAD COMMISSION OF TEXAS**

<b>APPLICATION OF HUGHES NATURAL GAS, INC. FOR TEST YEAR 2013 ANNUAL INTERIM RATE ADJUSTMENT PROGRAM FOR THE ENVIRONS AREA.</b>	§ § § § §	<b>GAS UTILITIES DOCKET NO. 10386</b>
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**INTERIM RATE ADJUSTMENT 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 Chapter 551. The Railroad Commission of Texas adopts the following findings of fact and conclusions of law and orders as follows:

**FINDINGS OF FACT**

Background

1. Hughes Natural Gas, Inc. (HNG) is a "gas utility," as that term is defined in the TEXAS UTILITY CODE, and is subject to the jurisdiction of the Railroad Commission of Texas (Commission).
2. HNG owns and operates a gas distribution system (Distribution).
3. On October 1, 2014, HNG filed an application for an annual interim rate adjustment (IRA) applicable to customers located in its environs areas.
4. HNG requested that the interim rate adjustments for all customer classes become effective on January 1, 2015.
5. On October 2, 2014, the Commission suspended implementation of HNG's proposed interim rate adjustments until January 15, 2015, which would be 45 days following the 60<sup>th</sup> day after the application would be considered complete.
6. TEX. UTIL. CODE, §104.301 does not provide a remedy for parties that oppose an annual interim rate adjustment.
7. 16 TEX. ADMIN. CODE, §7.7101 allows written comments or a protest concerning the proposed interim rate adjustment to be filed with the Gas Services Division.

8. Letters of protest were received in the docket from three identified HNG environs area customers.
9. No further questions or comments were received by the Commission from the protestants.
10. Neither TEX. UTIL. CODE, §104.301 nor 16 TEX. ADMIN. CODE, §7.7101 provides the opportunity for parties to intervene in the Commission's review of an application for an annual interim rate adjustment.
11. This docket is the first annual interim rate adjustment for the distribution system environs of HNG following GUD No. 10190.
12. Until promulgation of TEX. UTIL. CODE, §104.301, a utility could not increase its rates applicable to environs customers without filing with the Commission a formal statement of intent rate case, including a comprehensive cost of service rate review.
13. HNG's proposed interim rate adjustments will allow HNG an opportunity to recover, subject to refund, a return on investment, depreciation expense, and related taxes on the incremental cost of infrastructure investment since its last rate case, GUD No. 10190, without the necessity of filing a statement of intent rate case and without review by the Commission of HNG's comprehensive cost of service.

#### Applicability

14. This docket applies to only those rates over which the Commission has original jurisdiction, including all of the Distribution system environs customers.
15. For the environs areas, HNG's year-end customer counts by class for 2013 were 3,434 residential customers and 47 commercial customers.<sup>1</sup>

#### Most Recent Comprehensive Rate Case

16. HNG's most recent rate case for the area in which an interim rate adjustment can be implemented is GUD No. 10190, *Statement of Intent of Hughes Natural Gas, Inc. To Change Gas Distribution Rates in the Unincorporated Towns and Rural Areas of Austin, Colorado, Grimes, Harris, Montgomery and Waller Counties, Texas*.
17. GUD No. 10190 was filed on July 6, 2012.
18. In that proceeding, the Examiners identified deficiencies in the Statement of Intent as originally filed.

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<sup>1</sup> IRA-16 and response to Staff's RFI No.1-6.

19. HNG subsequently filed a motion for Abatement, which was granted on September 14, 2012.
20. HNG re-filed its Statement of Intent on November 2, 2012 in GUD No. 10190.
21. The data used in the re-filed Statement of Intent in GUD No. 10190 was based on a test-year ending September 30, 2012.
22. It is reasonable to regard November 2, 2012 as the filing date of HNG's Statement of Intent in GUD No. 10190.
23. A hearing in GUD No. 10190 was held from February 6, 2013 through February 8, 2013. On February 19, 2013 a Settlement Agreement was filed in the case.
24. HNG, Commission Staff, and the City of Magnolia are signatories to the Settlement Agreement.
25. The Commission signed the GUD No. 10190 Final Order on March 26, 2013, adopting the provisions of the Settlement Agreement, with the rates becoming effective the same day.
26. The base rates currently charged by HNG were set by the Commission in GUD No. 10190.
27. The following chart shows the factors that were used for Distribution to establish or used in the Final Order setting rates in GUD No. 10190 to calculate the return on investment, depreciation expense, and incremental federal income tax.

#### CALCULATION FACTORS

<b>Factor</b>	<b>Distribution</b>
Rate of return	9.00%
Depreciation Rate	Varies
Federal Income Tax Rate	35%

#### Interim Rate Adjustment

28. HNG seeks approval from the Commission for an adjustment to its revenue, based on incremental net utility plant investment, with regard to the following components: return on investment; depreciation expense; and federal income taxes.
29. The revenue amounts to be recovered through HNG's proposed annual interim rate adjustments are incremental to the revenue requirement established in HNG's most recent

- rate case for the area in which the interim rate adjustment is to be implemented, GUD No. 10190.
30. Under TEX. UTIL. CODE § 7.7101(f)(3), for the first IRA following the most recent rate case, a utility may adjust its rates based on the difference between invested capital at the end of the most recent rate case test-year and the invested capital at the end of the calendar year following the end of the most recent rate case test-year.
  31. In this first interim rate adjustment following the most recent rate case, GUD No. 10190, HNG adjusted its rates based on the difference between Distribution's invested capital at the end of the most recent rate case test-year (September 30, 2012) and the invested capital at the end of the calendar-year following the end of the most recent rate case test-year (December 31, 2013).
  32. The value of HNG's invested capital is equal to the original cost of the investment at the time the investment was first dedicated to public use minus the accumulated depreciation related to that investment for Distribution's interim rate adjustments.
  33. HNG's incremental revenue requirement under the proposed interim rate adjustment is \$336,725, as shown in Exhibit B.
  34. HNG is required to use the same factors to calculate the interim return on investment, depreciation expense, and incremental federal income tax as those established or used in the final order setting rates in HNG's most recent rate case for the area in which the interim rate adjustment is to be implemented.
  35. HNG is required to allocate the revenue to be collected through the interim rate adjustment among its customer classes in the same manner as the cost of service was allocated among its customer classes in its most recent rate case for the area in which the interim rate adjustment is to be implemented.
  36. HNG proposed the interim rate adjustment as a flat rate to be applied to the monthly customer charges and monthly meter charges rather than as a volumetric rate to be applied to the initial block usage rates.
  37. HNG is required to show its annual interim rate adjustments on its customers' monthly billing statements as a surcharge.
  38. As required by TEX. UTIL. CODE, §104.301(f), HNG filed an annual earnings monitoring report with its application. The earnings monitoring report states that HNG's actual rate of return in 2013 was 4.92% as compared with the 9.00% allowed rate of return established in GUD No. 10190.
  39. Under TEX. ADMIN. CODE § 7.7101(I), HNG must file a rate case, Statement of Intent, supporting the IRA's not later than 180 days after the fifth anniversary of the effective

date of its initial IRA, or by May 30, 2020.

40. Under TEX. ADMIN. CODE § 7.7101(j), “any change in investment and related expenses and revenues that have been included in any interim rate adjustment shall be fully subject to review for reasonableness and prudence” in the next rate case. Per TEX. ADMIN. CODE § 7.7101(i), “all amounts collected from customers under an interim rate adjustment tariff” are subject to refund until the conclusion of the next rate case.
41. When the Customer Charge and proposed 2013 Interim Rate Adjustments (Columns C and D) are added, the resulting customer charge for affected customer classes is shown in Column E of the table below.

**HNG Customer Charges and Interim Rate Adjustment (IRA)**

Customer Class	Customer Charge (GUD 10190)	Customer Charge – 1 <sup>st</sup> year Phase-in (GUD 10190)	IRA - 2013 (GUD 10386)	New Customer Charge
A	B	C	D	E
Residential	\$ 17.10	\$ 18.35	\$ 7.83	\$ 26.18
Commercial	\$ 17.10	\$ 18.35	\$ 7.83	\$ 26.18

42. HNG filed its Annual Project Report as required by 16 TEX. ADMIN. CODE § 7.7101(d).
- The change in utility plant investment for the 15-month test period is \$2,704,905 before retirements, transfers, and adjustments, and \$2,426,563 after retirements, transfers and adjustments.<sup>2</sup> Net capital additions included in this docket totaled \$2,194,558.<sup>3</sup>
  - Safety-related capital project additions totaled \$ 1,544,754.<sup>4</sup>
  - Safety-related improvements/infrastructure projects are 57.11% of total net additions.<sup>5</sup>
  - Integrity testing projects are 0.00% of total net additions.<sup>6</sup>
43. HNG is required to allocate the revenue to be collected through the IRA among its customer classes in the same manner as the cost of service was allocated among its

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<sup>2</sup> Schedule IRA – 9.

<sup>3</sup> Schedule IRA – 3.

<sup>4</sup> Response to Staff’s RFI No. 1-7.

<sup>5</sup> Response to Staff’s RFI No. 1-7.

<sup>6</sup> Response to Staff’s RFI No. 1-9.

customer classes in its most recent rate case for the area in which the IRA is to be implemented, GUD No. 10190.

44. GUD No. 10190 established uniform rates as applied to both residential and commercial customer classes served by HNG, eliminating use of allocation factors between customer classes. In this initial IRA, uniformity of rates between residential and commercial class customers is preserved consistent with GUD No. 10190.
45. The proposed interim rate adjustment does not require an evidentiary proceeding; rather, TEX. UTIL. CODE, §104.301 and 16 TEX. ADMIN. CODE, §7.7101 require the regulatory authority to review a utility's method of calculating the interim rate adjustment.
46. Due process protections are deferred until HNG files its next full statement of intent rate case.

#### Notice

47. HNG provided adequate notice to customers via direct mailing in the unincorporated areas on November 6, 2014.

#### Comprehensive Rate Case Required

48. HNG is not required to initiate a rate case supporting a statement of intent at the time it applies for an interim rate adjustment.
49. A gas utility that implements an interim rate adjustment and does not file a rate case before the fifth anniversary of the date its initial interim rate adjustment became effective is required to file a rate case not later than the 180th day after that anniversary.

#### Review of Interim Rate Adjustment

50. HNG's proposed allocation methodology complies with TEX. UTIL. CODE, §104.301, and with 16 TEX. ADMIN. CODE, §7.7101.

51. HNG's proposed customer and meter counts comply with TEX. UTIL. CODE, §104.301, and with 16 TEX. ADMIN. CODE, §7.7101. For calculating the number of customer charges or meter charges per year, it is reasonable for the Commission to approve use of Distribution's 2013 actual number of customers. The following total numbers of customer and meter charges for use in the calculation of the interim rate adjustment are reasonable:

<b>Customer Class</b>	<b>Total Number of Customer Charges / Meters</b>
<b>Distribution:</b>	
Residential (R)	3,434
Commercial (C)	47
<b>Total</b>	<b>3,481</b>

52. It is reasonable for the Commission to approve HNG's application for an interim rate adjustment. The following amounts of interim rate adjustment revenue and additional customer charges by customer class are reasonable:

<b>Customer Class</b>	<b>Interim Rate Adjustment Revenue</b>	<b>Additional Customer / Meter Charges</b>
<b>Distribution:</b>	\$336,725	
Residential (R)	\$327,233	\$ 7.83
Commercial (C)	\$9,492	\$ 7.83

53. HNG's 2013 IRA is \$336,725, based on an adjusted incremental net utility plant investment increase of \$2,194,558<sup>7</sup>, of which approximately \$317,083, or 94.17%, is attributed to the unincorporated areas.

Reimbursements of Expense

54. As provided for in the statute and the rule, a gas utility that implements an interim rate adjustment is required to reimburse the Commission for the utility's proportionate share of the Commission's annual costs related to the administration of the interim rate adjustment mechanism.
55. After the Commission has finally acted on HNG's application for an interim rate adjustment, the Director of the Gas Services Division will estimate HNG's proportionate share of the Commission's annual costs related to the processing of such applications.

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<sup>7</sup> Schedule IRA – 3.

56. In making the estimate of HNG's proportionate share of the Commission's annual costs related to the processing of such applications, the Director will take into account the number of utilities the Commission reasonably expects to file for interim rate adjustments during the fiscal year, and the costs expected to be incurred in processing such applications.

### CONCLUSIONS OF LAW

1. Hughes Natural Gas, Inc. (HNG) is a "gas utility" as defined in TEX. UTIL. CODE § 101.003(7) and § 121.001, and is therefore subject to the jurisdiction of the Railroad Commission of Texas (Commission).
2. The Commission has jurisdiction over HNG, HNG's applications for interim adjustments for incremental changes in investment, and the subject matter of this case under TEX. UTIL. CODE §102.001, §104.001, §104.002, and §104.301.
3. Under TEX. UTIL. CODE ANN. §102.001, 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. Under the provisions of the TEX. UTIL. CODE §104.301 and 16 TEX. ADMIN. CODE § 7.7101, HNG is required to seek Commission approval before implementing an interim rate adjustment tariff for environs customers.
5. HNG filed its applications for interim rate adjustments for changes in investment in accordance with the provisions of TEX. UTIL. CODE §104.301 and 16 TEX. ADMIN. CODE § 7.7101.
6. HNG's application for an interim rate adjustment was processed in accordance with the requirements of TEX. UTIL. CODE ANN. §104.301 and 16 TEX. ADMIN. CODE §7.7101.
7. In accordance with 16 TEX. ADMIN. CODE § 7.315, within thirty days of the effective date of any change to rates or services, HNG is required to file with the Gas Services Division of the Commission its revised tariffs.
8. HNG may not charge any rate that has not been successfully filed and accepted as a tariff filing electronically pursuant to TEX. UTIL. CODE § 102.151 and 104.002 and 16 TEX. ADMIN. CODE § 7.315 (2008).
9. In accordance with TEX. UTIL. CODE §104.301(a) and 16 TEX. ADMIN. CODE § 7.7101(a), the filing date of HNG's' most recent rate case, in which there is a final order setting rates



for the area in which the interim rate adjustment will apply, was no more than two years prior to the date HNG filed its initial interim rate adjustment.

10. HNG is required, under TEX. UTIL. CODE ANN. §104.301(e) and 16 TEX. ADMIN. CODE § 7.7101(d), to file with the Commission an annual project report, including the cost, need, and customers benefited by the change in investment, and describing the investment projects completed and placed in service during the preceding calendar year and the investments retired or abandoned during the preceding calendar year.
11. HNG shall include in all future annual interim rate adjustment filings, relocation project reports that provide additional information about relocation project costs included in investment projects, in the same format as required in this docket.
12. HNG is required, under TEX. UTIL. CODE ANN. §104.301(f) and 16 TEX. ADMIN. CODE § 7.7101(e), to file with the Commission an annual earnings monitoring report demonstrating the Utility's earnings during the preceding calendar year.
13. HNG is required, under 16 TEX. ADMIN. CODE §7.7101(h), to recalculate its approved interim rate adjustments annually and is required to file an application for an annual adjustment no later than 60 days prior to the one-year anniversary of the proposed implementation date of the previous interim rate adjustment application.
14. In accordance with 16 TEX. ADMIN. CODE § 7.7101(i), all amounts collected from customers under HNG's interim rate adjustment tariffs or rate schedules are subject to refund. The issues of refund amounts, if any, and whether interest should be included on refunded amounts and, if so, the rate of interest, shall be addressed in the rate case a gas utility files or the Commission initiates after the implementation of an interim rate adjustment and shall be the subjects of specific findings of fact in the Commission's final order setting rates.
15. In accordance with 16 TEX. ADMIN. CODE § 7.7101(j), in the rate case that HNG files or the Commission initiates after the implementation of an interim rate adjustment, any change in investment and related expenses and revenues that have been included in any interim rate adjustment shall be fully subject to review for reasonableness and prudence. Upon issuance of a final order setting rates in the rate case that HNG files or the Commission initiates after the implementation of an interim rate adjustment, any change in investment and related expenses and revenues that have been included in any interim rate adjustment shall no longer be subject to review for reasonableness or prudence.
16. The Commission has authority to suspend the implementation of the interim rate adjustment, under TEX. UTIL. CODE § 104.301(a) and 16 TEX. ADMIN. CODE § 7.7101(e).
17. HNG provided adequate notice, in accordance with TEX. UTIL. CODE ANN. § 104.301(a) and 16 TEX. ADMIN. CODE § 7.7101(b).

18. HNG's application for interim rate adjustments, as proposed, comply with all provisions of TEX. UTIL. CODE § 104.301 and 16 TEX. ADMIN. CODE § 7.7101.
19. HNG's interim rate adjustments established in the findings of fact and conclusions of law, comply with the provisions of TEX. UTIL. CODE ANN. § 104.301 and 16 TEX. ADMIN. CODE § 7.7101.
20. In accordance with TEX. UTIL. CODE § 104.301(h) and 16 TEX. ADMIN. CODE § 7.7101(l), HNG shall file a comprehensive rate case for the areas in which the interim rate adjustment is implemented, not later than the 180th day after the fifth anniversary of the date its initial interim rate adjustment became effective.
21. The Commission has authority, under TEX. UTIL. CODE ANN. § 104.301(j) and 16 TEX. ADMIN. CODE § 7.7101(m), to recover from HNG the Utility's proportionate share of the Commission's annual costs related to the administration of the interim rate adjustment mechanism.

**IT IS THEREFORE ORDERED BY THE RAILROAD COMMISSION OF TEXAS THAT** HNG's interim rate adjustments as requested and to the extent recommended to be approved in the findings of fact and conclusions of law are **HEREBY APPROVED** to be effective for bills rendered on or after January 1, 2015.

**IT IS FURTHER ORDERED THAT HNG SHALL** file with the Commission no later than May 30, 2020, a statement of intent to change rates as required under TEX. UTIL. CODE ANN. §104.301(h) (Vernon 2010) and 16 TEX. ADMIN. CODE §7.7101(l) (2010).

**IT IS FURTHER ORDERED THAT** within 30 days of this order HNG **SHALL** electronically file its interim rate adjustment tariffs in proper form that accurately reflect the rates, as expressed in Exhibit A, approved by the Commission in this Order.

**IT IS FURTHER ORDERED THAT HNG SHALL** not charge any rate that has not been electronically filed and accepted by the Commission as a tariff.

**IT IS FURTHER ORDERED THAT HNG SHALL** reimburse the expenses incurred by the Commission in reviewing these applications. The amount of this reimbursement shall be determined by the Director of the Gas Services Division. 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 §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.

Any portion of HNG's application not expressly granted herein is overruled. All requested findings of fact and conclusions of law, which are not expressly adopted herein, are denied. All pending motions and requests for relief not previously granted or granted herein are denied.

SIGNED this 2<sup>nd</sup> day of December 2014.

RAILROAD COMMISSION OF TEXAS

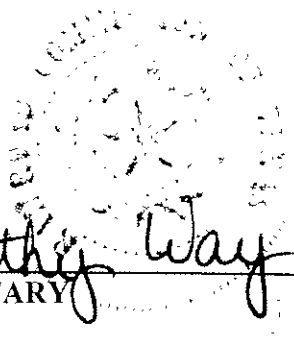
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BARRY T. SMITHERMAN  
COMMISSIONER

ATTEST

*Kathy Way*  
SECRETARY



**GUD NO. 10386**

**EXHIBIT A**

**Tariffs**

**HUGHES NATURAL GAS, INC.  
ENVIRONS SERVICE AREA**

**Update for Section:**

**1.2 (A) Rates.**

The following rates are effective for bills rendered on and after the date of the Commission's Final Order in Gas Utilities Docket No. 10190:

- 1.2.1** Monthly Customer Charge, residential and commercial customers:  
\$17.10, applies per meter, per month  
Volumetric Fee, residential and commercial
- 1.2.2** customers:  
\$7.05. applies per thousand cubic feet (Mcf)

**(B) Rates.**

The following rates are effective for bills rendered one year after the date of the

Commission's Final Order in Gas Utilities Docket No. 10190:

- 1.2.3** Monthly Customer Charge, residential and commercial customers:  
\$18.35, applies per meter, per month  
Volumetric Fee, residential and commercial
- 1.2.4** customers:  
\$7.05. applies per thousand cubic feet (Mcf)

**(C) Rates.**

The following rates are effective for bills rendered on and after January 1, 2015:

- 1.2.5** Monthly Customer Charge, residential and commercial customers:  
\$18.35 Applies per meter, per month  
  \$7.83 2013 GRIP  
\$26.18 Total applies per meter, per month
- 1.2.6** Volumetric Fee, residential and commercial customers:  
\$7.05. applies per thousand cubic feet (Mcf)

**GUD NO. 10386**

**EXHIBIT B**

**Schedules**

**Summary**  
**HUGHES NATURAL GAS, INC.**  
**ENVIRONS SERVICE AREA**  
**Fifteen Month Period Ending 12/31/2013**

LINE NO.	DESCRIPTION	TOTAL APPROVED		PER BOOK
		PER GUD 10190 AT 9/30/2012	INCREASE	As of 12/31/2013
	(a)	(b)	(c)	(d)
1	Utility Plant Investment	\$13,012,079	\$2,426,563	\$15,438,642
2	(376) Mains - CapGas CIAC (See Footnote 1)	(\$75,263)	0	(\$75,263)
3	Accum. Depr CapGas CIAC (See Footnote 1)	\$19,128	\$2,353	\$21,481
4	Acquisition Adjustment (See Footnote 2)	(\$536,148)	\$81,235	(\$454,913)
5	Accumulated Depreciation	(\$3,315,212)	(\$315,592)	(\$3,630,804)
6	Net Investment	\$9,104,584	\$2,194,558	\$11,299,142
7	Increase (Decrease) in Net Investment		\$2,194,558	
8	Authorized Return on Capital (See Footnote 3)		9.00%	
9	Change in Return on Net Investment		\$197,510	
10	Depreciation Expense	467,509		537,181
11	CapGas CIAC Depreciation (See Footnote 1)	(1,882)		(1,882)
		465,627		535,299
12	Change in Depreciation Expense		\$69,672	
13	Change in Ad Valorem Tax (See Footnote 4)		\$0	
14	Change in Revenue-Related Taxes (See Footnote 4)		\$0	
15	Change in Federal Tax		\$69,542	
16	Change in Revenue Requirement (See Footnote 6)		\$336,725	
17	Annual Number of Bills (See Footnote 5)		42,996	
18	Increase per Bill per Month (to be applied to monthly customer charge)		\$7.83	

Current and Proposed Bill Information - With Gas Cost (See Footnote 5)					
		<u>Current</u>	<u>Proposed</u>	<u>Difference</u>	<u>% Change</u>
19	Residential Customers Average Monthly Bill @ 6 MCF	\$104.87	\$112.70	\$7.83	7.47%
20	Commercial Customers Average Monthly Bill @ 30 MCF	\$450.95	\$458.78	\$7.83	1.74%
Current and Proposed Bill Information - Without Gas Cost					
21	Residential Customers Average Monthly Bill @ 6 MCF	\$60.65	\$68.48	\$7.83	12.91%
22	Commercial Customers Average Monthly Bill @ 30 MCF	\$229.85	\$237.68	\$7.83	3.41%

Net Investment  
(Investment To Be Recovered Through Interim Filing)  
HUGHES NATURAL GAS, INC.  
ENVIRONS SERVICE AREA  
Fifteen Month Period Ending 12/31/2013

FERC Account No.	FERC Account Titles	Net Change Original Cost	RRC Approved Depr. Rate	Annual Depreciation	Additions	Retirements
	Intangible	#REF!			0	0
<b>DISTRIBUTION PLANT</b>						
(374)	Land & Land Rights	47,623	n/a	n/a	47,623	0
(376)	Mains	2,005,077	2.50%	50,127	2,156,809	(151,732)
(379)	Meas & Reg Station	4,928	3.03%	149	4,928	0
(380)	Services	161,124	4.00%	6,445	161,124	0
(381)	Meters	155,845	4.00%	6,234	155,845	0
(383)	Regulators	38,312	4.00%	1,532	38,312	0
	Total Distribution Plant	2,412,910		64,487	2,564,642	(151,732)
<b>GENERAL PLANT</b>						
(391)	(391) Office Furniture & Equipment	0	10.00%	0	0	0
(392)	(392) Transportation Equipment	18,455	33.33%	6,151	125,295	(106,841)
(397)	(397) Comm., Comp & Software	8,986	20.00%	1,797	14,967	(5,981)
(398)	(398) Miscellaneous General Plant	(13,787)	20.00%	(2,757)	0	(13,787)
	Total General Plant	13,653		5,191	140,263	(126,609)
		2,426,563		69,678	2,704,905	(278,341)



**FOOTNOTES:**  
**HUGHES NATURAL GAS, INC.**  
**ENVIRONS SERVICE AREA**  
**Fifteen Month Period Ending 12/31/2013**

**Footnote 1**

CIAC represents amount identified in GUD 10190 associated with the CapGas acquisition. Accumulated amount represents 15 months. Expenses amount represents 12 months.

**Footnote 2**

Per GUD 10190 Settlement Agreement Article I :

- B. A negative acquisition amount of \$536,148 associated with the CapGas acquisition will be included in rate base for the purpose of setting rates in this docket as reflected in Updated exhibit CEL-6, attached hereto as Exhibit A.
- C. The total negative acquisition amount on HNG's books and records shall be amortized over twelve years below the line beginning at the date incurred.

***Calculate Net Acquisition Adjustment at 12/31/2013 Per Settlement Agreement***

Negative Acquisition Adjustment Per Settlement 9/30/12	(\$536,148)
Amortize 15 Months Per Settlement (99 Months Remaining)	<u>\$81,235</u>
Net Acquisition Adjustment	<u><u>(\$454,913)</u></u>

**Footnote 3**

Cost of Capital:

The capital structure stipulated to in the GUD 10190 Settlement Agreement represents a proxy. The overall rate of return and the individual components are consistent with recent Commission precedent and the Examiners found that they were just and reasonable.

**Footnote 4**

Ad Valorem and Revenue Related Taxes are surcharged each year according to approved Tariff.

**Footnote 5**

Normalized Billing Determinants - GUD 10190

Bill Counts:	<u>Total</u>	<u>Residential</u>	<u>Commercial</u>
Environs	40,488	39,876	612
Incorporated	<u>2,508</u>	<u>1,908</u>	<u>600</u>
	42,996	41,784	1,212
Increase per Bill per Month	\$7.83		
Cost of Gas (per Mcf):	\$7.37		

**FOOTNOTES:**  
**HUGHES NATURAL GAS, INC.**  
**ENVIRONS SERVICE AREA**  
**Fifteen Month Period Ending 12/31/2013**

**Footnote 6**  
**Reconciliation of Revenue Requirement Increase**

Plant Description	Additions	Retirements	Net Plant	Depr Rates	Depr Expense	Return	FIT	Total
Land & Land Rights (374)	47,623	0	47,623	n/a	0	4,286	#REF!	#REF!
Mains (376)	2,156,809	(151,732)	2,005,077	2.50%	50,127	180,457	#REF!	#REF!
Meas & Reg Station (379)	4,928	0	4,928	3.03%	149	444	#REF!	#REF!
Services (380)	161,124	0	161,124	4.00%	6,445	14,501	#REF!	#REF!
Meters (381)	155,845	0	155,845	4.00%	6,234	14,026	#REF!	#REF!
Regulators (383)	38,312	0	38,312	4.00%	1,532	3,448	#REF!	#REF!
Trans Equip (392)	125,295	(106,841)	18,454	33.33%	6,151	1,661	#REF!	#REF!
Comm, Comp & Software (397)	14,967	(5,981)	8,986	20.00%	1,797	809	#REF!	#REF!
Misc Gen Plant (398)	0	(13,787)	(13,787)	20.00%	(2,757)	(1,241)	#REF!	#REF!
Change In Accumulated Depreciation			(315,592)	n/a		(28,403)	#REF!	#REF!
Change In Acquisition Adjustment (See Footnote 2)			81,235			7,311	#REF!	#REF!
Change In CIAC (See Footnote 1)			2,353			212	#REF!	#REF!
Rounding	0	0	(1)		(6)	0		(6)
			\$2,194,556		\$69,672	\$197,510	#REF!	#REF!
Change in Revenue Requirement								#REF!

**Allocation of Investment Recovery  
HUGHES NATURAL GAS, INC.  
ENVIRONS SERVICE AREA  
Fifteen Month Period Ending 12/31/2013**

Allocation Factors Per Rate Case - Docket No. 10190

*Not Applicable*

*Both Residential and Commercial Environs classes have identical rates*

Allocation Factors Requested in this filing

*Not Applicable*

*Both Residential and Commercial Environs classes have identical rates*

New Investment Recovery Distribution

*Not Applicable*

*Both Residential and Commercial Environs classes have identical rates*

**Distribution of IRA Increase**

	<u>Bill Counts:</u>			<u>Distribution of IRA Increase</u>	
	<u>Total</u>	<u>Residential</u>	<u>Commercial</u>		
Environs	40,488	39,876	612		
IRA Distribution		\$312,290	\$4,793	\$317,083	94.17%
Distribution %		98.49%	1.51%		
Incorporated	2,508	1,908	600		
IRA Distribution		\$14,943	\$4,699	\$19,641	5.83%
Distribution %	42,996	76.08%	23.92%		
Total IRA Distribution		<u>\$327,233</u>	<u>\$9,492</u>	<u>\$336,725</u>	
Total Distribution %		97.18%	2.82%		



EARNINGS MONITORING REPORT TO THE RAILROAD COMMISSION OF TEXAS

HUGHES NATURAL GAS, INC.  
 ENVIRONS SERVICE AREA  
 Twelve Month Period Ending 12/31/2013

Line No.	Description	Per Most Recent Rate Case GUD Docket No. 10190 9/30/2012 (A)	Change (B)	Per 12/31/2013 Annual Report to RRC (C)
1	Total Operating Revenues	\$4,055,777	\$528,841	\$4,584,618
2	Operating Expenses:			
3	Gas Cost - Commodity Costs	\$1,433,250	\$708,182	\$2,141,432
4	Operation and Maintenance Expense	\$1,119,889	\$277,000	\$1,396,889
5	Depreciation and Amortization Expense	\$465,627	(\$67,644)	\$397,983
6	Interest on Customer Deposits	\$605	\$87	\$692
7	Interest on Customer Advances	\$0	\$0	\$0
8	Taxes Other Than Income Taxes	\$34,159	(\$433)	\$33,726
9	Total Operating Expenses Before Federal Income Taxes	\$3,053,530	\$917,192	\$3,970,722
10	Total Operating Income Before Federal Income Taxes	\$1,002,246	(\$388,350)	\$613,896
11	Federal Income Taxes	\$260,969	(\$159,640)	\$101,328
12	Return on Rate Base	\$741,278	(\$228,710)	\$512,568
13	Rate Base	\$8,238,250	\$2,175,431	\$10,413,680
14	Percent Return on Rate Base	<u>9.00%</u>		<u>4.92%</u>
	<b><u>Rate Base Breakdown</u></b>			
15	Plant (1)	\$9,104,584		\$11,280,014
16	Other Items (2)	(\$866,334)		(\$866,334)
17	Rate Base	\$8,238,250		\$10,413,680
	<b><u>Income Tax Calc</u></b>			
18	Income before Interest	\$1,002,246		\$613,896
19	Weighted Interest Rate Per Docket 10190	3.1150%		3.1150%
20	Less: Interest Expense	\$256,621		\$324,386
21	Taxable Income	\$745,625		\$289,510
		<u>35.00%</u>		<u>35.00%</u>
		\$260,969		\$101,328

(1) Net Investment per GUD 10190 and per IRA

(2) Assumes Docket 10190 non plant related rate base items such as ADIT, Customer Deposits, Working Capital, and M&S Inv