

**BEFORE THE  
RAILROAD COMMISSION OF TEXAS**

<b>APPLICATION FILED BY TEXAS GAS SERVICE COMPANY, A DIVISION OF ONE GAS, INC., 2013 GAS RELIABILITY INFRASTRUCTURE PROGRAM RATE ADJUSTMENT FOR THE UNINCORPORATED AREAS OF THE SOUTH TEXAS SERVICE AREA.</b>	§ § § § § §	<b>GAS UTILITIES DOCKET NO. 10404</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 ANN. Chapter 551 (Vernon 2010). The Railroad Commission of Texas adopts the following findings of fact and conclusions of law and orders as follows:

**FINDINGS OF FACT**

*Background*

1. Texas Gas Service Company, a Division of ONE Gas, Inc., (TGS) is a "gas utility," as that term is defined in the TEXAS UTILITIES CODE, and is subject to the jurisdiction of the Railroad Commission of Texas (Commission).
2. TGS owns and operates a natural gas distribution system known as the South Texas Service Area (STSA).
3. On December 18, 2014, TGS filed an application for an annual interim rate adjustment (IRA) applicable to the unincorporated customers located in the STSA.
4. TGS requested that the IRA for all customer classes become effective on February 16, 2015.
5. On December 23, 2014, the Commission suspended implementation of TGS' proposed IRA until April 2, 2015, which is 45 days following the 60<sup>th</sup> day after the application.
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 (2010) allows written comments or a protest, concerning the proposed IRA, to be filed with the Gas Services Division.
8. As of the date of this interim order, no comments or protests concerning this application have been received by the Commission.
9. Neither TEX. UTIL. CODE § 104.301 (Vernon 2010) nor 16 TEX. ADMIN. CODE § 7.7101 (2010) provide the opportunity for parties to intervene in the Commission's review of an application for an annual IRA.
10. This docket represents the second annual IRA for TGS in the STSA since Gas Utilities Docket (GUD) No. 10217, the most recent rate case for the environs or unincorporated areas of TGS' STSA.
11. Until promulgation of TEX. UTIL. CODE § 104.301 (Vernon 2010), a utility could not increase its rates subject to the Commission's jurisdiction without filing with the Commission a formal statement of intent rate case, including a comprehensive cost of service rate review.
12. The proposed IRA will allow TGS 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. 10217, without the necessity of filing a statement of intent rate case and without review by the Commission of TGS' comprehensive cost of service.

#### Applicability

13. This docket applies to only those rates over which the Commission has original jurisdiction, which includes the unincorporated areas of TGS' STSA.
14. As of December 31, 2013, TGS had approximately 265 customers in the unincorporated areas of the STSA. Of these, 235 are residential customers, 28 are commercial customers, one industrial customer, and one standard transportation customer.

#### Most Recent Comprehensive Rate Case

15. TGS' most recent rate case for the area in which the IRA will be implemented is GUD No. 10217, *Statement of Intent Filed by Texas Gas Service Company to Increase Rates in the Unincorporated Areas of the South Texas Service Area*.
16. GUD No. 10217 was filed on October 12, 2012.
17. The data used in GUD No. 10217 was based on a test-year ending June 30, 2011, and included additional known and measureable direct plant investment data extending through October 31, 2011.

18. The Commission signed the GUD No. 10217 Final Order on March 26, 2013, and the rates became effective the same day.
19. The following table shows the factors that were established in GUD No. 10217<sup>1</sup> to calculate the return on investment, depreciation expense, and incremental federal income taxes for TGS:

**Table 1.0**  
**Key IRA Factors**

Rate of Return – IRA Filings	8.579%
Depreciation Rate <sup>2</sup>	Various
Federal Income Tax Rate	35%

Interim Rate Adjustment

20. TGS 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; ad valorem taxes; revenue related taxes; and federal income taxes, Exhibit B.
21. The revenue amounts to be recovered through the proposed annual IRA for TGS are incremental to the revenue requirement established in the most recent rate case for TGS for the area in which the IRA is to be implemented, GUD No. 10217, and subsequent approved interim rate adjustments.
22. In the first interim rate adjustment, GUD No. 10333, following the most recent rate case, GUD No. 10217, TGS adjusted its rates based on the difference between invested capital at the end of the most recent rate case test-year (October 31, 2011) and the invested capital at the end of the calendar year following the end of the most recent rate case test-year (December 31, 2012).
23. In this docket, the second interim adjustment following the most recent rate case, TGS adjusted its rates based on the difference between invested capital from test year end December 31, 2012 to test year end December 31, 2013.
24. The value of TGS' 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.
25. TGS 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

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<sup>1</sup> GUD No. 10217 Final Order.

<sup>2</sup> Schedule IRA – 9.

the final order setting rates for TGS in the most recent rate case for the area in which the IRA is to be implemented, GUD No. 10217.

26. TGS filed the Commission's Annual Earnings Monitoring Report (EMR) as required by 16 TEX. ADMIN. CODE § 7.7101 (2010). The Company's actual rate of return is 1.82%, which is less than 0.75% in excess of the 8.579% allowed rate of return established in GUD No. 10217.
27. GUD No. 10217, TGS' most recent Statement of Intent rate case for the unincorporated areas of the STSA and the basis for the key factors in an IRA calculation, was approved by the Commission on March 26, 2013. Customer Charges are shown in Table 2.0, Column B, below.
28. GUD No. 10333, TGS' first IRA for the unincorporated areas of the STSA, was approved by the Commission on April 8, 2014. IRA adjustments to the Customer Charges are shown in Table 2.0, Column C, below.
29. This docket, GUD No. 10404, is the *second* IRA application for the unincorporated areas of the STSA. The proposed 2013 IRA adjustments are shown in Table 2.0, Column D, below.
30. Under TEX. UTIL. CODE § 7.7101(l), TGS must file a rate case, Statement of Intent, supporting the IRAs not later than 180 days after the fifth anniversary of the effective date of its initial IRA, or by October 5, 2019.
31. 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.
32. When the Customer Charge, the 2012 Interim Rate Adjustments, and proposed 2013 Interim Rate Adjustments (Columns B, C, and D) are added, the resulting customer charge for affected customer classes is shown in Table 2.0, Column E, below.

**Table 2.0**  
**South Texas Service Area Customer Charges and Interim Rate Adjustments (IRA)**

Customer Class	Customer Charge (GUD 10217)	IRA – 2012 (GUD 10333)	IRA - 2013 (GUD 10404)	New Customer Charge
A	B	C	D	E
Residential	\$ 16.00	\$ 2.34	\$ 2.77	\$ 21.11
Commercial	\$ 28.50	\$ 8.70	\$ 10.14	\$ 47.34
Industrial	\$ 75.00	\$ 23.00	\$ 26.65	\$ 124.65
Std. Transportation - Commercial	\$ 250.00	\$ 139.94	\$ 161.11	\$ 551.05
Std. Transportation - Industrial	\$ 250.00	\$ 210.06	\$ 242.63	\$ 702.69

33. TGS filed its Annual Project Report as required by 16 TEX. ADMIN. CODE § 7.7101 (2010).
- Net capital additions included in this docket totaled \$ 3,141,096.<sup>1</sup>
  - Gross capital project additions totaled \$ 23,631,514.<sup>2</sup>
  - Safety-related improvements/infrastructure projects are 82.67% of total net additions.<sup>3</sup>
  - Integrity testing projects are 0.00% of total net additions.<sup>4</sup>
  - Distribution Integrity Management Program (DIMP) projects are 76.40% of total net additions.<sup>5</sup>
  - Pipeline Integrity Management Program (IMP) projects are 0.00% of the total net additions.<sup>6</sup>
  - TGS does not have a formal Steel Pipe Replacement Program (SPRP), however steel pipe replacement projects are included within the Company's DIMP project. Within TGS' DIMP project, 100% of the pipe replaced was steel.<sup>7</sup>
34. TGS 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

<sup>1</sup> Schedule IRA – 3 and IRA - 9.

<sup>2</sup> Schedule IRA – 8.

<sup>3</sup> Response to Staff's RFI No. 1-11.

<sup>4</sup> Response to Staff's RFI No. 1-12.

<sup>5</sup> Response to Staff's RFI No. 1-13.

<sup>6</sup> Response to Staff's RFI No. 1-14.

<sup>7</sup> Response to Staff's RFI No. 1-15.

customer classes in its most recent rate case for the area in which the IRA is to be implemented, GUD No. 10217.

35. TGS proposed the IRA as a flat rate to be applied to the monthly Customer Charge rather than to the usage rate.
36. The following allocation among customer classes is used to allocate the interim rate adjustment, Table 3.0 below:

**Table 3.0**  
**Revenue Requirement Allocation for the unincorporated areas**  
**of the South Texas Service Area**

Customer Class	Allocation Factors
Residential	0.6522
Commercial	0.2295
Industrial	0.0051
Transportation – Commercial	0.0399
Transportation – Industrial	0.0732
Total	0.9999*

\*The customer class allocation percentage does not equal 100%. It is an error in the allocation approved in GUD No. 10217. A correction cannot be made until the next Statement of Intent rate case.

37. TGS is required to show its annual IRA on its customers' monthly billing statements as a surcharge.
38. The proposed IRA does not require an evidentiary proceeding; rather, TEX. UTIL. CODE § 104.301 (Vernon 2010) and 16 TEX. ADMIN. CODE § 7.7101 (2010) require the regulatory authority to review a utility's method of calculating the IRA.
39. Due process protections are deferred until TGS files its next full statement of intent rate case.

Notice

40. The Company provided adequate notice to customers via direct mailing in the unincorporated areas of TGS' STSA on January 27, 2015.

Comprehensive Rate Case Required

41. The Company is not required to initiate a rate case supporting a statement of intent, at the time it applies for an IRA.

42. Under 16 TEX. ADMIN. CODE § 7.7101 (I) (2010) a gas utility that implements an IRA and does not file a rate case before the fifth anniversary of the date its initial IRA became effective is required to file a rate case not later than the 180th day after that anniversary. TGS is required to file a statement of intent rate case not later than October 5, 2019.

Review of Interim Rate Adjustment

43. TGS presented its IRA calculation using the factors approved in GUD No. 10217 for rate of return, depreciation, and federal income tax.
44. TGS' 2013 system wide IRA for the STSA is \$444,159, based on an incremental net utility plant investment increase of \$3,141,096<sup>1</sup>, of which approximately \$14,514 is attributed to the unincorporated area.
45. TGS will only recover \$444,114 of the \$444,159 system wide total change in revenue requirement as a result of an error in GUD No. 10217 customer class allocation.
46. The resulting effect of the error in calculating the customer class allocations in GUD No. 10217 attributable to the environs is approximately \$2.00; TGS will recover \$14,512 of the \$14,514.
47. TGS' proposed allocation methodology complies with TEX. UTIL. CODE § 104.301 (Vernon 2010), and with 16 TEX. ADMIN. CODE § 7.7101 (2010).

Reimbursements of Expense

48. As provided for in the statute and the rule, a gas utility that implements an IRA is required to reimburse the Commission for the utility's proportionate share of the Commission's annual costs related to the administration of the IRA mechanism.
49. After the Commission has finally acted on TGS' application for an IRA, the Director of the Oversight and Safety Division will estimate TGS' proportionate share of the Commission's annual costs related to the processing of such applications.
50. In making the estimate of TGS' 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 IRAs during the fiscal year, and the costs expected to be incurred in processing such applications.
51. TGS is required to reimburse the Commission for the amount determined by the Director of the Oversight and Safety Division, within thirty days after receipt of notice of the amount of the reimbursement.

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<sup>1</sup> Schedule IRA – 3.

**CONCLUSIONS OF LAW**

1. TGS is a “gas utility” as defined in TEX. UTIL. CODE ANN. § 101.003(7) (Vernon 2010) and § 121.001 (Vernon 2010), and is therefore subject to the jurisdiction of the Railroad Commission of Texas (Commission).
2. The Commission has jurisdiction over TGS’ applications for IRAs for incremental changes in investment, and the subject matter of this case under TEX. UTIL. CODE ANN. §102.001, §104.001, §104.002, and §104.301 (Vernon 2010).
3. Under TEX. UTIL. CODE ANN. §102.001 (Vernon 2010), 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 ANN. § 104.301 (Vernon 2010) and 16 TEX. ADMIN. CODE § 7.7101 (2010), TGS is required to seek Commission approval before implementing an IRA tariff to TGS’ customers.
5. TGS filed its application for an IRA for changes in investment in accordance with the provisions of TEX. UTIL. CODE ANN. § 104.301 (Vernon 2010) and 16 TEX. ADMIN. CODE § 7.7101 (2010).
6. TGS’ application for an IRA was processed in accordance with the requirements of TEX. UTIL. CODE ANN. § 104.301 (Vernon 2010) and 16 TEX. ADMIN. CODE § 7.7101 (2010).
7. In accordance with 16 TEX. ADMIN. CODE § 7.315 (2010), within thirty days of the effective date of any change to rates or services, TGS is required to file with the Gas Services Division of the Commission its revised tariffs.
8. TGS may not charge any rate that has not been successfully electronically filed and accepted as a tariff filing pursuant to TEX. UTIL. CODE ANN. §§ 102.151 and 104.002 (Vernon 2010) and 16 TEX. ADMIN. CODE § 7.315 (2010).
9. In accordance with TEX. UTIL. CODE ANN. § 104.301(a) (Vernon 2010) and 16 TEX. ADMIN. CODE § 7.7101(a) (2010), the filing date of TGS’ most recent rate case, in which there is a final order setting rates for the area in which the IRA will apply, was no more than two years prior to the date TGS filed its initial IRA.
10. TGS is required, under TEX. UTIL. CODE ANN. § 104.301(e) (Vernon 2010) and 16 TEX. ADMIN. CODE § 7.7101(d) (2010), 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. TGS is required, under TEX. UTIL. CODE ANN. § 104.301(f) (Vernon 2010) and 16 TEX. ADMIN. CODE § 7.7101(e) (2010), to file with the Commission an annual earnings-monitoring report demonstrating TGS' earnings during the preceding calendar year.
12. TGS is required, under 16 TEX. ADMIN. CODE § 7.7101(h) (2010), to recalculate its approved IRA 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 IRA application.
13. In accordance with 16 TEX. ADMIN. CODE § 7.7101(i) (2010), all amounts collected from customers under TGS' IRA 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 IRA and shall be the subjects of specific findings of fact in the Commission's final order setting rates.
14. In accordance with 16 TEX. ADMIN. CODE § 7.7101(j) (2010), in the rate case that TGS files or the Commission initiates after the implementation of an IRA, any change in investment and related expenses and revenues that have been included in any IRA shall be fully subject to review for reasonableness and prudence. Upon issuance of a final order setting rates in the rate case that TGS files or the Commission initiates after the implementation of an IRA, any change in investment and related expenses and revenues that have been included in any IRA shall no longer be subject to review for reasonableness or prudence.
15. The Commission has authority to suspend the implementation of the IRA, under TEX. UTIL. CODE ANN. § 104.301(a) (Vernon 2010) and 16 TEX. ADMIN. CODE § 7.7101(e) (2010).
16. TGS provided adequate notice of its IRA, in accordance with TEX. UTIL. CODE ANN. § 104.301(a) (Vernon 2010) and 16 TEX. ADMIN. CODE § 7.7101(b) (2010).
17. TGS' application for an IRA, as proposed, complies with all provisions of TEX. UTIL. CODE ANN. § 104.301 (Vernon 2010) and 16 TEX. ADMIN. CODE § 7.7101 (2010).
18. TGS' IRA set forth in the findings of fact and conclusions of law in this Order complies with the provisions of TEX UTIL. CODE ANN. § 104.301 (Vernon 2010) and 16 TEX. ADMIN. CODE § 7.7101 (2010).
19. In accordance with TEX. UTIL. CODE ANN. § 104.301(h) (Vernon 2010) and 16 TEX. ADMIN. CODE § 7.7101(l) (2010), TGS shall file a comprehensive rate case for the areas

in which the IRA is implemented, no later than the 180th day after the fifth anniversary of the date its initial IRA became effective, or October 5, 2019.

20. The Commission has authority, under TEX. UTIL. CODE ANN. § 104.301(j) (Vernon 2010) and 16 TEX. ADMIN. CODE § 7.7101(m) (2010), to recover from TGS the proportionate share of the Commission's annual costs related to the administration of the IRA mechanism.

**IT IS THEREFORE ORDERED BY THE RAILROAD COMMISSION OF TEXAS THAT** Texas Gas Service Company's IRA for the unincorporated areas of the South Texas Service Area, as requested, and to the extent recommended to be approved in the findings of fact and conclusions of law, is **HEREBY APPROVED**, subject to refund, to be effective for bills rendered on or after the date of this order.

**IT IS FURTHER ORDERED THAT** Texas Gas Service Company **SHALL** file with the Commission no later than October 5, 2019, 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 Texas Gas Service Company **SHALL** electronically file its IRA tariff, Exhibit A, in proper form that accurately reflects the rates approved by the Commission in this Order.

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

**IT IS FURTHER ORDERED THAT** Texas Gas Service Company **SHALL** reimburse the Commission for the utility's proportionate share of the Commission's annual costs related to the administration of the IRA mechanism. 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 TGS' 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 10th day of March, 2015.

RAILROAD COMMISSION OF TEXAS

*Christi Craddick*

CHRISTI CRADDICK  
CHAIRMAN

*David Porter*

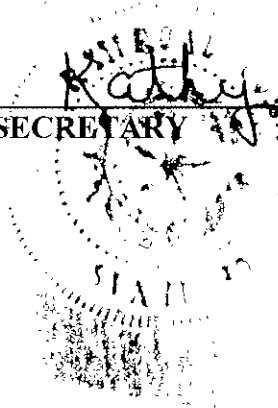
DAVID PORTER  
COMMISSIONER

*Ryan Sifton*

RYAN SIFTON  
COMMISSIONER

ATTEST

*Kathie Way*  
SECRETARY

The seal of the Railroad Commission of Texas is partially visible behind the signature. It features a circular design with a star in the center and the words "RAILROAD COMMISSION OF TEXAS" around the perimeter.

**GUD NO. 10404**

**EXHIBIT A**

**Tariffs**

**TEXAS GAS SERVICE COMPANY**  
**South Texas Service Area - Central Texas Region**

**RATE SCHEDULE 1E**

**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, for domestic purposes. A residential consumer includes an individually-metered residential unit or dwelling that is operated by a public housing agency acting as an administrator of public housing programs under the direction of the U.S. Department of Housing and Urban Development. This rate is only available to full requirements customers of Texas Gas Service Company.

TERRITORY

All unincorporated areas served by the Company in its South Texas Service Area including Cuero, Gonzales, Luling, Lockhart, Shiner, Yoakum and Nixon.

COST OF SERVICE RATE

During each monthly billing period:

A Customer Charge of	\$ 16.00 plus
Interim Rate Adjustments (IRA)	\$ 5.11 per month (Footnote 1)
Total Customer Charge	\$ 21.11
All Ccf at	\$ 0.2209 per Ccf

OTHER APPLICABLE SCHEDULES

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

1. The Cost of Gas for the billing month determined in accordance with the provisions of the Cost of Gas Clause, Rate Schedule 5.
2. The recovery of sales taxes and other applicable taxes on gross receipts.
3. Adjustments in accordance with provisions of the Weather Normalization Adjustment clause, Rate Schedule WNA.
4. Adjustments in accordance with the provisions of the Interim Rate Adjustment, Rate Schedule IRA

CONDITIONS

1. Subject to all applicable laws and orders, and the Company's Rules and Regulations on file with the regulatory authority.

Footnote 1: Initial 2012 IRA - \$2.34; 2013 IRA - \$2.77

Supersedes Same Sheet Dated  
April 8, 2014

Meters Read On and After  
February 16, 2015

**TEXAS GAS SERVICE COMPANY**  
**South Texas Service Area - Central Texas Region**

**RATE SCHEDULE 2E**

**COMMERCIAL SERVICE RATE**

APPLICABILITY

Applicable to commercial consumers and to consumers not otherwise specifically provided for under any other rate schedule. This rate is only available to full requirements customers of Texas Gas Service Company.

TERRITORY

All unincorporated areas served by the Company in its South Texas Service Area including Cuero, Gonzales, Luling, Lockhart, Shiner, Yoakum and Nixon.

COST OF SERVICE RATE

During each monthly billing period:

A Customer Charge per meter per month of	\$ 28.50 plus
Interim Rate Adjustments (IRA)	\$ 18.84 per month (Footnote 1)
Total Customer Charge	\$ 47.34

All Ccf per monthly billing period @ \$ 0.3662 per Ccf

OTHER APPLICABLE SCHEDULES

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

1. The Cost of Gas for the billing month determined in accordance with the provisions of the Cost of Gas Clause, Rate Schedule 5.
2. The recovery of sales taxes and other applicable taxes on gross receipts.
3. Adjustments in accordance with provisions of the Weather Normalization Clause, Rate Schedule WNA.
4. Adjustments in accordance with the provisions of the Interim Rate Adjustment, Rate Schedule IRA

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 residential and other consumers served.

Footnote 1: Initial 2012 IRA - \$8.70; 2013 IRA - \$10.14

INDUSTRIAL SERVICE RATE

APPLICABILITY

Applicable to any qualifying industrial customer. Service under this rate schedule is available to any qualifying 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 unincorporated areas served by the Company in its South Texas Service Area including Cuero, Gonzales, Luling, Lockhart, Shiner, Yoakum and Nixon.

COST OF SERVICE RATE

During each monthly billing period:

A customer charge per meter per month of	\$ 75.00 plus
Interim Rate Adjustments (IRA)	\$ 49.65 per month (Footnote 1)
Total Customer Charge	\$ 124.65
The First 3,000 Ccf @	\$ 0.1236 per Ccf
All Over 3,000 Ccf @	\$ 0.0967 per Ccf

OTHER APPLICABLE SCHEDULES

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

1. The Cost of Gas for the billing month determined in accordance with the provisions of the Cost of Gas Clause, Rate Schedule 5.
2. The recovery of sales taxes, and other applicable taxes on gross receipts.
3. Adjustments in accordance with the provisions of the Interim Rate Adjustment, Rate Schedule IRA

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 residential and other consumers served.

Footnote 1: Initial 2012 IRA - \$23.00; 2013 IRA - \$26.65

**TEXAS GAS SERVICE COMPANY**  
**South Texas Service Area – Central Texas Region**

**RATE SCHEDULE T-2**

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**COMMERCIAL TRANSPORTATION SERVICE RATE**

**Applicability**

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

Service under this rate schedule is available for the transportation of customer-owned natural gas through the Company's distribution system. The customer must arrange with its gas supplier to have the customer's gas delivered to one of the Company's existing delivery 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 individually metered, commercial customer for the transportation of customer owned natural gas through the Company's South Texas 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.

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



**TEXAS GAS SERVICE COMPANY**  
**South Texas Service Area – Central Texas Region**

**RATE SCHEDULE T-2**  
**Page 2 of 3**

collected in the Cost of Gas clause times the volume of gas delivered by the Company for the account of Customer for transportation.

**Character of Service**

Firm gas transportation service

**Cost of Service Rate**

During each monthly billing period:

A customer charge per meter per month of	\$ 250.00 plus
Interim Rate Adjustments (IRA)	\$ 301.05 per month (Footnote 1)
Total Customer Charge	\$ 551.05

All Ccf per monthly billing period @	\$ 0.3662 per Ccf
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**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 Article 6060TEX> REV. CIV.STAT. 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 South Texas Service Area, the customer may be charged its proportionate share of the demand or reservation charge based on benefit received by the customer.

**Subject to:**

**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.

Supersedes Rate Schedule Dated  
April 8, 2014

Meters Read On and After  
February 16, 2015 (Environs only)

**TEXAS GAS SERVICE COMPANY**  
**South Texas Service Area – Central Texas Region**

**RATE SCHEDULE T-2**  
**Page 3 of 3**

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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 10 days after the date of Company's bill to Customer.

Footnote 1: Initial 2012 IRA - \$139.94; 2013 IRA - \$161.11

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Supersedes Rate Schedule Dated  
April 8, 2014

Meters Read On and After  
February 16, 2015 (Environs only)

**TEXAS GAS SERVICE COMPANY**  
**South Texas Service Area – Central Texas Region**

**RATE SCHEDULE T-3**  
**Page 1 of 3**

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**INDUSTRIAL TRANSPORTATION 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

Service under this rate schedule is available for the transportation of customer-owned natural gas through the Company's distribution system. The customer must arrange with its gas supplier to have the customer's gas delivered to one of the Company's existing delivery 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 individually metered, industrial customer for the transportation of customer owned natural gas through the Company's South Texas 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

**TEXAS GAS SERVICE COMPANY**  
**South Texas Service Area – Central Texas Region**

**RATE SCHEDULE T-3**  
**Page 2 of 3**

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.

**Character of Service**

Firm gas transportation service

**Cost of Service Rate**

During each monthly billing period:

A customer charge per meter per month of	\$ 250.00 plus
Interim Rate Adjustments (IRA)	\$ 452.69 per month (Footnote 1)
Total Customer Charge	\$ 702.69
The First 3,000 Ccf @	\$ 0.1236 per Ccf
All Over 3,000 Ccf @	\$ 0.0967 per Ccf

**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 Article 6060TEX> REV. CIV.STAT. 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 South Texas Service Area, the customer may be charged its proportionate share of the demand or reservation charge based on benefit received by the customer.

**TEXAS GAS SERVICE COMPANY**  
**South Texas Service Area – Central Texas Region**

**RATE SCHEDULE T-3**  
**Page 3 of 3**

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**Subject to:**

**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 10 days after the date of Company's bill to Customer.

Footnote 1: Initial 2012 IRA - \$210.06; 2013 IRA \$242.63

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Supersedes Rate Schedule Dated  
April 8, 2014

Meters Read On and After  
February 16, 2015 (Environs only)

**GUD NO. 10404**

**EXHIBIT B**

**Schedules**

SUMMARY

TEXAS GAS SERVICE COMPANY  
SOUTH TEXAS SERVICE AREA  
FOR THE PERIOD BEGINNING JANUARY 1, 2013 AND ENDING DECEMBER 31, 2013  
ENVIRONS GRIP FILING

Line No.	Description	12/31/2012 Previous Year (a)	12/31/2013 Current Year (b)	Reference (c)
1	Net Investment	\$ 15,447,856	\$ 18,588,952	(b) IRA-7 lines 72 col (h), (c) IRA-8 lines 72 col (h)
2	Increase in Net Investment		\$ 3,141,096	IRA-9 lines 72 col (h)
3	Rule 8.209 Regulatory Asset Balance through December 2013		\$ 186,472	8.209 Increase (See IRA-6)
4	Total Increase in Net Investment		\$ 3,327,568	Sum Line 2 & Line 3
5	Authorized Return on Capital		8.579%	IRA-15 line 8 col (d)
6				
7	Change in Return on Net Investment		\$ 285,473	Line 4 * Line 5
8	Change in Depreciation Expense		\$ 33,210	IRA-9 line 72 col (f)
9	Change in Federal, Revenue and Other Taxes		\$ 125,476	IRA-5 line 13 col (g) plus IRA-6 line 21 (c)
10	Change in Revenue Requirement		\$ 444,159	Sum of Lines 7 - 9
11				
12	Annual Number of Bills		114,905	
13	Increase Per Bill Per Month		See Below	
14	(to be applied to monthly customer charge or initial block rate, check on)			
15	<input checked="" type="checkbox"/> Monthly Customer Charge			
16	<input type="checkbox"/> Initial Block Rate			
17				

Current and Proposed Bill Information - With Gas Cost

	Current	Proposed	Difference	% Change
Residential				
Average Monthly Bill @ 2.3 Mcf *	\$ 36.59	\$ 39.36	\$ 2.77	7.6%
Commercial				
Average Monthly Bill @ 13.9 Mcf *	\$ 167.66	\$ 177.80	\$ 10.14	6.0%
Industrial				
Average Monthly Bill @ 156.4 Mcf *	\$ 1,186.50	\$ 1,213.15	\$ 26.65	2.2%

Current and Proposed Bill Information - Without Gas Cost

	Current	Proposed	Difference	% Change
Residential				
Average Monthly Bill @ 2.3 Mcf *	\$ 23.42	\$26.19	\$ 2.77	11.8%
Commercial				
Average Monthly Bill @ 13.9 Mcf *	\$ 88.10	\$98.24	\$ 10.14	11.5%
Industrial				
Average Monthly Bill @ 156.4 Mcf *	\$ 291.31	\$317.96	\$ 26.65	9.1%
Transportation - Commercial				
Average Monthly Bill @ 284.6 Mcf *	\$ 1,432.15	\$1,593.25	\$ 161.11	11.2%
Transportation - Industrial				
Average Monthly Bill @ 1,939.8 Mcf *	\$ 2,416.55	\$ 2,659.17	\$ 242.63	10.0%

\* Average bill usage per GUD 10217

\* Average bills exclude revenue related taxes. The Cost of Gas is computed using a 12 month average for CY 2013

REVENUE RELATED AND OTHER TAXES

TEXAS GAS SERVICE COMPANY  
 SOUTH TEXAS SERVICE AREA  
 FOR THE PERIOD BEGINNING JANUARY 1, 2013 AND ENDING DECEMBER 31, 2013  
 ENVIRONS GRIP FILING

Line No.	Description	Total	Adjustments	12 Month End As Adjusted (at Present Rates)	Adjustments (1)	12 Month End As Adjusted (at Proposed Rates)	Change (g)
	(a)	(b)	(c)	(d)	(e)	(f)	(g)
1	Non Revenue - Related						
2	Ad Valorem Tax	\$	-	\$	18,124	\$	18,124
3	Revenue - Related						
4	State Gross Receipts - Tax		Note 2		Note 2	Note 2	Note 2
5	Local Gross Receipts - Tax		Note 2		Note 2	Note 2	Note 2
6	Railroad Commission - Gas Utility Tax		Note 2		Note 2	Note 2	Note 2
7	Total Revenue Related Taxes		Note 2		Note 2	Note 2	Note 2
8	TOTAL TAXES OTHER THAN INCOME	\$	-	\$	18,124	\$	18,124
9							
10							
11							
12							
13							
14							
15							
16							
17							
18	Note 1: Adjustment is the net change in investment multiplied by the ad valorem effective rate factor based on property tax payments paid in Calendar Year 2013. Also see Company's ICR Sch 5 in Attachment B.						
19	Note 2: Revenue related taxes are collected separately on the Customer's bill and are not part of the Company's revenue requirement.						



FEDERAL INCOME TAX

TEXAS GAS SERVICE COMPANY  
 SOUTH TEXAS SERVICE AREA  
 FOR THE PERIOD BEGINNING JANUARY 1, 2013 AND ENDING DECEMBER 31, 2013  
 ENVIRONS GRIP FILING

Line No.	Description	Prior Year <sup>a</sup> (b)	Amount (c)	Current Year (d)	Amount (e)
1	Return on Investment				
2	Invested Capital (Rate Base)	\$ 15,447,856	\$	18,588,952	
3	Rule 8.209 Regulatory Asset Balance through December 2013	\$ 34,350	\$	220,822	
4	Rate of Return	\$ 15,482,206		18,809,774	
5	Return on Investment	8.5790%	\$ 1,328,222	8.5790%	\$ 1,613,694
6					
7	Interest Expense				
8	Invested Capital (Rate Base)	\$ 15,482,206	\$	18,809,774	
9	Weighted Cost of Debt	2.5876%		2.5876%	
10	Interest Expense		\$ 400,621		\$ 486,725
11					
12	After Tax Income		\$ 927,601		\$ 1,126,969
13					
14	Gross- Up Factor		1.538		1.538
15					
16	Before Tax Return		\$ 1,427,078		\$ 1,733,798
17					
18	Federal Income Tax Rate		35%		35%
19					
20	Net Income Tax Expense		\$ 499,477		\$ 606,829
21	CHANGE IN FEDERAL INCOME TAX		\$ 107,352		

WEIGHTED AVERAGE COST OF CAPITAL

TEXAS GAS SERVICE COMPANY  
 SOUTH TEXAS SERVICE AREA  
 FOR THE PERIOD BEGINNING JANUARY 1, 2013 AND ENDING DECEMBER 31, 2013  
 ENVIRON'S GRIP FILING

Per Last Rate Case:  
 Docket No. 10217

Line No.	Description	Investment Balance (a)	Percent of Total (b)	Cost (c)	Weighted Cost (d)
1	Common Equity	\$ 5,729,288	0.5800	10.330%	5.99140%
2	Preferred Stock				
3	Preferred Trust Securities				
4	Long-Term Debt	\$ 4,148,794	0.4200	6.161%	2.58762%
5	Short-Term Debt				
6	Total	\$ 9,878,082	100%		8.57902%

ALLOCATION OF INVESTMENT RECOVERY

TEXAS GAS SERVICE COMPANY  
 SOUTH TEXAS SERVICE AREA  
 FOR THE PERIOD BEGINNING JANUARY 1, 2013 AND ENDING DECEMBER 31, 2013  
 ENVIRONS GRIP FILING

Allocation Factors Per Rate Case - Docket Nos. 10217	
Residential	0.6522
Commercial	0.2295
Industrial	0.0051
Transportation - Commercial	0.0399
Transportation - Industrial	0.0732
Total System	<u>0.9999</u>

Allocation Factors Requested in this filing	
Residential	0.6522
Commercial	0.2295
Industrial	0.0051
Transportation - Commercial	0.0399
Transportation - Industrial	0.0732
Total System	<u>0.9999</u>

New Investment Recovery Distribution		
Requested Recovery Amount		\$ 444,159
Residential	0.6522	289,680
Commercial	0.2295	101,934
Industrial	0.0051	2,265
Transportation - Commercial	0.0399	17,722
Transportation - Industrial	0.0732	32,512
Total System	<u>0.9999</u>	<u>\$ 444,114</u>

TEXAS GAS SERVICE COMPANY  
 SOUTH TEXAS SERVICE AREA  
 INTERIM COST RECOVERY AND RATE ADJUSTMENT  
 CHANGES FROM JANUARY 1, 2013 THROUGH DECEMBER 31, 2013  
 CHANGE IN CUSTOMER CHARGE BY CUSTOMER CLASS

NO.	CUSTOMER CLASS	REVENUES PER RATE CASE TYPE 6/30/2011 (a)	PERCENT OF REVENUES (b)	REV. REQ. INCREASE (\$CH I) (c)	ANNUAL BILLS CY 2013 (d)	CUSTOMER CHARGE INCREASE (e)
	<u>Gas Sales</u>					
1	Residential	\$2,239,125	65.27%	\$289,680	104,521	\$2.77
2	Commercial	\$791,225	22.95%	\$101,994	10,055	\$10.14
3	Industrial	\$20,170	0.51%	\$2,265	85	\$26.65
	<u>Standard Transportation</u>					
4	Commercial	\$137,470	3.99%	\$17,722	110	\$161.11
5	Industrial	\$290,341	7.32%	\$32,512	134	\$242.63
	Grand Total	\$3,478,331	99.99%	\$444,159	114,905	