

**BEFORE THE
RAILROAD COMMISSION OF TEXAS**

APPLICATION OF HUGHES NATURAL GAS, INC. FOR TEST YEAR 2014 ANNUAL INTERIM RATE ADJUSTMENT PROGRAM FOR THE ENVIRONS AREA.	§ § § § §	GAS UTILITIES DOCKET NO. 10425
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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 February 23, 2015, HNG filed an application for an annual interim rate adjustment (IRA) applicable to customers located in its environs areas.
4. HNG proposed the interim rate adjustments for all customer classes become effective on April 24, 2015, which is 60 days following the date the application is considered complete.
5. On February 26, 2015, the Commission suspended implementation of HNG's proposed interim rate adjustments until June 8, 2015, which would be 45 days following the 60th day after the application would be considered complete.
6. The application was complete on March 6, 2015.
7. A gas utility shall not implement its requested interim rate adjustment until the 60th day after the filing is complete, making the new proposed implementation date May 5, 2015.

8. The Commission may suspend the implementation of the interim rate adjustment for a period of 45 days from the 60th day after the gas utility's application is complete, making the new implementation date June 19, 2015.
9. TEX. UTIL. CODE, §104.301 does not provide a remedy for parties that oppose an annual interim rate adjustment.
10. 16 TEX. ADMIN. CODE, §7.7101 allows written comments or a protest concerning the proposed interim rate adjustment to be filed with the Oversight and Safety Division.
11. Letters of protest were received in the docket from three identified HNG environs area customers. One of the three letters of protest received included a petition with signatures from seventy-five residential HNG customers.
12. No further questions or comments were received by the Commission from the protestants.
13. 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.
14. This docket is the second annual interim rate adjustment for the HNG distribution system environs following GUD No. 10190.
15. GUD No. 10386 was the first annual interim rate adjustment since GUD No. 10190.
16. 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.
17. 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

18. This docket applies to only those rates over which the Commission has original jurisdiction, including all of the Distribution system environs customers.
19. For the environs areas, HNG's 2014 year-end customer counts by class were 3,579 residential customers and 50 commercial customers.¹

¹ Response to Staff's RFI No.1-1.

Most Recent Comprehensive Rate Case

20. 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*.
21. GUD No. 10190 was filed on July 6, 2012.
22. In that proceeding, the Examiners identified deficiencies in the Statement of Intent as originally filed.
23. HNG subsequently filed a motion for Abatement, which was granted on September 14, 2012.
24. HNG re-filed its Statement of Intent on November 2, 2012 in GUD No. 10190.
25. The data used in the re-filed Statement of Intent in GUD No. 10190 was based on a test-year ending September 30, 2012.
26. It is reasonable to regard November 2, 2012 as the filing date of HNG's Statement of Intent in GUD No. 10190.
27. 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.
28. HNG, Commission Staff, and the City of Magnolia are signatories to the Settlement Agreement.
29. 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.
30. The base rates currently charged by HNG were set by the Commission in GUD No. 10190.
31. 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 federal income tax.

CALCULATION FACTORS

Factor	Distribution
Rate of return	9.00%
Depreciation Rate	Varies

Federal Income Tax Rate	35%
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Interim Rate Adjustment

32. 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.
33. 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.
34. 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.
35. For the first IRA following a rate case, the amounts by which HNG may adjust its rates are based on the difference between HNG'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).
36. Each IRA following the first IRA, is based on the difference between HNG's invested capital at the end of the calendar test-year determined in the previous IRA filing and the invested capital at the end of the subsequent calendar year.
37. In this second 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 (December 31, 2013) and the invested capital at the end of the calendar-year following the end of the most recent rate case test-year (December 31, 2014).
38. 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.
39. HNG's incremental revenue requirement under the proposed interim rate adjustment is \$180,508, as shown in Exhibit B.
40. 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, GUD No. 10190.

41. 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, GUD No. 10190.
42. 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.
43. HNG is required to show its annual interim rate adjustments as a separate line item on its customers' monthly billing statements as a surcharge.
44. 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 2014 was 7.68% as compared with the 9.00% allowed rate of return established in GUD No. 10190.
45. Under TEX. ADMIN. CODE § 7.7101(l), HNG must file a Statement of Intent rate case, 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.
46. 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.
47. When the Customer Charge, 2013 Interim Rate Adjustment, and proposed 2014 Interim Rate Adjustment (Columns C, D, and E) are added, the resulting customer charge for affected customer classes is shown in Column F of the table below.

HNG Customer Charges and Interim Rate Adjustment (IRA)

Customer Class	Customer Charge (GUD 10190)	Customer Charge – 1 st year Phase-in (GUD 10190)	IRA - 2013 (GUD 10386)	IRA – 2014 (GUD 10425)	New Customer Charge
A	B	C	D	E	F
Residential	\$ 17.10	\$ 18.35	\$ 7.83	\$ 4.19	\$ 30.37
Commercial	\$ 17.10	\$ 18.35	\$ 7.83	\$ 4.19	\$ 30.37

48. HNG filed its Annual Project Report as required by 16 TEX. ADMIN. CODE § 7.7101(d).
- The change in utility plant investment for the 12-month test period is \$1,558,946 before retirements, transfers, and adjustments, and \$1,300,359 after retirements, transfers and adjustments.² Net capital additions included in this docket totaled \$1,156,492.³
 - Safety-related capital project additions totaled \$ 1,202,377.⁴
 - Safety-related improvements/infrastructure projects are 77.13% of total additions.⁵
 - Integrity testing projects are 0.00% of total additions.
49. 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.
50. 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.
51. Due process protections are deferred until HNG files its next full statement of intent rate case.

Notice

52. HNG provided adequate notice to environs area customers via bill insert on April 3, 2015.

Comprehensive Rate Case Required

53. HNG is not required to initiate a rate case supporting a statement of intent at the time it applies for an interim rate adjustment.
54. 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

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

2 Schedule IRA – 9.

3 Schedule IRA – 3.

4 Updated Schedule IRA-12.

5 Updated Schedule IRA-12.

56. For calculating the number of customer charges or meter charges per year, it is reasonable for the Commission to approve use of HNG’s 2014 normalized bill counts. The following total number of bills / meter charges are reasonable for use in the calculation of the interim rate adjustment.

Customer Class	Total Number Bills / Meter Charges
Distribution:	
Residential (R)	41,784
Commercial (C)	1,212
Total	42,996

57. 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.

Customer Class	Interim Rate Adjustment Revenue	Additional Customer / Meter Charges
Distribution:	\$180,153	
Residential (R)	\$175,075	\$ 4.19
Commercial (C)	\$5,078	\$ 4.19

58. HNG’s 2014 IRA is \$180,153, based on an adjusted incremental net utility plant investment increase of \$1,156,492⁶, of which approximately \$169,645, or 94.17%, is attributed to the environs areas.

Reimbursements of Expense

59. 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.
60. After the Commission has finally acted on HNG’s application for an interim rate adjustment, the Director of the Oversight and Safety Division will estimate HNG’s proportionate share of the Commission's annual costs related to the processing of such applications.

6 Schedule IRA – 3.

61. 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.
62. HNG 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.

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 electronically file with the Commission its revised tariffs.

8. HNG may not charge any rate that has not been successfully filed and accepted as an electronic tariff filing 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 June 9, 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 Oversight and Safety 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 9th day of June, 2015.

RAILROAD COMMISSION OF TEXAS

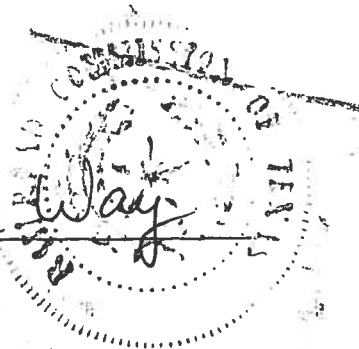
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Ryan Sitton
RYAN SITTON
COMMISSIONER

ATTEST

Kathy Way
SECRETARY



**Proposed Changes to
Section 1.2:**

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
- 1.2.2** Volumetric Fee, residential and commercial 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
- 1.2.4** Volumetric Fee, residential and commercial 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 IRA Surcharge
\$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)

(D) Rates.

The following rates are effective for bills rendered on and after the date of the Commission's Final Order concerning the 2014 IRA:

- 1.2.7** Monthly Customer Charge, residential and commercial customers:
\$18.35 Applies per meter, per month
\$7.83 2013 IRA Surcharge
 \$4.19 2014 IRA Surcharge
\$30.37 Total applies per meter, per month
- 1.2.7** Volumetric Fee, residential and commercial customers:
\$7.05. applies per thousand cubic feet (Mcf)

Summary
HUGHES NATURAL GAS, INC.
ENVIRONS SERVICE AREA
Twelve Month Period Ending 12/31/2014

LINE NO.	DESCRIPTION	PER GRIP		PER BOOK
		AT 12/31/13	INCREASE	As of 12/31/2014
	(a)	(b)	(c)	(d)
1	Utility Plant Investment	\$15,438,642	\$1,300,359	\$16,739,001
2	(376) Mains - CapGas CIAC (See Footnote 1)	(\$75,263)	\$0	(\$75,263)
3	Accum. Depr CapGas CIAC (See Footnote 1)	\$21,481	\$17,185	\$38,666
4	Acquisition Adjustment (See Footnote 2)	(\$454,913)	\$64,988	(\$389,925)
5	Accumulated Depreciation	(\$3,630,804)	(\$226,040)	(\$3,856,843)
6	Net Investment	\$11,299,143	\$1,156,492	\$12,455,636
7	Increase (Decrease) in Net Investment		\$1,156,492	
8	Authorized Return on Capital (See Footnote 3)		9.00%	
9	Change in Return on Net Investment		\$104,084	
10	Depreciation Expense	537,181		576,957
11	CapGas CIAC Depreciation (See Footnote 1)	(1,882)		(1,882)
		535,299		575,076
12	Change in Depreciation Expense		\$39,777	
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		\$36,648	
16	Change in Revenue Requirement (See Footnote 6)		\$180,508	
			<u>Monthly Fee</u>	<u>Voumetric Fee</u>
17	Billing Determinants (See Footnote 5)		42,996	212,397
18	Proposed IRA:		<u>\$4.19</u>	<u>\$0.00</u>
19	Resulting impact on revenues:		\$180,153.24	\$0.00
20	Revenue deferred:		\$355.09	

Current and Proposed Bill Information - With Gas Cost (See Footnote 5)					
		<u>Current</u>	<u>Proposed</u>	<u>Difference</u>	<u>% Change</u>
21	Residential Customers				
	Average Monthly Bill @ 6 MCF	\$126.54	\$130.73	\$4.19	3.31%
22	Commercial Customers				
	Average Monthly Bill @ 30 MC	\$527.98	\$532.17	\$4.19	0.79%
Current and Proposed Bill Information - Without Gas Cost					
23	Residential Customers				
	Average Monthly Bill @ 6 MCF	\$68.48	\$72.67	\$4.19	6.12%
24	Commercial Customers				
	Average Monthly Bill @ 30 MC	\$237.68	\$241.87	\$4.19	1.76%