



HEARINGS DIVISION

STATEMENT OF INTENT FILED OF TEXAS GAS SERVICE COMPANY, A DIVISION OF ONE GAS, INC., TO INCREASE GAS UTILITY RATES WITHIN THE UNINCORPORATED AREAS OF THE GALVESTON SERVICE AREA (GSA) AND SOUTH JEFFERSON COUNTY SERVICE AREA (SJCSA)

PARTIES AND APPEARANCES:

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PROCEDURAL HISTORY:

Statement of Intent Filed:	December 30, 2015
Rates Suspended:	January 12, 2016
Heard By:	John Dodson, Administrative Law Judge Rose Ruiz, Technical Examiner James Currier, Technical Examiner
Settlement Agreement:	March 24, 2016 (initial), April 1, 2016 (as amended)
Hearing:	March 29, 2016
Record Closed:	April 21, 2016
PFD Circulation:	April 21, 2016
Statutory Deadline:	July 2, 2016

STATEMENT OF THE CASE

On December 30, 2015, Texas Gas Service Company filed with the Railroad Commission a Statement of Intent to increase gas utility rates within the unincorporated areas of two service areas: the Galveston Service Area and the South Jefferson County Service Area. The Galveston Service Area is comprised of the Cities of Galveston, Jamaica Beach, and Bayou Vista, and their associated environs. The South Jefferson County Service Area is comprised of the Cities of Port Neches, Port Arthur, Nederland, and Groves, and their associated environs. Along with a rate increase, Texas Gas Service Company also seeks to consolidate these two service areas into a new, single service area known as the Gulf Coast Service Area.

On March 24, 2016, the parties filed a Unanimous Settlement Agreement, resolving all issues. In the Unanimous Settlement Agreement, the parties agree to the following:

- Consolidation of the incorporated and unincorporated areas of the Galveston Service Area and South Jefferson County Service Area into a new, single Gulf Coast Service Area;
- An increase of an additional \$2.3 million in annual revenues for the utility;
- The \$2.3 million revenue increase is a “black box” figure and is not tied to any specific expense or methodology in the underlying cost of service in the new, consolidated Gulf Coast Service Area;
- The utility’s capital investment booked to plant through December 31, 2015, is prudent;
- The separation of the utility from ONEOK, Inc., to ONE Gas, Inc., is in the public interest; and
- Rate case expense amounts.

The scope of the Commission’s jurisdiction in this docket is strictly over environs customers. All municipalities have retained their exclusive original jurisdiction and there are no appeals. Only one municipality—Jamaica Beach—has not appeared in this proceeding. All six remaining municipalities have agreed to the Unanimous Settlement Agreement terms and rate elements. There are no municipal appeals. Regarding the environs, the last gas utility rate increases for the environs of the Galveston Service Area and the South Jefferson County Service Area were in 1988 and 1992, respectively.

After reviewing and considering the Unanimous Settlement Agreement and evidentiary record, the Administrative Law Judge and Technical Examiners recommend that the Commission approve the terms and rate elements in the Unanimous Settlement Agreement, with modifications related to the allocation and recovery of certain rate case expenses.

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PROPOSAL FOR DECISION

I. INTRODUCTION

On December 30, 2015, Texas Gas Service Company (“TGS”), a division of ONE Gas, Inc. (“ONE Gas”), filed with the Railroad Commission of Texas (“Commission”) a Statement of Intent to Increase Gas Utility Rates Within the Unincorporated Areas of the Galveston Service Area and South Jefferson County Service Area (“SOI”). The Galveston Service Area (“GSA”) is comprised of the Cities of Galveston, Jamaica Beach, and Bayou Vista, and their associated environs. The South Jefferson County Service Area (“SJCSA”) is comprised of the Cities of Port Neches, Port Arthur, Nederland, and Groves, and their associated environs. Along with a rate increase, TGS also seeks to consolidate these two service areas into a new, combined service area known as the Gulf Coast Service Area (“GCSA”).

The scope of the Commission’s jurisdiction in this docket is strictly over environs customers. Every municipality in the GSA and SJCSA has retained its exclusive original jurisdiction over the gas utility rates, operations, and services within the municipality. This docket does not involve appeals of any municipal action. Only one municipality—Jamaica Beach—has not appeared in this proceeding.¹ The latest possible date for any municipality to deny TGS’s requested rate increase at the municipal level is May 3, 2016.²

On March 24, 2016, the parties filed a Unanimous Settlement Agreement (“Settlement”), resolving all issues. All parties in this proceeding have agreed to the Settlement terms and rate elements for TGS customers located in the GSA and SJCSA environs (“Environs”) and within their municipalities. After reviewing and considering the Settlement and evidentiary record, the Administrative Law Judge (“ALJ”) and Technical Examiners (“Examiners”) recommend that the Commission approve the terms and rate elements in the Settlement, with modifications related to the allocation and recovery of certain rate case expenses.

II. PARTIES

The parties in this proceeding are Applicant TGS and three intervenors: Staff of the Railroad Commission (“Staff”), GSA Cities whose members include the Cities of Galveston and Bayou Vista (“GSA Cities”), and SJCSA Cities whose members include the Cities of Groves, Nederland, Port Arthur, and Port Neches (“SJCSA Cities”).

TGS (Utility)

TGS is a division of ONE Gas and is a “gas utility” under Section 101.003 (Definitions) of the Texas Utilities Code.³ TGS filed its SOI with the Commission on December 30, 2015, and

¹ TGS has 293 customers in Jamaica Beach. See TGS Response to Examiners’ Request for Information (“RFI”) 1-2, filed on April 6, 2016.

² Tex. Util. Code § 104.107 (Rate Suspension; Deadline) (municipalities may suspend the effective date up to 90 days).

³ 16 Tex. Admin. Code § 101.003(7) (Definitions) (defining “gas utility” as “a person or river authority that owns or operates for compensation in this state equipment or facilities to transmit or distribute combustible hydrocarbon natural gas or synthetic natural gas for sale or resale in a manner not subject to the jurisdiction of the Federal

contemporarily filed a Statement of Intent to Increase Rates with the municipalities retaining original jurisdiction in the GSA and SJCSA.⁴ TGS is a signatory to the Settlement.

Staff of the Railroad Commission

On January 4, 2016, Staff filed a motion to intervene and be designated as a party “to assert its interest in seeing that the rules and regulations of the Commission together with the appropriate statutes have been followed.”⁵ On January 5, 2016, the ALJ granted Staff’s motion to intervene. Staff is a signatory to the Settlement.

GSA Cities

On January 5, 2016, the Galveston Service Area City of Galveston filed a motion to intervene as a gas utility customer of TGS and a regulatory authority with original jurisdiction over TGS’s service within its city limits.⁶ On January 6, 2016, the ALJ granted City of Galveston’s motion to intervene. On January 27, 2016, the Galveston Service Area City of Bayou Vista filed a motion to join the City of Galveston and to intervene as a gas utility customer of TGS and a regulatory authority with original jurisdiction over TGS’s service area within its city limits.⁷ On January 27, 2016, the ALJ granted City of Bayou Vista’s motion to intervene and to join the City of Galveston in this proceeding as GSA Cities.⁸ GSA Cities is a signatory to the Settlement.

SJCSA Cities

On January 4, 2016, the South Jefferson County Service Area Cities of Groves, Nederland, Port Arthur, and Port Neches filed a motion to intervene as municipalities located in the SJCSA that, along with their residents within the municipal boundaries, have a justiciable interest that may be adversely affected by TGS’s SOI.⁹ On January 6, 2016, the ALJ granted SJCSA Cities’ motion to intervene. SJCSA Cities is a signatory to the Settlement.

III. PROCEDURAL BACKGROUND

On December 30, 2015, TGS filed with the Commission its SOI to increase gas utility rates within the unincorporated areas of the GSA and SJCSA and to consolidate the GSA and SJCSA into a new, combined GCSA. Subsequently, Staff, GSA Cities, and SJCSA Cities intervened. On January 12, 2016, the Commission suspended TGS’s proposed rate change for a

Energy Regulatory Commission under the Natural Gas Act (15 U.S.C. Section 717 et seq.). The term includes a lessee, trustee, or receiver of a gas utility.”).

⁴ TGS Ex. 1 (SOI), p. 1.

⁵ Staff’s Motion to Intervene, filed on January 4, 2016, by John Pierce Griffin, attorney for the staff of the Railroad Commission of Texas.

⁶ City of Galveston’s Motion to Intervene, filed on January 5, 2016, by Thomas L. Brocato, attorney for City of Galveston.

⁷ City of Bayou Vista’s Motion to Intervene, filed on January 27, 2016, by Thomas L. Brocato, attorney for City of Bayou Vista.

⁸ The GSA is comprised of the Cities of Galveston, Bayou Vista, and Jamaica Beach, and their associated environs. Jamaica Beach is not a member of GSA Cities and is the only municipality in either the GSA or SJCSA that has not intervened or participated in this proceeding.

⁹ Cities’ Motion to Intervene, filed on January 4, 2016, by Daniel J. Lawton and Molly Mayhall Vandervoort, attorneys for Cities of Groves, Nederland, Port Arthur, and Port Neches.

period of 150 days—from February 3, 2016, to July 2, 2016—in accordance with Section 104.107 (Rate Suspension; Deadline) of the Texas Utilities Code.¹⁰ Prehearing conferences were held on January 12, 2016, and on February 2, 2016, to consider various procedural matters and technical issues. On January 29, 2016, the ALJ aligned GSA Cities and SJCSA Cities pursuant to Commission Rule 1.86 (Alignment of Municipal Intervenor for Purposes of Discovery).¹¹

On February 9, 2016, TGS provided public notice of its SOI to each TGS customer within the GSA and SJCSA by direct mail (“Public Notice”). On February 16, 2016, TGS filed certain errata to its original filing (the “Errata Filing”). From February 16-23, 2016, the Commission received seven timely-filed¹² comment letters from affected ratepayers in the GSA and SJCSA, each voicing opposition to TGS’s initially-proposed rate amounts as contained in the Public Notice. On March 1, 2016, the ALJ forwarded to each of these seven affected ratepayers a “Complaint and Statement of Intent to Participate Form” in accordance with Commission Rule 7.240 (Statement of Intent to Participate).¹³ The instructions on the Complaint and Statement of Intent to Participate Form—and the cover letters that attached the form—instructed the recipients that the completed form must be *received* by the Commission within 14 days after March 1, 2016, or else the Commission would not consider it to be a properly-filed complaint.¹⁴ None of these forms subsequently were returned to the Commission, timely or otherwise.

On February 22, 2016, the ALJ severed the rate case expenses portion of GUD No. 10488 into a separate docket, GUD No. 10496. On February 24, 2016, the ALJ issued a Notice of Hearing in GUD No. 10488, which set the hearing on the merits for March 29, 2016 (“Notice of Hearing”). On February 25, 2016, the Commission published the Notice of Hearing in *Gas Utilities Information Bulletin No. 1030*.¹⁵ By March 3, 2016, the ALJ provided the Notice of Hearing to the governing body of each affected municipality and county.

On March 24, 2016, the parties filed with the Commission the Settlement, unanimously agreed to by TGS, Staff, GSA Cities, and SJCSA Cities. On March 29, 2016, the ALJ reconsolidated the rate case expenses portion of GUD No. 10488—previously severed into a separate docket, GUD No. 10496—back into GUD No. 10488. Also on March 29, 2016, the noticed hearing was held and the following TGS exhibits in support of the Settlement were admitted into the record without objection by Staff, GSA Cities, or SJCSA Cities:

¹⁰ See Tex. Util. Code § 104.107(a)(2) (Rate Suspension; Deadline) (“Pending the hearing and a decision...the railroad commission may suspend the operation of the schedule for not longer than 150 days after the date the schedule would otherwise be effective.”).

¹¹ See 16 Tex. Admin. Code § 1.86 (Alignment of Municipal Intervenor for Purposes of Discovery) (“Municipal parties, whether participating as a single municipality or a coalition of municipalities, are presumed to share a common interest in a proceeding such that alignment of municipal parties as a single party for purposes of discovery is appropriate. The presiding officer shall order alignment of municipal intervenors at the earliest reasonable opportunity so as to avoid unnecessary duplication of effort and to allow aligned parties an adequate opportunity to coordinate discovery efforts in an efficient manner.”).

¹² The deadline was Friday, March 4, 2016, which is 30 days following February 3, 2016—the effective date for TGS’s proposed rate change. See 16 Tex. Admin. Code § 7.230(b)(5) (Contents of Notice) (“requiring gas utilities to include in its environs notice a statement that “any affected person may file in writing comments or a protest concerning the proposed change in the environs rates...at any time within 30 days following the date on which the change would or has become effective”) (emphasis added).

¹³ Letter from the ALJ to all Complainants, dated March 1, 2016 (attaching Complaint and Statement of Intent to Participate Form).

¹⁴ *Id.* (emphasis in original).

¹⁵ See *Gas Utilities Information Bulletin No. 1030*, published by the Railroad Commission of Texas Oversight and Safety Division on February 25, 2016 (“Bulletin”).

- Ex. 1, “GUD 10488 – Statement of Intent of Texas Gas Service Company, a Division of One Gas, Inc., to Increase Utility Rates Within the Unincorporated Areas of the Galveston Service Area and South Jefferson County Service Area (Includes all Attachments Except Testimony), Filed on December 30, 2015. Includes Electronic Files and Workpapers”;
- Ex. 1a, “TGS’s Confidential Schedule Workpapers”;
- Ex. 2, “TGS Errata Filing (Includes Electronic Files and Workpapers), Filed February 16, 2016”—as amended;
- Ex. 3, “Affidavit of Damon S. Tucker attesting to Completion of Public Notice, Filed February 24, 2016”;
- Ex. 4, “Unanimous Settlement Agreement (Includes All Attachments)”—as amended;
- Ex. 5, “Direct Testimony and Workpapers of Caron A. Lawhorn”;
- Ex. 6, “Direct Testimony of Jim Jarrett”;
- Ex. 7, “Direct Testimony and Workpapers of Stacey L. McTaggart”;
- Ex. 8, “Direct Testimony of Denise E. Dembowski”;
- Ex. 9, “Direct Testimony of Stacey R. Borgstadt”;
- Ex. 10, “Direct Testimony and Workpapers of Anna Kern”;
- Ex. 10a, “Confidential Direct Testimony Exhibits of Anna Kern”;
- Ex. 11, “Direct Testimony of Teresa D. Serna”;
- Ex. 12, “Direct Testimony and Workpapers of Janet M. Simpson”;
- Ex. 13, “Direct Testimony and Workpapers of Joshua C. Nowak”;
- Ex. 13a, “Confidential Workpapers of Joshua C. Nowak”;
- Ex. 14, “Direct Testimony of Ronald E. White”;
- Ex. 15, “Direct Testimony and Workpapers of Bruce H. Fairchild”; and
- Ex. 16, “Direct Testimony and Workpapers of F. Jay Cummings”—as amended.

On April 18, 2016, the ALJ issued rulings that granted certain TGS motions to amend the evidentiary record and to seal certain highly-sensitive and confidential material.¹⁶

IV. JURISDICTION, BURDEN OF PROOF, AND NOTICE

Jurisdiction

The Commission has jurisdiction over TGS, which is a gas utility as defined in Section 101.003(7) of the Texas Utilities Code. Pursuant to Section 102.001(a) of the Texas Utilities Code, the Commission has exclusive original jurisdiction to set the rates TGS requests for customers in the unincorporated areas of the current GSA and SJCSA. The Commission has jurisdiction over all matters at issue in this proceeding pursuant to Chapters 102 (Jurisdiction and Powers of Railroad Commission and Other Regulatory Authorities), 103 (Jurisdiction and Powers of Municipality), and/or 104 (Rates and Services) of the Texas Utilities Code. The statutes and rules involved in this proceeding include, but are not limited to, those contained in Chapters 102, 103, and 104 of the Texas Utilities Code, and Title 16 (Economic Regulation),

¹⁶ Examiners’ Letter No. 24 (Rulings on Motions to Seal the Administrative Record; Ruling on Motion to Amend the Evidentiary Record), issued April 18, 2016.

Part 1 (Railroad Commission of Texas), Chapters 1 (Practice and Procedure) and 7 (Gas Services Division) of the Texas Administrative Code.

Every municipality in the GSA and SJCSA has retained its exclusive original jurisdiction over the gas utility rates, operations, and services within the municipality. This proceeding does not involve appellate review of any municipal decision.¹⁷

Burden of Proof

As the party proposing gas utility rate changes, TGS has the burden of proving that the rate changes are just and reasonable.¹⁸

Notice

Proper notice has been issued in this proceeding in accordance with applicable statutes and rules. On February 9, 2016, TGS provided public notice of its SOI to each TGS customer within the GSA and SJCSA by direct mail.¹⁹ On February 24, 2016, the ALJ issued the Notice of Hearing, which complied with Chapter 2001 (Administrative Procedure) of the Texas Government Code, Part 1 (Railroad Commission of Texas) of Title 16 (Economic Regulation) of the Texas Administrative Code, and other applicable authority. On February 25, 2016, the Commission published the Notice of Hearing in *Gas Utilities Information Bulletin No. 1030* in compliance with Commission Rule 7.235 (Publication and Service of Notice).²⁰ Complying with Section 104.105 (Determination of Propriety of Rate Change; Hearing) of the Texas Utilities Code, the ALJ provided a copy of the Notice of Hearing to the governing body of each affected municipality and county.²¹

No party contested any issue related to notice, including the required notices described herein. The ALJ finds that proper notice has been issued in this proceeding in accordance with all applicable statutory and regulatory requirements.

¹⁷ As of the date of issuance of this Proposal for Decision (“PFD”), no appeal or petition for review of a municipal order has been filed with the Commission concerning TGS’s proposed rate increases and/or Settlement. Per the Settlement, the GSA Cities and SJCSA Cities “agree to make every effort to present their cities with [the Settlement] at city council meetings during March-April 2016.” See Settlement ¶ 20.

¹⁸ Tex. Util. Code § 104.008 (Burden of Proof).

¹⁹ TGS Ex. 3, Affidavit of Notice by Damon S. Tucker, sworn to on February 18, 2016, and filed with the Commission on February 24, 2016 (“Tucker Aff.”), ¶¶ 3-5; see also Tex. Util. Code § 104.103 (Notice of Intent to Increase Rates) (containing notice requirements) and 16 Tex. Admin. Code §§ 7.220 (Enviroms Rates), 7.230 (Contents of Notice), and 7.235 (Publication and Service of Notice) (containing notice requirements).

²⁰ 16 Tex. Admin. Code § 7.235(a)(1)(A) (Publication and Service of Notice) (“The Commission shall publish the notice of hearing in the next Bulletin published after the date of issuance of the notice of hearing.”); Bulletin, pp. 3-5 (containing the GUD No. 10488 Notice of Hearing).

²¹ Tex. Util. Code § 104.105(c) (Determination of Propriety of Rate Change; Hearing) (“The regulatory authority shall give reasonable notice of the hearing, including notice to the governing body of each affected municipality and county.”). Counsel for GSA Cities and SJCSA Cities accepted Section 104.105 notice on behalf of the governing bodies of their respective member municipalities. By letters dated March 3, 2016, the ALJ provided additional Section 104.105 notice to the governing bodies of the City of Jamaica Beach, Galveston County, and Jefferson County.

V. COMPLIANCE WITH COMMISSION RULES; BOOKS AND RECORDS

Stacey L. McTaggart, Rates and Regulatory Director for TGS, testified that TGS maintains its books and records in accordance with the Commission's regulatory requirements.²² Namely, Ms. McTaggart testified that TGS maintains its books and records in accordance with Commission Rule 7.310 (System of Accounts), which requires each gas utility to "utilize the Federal Energy Regulatory Commission's (FERC) Uniform System of Accounts (USOA) prescribed for Natural Gas Companies subject to the Provisions of the Natural Gas Act (as amended from time to time) (FERC USAO) for all operating and reporting purposes."²³ "The FERC Uniform System of Accounts shall be applicable to all gas utility and gas utility related operations regardless of location."²⁴ Ms. McTaggart testified that the information contained within TGS's books and records, as well as the summaries and excerpts therefrom, qualify for the presumption set forth in Commission Rule 7.503 (Evidentiary Treatment of Uncontroverted Books and Records of Gas Utilities).²⁵ Ms. McTaggart testified that TGS is in compliance with Commission Rule 7.501 (Certain Matters to be Submitted in Rate Hearings), which requires the separate presentation in a rate proceeding of evidence related to certain types of financial transactions, and in some cases, exclusion of these costs from rates,²⁶ and with Commission Rule 7.5414 (Advertising, Contributions, and Donations), which states that actual expenditures for advertising will be allowed as a cost-of-service item for ratemaking purposes, provided that the total sum of such expenditures shall not exceed one-half of one (1) percent of the gross receipts of the utility for utility services rendered to the public.²⁷

Ms. McTaggart further testified that TGS did not incur any affiliate expenses during the test year that might trigger application of Section 104.055 (Net Income; Allowable Expenses) of the Texas Utilities Code, and that TGS's separation from ONEOK, Inc. ("ONEOK") did not impact TGS's existing regulatory obligations.²⁸ Accordingly, the ALJ finds that TGS has established that it has fully complied with these Commission rules, including Commission Rule 7.310, and that TGS is entitled to the presumption that costs contained within the books and records have been reasonably and necessarily incurred.

VI. TGS'S ORIGINAL REQUEST

TGS filed its SOI on December 30, 2015. The main components of TGS's original request were:

- Consolidation of the GSA and SJCSA into the new GCSA;

²² TGS Ex. 7, Direct Testimony of Stacey L. McTaggart on Behalf of Texas Gas Service Company, filed on December 30, 2015, and admitted into the evidentiary record on March 29, 2016 ("McTaggart Test."), 3:14-10:9.

²³ 16 Tex. Admin. Code § 7.310(a) (System of Accounts); TGS Ex. 7 (McTaggart Test.) 3:14-17.

²⁴ 16 Tex. Admin. Code § 7.310(a) (System of Accounts).

²⁵ TGS Ex. 7 (McTaggart Test.) 5:7-14; 16 Tex. Admin. Code § 7.503(a) (Evidentiary Treatment of Uncontroverted Books and Records of Gas Utilities) ("In any proceeding before the Commission involving a gas utility that keeps its books and records in accordance with Commission rules, the amounts shown on its books and records as well as summaries and excerpts therefrom shall be considered prima facie evidence of the amount of investment or expense reflected when introduced into evidence...").

²⁶ TGS Ex. 7 (McTaggart Test.) 5:18-7:14; 16 Tex. Admin. Code § 7.501 (Certain Matters to be Submitted in Rate Hearings).

²⁷ TGS Ex. 7 (McTaggart Test.) 7:18-8:9; 16 Tex. Admin. Code § 7.5414 (Advertising, Contributions, and Donations).

²⁸ TGS Ex. 7 (McTaggart Test.) 8:12-9:11.

- An increase of TGS's revenues in the combined GSA and SJCSA by \$3.2 million, which is an increase of 11.7 percent including gas costs, or 21.2 percent excluding gas costs;²⁹
- Commission approval of new depreciation rates for distribution and general plant within the GCSA, as well as TGS Division plant, and corporate assets allocated to TGS and GCSA;
- A prudence determination with regard to its capital investment booked to plant in the unincorporated areas of the GSA and SJCSA through December 31, 2015;
- A request that the Commission find that the transfer of TGS from ONEOK to ONE Gas is in the public interest; and
- Commission approval of the reasonable rate case expenses associated with this filing through a surcharge on rates.³⁰

VII. TERMS OF THE SETTLEMENT

The Settlement resolves all issues in GUD 10488. The signatories—TGS, GSA Cities, SJCSA Cities, and Staff—represent diverse interests and have engaged in significant discovery regarding the issues in dispute. All parties agree that the Settlement resolves all issues in a manner consistent with the public interest and that resolution of this docket under the terms of this Settlement will significantly reduce the amount of reimbursable rate case expenses that would, if further litigation is pursued, be allocated to customers within the GSA Cities, SJCSA Cities, and the Environs affected by this docket.³¹ The ALJ and Examiners have reviewed and considered the Settlement and evidentiary record. Unless specified otherwise below, the ALJ and Examiners find that the terms of the Settlement are just and reasonable and consistent with the requirements of the Texas Utilities Code and applicable Commission rules.

A. Base Rate Increase

According to the Settlement, TGS will receive a \$2.3 million base rate increase for its GSA and SJCSA, effective for meters read on or after May 1, 2016.³² This reflects a reduction of \$871,418 from TGS's originally-filed SOI and a reduction of \$1,008,859 from TGS's revised request. All parties agree to the dollar amount, revenue distribution, rate design, and effective date of the increase.³³ All parties agree to the rates, terms and conditions reflected in the tariffs and rate schedules attached as Exhibit A to the Settlement.³⁴ Except as specifically provided in the Settlement, the \$2.3 million revenue increase is a "black box" figure and is not tied to any specific expense or methodology in the underlying cost of service in TGS's proposed new GCSA.³⁵ All parties agree that while base rates will be determined using a consolidated system-wide cost of service methodology, TGS will maintain separate Cost of Gas rates for the cities in

²⁹ In its original SOI, TGS requested an increase of \$3.2 million. This amount was increased to \$3.3 million in the Errata Filing.

³⁰ TGS Ex. 1 (SOI), pp. 2-3.

³¹ TGS Ex. 4 (Settlement), p. 2.

³² *Id.* ¶ 1.

³³ *Id.* ¶ 1.

³⁴ *Id.* ¶ 1.

³⁵ *Id.* ¶ 1. In a "black box settlement," the parties agree to a total amount that the utility may recover in its rates without specifying any of the individual numbers used to calculate the amount. See *Entergy Texas, Inc. v. Pub. Util. Comm'n of Texas*, 03-14-00735-CV, 2016 WL 1406233, at *3 (Tex. App.—Austin Apr. 8, 2016).

the current SJCSA and associated unincorporated areas, and the cities in the current GSA and associated unincorporated areas.³⁶

The Settlement rates are designed to recover an annual revenue requirement of \$17,220,260 from all customers, with \$412,804, or 2.4 percent, to be recovered from the Environs customers. Environs customers currently contribute 1.1 percent of the adjusted test year revenue but compose 2.7 percent of the adjusted customer bills for the test year.

All parties agree that the rates, terms and conditions comply with the rate-setting requirements of Chapter 104 (Rates and Services) of the Texas Utilities Code.³⁷ The Texas Utilities Code requires that “the regulatory authority shall establish the utility’s overall revenues at an amount that will permit the utility a reasonable opportunity to earn a reasonable return on the utility’s invested capital used and useful in providing service to the public in excess of its reasonable and necessary operating expenses.”³⁸

Considering the Settlement and evidentiary record, the ALJ and Examiners find the overall revenues for TGS in the Settlement to be just and reasonable and consistent with Chapter 104 (Rates and Services) of the Texas Utilities Code.

B. Rate Design

All parties agree to the customer charges and volumetric rates in the below table. These rates also are reflected in the rate schedules in Exhibit A to the Settlement.

Table No. 7.1

	Customer Charge	Commodity Charge	CCf
Residential	\$13	\$0.45616	all
Commercial	\$54	\$0.22140	First 250 Ccf
		\$0.19380	Over 250 Ccf
Commercial Transportation	\$300	\$0.22140	First 250 Ccf
		\$0.19380	Over 250 Ccf
Public Authority	\$110	\$0.15672	First 250 Ccf
		\$0.13092	Over 250 Ccf
Public Authority Transportation	\$300	\$0.15672	First 250 Ccf
		\$0.13092	Over 250 Ccf
Industrial	\$110	\$0.40060	First 250 Ccf
		\$0.37480	Over 250 Ccf
Industrial Transportation	\$300	\$0.40060	First 250 Ccf
		\$0.37480	Over 250 Ccf

The revenue requirement is recovered from rates as set out in the proposed Settlement. The proposed customer charge for residential customers is \$9 less than TGS’s original proposal

³⁶ *Id.* ¶ 8.

³⁷ *Id.* ¶ 1.

³⁸ Tex. Util. Code § 104.051 (Establishing Overall Revenues).

of \$22. The customer charge for the remaining classes is unchanged from the original proposal. The proposed volumetric charge for the residential customers is \$0.188/Ccf higher for residential customers than TGS's original proposal of \$0.26816. The table below shows the current, proposed, and settled rates for the residential class.

Table No. 7.2
Residential Rates - Current and Settlement

	Current		Settlement	
	Customer Charge	Commodity Charge	Customer Charge	Commodity Charge
GSA Muni	\$10.00	\$0.3473	\$13.00	\$0.4562
GSA Environ	\$7.50	\$0.1088		
SJCSA Muni	\$18.48	\$0.1951		
SJCSA Environ	\$6.20	block		
First 10		\$0.2155		
Next 30		\$0.1526		
Next 210		\$0.1475		
Next 250		\$0.1279		
Over 500		\$0.1064		

(1) The Galveston and South Jefferson County Service Areas are consolidated into the Gulf Coast Service Area. The environs and incorporated areas still have separate tariffs but the rates in the Settlement are the same.

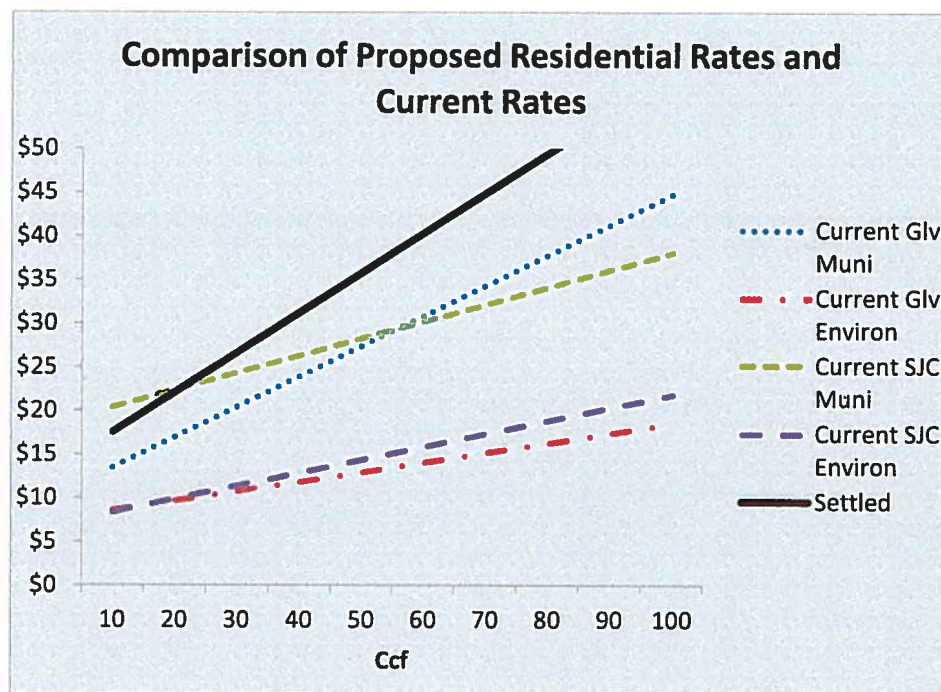
The bill impact of the proposed change on average-usage residential customers is shown in the below table. The bill impacts exclude the cost of gas and taxes.

Table No. 7.3

Average Bill Impact for Residential Customers						
Area	Average Ccf	Current	Proposed	Settlement	Proposed Percent Increase	Settlement Percent Increase
GSA Muni	25	\$ 18.68	\$ 28.70	\$ 24.40	54%	31%
GSA Environ	25	\$ 10.22	\$ 28.70	\$ 24.40	181%	139%
SJCSA Muni	32	\$ 24.72	\$ 30.58	\$ 27.60	24%	12%
SJCSA Environ	32	\$ 11.71	\$ 30.58	\$ 27.60	161%	136%

The below graph compares the current and settled rates for residential customers.

Table No. 7.4



Regarding Environs customers, the last gas utility rate increases for the unincorporated areas of the GSA and the SJCSA were in 1988 and 1992, respectively.³⁹ Per the Settlement, the approximately 1,212 Environs customers now will pay the same rates as the approximately 43,520 municipal customers affected by the Settlement.⁴⁰

Considering the Settlement and evidentiary record, the ALJ and Examiners find TGS's rates to be in compliance with Section 104.003 (Just and Reasonable Rates) of the Texas Utilities Code because the rates are not unreasonably preferential, prejudicial, or discriminatory, but are sufficient, equitable, and consistent in application to each class of customer. The ALJ and Examiners also find TGS's rates to be just and reasonable and to comply with Section 104.004 (Unreasonable Preference or Prejudice Prohibited) of the Texas Utilities Code because the rates do not establish or maintain an unreasonable difference concerning rates of services between localities or between classes of service. Finally, as proposed, the rates in the Settlement would comply with Section 104.006 (Rates for Area not in Municipality) of the Texas Utilities Code because the rates for Environs customers would not exceed 115 percent of the average of all rates for similar services for all municipalities served by TGS in the same counties.

³⁹ TGS Ex. 7 (McTaggart Test.) 10:17-19, 11:21-12:2 (GUD No. 7076 (GSA environs) and GUD Nos. 8043-8046 (SJCSA environs)).

⁴⁰ This excludes the approximately 293 customers in Jamaica Beach, which is the sole municipality not participating in this proceeding.

C. Consolidation of Service Areas

The parties agree that TGS's request to consolidate the incorporated and unincorporated areas of the SJCSA and incorporated and unincorporated areas of the GSA to create the new GCSA is reasonable and should be approved.⁴¹ The rates in the Settlement have been established consistent with implementing a system-wide cost of service methodology in the GCSA.⁴²

Jim Jarrett, Vice President of Operations for TGS, provided written testimony in support of the service area consolidation.⁴³ Mr. Jarrett testified that the consolidation of the GSA and SJCSA into the new, combined GCSA promotes TGS's evolving centralization of its corporate decision making and management of gas services.⁴⁴ Due to this centralization, service area boundaries often are not the best indicators of TGS's actual operations.⁴⁵ Mr. Jarrett further testified that consolidation creates administrative efficiencies that benefit TGS and its customers, and that consolidation of service areas is consistent with Commission precedent.⁴⁶ Finally, Mr. Jarrett testified that, in addition to TGS's operations and centralized service characteristics, the coastal characteristics—including weather and customer usage—along with the proximity of these communities support the reasonableness of the consolidation of the service areas.⁴⁷

Considering the Settlement and evidentiary record, the ALJ and Examiners find that consolidation of the GSA and SJCSA and related environs into the new GCSA is just and reasonable.

⁴¹ TGS Ex. 4 (Settlement) ¶ 2.

⁴² *Id.* ¶ 2.

⁴³ See TGS Ex. 7, Direct Testimony of Jim Jarrett on Behalf of Texas Gas Service Company, filed on December 30, 2015, and admitted into the evidentiary record on March 29, 2016 ("Jarrett Test."), 5:8-11:7.

⁴⁴ *Id.* 5:8-7:18.

⁴⁵ *Id.* 5:12-13.

⁴⁶ *Id.* 7:16-11:1 (noting the following Commission dockets involving the approval of service area consolidation: GUD Nos. 9400, 9670, 9762, 9869, and 10174).

⁴⁷ *Id.* 11:4-7.

D. Tariffs

All parties agree to the rates, terms, and conditions reflected in the Settlement's tariffs and rate schedules, and all parties further agree that the rates, terms, and conditions reflected in the Settlement comply with the rate-setting requirements of Chapter 104 (Rates and Services) of the Texas Utilities Code.⁴⁸ All parties agree to system-wide tariffs based on approval of the consolidated new GCSA. The GCSA tariffs, listed below, are included in Exhibit A of the Settlement.

Table No. 7.5
Tariffs in Exhibit A to Settlement

Incorporated Tariffs: <ul style="list-style-type: none"> • Residential Service Rate (10) • Commercial Service Rate (20) • Industrial Service Rate (30) • Public Authority Rate (40) • Transportation Service Rate (T-1) • Cost of Gas Clause (1-INC (Galv)) • Cost of Gas Clause (1-INC (SJC)) 	Environs Tariffs: <ul style="list-style-type: none"> • Residential Service Rate (1Z) • Commercial Service Rate (2Z) • Industrial Service Rate (3Z) • Public Authority Service Rate (4Z) • Transportation Service Rate (T-1, ENV) • Cost of Gas Clause (1-ENV (Galv)) • Cost of Gas Clause (1-ENV (SJC))
General Tariffs: <ul style="list-style-type: none"> • General Terms and Conditions for Transportation Service (T-TERMS) • Rules of Service – Gulf Coast Service Area • Pipeline Safety and Regulatory Program Fees (PSF) • Weather Normalization Adjustment Clause (WNA) • Rate Case Expense Surcharge (RCE) 	

All parties agree to the customer charges and volumetric rates reflected in the Settlement⁴⁹ and copied in Table No. 7.5, above.

The ALJ and Examiners have reviewed and considered the Settlement tariffs⁵⁰ and proof of revenue.⁵¹ The Settlement rates are designed to recover an annual revenue requirement of \$17,220,260 from all customers of which \$412,804, or 2.4 percent, will be recovered from the environs customers. The rates reflect the Settlement increase of an additional \$2.3 million in annual revenues, and all parties agree that TGS's proposed class revenue allocation is reasonable and should be approved.⁵² The ALJ and Examiners find that the Settlement tariffs⁵³ comply with

⁴⁸ TGS Ex. 4 (Settlement) ¶ 1, Exhibit A, pp. 1-88.

⁴⁹ See TGS Ex. 4 (Settlement) ¶ 3.

⁵⁰ See *id.* Exhibit A, pp. 1-87 (the Rate Case Expense Surcharge on page 88 of Exhibit A is addressed separately later in this PFD).

⁵¹ See *id.* Exhibit B (Proof of Revenue), pp. 1-2.

⁵² *Id.* ¶ 12.

⁵³ *Id.* Exhibit A, pp. 1-87.

all statutory and Commission requirements, including the requirements of Commission Rule 7.45 (Quality of Service) and Commission Rule 7.315 (Filing of Tariffs). The Rate Case Expense Surcharge is addressed separately below.

E. Capital Investment Prudence

All parties agree that TGS's capital investment booked to plant through December 31, 2015, including investment in TGS's Interim Rate Adjustment for the SJCSA Cities filed on November 30, 2014, is prudent.⁵⁴

1. Background

Section 104.301 (Interim Adjustment for Changes in Investment) of the Texas Utilities Code and Commission Rule 7.7101 (Interim Rate Adjustments) provide that a gas utility may file with the Commission a request for an interim rate adjustment ("IRA").⁵⁵ TGS filed an IRA for the cities served in the SJCSA on November 20, 2014, for plant investment from October 1, 2012, to December 31, 2013.⁵⁶ After suspending implementation of the IRA for an additional 45 days, the cities served in the SJCSA took no action, allowing the IRA to take effect.⁵⁷ On November 20, 2015, TGS filed an IRA for the cities served in the SJCSA but requested no change in rates because this full rate case was under preparation and would be filed before the end of 2015.⁵⁸ TGS currently charges environs customers in the SJCSA the rates that were approved by the Commission in 1992.⁵⁹

Regarding the GSA, TGS has a Cost of Service Adjustment ("COSA") mechanism for the incorporated areas of the GSA.⁶⁰ On May 12, 2015, TGS filed its most recent COSA for the GSA.⁶¹ The cities served in the GSA approved a settlement agreement regarding the COSA filing on July 20, 2015, which included a requirement that TGS file a full Statement of Intent case prior to January 31, 2016.⁶² TGS currently charges environs customers in the GSA the rates that were approved by the Commission in 1988.⁶³

2. Prudence Determination

Commission Rule 7.7101 (Interim Rate Adjustments) provides that in the rate case a gas utility files after the implementation of an IRA, 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.⁶⁴ TGS seeks a finding supporting the reasonableness and prudence of its 2014 and 2015 IRA filings in the cities served in the SJCSA. TGS also

⁵⁴ *Id.* ¶ 5.

⁵⁵ See Tex. Util. Code § 104.301 (Interim Adjustment for Changes in Investment), 16 Tex. Admin. Code § 7.701 (Interim Rate Adjustments).

⁵⁶ TGS Ex. 7 (McTaggart Test.) 11:3-6.

⁵⁷ *Id.* 11:6-8.

⁵⁸ *Id.* 11:8-11.

⁵⁹ *Id.* 11:15-17.

⁶⁰ *Id.* 12:5-6.

⁶¹ *Id.* 12:6-7.

⁶² *Id.* 12:7-9.

⁶³ *Id.* 12:11-12.

⁶⁴ 16 Tex. Admin. Code § 7.7101(j) (Interim Rate Adjustments).

requests that the Commission find that TGS's capital investment in the GSA and SJCSA through June 30, 2015, with an adjustment for known and measurable changes to reflect plant that will be in service by December 31, 2015, was reasonable and prudent.

In support, Jim Jarrett, Vice President of Operations for TGS, provided written testimony supporting the reasonableness, necessity, and use of TGS's capital investment made to serve customers in the proposed GCSA since the last rate filing.⁶⁵ Specifically, Mr. Jarrett provided testimony and supporting documentation of the following: capital investment in the GSA and SJCSA is made based on the needs of the system as a whole without regard to whether the investment occurs within or outside of an incorporated area;⁶⁶ the cities served in the GSA have, as part of the annual COSA filings, determined that capital investment made through December 31, 2014, in the GSA was reasonable and prudently incurred;⁶⁷ cities within the SJCSA have determined that all capital investment within the SJCSA was reasonable and prudently incurred through June 30, 2012;⁶⁸ all investments included in TGS's SOI filing are currently used and useful or will be used and useful in providing utility service by December 31, 2015;⁶⁹ and each investment in the GSA and SJCSA was prudent, reasonable in amount, and necessary for TGS to maintain a safe and reliable system and to provide an appropriate level and quality of gas utility service to customers.⁷⁰

Considering the Settlement and evidentiary record, the ALJ and Examiners find that TGS's capital investment booked to plant through December 31, 2015, including investment in TGS's IRA for the cities served in the SJCSA filed on November 30, 2014, is reasonable and prudent.

3. Future IRA Factors

All parties agree that any IRA filing in the GCSA pursuant to Section 104.301 (Interim Adjustment for Changes in Investment) of the Texas Utilities Code shall use the following factors until changed by a subsequent general rate proceeding:

- The capital structure and related components shall be as shown in paragraph 10 of the Settlement;
- For the initial filing, the Net Investment, including the detail of Plant in Service amounts along with the associated depreciation rate for each account, shall be as shown on Exhibit C to the Settlement;
- For the initial filing, the net plant in service shall be \$70,627,672;
- For the initial filing, the customer charges as noted in paragraph 3 of the Settlement will be the starting rates to apply to any IRA adjustment; and
- The base rate revenue allocation factors to spread any change in IRA increase/decrease to the appropriate customer classes are as follows:

⁶⁵ TGS Ex. 6 (Jarrett Test.) 15:13-22:21.

⁶⁶ *Id.* 20:19-21.

⁶⁷ *Id.* 20:22-21:1.

⁶⁸ *Id.* 21:1-3.

⁶⁹ *Id.* 21:15-19.

⁷⁰ *Id.* 21:20-22:3.

Customer Class	Allocation
Residential	78.95%
Commercial	16.98%
Public Authority	3.33%
Industrial	0.74%
Total Allocation	100.00%

The ALJ and Examiners find these factors to be just and reasonable.

F. Gas Supply

All parties agree that while base rates will be determined using a consolidated system-wide cost of service methodology, TGS will maintain separate Cost of Gas rates for the cities in the current GSA and associated unincorporated areas, and the cities in the current SJCSA and their unincorporated areas.⁷¹ TGS agrees, pursuant to the request of Staff and SJCSA Cities, that TGS will no longer enter into financial hedging instruments as part of its gas supply portfolio for the GCSA without prior approval from the Commission.⁷² This agreement shall be reflected in the separate Gas Cost Clauses that will remain in effect for the GSA and SJCSA as provided for in the Settlement.⁷³

Considering the Settlement and evidentiary record, the ALJ and Examiners find that these Settlement terms are just and reasonable and comply with Commission Rule 7.5519 (Gas Cost Recovery).

G. Separation of TGS from ONEOK to ONE Gas

All parties agree that the separation of TGS from ONEOK to ONE Gas, which TGS reported to the Commission in GUD No. 10339 pursuant to Section 102.051 (Report of Certain Transactions; Railroad Commission Considerations) of the Texas Utilities Code, is in the public interest.⁷⁴ All parties further agree that capital costs for infrastructure, such as IT hardware and software, office-related investment, and signage were reasonably incurred as part of the separation of TGS from ONEOK to ONE Gas and should be recovered in rates.⁷⁵ Separation expenses associated with the Transaction Services Agreement and data migration, to the extent such expenses are non-recurring, are not eligible for rate recovery.⁷⁶

In support, Caron Lawhorn, Senior Vice President, Commercial, for ONE Gas, provided written testimony and supporting documentation that the transfer of TGS from ONEOK to ONE Gas is in the public interest.⁷⁷ ONE Gas is a stand-alone, fully regulated natural gas utility that “was spun out of ONEOK in January 2014” and now operates as an independent natural gas

⁷¹ TGS Ex. 4 (Settlement) ¶ 8.

⁷² *Id.* ¶ 9.

⁷³ *See id.* ¶ 9.

⁷⁴ *Id.* ¶ 6.

⁷⁵ *Id.* ¶ 7.

⁷⁶ *Id.* ¶ 7.

⁷⁷ *See* TGS Ex. 9, Direct Testimony of Caron A. Lawhorn on Behalf of Texas Gas Service Company, filed on December 30, 2015, and admitted into the evidentiary record on March 29, 2016 (“Lawhorn Test.”).

distribution company in Oklahoma, Kansas, and Texas.⁷⁸ ONEOK created ONE Gas as a subsidiary, dropped the local distribution company (“LDC”) assets of Oklahoma Natural Gas, Kansas Gas Service, and Texas Gas Service into this subsidiary, and then transferred ownership of the ONE Gas shares to ONEOK shareholders.⁷⁹ ONEOK, not ONE Gas, paid all the transaction costs directly associated with the separation.⁸⁰ On February 25, 2014, TGS notified the Commission of the transaction, which took effect on January 31, 2014.⁸¹ Ms. Lawhorn further testified to the following: the transfer of assets and operations from ONEOK to ONE Gas, as it relates to TGS customers, has been seamless;⁸² upon the completion of the transaction, TGS began to be operated as a division of ONE Gas, just as it had operated as a division of ONEOK;⁸³ ONE Gas continues to use the “Texas Gas Service” name to provide natural gas service to all of its Texas customers, including those residing in the GSA and SJCSA;⁸⁴ the same people are providing the service using the same infrastructure as a division of ONE Gas as occurred when TGS was a division of ONEOK, and there has been no reduction in workforce due to the transition;⁸⁵ and the transfer itself has had no direct impact on TGS’s rate base, as the book values of TGS plant were transferred to TGS as a division of ONE Gas at net book value, with no acquisition adjustment or other adjustment as a result of the separation.⁸⁶

Stacey McTaggart, Rates and Regulatory Director for TGS, provided further supporting testimony.⁸⁷ Specifically, Ms. McTaggart testified to the following: TGS’s separation from ONEOK has had no impact on TGS’s existing regulatory obligations, and TGS continues to strictly meet all of its statutory and regulatory obligations;⁸⁸ following the separation from ONEOK, TGS has continued to comply with applicable Commission rules regarding its books and records and other regulatory requirements;⁸⁹ the separation from ONEOK had no effect on TGS’s rate base;⁹⁰ the property and equipment that was on the books of TGS as a division of ONEOK was transferred to TGS as a division of ONE Gas at net book value, with no acquisition adjustment or other adjustment as a result of the separation;⁹¹ all TGS account balances stayed the same as they were prior to the separation, including the current accumulated deferred income taxes (“ADIT”) balance;⁹² and the test year in this case is reflective of 12 months of TGS operations under ONE Gas’s ownership.⁹³

Section 102.051 (Report on Certain Transactions; Railroad Commission Consideration) of the Texas Utilities Code requires the Commission to investigate the transfer of TGS from ONEOK to ONE Gas, with or without a public hearing, to determine whether the action is

⁷⁸ *Id.* 3:13-17.

⁷⁹ *Id.* 7:16-19.

⁸⁰ *Id.* 7:19-20.

⁸¹ *Id.* Exhibit CAL-1 (Letter to the Commission from TGS, dated February 25, 2014, notifying the Commission of “a transaction that placed the natural gas utility distribution business previously held by [ONEOK] into a standalone, publicly traded company known as [ONE Gas]”).

⁸² *Id.* 9:7-8.

⁸³ *Id.* 9:8-10.

⁸⁴ *Id.* 9:10-13.

⁸⁵ *Id.* 9:14-16.

⁸⁶ *Id.* 9:21-10:1.

⁸⁷ TGS Ex. 7 (McTaggart Test.) 9:6-10:9.

⁸⁸ *Id.* 9:6-11.

⁸⁹ *Id.* 9:12-15.

⁹⁰ *Id.* 9:21-22.

⁹¹ *Id.* 9:22-10:2.

⁹² *Id.* 10:3-6.

⁹³ *Id.* 10:7-9.

consistent with the public interest.⁹⁴ In reaching its determination, the Commission “shall consider the reasonable value of the property, facilities, or securities to be acquired, disposed of, merged, or consolidated.”⁹⁵ Having considered these factors and the evidentiary record in this proceeding, the ALJ and Examiners determine that the separation of TGS from ONEOK to ONE Gas is in—and consistent with—the public interest.

H. Depreciation Rates

All parties agree that TGS’s proposed depreciation rates for distribution and general plant in the GCSA, as well as TGS Division plant and corporate plant depreciation rates, as shown in the Settlement,⁹⁶ are reasonable.

TGS engaged Foster Associates Consultants, LLC (“Foster Associates”), a public utility economic consulting firm, to conduct a 2013 depreciation rate study and a 2015 technical update of depreciation rates study for plant located in the current GSA and SJCSA and for common facilities shared among all TGS service areas.⁹⁷ Additionally, ONE Gas engaged Foster Associates to conduct a 2015 depreciation study of corporate assets allocated to all divisions.⁹⁸ Ronald E. White, President of Foster Associates, submitted written testimony in support of TGS’s proposed depreciation rates.⁹⁹ Dr. White provided detailed testimony relating to the 2013 depreciation studies,¹⁰⁰ the 2015 technical update,¹⁰¹ and the 2015 depreciation study.¹⁰²

Current GSA depreciation rates were developed in a 1990 study commissioned by Southern Union and conducted by Deloitte & Touche based on December 31, 1989 plant and depreciation reserves.¹⁰³ Although equal-life group rates were recommended in the 1990 study, broad-group rates derived from the recommended parameters were approved under Ordinance No. 92-61, dated July 10, 1992, adopted by the City Council of the City of Galveston.¹⁰⁴ Current SJCSA depreciation rates were developed in a 2008 study conducted by Foster Associates based on December 31, 2007 plant and depreciation reserves.¹⁰⁵ Rates developed in the 2008 study were approved under ordinances adopted by the Cities of Groves, Nederland, Port Arthur, and Port Neches.¹⁰⁶ Current depreciation rates for all TGS service areas (the “TGS Division”) were developed in the 2008 studies and approved under ordinances adopted by cities located in the Central Texas Jurisdiction.¹⁰⁷ Rates developed in the 2008 study for the TGS Division were adopted for all TGS service areas.¹⁰⁸ At the request of TGS, a 2015 technical update was performed for the GCSA, combining the GSA and SJCSA.¹⁰⁹

⁹⁴ Tex. Util. Code § 102.051(b).

⁹⁵ *Id.*

⁹⁶ See TGS Ex. 4 (Settlement) ¶ 4, Exhibit C.

⁹⁷ TGS Ex. 14, Direct Testimony of Dr. Ronald E. White on Behalf of Texas Gas Service Company, filed on December 30, 2015, and admitted into the evidentiary record on March 29, 2016 (“White Test.”), 1:6-7, 2:27-3:2.

⁹⁸ *Id.* 3:2-4.

⁹⁹ *Id.* 2:26-19:12.

¹⁰⁰ *Id.* 7:6-14:12.

¹⁰¹ *Id.* 14:13-18:14.

¹⁰² *Id.* 18:15-19:10.

¹⁰³ *Id.* 7:10-12.

¹⁰⁴ *Id.* 7:12-15.

¹⁰⁵ *Id.* 7:16-18.

¹⁰⁶ *Id.* 7:18-22.

¹⁰⁷ *Id.* 8:1-3.

¹⁰⁸ *Id.* 8:3-4.

¹⁰⁹ *Id.* 14:15-17.

Considering the Settlement and evidentiary record, the ALJ and Examiners find the depreciation rates in the Settlement to be just and reasonable. These rates are based on the 2013 depreciation rate study, a 2015 technical update study for the GCSA and for common facilities shared among all TGS service areas, and the ONE Gas 2015 depreciation study of corporate assets allocated to all divisions.

I. Cost of Capital

All parties agree to the actual capital structure and weighted cost of capital, including the pre-tax return, below.¹¹⁰

Table No. 7.6

	Capital Structure	Debt/Equity Cost	Weighted Cost of Capital	Pre-Tax Return
Long-Term Debt	39.796%	3.950%	1.572%	1.572%
Common Equity	60.204%	9.500%	5.719%	8.799%
Rate of Return	100.000%		7.291%	10.371%

All parties agree that the capital structure and related components as shown above shall be used in any IRA filing in the GCSA.¹¹¹

Considering the Settlement and evidentiary record, the ALJ and Examiners find the rate of return and return on equity in the Settlement to be just and reasonable and consistent with Section 104.052 (Establishing Fair Rate of Return) of the Texas Utilities Code.

J. Revenue Allocation

All parties agree that TGS's proposed class revenue allocation identified in the settlement is reasonable and should be approved.¹¹² All parties further agree to correct the Account 903 Customer Accounting allocation factor to reflect the methodology approved in GUD No. 9988, and apply this factor to the Account 903 Customer Accounting expenses for purposes of allocating these expenses to the rate classes.¹¹³ The correct allocation uses service orders, pay agreements and customers as was done in GUD No. 9988. Correcting the allocation error shifts \$9,069 of expenses away from the residential class to the other classes. However, this allocation has no impact on the rates or revenue requirement because of the "black box" Settlement.

Considering the Settlement and evidentiary record, the ALJ and Examiners find the revenue allocation in the Settlement to be just and reasonable.

¹¹⁰ See TGS Ex. 4 (Settlement) ¶ 10.

¹¹¹ See *id.* ¶ 11.

¹¹² See *id.* ¶ 12, and Ex. 16, Direct Testimony of F. Jay Cummings on Behalf of Texas Gas Service Company, filed on December 30, 2015, and admitted into the evidentiary record on March 29, 2016, and as amended on April 18, 2016 ("Cummings Test.") Exhibit FJC-2 (Class Revenue Allocation).

¹¹³ TGS Ex. 4 (Settlement) ¶ 12.

K. Post-Employment Benefits Expenses

All parties agree that the base year level of pension-related and other post-employment benefits expenses shall be as follows:¹¹⁴

Table No. 7.7

Description	Total
Pension	\$ 229,871
OPEB	\$ 3,252
Grand Total	\$ 233,123

Considering the Settlement and evidentiary record, the ALJ and Examiners find the base year level of pension-related and other post-employment benefits expenses to be just and reasonable and consistent with Section 104.059 (Pension and Other Postemployment Benefits) of the Texas Utilities Code.

L. Cost of Service Adjustment Mechanism

TGS agrees to meet with GSA Cities and with SJCSA Cities within 30 days of the approval of the Settlement to discuss the possibility of implementing a Cost of Service Adjustment mechanism.

M. Rate Case Expenses

TGS, SJCSA Cities, and GSA Cities request reimbursement and/or recovery of reasonable rate case expenses.¹¹⁵ In any gas utility rate proceeding, the utility and municipalities participating in the proceeding, if any, may be reimbursed their reasonable rate case expenses.¹¹⁶ Any gas utility and/or municipality claiming reimbursement for its rate case expenses shall have the burden to prove the reasonableness of such rate case expenses by a preponderance of the evidence.¹¹⁷ Each gas utility and/or municipality shall detail and itemize all rate case expenses and allocations and shall provide evidence showing the reasonableness of the cost of all professional services, including but not limited to:

- (1) the amount of work done;
- (2) the time and labor required to accomplish the work;
- (3) the nature, extent, and difficulty of the work done;
- (4) the originality of the work;
- (5) the charges by others for work of the same or similar nature; and
- (6) any other factors taken into account in setting the amount of the compensation.¹¹⁸

¹¹⁴ See *id.* ¶ 13.

¹¹⁵ See *id.* ¶¶ 15-17, and Exhibit A, Rate Case Expense Surcharge, p. 88.

¹¹⁶ See 16 Tex. Admin. Code § 7.5530 (Allowable Rate Case Expenses) (providing that a utility may be reimbursed its reasonable rate case expenses from certain customers), Tex. Util. Code § 103.022 (Rate Assistance and Cost Reimbursement) (providing that the governing body of a participating municipality may be reimbursed its reasonable rate case expenses from the utility).

¹¹⁷ 16 Tex. Admin. Code § 7.5530(a) (Allowable Rate Case Expenses).

¹¹⁸ *Id.*

In determining the reasonableness of the rate case expenses, the Commission shall consider all relevant factors including, but not limited to, the above evidence, and the Commission also shall consider whether the request for a rate change was warranted, whether there was duplication of services or testimony, whether the work was relevant and reasonably necessary to the proceeding, and whether the complexity and expense of the work was commensurate with both the complexity of the issues in the proceeding and the amount of the increase sought, as well as the amount of any increase granted.¹¹⁹

TGS, SJCSA Cities, and GSA Cities each filed an affidavit and supporting evidence for reimbursement of rate case expenses.¹²⁰ For TGS, the amounts include regulatory rate case expenses incurred through December 2015, litigation expenses incurred through February 29, 2016, and estimated expenses through the conclusion of the docket. For SJCSA Cities, the amounts include expenses for legal and consulting services through March 15, 2016. For GSA Cities, the amounts include expenses for legal and consulting services through February 29, 2016, and estimated expenses through the conclusion of the docket.

1. Amounts

TGS, SJCSA Cities, and GSA Cities represent that their reasonable rate case expenses are as follows:¹²¹

Table 7.8

	ACTUAL INVOICES RECEIVED	INVOICES DUE AND EST. TO COMPLETION	TOTAL
TGS	\$521,020.27	\$125,000	\$646,020.27
SJCSA Cities	\$95,017.50	\$0	\$95,017.50
GSA Cities	\$101,277.81	\$25,000	\$126,277.81
Total	\$717,315.58	\$150,000	\$867,315.58

The Commission Rule 7.5530(d) (Allowable Rate Case Expenses) classification for TGS's total requested \$646,020.27 in rate case expenses includes the following categories: (1) approximately \$321,500 for required regulatory expenses¹²²; (2) approximately \$199,520.27 for litigation expenses¹²³; and (3) approximately \$125,000 for estimated expenses.¹²⁴

¹¹⁹ *Id.*

¹²⁰ TGS Ex. 4 (Settlement) Exhibit D (containing the Affidavit of Ann M. Coffin, counsel for TGS, sworn to on March 18, 2016, and attached supporting documents ("Coffin Aff."), the Affidavit of Daniel J. Lawton, counsel for SJCSA Cities, sworn to on March 18, 2016, and attached supporting documents ("Lawton Aff."), and the Affidavit of Thomas L. Brocato Related to the Rate Case Expenses of Galveston Service Area Cities, sworn to on March 23, 2016, and attached supporting documents ("Brocato Aff.")); *see also* TGS Response to Examiners' RFI 1-1, filed on April 6, 2016 (clarifying the total amount of TGS's required regulatory expenses, as that term is defined in Section 7.5530 (Allowable Rate Case Expenses)).

¹²¹ TGS Ex. 4 (Settlement) ¶ 15; *see also* Exhibit D (Coffin Aff.) ¶¶ 3, 6 (TGS), Exhibit D (Lawton Aff.) ¶ 4 (SJCSA Cities), and Exhibit D (Brocato Aff.) ¶¶ 4, 6-7, 10 (GSA Cities).

¹²² *See* TGS Response to Examiners' RFI 1-1, filed on April 6, 2016 (clarifying the total amount of TGS's required regulatory expenses, as that term is defined in Section 7.5530 (Allowable Rate Case Expenses)).

¹²³ This figure represents the difference between TGS's total actual expenses through February 2016 (\$521,020.27) and its required regulatory expenses (\$321,500).

¹²⁴ TGS Ex. 4 (Settlement) Exhibit D (Coffin Aff.) ¶ 6.

TGS, SJCSA Cities, and GSA Cities each provided evidence showing the reasonableness of the cost of all professional services, including but not limited to: (1) the amount of work done; (2) the time and labor required to accomplish the work; (3) the nature, extent, and difficulty of the work done; (4) the originality of the work; (5) the charges by others for work of the same or similar nature; and (6) other factors taken into account in setting the amount of compensation.

The ALJ and Examiners reviewed the testimony and documentation supporting rate case expense amounts submitted by TGS, SJCSA Cities, and GSA Cities. The ALJ and Examiners found no evidence of double-billing, excess charges, inappropriate documentation of work, excessive entertainment and dining expenses, or other prohibited charges. The ALJ and Examiners find: (1) the request for a rate change was reasonable; (2) there was no duplication of services or testimony by any party; (3) the work performed by all parties was relevant and reasonably necessary to the proceeding; and (4) the complexity and expense of the work by all parties was commensurate with both the complexity of the issues in the proceeding and the amount of the increase sought as well as the amount of any increase granted. The ALJ and Examiners further find that the terms in the Settlement relating to the reimbursement, recovery, and reporting of rate case expenses are reasonable and appropriate.¹²⁵

In sum, the ALJ and Examiners recommend that the Commission approve the actual incurred and reasonably estimated rate case expense amounts of TGS, SJCSA Cities, and GSA Cities contained in the Settlement.

2. Allocation and Surcharge

All parties agree to the terms for reimbursement, allocation, and recovery of rate case expenses.¹²⁶ Attached to the Settlement is a Rate Case Expense Surcharge (“RCE”), which sets the terms for recovery from certain TGS customers by TGS of its own rate case expenses incurred in this proceeding, as well as recovery of the rate case expenses incurred by SJCSA Cities and GSA Cities reimbursed to those municipalities by TGS.¹²⁷ Per the RCE, a single monthly RCE rate of \$0.0172 per Ccf shall apply to TGS customers in the incorporated and unincorporated areas served in TGS’s proposed new GCSA, including Galveston, Bayou Vista, Port Neches, Port Arthur, Nederland, and Groves (the “Settlement Customers”), until TGS recovers \$717,315.58 in actual expense and up to \$150,000 in estimated expense, not to exceed actual expense (the “RCE Rate”).¹²⁸ There are approximately 44,732 total Settlement Customers, which are all the TGS customers in the incorporated and unincorporated areas in the current GSA and SJCSA—and in the proposed new GCSA—except the 293 customers located within the City of Jamaica Beach,¹²⁹ which is the sole municipality that has not participated in this proceeding. The recovery period for the RCE is 24 months.¹³⁰

¹²⁵ See TGS Ex. 4 (Settlement) ¶¶ 16 (relating to reimbursement and recovery), 17 (relating to reporting).

¹²⁶ See *id.* ¶ 16, and Exhibit A, Rate Case Expense Surcharge, p. 88.

¹²⁷ *Id.* Exhibit A (RCE), p. 88.

¹²⁸ *Id.*

¹²⁹ TGS has 293 customers in Jamaica Beach. See TGS Response to Examiners’ RFI 1-2, filed on April 6, 2016.

¹³⁰ TGS Ex. 4 (Settlement) ¶ 16.

Allocation of TGS's Expenses

Commission Rule 7.5530(e) (Allowable Rate Case Expenses) requires that the utility's required regulatory expenses¹³¹ "shall be allocated uniformly to all customers affected by the proposed rate change" and that a utility's litigation expenses¹³² and estimated expenses¹³³ "shall be allocated to affected customers in the municipalities or coalitions of municipalities participating in the appellate proceeding and affected customers subject to the original jurisdiction of the Commission."¹³⁴ Commission Rule 1.9 (Exceptions) authorizes the Commission and the examiner to grant exceptions to Commission Rule 7.5530(e) upon "a showing of good cause and if necessary in the interest of justice."¹³⁵

Regarding allocation and recovery of TGS's total \$646,020.27 in rate case expenses—which includes required regulatory expenses totaling \$321,500 and litigation expenses and estimated expenses totaling \$324,520.27—the Settlement contemplates a single monthly rate of \$0.0172 per Ccf applied to all Settlement Customers over a 24-month recovery period until all approved and expended rate case expenses are recovered, not to exceed actual expense.¹³⁶ As pertaining both to TGS's required regulatory expenses and to its litigation and estimated expenses, approval of the Settlement requires an exception to Commission Rule 7.5530(e) (Allowable Rate Case Expenses), as authorized by Commission Rule 1.9 (Exceptions). The ALJ and Examiners find that such exceptions are warranted in this proceeding.

Regarding required regulatory expenses, Commission Rule 7.5530 (Allowable Rate Case Expenses) requires that TGS's required regulatory expenses "shall be allocated uniformly to all customers affected by the proposed rate change."¹³⁷ The monthly RCE Rate of \$0.0172 per Ccf applies to all TGS customers in the proposed new GCSA—excluding the 293 customers in Jamaica Beach, the only municipality in the proposed new GCSA not participating in this proceeding—yet the RCE Rate appears to reflect the 293 Jamaica Beach customers' allocated share of TGS's required regulatory expenses. While Jamaica Beach has not participated in this proceeding and is not a signatory to the Settlement, TGS's 293 customers in Jamaica Beach nevertheless are customers affected by the *proposed* rate change. The intent of the newly-created Commission Rule 7.5530(e) was to "minimize the impact of rate case expenses on end-use customers" and allocate rate case fees and expenses "to affected parties according to which party or parties cause the rate case fees and expenses to occur."¹³⁸ Here, Jamaica Beach is neither a participant nor a signatory to the Settlement, but as a municipality in the current GSA it played no less a role in causing TGS's pre-filing required regulatory expenses to occur than the other GSA and SJCSA municipalities. Because the Settlement appears to allocate these expenses

¹³¹ Defined as "expenses the utility incurs that are related to the initial filing of the statement of intent and other expenses the utility incurs to provide or publish required notices." 16 Tex. Admin. Code § 7.5530(d)(1).

¹³² Defined as "expenses incurred after the utility files its statement of intent, excluding the cost of providing notice." 16 Tex. Admin. Code § 7.5530(d)(2).

¹³³ Defined as "the costs the utility estimates it will incur for potential appellate proceedings." 16 Tex. Admin. Code § 7.5530(d)(3).

¹³⁴ 16 Tex. Admin. Code § 7.5530(e) (Allowable Rate Case Expenses).

¹³⁵ *Id.* § 1.9 (Exceptions) ("The commission, the appropriate director, or the examiner may grant exceptions to the provisions of this part upon a showing of good cause and if necessary in the interest of justice.").

¹³⁶ TGS Ex. 4 (Settlement) Exhibit A (RCE), p. 88.

¹³⁷ 16 Tex. Admin. Code § 7.5530(e) (Allowable Rate Case Expenses) ("The utility's required regulatory expenses shall be allocated uniformly to all customers affected by the proposed rate change.").

¹³⁸ *Texas Register*, Volume 39, Number 30, Page 5708, July 25, 2014.

only to the 44,732 Settlement Customers—rather than to the 44,732 Settlement Customers as well as the 293 Jamaica Beach customers—an exception to Commission Rule 7.5530(e) is necessary to approve this aspect of the Settlement as to the incorporated areas of the proposed new GCSA. The ALJ and Examiners find that such an exception is warranted. All the municipalities in the proposed new GCSA—except Jamaica Beach—have agreed to the Settlement and the allocation of the RCE Rate, and so the ALJ and Examiners find that good cause exists to approve the RCE as to the specified *incorporated* areas of the proposed new GCSA and that doing so is necessary in the interest of justice. As to the *unincorporated* areas of the proposed new GCSA, the ALJ and Examiners do not find that an exception to Commission Rule 7.5530(e) is warranted. The 1,212 Environs customers should be required to pay only their allocated portion of TGS’s required regulatory expenses as required by Commission Rule 7.5530(e) and nothing more.

Regarding litigation expenses and estimated expenses, Commission Rule 7.5530 (Allowable Rate Case Expenses) requires that TGS’s litigation expenses and estimated expenses “shall be allocated to affected customers in the municipalities or coalitions of municipalities *participating in the appellate proceeding* and affected customers subject to the original jurisdiction of the Commission.”¹³⁹ The monthly RCE Rate of \$0.0172 per Ccf applies to all 44,732 Settlement Customers and reflects a uniform allocation to all Settlement Customers of TGS’s litigation expenses and estimated expenses. A strict reading of Commission Rule 7.5530(e), however, requires allocation of TGS’s litigation expenses and estimated expenses—totaling approximately \$324,520.27—entirely to the 1,212 Environs customers because this docket does not involve municipal appeals and all municipalities have retained their original jurisdiction. While GSA Cities and SJCSA Cities are proper participants in this proceeding, no municipality in either coalition is participating as an appellant. Because the Settlement allocates TGS’s litigation expenses and estimated expenses to all 44,732 Settlement Customers—rather than solely to the 1,212 Environs customers subject to the original jurisdiction of the Commission—an exception to Commission Rule 7.5530(e) is necessary to approve this aspect of the Settlement. The ALJ and Examiners find that such an exception is warranted. The intent of the newly-created Commission Rule 7.5530(e) was to allocate rate case fees and expenses “to affected parties according to which party or parties cause the rate case fees and expenses to occur.”¹⁴⁰ Here, both GSA Cities and SJCSA Cities substantially contributed to TGS’s approximate \$324,520.27 in total litigation expenses and estimated expenses, and the Settlement appropriately allocates these expenses uniformly to all Settlement Customers. Therefore, the ALJ and Examiners find that good cause exists to allocate TGS’s litigation expenses and estimated expenses uniformly to all Settlement Customers and that doing so is necessary in the interest of justice.

Allocation of the Expenses of SJCSA Cities and GSA Cities

The Texas Utilities Code requires a gas utility in a ratemaking proceeding to reimburse municipalities their reasonable rate case expenses “to the extent the applicable regulatory

¹³⁹ 16 Tex. Admin. Code § 7.5530(e) (Allowable Rate Case Expenses) (“The utility’s litigation expenses and estimated expenses, to the extent there are any, shall be allocated to affected customers in the municipalities or coalitions of municipalities *participating in the appellate proceeding* and affected customers subject to the original jurisdiction of the Commission.”) (emphasis added).

¹⁴⁰ *Texas Register*, Volume 39, Number 30, Page 5708, July 25, 2014.

authority determines reasonable.”¹⁴¹ Commission Rule 7.5530(c)(2) (Allowable Rate Case Expenses) requires, absent a showing of good cause, that rate case expenses reimbursed by TGS to SJCSA Cities and GSA Cities “shall be recovered by the utility through rates effective only within the municipalities belonging to [each respective] coalition.”¹⁴² The monthly RCE Rate of \$0.0172 per Ccf applies to all 44,732 Settlement Customers and reflects a uniform allocation to all Settlement Customers of the approximate \$221,295.31 in pooled expenses of SJCSA Cities and GSA Cities.¹⁴³ Both GSA Cities and SJCSA Cities have agreed in the Settlement to the uniform allocation of the pooled expenses of GSA Cities and SJCSA Cities to the Settlement Customers in the proposed new GCSA, and so the ALJ and Examiners find that good cause exists to approve the RCE as to the specified *incorporated* areas of the proposed new GCSA. As to the *unincorporated* areas of the proposed new GCSA, the ALJ and Examiners do not find that an exception to Commission Rule 7.5530(c)(2) is warranted. The 1,212 Environs customers should be required to pay only their allocated portion of TGS’s expenses—as required by Commission Rule 7.5530(e)—and nothing more. The approximate \$221,295.31 in pooled expenses of GSA Cities and SJCSA Cities should be recovered by TGS only from the 43,801 TGS customers¹⁴⁴ in the specified incorporated areas of the proposed new GCSA¹⁴⁵ and not from the 1,212 Environs customers.

3. Conclusion

The ALJ and Examiners recommend that the Commission approve the actual incurred and reasonably estimated rate case expense amounts of TGS, SJCSA Cities, and GSA Cities contained in the Settlement. With respect to allocation and surcharge, the ALJ and Examiners recommend approval of the Settlement, with modifications. Regarding allocation and recovery of TGS’s required regulatory expenses, the ALJ and Examiners find that good cause exists to approve the RCE as to the specified *incorporated* areas of the proposed new GCSA, excluding the Environs customers, and that doing so is necessary in the interest of justice. The Environs customers should pay only their allocated portion of TGS’s required regulatory expenses under Commission Rule 7.5530(e). Regarding recovery of TGS’s litigation expenses and estimated expenses, the ALJ and Examiners find that good cause exists to allocate TGS’s litigation expenses and estimated expenses uniformly to all Settlement Customers—as provided for in the Settlement—and that doing so is necessary in the interest of justice. Regarding allocation and recovery of the expenses of GSA Cities and SJCSA Cities, so the ALJ and Examiners find that good cause exists to approve the RCE as to the specified *incorporated* areas of the proposed new GCSA, excluding the Environs customers.

¹⁴¹ Tex. Util. Code § 103.022 (Rate Assistance and Cost Reimbursement).

¹⁴² 16 Tex. Admin. Code § 7.5530(c)(2) (Allowable Rate Case Expenses).

¹⁴³ See TGS Ex. 4 (Settlement) Exhibit D (Lawton Aff.) ¶ 4 (\$95,017.50 in total expenses for SJCSA Cities), Exhibit D (Brocato Aff.) ¶¶ 4, 6-7, 10 (\$101,277.81 in incurred expenses and \$25,000 in estimated expenses for GSA Cities).

¹⁴⁴ See TGS Response to Examiners’ RFI 1-2, filed on April 6, 2016 (14,801 jurisdictional customers in GSA Cities and 28,719 jurisdictional customers in SJCSA Cities).

¹⁴⁵ Cities of Galveston, Bayou Vista, Port Neches, Port Arthur, Nederland, and Groves. See TGS Ex. 4 (Settlement) Exhibit A (RCE), p. 88.

Table 7.9
Rate Case Expense Allocation

			GROUP A	GROUP B	GROUP C
			GCSA Cities (except Jamaica Beach)	Environs	Jamaica Beach
Customer Count by Area			43,520	1,212	293
Annual Throughput Ccf			24,588,396	471,950	105,682
GSA Total Annual Throughput			25,166,028		
TGS Expenses	Regulatory Expense	Total Reg Expense	\$321,500	\$321,500	\$321,500
		Group Percentage of Total Cust	97.70%	1.88%	0.42%
		Group Cost Allocation	\$314,121	\$6,029	\$1,350
	Litigation	TGS Litigation Expenses	\$199,520	\$199,520	
		Group Percentage of Total Cust	98.12%	1.88%	
		Group Cost Allocation	\$195,763	\$3,757	
	Estimated	TGS Estimated Expenses	\$125,000	\$125,000	
		Group Percentage of Total Cust	98.12%	1.88%	
		Group Cost Allocation	\$122,646	\$2,354.07	
	TOTAL		\$632,529	\$12,141	\$1,350
GSA and SJCSA Expenses	Litigation	GSA Rate Case Expense	\$101,278		
		SJCSA Rate Case Expense	\$95,017		
		TOTAL Incurred	\$196,295		
	Estimated	GSA Estimated Expenses	\$25,000		
		SJCSA Estimated Expenses	0		
		Total Estimated Expenses	\$25,000		
		Total GSA and SJCSA Expenses	221,295		
		Group Percentage of Total Cust	100%		
	TOTAL		\$221,295		
Surcharge (Rule)	Total Expenses Allocated to Each Group		\$853,824	\$12,141	\$1,350
	Surcharge volumes - 24 months		49,176,792	943,900	211,364
	Per Ccf surcharge - 24 months		\$0.0174	\$0.0129	\$0.0064
Surcharge (Settlement)	Total Rate Case Expenses		\$867,315		
	Surcharge volumes - 24 months		50,332,056		
	Per Ccf surcharge - 24 months		\$0.0172		

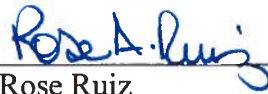
VIII. CONCLUSION

The ALJ and Examiners find that the terms and rate elements in the Settlement are just and reasonable and recommend their approval, with the modifications related to the allocation and recovery of certain rate case expenses specified herein.

SIGNED April 21, 2016.



John Dodson
Administrative Law Judge

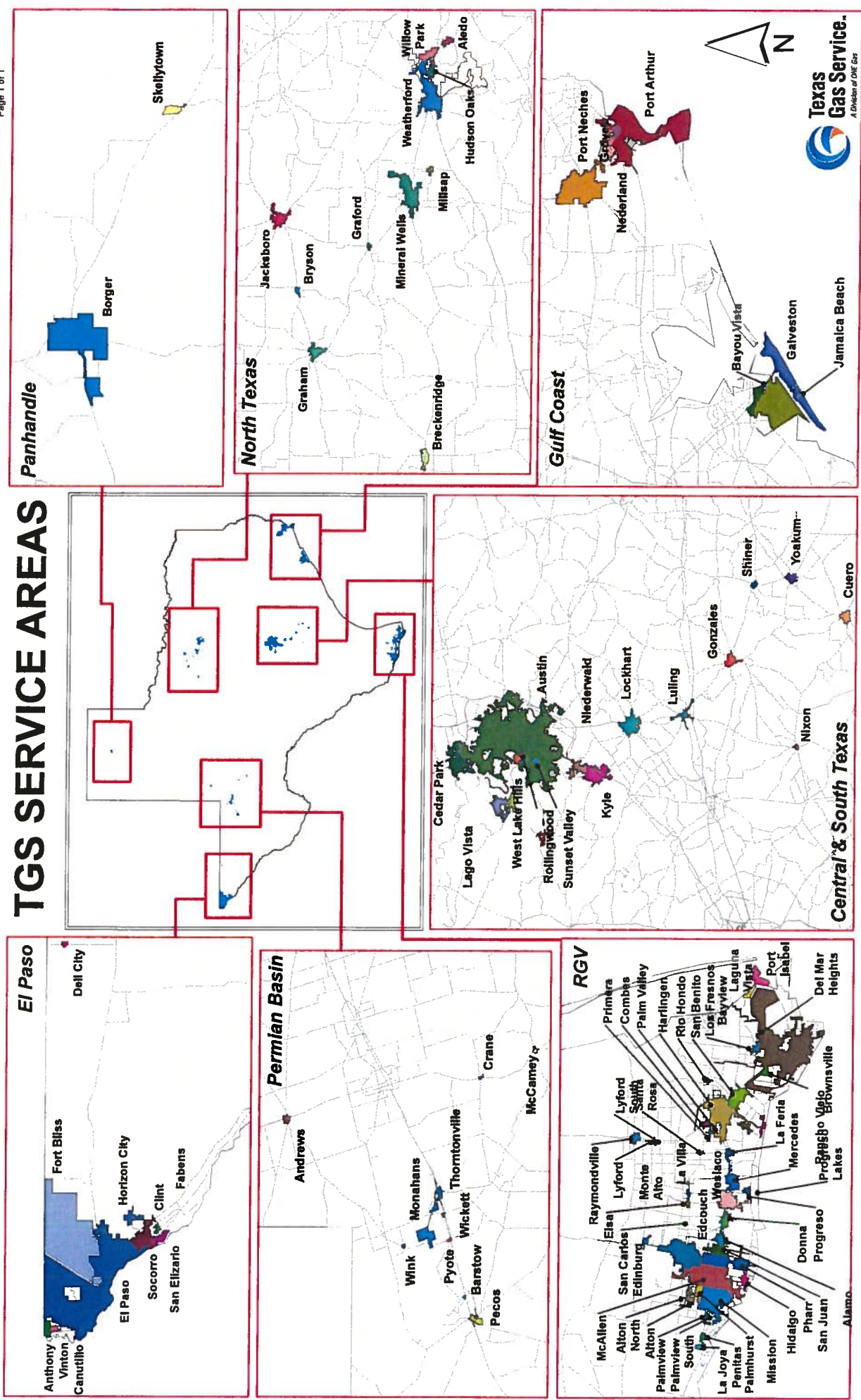


Rose Ruiz
Technical Examiner



James Currier
Technical Examiner

TGS SERVICE AREAS



Average Bill Impact - Excluding Cost of Gas*							
Rate Class	Area	Average Ccf	Current	Proposed	Settlement	Proposed Percent Increase	Settlement Percent Increase
Residential	Galveston Muni	25	\$ 18.68	\$ 28.70	\$ 24.40	54%	31%
	Galveston Environ	25	\$ 10.22	\$ 28.70	\$ 24.40	181%	139%
	SJCSA Muni	32	\$ 24.72	\$ 30.58	\$ 27.60	24%	12%
	SJCSA Environ	32	\$ 11.71	\$ 30.58	\$ 27.60	161%	136%
Commercial	Galveston Muni	316	\$ 146.20	\$ 91.00	\$ 122.14	-38%	-16%
	Galveston Environ	316	\$ 53.73	\$ 91.00	\$ 122.14	69%	127%
	SJCSA Muni	226	\$ 77.64	\$ 81.77	\$ 104.04	5%	34%
	SJCSA Environ	226	\$ 47.36	\$ 81.77	\$ 104.04	73%	120%
Commercial Trans	Galveston Muni	5,037	\$ 2,191.36	\$ 786.72	\$ 1,283.07	-64%	-41%
	SJCSA Muni	27,056	\$ 4,059.00	\$ 2,884.25	\$ 5,550.00	-29%	37%
Public Authority	Galveston Muni	573	\$ 256.00	\$ 166.32	\$ 191.47	-35%	-25%
	Galveston Environ	573	\$ 89.59	\$ 166.32	\$ 191.47	86%	114%
	SJCSA Muni	389	\$ 142.12	\$ 150.31	\$ 167.38	6%	18%
	SJCSA Environ	389	\$ 65.89	\$ 150.31	\$ 167.38	128%	154%
Industrial Trans	Galveston Muni	8,633	\$ 3,691.00	\$ 2,352.82	\$ 3,542.00	-36%	-4%

* Only customer classes with customers during the test year are shown in the bill impact table, thus there is no bill impact shown in the table for the Public Authority Transportation class or the Industrial class.

Attachment 2

GUD 10488

TEXAS GAS SERVICE COMPANY - GULF COAST SERVICE AREA
Test Year Ended June 30, 2015 Updated For Known and Measurable Changes

Proof of Revenue										Recommended Rates	
Line	Description (a)	Bills (b)	Volumes (c)	Volumes (d)	Customer Charge (e)	Usage Charges (f)	Revenue (g)	Assigned Revenue (h)	Rounding Diff. (i)	Test Year As Adjusted Revenue (j)	Revenue Change (k)
1	Residential										
2	Incorporated	508,773	All	14,700,341	\$ 13.00	\$ 0.45616	\$ 13,215,753	\$ 13,215,728	\$ 25	\$ 11,133,289	\$ 2,082,439
3	Enviros	14,145		427,919	\$ 13.00	\$ 0.45616	\$ 379,080	\$ 379,080	\$ 1	\$ 161,519	\$ 217,561
4	Total Residential	514,917		15,128,261			\$ 13,594,834	\$ 13,594,808	\$ 26	\$ 11,294,808	\$ 2,300,000
5	Commercial - Gas Sales										
6	Incorporated	21,288	First 250	2,013,074	\$ 54.00	\$ 0.22140	\$ 2,204,242			\$ 2,111,906	\$ 182,365
7	Enviros	354	Over 250	3,606,802	\$ 0.19380	\$ 0.19380	\$ 27,991			\$ 9,403	\$ 18,588.11
8	Enviros	354	First 250	24,298	\$ 54.00	\$ 0.22140	\$ 27,991				
9	Enviros	354	Over 250	18,138	\$ 0.19380	\$ 0.19380	\$ 27,991				
10	Total Commercial - Gas Sales	21,642	First 250	2,037,373			\$ 2,332,233			\$ 2,121,309	\$ 200,953
11	Over 250		Over 250	3,624,930							
12	Commercial Air Conditioning - Incorporated (1)	12	Nov-Mar		\$ 54.00		\$ 1,731			\$ 1,898	\$ (167)
13	First 250		First 250	1,250	\$ 0.22140	\$ 0.19380					
14	Over 250		Over 250	932	\$ 0.19380	\$ 0.19380					
15	Apr-Oct		First 250	1,750	\$ 0.22140	\$ 0.19380					
16	Over 250		Over 250	1,231	\$ 0.19380	\$ 0.19380					
17	Over 250		First 250	58,249	\$ 300.00	\$ 0.22140	\$ 599,991			\$ 800,777	\$ (200,786)
18	Commercial Transportation - Incorporated	348	First 250	2,490,629	\$ 0.19380	\$ 0.19380				\$ 2,923,985	\$ -
19	Over 250		Over 250								
20	Total Commercial						\$ 2,923,985	\$ 2,923,985	\$ (29)		
21	Public Authority - Gas Sales										
22	Incorporated	3,296	First 250	313,927	\$ 110.00	\$ 0.15672	\$ 568,296	\$ 568,296	\$ -	\$ 575,478	\$ (5,182.24)
23	Enviros	51	Over 250	1,195,774	\$ 0.13092	\$ 0.13092	\$ 5,733	\$ 5,733	\$ -	\$ 550	\$ 5,182.20
24	Enviros	51	First 250	1,214	\$ 110.00	\$ 0.15672	\$ 5,733	\$ 5,733	\$ -		
25	Enviros	51	Over 250	1,214	\$ 0.13092	\$ 0.13092	\$ 5,733	\$ 5,733	\$ -		
26	Total Public Authority - Gas Sales	3,347	First 250	315,141			\$ 574,029	\$ 574,029	\$ -	\$ 574,029	\$ (0)
27	Over 250		Over 250	1,195,483							
28	Public Authority Transportation (2)	0	First 250	0	\$ 300.00	\$ 0.15672	\$ -	\$ -	\$ -	\$ -	\$ -
29	Over 250		Over 250	0	\$ 0.13092	\$ 0.13092	\$ -	\$ -	\$ -	\$ -	\$ -
30	Total Public Authority						\$ 574,029	\$ 574,029	\$ -	\$ 574,029	\$ (0.05)
31	Industrial - Gas Sales (2)	0	First 250	0	\$ 110.00	\$ 0.40060	\$ -	\$ -	\$ -	\$ -	\$ -
32	Over 250		Over 250	0	\$ 0.17480	\$ 0.17480	\$ -	\$ -	\$ -	\$ -	\$ -
33	Industrial Transportation - Incorporated	36	First 250	5,330	\$ 300.00	\$ 0.40060	\$ 127,425	\$ 127,439	\$ (14)	\$ 127,439	\$ -
34	Over 250		Over 250	305,469	\$ 0.17480	\$ 0.17480	\$ 127,425	\$ 127,439	\$ (14)		
35	Total Industrial						\$ 127,425	\$ 127,439	\$ (14)	\$ 127,439	\$ -
36	All Classes						\$ 17,220,243	\$ 17,220,260	\$ (18)	\$ 14,920,260	\$ 2,300,000
37	Current Revenue						\$ 14,920,260	\$ 14,920,260			
38	Revenue Increase						\$ 2,299,982	\$ 2,300,000	\$ (18)		

(1) Commercial Air Conditioning to be canceled, Commercial rates apply to former Air Conditioning customer

(2) There are currently no Public Authority Transportation customers, however TGS has shown this rate on the Transportation tariff should the Company need to serve a customer in this rate class in the Gulf Coast Service Area in the future

(3) The Industrial rate is shown because the Transportation tariff (under which one Industrial customer is served) specifies that applicable sales schedule usage charges are applied. However, TGS currently has no Industrial gas sales customers in the Gulf Coast Service Area