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RYAN SITTON, *COMMISSIONER*
WAYNE CHRISTIAN, *COMMISSIONER*



RANDALL D. COLLINS, *DIRECTOR*

RAILROAD COMMISSION OF TEXAS

HEARINGS DIVISION

GUD NO. 10521, *consolidated*
Proposal for Decision

**Rate Case Expenses (RCE) Severed from GUD No. 10506,
Statement of Intent of Texas Gas Service Company, a Division of ONE Gas,
Inc. (TGS), to Increase Gas Utility Rates Within the Unincorporated Areas
of the El Paso Service Area (EPSA), Permian Service Area (PSA), and
Dell City Service Area (DCSA)**

PARTIES

Texas Gas Service Company, a Division of ONE Gas, Inc. (TGS)

Ann M. Coffin, Esq., and Kate Norman, Esq.
Parsley Coffin Renner LLP
Counsel for TGS

Stephanie G. Houle, Esq.
Texas Gas Service Co.

Staff of the Railroad Commission (Staff)

Natalie Dubiel, Esq.
Railroad Commission of Texas
Counsel for Staff

City of El Paso (El Paso)

Norman J. Gordan, Esq.
Mounce, Green, Myers, Safi,
Paxton & Galatzan PC
Counsel for El Paso

Sylvia Borunda Firth, Esq.
City of El Paso

Cities of San Elizario, Clint, and Horizon City (Coalition)

Elizabeth Elleson, Esq.
Bojorquez Law Firm PLLC
Counsel for Coalition

PROCEDURAL HISTORY:

RCE Severed from GUD No. 10506:	May 27, 2016
RCE Severed from GUD No. 10536:	July 22, 2016
RCE Severed from GUD No. 10539:	August 16, 2016
Rate Case Final Order Signed:	September 27, 2016
Hearing on the Merits:	June 27, 2017
Heard By:	John Dodson, Administrative Law Judge Rose Ruiz, Technical Examiner James Currier, Technical Examiner
Evidentiary Record Closed:	July 10, 2017
PFD Issued:	August 1, 2017
Statutory Deadline:	N/A

STATEMENT OF THE CASE

This docket is to consider and approve rate case expenses incurred during a completed rate case docket involving certain environs and municipalities serviced by Texas Gas Service Company ("TGS"), along with rate case expenses incurred during this docket. The rate case was litigated extensively in 2016, including a multi-day merits hearing and several rounds of briefing by the parties, with numerous contested issues.

TGS, City of El Paso ("El Paso"), and a coalition of cities ("Coalition") each incurred rate case expenses in the completed rate case docket. On April 21, 2017, the parties filed a Unanimous Settlement Agreement—approved by all parties, including Commission Staff—resolving all issues, including expense amounts and proposed allocation/recovery.

Per the Settlement, the parties request:

- For TGS, recovery of up to \$1,304,567.19, including estimated expenses;
- For El Paso, recovery of up to \$383,283.52, including estimated expenses;
- For Coalition, recovery of up to \$20,464.46, including estimated expenses; and
- Allocation to TGS customers pursuant to Commission Rule § 7.5530 (Allowable Rate Case Expenses) via four surcharge tariffs:
 1. Rate Schedule RCE-ENV (environs);
 2. Rate Schedule RCE-EP (El Paso);
 3. Rate Schedule RCE-COC (Coalition cities); and
 4. Rate Schedule RCE-OTH (other cities).

The Examiners have reviewed the documentation supporting these requested amounts, along with the proposed allocation/recovery, and recommend that the Settlement be approved.

There is no deadline for Commission action.

Included in this consolidated docket are GUD No. 10521 (rate case expenses severed from GUD No. 10506) and the rate case expense portions of GUD No. 10536 (municipal appeal) and 10539 (municipal appeal).

PROPOSAL FOR DECISION**I. INTRODUCTION**

On March 30, 2016, Texas Gas Service Company ("TGS"), a division of ONE Gas, Inc., filed with the Railroad Commission of Texas ("Commission") a statement of intent to increase gas utility rates within the unincorporated areas of the El Paso Service Area, Permian Service Area, and Dell City Service Area. The filing was docketed as GUD No. 10506 (the "SOI"). TGS filed its SOI pursuant to Subtitle A (Gas Utility Regulatory Act) ("GURA") of the Texas Utilities Code, Chapter 104 (Rates and Services), Subchapter C (Rate Changes Proposed by Utility). Subsequently, the rate case expense portion of GUD No. 10506 was severed into this separate docket, GUD No. 10521, along with the rate case expense portions of two related municipal appeals dockets. The consolidated rate case was litigated extensively in 2016, including a multi-day merits hearing and several rounds of briefing by the parties, with numerous contested issues. This docket is to consider and approve rate case expenses incurred during the completed rate case docket and this docket.

TGS, City of El Paso ("El Paso"), and a coalition of cities ("Coalition") each incurred rate case expenses in the completed rate case docket and in this docket. These parties, along with Commission Staff, filed a Unanimous Settlement Agreement, resolving all rate case expense issues, including amounts and proposed allocation/recovery. In the Settlement, TGS, El Paso, Coalition, and Staff agree to the following:

- For TGS, recovery of up to \$1,304,567.19, including estimated expenses;
- For El Paso, recovery of up to \$383,283.52, including estimated expenses;
- For Coalition, recovery of up to \$20,464.46, including estimated expenses; and
- Allocation to TGS customers pursuant to Commission Rule § 7.5530 (Allowable Rate Case Expenses) via four surcharge tariffs:
 1. Rate Schedule RCE-ENV (environs);
 2. Rate Schedule RCE-EP (El Paso);
 3. Rate Schedule RCE-COC (Coalition cities); and
 4. Rate Schedule RCE-OTH (other cities).

Included in this consolidated docket are GUD No. 10521 (rate case expenses severed from GUD No. 10506) and the rate case expense portions of GUD No. 10536 (municipal appeal) and 10539 (municipal appeal).

There is no deadline for Commission action.

II. PARTIES

The parties in this proceeding are TGS, El Paso, Staff, and Coalition, which is comprised of the cities of Clint, Horizon City, and San Elizario. TGS is a "gas utility" under GURA Section 101.003 (Definitions).¹

III. PROCEDURAL BACKGROUND

On March 30, 2016, TGS filed with the Commission a statement of intent to increase gas utility rates within the unincorporated areas of the El Paso Service Area ("EPSA"), Permian Service Area ("PSA"), and Dell City Service Area ("DCSA"). Subsequently, three parties properly intervened: Staff, El Paso, and Coalition.

On May 27, 2016, the rate case expense portion of GUD No. 10506 was severed into this separate docket, GUD No. 10521. On July 22 and August 16, 2016, the rate case expense portions of two related dockets—petition for review GUD Nos. 10536 and 10539, respectively—were consolidated with GUD No. 10521.

On September 27, 2016, the Commission issued its Final Order in the consolidated rate docket, GUD No. 10506.

On April 21, 2017, the GUD No. 10521 parties filed the Settlement, resolving all issues among the parties with respect to rate case expenses associated with GUD Nos. 10506, 10536, 10539, and this docket. The Settlement was supplemented with filings by Coalition, El Paso, and TGS on April 24, April 28, and June 21, 2017, respectively.

On June 14, 2017, the Notice of Hearing was issued, setting the merits hearing to commence on June 27, 2017 ("Notice of Hearing").² On June 15, 2017, the Commission published the Notice of Hearing in *Gas Utilities Information Bulletin No. 1061*.³

¹ Tex. Util. 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 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.").

² See Examiners' Letter No. 06 (Notice of Hearing), issued June 14, 2017 (attaching the Notice of Hearing).

³ See *Gas Utilities Information Bulletin No. 1061*, published by the Railroad Commission of Texas Oversight and Safety Division on June 15, 2017 ("Bulletin").

The hearing on the merits was held on June 27, 2017 (the "Hearing"). The evidentiary exhibit list is attached to this PFD as Attachment 1. On July 10, 2017, the evidentiary record closed.⁴

IV. JURISDICTION, BURDEN OF PROOF, AND NOTICE

Jurisdiction

The Commission has jurisdiction over TGS, which is a gas utility as defined in GURA Section 101.003(7), and the issues in this docket. In the completed rate docket, GUD No. 10506, the Commission had original jurisdiction over rates for TGS environs customers, and appellate jurisdiction over rates for TGS municipal customers in the following eight cities: Anthony, Clint, Dell City, El Paso, Horizon City, San Elizario, Socorro, and Vinton.

Burden of Proof

TGS, El Paso, and Coalition each carries the burden of proving the reasonableness of its own rate case expenses by a preponderance of the evidence.⁵

Notice

Proper notice has been issued in this proceeding in accordance with applicable statutes and rules. The Notice of Hearing 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. The Notice of Hearing was published in *Gas Utilities Information Bulletin No. 1061*, in compliance with Commission Rule § 7.235 (Publication and Service of Notice).⁶

Proper notice has been issued in this proceeding in accordance with all applicable statutory and Commission requirements.

⁴ See Examiners' Letter No. 06 (Notice of Hearing), issued June 14, 2017 (stating that the evidentiary record would remain open until July 10, 2017).

⁵ 16 Tex. Admin. Code § 7.5530(a) (Allowable Rate Case Expenses) ("In any rate proceeding, any utility and/or municipality claiming reimbursement for its rate case expenses pursuant to Texas Utilities Code, § 103.022(b), shall have the burden to prove the reasonableness of such rate case expenses by a preponderance of the evidence.").

⁶ See Bulletin, pp. 3-4 (containing the GUD No. 10521 Notice of Hearing); see also 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.").

V. TERMS OF THE SETTLEMENT

The Settlement resolves all issues in GUD No. 10521. The parties—TGS, El Paso, Coalition, and Staff—represent diverse interests. The 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 avoid a time-consuming and costly contested merits hearing. A copy of the Settlement⁷ is attached to this PFD as Attachment 2. The Examiners have reviewed the Settlement and supporting documentation, and recommend that the Settlement be approved.

TGS, El Paso, and Coalition request reimbursement/recovery of reasonable rate case expenses incurred for the completed rate case, GUD No. 10506, and for this docket. The parties' requested amounts and agreed allocation are treated separately below.

1. Allowable Rate Case Expenses; Generally

In any gas utility rate proceeding, the utility and municipalities participating in the proceeding, if any, may be reimbursed their reasonable rate case expenses.⁸ Any gas utility 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.⁹ 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.¹⁰

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

⁷ The attached Settlement includes the Settlement itself and the four surcharge tariffs, and excludes the voluminous invoices, affidavits, and receipts.

⁸ 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).

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

¹⁰ *Id.*

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 that may be granted.¹¹

2. Amounts

The parties represent that their reasonable rate case expenses are as follows¹²:

	Actual Invoices Received	Invoices Due and Est. to Completion	Total
TGS	\$1,274,567.19	\$30,000	\$1,304,567.19
El Paso	\$363,283.52	\$20,000	\$383,283.52
Coalition	\$18,260.96	\$2,203.50	\$20,464.46
TOTAL	\$1,656,111.67	\$52,203.50	\$1,708,315.17

TGS's total rate case expenses (above), broken down categorically, are as follows:

Required Regulatory Expenses	Litigation Expenses	Estimated Expenses	Total TGS Expenses
\$662,935.69	\$611,631.50	\$30,000	\$1,304,567.19

TGS, El Paso, and Coalition 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.¹³

After the Settlement was filed, Coalition submitted additional documentation supporting that its actually-incurred expenses through April 24, 2017, totaled \$20,464.46.¹⁴ TGS supplemented the Settlement with additional documentation supporting that its actually-incurred expenses through April 2017 totaled \$1,291,883.35.¹⁵

¹¹ *Id.*

¹² TGS Ex. 1 (Settlement) ¶ 1.

¹³ See TGS Ex. 1 (Settlement), Exhibit A (Affidavit of Kate Norman and supporting documentation), filed by TGS on April 21, 2017 (the "Norman Aff."); TGS Ex. 2 (letter to the ALJ, filed by TGS on June 21, 2017, attaching supplemental invoices and receipts); El Paso Ex. 1 (Affidavit of Norman J. Gordan and supporting documentation), filed by El Paso on April 28, 2017 (the "Gordan Aff."); and Coalition Ex. 1 (Affidavit of Elizabeth Elleson and supporting documentation), filed by Coalition on April 24, 2017 (the "Elleson Aff.>").

¹⁴ Coalition Ex. 1 (Elleson Aff.) ¶ 3.

¹⁵ TGS Ex. 2 (letter to the ALJ, filed by TGS on June 21, 2017, attaching supplemental invoices and receipts) at 1.

Examiner Findings and Recommendation

The Examiners reviewed the sworn affidavits and documentation supporting the rate case expense amounts shown above. Considering the above factors, the Examiners find that the above rate case expense amounts for TGS, El Paso, and Coalition are reasonable and necessary, and that these parties proved the reasonableness of their expenses by a preponderance of the evidence. The rate case docket involved numerous complex and contested issues, a multi-day merits hearing, and several rounds of legal briefing. The Commission determined at the conclusion of the rate case that TGS's request for a rate change was warranted.¹⁶ This severed rate case expense docket, GUD No. 10521, involved negotiation among the parties, several required filings, and attendance at a merits hearing. Accordingly, the Examiners recommend that these amounts also be approved.

Consistent with the Settlement, it is reasonable that TGS, El Paso, and Coalition submit to Commission Staff invoices reflecting actual rate case expenses with sufficient detail so that Staff can accurately audit such invoices for the purposes of reconciling estimated rate case expenses to actual rate case expenses. The total actual expenses shall not exceed the actual expenses submitted to the Commission as of April 2017, plus approved estimated expenses of \$52,203.50. Also consistent with the Settlement, it is reasonable that TGS file an annual Rate Case Expense Report with Commission Staff detailing the balance of actual plus estimated rate case expenses at the beginning of the annual period, the amount collected by customer class, and the ending or remaining balance on or before December 31st.

3. Allocation and Surcharge

The parties agree that rate case expenses shall be allocated and recovered consistent with Commission Rule § 7.5530 (Allowable Rate Case Expenses).¹⁷ Following this rule, the following allocation applies:

- TGS's required regulatory expenses totaling \$662,935.69 are allocated uniformly to all customers affected by the rate change;
- TGS's litigation expenses, including estimated expenses, totaling no more than \$641,631.50 are allocated to environs customers and to customers in the municipalities or coalitions of municipalities participating in the appellate proceeding¹⁸;
- El Paso's expenses totaling no more than \$383,283.52 are recoverable by TGS through rates effective only within the City of El Paso; and

¹⁶ Final Order, GUD No. 10506, at Finding of Fact 11.

¹⁷ TGS Ex. 1 (Settlement) ¶ 4.

¹⁸ Participating municipalities include the Cities of Clint, El Paso, Horizon City, and San Elizario.

- Coalition's expenses totaling no more than \$20,464.46 are recoverable by TGS through rates effective only within the municipalities belonging to Coalition—the Cities of Clint, Horizon City, and San Elizario.

The parties further agree that all expenses shall be recovered over an approximate 24-month period by application of a volumetric surcharge on the customer's bill commencing within a reasonable period from the date a final order in GUD No. 10521 becomes effective.¹⁹ The parties propose recovery of the above amounts, consistent with the above allocation, via four surcharge tariffs:

1. Rate Schedule RCE-ENV (environs) (TGS will recover up to \$96,178 in actual and estimated expenses, not to exceed actual expense);
2. Rate Schedule RCE-EP (El Paso) (TGS will recover up to \$1,506,612 in actual and estimated expenses, not to exceed actual expense);
3. Rate Schedule RCE-COC (Coalition cities) (TGS will recover up to \$55,652 in actual and estimated expenses, not to exceed actual expense); and
4. Rate Schedule RCE-OTH (other cities) (TGS will recover \$49,873).

Examiner Findings and Recommendation

The Examiners find it reasonable to allocate the above expenses consistent with Commission Rule § 7.5530 (Allowable Rate Case Expenses). Use of a surcharge is a reasonable mechanism for recovering rate case expenses and a 24-month recovery period is reasonable in this case. Rate Schedule RCE-COC, Rate Schedule RCE-ENV, Rate Schedule RCE-EP, and Rate Schedule RCE-OTH, per the Settlement, are reasonable for TGS to use to recover the above expense amounts.

Consistent with the Settlement, it is reasonable that, within 60 days after issuance of a final order in this docket, TGS, El Paso, and Coalition each shall file a report, including invoices, reconciling the estimated expense approved to the total actual and final rate case expense amount. Also consistent with the Settlement, it is reasonable that TGS reimburse El Paso and Coalition the amount of actual rate case expenses incurred by El Paso and Coalition, not to exceed total amounts approved in the final order in this docket, within 30 days of the issuance of the final order.

¹⁹ TGS Ex. 1 (Settlement) ¶ 3.

VI. CONCLUSION

The Examiners recommend approval of the Settlement. TGS, El Paso, and Coalition each proved by a preponderance of the evidence the reasonableness of rate case expenses incurred for the completed rate case, GUD No. 10506, and for this docket. The evidence supports that allocation of recoverable rate case expenses, as proposed in the Settlement, is consistent with Commission Rule § 7.5530 (Allowable Rate Case Expenses).

VII. FINDINGS OF FACT AND CONCLUSIONS OF LAW

The Findings of Fact and Conclusions of Law contained in the Proposed Final Order, issued contemporaneously with this PFD, are incorporated herein by reference.

SIGNED August 1, 2017.



John Dodson
Administrative Law Judge



Rose Ruiz
Technical Examiner



James R. Currier III
Technical Examiner

Proposal for Decision
GUD No. 10521, *consolidated*

ATTACHMENT 1

EVIDENTIARY RECORD
(LIST OF PARTY EXHIBITS)

- TGS Ex. 1:** Unanimous Settlement Agreement, filed by TGS on April 21, 2017.
- TGS Ex. 2:** Letter to the ALJ, filed by TGS on June 21, 2017, attaching supplemental invoices and receipts
- Coalition Ex. 1:** Affidavit (Corrected) and attached invoices and receipts, filed by Coalition on April 24, 2017.
- El Paso Ex. 1:** Affidavit and attached invoices and receipts, filed by El Paso on April 28, 2017.

Proposal for Decision
GUD No. 10521, *consolidated*

ATTACHMENT 2

GUD NO. 10521, consolidated

FILED

2017 APR 21 PM 2:05

RATE CASE EXPENSES SEVERED FROM §
GUD NO. 10506, STATEMENT OF INTENT §
OF TEXAS GAS SERVICE COMPANY, A §
DIVISION OF ONE GAS, INC., TO §
INCREASE GAS UTILITY RATES WITHIN §
THE UNINCORPORATED AREAS OF THE §
EL PASO SERVICE AREA, PERMIAN §
SERVICE AREA, AND DELL CITY §
SERVICE AREA §

BEFORE THE
RAILROAD COMMISSION
OF TEXAS

2017 APR 21 PM 2:05
RAILROAD COMMISSION
OF TEXAS

UNANIMOUS SETTLEMENT AGREEMENT

This Settlement Agreement is entered into by and between the parties of record in GUD No. 10521, Texas Gas Service Company, a Division of ONE Gas, Inc. ("TGS" or the "Company"), the City of El Paso ("El Paso"), the Coalition of Cities Served by Texas Gas Service Company ("Coalition"), and the Staff of the Railroad Commission of Texas ("Staff").

WHEREAS, it is agreed that the terms of this Settlement Agreement represent a fair and reasonable compromise and settlement of the rate case expenses that have or are expected to be incurred in connection with Company's Statement of Intent proceeding in GUD No. 10506 (consolidated) in a manner that TGS, El Paso, the Coalition, and Staff (collectively "the Signatories") believe is consistent with the public interest, and the Signatories represent diverse interests;

WHEREAS, the Signatories believe that a fully contested hearing in this case would be time-consuming and entail substantial additional expense for all parties and that the public interest will be served by adoption of an order consistent with the Settlement Agreement;

NOW, THEREFORE, in consideration of the mutual agreements and covenants established herein, the Signatories, through their undersigned representatives, agree to and recommend for approval by the Railroad Commission of Texas ("Commission") the following Settlement Terms as a means of fully resolving all issues in this proceeding without the need for additional litigation:

Settlement Terms

1. Actual and Estimated Expenses: The Signatories stipulate that their reasonably and necessarily incurred rate case expenses and the estimated rate case expenses that will be incurred through completion of this case are as follows:

	Actual Invoices Received	Invoices Due and Est. to Completion	Total
TGS	\$1,274,567.19	\$30,000	\$1,304,567.19
El Paso	\$363,283.52	\$20,000	\$383,283.52
Coalition	\$18,260.96	\$2,203.50	\$20,464.46

These amounts are supported by the invoices, expense reports, affidavits from counsel, and other supporting documentation included as Exhibit A to this Settlement Agreement. TGS's estimate presumes approval of the Settlement Agreement and no appeal of the Commission's Final Order.

2. **Estimated Expenses:** The Signatories agree that reimbursement of future estimated expenses represent the amounts expected to be incurred for the completion of GUD No. 10521. Estimated future expenses will be reimbursed upon presentation of invoices evidencing that the amounts were actually incurred. Signatories further agree that reimbursement for estimated expenses associated with GUD No. 10506 and GUD No. 10521 will not exceed the figures presented in the chart above on behalf of each of the Signatories.

3. **Surcharge & Amortization:** The Signatories agree that the total reimbursable rate case expenses of \$1,708,315.17 agreed upon herein shall be recovered over an approximate 24-month period by application of a volumetric surcharge on the customer's bill commencing within a reasonable period from the date a final order in GUD No. 10521 becomes effective. Use of a surcharge is a reasonable mechanism for recovering rate case expenses and a 24-month recovery period is reasonable in this case. The Signatories further agree that:
 - a. Rate Schedule RCE-COC, Rate Schedule RCE-ENV, Rate Schedule RCE-EP and Rate Schedule RCE-OTH included herein at Exhibit B, authorizing the recovery of rate case expenses are reasonable and should be approved; and
 - b. Within 60 days after the issuance of a final order in GUD No. 10521, TGS, El Paso, and the Coalition shall each file a report, including invoices, which reconciles the estimated expense approved to the total actual and final rate case expense amount.

4. **Allocation:** The Signatories agree that rate case expenses shall be allocated and recovered pursuant to the provisions of Commission Rule 7.5530(c)-(e). The Signatories stipulate that, in accordance with Commission Rule 7.5530(d), TGS's reasonably and necessarily incurred required regulatory expenses, litigation expenses, and estimated expenses, are as follows:

TGS's Required Regulatory Expenses	TGS's Litigation Expenses	TGS's Estimated Expenses	Total TGS Expenses
\$662,935.69	\$611,631.50	\$30,000	\$1,304,567.19

5. **Reimbursement of Municipal Expenses:** TGS agrees to reimburse El Paso and the Coalition the amount of actual rate case expenses set forth in Item 1 within 30 days of the issuance of an order authorizing recovery of those expenses.

6. **Evidentiary Support for Settlement Agreement:** In support of this Agreement, the Signatories agree that the invoices, expense reports, affidavits and other supporting documentation attesting to expenses and future estimated expenses that have been submitted by TGS, El Paso, and the Coalition, included herein at Exhibit A shall be admitted into the evidentiary record of GUD No. 10521. The parties shall supplement with

additional invoices as they are processed. The Signatories further agree that, if requested by the Examiner, the Signatories shall offer respective witnesses to appear before the Examiner to respond to any clarifying questions regarding the expenses at issue in this proceeding, the treatment of these expenses under the terms of this Agreement, and why Commission approval of this Agreement is reasonable and in the public interest.

7. Annual Report: TGS shall file annually, due on or before December 31, a rate case expense recovery report with the Railroad Commission of Texas, Oversight and Safety Division, referencing GUD No. 10521. The report shall include the volumes used by month by customer class during the applicable period, the amount of rate case expense recovered by month, and the outstanding balance by month as set out in Rate Schedule RCE-COC, Rate Schedule RCE-ENV, Rate Schedule RCE-EP and Rate Schedule RCE-OTH. The Signatories agree to and propose the inclusion of the following Findings of Fact and Ordering Paragraph in the Final Order in this docket:
 - a. Finding of Fact: It is reasonable that TGS, El Paso, and the Coalition submit to Commission Staff invoices reflecting actual rate case expenses with sufficient detail so that Staff can accurately audit such invoices for the purposes of reconciling estimated rate case expenses to actual rate case expenses. The total actual expenses shall not exceed the actual expenses submitted to the Commission as of April 2017, plus the approved estimated expenses of \$52,203.50.
 - b. Finding of Fact: It is reasonable that TGS file an annual Rate Case Expense Report with Commission Staff detailing the balance of actual plus estimated rate case expenses at the beginning of the annual period, the amount collected by customer class, and the ending or remaining balance on or before December 31st.
 - c. Ordering Paragraph: IT IS THEREFORE ORDERED that TGS file an annual Rate Case Expense Report with Staff detailing recovery of rate case expenses as described in Finding of Fact __ on or before December 31st.
8. The Signatories agree to support and seek approval by the Commission of this Settlement Agreement.
9. The Signatories agree that the terms of the Settlement Agreement are interdependent and indivisible, and that if the Commission enters an order that is inconsistent with this Settlement Agreement, then any Signatory may withdraw without being deemed to have waived any procedural right or to have taken any substantive position on any fact or issue by virtue of that Signatory's entry into the Settlement Agreement or its subsequent withdrawal.
10. The Signatories agree that all negotiations, discussions and conferences related to the Settlement Agreement are privileged, inadmissible, and not relevant to prove any issues outside of those negotiations, discussions and conferences.
11. The Signatories agree that neither this Settlement Agreement nor any oral or written statements made during the course of settlement negotiations may be used for any purpose

other than as necessary to support the entry by the Commission of an order approving this Settlement Agreement.

12. The Signatories agree that this Settlement Agreement is binding on each Signatory only for the purpose of settling the issues set forth herein and for no other purposes, and, except to the extent the Settlement Agreement governs a Signatory's rights and obligations for future periods, this Settlement Agreement shall not be binding or precedential upon a Signatory outside this proceeding.
13. The Signatories agree that this Settlement Agreement may be executed in multiple counterparts and may be filed with facsimile signatures.

Agreed to this 21st day of April 2017.

TEXAS GAS SERVICE COMPANY, A Division of ONE Gas, Inc.

By: Stephanie G. Houle
Stephanie G. Houle
Attorney for Texas Gas Service Company

STAFF OF THE RAILROAD COMMISSION OF TEXAS

By: _____
Natalie Dubiel
Attorney for Staff of the Railroad Commission of Texas

COALITION OF CITIES SERVED BY TEXAS GAS SERVICE COMPANY

By: _____
Elizabeth Elleson

CITY OF EL PASO

By: _____
Norman Gordon

TEXAS GAS SERVICE COMPANY, A Division of ONE Gas, Inc.

By: _____
Stephanie G. Houle
Attorney for Texas Gas Service Company

STAFF OF THE RAILROAD COMMISSION OF TEXAS

By: Natalie Dubiel
Natalie Dubiel
Attorney for Staff of the Railroad Commission of Texas

COALITION OF CITIES SERVED BY TEXAS GAS SERVICE COMPANY

By: Elizabeth Elleson
Elizabeth Elleson

CITY OF EL PASO

By: Norman Gordon
Norman Gordon

RATE CASE EXPENSE SURCHARGE

A. APPLICABILITY

The Rate Case Expense Surcharge (RCE) rate as set forth in Section (B) below is pursuant to City Ordinances. This rate shall apply to the following rate schedules of Texas Gas Service Company in the following incorporated areas served in TGS's West Texas Service Area: Clint, Horizon City, San Elizario, Texas: 10, 20, 21, 30, 40, 41, 42, and T-1.

B. RCE RATE

All Ccf during each billing period: \$0.00582 per Ccf

This rate will be in effect until all approved and expended rate case expenses are recovered under the applicable rate schedules. Texas Gas Service Company will recover \$52,607 in actual expense and up to \$3,045 in estimated expense, not to exceed actual expense. The Rate Case Expense Surcharge will be a separate line item on the bill.

C. OTHER ADJUSTMENTS

Taxes: Plus applicable taxes and fees (including franchises fees for customers in incorporated areas) related to above.

D. CONDITIONS

Subject to all applicable laws and orders, and the Company's rules and regulations on file with the regulatory authority.

Initial Rate Schedule

Meters Read On and After

RATE CASE EXPENSE SURCHARGE

A. APPLICABILITY

The Rate Case Expense Surcharge (RCE) rate as set forth in Section (B) below is pursuant to Gas Utilities Docket No. 10506: Statement of Intent Filed by Texas Gas Service Company, a division of ONE Gas, Inc. to Increase Gas Utility Rates Within the Unincorporated Areas of the El Paso Service Area, Permian Service Area, and Dell City Service Area, Final Order Finding of Fact No. __. This rate shall apply to the following rate schedules of Texas Gas Service Company in the following unincorporated areas served in TGS's West Texas Service Area: Andrews, Anthony, Barstow, Clint, Crane, Dell City, El Paso, Fabens, Horizon City, McCamey, Monahans, Pecos, Pyote, San Elizario, Socorro, Thortonville, Vinton, Wickett, and Wink Texas: 1Z, 2Z, 2A, 3Z, 4Z, 4A, 4B, and T-1-ENV.

B. RCE RATE

All Ccf during each billing period: \$0.00368 per Ccf

This rate will be in effect until all approved and expended rate case expenses are recovered under the applicable rate schedules. Texas Gas Service Company will recover \$93,878 in actual expense and up to \$2,300 in estimated expense, not to exceed actual expense. The Rate Case Expense Surcharge will be a separate line item on the bill.

C. OTHER ADJUSTMENTS

Taxes: Plus applicable taxes and fees (including franchise fees for customers in incorporated areas) related to above.

D. CONDITIONS

Subject to all applicable laws and orders, and the Company's rules and regulations on file with the regulatory authority.

E. COMPLIANCE

The Company will file annually, due on or before December 31, a rate case expense recovery report with the Railroad Commission of Texas ("Commission"), Oversight and Safety Division, referencing GUD No. 10521. The report shall detail the amount recovered by month by customer class, the amount of RCE recovered, and the outstanding balance by month. Reports for the Commission should be filed electronically at GUD_Compliance@rrc.texas.gov or at the following address:

Compliance Filings
Oversight and Safety Division
Gas Services Department
Railroad Commission of Texas
P.O. Box 12967
Austin, Texas 78711-2967

Effective Date:
Issuance date of Final Order in GUD No. 10521

RATE SCHEDULE RCE-EP

RATE CASE EXPENSE SURCHARGE

A. APPLICABILITY

The Rate Case Expense Surcharge (RCE) rate as set forth in Section (B) below is pursuant to City Ordinances. This rate shall apply to the following rate schedules of Texas Gas Service Company in the following incorporated areas served in TGS's West Texas Service Area: El Paso, Texas: 10, 20, 21, 30, 40, 41, 42, and T-1.

B. RCE RATE

All Ccf during each billing period: \$0.00493 per Ccf

This rate will be in effect until all approved and expended rate case expenses are recovered under the applicable rate schedules. Texas Gas Service Company will recover \$1,459,753 in actual expense and up to \$46,859 in estimated expense, not to exceed actual expense. The Rate Case Expense Surcharge will be a separate line item on the bill.

C. OTHER ADJUSTMENTS

Taxes: Plus applicable taxes and fees (including franchises fees for customers in incorporated areas) related to above.

D. CONDITIONS

Subject to all applicable laws and orders, and the Company's rules and regulations on file with the regulatory authority.

Initial Rate Schedule

Meters Read On and After

RATE CASE EXPENSE SURCHARGE

A. APPLICABILITY

The Rate Case Expense Surcharge (RCE) rate as set forth in Section (B) below is pursuant to City Ordinances. This rate shall apply to the following rate schedules of Texas Gas Service Company in the following incorporated areas served in TGS's West Texas Service Area: Andrews, Anthony, Barstow, Crane, Dell City, McCamey, Monahans, Pecos, Pyote, Socorro, Thortonville, Vinton, Wickett and Wink, Texas: 10, 20, 21, 30, 40, 41, 42, and T-1.

B. RCE RATE

All Ccf during each billing period: \$0.00180 per Ccf

This rate will be in effect until all approved and expended rate case expenses are recovered under the applicable rate schedules. Texas Gas Service Company will recover \$49,873 in actual expense and up to \$0.00 in estimated expense, not to exceed actual expense. The Rate Case Expense Surcharge will be a separate line item on the bill.

C. OTHER ADJUSTMENTS

Taxes: Plus applicable taxes and fees (including franchises fees for customers in incorporated areas) related to above.

D. CONDITIONS

Subject to all applicable laws and orders, and the Company's rules and regulations on file with the regulatory authority.

Initial Rate Schedule

Meters Read On and After