

**BEFORE THE
RAILROAD COMMISSION OF TEXAS**

APPLICATION OF TEXAS GAS SERVICE COMPANY FOR TEST YEAR 2016 ANNUAL INTERIM RATE ADJUSTMENT FOR THE UNINCORPORATED AREAS OF THE GULF COAST SERVICE AREA.	§ § § § §	GAS UTILITIES DOCKET NO. 10666
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INTERIM RATE ADJUSTMENT ORDER

Notice of Open Meeting to consider this Order was duly posted with the Secretary of State within the time period provided by law pursuant to TEX. GOV'T CODE ANN Chapter 551. The Railroad Commission of Texas adopts the following findings of fact and conclusions of law and orders:

FINDINGS OF FACT

Background

1. Texas Gas Service Company, a division of ONE Gas, Inc., (“TGS” or the “Company”) is a “gas utility,” as that term is defined in the TEXAS UTILITIES CODE, and is subject to the jurisdiction of the Railroad Commission of Texas (“Commission”).
2. TGS owns and operates a natural gas distribution system.
3. On October 20, 2017, TGS filed an application for an annual interim rate adjustment (“IRA”) to its rates for gas service to customers of the environs of the Company’s Gulf Coast Service Area.
4. TGS requested that the interim rate adjustments for all customer classes become effective on December 19, 2017.
5. On November 1, 2017, the Commission suspended implementation of TGS’s proposed interim rate adjustment until February 2, 2018, which would be 45 days following the 60th day after the application would be considered complete.
6. Neither TEX. UTIL. CODE § 104.301 nor 16 TEX. ADMIN. CODE, § 7.7101 provides the opportunity for parties to intervene in the Commission’s review of an application for an annual interim rate adjustment.

7. 16 TEX. ADMIN. CODE § 7.7101 allows written comments or a protest, concerning the proposed IRA, to be filed with the Gas Services Division.
8. No letters of protest have been received as of the date of this order.
9. This docket represents the first annual IRA for TGS since Gas Utility Docket (“GUD”) No. 10488.¹
10. Until promulgation of TEX. UTIL. CODE § 104.301, a utility could not increase its rates subject to the Commission’s jurisdiction without filing with the Commission a formal statement of intent rate case, including a comprehensive cost of service rate review.
11. The proposed IRA will allow TGS an opportunity to recover, subject to refund, a return on investment, depreciation expense, and related taxes on the incremental cost of infrastructure investment since its most recent rate case, GUD No. 10488, without the necessity of filing a statement of intent rate case and without review by the Commission of TGS’s comprehensive cost of service.

Applicability

12. This docket applies to only those rates over which the Commission has original jurisdiction within the Gulf Coast Service Area.
13. TGS’s average monthly customer count in the Gulf Coast Service Area for 2016 was 42,775 residential customers, 1,840 commercial customers, 277 public authority customers, and 3 industrial customers.
14. TGS’s average monthly customer count in the Gulf Coast Service Area for 2016 subject to this order was 1,173 residential customers, 30 commercial customers, four public authority customers, and zero industrial customers.

¹ *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 Galveston Service Area (GSA) and South Jefferson County Service Area (SJCSA).*

Most Recent Comprehensive Rate Case

15. TGS's most recent rate case for the area in which the IRA will be implemented is GUD No. 10488, *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 Galveston Service Area (GSA) and South Jefferson County Service Area (SJCSA)*.
16. GUD No. 10488 was filed on December 30, 2015.
17. TGS, Commission Staff, the GSA Cities, and the SJCSA Cities reached a settlement in GUD No. 10488.
18. The Commission signed the GUD No. 10488 Final Order on May 3, 2016, approving and adopting the settlement.
19. The following chart shows the factors that were established in GUD No. 10488 to calculate the return on investment, depreciation expense, ad valorem taxes, revenue related taxes, and federal income taxes for TGS as applied in this IRA proceeding.

GUD No. 10488 CALCULATION FACTORS

Factor	TGS
Rate of Return	7.291%
Depreciation Rate	By FERC Account ²
Federal Income Tax Rate	35%
Revenue Related Taxes	NA ³

Interim Rate Adjustment

20. The revenue amounts to be recovered through TGS's proposed annual interim rate adjustments are incremental to the revenue requirement established in TGS's most recent rate case for the area in which the interim rate adjustment is to be implemented, GUD No. 10488, and subsequent interim rate adjustments.
21. Under TEX. UTIL. CODE § 7.7101(f)(3), for the first IRA following the most recent rate case, a utility may adjust its rates based on the difference between invested capital at the end of the most recent rate case test-year and the invested capital at the end of the calendar year following the end of the most recent rate case test-year.

² Staff review confirms that the Company used the appropriate depreciation rates as approved in GUD No. 10488 in this docket.

³ Revenue related taxes are not reflected here because they are recovered separately.

22. In this first interim rate adjustment, TGS adjusted its rates based on the difference between its invested capital at the end of its Statement of Intent rate case test year, June 30, 2015 updated for known and measurable changes through December 31, 2015 and December 31, 2016.
23. TGS seeks approval from the Commission for an adjustment to its revenue based on incremental net utility plant investment with regard to the following components: return on investment; depreciation expense; ad valorem taxes; and federal income taxes. The incremental change in revenue requirement to be recovered through this IRA filing from all rate classes using the approved component factors is **\$522,219** (Exhibit B), of which **\$12,984** is attributable to customers subject to this order.
24. The value of TGS's invested capital is equal to the original cost of the investment at the time the investment was first dedicated to public use minus the accumulated depreciation related to that investment for TGS's interim rate adjustments.
25. TGS's incremental net utility plant investment is **\$3,685,132** (Exhibit B).
26. TGS is required to use the same factors to calculate the interim return on investment, depreciation expense, ad valorem taxes, and federal income taxes as those established or used in the final order setting rates in TGS's most recent rate case for the area in which the interim rate adjustment is to be implemented (GUD No. 10488).
27. TGS filed the Commission's Annual Earnings Monitoring Report (EMR) as required by 16 TEX. ADMIN. CODE § 7.7101. TGS's actual rate of return was 5.571% for the test year ending December 31, 2016, which is lower than the 7.291% allowed rate of return established in GUD No. 10488.
28. Gas Utilities Docket No. 10488, TGS's most recent Statement of Intent rate case for the Gulf Coast Service Area environs and the basis for the key factors in an IRA calculation, was approved by the Commission on May 3, 2016. Customer Charges are shown in Column B of the table below.
29. GUD No. 10666, the first IRA application for the Gulf Coast Service Area environs is shown in Column C, below.
30. When the Customer Charge as established in Gas Utilities Docket No. 10488 and the test year 2016 Interim Rate Adjustment are added, the resulting customer charges for affected customer classes are as shown in Column D of the table below.

Gulf Coast Service Area Customer Charges and Interim Rate Adjustment (IRA)

A	B	C	D
Customer Class	GUD 10488	GUD 10666 (2016 IRA)	Total Customer Charge
Residential	\$ 13.00	\$ 0.80	\$ 13.80
Commercial	\$ 54.00	\$ 4.02	\$ 58.02
Public Authority	\$ 110.00	\$ 5.24	\$ 115.24
Industrial	\$ 110.00	\$ 96.61	\$ 206.61
Commercial Transportation	\$ 300.00	\$ 4.02	\$ 304.02
Public Authority Transportation	\$ 300.00	\$ 5.24	\$305.24
Industrial Transportation	\$ 300.00	\$ 96.61	\$396.61

31. TGS filed its Annual Project Report as required by 16 TEX. ADMIN. CODE § 7.7101.
 1. Net utility plant investment included in this docket totaled \$3,685,132.⁴
 2. Gross capital project additions totaled \$6,607,138.⁵
 3. The percentage of additions in this filing that are safety related is 60.28%.⁶
32. TGS proposed the interim rate adjustment as a flat rate to be applied to the monthly customer charges rather than as a volumetric rate to be applied to the initial block usage rates (Exhibit B).
33. TGS is required to show its annual interim rate adjustments on its customers' monthly billing statements as a surcharge.
34. The proposed interim rate adjustment does not require an evidentiary proceeding; rather, TEX. UTIL. CODE § 104.301 and 16 TEX. ADMIN. CODE, § 7.7101 require the regulatory authority to review a utility's method of calculating the interim rate adjustment.
35. Due process protections are deferred until TGS files its next full statement of intent rate case.

⁴ Schedule IRA 3.

⁵ Schedule IRA-10.

⁶ TGS's Response to Staff's RFI No. 2-1.

Notice

36. Adequate notice by TGS was provided to each TGS customer within the Gulf Coast Service Area environs by direct mail on November 16, 2017. As a result, notice was completed within 45 days of the filing, fulfilling the requirements under TEX. UTIL. CODE § 104.301(a).

Comprehensive Rate Case Required

37. TGS is not required to initiate a statement of intent rate case at the time it applies for an interim rate adjustment.
38. Under 16 TEX. UTIL. CODE § 7.7101(l), a gas utility that implements an interim rate adjustment and does not file a rate case before the fifth anniversary of the date its initial interim rate adjustment became effective is required to file a rate case no later than the 180th day after that anniversary.
39. TGS is required to file a statement of intent rate case for the Gulf Coast Service Area no later than September 16, 2023.
40. Under 16 TEX. ADMIN. CODE § 7.7101(j), any change in investment and related expenses and revenues that have been included in any interim rate adjustment shall be fully subject to review for reasonableness and prudence in the next rate case. Per 16 TEX. ADMIN. CODE § 7.7101(i), all amounts collected from customers under an interim rate adjustment tariff are subject to refund until the conclusion of the next rate case.

Review of Interim Rate Adjustment

41. TGS's proposed allocation methodology complies with TEX. UTIL. CODE, § 104.301, and with 16 TEX. ADMIN. CODE, § 7.7101.
42. It is reasonable for the Commission to approve use of the allocation methodology used to determine TGS's overall cost of service (less other revenue, gas cost, and revenue related taxes) as determined in its most recent rate case. The following overall cost of service allocation factors for use in the calculation of TGS's interim rate adjustment are reasonable:

Customer Class	Allocation Factors
Residential	0.7895
Commercial	0.1698
Public Authority	0.0333
Industrial	0.0074

43. TGS's proposed customer counts comply with TEX. UTIL. CODE, § 104.301, and with 16 TEX. ADMIN. CODE, § 7.7101. For calculating the number of customer charges per year, it is reasonable for the Commission to approve use of the 2016 customer charges. The following total number of customer charges for use in the calculation of the interim rate adjustment are reasonable:

Customer Class	Annual Number of Customer Charges
Residential	513,296
Commercial	22,085
Public Authority	3,318
Industrial	40
Total	538,739

44. It is reasonable for the Commission to approve TGS's applications for interim rate adjustments. The following amounts of interim rate adjustment revenue and additional customer charges by customer class are reasonable:

Customer Class	Interim Rate Adjustment Revenue	IRA Revenue from the Environs	Additional Customer Charge
Residential	\$412,292	\$11,303	\$0.80
Commercial	\$88,673	\$1,429	\$4.02
Public Authority	\$17,390	\$252	\$5.24
Industrial	\$3,864	0	\$96.61
Total Increase	\$522,219	\$12,984	

Voluntary Rate Reduction to Reflect the Tax Cuts and Jobs Act of 2017

45. TGS voluntarily requested a reduction to the change in revenue requirement based on implementation of the 21% Federal Corporate Income Tax rate as set in the Tax Cuts and Jobs Act of 2017.
46. As a result of the change, the Company filed revised schedules and TGS seeks approval from the Commission for a revised adjustment to its IRA revenue based on incremental net utility

plant investment with regard to the following components: return on investment; depreciation expense; ad valorem taxes; and federal income taxes. The incremental change in revenue requirement, calculated using a 21% Federal Income Tax rate, to be recovered through this IRA filing from all rate classes using the approved component factors is **\$464,756** (Exhibit C), of which **\$11,555** is attributable to customers subject to this order.

47. Gas Utilities Docket No. 10488, TGS's most recent Statement of Intent rate case for the Gulf Coast Service Area environs and the basis for the key factors in an IRA calculation, was approved by the Commission on May 3, 2016. Customer Charges are shown in Column B of the table below.
48. GUD No. 10666, the first IRA application for the Gulf Coast Service Area environs is shown in Column C, below.
49. When the Customer Charge as established in Gas Utilities Docket No. 10488 and the revised test year 2016 Interim Rate Adjustment are added, the resulting customer charges for affected customer classes are as shown in Column D of the table below.

Gulf Coast Service Area Customer Charges and Interim Rate Adjustment (IRA)

A	B	C	D
Customer Class	GUD 10488	GUD 10666 (2016 IRA)	Total Customer Charge
Residential	\$ 13.00	\$ 0.71	\$ 13.71
Commercial	\$ 54.00	\$ 3.57	\$ 57.57
Public Authority	\$ 110.00	\$ 4.66	\$ 114.66
Industrial	\$ 110.00	\$ 85.98	\$ 195.98
Commercial Transportation	\$ 300.00	\$ 3.57	\$ 303.57
Public Authority Transportation	\$ 300.00	\$ 4.66	\$ 304.66
Industrial Transportation	\$ 300.00	\$ 85.98	\$ 385.98

50. It is reasonable for the Commission to approve TGS's revised application for interim rate adjustment calculated using a 21% Federal Income Tax rate as requested by TGS in this docket. The following amounts of interim rate adjustment revenue and additional customer charges by customer class are reasonable:

Customer Class	Interim Rate Adjustment Revenue	IRA Revenue from the Environs	Additional Customer Charge
Residential	\$366,925	\$10,059	\$0.71
Commercial	\$78,916	\$1,272	\$3.57
Public Authority	\$15,476	\$244	\$4.66
Industrial	\$3,439	\$0	\$85.98
Total Decrease	\$464,756	\$11,555	

Reimbursements of Expense

51. As provided for in the statute and the rule, a gas utility that implements an interim rate adjustment is required to reimburse the Commission for the utility's proportionate share of the Commission's annual costs related to the administration of the interim rate adjustment mechanism.
52. After the Commission has finally acted on TGS's application for an interim rate adjustment, the Director of the Oversight and Safety Division will estimate TGS's proportionate share of the Commission's annual costs related to the processing of such applications.
46. In making the estimate of TGS's proportionate share of the Commission's annual costs related to the processing of such applications, the Director will take into account the number of utilities the Commission reasonably expects to file for interim rate adjustments during the fiscal year, and the costs expected to be incurred in processing such applications.
47. TGS is required to reimburse the Commission for the amount determined by the Director of the Oversight and Safety Division, within thirty days after receipt of notice of the amount of the reimbursement.

CONCLUSIONS OF LAW

1. Texas Gas Service Company, a division of ONE Gas, Inc., (“TGS” or the “Company”) is a “gas utility” as defined in TEX. UTIL. CODE §§ 101.003(7), and 121.001, and is therefore subject to the jurisdiction of the Railroad Commission of Texas (“Commission”).
2. The Commission has jurisdiction over TGS; TGS’s applications for interim adjustments for incremental changes in investment, and the subject matter of this case under TEX. UTIL. CODE §§ 102.001, 104.001, 104.002, and 104.301.
3. Under TEX. UTIL. CODE. § 102.001, the Commission has exclusive original jurisdiction over the rates and services of a gas utility that distributes natural gas in areas outside of a municipality and over the rates and services of a gas utility that transmits, transports, delivers, or sells natural gas to a gas utility that distributes the gas to the public.
4. Under the provisions of the TEX. UTIL. CODE § 104.301 and 16 TEX. ADMIN. CODE § 7.7101, TGS is required to seek Commission approval before implementing an interim rate adjustment tariff for environs customers.
5. TGS filed its application for interim rate adjustments for changes in investment in accordance with the provisions of TEX. UTIL. CODE § 104.301 and 16 TEX. ADMIN. CODE § 7.7101.
6. TGS’s application for an interim rate adjustment was processed in accordance with the requirements of TEX. UTIL. CODE § 104.301 and 16 TEX. ADMIN. CODE § 7.7101.
7. In accordance with 16 TEX. ADMIN. CODE § 7.315, within thirty days of the effective date of any change to rates or services, TGS is required to file with the Commission its revised tariffs.
8. TGS may not charge any rate that has not been successfully filed and accepted as a tariff filing electronically pursuant to TEX. UTIL. CODE §§ 102.151, and 104.002 and 16 TEX. ADMIN. CODE § 7.315.
9. In accordance with TEX. UTIL. CODE § 104.301(a) and 16 TEX. ADMIN. CODE § 7.7101(a), the filing date of TGS’s most recent rate case, in which there is a final order setting rates for the area in which the interim rate adjustment will apply, was no more than two years prior to the date TGS filed its initial interim rate adjustment.
10. TGS is required, under TEX. UTIL. CODE § 104.301(e) and 16 TEX. ADMIN. CODE § 7.7101(d), to file with the Commission an annual project report, including the cost, need, and customers benefited by the change in investment, and describing the investment projects completed and placed in service during the preceding calendar year and the investments retired or abandoned during the preceding calendar year.

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

20. In accordance with TEX. UTIL. CODE § 104.301(h) and 16 TEX. ADMIN. CODE § 7.7101(l), TGS shall file a comprehensive rate case for the areas in which the interim rate adjustment is implemented, no later than the 180th day after the fifth anniversary of the date its initial interim rate adjustment became effective.
21. The Commission has authority, under TEX. UTIL. CODE § 104.301(j) and 16 TEX. ADMIN. CODE § 7.7101(m), to recover from TGS the Utility's proportionate share of the Commission's annual costs related to the administration of the interim rate adjustment mechanism.

IT IS THEREFORE ORDERED BY THE RAILROAD COMMISSION OF TEXAS THAT TGS's interim rate adjustments recommended to be approved in the findings of fact and conclusions of law are **HEREBY APPROVED** to be effective for bills rendered on or after the date of this order.

IT IS FURTHER ORDERED THAT within 30 days of this order in accordance with 16 TEX. ADMIN. CODE § 7.315 TGS **SHALL** electronically file its interim rate adjustment tariffs in proper form that accurately reflect the rates, as expressed in Exhibit A, approved by the Commission in this Order.

IT IS FURTHER ORDERED THAT any incremental change in rates approved by this order and implemented by TGS shall be subject to refund unless and until TGS's interim rate adjustment tariffs are electronically filed and accepted by the Gas Services Department in accordance with 16 TEX. ADMIN. CODE § 7.315.

IT IS FURTHER ORDERED THAT TGS **SHALL** file with the Commission no later than September 6, 2023, a statement of intent to change rates as required under TEX. UTIL. CODE § 104.301(h) and 16 TEX. ADMIN. CODE § 7.7101(l).

IT IS FURTHER ORDERED THAT TGS **SHALL** reimburse the Commission for the utility's proportionate share of the Commission's annual costs related to the administration of the IRA mechanism. The amount of this reimbursement shall be determined by the Director of the Oversight and Safety Division. This Order will not be final and effective until 20 days after a party is notified of the Commission's order. A party is presumed to have been notified of the Commission's order three days after the date on which the notice is actually mailed. If a timely motion for rehearing is filed by any party at interest, this Order shall not become final and effective until such motion is overruled, or if such motion is granted, this order shall be subject to further action by the Commission. Pursuant to TEX. GOV'T CODE § 2001.146(e), the time allotted for Commission action on a motion for rehearing in this case prior to its being overruled by operation of law, is hereby extended until 90 days from the date the order is served on the parties.

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

SIGNED this 20th day of March, 2018.

RAILROAD COMMISSION OF TEXAS

Christi Craddick

CHRISTI CRADDICK
CHAIRMAN

Ryan Sittion

RYAN SITTION
COMMISSIONER

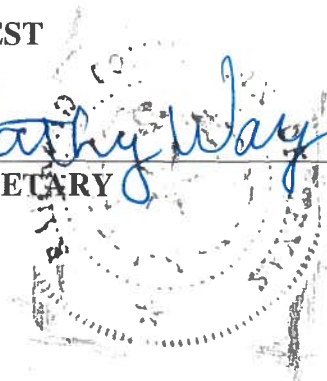
Wayne Christian

WAYNE CHRISTIAN
COMMISSIONER

ATTEST

Kathy Way

SECRETARY



TEXAS GAS SERVICE COMPANY
Gulf Coast Service Area

RATE SCHEDULE 1Z

RESIDENTIAL SERVICE RATE

APPLICABILITY

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

TERRITORY

Unincorporated areas served in the vicinity of Galveston, Bayou Vista, Jamaica Beach, Port Arthur, Port Neches, Nederland, and Groves, Texas.

COST OF SERVICE RATE:

During each monthly billing period:

A customer charge per meter per month of	\$ 13.00 plus -
<u>Interim Rate Adjustment (IRA)</u>	<u>\$ 0.71 per month (Footnote 1)</u>
Total Customer Charge	\$13.71 per month

All Ccf per monthly billing period @	\$0.45616 per Ccf
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Cost of Gas Component: The basic rates for cost of service set forth above shall be increased by the amount of the Cost of Gas Component for the billing month computed in accordance with the provisions of Rate Schedule 1-ENV.

Weather Normalization Adjustment: The billing shall reflect adjustments in accordance with the provisions of the Weather Normalization Adjustment Clause, Rate Schedule WNA.

Rate Schedule RCE: Adjustments in accordance with provisions of the Rate Case Expense Surcharge Rider.

Taxes: Plus applicable taxes and fees related to above.

CONDITIONS

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

Footnote 1: 2016 IRA - \$0.71

TEXAS GAS SERVICE COMPANY
Gulf Coast Service Area

RATE SCHEDULE 2Z

COMMERCIAL SERVICE RATE

APPLICABILITY

Applicable to commercial consumers for all purposes and all other consumers not otherwise specifically provided for.

TERRITORY

Unincorporated areas served in the vicinity of Galveston, Bayou Vista, Jamaica Beach, Port Arthur, Port Neches, Nederland and Groves, Texas.

COST OF SERVICE RATES

During each monthly billing period:

A customer charge per meter per month of	\$54.00 plus –
<u>Interim Rate Adjustment (IRA)</u>	<u>\$ 3.57 per month (Footnote 1)</u>
Total Customer Charge	\$57.57 per month

All Ccf per monthly billing period @
The First 250 Ccf @ \$ 0.22140 per Ccf
All Over 250 Ccf @ \$ 0.19380 per Ccf

Cost of Gas Component: The basic rates for cost of service set forth above shall be increased by the amount of the Cost of Gas Component for the billing month computed in accordance with the provisions of Rate Schedule 1-ENV.

Weather Normalization Adjustment: The billing shall reflect adjustments in accordance with the provisions of the Weather Normalization Adjustment Clause, Rate Schedule WNA.

Rate Schedule RCE: Adjustments in accordance with provisions of the Rate Case Expense Surcharge Rider.

Taxes: Plus applicable taxes and fees related to above.

CONDITIONS

1. Subject to all applicable laws and orders, and the Company's rules and regulations on file with the regulatory authority.
2. The rate schedule may be used for special unmetered service such as gas street lights. The total hourly rated consumption of all gas burning appliances included, expressed in Ccf, at the location, shall be multiplied by 731 to determine the average monthly consumption of the service. The result, rounded to the next highest Ccf shall then be billed the rates provided in this rate.

Footnote 1: 2016 IRA - \$3.57

TEXAS GAS SERVICE COMPANY
Gulf Coast Service Area

RATE SCHEDULE 3Z

INDUSTRIAL SERVICE RATE

APPLICABILITY

Applicable to any qualifying customer whose primary business activity at the location served is included in one of the following classifications of the Standard Industrial Classification Manual of the U.S. Government.

Division B - Mining - all Major Groups
Division D - Manufacturing - all Major Groups
Divisions E and J - Utility and Government - facilities generating power for resale only

TERRITORY

Unincorporated areas served in the vicinity of Galveston, Bayou Vista, Jamaica Beach, Port Arthur, Port Neches, Nederland and Groves, Texas.

COST OF SERVICE RATES

During each monthly billing period:

A customer charge per meter per month of	\$110.00 plus
<u>Interim Rate Adjustment (IRA)</u>	<u>\$ 85.98 per month (Footnote 1)</u>
Total Customer Charge	\$195.98 per month

All Ccf per monthly billing period @	
The First 250 Ccf @	\$ 0.40060 per Ccf
All Over 250 Ccf @	\$ 0.37480 per Ccf

Cost of Gas Component: The basic rates for cost of service set forth above shall be increased by the amount of the Cost of Gas Component for the billing month computed in accordance with the provisions of Rate Schedule 1-ENV.

Rate Schedule RCE: Adjustments in accordance with provisions of the Rate Case Expense Surcharge Rider.

Taxes: Plus applicable taxes and fees related to above.

CONDITIONS

1. Subject to all applicable laws and orders, and the Company's rules and regulations on file with the regulatory authority.
2. Delivery of gas hereunder may be interrupted or curtailed at the discretion of the Company, in case of shortage or threatened shortage of gas supply from any cause whatsoever, to conserve gas for residential and other customers served.

Footnote 1: 2016 IRA - \$85.98

TEXAS GAS SERVICE COMPANY
Gulf Coast Service Area

RATE SCHEDULE 4Z

PUBLIC AUTHORITY SERVICE RATE

APPLICABILITY

Applicable to all public and parochial schools and colleges, and to all facilities operated by Governmental agencies not specifically provided for in other rate schedules or special contracts. This rate is only available to full requirements customers of Texas Gas Service Company.

TERRITORY

Unincorporated areas served in the vicinity of Galveston, Bayou Vista, Jamaica Beach, Port Arthur, Port Neches, Nederland and Groves, Texas.

COST OF SERVICE RATES

During each monthly billing period:

A customer charge per meter per month of	\$110.00 plus –
<u>Interim Rate Adjustment (IRA)</u>	<u>\$ 4.66 per month (Footnote 1)</u>
Total Customer Charge	\$114.66 per month

All Ccf per monthly billing period @	
The First 250 Ccf @	\$ 0.15672 per Ccf
All Over 250 Ccf @	\$ 0.13092 per Ccf

Cost of Gas Component: The basic rates for cost of service set forth above shall be increased by the amount of the Cost of Gas Component for the billing month computed in accordance with the provisions of Rate Schedule 1-ENV.

Weather Normalization Adjustment: The billing shall reflect adjustments in accordance with the provisions of the Weather Normalization Adjustment Clause, Rate Schedule WNA.

Rate Schedule RCE: Adjustments in accordance with provisions of the Rate Case Expense Surcharge Rider.

Taxes: Plus applicable taxes and fees related to above.

CONDITIONS

1. Subject to all applicable laws and orders, and the Company's rules and regulations on file with the regulatory authority.
2. The rate schedule may be used for special unmetered service such as gas street lights. The total hourly rated consumption of all gas burning appliances included, expressed in Ccf, at the location, shall be multiplied by 731 to determine the average monthly consumption of the service. The result, rounded to the next highest Ccf shall then be billed the rates provided in this rate.

Footnote 1: 2016 IRA - \$4.66

TRANSPORTATION SERVICE RATE

Applicability

Applicable to customers who have elected Transportation Service not otherwise specifically provided for under any other rate schedule.

Service under this rate schedule is available for the transportation of customer-owned natural gas through the Company's distribution system. The customer must arrange with its gas supplier to have the customer's gas delivered to one of the Company's existing delivery receipt points for transportation by the Company to the customer's facilities at the customer's delivery point. The receipt points shall be specified by the Company at its reasonable discretion, taking into consideration available capacity, operational constraints, and integrity of the distribution system.

Availability

Natural gas service under this rate schedule is available to any individually metered, non-residential customer for the transportation of customer owned natural gas through the Company's unincorporated areas of the Gulf Coast Service Area distribution system which includes the environs of Galveston, Bayou Vista, Jamaica Beach, Port Arthur, Port Neches, Groves and Nederland, Texas. Such service shall be provided at any point on the Company's System where adequate capacity and gas supply exists, or where such capacity and gas supply can be provided in accordance with the applicable rules and regulations and at a reasonable cost as determined by the Company in its sole opinion.

Cost of Service Rate

During each monthly billing period, a customer charge per meter per month listed by customer class as follows:

Commercial	\$ 300.00 per month		
plus Interim Rate Adjustments	\$3.57 (Footnote 1)	Total Rate	\$303.57
Industrial	\$ 300.00 per month		
plus Interim Rate Adjustments	\$85.98 (Footnote 2)	Total Rate	\$385.98
Public Authority	\$ 300.00 per month		
plus Interim Rate Adjustments	\$4.66 (Footnote 3)	Total Rate	\$304.66

Plus – All Ccf per monthly billing period listed by customer class as follows:

Commercial	The First 250 Ccf@	\$ 0.22140 per Ccf
	All Over 250 Ccf @	\$ 0.19380 per Ccf
Industrial	The First 250 Ccf@	\$ 0.40060 per Ccf
	All Over 250 Ccf @	\$ 0.37480 per Ccf
Public Authority	The First 250 Ccf@	\$ 0.15672 per Ccf
	All Over 250 Ccf @	\$ 0.13092 per Ccf

Additional Charges:

- 1) A charge will be made each month to recover the cost of taxes paid to the State of Texas pursuant to Texas Utilities Code, Chapter 122 as such may be amended from time to time which are attributable to the transportation service performed hereunder.
- 2) In the event the Company incurs a demand or reservation charge from its gas supplier(s) or transportation providers in the unincorporated areas of the Gulf Coast Service Area, the customer may be charged its proportionate share of the demand or reservation charge based on benefit received by the customer.
- 3) Rate Schedule RCE: Adjustments in accordance with provisions of the Rate Case Expense Surcharge Rider.

Subject To

- 1) Tariff T-TERMS, General Terms and Conditions for Transportation
- 2) Transportation of natural gas hereunder may be interrupted or curtailed at the discretion of the Company in case of shortage or threatened shortage of gas supply from any cause whatsoever, to conserve gas for residential and other higher priority customers served. The curtailment priority of any customer served under this schedule shall be the same as the curtailment priority established for other customers served pursuant to the Company's rate schedule which would otherwise be available to such customer.
- 3) Subject to all applicable laws and orders, and the Company's rules and regulations on file with the regulatory authority.

Footnote 1: 2016 IRA - \$3.57

Footnote 2: 2016 IRA - \$85.98

Footnote 3: 2016 IRA - \$4.66

TEXAS GAS SERVICE COMPANY
GULF COAST TEXAS SERVICE AREA
FOR THE PERIOD BEGINNING JANUARY 1, 2016 AND ENDING DECEMBER 31, 2016
ENVIRONS GRIP FILING

Line No.	Description (a)	12/31/2015 Previous Year (b)	12/31/2016 Current Year (c)	Reference (d)
1	Net Investment	\$ 71,849,784	\$ 75,534,916	(b) IRA-7 line 89 col (h); (c) IRA-8 lines 89 col (h)
2	Increase in Net Investment		\$ 3,685,132	IRA-9 line 90 col (h)
3	Authorized Return on Capital		7.291%	IRA-15 line 6 col (d)
4				
5	Change in Return on Net Investment		\$ 268,695	Line 2 * Line 3
6	Change in Depreciation Expense		\$ 106,219	IRA-9 line 90 col (f)
7	Change in Federal, Revenue and Other Taxes		\$ 147,305	IRA-5 line 13 col (g) plus IRA-6 line 14 (c)
8	Change in Revenue Requirement		\$ 522,219	Sum of Lines 5 - 7
9				
10	Annual Number of Bills		538,739	
11	Increase Per Bill Per Month		See Below	
12	(to be applied to monthly customer charge or initial block rate, check on)			
13	<input checked="" type="checkbox"/> Monthly Customer Charge			
14	<input type="checkbox"/> Initial Block Rate			

Current and Proposed Bill Information - With Gas Cost					
	Current	Proposed	Difference	% Change	
21 Residential					
22 Average Monthly Bill @ 2.9 Mcf*	\$ 37.32	\$ 38.12	\$ 0.80	2.14%	
24 Commercial					
25 Average Monthly Bill @ 26.8 Mcf*	\$ 209.01	\$ 213.03	\$ 4.02	1.92%	
27 Public Authority					
28 Average Monthly Bill @ 45.1 Mcf*	\$ 343.04	\$ 348.28	\$ 5.24	1.53%	
30 Industrial **					
31 N/A Usage **	\$ 110.00	\$ 206.61	\$ 96.61	87.83%	

Current and Proposed Bill Information - Without Gas Cost					
	Current	Proposed	Difference	% Change	
38 Residential					
39 Average Monthly Bill @ 2.9 Mcf*	\$ 26.40	\$27.20	\$ 0.80	3.03%	
41 Commercial					
42 Average Monthly Bill @ 26.2 Mcf*	\$ 111.68	\$115.70	\$ 4.02	3.60%	
44 Public Authority					
45 Average Monthly Bill @ 45.1 Mcf*	\$ 175.49	\$180.73	\$ 5.24	2.99%	
47 Commercial Transportation					
48 Average Monthly Bill @ 732.4 Mcf*	\$ 1,726.29	\$1,730.31	\$ 4.02	0.23%	
50 Industrial Transportation					
51 Average Monthly Bill @ 863.3 Mcf*	\$ 3,451.96	\$3,548.57	\$ 96.61	2.80%	
53 Public Authority Transportation					
54 N/A Usage**	\$ 300.00	\$305.24	\$ 5.24	1.75%	

*Average bill usage per GUD 10488 filing.

*Average bills exclude revenue related taxes. The cost of gas is computed using a 12 month average for CY 2016.

** GC currently has no industrial gas sales customers or public authority transportation customers.

TEXAS GAS SERVICE COMPANY
GULF COAST TEXAS SERVICE AREA
FOR THE PERIOD BEGINNING JANUARY 1, 2016 AND ENDING DECEMBER 31, 2016
ENVIRONS GRIP FILING

Line No.	Description (a)	12/31/2015 Previous Year (b)	12/31/2016 Current Year (c)	Reference (d)
1	Net Investment	\$ 71,849,783	\$ 75,534,916	(b) IRA-7 line 89 col (h), (c) IRA-8 lines 89 col (h)
2	Increase in Net Investment		\$ 3,685,132	IRA-9 line 90 col (h)
3	Authorized Return on Capital		7.291%	IRA-15 line 6 col (d)
4				
5	Change in Return on Net Investment		\$ 268,695	Line 2 * Line 3
6	Change in Depreciation Expense		\$ 106,219	IRA-9 line 90 col (f)
7	Change in Federal, Revenue and Other Taxes		\$ 89,842	IRA-5 line 13 col (g) plus IRA-6 line 14 (c)
8	Change in Revenue Requirement		\$ 464,756	Sum of Lines 5 - 7
9				
10	Annual Number of Bills		538,739	
11	Increase Per Bill Per Month		See Below	
12	(to be applied to monthly customer charge or initial block rate, check on)			
13	<input checked="" type="checkbox"/> Monthly Customer Charge			
14	<input type="checkbox"/> Initial Block Rate			

Current and Proposed Bill Information - With Gas Cost					
	Current	Proposed	Difference	% Change	
21 Residential					
22 Average Monthly Bill @ 2.9 Mcf*	\$ 37.32	\$ 38.03	\$ 0.71	1.90%	
23					
24 Commercial					
25 Average Monthly Bill @ 26.8 Mcf*	\$ 209.01	\$ 212.58	\$ 3.57	1.71%	
26					
27 Public Authority					
28 Average Monthly Bill @ 45.1 Mcf*	\$ 343.04	\$ 347.70	\$ 4.66	1.36%	
29					
30 Industrial **					
31 N/A Usage **	\$ 110.00	\$ 195.98	\$ 85.98	78.16%	

Current and Proposed Bill Information - Without Gas Cost					
	Current	Proposed	Difference	% Change	
38 Residential					
39 Average Monthly Bill @ 2.9 Mcf*	\$ 26.40	\$ 27.11	\$ 0.71	2.69%	
40					
41 Commercial					
42 Average Monthly Bill @ 26.2 Mcf*	\$ 111.68	\$ 115.25	\$ 3.57	3.20%	
43					
44 Public Authority					
45 Average Monthly Bill @ 45.1 Mcf*	\$ 175.49	\$ 180.15	\$ 4.66	2.66%	
46					
47 Commercial Transportation					
48 Average Monthly Bill @ 732.4 Mcf*	\$ 1,726.29	\$ 1,729.86	\$ 3.57	0.21%	
49					
50 Industrial Transportation					
51 Average Monthly Bill @ 863.3 Mcf*	\$ 3,451.96	\$ 3,537.94	\$ 85.98	2.49%	
52					
53 Public Authority Transportation					
54 N/A Usage**	\$ 300.00	\$ 304.66	\$ 4.66	1.55%	

57 *Average bill usage per GUD 10488 filing.

58 *Average bills exclude revenue related taxes. The cost of gas is computed using a 12 month average for CY 2016.

59 ** GC currently has no industrial gas sales customers or public authority transportation customers.