



# RAILROAD COMMISSION OF TEXAS

## HEARINGS DIVISION

**GAS UTILITY DOCKET NO. 10738  
PROPOSAL FOR DECISION**

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**STATEMENT OF INTENT FILED BY T & L GAS CO. TO INCREASE THE RATES IN  
THE ENVIRONS OF THE CITY OF CONROE IN MONTGOMERY COUNTY, TEXAS**

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**Administrative Law Judge: Dana Avant Lewis**

**Technical Examiner: Rose A. Ruiz**

**PARTIES**

**APPLICANT:**       **T & L Gas Co.**  
Karl J. Nalepa  
ReSolved Energy Consulting, LLC  
11044 Research Blvd., Suite A-420  
Austin, Texas 78759

**INTERVENOR:**   **Staff of the Railroad Commission of Texas**  
Natalie Dubiel, Esq., Office of General Counsel  
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**PROCEDURAL HISTORY:**

Statement of Intent Filed:	June 12, 2018
Suspension Order:	August 21, 2018
Unanimous Settlement Agreement Filed:	September 7, 2018
Hearing on Settlement Held:	September 19, 2018
Evidentiary Record Closed:	October 3, 2018
Proposal for Decision Issued:	October 5, 2018
Statutory Deadline:	January 18, 2019

### **SUMMARY STATEMENT OF THE CASE**

On June 12, 2018, T & L Gas Co. ("T&L"), filed with the Railroad Commission a statement of intent to increase gas utility rates for its unincorporated customers in the environs of the City of Conroe in Montgomery County, Texas ("Statement of Intent").

This is T&L's first request for a rate increase since the Commission's Final Order in GUD No. 9703, signed March 29, 2007.

Subsequently, Staff of the Railroad Commission of Texas ("Commission Staff") intervened. After significant discovery and negotiation among the parties, a Unanimous Settlement Agreement ("Settlement") was reached that resolved all issues. In the Settlement, the parties agreed to the following:

- An approximate increase in current annual revenue of \$88,616. This figure is a settled amount and is not tied to any specific expense in the underlying cost of service;
- A total revenue requirement of \$309,563;
- That the settled amount reflects a corporate income tax rate of 21% in recognition of changes to the federal tax code stemming from the Tax Cuts and Jobs Act of 2017 ("Act") and that such amount reflects all impacts associated with calculation of taxes under the Act;
- T&L is compliant with GUD No. 10695, Gas Utilities Accounting Order (Feb. 27, 2018) and Order Nunc Pro Tunc (Mar. 20, 2018);
- T&L's net plant amount of \$180,921 as of December 31, 2017, is prudent and appropriate for recovery in this proceeding;
- It is not necessary to establish Interim Rate Adjustment ("IRA") factors at this time because T&L will not use the IRA mechanism between now and its next rate case;
- T&L shall collect a System Replenishment Fee to fund capital investment as reflected in the System Replenishment Fee tariff;
- Depreciation rates for distribution and general plant;
- Consolidation of the "Commercial" and "Public Schools" classes into the Commercial class; and
- Rate case expense amounts for T&L totaling \$33,000.00 are reasonable.

### **RECOMMENDATION**

After review and consideration of the Statement of Intent, the Settlement documents, and evidentiary record, the Administrative Law Judge and Technical Examiner recommend the Commission approve the terms and rate elements contained in the Settlement and reflected in the Proposed Final Order.

**The deadline for Commission action is January 18, 2019.**

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**ATTACHMENTS:**

- 1) Unanimous Settlement Agreement with attachments**
- 2) Proposed Order (without separate attachments)**

## PROPOSAL FOR DECISION

### I. INTRODUCTION

On June 12, 2018, T & L Gas Co. ("T&L"), filed with the Railroad Commission of Texas ("Commission") a statement of intent to increase gas utility rates for its unincorporated customers in the environs of the City of Conroe in Montgomery County, Texas ("Statement of Intent"). T&L filed its Statement of Intent 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). The Statement of Intent was docketed as GUD No. 10738.

This is T&L's first request for a rate increase since the Commission's Final Order in GUD No. 9703, signed March 29, 2007.

Staff of the Railroad Commission of Texas ("Commission Staff") intervened. After extensive discovery and negotiation among the parties, a Unanimous Settlement Agreement ("Settlement") was reached that resolved all issues.<sup>1</sup> A copy of the Settlement, with exhibits, is attached to this PFD as Attachment 1.<sup>2</sup> In the Settlement, the parties agreed to the following:

- An approximate increase in current annual revenue of \$88,616. This figure is a settled amount and is not tied to any specific expense in the underlying cost of service;
- A total revenue requirement of \$309,563;<sup>3</sup>
- That the settled amount reflects a corporate income tax rate of 21% in recognition of changes to the federal tax code stemming from the Tax Cuts and Jobs Act of 2017 ("Act") and that such amount reflects all impacts associated with calculation of taxes under the Act;
- T&L is compliant with GUD No. 10695, Gas Utilities Accounting Order (Feb. 27, 2018) and Order Nunc Pro Tunc (Mar. 20, 2018);
- T&L's net plant amount of \$180,921 as of December 31, 2017, is prudent and appropriate for recovery in this proceeding;
- It is not necessary to establish Interim Rate Adjustment ("IRA") factors at this time because T&L will not use the IRA mechanism between now and its next rate case;
- T&L shall collect a System Replenishment Fee to fund capital investment as reflected in the System Replenishment Fee tariff;
- Depreciation rates for distribution and general plant;
- Consolidation of the "Commercial" and "Public Schools" classes into the Commercial class; and
- Rate case expense amounts for T&L totaling \$33,000.00 are reasonable.

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<sup>1</sup> T&L Ex. 1, Unanimous Settlement Agreement ("Settlement"), filed on September 7, 2018.

<sup>2</sup> The attached copy of the Settlement excludes voluminous receipts and invoices related to rate case expenses, and it excludes duplicative red-lined versions of the tariffs.

<sup>3</sup> T&L Ex. 3, T & L Gas Company's Cost of Service Errata Filing ("Errata"). The revenue requirement indicated in the Errata is \$278,808; however, the Errata did not revise the proposed rates or revenues. The Errata were made to correct errors or incorporate revisions known at the time of the errata filing but does not reflect the settlement agreement. The Errata filing did not reflect the cost of service of moving the affiliate, Montgomery County Gas Management, gas purchasing activities to T&L Gas.

Per the Settlement, the average residential customer's monthly bill, including surcharges, will increase by \$10.23, which is 20.21% with gas cost, and 31.19% excluding gas cost.<sup>4</sup>

**Table 1**  
**Average Monthly Increase – Including Surcharges**

Customer Class (With Average Monthly Usage)	Current Average Monthly Bill with Gas Cost *	Proposed Average Monthly Bill with Gas Cost **	Proposed Monthly Increase	Percentage Change With Gas Cost	Percentage Change Without Gas Cost
Residential 2.8 Mcf	\$50.61	\$60.84	\$10.23	20.21%	31.19%
Commercial 46.29 Mcf	\$588.70	\$691.26	\$102.56	17.42%	34.92%
Industrial 985.74 Mcf	\$8,222.96	\$9,565.06	\$1,342.10	16.32%	67.22%
<p>* The above <i>current</i> average bills are based on a test year average cost of gas of \$6.35 per Mcf.</p> <p>** The above <i>proposed</i> average bills are based on an average cost of gas of \$4.10 per Mcf, using the test year average cost of gas of \$6.35 per Mcf less the facilities charge of \$2.25 per Mcf.</p>					

T&L has not increased its rates in over 10 years and states that the current rates are based on outdated costs of conducting business; as such, T&L is requesting rates that will reflect current operating costs.<sup>5</sup>

The Commission has original jurisdiction over environs rates, and there were no municipal appeals.

The Administrative Law Judge ("ALJ") and Technical Examiner recommend the Settlement be approved.

## II. PARTIES

The parties in this proceeding are Applicant, T&L, and Commission Staff, as an intervenor.

### ***T&L (Utility)***

T&L is a "gas utility" under GURA Section 101.003 (Definitions)<sup>6</sup> and a provider of natural gas utility service to customers located in the environs of the City of

<sup>4</sup> Assumes an average monthly usage of 2.8 Mcf—the average usage for a residential customer.

<sup>5</sup> T&L Ex. 2, Statement of Intent—Ex. D, Direct testimony of Karl J. Nalepa ("Nalepa Test."), at 3.

<sup>6</sup> 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.").

Conroe, Texas. As of December 31, 2017, T&L distributes natural gas to 233 residential customers, 20 commercial customers and 2 industrial customers.

### **Commission Staff (*Intervenor*)**

On June 13, 2018, Commission Staff moved to intervene in this docket “to assert its interest in assuring that the rules and regulations of the Railroad Commission of Texas, together with the appropriate statutes, have been followed.”

### **III. PROCEDURAL BACKGROUND**

On June 12, 2018, T&L filed with the Commission its Statement of Intent.<sup>7</sup> Subsequently, Commission Staff timely intervened on June 13, 2018. On June 18, 2018, T&L voluntarily extended the effective date of the rates to August 21, 2018, to allow rates to be suspended at the August 21, 2018 Commission Conference. On August 21, 2018, the Commission suspended the effective date of T&L’s proposed rate change for a period of 150 days pursuant to GURA Section 104.107 (Rate Suspension; Deadline).<sup>8</sup>

On August 7, 2018, T&L provided public notice of its intent to increase rates to each affected T&L customer by direct mail.<sup>9</sup> The public notice stated that T&L requested an increase in annual revenues by \$88,616.<sup>10</sup> On July 30, 2018, T&L filed certain errata to its original Statement of Intent.<sup>11</sup>

On August 23, 2018, the parties requested an abatement of the procedural schedule because a tentative settlement had been reached. The Settlement was filed on September 7, 2018.<sup>12</sup>

On September 7, 2018, the Notice of Hearing was issued, setting the hearing on the merits to commence on September 19, 2018.<sup>13</sup> On September 7, 2018, the Notice of Hearing was provided to the governing body of Montgomery County in accordance with GURA Section 104.105 (Determination of Propriety of Rate Change; Hearing).<sup>14</sup> On September 14, 2018, the Commission published the Notice of Hearing in *Gas Utilities Information Bulletin No. 1091*.<sup>15</sup>

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<sup>7</sup> T&L Ex. 2 (Statement of Intent).

<sup>8</sup> 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.”).

<sup>9</sup> T&L Ex. 4 (Affidavit of Public Notice); see also Tex. Util. Code § 104.103(b) (permitting gas utilities to provide notice of proposed rate increases to customers by direct mail).

<sup>10</sup> *Id.* (“If approved, the proposed rates will increase the Company’s annual revenues by \$88,616 or 25.33%.”).

<sup>11</sup> T&L Ex. 3 (Errata Filing).

<sup>12</sup> Letter to the Administrative Law Judge from Karl J. Nalepa, representative for T&L, dated September 7, 2018, (attaching Settlement).

<sup>13</sup> See Examiner Letter No. 10 (Notice of Hearing), issued September 7, 2018, (attaching the Notice of Hearing).

<sup>14</sup> See letter from ALJ to the Montgomery County judge (attaching the Notice of Hearing); see also Tex. Util. Code § 104.105(c) (“The regulatory authority shall give reasonable notice of the hearing, including notice to the governing body of each affected municipality and county.”).

<sup>15</sup> See *Gas Utilities Information Bulletin No. 1091*, published by the Railroad Commission of Texas Oversight and Safety Division on September 14, 2018 (“Bulletin”), pp. 3-5.

A hearing to review the Settlement was held on September 19, 2018, (the "Hearing"). T&L's evidentiary exhibits were entered in the record as listed below.

**Table 2**  
**Settlement Hearing Exhibit List**

Exhibit Number	Description
T&L No. 1	Unanimous Settlement Agreement
T&L No. 2	The Statement of Intent Filed By T&L Gas Co. to Change Rates in the Environs of the City of Conroe in Montgomery County, Texas, filed on June 12, 2018, inclusive of all attachments, direct testimony and exhibits
T&L No. 3	T & L Gas' Cost of Service Model Errata Filing
T&L No. 4	The Affidavit of Steve Belovsky, attesting to provision of notice to all customers of T&L, filed on August 15, 2018
T&L No. 5	The Affidavit of Steve Belovsky, attesting to Affiliate expenses, filed on September 24, 2018

The evidentiary record closed on October 3, 2018.<sup>16</sup>

#### **IV. JURISDICTION, BURDEN OF PROOF, AND NOTICE**

##### ***Jurisdiction***

The Commission has jurisdiction over T&L, which is a gas utility as defined in GURA Section 101.003(7). Pursuant to GURA Section 102.001(a), the Commission has exclusive original jurisdiction to set the rates T&L requests for its customers located within the environs of Conroe, Texas, in Montgomery County.

The Commission has jurisdiction over all matters at issue in this proceeding pursuant to GURA Chapters 102 (Jurisdiction and Powers of Railroad Commission and Other Regulatory Authorities), 103 (Jurisdiction and Powers of Municipality), and 104 (Rates and Services). The statutes and rules involved in this proceeding include, but are not limited to, those contained in GURA Chapters 102, 103, and 104, and Title 16 (Economic Regulation), Part 1 (Railroad Commission of Texas), Chapters 1 (Practice and Procedure) and 7 (Gas Services Division) of the Texas Administrative Code.

##### ***Burden of Proof***

As the party proposing gas utility rate changes, T&L has the burden of proving that the rate changes are just and reasonable.<sup>17</sup>

<sup>16</sup> See Examiner Letter No. 11 (Close of Evidentiary Record), issued October 3, 2018.

<sup>17</sup> Tex. Util. Code § 104.008 (Burden of Proof) ("In a proceeding involving a proposed rate change, the gas utility has the burden of proving that the rate change is just and reasonable, if the utility proposes the change.")

### **Notice**

On August 7, 2018, T&L provided notice of its intent to increase rates to each affected T&L customer by direct mail—in accordance with GURA Section 104.103 (Notice of Intent to Increase Rates).<sup>18</sup>

On September 7, 2018, 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), Title 16 (Economic Regulation) of the Texas Administrative Code, and other applicable authority. On September 14, 2018, the Commission published the Notice of Hearing in *Gas Utilities Information Bulletin No. 1091*, in compliance with Commission Rule § 7.235 (Publication and Service of Notice).<sup>19</sup> Pursuant to GURA Section 104.105 (Determination of Propriety of Rate Change; Hearing), the ALJ provided a copy of the Notice of Hearing to the governing body of each affected county.<sup>20</sup>

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

### **V. BOOKS AND RECORDS**

T&L affirmed that it 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 for all operating and reporting purposes.”<sup>21</sup> Mr. Karl Nalepa, on behalf of T&L, testified in his written direct testimony that T&L’s rate schedules are true and correct to the best of his belief.<sup>22</sup> Rate Schedule D reflects T&L’s plant and expense account indicated by FERC account.<sup>23</sup>

Considering the agreements reached by the parties and the evidence, the ALJ and Technical Examiner find that T&L has established that it complied with Commission rules. Accordingly, T&L is entitled to the presumption set forth in Commission Rule § 7.503 (Evidentiary Treatment of Uncontroverted Books and Records of Gas Utilities) that the unchallenged amounts shown in its books and records are presumed to have been reasonably and necessarily incurred.<sup>24</sup>

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<sup>18</sup> T&L Ex. 4 (Affidavit); see also Tex. Util. Code § 104.103(b) (permitting gas utilities to provide notice of proposed rate increases to customers by direct mail).

<sup>19</sup> See Bulletin 1091, pp. 3-5 (containing the GUD No. 10738 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.”).

<sup>20</sup> 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.”).

<sup>21</sup> *Id.*; see 16 Tex. Admin. Code § 7.310(a) (System of Accounts).

<sup>22</sup> T&L Ex. 2, Nalepa Test., at 7.

<sup>23</sup> T&L Ex. 2, Nalepa Test., Ex. E, Schedule D.

<sup>24</sup> See 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, and such amounts shall be presumed to have been reasonably and necessarily incurred; provided,

## VI. T&L'S ORIGINAL REQUEST

Prior to settling, T&L's requested relief included the following:

- Revenue requirement of \$309,563;<sup>25</sup>
- An increase of an additional \$88,616 in annual revenues;
- Increased miscellaneous service charges of approximately \$936 annually; and
- Recovery of reasonable rate case expenses.

**Table 3**  
**Current to Proposed/Settlement Rates**

Customer Class	Number of Customers	Current Rates		Proposed Rates	
		Customer	Commodity per Mcf	Customer	Commodity Per Mcf
Residential	233	\$16.00	\$6.00	<b>\$19.00</b>	<b>\$8.25</b>
Commercial	20	\$16.00	\$6.00	<b>\$20.00</b>	<b>\$8.25</b>
Industrial	2	\$25.00	\$2.00	<b>\$35.00</b>	<b>\$3.50</b>

## VII. TERMS OF THE SETTLEMENT

The Settlement resolves all issues in GUD No. 10738. The parties—T&L and Commission Staff—represent diverse interests and have engaged in significant discovery regarding the disputable issues. All parties agreed 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 affected by this docket.<sup>26</sup>

The ALJ and Technical Examiner have reviewed the Settlement and find that its terms and rate elements are just, reasonable, in the public interest, and consistent with the requirements of the Texas Utilities Code and applicable Commission rules. Accordingly, the ALJ and Technical Examiner recommend that the Settlement be approved.

### A. Revenue Requirement

Under the Settlement, for the test-year ended December 31, 2017, T&L will receive a \$309,563 revenue requirement, which is an increase of \$88,616 for its unincorporated areas outside of Conroe, Texas. All parties agreed to the rates, terms, and conditions reflected in the tariffs attached as Exhibit A to the Settlement.<sup>27</sup> The

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however, that if any evidence is introduced that an investment or expense item has been unreasonably incurred, then the presumption as to that specific investment or expense item shall no longer exist and the gas utility shall have the burden of introducing probative evidence that the challenged item has been reasonably and necessarily incurred.”).

<sup>25</sup> T&L Ex. 2, Nalepa Test., at 3 (\$297,788 base revenue and \$11,775 Misc. Svc. Fees) and T&L Ex. 1, Ex. B (Proof of Revenues).

<sup>26</sup> T&L Ex. 1, ¶¶ 1-2.

<sup>27</sup> *Id.*, ¶ 1.

\$88,616 revenue increase is not tied to any specific expense in the underlying cost of service.<sup>28</sup> The \$88,616 revenue increase reflects a reduction of the corporate income tax rate from 35 percent to 21 percent to recognize changes to the federal tax code due to the Tax Cuts and Jobs Act of 2017.<sup>29</sup>

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.”<sup>30</sup>

The parties agreed that the rates, terms and conditions reflected in the Settlement comply with the rate-setting requirements of GURA Chapter 104 (Rates and Services).<sup>31</sup> The Settlement provides for a revenue requirement of \$309,563, which includes base rates designed to recover annual rate revenues of \$297,788 from all customers.<sup>32</sup> The balance of \$11,775 will be recovered through miscellaneous service fees, which is an increase of \$936 annually.<sup>33</sup>

Considering the evidence, the ALJ and Technical Examiner find the overall revenues for T&L in the Settlement to be just and reasonable and consistent with GURA Chapter 104 (Rates and Services).

## B. Rates

The parties agreed to the below monthly customer and volumetric charges.<sup>34</sup> The revenue requirement is recovered from proposed rates as set out in the Settlement. Residential customers will pay \$3.00 more for the monthly customer charge and \$2.25 more per Mcf for the volumetric charge. Also, the volumetric charge will be increased by a surcharge of up to \$2.00 per Mcf for the System Replenishment Fee. The System Replenishment Fee is discussed in detail in Section G below.

**Table 4**  
**Current to Settlement Residential Rates – Base Rates**

Customer Class	Current Rates		Settlement Rates	
	Customer	Commodity Per Mcf	Customer	Commodity Per Mcf
Residential	\$16.00	\$6.00	<b>\$19.00</b>	<b>\$8.25</b>
Commercial	\$16.00	\$6.00	<b>\$20.00</b>	<b>\$8.25</b>
Industrial	\$25.00	\$2.00	<b>\$35.00</b>	<b>\$3.50</b>

The Settlement Proof of Revenue shows base rates designed to recover \$297,788 from its customers, which is an increase of \$87,681 or 41.73 percent more

<sup>28</sup> *Id.*

<sup>29</sup> *Id.*, ¶ 10.

<sup>30</sup> Tex. Util. Code § 104.051 (Establishing Overall Revenues).

<sup>31</sup> T&L Ex. 1, ¶ 1.

<sup>32</sup> T&L Ex. 1, Exhibit B

<sup>33</sup> T&L Ex. 2, Nalepa Test., at 3.

<sup>34</sup> T&L Ex. 1, ¶ 2.

than the adjusted test year revenue of \$210,107.<sup>35</sup> T&L's miscellaneous service fees are designed to recover an additional \$936 annually based on 2017 actual occurrences during normal business hours and normal construction conditions.<sup>36</sup>

The table below compares the adjusted test year revenue to the proposed revenue in the Settlement.<sup>37</sup>

**Table 5**  
**Annual Base Rate Revenue Allocation**

Customer Class	Current	Settled	Difference	Percentage Increase
Residential	\$ 91,691	\$117,687	\$25,996	28.4%
Commercial	\$ 70,501	\$96,459	\$25,958	36.8%
Industrial	\$ 47,916	\$83,642	\$35,726	74.6%
<b>Total</b>	<b>\$ 210,108</b>	<b>\$297,788</b>	<b>\$87,680</b>	<b>41.7%</b>

**Table 6**  
**Miscellaneous Service Fees**

Type of Charge	Current Rate	Proposed Rate	Rate Increase	2017 Occurrences	Annual Fee Increase
Institution of New Service	\$0.00	\$25.00	\$25.00	21	\$525.00
Collection Call	\$0.00	\$15.00	\$15.00	10	\$150.00
Collection/Trip Charge, per trip	\$20.00	\$25.00	\$5.00	9	\$45.00
Disconnect Fee	\$0.00	\$25.00	\$25.00	3	\$75.00
Reconnect Fee	\$35.00	\$45.00	\$10.00	3	\$30.00
Returned Check	\$20.00	\$25.00	\$5.00	2	\$10.00
Payment Convenience Fee	\$0.00	\$3.00	\$3.00	17	\$51.00
Tap Fee	\$200.00	\$250.00	\$50.00	1	\$50.00
Emergency Call	\$75.00	\$125.00	\$50.00	0	\$0.00
Facility Damage Service Call	\$47.00	\$65.00	\$18.00	1	\$18.00
Meter Test	\$15.00	\$75.00	\$60.00	0	\$0.00
Leak Test	\$47.00	\$65.00	\$18.00	0	\$0.00
Excess Flow Valve	\$75.00	\$175.00	\$100.00	1	\$100.00
<b>TOTAL ANNUAL INCREASE</b>					<b>\$936.00</b>

T&L will allocate the base rate revenue requirement to its three customer classes—Residential, Commercial, and Industrial. The cost of service study indicates that the Residential and Industrial classes require a rate increase while the

<sup>35</sup> T&L Ex. 2, Schedule A, In. 44 and T&L Ex. 1, Exhibit B.

<sup>36</sup> T&L Ex. 2, Adjustment F.

<sup>37</sup> T&L Ex. 2, Schedule A, In. 44 and T&L Ex. 1, Exhibit B.

Commercial class requires a decrease. However, T&L requests that rate stability be considered and that a relatively balanced rate increase be applied.<sup>38</sup>

The average residential customer will realize a base rate increase of \$9.30, which is 18.38 percent including gas costs and 28.35 percent excluding gas costs.

**Table 7**  
**Average Bill Impact – Base Rates**  
(Based on an average cost of gas of \$6.35/Mcf)

Customer Class (With Average Monthly Usage)	Current Average Monthly Bill with Gas Cost	Proposed Average Monthly Bill with Gas Cost	Proposed Monthly Increase	Percentage Change With Gas Cost	Percentage Change Without Gas Cost
Residential 2.8 Mcf	\$50.61	\$59.91	\$9.30	18.38%	28.35%
Commercial 46.29 Mcf	\$588.70	\$696.85	\$108.15	18.37%	36.82%
Industrial 985.74 Mcf	\$8,222.96	\$9,711.57	\$1,488.61	18.10%	74.56%

In addition to base rates, the parties also agreed to a rate case surcharge to be recovered through a combination of \$1.35 per bill and also \$0.10 per Mcf for an approximate 48-month period.<sup>39</sup> The parties also agreed to a System Replenishment Fee of \$2.00 per Mcf. Rate case expenses and System Replenishment Fee are discussed in detail later in the PFD. The impact of the surcharges on the average bill is illustrated in Table 8 below.

**Table 8**  
**Average Bill Impact – Including Surcharges**

Customer Class (With Average Monthly Usage)	Current Average Monthly Bill with Gas Cost *	Proposed Average Monthly Bill with Gas Cost **	Proposed Monthly Increase	Percentage Change With Gas Cost	Percentage Change Without Gas Cost
Residential 2.8 Mcf	\$50.61	\$60.84	\$10.23	20.21%	31.19%
Commercial 46.29 Mcf	\$588.70	\$691.26	\$102.56	17.42%	34.92%
Industrial 985.74 Mcf	\$8,222.96	\$9,565.06	\$1,342.10	16.32%	67.22%
* The above <i>current</i> average bills are based on a test year average cost of gas of \$6.35 per Mcf.					
** The above <i>proposed</i> average bills are based on an average cost of gas of \$4.10 per Mcf, using the test year average cost of gas of \$6.35 per Mcf less the facilities charge of \$2.25 per Mcf.					

<sup>38</sup> T&L Ex. 2, Nalepa Test., at 17.

<sup>39</sup> T&L Ex. 1, ¶¶ 13-15, and Exhibit A (Rate Case Expenses).

Considering the evidence, the ALJ and Technical Examiner find that the Settlement rates comply with GURA Section 104.003 (Just and Reasonable Rates). The rates are not unreasonably preferential, prejudicial, or discriminatory, but rather are sufficient, equitable, and consistent in application to each class of customer. The ALJ and Technical Examiner also find that the Settlement rates are just and reasonable and comply with GURA Section 104.004 (Unreasonable Preference or Prejudice Prohibited) because the rates do not establish or maintain an unreasonable difference concerning rates of services between localities or between classes of service. Finally, the Settlement rates comply with GURA Section 104.006 (Rates for Area not in Municipality).

### **C. Net Plant**

The parties agreed that T&L's net plant amount of \$180,921 as of December 31, 2017, is prudent and appropriate for recovery in this proceeding.

Additionally, T&L and Commission Staff agreed to the following:

- a. T&L shall retain invoices for capital investment items, including items purchased using credit cards;
- b. T&L shall maintain a list of capital investment either by individual invoice or by project. The list shall not include multiple invoices grouped together as one line item or investment; and
- c. T&L shall separate transactions for business and non-business purposes and shall retain documentation for all business-related purchases.

Consistent with the Settlement, the ALJ and Technical Examiner find T&L's net plant amount of \$180,921, and the terms of the Settlement relating to net plant, to be reasonable and prudent, used and useful, and just and reasonable.

### **D. Federal Tax Impact**

T&L and Commission Staff agreed that the settled amount included in Paragraph 1 of the Settlement Agreement reflects a corporate income tax rate of 21% to recognize changes to the federal tax code due to the Tax Cuts and Jobs Act of 2017 ("Act") and that such amount reflects all impacts associated with calculation of taxes under the Act. The parties further agreed that T&L is compliant with GUD No. 10695, Gas Utilities Accounting Order (Feb. 27, 2018) and Order Nunc Pro Tunc (Mar. 20, 2018).<sup>40</sup>

### **E. Rate of Return**

T&L does not issue publicly traded stock. Therefore, T&L has imputed a return on equity based on a proxy group of utilities derived from a recent proceeding before the Railroad Commission. Furthermore, T&L does not have any long-term debt. The

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<sup>40</sup> T&L Ex. 1, ¶ 10.

interest rate on long-term debt was estimated based on current interest rates for long-term loans in T&L's service area.<sup>41</sup>

The parties agreed that a hypothetical rate of return as shown in Table 9 below is reasonable.

**Table 9  
Rate of Return**

	<b>Capital Structure</b>	<b>Debt/Equity Cost</b>	<b>Weighted Cost of Capital</b>	<b>Pre-Tax Return</b>
Long-Term Debt	50.00%	<b>7.49%</b>	3.745%	3.745%
Common Equity	50.00%	<b>10.50%</b>	5.250%	6.646%
Rate of Return	100.00%		<b>8.995%</b>	<b>10.391%</b>

### F. Depreciation Rates

The parties agreed to the depreciation rates reflected in Exhibit C of the Settlement.<sup>42</sup>

Considering the evidence, the ALJ and Technical Examiner find the depreciation rates reflected in the Settlement are proper and adequate, just and reasonable, supported by the evidence, and are consistent with the requirements in GURA Section 104.054 (Depreciation, Amortization, and Depletion). Accordingly, the ALJ and Technical Examiner recommend their approval.

### G. Tariffs

The parties agreed to the rates, terms and conditions reflected in the tariffs attached to the Settlement as Exhibit A.<sup>43</sup> The Settlement tariffs replace and supersede those tariffs currently in effect within the unincorporated areas served by T&L. These tariffs are premised on an increase of \$88,616 in current annual revenues as illustrated in the proof of revenues attached as part of Exhibit B to the Settlement. The parties agreed that the rates, terms and conditions reflected in the tariffs comply with the rate-setting requirements of GURA Chapter 104 (Rates and Services).<sup>44</sup> The Settlement Tariffs are listed below.

- Residential Service Rate
- Commercial Service Rate
- Industrial Service Rate
- Gas Cost Adjustment
- Revenue Related Tax Adjustment
- Rate Case Expense
- Other Surcharges
- Miscellaneous Service Charges
- System Replenishment Fee

<sup>41</sup> T&L Ex. 2, Nalepa, Direct p. 9.

<sup>42</sup> T&L Ex. 1 ¶ 6, and at Exhibit C.

<sup>43</sup> T&L Ex. 1 ¶ 1.

<sup>44</sup> *Id.*

Tariffs – Compliance

T&L and Commission Staff further agreed to the following:<sup>45</sup>

- a. That within thirty (30) days of a Final Order being signed in this docket, and in accordance with 16 Tex. Admin. Code § 7.315, T&L shall electronically file its rate schedules in proper form that accurately reflect rates approved by the Commission in its Final Order in this docket. The tariffs shall incorporate rates, rate design, and service charges consistent with the Final Order signed in this docket.
- b. That any incremental change in rates approved by a Final Order in this docket and implemented by T&L shall be subject to refund unless and until T&L's tariffs are electronically filed and accepted by Gas Services in accordance with 16 Tex. Admin. Code § 7.315.

The ALJ and Technical Examiner find the Settlement's tariffs to be just and reasonable and recommend their approval.

**H. System Replenishment Fee**

The parties agreed that Interim Rate Adjustment ("IRA") factors are not necessary to establish at this time because T&L will not utilize the IRA mechanism between now and its next rate case.<sup>46</sup>

The prior final order, GUD No. 9703, approved a System Replenishment Fee not to exceed \$0.50 per Mcf, that provided capital to replace its infrastructure because T&L did not have the collateral to attract investors or borrow money to replace its system. Furthermore, T&L did not have sufficient numbers of customers or the necessary cash flow to self-fund an infrastructure replacement program. The \$0.50 per Mcf fee was collected by a surcharge on the customer's bill.

T&L was required to provide a detailed reporting and accounting of all monies expended on infrastructure replacement on an annual basis. It was required that the report be filed annually with the Director of the Gas Services Division within 45 days after the end of each calendar year. The monies collected attributable to the System Replenishment Fee were only to be used for infrastructure replacement and were not to be used for employee salaries, general and administrative expenses or for normal operation and maintenance.

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<sup>45</sup> T&L Ex. 1, ¶ 18.

<sup>46</sup> T&L Ex. 1, ¶ 9.

System Replenishment Fee Per Settlement

In the current docket, the parties agreed for T&L to collect a System Replenishment Fee of \$2.00 per Mcf to fund capital investment as reflected in the System Replenishment Fee tariff in Exhibit A to the Settlement.

Per the Settlement, T&L is required to file an annual System Replenishment Fee Compliance Filing within forty-five (45) days of each calendar year end for the next five (5) years, or as long as the System Replenishment Fee is in effect. The System Replenishment Fee Compliance Filing will include the items listed in the System Replenishment Fee tariff in Exhibit A to the Settlement Agreement.<sup>47</sup>

Additionally, the parties agreed that T&L will use the FERC USOA for accounting of the funds collected and expended through the System Replenishment Fee. T&L will include in plant the in-service capital additions funded through the System Replenishment Fee in the appropriate FERC USOA Gas Plant account, along with a corresponding credit for Contribution in Aid of Construction ("CIAC") equal to the cost of each project as directed in FERC USOA Gas Plant Instruction 2d.<sup>48</sup>

### **I. Services Provided by Affiliates**

The Commission is required to make specific findings related to affiliate transactions before rates may be adopted.<sup>49</sup> Those findings include: (1) a specific finding of the reasonableness and necessity of each item or class of items allowed; and (2) a finding that the price to the gas utility is not higher than the prices charged by the supplying affiliate to its other affiliates or division or to a non-affiliated person for the same item or class of items.<sup>50</sup>

Here, T&L requests recovery of test year, calendar year 2017, affiliate expenses of \$85,694.<sup>51</sup>

T&L's natural gas is supplied by Montgomery County Gas Management, LLC ("MCGM"). MCGM is an affiliate of T&L because it is owned by a family member of the owner of T&L, and T&L has an indirect ownership interest in MCGM. Also, T&L provides billing services on behalf of MCGM. T&L's office manager provides these services and her time is allocated to MCGM based on the number of bills handled. The owner of T&L provides a limited amount of help to MCGM on nights and weekends, when needed. None of his time has been allocated to MCGM, since regular business hours are devoted solely to the operations of T&L.<sup>52</sup>

For purposes of compromise and settlement, the parties agreed that T&L has met the affiliate standard with respect to all affiliate charges, and the affiliate expenses included in the settlement amount in Paragraph 1 of the Settlement are consistent with the provisions in Texas Utilities Code § 104.055. Acceptance of the

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<sup>47</sup> T&L Ex. 1, ¶ 4.

<sup>48</sup> T&L Ex. 1, ¶¶ 5-6.

<sup>49</sup> See Tex. Util. Code § 104.055 (Net Income; Allowable Expenses).

<sup>50</sup> *Id.* § 104.055(b).

<sup>51</sup> T&L Ex. 5, Affidavit of Steve Belovsky.

<sup>52</sup> T&L Ex. 2, Nalepa Test., at 19.

treatment of affiliate expenses is the product of compromise and settlement and is not of precedential value in any other proceeding. The parties further agreed that:<sup>53</sup>

- a. T&L shall no longer purchase gas from its affiliate Montgomery County Gas Management, LLC, effective as of the first day of the month following the date the Final Order is issued in this docket;
- b. T&L shall purchase gas from unaffiliated suppliers and shall pass this cost through to the consumer without any markup, effective as of the first day of the month following the date the Final Order is issued in this docket;
- c. T&L shall provide to Commission Staff within forty-five (45) days following the date of the Final Order in this docket a Reconciliation Compliance Filing that includes a reconciliation of the funds collected through the Montgomery County Gas Management, LLC facilities charge of \$2.25 per Mcf and any capital projects completed using the funds shall be transferred to the books of T&L and any funds balance shall be transferred to T&L as a credit to the System Replenishment Fee fund; and
- d. T&L shall not use Rocking T Construction or any other affiliate of T&L for any project in the future unless T&L secures formal bids and/or quotes from non-affiliated companies in addition to Rocking T Construction or any other affiliate of T&L. T&L shall maintain records of project bids and/or quotes.

Considering the evidence and Settlement, the ALJ and Technical Examiner find that these terms are just and reasonable, and that the Settlement's reduced affiliate expense amounts are recoverable under GURA Section 104.055 (Net Income; Allowable Expenses). These expenses are reasonable and necessary costs of providing gas utility service, and the prices charged to T&L are no higher than the prices charged by the supplying affiliate to other affiliates or divisions of T&L, or to a non-affiliated person for the same item or class of items.

## J. Rate Case Expenses

T&L requests reimbursement and recovery of reasonable rate case expenses totaling \$33,000.<sup>54</sup> This includes a reduction of T&L's actual and estimated rate case expenses by approximately \$5,647.86, per the Settlement.<sup>55</sup> In any gas utility rate proceeding, the utility and municipalities participating in the proceeding, if any, may be reimbursed their reasonable rate case expenses.<sup>56</sup> Any gas utility or municipality claiming reimbursement for its rate case expenses shall have the burden to prove

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<sup>53</sup> T&L Ex. 1, ¶ 11.

<sup>54</sup> T&L Ex. 1, ¶¶ 13-18, and Exhibit A (RCE).

<sup>55</sup> T&L Ex. 1, ¶ 13-14.

<sup>56</sup> 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).

the reasonableness of such rate case expenses by a preponderance of the evidence.<sup>57</sup> 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.<sup>58</sup>

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 that may be granted.<sup>59</sup>

T&L filed affidavits and supporting evidence for reimbursement of rate case expenses.<sup>60</sup> The parties' agreed amounts and agreed allocation are treated separately below.

The parties agreed that equal recovery of rate case expenses arising from this proceeding from all customers within all unincorporated areas served by T&L is appropriate and reasonable and that good cause exists to support equal recovery of rate case expenses from all customers within all unincorporated areas served by T&L.

The intent of 16 Tex. Admin. Code § 7.5530(e) is to allocate rate case expenses to the participating parties according to which party caused the expenses to be incurred; therefore, it is reasonable to seek recovery of rate case expenses from all customers who benefit from the Settlement in this case, which includes all customers within all unincorporated areas served by T&L. Recovery of these expenses is also necessary in the interest of justice.

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<sup>57</sup> 16 Tex. Admin. Code § 7.5530(a) (Allowable Rate Case Expenses).

<sup>58</sup> *Id.*

<sup>59</sup> *Id.*

<sup>60</sup> T&L Ex. 1, Ex. D (Affidavit from Karl J. Nalepa, and supporting invoices and receipts).

## 1. Amounts

T&L represents that its reasonable rate case expenses incurred through August 31, 2018, and estimated rate case expenses incurred through completion of this case, are as follows:<sup>61</sup>

**Table 10**  
**Rate Case Expenses**

Actual Regulatory Expenses	Actual Litigation Expenses	Expenses Estimated to Completion	Total Expenses to Completion	Total Recoverable Expenses
\$19,020.36	\$17,627.50	\$2,000.00	\$38,647.86	\$33,000.00

T&L 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.

Consultant hourly rates ranged from \$175 to \$260.

The ALJ and Technical Examiner reviewed the testimony and documentation supporting the rate case expense amounts shown above. Considering the above factors, the ALJ and Technical Examiner find that the above rate case expense amounts for T&L are reasonable and that T&L proved the reasonableness of their rate case expenses by a preponderance of the evidence.

Accordingly, the ALJ and Technical Examiner recommend these amounts be approved.

## 2. Allocation and Surcharge

The parties agreed that the amounts represented above are reasonable and recoverable pursuant to Tex. Util. Code § 103.022. The parties agreed that rate case expenses shall be recovered through a combination of a volumetric fee of \$0.10 per Mcf and a per bill surcharge of \$1.35 per bill, and that the recovery period for the applicable surcharges to recover rate case expenses shall be approximately forty-eight (48) months or until the full \$33,000.00 in rate case expenses are recovered.<sup>62</sup>

Consistent with the Settlement, the Administrative Law Judge and Technical Examiner find that good cause exists to recover the litigation and estimated expenses of T&L totaling \$33,000.00 from unincorporated environs customers served by T&L in Montgomery County, Texas. Furthermore, all customers benefit from T&L's participation in the Settlement.

<sup>61</sup> T&L Ex. 1, ¶ 14.

<sup>62</sup> T&L Ex. 1, ¶ 15, Exhibit A (RCE).

### 3. Compliance

Under the Settlement, the parties agreed to the below compliance terms.<sup>63</sup>

T&L shall file annually a Rate Case Expense Compliance Filing with the Railroad Commission of Texas, Oversight and Safety Division, referencing GUD No. 10738. The compliance filing shall include the amount of rate case expenses recovered by month and the outstanding balance by month as set out in the Rate Schedule entitled "Rate Case Expenses." T&L and Commission Staff agreed to the following terms:

- T&L shall submit invoices to Commission Staff reflecting actual rate case expenses with sufficient detail so that Commission Staff can accurately audit such invoices for the purposes of reconciling actual rate case expenses to estimated rate case expenses. In no case shall the total recoverable expenses exceed the actual expenses up to a total of \$33,000.00.
- T&L shall file an annual Rate Case Expense Compliance Filing 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 within ninety (90) days after each calendar year end.
- T&L shall file an annual Rate Case Expense Compliance Filing with Commission Staff detailing recovery of rate case expenses within ninety (90) days after each calendar year end until the calendar year end in which the rate case expenses are fully recovered.

The ALJ and Technical Examiner find these terms to be just and reasonable and recommend their approval.

### 4. Rate Case Expenses Conclusion

Considering the Settlement and evidentiary record, the ALJ and Technical Examiner find that the terms in the Settlement relating to the amounts, reimbursement, allocation, and recovery of rate case expenses are just and reasonable and consistent with Commission Rule § 7.5530 (Allowable Rate Case Expenses) and GURA Section 104.055 (Net Income; Allowable Expenses). Accordingly, the ALJ and Technical Examiner recommend that the Commission approve these terms in the Settlement Agreement.

## VIII. 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.

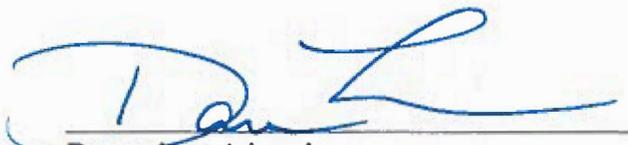
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<sup>63</sup> T&L Ex. 1, ¶ 14.

**IX. CONCLUSION**

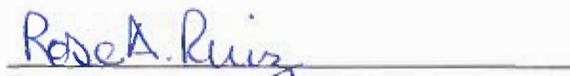
After review and consideration of the SOI, the Settlement documents, and evidentiary record, the ALJ and Technical Examiner find that T&L's request for a rate change pursuant to the Settlement is warranted; and the recommendations contained herein are just and reasonable, supported by the weight of reliable and probative evidence, consistent with the public interest, and proper under applicable Texas law. Accordingly, the ALJ and Technical Examiner respectfully recommend the Commission approve the terms and rate elements contained in the Settlement and reflected in the Final Order.

**SIGNED October 5, 2018.**



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Dana Avant Lewis  
Administrative Law Judge



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Rose Ruiz  
Technical Examiner

**GUD No. 10738**

**Proposal for Decision**

**ATTACHMENT 1**

**Settlement Agreement**

**(excluding voluminous receipts and invoices related to rate case expenses, and red-lined versions of the tariffs)**

**GAS UTILITIES DOCKET NO. 10738**

<b>STATEMENT OF INTENT FILED BY</b>	§	
<b>T&amp;L GAS CO. TO CHANGE RATES IN</b>	§	<b>BEFORE THE</b>
<b>THE ENVIRONS OF THE CITY OF</b>	§	<b>RAILROAD COMMISSION</b>
<b>CONROE IN MONTGOMERY COUNTY,</b>	§	<b>OF TEXAS</b>
<b>TEXAS</b>	§	

**UNANIMOUS SETTLEMENT AGREEMENT**

This Unanimous Settlement Agreement is entered into by and between T&L Gas Co. (“T&L” or “Company”) and the Staff of the Railroad Commission of Texas (“Commission Staff”), (collectively, the “Parties” or “Signatories”).

WHEREAS, on June 12, 2018, T&L filed a Statement of Intent to Increase Rates (“Statement of Intent”) within the unincorporated areas of the City of Conroe in Montgomery County, Texas; and

WHEREAS, the Commission docketed the rate request as Gas Utilities Docket (“GUD”) No. 10738; and

WHEREAS, Commission Staff sought intervention and was granted party status in GUD No. 10738 on June 13, 2018; and

WHEREAS, T&L filed direct testimony and a cost of service model in support of the requested rate increase; and

WHEREAS, T&L’s last rate change was approved by the Commission in GUD No. 9703, effective March 29, 2007; and

WHEREAS, T&L provided public notice by direct mail on August 7, 2018, to all affected customers; and

WHEREAS, direct testimony of Commission Staff was due on August 28, 2018, but Commission Staff did not file direct testimony in reliance on this Unanimous Settlement Agreement; and

WHEREAS, the Parties to this proceeding have engaged in significant discovery regarding the issues in dispute; and

WHEREAS, the Signatories agree that resolution of this docket by unanimous settlement agreement will significantly reduce the amount of reimbursable rate case expenses associated with this docket; and

WHEREAS, the Signatories represent diverse interests and the Unanimous Settlement Agreement resolves the issues in GUD No. 10738 in a manner that the Signatories agree is consistent with the public interest.

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 Commission the following Settlement Terms as a means of concluding the above-referenced docket filed by T&L without the need for prolonged litigation:

Settlement Terms

1. As a product of compromise and for the purposes of settlement, the Signatories agree to the rates, terms and conditions reflected in the tariffs attached to this Unanimous Settlement Agreement as Exhibit A. The tariffs attached as Exhibit A replace and supersede those tariffs currently in effect within the unincorporated areas of the City of Conroe in Montgomery County, Texas served by T&L. These tariffs are premised on an increase of approximately \$88,616 in current annual revenues as illustrated in the proof of revenues attached as Exhibit B to this Unanimous Settlement Agreement. Except as specifically provided herein, the Signatories agree that the approximately \$88,616 revenue increase is a settled figure and is not tied to any specific expense in the underlying cost of service within the areas served by T&L. The Signatories further agree that the rates, terms and conditions reflected in Exhibit A to this Unanimous Settlement Agreement comply with the rate-setting requirements of Chapter 104 of the Texas Utilities Code. The gas rates, terms and conditions established by this Unanimous Settlement Agreement shall be effective upon approval by the Commission or other regulatory authority.
2. The Signatories agree to the following customer charges and volumetric rates. These rates are reflected in the rate schedules attached as Exhibit A.

<b>Rate Schedule</b>	<b>Customer Charge</b>	<b>Single Block Volumetric Rate</b>
Residential	\$19.00	\$8.2500 per Mcf
Commercial	\$20.00	\$8.2500 per Mcf
Industrial	\$35.00	\$3.5000 per Mcf

3. The Signatories agree that a net plant amount of \$180,921 as of December 31, 2017 is prudent and appropriate for recovery in this proceeding. In addition, the Signatories agree to the following:
  - a. T&L shall retain invoices for capital investment items, including items purchased using credit cards;
  - b. T&L shall maintain a list of capital investment either by individual invoice or by project. The list shall not include multiple invoices grouped together as one line item or investment; and
  - c. T&L shall separate transactions for business and non-business purposes and shall retain documentation for all business-related purchases.
4. T&L shall collect a System Replenishment Fee to fund capital investment as reflected in the System Replenishment Fee tariff in Exhibit A. T&L shall file an annual System Replenishment Fee Compliance Filing within forty-five (45) days of each calendar year end for the next five (5) years, as long as the System Replenishment Fee is in effect. The

System Replenishment Fee Compliance Filing will include the items listed in the System Replenishment Fee tariff in Exhibit A.

5. T&L shall utilize the Federal Energy Regulatory Commission (“FERC”) Uniform System of Accounts (“USOA”) for the accounting of the funds collected and expended through the System Replenishment Fee. T&L shall include in Plant in Service capital additions funded through the System Replenishment Fee in the appropriate FERC USOA Gas Plant account, along with a corresponding credit for Contribution in Aid of Construction (“CIAC”) equal to the cost of each project as directed in FERC USOA Gas Plant Instruction 2d.
6. The Signatories agree to and propose the inclusion of the following Finding of Fact and Conclusion of Law in the Final Order:
  - a. Finding of Fact: It is reasonable that T&L collect a System Replenishment Fee of \$2.00 per Mcf to fund its capital investment and that T&L file with Commission Staff an annual System Replenishment Fee Compliance Filing within forty-five (45) days of each calendar year end in accordance with the terms of the System Replenishment Fee tariff.
  - b. Ordering Paragraph: IT IS FURTHER ORDERED that T&L shall file with Commission Staff an annual System Replenishment Fee Compliance Filing within forty-five (45) days of each calendar year end in accordance with the terms of the System Replenishment Fee tariff.
7. The Signatories agree that a hypothetical rate of return as shown in the table below is reasonable.

	Capital Structure	Debt/Equity Cost	Weighted Cost of Capital	Pre-Tax Return
Long-Term Debt	50.00%	<b>7.49%</b>	3.745%	3.745%
Common Equity	50.00%	<b>10.50%</b>	5.250%	6.646%
Rate of Return	100.00%		<b>8.995%</b>	<b>10.391%</b>

8. The Signatories agree to the depreciation rates reflected in Exhibit C.
9. The Signatories agree that Interim Rate Adjustment (“IRA”) factors are not necessary to establish at this time because T&L will not utilize the IRA mechanism between now and its next rate case.
10. The Signatories agree that the settled amount included in Paragraph 1 reflects a corporate income tax rate of 21% to recognize changes to the Federal Tax Code due to the Tax Cuts and Jobs Act of 2017 (“Act”) and that such amount reflects all impacts associated with calculation of taxes under the Act. The Signatories further agree that T&L is compliant with GUD No. 10695, Gas Utilities Accounting Order (Feb. 27, 2018) and Order Nunc Pro Tunc (Mar. 20, 2018).
11. For purposes of compromise and settlement, the Signatories agree that T&L has met the affiliate standard with respect to all affiliate charges and the affiliate expenses included in

the settlement amount in Paragraph 1 consistent with the provisions in Tex Util. Code § 104.055. Acceptance of the treatment of affiliate expenses is the product of compromise and settlement and is not of precedential value in any other proceeding. The Signatories further agree that:

- a. T&L shall no longer purchase gas from its affiliate Montgomery County Gas Management, LLC, effective as of the first day of the month following the date the Final Order is issued in this docket;
  - b. T&L shall purchase gas from unaffiliated suppliers and shall pass this cost through to the consumer without any markup, effective as of the first day of the month following the date the Final Order is issued in this docket;
  - c. T&L shall provide to Commission Staff within forty-five (45) days following the date of the Final Order in this docket a Reconciliation Compliance Filing that includes a reconciliation of the funds collected through the Montgomery County Gas Management, LLC facilities charge of \$2.25 per Mcf and any capital projects completed using the funds shall be transferred to the books of T&L and any funds balance shall be transferred to T&L as a credit to the System Replenishment Fee fund; and
  - d. T&L shall not use Rocking T Construction or any other affiliate of T&L for any project in the future unless T&L secures formal bids and/or quotes from non-affiliated companies in addition to Rocking T Construction or any other affiliate of T&L. T&L shall maintain records of project bids and/or quotes.
12. The Signatories agree to and propose the inclusion of the following Findings of Fact and Conclusion of Law in the Final Order in this docket:
  - a. Finding of Fact: It is reasonable that T&L shall no longer purchase gas from its affiliate Montgomery County Gas Management, LLC, effective as of the first day of the month following the date the Final Order is issued in this docket.
  - b. Finding of Fact: It is reasonable that T&L shall purchase gas from unaffiliated suppliers and shall pass this cost through to the consumer without any markup, effective as of the first day of the month following the date the Final Order is issued in this docket.
  - c. Finding of Fact: It is reasonable that T&L shall not use Rocking T Construction or any other affiliate of T&L for any project in the future unless T&L secures formal bids and/or quotes from non-affiliated companies in addition to Rocking T Construction or any other affiliate of T&L. T&L shall maintain records of project bids and/or quotes.
  - d. Conclusion of Law: IT IS FURTHER ORDERED that T&L shall provide to Commission Staff within forty-five (45) days following the date of this Final Order a Reconciliation Compliance Filing that includes a reconciliation of the funds collected through the Montgomery County Gas Management, LLC facilities charge

of \$2.25 per Mcf and any capital projects completed using the funds shall be transferred to the books of T&L and any funds balance shall be transferred to T&L as a credit to the System Replenishment Fee fund.

13. For the purposes of settlement, T&L has agreed to cap its recoverable rate case expenses at \$33,000.00.
14. T&L represents that its reasonable rate case expenses incurred through August 31, 2018, and estimated rate case expenses incurred through completion of this case, are as follows:

	<b>Actual Regulatory Expenses</b>	<b>Actual Litigation Expenses</b>	<b>Expenses Estimated to Completion</b>	<b>Total Expenses to Completion</b>	<b>Total Recoverable Expenses</b>
T&L	\$19,020.36	\$17,627.50	\$2,000.00	\$38,647.86	\$33,000.00

15. T&L attaches as Exhibit D affidavits and invoices in support of these amounts and will supplement with additional invoices as they are processed. The Signatories agree that the amounts represented above are reasonable and recoverable pursuant to Tex. Util. Code § 103.022. The Signatories agree that rate case expenses shall be recovered through a combination of a volumetric fee of \$0.10 per Mcf and a per bill surcharge of \$1.35 per bill, and that the recovery period for the applicable surcharges to recover rate case expenses shall be approximately forty-eight (48) months or until the full \$33,000.00 in rate case expenses are recovered. The Signatories intend and advocate that the Commission authorize recovery of the rate case expenses recited above in the same proceeding and at the same time as it approves this Unanimous Settlement Agreement.
16. The Signatories agree that equal recovery of rate case expenses arising from this proceeding from all customers within all unincorporated areas served by T&L is appropriate and reasonable and that good cause exists to support equal recovery of rate case expenses from all customers within all unincorporated areas served by T&L for the following reasons:
  - a. T&L Litigation and Estimated expenses: Good cause exists to recover T&L litigation and estimated expenses equally from all customers, including customers within all unincorporated areas served by T&L. The intent of 16 Tex. Admin. Code § 7.5530(e) is to allocate rate case expenses to the participating parties according to which party caused the expenses to be incurred; therefore, it is reasonable to seek recovery of rate case expenses from all customers who benefit from the settlement agreement in this case, which includes all customers within all unincorporated areas served by T&L. Recovery of these expenses is also necessary in the interest of justice.
17. T&L shall file annually a rate case expense compliance filing with the Railroad Commission of Texas, Oversight and Safety Division, referencing GUD No. 10738. The compliance filing shall include the amount of rate case expense recovered by month and the outstanding balance by month as set out in the Rate Schedule entitled Rate Case Expenses. 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 T&L submit to Commission Staff invoices reflecting actual rate case expenses with sufficient detail so that Commission Staff can accurately audit such invoices for the purposes of reconciling actual rate case expenses to estimated rate case expenses. In no case shall the total recoverable expenses exceed the actual expenses up to a total of \$33,000.00.
  - b.** Finding of Fact: It is reasonable that T&L file an annual Rate Case Expense Compliance Filing 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 within ninety (90) days after each calendar year end.
  - c.** Ordering Paragraph: IT IS FURTHER ORDERED that T&L file an annual Rate Case Expense Compliance Filing with Commission Staff detailing recovery of rate case expenses as described in Finding of Fact 41 within ninety (90) days after each calendar year end until the calendar year end in which the rate case expenses are fully recovered.
- 18. The Signatories agree to and propose the inclusion of the following Ordering Paragraphs in the Final Order in this docket:
  - a.** Ordering Paragraph: IT IS FURTHER ORDERED that within thirty (30) days of this Final Order, in accordance with 16 Tex. Admin. Code § 7.315, T&L shall electronically file its rate schedules in proper form that accurately reflect the rates in Exhibit A approved in this Final Order. The tariffs shall incorporate rates, rate design, and service charges consistent with this Final Order, as stated in the findings of fact and conclusions of law and shown on the attached schedules.
  - b.** Ordering Paragraph: IT IS FURTHER ORDERED that any incremental change in rates approved by this Final Order and implemented by T&L shall be subject to refund unless and until T&L's tariffs are electronically filed and accepted by Gas Services in accordance with 16 Tex. Admin. Code § 7.315.
- 19. The Signatories agree to the admission of the following items, including any confidential portions:
  - a.** The Statement of Intent Filed By T&L Gas Co. to Change Rates in the Environs of the City of Conroe in Montgomery County, Texas, filed on June 12, 2018, inclusive of all attachments, errata, direct testimony and exhibits;
  - b.** The Affidavit of Steve Belovsky attesting to provision of notice to all customers of T&L, filed on August 15, 2018; and
  - c.** The Affidavit of Karl J. Nalepa attesting to the reasonableness of T&L's rate case expenses, included in Exhibit D to this Unanimous Settlement Agreement.

20. The Signatories agree to support and seek Commission approval of this Unanimous Settlement Agreement. The Signatories further agree to make all efforts to present the Commission with this Unanimous Settlement Agreement at, on, or before October 30, 2018.
21. Except as may be allowed under Rule 408 of the Texas Rules of Evidence, the Signatories agree that all negotiations, discussions, and conferences related to the Unanimous Settlement Agreement are privileged and inadmissible to prove the validity or invalidity of any issue raised by or presented in this proceeding.
22. The Signatories agree that neither this Unanimous 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 Unanimous Settlement Agreement.
23. The Signatories agree that the terms of the Unanimous Settlement Agreement are interdependent and indivisible, and that if the Commission intends to enter an order that is inconsistent with this Unanimous 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 Unanimous Settlement Agreement or its subsequent withdrawal and further agree that T&L's application to increase rates will be remanded for hearings.
24. The Signatories agree that this Unanimous Settlement Agreement is binding on each Signatory only for the purpose of settling the issues set forth herein and for no other purposes. The matters resolved herein are resolved on the basis of a compromise and settlement. Except to the extent the Unanimous Settlement Agreement governs a Signatory's rights and obligations for future periods, this Unanimous Settlement Agreement shall not be binding or precedential upon a Signatory outside this proceeding. Each Signatory acknowledges that a Signatory's support of the matters contained in this Stipulation may differ from the position taken or testimony presented by it in other dockets or other jurisdictions. To the extent that there is a difference, a Signatory does not waive its position in any of those other dockets or jurisdictions. Because this is a stipulated resolution, no Signatory is under any obligation to take the same positions as set out in this Stipulation in other dockets or jurisdictions, regardless of whether other dockets present the same or a different set of circumstances, except as otherwise may be explicitly provided by this Stipulation. Agreement by the Signatories to any provision in this Stipulation will not be used against any Signatory in any future proceeding with respect to different positions that may be taken by that Signatory.
25. The provisions of this Stipulation are intended to relate to only the specific matters referred to herein. By agreeing to this Stipulation, no Signatory waives any claim it may otherwise have with respect to issues not expressly provided for herein. The Signatories further understand and agree that this Stipulation represents a negotiated settlement of all issues in this proceeding.

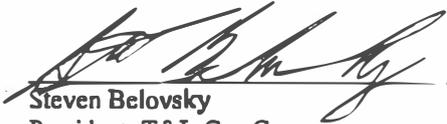
26. The Signatories agree that this Unanimous Settlement Agreement may be executed in multiple counterparts and may be filed with facsimile signatures.

**[SIGNATURE PAGE FOLLOWS]**

Agreed to this 7 day of September 2018.

T&L GAS CO.

By:

  
Steven Belovsky  
President, T&L Gas Co.

STAFF OF THE RAILROAD COMMISSION OF TEXAS

By:

  
Natalie Dubiel  
Attorney for Staff of the Railroad Commission of Texas

**GUD No. 10738**

**EXHIBIT A**

**TARIFFS**

<b>Belovsky Company Inc. dba T&amp;L Gas</b> <b>13500 Lee Drive</b> <b>Conroe, Montgomery County, Texas 77306</b>	<b>No.:</b> <b>Effective Date:</b> <b>Revision No.:</b>
<b>Residential Service Rate</b>	

**Environs of Conroe, Montgomery County, Texas**

**Applicable Rate Schedules**

- Monthly Rate
- Gas Cost Adjustment
- Revenue Related Tax Adjustment
- Rate Case Expense
- Other Surcharges
- Miscellaneous Service Charges

**Monthly Rate:**

Subject to applicable Rate Adjustment Provision list below, the following rates are the maximum applicable to Residential customers per meter billing month or any part of a billing month for which gas service is available at the same location.

Net Monthly Charge:	
Service Charge	\$19.00 per Meter
Commodity Charge	\$8.25 per Mcf

<b>Belovsky Company Inc. dba T&amp;L Gas</b> <b>13500 Lee Drive</b> <b>Conroe, Montgomery County, Texas 77306</b>	<b>No.:</b> <b>Effective Date:</b> <b>Revision No.:</b>
<b>Commercial Service Rate</b>	

**Environs of Conroe, Montgomery County, Texas**

**Applicable Rate Schedules**

- Monthly Rate
- Gas Cost Adjustment
- Revenue Related Tax Adjustment
- Rate Case Expense
- Other Surcharges
- Miscellaneous Service Charges

**Monthly Rate:**

Subject to applicable Rate Adjustment Provision list below, the following rates are the maximum applicable to Commercial customers per meter billing month or any part of a billing month for which gas service is available at the same location.

Net Monthly Charge:	
Service Charge	\$20.00 per Meter
Commodity Charge	\$8.25 per Mcf

<b>Belovsky Company Inc. dba T&amp;L Gas</b> <b>13500 Lee Drive</b> <b>Conroe, Montgomery County, Texas 77306</b>	<b>No.:</b> <b>Effective Date:</b> <b>Revision No.:</b>
<b>Industrial Service Rate</b>	

**Environs of Conroe, Montgomery County, Texas**

**Applicable Rate Schedules**

- Monthly Rate
- Gas Cost Adjustment
- Revenue Related Tax Adjustment
- Rate Case Expense
- Other Surcharges
- Miscellaneous Service Charges

**Monthly Rate:**

Subject to applicable Rate Adjustment Provision list below, the following rates are the maximum applicable to Industrial customers per meter billing month or any part of a billing month for which gas service is available at the same location.

Net Monthly Charge:	
Service Charge	\$35.00 per Meter
Commodity Charge	\$3.50 per Mcf

<b>Belovsky Company Inc. dba T&amp;L Gas</b> <b>13500 Lee Drive</b> <b>Conroe, Montgomery County, Texas 77306</b>	<b>No.:</b> <b>Effective Date:</b> <b>Revision No.:</b>
<b>Gas Cost Adjustment</b>	

**Environs of Conroe, Montgomery County, Texas**

**Gas Cost Adjustment**

**Applicability:**

This adjustment is applicable to all customers served by the utility, except for customers purchasing gas under a negotiated contract.

**Purchased Gas Adjustment:**

The monthly Purchased Gas Adjustment (PGA) shall be the cost of gas billed to the utility by the supplier(s) of gas to the system. The cost of gas shall be expressed in a per Mcf format by dividing the total amount purchased, plus all gas related costs from the supplier and third parties, in dollars by the amount of volume in Mcf purchased. The product, or Weighted Average Cost of Gas (WACOG), shall be called the PGA and billed to the customer per Mcf, or fraction thereof, consumed each month. The PGA shall be calculated using actual amounts invoiced and billed by the supplier for the same approximate period that meters are read, i.e., amounts invoiced and billed by the supplier in January will be applied to meters read in January and billed to the customer in the following month. The Base Cost of Gas is \$0.00 per Mcf.

Any adjustment, refund and/or billing correction received by the utility for a prior period shall be included in the current month's PGA calculation.

The utility shall limit recovery of Lost and Unaccounted Gas (LUG) to actual, not to exceed a maximum of 5%, calculated each year for the twelve months ended June 30. In no case shall the utility collect more than it's actual expense. Any over or under collection shall be refunded or collected within a reasonable amount of time after being discovered by the utility or regulating authority.

<b>Belovsky Company Inc. dba T&amp;L Gas</b> <b>13500 Lee Drive</b> <b>Conroe, Montgomery County, Texas 77306</b>	<b>No.:</b> <b>Effective Date:</b> <b>Revision No.:</b>
<b>Revenue Related Tax Adjustment</b>	

**Environs of Conroe, Montgomery County, Texas**

**Revenue Related Tax Adjustment:**

Each monthly bill, as adjusted above shall also be adjusted by an amount equal to the various revenue related taxes or other fees and charges imposed by regulatory or governmental authorities. This includes, but is not limited to, Gross Receipts taxes, fees, or any other governmental imposition, fees or charges levied that is based on any portion of revenues billed by the utility or based on service lines, meters or other equipment.

<b>Belovsky Company Inc. dba T&amp;L Gas</b> <b>13500 Lee Drive</b> <b>Conroe, Montgomery County, Texas 77306</b>	<b>No.:</b> <b>Effective Date:</b> <b>Revision No.:</b>
<b>Rate Case Expenses</b>	

**Environs of Conroe, Montgomery County, Texas**

**Rate Case Expense:**

Rate case expenses will be recovered through a combination of a volumetric fee of \$0.10 per Mcf and a bill surcharge of \$1.35 per bill. The surcharge per Mcf will be collected monthly from the customer as a separate line item on the customer's bill.

This schedule is for the recovery of rate case expenses and shall be in effect beginning on or after (add the date of the FO), for an approximate forty-eight (48) month period or until approved rate case expenses in the amount of \$33,000.00 are recovered. **T&L will recover \$33,000.00 in recoverable rate case expenses.**

The Company shall file an annual report on or before March 1st of each year showing the beginning balance of the unrecovered rate case expense at January 1st, the amount recovered by customer class by month during the previous calendar year and the ending balance as of December 31st. **The company shall file the report with the commission addressed to the Director of Oversight and Safety Division and referencing Gas Utilities Docket No. 10738. The report shall detail the monthly collections for the RCE surcharge by customer class and show the outstanding balance.** Upon completion of the recovery, T&L Gas, Co. shall file a final report within 60 days after the last billing cycle recovery from the customer. No interest will accumulate on the outstanding balance. Reports for the Commission should be filed electronically at [GUD\\_Compliance@rrc.texas.gov](mailto:GUD_Compliance@rrc.texas.gov) or at the following address:

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

<b>Belovsky Company Inc. dba T&amp;L Gas</b> <b>13500 Lee Drive</b> <b>Conroe, Montgomery County, Texas 77306</b>	<b>No.:</b> <b>Effective Date:</b> <b>Revision No.:</b>
<b>Other Surcharges</b>	

**Environs of Conroe, Montgomery County, Texas**

**Surcharges:**

- Pipeline Safety Fee Surcharge
- Other Surcharges

**Pipeline Safety Fee Surcharge:**

The Company shall pass on the Commission’s Pipeline Safety and Regulatory Program Fee in the amount of \$1.00 per service line for each service line reported to be in service at the end each calendar year, pursuant to Texas Utilities Code §121.211 and 16 Texas Admin. Code §8.201.

**Other Surcharges:**

T & L Gas will recover other surcharges as authorized by federal, state and local regulatory authorities in accordance with applicable statutes, laws, regulations, ordinances, orders, rules, contracts, or agreements.

<b>Belovsky Company Inc. dba T&amp;L Gas</b> <b>13500 Lee Drive</b> <b>Conroe, Montgomery County, Texas 77306</b>	<b>No.:</b> <b>Effective Date:</b> <b>Revision No.:</b> <b>Page 1 of 2</b>
<b>Miscellaneous Service Charges</b>	

**Environs of Conroe, Montgomery County, Texas**

**Miscellaneous Service Charges:**

Customer Deposit	
Residential	\$100.00
Commercial	\$500.00
Institution of Service	\$25.00
Collection Call (phone/electronic), will be used to avoid trip charges	\$15.00
Collection/Trip Charge, per trip	\$25.00
Disconnect fee, for non-payment or temporarily at owner's request	\$25.00
Reconnect fee, after disconnected for non-payment at customers request or safety related issues	\$45.00
Returned Check, fee plus bank charge	\$25.00
Payment Convenience Fee (Credit Card)	\$3.00
Tap Fee (labor), fee plus material cost	\$250.00
Residential Meter set	Cost plus 10%
Commercial Meter set	Cost plus 10%
Emergency Call	\$125.00
Facility Damage Service Call (Line Damage), per hour per employee dispatched. (Normal business hours are 8:00 am to 5:00 p.m. Monday through Friday.)	\$65.00
Non-business hours is 1-1/2 times normal	

<b>Belovsky Company Inc. dba T&amp;L Gas</b> <b>13500 Lee Drive</b> <b>Conroe, Montgomery County, Texas 77306</b>	<b>No.:</b> <b>Effective Date:</b> <b>Revision No.:</b> <b>Page 2 of 2</b>
<b>Miscellaneous Service Charges</b>	

Meter Test on Request, if a test has been performed within 4-years for the same customer \$75.00

Leak Test Customer Premises at their request, per hour \$65.00

Excess Flow Valves, installed at customers request (not during taping procedure), plus cost of materials \$175.00

Line Extension Policy – Lines shall be extended based upon actual cost incurred by the utility

Quality Service Rules – T&L adopts the Commission’s Quality of Service Rules as it’s rules as a minimum standard

<b>Belovsky Company Inc. dba T&amp;L Gas</b> <b>13500 Lee Drive</b> <b>Conroe, Montgomery County, Texas 77306</b>	<b>No.:</b> <b>Effective Date:</b> <b>Revision No.:</b> <b>Page 1 of 1</b>
<b>System Replenishment Fee</b>	

**Environs of Conroe, Montgomery County, Texas**

The System Replenishment Fee (SRF) shall be an individual line item charge, which is designated for distribution infrastructure replacement or expansion costs. The SRF will be utilized for an initial period of up to five (5) years. The SRF may be extended for an additional five (5) years with written approval from the Director of the Oversight and Safety Division. The necessity of the SRF shall be determined annually by the utility at the end of each calendar year. A Compliance Filing of the utility’s need for continuation of the SRF, the projects completed in the previous calendar year, and the projects proposed for the current and subsequent calendar years shall be made and filed with the Director of the Oversight & Safety Division within forty-five (45) days after the end of each calendar year.

A charge of up to \$2.00 per Mcf will be applied to all consumption by all classes of customers.

The SRF shall not exceed \$2.00 per Mcf or be collected for a period more than five (5) years unless extended for an additional five (5) years with written approval from the Director of the Oversight and Safety Division. The SRF shall only be used to replace or expand the distribution system infrastructure, i.e., mains, service lines, risers, meters, etc. The SRF shall not be used to compensate the utility's employees, replace office equipment, vehicles, office supplies, normal operation and maintenance expenses or other non-infrastructure equipment. The utility shall account for all monies collected and expended on system replacement or expansion in the appropriate FERC USOA Gas Plant account as directed in FERC USOA Gas Plant Instruction 2d, as it relates to CIAC.

System Replenishment Fee Annual Compliance Filing:

The SRF Annual Compliance Filing shall include the following:

1. The utility’s assessment of the necessity of the continuation of the SRF for an additional year;
2. A detailed description of the replacement or expansion projects that were completed in the previous calendar year and the dollars expended on those projects;
3. The beginning balance as of January 1 and the ending balance as of December 31 of the previous calendar year;
4. A detailed description of the planned future replacement or expansion projects for the next calendar year;

<b>Belovsky Company Inc. dba T&amp;L Gas</b> <b>13500 Lee Drive</b> <b>Conroe, Montgomery County, Texas 77306</b>	<b>No.:</b> <b>Effective Date:</b> <b>Revision No.:</b> <b>Page 2 of 2</b>
<b>System Replenishment Fee</b>	

5. An estimate of the sales volumes for the next calendar year and the amount of estimated fees that will be collected;
6. A detailed list of the materials and estimated cost of the previous calendar year's completed projects and subsequent calendar years' proposed projects;
7. A list of the contractors and suppliers of materials for the previous calendar year's projects; and
8. A reconciliation of the previous calendar year's project expenditures by specifying the dollars expended for each contractor and supplier. T&L shall also provide the supporting invoices for the expenditures.

T&L Gas Corporation - EXHIBIT B  
PROOF OF REVENUES  
For the Pro Forma Test Year Ended December 31, 2017

LINE NO.	RATE CLASS	BILLING UNITS	PROPOSED RATES	PROPOSED REVENUE	Base Rate Change	
					\$	%
1	Residential					
2	Customer Charge	2,796 Bills	\$19.00 / Month	\$53,124		
3	Commodity Charge	7,826 MCF	\$8.2500 / MCF	64,563		
4	Total Residential			\$117,687	\$25,996	28.4%
5						
6	Commercial					
7	Customer Charge	240 Bills	\$20.00 / Month	\$4,800		
8	Commodity Charge	11,110 MCF	\$8.2500 / MCF	91,659		
9	Total Commercial			\$96,459	\$25,958	36.8%
10						
11	Industrial					
12	Customer Charge	24 Bills	\$35.00 / Month	\$840		
13	Commodity Charge	23,658 MCF	\$3.5000 / MCF	82,802		
14	Total Commercial			\$83,642	\$35,726	74.6%
15						
16						
17	Total Base Rate Revenue			\$297,788	\$87,680	41.7%
18						
19						
20	<u>Residential Service - (Incorporated)</u>					
21	Base Rate					
22	Customer Charge	0 Bills	19.00 / Month	\$0		
23	Commodity	0 MCF	8.25000 / MCF	0		
24	Total			\$0	\$0	0.0%
25						
26	<u>Residential Service - (Environs)</u>					
27	Base Rate					
28	Customer Charge	2,796 Bills	19.00 / Month	\$53,124		
29	Commodity	7,826 MCF	8.25000 / MCF	64,563		
30	Total			\$117,687	\$25,996	28.4%
31						
32	<u>Commercial Service - (Incorporated)</u>					
33	Base Rate					
34	Customer Charge	0 Bills	20.00 / Month	\$0		
35	Commodity	0 MCF	8.25000 / MCF	0		
36	Total			\$0	\$0	0.0%
37						
38	<u>Commercial Service - (Environs)</u>					
39	Base Rate					
40	Customer Charge	240 Bills	20.00 / Month	\$4,800		
41	Commodity	11,110 MCF	8.25000 / MCF	91,659		
42	Total			\$96,459	\$25,958	36.8%
43						
44	<u>Industrial Service - (Environs)</u>					
45	Base Rate					
46	Customer Charge	24 Bills	35.00 / Month	\$840		
47	Commodity	23,658 MCF	3.50000 / MCF	82,802		
48	Total			\$83,642	\$35,726	0.745596
49						
50						
51	Total			\$297,788	\$87,680	41.7%

T&L Gas Corporation - EXHIBIT C  
Depreciation Rate Summary

Line No.	Description	Plant Balance	Depreciable Life	Depreciation Rate	Annual Depreciation	Accumulated Depreciation	Net Plant
<b>Distribution Plant</b>							
376	Mains Total	582,894	40	0.02500	14,023	470,514	112,380
378-379	Measuring & Regulating Station Equipment Total	35,383	40	0.02500	885	30,922	4,461
380	Services Total	102,376	40	0.02500	2,316	81,968	20,408
381 - 384	Meters & Regulators Total	108,849	15	0.06667	2,944	68,830	40,019
386-387	Other Equipment Total	3,559	15	0.06667	31	3,375	184
	Total Depreciable Distribution Plant	<u>833,061</u>	<u>41.25</u>	<u>0.02425</u>	<u>20,198</u>	<u>655,609</u>	<u>177,452</u>
<b>General Plant</b>							
390	Structures & Improvements Total	23,630	10	0.10000	1,315	20,161	3,469
391	Office Furniture & Equipment Total	6,652	7	0.14286	66	6,652	0
392	Transportation Equipment Total	2,600	5	0.20000	0	2,600	0
393-396	Stores, Tools, Lab & power Equipment Total	34,609	7	0.14286	0	34,609	0
397	Communications Equipment Total	387	7	0.14286	0	387	0
	Total General Plant	<u>67,878</u>	<u>49.16</u>	<u>0.02034</u>	<u>1,381</u>	<u>64,409</u>	<u>3,469</u>
	<b>Total</b>	<b>900,939</b>	<b>41.75</b>	<b>0.02395</b>	<b>21,578</b>	<b>720,018</b>	<b>180,921</b>

**GUD No. 10738**

**EXHIBIT D**

**Rate Case Expenses**

GAS UTILITIES DOCKET NO. 10738

STATEMENT OF INTENT FILED BY §  
T&L GAS CO. TO INCREASE RATES IN §  
THE ENVIRONS OF THE CITY OF § BEFORE THE  
CONROE IN MONTGOMERY COUNTY, § RAILROAD COMMISSION  
TEXAS § OF TEXAS

**RATE CASE EXPENSE AFFIDAVIT OF KARL J. NALEPA  
PROVIDING ACTUAL EXPENSES THROUGH AUGUST 31, 2018**

I, Karl J. Nalepa, state the following facts upon my oath.

1. My name is Karl J. Nalepa. I am over eighteen years of age and am not disqualified from making this affidavit.
2. I am the President of ReSolved Energy Consulting, LLC ("REC"), an independent utility consulting company. I have been retained by T&L Gas Co. to assist in the preparation, filing and management of its statement of intent to change rates in Gas Utilities Docket No. 10738 before the Railroad Commission of Texas. My business address is 11044 Research Blvd., Suite A-420, Austin, Texas 78759.
3. I am giving this affidavit to address the necessity for and reasonableness of REC's actual fees and expenses incurred through August 31, 2018.
4. REC's actual fees through August 31, 2018 correspond to time preparing the application testimony, schedules and work papers, responding to discovery, attending the prehearing conference, conferring with T&L Gas Co. personnel, and participating in settlement discussions with Railroad Commission Staff. The hours charged are set forth in the following table:

**RESOLVED ENERGY CONSULTING'S EXPENSES  
THROUGH AUGUST 31, 2018**

<b>CONSULTANTS</b>	<b>HOURLY RATE</b>	<b>HOURS</b>	<b>EXPENSES</b>	<b>TOTAL</b>
Karl Nalepa	\$260	37.0	\$230.87	\$9,850.87
Erin Cromleigh	\$175	137.2	\$63.98	\$24,073.98
<b>Total Actual</b>		<b>174.2</b>	<b>\$294.85</b>	<b>\$33,924.85</b>

5. My billing rate is \$260 per hour. This is the normal billing rate that I charge for services provided to both regulated and non-regulated entities. This rate is reasonable for a consultant providing these types of services before utility regulatory agencies in Texas. The hourly rate is especially reasonable given I have more than 30 years of utility rate regulatory experience. Part of the basis for my opinion is a review of the hourly rates charged by other consultants to perform similar services. Assisting me in this proceeding is Erin Cromleigh. Ms. Cromleigh is a Management Consultant with REC and has over 9 years of audit and regulatory experience. Her billing rate is \$175 per hour. Ms. Cromleigh works under my direction and supervision.

6. No REC personnel billed in excess of 12 hours on any given day to this case. No REC personnel incurred any airline or lodging expenses. No REC personnel charged for any luxury items. No meal was charged in excess of \$25 and no alcohol was charged. The only other expenses charged were related to reproduction of filed documents, associated postage, and parking and mileage charges incurred while attending case-related meetings with the parties. There are no instances of double billing for REC's services.
7. Based on my extensive experience relating to analysis of rate proceeding matters and the reasonableness of rate case expenses before the Railroad Commission of Texas, I conclude that: (1) REC's hourly rates are reasonable; and (2) the 174.2 actual hours in this case are both reasonable and necessary.
8. The statements made in this affidavit are true and correct.

  
Karl J. Nalepa

STATE OF Texas                   §  
  §  
COUNTY OF Travis           §

SUBSCRIBED AND SWORN to before me, the undersigned authority, on this 7<sup>th</sup> day of September, 2018, by Karl J. Nalepa.



  
Notary Public, State of Texas  
My Commission Expires: 06/17/2019

**GUD No. 10738**

**Proposal for Decision**

**ATTACHMENT 2**

**Proposed Final Order**

**(without attachments)**

**GAS UTILITIES DOCKET NO. 10738**

<b>STATEMENT OF INTENT</b>	<b>§</b>	
<b>FILED BY T &amp; L GAS CO.</b>	<b>§</b>	<b>BEFORE THE</b>
<b>TO CHANGE RATES</b>	<b>§</b>	
<b>IN THE ENVIRONS OF</b>	<b>§</b>	<b>RAILROAD COMMISSION</b>
<b>THE CITY OF</b>	<b>§</b>	
<b>CONROE IN MONTGOMERY</b>	<b>§</b>	<b>OF TEXAS</b>
<b>COUNTY, TEXAS</b>	<b>§</b>	

**PROPOSED FINAL 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, *et seq.* (Vernon 2008 & Supp. 2015). The Railroad Commission of Texas adopts the following findings of fact and conclusions of law and orders as follows:

**FINDINGS OF FACT**

1. T & L Gas Co. ("T&L") is a gas utility as that term is defined in the Texas Utility Code and is subject to the jurisdiction of the Railroad Commission of Texas ("Commission").
2. On June 12, 2018, T&L filed a Statement of Intent to increase rates within the environs of the City of Conroe in Montgomery County, Texas ("Statement of Intent"). The filing was docketed as GUD No. 10738.
3. T&L requested an effective date of August 21, 2018.
4. T&L proposes to implement the proposed rates within the environs of the City of Conroe in Montgomery County, Texas, in which it provides service.
5. Staff of the Railroad Commission ("Commission Staff") intervened on June 13, 2018.
6. On August 21, 2018, the Commission suspended the implementation of T&L's proposed rates for 150 days.
7. For all customers located in the environs of the City of Conroe in Montgomery County, Texas, T&L provided public notice by direct mail on August 7, 2018, in accordance with Tex. Util. Code Ann. § 104.103(a) (Vernon 2007 and Supp. 2015) and 16 Tex. Admin. Code §§ 7.230 and 7.235 (2015).

8. The notice meets the statutory and rule requirements of notice and provides sufficient information to ratepayers about the proposed rate increase in the Statement of Intent, in accordance with Tex. Util. Code Ann. § 104.103(a) (Vernon 2007 and Supp. 2015) and 16 Tex. Admin. Code §§ 7.230 and 7.235 (2015).
9. On August 15, 2018, T&L filed the Affidavit of Steve Belovsky attesting to proof of notice.
10. On August 23, 2018, T&L filed a letter notifying the Administrative Law Judge ("ALJ") that all parties to the proceeding had reached a settlement in principle and requesting an abatement of Commission Staff's deadline to file testimony.
11. On August 24, 2018, the ALJ granted the parties' request to abate all deadlines in the procedural schedule.
12. On September 7, 2018, the parties filed a Unanimous Settlement Agreement ("Settlement Agreement") and accompanying documents, which resolved all issues, and no issues were preserved for further litigation.
13. On September 7, 2018, the Notice of Hearing was issued, setting the hearing on the merits to commence on September 19, 2018.
14. On September 7, 2018, the Notice of Hearing was provided to the governing body of Montgomery County in accordance with GURA Section 104.105 (Determination of Propriety of Rate Change; Hearing).
15. On September 14, 2018, the Commission published the Notice of Hearing in *Gas Utilities Information Bulletin No. 1091*.
16. A hearing to review the Settlement Agreement was held on September 19, 2018.
17. The following exhibits were admitted at the hearing on the Settlement Agreement.

T&L Exhibit Number	Description
No. 1	Unanimous Settlement Agreement
No. 2	The Statement of Intent Filed By T&L Gas Co. to Change Rates in the Environs of the City of Conroe in Montgomery County, Texas, filed on June 12, 2018, inclusive of all attachments, direct testimony and exhibits
No. 3	T & L Gas' Cost of Service Model Errata Filing
No. 4	The Affidavit of Steve Belovsky, attesting to provision of notice to all customers of T&L, filed on August 15, 2018
No. 5	The Affidavit of Steve Belovsky, attesting to Affiliate expenses, filed on September 24, 2018

18. T&L established that the Company maintains its books and records in accordance with the Federal Energy Regulatory Commission's ("FERC") Uniform System of Accounts ("USOA") prescribed for Natural Gas Companies.
19. T&L established that the Company has fully complied with the books and records requirements of 16 Tex. Admin. Code § 7.310, and the amounts included therein are therefore entitled to the presumption in 16 Tex. Admin. Code § 7.503 that these amounts are reasonable and necessary.
20. The test year in this filing is based upon the financial data for the twelve-month period ending December 31, 2017, adjusted for known and measurable changes.
21. T&L requested in its Statement of Intent a revenue requirement increase of approximately \$88,616 for all customers served by T&L within the environs of the City of Conroe in Montgomery County, Texas.
22. The Settlement Agreement contemplates an approximately \$88,616 revenue increase from current revenues as a settled amount. The revenue increase is not tied to any specific expense in the Company's underlying cost-of-service.
23. The approximately \$88,616 revenue increase contemplated in the Settlement Agreement represents no change from the revenues requested in the Statement of Intent.
24. The parties established that the proposed revenue increase of \$88,616 is just and reasonable.<sup>1</sup>
25. The proposed rates will affect the following classes of customers within the incorporated and unincorporated areas served by T&L in the environs of the City of Conroe in Montgomery County, Texas: Residential, Commercial, and Industrial.
26. The rates and customer charges reflected in the table below are just and reasonable.

<b>Rate Schedule</b>	<b>Customer Charge</b>	<b>Single Block Volumetric Rate</b>
Residential	\$19.00	\$8.2500 per Mcf
Commercial	\$20.00	\$8.2500 per Mcf
Industrial	\$35.00	\$3.5000 per Mcf

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1. See Attachment 1 for the Proof of Revenues that was included with the underlying settlement agreement between the parties. The Proof of Revenues reflects a base revenue increase of \$87,680, which does not include miscellaneous service fee revenue that raises the total revenue increase to \$88,616.

27. A net plant amount of \$180,921, as of December 31, 2017, is prudent and appropriate for recovery in this proceeding.
28. It is reasonable to establish the depreciation rates included Attachment 2 to this Final Order.
29. Consistent with the Settlement Agreement, Interim Rate Adjustment ("IRA") factors are not necessary to establish at this time because T&L has agreed not to utilize the IRA mechanism between now and its next rate case.
30. The settled amount reflects a corporate income tax rate of 21% to recognize changes to the federal tax code due to the Tax Cuts and Jobs Act of 2017 ("Act") and such amount reflects all impacts associated with calculation of taxes under the Act.
31. As a result of this proceeding, T&L is compliant with GUD No. 10695, Gas Utilities Accounting Order (Feb. 27, 2018) and Order Nunc Pro Tunc (Mar. 20, 2018).
32. T&L has established that the services provided by its affiliate Rocking T Construction on behalf of T&L are reasonable and necessary.
33. The affiliate expenses included in T&L's filing are reasonable and necessary costs of providing gas utility service, and the prices charged to T&L are no higher than the prices charged by the supplying affiliate to other affiliates or divisions of T&L, or to a non-affiliated person for the same item or class of items.
34. It is reasonable that T&L shall no longer purchase gas from its affiliate Montgomery County Gas Management, LLC, effective as of the first day of the month following the date the Final Order is issued in this docket.
35. It is reasonable that T&L shall purchase gas from unaffiliated suppliers and shall pass this cost through to the consumer without any markup, effective as of the first day of the month following the date the Final Order is issued in this docket.
36. It is reasonable that T&L shall not use Rocking T Construction or any other affiliate of T&L for any project in the future unless T&L secures formal bids and/or quotes from non-affiliated companies in addition to Rocking T Construction or any other affiliate of T&L. T&L shall maintain records of project bids and/or quotes.
37. It is reasonable that T&L collect a System Replenishment Fee of \$2.00 per Mcf to fund its capital investment and that T&L file with Commission Staff an annual System Replenishment Fee Compliance Filing within forty-five (45) days of

- each calendar year end in accordance with the terms of the System Replenishment Fee tariff.
38. It is reasonable that T&L collect a System Replenishment Fee for a period that shall not exceed five (5) years unless extended for an additional five (5) years with written approval from the Director of the Oversight and Safety Division.
  39. T&L has established that its actual and estimated rate case expenses up to \$33,000 are just and reasonable.
  40. The hourly rates charged by consultants were reasonable rates charged by firms in cases addressing utility rate matters.
  41. The consultants did not charge any expenses for luxury items and did not incur any excessive airline, lodging, or meal expenses.
  42. The amount of work done and the time and labor required to accomplish the work was reasonable given the nature of the issues addressed.
  43. The complexity and expense of the work was relevant and reasonably necessary to the proceeding and was commensurate with both the complexity of the issues and necessary to completing the matter before the Commission.
  44. It is reasonable that the recovery of \$33,000.00 in total rate case expenses occur over an approximate forty-eight (48) month period with the surcharge separately stated on each bill.
  45. It is reasonable that, in accordance with the Settlement Agreement, the rate case expense surcharges approved as a result of the settlement in this proceeding will continue until the amounts to be collected under those surcharges are collected.
  46. Good cause exists to recover T&L litigation and estimated expenses equally from all customers within the environs of the City of Conroe in Montgomery County, Texas, in which T&L provides service, and doing so is necessary in the interest of justice.
  47. It is reasonable that T&L submit to Commission Staff invoices reflecting actual rate case expenses with sufficient detail so that Commission Staff can accurately audit such invoices for the purposes of reconciling actual rate case expenses to estimated rate case expenses. In no case shall the total recoverable expenses exceed the actual expenses up to a total of \$33,000.00.
  48. It is reasonable that T&L file an annual Rate Case Expense Compliance Filing 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 within ninety (90) days after each calendar year end.

49. It is just and reasonable that the recommended rate case expense recovery rate of \$0.10 per Mcf and \$1.35 per bill be uniformly allocated for Residential customers, \$0.10 per Mcf and \$1.35 per bill be uniformly allocated for Commercial customers, and \$0.10 per Mcf and \$1.35 per bill be uniformly allocated for Industrial customers within the environs of the City of Conroe in Montgomery County, Texas in which T&L provides service.
50. It is reasonable for the rate case expense recovery to be properly reconciled annually with the Commission's Oversight & Safety Director to ensure that no under-recovery or over-recovery occurs to customers or T&L.
51. The rate schedules attached to this Final Order are just and reasonable.

### **CONCLUSIONS OF LAW**

1. T&L is a gas utility as defined in Tex. Util. Code Ann. §§ 101.003(7) and 121.001 (Vernon 2007 and Supp. 2015) and is therefore subject to the jurisdiction of the Commission.
2. The Commission has jurisdiction over T&L's Statement of Intent under Tex. Util. Code Ann. §§ 102.001, 103.022, 103.054, 103.055, 104.001, 104.001, and 104.201 (Vernon 2007 and Supp. 2015).
3. Under Tex. Util. Code Ann. § 102.001 (Vernon 2007 and Supp. 2015), 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. This proceeding was conducted in accordance with the requirements of the Gas Utility Regulatory Act, Tex. Util. Code Ann. §§ 101.001 *et seq.*, (Vernon 2007 and Supp. 2015) and the Administrative Procedure Act, Tex. Gov't Code Ann. §§ 2001.001 *et seq.* (Vernon 2008 and Supp. 2015).
5. Tex. Util. Code Ann. § 104.107 (Vernon 2007 and Supp. 2015) provides the Commission's authority to suspend the operation of the schedule of proposed rates for 150 days from the date the schedule would otherwise go into effect.
6. In accordance with Tex. Util. Code Ann. § 104.103 (Vernon 2007 and Supp. 2015) and 16 Tex. Admin. Code Ann. §§ 7.230 and 7.235, adequate notice was properly provided.
7. T&L filed its Statement of Intent in accordance with Tex. Util. Code Ann. § 104.102 (Vernon 2007 and Supp. 2015) and 16 Tex. Admin. Code Ann. §§ 7.205 and 7.210.

8. In this proceeding, T&L has the burden of proof under Tex. Util. Code Ann. § 104.008 (Vernon 2007 and Supp. 2015) to show that the proposed rate changes are just and reasonable.
9. In accordance with the Settlement Agreement, T&L met its burden of proof in accordance with the provisions of Tex. Util. Code Ann. § 104.008 (Vernon 2007 and Supp. 2015) on the elements of its requested rate increase identified in this Final Order.
10. The revenue, rates, rate design, and service charges proposed by T&L and the parties to the Settlement Agreement, and identified in the rate schedules attached to this Final Order are just and reasonable; are not unreasonably preferential, prejudicial, or discriminatory; and are sufficient, equitable, and consistent in application to each class of consumer, as required by Tex. Util. Code Ann. § 104.003 (Vernon 2007 and Supp. 2015).
11. The Commission has ensured that the rates, operations, and services established in this docket are just and reasonable to customers and to the Company in accordance with the stated purpose of the Texas Utilities Code, Subtitle A, expressed under Tex. Util. Code Ann. § 101.002 (Vernon 2007 and Supp. 2015).
12. The overall revenues as established by the findings of fact and attached schedules are reasonable; fix an overall level of revenues for T&L that will permit the Company a reasonable opportunity to earn a reasonable return on its invested capital used and useful in providing service to the public over and above its reasonable and necessary operating expenses, as required by Tex. Util. Code Ann. § 104.051 (Vernon 2007 and Supp. 2015); and otherwise comply with Chapter 104 of the Texas Utilities Code.
13. The revenue, rates, rate design, and service charges proposed will not yield to T&L more than a fair return on the adjusted value of the invested capital used and useful in rendering service to the public, as required by Tex. Util. Code Ann. § 104.052 (Vernon 2007 and Supp. 2015).
14. The rates established in this docket comport with the requirements of Tex. Util. Code Ann. § 104.053 (Vernon 2007 and Supp. 2015) and are based upon the adjusted value of invested capital used and useful, where the adjusted value is a reasonable balance between the original cost less depreciation and current cost less an adjustment for present age and condition.
15. The rates established in this case comply with the affiliate transaction standard set out in Tex. Util. Code Ann. § 104.055 (Vernon 2007 and Supp. 2015).

16. Tex. Util. Code Ann. § 104.003(a) (Vernon 2007 and Supp. 2015) provides that a rate may not be unreasonably preferential, prejudicial, or discriminatory but must be sufficient, equitable, and consistent in application to each class of consumer. In establishing a gas utility's rates, the Commission "may treat as a single class two or more municipalities that a gas utility serves if the [C]ommission considers that treatment to be appropriate."
17. In any rate proceeding, any utility and/or municipality claiming reimbursement for its rate case expenses pursuant to Tex. Util. Code Ann. § 103.022(b) (Vernon 2007 and Supp. 2015) shall have the burden to prove the reasonableness of such rate case expenses by a preponderance of the evidence. Evidence must be provided related to, but not limited to, the amount of work done; the time and labor required to accomplish the work; the nature, extent, and difficulty of the work done; the originality of the work; the charges by others for work of the same or similar nature; and any other factor taken into account in setting the amount of the compensation. 16 Tex. Admin. Code § 7.5530(a).
18. In determining the reasonableness of the rate case expenses, the Commission shall consider all relevant factors, including but not limited to those set out previously, and shall also 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. 16 Tex. Admin. Code § 7.5530(b).
19. The jurisdiction of the Commission in this docket does not extend to municipalities. Tex. Util. Code Ann. §§ 102.001 and 103.055 (Vernon 2007 and Supp. 2015).
20. T&L is required by 16 Tex. Admin. Code § 7.315 to file electronic tariffs incorporating rates consistent with this Final Order within thirty days of the date of this Final Order.
21. T&L has established that the Company's books and records conform with 16 Tex. Admin. Code § 7.310 to utilize FERC's USOA prescribed for Natural Gas Companies, and T&L is thus entitled to the presumption that the amounts included therein are reasonable and necessary in accordance with 16 Tex. Admin. Code § 7.503.

**IT IS THEREFORE ORDERED** that the proposed schedule of rates agreed to by the parties' and reflected in this Final Order are **APPROVED**.

**IT IS FURTHER ORDERED** that the rates, rate design, and service charges established in the findings of fact, conclusions of law, and as shown on the attached tariffs for T&L (Attachment 3), are **APPROVED**.

**IT IS FURTHER ORDERED** that the attached tariffs (Attachment 3), are just and reasonable.

**IT IS FURTHER ORDERED** that T&L shall file with Commission Staff an annual System Replenishment Fee Compliance Filing within forty-five (45) days of each calendar year end in accordance with the terms of the System Replenishment Fee tariff.

**IT IS FURTHER ORDERED** that T&L shall provide to Commission Staff within forty-five (45) days following the date of this Final Order a Reconciliation Compliance Filing that includes a reconciliation of the funds collected through the Montgomery County Gas Management, LLC facilities charge of \$2.25 per Mcf and any capital projects completed using the facilities charge funds shall be transferred to the books of T&L and any funds balance shall be transferred to T&L as a credit to the System Replenishment Fee fund.

**IT IS FURTHER ORDERED** that final actual incurred rate case expenses be filed with the Commission through completion of the case within thirty (30) days of issuance of this Final Order.

**IT IS FURTHER ORDERED** that T&L shall file an annual Rate Case Expense Compliance Filing with Commission Staff detailing recovery of rate case expenses as described in Finding of Fact No. 41 within ninety (90) days after each calendar year end until the calendar year end in which the rate case expenses are fully recovered.

**IT IS FURTHER ORDERED** that the terms of the parties' Settlement Agreement admitted in evidence in this docket and incorporated in this Final Order are **APPROVED**.

**IT IS FURTHER ORDERED** that, within thirty (30) days of this Final Order, in accordance with 16 Tex. Admin. Code § 7.315, T&L shall electronically file its rate schedules in proper form that accurately reflect the rates in Exhibit A approved in this Final Order. The tariffs shall incorporate rates, rate design, and service charges consistent with this Final Order, as stated in the findings of fact and conclusions of law and shown on the attached schedules.

**IT IS FURTHER ORDERED** that any incremental change in rates approved by this Final Order and implemented by T&L shall be subject to refund unless and until T&L's 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 all proposed findings of fact and conclusions of law not specifically adopted in this Final Order are hereby **DENIED**.

**IT IS FURTHER ORDERED** that all pending motions and requests for relief not previously granted or granted herein are hereby **DENIED**.

**IT IS FURTHER ORDERED** that this Final Order will not be final and effective until twenty-five (25) days after the Commission's Final Order is signed. If a timely motion for rehearing is filed by any party at interest, this Final Order shall not become final and effective until such motion is overruled, or if such motion is granted, this Final Order shall be subject to further action by the Commission.

**SIGNED** this 30<sup>th</sup> day of October, 2018.

**RAILROAD COMMISSION OF TEXAS**

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**CHAIRMAN CHRISTI CRADDICK**

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**COMMISSIONER RYAN SITTON**

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**COMMISSIONER WAYNE CHRISTIAN**

**ATTEST:**

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**SECRETARY**

# **GUD No. 10738**

## **Final Order**

### **LIST OF ATTACHMENTS**

(Hard copies are within PFD attachments.)

1. Proof of Revenues (Exhibit B to settlement)
2. Depreciation Rate Summary (Exhibit C to settlement)
3. Tariffs (Exhibit A to settlement)