

**BEFORE THE
RAILROAD COMMISSION OF TEXAS**

**HEMPHILL CONTRACTING CO., INC. §
D/B/A MITCHELL COUNTY UTILITY §
COMPANY STATEMENT OF INTENT TO §
CHANGE RATES IN THE ENVIRONS OF §
THE CITY OF WESTBROOK**

**GAS UTILITIES DOCKET
NO. 9605**

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 2004). The Railroad Commission of Texas adopts the following findings of fact and conclusions of law and orders as follows:

FINDINGS OF FACT

1. Hemphill Contracting Co., Inc. d/b/a Mitchell County Utility Company ("MCUC") is a gas utility that owns and operates a natural gas distribution system serving the city of Westbrook and its environs.
2. MCUC filed its *Statement of Intent* to increase rates in the Environs of the city of Westbrook on August 18, 2005.
3. MCUC's Statement of Intent included all required information and was complete.
4. MCUC's last rate case was in 1982.
5. MCUC seeks implementation of rates in the environs that are consistent with the rates approved by the city of Westbrook on September 13, 2005.
6. MCUC requested that the rates would become effective upon the latter of 35 days after the date of filing of this *Statement of Intent* or such other date as the new rates become effective in the city of Westbrook.
7. The Railroad Commission suspended the proposed rates for a period not to exceed one hundred fifty (150) days from the date the rates would otherwise go into effect on September 7, 2005, or until February 10, 2006.
8. The gas distribution system operated by MCUC was installed beginning in 1968, as a means of providing an alternative to liquid propane (LP) gas for customers in the area.

9. MCUC must compete with alternative energy such as LP gas and electricity. Those alternatives are available to all MCUC customers. Thus, MCUC must balance its need for additional revenues with its need to maintain rates competitive with alternative energy sources.
10. Approximately 46% of MCUC's customers are part-time residents who have a primary residence in other areas of the state, and most of the environs customers receive gas service at lake homes or vacation cabins.
11. The proposed increase in rates to all customers is expected to increase total annual operating revenues of MCUC by approximately \$91,827 resulting in overall revenues of \$241,997.
12. The increase in total annual operating revenues will be composed as follows: \$11,450 of the total annual increase will be generated from sales to customers within the city of Westbrook and \$80,377 from customers within the environs of the city of Westbrook.
13. The increase would result in an increase of approximately 61% of total test-year revenues of \$150,170; this increase exceeds 2 ½% of total revenues.
14. MCUC presented a cost of service study with a test year that was twelve months ended December 31, 2004; the data submitted to the Commission in this docket encompasses a full test-year i.e., the twelve-month period ending December 31, 2004.
15. During the test year ended December 31, 2004, MCUC served an average of 49 residential customers and 1 commercial customer inside the city of Westbrook, and 345 residential customers and 6 commercial customers in the environs of the city.
16. Since its last rate case, the utility has lost approximately 17% of its environs residential customers and over 80% of its environs commercial customers which has resulted in a decline in overall revenues and a decline in minimum bill revenues.
17. MCUC notified the environs customers by publication in the *Colorado City Record* on August 25, 2005, September 1, 2005, September 8, 2005, and September 15, 2005.
18. No protests were filed with the Commission regarding the proposed rate increase for MCUC's Westbrook environs customer; no environs customers requested a hearing or filed a petition to intervene, and no hearing was held in this matter.
19. The proposed rate increase was reviewed through an informal proceeding and the following documents have been stipulated into the record of this case: (1) the *Statement of Intent*; (2) Testimony of Thomas A. Graves; (3) Affidavit of Publication; (4) Notice of the city of Westbrook Approval dated September 13, 2005; and (5) Response to Commissions' Questions (Seasonal Reconnect Fee).

20. The total amount of return is \$8,709 and is reasonable.
21. Due to the age of the system, rate base has declined to a point where it does not reflect the scope of the system being operated.
22. Opportunities to obtain additional capital investment from non-captive sources are limited to MCUC.
23. As noted in Finding of Fact 16 above, MCUC has experienced substantial constriction in its customer base since its last rate case.
24. As noted in paragraph Finding of Fact 10 above, a large portion of MCUC current customer base is seasonal in nature.
25. The impact of the decrease in, and seasonal nature of, MCUC's customer base results in an increased risk to the operations of MCUC.
26. MCUC has one supplier of natural gas and, while interruptions of gas supply have not been experienced, MCUC continues to seek alternatives as the continuity of supply is of continuing concern.
27. An overall cost of equity in this case of 14% is reasonable for this utility considering its overall rate base, customer base, and limited access to additional capital investment from non-captive sources.
28. An overall cost of debt of 6.55% is reasonable for this utility.
29. An overall rate of return of 13.33% is reasonable for this utility.
30. The depreciation calculation for the test year of \$7,870 and the depreciation rates reflected in Schedule 3a, Attachment A, are reasonable.
31. MCUC proposes to implement the rate increase in two Phases. Phase I would be effective for twelve months after the effective date of this order and would be a partial increase in rates. Phase II will implement the full increase.
32. Under Phase I, the monthly minimum rate will be \$10.00 and the charge per Mcf will be \$6.19.
33. The Phase I rates apply to residential, commercial, and industrial customers.
34. Under Phase II, the monthly minimum rate will be \$15.00 and the charge per Mcf will be \$7.17.
35. The Phase II rates apply to residential, commercial, and industrial customers.

36. MCUC seeks to revise its current service charges and filed testimony in support of those charges.
37. MCUC's proposed service charges are reasonable. MCUC seeks to revise its current service charges as follows:
 - (a) New account turn on fee is \$20.00
 - (b) Reconnect fee is \$25.00
 - (c) Meter installation fee (existing stub) is \$50.00
 - (d) Returned check charge is \$20.00.
 - (e) Leak detection on customer premises, relighting of pilot lights is \$25.00 during normal business hours and \$40.00 after hours.
38. In addition, MCUC seeks to impose a seasonal reconnect fee.
39. As noted in Finding of Fact 10, several of MCUC's customers are seasonal customers; several of the seasonal non-resident customers disconnect for months at a time when they are away from lake properties and then reconnect when they return.
40. Seasonal non-resident customers who have disconnected from the system do not pay a minimum monthly bill.
41. The result of the seasonal disconnection is that part-time residents are subsidized by full-time residents; a seasonal reconnect fee will reduce this subsidy.
42. MCUC proposed a seasonal reconnect fee equal to the monthly minimum bill times the number of months that service has been disconnected is reasonable; the multiple of months shall not exceed twelve months.
43. MCUC proposed seasonal reconnect fee may result in a fee that is \$180 once Phase II rates are implemented and is excessive.
44. MCUC estimates that the average seasonal customer who decides to disconnect will disconnect for a period of five months.
45. A seasonal reconnect fee that does not exceed \$90 is sufficient to recover the minimum bill for customers who disconnect from the system for a period of up to six months and is reasonable.
46. The seasonal reconnect fee shall apply only to the same customer at the same meter.
47. The Gas Cost Recovery Rule, 16, TEX. ADMIN. CODE ANN. § 7.5519, allows the recovery of part or all of the gas costs of a utility through a purchased gas adjustment clause.
48. The purchased gas adjustment clause is reasonable under the criteria in 16 TEX. ADMIN. CODE § 7.55, and should be approved.

49. MCUC's lost and unaccounted for gas shall not exceed the actual amount of lost and unaccounted for gas, to a maximum of five percent as required by 16 TEX. ADMIN. CODE § 7.5525.
50. Total rate case expenses in this proceeding are \$25,900.00 and are reasonable.
51. The documentation submitted by MCUC established that the rate case expenses incurred by MCUC were just and reasonable.
52. MCUC proposed recovery of all its rate case expenses through a seven year per Mcf surcharge of \$.30 per Mcf; this surcharge is reasonable.
53. Except for issues related to the Seasonal Reconnect Fee, the rates and the rate design proposed by MCUC and described in these finding of fact and the Tariff, attached as Attachment B, to this order are consistent with the rate design approved by the city of Westbrook for in-city customers and have been shown to be just and reasonable for environs customers.
54. Except for issues related to the Seasonal Reconnect Fee, MCUC met its burden of proof to submit sufficient evidence to allow the Commission to determine that MCUC's proposed rates are just and reasonable.

CONCLUSIONS OF LAW

1. MCUC is a gas utility as defined in Texas Utilities Code (TUC). TEX. UTIL. CODE ANN. §§ 101.003(7) and 121.001 (Vernon Supp. 2004 - 2005).
2. The Commission has jurisdiction over the subject matter of this case under TEX. UTIL. CODE ANN. § 102.001 (Vernon 1998 & Supp. 2004 - 2005).
3. Under TEX. UTIL. CODE ANN. § 102.001 (Vernon 1998 & Supp. 2005), the Commission has exclusive original jurisdiction over the rates and services of a gas utility that distributes natural gas in areas outside of a municipality and over the rates and services of a gas utility that transmits, transports, delivers, or sells natural gas to a gas utility that distributes the gas to the public.
4. Under the provisions of the Texas Utilities Code, Chapter 104 and 16 TEX. ADMIN. CODE § 7.205, 7.210, 7.220, and 7.315 (West 2004), a utility is required to seek Commission approval before increasing its rates and filing revised tariff schedules for Environs customers.
5. MCUC filed its *Statement of Intent* to change rates in accordance with the provisions of TEX. UTIL. CODE ANN. §104.102 (Vernon 1998 and Supp. 2004-2005), 16 TEX. ADMIN. CODE §§ 7.205, 7.210, and 7.220 (West 2004).
6. In accordance with 16 TEX. ADMIN. CODE § 7.315 (West 2004), within thirty days of the

effective date of any change to rates or services, MCUC is required to file with the Gas Services Division of the Commission its revised tariffs.

7. The rates established in this Order will not yield more than a fair return on the adjusted value of the invested capital used and useful in providing service to the public, under TEX. UTIL. CODE ANN. § 104.052 (Vernon 1998 & Supp. 2004 - 2005).
8. MCUC's proposed increase is a major change. TEX. UTIL. CODE ANN. § 104.101 (Vernon 1998).
9. The Commission shall hold a hearing in every case in which the increase constitutes a major change. The Commission may, however, use an informal proceeding if the regulatory authority does not receive a complaint before the expiration of 45 days after the date notice of the increase is filed. TEX. UTIL. CODE ANN. § 104.105(b) (Vernon 1998).
10. MCUC's *Statement of Intent* was processed in accordance with the requirements of the Gas Utility regulatory Act (GURA), and the Administrative Procedure Act, TEX. GOV'T CODE ANN. §§ 2001.001-2001.902 (Vernon 2000 and Supp. 2004 - 2005) (APA).
11. MCUC met its burden of proof, in accordance with TEX. UTIL. CODE ANN. § 104.008 (Vernon 1998), that its rate change is just and reasonable.
12. The rates, operations, and services established in this docket are just and reasonable to customers and to the utilities, as expressed under TEX. UTIL. CODE ANN. §101.002 (Vernon 1998 and Supp. 2004 - 2005).
13. The rate case expenses enumerated in the finding of fact herein are reasonable and comply with 16 TEX. ADMIN. CODE ANN. § 7.57 (West 2004).
14. The revenue, rates, rate design and service charges in the findings of fact 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 1998).
15. The revenue, rates, and rate design established in the findings of fact and attached schedules are reasonable; fix an overall level of revenues for MCUC that will permit MCUC a reasonable opportunity to earn a reasonable return on invested capital used and useful in rendering service to the public over and above reasonable and necessary operating expenses, within the meaning and intent of TEX. UTIL. CODE ANN. §104.051 and §104.052 (Vernon 1998); and otherwise comply with Chapter 104 of the Texas Utilities Code.
16. TEX. UTIL. CODE ANN. §104.107 (Vernon 1998 and Supp. 2004-2005) provides the Commission authority to suspend the operation of the schedule of proposed rates for 150 days from the date the schedule would otherwise go into effect.

17. In accordance with TEX. UTIL. CODE ANN. §104.103 (Vernon 1998), 16 TEX. ADMIN. CODE § 7.230 (2002), and 16 TEX. ADMIN. CODE § 7.235 (West 2004), adequate notice was properly provided.
18. The Commission's decision, under 16 TEX. ADMIN. CODE § 7.5519 (West 2004), whether to allow a utility to recover gas cost through a purchased gas adjustment is discretionary.
19. It is reasonable for the Commission to allow MCUC to include a purchased gas adjustment clause in its rates to provide for the flow through of part or all of its gas costs, under 16 TEX. ADMIN. CODE § 7.5519 (West 2004).

IT IS ORDERED that the rates and rate design reflected in the findings of fact, in the Schedules, attached Tariff, and conclusions of law are **APPROVED**.

IT IS FURTHER ORDERED that MCUC shall file tariffs incorporating rates consistent with this Order within thirty days of the date of this Order.

IT IS THEREFORE ORDERED BY THE RAILROAD COMMISSION OF TEXAS THAT MCUC's rates as requested and to the extent recommended to be approved in the findings of fact and conclusions of law are **HEREBY APPROVED** to be effective for bills rendered on and after the date of this order.

IT IS FURTHER ORDERED that MCUC SHALL include in its purchase gas adjustment only its reasonable and necessary gas purchase expenditures and may be subject to an adjustment and potential refund in a subsequent proceeding.

IT IS FURTHER ORDERED that the proposed findings of fact and conclusions of law not specifically adopted herein are **DENIED**. **IT IS ALSO ORDERED** that each exception to the Examiners' Proposal for Decision not expressly granted herein is overruled and all pending motions and requests for relief not previously granted herein are hereby **DENIED**.

IT IS FURTHER ORDERED THAT MCUC is authorized to recover, through a surcharge charged to ratepayers until recovered, the approved actual rate case expense of \$25,900.00 at a rate of \$.30 per Mcf.

IT IS FURTHER ORDERED THAT MCUC may begin charging the approved rates as of the date of this order. This Order will not be final and effective until 20 days after a party is notified of the Commission's order. A party is presumed to have been notified of the Commission's order three days after the date on which the notice is actually mailed. If a timely motion for rehearing is filed by any party at interest, this order shall not become final and effective until such motion is overruled, or if such motion is granted, this order shall be subject to further action by the Commission. Pursuant to Tex. Gov't Code §2001.146(e), the time allotted for Commission action on a motion for rehearing in this case prior to its being overruled by operation of law, is hereby extended until 90 days from the date the order is served on the parties.

SIGNED this 29th day of November, 2005.

RAILROAD COMMISSION OF TEXAS


ELIZABETH A. JONES
CHAIRMAN
MICHAEL L. WILLIAMS
COMMISSIONER
VICTOR G. CARRILLO
COMMISSIONER

ATTEST



SECRETARY

ATTACHMENT A

SCHEDULES

MITCHELL COUNTY UTILITY COMPANY
Cost of Service and Revenue Deficiency - Gas
12 Months Ended December 31, 2004

Schedule 1

Line No.	Particulars	Ref.	Amount
1	Gas Purchases	Sch. 2, 7	\$ 83,322
2	Operation & Maintenance, excl. Cost of Gas	Sch. 2, 7	\$ 127,884
3	Depreciation	Sch. 3a	\$ 7,870
4	Other Taxes	Sch. 7	\$ 12,743
5	Federal Income Taxes	Sch. 5	\$ 1,469
6	Return	Sch. 3	\$ 8,709
7	Total Cost of Service		<u>\$ 241,996</u>
8	Less Other Revenues		
9	Misc. Fees	Sch. 7	-
10	Connection Charges, adjusted	Sch. 7	<u>(798)</u>
11	Base Rate Revenue Requirement		<u>\$ 241,198</u>
12	Base Rate Revenues at Present Rates	Sch. 6	<u>(149,600)</u>
13	Base Rate Revenue Deficiency/(Surplus)		<u><u>\$ 91,599</u></u>

MITCHELL COUNTY UTILITY COMPANY
Operation & Maintenance Expense -Gas
Test Year Ended December 31, 2004

Schedule 2

Line No.	FERC Acct.	Particulars	Test Year	Adjustments (Sch. 2a)					As Adjusted
				No. 1	No. 2	No. 3	No. 4	Total	
1	804	Natural Gas City Gate Purchases	\$ 96,667.22	\$ (13,345.58)				\$ (13,345.58)	\$ 83,321.64
2	870	Supervision & Engr. - Distribution	26,020.73					-	26,020.73
3	874	Mains & Services Expenses	41,862.33					-	41,862.33
4	903	Customer Records & Collection	16.46					-	16.46
5	920	Administrative & General Salaries	12,633.75					-	12,633.75
6	921	Office Supplies & Expenses	5,713.36					-	5,713.36
7	923	Outside Services Employed	2,063.25					-	2,063.25
8	924	Property Insurance	12,254.63					-	12,254.63
9	925	Injuries & Damages	528.67					-	528.67
10	926	Employee Benefits	17,839.64					-	17,839.64
11	928	Regulatory Commission Expense	-		3,589.80	(3,589.80)		-	-
12	930.1	Goodwill Advertising	1,217.77				(1,217.77)	(1,217.77)	-
13	931	Rents	1,400.00					-	1,400.00
14	932	Maint. of General Plant	7,550.71					-	7,550.71
15		Total Operation & Maintenance	\$ 225,788.52	\$ (13,345.58)	\$ 3,589.80	\$ (3,589.80)	\$ (1,217.77)	\$ (14,563.35)	\$ 211,205.17

MITCHELL COUNTY UTILITY COMPANY
Adjustments to Operation & Maintenance Expense - Gas
Test Year Ended December 31, 2004

Schedule 2a

Line No.	Particulars	Amount
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1 Adjustment No. 1:

2 To adjust cost of purchased gas to match normalized gas sales and allowable loss factor

	Percent	Mcf	Amount	Per Mcf
3 Gas Purchases - Test Year		15,092	\$ 96,667.22	\$ 6.41
4 L&U Percentage - Test Year (adjusted)	22.2%			
5 Gas Sales & Use - Normalized		12,223		
6 Required Purchases		15,709	\$ 100,618.53	\$ 6.41
7 Allowable L&U @ 5%		785		
8 Allowable Purchases		13,008	\$ 83,321.64	\$ 6.41
9 Less Test Year Purchases			\$ (96,667.22)	
10 Adjustment to Gas Purchases			\$ (13,345.58)	

11 Adjustment No. 2:

12 To reflect estimated rate case expenses

	Amount
13 Rate Consultant (Willis, Graves & Assoc., Inc.)	\$ 12,500.00
14 Legal (Strasburger & Price)	12,500.00
15 Printing & Reproduction	150.00
16 Publication of Notice	250.00
17 Postage, Long-distance & Misc.	500.00
18 Total	\$ 25,900.00
19 Proposed Surcharge per Mcf	\$ 0.30
20 Annual Recovery of Rate Case Expenses	\$ 3,589.80
21 Estimated Recovery Period - Years	7.21

22 Adjustment No. 3:

23 To remove rate case expenses for specific recovery via surcharge

	Amount
24 Adjustment	\$ (3,589.80)

26 Adjustment No. 4:

27 To eliminate goodwill advertising per Rule 7.56(b)

	Amount
28 Adjustment	\$ (1,217.77)

MITCHELL COUNTY UTILITY COMPANY
Invested Capital (Rate Base) and Return - Gas
Test Year Ended December 31, 2004

Schedule 3

Line No.	Particulars	Ref.	Amount
1	Utility Plant in Service	Sch. 3a	\$ 353,942
2	Less Accumulated Depreciation	Sch. 3a	(303,607)
3	Net Utility Plant		50,335
4	Working Capital (48 Non-Gas O&M Exp.)	Sch. 2	15,985
5	Average balance - Deferred rate case expenses	Sch. 2a	3,590
6	Less Accumulated Deferred F.I.T	Lines 9-14	(4,591)
7	Total Invested Capital		65,319
8	Rate of Return	Sch. 4	13.33%
9	Return		\$ 8,709
10	<u>Calculation of Deferred Tax Reserve:</u>		
11	Accumulated Depreciation - Tax Basis		\$ 334,215.66
12	Accumulated Depreciation - Regulatory Basis		(303,607.20)
13	Excess of Tax over Book		30,608.46
14	Effective Tax Rate		15.00%
15	Deferred Taxes		\$ 4,591.27

MITCHELL COUNTY UTILITY COMPANY
Gas Utility Plant and Depreciation - Summary
Test Year Ended December 31, 2004

Schedule 3a

Plant Account		Description	Original Cost of Plant				Life	Accumulated Depreciation - Regulatory Basis				NET PLANT	Adjusted Deprec.
Company	FERC		Beginning Balance	Additions	Retirements	Ending Balance		Beginning Balance	Current Provision	Adjustments	Ending Balance		
GAS PLANT*													
100	376	Mains - Gas	78,082.70	-	-	78,082.70	50	49,140.72	1,561.20	-	50,701.92	27,360.78	1,561.20
101	380	Service Lines - Gas	14,250.00	-	-	14,250.00	25	14,130.00	60.00	-	14,190.00	60.00	60.00
103	381-4	Meters - Gas	16,703.31	-	-	16,703.31	25-35	15,512.12	132.96	-	15,645.08	1,058.23	132.96
104	378-9	Regulating Station - City Gate	4,000.00	-	-	4,000.00	25	4,000.00	-	-	4,000.00	-	-
106	381-4	House Regulators	16,082.41	-	-	16,082.41	25-35	15,176.40	112.32	-	15,288.72	793.69	112.32
108	397	Communication Equipment	7,194.30	-	-	7,194.30	10	7,194.30	-	-	7,194.30	-	-
110	391	Office Equipment	22,555.64	-	-	22,555.64	10	22,347.64	124.68	-	22,472.32	83.32	83.32
112	393-396	Power Operated Equipment	38,536.82	-	-	38,536.82	5-10	35,717.76	890.28	-	36,608.04	1,928.78	890.28
114	393-396	Tools, Shop Equipment	29,386.90	-	-	29,386.90	5-10	29,255.68	131.22	-	29,386.90	-	-
120	392	Automobiles	64,784.02	-	-	64,784.02	5	50,356.91	4,487.95	-	54,824.86	9,959.16	3,566.64
125	375	Buildings	62,386.18	-	-	62,386.18	10-30	51,816.76	1,478.30	-	53,295.06	9,091.12	1,463.40
TOTAL GAS PLANT			353,942.28	-	-	353,942.28		294,648.29	8,958.91	-	303,607.20	50,335.08	7,870.12

* Does not include land reported in 2004 Distribution Annual Report (\$8,105.34). Land is for water utility operations and was erroneously reported as gas utility plant.
Includes \$4,550 of gas mains acquired in 1999 but misclassified as water wells.

HEMPHILL CONTRACTING, INC.
d/b/a/ Mitchell County Utility Company
Capitalization and Cost of Capital
12 Months Ended December 31, 2004

Schedule 4

Line No.	Particulars	Amount	Percent	Cost	Weighted Cost
1	<u>Long-term Debt</u>				
2	Note Payable - 2003 Pickup	22,000.39	7.04%	5.95%	0.42%
3	Note Payable - First Natl Bank - Water Well	162,295.00	51.93%	8.75%	4.54%
4	Eliminate Water Well Note - Non-Gas Utility	(162,295.00)	-51.93%	8.75%	-4.54%
5	Note Payable - First Natl Bank	6,000.00	1.92%	8.75%	0.17%
6	Total Long-term Debt	28,000.39	8.96%	6.55%	0.59%
7	<u>Loans From Stockholders</u>				
8	Note Payable - Mike Hemphill	151,700.00	48.54%		0.00%
9	Reclassify Notes to Eqty	(151,700.00)	-48.54%		0.00%
10	Total Loans from Stockholders	-	0.00%	0.00%	0.00%
11	<u>Stockholders' Equity</u>				
12	Common Stock Issued	31,000.00	9.92%	14.00%	1.39%
13	Premium on Capital Stock	9,280.00	2.97%	14.00%	0.42%
14	Unappropriated Retained Earnings	116,787.78	37.37%	14.00%	5.23%
15	Current Year Earnings	(24,252.82)	-7.76%	14.00%	-1.09%
16	Reclassify loans from Stockholders	151,700.00	48.54%	14.00%	6.80%
17	Total Stockholders' Equity	284,514.96	91.04%	14.00%	12.75%
18	Total Capital	312,515.35	100.00%		13.33%

MITCHELL COUNTY UTILITY COMPANY
 Allowance for Federal Income Taxes - Gas
 Test Year Ended December 31, 2004

Schedule 5

Line No	Particulars	Schedule Reference	Rate	Amount
1	Total Invested Capital (Rate Base)	3		\$ 65,319.05
2	<u>Cost of Capital</u>			
3	Overall	4	13.33%	
4	Debt Component	4	0.59%	
5	Return	3		\$ 8,708.66
6	Less Debt component of return (interest)($\frac{1}{2}$)x #			(383.33)
7	Taxable income, net of FIT - Total			\$ 8,325.33
8	Taxable income, net of FIT - By Bracket			
9	First \$ 14,167			\$ 8,325.33
10	Next \$ 6,250			-
11	Next \$ 5,500			-
12	Next \$ 47,783			-
13	Next \$ 2,126,300			-
14	Next \$ 1,083,333			-
15	Next \$ 688,889			-
16	All Over \$ 3,972,222			-
17	Total			\$ 8,325.33
18	FEDERAL INCOME TAX			
19	First \$ 14,167	15%		\$ 1,469.18
20	Next \$ 6,250	25%		-
21	Next \$ 5,500	34%		-
22	Next \$ 47,783	39%		-
23	Next \$ 2,126,300	34%		-
24	Next \$ 1,083,333	35%		-
25	Next \$ 688,889	38%		-
26	All Over \$ 3,972,222	35%		-
27	TOTAL FEDERAL INCOME TAX			\$ 1,469.18
28	EFFECTIVE INCOME TAX RATE:			15.00%

MITCHELL COUNTY UTILITY CO.
Volumes and Revenue - GAS
12 Months Ended 12/31/04

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Line	Particulars	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total Yr.
1	MCF SOLD/USED:													
2	Residential:													
3	Westbrook	630	768	452	112	116	77	87	65	59	80	217	434	3,077
4	Environs	1,318	1,836	1,105	584	326	233	220	249	179	252	613	948	7,863
5	Total Residential	1,948	2,604	1,557	696	442	310	287	314	238	332	830	1,382	10,940
6	Commercial:													
7	Westbrook	24	83	40	9	6	0	1	0	0	3	29	61	256
8	Environs	65	18	28	17	20	24	17	21	20	14	22	24	290
9	Total Commercial	89	101	68	26	26	24	18	21	20	17	51	85	546
10	Total MCF Sold/Used													
11	Westbrook	654	851	492	121	122	77	68	65	59	83	246	495	3,333
12	Environs	1,383	1,854	1,133	601	346	257	237	270	199	266	635	972	8,153
13	Total Sales	2,037	2,705	1,625	722	468	334	305	335	258	349	881	1,467	11,486
14	Company Use	39	47	33	16	8	8	8	8	32	8	18	32	257
15	Total Sales & Use	2,076	2,752	1,658	738	476	342	313	343	290	357	899	1,499	11,743
16	Lost & Unaccounted For													
17	Purchases	2,640	2,704	1,366	907	615	460	487	465	477	586	1,656	2,729	15,092
18	Lost & Unaccounted For	564	(48)	(292)	169	139	118	174	122	187	229	757	1,230	3,349
19	Allowable L&U @ 5% of Purch.	132	135	68	45	31	23	24	23	24	29	83	136	755
20	Excess L&U	432	(183)	(360)	124	108	95	150	99	163	200	674	1,094	2,594
21	AMOUNT (\$)													
22	Residential:													
23	Westbrook	\$ 5,805.94	\$ 7,722.32	\$ 4,562.71	\$ 1,272.22	\$ 1,320.26	\$ 1,026.36	\$ 1,017.32	\$ 984.35	\$ 893.97	\$ 1,036.20	\$ 2,309.73	\$ 5,317.82	33,269.20
24	Environs	13,906.42	20,264.51	12,511.42	7,377.64	4,908.68	4,512.10	4,572.13	4,920.72	4,185.53	4,537.44	7,511.45	13,004.08	102,212.12
25	Total Residential	19,712.36	27,986.83	17,074.13	8,649.86	6,228.94	5,538.46	5,589.45	5,905.07	5,079.50	5,573.64	9,821.18	18,321.90	135,481.32
26	Commercial:													
27	Westbrook	160.58	829.10	397.50	105.36	72.30	54.42	29.30	18.00	33.10	66.41	281.90	723.18	2,771.11
28	Environs	420.35	180.60	283.52	196.68	228.18	255.94	235.10	248.79	242.50	158.98	243.20	320.44	3,014.28
29	Total Commercial	580.91	1,009.70	681.02	302.04	300.48	310.36	264.40	266.79	275.60	225.39	525.10	1,043.60	5,785.39
30	Total GAS Sold													
31	Westbrook	5,966.50	8,551.42	4,960.21	1,377.58	1,392.56	1,080.78	1,046.62	1,002.35	927.07	1,102.61	2,591.63	8,040.98	36,040.31
32	Environs	14,326.77	20,445.11	12,794.94	7,574.32	5,136.86	4,768.04	4,807.23	5,169.51	4,428.03	4,696.42	7,754.65	13,324.52	105,226.40
33	Total	20,293.27	28,996.53	17,755.15	8,951.90	6,529.42	5,848.82	5,853.85	6,171.86	5,355.10	5,799.03	10,346.28	19,365.50	141,266.71
34	Number of Customers Billed:													
35	Residential:													
36	Westbrook	50	41	48	49	48	50	48	48	48	50	51	52	49
37	Environs	344	352	349	344	348	347	346	343	343	346	336	337	345
38	Total Residential	394	393	397	393	396	397	394	391	391	396	387	389	393
39	Commercial:													
40	Westbrook	1	1	1	1	1	1	1	1	1	1	1	1	1
41	Environs	7	7	6	6	6	6	6	6	6	6	6	6	6
42	Total Commercial	8	8	7	7	7	7	7	7	7	7	7	7	7
43	Company Use	2	2	2	2	2	2	2	2	2	2	2	2	2
44	Total Customers	402	401	404	400	403	404	401	398	398	403	394	396	400

MITCHELL COUNTY UTILITY CO.
Volumes and Revenue - GAS
12 Months Ended 12/31/04

Page 2 of 3
July 6

Line	Particulars	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total Yr.
45	<u>MCF Per Customer - Actual</u>													
46	Residential	4.94	6.63	3.92	1.77	1.12	0.78	0.73	0.80	0.61	0.84	2.14	3.55	232
47	Commercial	11.13	12.63	9.71	3.71	3.71	3.43	2.57	3.00	2.86	2.43	7.29	12.14	835
48	<u>Heating Degree-Days</u>													
49	Test Year	594	594	233	135	16	0	0	0	0	38	400	649	2,659
50	Normal	713	491	316	116	20	0	0	0	12	93	399	665	2,825
51	Normal/Actual													1.06
52	<u>Base Load/Customer (Mcf)</u>													
53	Residential	0.73	0.73	0.73	0.73	0.73	0.73	0.73	0.73	0.73	0.73	0.73	0.73	0.73
54	Commercial	2.96	2.96	2.96	2.96	2.96	2.96	2.96	2.96	2.96	2.96	2.96	2.96	2.96
55	<u>Excess Load/Customer-Actual</u>													
56	Residential	4.21	5.90	3.19	1.04	0.39	0.05	0.00	0.07	0.00	0.11	1.41	2.82	160
57	Commercial	8.16	9.66	6.75	0.75	0.75	0.46	0.00	0.04	0.00	0.00	4.32	9.18	334
58	<u>Excess Load/Customer-Normal</u>													
59	Residential	4.48	6.26	3.39	1.11	0.41	0.00	0.00	0.00	0.00	0.11	1.50	3.00	169
60	Commercial	8.67	10.26	7.17	0.80	0.80	0.00	0.00	0.00	0.00	0.00	4.59	9.75	350
61	<u>Normalized Usage/Customer</u>													
62	Residential	5.21	6.99	4.12	1.84	1.14	0.73	0.73	0.73	0.73	0.85	2.23	3.73	242
63	Commercial	11.63	13.23	10.14	3.76	3.76	2.96	2.96	2.96	2.96	2.96	7.56	12.72	647
64	<u>Adjusted Customers</u>													
65	Residential	393	393	393	393	393	393	393	393	393	393	393	393	
66	Commercial	7	7	7	7	7	7	7	7	7	7	7	7	
67	Total	400	400	400	400	400	400	400	400	400	400	400	400	
68	<u>Normalized Sales & Use (Mcf)</u>													
69	Residential	2,047	2,750	1,620	722	448	287	287	287	287	332	878	1,466	11,411
70	Commercial	83	95	73	27	27	21	21	21	21	21	54	91	555
71	Total Sales	2,130	2,845	1,693	749	475	308	308	308	308	353	932	1,557	11,966
72	Company Use	39	47	33	16	8	8	8	8	32	8	18	32	257
73	Total Sales & Use	2,169	2,892	1,726	765	483	316	316	316	340	361	950	1,589	12,223
74	Percent of Test Year													104.1%
75	<u>Revenues at Present Rates</u>													
76	Rates													
77	Minimum Bill	\$ 6.00	\$ 6.00	\$ 6.00	\$ 6.00	\$ 6.00	\$ 6.00	\$ 6.00	\$ 6.00	\$ 6.00	\$ 6.00	\$ 6.00	\$ 6.00	
78	Each Mcf	\$ 6.19	\$ 6.19	\$ 6.19	\$ 6.19	\$ 6.19	\$ 6.19	\$ 6.19	\$ 6.19	\$ 6.19	\$ 6.19	\$ 6.19	\$ 6.19	
79	PGA	\$3.91	\$3.91	\$3.91	\$3.91	\$3.91	\$3.91	\$3.91	\$3.91	\$3.91	\$3.91	\$3.91	\$3.91	
80	Revenues:													
81	Minimum Bill	\$ 2,400	\$ 2,400	\$ 2,400	\$ 2,400	\$ 2,400	\$ 2,400	\$ 2,400	\$ 2,400	\$ 2,400	\$ 2,400	\$ 2,400	\$ 2,400	28,800
82	Each Mcf	\$ 13,185	\$ 17,911	\$ 10,480	\$ 4,636	\$ 2,940	\$ 1,907	\$ 1,907	\$ 1,907	\$ 1,907	\$ 2,185	\$ 5,769	\$ 9,638	74,070
83	PGA	\$ 8,318	\$ 11,110	\$ 6,612	\$ 2,925	\$ 1,855	\$ 1,203	\$ 1,203	\$ 1,203	\$ 1,203	\$ 1,379	\$ 3,640	\$ 6,080	46,730
84	Total	\$ 23,903	\$ 31,121	\$ 19,491	\$ 9,961	\$ 7,195	\$ 5,509	\$ 5,509	\$ 5,509	\$ 5,509	\$ 5,964	\$ 11,809	\$ 18,118	\$ 149,600

HEMPHILL CONTRACTING, INC.
d/b/a Mitchell County Utility Company
Statement of Revenue and Expense - GAS
12 Months Ended December 31, 2004

Schedule 7

Line	Particulars	Per Books	Adj. to Reg. Basis	Regulatory Basis
1	Revenues			
2	Residential Sales	\$ 136,126.18		136,126.18
3	Commercial/Ind. Sales	5,376.33		5,376.33
4	Connection Fees	570.00		570.00
5	Misc. Fees	-		-
6	Total Operating Revenues	142,072.51	-	142,072.51
7	Operation & Maintenance Expenses			
8	Purchased Gas	96,667.22		96,667.22
9	Operation Supervision	26,020.73		26,020.73
10	Labor	23,644.24		23,644.24
11	Uniforms	77.57		77.57
12	Auto - Gas & Oil	8,468.91		8,468.91
13	Supplies	4,009.04		4,009.04
14	Utilities	3,360.37		3,360.37
15	Telephone	2,302.20		2,302.20
16	Accounts Receivable Adjustments	16.46		16.46
17	Administrative Salary	12,633.75		12,633.75
18	Office Supplies & Expenses	5,713.36		5,713.36
19	Outside Services	2,063.25		2,063.25
20	Property Insurance	12,254.63		12,254.63
21	Injuries & Damages	528.67		528.67
22	Employee Benefits	17,839.64		17,839.64
23	Advertising	508.85		508.85
24	Dues & Subscriptions	708.92		708.92
25	Rent	1,400.00		1,400.00
26	Maint. of General Plant	7,550.71		7,550.71
27	Total Operation & Maintenance	225,768.52	-	225,768.52
28	Depreciation	7,100.57	1,858.34	8,958.91
29	Taxes Other Than Income Taxes	11,284.16		11,284.16
30	Federal Income Taxes	-		-
31	Total Operating Expenses	244,153.25	1,858.34	246,011.59
32	Operating Income	(102,080.74)	(1,858.34)	(103,939.08)

HEMPHILL CONTRACTING, INC.
d/b/a Mitchell County Utility Company
Balance Sheet
As of Ended December 31, 2004

Schedule 8

Line No.	Particulars	Per Books	Adj. to Reg. Basis	Regulatory Basis
1	<u>ASSETS AND OTHER DEBITS</u>			
2	<u>Current Assets</u>			
3	Cash	\$ 3,321.94		\$ 3,321.94
4	Accounts Receivable - Water & Gas	43,371.77		43,371.77
5	Accounts Receivable - Contracting	778.47		778.47
6	Total Current Assets	47,472.18	-	47,472.18
7	<u>Fixed Assets</u>			
8	Utility Plant in Service - Water	795,507.96		795,507.96
9	Accumulated Depreciation - Water	(485,380.08)	82,798.35	(402,581.73)
10	Net Plant - Water	310,127.88	82,798.35	392,926.23
11	Utility Plant in Service - Gas	353,942.28		353,942.28
12	Accumulated Depreciation - Gas	(334,215.66)	30,608.46	(303,607.20)
13	Net Plant - Gas	19,726.62	30,608.46	50,335.08
14	Plant - Non-Utility	146,897.68		146,897.68
15	Accumulated Depreciation - Non-Utility	(112,963.82)	287.47	(112,676.35)
16	Net Plant - Non-Utility	33,933.86	287.47	34,221.33
17	Total Fixed Assets	363,788.36	113,694.28	477,482.64
18	TOTAL ASSETS AND OTHER DEBITS	\$ 411,260.54	\$ 113,694.28	\$ 524,954.82
19	<u>LIABILITIES AND EQUITY</u>			
20	<u>Current Liabilities</u>			
21	Notes Payable - Owners	\$ 151,700.00		\$ 151,700.00
22	Accounts Payable	31,763.46		31,763.46
23	Customer Deposits-Gas	1,842.00		1,842.00
24	Customer Deposits-Water	16,080.00		16,080.00
25	Payroll Taxes Payable	459.01		459.01
26	Total Current Liabilities	201,844.47	-	201,844.47
27	<u>Long-term Liabilities</u>			
28	Note Payable - 2003 Pickup	22,000.39		22,000.39
29	Note Payable - First Nat'l Bank (Wells)	162,295.00		162,295.00
30	Note Payable - First Nat'l Bank	6,000.00		6,000.00
31	Total Long-term Liabilities	190,295.39	-	190,295.39
32	<u>Common Equity</u>			
33	Common Stock Issued	31,000.00		31,000.00
34	Premium on Capital Stock	9,280.00		9,280.00
35	Unappropriated Retained Earnings	474.92	116,312.86	116,787.78
36	Current Year Earnings	(21,634.24)	(2,618.58)	(24,252.82)
37	Total Common Equity	19,120.68	113,694.28	132,814.96
38	TOTAL LIABILITIES AND EQUITY	\$ 411,260.54	\$ 113,694.28	\$ 524,954.82

Willis, Graves & Associates, Inc.

Gas Sales

Applicability: To residential, commercial and industrial customers in the City of Westbrook and Environs, and not subject to other rate schedules, for natural gas sales at one delivery point and measured through one meter.

<u>Gas Service Rates</u>	<u>Phase I*</u>	<u>Phase II*</u>
Cost of Service:		
Minimum Monthly Bill	\$ 10.00	\$ 15.00
MINIMUM BILL INCLUDES NO GAS CONSUMPTION ALLOWANCE		
Each Mcf	\$ 6.19	\$ 7.17
RATE TO BE APPLIED TO METERED VOLUME ROUNDED TO THE NEAREST 100 CUBIC FEET		
Cost of Gas	Per GCR Provision	
GAS COST RECOVERY RATE TO BE APPLIED TO METERED VOLUME ROUNDED TO THE NEAREST 100 CUBIC FEET		
Rate Case Expense Surcharge per Mcf	\$ 0.30	\$ 0.30
SUBJECT TO RATE CASE EXPENSE SURCHARGE PROVISION BELOW		

* PHASE I RATES WILL BE APPLIED TO THE FIRST FULL BILLING PERIOD BEGINNING ON OR AFTER THE EFFECTIVE DATE INDICATED ABOVE. PHASE II RATES WILL BE APPLIED TO THE FIRST FULL BILLING PERIOD BEGINNING ON OR AFTER THE ONE YEAR ANNIVERSARY OF THE EFFECTIVE DATE INDICATED ABOVE.

<u>Miscellaneous Service Rates:</u>	<u>Phase I & II</u>
New account turn-on	\$ 20.00
Reconnect after disconnection	\$ 25.00
Hang meter with existing stub	\$ 50.00
Meter test on request of customer	\$ 15.00
Returned Check Charge	\$ 20.00
Services on customer's premises	
Service call	\$ 25.00
After Hours	\$ 40.00
Seasonal Reconnect Fee	
IF A CUSTOMER VOLUNTARILY TERMINATES SERVICE AND APPLIES TO RESTORE SERVICE AT THE SAME LOCATION WITHIN TWELVE MONTHS OF TERMINATION, THE CUSTOMER SHALL PAY A SEASONAL RECONNECT FEE. THE SEASONAL RECONNECT FEE SHALL BE EQUAL TO THE APPLICABLE MONTHLY BILL TIMES THE NUMBER OF MONTHS THAT SERVICE WAS TERMINATED. THE SEASONAL RECONNECT FEE SHALL NOT EXCEED \$90.00 AND SHALL BE IN ADDITION TO ANY APPLICABLE FEES OR CHARGES UNDER THIS TARIFF OR THE COMMISSION'S RULES.	
Customer Deposit	\$ 50.00
CUSTOMER DEPOSIT IS WAIVED FOR CUSTOMERS AGED 65 YEARS OR OLDER.	

Gas Cost Recovery (GCR) Provision

Each monthly bill shall include a charge per Mcf for the allowable cost of gas incurred in the prior service month, said charge to be computed in accordance with the following terms and provisions:

Definitions and Calculations:

Sales Month is the calendar month during which gas is physically received into the distribution system and delivered to customers

Billing Month is the calendar month during which the utility is billed for gas purchases and issues bills for gas sales which occurred during the preceding month. The billing month is normally one month after the sales month. For example, December is normally the billing month for the November sales month.

Gas Cost Incurred is the total cost of gas purchased by the utility during a Sales Month, and includes any corrections or adjustments, whether to the applicable Sales Month or to prior periods.

Gas Purchased is the volume (Mcf) of gas purchased and metered into the distribution system in a sales month.

Weighted Average Cost of Gas (WACOG) is equal to Gas Cost Incurred divided by Gas Purchased (Mcf)

Gas Cost Recovery (GCR) Provision (Cont'd)

Gas Delivered is the volume of gas (Mcf) metered out of the system in a sales month

Gas Sales is the volume (Mcf) of gas metered to customers in a sales month.

Lost and Unaccounted For Gas (LUG) is the difference between the volume of Gas Purchased and Gas

Allowable Lost and Unaccounted For Gas is the actual volume of LUG or 5% (five percent) of gas purchases, whichever is less, but not less than zero.

Allowable Gas Purchased is the sum of Gas Delivered and Allowable Lost and Unaccounted For Gas.

Allowable Gas Cost is equal to Allowable Gas Purchased times WACOG.

Gas Cost Recovery Rate (GCRR) (per Mcf) is equal to Allowable Gas Cost divided by Gas Sales (Mcf).

Application

The Gas Cost Recovery Rate (GCRR) for a given sales month shall be applied in the immediately ensuing billing month, so that the sales volumes upon which the Gas Cost Recovery Rate is calculated are the same sales volumes to which the GCRR is applied. The GCRR shall be applied to metered sales volumes rounded to the nearest 100 cubic feet.

Example Calculation

Sales Month:	February	
Billing Month:	March	
Gas Cost Incurred:	\$10,440.00	
Gas Purchased:	1,800	Mcf
WACOG:	\$5.8000	per Mcf (15,791.36/2,704)
Gas Delivered:	1,691	Mcf
Gas Sold:	1,658	Mcf
LUG:	109	Mcf (2,704 - 1,691)
Allowable LUG:	90	Mcf (= 1,800 x 5% or 109, whichever is less, but not less than 0)
Allowable Gas Purchased:	1,781	Mcf (1,691 + 90)
Allowable Gas Cost:	\$10,329.80	(= 1,781 x \$5.8000)
Gas Cost Recovery Rate (GCRR)*	<u>\$6.2303</u>	per Mcf (= \$10,329.80 / 1,658)

* To be applied in March Billing Month

Rate Case Expense Surcharge

Rate Case Expense Surcharge is to be applied to rate case expenses approved for recovery by the applicable regulatory authority until such expenses have been recovered, at which time the surcharge shall be discontinued.

Line Extension Policy

The Utility will furnish up to fifty feet of service line from the main to the meter. If the service line extension is greater than fifty feet, the customer will be charged for the additional footage at the utility's average cost per linear foot of the line extension.

If any additional customer is tied in to the subject service line, such customer will be charged a pro-rata portion of the charge paid by the original customer for that portion of the service line shared by the new customer. Any charges received from the new customer will be reimbursed to the existing customer(s) who paid for the line extension.