



RAILROAD COMMISSION OF TEXAS GAS SERVICES DIVISION

June 27, 2011

TO: All Parties of Record

RE: **Gas Utilities Docket No. 10068**
*Application for Cost of Service
Adjustment filed by Texas Gas
Service Company to Increase the
Rates in the Unincorporated Areas
of the North Texas Service Area.*

Examiners' Letter No. 6 Transmittal of Final Order

Please find attached a copy of the final order signed by the Commissioners in open conference on today, Monday, June 27, 2011, regarding the above-referenced docket.

Thank you very much for your consideration of this matter. Please feel free to contact mark.brock@rrc.state.tx.us or 512/463-7018 with any questions regarding this letter.

Sincerely,

A handwritten signature in black ink that reads "Mark Brock".

Mark Brock
Advising Utility Specialist
Gas Services Division

Attachment

cc: Service List

c: Mark Evarts
Director, Market Oversight Section

RAILROAD COMMISSION OF TEXAS

APPLICATION FOR COST OF SERVICE ADJUSTMENT FILED BY TEXAS GAS SERVICE COMPANY TO INCREASE THE RATES IN THE UNINCORPORATED AREAS OF THE NORTH TEXAS SERVICE AREA.	§ § § § § §	GAS UTILITIES DOCKET NO. 10068
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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. 2010). The Railroad Commission of Texas adopts the following findings of fact and conclusions of law and orders as follows:

FINDINGS OF FACT

1. Texas Gas Service Company (TGS) is a 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. TGS owns and operates a gas distribution system, referred to as the North Texas Service Area (NTSA).
3. On April 28, 2009, the Commission issued its Final Order, which approved a cost of service adjustment (COSA) tariff in Gas Utility Docket (GUD) No. 9839 for the unincorporated areas of the NTSA.
4. The Cities approved a similar COSA tariff for the incorporated cities of Breckenridge, Graham, Jacksboro, Bryson, Jermyn, Mineral Wells, Graford, Millsap, Palo Pinto, Whitt, Perrin, Weatherford, Aledo, Hudson, Hudson Oaks, Willow Park, Punkin Center, and Possum Kingdom, Texas.
5. This COSA is applicable to the unincorporated areas of Breckenridge, Graham, Jacksboro, Bryson, Jermyn, Mineral Wells, Graford, Millsap, Palo Pinto, Whitt, Perrin, Weatherford, Aledo, Hudson, Hudson Oaks, Willow Park, Punkin Center, and Possum Kingdom, Texas.
6. TGS did not file a COSA for the 12-months ended December 31, 2008 because the Commission did not approved the COSA tariff until after April 1, the date to file a COSA with the regulatory authority.
7. On April 1, 2010, the Commission received the application for the COSA filed by TGS to increase the rates in the unincorporated areas of the NTSA and it was docketed as GUD No. 9963.

8. On September 14, 2010, the Commission issued a Nunc Pro Tunc approving the COSA rate in GUD No. 9963.
9. The Commission has 90-days to conduct its review of the proposed rate adjustment prior to its taking effect within the first billing cycle of August of each year, or a deadline of June 30, 2011.
10. On April 4, 2011, TGS requested an indefinite abatement of the docket to allow TGS time to negotiate a change in the COSA Tariff and requested the Commission grant a good cause exception to the CPI limitation.
11. On April 7, 2011, Staff abated the process for 30-days and denied the request for a good cause exception on the basis that Staff found no authority under the approved COSA Tariff or in regulations giving the Commission authority to grant such request.
12. On May 5, 2011, Staff resumed the review process and issued requests for information under Examiner's letter No. 2.
13. It is reasonable to grant TGS an exception to publishing notice since the COSA for Calendar Year 2010 is an overall decrease in rates.
14. As of June 27, 2011, no party has intervened or filed a protest of the rate increase in this proceeding.
15. Intervention is not contemplated under the terms of the COSA Tariff.
16. A hearing is not contemplated under the COSA Tariff for approval of the COSA rate.
17. With no provision for intervention or hearing, the evidentiary record is supported only by the TGS filing.
18. The data submitted by TGS in this docket encompasses a full calendar year, i.e., the twelve-month period ending December 31, 2010.
19. The TGS COSA Tariff is an annual adjustment based on calendar year operating expenses, return on investment, federal income taxes, and revenue related taxes.
20. It is reasonable to adjust Calendar Year 2011's revenue requirement by \$5,326 for next year's COSA calculation to recognize the Calendar Year 2008 COSA TGS did not file, Schedule 2 attached.
21. It is reasonable for TGS to use \$6,069,555 for the Calendar Year 2011 as the revenue requirement from the prior year in the 2012 COSA Calculation.
22. The schedules, as adjusted, filed by TGS were based on the filing requirements in the COSA Tariff.

23. Pursuant to the COSA Tariff approved in GUD No. 9839, the actual percentage change in the revenue requirement is limited to the percentage change in the Consumer Price Index for all Urban Consumers (CPI-U) from December of the prior calendar year to December of the current calendar year.
24. The percentage change in the CPI-U from December 2009 to December 2010 was 1.4957%.
25. It is reasonable to use the CPI-U percentage change of 1.4957% in calculation the net revenue requirement change.
26. The revenue requirement of \$5,985,358, as adjusted for the \$5,326 Calendar Year 2008 period, represents the limitation of 1.4957% change from Calendar Year 2009 to Calendar Year 2010 and is reasonable.
27. The resulting net change in revenue requirement of \$89,523, applying the percent change of 1.4957% in the CPI-U, is reasonable.
28. There are approximately 1,644 residential, 180 commercial, 1 large volume commercial, 1 large industrial and 31 public authority customers that will be affected by this COSA.
29. The total customer count in the NTSA is approximately 14,644 residential, 1993 commercial, 20 large volume commercial, 4 industrial, 34 large industrial, 215 public authority and 3 large public authority customers.
30. Applying the COSA to all customers pursuant to the Tariff is reasonable.
31. The rate of return of 8.5840% used in this COSA was established in GUD No. 9839.
32. TGS' employee expense reimbursement policy as of the last docket does not require "itemized receipts" for meals and certain expenses and, as a result, it is not possible for the utility to unequivocally confirm, nor can Staff unequivocally verify, that the filing does not necessarily include meals over \$25.00 per person, alcohol, entertainment, or other expenses the Commission has removed from previous docketed matters.
33. TGS cannot unequivocally confirm that alcohol or other expenses would not be included in the COSA because credit card receipts submitted for reimbursement by employees and contractors do not always provide details of items purchased.
34. It would not be reasonable that TGS could not unequivocally confirm that this filing did not include expenses for alcohol or other expenses the Commission has determined to be unreasonable expenses in previously docketed matters.
35. It is reasonable that TGS remove from this filing all expenses related to meals, alcohol, travel, and entertainment, both direct and allocated.

36. In future COSA filings, to the extent TGS includes expenses for meals, travel, lodging or other expenses includable in an employee's expense report or as a direct bill to the company in the COSA, it is reasonable to require TGS to provide documentation of an itemized receipt which provides details of the charges in addition to the credit card receipt on a per event and per employee basis.
37. Operating Expenses in the amount of \$4,919,031 is reasonable.
38. Rate base of \$23,325,742 is reasonable.
39. Depreciation and Amortization expense of \$608,090 is reasonable.
40. The proposed revenue increase for the NTSA Environs is \$89,523. After adjusting for normalized sales volumes for the test year, the result is a \$173,363 revenue decrease for the NTSA, of which \$15,805 is attributed to the NTSA environs.
41. A total Cost of Service Adjustment of \$0.0306 per Ccf for the current year is reasonable, Schedule I.
42. The Calendar Year 2007 COSA of \$0.0100 per Ccf was approved with the rate filing review in GUD No. 9839.
43. The Calendar Year 2008 COSA was not filed by TGS because GUD No. 9839 was issued after the COSA Tariff filing deadline of April 1.
44. The Calendar Year 2009 COSA of \$0.0424 per Ccf was approved in GUD No. 9963.
45. The Calendar Year 2010 COSA adjustment is computed to be \$0.0306 per Ccf.
46. The proposed rate increase will become effective with the first billing cycle of August 2011 and not subject to further review or refund.
47. As provided for in the Tariff, TGS agrees to reimburse the Commission actual cost of the Commission's review up to an amount not to exceed \$ 15,000 per year.

CONCLUSIONS OF LAW

1. Texas Gas Service Company (TGS) is a "gas utility" as defined in TEX. UTIL. CODE ANN. § 101.003(7) (Vernon 2009) and § 121.001(2009) and is therefore subject to the jurisdiction of the Railroad Commission of Texas (Commission).
2. The Commission has jurisdiction over TGS and TGS' COSA filing under TEX. UTIL. CODE ANN. §§ 102.001 and 104.001 (Vernon 2009).
3. Under TEX. UTIL. CODE ANN. § 102.001 (Vernon 2009), 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. In accordance with the stated purpose of the TEXAS UTILITIES CODE, Subtitle A, expressed under TEX. UTIL. CODE ANN. § 101.002 (Vernon 2009), the Commission has assured that the rates, operations, and services established in this docket are just and reasonable to customers and to the utility.
5. The revenue, rates, rate design, and service charges proposed by TGS, as amended by TGS and the Commission and identified in the schedules attached to this 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 2009), Exhibit B – COSA Schedules.
6. The rates established in this docket comport with the requirements of TEX. UTIL. CODE ANN. § 104.053 (Vernon 2009) and are in part 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 adjustment for present age and condition.
7. Under the terms of the COSA Tariff, rates shall be effective with the first billing cycle of August 2011.
8. The COSA increase shall be applied to the monthly Ccf charge.
9. The COSA shall be identified on the customer's bill.
10. The COSA Tariff, schedules and the rates approved in this order do not prevent the utility or a regulatory authority from exercising the statutory right to initiate a rate case or inquiry into the reasonableness of rates.

IT IS THEREFORE ORDERED that the rates established in the findings of fact and conclusions of law and in the attached Schedules for TGS are **APPROVED**.

IT IS FURTHER ORDERED that, in accordance with 16 TEX. ADMIN. CODE § 7.315, within 30 days of the date this Order is signed, TGS shall file its tariff(s) with the Gas Services Division. The tariffs shall incorporate rates consistent with this Commission Order, as stated in the findings of fact and conclusions of law and shown on the attached rate schedules, Exhibit A – Tariff.

IT IS FURTHER ORDERED that TGS shall not include any employee or contractor expenses from employee or contractor expense reports reimbursement in future COSA filings that cannot be supported by a detailed itemized receipt which shows the specific amounts and line item charges.

IT IS FURTHER ORDERED that TGS shall identify and justify each meal expense that exceeds \$25.00 per person and any lodging expense over \$150.00 per person per night that TGS proposes to include in future COSAs.

IT IS FURTHER ORDERED that all proposed findings of fact and conclusions of law not specifically adopted in this Order are hereby **DENIED**.

IT IS FURTHER ORDERED THAT TGS SHALL reimburse the Commission for reasonable expenses incurred in reviewing this application. Reimbursement of the Commission's actual cost to review the COSA filings is not to exceed \$ 15,000.

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 27th day of July, 2011.

RAILROAD COMMISSION OF TEXAS

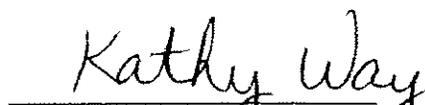


CHAIRMAN ELIZABETH AMES JONES



DAVID PORTER COMMISSIONER

ATTEST:



SECRETARY

COST OF SERVICE ADJUSTMENT RIDER

A. APPLICABILITY

This Cost of Service Adjustment Rider applies to all general service rate schedules of Texas Gas Service Company (Company) currently in force in the unincorporated areas of the North Texas Service Area. Applicable rate schedules include 1A, 2A, 2B, 3A, 3B, 4A, and 4B.

B. BILLING

The following Cost of Service Adjustment will be added to the applicable Rate Schedule volumetric rate per Ccf for each monthly billing period:

2008 Cost of Service Adjustment	\$0.0100 per Ccf
2009/2010 Cost of Service Adjustment	\$0.0324 per Ccf
2011 Cost of Service Adjustment	<u>\$(0.0118) per Ccf</u>
Grand Total	<u>\$0.0306 per Ccf</u>

All applicable fees and taxes will be added to the above rate.

Supersedes Same Rate Schedule dated
First billing cycle August, 2010

Effective:

TEXAS GAS SERVICE COMPANY
 NORTH TEXAS SERVICE AREA
 COST OF SERVICE CLAUSE ADJUSTMENT
 12 MONTHS ENDED 12/2010
 SUMMARY OF RATE ADJUSTMENT
 GUD NO. 10068

Description	12 Months Ended 12/10	
1 Rate Base	\$23,325,742	
2 Rate of Return	8.5840%	
3 Required Return	\$2,002,282	
4 Depreciation and Amortization	608,090	4,919,031
5 Taxes Other Than FIT	169,105	
6 Distribution Expenses	1,858,981	
7 Customer Related Expenses	603,713	
8 Administrative & General	982,372	
9 Interest on Customer Deposits	1,700	
10 Federal Income Tax	695,069	
11 Revenue Requirement	\$6,921,313	Allowable revenue requirement per CPI cap \$6,074,881
12 Test Year Adjusted Customer Charge Revenue and Other Revenue	(2,775,171)	(2,775,171)
13 Total Adjusted Cost of Service	\$4,146,141	\$3,299,710
14 Weather Normalized Sales Volumes in @ Ccf	14,691,809	14,691,809
15 Rate per Ccf	\$0.2822	\$0.2246
16 Rate per Ccf from most recent rate case	\$0.1940	\$0.1940
17 Cost of Service Adjustment Rate per Ccf (current calendar year)	\$0.0882	\$0.0306

TEXAS GAS SERVICE COMPANY
 NORTH TEXAS SERVICE AREA
 COST OF SERVICE CLAUSE ADJUSTMENT
 12 MONTHS ENDED 12/10
 SUMMARY OF RATE ADJUSTMENT
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NOTES TO SCHEDULE 1:

		Allowable revenue requirement per CPI cap																																																							
<u>Note on calculation of limitation on adjustment:</u>																																																									
(A) Revenue Requirement from current year	\$6,921,313	\$6,074,881																																																							
(B) Revenue Requirement from prior year	5,985,358	5,985,358																																																							
(C) Total Change in Return and Expenses	\$935,955	\$89,523																																																							
(D) Total Return and Expense Change Percentage [should not exceed (E) below]	15.6374%	1.4957%																																																							
(E) % Change in Consumer Price Index (prior yr. Dec to current yr. Dec)	1.4957%	1.4957%																																																							
 <u>Note on calculation of revenue impact:</u>																																																									
(F) Rate per Ccf for Residential eff 2007 (last rate case)	\$0.2027	\$0.2027																																																							
(G) Cost of Service Adjustment Rate per Ccf (current year)	\$0.0882	\$0.0306																																																							
(H) New Residential Cost of Service rate per Ccf effective August 2011	\$0.2909	\$0.2333																																																							
(I) Current Residential COS Rate per Ccf eff. August 2010	0.2451	0.2451																																																							
(J) Difference in rate per Ccf from current rates to new rates	\$0.0458	(\$0.0118)																																																							
(K) Weather Normalized Sales Volumes in @ Ccf (current year)	14,691,809	14,691,809																																																							
(L) Revenue impact of current year's adjustment [(J) x (K)]	\$672,885	(\$173,363)																																																							
(M) % share of revenue increase based on current volumes:	<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 40%;"></th> <th style="width: 20%; text-align: center;">% share of current volumes</th> <th style="width: 20%; text-align: center;">% share of revenue impact</th> <th style="width: 20%; text-align: center;">% share of allowable revenue impact</th> </tr> </thead> <tbody> <tr> <td>Aledo</td> <td style="text-align: center;">2.40%</td> <td style="text-align: right;">\$16,146</td> <td style="text-align: right;">(\$4,160)</td> </tr> <tr> <td>Breckenridge</td> <td style="text-align: center;">7.70%</td> <td style="text-align: right;">\$51,796</td> <td style="text-align: right;">(\$13,345)</td> </tr> <tr> <td>Bryson</td> <td style="text-align: center;">0.59%</td> <td style="text-align: right;">\$3,943</td> <td style="text-align: right;">(\$1,016)</td> </tr> <tr> <td>Graford</td> <td style="text-align: center;">0.46%</td> <td style="text-align: right;">\$3,109</td> <td style="text-align: right;">(\$801)</td> </tr> <tr> <td>Graham</td> <td style="text-align: center;">13.73%</td> <td style="text-align: right;">\$92,364</td> <td style="text-align: right;">(\$23,797)</td> </tr> <tr> <td>Hudson Oaks</td> <td style="text-align: center;">1.25%</td> <td style="text-align: right;">\$8,420</td> <td style="text-align: right;">(\$2,169)</td> </tr> <tr> <td>Jacksboro</td> <td style="text-align: center;">4.96%</td> <td style="text-align: right;">\$33,386</td> <td style="text-align: right;">(\$8,602)</td> </tr> <tr> <td>Millsap</td> <td style="text-align: center;">0.52%</td> <td style="text-align: right;">\$3,477</td> <td style="text-align: right;">(\$896)</td> </tr> <tr> <td>Mineral Wells</td> <td style="text-align: center;">26.00%</td> <td style="text-align: right;">\$174,925</td> <td style="text-align: right;">(\$45,068)</td> </tr> <tr> <td>Weatherford</td> <td style="text-align: center;">32.25%</td> <td style="text-align: right;">\$217,023</td> <td style="text-align: right;">(\$55,914)</td> </tr> <tr> <td>Willow Park</td> <td style="text-align: center;">1.03%</td> <td style="text-align: right;">\$6,953</td> <td style="text-align: right;">(\$1,791)</td> </tr> <tr> <td>Environs</td> <td style="text-align: center;">9.12%</td> <td style="text-align: right;">\$61,344</td> <td style="text-align: right;">(\$15,805)</td> </tr> <tr> <td>Total</td> <td style="text-align: center; border-top: 1px solid black;">100.00%</td> <td style="text-align: right; border-top: 1px solid black;">\$672,885</td> <td style="text-align: right; border-top: 1px solid black;">(\$173,363)</td> </tr> </tbody> </table>		% share of current volumes	% share of revenue impact	% share of allowable revenue impact	Aledo	2.40%	\$16,146	(\$4,160)	Breckenridge	7.70%	\$51,796	(\$13,345)	Bryson	0.59%	\$3,943	(\$1,016)	Graford	0.46%	\$3,109	(\$801)	Graham	13.73%	\$92,364	(\$23,797)	Hudson Oaks	1.25%	\$8,420	(\$2,169)	Jacksboro	4.96%	\$33,386	(\$8,602)	Millsap	0.52%	\$3,477	(\$896)	Mineral Wells	26.00%	\$174,925	(\$45,068)	Weatherford	32.25%	\$217,023	(\$55,914)	Willow Park	1.03%	\$6,953	(\$1,791)	Environs	9.12%	\$61,344	(\$15,805)	Total	100.00%	\$672,885	(\$173,363)
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TEXAS GAS SERVICE COMPANY
NORTH TEXAS SERVICE AREA
COST OF SERVICE CLAUSE ADJUSTMENT
SUMMARY OF REVENUE REQUIREMENTS
GUD NO. 10068

North Texas Service Area COSA Filings (as filed in the cities and environs)

Date Filed	GUD No. 9839	per rate case	This		GUD No. 9963	GUD No. 2010	Next COSA for CY 2011
			COSA approved in GUD No. 9839	COSA was not filed in the environs			
	2008		2009	2010	10068	2011	
	CY 2007	CY 2008	CY 2009	CY 2010	CY 2010	CY 2011	
Actual Revenue Requirement	5,826,652	6,083,173	6,020,279	6,921,313			
Allowed revenue requirement	5,826,652	5,831,978	5,990,684	6,074,881			6,069,555
Actual incr(decr) in rev requirement	68,787	256,521	(62,894)	846,432			
Incr(decr)in Allowed rev requirement	68,787	5,326	158,706	84,197			
CPI index change Dec to Dec of CY	4.0800%	0.0914%	2.7213%	1.4957%			
% increase in actual rev requirement	1.1900%	4.4025%	-1.0339%	15.6374%			

Note: Because TGS did not file a COSA in the Environs for 2009, \$5,326 should be excluded in future calculations.
\$6,074,881 minus \$5,326 equals \$6,069,555.