

**RAILROAD COMMISSION OF TEXAS
GAS SERVICES DIVISION**

**GAS UTILITIES
INFORMATION BULLETIN**

No. 730



**RAILROAD COMMISSION
OF TEXAS**

**Michael L. Williams, Chairman
Charles R. Matthews, Commissioner
Victor G. Carrillo, Commissioner**

**Steve Pitner
Director
Gas Services Division**

August 25, 2003

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GUD Docket No. 9291 – Request of the Texas General Land Office for Stay of Abandonment and for Establishment of Transportation Rate on Panther Pipeline, Ltd.

SECTION 1
NEW APPEALS AND APPLICATIONS FILED

DOCKET NO. -- 9451
CAPTION -- Petition for Review of Municipal Rate Decisions and Expedited Motion to Consolidate.
DATE FILED -- 08/22/2003
FILED BY -- John E. Moeller
EXAMINER -- John Chakales, Michelle Lingo

SECTION 2
APPEALS AND APPLICATIONS SET FOR HEARING OR PREHEARING CONFERENCE

DOCKET NO. --
CAPTION --
EXAMINER --
DATE & TIME --
PLACE

SECTION 3
STATUS OF PENDING CASES

None at this time.

SECTION 4
NOTICES OF DISMISSAL

None at this time.

SECTION 5
ORDERS OF THE COMMISSION

REQUEST OF THE TEXAS GENERAL LAND OFFICE FOR STAY OF ABANDONMENT AND FOR ESTABLISHMENT OF TRANSPORTATION RATE ON PANTHER PIPELINE, LTD.	§ § § §	GAS UTILITIES DOCKET NO. 9291 SOAH DOCKET NO. 455-02-3446
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ORDER

This Order addresses the request of the Texas General Land Office (GLO) for stay of abandonment and for establishment of transportation rate on Panther Pipeline Ltd. (Panther). This Order adopts the Proposal for Decision (PFD), including the findings of fact and conclusions of law, issued by the State Office of Administrative Hearings (SOAH) on March 13, 2003 and amended by SOAH on April 15, 2003, with changes.

Notice of Open Meeting to consider this Order was duly posted with the Secretary of State within the time provided by law pursuant to TEX. GOV'T CODE ANN. Chapter 551 (Vernon 1994 and Vernon Supp. 2003). The Railroad Commission of Texas adopts the following findings of fact and conclusions of law and orders as follows:

DISCUSSION

TEX. UTIL. CODE ANN. §102.001 provides the Railroad Commission of Texas (Commission) jurisdiction to set the rates of gas utilities operating in Texas. In addition, TEX. UTIL. CODE ANN. §104.201 expressly and specifically provides authority for the Commission to set a transportation rate between a gas utility and a state agency, absent a contract between the utility and the state agency. The GLO requested the Commission set the transportation rate because the two entities could not negotiate a contract. TEX. UTIL. CODE ANN. §104.003(b) expressly provides for Commission approval of just and reasonable rates and TEX. UTIL. CODE ANN. §104.201 provides opportunity for contract negotiation between a state agency and a gas utility. Once the Commission was requested to determine the rate, it set a rate in accordance with the requirements of TEX. UTIL. CODE ANN., Chapter 104, that reflects reasonable and necessary cost for providing transportation service. However, in the future, the parties are not precluded from negotiating a rate different from the rate set by the Commission, as authorized under TEX. UTIL. CODE ANN. §104.201.

The Commission finds that the ALJ used an appropriate analysis to develop a transportation rate between the two parties in this case. The Commission also finds that the ALJ's April 15, 2003, PFD amendments are appropriate. At the time the Commission took jurisdiction over this case, 16 TEX. ADMIN. CODE §7.54 provided that the Commission's order in a rate proceeding may be effective from some date after Commission jurisdiction attached. Section 7.54 was subsequently repealed; §7.245 became effective October 2, 2002.

The Commission finds that inclusion of investment and capital improvements in rate base is appropriate, especially when rate-setting analysis requires application of a negative acquisition adjustment. The Commission finds the April 15, 2003, amendments to the PFD to be reasonable, just, and equitable. Therefore, the Commission approves and incorporates into this Order the findings of fact, conclusions of law, and ordering paragraphs proposed in the March 13, 2003 PFD and as modified by SOAH's April 15, 2003 amendments, with the following changes.

- The Commission modifies finding of fact (FOF) No. 5 to clarify that an offer to contract was presented by Panther to GLO; however, the offer was not accepted and a contract was not executed. Thereafter, the parties requested the Commission set the rate.
- The Commission adds FOF No. 12B to memorialize that SOAH's initial PFD, issued March 13, 2003, was amended by SOAH on April 15, 2003.

- The Commission modifies FOF No. 16 to identify the components of the “8-cent rate.”
- The Commission changes FOF No. 19, regarding rate base, for greater specificity and to more accurately reflect the components included in rate base. The ALJ’s FOF No. 19 stated that the total amount of capital in the Matagorda System at risk is \$2.1 million. The Commission modified the finding to use the more accurate purchase price of \$2,105,000 and to account for the subsequent acquisition and improvements.
- The Commission agrees with the ALJ’s assessment that a negative acquisition adjustment is appropriate in this case to prevent customers from paying a return on money not invested in the system; therefore, the Commission modifies FOF No. 21 to provide the additional rationale explaining that the negative acquisition adjustment is appropriate to prevent excessive return to investors.
- The Commission modifies FOF No. 24 and adds FOF Nos. 24B - 24D to clarify that seven years is the appropriate length of time for depreciation because that is the remaining useful life of the Matagorda System. Further, the seven year remaining life is appropriate to use to depreciate the 2001 and 2002 acquisition and improvements.
- The Commission modifies FOF No. 25, regarding capital structure. The ALJ agreed with GLO’s calculation of 50 percent debt to 50 percent equity capital structure ratio. Panther argued that a 46 percent debt to 54 percent equity ratio is appropriate based upon an examination of large publicly traded natural gas companies, adjusting for risk factors of smaller non-publicly traded companies. The Commission approves capital structure of 48 percent debt to 52 percent equity ratio because it more accurately represents the actual debt funding of this system, as demonstrated by the record evidence.
- The Commission modifies FOF No. 27, relating to the cost of equity, from 20 percent to 15 percent. GLO recommended a 13 percent return based upon an eight percent cost of debt with a five percent risk premium. The ALJ rejected GLO’s alternative, finding that GLO failed to demonstrate how the five percent risk premium was derived. Panther estimated that the cost of equity of large, publicly traded gas companies are in a range between twelve to 15.5 percent. Panther then adjusted this range to account for the company’s size and marketability. Panther recommended 20 percent cost of equity. The Commission approves a fifteen percent return on equity, considering the small size of the system, that it is a closely held corporation, the risk to investors, and the interest rates in the current economy.
- The ALJ relied upon the State of Texas’ interpretation of TEX. UTIL. CODE ANN. §104.202 (State of Texas’ Initial Brief at 9) to exclude *all* taxes from the rate. There were four different types of taxes discussed throughout the record in this docket: gross receipts, property, payroll, and federal income taxes. TEX. UTIL. CODE ANN. §104.202 states that the rates a gas utility charges a state agency may not include an amount representing a gross receipts assessment, regulatory assessment, or similar expense of the utility. The ALJ correctly relied upon the express language of the statute to determine that gross receipts tax should be excluded from the rate. Gross receipts tax is a state tax. It would be inappropriate to require a state agency to pay this state tax. However, the statute does not exclude *all* taxes. Payroll, property, and federal income taxes are allowed under the statute and should not be excluded from the calculation of the transportation rate. The record evidence supports property and payroll taxes equaling \$8,851.00. Federal income tax is part of the revenue requirement calculation and is based upon the company’s revenue. Therefore, the Commission, using appropriate application and interpretation of applicable law, modifies FOF No. 33 and conclusion of law (COL) No. 11 to reverse the ALJ and to clarify that only gross receipts tax is excluded; the rate shall allow for the recovery of payroll, property, and federal income taxes. The Commission adds FOF Nos. 33B-33C to specify the amounts.
- The Commission modifies FOF No. 37, adds FOF Nos. 37B - 37D, and adds COL No. 13 to provide for Panther to assess a surcharge for reasonable rate case expenses over a two-year period.
- The Commission adds FOF Nos. 39 - 44 and COL Nos. 14-16 to address sanctions.
- The Commission adds FOF Nos. 45 – 49 and COL No. 8B to clarify the components of the rate that is approved by the Commission.
- The Commission modifies COL No. 1 to include the Statement of the Commission’s jurisdiction under TEX. UTIL. CODE ANN. §102.001 and §104.001, in addition to §104.201.
- The Commission clarifies COL No. 2. TEX. UTIL. CODE ANN. §102.006 (2001), was in effect at the time of the hearing;

however, contested case hearings were moved from SOAH to the Commission and the statute was repealed by Tex. H.B. 2846, 78th Leg. R.S., (2003).

- The Commission modifies COL No. 5 to delete the term “out-of-cost” to more closely reflect the terminology used throughout the hearing and in the PFD.
- The Commission adds COL No. 8B to clarify the amount that is owed by GLO to Panther for volumes delivered from March 29, 2002 until the date of this Order.
- The Commission affirms, but makes no modification to the Order, that 16 TEX. ADMIN. CODE §7.5530 provides for allowable rate case expenses and evidence providing proof of expenses.

FINDINGS OF FACT

1. Panther Pipeline, Ltd. (Panther) is a gas utility, the part-owner, and operator of the Matagorda System pipeline (Matagorda System) subject to the jurisdiction of the Railroad Commission of Texas (Commission) under GURA.
2. The State of Texas maintains a royalty interest in gas produced off-shore, and has chosen to take some of its royalty payments in-kind.
3. Panther transports the State’s in-kind royalty gas for the Texas General Land Office (GLO), a state agency.
4. In 2001, Panther transported the GLO’s gas on the Matagorda System, but the GLO paid the Matagorda System’s prior owner for the transportation.
5. On December 18, 2001, Panther sent the GLO an offer for contract for gas transportation on the Matagorda System beginning January 1, 2002.
6. The contract provided for a transportation rate of \$0.295.
7. The GLO did not agree to the rate proposed in the contract.

Jurisdiction and Procedural History

8. The GLO filed a request on March 29, 2002, with the Commission to set the transportation rate between the GLO and Panther.
9. On June 28, 2002, the Commission referred this matter to the State Office of Administrative Hearings to conduct a hearing.
10. On July 2, 2002, the Motion to Intervene filed by the State of Texas (State) was granted.
11. The parties agreed to waive the 210-day statutory deadline in this case.
12. The hearing convened in Austin, Texas on November 1, 2002. Following the submission of post-hearing briefs and supplemental invoices for rate case expenses, the record closed on January 29, 2003.
- 12B. The State Office of Administrative Hearings (SOAH) issued a proposal for decision (PFD) on March 13, 2003. SOAH amended the PFD on April 15, 2003.
13. The test year in this case is January 1, 2001 through December 31, 2001 (Test Year).

Pre-existing Tariff

14. No temporary rates were set; the existing rate continues until March 29, 2002.

15. The GLO never paid an \$0.08 transportation rate (8-cent rate) for the gas transportation on the Matagorda System.
16. The "8-cent rate" is actually a combination of a liquids handling charge of \$0.00234, dehydration charge of \$0.01286, fuel charge of 1.34 percent, and a compression charge of \$0.065.
17. On December 28, 2001, Panther filed a transportation rate tariff at the Commission for \$0.05 per MMBtu on the Matagorda System.
18. The transportation rate tariff together with the 8-cent processing rate equals an approximate 13-cent rate applicable to the transportation of gas on the Matagorda System prior to March 29, 2002.

Rate Base

19. The total amount of capital the investors in the Matagorda System have at risk is \$2,609,959, which is the sum of \$2,105,000 for the purchase price, \$121,637 for the 2001 improvements, \$300,000 for the 2002 asset purchase, and \$83,322 for the 2002 improvements.
20. The original cost, less accumulated depreciation of the Matagorda System is \$6 million.
21. It is reasonable to make a negative acquisition adjustment to the original cost of the Matagorda System to reflect the actual investment in the Matagorda System because return calculated on net book value may produce an excessive return to investors.

Depreciation

22. Throughput on the Matagorda System is declining.
23. The remaining useful life of the Matagorda System is seven (7) years from the Test Year. The appropriate length of depreciation in this case is seven (7) years from the Test Year, which is equal to the remaining useful life of the Matagorda System.
- 24B. GLO and Panther agreed on the methodology to calculate depreciation of the purchased Matagorda assets.
- 24C. GLO adjusted the original cost of the purchased assets so that the net book value is equal to the purchased price.
- 24D. Use of the seven-year remaining life is appropriate to use to depreciate the 2001 and 2002 acquisition and improvements.

Rate of Return

24. The appropriate capital structure ratio used to calculate the rate of return is 48 percent debt and 52 percent equity.
25. The appropriate cost of debt to assign to Panther to calculate the rate of return is 8 percent.
26. A cost of equity of fifteen percent (15%) is reasonable and based on an analysis comparing Panther to publicly traded utilities with an adjustment for Panther's small size and lack of liquidity.

Administrative and General Expenses

27. The increased management fee Prism paid Panther after the Test Year was not reasonable.
28. The proposed administrative and general expenses without the increased management fee are reasonable and are adopted.

Throughput

29. There has been a known and measurable change in throughput of gas into the Matagorda System since the Test Year from 8,504,063 MMBtu to 7,593,249 MMBtu.
30. The known and measurable change in throughput is reasonable and appropriate and the Test Year throughput is

adjusted to reflect the change.

Taxes

31. Panther and the GLO agreed on the method for calculating income taxes and taxes other than income.
32. Gross receipts tax is excluded from the transportation rate paid by state agencies and should not be included in a calculation of the transportation rate. However, payroll tax, property tax, and federal income tax are recoverable and are included in the calculation of the transportation rate.
- 33B. It is reasonable for Panther to assess to GLO payroll tax and property tax in the amount of \$8,851..
- 33C. It is reasonable for Panther to assess to GLO federal income tax in accordance with appropriate federal income tax rate, based upon taxable revenue. Record evidence at GLO Exhibit 202 (TAG-2.4) indicates that deferred federal income tax was calculated by GLO to be \$186,738 at 29.51 percent effective tax rate. Record evidence at Panther Exhibit 2 indicates use of 35% is reasonable for calculating the tax rate. The Commission's decisions regarding the component parts of the transportation rate such as inclusion of post-test-year asset acquisition and improvements in rate base are reasonable and are based on record evidence. Based upon the Commission's findings, it is reasonable for the Commission to calculate a deferred federal income tax reserve of \$174,470, using a common industry tax rate of 35%, to be included in the calculation of the final transportation rate. The Commission's calculation of deferred federal income tax is attached.

Other Expenses

33. Operation and maintenance expenses in the amount of \$265,061.00 are reasonable and shall be included in the calculation of the transportation rate.
34. Compression charges at the rate of \$0.065 per Mcf or \$0.0628 per MMBtu are reasonable and shall be passed through at cost to the GLO.
35. System fuel charges shall be passed through to the GLO at cost.

Rate Case Expenses

36. Panther incurred \$262,212.35 in rate case expenses. –
- 37B.A utility has the burden to prove the reasonableness of all rate case expenses.
- 37C.The Commission has broad discretion in determining the reasonableness of rate case expenses. The Commission has discretion to disallow all rate case expenses in this case.
- 37D.In accordance with the Administrative Procedure Act, TEX. GOV'T CODE §2001.058(e), the Commission modifies the decision of the ALJ. As a matter of equity, policy established by the legislature, and based upon prior administrative decision, the Commission finds that Panther incurred \$174,808.21 in reasonable rate case expenses. It is reasonable for Panther to recover this amount from GLO through a monthly surcharge recoverable over two years.
37. Panther did not request further estimated rate case expenses, nor provide an estimate of the expenses for completion of this case before the Commission and for appeals. Any expenses for completion of this case before the Commission and for appeals should be disallowed.

Sanctions

38. On February 12, 2003, the ALJ issued Order No. 14 granting GLO's Motion for Sanctions against Panther in the amount of \$81,603.41 for discovery abuse and failure to produce documents timely.
39. On February 18, 2003, Panther appealed Order No. 14 and requested a stay of the ALJ's ruling.
40. A stay of action regarding the appeal of Order No. 14 was granted by the Commission's General Counsel in accordance with 16 TEX. ADMIN. CODE §1.30(c)(2) (2002) on March 4, 2003.

41. The Commission extended the stay and time for action on appeal by its March 11, 2003, Order.
42. The Commission may order sanctions in accordance with 16 TEX. ADMIN CODE §1.85 (1991).
43. As a matter of law and policy, the Commission finds that it is the utility's burden to produce documents requested through discovery. It is reasonable for the Commission to assess sanctions against Panther in the amount of \$48,962.05

Summary

44. It is reasonable that the transportation rate to be paid by GLO to Panther is \$0.1350 per MMBtu, including a federal income tax calculation rate of 35%. The total rate calculation is attached.
45. It is reasonable that in addition to the transportation rate, GLO will pay a liquid handling charge of \$0.00234 per MMBtu, dehydration charge of \$0.01286 per MMBtu, compression charge of \$0.065 per Mcf, and a fuel charge of 1.34%.
46. It is reasonable that in addition to the transportation rate, GLO will pay a rate case expense surcharge of \$174,808.21 recoverable through a monthly surcharge over two years. GLO will pay \$7,283.68 per month to Panther for the next 24 months. It is reasonable that the first payment be made the first day of the first month following sixty days from the date of this Order.
47. It is reasonable that within sixty days of the date of this Order, Panther will pay to GLO sanctions in the amount of \$48,962.05.
48. It is reasonable that within sixty days of the date of this Order, GLO shall pay to Panther the amount, if any, that is owed for gas delivered from March 29, 2002 until the date of this Order. The amount shall be calculated based upon the volume of gas that has been delivered during that period of time at the rate set by this Order. The rate is \$0.1350 per MMBtu, including a federal income tax calculation rate of 35% for transportation, plus a liquid handling charge of \$0.00234 per MMBtu, a dehydration charge of \$0.01286 per MMBtu, a compression charge of \$0.065 per Mcf, and a fuel charge of 1.34%. The amount shall be the net of any payment previously made for delivery made during this period of time and this amount owed.

CONCLUSIONS OF LAW

1. The Railroad Commission of Texas (Commission) has jurisdiction over this case pursuant to TEX. UTIL. CODE ANN. §§ 102.001, 104.001, and 104.201.
2. The State Office of Administrative Hearings (SOAH) had jurisdiction over all matters related to the conduct of a hearing in this matter, including preparation of a proposal for decision with findings of fact and conclusions of law in accordance with TEX. UTIL. CODE ANN. §102.006 (2001), which was in effect at the time of the hearing, and in accordance with TEX. GOV'T CODE §§ 2003.049-2003.0491.
3. Panther is a "Gas Utility" as defined in TEX. UTIL. CODE ANN. §101.003(7).
4. Notice was properly served to all interested parties.
5. The rate set in this case is not required to be the "incremental" or "out-of-pocket" transportation expense. TEX. UTIL. CODE ANN. §104.201(b).
6. The ratesetting methodologies set forth in TEX. UTIL. CODE ANN. §104.051 *et seq.* are not mandatory in a case setting a transportation rate for a state agency under TEX. UTIL. CODE ANN. §104.201.
7. The effective date of the rate is March 29, 2002, the date the Commission obtained jurisdiction over this case, pursuant to 16 TEX. ADMIN. CODE §7.54 (1987) and §7.245 (2002).

8. From January 1, 2002, through March 29, 2002, the transportation rate on the Matagorda System is set at 13 cents, including a 5-cent transportation rate, plus the "8-cent fee" for liquids handling, compression, and dehydration.
- 8B. In accordance with the Commission's jurisdiction to set the rate, within sixty days of the date of this Order, GLO shall pay to Panther the amount, if any, that is owed for gas delivered from March 29, 2002 until the date of this Order. The amount shall be calculated based upon the volume of gas that has been delivered during that period of time at the rate set by this Order. The rate is \$0.1350 per MMBtu, including a federal income tax calculation rate of 35% for transportation, plus a liquid handling charge of \$0.00234 per MMBtu, a dehydration charge of \$0.01286 per MMBtu, a compression charge of \$0.065 per Mcf, and a fuel charge of 1.34%. The amount shall be the net of any payment previously made for delivery made during this period of time and this amount owed.
9. A negative acquisition adjustment should be made in this case to reflect the actual amount of capital at risk in the Matagorda System.
10. Depreciation should be measured over the useful life of the Matagorda System, seven (7) years, pursuant to 16 TEX. ADMIN. CODE §7.5252(a) (2002).
11. Gross receipts tax may not be included in calculating the rate to be paid by the GLO, a state agency. TEX. UTIL. CODE ANN. §104.202. However, payroll tax, property tax, and federal income tax are recoverable.
12. The rates established in this case will not yield more than a fair return on the adjusted value of invested capital used and useful in providing service to the public.
13. Consistent with the provisions of 16 TEX. ADMIN. CODE § 7.5530 (2002), it is reasonable for the Commission to approve \$174,808.21 in reasonable rate case expenses to Panther, recoverable over two years as a \$7,283.68 per month surcharge. It is reasonable that the first payment be made the first day of the first month following sixty days from the date of this Order.
14. In accordance with TEX. GOV'T. CODE §2003.049, the ALJ may impose appropriate sanctions, such as the imposition of discovery costs, including attorney's fees; the Commission may order sanctions in accordance with 16 TEX. ADMIN. CODE §1.85 (1991).
15. The Utility Division of the SOAH shall issue necessary orders in gas utility cases on behalf of the Commission in accordance with TEX. GOV'T. CODE §2003.0491 and 16 TEX. ADMIN. CODE §1.85.
16. The Commission's Rule, 16 TEX. ADMIN. CODE §1.30 (1994), allows the Director of the Legal Division to grant a stay of an interim ruling.
17. TEX. GOV'T. CODE §2001.058(e) provides the basis under which a Commission may modify an ALJ's decision.

ORDERING PARAGRAPHS

In accordance with the findings of fact and conclusions of law, the Commission issues the following Order:

The rate reflected in the findings of fact and conclusions of law are approved. The transportation rate is \$0.1350 per MMBtu, which includes a federal income tax rate of thirty-five percent.

In addition, GLO shall pay a liquids handling charge of \$0.00234 per MMBtu, compression charge of \$0.065 per Mcf, dehydration charge of \$0.01286 per MMBtu, and a fuel charge of 1.34 percent.

On the first day of each month, GLO shall pay a rate case expense surcharge of \$7,283.68 per month for the next twenty-four months, regardless of volumes transported, if any. The first payment shall be made on the first day of the first month following sixty days from the date of this Order.

Panther shall pay sanctions in the amount of \$48,962.05 for discovery abuse and failure to produce documents timely. Panther shall pay GLO this amount as a single payment within sixty days of the date of this Order.

The effective date of the rate is March 29, 2002, the date the Commission obtained jurisdiction over this case, pursuant to 16 TEX. ADMIN. CODE §7.54 (1987) and §7.245 (2002).

Within sixty days of the date of this Order, GLO shall pay to Panther the amount, if any, that is owed for gas delivered from March 29, 2002 until the date of this Order. The amount shall be calculated based upon the volume of gas that has been delivered during that period of time at the rate set by this Order. The rate is \$0.1350 per MMBtu, including a federal income tax calculation rate of 35% for transportation, plus a liquid handling charge of \$0.00234 per MMBtu, a dehydration charge of \$0.01286 per MMBtu, a compression charge of \$0.065 per Mcf, and a fuel charge of 1.34%. The amount shall be the net of any payment previously made for delivery made during this period of time and this amount owed.

In accordance with 16 TEX. ADMIN. CODE §7.315, within thirty days of the date of the Commission's final Order, Panther shall *electronically* file tariffs incorporating rates consistent with the findings of fact and conclusions of law.

All other motions or requests for entry of specific findings of fact and conclusions of law and any other requests for general or specific relief, if not expressly granted herein, are hereby denied for want of merit.

SIGNED this 22nd day of July, 2003.

RAILROAD COMMISSION OF TEXAS

/s/ Michael L. Williams
CHAIRMAN MICHAEL L. WILLIAMS

/s/ Charles R. Matthews
COMMISSIONER CHARLES R. MATTHEWS

/s/ Victor G. Carrillo
COMMISSIONER VICTOR G. CARRILLO

ATTEST:

/s/ Kim Williamson
SECRETARY

Request of the Texas General Land Office for Stay of Abandonment and
for Establishment of Transportation Rate on Panther Pipeline, Ltd.

Gas Utilities Docket No. 9291
SOAH Docket No. 455-02-3446

Deferred Federal Income Tax

	Acquisition Cost	Years In Service	MACRS/7 Factor	Accumulated Tax Depreciation
Matagorda System Purchase	2,105,000	2	38.78%	816,319
2001 Additions	121,637	1	14.29%	17,382
2002 Additions/Acquisitions	383,322	1	14.29%	<u>54,777</u>
Total	2,609,959			888,478
Book Depreciation Reserve				<u>389,991</u>
Excess of Tax over Book				<u>498,487</u>
Tax Rate				35%
Deferred FIT				174,470

Request of the Texas General Land Office for Stay of Abandonment and
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Total Rate Calculation

Description	Amount
Operation & Maintenance	\$ 265,061
Administrative & General	\$ 96,540
Taxes Other Than Income	\$ 8,851
Depreciation	\$ 240,410
Return	\$ 304,572
<u>Federal Income Taxes</u>	<u>\$ 109,897</u>
<u>Total Revenue Requirement</u>	<u>\$ 1,025,331</u>
Throughput (MMBtu)	7,593,249
Transportation Rate	\$ 0.1350
Compression Fee	\$ 0.0650
Liquids Handling Charge	\$ 0.0023
Dehydration Charge	<u>\$ 0.0129</u>
Total Rate	<u>\$ 0.2152</u> *

* Does not include fuel charge of 1.34% or rate case expense of 174,808.21.
Rate case expense will be paid by GLO to Panther at \$7,283.68 per month for 24 months.

Request of the Texas General Land Office for Stay of Abandonment and
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Operation & Maintenance Expense

Test Year Adjusted

Description	Adjustments		
Transmission Expense			
850 Averaged Expense	\$ 16,000		\$ 16,000
850 Operation Supervision & Engineering	44,874		44,874
856 Mains Expense	69,161		69,161
857 Measuring & Regulation Station Expense	71,126		71,126
858 Transmission & Compression by Others	-		-
859 Other Expense	1,923		1,923
863 Maintenance of Mains	61,477		61,477
881 Rents	500		500
Total Operation & Maintenance Expense	\$ 265,061	\$ -	\$ 265,061

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Gas Utilities Docket No. 9291

SOAH Docket No. 455-02-3446

Administrative & General Expense

Description	Test Year		Adjusted	
Administrative & General Expense				
921 Office Supplies & Expenses	\$	5,681	\$	5,681
923 Outside Services Employed		156,078		156,078
Finders Fee (a)				(105,000)
Prior Year Expense (b)				(7,000)
Management Fee Increase (c)				-
Management Fee Adjustment (d)				(4,200)
924 Property Insurance		50,981		50,981
Total Administrative & General Expense	\$	212,740	\$	(116,200)
			\$	96,540

(a) Reclassifies Finders Fee from A&G to Acquisition Cost

(b) Removes charges incurred prior to test year

(c) Reflects increase in Management Fees

\$ 3,500

Options

\$3,500 per month - ALJ

\$5,500 per month - GLO

\$7,500 per month - Panther

(d) Reduces Management Fees by 10% not applicable to Matagorda System

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Taxes Other Than Federal Income Taxes

Description	Test Year Amount	Adjustments	Adjusted Amount
408 Payroll Taxes	\$ 3,712		\$ 3,712
408 Property Taxes	5,139		5,139
408 Gas Utility Taxes		-	-
Total Taxes Other Than Federal Income Taxes	\$ 8,851	\$ -	\$ 8,851

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Federal Income Taxes

Description			Amount
Return on Investment			
Invested Capital (Rate Base)	2,616,600		
Rate of Return		11.64%	
Return on Investment			304,572
Interest Expense			
Invested Capital (Rate Base)	2,616,600		
Weighted Cost of Debt		3.84%	
Interest Expense			(100,477)
After Tax Income			204,095
Gross-up Factor	$=1+ (.35/(1-.35))$		1.5385
Before Tax Return			313,992
Federal Income Tax Rate			35%
Federal Income Tax			109,897

Request of the Texas General Land Office for Stay of Abandonment and
for Establishment of Transportation Rate on Panther Pipeline, Ltd.
Gas Utilities Docket No. 9291
SOAH Docket No. 455-02-3446

Rate Base

Schedule too large to publish here.

Request of the Texas General Land Office for Stay of Abandonment and
for Establishment of Transportation Rate on Panther Pipeline, Ltd.
Gas Utilities Docket No. 9291
SOAH Docket No. 455-02-3446

Rate of Return

Description	Percent of Total	Component Cost of Capital	Weighted Cost of Capital
Long Term Debt	48.0%	8.0%	3.84%
Common Equity	52.0%	15.0%	7.80%
Total Rate of Return	100.0%		11.64%

Gas Utilities Docket No. 9291
SOAH Docket No. 455-02-3446

Return

Description	Amount
Plant in Service:	
Adjusted Original Cost	5,036,896
Accumulated Depreciation	(2,639,967)
Adjusted Net Plant	2,396,929
Working Capital:	
Operating Expense	361,601
1/8 rule	12.5%
Cash Working Capital	45,200
Deferred Income Taxes	174,470
Total Invested Capital	2,616,600
Rate of Return	11.6%
Return	304,572

Request of the Texas General Land Office for Stay of Abandonment and
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Throughput

Description
Throughput

7,593,249

Request of the Texas General Land Office for Stay of Abandonment and
for Establishment of Transportation Rate on Panther Pipeline, Ltd.
Gas Utilities Docket No. 9291
SOAH Docket No. 455-02-3446

Rate Case Expenses

Rate Case Expenses (2 yrs)	\$	87,404
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SECTION 6
MISCELLANEOUS

STEVE PITNER, GAS SERVICES DIVISION DIRECTOR

1. OFFICE OF THE DIRECTOR

A. Publications

1. Texas Utilities Code Titles 3 and 4. Special Rules of Practice and Procedure and Substantive Rules - \$15.00
2. a. Annual Report for Fiscal Year 2001 – Now available via the Commission’s website at:
<http://www.rrc.state.tx.us/divisions/gs/tablecontents01.html>
 - a. Annual Report for Fiscal Year 2000 - \$17.00 (includes statistical data for 1999)
 - b. Annual Report for Fiscal Year 1999 - \$9.00 (includes statistical data for 1998)
 - c. Annual Report for Fiscal Year 1998 - \$7.00 (includes statistical data for 1997)
3. 2002 Pipeline Safety Rules - \$13.00, includes: 49 CFR 191 & 192 and 16 TAC Sections 7.70-7.74 (gas) 49 CFR 193 (LNG); 49 CFR 195 and 16 TAC Sections 7.80-7.87 (hazardous liquids); 49 CFR 40 and 199 (drug testing).
4. Distribution and/or Gas Transmission Review forms for Adequacy of Operation, Maintenance and Emergency Manual - To obtain a copy of review forms at no charge, send a request with a self addressed envelope (10" x 13" preferably) with \$0.98 postage.
5. Six MCF Monthly Residential Gas Bill Analysis for Twenty-five Texas Cities - \$2.00 – Now available via the Commission’s website at: <http://www.rrc.state.tx.us/divisions/gs/rap/sixmcf.html>

Anyone who wishes to obtain a copy of any of the publications or maps listed in Section A should contact the Gas Services Division, P. O. Box 12967, Austin, Texas 78711-2967, (512) 463-7167.

B. Interest Rate on Customer Deposits

We have been advised by the Public Utility Commission that the interest rate to be applied to customer deposits in calendar year 2003 is 6.00%. All gas utilities should use this rate.

2. PIPELINE SAFETY SECTION

- A. Austin Headquarters - William B. Travis Building
1701 North Congress, (78701)
PO Box 12967
Austin, Texas 78711-2967 Telephone (512) 463-7058

Mary L. McDaniel, P.E., Assistant Director
William (Bill) Dase, Jr., P.E., Engineer
Terry Pardo, P.E., Engineer
K. David Born, Field Operations Manager
Lee Thying, P.E., Engineer
Maurice Curd, Program Administrator

Amarillo Region 1 - 7102 IH-40 West, Bldg. C., Amarillo, Texas 79106 Telephone (806) 468-7486

Alan Mann, Engineering Specialist

Midland Region 2 - Petroleum Building, 214 West Texas, Suite 803, Midland, Texas 79701 Telephone (915) 570-5884

Glenn Taylor, Area Supervisor (Midland/Amarillo)

Larry Felio, P.E., Engineer

Keith Smith, Engineering Specialist

Tim Murray, Engineering Specialist (Abilene)

Kilgore Region 3 - 619 Henderson Boulevard, Kilgore, Texas 75662 Telephone (903) 984-8581

Bob Oldham, Engineering Specialist

James Alexander, Engineering Specialist

Jerry Hill, Engineering Specialist

Austin Region 4 - 1701 North Congress, P. O. Box 12967, Austin, Texas 78711 Telephone (512) 463-7050

Kendall Smith, Area Supervisor

Johnny Burgess, Engineering Specialist

Mark Arguelles, Program Administrator

Houston Region 5 -1706 Seamist Drive, Ste 501, Houston, Texas 77008-3135 Telephone (713) 869-8425

Danny Nichols, Area Supervisor

Jerry Hoff, Engineering Specialist

Jim Arnold, Engineering Specialist

Randy Vaughn, Engineering Specialist

Gregory Johnson, Engineering Specialist

Frank Henderson, Engineering Specialist

John Jewett, Engineering Assistant

Dallas Region 6 -1546 Rowlett Rd., Suite 107, Garland, Texas 75043 Telephone (972) 240-5757

Jody Kerl, P.E., Area Supervisor (Dallas/Kilgore)

M. Kathryn Williams-Guzman, Engineering Specialist

San Sein, Engineering Specialist

Terry Sullivan, Engineering Assistant

Corpus Christi Region 7 -10320 IH-37, P.O. Box 10307, Corpus Christi, Texas 78460-0307 Telephone (361) 242-3117

Don Gault, Area Supervisor

Steven Rios, Engineering Specialist

Jesse Cantu, Jr., Engineering Specialist

Ronda Lauderman, Engineering Assistant

B. Monthly Summary (January)

No. of distribution safety evaluations – 59

No. of transmission safety evaluations - 70

No. of liquid safety evaluations - 39

No. of leak/calls - 52

No. of accident investigations - 6

No. of special investigations – 15

C. Reporting of Pipeline Accidents1) NATURAL GAS

Accidents on intrastate gas systems involving \$5,000 property damage, a fatality or injuries, gas ignition, or that are judged significant must be reported by telephone within two hours, and the written report filed within thirty (30) days. Call the 24-hour emergency phone number (512)463-6788 to report an accident. For your convenience this priority phone line is used only to report emergencies.

2) HAZARDOUS LIQUIDS

Accidents on intrastate hazardous liquid pipelines reportable under 49 CFR Sections 195.50 and 195.52 and 16 TAC Section 7.84(a) must be reported by telephone within two hours and the required written report filed within thirty (30) days. Call the 24-hour emergency phone number (512)463-6788 to report an accident. For your convenience this priority phone line is used only to report emergencies.

FERC Rules and Regulations: None at this time.

UTILITY AUDIT SECTION

- A. Maintains headquarters and three district offices as follows:
- | | |
|--|--|
| Headquarters - William B. Travis Building
1701 North Congress, P. O. Box 12967, Austin, Texas 78701
Ed Abrahamson, Assistant Director | Telephone (512) 463-7022 |
| Dallas District- 1546 Rowlett Rd., Suite 107, Garland, Texas 75043

Stephen Cooper, Auditor
Josh Settle, Auditor | Telephone (972) 240-5757;
Fax (972)303-1897 |
| Austin District- P. O. Box 12967, Austin, Texas 78711-2967 | Telephone (512) 463-7022 |
| Houston District- 1706 Seamist Drive. Suite 501, Houston, Texas 77008-3135

Dale Francis, Auditor
Margie Stoney, Auditor
Konata Uzoma, Auditor
Lekisha Churchwell, Auditor
Larry Alcorn, Auditor | Telephone (713) 869-8425;
Fax (713)869-3219 |

B. **Gas Utility Tax, Annual Reports and Audit Reports**

Questions relating to gas utility tax, annual reports and audit reports, call Shannon L. Miller at (512) 463-7022.

C. **Available Information**

Copies of company annual reports (1994 to present), as well as information relating to any of the above, A through C, are available for review at the William B. Travis Building, Gas Services Division, 9th Floor, 1701 North Congress. All requests for copies must be made in writing and should be addressed to the Audit Section. Copies will be provided for a fee, depending on the volume of copy work desired, allow a minimum of five days for completion of requests. Inquiries regarding copies should be directed to the Audit Section at (512) 463-7022, or Fax your request to (512) 475-3180.

4. MARKET OVERSIGHT

- A. Maintains the following office to assist you:
- | | |
|---|--------------------------|
| Headquarters - William B. Travis Building
1701 North Congress, P.O. Box 12967, Austin, Texas 78711
William O. Geise, Director | Telephone (512) 463-7164 |
|---|--------------------------|
- B. **Gas Utilities Information Bulletin**
- Published on the Commission's web site at: <http://www.rrc.state.tx.us/divisions/gs/rap/rapbls.html>.
- C. **Proposals For Decision**
- Published on the Commission's web site at: <http://www.rrc.state.tx.us/divisions/gs/rap/pfds.html>.
- D. **Tariff Filings**
- Questions pertaining to the filing of tariffs and/or quality of service rules should be directed to Kathy Arroyo, Yolanda Lovelace or Sandra Soto at (512) 463-7164.

- E. Curtailments**
Curtailment questions should be referred to Sandra Soto at (512) 463-7164. Curtailment reports made Monday through Friday, 8:00 a.m. to 5:00 p.m., should be made to (512) 463-7164. Curtailment reports made during hours other than those specified above and holidays, should be made to (512) 463-6788, (512) 896-3863 (digital pager), (512) 892-1772 or (512) 280-5949.
- F. Compliance Filings**
Questions regarding gas utilities docket compliance filing requirements should be referred to Jackie Standard at (512) 463-7164.
- G. Complaints and Inquiries**
All complaints and inquiries relating to the gas utility industry should be directed to the Regulatory Analysis and Policy section at (512) 463-7164.
- H. Pending RRC Rules and Regulations:**
- GUD No. 9221 Amendments to Quality of Service Rules
 - GUD No. 9253 New Rule for Relocation Cost Recovery Factor
 - GUD No. 9257 Amendments to §7.450 Gas Distribution in Mobile Home Parks, Apartment Houses and Apartment Units.
 - GUD No. 9275 Amendments to §7.512 NGPA Section 311 Rate Review
 - GUD No. 9276 Amendments to §7.511 TUC Section 102.054 Sale, Transfer, Merger Reviews
 - GUD No. 9277 Amendments to §7.305 Curtailment Rule
 - GUD No. 9303 Amendments to §7.465 Abandonment Rule
 - GUD No. 9334 Amendments to §7.310 System of Accounts

5. HEARINGS AND LEGAL ANALYSIS

- A. Miscellaneous**
Anyone wishing to obtain copies of appendices to Orders appearing in Section 5 of this Bulletin should contact the Legal Division at (512) 463-7017.
- B. Status of Pending Cases**

The status of all pending cases listed in Section 3 of this Bulletin is for informational purposes only and is complete up to the time of printing of this Bulletin. For a more accurate status of pending cases, please call the Legal Division at (512) 463-7017.