

**BEFORE THE
RAILROAD COMMISSION OF TEXAS**

**STATEMENT OF INTENT OF INTENT §
TO CHANGE THE RATE CGS AND § GAS UTILITIES DOCKET No. 10000
RATE PT OF ATMOS PIPELINE - §
TEXAS §**

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. CHAP 551, *et seq.* (Vernon 2004 & Supp. 2010). The Railroad Commission adopts the following findings of fact and conclusions of law and orders as follows:

FINDINGS OF FACT

1. Atmos Pipeline – Texas (“Applicant” or “Company”), a division of Atmos Energy Corporation is a gas utility as that term is defined in the Texas Utility Code.
2. On September 17, 2010, Atmos Pipeline – Texas filed a *Statement of Intent* to change its Rate CGS and Rate PT and related riders.
3. The implementation of the proposed rates was suspended on October 12, 2010.
4. Notice of the Hearing was given to all parties entitled to notice and the hearing in this matter commenced on January 24, 2011.
5. Atmos Pipeline – Texas is an unincorporated division of Atmos Energy Corporation and is an intrastate natural gas transmission pipeline operating solely in Texas. Atmos Pipeline – Texas operates a large intrastate pipeline consisting of approximately 6,000 miles of transmission pipeline, approximately 700 city gate meters, five underground storage facilities, and forty-one (41) gas compressor stations. The geographical areas served by this pipeline division spans from the area bounded by the Oklahoma border; the Katy hub near Houston; the Carthage hub in East Texas; the Waha hub in West Texas; and the Austin/Hill Country area.
6. Atmos Pipeline – Texas provides service to three customer classes.
 - a. Atmos Pipeline – Texas provides transportation and storage service to the local distribution companies (LDC). The customers in this group are served pursuant to two tariffs: Rate CGS-Mid-Tex and Rate CGS-Other.

- b. The customers in this class are served pursuant to the Pipeline Transportation Tariff Rate PT-Pipeline Transportation. These are interruptible customers and are under cost of service rates set by the Commission because they do not have viable competitive alternatives to Atmos Pipeline – Texas.
 - c. Third, Atmos Pipeline-Texas provides services to certain industrial customers, electric generation customers, producers and marketer transportation customers (also referred to as through-system deliveries) that are served under negotiated rates. The third category of customers in this filing is the Other Revenue segment. The rates paid by these customers are negotiated rates and are not set in this proceeding.
 - d. Atmos Pipeline – Texas also provides ancillary services to producers and marketers, such as storage.
7. The total throughput during the test year for the regulated customers subject to the rates set in this case was distributed among the two regulated classes of customers as follows:
 - a. Rate CGS: 91.71%.
 - b. Pipeline Transportation Rate PT: 8.29%.
 8. The Atmos Pipeline – Texas system is designed to meet the peak-day demands of human needs customers.
 9. The test year in this case was the 12-month period ending March 31, 2010.

Books and Records

10. Atmos Pipeline – Texas maintains its books and records in accordance with the requirements of the Federal Energy Regulatory Commission's (FERC) Uniform System of Accounts.

Section 102.051 Review

11. A gas utility must file a report with the Railroad Commission regarding the sale, acquisition, or lease of a plant or for a total consideration of more than \$1 million dollars or regarding a merger or consolidation with another gas utility operating in this state.
12. Atmos Energy Corporation filed a report with the Railroad Commission after the merger.
13. The report was docketed as GUD No. 9555, Application for Review of Merger Between Atmos Energy Corporation and TXU Gas Company, Ltd.
14. In GUD No. 9555, the Commission explicitly deferred consideration of the transaction under section 102.051, of the Texas Utilities Code, until this proceeding. The merger

was previously considered in GUD No. 9670 and found to be just and reasonable and consistent with the public interest.

15. In reviewing the public interest consideration the Commission considered the following factors: (1) The reasonable value of property, facilities, or securities; (2) investments made to enhance or improve reliability; (3) actions implemented to enhance or improve safety; (4) efforts to enhance or improve customer service quality; (5) measures accomplished for improvements to operations, management, and administrative process; (6) community benefits resulting from the acquisition; (7) impacts on bond ratings and investment community's view of the acquisition; (8) efficiencies and economies of scope and scale resulting from the acquisition; (9) liability avoidance or mitigation as a result of the acquisition; and, (10) effect on customer rates.
16. In light of the factors set forth in Finding of Fact No. 15, the merger between Atmos Energy Corporation and TXU Gas Company, Ltd. was consistent with the public interest.

Interim Rate Adjustments

17. Atmos Pipeline – Texas made seven interim rate adjustments that were considered in these proceedings pursuant to the interim rate adjustment provisions of TEX. UTIL. CODE ANN. § 104.301. Those cases were docketed as GUD Nos. 9560, 9615, 9664, 9726, 9788, 9855, 9950.
18. The Earnings Monitoring Reports that were filed with the interim rate adjustments referenced in Finding of Fact No. 17 above were properly filed by Atmos Pipeline – Texas.
19. The allocation of Shared Services included in the interim rate adjustment filings considered in this proceeding was just and reasonable.
20. The *ad valorem* taxes included in certain of the interim rate adjustments considered in this proceeding was not correctly calculated and a refund in the amount of \$1,134,253, should be made as set out in the attached schedule, Ad Valorem Tax GRIP Refund by Customer Class Plus Interest.
21. It is reasonable to have the refund ordered as part of this docket as a one-time refund to the Rate CGS and Rate PT customers.
22. Atmos Pipeline – Texas did not over-earn on the allowable rate of return.
23. Expenses related to computers included in the interim rate adjustment filings considered in this case were reasonable and necessary to the operation of Atmos Pipeline – Texas.
24. Interim rate adjustment filings made at the Railroad Commission are available for inspection by any interested party.

25. Interim rate adjustment filings include a level of detailed information not normally included in *Statement of Intent* cases.
26. The proceeding in this case allowed the parties an opportunity to review and challenge investments included in the interim rate adjustment filings considered in this case and it is not necessary to revise those procedures in future cases.
27. In order to avoid controversy, Atmos Pipeline – Texas removed certain items from several the interim rate adjustment filings that were considered in this case.
28. Atmos Pipeline – Texas included several of the previously removed items referenced in Finding of Fact No. 27 as part of its rate base calculation in this proceeding.
29. Except for the adjustment made in Finding of Fact Nos. 32 to 40 below, the capital investments included in the interim rate adjustment filings considered in this proceeding were just and reasonable.
30. Amounts voluntarily excluded from interim rate adjustment filings may be included in future *Statement of Intent* proceedings.
31. All capital investment included in the seven interim rate adjustment filings are subject to review and subject to refund.
32. Atmos Pipeline – Texas has not established that the inclusion of meals, entertainment, lodging, travel in the Cost of Service using a threshold of \$50 per meal per person and \$250 per nights lodging expense is reasonable.
33. It is reasonable to include meals up to \$25 and under per meal per person and lodging up to \$150 and under per night in the Cost of Service. It is reasonable that these limitations be exclusive of taxes.
34. Atmos Pipeline – Texas has not established, in this case, that it is reasonable to include in the Cost of Service any meal expense over \$25 and lodging expense over \$150.
35. It is reasonable to require a detailed receipt for all meals and lodging expenses included in the Cost of Service.
36. The removal of an additional \$51,687 in meals from the Cost of Service is reasonable.
37. Atmos Pipeline – Texas has not established that the inclusion of artwork in the Cost of Service is reasonable.
38. The removal of \$46,552 in artwork is reasonable.
39. Atmos Pipeline – Texas has not established that the allocated cost from Shared Service for the Mississippi Billing system is reasonable.

40. The removal of \$7,174 for Project No. 010.11279 for the Mississippi Billing System is reasonable.

Rate Base

41. The proposed level of adjusted rate base included by Atmos Pipeline – Texas in this case is not reasonable.
42. The calculations of accumulated deferred income taxes, as reflected in the attached schedules, are just and reasonable.
43. Atmos Pipeline – Texas correctly adjusted the charitable contribution carryover included in its calculation of accumulated deferred income taxes.
44. Atmos Pipeline – Texas included an advance payment for compressor equipment in its rate base calculation.
45. The advance payments should have been included in construction work in progress.
46. No showing was made that an allowance for construction work in progress is required in this case and accordingly the prepayments for compressor equipment may not be included in the company's calculation of base rates.
47. Atmos Pipeline – Texas did not establish that the funds collected for FAS 106 are restricted or dedicated to FAS 106 and it is reasonable that an external fund be established as has been the case for the other states where Atmos Energy Corporation conducts business.
48. The FAS 106 liability calculation reflected on the attached schedules is just and reasonable.
49. It is reasonable for Atmos Pipeline – Texas to use a 13-month average ended March 31, 2010, to determine Working Gas in Storage value.
50. It is reasonable that the 13-month average for Working Gas in Storage is \$150,781,860, for the cost of service calculation in this proceeding.
51. It is not reasonable to presume NYMEX futures is a benchmark for determining physical delivery prices for the purpose of determining the prices a utility might pay for gas for future periods.
52. It is not reasonable to extend the test-year period for one or more accounts to manipulate the results.

53. The Working Gas in Storage calculation reflected on the attached schedules is just and reasonable.
54. An adjustment to the revenue lag is reasonable if the revenue from the non-regulated customers is treated as a credit in this proceeding as it is not reasonable to include the revenue lag days for the non-regulated transportation customers in the calculation of the revenue lag for Atmos Mid – Tex.
55. The cash working capital calculations reflected on the attached schedules is just and reasonable.

Shared Service Unit Allocation

56. Atmos Pipeline – Texas employees a four factor allocation methodology to allocate general plant, materials and supplies, accumulated deferred income taxes, injuries and damages reserve and certain adjustments to rate base.
57. The components of the four factor formula are gross direct property and equipment, number of customers, operating expenses, and operating income.
58. The methodology has been previously adopted by the Railroad Commission for allocation of costs to Atmos Mid – Tex and produces a reasonable allocation of costs.

Operating Expenses

59. Base labor expenses of Atmos Pipeline – Texas employees is derived from the following operating division: Direct labor expenses from Atmos Pipeline – Texas employees, Atmos Mid – Tex, and Shared Services labor allocated to Atmos Pipeline – Texas.
60. Atmos Pipeline – Texas did not establish that an adjustment to the test-year level of base-labor expenses was just and reasonable as the increasing trend of test-year expenses is accurately captured in the test-year data.
61. Rates are typically based upon test-year data and the Railroad Commission has previously established payroll expenses based upon the test-year level of expenses.
62. Atmos Pipeline – Texas established that the proposed adjustment due to merit increases made after the end of the test year was a known and measurable change and it is appropriate to make an adjustment to reflect that change.
63. Atmos Pipeline – Texas did not accurately calculate the adjustment because the adjustment made did not reflect the fact that Atmos Pipeline – Texas provides labor to other divisions of Atmos Energy Corporation. Those labor expenses are charged to those over divisions.

64. Atmos Pipeline – Texas has established that the medical and dental expenses incurred during the test year are just and reasonable.
65. Atmos Pipeline – Texas has established that the overtime expense level established during the test year is just and reasonable and no adjustment is required.
66. Customers and shareholders of Atmos Pipeline – Texas derive a benefit from the incentive compensation programs offered by the company and it is appropriate that the expenses for incentive compensation of direct employees be included in the cost of service calculation as they are just and reasonable expenses.
67. It is also appropriate that shareholder bear the burden of expenses for incentive compensation programs of the division that provide services to other divisions of Atmos Energy Corporation.
68. Atmos Pipeline – Texas has established that expenses for the pension account plan are just and reasonable.
69. The Supplemental Executive Benefit Plan is provided to employees that enter into a non-compete agreement and who have been designated by the Board of Directors. Shareholders and customers benefit from the program and it is reasonable that the cost of service calculation include expenses for the SEBP program expenses associated with direct employees of Atmos Pipeline – Texas.
70. Expenses associated with Cost Center 1905, Outside Director Retirement Costs, have been previously included in the calculation of the cost of service. These expenses are a necessary expense of publicly traded companies and it is just and reasonable to include those expenses in the cost of service calculation of the company.

Depreciation Expense

71. The company's proposed depreciation expenses, as reflected in the attached schedules are just and reasonable.
72. Atmos Pipeline – Texas correctly calculated the service life parameters for Accounts 352, 354, 367, 368, and 369.
73. The net salvage calculation included in the company's cost of service is just and reasonable for Account 352. The historical analysis is consistent with the functional data, experience of the company and industry experience for this account.
74. The net salvage calculation included in the company's cost of service is just and reasonable for Account 367. The analysis is consistent with the historical analysis, and industry experience for this account.

75. The expenses of Blueflame Insurance, an affiliate of Atmos Pipeline – Texas, are reasonable and necessary for the provision of natural gas service provided by the company.
76. The price to Atmos Pipeline – Texas by Blueflame is not higher than the price charged by Blueflame to its other affiliates or divisions or to a nonaffiliated person for insurance.
77. The Railroad Commission has previously found that the services provided by Blueflame were reasonable and necessary.

Revenues

78. Atmos Pipeline – Texas has established that the calculation of Other Revenues shown in the attached schedules is just and reasonable.
79. The company has included revenues for blending and treating fees.
80. It is reasonable to credit the revenue requirement for Other Revenue to determine the rates for Rate CGS and Rate PT classes.
81. It is reasonable to use a test year end, as adjusted, for Other Revenue.
82. It is reasonable to include retention gas sales in Other Revenue as a reduction to the revenue requirement.
83. It is reasonable in this instance to calculate retention gas sales value using an average over a four year period at a current market price.
84. It is reasonable to use a capital structure of 50.50% common equity and 49.50% long-term debt for Atmos Pipeline – Texas.
85. It is reasonable to use a cost of debt of 6.87% for Atmos Pipeline – Texas.
86. It is reasonable to use a proxy group of similar companies to Atmos Pipeline – Texas in the pipeline transmission business to determine a return on equity.
87. It is reasonable to use a constant growth Discounted Cash Flow Model for analysis to determine return on equity.
88. It is reasonable to use a quarterly growth Discounted Cash Flow Model for analysis to determine return on equity.
89. It is reasonable to use 30, 90, and 180-day ranges of average high and low share prices in the Discounted Cash Flow Model analysis.

90. It is reasonable to use a Capital Asset Pricing Model for analysis to determine return on equity.
91. It is reasonable to use a 90-day average of the 10-year Treasury Bond yield as a risk free rate.
92. It is reasonable that return on equity be set at 11.80%
93. An overall rate of return in this case of 9.361% is just and reasonable.
94. The evidence in this case established that a calculation of state gross margin tax based upon regulated operations and operations within the State of Texas is just and reasonable. Atmos Pipeline – Texas has established that its calculation of the state gross margin tax and is just and reasonable.
95. Atmos Pipeline – Texas has established that its calculation of federal income taxes as reflected in the attached schedules is just and reasonable.
96. Atmos Pipeline – Texas has established that the allocation of storage and transmission costs is just and reasonable and that those expenses are generated primarily by the city gate service customers.
97. The fixed cost allocation as proposed in this case is just and reasonable: The system is designed to satisfy the capacity requirements of the human needs customers during peak demand; peak demand determines the amount of transmission capacity and costs incurred by the company; and, no marginal or incremental cost of capacity are incurred when additional volumes of gas are transported.
98. Shifting 30% to 50% of the fixed costs to 62 individual customers is unreasonable and would serve only to subsidize the costs of providing service to the city gate service customers.
99. In GUD No. 9400, the Railroad Commission determined that the revenues from the non-regulated operations of Atmos Pipeline – Texas should be treated as a revenue credit.
100. Allocating costs to the Other Revenue customer class would treat those customers as if the customer were operating under a tariffed rate.
101. The proposal of Atmos Pipeline – Texas to treat the revenues from the non-regulate customers as a revenue credit is just and reasonable.
102. The straight fixed variable (SFV) rate design is a rate design that has been adopted by the majority of interstate natural gas pipelines in the United States and it sends proper price signals.

103. It is reasonable that the Railroad Commission of Texas have Atmos Pipeline – Texas create a Regulatory Asset as a result of Findings of Facts 64 and 65 in GUD No. 9869, Final Order Nunc Pro Tunc for Ad Valorem Tax and ADIT associated with working gas in storage.
104. It is reasonable to recover the Regulatory Asset through a surcharge on Rider CGS-Mid-Tex to only Atmos Mid-Tex through the Rider WGIS Working Gas Regulatory Asset Surcharge.
105. It is reasonable for the Commission to authorize the Rider WGIS Working Gas Regulatory Asset Surcharge.
106. It is reasonable that interest on the unrecovered balance accrue at the same rate of interest as the then-current deposit rate set by the Commission.
107. It is reasonable that the Regulatory Asset cease accruing upon implementation of the rates approved in GUD No. 10000.
108. It is reasonable that the surcharge be billed to Atmos Mid-Tex for twelve months.

Tariffs

109. The Railroad Commission of Texas has the authority approve adjustment mechanisms such as the Rider Rev because market forces control the revenues recovered from the non-regulated customers.
110. The Rider Rev is a reasonable mechanism to provide an annual adjustment to Rate CGS-Mid-Tex, and Rate CGS-other and Rate PT for 75% of the difference between the amount of Other Revenue determined in GUD No. 10000 and the amount of Other Revenue determined on an annual basis.
111. It is reasonable for the Rider Rev to be implemented on a three-year trial basis.
112. It is reasonable to review the results of Rider Rev at the end of three-years to determine if the Rider is achieving its stated goal and for the Commission to determine if the Rider Rev will be continued or eliminated.
113. It is reasonable that the Rider Rev specifically identify the allocation method to Rate CGS-Mid-Tex, Rate CGS-Other and Rate PT customer classes.
114. It is reasonable that the Rider Rev's review period be extended from 30-days to 60-days before its implementation.
115. It is reasonable that Atmos Pipeline – Texas provide notice to the customer of a rate increase or decrease that results from a Rider Rev adjustment.

116. It is reasonable that the Rider Rev incorporate language that will allow for Railroad Commission denial and subsequent appeal by Atmos Pipeline – Texas.
117. It is reasonable that the Rider Rev provide for Railroad Commission discovery during the review period with a five business day response from Atmos Pipeline – Texas.
118. It is reasonable to require an additional level of detail supporting the calculation of Rider Rev's Other Revenue and any adjustments to Other Revenue from the per book amount in its annual report.
119. It is reasonable to docket the annual review as a change in rates.
120. It is reasonable that if the change in rates under Rider Rev generates an increase in revenue of more than 2 ½%, then a hearing shall be held.
121. It is reasonable that the Rider Rev provide for cost recovery for the review by the Railroad Commission.
122. Atmos Pipeline – Texas has established that the cost of service without application of a revenue credit for revenues from non-regulated customers would be \$226,763,998.
123. The rates necessary to recover \$226,763,998 would be as follows:
 - a. Rate CGS – Mid-Tex: Capacity Charge per MDQ, 6.2984 Mcf, Mid – Tex WGIS Charge, \$0.8134 per Mcf, and a Usage Charge per MMBtu \$0.0276.
 - b. Rate CGS – CoServ: Capacity Charge per MDQ, 6.2984, and a Usage Charge per MMBtu, \$0.0276.
 - c. Rate CGS – City of Rising Star and West Texas Gas: Capacity Charge per MDQ, 6.2984 and a Usage Charge per MMBtu of \$0.0276.
 - d. Rate PT: Capacity Charge, 4.0732, Usage Charge \$0.0163.
124. Atmos Pipeline – Texas has established that revenues from the non-regulated customers, Other Revenues are \$83,723,391.63. Thus, the rates must be adjusted to allow recovery of \$143,049,141.
125. The rates necessary to recover \$141,882,173 are as follows:
 - a. Rate CGS – Mid-Tex: Capacity Charge per MDQ, 3.6263 Mcf, Mid – Tex WGIS Charge, \$0.8134 per Mcf, and a Usage Charge per MMBtu \$0.0276.
 - b. Rate CGS – CoServ: Capacity Charge per MDQ, 3.6263, and a Usage Charge per MMBtu, \$0.0276.
 - c. Rate CGS – City of Rising Star and West Texas Gas: Capacity Charge per MDQ, 3.6263 and a Usage Charge per MMBtu of \$0.0276.
 - d. Rate PT: Capacity Charge, 2.3061, Usage Charge \$0.0163.

CONCLUSIONS OF LAW

1. Atmos Pipeline – Texas is a “Gas Utility” as defined in TEX. UTIL. CODE ANN. §101.003(7) (Vernon 2007 & Supp. 2010) and §121.001(2007) and is therefore subject to the jurisdiction of the Railroad Commission of Texas (Commission).
2. The Railroad Commission of Texas (Commission) has jurisdiction over Atmos Pipeline – Texas and its *Statement of Intent* under TEX. UTIL. CODE ANN. §§ 102.001, 103.022, 103.054, & 103.055, 104.001, and 104.201 (Vernon 2007).
3. Under TEX. UTIL. CODE ANN. §102.001 (Vernon 2007), the Commission has exclusive original jurisdiction over the rates and services of a gas utility that distributes natural gas in areas outside of a municipality and over the rates and services of a gas utility that transmits, transports, delivers, or sells natural gas to a gas utility that distributes the gas to the public.
4. This 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 2008) (APA).
5. In accordance with the stated purpose of the Texas Utilities Code, Subtitle A, expressed under TEX. UTIL. CODE ANN. §101.002 (Vernon 2010), the Commission has assured that the rates, operations, and services established in this docket are just and reasonable to customers and to the utilities.
6. TEX. UTIL. CODE ANN. §104.107 (Vernon 2007) 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.
7. The proposed rates constitute a major change as defined by TEX. UTIL. CODE ANN. §104.101 (Vernon 2007).
8. In accordance with TEX. UTIL. CODE §104.103 (Vernon 2007), 16 TEX. ADMIN. CODE ANN. §7.230 (2010), and 16 TEX. ADMIN. CODE ANN. § 7.235 (2010), adequate notice was properly provided.
9. In accordance with the provisions of TEX. UTIL. CODE ANN. §104.102 (Vernon 2007), 16 TEX. ADMIN. CODE ANN. §7.205 (2010), and 16 TEX. ADMIN. CODE §7.210 (2010), Atmos Pipeline - Texas filed its Statement of Intent to change rates.
10. Atmos Pipeline – Texas failed to meet its burden of proof in accordance with the provisions of TEX. UTIL. CODE ANN. §104.008 (Vernon 2007) on the elements of its requested rate increase identified in this order.
11. The revenue, rates, rate design, and service charges proposed by Atmos Pipeline - Texas are not found to be just and reasonable, not unreasonably preferential, prejudicial, or

- discriminatory, and are not sufficient, equitable, and consistent in application to each class of consumer, as required by TEX. UTIL. CODE ANN. §104.003 (Vernon 2007).
12. The revenue, rates, rate design, and service charges proposed by Atmos Pipeline-Texas, as amended by 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 2007).
 13. The overall revenues as established by the findings of fact and attached schedules are reasonable; fix an overall level of revenues for Atmos Pipeline – Texas that will permit the company a reasonable opportunity to earn a reasonable return on its invested capital used and useful in providing service to the public over and above its reasonable and necessary operating expenses, as required by TEX. UTIL. CODE ANN. § 104.051 (Vernon 2007); and otherwise comply with Chapter 104 of the Texas Utilities Code.
 14. The revenue, rates, rate design, and service charges proposed will not yield to Atmos Pipeline – Texas more than a fair return on the adjusted value of the invested capital used and useful in rendering service to the public, as required by TEX. UTIL. CODE ANN. § 104.052 (Vernon 2007).
 15. The rates established in this docket comport with the requirements of TEX. UTIL. CODE ANN. §104.053 (Vernon 2007) and are based upon the adjusted value of invested capital used and useful, where the adjusted value is a reasonable balance between the original cost, less depreciation, and current cost, less adjustment for present age and condition.
 16. The rates established in this case comply with the affiliate transaction standard set out in TEX. UTIL. CODE ANN. § 104.055 (Vernon 2007). Namely, in establishing a gas utility's rates, the regulatory authority may not allow a gas utility's payment to an affiliate for the cost of a service, property, right or other item or for an interest expense to be included as capital cost or an expense related to gas utility service except to the extent that the regulatory authority finds the payment is reasonable and necessary for each item or class of items as determined by the regulatory authority. That finding must include (1) a specific finding of reasonableness and necessity to each class of items allowed; and (2) a finding that the price to the gas utility is not higher than the prices charged by the supplying affiliate to its other affiliates or divisions or to a nonaffiliated person for the same item or class of items.
 17. In accordance with TEX. UTIL. CODE ANN. §104.054 (Vernon 2007) and Tex. Admin. Code §7.5252, book depreciation and amortization was calculated on a straight line basis over the useful life expectancy of Atmos Pipeline – Texas's property and facilities.
 18. In this proceeding, Atmos Pipeline - Texas has the burden of proof under TEX. UTIL. CODE ANN. §104.008 (Vernon 2007) to show that the proposed rate changes are just and reasonable.

19. TEX. UTIL. CODE ANN. § 104.301, allows a utility to make an interim rate adjustment and requires that the utility that files an interim rate adjustment must also file a rate case under Subchapter C of the Gas Utility Regulatory Act (Statement of Intent Proceeding) at the fifth year anniversary of the effective date of the first interim rate adjustment.
 - a. There is nothing in Tex. Util. Code Ann. § 104.301 that precludes a utility from voluntarily removing certain expenditures in its interim rate adjustments and then including those expenditures in the subsequent Statement of Intent Proceeding.
 - b. All interim rate adjustments are subject to refund in the subsequent Statement of Intent Proceeding.
 - c. All interim rate adjustments of Atmos Pipeline – Texas were reviewed in this proceeding and except for the items set out in Finding of Fact Nos. 17 – 40 above were found to be just and reasonable.
20. Rate case expenses for GUD No. 10000 will be considered by the Commission in accordance with TEX. UTIL. CODE ANN. §104.008 (Vernon 2010), and 16 Tex. Admin. Code §7.5530 (2010), in a separate proceeding.
21. Atmos Pipeline – Texas is required by 16 Tex. Admin. Code §7.315 (2008) to file electronic tariffs incorporating rates consistent with this Order within thirty days of the date of this Order.
22. Atmos Pipeline – Texas is required by 16 Tex. Admin. Code § 7.310 to utilize the Federal Energy Regulatory Commission's (FERC) Uniform System of Accounts (USOA) prescribed for natural gas companies.
23. The Railroad Commission of Texas has the authority under TEX. UTIL. CODE §§ 102.001, 102.104, 104.001, 121.151 and the Federal Energy Regulatory Commission's Uniform System of Accounts, Definitions, No. 31, Regulatory Asset to authorize and approve a Regulatory Asset.

IT IS THEREFORE ORDERED that Atmos Pipeline – Texas's proposed schedule of rates is hereby **DENIED**.

IT IS FURTHER ORDERED that the rates, rate design, and service charges established in the findings of fact and conclusions of law and shown on the attached Schedules for Atmos Pipeline – Texas are **APPROVED**.

IT IS FURTHER ORDERED that a refund in the amount of \$1,134,253, shall be made as set out in the attached schedule, Ad Valorem Tax GRIP Refund by Customer Class Plus Interest.

IT IS FURTHER ORDERED that in future rate proceedings Atmos Pipeline – Texas shall include detailed receipts for all meal and lodging expenses and that there shall be a rebuttable presumption that meal expenses \$25 and under and lodging expenses \$150 and under are just and

reasonable and that Atmos Pipeline – Texas must establish that any expenses in excess of \$25 for meals and \$150 for lodging are just and reasonable, exclusive of taxes.

IT IS FURTHER ORDERED that, in accordance with 16 Tex. Admin. Code §7.315, within 30 days of the date this Order is signed, Atmos Pipeline – Texas shall file tariffs with the Gas Services Division. The tariffs shall incorporate rates, rate design, and service charges consistent with this Order, as stated in the findings of fact and conclusions of law and shown on the attached Schedules.

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

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.

All requested findings of fact and conclusions of law which are not expressly adopted herein are denied. All pending motions and requests for relief not previously granted or granted herein are denied.

SIGNED this 18th day of April, 2011.

RAILROAD COMMISSION OF TEXAS

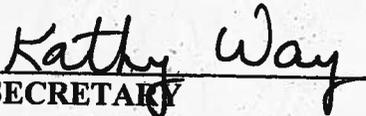


CHAIRMAN ELIZABETH AMES JONES



DAVID PORTER COMMISSIONER

ATTEST:



SECRETARY