

**BEFORE THE
RAILROAD COMMISSION OF TEXAS**

APPLICATION OF TEXAS GAS SERVICE COMPANY FOR THE 2006 ANNUAL GAS RELIABILITY INFRASTRUCTURE PROGRAM RATE ADJUSTMENT FOR THE UNINCORPORATED AREAS OF THE RIO GRANDE VALLEY SERVICE AREA.	§ § § § § § § § § §	GAS UTILITIES DOCKET NO. 9800
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INTERIM RATE ADJUSTMENT 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 (Vernon 2000 & Supp. 2007). The Railroad Commission of Texas adopts the following findings of fact and conclusions of law and orders as follows:

FINDINGS OF FACT

Background

1. Texas Gas Service Company is a "gas utility," as that term is defined in the TEXAS UTILITY CODE, and is subject to the jurisdiction of the Railroad Commission of Texas (Commission).
2. Texas Gas Service Company (TGS) owns and operates a gas distribution system in the Rio Grande Valley Service Area.
3. On April 30, 2008, TGS filed an application for an annual interim rate adjustment (IRA) applicable to customers located in the Unincorporated Areas of the Rio Grande Valley Service Area.
4. TGS requested that the IRA for all customer classes become effective on June 29, 2008.
5. On May 2, 2008, the Commission suspended implementation of TGS' proposed IRA until August 13, 2008, which is 45 days following the 60th day after the applications were to be complete.
6. No pleas to intervene were filed in the docket.
7. No comments were received in the docket.

8. On November 17, 2006, TGS filed a Statement of Intent to change its rates to customers located in the Unincorporated Areas of the Rio Grande Valley Service Area, **GUD No. 9708**. An order approving new rates was signed on April 10, 2007.
9. On April 30, 2008, TGS filed this, its first IRA subsequent to its most recent rate case for Distribution, GUD No. 9708, Statement of Intent Filed by Texas Gas Service Company to change Rates in the Environs of the Rio Grande Valley Service Area.
10. This docket, **GUD No. 9800**, is applicable to the Rio Grande Valley Service Area using a test year ended December 31, 2006.
11. Until promulgation of TEX. UTIL. CODE ANN, §104.301 (Vernon Supp 2007), a utility could not increase its rates applicable to environs customers without filing with the Commission a formal statement of intent rate case, including a comprehensive cost of service rate review.
12. TGS' proposed IRA will allow an opportunity to recover, subject to refund, a return on investment, depreciation expense, and related taxes on the incremental cost of infrastructure investment since its last rate case, without the necessity of filing a formal statement of intent rate case and without review by the Commission of TGS' comprehensive cost of service.

Applicability

13. This docket applies to only those rates over which the Commission has original jurisdiction, which includes all of TGS' environs customers in the Rio Grande Valley Service Area.
14. As of year-end 2006, the Rio Grande Valley Service Area environs customers totaled approximately 66,755 Residential customers, 3,416 Commercial customers (church and non-church combined), 11 Industrial customers, 533 Public Authority customers, 58 Transportation customers.

Most Recent Comprehensive Rate Case

15. TGS' most recent rate case for Distribution for the area in which the IRA will be implemented is GUD No. 9708, Statement of Intent Filed by Texas Gas Service Company to change Rates in the Environs of the Rio Grande Valley Service Area.
16. GUD No. 9708 was filed on November 17, 2006.
17. The data used in GUD No. 9708 was based on a test-year ending September 30, 2005.
18. The Commission signed the GUD No. 9708 Final Order on April 10, 2007.
19. The Commission in GUD No. 9708 set the rates currently charged by TGS in the Unincorporated Areas of the Rio Grande Valley Service Area.

20. The Settlement with the Cities, as approved by the Commission in GUD No. 9708, approved a Rate of Return for future IRA calculations (8.055%) and a Rate of Return to be used in the Earnings Monitoring Report (8.400%).
21. The following chart shows the factors that were established in GUD No. 9708 to calculate the return on investment, depreciation expense, and incremental federal income tax:

Rate of Return (Future GRIP Filings)	8.055%
Rate of Return (Earnings Monitoring Report)	8.400%
Depreciation Rate (composite)	3.4714%
Federal Income Tax Rate	35%

Interim Rate Adjustment

22. TGS seeks approval from the Commission for an adjustment to its revenue, based on incremental net utility plant investment, with regard to the following components: return on investment; depreciation expense; revenue related taxes; and federal income taxes.
23. The revenue amounts to be recovered through TGS' proposed annual IRA are incremental to the revenue requirement established in TGS' most recent rate case for the Rio Grande Valley Service Area in which the IRA is to be implemented, i.e., GUD No. 9708.
24. TGS calculated and presented all incremental values for investment, accumulated depreciation, return on investment, depreciation expense, and incremental federal income taxes on a full calendar-year basis.
25. For each IRA following a rate case, the amounts by which TGS may adjust its rates are based on the difference between invested capital at the end of the most recent rate case test-year, or that last IRA, (September 30, 2005) and the invested capital at the end of the calendar-year following the end of the most recent rate case test-year (December 31, 2006).
26. This docket is the first IRA for TGS in the Rio Grande Valley Service Area. Therefore, to request its IRA in this docket, TGS submitted data for the calendar year ending December 31, 2006.
27. The value of invested capital is equal to the original cost of the investment at the time the investment was first dedicated to public use minus the accumulated depreciation related to that investment for the IRA.
28. TGS is required to use the same factors to calculate the interim return on investment, depreciation expense, and incremental federal income tax as those established or used in the final order setting rates in TGS' most recent rate case for the area in which the IRA is to be implemented.

29. TGS filed the Commission's Annual Earnings Monitoring Report (EMR) for Distribution as required by 16 TEXAS ADMINISTRATIVE CODE §7.7101(2004). The Company's actual rate of return is 0.7572% as compared with the 8.40% allowed rate of return that was established in GUD No. 9708.
30. TGS filed its Annual Project Report for Distribution as required by 16 TEXAS ADMINISTRATIVE CODE §7.7101(2004).
 - TGS' capital project additions totaled \$4,404,697, net of accumulated depreciation.
 - Safety-related improvements/infrastructure projects totaled \$3,145,172 before depreciation, or 45.00% of total additions.¹
 - Integrity testing projects totaled \$0.00, or 0.00% of total additions.
31. TGS is required to allocate the revenue to be collected through the IRA among its customer classes in the same manner as the cost of service was allocated among its customer classes in its most recent rate case for the area in which the IRA is to be implemented.
32. TGS proposed the IRA as a flat rate to be applied to the monthly customer charges rather than as a volumetric rate to be applied to the initial block usage rates.
33. TGS is required to show its annual IRA on its customers' monthly billing statements as a surcharge.
34. The proposed IRA by TGS does not require an evidentiary proceeding; rather, TEX. UTIL. CODE ANN, §104.301 and 16 TEX. ADMIN. CODE, §7.7101(2004) require the regulatory authority to review a utility's method of calculating the IRA.
35. Due process protections are deferred until TGS files its next full statement of intent rate case for the Rio Grande Valley Service Area.

Notice

36. TGS completed its notice to the Residential, Commercial, Industrial, Public Authority and Transportation customers during its May 2008 billing cycle, completing the application and making the suspension period end on August 31, 2008.

Comprehensive Rate Case Required

37. TGS is not required to initiate a rate case supporting a statement of intent at the time it applies for an IRA.
38. A gas utility that implements an IRA and does not file a rate case before the fifth anniversary of the date its initial IRA became effective is required to file a rate case not later than the 180th day after that anniversary.

1 Examiners' RFI No. 2-03.

Review of Interim Rate Adjustment

39. TGS' proposed IRA is \$684,904, as shown in Exhibit B, based on an incremental net utility plant investment increase of \$4,359,680, as adjusted for meals and other exclusions from investment.
40. Revenue related taxes are collected separately on the customers bill in accordance with Rate Schedule 1B and are not included in the revenue requirement pursuant to GUD No. 9708.
41. TGS' proposed allocation methodology complies with TEXAS UTIL. CODE ANN, §104.301 (Vernon 2007), and with 16 TEX. ADMIN. CODE, §7.7101.
42. For allocation methodology, it is reasonable for the Commission to use overall cost of service (less other revenue, gas cost, and revenue related taxes) as determined in its most recent rate case. The following overall cost of service allocation factors for use in the calculation of TGS' IRA are reasonable:

Customer Class	Allocation Factors
Residential	0.6822
Commercial	0.2347
Industrial	0.0021
Public Authority	0.0330
Standard – Regular (T-1)	0.0227
Standard – Large (T-2)	0.0254
Total System	1.0000

43. TGS' proposed customer counts comply with TEXAS UTIL. CODE ANN, §104.301 (Vernon2007), and with 16 TEX. ADMIN. CODE, §7.7101.
44. For calculating the number of customer charges per year, it is reasonable for the Commission to approve use of TGS' 2006 year-end number of customers multiplied by twelve. The following total numbers of customer and meter charges for use in the calculation of the IRA are reasonable:

Customer Class	Total Number of Customer Charges / Meters
Residential	801,060
Commercial	40,987
Industrial	129
Public Authority	6,395
T-1 Transportation	480
T-2 Transportation	216

45. The corresponding amounts of IRA revenue and additional customer charges by customer class are as follows:

Customer Class	Percentage Allocation	IRA Revenue	Change in Customer/Meter Charge	New Customer/Meter Charge
Residential	0.6822	\$ 467,231	\$ 0.58	\$ 10.08
Commercial – Church	0.2347	\$ 160,721	\$ 3.92	\$ 16.42
Commercial – Non-Church	0.2347			\$ 28.92
Industrial	0.0021	\$ 1,413	\$ 10.95	\$ 60.95
Public Authority	0.0330	\$ 22,581	\$ 3.53	\$ 33.53
Standard – Regular (T-1)	0.0227	\$ 15,547	\$ 47.35	\$ 97.35
Standard – Large (T-2)	.00254	\$ 17,411	\$ 47.35	\$ 297.35
Total	1.0000	\$ 684,904		

Reimbursements of Expense

46. As provided for in the statute and the rule, a gas utility that implements an IRA is required to reimburse the Commission for the utility's proportionate share of the Commission's annual costs related to the administration of the IRA mechanism.
47. After the Commission has finally acted on TGS' application for an IRA, the Director of the Gas Services Division will estimate TGS' proportionate share of the Commission's annual costs related to the processing of such applications.
48. In making the estimate of TGS' proportionate share of the Commission's annual costs related to the processing of such applications, the Director will take into account the number of utilities the Commission reasonably expects to file for IRAs during the fiscal year, and the costs expected to be incurred in processing such applications.
49. TGS is required to reimburse the Commission for the amount determined by the Director of the Gas Services Division and approved by the Commission, within thirty days after receipt of notice of the amount of the reimbursement.

CONCLUSIONS OF LAW

1. Texas Gas Service Company (TGS) is a "gas utility" as defined in TEX. UTIL. CODE ANN. §101.003(7) (Vernon 2007) and §121.001 (Vernon 2007), and is therefore subject to the jurisdiction of the Railroad Commission of Texas (Commission).
2. The Commission has jurisdiction over TGS' application for IRAs for incremental changes in investment, and the subject matter of this case under TEX. UTIL. CODE ANN. §102.001, §104.001, §104.002, and §104.301 (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.
4. Under the provisions of the TEX. UTIL. CODE ANN. §104.301 (2007) and 16 TEX. ADMIN. CODE § 7.7101 (2004), TGS is required to seek Commission approval before implementing an interim rate adjustment tariff for environs customers.
5. TGS filed its application for interim rate adjustments for Distribution for changes in investment in accordance with the provisions of TEX. UTIL. CODE ANN. §104.301 (Vernon 2007) and 16 TEX. ADMIN. CODE §7.7101 (2004).
6. TGS' application for an IRA was processed in accordance with the requirements of TEX. UTIL. CODE ANN. §104.301 (Vernon 2007) and 16 TEX. ADMIN. CODE §7.7101 (2004).
7. Neither TEX. UTIL. CODE ANN, §104.301 (Vernon 2007) nor 16 TEX. ADMIN. CODE, §7.7101 (2004) provide the opportunity for parties to intervene in the Commission's review of an application for an annual IRA.
8. 16 TEX. ADMIN. CODE, §7.7101 (2004) allows written comments or a protest concerning the proposed IRA to be filed with the Gas Services Division.
9. In accordance with 16 TEX. ADMIN. CODE §7.315 (2002), within thirty days of the effective date of any change to rates or services, TGS is required to file with the Gas Services Division of the Commission its revised tariffs.
10. TGS may not charge any rate that has not been successfully filed and accepted as a tariff filing electronically pursuant to TEX. UTIL. CODE ANN. §§102.151 and 104.002 (Vernon 2007) and 16 TEX. ADMIN. CODE §7.315 (2002).
11. In accordance with TEX. UTIL. CODE ANN. §104.301(a) (Vernon 2007) and 16 TEX. ADMIN. CODE §7.7101(a) (2004), the filing date of TGS ' most recent rate case for the Rio Grande Valley Service Area, in which there is a final order setting rates for the area in which the IRA will apply, was no more than two years prior to the date TGS filed its initial IRA.
12. TGS is required, under TEX. UTIL. CODE ANN. §104.301(e) (Vernon 2007) and 16 TEX. ADMIN. CODE §7.7101(d) (2004), to file with the Commission an annual project report, including the cost, need, and customers benefited by the change in investment, and describing the investment projects completed and placed in service during the preceding calendar year and the investments retired or abandoned during the preceding calendar year.

13. TGS shall include in all future annual IRA filings for Distribution, relocation project reports that provide additional information about relocation project costs included in investment projects, in the same format as required in this docket.
14. TGS is required, under TEX. UTIL. CODE ANN. §104.301(f) (Vernon 2007) and 16 TEX. ADMIN. CODE §7.7101(e) (2004), to file with the Commission an annual earnings monitoring report demonstrating TGS' earnings during the preceding calendar year.
15. TGS is required, under 16 TEX. ADMIN. CODE §7.7101(h) (2004), to recalculate its approved IRA annually and is required to file an application for an annual adjustment no later than 60 days prior to the one-year anniversary of the proposed implementation date of the previous IRA application.
16. In accordance with 16 TEX. ADMIN. CODE §7.7101(i) (2004), all amounts collected from customers under TGS' IRA tariffs or rate schedules are subject to refund. The issues of refund amounts, if any, and whether interest should be included on refunded amounts and, if so, the rate of interest, shall be addressed in the rate case a gas utility files or the Commission initiates after the implementation of an IRA and shall be the subjects of specific findings of fact in the Commission's final order setting rates.
17. In accordance with 16 TEX. ADMIN. CODE §7.7101(j) (2004), in the rate case that TGS files or the Commission initiates after the implementation of an IRA, any change in investment and related expenses and revenues that have been included in any IRA shall be fully subject to review for reasonableness and prudence. Upon issuance of a final order setting rates in the rate case that TGS files or the Commission initiates after the implementation of an IRA, any change in investment and related expenses and revenues that have been included in any IRA shall no longer be subject to review for reasonableness or prudence.
18. The Commission has authority to suspend the implementation of the IRA, under TEX. UTIL. CODE ANN. §104.301(a) (Vernon 2007) and 16 TEX. ADMIN. CODE §7.7101(e) (2004).
19. The Company provided adequate notice, in accordance with TEX. UTIL. CODE ANN. §104.301(a) (Vernon 2007) and 16 TEX. ADMIN. CODE §7.7101(b) (2004).
20. TGS' application for an IRA, as proposed, complies with all provisions of TEX. UTIL. CODE ANN. §104.301 (Vernon 2007) and 16 TEX. ADMIN. CODE §7.7101 (2004).
21. TGS' IRA set forth in the findings of fact and conclusions of law, in this Order comply with the provisions of TEX. UTIL. CODE ANN. §104.301 (Vernon 2007) and 16 TEX. ADMIN. CODE §7.7101 (2004).
22. In accordance with TEX. UTIL. CODE ANN. §104.301(h) (Vernon 2007) and 16 TEX. ADMIN. CODE §7.7101(l) (2004), TGS shall file a comprehensive rate case for the areas in which the

IRA is implemented, no later than the 180th day after the fifth anniversary of the date its initial IRA became effective.

23. The Commission has authority, under TEX. UTIL. CODE ANN. §104.301(j) (Vernon 2007) and 16 TEX. ADMIN. CODE §7.7101(m) (2004), to recover from TGS a proportionate share of the Commission's annual costs related to the administration of the IRA mechanism.

IT IS THEREFORE ORDERED BY THE RAILROAD COMMISSION OF TEXAS THAT TGS' Rio Grande Valley Service Area IRA, as requested, and to the extent recommended to be approved in the findings of fact and conclusions of law, are **HEREBY APPROVED**, subject to refund, to be effective for bills rendered on or after July 29, 2008 as shown in Exhibits A and B.

IT IS FURTHER ORDERED THAT TGS shall file with the Commission no later than May 1, 2009, an annual project report, including the cost, need, and customers benefited by the change in investment, and describing the investment projects completed and placed in service during the preceding calendar year and the investments retired or abandoned during the preceding calendar year.

IT IS FURTHER ORDERED THAT TGS shall file with the Commission no later than May 1, 2009, a relocation project report, which provides additional information about relocation costs included in investment projects, in the format provided in this docket.

IT IS FURTHER ORDERED THAT TGS shall file with the Commission no later than May 1, 2009, an annual earnings monitoring report demonstrating TGS' earnings during the preceding calendar year.

IT IS FURTHER ORDERED THAT TGS shall file with the Commission no later than May 1, 2009, recalculations of its approved IRA and applications for annual IRA for the preceding calendar year.

IT IS FURTHER ORDERED THAT within 30 days of this order TGS shall electronically file its IRA tariffs in proper form that accurately reflect the rates, as expressed in Exhibit A, approved by the Commission in this Order.

IT IS FURTHER ORDERED THAT TGS shall not charge any rate that has not been successfully electronically filed and accepted by the Commission as a tariff.

IT IS FURTHER ORDERED THAT TGS shall reimburse the expenses incurred by the Commission in reviewing this application. The amount of this reimbursement shall be determined by the Director of the Gas Services Division and must be approved by the Commission. 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)(Vernon 2000 & Supp. 2007), 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.

Any portion of TGS' application not expressly granted herein is overruled. 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 29th day of July, 2008.

RAILROAD COMMISSION OF TEXAS



MICHAEL L. WILLIAMS
CHAIRMAN



VICTOR G. CARRILLO
COMMISSIONER



ELIZABETH A. JONES
COMMISSIONER

ATTEST



SECRETARY

EXHIBIT A

INTERIM RATE ADJUSTMENT TARIFF 2006

A. APPLICABILITY

This Interim Rate Adjustment (IRA) applies to all general service rate schedules of Texas Gas Service Company (Company) currently in force in the unincorporated areas of Rio Grande Valley Service Area. Applicable rate schedules include 1Z, 2Z, 3Z, 4Z, T-1 and T-2.

B. BILLING

The following Interim Rate Adjustments will be added to the applicable Rate Schedule Customer Charge for each monthly billing period:

<u>Rate Schedule</u>	<u>Customer Class</u>	<u>IRA</u>
10	Residential	\$ 0.58
20	Commercial and Church	\$ 3.92
30	Industrial	\$10.95
40	Public Authority	\$ 3.53
T-1 and T-2	Transportation	\$47.35

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

Initial Rate

Meters Read On and After
June 29, 2008

EXHIBIT B

SUMMARY

TEXAS GAS SERVICE COMPANY
RIO GRANDE VALLEY SERVICE AREA
FIFTEEN MONTH PERIOD ENDING DECEMBER 31, 2006

Line No	Description	9/30/2005 Previous Year	12/31/2006 Current Year	Reference
	(a)	(b)	(c)	(d)
1	Net Investment	\$ 33,587,817	\$ 37,947,497	(b) IRA-7 line 50 col (i), (c) IRA-8 line 50 col (i)
2	Increase in Net Investment		\$ 4,359,680	IRA-9 line 50 col (i)
3	Authorized Return on Capital		8.0550%	IRA-15 line 5
4				
5	Change in Return on Net Investment		\$ 351,172	Line 2 * Line 3
6	Change in Depreciation Expense		\$ 163,244	IRA-10 line 50 col (g) plus IRA-13 line 50 col (g)
7	Change in Federal, Revenue and Other Taxes		\$ 170,487	IRA-5 line 13 col (g) plus IRA-6 line 20
8	Change in Revenue Requirement		\$ 684,904	Sum of Lines 5 - 7
9				
10	Annual Number of Bills		849,267	
11	Increase Per Bill Per Month		See Below	
12	(to be applied to monthly customer charge or initial block rate, check on)			
13	<input checked="" type="checkbox"/> Monthly Customer Charge			
14	<input type="checkbox"/> Initial Block Rate			
15				

Current and Proposed Bill Information - With Gas Cost					
	Current	Proposed	Difference	% Change	
21 Residential Customers					
22 Average Monthly Bill @ 6 Mcf	\$ 57.62	\$ 58.20	\$ 0.58		1.0%
23 Average Monthly Bill @ 1.7 Mcf*	\$ 23.13	\$ 23.71	\$ 0.58		2.5%
24					
25 Commercial Customers					
26 Average Monthly Bill @ 30 Mcf	\$ 260.04	\$ 263.96	\$ 3.92		1.5%
27 Average Monthly Bill @ 41.7 Mcf*	\$ 351.71	\$ 355.63	\$ 3.92		1.1%
28					
29 Industrial Customers					
30 Average Monthly Bill @ 300 Mcf	\$ 2,395.49	\$ 2,406.44	\$ 10.95		0.5%
31 Average Monthly Bill @ 154.5 Mcf*	\$ 1,256.36	\$ 1,267.31	\$ 10.95		0.9%
32					
33 Public Authority					
34 Average Monthly Bill @ 30 Mcf	\$ 268.77	\$ 272.30	\$ 3.53		1.3%
35 Average Monthly Bill @ 27.5 Mcf*	\$ 248.87	\$ 252.40	\$ 3.53		1.4%
36					
37 Church					
38 Average Monthly Bill @ 30 Mcf	\$ 247.54	\$ 251.46	\$ 3.92		1.6%
39 Average Monthly Bill @ 2.1 Mcf*	\$ 28.95	\$ 32.87	\$ 3.92		13.5%

Current and Proposed Bill Information - Without Gas Cost					
	Current	Proposed	Difference	% Change	
43 Residential Customers					
44 Average Monthly Bill @ 6 Mcf	\$ 19.31	\$ 19.89	\$ 0.58		3.0%
45 Average Monthly Bill @ 1.7 Mcf*	\$ 12.28	\$ 12.86	\$ 0.58		4.7%
46					
47 Commercial Customers					
48 Average Monthly Bill @ 30 Mcf	\$ 68.50	\$ 72.42	\$ 3.92		5.7%
49 Average Monthly Bill @ 41.7 Mcf*	\$ 85.46	\$ 89.38	\$ 3.92		4.6%
50					
51 Industrial Customers					
52 Average Monthly Bill @ 300 Mcf	\$ 480.05	\$ 491.00	\$ 10.95		2.3%
53 Average Monthly Bill @ 154.5 Mcf*	\$ 271.19	\$ 282.14	\$ 10.95		4.0%
54					
55 Public Authority					
56 Average Monthly Bill @ 30 Mcf	\$ 77.22	\$ 80.75	\$ 3.53		4.6%
57 Average Monthly Bill @ 27.5 Mcf*	\$ 73.29	\$ 76.82	\$ 3.53		4.8%
58					
59 Church					
60 Average Monthly Bill @ 30 Mcf	\$ 56.00	\$ 59.92	\$ 3.92		7.0%
61 Average Monthly Bill @ 2.1 Mcf*	\$ 15.54	\$ 19.46	\$ 3.92		25.2%
62					
63 Transportation					
64 Regular (T-1) Average Monthly Bill @ 500 Mcf*	\$ 502.65	\$ 550.00	\$ 47.35		9.4%
65 Large (T-2) Average Monthly Bill @ 6,000 Mcf*	\$ 1,668.40	\$ 1,715.75	\$ 47.35		2.8%
66					
67 * Average Bill usage per GUD 9708 filing.					
68 Average bills exclude revenue related taxes and are computed using the May 2006 Cost of Gas					

FEDERAL INCOME TAX

TEXAS GAS SERVICE COMPANY
 RIO GRANDE VALLEY SERVICE AREA
 FIFTEEN MONTH PERIOD ENDING DECEMBER 31, 2006

Line No.	Description	Prior Year (1) (b)	Amount (c)	Current Year (2) (d)	Amount (e)
1	Return on Investment				
2	Invested Capital (Rate Base)	\$ 33,587,817	\$	\$ 37,947,497	
3	Rate of Return	8.0550%		8.0550%	
4	Return on Investment		\$ 2,705,499		\$ 3,056,671
5					
6	Interest Expense				
7	Invested Capital (Rate Base)	\$ 33,587,817	\$	\$ 37,947,497	
8	Weighted Cost of Debt	3.340%		3.3400%	
9	Interest Expense		\$ 1,121,833		\$ 1,267,446
10					
11	After Tax Income		\$ 1,583,666		\$ 1,789,224
12					
13	Gross- Up Factor		1.538		1.538
14					
15	Before Tax Return		\$ 2,436,409		\$ 2,752,653
16					
17	Federal Income Tax Rate		35%		35%
18					
19	Federal Income Tax		\$ 852,743		\$ 963,429
20	CHANGE IN FEDERAL INCOME TAX		\$ 110,685		

Notes:

1. Original Column Heading changed from YEAR.1
2. Original Column Heading changed from YEAR 2

WEIGHTED AVERAGE COST OF CAPITAL

TEXAS GAS SERVICE COMPANY
 RIO GRANDE VALLEY SERVICE AREA
 AS OF DECEMBER 31, 2006
 PER MOST RECENT RATE CASE - GUD DOCKET NO. 9708

Per Last Rate Case :
 Docket No. 9708

Line No.	Description	Investment Balance (a)	Percent of Total (b)	Cost (c)	Weighted Cost (d)
1	Common Equity	\$ 14,846,868	46%	10.250%	4.7150%
2	Preferred Stock		0%		
3	Preferred Trust Securities		0%		
4	Long-Term Debt	\$ 17,428,933	54%	6.180%	3.3400%
5	Short-Term Debt		0%		
6	Total	\$ 32,275,801	100%		8.0550%

Note: GUD 9708 Final Order Finding of Fact 20 allowable rate of return at 8.0550 percent for new investments made in the RGVSA for the purpose of filing request for incremental tariff adjustments pursuant to TEX. UTIL. CODE ANAL.§104.301 (Vernon Supp. 2006)

TEXAS GAS SERVICE COMPANY
 RIO GRANDE VALLEY SERVICE AREA
 INTERIM RATE ADJUSTMENT
 CHANGES FROM SEPTEMBER 30, 2005 THROUGH DECEMBER 31, 2006

CHANGE IN NET INVESTMENT

LINE NO.	DESCRIPTION	ADJUSTED BALANCE AT 09/30/05 (a)	ADJUSTED BALANCE AT 12/31/06 (b)	CHANGE IN NET INVESTMENT (c)
	GROSS PLANT IN SERVICE			
1	Gathering and Transmission Plant	\$7,505,994	\$8,589,420	1,083,426
2	Distribution Plant	56,479,888	61,924,932	5,445,044
3	General Plant	2,868,967	3,374,557	505,590
4	Gross Plant in Service	<u>\$66,854,848</u>	<u>\$73,888,909</u>	<u>\$7,034,060</u>
5	Net Depreciation & Amortization Reserves	<u>(33,267,031)</u>	<u>(35,941,412)</u>	<u>(2,674,381)</u>
6	Net Plant in Service - Adjusted Direct	<u><u>\$33,587,817</u></u>	<u><u>\$37,947,497</u></u>	<u><u>\$4,359,680</u></u>

NOTE 1: Detailed on Schedule 2a
 NOTE 2: Invested capital at 9/30/05 authorized in Settlement Agreement with RGV Cities.

TEXAS GAS SERVICE COMPANY
 RIO GRANDE VALLEY SERVICE AREA
 INTERIM RATE ADJUSTMENT
 CHANGED FROM SEPTEMBER 30, 2009 THROUGH DECEMBER 31, 2006
 CHANGE IN NET PLANT - DIRECT

LINE NO	DESCRIPTION	AT 08/30/06				AT 12/31/06				CHANGE IN TOTAL ADJUSTED NET PLANT (f)
		TOTAL ADJUSTED PLANT IN SERVICE (a)	TOTAL ADJUSTED CCNC PLANT (b)	TOTAL ADJUSTED ACCUM DEPR (c)	TOTAL ADJUSTED NET PLANT (d) = (a) + (b) + (c)	TOTAL ADJUSTED PLANT IN SERVICE (e)	TOTAL ADJUSTED CCNC PLANT (f)	TOTAL ADJUSTED ACCUM DEPR (g)	TOTAL ADJUSTED NET PLANT (h) = (e) + (f) + (g)	
INTANGIBLE PLANT										
1	(301) Organization	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
2	(302) Franchise & Contents	0	0	0	0	0	0	0	0	0
3	(303) Misc. Intangible	0	0	0	0	0	0	0	0	0
4	Total Intangible Plant	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
GATHERING AND TRANSMISSION PLANT										
5	(325) Land & Land Rights	\$19,656	\$0	\$0	\$19,656	\$19,656	\$0	\$0	\$19,656	\$0
6	(327) Field Compress Station Structures	4,695	0	(233)	4,462	4,695	0	(236)	4,459	(3)
7	(328) Field Meas/Reg Station Structures	2,640	0	(131)	2,509	2,640	0	(132)	2,507	(2)
8	(329) Other Structures	1	0	0	1	1	0	0	1	0
9	(332) Field Lines	543,422	0	(26,826)	516,596	543,422	0	(27,266)	516,156	(340)
10	(333) Field Compressor Station Equip	562	0	(28)	534	562	0	(28)	534	(0)
11	(334) Field Meas/Reg Station Equipment	74,834	0	(3,868)	70,966	74,834	0	(3,745)	70,889	(47)
12	(336) Purification Equip	1,488	0	(74)	1,414	1,488	0	(76)	1,411	(1)
13	(337) Other Equip	21,746	0	(1,077)	20,669	21,746	0	(1,080)	20,668	(14)
14	(365) Land & Land Rights	41,200	0	0	41,200	41,200	0	0	41,200	0
15	(366) Meas/Reg Station Structures	22,869	145,562	(3,672)	164,759	153,043	17,832	(8,971)	161,904	4,688
16	(367) Mains	3,078,481	1,352,089	(349,645)	4,080,925	3,058,872	2,044,588	(456,564)	4,646,896	2,685
17	(369) Compressor Station Equip	1,308	0	(1,054)	254	1,308	0	(192)	1,116	(192)
18	(369) Meas/Reg Station Equipment	333,864	389,136	(38,691)	684,309	361,241	342,549	(65,572)	638,217	(17,981)
19	(371) Other Equipment	55,281	1,418,431	(17,958)	1,455,754	55,281	1,545,753	(64,838)	1,536,206	82,451
20	Total Gathering and Transmission Plant	\$4,292,745	\$3,393,249	(\$141,356)	\$7,094,688	\$4,369,788	\$4,219,932	(\$528,068)	\$7,809,720	\$988,112
DISTRIBUTION PLANT										
21	(374) Land & Land Rights	\$40,406	\$0	(\$38,046)	\$2,361	\$40,406	\$0	(\$38,046)	\$2,361	\$0
22	(375) Structures & Improvements	71,538	55,932	(93,435)	74,035	71,538	72,141	(80,319)	74,360	10,328
23	(376) Mains	23,475,922	2,087,895	(19,586,598)	9,978,018	25,568,150	2,460,824	(16,688,648)	11,300,425	1,322,407
24	(377) Compressor Station Equipment	0	0	0	0	0	0	0	0	0
25	(378) Meas & Reg Station - General	1,892,274	198,808	(1,544,516)	546,566	2,028,758	258,757	(1,035,768)	650,729	104,303
26	(378) Meas & Reg Station - C G	225,131	3,869	(98,737)	130,263	225,131	3,860	(108,581)	120,430	(8,624)
27	(380) Services	15,854,809	48,207	(7,168,956)	6,734,060	17,989,089	66,129	(7,882,506)	10,262,713	1,528,354
28	(381) Meters	3,888,530	0	(3,493,299)	395,231	5,867,237	559,494	(3,787,472)	2,679,169	285,937
29	(383) House Regulators	6,247,564	0	(3,052,875)	3,194,720	6,460,866	1,079	(3,330,042)	3,131,803	(62,827)
30	(385) Industrial Meas & Reg Stat. Equipment	178,455	0	(45,302)	133,153	178,455	0	(63,109)	125,346	(7,807)
31	(386) Other Property on Customer Premises	6,144	0	(6,259)	(115)	6,144	0	(6,359)	(215)	(0)
32	(387) Meas & Reg Stat. Equipment	206,871	0	(147,167)	59,704	206,871	0	(156,217)	50,654	(8,055)
33	Total Distribution Plant	\$54,085,377	\$2,394,510	(\$31,243,891)	\$25,235,987	\$58,301,839	\$3,823,293	(\$33,527,069)	\$28,387,864	\$3,161,878
GENERAL PLANT										
34	(388) Land & Land Rights	\$127,368	\$0	\$0	\$127,368	\$127,368	\$0	\$0	\$127,368	\$0
35	(389) Structures & Improvements	1,118,068	13,452	(436,529)	694,991	1,128,066	13,452	(500,190)	641,419	(53,571)
36	(391) Office Furniture & Equipment	223,868	6,608	(205,493)	23,983	223,868	286,872	(284,643)	251,917	251,205
37	(392) Transportation Equipment	121,885	0	(62,921)	58,964	121,885	0	(70,518)	51,448	(3,588)
38	(393) Stores Equipment	22,183	12,868	(27,844)	7,048	22,183	14,105	(31,747)	4,542	(2,565)
39	(384) Tools, Shop & Garage	455,430	119,888	(236,107)	339,010	533,505	167,387	(306,973)	384,018	55,008
40	(385) CNG Equip	0	0	0	0	0	0	0	0	0
41	(386) Major Work Equipment	304,480	32,247	(314,630)	22,097	304,480	31,553	(315,588)	21,435	(683)
42	(397) Communication Equipment	309,012	0	(160,803)	148,209	317,485	76,375	(188,836)	204,924	58,815
43	(398) Miscellaneous General Plant	4,792	0	(77,227)	(72,434)	4,792	0	(77,227)	(72,434)	0
44	Total General Plant	\$2,684,154	\$184,803	(\$1,581,744)	\$1,287,213	\$2,783,713	\$500,844	(\$1,795,645)	\$1,589,912	\$301,689
45	Total Orig Cost Plant In Service	\$60,872,265	\$5,882,562	(\$33,287,031)	\$33,587,817	\$66,455,139	\$8,433,789	(\$35,841,412)	\$37,847,487	\$4,358,880

Adjustment detail to remove general plant projects

LINE NO.	COMPANY PROJECT NUMBER	OBJECT DESCRIPTION	INCURRED COSTS OF PROJECT	AMOUNT RETIRED, ABANDONED OR	ADJUSTMENTS	NET ACTIVITY	PROJECT PURPOSE	TOMERS BENEFIT	DIRECT OR ALLOCATED J&C
285	091.7711.01	ENGINEER	5,577.57	-	(5,577.57)	-	GENPLT-PURCHASE OF OFFICE EQUIPMENT	ALL CLASSES	DIRECT
286	091.7711.01	18X5 CONF	5,315.95	-	(5,315.95)	-	GENPLT-PURCHASE OF OFFICE EQUIPMENT	ALL CLASSES	DIRECT
					(10,893.52)				

Project	Expend Type	Item Date	Employee/Su	Quantity	Proj Func Burdened Cost	Comment	Expend Org
092.041.7799.010002	Employee Expense Meals	08/09/05	BANK ONE	17	17.13	MEAL - BOUGHT FOR COWORKERS WORKING LATE AT PENITAS	7714 TGS RGV RIO HONDO
092.044.7799.010076	Employee Expense Meals	07/21/05	BANK ONE	11	11.41	MEAL	7714 TGS RGV RIO HONDO
092.044.7799.010085	Employee Expense Meals	01/10/06	BANK ONE	163	162.74	LUNCH FOR TGS	7714 TGS RGV RIO HONDO
092.044.7799.010085	Employee Expense Meals	01/10/06	BANK ONE	38	37.89	TACOS FOR CREWS MONITOR PRESSURE	7723 TGS RGV DONNA
092.044.7799.010085	Employee Expense Meals	01/10/06	BANK ONE	12	11.66	COKE FOR CREW	7723 TGS RGV DONNA
092.044.7799.010085	Employee Expense Meals	01/10/06	BANK ONE	38	37.95	LUNCH W/C LUNA, R CASTRO, J GARCIA, DURING REPAIRS ON HP LINE AT FM 491 MERCEDES	7724 TGS RGV PHARR
092.044.7799.010085	Employee Expense Meals	01/10/06	BANK ONE	55	55.49	LUNCH FOR CM WHILE TIE-IN OF MAIN FM491 & MILE 9 MIKE. CARLOS, LUCY, CIRILO, PETE, GEORGE	7799 TGS RIO
092.044.7799.010086	Employee Expense Meals	02/10/06	BANK ONE	30	25.50	BREAKFAST TACOS	7799 TGS RIO
092.044.7799.010086	Employee Expense Meals	02/10/06	BANK ONE	45	45.00	MEAL FOR CM TIE-IN AT FM491 IN MERCEDES CIRILO LOPEZ, JUAN GAZLS, JORGE BERNAL, CARLOS QUINTANILLA, PETE GARZA	7799 TGS RIO
092.044.7799.010088	Employee Expense Meals	06/01/06	BANK ONE	27	26.80	*RECLASS - SOFT DRINKS FOR CREW	7799 TGS RIO
092.045.7799.010013	Employee Expense Meals	02/10/06	BANK ONE	29	28.74	SOFT DRINKS FOR CREW	7735 TGS RGV MCALLEN
092.045.7799.010013	Employee Expense Meals	02/10/06	BANK ONE	166	165.95	MEAL - 12" SET MESLACO PIKE & WESTGATE - TGS EMPLOYEES	7799 TGS RIO
			Total For FERC 367		630.26		
			Acct 101		17.13		
			Acct 106		613.13		
091.054.7714.010000	Employee Expense Meals	09/27/06	BANK ONE	6	6.03	SOFT DRINKS	7799 TGS RIO
091.054.7714.010000	Employee Expense Meals	09/27/06	BANK ONE	23	23.03	SOFT DRINKS	7799 TGS RIO
091.054.7714.010000	Employee Expense Meals	09/27/06	BANK ONE	35	34.82	MEAL	7799 TGS RIO
091.055.7723.010001	Employee Expense Meals	03/14/06	BANK ONE	29	28.69	FOOD WHILE ON A PROJECT	7799 TGS RIO
091.055.7723.010001	Employee Expense Meals	03/14/06	BANK ONE	36	36.21	FOOD WHILE ON A PROJECT	7799 TGS RIO
						WORKED LATE ON CIP TO COMPLETE PROJECT MORRIS	
091.055.7724.010006	Employee Expense Meals	03/14/06	BANK ONE	36	35.54	CONSTRUCTION, FERNANDO & DANIEL TGS CREW - RIC GONZALEZ, CARLOS LUNA, JUAN RDRG	7799 TGS RIO
091.054.7703.010005	Employee Expense Meals	11/16/04	BANK ONE	39	39.32	MEAL FOR CREW ON STANDBY AT JOB SIDE DUE TO TXDOT CROSSING UNDER GAS LINES IN CASE OF POSSIBLE OFFSET TO GAS LINES. LUCY NUNEZ, CARLOS Q. RODOLFO Q. RAUL REYES, RAY GARCIA	7703 TGS RGV BROWNSVILLE
091.054.7703.010005	Employee Expense Meals	11/16/04	BANK ONE	27	27.00	CROSSING UNDER GAS LINES IN ASE OF POSSIBLE OFFSET TO GAS LINES LUCY NUNEZ, CARLOS Q. RODOLFO	7703 TGS RGV BROWNSVILLE
091.054.7703.010005	Employee Expense Meals	11/16/04	BANK ONE	19	18.86	MEAL FOR CREW STANDBY AT JOB SIDE DUE TO TXDOT CROSSING UNDER GAS LINES IN CASE OF POSSIBLE OFFSET TO GAS LINES CARLOS QUINTANILLA, RODOLFO Q. RAY GARCIA	7703 TGS RGV BROWNSVILLE
091.054.7703.010005	Employee Expense Meals	11/16/04	BANK ONE	17	16.69	MEAL FOR CREW ON STANDBY AT JOB SIDE DUE TO TXDOT CROSSING UNDER GAS LINES IN CASE OF POSSIBLE OFFSET TO GAS LINES. RAUL REYES, RODOLFO QUESADA, RAY GARCIA	7703 TGS RGV BROWNSVILLE
091.054.7735.010008	Employee Expense Meals	01/10/06	BANK ONE	45	45.41	DINNER FOR CREWS WORKED LATE	7735 TGS RGV MCALLEN
091.054.7735.010008	Employee Expense Meals	01/10/06	BANK ONE	13	12.94	SOFT DRINKS FOR CREWS	7735 TGS RGV MCALLEN
			Total For FERC 376		324.54		
			Acct 101		101.87		
			Acct 106		222.67		
			Total Meals		954.80		

Adjustment
Per Settlement 9/27/07

Removed Enclosure of Building 091.094.7711.010004	(46,660)
Associated Accumulated Depreciation	<u>1,643</u>
Net Investment of Building	(45,017)

ALLOCATION OF INVESTMENT RECOVERY

TEXAS GAS SERVICE COMPANY
RIO GRANDE VALLEY SERVICE AREA

Allocation Factors Per Rate Case - Docket No. : 9708	
Residential - Sch 10:	0.6822
Commercial and Church	0.2347
Industrial	0.0021
Public Authority	0.0330
Standard - Regular (T-1)	0.0227
Standard - Large (T-2)	0.0254
Total System	<u>1.0000</u>

Allocation Factors Requested in this filing	
Residential	0.6822
Commercial and Church	0.2347
Industrial	0.0021
Public Authority	0.0330
Standard - Regular (T-1)	0.0227
Standard - Large (T-2)	0.0254
Total System	<u>1.0000</u>

New Investment Recovery Distribution		
Requested Recovery Amount		\$ 684,904
Residential	0.6822	467,231
Commercial and Church	0.2347	160,721
Industrial	0.0021	1,413
Public Authority	0.0330	22,581
Standard - Regular (T-1)	0.0227	15,547
Standard - Large (T-2)	<u>0.0254</u>	<u>17,411</u>
Total System	1.00000	\$ 684,904

**TEXAS GAS SERVICE
RIO GRANDE VALLEY
TWELVE MONTHS ENDED DECEMBER 31, 2006**

**CUSTOMER ALLOCATION FACTORS
WORKPAPER**

Customer Allocation Factors:
Based on Total Billed Customers

	Average Customers @ DEC 2006	Allocation Factor
<u>WEST TX Region</u>		
El Paso Area	209,455	94.898%
Dell City	330	0.150%
Crane	1,077	0.488%
McCamey	603	0.273%
Andrews	2,928	1.327%
Pecos/Monahans	6,323	2.865%
Total WTX Region	<u>220,716</u>	<u>100.000%</u>

Texas Gas Service Division

El Paso Area	209,525	36.0860%
Dell City	330	0.0568%
Crane	1,077	0.1855%
McCamey	603	0.1039%
Andrews	2,928	0.5043%
Pecos/Monahans	6,323	1.0890%
Port Arthur	31,362	5.4014%
Galveston	16,315	2.8099%
Central Texas	207,052	35.6601%
South Texas	10,665	1.8368%
North Texas	23,733	4.0875%
RGV	<u>70,714</u>	<u>12.1789%</u>
Total TGS	<u>580,627</u>	<u>100.0000%</u>

Call Center (Excludes STX)

	209,525	36.7612%
	330	0.0579%
	1,077	0.1890%
	603	0.1058%
	2,928	0.5137%
	6,323	1.1094%
	31,362	5.5025%
	16,315	2.8625%
	207,052	36.3273%
		0.0000%
	23,733	4.1640%
	<u>70,714</u>	<u>12.4068%</u>
	<u>569,962</u>	<u>100.0000%</u>

Total WTX Region	220,716	38.0134%
Total Other	359,911	61.9866%
Total TGS	<u>580,627</u>	<u>100.0000%</u>

WEST TX BORDER Region

El Paso Area	209,455	71.8715%
Dell City	330	0.1132%
Crane	1,077	0.3696%
McCamey	603	0.2069%
Andrews	2,928	1.0047%
Pecos/Monahans	6,323	2.1696%
RGV	70,714	24.2645%
Total West TX Border Region	<u>291,430</u>	<u>100.0000%</u>

2005 RGV Allocation Factor	12.32872%
2006 RGV Allocation Factor	12.1789%

TEXAS GAS SERVICE COMPANY
RIO GRANDE VALLEY SERVICE AREA
INTERIM RATE ADJUSTMENT
CHANGES FROM SEPTEMBER 30, 2005 THROUGH DECEMBER 31, 2006

CHANGE IN CUSTOMER CHARGE BY CUSTOMER CLASS

LINE NO.	CUSTOMER CLASS	REVENUES PER RATE CASE TYE 09/30/05	PERCENT OF REVENUES PER RATE CASE TYE 09/30/05	REV. REQ. INCREASE (SCH 1)	BILLS TYE 12/31/06	CUSTOMER CHARGE INCREASE
	<u>Gas Sales</u>					
1	Residential	\$9,831,282	68.22%	\$467,231	801,060	\$0.58
2	Commercial and Church	3,381,819	23.47%	160,721	40,987	3.92
3	Industrial	29,728	0.21%	1,413	129	10.95
4	Public Authority	475,147	3.30%	22,581	6,395	3.53
	<u>Transportation</u>					
5	Standard - Regular (T-1)	327,126	2.27%	15,547	480	
6	Standard - Large (T-2)	366,361	2.54%	17,411	216	
7	Total Transportation	693,487	4.81%	32,958	696	47.35
8	Total	<u>\$14,411,464</u>		<u>\$684,904</u>	<u>849,267</u>	<u>\$0.81</u>