

RAILROAD COMMISSION OF TEXAS

PETITION OF THE DE NOVO REVIEW OF THE DENIAL OF THE STATEMENTS OF INTENT FILED BY TEXAS GAS SERVICE COMPANY BY THE CITIES OF EL PASO, ANTHONY, CLINT, HORIZON CITY, SOCORRO, AND VILLAGE OF VINTON, TEXAS.

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**GAS UTILITIES
DOCKET NO. 9988**

FINAL ORDER

Notice of Open Meeting to consider this Order was duly posted with the Secretary of State within the time period provided by law pursuant to TEX. GOV'T CODE ANN. Chapter 551, et seq. (Vernon 2004 & Supp. 2008). The Railroad Commission of Texas adopts the following findings of fact and conclusions of law and orders as follows:

FINDINGS OF FACT

1. Texas Gas Service Company ("TGS") is a utility as that term is defined in the Texas Utility Code, and is subject to the jurisdiction of the Railroad Commission of Texas ("Commission").
2. TGS owns and operates a gas distribution system that provides gas service to customers in its El Paso Service Area ("EPSA").
3. The EPSA includes the Cities of El Paso, Anthony, Clint, Horizon City, Socorro, and Vinton, Texas.
3. On May 12, 2010, TGS filed a Petition for Review with the Railroad Commission of Texas ("Commission") to appeal the rate-setting action of the City of El Paso, Texas ("El Paso" or the "City") which denied TGS' request for a rate increase within the jurisdiction of the City. This Petition for Review was docketed by the Commission as Gas Utilities Docket No. 9988. On May 24, 2010, TGS filed a Petition for Review appealing the rate-setting actions of the municipalities of Anthony, Clint, Horizon City, Socorro, and Vinton, Texas, which denied TGS' requests for rate increases within their respective municipal boundaries, and was docketed by the Commission as Gas Utilities Docket No. 9992.
4. The Hearings Examiner consolidated GUD Nos. 9988 and 9992 into one docket pursuant to TEX. ADMIN. CODE §1.125 (1991) on June 3, 2010.
5. On June 3, 2010, Staff of the Railroad Commission of Texas ("Staff") and the City of El Paso, Texas (the "City") intervened in this proceeding. On June 17, 2010, the State of Texas' agencies and institutions of higher learning, represented by the Attorney General of Texas, Consumer Protection Division ("State"), intervened in this proceeding. On June 25, 2010, ArcelorMittal Vinton, Inc., intervened in this proceeding. No other parties and or individuals files letters of protest, objections, moved to intervene, or otherwise participated in this docket before the Commission.

6. The final hearing in this matter was conducted in Austin, Texas on August 31, 2010 through September 3, 2010.

7. By written agreement and as stated at the hearing TGS agreed to extend the statutory deadline for Commission action on this docket until December 16, 2010.

Rate Base

8. TGS adjusted its cost of service model for known and measurable changes through December 31, 2010. TGS included in its filing projected plant additions through June 30, 2010, and on June 25, 2010 updated this with actual plant-in-service balances for the months of April and May.

9. The June 25, 2010, filing reduced the Company's requested base rate revenue increase by \$195,617 and reduced gross plant to \$216,424,630 and net plant to \$138,008,370.

10. TGS' June 25, 2010, filing was reasonable because it updated projected data with actual in-service amounts, and was filed before the discovery period had ended, 6 weeks before intervenor testimony was due, and 9-1/2 weeks before the hearing on the merits, and therefore gave Staff of the Commission and intervenors appropriate notice of the updated data and time to review the data before the final hearing on the merits.

11. TGS did not conduct a lead-lag study for the underlying municipal rate request or this appeal. TGS proposes to use a zero Cash Working Capital balance and therefore no corresponding adjustment to its Rate Base.

12. It is reasonable under the circumstances of this proceeding for TGS to not conduct a lead-lag study and to utilize a zero Cash Working Capital balance because a zero balance is consistent with the applicable FERC rule regarding the absence of a lead-lag study; will result in lower rate case expenses; and had TGS conducted a lead-lag study there is a higher probability that it would have shown a positive balance as opposed to a negative balance. TGS would likely be able to calculate a positive CWC balance had the Company prepared a lead-lag study for this docket. It is therefore reasonable to request a zero balance CWC in lieu of conducting a lead-lag study and incurring the associated expense.

13. TGS proposal to allocate ADFIT using a net-plant based factor is reasonable because allocations based on gross plant may distort the proportion of each jurisdiction's responsibility for the ADFIT balance. Net-plant recognizes these factors and is the more appropriate basis to allocate ADFIT.

14. It is reasonable to reduce TGS' rate base by \$203,921 because the Commission previously approved an alternative method for the Company to recoup line extension costs through monthly surcharges billed to specific low-income residences. These costs are recouped over a longer period of time, on a monthly basis, with a lower rate impact. Because these costs are recovered through monthly tapping fees, they should not be included in TGS' rate base.

Capital Structure and Rate of Return

14. A capital structure of 59.24% common equity and 40.76% long-term debt is reasonable for TGS.
15. A cost of long-term debt for TGS of 6.21% is reasonable for TGS.
16. A cost of equity of 10.33% for TGS is reasonable.
17. A rate of return on invested capital of 8.65% is reasonable for TGS.

Expenses

18. TGS' proposed short-term incentive compensation expense is unreasonable because it primarily determines the amount of incentive compensation an employee is able to receive using factors that are not related to safety and uses methods related to the financial performance of its parent company, ONEOK, Inc. It is reasonable for TGS to recover 10 percent of its requested short term incentive compensation because 10 percent of the potential award is based on safety metrics.
19. TGS' proposed long-term incentive compensation expense is unreasonable because it primarily determines the amount of incentive compensation an employee is able to receive using factors that are not related to safety and uses methods related to the financial performance of its parent company, ONEOK, Inc.
20. TGS is requesting recovery of \$168,386 in expenses incurred for the Company's Supplemental Executive Retirement Plan ("SERP"). TGS' proposed SERP expense is unreasonable because it is not necessary for the provision of safe gas service to the public.
21. TGS is requesting recovery of \$113,091 in expenses incurred for the Company's Employee Stock Purchase Program ("ESPP"). TGS' ESPP expense is unreasonable because it is not necessary for the provision of safe gas service to the public.
22. TGS' alternative proposal to recover Pipeline Integrity Expenses through a separate tariff rider, coupled with regulatory review of the reasonableness and necessity of the costs incurred and passed through, is the best mechanism for recovery of these expenses and is reasonable.
23. TGS' proposed recovery of allocated corporate and division expenses are reasonable.
24. TGS' proposed use of the modified Distrigas Allocation Methodology is reasonable.
25. TGS proposes amortizing reserve imbalance over the remaining lives of the assets. This approach is reasonable and in accordance with rate-making principles

26. TGS' proposed injuries and damages expense is unreasonable. It is reasonable to normalize this expense over a four-year period of time and to reduce this amount by \$146,638 for establishing the Company's cost of service.

27. TGS requests \$217,741 of employee travel and meals expense be included in the revenue requirement. This expense is disallowed because TGS did not prove the expense to be reasonable, necessary and directly related to the provision of gas service to customers in the EPSA. TGS' supporting documentation of these expenses was inadequate for regulatory review.

Revenues

28. During the 10-year period from 2000-2009, the sum of the deviations based on the 10-year measure of normal is zero Heating Degree Days for the El Paso Service Area. The sum of the deviations during the 2000-2009 period based on the 30-year measure of normal is negative 1,563 Heating Degree Days for the El Paso Service Area. The 10-year period is a more appropriate measure of ongoing weather conditions than the 30-year period for normalizing gas sales revenues.

29. TGS' proposal to normalize gas sales revenues for weather using a 10-year period is reasonable for the El Paso Service Area.

30. TGS' proposal to use the test year amount, updated to December 31, 2009, of \$1,192,680 for account 4880, Service Fees is reasonable for rate-making purposes because this value is reasonably representative of expected service fee revenue in the future and when the rates set in this proceeding are likely to be in effect.

Rate Design

31. TGS proposed using zero intercept study, checked by a minimum distribution system study, to allocate costs of distribution mains. The proposed methodology is reasonable and the resulting classification of distribution mains investment as 63.12 percent customer-related and 36.88 percent demand-related is reasonable.

32. TGS proposed classifying Transmission Plant as 100 percent demand related. Classifying Transmission Plant as 100 percent demand related is reasonable for the EPSA.

33. TGS' proposed rate designs are not reasonable. The rates, as shown on the attached rate schedule, consisting of a monthly customer charge and volumetric charges are reasonable.

34. TGS requested approval of tariffs consistent with the utility's proposed rates. TGS' proposed tariffs are not reasonable because they reflect rates inconsistent with the rates determined to be just and reasonable under this order. The attached tariffs reflect the rates approved herein and are reasonable.

CONCLUSIONS OF LAW

1. Texas Gas Service Company (TGS) is a "Gas Utility" as defined in TEX. UTIL. CODE ANN. §101.003(7) and §121.001 (Vernon 2007 & Supp. 2010) and is therefore subject to the jurisdiction of the Railroad Commission (Commission) of Texas.
2. The Commission has jurisdiction over TGS and TGS' petition for *de novo* review under TEX. UTIL. CODE ANN. §§ 102.001, 103.051, 103.054, 103.055, 104.001 and 104.201 (Vernon 2007 & Supp. 2008).
3. The Appeals were processed in accordance with the requirements of the Gas Utility regulatory Act (GURA), and the Administrative Procedure Act, TEX. GOV'T CODE ANN. §§2001.001-2001.902 (Vernon 2000 and Supp. 2004) (APA).
4. In accordance with the stated purpose of the Texas Utilities Code, Subtitle A, expressed under TEX. UTIL. CODE ANN. §101.002 (Vernon 1998), the Commission has assured that the rates, operations, and services established in this docket are just and reasonable to customers and to the utilities.
5. In accordance with 16 TEX. ADMIN. CODE ANN. §7.235 (2002), adequate notice was properly provided.
6. In accordance with the provisions of TEX. UTIL. CODE ANN. §103.051 and §103.054 (Vernon 2007 & Supp. 2010) TGS timely appealed the actions of the Cities of El Paso, Anthony, Clint, Horizon City, Socorro, and Vinton, Texas, by filing petitions for review with Railroad Commission of Texas.
7. TGS failed to meet its burden of proof in accordance with the provisions of TEX. UTIL. CODE ANN. §104.008 (Vernon 2007 & Supp. 2010) on the elements of its requested rate increase identified in this order.
8. The revenue, rates, rate design, tariffs, and service charges proposed by TGS are found to be not just and reasonable, 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 & Supp. 2010).
9. The revenue, rates, rate design, tariffs, and service charges proposed by TGS, 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 & Supp. 2010) .
10. The overall revenues as established by the findings of fact and attached schedules and tariffs are reasonable; fix an overall level of revenues for TGS 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 & Supp. 2010); and otherwise comply with Chapter 104 of the Texas Utilities Code.

11. The revenue, rates, rate design, tariffs, and service charges proposed will not yield to TGS more than a fair return on the adjusted value of the invested capital used and useful in rendering service to the public to the public, as required by TEX. UTIL. CODE ANN. § 104.052 (Vernon 2007 & Supp. 2010).
12. The rates established in this docket comport with the requirements of TEX. UTIL. CODE ANN. §104.053 (Vernon 2007 & Supp. 2010) 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.
13. In accordance with TEX. UTIL. CODE ANN. §104.054 (Vernon 2007 & Supp. 2010) and TEX. ADMIN. CODE §7.5252, book depreciation and amortization was calculated on a straight line basis over the useful life expectancy of TGS's property and facilities.
14. In this proceeding, TGS has the burden of proof under TEX. UTIL. CODE ANN. §104.008 (Vernon 2007 & Supp. 2010) to show that the proposed rate changes are just and reasonable.
15. Rate case expenses for GUD No. 9988 will be considered by the Commission in accordance with TEX. UTIL. CODE ANN. §104.008 (Vernon 2007 & Supp. 2010), and 16 TEX. ADMIN. CODE §7.5530 (2002), in a separate proceeding.
16. All expenses for lost and unaccounted for gas in excess of 5.0 percent shall be disallowed, consistent with TEX. ADMIN. CODE § 7.5519 (2002).
17. TGS is required by 16 TEX. ADMIN. CODE §7.315 (2002) to file electronic tariffs incorporating rates consistent with this Order within thirty days of the date of this Order.
18. The rate setting methodologies set forth in TEX. UTIL. CODE ANN. §104.051 et seq. were used to set the rates in this proceeding.

IT IS THEREFORE ORDERED that Texas Gas Service Company's proposed schedule of rates is hereby **DENIED**.

IT IS FURTHER ORDERED that the rates, rate design, tariffs and service charges established in the findings of fact and conclusions of law and in the Examiners' Recommendation shown on the attached Schedules and tariffs for Texas Gas Service Company are **APPROVED**.

IT IS FURTHER ORDERED that a separate gas utility docket be opened in order to determine the appropriate tariff rider for the recovery of pipeline integrity testing expenses.

IT IS FURTHER ORDERED that, in accordance with 16 TEX. ADMIN. CODE §7.315, within 30 days of the date this Order is signed, Texas Gas Service Company shall file tariffs with the Gas Services Division. The tariffs shall incorporate rates, rate design, tariffs and service charges consistent with this Order, as stated in the findings of fact and conclusions of law and shown in the Examiners' Recommendation on the attached

Schedules and tariffs.

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

IT IS FURTHER ORDERED THAT this Order will not be final and appealable 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.

Each exception to the examiners' proposal for decision 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 14th day of December, 2010.

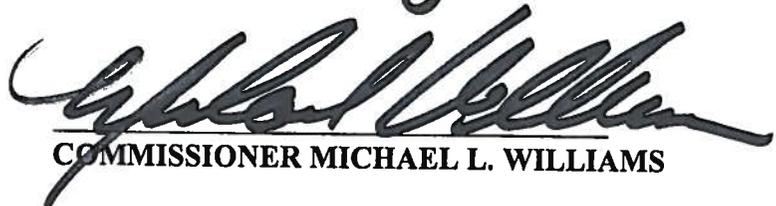
RAILROAD COMMISSION OF TEXAS



CHAIRMAN VICTOR CARRILLO



COMMISSIONER ELIZABETH A. JONES



COMMISSIONER MICHAEL L. WILLIAMS

ATTEST


SECRETARY



RESIDENTIAL SERVICE RATE

APPLICABILITY

Applicable to a residential customer in a single dwelling, or in a dwelling unit of a multiple dwelling or residential apartment, for domestic purposes, including any public housing project and including apartment houses where service for more than one dwelling unit is served through a master meter. This rate is only available to full requirements customers of Texas Gas Service Company.

TERRITORY

The incorporated areas of El Paso, Anthony, Clint, Horizon City, Socorro, and Vinton, Texas

COST OF SERVICE RATE

During each monthly billing period:

A customer charge per meter per month of \$ 10.80 plus -

The First	200 Ccf	No Charge
All Over	200 Ccf	\$.38103 per Ccf

Prompt Payment Provision: None. Above rates are net.

OTHER ADJUSTMENTS

Cost of Gas Component: In addition to the Cost of Service set forth above, each customer's bill shall include an amount equal to the Cost of Gas for the billing month as determined in accordance with Rate Schedule No. 1-1-INC multiplied by the total Ccf consumed during the billing month.

Taxes: Plus applicable taxes and fees (including franchise fees) related to above.

CONDITIONS

1. Subject in all respects to applicable laws, rules, and regulations from time to time in effect.
2. The applicability section of this rate notwithstanding, if a customer, other than a full requirement customer, pays a standby charge pursuant to Rate Schedule S.S., Texas Gas Service Company will maintain facilities and supply capability to serve said customer. If standby payments are current, the customer will qualify for this rate.

COMMERCIAL SERVICE RATE

APPLICABILITY

Applicable to all commercial consumers and to consumers not otherwise specifically provided for under any other rate schedule. This rate is only available to full requirements customers of Texas Gas Service Company.

TERRITORY

The incorporated areas of El Paso, Anthony, Clint, Horizon City, Socorro, and Vinton, Texas

COST OF SERVICE RATE

During each monthly billing period:

A customer charge of \$ 18.30 plus -

The First	100 Ccf	No Charge
The Next	400 Ccf	\$.10901 per Ccf
The Next	2500 Ccf	.08901 per Ccf
All Over	3000 Ccf	.06901 per Ccf

Prompt Payment Provision: None. Above rates are net.

OTHER ADJUSTMENTS

Cost of Gas Component: In addition to the Cost of Service set forth above, each customer's bill shall include an amount equal to the Cost of Gas for the billing month as determined in accordance with Rate Schedule No. 1-1-INC multiplied by the total Ccf consumed during the billing month.

Taxes: Plus applicable taxes and fees (including franchise fees) related to above.

CONDITIONS

1. Subject in all respects to applicable laws, rules, and regulations from time to time in effect.
2. The applicability section of this rate notwithstanding, if a customer, other than a full requirements customer, pays a standby charge pursuant to Rate Schedule S.S., Texas Gas Service Company will maintain facilities and supply capability to serve said customer. If standby payments are current, the customer will qualify for this rate.

COMMERCIAL AIR CONDITIONING SERVICE RATE

APPLICABILITY

Applicable to all commercial consumers who have and regularly operate a gas fired air conditioning system.

TERRITORY

The incorporated areas of El Paso, Anthony, Clint, Horizon City, Socorro, and Vinton, Texas

COST OF SERVICE RATE

During each monthly billing period:

A Customer Charge of \$ 18.30 plus -

		<u>Oct. - April</u> <u>Winter</u>	<u>May - Sept.</u> <u>Summer</u>
The First	100 Ccf	No Charge	No Charge
The Next	400 Ccf	\$.10901 per Ccf	\$.08901 per Ccf
The Next	2500 Ccf	.08901 per Ccf	.06901 per Ccf
All Over	3000 Ccf	.06901 per Ccf	.04901 per Ccf

Prompt Payment Provision: None. Above rates are net.

OTHER ADJUSTMENTS

Cost of Gas Component: In addition to the Cost of Service set forth above, each customer's bill shall include an amount equal to the Cost of Gas for the billing month as determined in accordance with Rate Schedule No. 1-1-INC multiplied by the total Ccf consumed during the billing month.

Taxes: Plus applicable taxes and fees (including franchise fees) related to above.

CONDITIONS

1. Subject in all respects to applicable laws, rules, and regulations from time to time in effect.
2. Service under this schedule applies only to usage from a separately metered gas fired air conditioning system. Non-air conditioning usage is subject to the cost of service rate on Rate Schedule No. 20.
3. Air conditioning equipment must be inspected and verified as to capacity by qualified Company personnel.

Supersedes Same Rate Schedule Dated
February 15, 2008

Meters Read On and After

PUBLIC AUTHORITY SERVICE RATE

APPLICABILITY

Applicable to all public and parochial schools and colleges, and to all facilities operated by Governmental agencies not specifically provided for in other rate schedules or special contracts. This rate is only available to full requirements customers of Texas Gas Service Company.

TERRITORY

The incorporated areas of El Paso, Anthony, Clint, Horizon City, Socorro, and Vinton, Texas

COST OF SERVICE RATE

During each monthly billing period:

A customer charge of \$ 32.71 plus -

The First	100 Ccf	No Charge
The Next	400 Ccf	\$.11409 per Ccf
The Next	2500 Ccf	.09409 per Ccf
All Over	3000 Ccf	.08409 per Ccf

Prompt Payment Provision: None. Above rates are net.

OTHER ADJUSTMENTS

Cost of Gas Component: In addition to the Cost of Service set forth above, each customer's bill shall include an amount equal to the Cost of Gas for the billing month as determined in accordance with Rate Schedule No. 1-1-INC multiplied by the total Ccf consumed during the billing month.

Taxes: Plus applicable taxes and fees (including franchise fees) related to above.

CONDITIONS

1. Subject in all respects to applicable laws, rules and regulations from time to time in effect.
2. The applicability section of this rate notwithstanding, if a customer, other than a full requirements customer, pays a standby charge pursuant to Rate Schedule S.S., Texas Gas Service Company will maintain facilities and supply capability to serve said customer. If standby payments are current, the customer will qualify for this rate.

PUBLIC AUTHORITY AIR CONDITIONING SERVICE RATE

APPLICABILITY

Applicable to all public and parochial schools and colleges, and to all facilities operated by Governmental agencies not specifically provided for in other rate schedules or special contracts who have and regularly operate a gas fired air conditioning system.

TERRITORY

The incorporated areas of El Paso, Anthony, Clint, Horizon City, Socorro, and Vinton, Texas

COST OF SERVICE RATE

During each monthly billing period:

A Customer Charge of \$ 32.71 plus -

		<u>Oct. - April</u> <u>Winter</u>	<u>May - Sept.</u> <u>Summer</u>
The First	100 Ccf	No Charge	No Charge
The Next	400 Ccf	\$.11409 per Ccf	\$.08409 per Ccf
The Next	2500 Ccf	.09409 per Ccf	.06409 per Ccf
All Over	3000 Ccf	.08409 per Ccf	.05409 per Ccf

Prompt Payment Provision: None. Above rates are net.

OTHER ADJUSTMENTS

Cost of Gas Component: In addition to the Cost of Service set forth above, each customer's bill shall include an amount equal to the Cost of Gas for the billing month as determined in accordance with Rate Schedule No. 1-1-INC multiplied by the total Ccf consumed during the billing month.

Taxes: Plus applicable taxes and fees (including franchise fees) related to above.

CONDITIONS

1. Subject in all respects to applicable laws, rules, and regulations from time to time in effect.
2. Service under this schedule applies only to usage from a separately metered gas fired air conditioning system. Non-air conditioning usage is subject to the cost of service rate on Rate Schedule No. 25.
3. Air conditioning equipment must be inspected and verified as to capacity by qualified Company personnel.

Supersedes Same Rate Schedule Dated
February 15, 2008

Meters Read On and After

MUNICIPAL WATER PUMPING SERVICE RATE

APPLICABILITY

Applicable to gas used in internal combustion engines by various municipal agencies in El Paso County, Texas. This rate is only available to full requirements customers of Texas Gas Service Company.

TERRITORY

The incorporated areas of El Paso, Anthony, Clint, Horizon City, Socorro, and Vinton, Texas

COST OF SERVICE RATE

During each monthly billing period:

A Customer Charge of \$ 121.75 plus -

The First	5000 Ccf	\$.06817 per Ccf
All Over	5000 Ccf	.05817 per Ccf

Prompt Payment Provision: None. Above rates are net.

OTHER ADJUSTMENTS

Cost of Gas Component: In addition to the Cost of Service set forth above, each customer's bill shall include an amount equal to the Cost of Gas for the billing month as determined in accordance with Rate Schedule No. 1-1-INC multiplied by the total Ccf consumed during the billing month.

Taxes: Plus applicable taxes and fees (including franchise fees) related to above.

CONDITIONS

1. Delivery of gas hereunder may be interrupted or curtailed at the discretion of the Company, in case of shortage or threatened shortage of gas supply from any cause whatsoever, to conserve gas for other consumers.
2. The applicability section of this rate notwithstanding, if a customer, other than a full requirement customer, pays a standby charge pursuant to Rate Schedule S.S., Texas Gas Service Company will maintain facilities and supply capability to serve said customer. If standby payments are current, the customer will qualify for this rate.

Supersedes Same Rate Schedule Dated
February 15, 2008

Meters Read On and After

INDUSTRIAL SERVICE RATE

APPLICABILITY

Applicable to industrial consumers and to consumers not otherwise specifically provided for under any other rate schedule. This rate is only available to full requirements customers of Texas Gas Service Company.

TERRITORY

The incorporated areas of El Paso, Anthony, Clint, Horizon City, Socorro, and Vinton, Texas

COST OF SERVICE RATE

During each monthly billing period:

A Customer Charge of \$ 84.01 plus -

The First	100 Ccf	No charge
The Next	400 Ccf	\$.14528 per Ccf
The Next	2500 Ccf	.13528 per Ccf
All Over	3000 Ccf	.06528 per Ccf

Prompt Payment Provision: None. Above rates are net.

OTHER ADJUSTMENTS

Cost of Gas Component: In addition to the Cost of Service set forth above, each customer's bill shall include an amount equal to the Cost of Gas for the billing month as determined in accordance with Rate Schedule No. 1-1-INC multiplied by the total Ccf consumed during the billing month.

Taxes: Plus applicable taxes and fees (including franchise fees) related to above.

CONDITIONS

1. Subject in all respects to applicable laws, rules and regulations from time to time in effect.
2. The applicability section of this rate notwithstanding, if a customer, other than a full requirements customer, pays a standby charge pursuant to Rate Schedule S.S., Texas Gas Service Company will maintain facilities and supply capability to serve said customer. If standby payments are current, the customer will qualify for this rate.

ELECTRICAL COGENERATION AND ENERGY CONSERVATION RATE

APPLICABILITY

Service under this rate schedule is available to any customer who enters into a contract with the Company to use natural gas for the purpose of cogeneration. Cogeneration is defined as the use of thermal energy to produce electricity with recapture of by-product heat in the form of steam, exhaust heat, etc. for industrial process use, space heating, food processing or other purposes.

TERRITORY

This rate shall be available throughout the Company's El Paso Service Area which includes El Paso, Anthony, Clint, Horizon City, Socorro and Vinton, Texas.

COST OF SERVICE RATE

During each monthly billing period:

A Customer Charge of \$ 300.50 plus -

	<u>Oct. - April</u> <u>Winter</u>	<u>May - Sept.</u> <u>Summer</u>
The First 5,000 Ccf	\$.07108 per Ccf	\$.06107 per Ccf
The Next 95,000 Ccf	.06108 per Ccf	.05106 per Ccf
The Next 300,000 Ccf	.05108 per Ccf	.04107 per Ccf
All Over 400,000 Ccf	.04108 per Ccf	.03106 per Ccf

Cost of Gas Component: In addition to the Cost of Service set forth above, each customer's bill shall include an amount equal to the Cost of Gas for the billing month as determined in accordance with Rate Schedule No. 1-1-INC multiplied by the total Ccf consumed during the billing month.

CONDITIONS

1. Gas taken under this rate shall be used exclusively for the purpose of cogeneration as defined in the Applicability section of this rate schedule and not for other purposes. The gas taken under this rate will be separately metered.
2. This rate will not be available for standby use.

STANDBY SERVICE RATE

APPLICABILITY

Applicable to all customers who have alternative natural gas transmission or distribution facilities physically conformed to supply natural gas service to them and who are not full requirements Texas Gas Service Company customers.

TERRITORY

The incorporated areas of El Paso, Anthony, Clint, Horizon City, Socorro and Vinton, Texas.

RATE

During each monthly billing period, the charge shall be \$ 125.00 plus \$ 20.00 per Mcf/Hour of connected rated capacity of natural gas consuming equipment.

CONDITIONS

1. This charge shall cause the Company to maintain a connection with the customer including metering and regulation facilities. The Company will also arrange with suppliers for sufficient gas reserve assurance so that the customer can resume service upon reasonable notice to the Company.
2. Company engineers shall have the right and be afforded the opportunity by the customer to inspect the facilities to properly ascertain the gas-using capacity on the customer's premises.
3. Subject in all respects to applicable laws, rules, and regulations from time to time in effect.

TRANSPORTATION SERVICE RATE

APPLICABILITY

Service under this rate schedule is available to any customer for the transportation of customer-owned natural gas through the Company's distribution system. The customer must arrange with the customer's gas supplier to have its gas delivered to one of the Company's existing delivery points for transportation by the Company to the customer's facilities at the customer's service point.

TERRITORY

El Paso Service Area consisting of the incorporated areas of El Paso, Anthony, Clint, Horizon City, Socorro and Vinton, Texas.

RATE

This rate shall be the sum of Part A and Part B as described below:

Part A: A customer charge of \$ 300.50 per meter per month.

Part B: All volumes of natural gas transported during each month in accordance with this schedule shall be billed at a rate calculated as follows:

1. Determine the bill for the quantity of customer-owned gas metered and delivered to the customer at the Company's volumetric Cost of Service Rate on the gas sales tariff which would otherwise be applicable;
2. Add a balancing service rate for any applicable portion of incremental cost of the Company's transportation reservation costs received from its upstream pipelines that is deemed at the Company's sole discretion to directly or indirectly benefit the transportation service customers through scheduling balancing flexibility. The balancing service rate will be recalculated annually in conjunction with the Cost of Gas annual reconciliation audit and/or as the upstream pipeline changes the rates being charged to the Company. In addition the Company will charge system sales customers as of the date of this Rate Schedule that become transportation customers after the effective date of this Rate Schedule, a rate representing the cost of stranded capacity, incurred by the Company for upstream transportation and reservation costs as determined by the Company. Proceeds from these rates will be credited to the Reconciliation Account.
3. See the "Additional Charges to Cost of Service Rate" Pursuant to Rate Schedule T-GEN (General Charges and Provisions).

SPECIAL PROVISIONS

1. Transportation volumes delivered under this schedule shall be considered first through customer's meter for billing purposes.
2. Gas transported under this schedule shall be for use only by the customer.
3. See the "Additional Charges to Cost of Service Rate" pursuant to Rate Schedule T-GEN (General Charges and Provisions).

TRANSPORTATION SERVICE RATE
(Continued)

SPECIAL PROVISIONS (Cont'd)

4. Prior to the execution of a Gas Transportation Service Agreement, customer must represent and certify that its usage shall average at least five hundred (500) Mcf of gas per month or six thousand (6,000) Mcf annually. The Company shall have the right at all reasonable times, upon prior notice to Customer, to enter onto Customer's premises and inspect Customer's facilities and operations to verify such capability. Customer must agree to notify the Company within a reasonable time if there is any change in Customer's usage. Should Customer's usage average less than five hundred (500) Mcf per month or six thousand (6,000) Mcf annually, Customer must so notify the Company and the Company may discontinue service hereunder, except as may otherwise be provided in the Gas Transportation Service Agreement between the Company and customer, and provide service under the general service rate applicable to Customer.
5. Customers that qualify for and elect service under this tariff must remain on transportation service for a minimum of twelve months. If a customer chooses to leave transportation service under this tariff after twelve months, the customer may not return to transportation service for at least twelve months. If a customer requests to leave transportation service under this tariff and return to the appropriate general service rate, the Company may at its sole discretion decline the request until adequate upstream pipeline capacity can be procured.
6. Transportation of customer-owned natural gas under this tariff will require telemetry or electronic flow measurement that meets the Company's required specifications at the customer's point (s) of re-delivery. The Company may require the customer to reimburse the Company for the cost of telemetry at its sole discretion.

CONDITIONS

1. Transportation of customer-owned natural gas hereunder shall be subject in all respects to applicable laws, rules and regulations from time to time in effect.
2. Transportation of customer-owned natural gas hereunder shall be limited to natural gas of equal or higher quality than natural gas currently available from the Company's supplier(s). All gas delivered by the Company to the customer shall be deemed to be the same quality as that gas received by the Company for transportation.
3. Transportation of customer-owned natural gas hereunder is subject in all respects to terms and conditions of the Gas Transportation Service Agreement entered into between the customer and Company prior to commencement of service and all amendments and modifications thereto.
4. With respect to the Company's capacity to deliver gas at any particular time, the curtailment priority of any customer served under this schedule shall be the same as the curtailment priority established for other customers served pursuant to the Company's rate schedule which would otherwise be available to such customer.

**GUD No. 9988 (Cons)
Texas Gas Service - El Paso Service Area (EPSA) Appeal**

**Examiners Schedule A
Summary of Revenue Requirement**

Line No.	Description	From Schedule	Company Proposed Adjusted Test Year	El Paso Proposed	Examiner Recommended	Final Order
(a)						
1	Rate Base	B	\$101,562,430	\$97,207,379	\$101,358,508	\$101,358,508
2	Rate of Return	E	9.0500%	7.2830%	8.6500%	8.6500%
3	Required Return		\$9,191,400	\$7,079,613	\$8,767,511	\$8,767,511
4	Depreciation & Amortization Expense	G	4,798,932	3,176,629	4,647,039	4,647,039
5	Taxes Other Than Income Taxes	G	1,780,787	1,776,267	1,778,262	1,778,262
6	Interest on Customer Deposits	G	103,255	16,797	16,797	16,797
7	Distribution Expense	G	7,133,367	6,683,760	6,514,838	6,514,838
8	Customer Accounts Expense	G	5,471,971	4,975,756	5,254,167	5,254,167
9	Administrative and General Expense	G	9,910,293	7,047,551	7,526,939	7,526,939
10	Federal Income Tax	F	3,493,221	2,434,801	3,267,751	3,267,751
11	Revenue Requirement before Gross-ups		\$41,883,225	\$33,191,174	\$37,773,304	\$37,773,304
12	Test Year Adjusted Revenue	G	(36,931,562)	(36,959,323)	(36,931,562)	(36,931,562)
13	Revenue Deficiency		\$5,097,674	(\$3,768,149)	\$841,742	\$841,742
Gross-up for Revenue Related Expenses: Factors:						
14	Uncollectible Expense		24,519	(18,125)	4,049	4,049
15	Total Revenue Deficiency		\$5,122,193	(\$3,786,274)	\$845,791	\$845,791
16	Total Revenue Requirement (Line 11 + Line 14)		\$41,907,745	\$33,173,049	\$37,777,353	\$37,777,353

**GUD No. 9988 (Cons)
Texas Gas Service - El Paso Service Area (EPSA) Appeal**

**Examiners Schedule B
Rate Base**

Line No.	Description	From Schedule	Company Proposed Adjusted Test Year	El Paso Proposed	Examiner Recommended	Final Order
			(a)	(b)	(c)	(d)
GROSS PLANT IN SERVICE						
1	Intangible Plant	C	\$195,755	\$195,755	\$195,755	\$195,755
2	Transmission Plant	C	1,205,865	1,205,865	1,205,865	1,205,865
3	Distribution Plant	C	189,692,524	186,980,880	189,692,524	189,692,524
4	General Plant	C	18,303,610	18,252,212	18,303,610	18,303,610
5	Completed Construction Not Classified	C-1	7,026,876	7,805,979	6,822,955	6,822,955
6	Gross Plant in Service		\$216,424,630	\$214,440,691	\$216,220,709	\$216,220,709
7	Net Depreciation & Amortization Reserves	D	(78,406,369)	(76,794,786)	(78,406,369)	(78,406,369)
8	Net Plant in Service		\$138,018,261	\$137,645,905	\$137,814,340	\$137,814,340
OTHER RATE BASE ITEMS						
9	Materials and Supplies Inventory		963,758	963,758	963,758	963,758
10	Prepayments		447,207	447,207	447,207	447,207
11	Cash Working Capital		0	(2,352,788)	0	0
NON-INVESTOR SUPPLIED FUNDS						
12	Customer Deposits - Test Year Direct		(4,940,418)	(4,940,418)	(4,940,418)	(4,940,418)
13	Customer Advances - Test Year Direct		(5,696,204)	(5,696,204)	(5,696,204)	(5,696,204)
14	Accumulated Deferred Taxes		(27,230,176)	(28,860,082)	(27,230,176)	(27,230,176)
15	Total Rate Base		\$101,562,430	\$97,207,379	\$101,358,508	\$101,358,508

GUD No. 9988
TGS - EPSA Expenses
Examiners Schedule D-Supplemental

TGS Filed City of El Paso Proposed Final Order

Sched A line no.	Description	Adjusted Test Year	Adjustments	Adjustments
DEPRECIATION & AMORTIZATION				
	Depreciation Expense	\$ 4,643,303	\$ (1,622,302)	\$ 3,021,001
	Amortization Expense	\$7,623	-	\$7,623
	Rate Case Expense Amortization	\$148,006	-	\$148,006
4	Total Depr. & Amort.	\$4,798,932		\$3,176,630
TAXES OTHER THAN INCOME				
	Ad Valorem	\$1,652,293	(4,520)	\$1,647,773
	Other	\$128,494	-	\$128,494
5	Total Taxes Other Than Income	\$1,780,787		\$1,776,267
6	INTEREST ON CUSTOMER DEPOSITS	\$103,255	(86,458)	\$16,797
DISTRIBUTION AND TRANSMISSION OPERATIONS				
	Transmission Expenses	\$628,915		\$247,344
	Supervision and Engineering	\$445,701		\$438,548
	Distribution Load Dispatch	\$58,741		\$57,958
	Mains & Services	\$883,701		\$878,457
	Meter & House Reg. Exp.-City Gate	\$244		\$243
	Meter & House Reg. Exp.	\$1,192,463		\$1,179,923
	Customer Installation Exp	\$571,412		\$564,842
	Other Expense	\$982,533		\$972,955
	Rents	\$59,067		\$59,067
	Corporate & Div. Exp.	\$0		\$0
	Total Distribution Operations	\$4,822,777	(617,821)	\$4,399,337
DISTRIBUTION MAINTENANCE				
	Supervision and Engineering	\$69,239		\$67,957
	Struct. & Improv.	\$1,946		\$1,946
	Mains	\$1,003,701		\$992,974
	Meas. & Reg. Stat. Exp. - Gen	\$356,444		\$352,783
	Meas. & Reg. Stat. Exp. - Ind.	\$215,282		\$211,724
	Meas. & Reg. Stat. Exp. - City Gate	\$289		\$289
	Maintenance of Services	\$551,734		\$544,912
	Meters & House Reg.	\$2,056		\$2,035
	Other Equipment	\$109,899		\$109,805
	Total Distribution Maintenance	\$2,310,590		\$2,284,425
7	Total Distribution Expense	\$7,133,367	(617,821)	\$6,683,762
				\$4,204,956

CUSTOMER ACCOUNTING

Supervision	\$78,630	\$77,086	\$78,630
Meter Reading	\$873,226	\$862,028	\$873,226
Customer Accounting	\$3,981,149	\$3,503,907 \$	\$3,763,408
Bad Debts	\$176,791	\$176,924	\$176,791
Miscellaneous	\$185,348	\$182,168	\$185,348
Total Customer Accounting	\$5,295,144	\$4,802,113	\$5,077,403

CUSTOMER INFORMATION

Supervision	\$24,292	\$23,831	\$24,292
Customer Assistance Expense	\$83,554	\$82,198	\$83,554
Total Customer Information	\$107,846	\$106,029	\$107,846

SALES

Demonstrating & Selling Expense	\$68,981	\$67,613	\$68,981
Misc. Gas Sales Expense	\$0	\$0	\$0
Total Sales	\$68,981	\$67,613	\$68,981

8 Total Customer Accounts Expense \$5,471,971 \$4,975,755 \$5,254,230

ADMINISTRATIVE & GENERAL

Salaries	\$271,692	\$266,248 \$	\$271,692
Office Supplies & Expenses	\$399,918	\$399,909 \$	\$399,918
Transferred Credit	\$27	\$27 \$	\$27
Outside Services	\$20,768	\$20,768 \$	\$20,768
Corporate & TGS Division	\$8,289,493	\$6,140,872 \$	\$6,616,669
Injuries & Damages	\$189,645	\$39,056 \$	\$43,007
Employee Pensions & Benefits	\$38,249	\$38,249 \$	\$38,249
Regulatory Commission Expense	\$564,365	\$480 \$	\$480
Computer Services Expense	\$0	\$0 \$	\$0
Misc. General Expenses	\$136,136	\$135,941 \$	\$136,136
Total Administrative & General Expense	\$9,910,293	\$7,041,550 \$	\$7,526,946

9 Total Operating Expense \$29,198,605 \$23,670,761 \$ (3,087,626) \$25,745,232

GUID No. 9988 (Cons)
Texas Gas Service - El Paso Service Area (EPSA) Appeal

Examiners Schedule G
Rate Design

	Current		TGS		City		Examiner		Final Order
	Incorporated	Environ	Recommended	Recommended	Recommended	Recommended	Recommended	Recommended	
Residential									
Customer Charge	\$ 10.80	\$ 9.74	\$ 12.81	\$ 9.20	\$ 12.08	\$ 10.80			
Usage Rates									
First 200	-	-	-	0.02700	-	-			
Over 200	0.08772	0.08515	(1.22804)	0.02160	0.07346	0.38103			
Commercial									
Customer Charge	\$ 18.30	\$ 14.75	\$ 23.80	\$ 14.50	\$ 18.75	\$ 18.30			
Usage Rates									
First 100	-	-	-	-	-	-			
Next 400	0.10475	0.10448	0.07636	0.06930	0.03030	0.10901			
Next 2500	0.08472	0.08445	0.05636	0.04930	0.02030	0.08901			
Over 3000	0.06473	0.06446	0.03636	0.02930	0.01030	0.06901			
Commercial Transportation									
Customer Charge	\$ 300.50	\$ 109.50	\$ 200.00	\$ 150.00	\$ 300.50	\$ 300.50			
Usage Rates									
First 100	-	-	-	-	-	-			
Next 400	0.10475	0.10448	0.07636	0.06930	0.03030	0.10901			
Next 2500	0.08472	0.08445	0.05636	0.04930	0.02030	0.08901			
Over 3000	0.06473	0.06446	0.03636	0.02930	0.01030	0.06901			
Commercial Air Conditioning									
Customer Charge	\$ 18.30	\$ 14.75	\$ 23.80	\$ 14.50	\$ 18.75	\$ 18.30			
Usage Rates - October-April									
First 100	-	-	-	-	-	-			
Next 400	0.10475	0.10450	0.07636	0.06930	0.03030	0.10901			
Next 2500	0.08472	0.08450	0.05636	0.04930	0.02030	0.08901			
Over 3000	0.06473	0.06450	0.03636	0.02930	0.01030	0.06901			
Usage Rates - May-September									
First 100	-	-	-	-	-	-			
Next 400	0.08575	0.08548	0.05636	0.04930	0.02030	0.08901			
Next 2500	0.06572	0.06545	0.03636	0.02930	0.01030	0.06901			
Over 3000	0.04573	0.04546	0.01636	0.00930	0.00030	0.04901			

Industrial

Customer Charge

Usage Rates

First 100	\$ 84.01	\$ 50.60	\$ 109.25	\$ 67.30	\$ 100.00	\$ 84.01
Next 400	0.14450	0.10362	0.14305	0.09950	0.13316	0.14528
Next 2500	0.13451	0.09363	0.13305	0.08950	0.12316	0.13528
Over 3000	0.06366	0.06358	0.06305	0.01950	0.05316	0.06528

Industrial Transportation

Customer Charge

Usage Rates

First 100	\$ 300.50	\$ 109.50	\$ 200.00	\$ 150.00	\$ 300.50	\$ 300.50
Next 400	0.14450	0.10362	0.14305	0.09950	0.13316	0.14528
Next 2500	0.13451	0.09363	0.13305	0.08950	0.12316	0.13528
Over 3000	0.06366	0.06358	0.06305	0.01950	0.05316	0.06528

Standby Service

Customer Charge

Usage Rates

Per Mcf/Hour	\$ 125.00	\$	\$ 162.50	\$ 150.00	\$ 125.00	\$ 125.00
	20.00		20.00	20.00	20.00	20.00

Municipal Water Pumping

Customer Charge

Usage Rates

First 5000	\$ 93.63	\$ 30.22	\$ 121.75	\$ 75.00	\$ 121.75	\$ 121.75
Over 5000	0.07134	0.07137	0.06589	0.03850	0.05374	0.06817
	0.06134	0.06137	0.05589	0.02850	0.04374	0.05817