

**BEFORE THE
RAILROAD COMMISSION OF TEXAS**

**STATEMENT OF INTENT FILED BY
COSERV GAS LTD. TO INCREASE
THE RATES IN THE
UNINCORPORATED AREAS OF
DENTON, COLLIN, AND KAUFMAN
COUNTIES**

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**GAS UTILITIES DOCKET
NO. 9909**

FINAL ORDER

Notice of Open Meeting to consider this Order was duly posted with the Secretary of State within the time period provided by law pursuant to TEX. GOV'T CODE ANN. Chapter 551, *et seq.* (Vernon 2008 & Supp. 2009). The Railroad Commission of Texas adopts the following findings of fact and conclusions of law and orders as follows:

FINDINGS OF FACT

1. CoServ Gas Ltd. (CoServ) is a natural gas distribution utility as that term is defined in the Texas Utilities Code and is subject to regulation under the Texas Utilities Code.
2. CoServ distributes natural gas to approximately 64,000 residential and commercial customers located in Denton, Collin and Kaufman counties in north Texas.
3. CoServ owns and operates a gas distribution system that serves the following unincorporated areas:
 - City of Argyle Environs
 - Castle Hills Fresh Water District
 - Lantana Fresh Water District
 - City of McKinney Environs
 - City of Prosper Environs
 - City of Frisco Environs, and the
 - Windmill Farms Development District
4. These systems will be referred to as the CoServ Distribution System.
5. Approximately 88% of CoServ's customers are located inside incorporated areas, including the following twenty-six incorporated municipalities, referred to hereafter as the Incorporated Municipalities: Allen, Argyle, Bartonville, Celina, Corinth, Cross Roads, Denton, Double Oak, Fairview, Flower Mound, Fort Worth, Frisco, Highland Village, Little Elm, Lewisville,

Lucas, McKinney, Murphy, Parker, Plano, Ponder, Prosper, St. Paul, Shady Shores, The Colony, and Wylie.

6. In December of 2008, CoServ filed *Statements of Intent* with each of the Incorporated Municipalities it serves and proposed to increase revenues, collectively, by \$2,915,367 through the implementation of rate changes and a rate restructure.
7. The *Statements of Intent* followed the rate filing package format required by the City of Denton's Ordinance No. 2003 – 111 and complied with the requirements of 16 *Tex. Admin. Code* § 201(a).
8. CoServ's proposal to increase municipal rates was based upon a test year ending June 30, 2008.
9. Several municipalities formed a coalition to evaluate CoServ's revenue increase proposal. The coalition included all of the Incorporated Municipalities except the City of Fairview, which allowed the rates to go into effect by operation of law.
10. CoServ reached an agreement with the coalition on a total revenue increase of \$1,300,000 applicable to incorporated areas and, following approval by the Railroad Commission of Texas (Commission), to unincorporated areas.
11. The portion of the settled amount applicable to the Incorporated Municipalities is \$1,170,910 and the portion applicable to the unincorporated areas is \$129,090.
12. The municipal ordinance adopting the rates provided the rates were to be charged on a system-wide basis and that no specific rate base, return, revenue or cost adjustments or ratemaking methodologies were approved in reaching the revenue requirement settlement that resulted in the rates and charges adopted by the ordinance.
13. Pursuant to the settlement agreement between CoServ and the coalition, each coalition city has enacted or will enact an ordinance adopting rates described in the settlement agreement tariffs.
14. Approximately 12% of CoServ's gas customers are located in unincorporated areas.
15. On September 10, 2009, CoServ filed a *Statement of Intent* with the Railroad Commission to implement a \$129,090 rate increase in the unincorporated areas it serves, as outlined in Finding of Fact No. 3.
16. The *Statement of Intent* filed with the Commission complied with the requirements of 16 *Tex. Admin. Code* § 7.205(a) and § 7.210(a).

17. CoServ's proposed rate increase of \$129,090 is approximately 2.2% of annual revenues derived from unincorporated areas and is not a "major change" as that term is defined in *Tex. Util. Code Ann.* § 104.101.
18. In its *Statement of Intent*, CoServ proposed:
 - to implement the same rates in unincorporated areas as those implemented in incorporated areas, with the exception of the rate case expense surcharge,
 - that a new Weather Normalization adjustment be approved,
 - to recover the gas cost portion of uncollectible expenses through its purchase gas factor (PGF) clause,
 - to change the Credit/Debit Card Payment Charge from a fixed rate to the actual charge incurred, and
 - to recover rate case expenses through a surcharge to be applied for thirty-six months.
19. The test year, adjusted for known and measurable changes, used by CoServ to support the proposed rate changes for unincorporated areas is the same twelve months ending June 30, 2008, used by CoServ in the *Statements of Intent* filed at the municipal level.
20. CoServ's revenue increase request is driven, largely, by two factors. First, the company's customer base has more than doubled since the last rate case. Second, rate base and the number of employees grew significantly in order to serve the increased number of customers.
21. During the test year ending June 30, 2008, CoServ had 59,043 residential customers and 1,022 commercial customers in its total service area comprised of both unincorporated and incorporated areas.
22. As of June 30, 2008, CoServ's total unadjusted customer volumes for the test year were 46,004,292 Ccfs, including 4,683,653 Ccfs for unincorporated areas and 41,320,639 Ccfs for incorporated areas.
23. As of December 31, 2009, CoServ's total customer volumes for the calendar year were 49,359,690 Ccfs, including 5,281,088 Ccfs for unincorporated areas and 44,078,602 Ccfs for incorporated areas.
24. CoServ's volumes for unincorporated areas grew by approximately 13% from June 30, 2008 to December 31, 2009.
25. CoServ published notice of its intent to increase rates once each week for four consecutive weeks in a newspaper having general circulation in its service territory. Notice was published on October 20, October 27, November 3 and November 10, 2009.

26. On November 20, 2009, CoServ provided an *Affidavit of Publication* to demonstrate that notice was published, as supplemented on November 23, 2009.
27. CoServ's publication of notice fulfills the requirements in T.U.C. § 104.103(a)(1).
28. CoServ's application includes 15 proposed rate schedules applicable to unincorporated areas, including Rate Schedules 1 through 4, 5.2, 5.21, 6.2 and 7 through 14, as described below:

SCHEDULE	CONTENTS	STATUS
Rate Schedule 1.0	Table of contents	New
Rate Schedule 2.0	Contact information at utility headquarters in Corinth, Texas	New
Rate Schedule 3.0	Identification of incorporated areas, unincorporated areas, and counties served by the utility	New
Rate Schedule 4.0	Definitions	Minor text correction
Rate Schedule 5.2	Residential customers, description of monthly base rates, the purchased gas factor (PGF), taxes, surcharges and the utility's line extension policy	Revised rates
Rate Schedule 5.21	Gross receipts tax factors applicable to environs	No change to existing tariff
Rate Schedule 6.2	Commercial customers, description of monthly base rates, the purchased gas factor (PGF), taxes, surcharges, and the utility's line extension policy	Revised rates
Rate Schedule 7.0	Purchased gas factor (PGF), annual review, treatment of lost and unaccounted for (LUG) imbalances, reconciliation factor calculations, reconciliation reporting requirement	Text change
Rate Schedule 8.0	Pipeline safety fee	No change from existing tariff
Rate Schedule 9.0	Rate case expense surcharge	Revised rates
Rate Schedule 10.0	Weather normalization adjustment	New
Rate Schedule 11.0	Miscellaneous service charges	Rate Schedule number change
Rate Schedule 12.0	Quality of service	Rate Schedule number change
Rate Schedule 13.0	Curtailement	Rate Schedule number change
Rate Schedule 14.0	Customer deposits	Rate Schedule number change

29. During an informal conference with the Examiners on January 15, 2010, several modifications were made to the initially proposed rate schedules. The modified tariffs are attached to the proposed Order in this case.
30. CoServ is affiliated with CoServ Electric, an electric cooperative that performs certain services for the gas operation, such as meter reading and customer billing. CoServ is affiliated with Llano Utility Services, Inc., a firm that provides construction services related

to the gas system infrastructure. CoServ is also affiliated with CoServ Realty GP, LLC, a firm that provides office space to CoServ Gas Ltd.

- 31. CoServ has established that the affiliate expenses are reasonable and necessary and that the prices charged by the supplying affiliate to CoServ are no higher than the prices charged to its other affiliates or divisions, or to non-affiliated persons.
- 32. As required by 16 *Tex. Admin. Code* § 7.315(c), the unincorporated areas affected by the proposed rate change are listed on Rate Schedule 3.0.
- 33. As shown on Rate Schedules 5.2 and 6.2, the rates proposed for unincorporated areas are as follows:

RATES PROPOSED FOR UNINCORPORATED AREAS

	Residential Customers	Commercial Customers
Customer Charge	\$7 per month	\$13.50 per month
Volumetric Charge	\$.19771 per Ccf	\$.23043 per Ccf

- 34. As proposed in Rate Schedule 10.0, CoServ’s weather normalization factor smoothes the effects of weather extremes on its revenues.
- 35. The weather normalization factor is based upon weather data published by the National Oceanic and Atmospheric Administration (NOAA) for the Dallas / Fort Worth International AP (KDFW) weather station.
- 36. CoServ has not established that the proposed rate case expenses of \$84,283.86 are just and reasonable.
- 37. The rate case expense request included expenses for tariffs that were never prepared or proposed to the Commission and it is not reasonable for CoServ to recover expenses for tariffs that were never prepared or proposed.
- 38. The rate case expense request included expenses for notice of publication at the municipal level and notice of publication for the unincorporated areas. CoServ has not established that unincorporated customers should bear any expenses for publication of notice at the municipal level. Those are direct expenses attributable to the municipal proceedings and should be assigned to those jurisdictions.
- 39. The rate case expense request included expenses for binding, copying and delivery of documents at the municipal level. Those are direct expenses attributable to the municipal proceedings and should be assigned to those jurisdictions.
- 40. Based upon the particular facts presented in this proceeding, CoServ has established that

\$79,969.83 in rate case expenses are just and reasonable.

41. CoServ has not established that it is reasonable to apply an interest rate of six percent to the un-recovered balance of rate case expenses.
42. It would be reasonable to set the interest rate at the level set by the Public Utility Commission for customer deposits, if rate case expenses were recovered over a period of 36 months.
43. In order to avoid additional interest expenses, it is reasonable to recover the rate case expenses over a period of 12 months at a rate of \$.0151 per Ccf and that no interest be charged on the un-recovered portion during that period.
44. The rate case expense surcharge of \$.0151 is calculated in the same manner as the \$.03686 rate case expense surcharge resulting from CoServ's last rate case, that is, total rate case expenses of \$79,969.83 were divided by 5,281,088 annual Ccf volumes for unincorporated areas, with no interest applied.

CONCLUSIONS OF LAW

1. CoServ is a "gas utility" as defined in TEX. UTIL. CODE ANN. §§ 101.003(7) (Vernon 1998 and Supp. 2009) and is therefore subject to the jurisdiction of the Railroad Commission of Texas (Commission).
2. The Commission has jurisdiction over CoServ and CoServ's *Statement of Intent* under TEX. UTIL. CODE ANN. § 102.001 (Vernon 1998 & Supp. 2009) and § 104.001 (Vernon 1998 and Supp. 2009).
3. Under TEX. UTIL. CODE ANN. § 102.001 (Vernon 1998 & Supp. 2009), the Commission has exclusive original jurisdiction over the rates and services of a gas utility that distributes natural gas in areas outside of a municipality and over the rates and services of a gas utility that transmits, transports, delivers, or sells natural gas to a gas utility that distributes the gas to the public.
4. Under the provisions of the TEXAS UTILITIES CODE, Chapter 104 and 16 TEX. ADMIN. CODE §§ 7.205, 7.210, 7.220, and 7.315 (2009), a utility is required to seek Commission approval before increasing its rates and filing revised tariff schedules for environs customers.
5. The *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 *et seq.* (Vernon 2000 & Supp. 2009) ("APA").

6. In accordance with TEX. UTIL. CODE ANN. § 104.105(a) (Vernon 1998), the Commission held a hearing on January 21, 2010.
7. TEX. UTIL. CODE ANN. § 104.107 (Vernon 1998 and Supp. 2009) 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.
8. The proposed rates did not constitute a major change as defined by TEX. UTIL. CODE ANN. § 104.101 (Vernon 1998).
9. In accordance with TEX. UTIL. CODE ANN. § 104.103 (Vernon 1998), 16 TEX. ADMIN. CODE ANN. § 7.230 (2009), and 16 TEX. ADMIN. CODE ANN. § 7.235 (2009), CoServ gave sufficient notice of its *Statement of Intent* to its customers.
10. The rates established in this case comply with the affiliate transaction standard set out in TEX. UTIL. CODE ANN. § 104.055 (Vernon 2009). 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.
11. CoServ's *Statement of Intent* to change rates along with CoServ's responses to the Examiners' requests for information complied with the provisions of TEX. UTIL. CODE ANN. § 104.102 (Vernon 1998 and Supp. 2009), 16 TEX. ADMIN. CODE §§ 7.205, 7.210, and 7.220 (2009).
12. CoServ did not seek and the Commission did not set or approve the specific factors that would be necessary for an interim rate adjustment under TEX. UTIL. CODE § 104.301.
13. In accordance with 16 TEX. ADMIN. CODE § 7.315 (2009), within thirty days of the effective date of any change to rates, CoServ is required to file with the Gas Services Division of the Commission its revised tariffs electronically.

IT IS ORDERED that the attached tariffs, which reflect the rates and rate design in the findings of fact and conclusions of law, are **APPROVED**.

IT IS FURTHER ORDERED that, in accordance with 16 TEX. ADMIN. CODE § 7.315 (2009), within thirty days of the date this Order is signed, CoServ shall file tariffs electronically with the Gas Services Division. The tariffs shall incorporate rates consistent with this Order, as stated in the findings of fact and conclusions of law and consistent with the attached tariffs.

IT IS FURTHER ORDERED that CoServ's rates as requested and to the extent set out in the findings of fact and conclusions of law are **HEREBY APPROVED** to be effective for service provided and for gas delivered on and after the date of this Order.

IT IS FURTHER ORDERED that CoServ **SHALL** recover \$79,969.83 in rate case expenses by applying a rate case expense surcharge of \$.0151 per Ccf on all sales volumes, using a straight line amortization of expenditures on the declining balance over an approximate twelve-month period, without assessment of interest.

IT IS FURTHER ORDERED that CoServ **SHALL** show the rate case expense surcharge of \$.0151 as a separate line item on its customers' bills.

IT IS FURTHER ORDERED that CoServ **SHALL** file an annual report detailing the recovery of rate case expenses. This report shall show the beginning balance, amount of expenses recovered by month by class of customer, the volumes by class of customer, and the ending balance, if any. The report shall be filed with the Director of the Gas Services Division of the Railroad Commission of Texas.

IT IS FURTHER ORDERED that CoServ **SHALL not** assess municipal franchise fees to customers located in the unincorporated areas it serves.

IT IS FURTHER ORDERED that CoServ **SHALL** include in its purchased gas factor only its reasonable and necessary gas purchase expenses, as set out in the attached Purchased Gas Factor tariff. The reasonableness and prudence of CoServ's gas purchases pursuant to its purchased gas factor may be subject to an adjustment and potential refund in a subsequent proceeding.

IT IS FURTHER ORDERED that CoServ **SHALL** file electronically with the Audit Section of the Gas Services Division a report notifying the Commission any time its policy and procedures for recovering uncollectible expenses change and CoServ shall annually file a summary report indicating uncollected expenses, uncollected margin, uncollected gas costs, uncollected taxes, subsequent collected gas costs, and subsequent collected margin.

IT IS FURTHER ORDERED that CoServ **SHALL** maintain detailed information that will allow the Commission to audit the operation of the uncollectible gas cost recovery clause in its tariff.

IT IS FURTHER ORDERED that CoServ's purchased gas cost calculation **SHALL** accurately reflect the cost of gas to CoServ.

IT IS FURTHER ORDERED that CoServ **SHALL** continue to adhere to the Commission's Quality of Service Rules, as stated in Rate Schedule 12.0.

IT IS FURTHER ORDERED that proposed findings of fact and conclusions of law not specifically adopted herein are **DENIED**.

IT IS FURTHER ORDERED that CoServ may begin charging the approved rates for gas delivered and service provided on and after the date of this Order. This Order will not be final and appealable, however, 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 ninety days from the date the order is served on the parties.

SIGNED this 9th day of March, 2010.

RAILROAD COMMISSION OF TEXAS



VICTOR G. CARRILLO, CHAIRMAN



ELIZABETH A. JONES, COMMISSIONER



MICHAEL L. WILLIAMS, COMMISSIONER

ATTEST



SECRETARY

TARIFF FOR GAS SERVICE
CoServ Gas, Ltd.

Rate Schedule 1.0

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Applicable to: Entire System
Effective Date:

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5.21	RATE ETF – ENVIRONS TAX FACTORS
6.1	RATE C – COMMERCIAL SALES
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7.0	RATE PGF – PURCHASED GAS FACTOR
8.0	RIDER PSF – PIPELINE SAFETY FEE
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10.0	RIDER WNA – WEATHER NORMALIZATION ADJUSTMENT
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13.0	RATE CP – CURTAILMENT POLICY
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**TARIFF FOR GAS SERVICE
CoServ Gas, Ltd.**

Rate Schedule 2.0

UTILITY OPERATIONS

Applicable to: Entire System
Effective Date:

Page 1 of 1

CoServ Gas, Ltd. owns and operates a natural gas distribution system that provides natural gas service in Texas.

The following will respond to inquiries regarding provisions of this Tariff for Gas Service:

Tariff Coordinator
CoServ Gas, Ltd.
7701 South Stemmons
Corinth, Texas 76210
Telephone: (940) 321-7800
Email Address: tariff@coserv.com

TARIFF FOR GAS SERVICE
CoServ Gas, Ltd.

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Rate Schedule 3.0

INCORPORATED AND UNINCORPORATED SERVICE AREAS AND COUNTIES

Applicable to: Entire System

Page 1 of 1

Effective Date:

INCORPORATED SERVICE AREAS

Allen
Argyle
Bartonville
Celina
Corinth
Cross Roads
Denton
Double Oak
Fairview
Flower Mound
Fort Worth
Frisco
Highland Village
Little Elm
Lewisville
Lucas
McKinney
Murphy
Parker
Plano
Ponder
Prosper
St. Paul
Shady Shores
The Colony
Wylie

UNINCORPORATED SERVICE AREAS

Argyle environs
Castle Hills Fresh Water District
Frisco environs
Lantana Fresh Water District
McKinney environs
Prosper environs
Windmill Farms Development District

COUNTIES

Denton
Collin
Kaufman

TARIFF FOR GAS SERVICE
CoServ Gas, Ltd.

Rate Schedule 4.0

DEFINITIONS

Applicable to: Entire System
Effective Date:

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COMMERCIAL CUSTOMER - A customer, other than a residential customer, and not otherwise covered by a contract under the contract rate provisions of Section 104.003 of the Texas Utilities Code.

COMMISSION - The Railroad Commission of Texas

COMPANY - CoServ Gas, Ltd., its successors, and its assigns

CUSTOMER - An individual, family, partnership, association, joint venture, corporation, etc., or governmental agency who is receiving the benefit of gas service at a specified point of delivery

ENVIRONS - The unincorporated areas outside the city limits in the Company's service area.

RATE SCHEDULE - A statement of the method of determining charges for gas service, including the conditions under which such method applies.

RESIDENTIAL CUSTOMER - Unless otherwise specified in the rate schedule, a customer whose service is separately and individually metered in an individual private dwelling unit or in an individually metered apartment, condominium, or similar dwelling and who uses natural gas primarily for Residential End Uses and occupies the building.

RESIDENTIAL END USES - Heating, space heating, cooking, water heating, and other similar type uses in a dwelling.

TARIFF FOR GAS SERVICE
CoServ Gas, Ltd.

Rate Schedule 5.2

RATE RE – RESIDENTIAL ENVIRONS SALES

Applicable to: Residential customers in unincorporated areas
Effective Date:

Page 1 of 2

Application of Schedule

Schedule applies to all Residential Customers in unincorporated areas.

Reason for Filing

Amendment to existing tariff to implement uniform rates within CoServ's service area.

Monthly Base Rate

Customer's base monthly bill will be calculated using the following Customer and Ccf charges:

<u>Charge</u>	<u>Amount</u>
Customer Charge	\$ 7.00 per month, plus
Volumetric Charge	\$.19771 per Ccf

Purchased Gas Factor

In addition to the base monthly bill above, each customer's bill will include a Purchased Gas Factor to account for purchased gas costs and computed in accordance with Rate PGF - Purchased Gas Factor.

Taxes

In addition to the monthly charges above, each customer's bill will include a charge for an amount equivalent to the customer's proportional part of any taxes, fees, or similar levies payable by the Company to governmental or quasi-governmental entities with authority over the area in which the customer resides. Any such charge will be computed by multiplying the Monthly Base Rate charges and Purchased Gas Factor charges by a factor calculated to recover the actual amount of such taxes, fees, or similar levies.

Currently applicable taxes, fees, or similar levies for each environs area are detailed on the CoServ Environs Tax Factor tariff sheet (Rate ETF).

CoServ does not assess municipal franchise fees to environs customers.

TARIFF FOR GAS SERVICE
CoServ Gas, Ltd.

Rate Schedule 5.2

RATE RE – RESIDENTIAL ENVIRONS SALES

Applicable to: Residential customers in unincorporated areas
Effective Date:

Page 2 of 2

Surcharges

In addition to the monthly charges above, each customer's bill will include an amount for surcharges calculated in accordance with the applicable rider(s): Rider Pipeline Safety Fee (PSF), and Rider Rate Case Expense (RCE).

Line Extension Policy

The company has the right to contract with individual customers for the installation of gas facilities. Upon the request of a prospective new residential or commercial customer for service in an area served by CoServ Gas, CoServ Gas will extend its main lines up to 100 feet from an existing CoServ Gas main in the Public Rights of Way, without charge. The 100-foot allowance applies to a single customer or to a group of customers requesting service from the same extension. Customers requesting mainline extensions in excess of 100 feet shall bear the cost of any additional main, and shall bear the cost of all yard lines, service lines, customer meters and regulators, and appurtenant equipment, in accordance with the charges listed in item 12, Line Extension and Installation, of Rate M, Miscellaneous Service Charges. CoServ Gas is not required to extend its mains or facilities if the customer will not use gas for space heating and water heating, or the equivalent load, at a minimum.

TARIFF FOR GAS SERVICE
CoServ Gas, Ltd.

Rate Schedule 5.21

RATE ETF – ENVIRONS TAX FACTORS

Applicable to: Unincorporated areas
Effective Date:

Page 1 of 1

<u>Environs Area</u>	<u>Fee</u>	<u>Entity Collecting Fee</u>
Frisco	4% of gross receipts	Denton Co. Fresh Water Supply Dist. No. 8A, 8B, 9, 10, 11A, and 11B
Lantana Subdiv., Denton Co.	3% of gross receipts	Denton Co. Fresh Water Supply Dists. No. 6 and 7
Windmill Farms Subdiv., Kaufman Co.	4% of gross receipts	Kaufman Co. Dev. Dist. No. 1

TARIFF FOR GAS SERVICE
CoServ Gas, Ltd.

Rate Schedule 6.2

RATE CE – COMMERCIAL ENVIRONS SALES

Applicable to: Commercial customers in unincorporated areas
Effective Date:

Page 1 of 2

Application of Schedule

Schedule applies to all Commercial Customers in unincorporated areas.

Reason for Filing

Amendment to existing tariff to implement uniform rates within CoServ's service area.

Monthly Base Rate

Customer's base monthly bill will be calculated using the following Customer and Ccf charges:

<u>Charge</u>	<u>Amount</u>
Customer Charge	\$13.50 per month, plus
Volumetric Charge	\$.23043 per Ccf

Purchased Gas Factor

In addition to the base monthly bill above, each customer's bill will include a Purchased Gas Factor to account for purchased gas costs and computed in accordance with Rate PGF - Purchased Gas Factor.

Taxes

In addition to the monthly charges above, each customer's bill will include a charge for an amount equivalent to the customer's proportional part of any taxes, fees, or similar levies payable by the Company to governmental or quasi-governmental entities with authority over the area in which the customer resides. Any such charge will be computed by multiplying the Monthly Base Rate charges and Purchased Gas Factor charges by a factor calculated to recover the actual amount of such taxes, fees, or similar levies.

Currently applicable taxes, fees, or similar levies for each environs area are detailed on the CoServ Environs Tax Factor tariff sheet (Rate ETF).

CoServ does not assess municipal franchise fees to environs customers.

TARIFF FOR GAS SERVICE
CoServ Gas, Ltd.

Rate Schedule 6.2

RATE CE – COMMERCIAL ENVIRONS SALES

Applicable to: Commercial customers in unincorporated areas
Effective Date:

Page 2 of 2

Surcharges

In addition to the monthly charges above, each customer's bill will include an amount for surcharges calculated in accordance with the applicable rider(s): Rider Pipeline Safety Fee (PSF), and Rider Rate Case Expense (RCE).

Line Extension Policy

The company has the right to contract with individual customers for the installation of gas facilities. Upon the request of a prospective new residential or commercial customer for service in an area served by CoServ Gas, CoServ Gas will extend its main lines up to 100 feet from an existing CoServ Gas main in the Public Rights of Way, without charge. The 100-foot allowance applies to a single customer or to a group of customers requesting service from the same extension. Customers requesting mainline extensions in excess of 100 feet shall bear the cost of any additional main, and shall bear the cost of all yard lines, service lines, customer meters and regulators, and appurtenant equipment, in accordance with the charges listed in item 12, Line Extension and Installation, of Rate M, Miscellaneous Service Charges. CoServ Gas is not required to extend its mains or facilities if the customer will not use gas for space heating and water heating, or the equivalent load, at a minimum.

TARIFF FOR GAS SERVICE
CoServ Gas, Ltd.

Rate Schedule 7.0

RATE PGF – PURCHASED GAS FACTOR

Applicable to: Entire System
Effective Date:

Page 1 of 5

Purpose and Intent

This provision is intended to allow collection of the gas purchase costs of CoServ Gas, Ltd. (hereinafter “CoServ Gas” or the “Company”) in a manner that will lessen monthly fluctuations in the Purchased Gas Factor and ensure that actual costs billed to customers are fully reconciled with actual costs incurred, subject to limitations for excessive lost and unaccounted for gas. The billing methods set forth herein are intended to be followed to the extent the goals are realized. To the extent the billing methods fail to achieve these goals, the methodology shall be revised and a revised tariff filed to reflect such revisions. The Company will make appropriate regulatory filings and obtain regulatory approvals, as required, before making changes to its rates. The Company will notify the Railroad Commission within 10 days of the date its policies and procedures for recovering the uncollectible portion of its gas costs changes.

Applicability

This clause shall apply to all CoServ Gas tariffs that incorporate this Purchased Gas Factor provision and which have been properly filed and implemented with the appropriate jurisdictional authority.

Definitions

Standard Cubic Foot of Gas – the amount of gas contained in one (1) cubic foot of space at a standard pressure of fourteen and sixty-five hundredths (14.65) pounds per square inch, absolute and a standard temperature of sixty (60) degrees Fahrenheit.

Ccf – one hundred standard cubic feet of gas.

Mcf – one thousand standard cubic feet of gas.

Purchased Gas Volumes – The volumes of gas, expressed in Mcf’s, purchased by the Company and received into the Company’s distribution systems from all sources, including withdrawals from storage, and excluding gas injected into storage.

Purchased Gas Cost(s) –The total cost of Purchased Gas Volumes, as received into the Company’s distribution systems, all as more specifically described herein.

Weighted Average Cost of Gas – The Purchased Gas Costs divided by the Purchased Gas Volumes, calculated on a monthly basis, and expressed as dollars per Mcf. Weighting is by the volume of each cost component.

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CoServ Gas, Ltd.

Billed Gas Volumes – The volumes of gas billed to customers, plus volumes of gas billed to third parties following losses or damages, expressed in Mcf's

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Rate Schedule 7.0

RATE PGF – PURCHASED GAS FACTOR

Applicable to: Entire System
Effective Date:

Page 2 of 5

Billed Gas Revenues – The total amount of revenues attributable to billings by CoServ for Purchased Gas Costs during a given period, exclusive of any billings for any Reconciliation Factor during the same period.

Lost and Unaccounted for Gas (LUG) – Purchased Gas Volumes minus the sum of Billed Gas Volumes and metered Company used gas.

Purchased Gas Factor (PGF) – A factor on each customer’s monthly bill, expressed in dollars per Ccf, to reflect the Purchase Gas Costs and the Reconciliation Factor, all as more specifically described herein.

Annual Review Period – The 12-month period ending June 30 of each year.

Annual Review – An annual review of the Company’s records covering the 12-month period ending June 30 to determine LUG volumes and any imbalances between the Purchased Gas Costs and Billed Gas Revenues existing at the end of the Annual Review Period.

Annual Imbalance Total – The total amount determined through the Annual Review to be credited or surcharged to customers’ bills, plus interest, in order to balance Purchased Gas Costs with Billed Gas Revenues.

Reconciliation Factor – A credit or surcharge included in the Purchased Gas Factor to reflect the pro-rated adjustment in billings for any over or under collections on an annual basis, inclusive of interest.

Record Keeping

The Company shall keep accurate records of all gas metered in and out of its system, gas purchases, and Company-owned gas injected into and withdrawn from storage, and any adjustments, including interest, relative to any imbalances. The records shall include date, quantity, and cost details for all gas handled.

Purchased Gas Cost Calculation

The Purchased Gas Cost shall be determined for each month to fairly and accurately reflect the cost to the Company at the points of delivery into the Company’s distribution systems. The determination shall include, but not be limited to, volumetric and demand charges for Purchased Gas Volumes, fees paid to others where such fees are integrally tied to the purchase or transportation of gas purchased by CoServ, pipeline transportation charges (both volumetric and demand), and gas storage charges (both volumetric and demand).

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CoServ Gas, Ltd.

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RATE PGF – PURCHASED GAS FACTOR

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The Company shall account for gas injected into and withdrawn from storage on a weighted average cost basis.

Purchased Gas Factor Calculation

Each customer bill shall include a Purchased Gas Factor reflecting the estimated Weighted Average Cost of Gas for the period covered by the bill, which estimate shall include, as applicable, a pro-rata amount to adjust for previous over or under estimates of the Weighted Average Cost of Gas; plus the total amount of gas cost determined to have been uncollectible, written off, and remaining unpaid; plus a Reconciliation Factor to account for any Annual Imbalance Total.

Annual Review

For each Annual Review Period, the Company shall determine (i) the amount of any imbalance between the Purchased Gas Costs and Billed Gas Revenues, and (ii) the LUG volume for the Annual Review Period. As limited by the LUG volume limitation set forth below, the Annual Imbalance Total shall then be credited or surcharged, together with interest, to the customers' bills over a twelve month period commencing each September 1 following the Annual Review Period.

Annual Imbalance Total -- LUG Volume less than or equal to five percent of Purchased Gas Volumes or LUG Volume is negative

If the Annual Review shows the LUG volume for the Annual Review Period to be less than or equal to five percent of the Purchased Gas Volumes, or if the LUG volume is negative (indicating a line gain), the Annual Imbalance Total shall be the difference between the total Purchased Gas Cost and the total Billed Gas Revenues for the Annual Review Period.

Annual Imbalance Total – LUG Volume is positive and is greater than five percent of Purchased Gas Volumes

If the Annual Review shows the LUG volume for the Annual Review Period to be positive and to be greater than five percent of the Purchased Gas Volumes, the Annual Imbalance Total shall be determined as follows:

- The difference between the total Purchased Gas Costs and the total Billed Gas Revenues for the Annual Review Period shall be determined;

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- Minus, the Purchased Gas Costs attributable to LUG volumes in excess of 5% of the Purchase Gas Volumes, using the Company's Weighted Average Cost of Purchased Gas for the Review Period.

Reconciliation Factor Calculation

The Annual Imbalance Total (whether positive or negative) shall be credited or surcharged over twelve months in equal total amounts per month, together with interest on the declining unrecovered or uncredited balance. The recovery shall be through a Reconciliation Factor included in the Purchased Gas Factor. The Reconciliation Factor for each month shall be determined as follows:

- The total interest to be collected or paid shall be computed by using a monthly interest factor equal to the annual interest rate divided by 12. The annual interest rate shall be the interest rate established pursuant to Section 183.003 of the Texas Utilities Code, as applicable to customer deposits, if any, of customers covered by this tariff, as such rate is in effect during the last month of the Annual Review Period.
- The total interest to be collected or paid over the 12-month period shall be added to the Annual Imbalance Total.
- The resulting total shall then be divided by 12 to determine the total amount to be credited or surcharged each month.
- Each month of the twelve-month reconciliation period, the Reconciliation Factor, expressed in Ccfs, shall be calculated by dividing the sum of amount to be credited or surcharged during that month (which amount shall include, as necessary, an amount to correct for any previous over- or under-estimates of Billed Gas Volumes during the previous month or months in the same reconciliation period), by the estimated Billed Gas Volumes for the month.
- At the end of each 12-month period, any remaining balance in the Annual Imbalance Total shall be included in any Annual Imbalance Total to be credited or surcharged during the successor 12-month period.

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RATE PGF – PURCHASED GAS FACTOR

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Annual Reconciliation Report

The Company shall file an Annual Reconciliation Report with the Regulatory Authority that shall include but not necessarily be limited to:

1. A tabulation of volumes of gas purchased and costs incurred listed by account or type of gas, supplier and source by month for the twelve months ending June 30;
2. A tabulation of the uncollectible gas cost by month for the twelve months ending June 30;
3. A description of all other costs and refunds made during the year and their effect on Rate PGF – Purchased Gas Factor to date;
4. A tabulation of gas units sold to general service customers and related Rate PGF - Purchased Gas Factor revenues; and,
5. A description of the imbalance payments made to and received from the Company's transportation customers within the service area, including monthly imbalances incurred, the monthly imbalances resolved, and the amount of cumulative imbalances. The description should reflect the system imbalance and imbalance amount for each supplier using the Company's distribution system during the reconciliation period.
6. The Annual Reconciliation Report prepared for the Railroad Commission shall be sent to the Audit Section of the Gas Services Division and shall also include uncollected expenses, uncollected margin, uncollected gas costs, uncollected taxes, subsequent collected gas costs, and subsequent collected margin.

The Company shall maintain detailed information that will allow the Regulatory Authority to audit the operation of the uncollectible gas cost recovery process.

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Rate Schedule 8.0

RIDER PSF – PIPELINE SAFETY FEE

Applicable to: Entire System

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Effective Date:

Application

Applicable to all customer classes.

Monthly calculation

Company will charge a surcharge to recover pipeline safety fees assessed by the Commission pursuant to Section 121.211 of the Texas Utilities Code and Commission Rule 16 TAC § 8.201. The surcharge will be charged not more often than once a year and will be billed following payment by the Company to the Commission, in accordance with the Commission's rules.

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Rate Schedule 9.0

RIDER RCE – RATE CASE EXPENSES

Applicable to: Entire System
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Application

Applicable to Residential and Commercial customer classes.

Monthly calculation

The bill of each residential and commercial customer shall include a surcharge designed to recover Company's reasonable rate case expenses, including reimbursement of municipal rate case expenses in accordance with Section 103.022 of the Texas Utilities Code. In incorporated areas, the surcharge will be calculated on a Ccf basis using total company volumes for Residential and Commercial customers, over a period of thirty six (36) months commencing with the date rates set forth in this revised tariff become effective in the incorporated area.

In unincorporated areas, a rate case expense surcharge of \$.0151 will be applied on a Ccf basis using total company volumes for Residential and Commercial customers, over a period of twelve (12) months commencing on the date rates set forth in this revised tariff become effective in the unincorporated area.

For incorporated areas only, the surcharge will be applied monthly to the outstanding uncollected balance of such rate case expenses, and interest at the rate of six (6) percent per year shall be calculated on, and added to, the declining balance each month. To the extent that some expenses may be estimates, Company is authorized to add such expenses as incurred to the amount to be surcharged up to the total estimated expenses of Company and municipalities being reimbursed.

For unincorporated areas, the amount of estimated expenses recovered through the \$.0151 surcharge shall not exceed \$21,000.

Company shall file an annual report with each regulatory authority with jurisdiction setting forth recoveries and the remaining balance in the rate expense account.

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CoServ Gas, Ltd.

Rate Schedule 10.0

RIDER WNA – WEATHER NORMALIZATION ADJUSTMENT

Applicable to: Entire System

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Effective Date:

Application

Applicable to Residential customers, as well as Commercial customers with annual consumption less than 400 Mcf.

Monthly calculation

In order to reflect weather variances in a timely and accurate manner, the Weather Normalization Adjustment (“WNA”) factor shall be separately calculated and adjusted monthly by rate class for each meter reading cycle (“Cycle”). Monthly WNA adjustments will be based upon weather information for the periods beginning with the first Cycle read in November and ending with the last Cycle read in the following May.

The WNA factor for each Cycle shall be based on the following formula:

$$\text{WNA factor} = \text{WNV} / \text{CMV}$$

WNV is calculated based on the following formula:

$$\text{WNV} = (\text{HDD}_n / \text{HDD}_a * \text{HL}) - \text{HL}$$

Definitions

CMV - Current Month Volumes billed for the Cycle.

HDD_n - Normal heating degree days during the Cycle.

HDD_a - Actual heating degree days during the Cycle.

HL - Heat Load volumes calculated using the following formula: Total volumes for the Cycle less Base Load volumes where Base Load volumes are calculated by multiplying the Base Load per customer as established in the most recent rate case by the number of customers in the Cycle.

WNV – Weather normalized volumes are the normal heating degree days during the Cycle divided by actual hearing degree days during the Cycle multiplied by the Heat Load volumes, less the Heat Load volumes.

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Monthly Report

By the 25th day of the following month, the Company will file with the Regulatory Authority a monthly report showing the volume adjustments and WNA revenues for each applicable customer class. Supporting documentation will be made available for review upon request.

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Rate Schedule 10.0

RIDER WNA – WEATHER NORMALIZATION ADJUSTMENT

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Annual Report

An annual report shall be filed with the regulatory authority for each six-month period beginning with November and ending with the subsequent May by customer class. The report shall provide: (a) the total amount of volumetric revenues collected from customers, including WNA revenues, (b) the Base Load revenues collected from customers using the Base Load per customer as established in the most recent rate case multiplied by the number of customers during the period, (c) the difference between the volumetric revenues collected from customers and the Base Load, which represents the weather-sensitive revenues billed, and (d) the calculated WNA revenues determined by the operation of the provisions of this weather normalization adjustment clause.

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Rate Schedule 11.0

RATE M – MISCELLANEOUS SERVICE CHARGES

Applicable to: Entire System

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Effective Date:

Application

The service charges listed below are in addition to any other charges under the Company's Tariff for Gas Service and will be applied for the condition described. Other services not covered by these standard conditions will be charged on the basis of an estimate for the job or the Company's actual cost plus appropriate surcharges.

Applicable Charges

Service Charge No.	Name and Description	Amount of Charge
1	<p>Connection Charge During Business Hours During standard business hours, for each reconnection of gas service where service has been discontinued at the same premises for any reason, for the initial inauguration of service, and for each inauguration of service when the billable party has changed, with the following exceptions:</p> <ul style="list-style-type: none"> (a) For a builder who uses gas temporarily during construction or for display purposes. (b) Whenever gas service has been temporarily interrupted because of System outage or service work done by Company; or (c) For any reason deemed necessary for Company operations 	\$ 65.00
2	<p>Connection Charge After Business Hours After standard business hours, for each reconnection of gas service where service has been discontinued at the same premises for any reason, for the initial inauguration of service, and for each inauguration of service when the billable party has changed, with the following exceptions:</p> <ul style="list-style-type: none"> (a) For a builder who uses gas temporarily during construction or for display purposes. (b) Whenever gas service has been temporarily interrupted because of System outage or service work done by Company; or (c) For any reason deemed necessary for Company operations 	\$ 97.00
3	<p>Field Read of Meter A read for change charge when it is necessary for the Company to read the meter at a currently served location because of a change in the billable party.</p>	\$ 19.00

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RATE M – MISCELLANEOUS SERVICE CHARGES

Applicable to: Entire System

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Service Charge No.	Name and Description	Amount of Charge
4	<p>Returned Check Charges Returned check handling charge for each check returned to Company for any reason.</p>	\$ 20.00
5	<p>Charge for Temporary Discontinuance of Service - Residential Whenever service has been temporarily disconnected at the request of the customer, this charge plus the appropriate Connection Charge will be made to reestablish such service for that customer at the same address.</p>	\$ 65.00
6	<p>Charge for Temporary Discontinuance of Service– NonResidential Whenever service has been temporarily disconnected at the request of the customer, this charge plus the appropriate Connection Charge will be made to reestablish such service for that customer at the same address.</p>	\$ 107.00
7	<p>Charge for Meter Testing The Company shall, upon request of a customer, make a test of the accuracy of the meter serving that customer. The Company shall inform the customer of the time and place of the test and permit the customer or his authorized representative to be present if the customer so desires. If no such test has been performed within the previous four (4) years for the same customer at the same location, the test shall be performed without charge. If such test has been performed for the same customer at the same location within the previous four (4) years, the Company will charge the Meter Test Fee. The customer must be properly informed of the result of any test on a meter that services him.</p>	\$ 15.00
8	<p>Charge for Service Calls During Business Hours A Service Call Charge is made for responding to a service call during standard business hours that is determined to be a customer related problem rather than a Company or Company facilities problem.</p>	\$ 26.00
9	<p>Charge for Service Calls After Business Hours A Service Call Charge is made for responding to a service call after standard business hours that is determined to be a customer related problem rather than a Company or Company facilities problem.</p>	\$ 40.00

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Service Charge No.	Name and Description	Amount of Charge
10	<p>Tampering Charge No Company Meters, equipment, or other property, whether on Customer's premises or elsewhere, are to be tampered with or interfered with for any reason. A Tampering Charge is made for unauthorized reconnection or other tampering with Company metering facilities or a theft of gas service by a person on the customer's premises or evidence by whomsoever at customer's premises. An additional cost for the cost of repairs and/or replacement of damaged facilities and the installation of protective facilities or relocation of meter are made at cost plus appropriate charges as may be detailed in the Company's Service Rules and Regulations</p>	\$ 125.00
11	<p>Credit/Debit Card Payments Charge Bill payments using credit cards, debit cards, and electronic checks (includes third-party transaction fees and administrative costs).</p>	Actual Cost
12	<p>Line Extension and Installation Charges Customers in incorporated areas: Extension and installation of new mains, service lines, risers, fittings and other appurtenant equipment pursuant to main extension policy in municipal franchise. Credit for main pursuant to municipal franchise. The customer is responsible for the installation of yard line and yard line risers.</p> <p>Customers in unincorporated areas: Extension and installation of new mains, service lines, risers, fittings and other appurtenant equipment pursuant to line extension policy contained in Rate Schedules 5.2 and 6.2. The customer is responsible for the installation of yard line and yard line risers.</p> <p>*Actual cost of the portion of any extensions exceeding the free extension allowance provided within the line extension policy.</p>	Actual Cost *
13	<p>Construction Crew Charges All labor charges if a construction crew is required.</p>	Actual Cost
14	<p>Construction Costs Charges All other construction charges.</p>	Actual Cost

**TARIFF FOR GAS SERVICE
CoServ Gas, Ltd.**

Rate Schedule 12.0

RATE Q – QUALITY OF SERVICE

Applicable to: Entire System

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Effective Date:

CoServ Gas follows the quality of service requirements as set forth in the Commission rules at 16 TAC Sections 7.45 (Quality of Service) and Section 7.460 (Suspension of Gas Utility Service Disconnection During An Extreme Weather Emergency).

TARIFF FOR GAS SERVICE
CoServ Gas, Ltd.

Rate Schedule 13.0

RATE CP – CURTAILMENT POLICY

Applicable to: Entire System
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CoServ Gas follows the requirements of the order in the Railroad Commission of Texas, Gas Utilities Docket No. 489 or other applicable curtailment order by the Commission, in accordance with Rule §7.305, *Curtailment Program*.

TARIFF FOR GAS SERVICE
CoServ Gas, Ltd.

Rate Schedule 14.0

RATE DEP – CUSTOMER DEPOSITS

Applicable to: Entire System

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Effective Date:

Customer deposits are not required with acceptable credit bureau or other report of good credit by a utility. Deposits may be required of CoServ Gas customers who have been disconnected for nonpayment and later request to be reconnected. Deposits will be determined by estimating one-sixth of the average annual bill, and may include allowable additional charges, as specified by Texas Railroad Commission regulation. See applicable Commission regulation at 16 TAC Section 7.45 (Quality of Service Rule) for other provisions governing deposits.