Fox|Smolen & Associates
1701 Nueces Street
Austin, TX 78701

April 8, 2014

To: **Ms. Rondella Hawkins, Officer**
City of Austin, Telecommunications & Regulatory Affairs Office

From: **Fox Smolen & Associates, Inc.**

Re: **Review and Analysis of Texas Gas Service Gas Reliability Infrastructure Program Rate Filing to the City of Austin dated February 11, 2014.**

The purpose of this memorandum is to present the results of Fox Smolen & Associates, Inc. (FSA) review and analysis of Texas Gas Service's (TGS) Gas Reliability Infrastructure Program (GRIP) filing to the City of Austin (COA) dated February 11, 2014. This memorandum discusses the Texas utility statute that governs TGS GRIP filing, TGS GRIP filing schedules and work papers, FSA's review and analysis of the TGS GRIP filing and our findings and conclusions related to our review and analysis.

Executive Summary

After a complete and thorough review of the GRIP filing, FSA recommends that the COA approve and adopt TGS GRIP schedules and tariffs as submitted to the COA on February 11, 2014. The TGS rates for all customer classes from based on test years 2008 through 2012 are shown below. A detailed discussion of the filing and FSA's review is attached.

	COA Approved Customer Charge				TGS Proposed 2013	TGS Proposed 2013	FSA Proposed 2013
Rate Schedule - Customer Class	2008	2010	2011	2012	Interim Rate Adjustment	Customer Charge	Customer Charge
	(a)	(b)	(c)	(d)	(e)	(f)	(g)
Gas Sales							
10 - Residential	$ 9.75	$ 10.21	$ 11.33	$ 12.62	$ 1.62	$ 14.24	$ 14.24
20 - Commercial	$ 12.75	$ 14.36	$ 18.41	$ 23.23	$ 6.19	$ 29.42	$ 29.42
22 - Large Commercial	$ 80.00	$ 97.84	$ 158.68	$ 213.67	$ 72.29	$ 285.96	$ 285.96
30 - Industrial	$ 40.00	$ 46.26	$ 64.34	$ 88.83	$ 29.44	$ 118.27	$ 118.27
32 - Large Industrial	$ 80.00	$ 105.10	$ 166.62	$ 233.09	$ 107.20	$ 340.29	$ 340.29
40 - Public Authority	$ 20.00	$ 22.22	$ 27.93	$ 34.14	$ 8.14	$ 42.28	$ 42.28
42 - Large Public Authority	$ 80.00	$ 111.13	$ 186.08	$ 267.18	$ 100.17	$ 367.35	$ 367.35
48 - Public Schools/Space Heating	$ 40.00	$ 46.86	$ 64.17	$ 79.58	$ 18.93	$ 98.51	$ 98.51
CNG -1- Compressed Nat. Gas	$ 25.00	$ 29.27	$ 38.94	$ 45.07	$ 7.54	$ 52.61	$ 52.61
T-1 Standard Transportation							
Commercial	$ 75.00	$ 86.38	$ 113.42	$ 143.01	$ 39.20	$ 182.21	$ 182.21
Large Commercial	$ 150.00	$ 187.03	$ 278.54	$ 381.10	$ 142.21	$ 523.31	$ 523.31
Industrial	$ 80.00	$ 97.61	$ 140.33	$ 190.01	$ 67.48	$ 257.49	$ 257.49
Large Industrial	$ 150.00	$ 224.19	$ 406.02	$ 512.44	$ 272.84	$ 785.28	$ 785.28
Public Authority	$ 25.00	$ 28.16	$ 34.64	$ 40.80	$ 8.14	$ 48.94	$ 48.94
Large Public Authority	$ 100.00	$ 141.64	$ 249.69	$ 352.77	$ 111.85	$ 464.62	$ 464.62
Public Schools/Space Heating	$ 60.00	$ 67.03	$ 84.44	$ 104.91	$ 26.38	$ 131.29	$ 131.29
CNG -1- Compressed Nat. Gas	$ 40.00	$ 41.57	$ 45.42	$ 49.92	$ 5.77	$ 55.69	$ 55.69

TGS current GRIP revenue requirement of $5,664,928 is shown in Table 1 of this memorandum, and includes rate components allowed by Texas utility statutes including return on net plant investment (i.e., TGS Direct, Corporate and TGS Division), federal income tax expense, and other plant related costs including depreciation expense and ad valorem (i.e., property) tax expense for the period January 1, 2013 through December 31, 2013. The primary reason for the increase in TGS GRIP revenue requirement from that approved by the COA in prior GRIP filing relates to the significant increase in net plant investment (i.e., TGS direct and corporate/division allocated plant in service and completed construction not classified plant) occurring during the period January 1, 2013 through December 31, 2013. TGS incurred over $38.9 million of net plant additions during calendar year 2013 as shown on Table 1.

Table 1 – TGS Central Texas Revenue Requirement (GRIP Schedule 1)

Line		*Change through 12/31/2013*		
No.	*Description*	*TGS Proposed*	*FSA Recommended*	*Difference*
1	*Change in Net Investment*	*$ 38,947,812*	*$ 38,947,812*	*$ -*
2	*Aut. Return in most Recent Rate Case*	*8.40%*	*8.40%*	*-*
3	*Change in Return on Net Investment*	*$ 3,271,753*	*$ 3,271,753*	*$ -*
4	*Change in Depreciation Expense*	*774,264*	*$ 774,264*	*-*
5	*Change in Ad Valorem Tax*	*462,117*	*$ 462,117*	*-*
6	*Change in Federal Income Taxes*	*1,156,794*	*$ 1,156,794*	*-*
7	*Total Change in Revenue Requirement*	*$ 5,664,928*	*$ 5,664,928*	*$ -*

The costs associated with TGS plant investment for the central Texas service area are shown in plant investment reports filed by TGS as part of its COA GRIP rate application. The majority of the $38.9 million of TGS net plant additions during calendar year 2013 relate to transmission, distribution and general plant assets recorded to the following Federal Energy Regulatory Commission (FERC) plant accounts.

In response to FSA data requests, TGS provided additional narrative descriptions of some of the specific types of direct and corporate/division allocated plant in service and completed construction projects benefiting central Texas service area customers and the rationale for such expenditures. TGS responses to FSA data requests 1-3 and 1-4 are summarized in Appendix 1 of this memorandum. Appendix 2 compares TGS proposal rates for Residential and Commercial to rates of other Texas gas utilities.

TGS proposes a $38.9 million increase in net plant investment as shown in Table 1. A complete list of all changes in TGS direct and allocated TGS net plant investment account balances during calendar year 2013, including the Rule 8.209 Regulatory Asset, are shown in Appendix 3. The increase includes a deferred regulatory asset, which will earn the rate of return and federal income tax in its revenue requirement. As shown on Schedule 2 of the TGS 2014 GRIP filing, this asset category is defined as a Rule 8.209 Regulatory Asset with a calendar year end account balance of $1,075,500. This regulatory

asset balance includes the $522,265 calendar year 2012 account balance included in last year's TGS GRIP filing plus $553,236 of additional plant investment expenditures made by TGS for its central Texas service area for the period January 1, 2013 through December 31, 2013 that are not yet classified by TGS as completed Plant in Service or Completed Construction Not Classified according to the FERC Uniform System of Accounts as is usually required for GRIP filings. TGS provided a data response to a FSA data request in last year's GRIP filing that provided a detailed explanation of the nature and the utility rate statutes governing the rate treatment of this type of regulatory asset. Inclusion of this regulatory asset in TGS 2013 and 2014 GRIP filings is appropriate and in accordance with regulatory statutes governing gas utility rates approved by the Railroad Commission of Texas.

All GRIP schedules are mathematically accurate and properly compute TGS central Texas GRIP revenue requirement and associated rate design to customer classes using the rate design methodology approved by the COA in TGS previous central Texas rate filing approved by the COA. Therefore, FSA recommends that City Staff present the new tariffs for the approval by the City Council.

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Review and Analysis of Texas Gas Service Gas Reliability Infrastructure Program Rate Filing to the City of Austin dated February 11, 2014

Background

Utility Statute Governing TGS GRIP Filing

TGS submitted a GRIP filing to the COA on February 11, 2014 requesting interim rate adjustments for increases in return (income) dollars and federal income tax expense resulting from TGS increases in TGS plant investment as well as increases in plant related costs such as depreciation expense and property tax expense. These increases in TGS costs occurred subsequent to TGS most recent 2013 GRIP filing approved by the COA, and represent increases in costs incurred for the period January 1, 2013 through December 31, 2013. This GRIP filing represents TGS's fourth GRIP filing under applicable utility statutes. The Texas Utilities Code (TUC) Section 103.301 titled *Interim Adjustment for Changes in Investment* governs the filing submitted by TGS. TUC §104.301 include the following provisions:

- **A gas utility that has filed a rate case under Subchapter C within the preceding two years may file with the regulatory authority a tariff or rate schedule that provides for an interim adjustment in the utility's monthly customer charge or initial block rate to recover the cost of changes in the investment in service for gas utility services. The adjustment shall be allocated among the gas utility's classes of customers in the same manner as the cost of service was allocated among classes of customers in the utility's latest effective rates for the area in which the tariff or rate schedule is implemented.**

- **The gas utility shall file the tariff or rate schedule, or the annual adjustment under Subsection (c), with the regulatory authority at least 60 days before the proposed implementation date of the tariff, rate schedule, or annual adjustment. The gas utility shall provide notice of the tariff, rate schedule, or annual adjustment to affected customers by bill insert or direct mail not later than the 45th day after the date the utility files the tariff, rate schedule, or annual adjustment with the regulatory authority. During the 60-day period, the regulatory authority may act to suspend the implementation of the tariff, rate schedule, or annual adjustment for up to 45 days.**

- **The amount the gas utility shall adjust the utility's rates upward or downward under the tariff or rate schedule each calendar year is based on the difference between the value of the invested capital for the preceding calendar year and the value of the invested capital for the calendar year preceding that calendar year. The value of the invested capital is equal to the original cost of the investment at the time the investment was first dedicated to public use minus the accumulated depreciation related to that investment.**

- **A gas utility may only adjust the utility's rates under the tariff or rate schedule for the return on investment, depreciation expense, ad valorem taxes, revenue related taxes, and incremental federal income taxes related to the difference in the value of the invested capital as determined under Subsection (b). The return on investment, depreciation, and incremental federal income tax factors used in the computation must be the same as the factors reflected in the final order issued by or settlement agreement approved by the regulatory authority establishing the gas utility's latest effective rates for the area in which the tariff or rate schedule is implemented.**

- **A gas utility that implements a tariff or rate schedule under this section shall file with the regulatory authority an annual report describing the investment projects completed and placed in service during the preceding calendar year and the investments retired or abandoned during the preceding calendar year. The annual report shall also state the cost, need, and customers benefited by the change in investment.**

- **In addition to the report required under Subsection (e), the gas utility shall file with the regulatory authority an annual earnings monitoring report demonstrating the utility's earnings during the preceding calendar year.**

- **If a gas utility that implements a tariff or rate schedule under this section does not file a rate case under Subchapter C before the fifth anniversary of the date on which the tariff or rate schedule takes effect, the gas utility shall file a rate case under that subchapter not later than the 180th day after that anniversary in relation to any rates subject to the tariff or rate schedule.**

The COA has 60 days to review and evaluate the GRIP filing before revised rates may be implemented. In addition, the COA can suspend rate implementation for an additional 45 days. COA did suspend implementation of TGS rates on March 20, 2014 to on or about May 27, 2014.

<u>FSA Review and Analysis of TGS GRIP Filing</u>

The COA engaged FSA to review and analyze TGS GRIP filing. The purpose of FSA's review and analysis of the TGS GRIP filing was to:

- **Determine whether TGS is earning below its authorized rate of return on rate base for the twelve months ended December 31, 2013;**

- **Determine whether TGS GRIP filing was prepared in accordance with TUC GRIP filing statutes and requirements;**

- **Determine whether TGS direct GRIP project descriptions relate to TGS central Texas service areas and to the customers who benefited from such projects and that the project activity costs for the GRIP period (January 1, 2013 through December 31, 2013) were adequately reported in the TGS filing;**

- **Determine whether ONEOK Corporate and TGS Division project descriptions are reasonable and necessary as allocated to the TGS central Texas service area and to the customers who benefited from such projects and that the project activity costs for the GRIP period (January 1, 2013 through December 31, 2013) were adequately reported in the TGS filing;**

- **Determine whether plant asset account balances and related accumulated depreciation account balances at 12/31/2013 were properly derived from the books, records, and/or fixed asset reports of TGS, ONEOK Corporate and TGS Division and reported in the TGS GRIP filing;**

- **Determine whether ratemaking adjustments related to TGS previous central Texas service area GRIP filing as approved by the COA were properly reflected in the current TGS GRIP filing as appropriate;**

- **Determine whether the ratemaking adjustments for the period January 1, 2013 through December 31, 2013 included in the GRIP filing are reasonable and necessary;**

- **Determine whether ONEOK Corporate and TGS Division allocation factors used to allocate plant asset balances to the central Texas service area were reasonable in relation to those factors used in TGS previous central Texas service area GRIP filing approved by the COA;**

- **Determine whether all TGS GRIP schedules, workpapers, and reports were mathematically accurate and computed the correct revenue requirement for the central Texas service area; and**

- **Determine whether the TGS central Texas service area revenue requirement as assigned to customer class was computed correctly based on the rate design methodology used in TGS previous central Texas service area GRIP filing as approved by the COA.**

During the course of FSA's review and analysis of the TGS GRIP filing, FSA prepared and submitted one data request containing five questions to TGS for response. The data requests primarily related to obtaining additional documentation in the form of detailed fixed asset accounting records to support plant asset balances shown in the GRIP filing as well as other questions, related to certain ratemaking adjustments included in the GRIP filing and the rate design used to allocate the GRIP revenue requirement for the central Texas service area. FSA notes that TGS provided complete and timely responses to all FSA data requests. We appreciate the prompt attention provided by TGS and ONEOK corporate representatives in responding to our data request.

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TGS GRIP Filing Schedules, Workpapers, and other Reports

To comply with the provisions of TUC §104.301, TGS filed certain schedules, workpapers, reports and revised customer tariffs (collectively referred to as the TGS GRIP filing) with the COA to implement new customer rates. The TGS GRIP schedules, workpapers, reports are described as follows:

- **Schedule 1 – *TGS Central Texas Service Area Interim Cost and Rate Adjustment Changes from January 1, 2013 through December 31, 2013 Summary* – this schedule summarizes the change in return resulting from increases in net plant investment, and changes in other costs including depreciation expense, ad valorem (i.e., property taxes) and federal income taxes.**

- **Schedule 2 – *TGS Central Texas Service Area Interim Cost and Rate Adjustment Changes from January 1, 2013 through December 31, 2013 Change in Net Investment* - this schedule presents the change in net investment (i.e., gross plant in service and completed construction not classified less accumulated depreciation) summarized as intangible, distribution plant, and general plant. This schedule also includes the Rule 8.209 Regulatory Asset balance previously discussed in this report.**

  - ***Schedule 2a -TGS Central Texas Service Area Interim Cost and Rate Adjustment Changes from January 1, 2013 through December 31, 2013 – Changes in Net Plant – Direct and Allocated Corporate and TGS Division* - this schedule presents the change in net plant (i.e., gross plant in service and completed construction not classified less accumulated depreciation) costs by primary Federal Energy Regulatory Account (FERC) Uniform System of Accounts classification for TGS direct and allocated ONEOK corporate and TGS division net plant costs.**

  - ***Schedule 2b -TGS Central Texas Service Area Interim Cost and Rate Adjustment Changes from January 1, 2013 through December 31, 2013 – Change in Plant In Service (101) – Direct and Allocated Corporate and TGS Division* – this schedule presents the change in plant in service (i.e., Acct. 101) for TGS direct and ONEOK corporate and TGS division plant.**

    - ***WKP 2b.1 -TGS Central Texas Service Area Interim Cost and Rate Adjustment Changes from January 1, 2013 through December 31, 2013 – Changes in Plant In Service (101) – Direct* – this schedule presents the change in plant in service (i.e., Acct. 101) costs for TGS direct plant.**

    - ***WKP 2b.2 -TGS Central Texas Service Area Interim Cost and Rate Adjustment Changes from January 1, 2013 through December 31, 2013 – Changes in Plant In Service (101) – Direct* – this schedule presents the change in plant in service (i.e., Acct. 101) costs for ONEOK corporate and TGS division plant costs.**

- ***Schedule 2c -TGS Central Texas Service Area Interim Cost and Rate Adjustment Changes from January 1, 2013 through December 31, 2013 – Change in CCNC (106) – Direct and Allocated Corporate and TGS Division*** **– this schedule presents the change in completed construction not classified costs (i.e., Acct. 106) for TGS direct and ONEOK corporate and TGS division costs.**
  - ***WKP 2c.1 -TGS Central Texas Service Area Interim Cost and Rate Adjustment Changes from January 1, 2013 through December 31, 2013 – Change in CCNC (106) – Direct*** **– this workpaper presents the change in completed construction not classified costs (i.e., Acct. 106) for TGS direct plant.**
  - ***WKP 2c.2 -TGS Central Texas Service Area Interim Cost and Rate Adjustment Changes from January 1, 2013 through December 31, 2013 – Change in CCNC (106) – Allocated Corporate and TGS Division*** **– this workpaper presents the change in completed construction not classified costs (i.e., Acct. 106) for ONEOK corporate and TGS division plant.**
- ***Schedule 2d -TGS Central Texas Service Area Interim Cost and Rate Adjustment Changes from January 1, 2013 through December 31, 2013 – Change in Accumulated Depreciation and Amortization – Direct and Allocated Corporate and TGS Division*** **– this schedule presents the change in the accumulated depreciation and amortization account balances for TGS direct and ONEOK corporate and TGS division plant.**
  - ***WKP 2d.1 -TGS Central Texas Service Area Interim Cost and Rate Adjustment Changes from January 1, 2013 through December 31, 2013 – Change in Accumulated Depreciation and Amortization) – Direct*** **– this workpaper presents the change in accumulated depreciation account balances for TGS direct plant.**
  - ***WKP 2d.2 -TGS Central Texas Service Area Interim Cost and Rate Adjustment Changes from January 1, 2013 through December 31, 2013 – Change in Accumulated Depreciation and Amortization – Allocated Corporate and TGS Division*** **– this workpaper presents the change in accumulated depreciation account balances for ONEOK corporate and TGS division plant.**
- ***Schedule 3 - Central Texas Service Area Interim Cost and Rate Adjustment Changes from January 1, 2013 through December 31, 2013 – Change in Depreciation and Amortization Expense – Direct and Allocated Corporate and TGS Division*** **– this schedule summarizes the net changes in depreciation and amortization expense account balances for plant in service and completed construction not classified plant for TGS direct and ONEOK corporate and TGS division plant.**
  - ***WKP 3a -TGS Central Texas Service Area Interim Cost and Rate Adjustment Changes from January 1, 2013 through December 31, 2013 – Depreciation and Amortization Expense – Direct***

– this workpaper presents the change in depreciation expense account balances for TGS direct plant in service and completed construction not classified plant.

- ***WKP 3b -TGS Central Texas Service Area Interim Cost and Rate Adjustment Changes from January 1, 2013 through December 31, 2013 – Change in Depreciation and Amortization Expense – Allocated Corporate*** **– this workpaper presents the change in depreciation expense account balances for allocated ONEOK corporate plant in service accounts.**

- ***WKP 3c -TGS Central Texas Service Area Interim Cost and Rate Adjustment Changes from January 1, 2013 through December 31, 2013 – Change in Depreciation and Amortization Expense – Allocated Division*** **– this workpaper presents the change in depreciation expense account balances for allocated TGS Division plant in service accounts.**

- ***Schedule 4 – TGS Central Texas Service Area Interim Cost and Rate Adjustment – Cost of Capital*** **– this schedule shows the cost of capital and capital structure approved in the most recent central Texas rate case with test year ended 9/30/08 filed with the COA.**

- ***Schedule 5 – TGS Central Texas Service Area Interim Cost and Rate Adjustment Changes from January 1, 2013 through December 31, 2013 – Change in Ad Valorem Tax*** **– this schedule shows the computation of the 2013 effective property tax rate and the change in property taxes for the period January 1, 2013 through December 31, 2013.**

- ***Schedule 6 – TGS Central Texas Service Area Interim Cost and Rate Adjustment Changes from January 1, 2013 through December 31, 2013 – Change in Federal Income Tax*** **– this schedule shows the computations of the December 31, 2012 federal income tax expense as approved by the COA in the TGS last GRIP filing and the change in expense for the period January 1, 2013 through December 31, 2013.**

  - ***WKP 6a -TGS Central Texas Service Area Interim Cost and Rate Adjustment – Investment Tax Credit Amortization*** **– this workpaper shows the amortization of investment tax credits used in the calculation of federal income tax expense.**

- ***Schedule 7 – TGS Central Texas Service Area Interim Cost and Rate Adjustment Changes from January 1, 2013 through December 31, 2013 – Change in Customer Charge by Customer Class*** **– this schedule shows the rate design computations to assign the GRIP revenue requirement to the customer charge for each customer class.**

- ***TGS Central Texas Service Area Interim Cost and Rate Adjustment Changes from January 1, 2013 through December 31, 2013 – Investment Report – Summary of CTX Direct Plant in Service (101 & 106) Project Activity*** **– this report includes all plant in service and completed construction not classified project related to the central Texas service area and the costs incurred for each project**

for the period January 1, 2013 through December 31, 2013. Each project includes a project description as well as the customers benefiting from the project. This report also includes adjustments to plant costs related to TGS previous GRIP filing as approved by the COA.

- ***TGS Central Texas Service Area Interim Cost and Rate Adjustment Changes from January 1, 2013 through December 31, 2013 – Investment Report – Summary of Corporate Plant in Service (101 & 106) Project Activity*** **– this report includes all plant in service and completed construction not classified project activity related to ONEOK Corporate and the costs incurred for each project for the period January 1, 2013 through December 31, 2013 as allocated to the central Texas service area. Each project includes a project description as well as the customers benefiting from the project. This report also includes adjustments to project costs related to TGS previous GRIP filing approved by the COA, as well as other adjustments to project costs to recognize changes in corporate allocation percentages occurring between January 1, 2013 and December 31, 2013.**

- ***TGS Central Texas Service Area Interim Cost and Rate Adjustment Changes from January 1, 2013 through December 31, 2013 – Investment Report – Summary of TGS Division Plant in Service (101 & 106) Project*** **– this report includes all plant in service and completed construction not classified project activity related to TGS Division and the costs incurred for each project for the period January 1, 2013 through December 31, 2013, as allocated to the central Texas service area. Each project includes a project description as well as the customers benefiting for the project. This report also includes adjustments to project costs related to TGS previous GRIP filing approved the COA.**

- ***TGS Central Texas Service Area Interim Cost and Rate Adjustment Twelve Months Ended December 31, 2013 – Earnings Report*** **– this report together with supporting schedules and workpapers shows TGS calculations of its earned return on rate base for the twelve months ended December 31, 2013 for its central Texas service area. Schedule A shows that TGS earned return on rate base for the twelve months ended December 31, 2013 is 6.52% which is below the 8.40% allowed return approved in the most recent 9/30/08 TGS central Texas rate case and previous GRIP filing approved by the COA.**

FSA Findings and Conclusions Related to TGS Central Texas GRIP Filing

Based on our review of the TGS GRIP filing including plant investment reports, earnings report and responses to all data requests, FSA concludes the following:

- **The TGS earnings monitoring report for the central Texas service area for the twelve months ended December 31, 2013 indicates that the TGS earned return on rate base (i.e., 6.52%) is below the authorized rate of return of 8.40% on rate base authorized and approved by the COA in TGS most recent general rate case (test year ended 9/30/08) and previous central Texas service area GRIP filing approved by the COA;**

- **TGS GRIP filing is consistent with TUC §104.301;**

- **The plant investment reports for central Texas Direct, Corporate and TGS Division plant projects filed to support plant asset cost activity and accumulated depreciation changes for the period January 1, 2013 through December 31, 2013 are mathematically accurate and include certain ratemaking adjustments that are reasonable and necessary to reflect the proper activity costs related to the central Texas service area;**

- **The TGS GRIP filing contains the appropriate plant asset and accumulated depreciation account balances, ratemaking adjustments and authorized rate of return authorized and approved by the COA in TGS previous central Texas service area GRIP filing);**

- **The ratemaking adjustments related to TGS prior central Texas GRIP filing as approved by the COA are properly reflected in the current GRIP as appropriate and other adjustments to 12/31/2013 plant asset account balances appear reasonable and necessary and are applicable to central Texas customer classes for the period January 1, 2013 through December 31, 2013.**

- **The ONEOK corporate and TGS allocation factors used in the GRIP filing are consistent with those similar factors used in TGS previous central Texas GRIP filing as approved by the COA, and are calculated the allocation factors as of December 31, 2013;**

- **All GRIP schedules are mathematically accurate and properly compute TGS central Texas GRIP revenue requirement and associated rate design to customer classes using the rate design methodology approved by the COA in TGS previous central Texas rate filing approved by the COA. Table 1 below summarizes TGS proposed and FSA recommended revenue requirement applicable to the current central Texas service area for the period January 1, 2013 through December 31, 2013.**

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Table 1 – TGS Central Texas Revenue Requirement (GRIP Schedule 1)

Line No.	Description	Change through 12/31/2013 TGS Proposed	FSA Recommended	Difference
1	Change in Net Investment	$ 38,947,812	$ 38,947,812	$ -
2	Aut. Return in most Recent Rate Case	8.40%	8.40%	-
3	Change in Return on Net Investment	$ 3,271,753	$ 3,271,753	$ -
4	Change in Depreciation Expense	774,264	$ 774,264	-
5	Change in Ad Valorem Tax	462,117	$ 462,117	-
6	Change in Federal Income Taxes	1,156,794	$ 1,156,794	-
7	Total Change in Revenue Requirement	$ 5,664,928	$ 5,664,928	$ -

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Table 2 – TGS Central Texas Customer Charge History and Current Increase

Rate Schedule - Customer Class	COA Approved Customer Charge 2008	2010	2011	2012	TGS Proposed 2013 Interim Rate Adjustment	TGS Proposed 2013 Customer Charge	FSA Proposed 2013 Customer Charge
	(a)	(b)	(c)	(d)	(e)	(f)	(g)
Gas Sales							
10 - Residential	$ 9.75	$ 10.21	$ 11.33	$ 12.62	$ 1.62	$ 14.24	$ 14.24
20 - Commercial	$ 12.75	$ 14.36	$ 18.41	$ 23.23	$ 6.19	$ 29.42	$ 29.42
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42 - Large Public Authority	$ 80.00	$ 111.13	$ 186.08	$ 267.18	$ 100.17	$ 367.35	$ 367.35
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T-1 Standard Transportation							
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CNG -1- Compressed Nat. Gas	$ 40.00	$ 41.57	$ 45.42	$ 49.92	$ 5.77	$ 55.69	$ 55.69

Appendix 1 – TGS Direct and Corporate/Division Allocated Plant in Service and Completed Construction Project Descriptions Provided in Response to FSA Data Request 1-3 and 1-4

Plant in Service (101) Direct

- **Acct. 367 – Transmission Mains – The increases in activity for this account are primarily attributable to the following:**
  - **Modifications to the pipeline to facilitate hydrostatic testing of the pipeline in order to comply with the federal Department of Transportation (DOT) Integrity Management Plant (IMP) regulations. In addition, hydrostatic testing is a part of Texas Gas Service's efforts to continuously evaluate and modernize its infrastructure.**
- **Acct. 376 - Distribution Mains – The increases in activity for this account are primarily attributable to the following:**
  - **The replacement or relocation of mains, service, measuring and regulating station equipment, meter settings, valves, control equipment, replacement of cathodic protection equipment, equipment used to monitor gas quality, and monitoring and communicating pressures and volumes in response to Texas Gas Service's efforts to continuously evaluate and modernize infrastructure. An example of a large improvement project is "Repl – Mohle Dr Area (LP)". This project and others like it are essential for the safe and efficient operation of the TGS distribution system in Central Texas.**
  - **Distribution line extensions to connect new customers. This includes new pipelines and associated city gates and regulation equipment. The largest project completed in 2013 was the "Sweetwater Main Extension – Steel Installation – Ph 1&2 10 Inch; Ph 3 6 Inch". TGS must provide main extensions from existing distribution lines to meet its service obligations as Central Texas continues to grow.**
  - **Labor, materials, regulators, etc. necessary to provide service from existing distribution and high pressure distribution pipelines to service new customers. An example of one of the larger projects completed for this purpose is the "Main Ext – 1200 Avery Ranch Blvd – Muir Lake Apartments". TGS must provide new service from existing distribution lines to meet its service obligations as growth and expansion occurs.**
- **Acct. 378 – Meas. & Re. Station – General – The increases in activity for the account are primarily attributable to the following:**
  - **Labor, material, regulators, etc. necessary to install and maintain regulating stations across the TGS Central Texas service area. An example of a project completed for this purpose is "Install Telemetry at Seven Low Pressure Systems in Austin". This project was completed to improve the monitoring of pressures and volumes in response to Texas Gas Service's efforts to provide safe and reliable service.**
- **Acct. 380 - Services- The increases in activity for this account are primarily attributable to the following:**

- **Labor, material, regulators, etc. necessary to provide service from distribution and high pressure distribution mains to serve new customers. Projects also include replacement of existing services that are of obsolete materials. An example of a project completed for this purpose is "Repl – Rundell and Rabb Area". TGS must provide extensions to meet its service obligations as the population of Central Texas continues to grow.**

- **Acct. 381 – Meters- The increases in activity for this account are primarily attributable to the following:**
  - **Labor, material, regulators, etc. necessary to provide service from distribution and high pressure distribution mains to serve new customers. Projects also include replacement of existing meters that are obsolete. An example of a project completed for this purpose is "AMR – Replacement Meter and Regulator – Austin Area Phase 2". Obsolete meters were replaced with new meters capable of housing the Electronic Remote Transmitters (ERTs). AMR will allow TGS to bill more accurately without having to access the customer's premises and will reduce customer billing issues.**
- **Acct. 383 – House Regulators- The increases in activity for this account are primarily attributable to the following:**
  - **Labor, material, regulators, etc. necessary to provide service from distribution and high pressure distribution mains to serve new customers. TGS must provide extensions to meet its service obligations as the population of Central Texas continues to grow. An example of a project completed for this purpose is "AMR – Replacement Meter and Regulator – Austin Area Phase 2". Obsolete regulators were replaced with new regulators during this project.**
- **Acct. 385 – Indust. Meas. & Reg. Stat. Equipment- The increases in activity for this account are primarily attributable to the following:**
  - **Labor, material, regulators, etc., necessary to install regulator and measuring facilities to provide service to Central Texas customers. TGS provided service to many apartments, hospitals and schools to meet its service obligations as the population of Central Texas continues to grow. An example of such project includes the "REPL – AUSTIN STATE SUPPORT4ED LIVING CENTER" where over two miles of pipe was replaced and meters were increased from two to over a dozen.**
- **Acct. 390.2 – Leasehold Improvements – The increases in activity for this account are primarily attributable to the following:**
  - **Xeriscaping was done at the Austin Service Center by removing grass and to replacing with gravel to reduce maintenance requirements.**
  - **New office modifications and additions were made to the Austin Service Center. The Austin warehouse was decreased in size to provide additional office space for operations personnel, and create a more practical and efficient work environment.**
- **Acct. 391 – Office Furniture & Equipment – The increases in activity for this account are primarily attributable to the following:**
  - **Videoconferencing system was purchased for the Austin Service Center to**

promote the efficient business functions with remote locations.

- The Billing and Customer Development department was relocated from the Austin Service Center to the Division Office to provide for a more efficient work space for those employees with duties closely aligned with operations at the Division Office.
- As part of the Austin Service Center remodel, office furniture such as desks, chairs, and filing cabinets were purchased to accommodate the new layout. The remodel was done in large part to provide additional office space for operations personnel, and create a more practical and efficient work environment.

- Acct. 391.9 – Computers & Electronic Equipment – The increases in activity for this account are primarily attributable to the following:
  - Replacement of computer hardware that is obsolete or does not meet users' needs because the data center services required for supporting data and processing needs of the company has grown. The Company has also purchased or replaced computer hardware and core infrastructure equipment so that we can continue to provide the necessary reliability and performance to customers.
  - Enhancements to our Geographical Information System (GIS) used for tracking pipe underground. TGS is currently standardizing its GIS databases across the company in order to support various business needs such as safety, reliability, critical infrastructure protection, regulatory compliance, and process improvements. GIS provides TGS the ability to analyze the gas distribution system to help improve service reliability and safety, reduce costs, more effectively manage its infrastructure, and comply with all state and federal requirements.
- Acct. 392 – Transportation Equipment – The increases in activity for this account are primarily attributable to the following:
  - Replacing aging vehicles which are used in the field (vehicles over 7 years of age or with mileage over 150,000 miles). Additionally, vehicles were purchased to accommodate additions to the Central Texas field personnel. These vehicles are necessary to provide safe, uninterrupted service to customers.
  - Purchase of trailers required to transport construction equipment form the TGS yard to construction sites around the service area. These trailers are necessary to provide safe, uninterrupted service to customers.
- Acct. 394 – Tools, Shop & Garage – The increases in activity for this account are primarily attributable to the following:
  - Replacement or new purchase of tools and equipment necessary to perform maintenance or installation of gas piping and related regulation and metering equipment. Additionally, leak survey and pipeline locating equipment was purchased. This equipment is necessary to install new service to customers and to inspect and maintain existing infrastructure in order to comply with all state and federal regulations.
- Acct. 396 Major Work Equipment – The increases in activity for this account area

primarily attributable to the following:

- **Loader/Backhoe equipment transferred to Texas Gas Service and booked to the Central Texas service area that was inadvertently booked to Kansas Gas Service, Inc.**
- **All-terrain vehicles (ATVs) transferred from account 392 to account 396.**

- **Acct. 397 – Communications Equipment**
  - **The company has installed gas meters, odorizers, communication boxes, and regulation stations.**

Plant in Service (101) TGS Division

- **Acct. 390.2 – Leasehold Improvements- The increase of $101,210 in plant activity for this account is mainly due to the build out of a training center used to educate field technicians who work directly or indirectly with customers on projects such as meter installations.**
- **Acct. 391 – Office Furniture & Equipment- The increase of $396,995 in plant activity for this account is mainly due to the following:**
  - **The transfer of Computers and Electronic Equipment in account 391.9 to the Office Furniture and Equipment account 391.1 in order to reclassify the assets to the correct account.**
  - **The installation of heart defibrillators statewide which provide enhanced safety to employees who may work directly or indirectly with customers.**
- **Acct. 391.9 – Computers & Electronic Equipment- The increase of $852,112 in plant activity for this account is mainly due to the following:**
  - **The replacement of Toughbook for Field Service Operations (FSO) in order to standardize the operating system, provide additional security features, and result in a more safe and secure mobile solution across the Company's fleet. Updating Toughbook devices allows for more effective customer service mobile data communications.**
  - **Program Change Requests (PCR's) are groups of individual functionality enhancements to various systems in order to provide updates driven by regulatory changes or enhance customer service capabilities.**
    - **Maximo PCR: Updating Company's policy and procedures for investigating, classifying, and repairing leaks in Maximo which assists in managing workload by detecting leaks and routing technicians based on other work orders in the system. This is necessary to continue providing reliable and safe service to customers.**
    - **Banner PCR: Enhancements to our customer billing system. Banner is the billing system the company uses to maintain records of ONE Gas' approximate 2 million customers, premises, services, accounts, meter readings, and other information critical to providing reliable billing and customer service.**
    - **Dynamic Risk PCR: Enhancements to the Dynamic Risk computer**

system which allows integration with the Geographical Information System (GIS). Dynamic Risk is used to address federally mandated safety compliance issues such as pipeline integrity and is necessary to continue providing reliable and safe service to customers.

- A document scanning and indexing project that created a digital record of existing historical hard copy documents (service cards, work orders, maintenance records, leak reports etc.) and enables field personnel, who directly or indirectly work with customers, to quickly search for and retrieve documents electronically.
- The Transmission mapping project converted transmission work orders to the GIS which enables better system and capacity planning and improves the performance and safety of transmission system that provides service to customers.
- The GIS Web Map provides a web-based interface for field technicians to research and view the gas system. This improves safety for customers because field personnel can view live mapping data versus an outdated map.
- The purchase of orthographic and oblique imagery in order to identify and classify structures along the transmission system. The imagery is used within GIS to facilitate the identification of High Consequence Areas (HCA) which is necessary to continue providing reliable and safe service to customers.
- The upgrade of the Call Copy Recording System for the Customer Information Call Center. This upgrade allows the Company to monitor and record all customer calls, take screen shots of customer service agents' computers, and provide feedback to customer service agents in order to provide better customer service.

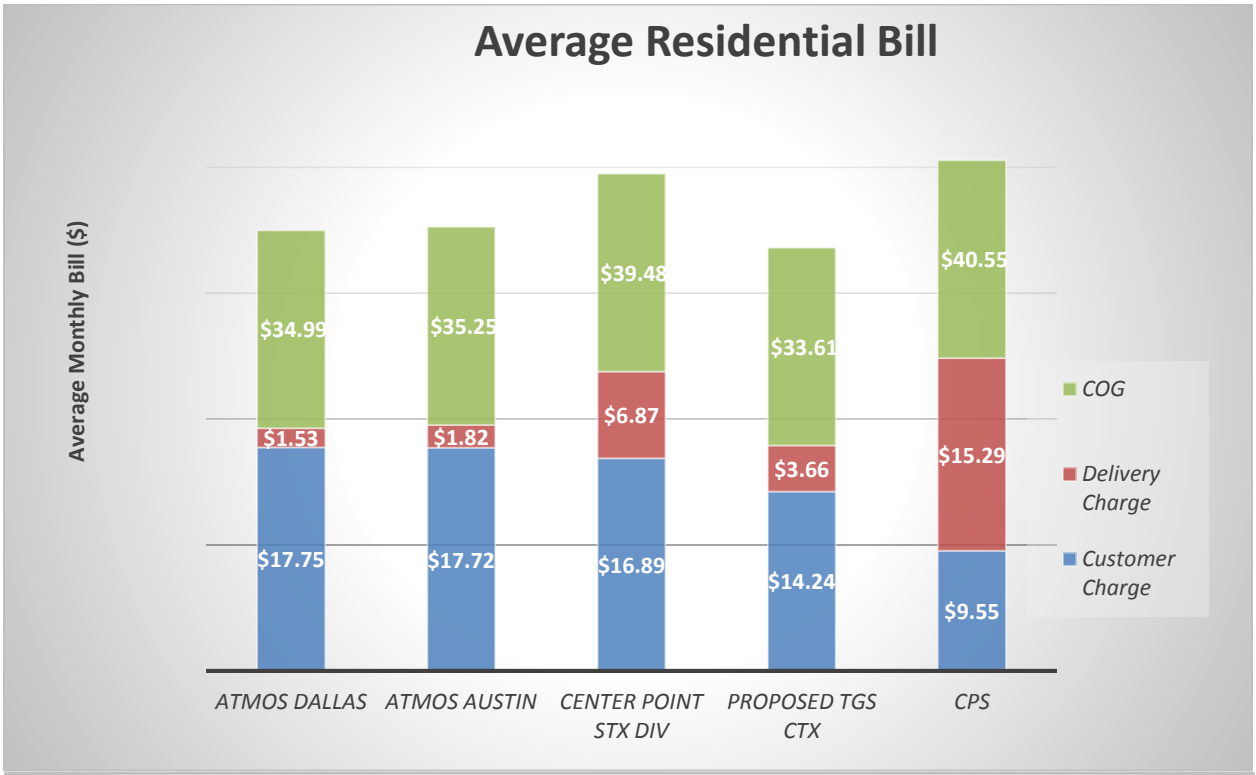
- Acct. 397 – Communications Equipment- This account decreased by $140,756.

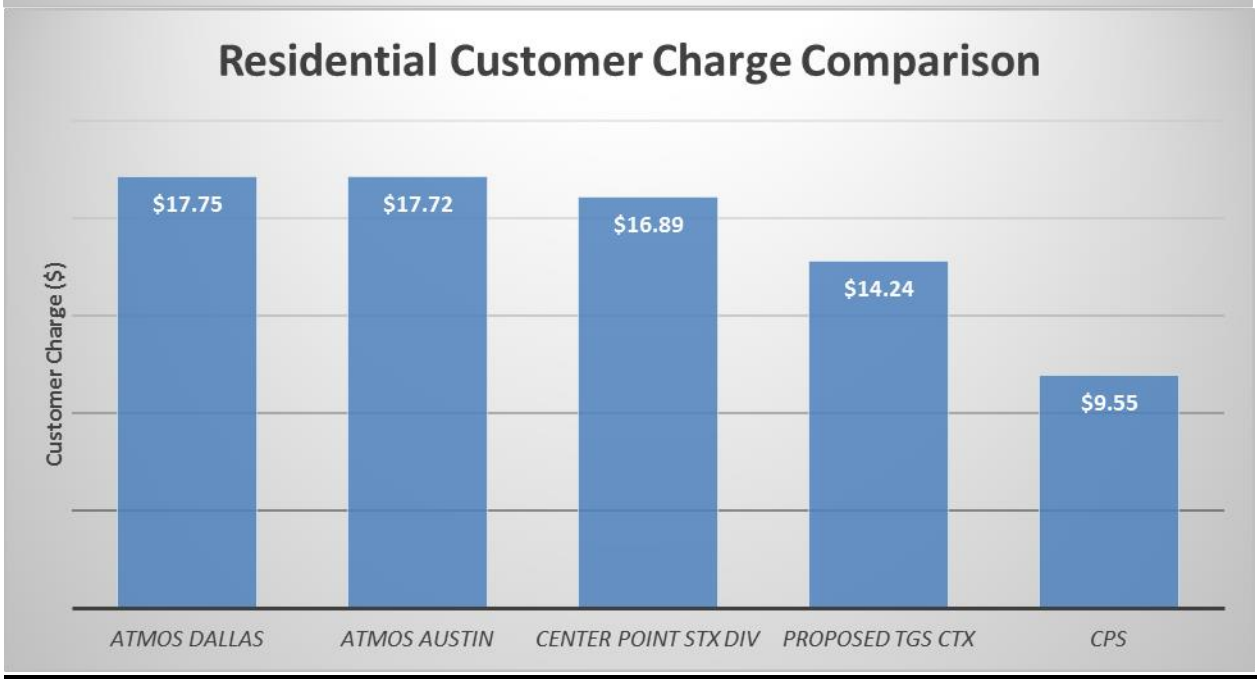
Plant in Service (101) Allocated Corporate

- Acct. 390.2 – Leasehold Improvements- This account decreased by $203,652 due to retirements.
- Acct. 391 – Office Furniture & Equipment- There is no activity in this plant asset account.
- Acct. 391.2 – Data Processing Equipment- The increase of $316,759 in plant activity for this account is mainly due to support growth and replacement cost of aging network routers and switches for network services and the data center which is necessary for the computer infrastructure to adequately support employees providing either direct or indirect support to customers.
- Acct. 391.6 – Purchased Software- The increase of $363,921 in plant activity for this account is mainly due to the following:
  - Application Whitelisting, Mandiant Intelligent Response (MIR), and Security Information Event Management (SIEM) which increase the protection of the Company's computer network and better protect the customer's personal

information.

- **iCIMS Applicant Tracking which improves the hiring process and streamlines the onboarding process to hire new employees who may work directly or indirectly with customers.**
- **Enhancements to TIBCO which serves as the software integration platform for the Company's Customer Information Systems, including Banner (Customer Billing program) and PragmaCAD (Job Scheduling/Dispatch program) and is necessary for the software to interface with systems to appropriately provide the Company's employees, who work directly or indirectly with customers, the accurate scheduling/dispatch information.**
- **Secure Remote Access tool enables the Company's service desk and desktop technicians to remotely assist employees who work directly or indirectly with customers.**





Rate Information for CPS, CenterPoint South Texas Division, Atmos Austin and Atmos Dallas was taken from each company's website, supplied by TGS.

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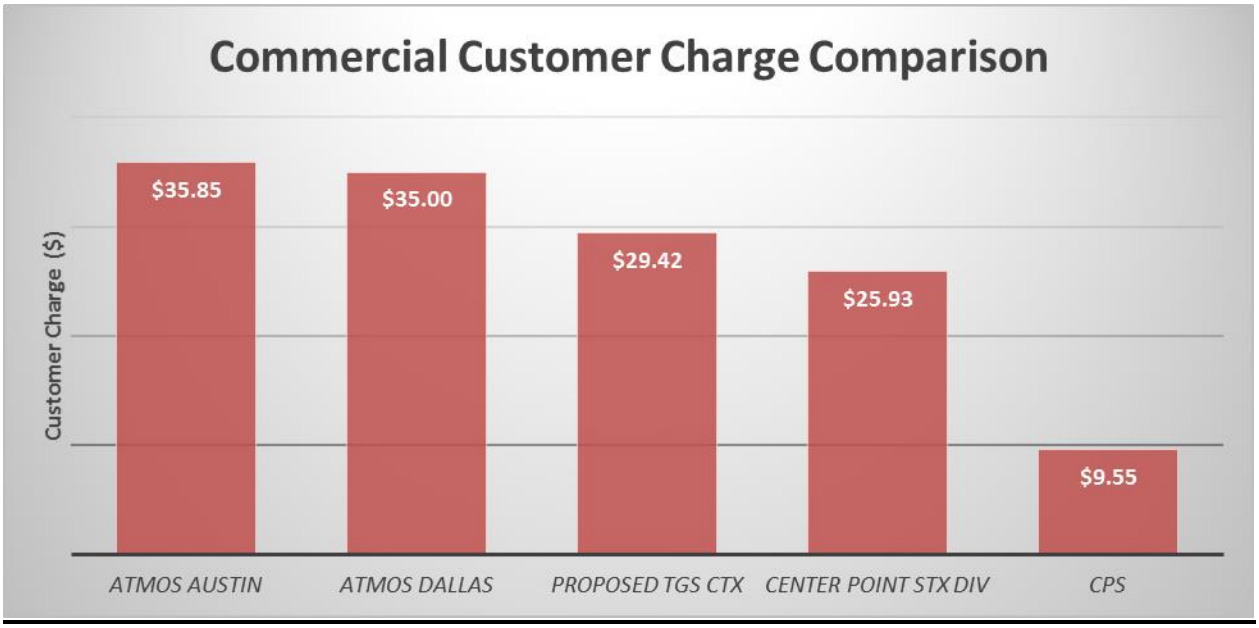

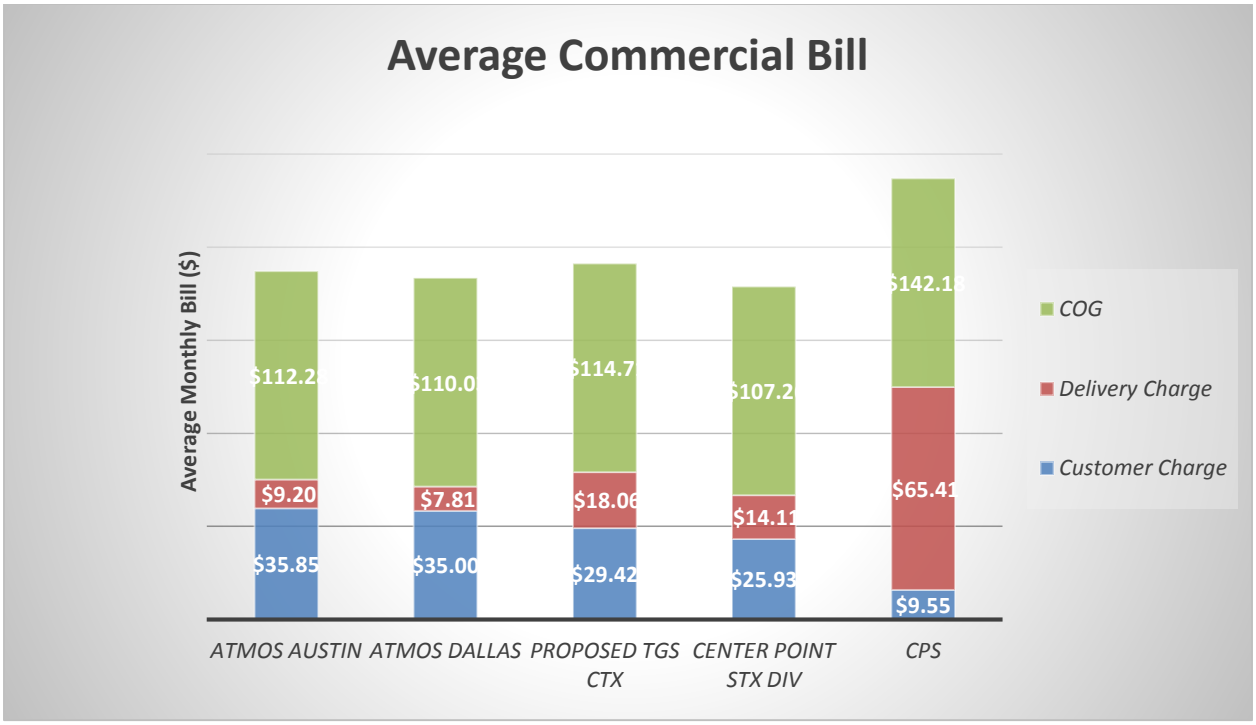

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Appendix 3

TEXAS GAS SERVICE COMPANY
CENTRAL TEXAS SERVICE AREA
INTERIM COST RECOVERY AND RATE ADJUSTMENT
CHANGES FROM JANUARY 1, 2013 THROUGH DECEMBER 31, 2013

CHANGE IN NET PLANT - DIRECT AND ALLOCATED CORPORATE AND TGS DIVISION

LINE NO.	DESCRIPTION	AT 12/31/12 TOTAL ADJUSTED NET PLANT	AT 12/31/13 TOTAL ADJUSTED NET PLANT	CHANGE IN TOTAL ADJUSTED NET PLANT
	INTANGIBLE PLANT			
1	(301) Organization	$ -	$ -	$ -
2	(302) Franchises & Consents	-	-	-
3	(303) Misc. Intangible	55,332	26,663	(28,669)
4	Total Intangible Plant	$ 55,332	$ 26,663	$ (28,669)
	TRANSMISSION PLANT			
5	(367) Mains	$ 869,037	$ 2,098,785	$ 1,229,748
6	Total Transmission Plant	$ 869,037.09	$ 2,098,785.11	$ 1,229,748.02
	DISTRIBUTION PLANT			
7	(374) Land & Land Rights	$ 87,493	$ 87,493	$ -
8	(375.1) Structures & Improvements	74,606	74,606	(0)
9	(375.2) Other System Structures	69,906	18,021	(51,884)
	(376) Mains	97,747,872	124,506,614	26,758,742
11	(377) Compressor Station Equipment	0	0	0
12	(378) Meas. & Reg. Station - General	1,862,241	2,254,956	392,715
13	(379) Meas. & Reg. Station - C.G.	610,101	596,306	(13,795)
14	(380) Services	48,569,005	54,823,105	6,254,100
15	(381) Meters	21,033,857	22,486,367	1,452,510
16	(382) Meter Installations	631,348	619,621	(11,728)
17	(383) House Regulators	1,363,339	1,607,821	244,482
18	(385) Indust. Meas. & Reg. Stat. Equipment	4,098,107	4,159,703	61,596
19	(386) Other Property on Customer Premises	(20,246)	(20,246)	0
20	(387) Meas. & Reg. Stat. Equipment	0	0	0
21	Total Distribution Plant	$ 176,127,629	$ 211,214,368	$ 35,086,739
	GENERAL PLANT			
22	(389) Land & Land Rights	$ 10,152	$ 10,616	$ 463
23	(390.1) Structures & Improvements	527,681	375,162	(152,519)
24	(390.17) Building Improve Plum	$0	$954	954
25	(390.2) Leasehold Improvements	532,996	708,307	175,311
26	(390.21) Leasehold Equipment EOL	10,385	9,395	(990)
27	(391) Office Furniture & Equipment	559,295	689,470	130,175
28	(391.2) Data Processing Equipment	498,462	641,643	143,181
29	(391.3) Office Machines	4,801	4,945	144
30	(391.4) Audio Visual Equipment	15,486	6,564	(8,922)
31	(391.6) Purchased Software	3,127,323	3,229,793	102,470
32	(391.8) Micro Computer Equipment	65,169	83,421	18,252
33	(391.9) Computers & Electronic Equipment	4,209,898	4,331,785	121,887
34	(392) Transportation Equipment	1,625,514	1,960,330	334,816
35	(392.3) Transportation Equipment (Trucks 3/4 to 3 Ton)	721	487	(234)
36	(392.5) Trailers	46	42	(4)
37	(393) Stores Equipment	1,022	5,673	4,651
38	(394) Tools, Shop & Garage	1,251,243	1,514,093	262,850
39	(395) Laboratory Equipment	1,151	1,151	-
40	(396) Major Work Equipment	320,178	379,446	59,268
41	(397) Communication Equipment	7,437,861	8,378,956	941,095
42	(398) Miscellaneous General Plant	91,636	65,546	(26,090)
43	Total General Plant	$ 20,291,021	$ 22,397,779	$ 2,106,758
44	Total Orig Cost Plant in Service	$ 197,343,019	$ 235,737,595	$ 38,394,577
45	Rule 8.209 Regulatory Asset Balance Change during calendar year 2013			$ 553,236
46	Total Net Plant Investment - Adjusted Direct and Allocated Corporate and Division			$ 38,947,812

Prepared by FSA