

INTERIM RATE ADJUSTMENT

A. APPLICABILITY

This Interim Rate Adjustment (IRA) applies to all general service rate schedules of Texas Gas Service Company (Company) currently in force in the incorporated areas of Austin, Cedar Park, Kyle, Rollingwood, Sunset Valley, and West Lake Hills, Texas. Applicable rate schedules include 10, 20, 22, 30, 32, 40, 42, 48, CNG-1, and T-1.

B. PURPOSE

Section 104.301, Subchapter G of the Texas Utility Code, effective on September 1, 2003, provides for an interim adjustment in a gas utility's monthly customer charge or initial block usage rate to recover the cost of changes in the utility's infrastructure investment and related expenses and revenues for providing gas utility service. The filing date of the utility's most recent rate case establishing rates for the area in which the interim rate adjustment will apply shall be no more than two years prior to the date the utility files its initial interim rate adjustment application for that area. The interim adjustment shall be recalculated on an annual basis, unless the utility files a written request and obtains approval from the regulatory authority to suspend the operation of the interim adjustment rate schedule for any year. This rate schedule establishes the interim adjustment provisions consistent with Section 104.301, Subchapter G of the Texas Utility Code.

C. BILLING

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

Rate Schedule	Customer Class	Current Customer Charge	Interim Rate Adjustment	Total
10	Residential	\$9.75	\$0.46	\$10.21
20	Commercial	\$12.75	\$1.61	\$14.36
22	Lg. Commercial	\$80.00	\$17.84	\$97.84
30	Industrial	\$40.00	\$6.26	\$46.26
32	Lg. Industrial	\$80.00	\$25.10	\$105.10
40	Public Authority	\$20.00	\$2.22	\$22.22
42	Lg. Public Authority	\$80.00	\$31.13	\$111.13
48	Public Schools Space Heating	\$40.00	\$6.86	\$46.86
CNG-1	Compressed Natural Gas	\$25.00	\$4.27	\$29.27

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

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Rate Schedule	Customer Class	Current Customer Charge	Interim Rate Adjustment	Total
T-1	Commercial	\$75.00	\$11.38	\$86.38
	Lg. Commercial	\$150.00	\$37.03	\$187.03
	Industrial	\$80.00	\$17.61	\$97.61
	Lg. Industrial	\$150.00	\$74.19	\$224.19
	Public Authority	\$25.00	\$3.16	\$28.16
	Lg. Pub Auth	\$100.00	\$41.64	\$141.64
	Public Schools			
	Space Heating	\$60.00	\$7.03	\$67.03
	CNG	\$40.00	\$1.57	\$41.57

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

D. COMPUTATION OF IRA RATE

The amount the Company shall adjust its utility rates upward or downward under this 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.

Based on the difference between the values of the invested capital amounts as determined above, the Company may adjust only the following related components of its revenue requirement: return on investment, depreciation expense, ad valorem taxes, revenue related taxes and incremental federal income taxes. The factors for these components shall be the same as those established in the Company's most recent rate case for the service area in which this interim rate adjustment is to be implemented.

The revenue requirement calculated pursuant to this rate schedule shall be allocated among the Company's customer classes for this service area in the same manner as the cost of service was allocated among customer classes in the Company's latest effective rates for this area.

E. FILING WITH THE REGULATORY AUTHORITY

1. The Company shall file either the initial interim adjustment or the annual interim adjustment with the regulatory authority at least 60 days before the proposed implementation date. During the 60-day period, the regulatory authority may act to suspend implementation of the adjustment.
2. The Company shall provide notice to customers by bill insert or direct mail not later than the 45th day after the date of filing the interim adjustment.

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E. FILING WITH THE REGULATORY AUTHORITY (cont.)

3. The Company 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.
4. In addition, the Company shall file with the regulatory authority an annual earnings monitoring report demonstrating the Company's earnings during the preceding calendar year. Should the Company earn a return of more than 75 basis points above the return established in the latest effective rates implemented under this rate schedule, the Company shall file a statement stating the reasons why the rates are not unreasonable or in violation of the law.
5. After the issuance of a final order or decision by a regulatory authority in a rate case that is filed after the implementation of a tariff or rate schedule under this section, any change in investment that has been included in an approved interim adjustment shall no longer be subject to subsequent review for reasonableness or prudence. All amounts collected under this rate schedule are subject to refund until the issuance of a final decision in the next rate case filing for this service area.
6. The Company shall file a rate case no later than the 180th day after the fifth anniversary date its initial interim rate adjustment for this service area became effective.
7. The provisions under Section 104.301, Subchapter G of the Texas Utility Code for this interim adjustment do not limit the power of the regulatory authority under Section 104.151.

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