

April 24, 2013

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, 2013.

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, 2013. This memorandum discusses the Texas utility statute that governs TGS GRIP filing, TGS GRIP filing schedules and workpapers, 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, 2013. The TGS rates for all customer classes from 2008 through 2011 are shown below. A detailed discussion of the filing and FSA's review is attached.

Rate Schedule - Customer Class	COA Approved Customer Charge			TGS Proposed 2012	TGS Proposed 2012	FSA Proposed 2012
	2008	2010	2011	Interim Rate Adjustment	Customer Charge	Customer Charge
	(a)	(b)	(c)	(d)	(e)	(f)
<u>Gas Sales</u>						
10 - Residential	\$ 9.75	\$ 10.21	\$ 11.33	\$ 1.29	\$ 12.62	\$ 12.62
20 - Commercial	\$ 12.75	\$ 14.36	\$ 18.41	\$ 4.82	\$ 23.23	\$ 23.23
22 - Large Commercial	\$ 80.00	\$ 97.84	\$ 158.68	\$ 54.99	\$ 213.67	\$ 213.67
30 - Industrial	\$ 40.00	\$ 46.26	\$ 64.34	\$ 24.49	\$ 88.83	\$ 88.83
32 - Large Industrial	\$ 80.00	\$ 105.10	\$ 166.62	\$ 66.47	\$ 233.09	\$ 233.09
40 - Public Authority	\$ 20.00	\$ 22.22	\$ 27.93	\$ 6.21	\$ 34.14	\$ 34.14
42 - Large Public Authority	\$ 80.00	\$ 111.13	\$ 186.08	\$ 81.10	\$ 267.18	\$ 267.18
48 - Public Schools/Space Heating	\$ 40.00	\$ 46.86	\$ 64.17	\$ 15.41	\$ 79.58	\$ 79.58
CNG -1- Compressed Nat. Gas	\$ 25.00	\$ 29.27	\$ 38.94	\$ 6.13	\$ 45.07	\$ 45.07
<u>T-1 Standard Transportation</u>						
Commercial	\$ 75.00	\$ 86.38	\$ 113.42	\$ 29.59	\$ 143.01	\$ 143.01
Large Commercial	\$ 150.00	\$ 187.03	\$ 278.54	\$ 102.56	\$ 381.10	\$ 381.10
Industrial	\$ 80.00	\$ 97.61	\$ 140.33	\$ 49.68	\$ 190.01	\$ 190.01
Large Industrial	\$ 150.00	\$ 224.19	\$ 406.02	\$ 106.42	\$ 512.44	\$ 512.44
Public Authority	\$ 25.00	\$ 28.16	\$ 34.64	\$ 6.16	\$ 40.80	\$ 40.80
Large Public Authority	\$ 100.00	\$ 141.64	\$ 249.69	\$ 103.08	\$ 352.77	\$ 352.77
Public Schools/Space Heating	\$ 60.00	\$ 67.03	\$ 84.44	\$ 20.47	\$ 104.91	\$ 104.91
CNG -1- Compressed Nat. Gas	\$ 40.00	\$ 41.57	\$ 45.42	\$ 4.50	\$ 49.92	\$ 49.92

TGS current GRIP revenue requirement of \$4,418,980 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,

2012 through December 31, 2012. The primary reason for the increase in the TGS GRIP revenue requirement from that approved by the COA in prior GRIP filings 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, 2012 through December 31, 2012. TGS incurred over \$29.5 million of net plant additions during calendar year 2012 as shown on Table 1.

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

Line No.	Description	Change through 12/31/2012		
		TGS Proposed	FSA Recommended	Difference
1	Change in Net Investment	\$ 29,533,777	\$ 29,533,777	\$ -
2	Aut. Return in most Recent Rate Case	8.40%	8.40%	-
3	Change in Return on Net Investment	\$ 2,480,941	\$ 2,480,941	\$ -
4	Change in Depreciation Expense	633,519	633,519	-
5	Change in Ad Valorem Tax	370,572	370,572	-
6	Change in Federal Income Taxes	933,948	933,948	-
7	Total Change in Revenue Requirement	\$ 4,418,980	\$ 4,418,980	\$ -

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 \$29.5 million of TGS net plant additions during calendar year 2012 relate to transmission, distribution and general plant assets recorded to the following Federal Energy Regulatory Commission (FERC) plant accounts:

- Acct. 367 – Transmission Mains
- Acct. 376 – Distribution Mains
- Acct. 380 – Services
- Acct. 381 – Meters
- Acct. 385 – Industrial Measuring & Regulating Station Equipment
- Acct. 391.9 – Computers and Electronic Equipment, and
- Acct. 397 – Communication Equipment.

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 1-4 and 1-5 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 proposed a \$29.5 million increase in net plant investment shown in Table 1. A complete list of all changes in TGS direct and allocated TGS net plant investment account balances during calendar year 2012, including the Rule 8.209 Regulatory Asset, are shown in Appendix 3.

The increase includes a new type of asset, 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 2013 GRIP filing, this asset category is defined as a Rule 8.209 Regulatory Asset for \$522,265. The regulatory asset represents plant investment expenditures made by TGS for its central Texas service area for the period January 1, 2012 through December 31, 2012 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. FSA submitted a data request to TGS (FSA 1-6) to provide a detailed explanation of the nature and the utility rate statutes governing the rate treatment of this type of regulatory asset. In response to FSA's data request, TGS provided the following response supporting inclusion of the regulatory asset balance in its requested GRIP filing rate base:

Rule 8.209(j) allows the operator of a gas distribution system to “. . . establish one or more regulatory asset accounts in which to record any expenses incurred by the operation in connection with the acquisition, installation or operation (including related depreciation) of facilities that are subject to the requirements of this section.” Rule 8.209 sets out minimum requirements for development and implementation of a risk-based program for removal and replacement of distribution facilities. Thus, all capital cost incurred in implementing TGS' risk-based program for removal and replacement of distribution facilities is included as a separate regulatory asset. Rule 8.209 (j) also allows each regulatory asset to include the “. . . interest on the balance in the designated distribution facility replacement accounts based on pretax cost of capital last approved. . .” The balance in the regulatory asset accounts will be reduced “. . . by the amounts that are included in and recovered through rates established in a subsequent Statement of Intent filing or other rate adjustment mechanism.” Once rates associated with this GRIP filing are implemented, TGS will reduce the amount in the regulatory asset accounts to zero and increase the appropriate plant account by the amount that had been included in the regulatory asset account. The asset will then be depreciated over the life of the plant as any other plant asset. This process has been approved by the Railroad Commission of Texas in a GRIP filing made by Atmos Energy Corporation's Mid-Tex Division in GUD No. 10162. The provisions of Rule 8.209 were not implemented in prior GRIP filings because the rule did not become effective until March 14, 2011 and was then amended to be effective November 11, 2011. Thus, 2012 is the first full test year for which the rule has been in place.

Based on FSA's review of the TGS response above and our prior regulatory experience with the ratemaking treatments of various types of regulatory assets, inclusion of this regulatory asset in TGS 2013 GRIP filing 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.

Review and Analysis of Texas Gas Service Gas Reliability Infrastructure Program Rate Filing to the City of Austin dated February 10, 2013

Background

Utility Statute Governing TGS GRIP Filing

TGS submitted a GRIP filing to the COA on February 11, 2013 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 2012 GRIP filing approved by the COA, and represent increases in costs incurred for the period January 1, 2012 through December 31, 2012. This GRIP filing represents TGS's third 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 February 28 to on or about May 27, 2013.

FSA Review and Analysis of TGS GRIP Filing

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, 2012;
- 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, 2012 through December 31, 2012) 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, 2012 through December 31, 2012) were adequately reported in the TGS filing;
- Determine whether plant asset account balances and related accumulated depreciation account balances at 12/31/2012 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, 2012 through December 31, 2012 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 three data requests containing 9 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 requests.

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, 2012 through December 31, 2012 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, 2012 through December 31, 2012 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, 2012 through December 31, 2012 – 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, 2012 through December 31, 2012 – 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, 2012 through December 31, 2012 – 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, 2012 through December 31, 2012 – 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, 2012 through December 31, 2012 – 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, 2012 through December 31, 2012 – 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, 2012 through December 31, 2012 – 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, 2012 through December 31, 2012 – 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, 2012 through December 31, 2012 – 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, 2012 through December 31, 2012 – 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, 2012 through December 31, 2012 – 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, 2012 through December 31, 2012 – 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, 2012 through December 31, 2012 – 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, 2012 through December 31, 2012 – 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 December 31, 2010 – 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, 2012 through December 31, 2012 – Change in Ad Valorem Tax* – this schedule shows the computation of the 2010 effective property tax rate and the change in property taxes for the period January 1, 2012 through December 31, 2012.
- *Schedule 6 – TGS Central Texas Service Area Interim Cost and Rate Adjustment Changes from January 1, 2012 through December 31, 2012 – Change in Federal Income Tax* – this schedule shows the computations of the December 31, 2011 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, 2012 through December 31, 2012.
 - *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, 2012 through December 31, 2012 – 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, 2012 through December 31, 2012 – 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, 2012 through December 31, 2012. 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, 2012 through December 31, 2012 – 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, 2012 through December 31, 2012 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, 2012 and December 31, 2012.

- *TGS Central Texas Service Area Interim Cost and Rate Adjustment Changes from January 1, 2012 through December 31, 2012 – 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, 2012 through December 31, 2012, 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, 2012 – 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, 2012 for its central Texas service area. Schedule A shows that TGS earned return on rate base for the twelve months ended December 31, 2012 is 5.63% 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, 2012 indicates that the TGS earned return of 5.63% on rate base is below the authorized rate of return of 8.4% 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, 2012 through December 31, 2012 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 12/31/2012 plant asset account balances appear reasonable and necessary and are applicable to central Texas customer classes for the period January 1, 2012 through December 31, 2012.
- 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, 2012;
- 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, 2012 through December 31, 2012.

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

Line No.	Description	Change through 12/31/2012		
		TGS Proposed	FSA Recommended	Difference
1	Change in Net Investment	\$ 29,533,777	\$ 29,533,777	\$ -
2	Aut. Return in most Recent Rate Case	8.40%	8.40%	-
3	Change in Return on Net Investment	\$ 2,480,941	\$ 2,480,941	\$ -
4	Change in Depreciation Expense	633,519	633,519	-
5	Change in Ad Valorem Tax	370,572	370,572	-
6	Change in Federal Income Taxes	933,948	933,948	-
7	Total Change in Revenue Requirement	\$ 4,418,980	\$ 4,418,980	\$ -



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

Rate Schedule - Customer Class	COA Approved Customer Charge			TGS Proposed 2012	TGS Proposed 2012	FSA Proposed 2012
	2008	2010	2011	Interim Rate Adjustment	Customer Charge	Customer Charge
	(a)	(b)	(c)	(d)	(e)	(f)
Gas Sales						
10 - Residential	\$ 9.75	\$ 10.21	\$ 11.33	\$ 1.29	\$ 12.62	\$ 12.62
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30 - Industrial	\$ 40.00	\$ 46.26	\$ 64.34	\$ 24.49	\$ 88.83	\$ 88.83
32 - Large Industrial	\$ 80.00	\$ 105.10	\$ 166.62	\$ 66.47	\$ 233.09	\$ 233.09
40 - Public Authority	\$ 20.00	\$ 22.22	\$ 27.93	\$ 6.21	\$ 34.14	\$ 34.14
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CNG -1- Compressed Nat. Gas	\$ 25.00	\$ 29.27	\$ 38.94	\$ 6.13	\$ 45.07	\$ 45.07
T-1 Standard Transportation						
Commercial	\$ 75.00	\$ 86.38	\$ 113.42	\$ 29.59	\$ 143.01	\$ 143.01
Large Commercial	\$ 150.00	\$ 187.03	\$ 278.54	\$ 102.56	\$ 381.10	\$ 381.10
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Large Industrial	\$ 150.00	\$ 224.19	\$ 406.02	\$ 106.42	\$ 512.44	\$ 512.44
Public Authority	\$ 25.00	\$ 28.16	\$ 34.64	\$ 6.16	\$ 40.80	\$ 40.80
Large Public Authority	\$ 100.00	\$ 141.64	\$ 249.69	\$ 103.08	\$ 352.77	\$ 352.77
Public Schools/Space Heating	\$ 60.00	\$ 67.03	\$ 84.44	\$ 20.47	\$ 104.91	\$ 104.91
CNG -1- Compressed Nat. Gas	\$ 40.00	\$ 41.57	\$ 45.42	\$ 4.50	\$ 49.92	\$ 49.92

Appendix 1 – TGS Direct and Corporate/Division Allocated Plant in Service and Completed Construction Project Descriptions Provided in Response to FSA Data Request 1-4 and 1-5

- Acct. 376 – Mains – The increases in activity for this account are primarily attributable to the following:
 - The replacement or relocation of mains, services, measuring and regulating station equipment, meter settings, gate valves, control equipment, replacement of cathodic protection equipment, equipment used to monitor gas quality, monitoring and communicating pressures and volumes, etc. in response to TGS' efforts to continuously evaluate and modernize infrastructure. Examples of larger improvement projects completed for this purpose are "Shoal Creek – Rosedale" and "TXDOT 2222 and 360". These projects 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 lines to connect industrial, city gate and pipeline customers as well as any necessary regulator stations. The largest installation project is a six inch main extension near the 2600 block of Highway 290 West. TGS must provide extensions to meet its service obligations as Central Texas continues to grow.
 - Labor, materials, regulators, etc. necessary to provide service from distribution mains and high pressure distribution lines to serve new customers. An example of one of the larger projects completed for this purpose is the "Ranch House Apartments" on Slaughter Lane. TGS must provide regulators and extensions from distribution lines to meet its service obligations as growth and expansion occurs.
- Acct. 380 – Services – The increases in activity for this account are primarily attributable to the following:
 - Replacement or relocation of mains, services, measuring and regulating station equipment, meter settings, gate valves, control equipment, replacement of cathodic protection equipment, equipment used to monitor gas quality, monitoring and communicating pressures and volumes, etc. for repair or due to corrosion, deterioration, etc. One of the largest replacement projects is the "Curb Box Retirements" project. This was necessary for the replacement of corroded and deteriorated services and is essential for the safe and efficient operation of the TGS distribution system.
- Acct. 381 – Meters – The increases in activity for this account are primarily attributable to the following:
 - Replacement or installation of meters due to the "Automated Meter Reading (AMR)" project. Obsolete meters were replaced with new meters capable of housing the Electronic Remote Transmitters (ERTs). AMR will allow TGS to bill 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:

- Replacement or installation of regulators due to the “Automated Meter Reading (AMR)” project. Obsolete regulators were replaced with new regulators during this project. The AMR technology that TGS employs involves installing a small radio transmitter to the natural gas meter that, when activated, sends the reading via radio waves. The reading is received by a special device installed in a vehicle driven by a TGS employee called a “mobile collector”. AMR reduces the need for meter readers to walk routes and enter customers’ yards (increasing safety for our employees). AMR also reduces the number of estimated readings due to lack of access (i.e. locked gates) and hard-to-access natural gas meters. AMR also improves the meter reader’s productivity as they can “read” more meters per day.
- Acct. 391.1 – Office Furniture & Equipment– The increases in activity for this account are primarily attributable to the following:
 - The office space for the Geographic Information System (GIS) personnel was reconfigured using cubes to make more efficient and effective use of space available in existing facilities. GIS plays an important role in the safe and efficient operation of the TGS distribution system in Central Texas.
 - Outdated cubicles in the Austin Service Center were replaced with new cubicles to make more efficient and effective use of the existing workspace. Additional wall files were purchased to accommodate a need for further file storage space.
 - The Austin Service Center Warehouse was reconfigured to provide more space for construction, maintenance and service crew needs. This reconfiguration facilitates more effective operations.
- Acct. 391.2 – Data Processing Equipment -- The increases in activity for this account are primarily attributable to the following:
 - The replacement of computer hardware equipment. Computer hardware that is obsolete or not meeting users’ needs because the datacenter services required for supporting the data and processing needs of the company has grown. The Company also purchased or replaced computer hardware and core infrastructure equipment, so that we can continue to provide the necessary reliability and performance to customers.
- Acct. 391.6 – Purchased Software – The increases in activity for this account are primarily attributable to the following:
 - Infrastructure enhancements to improve, expand, or replaced shared storage and server infrastructure, so that we can continue to provide the necessary reliability and performance to customers.
 - Implementation of Maximo. This is a system to manage workflow for utility assets such as the workflows for leaks and fleet. Maximo provides a database that is necessary to report information related to service lines, such as number of leaks, replacement date, and frequency of found leaks. It also improves cost tracking process for leak related activities; this will help the company comply efficiently with new Distribution Integrity Management Program “DIMP” regulations. This software assists the company in managing workflow, so that we can continue to provide the necessary reliability and performance to customers.

- PowerPlant enhancements. Powerplant is the company's fixed asset system. This system is used to manage capitalized fixed assets, book/tax depreciation calculations, and other property accounting sub ledger activities. The enhancement to Powerplant implements additional components to drive efficiencies in capital planning, forecasting, and monitoring capabilities.
 - Enterprise Monitoring software. Enterprise Monitoring oversees the operational performance of the company's internal IT infrastructure. It monitors five of the company's critical applications. The company now receives alerts on issues that would have previously remained undetected until a disruption occurred. It provides a comprehensive view of all underlying components for the company's IT services and has helped avoid outage impacts to customers.
 - Microsoft Lync implementation. This software assists with unifying day-to-day business communications across the company. Thus, business communications are more efficient.
 - Microsoft Windows 7 & Desktop Optimization Project implementation. The Company implemented a project to migrate all PC's from windows XP to Windows 7. Windows XP will no longer be supported by Microsoft beginning on December 31st 2013. This project also improves the security of our systems through policy and hard drive encryption.
- 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 not meeting users' needs because the data center services required for supporting the data and processing needs of the company has grown. The Company 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 customer billing system. Banner is the billing system the company uses to maintain records of ONEOK's approximate 2 million customers, premises, services, accounts, meter readings, and other information critical to providing reliable billing and customer service. The Banner Program Change (PCR's) are groups of individual functionality enhancements to provide better customer service and accurate billing of accounts through the Banner Customer Information System (CIS). Some of these requests are driven by regulatory changes others through requests to enhance customer service capabilities.
 - The implementation of Quorum Pipeline Transaction Management System (QPTM) which is software used to manage business transactions, contracts, nominations, scheduling, balancing, invoicing and accounting. This system will provide additional web capabilities for the Company and its customers. It also upgrades some of the technical architecture of the current applications to provide enhanced system integration capabilities to provide the necessary reliability and performance to customers.
 - The implementation of Maximo. This is a system to manage workflow for utility assets such as the workflows associated with leaks and fleet. The additions since 2012 are specific to improving fleet reporting capabilities. This includes tracking vehicles with low mileage so they can be reassigned and high mileage or high maintenance vehicles can be replaced. Maximo optimizes company resources and spending by providing improved resource/crew allocations, 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 building a GIS database for all areas served by the company to support various business needs such as safety, reliability, critical infrastructure protection,

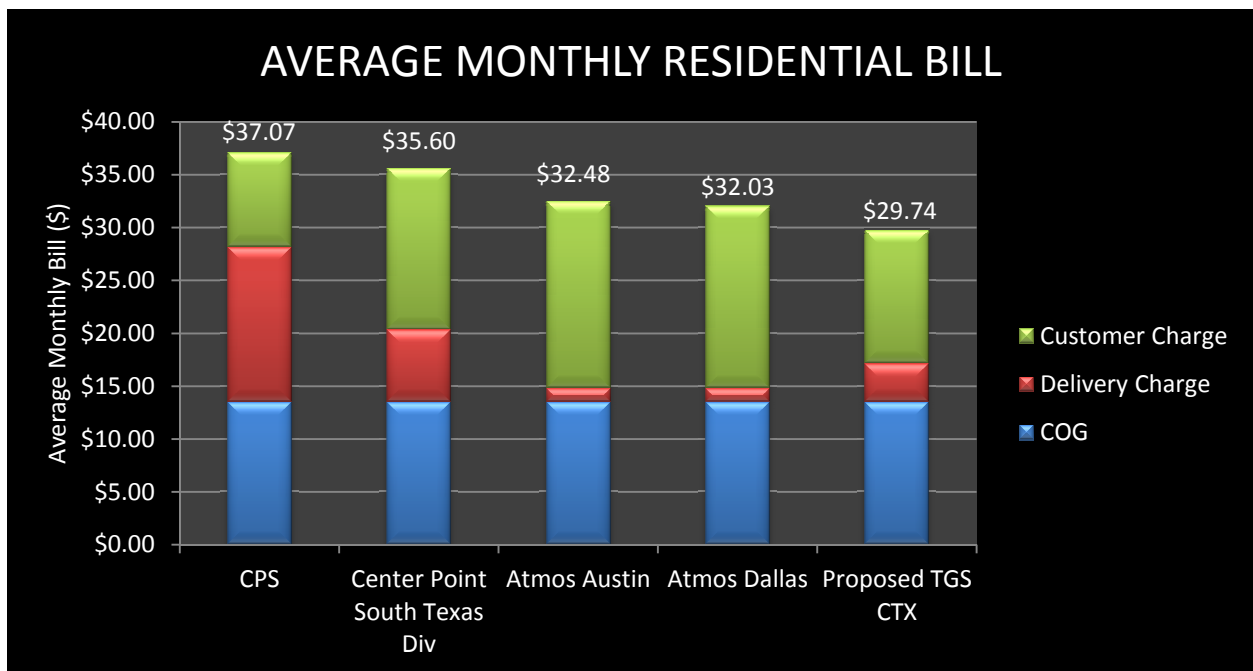
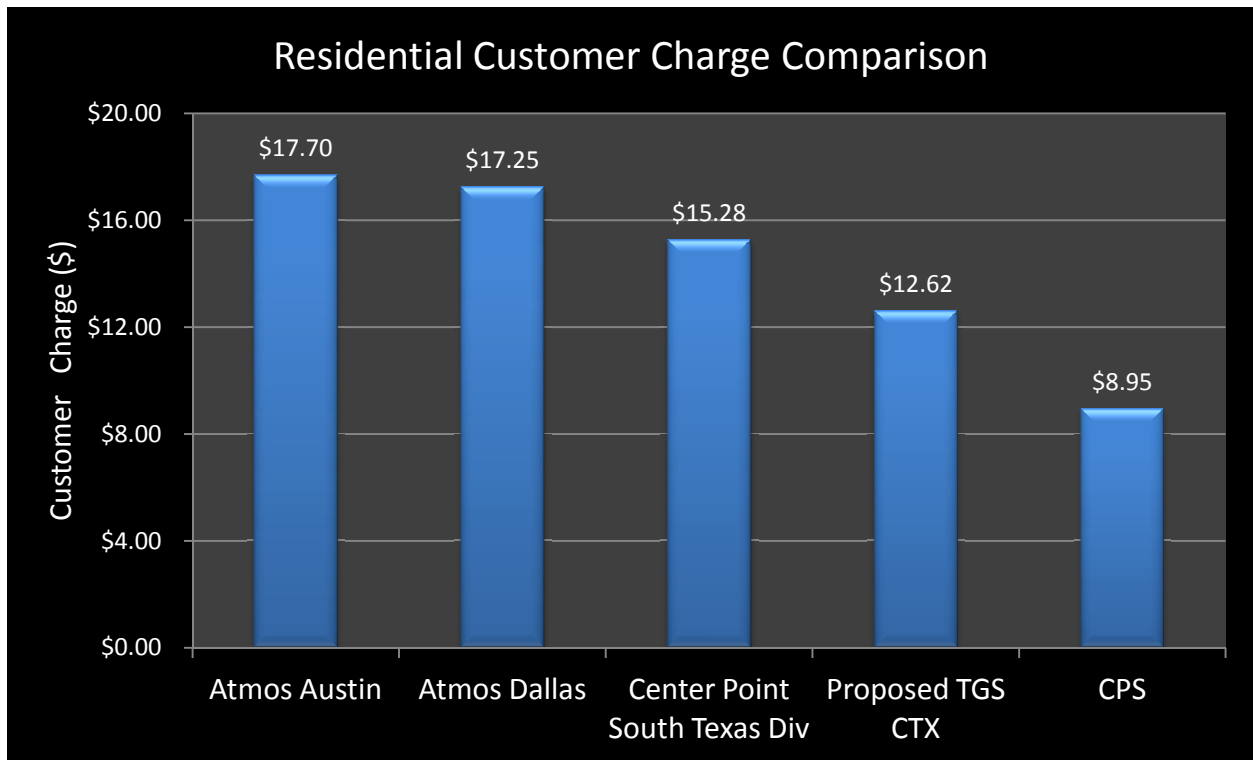
regulatory compliance, aging infrastructure, and process improvements. GIS provides TGS the ability to analyze the gas distribution system to help improve service reliability and safety, reduce costs, more effectively manage its infrastructure and comply with all state and federal requirements.

- Acct. 392 – Transportation Equipment – The increases in activity for this account are primarily attributable to the following:
 - Replacing aging fleet (vehicles over 7 years of age or with mileage over 150,000 miles) which is used in the field. Additionally, vehicles were purchased to accommodate additions to the Central Texas field personnel. These vehicles are necessary to provide safe, uninterrupted service to customers.
 - The purchase of a 4x4 Kawasaki Mule which is used by leak survey personnel to ensure a safe and reliable distribution system.
- Acct. 397 – Communication Equipment – The increases in activity for this account are primarily attributable to the following:
 - Additional investment in Automated Meter-Reading (AMR). The additional investment in communication equipment for AMR supports the second year of AMR installation and implementation in the Central Texas Service Area. The AMR technology that TGS employs involves installing a small radio transmitter to the natural gas meter that, when activated, sends the reading via radio waves. The reading is received by a special device installed in a vehicle driven by a TGS employee called a “mobile collector”. At the end of the day, the TGS technician uploads the data into the TGS billing system. AMR reduces the need for meter readers to walk routes and enter customers’ yards (increasing safety for our employees). AMR also reduces the number of estimated readings due to lack of access (i.e. locked gates) and hard-to-access natural gas meters. AMR also improves the meter reader’s productivity as they can “read” more meters per day.

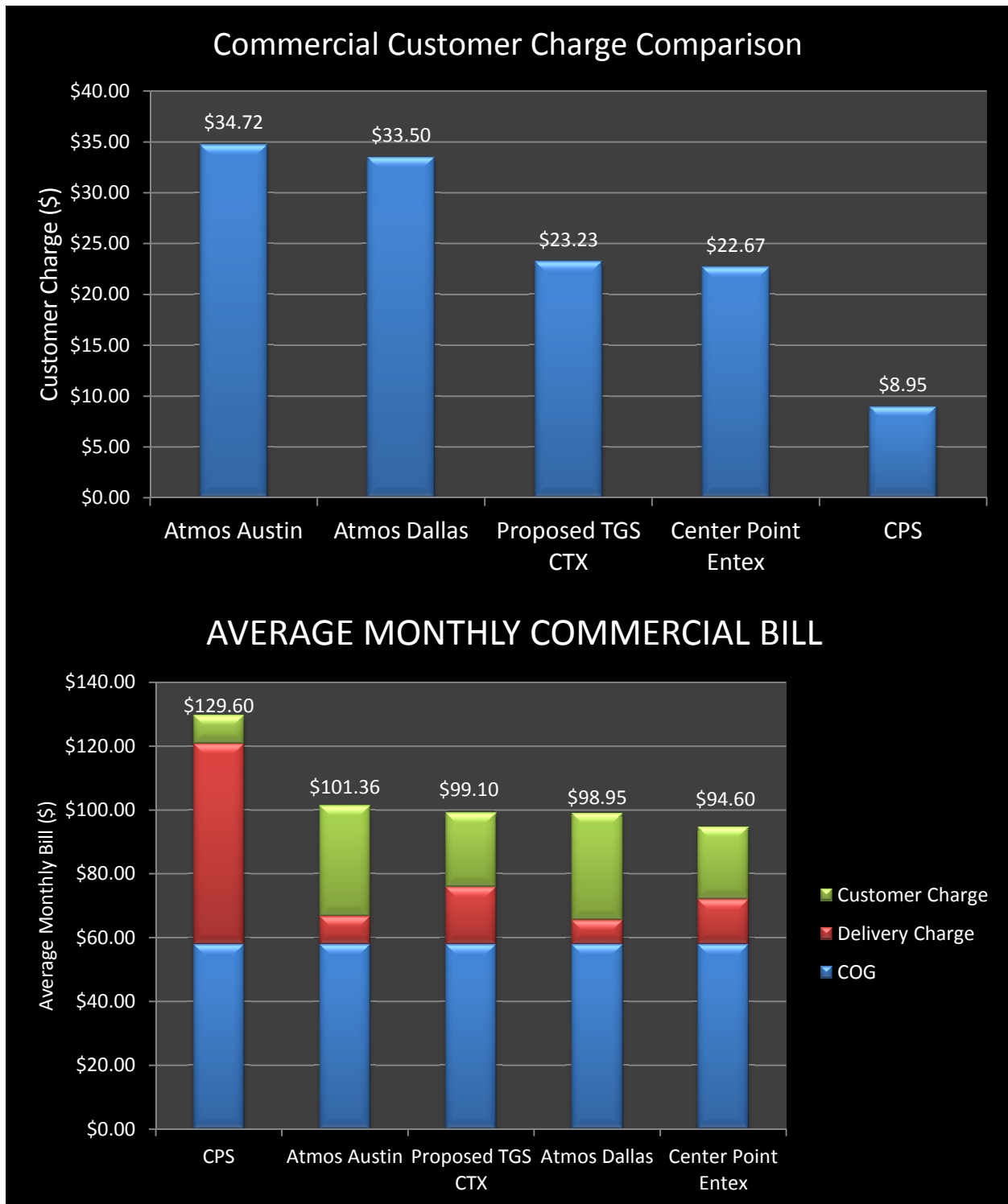
(CCNC) (106) Direct

- Acct. 367 – Mains – The increases in activity for this account are primarily attributable to the following:
 - Pipeline integrity testing which is necessary to comply with the Integrity Management Plan (IMP) rules. An example of this is the project at RM 969 and Tannehill where modifications were made to the 10 inch transmission line. This is a critical supply point and modification was necessary to ensure the integrity and reliability of the TGS system.
- Acct. 376 – Mains – The increases in activity for this account are primarily attributable to the following:
 - Distribution line extensions to connect customers requesting service on the system. This includes the installation of lines to connect industrial, city gate and pipeline customers as well as new regulator stations that may be necessary to serve the customers. The largest installation was for a main extension for Pearson Ranch Road. TGS must provide extensions to meet its service obligations as Central Texas continues to grow.

- The replacement or relocation of mains, district regulators, bypasses, meter settings, gate valves, services, service regulators, control equipment, etc. An example of one of the larger relocation projects is the “Cast Iron Replacement Project”. TGS is systematically replacing cast iron with newer poly mains. These projects and others like it are essential for the safe and efficient operation of the TGS distribution system in Central Texas.
- Acct. 378 – Measuring. & Regulating Station – General – The increases in activity for this account are primarily attributable to the following:
 - Labor, material, regulators, etc. necessary to install regulator and measuring stations to provide service to Central Texas customers. The largest installation of regulating equipment was the regulator station serving Industrial Asphalt.
- Acct. 380 – Services – The increases in activity for this account are primarily attributable to the following:
 - Labor, materials, regulators, etc. necessary to provide service from distribution mains and high pressure distribution lines to serve new customers. TGS must provide extensions to meet its service obligations as Central Texas continues to grow.
- Acct. 385 – Industrial Measuring & Regulating Station Equipment – The increases in activity for this account are primarily attributable to the following:
 - Labor, materials, regulators, etc. necessary to install regulator and measuring facilities to provide service to Central Texas customers. The largest project for this was the second phase of the Automated Meter Reading (AMR) equipment installation. This will allow all industrial meters to be read at the first of the month which customers desire.



Source: Texas Gas Service--Rate Information for CPS, CenterPoint South Texas Division, Atmos Austin and Atmos Dallas was taken from each company's website.



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TEXAS GAS SERVICE COMPANY

CENTRAL TEXAS SERVICE AREA

INTERIM COST RECOVERY AND RATE ADJUSTMENT

CHANGES FROM JANUARY 1, 2012 THROUGH DECEMBER 31, 2012

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

		AT 12/31/11	AT 12/31/12	
LINE NO.	DESCRIPTION	TOTAL ADJUSTED NET PLANT	TOTAL ADJUSTED NET PLANT	CHANGE IN TOTAL ADJUSTED NET PLANT
INTANGIBLE PLANT				
1	(301) Organization	\$0	\$0	\$0
2	(302) Franchises & Consents	0	0	0
3	(303) Misc. Intangible	84,000	55,332	(28,669)
4	Total Intangible Plant	\$84,000	\$55,332	(\$28,669)
TRANSMISSION PLANT				
5	(367) Mains	\$0	\$869,037	\$869,037
6	Total Transmission Plant	\$0	\$869,037	\$869,037
DISTRIBUTION PLANT				
7	(374) Land & Land Rights	\$87,493	\$87,493	\$0
8	(375.1) Structures & Improvements	86,500	74,606	(11,893)
9	(375.2) Other System Structures	2,785	69,906	67,120
10	(376) Mains	85,866,370	97,747,872	11,881,502
11	(377) Compressor Station Equipment	0	0	0
12	(378) Meas. & Reg. Station - General	1,705,495	1,862,241	156,746
13	(379) Meas. & Reg. Station - C.G.	620,013	610,101	(9,912)
14	(380) Services	40,902,873	48,569,005	7,666,131
15	(381) Meters	14,900,258	21,033,857	6,133,599
16	(382) Meter Installations	599,294	631,348	32,055
17	(383) House Regulators	1,083,555	1,363,339	279,784
18	(385) Indust. Meas. & Reg. Stat. Equipment	3,349,719	4,098,107	748,388
19	(386) Other Property on Customer Premises	9,288	(20,246)	(29,533)
20	(387) Meas. & Reg. Stat. Equipment	0	0	0
21	Total Distribution Plant	\$149,213,642	\$176,127,629	\$26,913,987
GENERAL PLANT				
22	(389) Land & Land Rights	\$10,516	\$10,152	(\$364)
23	(390.1) Structures & Improvements	745,049	527,681	(217,367)
24	(390.2) Leasehold Improvements	607,525	532,996	(74,529)
25	(390.21) Leasehold Equipment EOL	12,207	10,385	(1,822)
26	(391) Office Furniture & Equipment	532,396	559,295	26,899
27	(391.2) Data Processing Equipment	387,982	498,462	110,480
28	(391.3) Office Machines	5,048	4,801	(247)
29	(391.4) Audio Visual Equipment	954	15,486	14,532
30	(391.6) Purchased Software	2,960,084	3,127,323	167,239
31	(391.8) Micro Computer Equipment	51,280	65,169	13,889
32	(391.9) Computers & Electronic Equipment	2,883,207	4,209,898	1,326,691
33	(392) Transportation Equipment	1,846,744	1,625,514	(221,230)
34	(392.3) Transportation Equipment (Trucks 3/4 to 3 Ton)	(14)	721	734
35	(392.5) Trailers	53	46	(7)
36	(393) Stores Equipment	1,288	1,022	(266)
37	(394) Tools, Shop & Garage	1,407,142	1,251,243	(155,899)
38	(395) Laboratory Equipment	1,028	1,151	123
39	(396) Major Work Equipment	293,892	320,178	26,287
40	(397) Communication Equipment	7,189,971	7,437,861	247,890
41	(398) Miscellaneous General Plant	97,513	91,636	(5,877)
42	Total General Plant	\$19,033,863	\$20,291,021	\$1,257,157
43	Total Orig Cost Plant in Service	\$168,331,506	\$197,343,019	\$29,011,513
44	Rule 8.209 Regulatory Asset Balance through 12/31/12			\$522,265
45	Total Net Plant Investment - Adjusted Direct and Allocated Corporate and Division			\$29,533,777