

## GAS UTILITIES DOCKET NO. 10526

STATEMENT OF INTENT OF TEXAS	§	
GAS SERVICE COMPANY, A DIVISION	§	BEFORE THE
OF ONE GAS, INC., TO CHANGE GAS	§	
UTILITY RATES WITHIN THE	§	RAILROAD COMMISSION
UNINCORPORATED AREAS OF THE	§	
CENTRAL TEXAS SERVICE AREA	§	OF TEXAS
AND SOUTH TEXAS SERVICE AREA	§	

**UNANIMOUS SETTLEMENT AGREEMENT**

This Unanimous Settlement Agreement ("Settlement Agreement") is entered into by and between Texas Gas Service Company, a division of ONE Gas, Inc. ("TGS" or the "Company"); the Central Texas Municipalities whose members include the cities of Austin, Bee Cave, Cedar Park, Dripping Springs, Kyle, Lakeway, Rollingwood, Sunset Valley, and West Lake Hills Texas (collectively, "CTM"); and the Staff of the Railroad Commission of Texas ("Staff"), (collectively, the "Signatories").

WHEREAS, on June 20, 2016, TGS filed a Statement of Intent to Increase Rates with the Railroad Commission of Texas ("Commission") to change utility rates within the unincorporated areas of the Central Texas Service Area ("CTSA") and South Texas Service Area ("STSA") and filed a Statement of Intent with each of the cities in the CTSA retaining original jurisdiction; and

WHEREAS, TGS proposes in this case to consolidate the incorporated and unincorporated areas of the CTSA and incorporated and unincorporated areas of the STSA into a new, single service area known as the consolidated Central Texas Service Area;<sup>1</sup> and

WHEREAS, the Commission docketed the rate request as GUD No. 10526; and

WHEREAS, the CTM and Staff sought intervention and were granted party status in GUD No. 10526; and

WHEREAS, the CTM have suspended the implementation of the Company's rate request until November 10, 2016; and

WHEREAS, TGS has filed direct testimony and errata to its Statement of Intent; and

WHEREAS, TGS provided public notice by direct mail on August 31, 2016 to all affected customers in the form approved by the Examiners; and

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<sup>1</sup> To avoid confusion in the Statement of Intent, the Company referred to the consolidated service area as the Central Texas Consolidated Service Area ("CTCSA"). The Company's intent, however, is to refer to the new consolidated service area as the Central Texas Service Area, which is the term the Company used in the proposed tariffs filed with the Statement of Intent. In this Settlement Agreement, the term "consolidated Central Texas Service Area" refers to the new consolidated service area.

WHEREAS, direct testimony of the CTM was due on September 20, 2016, and Staff direct testimony was due on September 27, 2016, but the CTM and Staff did not file direct testimony in reliance on this Unanimous Settlement Agreement; and

WHEREAS, the intervenors in this docket and TGS (collectively, “the Parties”) have engaged in significant discovery regarding the issues in dispute; and

WHEREAS, the Signatories agree that resolution of this docket by settlement agreement will significantly reduce the amount of reimbursable rate case expenses that would, if further litigation is pursued, be allocated to customers within the CTM and the unincorporated areas affected by this docket; and

WHEREAS, the Signatories represent diverse interests and the Unanimous Settlement Agreement resolves the issues in GUD No. 10526 in a manner that the Signatories agree is consistent with the public interest; and

NOW, THEREFORE, in consideration of the mutual agreements and covenants established herein, the Signatories, through their undersigned representatives, agree to and recommend for approval by the Commission and the CTM, the following Settlement Terms as a means of resolving the rate request pending before the CTM and the Commission without the need for additional litigation:

#### Settlement Terms

1. The Signatories agree to the rates, terms and conditions reflected in the tariffs and rate schedules attached to this Settlement Agreement as Exhibit A. The tariffs attached as Exhibit A replace and supersede the tariffs currently in effect in the CTM and the environs of the CTSA and STSA. These tariffs are based on approval of a consolidated, new service area known hereafter as the consolidated Central Texas Service Area and represent an increase of an additional \$6.8 million in annual revenues as illustrated in the proof of revenues attached as part of Exhibit B to this Settlement Agreement. Except as specifically provided herein, the Signatories agree that the \$6.8 million revenue increase is a “black box” figure and is not tied to any specific expense or methodology in the underlying cost of service in TGS’s consolidated Central Texas Service Area. The Signatories further agree that the rates, terms and conditions reflected in Exhibit A to this Settlement Agreement comply with the rate-setting requirements of Chapter 104 of the Texas Utilities Code. The gas rates, terms and conditions established by this Settlement Agreement shall, subject to approval of the CTM, be effective for the CTM for bills rendered on or after November 1, 2016. Should the CTM not approve this Settlement Agreement in time for TGS to implement rates for bills rendered on or after November 1, 2016, the CTM and TGS agree that on November 1, 2016, TGS’s rates as agreed herein, will be established as temporary rates for service on and after that date until such time as the CTM take final action to approve this Settlement Agreement. The gas rates, terms and conditions established by this Settlement Agreement shall, subject to approval of the Commission, be effective for customers in the unincorporated areas of the consolidated Central Texas Service Area for the first billing cycle following Commission approval.

2. The Signatories agree that the Company's request to consolidate the incorporated and unincorporated areas of the STSA and the incorporated and unincorporated areas of the CTSA to create a new, single consolidated Central Texas Service Area is reasonable and should be approved. Therefore, the rates agreed to in this Settlement Agreement have been established consistent with implementing a system-wide cost of service methodology in the consolidated Central Texas Service Area.
3. The Signatories agree to the following customer charges and volumetric rates. These rates are reflected in the rate schedules attached as Exhibit A.

	Customer Charge	Commodity Charge
Residential	\$15.28	\$0.16032
Commercial	\$38.00	\$0.13174
Commercial Transportation	\$250.00	\$0.13174
Public Authority	\$47.00	\$0.12529
Public Authority Transportation	\$70.00	\$0.12529
Industrial	\$150.00	\$0.11186
Industrial Transportation	\$350.00	\$0.11186
Public School Space Heating	\$100.00	\$0.11000
Public School Space Heating Transportation	\$200.00	\$0.11000
Compressed Natural Gas	\$50.00	\$0.07148
Compressed Natural Gas Transportation	\$75.00	\$0.07148
Cogen Transportation	\$70.00	First 5000 ccf @ \$0.08708 Next 35,000 ccf @ \$0.07838 Next 60,000 ccf @ \$0.06512 All over 100,000 ccf @ \$0.05004

4. The Signatories agree that the depreciation rates for distribution and general plant in the consolidated Central Texas Service Area, as well as TGS Division plant and corporate plant depreciation rates, as shown on Exhibit C, are reasonable. For accounts 391.9 and 376.9, which are based on amortization schedules, the Signatories intend for the rates to be the same as the rates approved for those accounts in GUD No. 10506.
5. The Signatories agree that the Company's capital investment booked to plant through December 31, 2015, including investment in TGS's Interim Rate Adjustments ("IRA") filed with the CTSA cities for capital investment made in years 2008 through 2014 and for the STSA cities and environs for capital investment made in years 2011 through 2013, is prudent, except for \$55,225 of duplicative sales tax on TGS's capital investment.
6. The Signatories agree that \$55,225 of duplicative sales tax should be removed from the cost of service in this docket. The Signatories further agree that any money related to this duplicative \$55,225 recovered through IRA filings should be refunded to customers in the form of a one-time bill credit, in the amounts listed below, no later than 60 days following

the final order in this docket. Confirmation of refund will be provided to the Commission's Oversight and Safety Division immediately upon completion.

Customer Class	Average Monthly Bills at 12/31/10	Refund per Customer	Total Refund
<b>Central Texas Service Area</b>			
Residential	213,458	\$0.16	\$30,808
Commercial	11,208	\$0.55	\$5,930
Commercial - Transport	244	\$3.92	\$929
Large Commercial	61	\$6.15	\$371
Large Commercial - Transport	100	\$12.77	\$1,245
Compressed Natural Gas	1	\$1.47	\$1
Compressed Natural Gas - Transport	1	\$0.54	\$1
Industrial	14	\$2.16	\$29
Industrial - Transport	25	\$6.07	\$146
Large Industrial	3	\$8.65	\$26
Large Industrial - Transport	1	\$25.58	\$25
Public Authority	386	\$0.77	\$273
Public Authority - Transport	220	\$1.09	\$234
Large Public Authority	14	\$10.73	\$129
Large Public Authority - Transport	21	\$14.35	\$293
Public Schools Space Heating	3	\$2.37	\$5
Public Schools Space Heating - Transport	112	\$2.43	\$264
<b>Total Refund - Central Texas Service Area Incorporated Areas</b>			<b>\$40,709</b>
<b>South Texas Service Area</b>			
Customer Class	Average Monthly Bills at 12/31/12	Refund per Customer	Total Refund
Residential	8,780	\$0.16	\$1,435
Commercial - Transport	9	\$9.78	\$88
Commercial	833	\$0.61	\$506
Industrial	7	\$1.57	\$11
Industrial - Transport	11	\$14.75	\$162
<b>Total Refund - South Texas Service Area</b>			<b>\$2,203</b>
<b>Total Refund</b>			<b>\$42,912<sup>2</sup></b>

7. The Signatories agree that the Commission's determination in GUD No. 10488—that the separation of TGS from ONEOK, Inc. to ONE Gas, Inc., which TGS reported to the Commission in GUD No. 10339 pursuant to Texas Utilities Code § 102.051 is in the public interest—resolved the issue and is binding in this docket.

<sup>2</sup> The refund calculation amounts assume that (1) all of the erroneous sales tax charges occurred within the first IRA (or GRIP) filings filed in the CTSA cities on February 10, 2011, the STSA cities on December 19, 2013, and the STSA environs in GUD No. 10143; (2) no changes in customer count since those filings, and (3) the refund for CTSA will apply only to CTSA incorporated customers because no IRA filing was made in the CTSA environs. The amount of \$55,225 is the gross plant amount of the duplicative sales tax removed from rate base not the amount of the refund. The refund is determined on the revenue requirement impact amount based on the assumptions above.

8. TGS will maintain a single Cost of Gas clause throughout the consolidated Central Texas Service Area.
9. TGS agrees, pursuant to the request of Staff and the CTM, that TGS will no longer enter into financial hedging instruments as part of its gas supply portfolio for the Company's consolidated Central Texas Service Area without prior approval from the appropriate regulatory authority. This agreement shall be reflected in the Gas Cost Clause that will be in effect for the consolidated Central Texas Service Area as follows:

Cost of Purchased Gas - The estimated cost for gas purchased by the Company from its supplier or the estimated weighted average cost for gas purchased by the Company from all sources where applicable. Such cost shall include not only the purchase cost of natural gas, but shall also include all reasonable fees for services such as gathering, treating, processing, transportation, capacity and/or supply reservation fees, storage, balancing, including penalties and swing services necessary for the movement of gas to the Company's city gate delivery points. ~~The Cost of Purchased Gas shall also include gains or losses from the utilization of natural gas financial instruments that are executed by the Company for the purpose of mitigating high prices and price volatility.~~ The cost of purchased gas may also include costs related to the purchase and transportation of Renewable Natural Gas (RNG). Renewable natural gas is the term used to describe pipeline quality biomethane produced from biomass. The cost of purchased gas shall not include the cost of financial instruments that were entered into after August 25, 2016, unless the use of such financial instruments is approved in advance and in writing by the Director of the Oversight and Safety Division of the Railroad Commission of Texas or a municipal regulatory authority. Such approval would be requested as part of the Company's annual gas purchase plan, which shall be submitted annually to the Commission or municipal regulatory authority no later than June 15.

10. The Signatories agree that TGS shall recover \$68,266 of existing hedging costs through the Cost of Gas clause.
11. TGS and the CTM agree that TGS will continue its Conservation Program including 100% ratepayer funding and implement the requested Rate Schedule Conservation Adjustment Clause within the CTM. TGS and Staff agree that TGS will not implement a Conservation Program in the unincorporated areas at this time.
12. The Signatories agree that TGS shall recover pipeline integrity testing costs through Rate Schedule PIT.
13. The Signatories agree to the following actual capital structure and weighted cost of capital, including the pre-tax return, as shown below:

	Capital Structure	Debt/Equity Cost	Weighted Cost of Capital	Pre-Tax Return
Long-Term Debt	39.50%	3.950%	1.560%	1.560%
Common Equity	60.50%	9.500%	5.748%	8.842%
Rate of Return	100.000%		<b>7.308%</b>	<b>10.402%</b>

14. The Signatories agree that any IRA filing in the consolidated Central Texas Service Area pursuant to Texas Utilities Code § 104.301 shall use the following factors until changed by a subsequent general rate proceeding:

- The capital structure and related components shall be as shown above in Item 13.
- For the initial filing, the Net Investment, including the detail of Plant in Service amounts along with the associated depreciation rate for each account, shall be as shown on Exhibit C.
- For the initial filing, the net plant in service shall be \$324,918,056.
- For the initial filing, the customer charges as noted in Item 3 above will be the starting rates to apply to any IRA adjustment; and
- The base rate revenue allocation factors to spread any change in IRA increase/decrease to the appropriate customer classes are as follows:

Customer Class	Allocation
Residential	78.204%
Commercial	17.786%
Public Authority	3.049%
Industrial	0.907%
Compressed Natural Gas	0.054%
Total Allocation	100.000%

TGS agrees not to change, modify, or otherwise recalculate its depreciation rates for its direct, division, or corporate plant accounts in any IRA filing made after a Final Order is issued in this case.

15. The Signatories agree that the Company's proposed class revenue allocation identified as "Revenue Allocation Three" on Exhibit TDS-2, which is contained in the Direct Testimony of TGS witness Teresa Serna, is reasonable and should be approved.
16. To give effect to Texas Utilities Code § 104.059, the Signatories agree that the base year level of pension-related and other post-employment benefits expenses shall be as follows:

Description	Total
Pension	\$812,588
OPEB	\$17,100
Grand Total	\$829,974

17. Because TGS is a division, not an affiliate of ONE Gas, there are no affiliate expenses included in TGS's rate request; therefore, the Commission does not need to address whether the statutory standard in Texas Utilities Code § 104.055(b) for recovery of affiliate expenses has been met.
18. TGS agrees to match customer contributions to the Share the Warmth program up to \$100,000 annually. The matching contributions will not be included in rates or otherwise be recovered from ratepayers.
19. The \$6.8 million increase in revenue to be recovered through rates set in this case includes \$46,699 in regulatory expense amortization, which represents the annual amount to be recovered each year for six years.
20. TGS and the CTM represent that their reasonable rate case expenses incurred through September 30, 2016, and estimated rate case expenses incurred through completion of this case, are as follows:

	Actual Invoices Received	Invoices Due and Est. to Completion	Total
TGS	\$360,888.64 <sup>3</sup>	\$125,000	\$485,888.44
CTM	\$137,465.68	\$45,000	\$182,465.68

21. TGS and the CTM attach as Exhibit D affidavits and invoices in support of the rate case expense amounts, and will supplement with additional invoices as they are processed. Signatories agree that the amounts represented above are reasonable and recoverable pursuant to Texas Utilities Code § 103.022. Signatories agree that the recovery period for the applicable surcharge to recover rate case expenses shall be 24 months and that the surcharge shall be volume based. TGS agrees to reimburse the CTM the amount of rate case expenses set forth above within 30 days of the issuance of an order authorizing recovery of those expenses. TGS and the CTM shall recover estimated rate case expenses only to the extent they are actually incurred. The Signatories intend and advocate that the Commission authorize recovery of the rate case expenses recited above in the same proceeding and at the same time as it approves this Unanimous Settlement Agreement.
22. The Signatories agree that equal recovery of rate case expenses on a system-wide basis from incorporated and unincorporated customers in the consolidated Central Texas Service Area is appropriate and reasonable and that good cause exists to support equal recovery of rate case expenses from all customers on a system-wide basis for the following reasons:
  - a. TGS Litigation and Estimated expenses: Good cause exists to recover TGS litigation and estimated expenses equally from all customers, including municipal customers within all cities in the consolidated Central Texas Service Area. The intent of Commission Rule 7.5530(e) is to allocate rate case expenses to the participating parties

<sup>3</sup> This amount reflects legal costs incurred through September 23, 2016 for TGS and all other TGS costs incurred through September 30, 2016.

according to which party caused the expenses to be incurred, therefore it is reasonable to seek recovery of rate case expenses from all customers who benefit from the settlement agreement in this case, which includes all customers in the incorporated areas of the consolidated Central Texas Service Area. This recovery is reasonable even though the CTM are not participating in GUD No. 10526 as appellants and the CTM continue to retain original jurisdiction. In addition, the CTM participated in GUD No. 10526, contributed to this settled outcome, and contributed to TGS's litigation and estimated expenses. Finally, recovery of these expenses is also necessary in the interest of justice.

- b. CTM Litigation and Estimated expenses: Good cause exists to recover CTM litigation and estimated expenses equally from all customers, including customers within the incorporated and unincorporated areas of the consolidated Central Texas Service Area, because the CTM' participation in GUD No. 10526 resulted in this Settlement Agreement, which benefits all such customers, and doing so is necessary in the interest of justice.
23. TGS shall file annually, due on or before December 31, a rate case expense recovery report with the Railroad Commission of Texas, Oversight and Safety Division, referencing GUD No. 10526. The report shall include the volumes used by month by customer class during the applicable period, the amount of rate case expense recovered by month, and the outstanding balance by month as set out in Rate Schedule RCE-ENV.
  24. The Signatories agree to the admission of the following items,<sup>4</sup> including any confidential portions:
    - Texas Gas Service Company, a division of ONE Gas, Inc.'s Statement of Intent to Change Gas Utility Rates Within the Unincorporated Areas of the Central Texas Service Area and South Texas Service Area, filed on June 20, 2016, as amended by the errata filings of August 12 and September 23, 2016, inclusive of all attachments and including the direct testimony of the following witnesses:
      - Caron Lawhorn
      - Jim Jarrett
      - Stacey McTaggart
      - Nicole Simmons
      - Stacey Borgstadt
      - Mark Smith
      - Anna Kern
      - Teresa Serna
      - Hayley Cunningham
      - Janet Simpson
      - Joshua Nowak<sup>5</sup>

<sup>4</sup> The Statement of Intent, inclusive of all attachments and including the direct testimony, supports the Company's direct case. The Unanimous Settlement agreement is a compromise resulting from analyzing the Company's direct case, conducting discovery, and engaging in extensive settlement negotiations among the parties.

<sup>5</sup> On September 21, 2016, TGS filed a Notice of Substitution of Witness noting that Timothy Lyons is adopting the Direct Testimony of Joshua Nowak.



- Ronald White
    - Bruce Fairchild
    - Paul Raab
  - Affidavit of Nicole Simmons attesting to Public Notice (filed September 21, 2016)
  - Affidavit of Kate Norman attesting to the reasonableness of TGS's rate case expenses, attached as Exhibit D to this Unanimous Settlement Agreement
  - Affidavits of Thomas Brocato, Karl Nalepa and Connie Cannady attesting to the reasonableness of the CTM's rate case expenses, attached as Exhibit D to this Unanimous Settlement Agreement
25. The Signatories agree to support and seek approval by the Commission and the CTM of this Unanimous Settlement Agreement. The CTM agree to make every effort to present their cities with this Settlement Agreement at city council meetings during October 2016 to allow for implementation of new rates for bills rendered on November 1, 2016.
  26. It is the intention of the Signatories that the CTM receive the benefit of the Final Order the Commission issues in GUD No. 10526 and that customers in the unincorporated areas of the consolidated Central Texas Service Area receive the benefit of a final decision issued by the CTM arising out of this proceeding or any associated appeals from GUD No. 10526. TGS therefore agrees that if the rates, revenues, terms and conditions, or benefits accruing to the settling entity would be more beneficial to the CTM or customers in the unincorporated areas of the consolidated Central Texas Service Area than the terms of this Settlement Agreement, as determined by the CTM (where the benefit accrues to those cities) or by the Commission Staff (where the benefit accrues to customers in the unincorporated areas), such more favorable rates, revenues, terms and conditions or benefits shall additionally accrue to the CTM or Commission Staff, respectively. If the Final Order in GUD No. 10526 or orders resulting from any associated appeals are determined by CTM to result in overall rates, revenues, terms and conditions, and benefits that are more beneficial than the terms of this Settlement Agreement, the CTM may choose rates, revenues, terms and conditions, and benefits consistent with the Final Order or orders of any associated appeals in place of the Settlement Agreement. If the final decisions of the CTM in this case are determined by Commission Staff to result in overall rates, revenues, terms and conditions, and benefits that are more beneficial than the terms of this Settlement Agreement, Commission Staff may choose rates, revenues, terms and conditions, and benefits consistent with the CTM's final decisions or orders of any associated appeals in place of the Settlement Agreement.
  27. The Signatories agree that all negotiations, discussions, and conferences related to the Unanimous Settlement Agreement are privileged, inadmissible, and not relevant to prove any issues associated with the Statements of Intent filed on June 20, 2016.
  28. The Signatories agree that neither this Unanimous Settlement Agreement nor any oral or written statements made during the course of settlement negotiations may be used for any purpose other than as necessary to support the entry by the Commission of an order approving this Unanimous Settlement Agreement.

29. The Signatories agree that the terms of the Unanimous Settlement Agreement are interdependent and indivisible, and that if the Commission intends to enter an order that is inconsistent with this Unanimous Settlement Agreement, then any Party may withdraw without being deemed to have waived any procedural right or to have taken any substantive position on any fact or issue by virtue of that Party's entry into the Unanimous Settlement Agreement or its subsequent withdrawal.
30. The Signatories agree that this Unanimous Settlement Agreement is binding on each Party only for the purpose of settling the issues set forth herein and for no other purposes, and except to the extent the Unanimous Settlement Agreement governs a Party's rights and obligations for future periods, this Unanimous Settlement Agreement shall not be binding or precedential upon a Party outside this proceeding.
31. The Signatories agree that this Unanimous Settlement Agreement may be executed in multiple counterparts and may be filed with facsimile signatures.

Agreed to this 11<sup>th</sup> day of October 2016.

TEXAS GAS SERVICE COMPANY, a Division of ONE Gas, Inc.

By: Stephanie G. Houle *with permission by KUN*  
Stephanie G. Houle  
Attorney for Texas Gas Service Company

CENTRAL TEXAS MUNICIPALITIES

By: \_\_\_\_\_  
Thomas Brocato  
Attorney for Central Texas Municipalities

STAFF OF THE RAILROAD COMMISSION OF TEXAS

By: Natalie Dubiel  
Natalie Dubiel  
Attorney for Staff of the Railroad Commission of Texas

Agreed to this 11<sup>th</sup> day of October 2016.

TEXAS GAS SERVICE COMPANY, a Division of ONE Gas, Inc.

By: \_\_\_\_\_  
Stephanie G. Houle  
Attorney for Texas Gas Service Company

CENTRAL TEXAS MUNICIPALITIES

By: Thomas Brocato  
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STAFF OF THE RAILROAD COMMISSION OF TEXAS

By: \_\_\_\_\_  
Natalie Dubiel  
Attorney for Staff of the Railroad Commission of Texas