CONSERVATION ADJUSTMENT CLAUSE

PURPOSE

Texas Gas Service provides a Conservation and Energy Efficiency program which offers assistance to residential and commercial customers to encourage the most efficient use of energy, reduce net energy consumption, and lower energy utility bills. A customer rate component will provide funding for the program, and shall be included as a tariff on the customers’ monthly utility bill.

The programs offered under the Conservation Adjustment Clause (CAC) will be consistent with similar conservation and energy efficiency programs in other Texas Gas Service areas and may include, but are not limited to, residential, new construction and commercial customer rebates for high-efficiency appliances and equipment, as well as a low-income appliance program.

APPLICATION

The CAC rate shall apply to the applicable residential and commercial rate schedules served by Texas Gas Service Company (Company) in all incorporated areas of the Central Texas Service Area, including the cities of Austin, Bee Cave, Cedar Park, Cuero, Dripping Springs, Gonzales, Kyle, Lakeway, Lockhart, Luling, Nixon, Rollingwood, Shiner, Sunset Valley, West Lake Hills and Yoakum. The Regulatory Body is defined as the City of Austin.

COMPUTATION OF CAC RATE

The CAC rate for a given year will be separately calculated for each individual customer class according to the following:

\[
\text{CAC Rate} = \frac{\text{BCD} + \text{BA}}{\text{NV}}
\]

BCD = The Budgeted Conservation Dollars (BCD) shall include all expected costs attributable to the Company’s Conservation and Energy Efficiency program for the 12-month period ending December 31st of each year, including but not limited to rebates paid; material costs; the cost of educational and consumer awareness materials related to energy conservation/efficiency; the planning, development, implementation and administration of the CAC program; and two months of working program expenses (calculated by dividing the total expected annual expenses by 12 and multiplying by two).
CONSERVATION ADJUSTMENT CLAUSE

(Continued)

Direct program costs will be identified by class and common administrative costs will be allocated to each rate class pro-rata based upon the proportion of direct costs. Administrative costs shall not exceed 15% of total CAC program costs.

BA = Balance adjustment. The BA shall compute differences between Rider CAC collections by class and expenditures by class for the 12-month period ending the prior (date) and collect the over/under recovery during the 12-month period beginning (date) of the following year.

NV = Actual volumes from the prior fiscal year (normalized for weather and growth/attrition) listed in Ccf for each rate class.

PROGRAM SELECTION

Program selection will be determined on an annual basis and a summary of programs selected for the upcoming 12-month period will be provided to the Regulatory Body by October 15th of each calendar year. The overall portfolio of program offerings will be designed to be impactful and cost-effective based on Texas Gas Service’s knowledge of its customer base and experience administering various conservation and energy efficiency program initiatives.

REPORTING

The following documents will be filed with the Regulatory Body:

a) A schedule indicating the new CAC rate for each of the affected rate classes, to be filed within 20 days of implementation.

b) An annual report of the prior fiscal year collections and disbursements, to be filed within the 120 days following the prior fiscal year end. The annual report will also be made available on the company’s website. The annual filing shall include detailed calculations of the BCD and the Balancing Adjustments, as well as data on the total cost of the Energy Efficiency Program. Detailed tracking and reporting of program administration costs is also provided.

c) An annual budget for the following year will be provided to the Regulatory Body by the Company by October 15 each calendar year. If no action is taken by the Regulatory Body by November 30, the budget will automatically be approved for the next calendar year.

Supersedes Rate Scheduled Dated
Central Texas June 30, 2009
Cedar Park July 17, 2009
Dripping Springs December 9, 2011
Bee Cave September 25, 2012
Lakeway October 19, 2012

Meters Read On or After
October 26, 2016 (Cities of Austin,
Bee Cave, Cedar Park, Dripping
Springs, Kyle, Lakeway, Rollingwood,
Sunset Valley, and West Lake Hills, TX)
January 6, 2017 (Cities of Cuero,
Gonzales, Lockhart, Luling, Nixon,
Shiner, and Yoakum, TX)
CONSERVATION ADJUSTMENT CLAUSE RATE

A. APPLICABILITY

The Conservation Adjustment Clause ("CAC") rate, calculated pursuant to Rate Schedule CAC, shall apply to the following rate schedules listed below for all incorporated areas served by the Company in its Central Texas Service Area which includes Austin, Bee Cave, Cedar Park, Cuero, Dripping Springs, Gonzales, Kyle, Lakeway, Lockhart, Luling, Nixon, Rollingwood, Shiner, Sunset Valley, West Lake Hills and Yoakum, Texas.

B. CURRENT CAC RATE

<table>
<thead>
<tr>
<th>Rate Schedule</th>
<th>Customer Class</th>
<th>*Conservation Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>10</td>
<td>Residential Service</td>
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</tr>
<tr>
<td>20</td>
<td>Commercial</td>
<td>$.00520</td>
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</tbody>
</table>

*The Conservation Rate will change annually pursuant to Rate Schedule CAC.

Supersedes Rate Schedule Dated: December 27, 2016 (Cities of Austin, Bee Cave, Cedar Park, Dripping Springs, Kyle, Lakeway, Rollingwood, Sunset Valley, and West Lake Hills, TX)

January 6, 2017 (Cities of Cuero, Gonzales, Lockhart, Luling, Nixon, Shiner, and Yoakum, TX)

Meters Read On and After: January 26, 2018 (Cities of Austin, Bee Cave, Cedar Park, Cuero, Dripping Springs, Gonzales, Kyle, Lakeway, Lockhart, Luling, Nixon, Rollingwood, Shiner, Sunset Valley, West Lake Hills and Yoakum, TX)