

RAILROAD COMMISSION OF TEXAS

BULLETIN NO. 655

SECTION 5
ORDERS OF THE COMMISSION
RAILROAD COMMISSION OF TEXAS

STATEMENT OF INTENT TO CHANGE	§	
THE CITY-GATE RATE OF TXU LONE	§	
STAR PIPELINE, FORMERLY KNOWN	§	GAS UTILITIES DOCKET NO. 8976
AS LONE STAR PIPELINE COMPANY	§	
ESTABLISHED IN GUD NO. 8664	§	

FINAL ORDER

Procedure and Notice

1. On October 29, 1999, TXU Lone Star Pipeline (TXU LSP) filed its Statement of Intent to change the transportation and storage rates charged for gas transported for subsequent distribution to residential and commercial users. That rate filing was based on a test year from July 1, 1998 through June 30, 1999.
2. On October 29, 1999, TXU LSP sent a copy of the Statement of Intent by certified mail to each incorporated municipality served by TXU Gas-Distribution.
3. On November 5, 1999, TXU LSP filed with the Commission a copy of the Statement of Intent Errata.
4. TXU LSP published notice for four successive weeks in a newspaper having general circulation in each county affected by the proposed increase. In Examiners' Letter No. 8, issued November 24, 1999, the Examiners approved the Public Notice of Application to Increase the Rates.
5. On November 16, 1999, the Commission ordered that the rates proposed in TXU LSP's application be suspended for 150 days from the date the rates would otherwise go into effect.
6. The Examiners held prehearing conferences on November 15 and 22, December 14 and 22, 1999, and January 4, 10, and 18, and February 1 and 8, 2000.
7. Intervening in the case were 103 cities (Aligned Cities); the Staff of the Commission (Staff); the State of Texas (State); Brazos Electric Cooperative; SEI Texas, L.P.; Southern Company Energy Marketing, L.P.; Brazos Fuel Company, Inc.; and CoServ Gas, Ltd. (CoServ). Under TEX. UTIL. CODE ANN. § 103.023 (Vernon 1998), the Examiners aligned all of the intervening cities (Aligned Cities) for the purpose of conducting discovery, presenting evidence, and cross-examination. The State, Staff, CoServ Gas, Ltd., and the "Southern/Brazos Group" (i.e., Brazos Electric Cooperative, SEI Texas, L.P., Southern Company Energy Marketing, L.P., and Brazos Fuel Company, Inc.) remained as independent parties in the case. The Southern/Brazos Group did not actively participate in this docket. CoServ's participation was limited to the open access issues raised by CoServ and the alleged discriminatory rate structure. On December 6, 1999, the parties began discovery.
8. On December 8, 1999, TXU LSP extended the proposed effective date of its Statement of Intent from December 2, 1999 to January 2, 2000. On March 10, 2000, before the close of the hearing on the record, TXU LSP and the intervenors requested that the effective date of TXU LSP's Statement of Intent, for purposes of Texas Utilities Code § 104.102(a), be extended further so that the 185-day statutory deadline date in this case would become June 23, 2000. The Examiners granted the request.
9. On January 19, 2000, the Office of Public Utility Counsel (OPC) filed a *Motion to Intervene*. The Examiners denied the *Motion to Intervene* on February 3, 2000, but granted OPC's request to file an amicus closing brief, which OPC filed on March 24, 2000.

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10. On January 27, 2000, Aligned Cities and CoServ filed direct testimony. On February 4, 2000, the Staff filed direct testimony. The State did not present direct evidence. On February 11, 14, and 16, 2000, TXU LSP filed its rebuttal to the direct testimony of Aligned Cities, CoServ, and Staff.
11. On February 14, 2000, the Aligned Cities filed a *Motion to Sever the Final Calculation of Lone Star's Merger Savings from this Docket and Request for an Order Directing Lone Star to File Full Documentation of All Merger Savings on an Appropriate Date (Motion to Sever)*. The Examiners denied the *Motion to Sever* on February 22, 2000.
12. On February 16, 2000, the hearing on the merits convened and continued through March 10, 2000.
13. On March 24, 2000, the parties filed their initial briefs; replies were filed on March 31, 2000. TXU LSP and the Aligned Cities also voluntarily filed proposed findings of fact and conclusions of law for consideration by the Examiners on April 25, 2000.
14. On April 14, 2000, rate case expense documentation was filed, and on April 17, 2000, a brief hearing was held to accept evidence of the parties on rate case expenses. On April 25, 2000, the parties filed their agreement with respect to supplementing their rate case expense documentation to reflect expenses incurred after the hearing and a recovery mechanism for rate case expenses. On June 14-16, 2000, supplements to rate case expense documentation were filed.
15. On May 19, 2000, the Examiners issued the original Proposal for Decision (PFD). On May 26, 2000, the parties filed their exceptions to the PFD. On June 13, 2000, the parties filed their replies to exceptions.
16. On May 31, 2000, Technical Examiner Mimi Winetroub officially withdrew from the case, and the parties were notified of this action by letter dated June 6, 2000.
17. On June 6, 2000, Hearings Examiner Gene Montes presented the PFD to the Commission. On June 8, 2000, the parties presented oral arguments to the Commission.
18. On June 16, 2000, the Hearings Examiner issued the Revised Proposal for Decision; on June 22, 2000, prior to the entry of the Final Order by the Commission, the Examiner issued a memo to the Commission which contained supplements and errata to the Revised PFD and which recommended that TXU LSP's requested corrections to the hearing transcript be approved.
19. On June 20, 2000, the Commissioners considered the Hearings Examiner's Revised Proposal for Decision at open conference.

TXU LSP's Organizational Structure

20. Texas Utilities Company, a Texas corporation doing business as TXU Corp., is a holding company whose principal United States operations are conducted through TXU Electric Company (formerly known as Texas Utilities Company), TXU Gas Company (formerly known as ENSERCH Corporation), and Texas Energy Industries, Inc.
21. TXU LSP is an unincorporated division of TXU Gas Company.
22. In August 1997, ENSERCH Corporation merged with Texas Utilities Company. The effective date of the merger was August 5, 1997.
23. The rates that are the subject of this docket were last considered by the Commission in Gas Utilities Docket (GUD) No. 8664; the applicants in that docket were Lone Star Pipeline Company, Lone Star Gas-Transmission, and Ensar Pipeline Company (ENSAT). All of the pipeline assets of ENSAT became part of Lone Star Pipeline Company subsequent to GUD No. 8664.
24. Lone Star Gas-Transmission (now TXU Gas Distribution-Transmission) is an operating unit of TXU Gas-Distribution (formerly Lone Star Gas Company) and acts as the gas supply organization by purchasing gas, arranging for the transportation and storage of gas, and administering the gas supply and transportation contracts for TXU Gas-Distribution, which performs the gas distribution function in over 440 incorporated towns and cities in Texas and related distribution functions in the environs of those towns and cities.

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25. Prior to the merger, TXU LSP (then known as Lone Star Pipeline Company) was operated as an unincorporated division of ENSERCH Corporation. Following the merger, TXU LSP maintained its status as an unincorporated division of ENSERCH Corporation. In addition, TXU LSP, TXU Fuel (formerly Texas Utilities Fuel Company), and TXU Processing Company were grouped together in the APipeline Business Unit, @ for functional management purposes.
26. TXU Fuel is a Texas Corporation whose primary function is to serve as a fuel supply line to electric generation plants.
27. During the entire test year used in this docket, TXU LSP operated as an unincorporated division of TXU Gas Company. Following the close of the test year, there have been no changes in the corporate structure of TXU LSP.

Merger Savings

28. The Commission's Order in GUD No. 8664 (Commission Order 8664) required TXU LSP to file a statement of intent three years after the effective date of the merger.
29. Commission Order 8664 required TXU LSP's filing to include full and complete documentation of all merger savings but did not determine the methodology to be used by TXU LSP to report merger savings.
30. Commission Order 8664 found that ordering TXU LSP to file a statement of intent three years after the effective date of the merger for consideration of the changes in the cost of service established in GUD No. 8664 would allow TXU LSP to prepare a statement of intent using a full test year of post-merger data.
31. Commission Order 8664 does not specifically preclude the filing of a statement of intent by TXU LSP prior to August 2000; however, the Order does contemplate that the subsequent case would fully incorporate all merger saving into the cost of service calculation of the utility.
32. TXU LSP did not wait a full year after the effective date of the merger to begin collecting test year data. The test year in this case began eleven months after the merger.
33. TXU LSP filed this docket October 29, 1999, two years and three months after the effective date of the merger.
34. All merger savings that have been realized to date were sufficiently identified and documented by TXU LSP during the hearing in this case.
35. TXU LSP originally anticipated that it would take three years after the effective date of the merger for all savings to be accomplished.
36. Studies performed by TXU Corp. and Enserch Corporation indicated that substantial savings would occur two to three years after the merger.
37. The number of full-time employees for both TXU LSP and TXU Pipeline Services continued to decline after the end of the test year due to the effect of the merger.
38. TXU LSP did not establish that all originally anticipated merger savings have been realized. It is reasonable to believe that TXU LSP will achieve further merger savings in the future.
39. TXU LSP and TXU Fuel merged most of their operations within TXU Pipeline Services and TXU Business Services.
40. TXU LSP examined further merger opportunities between TXU LSP and TXU Fuel.
41. TXU LSP reasonably determined that further merger savings could not reasonably be accomplished by further merging operations of TXU LSP and TXU Fuel.
42. Ninety percent of the operations of TXU LSP and TXU Fuel have been combined. Though TXU Fuel and TXU LSP field operations are merged, the companies are treated as separate entities because of the still-separate marketing and gas control operations.

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43. Approximately ninety percent of TXU LSP=s and TXU Fuel=s operations and corporate support activities have been combined. The entities were organized under common executive management; furthermore, staff and corporate support services, field operations, construction services, measurement and laboratory services, and engineering reservoir services for the two companies were consolidated into TXU Pipeline Services, which now provides services to both TXU LSP and TXU Fuel.
44. TXU LSP considered the effect of a full integration of TXU LSP and TXU Fuel and made reasonable decisions regarding the consolidations that should be effected. Insufficient evidence was presented to justify a Commission-ordered study of this issue.

Affiliate charges

45. TXU Business Services is a separately incorporated affiliate of TXU LSP which specializes in providing consolidated corporate support services, including accounting, financial, information technology, regulatory, and human resources services to TXU Corporation's affiliates.
46. During the test year, TXU Business Services charged TXU LSP a total amount of \$13,399,560.
47. TXU Business Services billed TXU LSP a total of \$1,454,205 for an activity classified as Corporate Oversight through an aggregated methodology in the first six months of the test year. In the second six months of the test year, TXU Business Services disaggregated the Corporate Oversight activity and billed TXU LSP only \$384,857.
48. The aggregated billing methodology is unreasonable because it resulted in an allocation to TXU LSP more than triple the allocation under the disaggregated methodology. Only \$384,857 was shown to be reasonable for each six-month period for Corporate Oversight, resulting in a disallowance of \$1,069,348 for the first six-month period.
49. TXU LSP failed to prove \$3,070 in shareholder services is a reasonable and necessary expense to provide service to city gate customers; TXU LSP has no outside investors.
50. TXU LSP failed to prove \$425,603 classified as regulatory services did not consist of nonrecurring regulatory case expenses, including this case; the projects that comprised the original expense amount as testified to by TXU LSP=s witness included at least \$113,659 in rate case charges, and TXU LSP did not establish that it had thoroughly reviewed the remainder of the expenses to isolate any non-recurring rate case expenses.
51. Advertising charges of \$102,863 are not reasonable and necessary expenses because TXU LSP does not need to advertise to serve or retain its one customer, TXU Gas-Distribution. Although some of the expenses were spent on pipeline safety issues, a reasonable and necessary activity, TXU LSP did not separately identify those amounts; therefore it is reasonable to disallow the entire amount. Additionally, TXU LSP failed to prove that the advertising charges are no higher than charges to other affiliates.
52. Charges totaling \$103,152 for credit and collections are not reasonable and necessary to providing city gate service because TXU LSP has only one city gate service customer, TXU Gas-Distribution, and the charges relate exclusively to third party transportation customers.
53. Aviation charges totaling \$74,110 are not reasonable and necessary to provide service to city gate customers; the charges consist of private airplane charges, which are considerably more expensive than commercial airline charges, and TXU LSP did not demonstrate that the costs were reasonable or that travel by private airplane was necessary to serve its customer.
54. Charges of \$483,177 for Y2K services by TXU Business Services to LSP should be disallowed as non-recurring expenses; TXU LSP failed to document the amount of historical Y2K costs that will recur in the form of future technology services, and it failed to produce any evidence of the cost of future projects.
55. Charges of \$46,018 for Employee Communication Services should be disallowed because TXU LSP failed to prove that its affiliate, TXU Business Services, billed other affiliates equally for this service.

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56. TXU Pipeline Services is an unincorporated affiliate of TXU LSP that provides field operations, operations support, measurement and laboratory services, engineering, and reservoir services to various TXU affiliates.
57. During the test year, TXU Pipeline Services was an operating unit of TXU LSP until April 1999; after that time, it was an operating unit of TXU Gas Company. Until April 1999, TXU LSP provided pipeline services to other affiliates and reduced its books by amounts associated with those services. After April 1999, TXU Pipeline Services charged TXU LSP and other affiliates such as TXU Fuel for services.
58. During the test year, TXU Pipeline Services charged TXU LSP a total of \$35,958,563, of which \$4,688,545 was a flow-through of TXU Business Services charges to TXU LSP. The flowed-through charges are assigned based on the overall time reported by TXU Pipeline Services employees for providing service to TXU LSP.
59. With the exception of one transaction category, the charges by TXU Business Services which flow through to TXU LSP were shown to be reasonable and necessary charges which were distributed on an equal basis among affiliates.
60. Charges from TXU Business Services to TXU Pipeline Services of \$522 for aviation services should be disallowed. TXU LSP did not demonstrate that the costs were reasonable or that travel by private airplane was necessary to serve its customers. This amount is included in the \$74,110 amount stated in Finding of Fact No. 53.

Rate Base

61. TXU LSP requested a cash working capital allowance of \$2,369,164 in rate base.
62. The Aligned Cities proposed a cash working capital allowance of negative \$2,413,848.
63. A lead lag-study is the proper tool to measure TXU LSP's cash working capital requirement.
64. The failure of TXU LSP to match revenues and expenses in its lead-lag study is a fundamental error since the purpose of a lead-lag study is to net the revenue lag and expense leads associated with expenses not included in rate base.
65. Electric and gas utilities typically match revenues and expenses in performing lead-lag studies.
66. TXU LSP overstated its cash working capital needs by more than \$1 million by including over \$9 million in revenues not associated with any expense component of the lead-lag study.
67. TXU LSP's lead-lag study included revenues associated with return and depreciation.
68. Depreciation and return revenue needs are non-cash items that should not be included in a lead-lag study.
69. TXU LSP's requested federal income tax lead days assume that federal income taxes are incurred ratably each quarter throughout the year, but TXU LSP's federal income tax payments are not made in four equal installments.
70. TXU LSP's lead-lag study fails to measure the time between when TXU LSP incurred a federal income tax liability and when the tax liability was paid.
71. Neither TXU LSP nor the Aligned Cities presented a reliable lead-lag study. In the absence of a reliable lead-lag study, it is reasonable to deny TXU LSP's requested cash working capital component of rate base.
72. Based on Findings of Fact Nos. 61-71, cash working capital of zero for TXU LSP is reasonable.
73. TXU LSP has not requested any funds for construction work in progress.
74. TXU LSP has not requested any funds for retired work in progress.
75. Materials and supply inventory in the amount of \$1,671,123 and prepayments in the amount of \$378,304 are reasonable.

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76. Accumulated deferred federal income taxes of \$53,929,913 and a net unrestored investment tax credit of \$8,869,292 are reasonable.
77. Net gas plant investment of \$379,564,319 is reasonable.

Rate of Return

78. TXU LSP's capital structure should be based on the average capital structure of a proxy group of local distribution companies (LDCs).
79. A cost of debt for TXU LSP of 7.42% is reasonable.
80. A cost of preferred stock for TXU LSP of 6.58% is reasonable.
81. A cost of equity of 11% is reasonable and based on a constant growth discounted cash flow (DCF) analysis.
82. An overall rate of return of 9.223% is reasonable.
83. A reduction of \$1,982,143 to reflect the return described in previous findings is reasonable and should be adopted.

Revenues

84. City gate test year volumes should be weather-normalized.
85. Weather normalized city gate deliveries are 134,166,644 MMBtus.
86. The Maximum Daily Quantities, in MMBtus, for the test year are as follows:

January	2,050,857
February	2,094,065
March	1,538,577
April	794,862
May	353,958
June	348,843
July	319,176
August	299,739
September	312,015
October	728,368
November	1,375,925
December	2,150,330

87. No customer growth adjustment to revenues is necessary.
88. During the test year, LSP received lease revenues of \$3,620,891 from Meridian Oil Storage, Inc. for use of LSP pipeline facilities.
89. TXU LSP's lease with Meridian Oil Storage, Inc. will expire October 11, 2000 and will not be renewed.
90. The Aligned Cities, through their witness, proposed to credit (i.e., reduce) TXU LSP's total cost of service by \$3.6 million in transportation revenues that TXU LSP received during the test year from Meridian Oil Storage, Inc., a transportation customer. Aligned Cities' proposed adjustment is not reasonable and should be denied.
91. It is reasonable to require TXU LSP to notify the Gas Services Division of the Railroad Commission of Texas of the status of the lease between October 11, 2000 and November 11, 2000.

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92. TXU LSP provides new services for parking, lending, and pooling.
93. Aligned Cities recommended that projected budget revenue for various new services should be used to reduce total TXU LSP cost of service.
94. Revenues from parking, lending, and pooling are speculative at this time.
95. It is reasonable to require TXU LSP to provide an annual accounting of revenues received from new services (including, but not limited to, parking, lending, and pooling), as part of its annual report to the Gas Services Division. It is also reasonable to require TXU LSP to disaggregate its annual report and provide a separate report for TXU LSP from that for TXU Gas-Distribution and TXU Gas Distribution-Transmission.
96. LSP received stand-by fee revenues of \$2,481,922 in the test year.
97. Stand-by service is supported by TXU LSP's excess storage capacity.
98. In GUD No. 8664, the Railroad Commission of Texas required TXU Gas-Distribution to book the revenue as storage revenue to TXU LSP.
99. On January 1, 2000, TXU LSP began booking the revenues to TXU Gas-Distribution.
100. The stand-by service revenues are not attributable to TXU Gas-Distribution.
101. Stand-by service revenues of \$2,481,922 should be credited to TXU LSP's transportation cost of service as other revenues.
102. TXU LSP sold its Pike's Peak Plant and Gathering System for a gain of \$2,096,227.
103. There is no associated depreciation expense or return associated with Pikes Peak facilities in TXU LSP's proposed cost of service in this docket.
104. Pikes Peak had been fully depreciated in prior years for federal income tax purposes.
105. ENSERCH CORPORATION's shareholders absorbed a \$12 million write-down of the Pike Peak assets in 1997.
106. No adjustment is necessary for the sale of the Pikes Peak facility.
107. As discussed further in Findings of Fact Nos. 108 through 114, TXU LSP is selling EPI and its assets to Canterra Resources, including assets transferred by TXU LSP to EPI at net book value.

Expenses

108. TXU LSP transferred certain assets to TXU Processing, previously known as EPI, after the test year.
109. TXU Processing was sold to Canterra Resources after the test year.
110. TXU LSP witnesses did not take into account the asset transfer from TXU LSP to TXU Processing as a known and measurable change to the test year.
111. TXU LSP's attorney told the Examiners that TXU Processing was being sold to Canterra Resources, pending due diligence, during the last days of this hearing.
112. The four assets, with a net book value of \$1,868,831 at the time of the transfer, were transferred to a separate legal entity that is an affiliate of TXU LSP.

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113. There is not enough information in the record to determine the reasonableness of this transaction and how the benefits, if any, should be assigned.
114. The sale of TXU Processing occurred after the end of the test year in this case. Any adjustment to rate base will be accounted for in a subsequent proceeding.
115. TXU LSP's proposed test-year expense annualization was not contested by any party, is reasonable, and should be adopted.
116. TXU LSP's proposed normalization of test year expense, with the exception of payroll expense, was not contested by any party, is reasonable, and should be adopted.
117. The Aligned Cities' proposed payroll test-year expense normalization, based on November 1999 payroll data, is reasonable and should be adopted.
118. Testimony indicated that an executive's salary is being split between TXU LSP and another TXU LSP affiliate.
119. An adjustment of \$10,834 to test year payroll expenses for the split salary is reasonable.
120. Payroll expenses for TXU LSP include expenses for payroll from TXU Pipeline Services.
121. TXU Pipeline Services provides services to TXU LSP and other affiliates.
122. TXU Pipeline Services proposed to allocate 18.8% of its labor costs to affiliates other than TXU LSP based upon hours.
123. Allocating labor costs, which may vary among employees, based upon hours is not just and reasonable.
124. It is reasonable to allocate labor costs for TXU Pipeline Services based on actual dollars paid for labor.
125. The Aligned Cities calculated that TXU Pipeline Services allocated 29.63% of its overtime labor costs for a three-month period to affiliates other than TXU LSP.
126. An allocation factor of 29.63% to allocate TXU Pipeline Services payroll expenses to other affiliates is appropriate because it best reflects the actual allocation of payroll dollars and is closer to the allocator used for allocation of TXU Pipeline Services' charges from TXU Business Services to other affiliates than is TXU LSP's proposed allocator of 18.8%.
127. An adjustment to payroll in the amount of \$2,495,258 is just and reasonable.
128. An adjustment that reduces employee benefits and workers' compensation expenses proposed by TXU LSP by \$701,737 is appropriate to reflect the adjustment to payroll expense made in the Finding above.
129. TXU LSP's storage expenses of \$5,071,147 are reasonable, and should be adopted.
130. The annual depreciation expense included by TXU LSP in its cost of service was \$15,717,236; this amount is unreasonable and should not be adopted.
131. With the exception of Account 367, Transmission Mains, TXU LSP's proposed depreciation rates are reasonable and should be adopted.
132. A 60-year service life for TXU LSP's Account 367, Transmission Mains, is reasonable and should be adopted.
133. Adoption of a 60-year service life for TXU LSP Account 367 results in an adjustment to TXU LSP's proposed depreciation expense of \$768,000.
134. The Equal Life Group (ELG) depreciation method used by TXU LSP is reasonable and should be retained.
135. TXU LSP's proposed net salvage level of 0% for the Underground Storage function is reasonable.

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136. TXU LSP's proposed net salvage level of 0% for the Transmission City-Gate function is reasonable.
137. TXU LSP's proposed net salvage level of 0% for the Transmission Compressor function is reasonable.
138. It is reasonable to adjust TXU LSP's rate base to remove depreciation associated with setting the net salvage levels at 0% for those accounts identified in Findings of Fact Nos.135-137; the amount of depreciation associated with zero net salvage values, as opposed to 5% net salvage values, is \$1,107,000.
139. It was appropriate for TXU LSP to remove merger-related relocation and severance expenses in its initial filing, errata, and rebuttal testimony.
140. Relocation and severance expenses relating to the merger are non-recurring expenses that should not be included in cost of service.
141. Office relocation expense of \$105,650, which was not removed by TXU LSP in its filings, was a non-recurring expense that should be removed from cost of service as a disallowed expense.
142. TXU LSP's proposed post-employment benefits expenses were not contested, are reasonable, and should be adopted.
143. TXU LSP's proposed pensions and other employee benefits loading rate was not contested, are reasonable, and should be adopted.
144. TXU LSP's proposed expenses included \$112,510 for association dues to organizations engaged in lobbying activities.
145. TXU LSP's did not show that the association dues paid did not include an amount for legislative advocacy.
146. It is reasonable to disallow \$112,510 for association dues since TXU LSP was unable to establish what portion of that amount was dedicated to legislative advocacy.
147. TXU LSP's proposed expenses included \$18,588 in expense for researching customer loyalty.
148. TXU LSP has only one customer, TXU Gas-Distribution, which is both a related company division and a loyal customer; customer loyalty research expense in the amount of \$18,588 is an unnecessary expense.
149. TXU LSP failed to establish that an expense for researching customer loyalty was reasonable or necessary.
150. It is reasonable to disallow \$18,588 for research related to customer loyalty.
151. An adjustment that reduces payroll taxes proposed by TXU LSP by \$220,890 is appropriate to reflect the adjustment to payroll expense made in Findings of Fact above.
152. An adjustment to property taxes proposed by TXU LSP that reduces that tax amount by \$24,279 to reflect plant balances during the 1998 and 1999 months in the test year is reasonable and should be adopted.
153. The \$245,169 total adjustment to Other Taxes results in a total amount for this category of \$6,063,452. This amount is reasonable and should be adopted.

Functionalization

154. In GUD No. 8664, the Commission approved the functionalization of TXU LSP's services into transportation and storage.
155. The current functionalization into transportation and storage provides an accurate separation of costs associated with the facilities.

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156. Further functionalizing transportation costs into area network and mainline does not increase the accuracy of the cost allocation process.

Classification

157. Fixed and variable costs are treated differently in the cost allocation process.
158. It is reasonable to separate costs into those that are required for the overall operation of the system and that do not vary with the throughput on the system (Fixed costs) and those that do vary with throughput on the system (Variable costs).
159. TXU LSP's method of assigning Labor costs as Fixed for Gathering, Other Gas Supply Expenses, and Transmission expenses is reasonable and should be adopted.
160. TXU LSP's method of assigning S & E/Other expenses for Gathering, Other gas Supply Expenses, and Transmission is reasonable and should be adopted.
161. TXU LSP's method of assigning pension and benefits as fixed for General and Administrative expenses is reasonable and should be adopted.
162. TXU LSP's classification for all general and administrative expenses as fixed was not reasonable.
163. In the short term, General and Administrative expenses vary depending on throughput.
164. It is reasonable to assign all General and Administrative expenses except for direct labor equally between Fixed and Variable classification.
165. It is reasonable to classify \$76,197,451 of the total transportation cost of service as Fixed, and \$11,382,005 as Variable.
166. It is reasonable to classify \$14,725,352 of total storage costs as Fixed and \$2,340,845 of total storage costs as Variable.

Cost of Service and Allocation

167. A total cost of service of \$87,579,456 for Transportation is reasonable.
168. A total gathering expense of \$1,734,355 for Transportation is reasonable.
169. A total transmission expense of \$20,288,151 for Transportation is reasonable.
170. A total general and administrative expense of \$18,123,413 for Transportation is reasonable.
171. Total depreciation expense of \$13,253,967 for Transportation is reasonable.
172. Taxes "other than income" expenses in the amount of \$5,510,796 for Transportation are reasonable.
173. A rate of return expense of \$24,183,635 for Transportation is reasonable.
174. Total federal income taxes of \$8,066,495 for Transportation are reasonable.
175. Total other revenues credits in the amount of \$3,581,356 for Transportation are reasonable.
176. A fixed cost allocation factor of 46.18 % for transportation appropriately ascribes costs to the class of customer for whose benefits those costs are incurred.
177. Total TXU LSP Transportation fixed costs allocated to the city gate service of \$35,361,638 are reasonable.

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- 178. A variable cost allocation factor of 23.43% for transportation appropriately ascribes costs to the class of customer for whose benefits those costs are incurred.
- 179. Total TXU LSP Transportation variable costs allocated to the city gate service of \$3,121,907 are reasonable.
- 180. A total cost of service of \$17,066,198 for Storage is reasonable.
- 181. Total underground storage expenses of \$5,071,147 for Storage are reasonable.
- 182. Total General and Administrative expenses of \$2,587,169 for Storage are reasonable.
- 183. Total depreciation expenses of \$1,773,483 for Storage are reasonable.
- 184. Total taxes, other than income, of \$974,281 for Storage are reasonable.
- 185. A total return of \$5,117,515 for Storage is reasonable.
- 186. Total federal income taxes of \$1,706,956 for Storage are reasonable.
- 187. A total revenue credit of \$164,354 for Storage is reasonable.
- 188. An allocation factor for capacity costs of 79.50% for storage appropriately ascribes costs to the class of customer for whose benefits those costs are incurred.
- 189. Total TXU LSP Storage capacity costs allocated to the city gate service of \$5,882,594 are reasonable.
- 190. An allocation factor for deliverability costs of 85.73% for storage appropriately ascribes costs to the class of customer for whose benefits those costs are incurred.
- 191. Total TXU LSP Storage deliverability costs allocated to the city gate service of \$6,343,583 are reasonable.
- 192. An allocation factor for variable costs of 66.00% for storage appropriately ascribes costs to the class of customer for whose benefits those costs are incurred.
- 193. Total TXU LSP Storage variable costs of \$1,552,683 allocated to the city gate are reasonable.

Rate Design

- 194. A demand-volumetric rate design for Transportation cost of service is reasonable.
- 195. The demand cost is calculated by dividing one-half of fixed costs for transportation by twelve months.
- 196. A demand charge per month of \$1,473,402 is fair and equitable.
- 197. The volume charge is derived by adding total transportation variable costs plus one-half of the fixed costs and dividing by normalized annual city gate deliveries.
- 198. A volumetric charge per MMBtu of 15.5 cents is fair and equitable.
- 199. A deliverability-capacity rate design for Storage cost of service is reasonable.
- 200. The deliverability charge per month of \$1,268,717 covers the costs classified as deliverability-related and would be charged during the months of November through March.
- 201. The capacity charge per month, \$619,606, recovers the costs classified as capacity-related and would be charged every month.

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CoServ Issues

202. CoServ and the State of Texas challenged the language of TXU LSP's proposed tariffs as discriminatory because the tariff language proposed by TXU LSP limits its applicability to only one customer, TXU Gas-Distribution.
203. CoServ and the State of Texas asserted that the tariff approved in this docket should be available to other city gate customers on TXU LSP's system. CoServ's proposed changes to the language of the tariff to make it applicable to other city gate customers.
204. CoServ's proposal could have statewide implications for all utilities and is more appropriately addressed outside the confines of this contested rate case proceeding.

Rate Case Expenses

205. TXU LSP's rate case expenses in the amount of \$3,066,382.50 are reasonable. Those expenses include the following:
- a. TXU LSP's requested rate case expenses of \$2,857,488 for actual work through May 30, 2000, minus \$115,105.50 addressed in Findings of Fact Nos. 206 through 208 below;
 - b. TXU LSP's projected future rate case expenses of \$324,000 for work performed after May 31, 2000.
206. It is reasonable to disallow TXU LSP's expenses for preparation of the cash working capital (CWC) study, in the amount of \$72,798, because the CWC study failed to provide any additional information beyond what was recommended in GUD No. 8664 and TXU LSP failed to provide a reliable lead-lag study.
207. It is reasonable to disallow TXU LSP's expenses for resisting discovery related to the discovery dispute surrounding the Ragsdale Model, in the amount of \$22,307.50 for the following reasons:
- a. The requested information involving the Ragsdale Model was the type of information encompassed by the Aligned Cities' discovery request.
 - b. TXU spent \$22,307.50 in resisting the Motion to Compel; and
 - c. It was not reasonable for TXU LSP to resist disclosure of this information.
208. It is reasonable to disallow \$20,000 as a discovery sanction for the following reasons:
- a. TXU LSP's withholding the information involving the Ragsdale Model had a detrimental effect on the efficiency of the proceeding; and
 - b. The information regarding the Ragsdale Model should have been included with TXU LSP's initial rate-filing package, or in response to the Aligned Cities' initial Request for Information on the subject.
209. The Aligned Cities' rate case expenses of \$1,401,267 are reasonable. Those expenses include the following:
- a. The Aligned Cities' requested rate case expenses of \$923,356 for actual work completed through May 31, 2000, minus \$18,294 addressed in Finding of Fact 211 below;
 - b. Projected future rate case expenses of the Aligned Cities in the Amount of \$496,205 for work performed after May 31, 2000.
210. As part of the amount included in Finding of Fact No. 209 above, it is reasonable to allow the Aligned Cities the \$21,815.75 they spent in prosecuting their Motion to Compel Discovery regarding the Ragsdale Model.

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211. It is reasonable to disallow \$18,294 of the Aligned Cities' rate case expenses, because it represents a 12.2% mark-up on invoices for affiliated consultants in order to cover internal costs associated with the use of those independent consultants, and includes a cost of money attributable to the lag between payment to the consultant and reimbursement from the client.
212. It is reasonable to allow TXU LSP to recover its rate case expenses allowed herein, and those approved amounts of the Aligned Cities' rate case expenses, other than the \$21,815.75 described in Finding of Fact No. 211 above, which TXU LSP reimburses to the Aligned Cities as provided herein, through a surcharge on its rates over two years, by amortizing the total expense using two times the normalized annual city gate delivery volume approved in this docket as the denominator in deriving the surcharge. It is reasonable to allow TXU LSP to revise the recovery factor quarterly for additional incurred expenses that are consistent with the Commission-approved \$820,205 (\$324,000 for TXU LSP plus \$496,205 for Aligned Cities) in estimated expenses for work to be performed after May 31, 2000. It is reasonable to allow TXU LSP to true-up the amounts actually recovered with the rate case expenses authorized herein, at the end of the two-year period.
213. It is reasonable to require TXU LSP to reimburse the Aligned Cities for the incurred portion of their approved rate case expenses, which total \$905,062, within 30 days after the date of this Order. It is also reasonable to require TXU LSP to reimburse additional incurred and approved expenses of the Aligned Cities within 30 days of the day the Aligned Cities submit documentation to TXU LSP that those expenses have been incurred.

CONCLUSIONS OF LAW

1. TXU Lone Star Pipeline (TXU LSP) is a gas utility as defined in the Texas Utilities Code (TUC). TEX. UTIL. CODE ANN. §§ 101.003(7) and 121.001 (Vernon Supp. 2000).
2. TXU LSP is subject to the jurisdiction of the Railroad Commission of Texas pursuant to the TUC. TEX. UTIL. CODE ANN. § 102.001 (Vernon 1998).
3. TXU LSP's filing and its public notice complied with the requirements of Section 104.102 and 104.103 of the TUC. TEX. UTIL. CODE ANN. §§ 104.102 & 104.103 (Vernon 1998).
4. TXU LSP failed to meet its burden of proof on the elements of its requested rate increase identified in this order. TEX. UTIL. CODE ANN. § 104.008 (Vernon 1998).
5. As established in the findings of fact, TXU LSP has not established that it has accounted for all originally anticipated merger related savings as required by GUD No. 8664. *Tex. R.R. Comm'n, Statement of Intent of Lone Star Gas Company and Lone Star Pipeline Company, Divisions of Enserch Corporation, And ENSAT Pipeline Company to Increase the Intra-Company City Gate Rate*, G.U.D. No. 8664 (Gas Utils. Div. November 25, 1997) (Second Order on Rehearing Nunc Pro Tunc).
6. Under the TUC, payments to affiliates are excluded from TXU LSP's rate base or operating expenses unless the Railroad Commission of Texas specifically finds each item or class of items reasonable and necessary and finds that the price to TXU LSP is not higher than the prices charged by the supplying affiliate to its other affiliates or divisions or to a nonaffiliated person for the same item or class of items. TEX. UTIL. CODE ANN. § 104.055(b) (Vernon 1998).
7. Transactions between unincorporated divisions of the same corporate entity are not affiliate transactions subject to the requirements of Section 104.055(b) of the TUC.
8. Under TUC § 104.055(b), payments to affiliates are not presumed to be reasonable.
9. Under TUC § 104.055(b), the TXU Business Services, Inc. charges to TXU LSP through TXU Pipeline Services are affiliate transactions subject to the requirements of the TUC.
10. TXU LSP has met its burden of establishing that transactions charged to TXU LSP from TXU Business Services, Inc., through TXU Pipeline Services, are reasonable and necessary and TXU LSP does not pay more than the price charged to other affiliates or divisions or to a non-affiliated person for the same item or class of items.
11. Although Commission Rule 7.56 permits inclusion of some advertising expenses, a utility is required to meet the statutory

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affiliate transaction standards under TUC § 104.055(b) in order to include the expenses if they are incurred by an affiliate. 16 Tex. Admin. 7.56.

12. TXU LSP failed to meet its burden of proof that certain charges as described in the Findings of Fact Nos. 45-60 meet the standard for affiliate transactions under TUC § 104.055(b).
13. TXU LSP's overall revenues as established by the findings of fact and attached schedules are sufficient to permit it a reasonable opportunity to earn a reasonable return on its invested capital used and useful in providing service to the public in excess of its reasonable and necessary operating expenses, as required by TUC § 104.051.
14. The issue raised by CoServ and the State of Texas of the possibility of discrimination regarding the tariff language proposed by TXU LSP which limits application of the approved rates to TXU Gas-Distribution should be severed from this proceeding and considered in a separate docket.
15. The rates and rate design reflected in the findings of fact and attached schedules are just and reasonable, not unreasonably preferential, prejudicial, or discriminatory, but are sufficient, equitable, and consistent in application to each class of consumers, in compliance with TUC § 104.003.
16. Each party seeking reimbursement for its rate case expenses has the burden to prove the reasonableness of such rate case expenses by a preponderance of the evidence, under 16 TEX. ADMIN. CODE § 7.57.
17. The Rate case expenses of \$3,066,382.50 for TXU LSP and \$1,401,267 for the Aligned Cities enumerated in the findings of fact, are reasonable and comply with 16 TEX. ADMIN. CODE § 7.57.
18. The Commission has the authority to allow TXU LSP to recover rate case expenses through a surcharge on its rates, under TEX. UTIL. CODE. ANN. § 104.051 (Vernon 1998).
19. It is reasonable for the Commission to order TXU LSP to pay the Aligned Cities' incurred reasonable rate case expenses within 30 days of the date of this Order, under TEX. UTIL. CODE. ANN. § 103.022 (Vernon 1998).

IT IS THEREFORE ORDERED that TXU LSP's requested revenue increase and rate are **DENIED**.

IT IS FURTHER ORDERED that the rates and rate design reflected in the findings of fact and conclusions of law and in the Schedules are **APPROVED**.

IT IS FURTHER ORDERED that TXU LSP shall be required to file an Addendum to the General Annual Report it is required to file with the Commission. The Audit Section of the Gas Services Division shall provide the form for the addendum and TXU LSP shall be required to use that form. TXU LSP is also hereby required to separate the financial activities of TXU Gas Company (dba TXU Gas-Distribution), TXU Gas Distribution-Transmission, and TXU Gas Company (dba TXU Lone Star Pipeline). The report shall include an accounting of all revenues from the Meridian Oil Storage, Inc., lease and any revenues from new services, including but not limited to, parking, lending, and end-user pooling services.

IT IS FURTHER ORDERED that consideration of the issues raised by CoServ and the State of Texas (*i.e.*, whether discrimination results from the proposed TXU LSP tariff language which restricts the application of the approved rates to TXU Gas-Distribution) is hereby severed into a separate proceeding and docketed as GUD No. 9155.

IT IS FURTHER ORDERED that TXU LSP shall file tariffs incorporating rates consistent with this Order within thirty days of the date of this Order.

IT IS FURTHER ORDERED that the TXU LSP is authorized to recover a surcharge on its rates charged to ratepayers, over two years, to recover TXU LSP's rate case expenses as approved herein and the approved rate case expenses that TXU LSP is required to pay to the Aligned Cities as set out in Finding of Fact No. 213. TXU LSP shall calculate the surcharge by amortizing the total expense using two times the normalized annual city gate delivery volume approved in this docket as the denominator in deriving the surcharge. TXU LSP may revise the recovery factor quarterly for additional incurred expenses that are consistent with the Commission-approved \$820,205 in estimated expenses for work to be performed after May 31, 2000. At the end of the two-year

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period, TXU LSP may true-up the amounts actually recovered with the rate case expenses authorized herein. The surcharge authorized herein shall be included in TXU Gas-Distribution's billings to its residential and commercial customers.

IT IS FURTHER ORDERED that TXU LSP shall reimburse the Aligned Cities their incurred rate case expenses as approved herein within 30 days after the date of this Order.

IT IS FURTHER ORDERED that the hearing transcript corrections requested by TXU LSP and recommended by the Examiner in his June 22, 2000 memorandum to the Commission are hereby approved.

IT IS FURTHER ORDERED that this order shall not be final and effective until twenty days after a party is notified of the Commission's order. Pursuant to TEX. GOV'T CODE § 2001.142(c), a party shall be presumed to have been notified of the Commission's order three days after the date on which the notice is actually mailed. If a timely motion for rehearing is filed by any party at interest, this order shall not become final and effective until such motion is overruled or, if rehearing is granted, this order shall be subject to further action by the Commission.

IT IS FURTHER ORDERED that all proposed findings of fact and conclusions of law not specifically adopted herein are **DENIED**. **IT IS ALSO ORDERED** that each exception to the Examiner's Revised Proposal for Decision not expressly granted herein is overruled and all pending motions and requests for relief not previously granted or granted herein are hereby denied.

Signed this 22nd day of June, 2000.

RAILROAD COMMISSION OF TEXAS

/s/ _____
TONY GARZA
COMMISSIONER

I disagree with the allocation methodology and percentages adopted by the Commission.

/s/ _____
MICHAEL L. WILLIAMS
CHAIRMAN

I disagree with the decision not to require TXU LSP to file a rate case within the next three years. I also disagree with Findings of Fact Nos. 135-137, which adopt TXU LSP's proposed net salvage level of zero percent. I believe the salvage value for the listed accounts should be five percent.

/s/ _____
CHARLES R. MATTHEWS
COMMISSIONER

ATTEST:
/s/ Kim Williamson
SECRETARY

SECTION 6
MISCELLANEOUS

STEVE PITNER, GAS SERVICES DIVISION DIRECTOR

1. **OFFICE OF THE DIRECTOR**

A. **Publications**

1. Texas Utilities Code Titles 3 and 4. Special Rules of Practice and Procedure and Substantive Rules -

JLI

TXU LSP GUD NO. 8976
EXPENSE ADJUSTMENT DETAILS BY CATEGORY

JST

ATTACHMENT I

Sec. 1 General & Administrative Adjustments

Affiliate Expenses

category	adjustment	cost classification assigned to	treatment
advertising	\$ (102,863)	G & A	50/50 fixed and variable
corporate oversight	\$ (1,069,347)	G & A	50/50 fixed and variable
credit & collections	\$ (103,152)	G & A	50/50 fixed and variable
Shareholder Services	\$ (3,070)	G & A	50/50 fixed and variable
Regulatory Services	\$ (425,603)	G & A	50/50 fixed and variable
Aviation Services	\$ (522)	G & A	50/50 fixed and variable
Total G & A adj.	\$ (1,704,557)		
assigned to:		storage transportation	
	\$ (213,870)	\$ (1,491,487)	
storage fixed	\$ (106,535)	trans fixed	(\$745,743.69)
storage variable	\$ (106,535)	trans variable	(\$745,743.69)

Sec. 2 Transmission Adjustments

category	adjustment	assigned to	treatment
payroll & labor norm	\$ (2,495,258)	Labor	labor to fixed
employee benefits & wc	\$ (701,737)	Labor	labor to fixed
newsletter	\$ (46,018)	Labor	labor to fixed
aviation expenses	\$ (73,588)	Labor	labor to fixed, S & E/Other to variable
Y2K Expenses	\$ (483,177)	Labor	labor to fixed, S & E/Other to variable
disallowed expense	\$ (282,795)	S & E/Other	50/50 fixed and variable
Total Transmission Adj.	\$ (4,082,573)	total fixed	(\$3,941,175.27)
assigned to:	transportation	total variable	(\$141,398)
	\$ (4,082,573)	total	(\$4,082,573)

Sec. 3 Depreciation Adjustments

category	adjustment	reference
over-accrued depreciation	\$ -	
over-accrued net salvage	\$ -	
Life Analysis - Acc 332	\$ -	
Life Analysis - Acc 367	\$ (768,000)	
Net Salv. Und. Stor.	\$ -	
Net Salv. Trans City	\$ -	
Net Salv. Trans Com.	\$ -	
Change ELG to ALG	\$ -	
Total Depreciation Adj.	\$ (768,000)	
assigned to:	storage transportation	
	\$ - \$ (768,000)	

Sec. 4 Taxes Other Than Income Taxes Adjustments

category	adjustment	reference
Property Taxes	\$ (24,279)	TXU LSP Ex. 60 at 29-31, Ex. MEF-R-4 (Florence Reb.)
Payroll Taxes	\$ (220,890)	Aligned Cities, Ex. 143, EB-2, p. 3 revised
Property Taxes assigned	storage transportation	TXU LSP Rev. Sch. J3.0, Lines 1-2
	\$ (4,233) \$ (20,046)	
Payroll Taxes assigned	storage transportation	TXU LSP Rev. Sch. J3.0, Lines 4-5
	\$ (28,693) \$ (194,198)	

Sec. 5 Return Adjustments

See Schedules for Adjusted Working Capital, Adjusted Rate Base, WACC, and Functionalized Return

Sec. 6 Federal Income Tax Adjustments

See Schedule for Federal Income Taxes on Return on Rate Base

Sec. 7 Other Revenues (Credited) Adjustments

category	adjustment	reference
Standby Fees = \$2,481,922 per 6(e) on Schedule		See TXU LSP Rev. Sch. K2.4
Replace Standby Fees TXU LSP adjusted out of Other Revenues		
assigned to:	transportation storage	
	\$ (2,481,922) \$	
fixed: (\$ 2,481,922)		
variable: \$0		

RAILROAD COMMISSION OF TEXAS

APPEAL OF TXU GAS	§	
DISTRIBUTION FROM THE ACTION	§	
OF THE CITY OF DALLAS, CITY OF	§	
UNIVERSITY PARK, AND THE	§	
TOWN OF HIGHLAND PARK,	§	GAS UTILITIES DOCKET NOS. 9145-
TEXAS AND THE STATEMENT OF	§	9148
INTENT FILED BY TXU GAS	§	
DISTRIBUTION TO INCREASE	§	
RATES CHARGED IN THE	§	
ENVIRONS OF THE CITY OF	§	
DALLAS	§	

PROPOSAL FOR DECISION

I. Introduction

This is an appeal, filed by TXU Gas Distribution, of a decision by the City of Dallas brought pursuant to Texas Utilities Code (TUC) Section 103.054. The initial rate request was filed with the City of Dallas on August 27, 1999. The case filed with the City of Dallas was based on a test year ending December 31, 1998, and requested a \$6,244,301 annual increase in revenues. This request was based, in part, on an increase in the Applicant's cost of service, which allegedly resulted from \$52.8 million in capital expenditures. As originally filed with the Railroad Commission of Texas, TXU Gas Distribution requested that, instead of a \$6,244,301 increase, a \$12,578,717 increase was required due to its increased cost of service.¹ TXU Gas Distribution subsequently updated its request through December 31, 1999, for known and measurable changes. The revised filing reflected an increase in the cost of service of \$9,128,996. Due to changes made before and during the hearing, the estimated cost of service was revised to reflect an increase of \$8,098,030.

The City of Dallas intervened in this case and argued that, instead of the \$6,244,301 increase requested at the city level, or the revised \$8,098,030 increase requested in the appeal, TXU Gas Distribution has experienced a reduction in its cost of service which should result in a \$5,513,335 decrease to its cost of service. The Examiners' recommendation contained in this Proposal for Decision (PFD) indicates that TXU Gas Distribution's cost of service has increased \$1,300,505.

¹ TXU Gas Distribution Ex. 3, Primary Exhibits, p. 1.

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PROPOSAL FOR DECISION

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However, the Applicant has not made any cost-of-service adjustment associated with this proposal. Mr. Pous argues that, once the Applicant determined that no further depreciation should be associated with these accounts, TXU Gas Distribution should have made an adjustment to the operations and maintenance expense included in this case. The City of Dallas argues that the Applicant's cost of service reflects approximately \$246,000 of clearing accounts related to depreciation expense for these accounts.³⁰⁵

(c) Examiners' Analysis and Recommendation

The Examiners recommend that the Intervenor's proposed adjustment be rejected. The Applicant has clarified that these accounts were not clearing accounts during the test year. Accordingly, no adjustment is necessary.

ii. Retroactive Rate Issues

Issue: Should a retroactive adjustment to depreciation be made to TXU Gas Distribution's treatment of fully accrued accounts?

Examiners' Recommendation: No. TXU Gas Distribution's treatment of fully accrued accounts does not violate the Texas Utilities Code.

Applicant	Intervenor	Examiners
No adjustment	\$722,259 adjustment to rate base.	No adjustment

The City of Dallas argues that the Applicant has exceeded its authority by changing the depreciation rate to zero for the three clearing accounts.³⁰⁶ On each of these accounts, the Applicant has suspended depreciation accruals. Accruals were suspended in 1999 for the transportation and power-operated equipment accounts, and in 2000 for communication equipment.³⁰⁷

(a) Applicant's Position

Mr. Watson argues that the Applicant must adhere to Generally Accepted Accounting Principles (GAAP). GAAP rules state that the Applicant should not continue to accrue depreciation expense on accounts that are fully depreciated. He argues that any suggestion to

³⁰⁵ City of Dallas, Ex. 29, pp. 77-79.

³⁰⁶ City of Dallas, Ex. 29, p. 80 & Ex. 30 pp. 1-8.

³⁰⁷ TXU Gas Distribution, Ex. 47, p. 45

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require continued accrual would be in violation of GAAP. Furthermore, he explains that no additional depreciation expense should be recovered to correct under-accrued accounts, nor should depreciation expense be refunded on those accounts that are over-accrued. Any over/under recovery will be carried forward and the net (if any) of the original investment less net salvage less any accumulated reserve will begin to be recovered under the new and future rate structure.³⁰⁸

Finally, in response to an assertion by Mr. Pous that negative depreciation rates are supported by industry practice, Mr. Watson states that no natural gas utility LDC or transmission company shows negative depreciation rates in the 1997-1998 EEI/AGA Survey of Depreciation Statistics Report. He concludes that Mr. Pous' clearing account adjustment is inconsistent with industry practice and is based on an erroneous assumption concerning the manner in which the Applicant handled clearing accounts during the test year.³⁰⁹

(b) Intervenor's Position

The City of Dallas argues that the Applicant does not have the authority to unilaterally change its depreciation rates and that any "true-up" mechanism that may have existed was eliminated by the Applicant. Mr. Pous explains that depreciation expense is obtained by multiplying the gross plant balance by the approved depreciation rate. The depreciation expense is then booked into the Account 108. This account is an offset to rate base. He further clarifies that in the establishment of revenue requirements in a rate case, a utility company is allowed to earn a reasonable return on rate base. If a utility can unilaterally change depreciation rates, it destroys the only "true-up" mechanism in the depreciation process. Further, it will artificially and inappropriately increase rate base.

(c) Examiners' Analysis and Recommendation

The Examiners recommend that no adjustment be made for the clearing accounts. The statute cited by Mr. Pous states that the Railroad Commission of Texas "shall establish proper and adequate rates and methods of depreciation, amortization, or depletion for each class of property of a gas utility or municipally owned utility." TXU Gas Distribution's treatment of fully-accrued accounts does not violate this statute. The statute is silent on how to treat fully-accrued accounts. The statute does not address any "true-up" mechanism that may, or may not, exist. If the adjustment proposed by the City of Dallas is made, then a retroactive adjustment must be made for any new investment made after rates are set in this case. Rates set in this case may or may not be adequate to recover any new expenditures. The correction occurs when a new rate is set. Finally, the Examiners agree with Mr. Watson that there is no evidence in the record that the Applicant has not charged the rate it was authorized to charge.

3. Pensions, Benefits, and OPEB's: SFAS-106.

In December 1990, the Financial Accounting Standards Board adopted Statement of Financial Accounting Standard 106 (SFAS-106), altering the way in which companies accounted

³⁰⁸ TXU Gas Distribution, Ex. 47, p. 46.

³⁰⁹ TXU Gas Distribution, Ex. 47, p. 48.

RAILROAD COMMISSION OF TEXAS

APPEAL OF TXU GAS DISTRIBUTION §
FROM THE ACTION OF THE CITY OF §
DALLAS, CITY OF UNIVERSITY PARK, §
AND THE TOWN OF HIGHLAND PARK, §
TEXAS AND THE STATEMENT OF § GAS UTILITIES DOCKET NOS.
INTENT FILED BY TXU GAS § 9145-9148
DISTRIBUTION TO INCREASE RATES §
CHARGED IN THE ENVIRONS OF THE §
CITY OF DALLAS §
§

FINAL ORDER

Notice of Open Meeting to consider this order was duly posted with the Secretary of State within the time period provided by law, pursuant to Tex. Gov't Code Ann., Chapter 551 et seq. (Vernon 1994 & Supp. 2000). The Railroad Commission of Texas adopts the following findings of fact and conclusions of law and orders as follows:

This matter was duly considered following notice and hearing by hearings examiners who filed a Proposal for Decision containing findings of fact and conclusions of law in accordance with 16 TEX. ADMIN. CODE § 1.141 (West 2000). The Proposal for Decision was properly served on all parties, and all parties were given an opportunity to file exceptions and replies as part of the record as authorized under 16 TEX. ADMIN. CODE § 1.142 (West 2000). The Railroad Commission of Texas, after review and due consideration of the Proposal for Decision, adopts the following findings of fact and conclusions of law and orders as follows:

FINDINGS OF FACT

Procedural History

1. TXU Gas Distribution owns and operates a distribution system serving approximately 236,598 customers in the City of Dallas, University Park, Cockrell Hill, and the Town of Highland Park.
2. On August 27, 1999, TXU Gas Distribution filed a Statement of Intent with the City of Dallas, University Park, Cockrell Hill, and the Town of Highland Park.
3. On February 23, 2000, the City of Dallas denied the proposed rate increase.
4. TXU Gas Distribution filed a Motion for Rehearing with the Dallas City Council on February 28, 2000.

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FINAL ORDER

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5. On March 8, 2000, the Dallas City Council issued a final order denying the requested rate change.
6. On March 21, 2000, the City of University Park denied the requested rate change.
7. On March 28, 2000, Cockrell Hill approved a negotiated rate based on the Statement of Intent.
8. TXU Gas Distribution filed an appeal to the Railroad Commission of Texas on April 7, 2000, pursuant to Texas Utilities Code §§ 103.051 & 103.054.
9. TXU Gas Distribution filed its Statement of Intent to Increase Rates in the Environs of the City of Dallas on April 7, 2000.
10. On May 2, 2000, the Commission ordered that the rates proposed by TXU Gas Distribution for the Environs of the City of Dallas be suspended 150 days from the date the rates would otherwise go into effect.
11. The Examiners held pre-hearing conferences on April 17, 2000, April 25, 2000, May 2, 2000, June 12, 2000, July 11, 2000, May 24, 2000, and July 18, 2000.
12. On May 3, 2000, the parties filed a joint procedural schedule in this case. The parties agreed to extend the proposed effective date of its Statement of Intent and the statutory deadline in this case from October 9, 2000, to November 21, 2000.
13. The City of Dallas intervened on April 14, 2000.
14. TXU Gas Distribution updated its rate-filing package for known and measurable changes through December 31, 1999, on May 24, 2000.
15. The City of Dallas filed its direct testimony on July 12, 2000, the Applicant filed rebuttal testimony on July 31, 2000, and the hearing was held beginning August 1, 2000, and ending August 10, 2000.
16. Initial Briefs were filed on August 25, 2000, and Replies were filed on September 1, 2000. The Proposal for Decision was issued on October 10, 2000. Exceptions were filed on October 25, 2000, and Replies were filed on November 3, 2000.

Structure of TXU Gas Distribution

17. The parties filed a Joint Stipulation regarding Rate Case Expenses on September 25, 2000.
18. Texas Utilities Company, a Texas corporation doing business as TXU Corp., is a holding company whose principal United States operations are conducted through TXU Electric

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FINAL ORDER

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Company (formerly known as Texas Utilities Company) TXU Gas Company (formerly known as ENSERCH Corporation), and Texas Energy Industries, Inc.

19. In August 1997, ENSERCH Corporation merged with Texas Utilities Company.
20. TXU Gas Company is an integrated company engaged in gathering, processing, transmission, and distribution of natural gas, and marketing of gas. TXU Gas Distribution is an unincorporated division of TXU Gas Company.
21. TXU Gas Distribution is a gas utility, providing gas utility service to the Dallas Distribution System. The Dallas Distribution System is an integrated local gas distribution system.
22. The distribution system is comprised of approximately 236,598 customers in Dallas, Highland Park, University Park, and Cockrell Hill.
23. The Dallas Distribution System customer base is comprised of approximately 211,897 residential customers, 24,513 commercial customers, and 188 industrial and transportation customers. There are approximately 211 customers within the environs of the City of Dallas.
24. TXU Gas Distribution's last proposed rate increase for the Dallas System was filed in September of 1995 and was based upon data for the test year ending December 31, 1994. TXU Gas Distribution and the City of Dallas agreed to an annual increase of \$5.0 million or 2.64%. The rate increase became effective in January 1996.

Rate Base

25. A portion of TXU Gas Distribution's cost for General Plant, Retirement Work in Progress (RWIP), Materials and Supplies, and Prepayments is assigned to the Dallas Distribution System.
26. The Applicant requested assignment of General Plant, RWIP, Materials and Supplies, and Prepayments to the Dallas Distribution System on the basis of total number of customers.
27. Total customers for TXU Gas Distribution are 1,384,515. Total customers for the Dallas Distribution System are 236,598.
28. The ratio of total TXU Gas Distribution customers to Dallas Distribution System customers is 0.171479.
29. The City of Dallas requested assignment of General Plant, RWIP, Materials and Supplies, and Prepayments to the Dallas Distribution System on the basis of gross distribution plant.

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30. The total gross cost of the distribution system plant of TXU Gas Distribution is \$1,226,345,903. The total gross cost of the distribution system plant of the Dallas Distribution System is \$195,224,132.
31. The ratio of total TXU Gas Distribution distribution plant to Dallas Distribution System distribution plant is 0.15919.
32. General Plant, RWIP, Materials and Supplies, and Prepayments support and follow distribution plant investment.
33. General Plant, RWIP, Materials and Supplies, and Prepayments are allocated *within* the Dallas Distribution System on the basis of distribution plant investment.
34. It is reasonable and consistent to allocate TXU Gas Distribution costs for General Plant, RWIP, Material and Supplies, and Prepayments on the basis of total Distribution Plant.
35. Total Net General Plant for TXU Gas Distribution is \$59,746,895.
36. Total Net General Plant for the Dallas Distribution System is \$9,511,103.
37. RWIP expenses for TXU Gas Distribution are negative \$1,452,876.
38. RWIP expenses for the Dallas Distribution System are negative \$231,283.
39. Material and Supplies expenses for TXU Gas Distribution are \$1,863,506.
40. Material and Supplies expenses for Dallas Distribution System are \$296,652.
41. Prepayment expenses for TXU Gas Distribution are \$4,205,613.
42. Prepayment expenses for the Dallas Distribution System are \$625,003.

Rate Base: Cash Working Capital

43. The Applicant initially testified that a Cash Working Capital of \$1,793,456 was required.
44. In supplemental testimony, the Applicant testified that a Cash Working Capital requirement of \$1,704,484 was required.
45. In rebuttal testimony, the Applicant modified its request for a Cash Working Capital requirement to a negative \$3,704,404.
46. The City of Dallas argued that the Cash Working Capital requirement should be a negative \$8,295,117.

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47. A lead-lag study is a proper tool to measure TXU Gas Distribution's Cash Working Capital requirement for the Dallas Distribution System.
48. The Applicant's Cash Working Capital request is based on a lead-lag study.
49. A revenue lag of 1.488 days for check clearing is reasonable and a total revenue lag of 30.289 days is reasonable.
50. The Applicant requested a payroll lead days of 13.177.
51. The Applicant did not include a separate analysis for vacation leave working capital requirements.
52. It is not reasonable to calculate a payroll lead day without performing an analysis of the different service periods associated with vacation pay.
53. A payroll lead day of 25.097 takes into consideration the vacation leave working capital requirements.
54. The Applicant requested pensions and benefits lead days of 22.181.
55. The Applicant calculated the pre-qualification period for new employees only.
56. The City of Dallas calculated a pre-qualification period for all employees.
57. It is unreasonable to calculate the pre-qualification period for all employees.
58. The Applicant did not measure the lead days between when an employee makes a claim for a benefit and the time that the Applicant must honor that claim.
59. Calculating lead days for pension and benefits should measure the lead days between when an employee makes a claim for a benefit and the time that the Applicant must honor that claim.
60. The appropriate lead days associated with the calculation of benefits is 22.679.
61. The Applicant requested 32.845 lead days for Other Operations and Maintenance.
62. Based on the evidence presented the invoice date is the closest approximation to the date that the Applicant actually received the product or service.
63. Based on the evidence presented the due date on the invoice, or the date that the Applicant actually paid, if it was later than the due date on the invoice, is the closest approximation to the date that the Applicant actually paid for the product or service.
64. 43.651 lead days are reasonable for Operations and Maintenance expenses.

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- 65. The Applicant proposed using a composite lead day for revenue related taxes of 20.055 lead days.
- 66. It is reasonable to use actual tax payments in calculating the lead days associated with local gross receipt taxes whenever available.
- 67. 84.704 lead days are reasonable for revenue related taxes.
- 68. The Applicant proposed 37 lead days for Federal Income Taxes.
- 69. The Intervenor proposed adoption of an expense lead day for Federal Income Taxes calculated in GUD No. 8976.
- 70. Adoption of an expense lead day calculation developed in another case is not reasonable.
- 71. The Applicant's proposed expense lead day of 37 days is reasonable.
- 72. TXU Gas Distribution's lead-lag study included revenues associated with Return, Depreciation, and Deferred Federal Income Taxes.
- 73. Return, Depreciation, and Deferred Federal Income Taxes are non-cash items that should not be included in a lead lag study.
- 74. TXU Gas Distribution requested an allowance of \$276,031 for Average Daily Bank balances.
- 75. The lead-lag study shows that TXU Gas Distribution's shareholders may not be supplying the working cash that the Applicant needs to operate the Dallas Distribution System; ratepayers should not be required to compensate shareholders for interest on funds they did not provide.
- 76. TXU Gas Distribution has requested a negative \$4,756 for Working Funds and Other.
- 77. The Intervenor requested that sales taxes be removed from the calculation of Working Funds and Other.
- 78. The Applicant has demonstrated that sales taxes were removed from the calculation of Working Funds and Other. A Cash Working Capital requirement of a negative \$4,756 is reasonable for Working Funds and Other.
- 79. Based on findings of fact 47 to 78 a Cash Working Capital requirement of a negative \$7,034,750 is reasonable.
- 80. TXU Gas Distribution has not requested any funds for Construction Work In Progress for Cash Working Capital.

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81. TXU Gas Distribution has not requested any funds for Retired Work In Progress for Cash Working Capital.

Rate of Return

82. TXU Gas Distribution is unincorporated and does not sell stock directly to the public.
83. TXU Gas Distribution's capital structure should be based on the average capital structure of a proxy group of local distribution companies (LDCs).
84. Based on an analysis of the proxy group a capital structure of 47.1 percent long-term debt, 1.7 percent preferred stock, and 51.2 percent common equity is reasonable.
85. A cost of debt for TXU Gas Distribution of 7.34% is reasonable.
86. A cost of preferred stock for TXU Gas Distribution of 5.54% is reasonable.
87. A cost of equity of 12.1% based on a discounted cash flow (DCF) analysis is reasonable.
88. A cost of equity of 12.1% is within the range of reasonableness predicted by the risk premium analysis.
89. An overall rate of return of 9.75% is reasonable.

Revenues and Expenses

90. Since 1994, TXU Gas Distribution sold forty-two separate assets and reported a realized net profit of \$3,219,341 on the sale of land related to a portion of these assets.
91. Ratepayers have not paid any depreciation expense related to the land that was sold.
92. The City of Dallas did not establish that ratepayers undertook any risk associated with the ownership or sale of land.
93. All the property referenced in finding of fact 90 above was sold outside of the test year.
94. Based on findings of fact 90-93 it is reasonable that the ratepayers not receive a credit related to the sale of assets.
95. Weather has an impact on the sale of gas which in turn affects revenues.
96. In determining a utility's revenue deficiency or surplus, it is necessary to use weather-normalized sales.
97. TXU Gas Distribution has correctly calculated the weather-normalized adjustment.

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98. The evidence in the record does not suggest that a consumption pattern normalization adjustment is necessary.
 99. All data indicates that Mcf per customer usage has consistently declined since 1994. There is insufficient evidence in the record to conclude that the trend will reverse.
 100. The present rates include a base city gate rate of \$4.02 per Mcf.
 101. The current gas cost is \$2.7535 per Mcf.
 102. It is reasonable to use the current city gate cost in calculating the revenue requirement.
 103. TXU Gas Distribution provides transportation service to its affiliate, TXU Lone Star Pipeline.
 104. The cost of service for the Dallas Distribution System is allocated to all customers.
 105. Based on findings of fact 103 & 104 it is not reasonable to credit any transportation revenues collected from TXU Lone Star Pipeline to the cost of service of the Dallas Distribution System.
 106. Transportation rates between TXU Gas Distribution and TXU Lone Star Pipeline were not set in GUD No. 8976.
 - 107. Labor expense declined after the close of the test year and some of the labor costs were shifted to supplies and expenses.
 108. The use of an out of the test year adjustment factor to reflect a decreasing trend in the costs of labor is not reasonable in this case.
 109. TXU Gas Distribution allocates labor fringe benefits to the Dallas Distribution System on the basis of total number of customers.
 110. TXU Gas Distribution reasonably allocated the labor expenses to the Dallas Distribution System.
 111. The Equal Life Group (ELG) depreciation method used by TXU Gas Distribution is reasonable.
 112. A 60-year average service life with a corresponding Iowa Curve of R2.5, for Account 376.3, Mains-Plastic, is reasonable and should be adopted.
 113. A 45-year average service life with a corresponding Iowa Curve of R4 for Account 376.4, Mains-Valves, is reasonable and should be adopted.

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114. A 60-year average service life and a corresponding Iowa Curve of R2 for Account 376.5, Main-Steel Mill Wrapped/Bare, is reasonable and should be adopted.
115. A 33-year average service life for Account 380 with a corresponding Iowa Curve of R2, Services, is reasonable and should be adopted.
116. A 5-year average service life with a corresponding Iowa Curve of R5, for Account 398, Computers, is reasonable and should be adopted.
117. Based on the evidence presented, a negative 30% net salvage for the distribution function is reasonable and should be adopted.
118. An adjustment for clearing accounts is not reasonable because TXU Gas Distribution stated that the accounts at issue were not clearing accounts during the test year.
119. A retroactive adjustment to depreciation is not reasonable because TXU Gas Distribution's treatment of fully accrued accounts is appropriate.
120. A \$7,124,173 provision for total system depreciation and a \$5,872,379 provision for Residential and Commercial customers depreciation is reasonable.
121. A five percent medical trend used in the calculation of the SFAS-106 expense is reasonable.
- 122. TXU Gas Distribution's decision not to establish an external fund is unreasonable.
123. It is reasonable to establish an external fund for SFAS-106.
124. TXU Gas Distribution has demonstrated that its affiliate expenditures are reasonable and necessary.
125. TXU Gas Distribution has demonstrated that the price charged by affiliates to TXU Gas Distribution is not higher than the prices charged to other affiliates or to non-affiliated persons.
126. Merger related expenses in the amount of \$584,664 and Y2K expenses in the amount of \$63,386 should be disallowed. TXU Gas Distribution has not established that Y2K expenses and merger related expenses are recurring.
127. Total system labor expenses of \$8,288,046 are reasonable.
128. Total system operation and maintenance supplies and expenses of \$18,431,473 are reasonable.
129. Total system un-collectible accounts of \$508,051 are reasonable.

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- 130. Total system property related taxes of \$1,388,410 are reasonable.
- 131. Total system payroll related taxes of \$639,900 are reasonable.
- 132. Total system interest on customer deposits and advances of \$327,021 is reasonable.

Revenue Requirement

- 133. TXU Gas Distribution requested a total revenue requirement for the residential and commercial customers in the Dallas Distribution System in the amount of \$144,968,857, exclusive of service charges revenues.
- 134. The proposed total revenue requirement for the residential and commercial customers in the Dallas Distribution System is \$139,477,946, exclusive of service charges revenues.
- 135. The total revenue requirement proposed by TXU Gas Distribution includes revenue-related taxes of \$8,632,895. These revenue-related taxes are not included in the base rate.
- 136. The proposed total revenue requirement includes revenue-related taxes of \$8,305,906. These revenue-related taxes are not included in the base rate.
- 137. The service charges attached as Appendix A to this order are reasonable.
- 138. TXU Gas Distribution requested revenues for service charges to residential and commercial customers in the amount of \$1,463,896 and this amount is reasonable.

Rate Design

- 139. Residential rates consisting of a customer charge of \$7.50, a volumetric charge per Mcf of \$3.4019, and an off peak discount of \$0.25 for each Mcf in excess of 8 Mcf for each of the billing months of May through October are reasonable.
- 140. Commercial rates consisting of a customer charge of \$13.50, and three different blocks of volumetric charges; \$3.5884 for the first 20 Mcf, \$3.2976 for the next 30 Mcf, and \$3.1521 for all consumption over 50 Mcf are reasonable.
- 141. The residential and commercial rates summarized in Appendix B are reasonable.
- 142. The weather normalization adjustment described in Appendix C is reasonable.
- 143. A purchased gas adjustment proposed by TXU Gas Distribution and attached in Appendix B, is reasonable.
- 144. TXU Gas Distribution has not met its burden of proof in establishing that a plant investment cost adjustment is reasonable.

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145. TXU Gas Distribution has not met its burden of proof in establishing that a cost of service adjustment clause is reasonable.
146. TXU Gas Distribution has not met its burden of proof in establishing that the proposed line extension policy is reasonable. The proposed line extension policy does not specify the specific fee per foot.
147. The tax adjustment clause proposed by TXU Gas Distribution, and attached in Appendix B, is reasonable.
148. TXU Gas Distribution must include revenue-related taxes as a specific line item on the customer's bills.

Allocation

149. TXU Gas Distribution has not established that it is reasonable to divide the Dallas Distribution System for cost allocation purposes.
150. TXU Gas Distribution established that the cost of installing the minimum system required to serve all customers would cost \$11,743,983.
151. Based on the evidence presented, an allocation factor for customer-related costs based on total number of customers is reasonable.
152. Based on the evidence presented, an allocation factor for demand-related costs based exclusively on a winter peak day demand usage is not reasonable.
153. An allocation factor that averages peak demand usage with annual throughput is reasonable.
154. Operations and Maintenance labor expenses allocated to residential and commercial customers of \$7,376,636 is reasonable.
155. Operations and Maintenance supplies and expenses allocated to residential and commercial customers of \$16,431,453 are reasonable.
156. Property related taxes in the amount of \$1,144,451 allocated to residential and commercial customers are reasonable.
157. Payroll-related taxes in the amount of \$569,532 allocated to residential and commercial customers are reasonable.
158. Provision for depreciation in the amount of \$5,872,379 allocated to residential and commercial customers is reasonable.
159. Provision for interest on customer deposits and advances of \$327,021 is reasonable.

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Rate Case Expenses

160. TXU Gas Distribution's rate case expenses in the amount of \$1,537,937.40 are reasonable. Those expenses include the following:
- a. TXU Gas Distribution's requested rate case expenses of \$1,288,937.40 for actual work through August 31, 2000.
 - b. TXU Gas Distribution's projected future rate case expenses of \$249,000 for work performed after September 1, 2000, for completion of the case before the Railroad Commission of Texas and for any appeal of the Final Order.
161. The rate case expenses of the City of Dallas in the amount of \$721,869.04 are reasonable. Those expenses include the following:
- a. City of Dallas' requested rate case expenses of \$531,869.04 for actual work through August 31, 2000.
 - b. City of Dallas's projected future rate case expenses of \$200,000 for work performed after September 1, 2000, for completion of the case before the Railroad Commission of Texas and for any appeal of the Final Order.
162. It is reasonable to disallow the City of Dallas's expenses for resisting discovery in the amount of \$10,000 for the following reasons.
- a. Details requested regarding expert witnesses were within the requirements of the Texas Rules of Civil Procedure.
 - b. Failing to make documents available for inspection as required by the procedural schedule.

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CONCLUSIONS OF LAW

1. TXU Gas Distribution is a gas utility as defined in the Texas Utilities Code (TUC). TEX. UTIL. CODE ANN. §§ 101.003(7) and 121.001 (Vernon Supp. 2000).
2. TXU Gas Distribution is subject to the jurisdiction of the Railroad Commission of Texas pursuant to the TUC. TEX. UTIL. CODE ANN. § 102.001. (Vernon 1998).
3. TXU Gas Distribution's filing and its public notice complied with the requirements of Section 104.102 and 104.103 of the TUC. TEX. UTIL. CODE ANN. §§ 104.102 & 104.103 (Vernon 1998).
4. TXU Gas Distribution's filing of its *Petition for Review of Municipal Rate Decisions* comply with the requirements of TEX. UTIL. CODE ANN. § 103.054 (Vernon 1998).
5. The overall revenue requirement established in this Order will permit TXU Gas Distribution a reasonable opportunity to earn a reasonable return on its invested capital used and useful in providing service to the public in excess of its reasonable and necessary operating expenses under TEX. UTIL. CODE ANN. § 104.051 (Vernon 1998).
6. TXU Gas Distribution failed to meet its burden of proof on the elements of its requested rate increase identified in this order. TEX. UTIL. CODE ANN. § 104.008 (Vernon 1998).
7. Pursuant to TUC, payments to affiliates are excluded from TXU Gas Distribution's rate base or operating expenses unless the Railroad Commission of Texas specifically finds each item or class of items reasonable and necessary and finds that the price to TXU Gas Distribution is not higher than the prices charged by the supplying affiliate to its other affiliates or division or to a nonaffiliated person for the same item or class of items. TEX. UTIL. CODE ANN. § 104.055(b) (Vernon 1998).
8. The rates established in this Order will not yield more than a fair return on the adjusted value of the invested capital used and useful in providing service to the public, under TEX. UTIL. CODE ANN. § 104.052 (Vernon 1998).
9. The Commission is required to establish proper and adequate rates and methods of depreciation for each class of property of a gas utility, under TEX. UTIL. CODE ANN. § 104.054(a) (Vernon 1998).
10. Book depreciation and amortization for ratemaking purposes must be computed on a straight-line basis over the useful life expectancy of the item of property or facility in question, under 16 TEX. ADMIN. CODE § 7.51(a) (West 2000).
11. The rates and rate design reflected in the findings of fact are just and reasonable, not unreasonably preferential, prejudicial, or discriminatory, but are sufficient, equitable, and

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consistent in application to each class of consumers, under TEX. UTIL. CODE ANN. § 104.003 (Vernon 1998).

12. Each party seeking reimbursement for its rate case expenses has the burden to prove the reasonableness of such rate case expenses by a preponderance of the evidence, under 16 TEX. ADMIN. CODE § 7.57 (West 2000).
13. The rate case expenses enumerated in the findings of fact herein are reasonable and comply with 16 TEX. ADMIN. CODE ANN. § 7.57 (West 2000).
14. The Commission has the authority to allow TXU Gas Distribution to recover rate case expenses through a surcharge on its rates, under TEX. UTIL. CODE ANN. § 104.051 (Vernon 1998).
15. It is reasonable for the Commission to order TXU Gas Distribution to pay the Non-Settling Cities' incurred rate case expenses, and estimated rate case expenses pursuant to the stipulation between the parties, under TEX. UTIL. CODE ANN. § 103.022 (Vernon 1998).

IT IS THEREFORE ORDERED that TXU Gas Distribution's requested rates are **DENIED**.

IT IS FURTHER ORDERED that the rates and rate design reflected in the findings of fact, in the Schedules attached at Appendix D, and conclusions of law are **APPROVED**.

IT IS FURTHER ORDERED that TXU Gas Distribution shall file tariffs incorporating rates consistent with this Order within thirty days of the date of this Order.

IT IS FURTHER ORDERED that TXU Gas Distribution is authorized to recover a surcharge on its rates charged to ratepayers in the City of Dallas, the City of University Park, and the Town of Highland Park, and the environs of the City of Dallas calculated on an Mcf basis over a period of twenty-four (24) months, commencing on the date rates set in this docket become effective. As estimated expenses are actually incurred, TXU Gas Distribution is authorized to add to the amount subject to surcharge up to the total of estimated expenses for TXU Gas Distribution and the City of Dallas contained in this order. **IT IS ALSO ORDERED** that TXU Gas Distribution shall file a quarterly report informing the Railroad Commission of the balance of the surcharge with the Director of the Gas Services Division.

IT IS FURTHER ORDERED that TXU Gas Distribution shall reimburse the City of Dallas its incurred rate case expenses approved herein, and estimated rate case expenses pursuant to the stipulation between the parties, up to the amount authorized herein.

IT IS FURTHER ORDERED that this Order shall not be final and effective until twenty days after a party is notified of the Commission's Order. Under TEX. GOV'T CODE § 2001.142(c), a party shall be presumed to have been notified of the Commission's Order three days after the date on which the notice is actually mailed. If a timely motion for rehearing is

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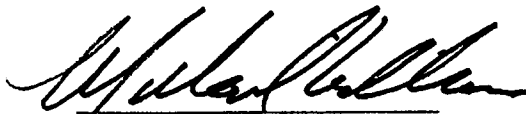
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filed by any party at interest, this Order shall not become final and effective until such motion is overruled or, if granted, this Order shall be subject to further action by the Commission.

IT IS FURTHER ORDERED that the proposed findings of fact and conclusions of law not specifically adopted herein are **DENIED**. **IT IS ALSO ORDERED** that each exception to the Examiner's Proposal for Decision not expressly granted herein is overruled and all pending motions and requests for relief not previously granted herein are hereby denied.

Signed this 20th day of November, 2000.

RAILROAD COMMISSION OF TEXAS


MICHAEL L. WILLIAMS
CHAIRMAN


TONY GARZA
COMMISSISONER

I disagree with the decision reflected in Finding of Fact Nos. 87 & 88 to set cost of equity at 12.1%. I would adopt the Examiners' revised recommendation that cost of equity be set at 11.85%, resulting in an overall rate of return of 9.59%, instead of the 9.75% reflected in Finding of Fact No. 89.


CHARLES R. MATTHEWS
COMMISSIONER

ATTEST:


SECRETARY

Entergy Texas, Inc.
Docket No. 37744
Adjustments to MSS-4 Revenues for Lewis Creek and Sabine

1 Cost of Capital Adjustment

Adjusted Rate Base (Attachment to RFI Rose City 32-1)	252,258,471
Entergy Gulf States Louisiana, LLC (EGSL) Billing Percentage	<u>57.50%</u>
EGSL Rate Base Allocation	145,048,621
Cost of Capital in Rebuttal Testimony Using FERC 11% ROE	11.94%
Cost of Capital in June 2009 MSS-4 Billing	<u>10.72%</u>
Difference	1.22%
Imputed MSS-4 Revenues - Return on Rate Base	<u>1,769,593</u>

2 Adjustments for Spindletop & Transmission Step-Up's

Depreciation Proforma Adjustments - Spindletop	(80,016)
Depreciation Rates Adjustments - Transmission Step Up's	<u>85,536</u>
Total Depreciation Adjustments	5,520
Entergy Gulf States Louisiana, LLC (EGSL) Billing Percentage	<u>57.50%</u>
Imputed MSS-4 Revenues - Spindletop & Trans Depr Expense	<u>3,174</u>

3 Payroll Adjustment

Production O&M and Payroll Related Expenses (As Adjusted by Rebuttal Testimony)	2,723,662
Entergy Gulf States Louisiana, LLC (EGSL) Billing Percentage	<u>57.50%</u>
Imputed MSS-4 Revenues - Payroll Adjustments	<u>1,566,106</u>

Total Increase in MSS-4 Revenues	<u><u>3,338,873</u></u>
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STAFF'S BENEFITS ADJUSTMENT FOR ESI PAYROLL EXPENSES
Per Attachment AG-3, Page 1

			Headcount	Wage Increase	Total
Staff Recommended ESI Headcount Adjustment			\$ (259,222)		\$ (259,222)
Staff Recommended ESI Wage Increase Adjustment				\$ (369,483)	\$ (369,483)
			<u>\$ (259,222)</u>	<u>\$ (369,483)</u>	<u>\$ (628,705)</u>
Anna Givins ESI Benefits Adjustment	47.03%	FERC 926	\$ (121,912)	\$ (173,768)	\$ (295,680)
Anna Givins ESI Savings Plan Adjustment	4.20%	FERC 926	\$ (10,887)	\$ (15,518)	\$ (26,405)
			<u>\$ (132,799)</u>	<u>\$ (189,286)</u>	<u>\$ (322,085)</u>
Correct Benefits Adjustment (Applies To Headcount Only)	47.03%	FERC 926	\$ (121,912)	\$ -	\$ (121,912)
Correct Savings Plan Adjustment (Applies To Wage Increase Only)	4.20%	FERC 926	\$ -	\$ (15,518)	\$ (15,518)
			<u>\$ (121,912)</u>	<u>\$ (15,518)</u>	<u>\$ (137,430)</u>
Adjustment to Anna Givens ESI Benefits Adjustment			\$ -	\$ 173,768	\$ 173,768
Adjustment to Anna Givens ESI Savings Plan Adjustment			\$ 10,887	\$ -	\$ 10,887
Total ESI Adjustment			<u>\$ 10,887</u>	<u>\$ 173,768</u>	<u>\$ 184,655</u>

STAFF'S BENEFITS ADJUSTMENT FOR ETI PAYROLL EXPENSES
Per Attachment AG-3, Page 2

			Headcount	Wage Increase	Total
Staff Recommended ETI Headcount Adjustment			\$ (917,730)		\$ (917,730)
Staff Recommended ETI Wage Increase Adjustment				\$ (230,990)	\$ (230,990)
			<u>\$ (917,730)</u>	<u>\$ (230,990)</u>	<u>\$ (1,148,720)</u>
Anna Givins ETI Benefits Adjustment	29.11%	FERC 926	\$ (267,151)	\$ (67,241)	\$ (334,392)
Anna Givins ETI Savings Plan Adjustment	4.20%	FERC 926	\$ (38,545)	\$ (9,702)	\$ (48,247)
			<u>\$ (305,696)</u>	<u>\$ (76,943)</u>	<u>\$ (382,639)</u>
Correct Benefits Adjustment (Applies To Headcount Only)	29.11%	FERC 926	\$ (267,151)	\$ -	\$ (267,151)
Correct Savings Plan Adjustment (Applies To Wage Increase Only)	4.20%	FERC 926	\$ -	\$ (9,702)	\$ (9,702)
			<u>\$ (267,151)</u>	<u>\$ (9,702)</u>	<u>\$ (276,853)</u>
Adjustment to Anna Givens ETI Benefits Adjustment			\$ -	\$ 67,241	\$ 67,241
Adjustment to Anna Givens ETI Savings Plan Adjustment			\$ 38,545	\$ -	\$ 38,545
Total ETI Adjustment			<u>\$ 38,545</u>	<u>\$ 67,241</u>	<u>\$ 105,786</u>

Adjustments to Givens' Exhibit AG-5 Disallowances					
Vendor	Reason	Image/Acct No.	Acct 923	Acct 928	Other Accts
Exhibit AG-5 net additional disallowances					
			(446,913) *	(230,190)	(337,152)
Add Back:					
Clark, Thomas, & Winters	RCPE filing dkt 35269 costs, not dkt 34800 related	28520085	31,780		
Dennis Thomas	Not related to dkt 34800 matters	28279421	8,800		
Lawton Law Firm	Dkt 34800 related but charged to acct 186, not 923	28287650	47,229		
Lawton Law Firm	Charged to acct.186.GT7, not acct. 928, not in COS	28156495		70,413	
Lawton Law Firm	Charged to acct.186.GT7, not acct. 928, not in COS	28476372		19,703	
Lawton Law Firm	Charged to acct.186.GT7, not acct. 928, not in COS	28476451		69,064	
Econat	Charged to acct.186.GT7, not acct. 928, not in COS	27984917		12,000	
Econat	Charged to acct.186.GT7, not acct. 928, not in COS	27984920		2,100	
Dennis Thomas	Charged \$5,768 to BTL acct. 426.4, not acct. 928, not in COS	27985189		5,768	
Dennis Thomas	Charged \$4,400 to BTL acct. 426.4, other \$4,400 not 34800 related	27985191		8,800	
Dennis Thomas	Charged \$4,400 to BTL acct. 426.4, other \$4,400 not 34800 related	27985195		8,800	
Dennis Thomas	Charged \$4,400 to BTL acct. 426.4, other \$4,400 not 34800 related	28470836		8,800	
Dennis Thomas	Charged \$4,400 to BTL acct. 426.4, other \$4,400 not 34800 related	28470837		8,800	
Dennis Thomas	Charged \$4,400 to BTL acct. 426.4, other \$4,400 removed in AJ16	28728638		4,400	
Dennis Thomas	Charged \$4,400 to BTL acct. 426.4, other \$4,400 removed in AJ16	28932311		4,400	
Dennis Thomas	Charged \$4,400 to BTL acct. 426.4, other \$4,400 removed in AJ16	29141626		4,400	
Dennis Thomas	Charged \$4,400 to BTL acct. 426.4, other \$4,400 not 34800 related	29343441		8,800	94,275
Various vendors	Goods and services incurred prior to test year, net to end of test year amts.	Acct 903			33,111
Various vendors	Goods and services incurred prior to test year, net to end of test year amts.	Acct 908			192,754
Various vendors	Goods and services incurred prior to test year, net to end of test year amts.	Acct 923			1,012
Various vendors	Goods and services incurred prior to test year, net to end of test year amts.	Acct 925			10,339
Various vendors	Goods and services incurred prior to test year, net to end of test year amts.	Acct 935			
	Corrected Givens' adjustment		(359,104) *	- ***	(5,661)
* Both State witness Delaney and Staff witness Givens recommend CTW invoice (image 28703610) for \$130,156 and CTW invoice (image 28645735) for \$241,574 be excluded , as being related to dkt. 34800. J. David Wright rebuttal agrees with these adjustments and notes that these are included in Givens total amount.					
** State witness Delaney also recommended disallowance of this cost, however, J. David Wright rebuttal testimony disagrees with this adjustment because the cost was properly charged to deferred debit account 186, rather than account 923 and therefore had been excluded from the cost of service.					
*** Givens list of vendors do not include all amounts reflected in the AJ16 amount netted from her gross total. Removing the effect of AJ16 amounts from her list, the Company believes no additional disallowances are warranted.					