

**GULF COAST SERVICE AREA COST OF SERVICE ADJUSTMENT  
FILED BY TEXAS GAS SERVICE COMPANY ON APRIL 30, 2019**

**SETTLEMENT AGREEMENT**

This Settlement Agreement is entered into by and between Texas Gas Service Company (“TGS” or the “Company”) and the City of Galveston, Texas (“City”);

WHEREAS, this Settlement Agreement resolves all issues relating to the Cost of Service Adjustment (“COSA”) filed with the municipalities in the Company’s Gulf Coast Service Area (“GCSA”), including the City, on April 30, 2019, in a manner that TGS and the City (collectively, the “Signatories”) believe is consistent with the public interest, and the Signatories represent diverse interests;

WHEREAS, the Signatories believe that an appeal from municipal action on the filed COSA adjustment would be time-consuming and entail substantial additional expense for all parties and that the public interest will be served by adoption of an ordinance consistent with this Settlement Agreement;

NOW, THEREFORE, in consideration of the mutual agreements and covenants established herein, the Signatories, through their undersigned representatives, agree to and recommend for approval by the City the following Settlement Terms as a means of fully resolving all issues raised in the April 30, 2019 COSA Adjustment filed by TGS with the City:

**Settlement Terms**

1. The Signatories agree that the system-wide \$209,539 revenue increase, of which \$204,394 is attributable to the GCSA incorporated, is a “black box” figure and is not tied to any specific expense in TGS’s underlying cost of service. The Signatories agree to the rates, terms and conditions reflected in the tariffs attached to this Settlement Agreement as Exhibit A. Said tariffs should allow TGS an additional \$204,394 in annual revenue as illustrated in the proof of revenues attached as part of Exhibit B to the Settlement Agreement. The Signatories further agree that the rates, terms and conditions reflected in Exhibit A to this Settlement Agreement comply with the rate-setting requirements of Chapter 104 of the Texas Utilities Code. The rates, terms and conditions established by this Settlement Agreement shall take effect with the first billing cycle of August 2019, meters read on or after July 29, 2019.
2. The Signatories agree that the revenue increase shall result in the following rate increase, rates and bill impacts per customer class:

| <b>Customer Class</b>                                     | <b>Currently Monthly Customer Charge</b> | <b>Settlement Monthly Customer Charge</b> | <b>Settlement Monthly Customer Charge Increase and Average Monthly Bill Impact</b> |
|---|--|---|--|
| <b>Residential</b>  |  |   |  |
| Customer Charge   | \$12.10                                  | \$12.42                                   | \$0.32   |
| All Ccf   | \$0.45616                                | \$0.45616                                 | \$0.00000  |
| <b>Commercial</b>   |  |   |  |
| Customer Charge   | \$49.49                                  | \$51.11                                   | \$1.62   |
| First 250 Ccf   | \$0.22140                                | \$0.22140                                 | \$0.00000  |
| Over 250 Ccf  | \$0.19380                                | \$0.19380                                 | \$0.00000  |
| <b>Commercial Standard Transport</b>                      |  |   |  |
| Customer Charge   | \$295.49                                 | \$297.11                                  | \$1.62   |
| First 250 Ccf   | \$0.22140                                | \$0.22140                                 | \$0.00000  |
| Over 250 Ccf  | \$0.19380                                | \$0.19380                                 | \$0.00000  |
| <b>Public Authority</b>                                   |  |   |  |
| Customer Charge   | \$103.95                                 | \$106.10                                  | \$2.15   |
| First 250 Ccf   | \$0.15672                                | \$0.15672                                 | \$0.00000  |
| Over 250 Ccf  | \$0.13092                                | \$0.13092                                 | \$0.00000  |
| <b>Public Authority Standard Transport (no customers)</b> |  |   |  |
| Customer Charge   | \$302.36                                 | \$302.36                                  | \$0.00000  |
| First 250 Ccf   | \$0.15672                                | \$0.15672                                 | \$0.00000  |
| Over 250 Ccf  | \$0.13092                                | \$0.13092                                 | \$0.00000  |
| <b>Industrial (no customers)</b>                          |  |   |  |
| Customer Charge   | \$153.41                                 | \$153.41                                  | \$0.00000  |
| First 250 Ccf   | \$0.40060                                | \$0.40060                                 | \$0.00000  |
| Over 250 Ccf  | \$0.37480                                | \$0.37480                                 | \$0.00000  |
| <b>Industrial Standard Transport</b>                      |  |   |  |
| Customer Charge   | \$217.42                                 | \$249.73                                  | \$32.31  |
| First 250 Ccf   | \$0.40060                                | \$0.40060                                 | \$0.00000  |
| Over 250 Ccf  | \$0.37480                                | \$0.37480                                 | \$0.00000  |

3. The Signatories agree that notice was completed pursuant to the requirements of the COSA tariff as attested to in the Affidavit of Teresa Serna attached as Exhibit C.
4. The Signatories agree to defer determination of the reasonableness and necessity of establishing a captive insurance provider and related costs to the next comprehensive base rate case proceeding in which base rates for the GCSA are determined.
5. The Signatories agree that TGS will address excess accumulated deferred income tax ("EDIT") resulting from the reduction to the federal income tax rate due to the Tax Cuts and Jobs Act of 2017 in a filing with the City by or before April 30, 2020.

6. TGS agrees to reimburse the City for their previously-incurred reasonable and necessary legal and consultant expenses associated with TGS's 2019 COSA Adjustment filed with the City on April 30, 2019. Such reimbursement shall be made on or before thirty (30) days from rate implementation and upon the Company receiving legal invoices or other documentation reflecting the City's incurred costs. The Signatories agree that TGS is entitled to recover its reasonable expenses associated with the 2019 COSA filing with the City, as well as those expenses reimbursed to the City in connection with this filing, through a volumetric surcharge, and that such amount shall not be included in the calculation of the 4% cap limiting the amount of any future COSA Adjustment.
7. The Signatories agree that all negotiations, discussion, conferences and drafts related to the Settlement Agreement are confidential, inadmissible, and not relevant to prove any issues associated with the 2019 COSA Adjustment filed by TGS with the City pursuant to Texas law.
8. The Signatories agree that neither this Settlement Agreement nor any oral or written statements made during the course of settlement negotiations may be used for any purpose other than as necessary to support the entry by the City of an ordinance or resolution implementing this Settlement Agreement.
9. The Signatories agree that this Settlement Agreement is binding on each Signatory only for the purpose of settling the issues set forth herein and for no other purposes, and except to the extent the Settlement Agreement governs a Signatory's rights and obligations for future periods, this Settlement Agreement shall not be binding or precedential upon any Signatory outside this proceeding.
10. The Signatories agree that this Settlement Agreement may be executed in multiple counterparts and may be filed with facsimile signatures.

Agreed to this 16th day of July 2019.

TEXAS GAS SERVICE COMPANY

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

CITY OF GALVESTON, TEXAS

By: Thomas L. Brocato  
Thomas L. Brocato  
Attorney for the City of Galveston

# EXHIBIT A

**RESIDENTIAL SERVICE RATE**

**APPLICABILITY**

Applicable to a residential customer in a single dwelling, or in a dwelling unit of a multiple dwelling or residential apartment, for domestic purposes. A residential consumer includes an individually-metered residential unit or dwelling that is operated by a public housing agency acting as an administrator of public housing programs under the direction of the U.S. Department of Housing and Urban Development. This rate is only available to full requirements customers of Texas Gas Service Company, a Division of ONE Gas, Inc.

**TERRITORY**

Incorporated areas served in Bayou Vista, Galveston, Groves, Jamaica Beach, Nederland, Port Arthur, and Port Neches, Texas.

**COST OF SERVICE RATE**

During each monthly billing period:

A customer charge per meter per month of \$12.42 plus

All Ccf per monthly billing period @ \$0.45616 per Ccf

**OTHER ADJUSTMENTS**

Cost of Gas Component: The basic rates for cost of service set forth above shall be increased by the amount of the Cost of Gas Component for the billing month computed in accordance with the provisions of Rate Schedule 1-INC.

Weather Normalization Adjustment: The billing shall reflect adjustments in accordance with the provisions of the Weather Normalization Adjustment Clause, Rate Schedule WNA.

Rate Schedule RCE: Adjustments in accordance with provisions of the Rate Case Expense Surcharge Rider.

Taxes: Plus applicable taxes and fees (including franchise fees) related to above.

**CONDITIONS**

Subject to all applicable laws and orders, and the Company's rules and regulations on file with the regulatory authority.

COMMERCIAL SERVICE RATE

APPLICABILITY

Applicable to commercial consumers for all purposes and all other consumers not otherwise specifically provided for.

TERRITORY

Incorporated areas served in Bayou Vista, Galveston, Groves, Jamaica Beach, Nederland, Port Arthur, and Port Neches, Texas.

COST OF SERVICE RATE

During each monthly billing period:

A customer charge per meter per month of \$51.11 plus

All Ccf per monthly billing period @

The First 250 Ccf @ \$0.22140 per Ccf

All Over 250 Ccf @ \$0.19380 per Ccf

OTHER ADJUSTMENTS

Cost of Gas Component: The basic rates for cost of service set forth above shall be increased by the amount of the Cost of Gas Component for the billing month computed in accordance with the provisions of Rate Schedule 1-INC.

Weather Normalization Adjustment: The billing shall reflect adjustments in accordance with the provisions of the Weather Normalization Adjustment Clause, Rate Schedule WNA.

Rate Schedule RCE: Adjustments in accordance with provisions of the Rate Case Expense Surcharge Rider.

Taxes: Plus applicable taxes and fees (including franchise fees) related to above.

CONDITIONS

Subject to all applicable laws and orders, and the Company's rules and regulations on file with the regulatory authority.

The rate schedule may be used for special unmetered service such as gas street lights. The total hourly rated consumption of all gas burning appliances included, expressed in Ccf, at the location, shall be multiplied by 731 to determine the average monthly consumption of the service. The result, rounded to the next highest Ccf shall then be billed the rates provided in this rate.

**INDUSTRIAL SERVICE RATE**

**APPLICABILITY**

Applicable to any qualifying customer whose primary business activity at the location served is included in one of the following classifications of the Standard Industrial Classification Manual of the U.S. Government.

- Division B - Mining - all Major Groups
- Division D - Manufacturing - all Major Groups
- Divisions E and J - Utility and Government - facilities generating power for resale only

**TERRITORY**

Incorporated areas served in Bayou Vista, Galveston, Groves, Jamaica Beach, Nederland, Port Arthur, and Port Neches, Texas.

**COST OF SERVICE RATE**

During each monthly billing period:

A customer charge per meter per month of \$153.41 plus

All Ccf per monthly billing period @  
The First 250 Ccf @ \$0.40060 per Ccf  
All Over 250 Ccf @ \$0.37480 per Ccf

**OTHER ADJUSTMENTS**

Cost of Gas Component: The basic rates for cost of service set forth above shall be increased by the amount of the Cost of Gas Component for the billing month computed in accordance with the provisions of Rate Schedule 1-INC.

Rate Schedule RCE: Adjustments in accordance with provisions of the Rate Case Expense Surcharge Rider.

Taxes: Plus applicable taxes and fees (including franchise fees) related to above.

**CONDITIONS**

Subject to all applicable laws and orders, and the Company's rules and regulations on file with the regulatory authority.

Delivery of gas hereunder may be interrupted or curtailed at the discretion of Texas Gas Service Company, a Division of ONE Gas, Inc., in case of shortage or threatened shortage of gas supply from any cause whatsoever, to conserve gas for residential and other customers served.

**PUBLIC AUTHORITY SERVICE RATE**

**APPLICABILITY**

Applicable to all public and parochial schools and colleges, and to all facilities operated by Governmental agencies not specifically provided for in other rate schedules or special contracts. This rate is only available to full requirements customers of Texas Gas Service Company, a Division of ONE Gas, Inc.

**TERRITORY**

Incorporated areas served in Bayou Vista, Galveston, Groves, Jamaica Beach, Nederland, Port Arthur, and Port Neches, Texas.

**COST OF SERVICE RATE**

During each monthly billing period:

A customer charge per meter per month of \$106.10 plus

All Ccf per monthly billing period @

The First 250 Ccf @ \$0.15672 per Ccf

All Over 250 Ccf @ \$0.13092 per Ccf

**OTHER ADJUSTMENTS**

Cost of Gas Component: The basic rates for cost of service set forth above shall be increased by the amount of the Cost of Gas Component for the billing month computed in accordance with the provisions of Rate Schedule 1-INC.

Weather Normalization Adjustment: The billing shall reflect adjustments in accordance with the provisions of the Weather Normalization Adjustment Clause, Rate Schedule WNA.

Rate Schedule RCE: Adjustments in accordance with provisions of the Rate Case Expense Surcharge Rider.

Taxes: Plus applicable taxes and fees (including franchise fees) related to above.

**CONDITIONS**

Subject to all applicable laws and orders, and the Company's rules and regulations on file with the regulatory authority.

The rate schedule may be used for special unmetered service such as gas street lights. The total hourly rated consumption of all gas burning appliances included, expressed in Ccf, at the location, shall be multiplied by 731 to determine the average monthly consumption of the service. The result, rounded to the next highest Ccf shall then be billed the rates provided in this rate.



**TRANSPORTATION SERVICE RATE**

**Applicability**

Applicable to customers who have elected Transportation Service not otherwise specifically provided for under any other rate schedule.

Service under this rate schedule is available for the transportation of customer-owned natural gas through Texas Gas Service Company, a Division of ONE Gas Inc.'s (the "Company") distribution system. The customer must arrange with its gas supplier to have the customer's gas delivered to one of the Company's existing delivery receipt points for transportation by the Company to the customer's facilities at the customer's delivery point. The receipt points shall be specified by the Company at its reasonable discretion, taking into consideration available capacity, operational constraints, and integrity of the distribution system.

**Availability**

Natural gas service under this rate schedule is available to any individually metered, non-residential customer for the transportation of customer owned natural gas through the Company's Gulf Coast Service Area distribution system which includes the incorporated areas served in Bayou Vista, Galveston, Groves, Jamaica Beach, Nederland, Port Arthur, and Port Neches, Texas. Such service shall be provided at any point on the Company's System where adequate capacity and gas supply exists, or where such capacity and gas supply can be provided in accordance with the applicable rules and regulations and at a reasonable cost as determined by the Company in its sole opinion.

**Cost of Service Rate**

During each monthly billing period, a customer charge per meter per month listed by customer class as follows:

|                  |                    |
|------------------|--------------------|
| Commercial       | \$297.11 per month |
| Industrial       | \$249.73 per month |
| Public Authority | \$302.36 per month |

Plus – All Ccf per monthly billing period listed by customer class as follows:

|                  |                    |                   |
|------------------|--------------------|-------------------|
| Commercial       | The First 250 Ccf@ | \$0.22140 per Ccf |
|                  | All Over 250 Ccf @ | \$0.19380 per Ccf |
| Industrial       | The First 250 Ccf@ | \$0.40060 per Ccf |
|                  | All Over 250 Ccf @ | \$0.37480 per Ccf |
| Public Authority | The First 250 Ccf@ | \$0.15672 per Ccf |
|                  | All Over 250 Ccf @ | \$0.13092 per Ccf |

**TRANSPORTATION SERVICE RATE**  
**(continued)**

**Additional Charges:**

- 1) A charge will be made each month to recover the cost of taxes paid to the State of Texas pursuant to Texas Utilities Code, Chapter 122 as such may be amended from time to time which are attributable to the transportation service performed hereunder.
- 2) A charge will be made each month to recover the cost of any applicable franchise fees paid to the cities.
- 3) In the event the Company incurs a demand or reservation charge from its gas supplier(s) or transportation providers in the incorporated areas of the Gulf Coast Service Area, the customer may be charged its proportionate share of the demand or reservation charge based on benefit received by the customer.
- 4) Rate Schedule RCE: Adjustments in accordance with provisions of the Rate Case Expense Surcharge Rider.

**Subject To**

- 1) Tariff T-TERMS, General Terms and Conditions for Transportation
- 2) Transportation of natural gas hereunder may be interrupted or curtailed at the discretion of the Company in case of shortage or threatened shortage of gas supply from any cause whatsoever, to conserve gas for residential and other higher priority customers served. The curtailment priority of any customer served under this schedule shall be the same as the curtailment priority established for other customers served pursuant to the Company's rate schedule which would otherwise be available to such customer.
- 3) Subject to all applicable laws and orders, and the Company's rules and regulations on file with the regulatory authority.

# EXHIBIT B

| Line No. | Customer Class  | Percent of Revenues per GUD No. 10488 | Annual Revenue Requirement Increase/(Decrease) | Annual GCSA Bills CY 2018 | Monthly GCSA Customer Charge Increase/ (Decrease) |
|----------|---|---------------------------------------|--|---------------------------|---|
| 1        | Residential   | 78.95%                                | \$165,424                                      | 510,051                   | \$0.32  |
| 2        | Commercial and Commercial Standard Transport              | 16.98%                                | 35,580   | 21,906                    | 1.62  |
| 3        | Public Authority  | 3.33%                                 | 6,985  | 3,247                     | 2.15  |
| 4        | Industrial Standard Transport                             | 0.74%                                 | 1,551  | 48                        | 32.31   |
| 5        | Grand Total   | <u>100 %</u>                          | <u>\$209,539</u>                               | <u>535,252</u>            |   |
| 6        | Annual Revenue Requirement                                |                                       | \$209,539                                      |                           |   |
| 7        | Total Base Revenues                                       |                                       | <u>18,043,229</u>                              |                           |   |
| 8        | Revenue Requirement plus Gross up for Texas Franchise Tax |                                       | <u>\$18,252,769</u>                            |                           |   |

**GCSA Incorporated versus GCSA Environs - Breakout of Revenue Increase/(Decrease) and Bills:**

| Line No. | Customer Class                               | Total Required Increase/ (Decrease) | Incorporated Area Required Increase/(Decrease) | Environs Required Increase/ (Decrease) | Total Annual GCSA Bill Count CY 2018 | Incorporated Area Annual Bill Count CY 2018 | Environs Annual Bill Count CY 2018 |
|----------|--|-------------------------------------|--|--|--------------------------------------|---|------------------------------------|
| 1        | Residential                                  | \$165,424                           | \$160,944                                      | \$4,480                                | 510,051                              | 496,238                                     | 13,813                             |
| 2        | Commercial and Commercial Standard Transport | 35,580                              | 35,018   | 562                                    | 21,906                               | 21,560                                      | 346                                |
| 3        | Public Authority                             | 6,985                               | 6,882  | 103                                    | 3,247                                | 3,199                                       | 48                                 |
| 4        | Industrial Standard Transport                | 1,551                               | 1,551  | 0                                      | 48                                   | 48  | 0                                  |
| 5        |  | <u>\$209,539</u>                    | <u>\$204,394</u>                               | <u>\$5,145</u>                         | <u>0</u>                             | <u>521,045</u>                              | <u>14,207</u>                      |

# EXHIBIT C

STATE OF TEXAS       §  
                                  §  
COUNTY OF TRAVIS   §

BEFORE ME, the undersigned authority, on this day personally appeared Teresa Serna, who being by me duly sworn, deposed as follows:

1. My name is Teresa Serna. I am over twenty-one (21) years of age, of sound mind, capable of making this affidavit, and personally acquainted with the facts herein stated.
2. I am employed as a Rates Manager for Texas Gas Service Company, a division of ONE Gas, Inc.
3. TGS is a provider of natural gas utility service to incorporated customers located within the Gulf Coast Service Area of Bayou Vista, Galveston, Groves, Jamaica Beach, Nederland, Port Arthur and Port Neches, Texas (“GCSA Cities”).
4. A copy of the notice attached hereto was provided to each TGS customer within the GCSA Cities by direct mail, completed on June 20, 2019 and bill insert, completed on June 24, 2019, fulfilling the requirements of the Gulf Coast COSA tariff.

*Teresa Serna*

Teresa Serna

SUBSCRIBED AND SWORN to before me on the 27<sup>th</sup> day of June, 2019.

*Christine Bell*

Notary Public in and for the State of Texas

My commission expires: 2/19/2020

