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COST OF GAS CLAUSE

A. APPLICABILITY

This Cost of Gas Clause shall apply to all Gas Sales Service rate schedules of Texas Gas Service Company ("The Company") in the following incorporated areas of its West Texas Service Area Andrews, Anthony, Barstow, Clint, Crane, El Paso Horizon City, McCamey, Monahans, Pecos, Pyote, San Elizario, Socorro, Thortonville, Wickett, Wink and Vinton, Texas.

B. DEFINITIONS

1. Cost of Gas – The rate per billing unit or the total calculation under this clause, consisting of the commodity cost, a reconciliation component, any surcharges or refunds, Uncollectible Cost of Gas, and revenue associated fees (including franchise fees) and taxes. The Cost of Gas will also include the FERC Intervention Costs.
2. Commodity Cost - The Cost of Purchased Gas multiplied by the Purchase Sales Ratio plus any adjustment deemed prudent by the Company to correct any known and quantifiable under or over collection prior to the end of the reconciliation period for the objective of minimizing the impact of under or over collection by the reconciliation factor in the next year.
3. Cost of Purchased Gas - The estimated cost for gas purchased by the Company from its supplier or the estimated weighted average prudently incurred cost for gas purchased by the Company from all sources where applicable. The Cost of Purchased Gas may include prudently incurred costs necessarily incurred for transportation, storage and associated services. Transportation costs shall be inclusive of all upstream transportation costs imposed by the transportation service providers and shall include, but not be limited to, pipeline reservation charges, transportation commodity charges, applicable line loss charges, balancing charges, penalties, and any other related costs and expenses. The Cost of Purchased Gas shall also include any surcharge or refund the Company may receive from its gas suppliers or service providers. The Cost of Purchased Gas may also include costs related to the purchase and transportation of Renewable Natural Gas (RNG). Renewable Natural Gas is the term used to describe pipeline-quality bio-methane produced from biomass. The Cost of Purchased Gas shall not include the cost of financial instruments that were entered into after March 1, 2016, unless the use of such financial instruments is approved in advance and in writing by the Regulatory Authority.

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Such approval would be requested as part of the Company's annual gas purchase plan, which shall be submitted annually to the Regulatory Authority no later than June 15<sup>th</sup>.

4. Reconciliation Component – The amount to be returned to or recovered from sales customers each month from December through August as a result of the Reconciliation Audit.
5. Reconciliation Audit - An annual review of the Company's books and records for each twelve month period ending with the production month of August to determine the amount of over or under collection occurring during such twelve month period. The audit shall determine: (a) the total prudently incurred amount paid for the Cost of Purchased Gas as defined in Section B.3. of this Cost of Gas Clause to provide service to its sales customers during the period, (b) the revenues received from operation of the provisions of this Cost of Gas Clause reduced by the amount of fees (including franchise fees) and taxes, (c) the total amount of surcharges or refunds made to sales customers during the period and any other revenues or credits received by the Company as a result of relevant gas purchases or operation of this Cost of Gas Clause, (d) the total amount accrued for upstream pipeline and/or commodity balancing provisions under the transportation rate schedule(s) including but not limited to balancing service rate and stranded capacity charges net of franchise fees and applicable taxes, (e) the total amount of Uncollectible Cost of Gas during the period, (f) the total amount of FERC Intervention Costs and (g) an adjustment, if necessary, for lost and unaccounted for gas during the period in excess of five (5) percent of purchases.
6. Purchase/Sales Ratio - A ratio determined by dividing the total sales volumes received by the Company during the twelve (12) month period ending June 30 by the sum of the sales volumes delivered to customers during the same period. For the purpose of this computation, all volumes shall be stated at 14.73 psia. Such ratio as determined shall in no event exceed 1.0526 i.e.  $1/(1 - .05)$  unless expressly authorized by the applicable regulatory authority.
7. Reconciliation Account - The account maintained by the Company to assure that over time it will neither over nor under collect revenues as a result of the operation of the Cost of Gas Clause. Entries shall be made monthly to reflect, (a) the total prudently incurred amount paid for the Cost of Purchased Gas as defined in Section B.3. of this Cost of Gas Clause to provide service to its sales customers during the period, (b) the revenues received from operation of the provisions of this Cost of Gas Clause reduced by the amount of fees (including franchise fees) and taxes, (c) the total amount of refunds made to sales customers during the period and any other revenues or credits

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received by the Company as a result of relevant gas purchases or operation of this Cost of Gas Clause, (d) the total amount accrued for upstream pipeline and /or commodity balancing provisions under the transportation rate schedule(s) including but not limited to balancing service rate and stranded capacity charges net of franchise fees and applicable taxes, (e) the total amount of Uncollectible Cost of Gas during the period, (f) the total amount of FERC Intervention Costs, and (g) an adjustment, if necessary, for lost and unaccounted for gas during the period in excess of five (5) percent of purchases.

8. FERC Intervention Costs – Costs prudently incurred from outside vendors and attorneys after January 1, 2008 for the purpose of protecting the interest of sales customers in the West Texas Service Area in connection with negotiating Federal Energy Regulatory Commission (“FERC”) related issues with upstream pipelines or intervention and participation in proceedings at the FERC. FERC Intervention Costs may also include prudently incurred internal travel expenses related to this purpose.
9. Uncollectible Cost of Gas – The amounts actually written off after the effective date of this rate schedule related to cost of gas.

**C. BILLING OF COST OF GAS**

In addition to the cost of service as provided under its rate schedule(s), the Company shall bill each sales customer for the cost of gas incurred during the billing period. The cost of gas shall be clearly identified on each customer bill.

**D. DETERMINATION AND APPLICATION OF THE RECONCILIATION COMPONENT**

If the Reconciliation Audit reflects either an over recovery or under recovery of revenues, such amount, plus the amount of interest calculated pursuant to Section E below, if any, shall be divided by the general service sales volumes, adjusted for the effects of weather, growth, and conservation for the period beginning with the December billing cycle last preceding through the August billing cycle. The Reconciliation Component so determined to collect any revenue shortfall or to return any excess revenue shall be applied for a nine (9) month period beginning with the next following December billing cycle and continuing through the next following August billing cycle at which time it will terminate until a new Reconciliation Component is determined.

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E. PAYMENT FOR FUNDS

Concurrently with the Reconciliation Audit, the Company shall determine the amount by which the cost of gas was over or under collected for each month including any cost of gas inventory in storage and margins on non-utility transactions as described in paragraph "F" below within the period of audit. If, on the average, the Company had over-collected during the period, it shall credit into the Reconciliation Account during October an amount equal to the monthly balance multiplied by six percent (6%). If, on the average, the Company had under-collected during the period, it shall debit into the Reconciliation Account during November an amount equal to the monthly balance multiplied by six percent (6%).

F. NON-UTILITY TRANSACTIONS

The aggregate net margins generated by the company from all Non-utility Transactions shall be divided between the Company and ratepayers with the Company retaining thirty three and one third percent (33 1/3%) of aggregate annual Net Margins generated from such activities and sixty-six and two-thirds percent (66 2/3%) shall be credited to sales customers in the month during which the transaction closes. For purposes of this provision, "Non-Utility Transactions" shall mean the following transactions to the extent that such transactions pertain to natural gas supplies, storage, and transportation capacity allocated to sales customers within the West Texas Service Area: off-system sales of natural gas, releases of transportation or storage capacity, financial arbitrage of storage inventories, trading of natural gas inventories, and use of financial instruments pertaining to purchase, storage, and/or transportation of natural gas, so long as such instruments are not intended to hedge the cost of system supplies. "Non-utility Transactions" shall not include any transaction conducted by any affiliate of the company. For purposes of this provision, "Net Margins" shall mean revenues from the aggregate of all Non-Utility Transactions, less the costs to the Company of such transactions, including related taxes, commissions, transaction fees, and transfer fees. The Net Margins allocated to ratepayers shall be credited to the ratepayers once per year through an adjustment of the Reconciliation Account as determined in the Annual Reconciliation filing. The Company shall be fully responsible for any aggregate annual net losses incurred from such activities and no such losses shall be paid by the ratepayers. This provision does not permit the Company to include in the calculation of gas cost storage, or gas stored except as prudently and necessarily needed to serve general sales customers in this service area.

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**G. COST OF GAS STATEMENT**

The Company shall file a Cost of Gas Statement with the Regulatory Authority by the beginning of each billing month. (The Company shall file such initial Statement as soon as is reasonably possible.) The Cost of Gas Statement shall set forth

(a) the Cost of Purchased Gas; (b) that cost multiplied by the Purchase/Sales Ratio; (c) the amount of the cost of gas caused by any surcharge or refund; (d) the Reconciliation Component; (e) the Cost of Gas calculation. The statement shall include all data necessary for the Regulatory Authority to review and verify the calculation of the Cost of Gas. The date on which billing using the Cost of Gas is to begin (bills prepared) is to be specified in the statement. The Company shall not file revised Cost of Gas Statements on dates other than listed above without specific regulatory authority.

**H. ANNUAL RECONCILIATION REPORT**

The Company shall file an annual report with the Regulatory Authority which shall be verified under oath and include but not necessarily be limited to:

1. A tabulation of volumes of gas purchased and costs incurred listed by account or type of gas, supplier and source by month for the twelve months ending August 31.
  2. A tabulation of gas units sold to general service sales customers and related Cost of Gas Clause revenues.
  3. A summary of all other costs and refunds made during the year and the status of the Reconciliation Account. The summary shall include monthly detail and a statement of all amounts included, other than the gas purchased, in sufficient detail for evaluation. The summary shall include the detail for any FERC Intervention activities performed and associated costs incurred on behalf of West Texas Service Area sales customers. The summary will also include a tabulation of the uncollectible accounts attributable to charges calculated under this tariff, including monthly amounts charged off, and monthly charged off amounts later collected, if any.
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This report shall be filed concurrently with the Cost of Gas Statement for December. The Company shall provide complete detail within 20 days of request by a representative of the City of El Paso, other municipality or Regulatory Authority. The Company shall seek review and approval of any FERC Intervention costs prior to their inclusion in the cost of gas calculation.

I. SUPPORTING MATERIAL ACCOMPANYING ANNUAL RECONCILIATION REPORT

For the City of El Paso, the Company shall file supporting materials with its Annual Reconciliation Report to demonstrate that gas costs were acquired during ordinary and atypical periods at the lowest prudently incurred price and necessary to provide reliable service to retail customers.

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