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The monthly SAI for TGT-SL, TGT-1, TGT-4, TGPL-0 and TGPL-1 shall be calculated using the following formula:

SAI = [I(1) + I(2) + I(3)] / 3

Where:
I represents each index reflective of both supply area prices and price changes throughout the month in these various supply areas.

The indices for each supply zone are as follows:

SAI (TGT-SL)

I(1) is the average of weekly *Natural Gas Week* postings for Louisiana, Gulf Coast, Onshore as Delivered to Pipeline.

I(2) is the *Platts Gas Daily* midpoint postings for Louisiana - Onshore South, Texas Gas, Zone SL averaged for the month.

I(3) is the *Platts Inside FERC's Gas Market Report* first-of-the-month posting for Texas Gas, Zone SL.

SAI (TGT-1)

I(1) is the average of weekly *Natural Gas Week* postings for Louisiana, North as Delivered to Pipeline.

I(2) is the *Platts Gas Daily* midpoint postings for East Texas - North Louisiana Area, Texas Gas, zone 1 averaged for the month.

I(3) is the *Platts Inside FERC's Gas Market Report* first-of-the-month posting for Texas Gas, Zone 1.

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SAI (TGT-4)

I(1) is the average of weekly *Natural Gas Week* postings for Spot Prices on Interstate Pipeline Systems for Appalachia, Lebanon Hub.

I(2) is the *Platts Gas Daily* midpoint postings for Appalachia – Lebanon Hub averaged for the month.

I(3) is the *Platts Inside FERC's - Gas Market Report* first-of-the-month posting for Northeast, Lebanon Hub.

SAI (TGPL-0)

I(1) is the average of weekly *Natural Gas Week* postings for Texas, Gulf Coast, Onshore Delivered to Pipeline.

I(2) is the *Platts Gas Daily* midpoint postings for South – Corpus Christi, Tennessee, Zone 0 averaged for the month.

I(3) is the *Platts Inside FERC's - Gas Market Report* first-of-the-month posting for Tennessee, Texas, Zone 0.

SAI (TGPL-1)

I(1) is the average of weekly *Natural Gas Week* postings for Louisiana, Gulf Coast, Onshore as Delivered to Pipeline.

I(2) is the *Platts Gas Daily* midpoint postings for Louisiana – Onshore South, Tennessee, 500 Leg averaged for the month.

I(3) is the *Platts Inside FERC's - Gas Market Report* first-of-the-month posting for Tennessee, Louisiana, 500 leg.

DAI (TGT-4) and (TGPL-2)

DAI is the Delivery Area Index to be established for **PEFDCQ** made by Company on the day(s) when Company has arranged for deliveries to Company's city gate that are in excess of its total firm pipeline quantity entitlements.

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The daily DAI applicable to the daily purchases made for city-gate delivery shall be the higher of the following, either

DAI = DAI (TGT-1) / (1 – FR%) + CCS + DDCS

or

DAI = DAI (TGT-4) / (1 – FR%) + CCS + DDCS

Where:
DAI (TGT-1) represents the highest daily midpoint posting by *Platts Gas Daily* for East Texas – North Louisiana Area, Texas Gas, zone 1.

DAI (TGT-4) represents the highest daily midpoint posting by *Platts Gas Daily* for Appalachia – Lebanon Hub.

FR% is the tariffed Fuel Retention Percentage under Texas Gas Transmission, LLC's Rate NNS.

CCS are the tariffed NNS Commodity Charge and Surcharges under Texas Gas Transmission, LLC's Rate NNS.

DDCS are the tariffed Daily Demand Charge and Surcharges under Texas Gas Transmission, LLC's Rate NNS.

If an index ceases to exist or fails to report, the Company may use a suitable replacement index and report that change in writing to the Commission in the applicable quarterly report. If the Company elects not to select a replacement index, the average is adjusted accordingly.

AGC represents Company's total annual Actual Gas Costs of natural gas purchased for system supply and is equal to the total monthly actual gas commodity costs (excluding any supply reservation fees) plus the gains and/or losses from the use of financial hedging instruments and the financial transaction costs associated with such instruments paid by Company to its suppliers accumulated for the PBR period. Such costs shall exclude labor-related or other expenses typically classified as operating and maintenance expenses.

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To the extent that AGC exceeds BGC for the PBR period, then the GAIF Shared Expenses shall be computed as follows:

Shared Expenses = AGC - BGC

To the extent that AGC is less than BGC for the PBR period, then the GAIF Shared Savings shall be computed as follows:

Shared Savings = BGC – AGC

TIF

TIF = Transportation Index Factor. The Transportation Index Factor shall be calculated by comparing the Total Annual Benchmark Monthly Gas Transportation Costs **(TABMGTC)** of natural gas transportation services during the PBR period, to the Total Annual Actual Gas Transportation Costs **(TAAGTC)** applicable to the same period to determine if any Shared Expenses or Shared Savings exist.

The Total Annual Benchmark Monthly Gas Transportation Costs **(TABMGTC)** are calculated as follows:

TABMGTC = Annual Sum of Monthly BMGTC

Where:
BMGTC is the Benchmark Monthly Gas Transportation Costs which include both demand and volumetric costs associated with natural gas pipeline transportation services. The BMGTC shall be accumulated for the PBR period and shall be calculated as follows:

BMGTC = Sum [BM(TGT) + BM(TGPL) + BM(PPL)]

Where:
BM(TGT) is the benchmark associated with Texas Gas Transmission, LLC.

BM(TGPL) is the benchmark associated with Tennessee Gas Pipeline Company, LLC.

BM(PPL) is the benchmark associated with a proxy pipeline. The appropriate benchmark, which will be determined at the time of purchase, will be used to benchmark purchases of transportation capacity from non-traditional sources.

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The benchmark associated with each pipeline shall be calculated as follows:

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BM(TGT) = (TPDR x DQ) + (TPCR x AV) + S&DB

BM(TGPL) = (TPDR x DQ) + (TPCR x AV) + S&DB

BM(PPL) = (TPDR x DQ) + (TPCR x AV) + S&DB

Where:
TPDR is the applicable Tariffed Pipeline Demand Rate.

DQ is the Demand Quantities contracted for by Company from the applicable transportation provider.

TPCR is the applicable Tariffed Pipeline Commodity Rate.

AV is the Actual Volumes delivered at Company's city-gate by the applicable transportation provider for the month.

S&DB represents Surcharges, Direct Bills and other applicable amounts approved by the Federal Energy Regulatory Commission (FERC). Such amounts are limited to FERC-approved charges such as surcharges, direct bills, cashouts, take-or-pay amounts, Gas Supply Realignment and other Order 636 transition costs.

The Total Annual Actual Gas Transportation Costs (**TAAGTC)** paid by Company for the PBR period shall include both demand and volumetric costs associated with natural gas pipeline transportation services as well as all applicable FERC-approved surcharges, direct bills and cash-outs included in S&DB, plus the gains and/or losses from the use of financial hedging instruments and the financial transaction costs associated with such instruments. Such costs shall exclude labor-related or other expenses typically classified as operating and maintenance expenses.

To the extent that TAAGTC exceeds TABMGTC for the PBR period, then the TIF Shared Expenses shall be computed as follows:

Shared Expenses = TAAGTC – TABMGTC

To the extent that TAAGTC is less than TABMGTC for the PBR period, then the TIF Shared Savings shall be computed as follows:

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Shared Savings = TABMGTC - TAAGTC

Should one of Company's pipeline transporters file a rate change effective during any PBR period and bill such proposed rates subject to refund, the period over which the benchmark comparison is made for the relevant transportation costs will be extended for one or more 12-month periods, until the FERC has approved final settled rates, which will be used as the appropriate benchmark. Company will not share in any of the savings or expenses related to the affected pipeline until final settled rates are approved.

OSSIF

OSSIF = Off-System Sales Index Factor. The Off-System Sales Index Factor shall be equal to the Net Revenue from Off-System Sales **(NR)**.

Net Revenue is calculated as follows:

NR = OSREV - OOPC

Where:
OSREV is the total revenue associated with off-system sales and storage service transactions.

OOPC is the out-of-pocket costs associated with off-system sales and storage service transactions, and shall be determined as follows:

OOPC = OOPC(GC) + OOPC(TC) + OOPC(SC) + OOPC(UGSC) + Other Costs

Where:
OOPC(GC) is the Out-of-Pocket Gas Costs associated with off-system sales transactions. For off-system sales utilizing Company's firm supply contracts, the OOPC(GC) shall be the incremental cost to purchase the gas available under Company's firm supply contracts. For off-system sales not using Company's firm supply contracts, the OOPC(GC) shall be the incremental costs to purchase the gas from other entities.

OOPC(TC) is the Out-of-Pocket Transportation Costs associated with off-system sales transactions. For off-system sales utilizing Company's firm transportation agreements, the OOPC(TC) shall be the incremental cost to use the transportation available under Company's firm transportation contracts. For off-system sales not using Company's firm transportation agreements, the OOPC(TC) shall be the incremental costs to purchase the transportation from other entities.

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OOPC(SC) is the Out-of-Pocket Storage Costs associated with off-system sales of storage. If this is gas in Company's own storage it shall be priced at the average price of the gas in Company's storage during the month of the sale. If this is gas from the storage component of Texas Gas's No-Notice Service, this gas shall be priced at the replacement cost.

OOPC(UGSC) is the Out-of-Pocket Underground Storage Costs associated with off-system sales of storage services. For the off-systems sales of storage services utilizing Company's on-system storage, the OOPC(UGSC) shall include incremental storage losses, odorization, and other fuel-related costs such as purification, dehydration, and compression. Such costs shall exclude labor-related expenses.

Other Costs represent all other incremental costs and include, but are not limited to, costs such as applicable sales taxes and excise fees plus the gains and/or losses from the use of financial hedging instruments and the transaction costs associated with such instruments. Such costs shall exclude labor-related or other expenses typically classified as operating and maintenance expenses.

ACSP

ACSP = Applicable Company Sharing Percentage. The ACSP shall be determined based on the PTAGSC.

Where:
PTAGSC = Percentage of Total Actual Gas Supply Costs. The PTAGSC shall be the TPBRR stated as a Percentage of Total Actual Gas Supply Costs and shall be calculated as follows:

$$\mathbf{PTAGSC} = \frac{\mathbf{TPBRR}}{\mathbf{TAGSC}}$$

Where:
TAGSC = Total Actual Gas Supply Costs. The TAGSC shall be calculated as follows:

$$\mathbf{TAGSC = AGC + TAAGTC}$$

If the absolute value of the PTAGSC is less than or equal to 3.0%, then the ACSP of 25% shall be applied to TPBRR to determine CSPBR. If the absolute value of the PTAGSC is greater than 3.0%, then the ACSP of 25% shall be applied to the amount of TPBRR that is equal to 3.0% of TAGSC to determine a portion of CSPBR, and the ACSP of 50% shall be applied to the amount of TPBRR that is in excess of 3.0% of TAGSC to determine a portion of CSPBR. These two portions are added together to produce the total CSPBR.

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BA

BA = Balance Adjustment. The BA is used to reconcile the difference between the amount of revenues billed or credited through the CSPBR and previous application of the BA and revenues which should have been billed or credited, as follows:

1. For the CSPBR, the balance adjustment amount will be the difference between the amount billed in a 12-month period from the application of the CSPBR and the actual amount used to establish the CSPBR for the period.

2. For the BA, the balance adjustment amount will be the difference between the amount billed in a 12-month period from the application of the BA and the actual amount used to establish the BA for the period.

Review

Within 60 days of the end of the fourth year of the five-year extension, Company will file an assessment and review of the PBR mechanism for the first four years of the five-year extension period. In that report and assessment, Company will make any recommended modifications to the PBR mechanism.

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