

A G E N D A



Recommendation for Council Action

Austin City Council	Item ID	63551	Agenda Number	77.
Meeting Date:	11/3/2016	Department:	Telecommunications and Reg Affairs	
Subject				
Conduct a public hearing and consider an ordinance regarding Texas Gas Service's proposal to increase customer rates.				
Amount and Source of Funding				
Fiscal Note				
Purchasing Language:				
Prior Council Action:	Suspension of Texas Gas Service's proposed on June 23, 2016 granted. Set a Public Hearing granted on October 6, 2016.			
For More Information:	Rondella M. Hawkins, Officer of TARA, 512-974-2422			
Council Committee, Boards and Commission Action:				
MBE / WBE:				
Related Items:				
Additional Backup Information				
<p>Pursuant to the Gas Utilities Regulatory Act, the City has original jurisdiction over privately owned gas utility rates set for customers within its city limits.</p> <p>On June 20, 2016, Texas Gas Service, (TGS), a division of ONE Gas, Inc. filed a Statement of Intent with the City of Austin and other cities in its Central Texas service area (CTXSA) to increase its annual revenue by \$11.6 million. Other cities include, Bee Caves, Cedar Park, Dripping Springs, Kyle, Lakeway, Rollingwood, Sunset Valley and Westlake Hills. TGS currently has approximately 213,000 customers in the incorporated CTXSA, about 211,000 of which are in Austin. TGS also filed simultaneously at the Railroad Commission of Texas for the approximately 27,000 environ customers in the unincorporated areas of Travis, Williamson and Hays County. The RRC has original jurisdiction over utility rate matters within the environs and appellate jurisdiction over municipal rate decisions by the coalition cities.</p> <p>The City Council suspended the effective date of the proposed increase to November 10, 2016 so the City could analyze information provided by TGS and evaluate the requested rate increase.</p> <p>The last general rate case filed by TGS was in 2009. The City has taken the lead to coordinate efforts among the cities in the TGS CTXSA in order to act as a Coalition for efficiencies and to reduce rate review costs of the affected municipalities. By state law, rate case expenses of the City are reimbursable by TGS that are recovered by TGS from ratepayers system-wide.</p>				

TGS proposed to consolidate approximately 9,500 customers in 7 cities (Cuero, Gonzalez, Lockhart, Lulling, Nixon, Shiner and Yoakum) into the CTXSA. TGS seeks to consolidate the two service areas and use a system-wide cost of service for the combined service areas to realize efficiencies from the centralization of its existing operations in the separate service areas.

Austin intervened in the environs customer proceeding at the RRC to monitor information submitted to the RRC that may assist the City with its review. The City with the other Coalition cities hired specialized outside counsel and rate consultants to represent the Coalition on this matter and to review the ratemaking documentation submitted by TGS to evaluate the reasonableness of the rate filings.

After numerous settlement discussions, the parties have agreed to a base rate increase of \$6.8 million. The negotiated increase represents an annual reduction of \$4.8 million or 41% to the Company's initial proposal of \$11.6 million.

Below is a comparison of the current monthly base rates, TGS requested rates, and staff's proposed rates:

Customer Class		TGS		Proposed
		Current	Requested	Settlement
Residential	Customer Charge	\$15.28	\$21.25	\$15.28
	Volumetric (per 100 cubic feet)	\$0.08257	\$0.03488	\$0.16032
Commercial	Customer Charge	\$33.40	38.00	38.00
	Volumetric Sales	\$0.1301	\$0.10347	\$0.13174

The rate increase impact on the typical Residential and Commercial customer's monthly bill is as follows:

	Current	TGS <u>Proposed</u>	Percent	Settlement	Percent
	<u>Rates</u>	<u>Rates</u>	<u>Change</u>	<u>Rates</u>	<u>Change</u>
Residential	\$32.07	\$ 36.61	14.2%	\$ 34.43	7.4%
Commercial	\$177.88	\$176.14	-1.0%	\$182.87	2.8%

TGS will match customer contributions to the Share the Warmth program up to \$100,000 annually. The Share the Warmth program is a customer-funded bill assistance program. The matching contributions will not be included in rates or otherwise be recovered from ratepayers.

Given the circumstances, a base rate increase of \$6.8 million is reasonable. As noted, the negotiated increase represents an annual reduction of \$4.8 million or 41% to the Company's initial proposal. The agreed increase also reflects a residential customer charge of \$15.28. This maintains the current charge and is a significant reduction to the Company's requested \$21.25.

On September 10, 2016, the Railroad Commission approved the settlement terms for Central Texas service area environs customers who are not in municipalities.

The settlement agreement grants cities certainty regarding system-wide rates, ensures recovery of the City's rate case expenses and avoids future litigation expenses. Subject to approval by the City, the rates will go into effect on November 1, 2016. Further, an appeal to the Railroad Commission would lead to an increase in the expenses to prosecute the case before the Railroad Commission and, if necessary, in court.

Staff recommends approval of the proposed settlement.