



## MEMORANDUM

TO: Mayor and Council Members

FROM: Rondella Hawkins, Telecommunications & Regulatory Affairs Officer

DATE: October 12, 2016

SUBJECT: Texas Gas Service Rate Case – Council Agenda 11/03/16

The purpose of this memorandum is to update you on the key elements of the proposed settlement associated with a rate increase request from Texas Gas Service (TGS) filed on June 20, 2016 with the Railroad Commission of Texas for the unincorporated areas and the Central Texas Service Area cities including Austin to increase base rates by \$11.6 million.

On October 11, 2016, the Railroad Commission approved the negotiated settlement as it applies to the customers outside of municipal original jurisdictions. Municipalities with original jurisdiction have approval authority over the proposed settlement. The City Council is scheduled to consider this request on November 3, 2016 as part of a public hearing.

This memorandum summarizes the major points of the proposed settlement which staff believes is more favorable for ratepayers than the original proposal filed by TGS.

### BASE INCREASE OF \$6.8 MILLION:

In its application, TGS requested an annual base rate increase of approximately \$11.6 million and proposed to consolidate the Central Texas Service Area and the South Texas Service Area into one consolidated Central Texas Service Area.

After numerous settlement discussions, TGS has agreed to a “black-box” base rate increase of \$6.8 million. Compared to TGS’ filed case, the settlement represents a savings to customers of \$4.8 million for each year that rates are in effect. The settling parties also agreed to the consolidation of the Central Texas and South Texas service areas as part of the agreement.

Below is 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%

Thomas Brocato with the law firm of Lloyd Gosselink has been engaged to represent the City on this matter. Mr. Brocato agrees that the settlement agreement is a fair and reasonable resolution of the docket and is a more favorable outcome than the City would have received if the matter had gone to hearing at the Railroad Commission. In addition, resolution of GUD No. 10526 by settlement agreement will significantly reduce the amount of reimbursable rate case expenses associated with this matter and avoid future litigation expenses.

In approving new rates for TGS, the City will have to enter a limited number of specific findings regarding TGS' cost of service. These would be findings regarding depreciation rates, return on equity ("ROE"), and capital structure. The parties agreed to an ROE of 9.5% and a capital structure of 39.5% Debt and 60.5% Equity for purposes of settlement. The most recent ROE approved for a TGS company (in El Paso) was 9.5%.

#### **CITY'S PROPOSED RATE DESIGN; TGS' PROPOSED CUSTOMER-CLASS REVENUE RESPONSIBILITY:**

In its application, TGS proposed to increase the residential customer charge from \$15.28 to \$21.25 for the entire consolidated service area. Outside counsel proposed to limit the increases in the customer charge. The parties negotiated to maintain the City's current customer charge of \$15.28 for the entire consolidated service area. TGS and settling parties also agreed that the TGS' proposed class revenue allocation identified as "Revenue Allocation Three" is reasonable. This option mitigates the impact to residential customers. Specifically, this option ensures that no class has a rate decrease if the Residential class has an increase and lowers TGS' proposed revenue increase.

#### **COST OF GAS CLAUSE ADJUSTMENT:**

Under the settlement agreement TGS will no longer maintain two cost of gas adjustment clauses ("CGA") in the consolidated service area. TGS will also cease purchasing call options to hedge a portion of its cost of gas in the winter months until directed to do so by a regulatory authority.

#### **CONSERVATION PROGRAM:**

Under the settlement TGS will continue its Conservation Program and implement the requested Rate Schedule Conservation Adjustment Clause within the City, and the other Central Texas Service Area incorporated cities.

## **SHARE THE WARMTH PROGRAM:**

TGS also agreed to 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.

## **MUNICIPAL RATE CASE EXPENSES:**

Under the law, cities are entitled to have their reasonable rate case expenses associated with a ratemaking proceeding reimbursed by the utility, which are recovered from customers. In this case, the City has engaged the services of outside counsel and two consultants to assist with the review of TGS' application. In order to reduce rate case expenses and litigation costs, the City has been part of a coalition of nine cities. Under the settlement agreement, TGS has agreed to reimburse the City for its expenses following the conclusion of the case.

## **SUMMARY:**

The \$6.8 million revenue increase represents a 41% reduction to the proposed \$11.6 million increase in TGS' initial proposal. The agreed-to increase also reflects an unchanged residential customer charge of \$15.28, down from TGS' requested \$21.25. Furthermore, 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 Council approval, which staff recommends, the agreed-to rates will go into effect on November 1, 2016.

Please contact me if you have any questions or require additional information.

cc: Elaine Hart, Interim City Manager  
Mark Washington, Assistant City Manager