A U S T I N   C I T Y   C O U N C I L

AGENDA

Recommendation for Council Action

AUSTIN CITY COUNCIL
Regular Meeting: April 26, 2018 Item Number: **079**

Public Hearing and Possible Action

Conduct a public hearing and consider an ordinance regarding CenterPoint Energy's proposal to change customer rates.

Lead Department	Telecommunications and Regulatory Affairs.
Prior Council Action	On December 14, 2017, Council approved a resolution suspending the effective date of the proposed rate increase to allow time for rate experts representing the Alliance of CenterPoint Municipalities to review a proposed rate increase.On March 22, 2018, Council approved a resolution setting a public hearing on the proposed rate change to be conducted on April 26, 2018.
For More Information	Rondella M. Hawkins, TARA Officer; 512-974-2422.

Additional Backup Information:

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. Article XI of the City Charter requires the City Council to conduct a public hearing before taking action on a proposed rate change. CenterPoint Energy Resources Corporation, D/B/A, CenterPoint Energy Entex and CenterPoint Energy Texas Gas (“CenterPoint”)has approximately 800 gas customers in southeast Austin primarily in the Goodnight Ranch area located east of IH-35, west of Thaxton Road, south of E. William Cannon Drive, and north of Highway 1327.

On November 16, 2017, CenterPoint filed a Statement of Intent to change its rates to include an increase to system-wide annual revenue requirement by approximately $490 thousand and to recover through a 12-month surcharge of approximately $676,000 in extraordinary expenses it incurred related to Hurricane Harvey. CenterPoint simultaneously filed its rate request with the Railroad Commission of Texas for those areas outside municipal jurisdiction. On December 14, 2017 the City Council suspended the effective date of CenterPoint's proposed rate increase to allow additional time to review the filing and consider appropriate action to ensure customer rates remain just and reasonable.

Austin joined other municipalities with regulatory authority over CenterPoint's rates, the Alliance of CenterPoint Municipalities - South Texas Division or "ACM,"in order to collaborate on reviewing and evaluating the rate filing and its impact. ACM engaged special counsel and rate consultants to review the proposed rate change, conduct discovery, negotiate in an effort to avoid a fully litigated contested rate case, litigate the case if necessary, and generally advise the municipalities on recommendations for action.

ACM, through its rate counsel and consultants, participated in the Railroad Commission proceedings with Commission's staff and negotiated CenterPoint's rate filing to a non-litigated outcome through agreed rates and terms. The outcome is a settlement that decreases CenterPoint's current revenue by $3 million, which equates to a decrease of about $3.5 million to its proposed increase in annual revenue. In addition, to further address the effect of the change in federal tax laws, CenterPoint agreed to submit a rate decrease by approximately $735,000 in the next 18 months to address treatment of excess deferred income taxes. Combined with the $3.0 million to current revenue, the total decrease in rates in this rate case is about $3.74 million.

The major points of the settlement are:

•A decrease of $3.0 million in in CenterPoint's present revenues, which represents a reduction of approximately 5% in CenterPoint-South Texas Division's annual non-gas revenue.

•CenterPoint, in further implementation of the effects of the Tax Cut and Jobs Act of 2017, has agreed to file a rate reduction on or before November 15, 2019 to downwardly adjust rates to account for a 5-year amortization of what are known as "excess deferred income taxes", estimated by ACM's consultants to reduce rates by $735,000. The amount at issue is the difference between income taxes that CenterPoint has deferred and to which it has applied the old 35% federal corporate income tax rate and the new 21% rate. The 14% differential in deferred taxes is money the company is no longer entitled to recover in rates.

•Recovery through a 12-month surcharge of approximately $676,000 in costs related to extraordinary expenses CenterPoint incurred related to Hurricane Harvey.

•Recovery through a 24-month surcharge of approximately $0.21/per month per customer to recover approximately $730,000 from all ratepayers for rate-case expenses (ACM's estimated expenses of $73,500; CenterPoint's estimated expenses of $577,000; and the other municipal coalition's estimated expense of $80,000).

•An agreed 55% to 45% equity to debt capital structure with a 9.8% return on equity, compared to CenterPoint's original request for a return on equity of 10.3%.

•The establishment of baseline, plant-in-service amounts upon which future interim rate adjustments are to be based. CenterPoint has used the interim rate adjustment mechanism for several years to recover costs attributable to its incremental capital costs between base rate cases (also known as a "GRIP"adjustment, the Gas Reliability Infrastructure Program). In addition, CenterPoint will refund to ratepayers $640,158 through a one-time bill credit that it has over-collected though its interim rate adjustment clause.

•CenterPoint will be allowed to establish a regulatory asset in the amount of $722,871 related to third-party system-safety and integrity expenses such that it can request recovery of this amount in a future base-rate case.
•CenterPoint's Purchased Gas Adjustment tariff is modified to allow recovery: (1) of gas-related bad-debt costs; (2) refund of any rate case expenses surcharge over-recoveries; and (3) FERC intervention costs.

The impact of these changes will reduce monthly customer charges as follows:

Residential - decrease from $23.24 to $19.00.
General Service - Small Commercial - decrease from $38.87 to $25.00.
General Service - Large Commercial - decrease from $231.21 to $99.50.

ACM's special counsel and consultants recommend adoption of the terms and the agreed-to rates as a reasonable result that, based on regulatory rate practice, standards, and precedent, is well within the range of likely outcomes from a fully litigated proceeding at the Railroad Commission of Texas. The agreed terms and rates materially reduces exposure to the potential for an adverse outcome and related fully litigated rate-case expenses. The rates are just and reasonable.

Upon City approval, the reduction in non-gas revenue and the corresponding rates will go into effect on about May 22, 2018, the date the Railroad Commission is expected to consider the approval of the settlement.

Staff recommends that Council approve the proposed ordinance implementing just and reasonable rates.