

**CITY OF EL PASO, TEXAS
AGENDA ITEM
DEPARTMENT HEAD'S SUMMARY FORM**

CITY CLERK DEPT.
2015 JUL 16 AM 11:44

DEPARTMENT: Financial Services

AGENDA DATE: July 21, 2015

CONTACT PERSON NAME AND PHONE NUMBER: Brie L. Franco, 915-212-0033

DISTRICT(S) AFFECTED: All

SUBJECT:

APPROVE a resolution / ordinance / lease to do what? OR AUTHORIZE the City Manager to do what? Be descriptive of what we want Council to approve. Include \$ amount if applicable.

Discussion and action on a compromise resolution with Texas Gas Service (TGS) regarding their request on March 31 asking for a good cause exception to their 2014 filing to collect additional costs that were not contemplated by the 2014 agreement between the City and TGS.

BACKGROUND / DISCUSSION:

Discussion of the what, why, where, when, and how to enable Council to have reasonably complete description of the contemplated action. This should include attachment of bid tabulation, or ordinance or resolution if appropriate. What are the benefits to the City of this action? What are the citizen concerns?

Under the request, the residential minimum (customer) charge would increase from \$14.22 to \$17.71 (an increase of \$3.49) or 24.52% base rate and 9.97% with gas cost including 200 ccf's of usage (plus the cost of gas and taxes).

If the good cause exception is not granted, the requested increase is from \$14.22 to \$17.18, \$2.96 or 20.78% of base rates and 8.47% with gas costs.

PRIOR COUNCIL ACTION:

Has the Council previously considered this item or a closely related one?

On March 31, 2015, TGS filed its annual filing under the El Paso Area Rate Review ("EPARR"). The City Council adopted the EPARR mechanism in February 2014 in order to avoid some of the difficulties created by the "GRIP" statute. TGA and the City adopted a resolution on July 29, 2014 to resolve an agreement for the 2014 filing.

AMOUNT AND SOURCE OF FUNDING:

How will this item be funded? Has the item been budgeted? If so, identify funding source by account numbers and description of account. Does it require a budget transfer?

BOARD / COMMISSION ACTION:

Enter appropriate comments or N/A

N/A

*****REQUIRED AUTHORIZATION*****

DEPARTMENT HEAD:

Brian L. Frenno

RESOLUTION

WHEREAS, the City of El Paso, Texas, is a home rule municipality operating pursuant to its Charter and the laws of the State of Texas; and

WHEREAS, pursuant to Texas Utilities Code Sections 103.001, the City of El Paso is a regulatory authority having exclusive original jurisdiction over the rates, operations and services of a gas distribution utility in the City limits of the City of El Paso; and

WHEREAS, pursuant to a franchise granted on February 22, 2000, and assigned to One Gas, Inc. on December 18, 2013, and predecessor franchises Texas Gas Service Company a division of ONE Gas, Inc., an Oklahoma corporation, is a gas distribution utility operating within the City of El Paso, Texas; and

WHEREAS, pursuant to the City Charter of the City of El Paso Section 1.4, the City of El Paso reserved onto itself all authority to regulate and fix the reasonable rates to be charged by public utility corporations for gas distribution rates to consumers, subject to and in accordance with the laws of the State of Texas; and

WHEREAS, the current base rates being charged for gas distribution within the City limits of the City of El Paso were established by an order of the Railroad Commission of Texas dated December 14, 2010; and

WHEREAS, pursuant to Interim Rate Filings by Texas Gas Service Company pursuant the "GRIP" statute, Texas Utilities Code Sec. 104.301, Texas Gas Service Company has increased the rates charged within the City limits of the City of El Paso in prior years; and

WHEREAS, pursuant to Texas Utilities Code Sec. 104.003, the City as Regulatory Authority has an obligation to ensure that each rate a gas utility demands or receives is just and reasonable; and

WHEREAS, the City and Texas Gas Service Company collaboratively developed the El Paso Area Rate Review Tariff ("EPARR"), which was approved and adopted by the City on March 25, 2014, as a substitute for the GRIP process; and

WHEREAS, pursuant to the terms of the EPARR, Texas Gas filed on March 31, 2015, for a good cause exception to the terms of the EPARR and \$11,970,041 annual increase applicable to El Paso Service Area customers if the good cause request is granted, and a \$9,441,172 annual increase to El Paso Service Area customers if the good cause exception is not granted; and

WHEREAS, in the discussion of issues to arrive at the settlement, City Staff and Texas Gas representatives discussed issues regarding necessary revisions to the original request including treatment and inclusion of pension and benefit expense, treatment of plant in service and accumulated deferred federal income tax, incentive compensation, property taxes, lockbox service, advertising expense, pipeline integrity expense, and the treatment of Railroad

Commission of Texas Rule 8.209 Regulatory Assets. The City and Texas Gas ultimately agree that the issues related to those expenses are ultimately resolved as part of the agreed rates without a specific finding on any expense except as identified in this Resolution; and

WHEREAS, the City Council finds that an overall revenue increase of \$ _____ for the El Paso Service Area is a reasonable resolution of the Texas Gas Service Company Request, and provides Texas Gas Service Company a reasonable opportunity to earn a reasonable return on its Invested Capital used and useful in providing service to the public in the El Paso Service Area over and above its reasonable and necessary operating expenses, and

WHEREAS, the tariffs attached to this Resolution as Exhibit "A", including Rate Schedule 10, Rate Schedule 20, Rate Schedule 21, Rate Schedule 25, Rate Schedule 26, Rate Schedule 27, Rate Schedule 40, Rate Schedule S.S., and Rate Schedule T-1 are determined to be rates which provide Texas Gas Service Company with a reasonable opportunity to earn a reasonable return on its invested capital used and useful in providing service to the Public in the El Paso Service Area.

NOW, THEREFORE BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF EL PASO:

1. That the rate adjustments and tariffs presented in the "El Paso Annual Rate Review Filing" filed by Texas Gas Company, a division of One Gas, Inc., on March 31, 2015, are unreasonable and are therefore denied.
2. That the tariffs attached hereto, including _____ are hereby approved effective for bills rendered on and after August 3, 2015.
3. The EPARR Revenue Increase effective August 3, 2015, is based on an El Paso Service Area Revenue Increase of \$ _____. This is a "black box" number. No specific calculation getting to that amount shall be precedential in a future EPARR filing except as identified below.
4. TGS will reimburse the City's rate case expenses for this and related matters within 30 days of invoice from the City.
5. For purposes of future EPARR filings, the following amounts are to be considered the amounts agreed to for the El Paso Service Area as of 12/31/13
 - a. Plant in Service \$
 - b. Accumulated Depreciation (\$)
 - c. Net Plant \$
 - d. Rule 8.209 Regulatory Asset \$

- e. Pension and FAS 106 Regulatory Asset \$
6. Effective for bills rendered on and after August 3, 2015 for rates to be charged to customers within the City of El Paso the customer charge for each class is as follows:
- a. Residential: Customer Charge \$ (incl. 200 Ccf)
 - b. Commercial/Commercial Air Conditioning Customer Charge \$ (incl. 100 Ccf)
 - c. Industrial Customer Charge \$ (incl. 100 Ccf)
 - d. Public Authority/ Public Authority Air Conditioning \$ (incl. 100 Ccf)
 - e. Municipal Water Pumping Customer Charge \$
 - f. Standby Customer Charge \$
 - g. Transportation Commercial Customer Charge \$ (including 100 Ccf)
 - h. Transportation Industrial Customer Charge \$ (including 100 Ccf)
 - i. Transportation Public Authority Customer Charge \$ (incl. 100 Ccf)
 - j. Transportation CoGen Customer Charge \$
7. All Relief requested by Texas Gas Service and not addressed in this Resolution is Denied.
8. The City reserves all of its powers under the El Paso Municipal Code, and Texas Utilities Chapter 103 and 104 to set rates for Texas Gas Service Company within the City of El Paso.

ADOPTED THIS _____ DAY OF JULY, 2015.

CITY OF EL PASO

Oscar Leeser
Mayor

ATTEST

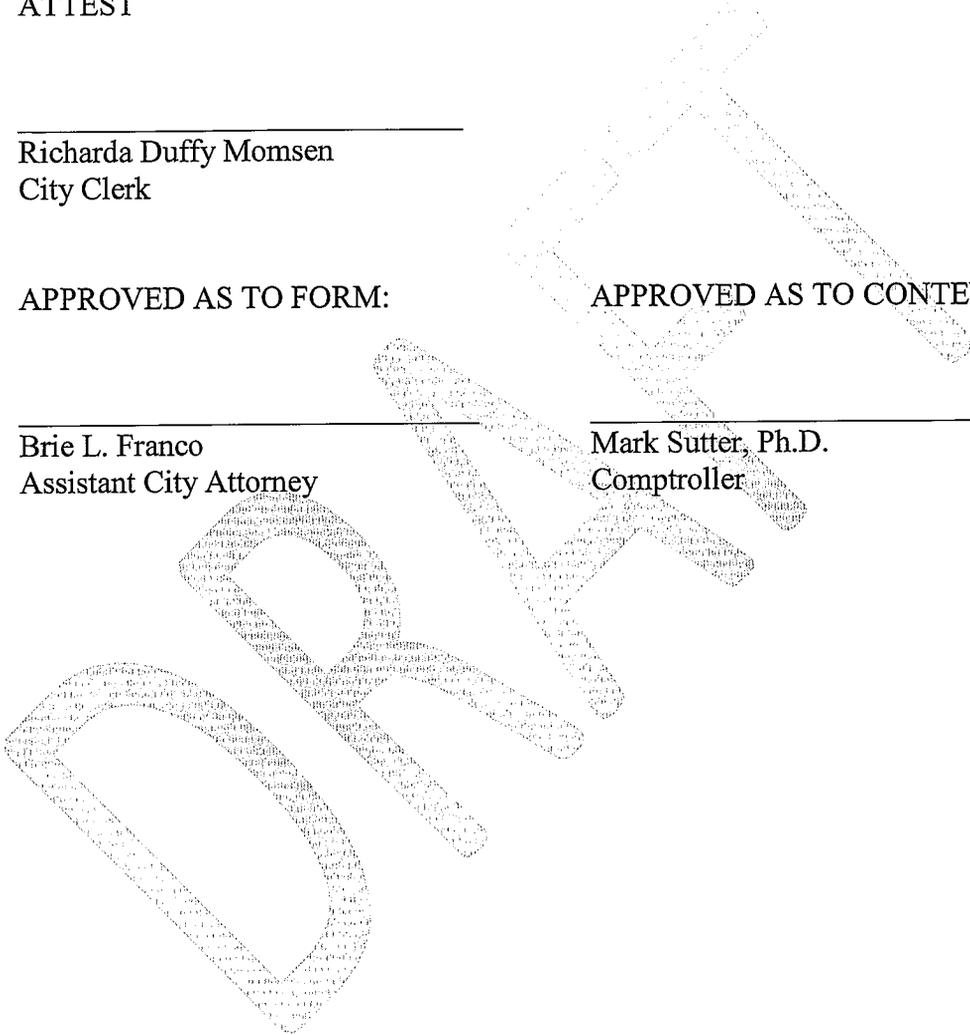
Richarda Duffy Momsen
City Clerk

APPROVED AS TO FORM:

APPROVED AS TO CONTENT:

Brie L. Franco
Assistant City Attorney

Mark Sutter, Ph.D.
Comptroller



MOUNCE, GREEN, MYERS,
SAFI, PAXSON & GALATZAN
A PROFESSIONAL CORPORATION
ATTORNEYS AND COUNSELORS AT LAW
100 N. STANTON, SUITE 1000
EL PASO, TEXAS 79901-1448
(915) 532-2000

NORMAN J. GORDON
BOARD CERTIFIED - CIVIL TRIAL LAW

MAILING ADDRESS:
P.O. BOX 1977
EL PASO, TEXAS 79999-1977
FACSIMILE: (915) 541-1597
gordon@mgmsg.com

MEMORANDUM

TO: Mayor Oscar Leeser
City Representatives

FROM: Norman Gordon

RE: Agenda Item: Texas Gas Service EPARR Request

DATE: July 15, 2015

On March 31, 2015, Texas Gas Service filed its annual filing under the El Paso Area Rate Review ("EPARR"). The City Council adopted the (EPARR) mechanism in February 2014 in order to avoid some of the difficulties created by the so called "GRIP" statute, which is Section 104.301 of the Gas Utility Regulatory Act, and provide a more collegial and less costly mechanism for dealing with TGS rate issues than the traditional rate case. TGS and the City were able to arrive at an agreement to resolve the 2014 filing, which was adopted by resolution on July 29, 2014.

This year TGS filed its request on March 31, asking for a good cause exception to the requirements of the filing to allow it to collect additional costs that were not contemplated by the agreement. The request with the good cause exception is \$10,970,041, and \$9,442,272 if the good cause exception request is not granted. Under the request, the residential minimum (customer) charge would increase \$3.49 from \$14.22 to \$17.71, or 24.52% base rate and 9.97% with gas cost including 200 ccf's of usage (plus the cost of gas and taxes) with the good cause exception. If the good cause exception is not granted, the requested increase is from \$14.22 to \$17.18, \$2.96 or 20.78% of base rates and 8.47% with gas costs. There are similar increases for other customer classes. I am attaching the narrative part of the TGS request for your reference.

Under the terms of the EPARR Resolution, City Council has 125 days from the filing of the request to act on the request. The 125th day is August 3, 2015. Since the filing we have, with our consultants, been requesting information supporting the TGS request. We have had numerous meetings and extended telephone conferences to evaluate fully the request in order to

Memorandum
July 15, 2015
Page 2

provide recommendations to the Council whether the request is justified, or whether some other disposition is appropriate.

As of today, July 16, we have not been able to come to closure with TGS whether we can recommend a compromise resolution with TGS on this request. We continue to meet with their representatives to see whether a compromise resolution is possible. The resolution form that we have provided in the back-up is a general form and does not have numbers. We hope to be able to report to you on the progress on July 21, as well as answer any questions you may have on the request. We expect that final action will be at the July 28 Council Meeting. Please do not hesitate to contact me if you have any questions.

cc: Tommy Gonzalez, City Manager
Mark Sutter, Ph.D., Chief Financial Officer
Sylvia Firth, City Attorney
Brie Franco, Assistant City Attorney



4700 Pollard
El Paso, TX 79930

March 31, 2015

VIA HAND DELIVERY

The Honorable Mayor and Members
of the City Council
City of El Paso
El Paso, Texas

The Honorable Mayor and Members
of the City Council
Town of Horizon City
Horizon City, Texas

The Honorable Mayor and Members
of the Town Council
Town of Clint
Clint, Texas

The Honorable Mayor and Members
of the Town Council
Town of Anthony
Anthony, Texas

The Honorable Mayor and Members
of the Village Council
Village of Vinton
Vinton, Texas

The Honorable Mayor and Members
of the City Council
City of Socorro
Socorro, Texas

The Honorable Mayor and Members
of the City Council
City of San Elizario
San Elizario, Texas

Re: Texas Gas Service Company's 2015 El Paso Area Annual Rate Review Filing

To the Honorable Mayors and Council Members:

Texas Gas Service Company ("TGS" or the "Company"), an operating division of ONE Gas, Inc., hereby respectfully files the attached tariffs to implement the requested increase in revenue pursuant to the El Paso Area Annual Rate Review ("EPARR") tariff applicable to gas utility service provided to customers in the Cities of El Paso, San Elizario and Socorro; the Towns of Clint, Anthony, and Horizon City; and the Village of Vinton, Texas (collectively, the "Cities"), which together with their environs comprise the Company's El Paso Service Area ("EPSA"). The Company has calculated the revenue requirement based on the cost of providing service to the entire EPSA for the 12-month period January 1, 2014

March 31, 2015

through December 31, 2014. The proposed rates will become effective with meters read on and after August 3, 2015.

In order to recover its reasonable and necessary cost of service, the Company hereby requests a good cause waiver of Section IV.b of the EPARR tariff as it applies to the calculation of certain labor expense. This waiver is necessary because it is not possible to accurately apply the methodology approved in the Final Order of GUD No. 9988 to calculate these expenses under the ONE Gas, Inc. organizational structure. As explained in more detail in the Narrative provided as part of Exhibit A, under the Company's current organizational structure the rate making current treatment in the EPARR for adjustments to the Test Period payroll and associated benefits and taxes does not permit the Company to recover its reasonable and necessary cost of service. Thus, the Company proposes an alternative method for calculating an appropriate adjustment to labor expense.

The proposed EPARR rate adjustment will be allocated among the various customer classes in the same manner that the cost of service was allocated in the Company's current rates for the EPSA, and will be recovered through an increase in the monthly customer charge applicable to each customer class. If the good cause waiver is granted, the filing demonstrates that an increase in revenues of \$11,970,041 is required to recover all reasonable and necessary expenses incurred to provide service within the EPSA. The incorporated area's share of this increase is \$11,159,361 as is demonstrated on Workpaper H.1 of Exhibit A. This will increase the average residential bill by approximately three dollars and forty-nine cents (\$3.49) per month for customers within the City of El Paso and by approximately three dollars and forty-two cents (\$3.42) for customers within all other incorporated areas of the EPSA.

Alternatively, if the Cities decline to grant the requested good cause waiver, the filing demonstrates that an increase in revenues of approximately \$9,441,172 is required from the incorporated areas of the EPSA. This amount is calculated pursuant to the terms of the EPARR tariff using the January 1, 2014 through December 31, 2014 Test Period. (See Exhibit B) This will increase the average residential bill by approximately two dollars and ninety-six cents (\$2.96) per month for customers within the City of El Paso and by approximately two dollars and eighty-nine cents (\$2.89) for customers within all other incorporated areas of the EPSA.

Enclosed as part of the filing are the following documents (provided as printed copies and on CD):

Exhibit A – Request for Good Cause Waiver

Table of Contents;
Narrative and Affidavit for Filing;
Tariffs;
Notice;
EPARR Cost of Service – Schedules and Workpapers; and,

March 31, 2015

Additional Supporting Documentation (provided only on CD)

Exhibit B – Alternative Request

Table of Contents;
Narrative and Affidavit for Filing;
Tariffs;
Notice;
EPARR Cost of Service – Schedules and Workpapers; and,
Additional Supporting Documentation (provided only on CD)

The Company further requests that the Cities approve the following revisions to the EPARR tariff:

Section IV

b) All reasonable and necessary operation and maintenance expenses from the Test Period will be used for the calculation of rates for the Rate Effective Period. Such amounts shall be prepared consistent with the rate making treatments approved in the Final Order, except when a departure from those treatments, principles, findings or adjustments is justified by changed circumstances, and are subject to an allowance that authorizes the inclusion of (1) reasonable cost of meals and travel incurred during the Test Period (as limited by Sec IX); and, (2) 25% of the Company's long-term and short-term incentive compensation costs incurred during the Test Period. The Company may include in its operations and maintenance expense reasonable costs of Pipeline Integrity testing conducted after completion of the 2010-2014 test cycle. The Company may also adjust rates for the Rate Effective Period to include recovery of any known and measurable changes to operating and maintenance costs. Known and measurable adjustments shall be limited to those changes that have occurred prior to the Filing Date.

Additionally, minor wording changes are proposed for the EPARR tariff on file with the City of El Paso to make it consistent with the tariff on file with each of the other Cities within the EPSA.

As this is the first EPARR filing for the Cities of San Elizario and Socorro; the Towns of Clint, Anthony, and Horizon City; and the Village of Vinton, these city councils will need to make a determination concerning the prudence of plant investment that was included in interim rate adjustments that have been previously approved by the Cities for the period June 1, 2010, through December 31, 2013.

TGS looks forward to continuing to build on the collaborative relationships established during the development and the adoption of the EPARR tariff with all of the Cities and during the initial EPARR filing with the City of El Paso. The Company is available to

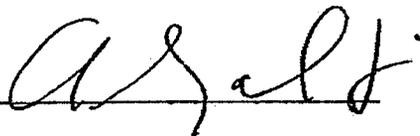
March 31, 2015

address any questions you may have about this filing and is prepared to provide additional information to facilitate the Cities' review of the filing. Please contact Janet Buchanan, Manager -Rates and Regulatory Analysis, at 512-370-8358, with any questions regarding the filing. As always, Alejandro (Alex) Limon remains available to address any operational questions.

We appreciate your consideration of the proposed EPARR filing and related good cause waiver.

Respectfully Submitted,

TEXAS GAS SERVICE COMPANY

By: 
Alejandro Limon, Director - Operations

Received for filing the 31st day of March, 2015.

By: _____

cc:

Norman Gordon
Elizabeth Elleson
Elaine Hengen
Jim Martinez
Shane English
Richard Contreras