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MEMORANDUM

To: City of Seguin Mayor and Council

From: Andy Quittner, City Attorney *AQ*

Date: July 16, 2021

Re: Resolution approving participation in a city coalition on the implementation of HB 1520 and its effect on rates charged for natural gas

On June 16, 2021, Governor Greg Abbott signed House Bill 1520, which directs the Railroad Commission of Texas and the Texas Public Finance Authority to work together to issue bonds, the proceeds of which gas utilities would use to pay for the extraordinary cost of natural gas charged ratepayers during the winter storm of February, 2021.

HB 1520 provides financial relief to gas utilities that choose to apply for the bonds by potentially providing a low-cost source of financing to fulfill outstanding obligations to natural gas suppliers. Any bonds issued under the authority of HB 1520 are to be secured by a mandatory charge on each gas-utility customer's bill and revenue from such mandatory charge is to be dedicated to paying off the bonds. The bonds would allow customers to pay over an extended period, rather than potentially through a single billing statement, for the extraordinary cost of gas consumed during the winter storm of February, 2021. The amount of debt to be issued to pay the gas utilities and in turn the natural-gas suppliers is estimated to be in the range of \$4 billion to \$5 billion.

To implement HB 1520, the Railroad Commission issued a "Notice to Operators" to all gas utilities in the State directing all gas utilities that elect to participate in the debt financing of their extraordinary gas purchased during the winter storm of February, 2021, to submit their applications to the Railroad Commission by July 30, 2021.

The applications the gas utilities will file with the Railroad Commission is expected to be voluminous and will include data related to each gas utility's costs of gas, its practices regarding the purchase of natural gas, including any financial-hedging instruments and gas-storage practices the utility employs, the costs of transportation of the natural gas, and carrying costs (that is, interest charges) the utilities will seek to recover for

payments each utility may have made to the natural-gas suppliers between receipt of the invoice for the natural gas, and the time the utility is “reimbursed” for those payments.

After the Railroad Commission issues its order establishing the amount of costs to be financed, it will direct the Texas Public Finance Authority to issue bonds secured by mandatory charges imposed on each customer’s gas-utility bill. All costs related to the issuance of any bonds, including the cost of natural gas and the underwriting costs for issuance of the bonds, are to be recovered through rates charged end-use customers, including the City as an end-use customer.

The proceeding at the Railroad Commission to implement HB 1520 will involve complex regulatory, financing, and gas-purchase practices requiring special expertise in these areas. The City of Seguin has participated in the coalition of cities known as the Alliance of CenterPoint Municipalities – South Texas Division (“ACM”) in various rate proceedings filed with the Texas Railroad Commission. Herrera Law and Associates has represented the ACM, including the City, in these proceedings. To the extent that legal fees are not covered as part of the proceeding (legal fees are generally paid by the gas companies as part of the overall settlement or rate decision) they are apportioned according to utility customer use, which for Seguin is 8.41%, which is estimated to be a maximum of \$2,102.03.

Although these proceedings will not effect the cost of gas locked in for electric power production, it is important that the City intervene in the Railroad Commission’s proceedings related to implement HB 1520 and related proceedings to exercise its due diligence as a regulatory authority as well as to protect its and its citizens’ interests as ratepayers.

The City should continue its participation in ACM;- intervene in proceedings at the Railroad Commission and related proceedings and/or appeals, if any; retain the law firm of Herrera Law & Associates, PLLC to represent the City’s interest in matters related to the Railroad Commission’s proceedings regarding implementation of HB 1520 and related proceedings; and to retain consultants necessary to assist Special Counsel in its review of the gas utilities’ applications submitted to the Railroad Commission related to implementation of HB 1520 and related proceedings.