



MEMORANDUM

To: Mayor and City Council
From: Andy Quittner, City Attorney
Date: April 11, 2018
Subject: Rate Settlement with Centerpoint Energy.

In October, Centerpoint Energy sent a notice that it was increasing its rates for both residential and commercial gas service. In November, coalition of Central Texas cities took action to object to the rates filed by Centerpoint with the Public Utility Commission, arguing that some of their rate was excessive. An expert was hired to review Centerpoint's metrics.

Shortly thereafter Congress passed the Tax Cut and Job Act of 2017. This bill reduced corporate taxes from 30% to 21%. Part of Centerpoint's rate is based on taxes paid to the Federal government, which would have resulted in a windfall, had the Coalition not been involved ratemaking procedure.

The parties reached an Agreement (approved by the PUC), settling the rate case. The following pages, detail the proceedings.

Agenda
Information Sheet
CenterPoint Energy
– Gas Utility

Application to Increase
Rates – Filed Nov. 16,
2017

Final Action

AGENDA INFORMATION SHEET
ITEM NO. _____

FINAL ACTION ON APPLICATION FOR AUTHORITY TO INCREASE RATES SUBMITTED BY CENTERPOINT ENERGY RESOURCES, CORP. D/B/A CENTERPOINT ENERGY ENTEX AND CENTERPOINT ENERGY TEXAS GAS

BACKGROUND

On about November 16, 2017, CenterPoint Energy Resources, Corp. d/b/a CenterPoint Energy Entex and CenterPoint Energy Texas Gas (CenterPoint or Company) filed with the Railroad Commission of Texas, a Statement of Intent to increase its system-wide annual revenue requirement by approximately \$490 thousand and recover through a 12-month surcharge approximately \$676,000 in extraordinary expenses it incurred related to Hurricane Harvey.

The City is participating in the proceeding before the Railroad Commission and in its review of CenterPoint's application, as part of the Alliance of CenterPoint Municipalities – South Texas Division ("ACM"). Through ACM, the City engaged special counsel and rate consultants to review CenterPoint's application to increase rates.

After extensive review the City's special counsel and rate consultants concluded that a decrease in CenterPoint's annual revenue requirement is in order. Their review suggests that CenterPoint's rates should be decreased by approximately \$5.0 million instead of an increase of about \$1.2 million (including the surcharge for hurricane expenses) as proposed by CenterPoint. The rate consultants' suggested decrease is premised on numerous adjustments to CenterPoint's cost of service, including the effect of the reduction in the corporate federal income tax rate (arising from the Tax Cut and Jobs Act of 2017 (TCJA)), adjustments to its return on equity, its net invested capital (also known as its "rate base"), customer-service expenses, incentive-compensation expenses, and expenses related to pension and employee benefits.

If the case were to be litigated at the Railroad Commission of Texas, ACM's litigating position would be to seek a decrease of about \$5.0 million to CenterPoint's request. But as is usually the case, with litigation comes the risk of litigation; and in a rate proceeding, no party prevails on each issue it presents.

Given the risk of litigation, ACM's special counsel assessed the likelihood of success for the adjustments ACM's consultants identified. Based on that assessment, ACM's special counsel, in cooperation with other parties in the proceeding at the Railroad Commission including the Commission's Staff, undertook negotiations to explore the possibility of a non-litigated outcome. **To that end, the parties were successful in reaching agreement on a proposed settlement that *decreases* CenterPoint's current revenue by \$3.0 million, which equates to a decrease of about \$3.50 million to its proposed**

increase in annual revenue. In addition, to further address the effect of the change in federal tax laws, CenterPoint will submit a request to decrease its rates by an additional approximately \$735,000 to address treatment of excess deferred income taxes (“EDIT”); CenterPoint will file that request no later than 18 months from final approval of the settlement in its pending rate case. 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 as follows:

- 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 committed to making a separate filing on or before November 15, 2019, that will downwardly adjust rates to account for a 5-year amortization of what are known as “excess deferred income taxes” (EDIT); ACM’s consultants estimate the further reduction to be about \$735,000. The EDIT 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.
- As allowed by state law, recovery of the cities and CenterPoint’s rate-case expenses through a 24-month surcharge of approximately \$0.21/per month per customer to recover approximately \$730,000 from all ratepayers in city and outside cities. Of the \$730,000, ACM’s rate case expenses are about \$73,500; CenterPoint’s about \$577,000, and the other city group in the proceeding about \$80,000.
- A 55% to 45% equity to debt capital structure with a 9.8% return on equity, compared to CenterPoint’s request for a return on equity of 10.3%.
- The establishment of baseline, plant-in-service amounts upon which future interim rate adjustments (“IRA”) are to be based, also known as “GRIP” filings. The IRA is an interim rate adjustment mechanism that is allowed by statute and which CenterPoint has utilized for several years to recover costs attributable its incremental capital costs between base rate cases. “GRIP” is the acronym for “Gas Reliability Infrastructure Program.”
- CenterPoint will refund to ratepayers \$640,158 through a one-time bill credit that it has over-collected though its Interim Rate Adjustment (IRA) 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 (PGA) 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.

Based on CenterPoint’s data, a decrease of \$3.0 million in its current non-gas revenue produces the *base rates* set forth in the table below under the column labeled, “Agreed-to Rates”:

	Current Rates	CenterPoint Proposed Rates	Agreed-To Rates
Residential (at 14.65 pressure)			
Customer Charge	\$23.24	\$26.00	\$19.00
Usage Charge	\$0.21800	\$0.14417	\$0.33613
Residential (at 14.95 pressure)			
Customer Charge	\$23.24	\$26.00	\$19.00
Usage Charge	\$0.22250	\$0.14712	\$0.34301
General Service – Small Commercial (at 14.65 pressure)			
Customer Charge	\$38.87	\$30.50	\$25.00
Usage Charge	\$0.10460	\$0.09573	\$0.16286
General Service – Small Commercial (at 14.95 pressure)			
Customer Charge	\$38.87	\$30.50	\$25.00
Usage Charge	\$0.10670	\$0.09769	\$0.16620
General Service – Large Commercial (at 14.65 pressure)			
Customer Charge	\$213.21	\$101.00	\$99.50
Usage Charge	\$0.04120	\$0.07812	\$0.07647

The 12-month surcharge for expenses related to Hurricane Harvey would be:

Residential	At 14.65 pressure base	\$0.01026 per CcF
	At 14.95 pressure base	\$0.01047 per CcF
General Service Small	At 14.65 pressure base	\$0.01026 per CcF
	At 14.95 pressure base	\$0.01047 per CcF
General Service Large	At 14.65 pressure base	\$0.01026 per CcF

The effect of the *base-rate* decrease on a residential customer’s bill, based on an average monthly usage of 22 Ccf, and excluding the Hurricane Harvey surcharge, is as follows:

		Current Rates	Proposed Rates	Agreed-to Rates
Residential (not including the cost of gas)	At 14.65 pressure base	\$28.04	\$29.17 (4.0% increase)	\$26.39 (5.9% decrease)
	At 14.95 pressure base	\$28.14	\$29.24 (3.9% increase)	\$26.55 (5.7% decrease)
Residential (including the cost of gas)	At 14.65 pressure base	\$40.13	\$41.26 (2.8% increase)	\$38.48 (4.1% decrease)
	At 14.95 pressure base	\$40.48	\$41.58 (2.7% increase)	\$38.89 (3.9% decrease)

Appendix A shows the impact on a customer’s bill based on average consumption, including the cost of gas for each class of customers.

RATE CASE EXPENSES

Under state law, cities are entitled to reimbursement of their reasonable rate case expenses by the utility, who in turn recovers those expenses from ratepayers. The settlement provides that ACM’s reasonable rate case expenses, as well as CenterPoint’s and other municipal intervenors’ rate-case expenses will be recovered from all ratepayers – in-city and outside-the-city ratepayers – through a 24-month surcharge of about 21¢ per month per customer. Total rate case expenses are estimated to be about \$730,000, of which ACM’s share is about \$73,500.

FINAL ACTION AND RECOMMENDATION

ACM’s special counsel and consultants are of the opinion that the agreed-to rates are and the reduction of \$3.0 million in non-gas revenue are a reasonable result and believe that the outcome is well within the range of likely outcomes from a fully litigated proceeding at the Railroad Commission of Texas. Additionally, approving the Settlement Agreement helps minimize rate-case expenses materially, while at the same time resulting in just and reasonable rates. In short, ACM’s special counsel and consultants believe approval of the reduction in non-gas revenue and the corresponding rates is a sound result and recommend approval of the Settlement Agreement.

The decrease is expected to be effective on about May 22, 2018, the date the Railroad Commission is expected to consider the Settlement Agreement. An approval of the Settlement Agreement brings certainty with regard to the outcome of CenterPoint’s rates.

The City must take action no later than April 30, 2018. If the City is unable to take action by April 30, 2018, please contact Mr. Alfred R. Herrera, ACM’s Special Counsel, to make arrangements with CenterPoint for a later approval date.

APPENDIX A

BILL COMPARISON – CURRENT RATES TO SETTLEMENT RATES

CENTERPOINT - SOUTH TEXAS DIVISION
2017 RATE CASE / GAS UTILITY DOCKET NO. 10669

CURRENT RATES AND AVERAGE BILL		RESIDENTIAL RATES		SETTLEMENT RATES AND AVERAGE BILL	
CURRENT RATES AND AVERAGE BILL		CENTERPOINT'S PROPOSED RATES AND AVERAGE BILL		SETTLEMENT RATES AND AVERAGE BILL	
Residential - South Texas - Current		Residential - South Texas - Proposed		Residential - South Texas - SETTLEMENT	
Average use @14.65 - 22 Ccf		Average use @14.65 - 22 Ccf		Average use @14.65 - 22 Ccf	
Rate Blocks	Ccf	Rate Blocks	Ccf	Rate Blocks	Ccf
Customer Charge	\$23.24	Customer Charge	\$26.00	Customer Charge	\$19.00
All	0.21800	All	0.14417	All	0.33613
Subtotal	22	Subtotal	22	Subtotal	22
GCA Revenue	28.04	GCA Revenue	29.17	GCA Revenue	26.39
	22		12.09		22
Total Revenue	\$40.13	Total Revenue	\$41.26	Total Revenue	\$38.48
Gas Cost Adjustment	0.54965	Gas Cost Adjustment	0.54965	Gas Cost Adjustment	0.54965
		South Texas @ 14.65 PSI		South Texas @ 14.65 PSI	
		Increase with Gas Cost	\$1.13	Increase with Gas Cost	(\$1.65)
		Increase without Gas Cost	\$1.13	Increase without Gas Cost	(\$1.65)
			2.8%		-4.1%
			4.0%		-5.9%

CURRENT RATES AND AVERAGE BILL		CENTERPOINT'S PROPOSED RATES AND AVERAGE BILL		SETTLEMENT RATES AND AVERAGE BILL	
CURRENT RATES AND AVERAGE BILL		CENTERPOINT'S PROPOSED RATES AND AVERAGE BILL		SETTLEMENT RATES AND AVERAGE BILL	
Residential - South Texas - Current		Residential - South Texas - Proposed		Residential - South Texas - SETTLEMENT	
Average use @14.95 - 22 Ccf		Average use @14.95 - 22 Ccf		Average use @14.95 - 22 Ccf	
Rate Blocks	Ccf	Rate Blocks	Ccf	Rate Blocks	Ccf
Customer Charge	\$23.24	Customer Charge	\$26.00	Customer Charge	\$19.00
All	0.22250	All	0.14712	All	0.34301
Subtotal	22	Subtotal	22	Subtotal	22
GCA Revenue	28.14	GCA Revenue	29.24	GCA Revenue	26.55
	22		12.34		22
Total Revenue	\$40.48	Total Revenue	\$41.58	Total Revenue	\$38.89
Gas Cost Adjustment	0.56092	Gas Cost Adjustment	0.56092	Gas Cost Adjustment	0.56092
		South Texas @ 14.95 PSI		South Texas @ 14.95 PSI	
		Increase with Gas Cost	\$1.10	Increase with Gas Cost	(\$1.59)
		Increase without Gas Cost	\$1.10	Increase without Gas Cost	(\$1.59)
			2.7%		-3.9%
			3.9%		-5.7%

CENTERPOINT - SOUTH TEXAS DIVISION
2017 RATE CASE / GAS UTILITY DOCKET NO. 10669

CURRENT RATES AND AVERAGE BILL		GENERAL SERVICE - SMALL COMMERCIAL		SETTLEMENT RATES AND AVERAGE BILL	
General Service Small - South Texas - Current		CENTERPOINT'S PROPOSED RATES AND AVERAGE BILL		General Service Small - South Texas - Settlement	
Average use @14.65 - 180 Ccf		General Service Small - South Texas - Proposed		Average use @14.65 - 180 Ccf	
Rate Blocks	Ccf	Rate Blocks	Ccf	Rate Blocks	Ccf
Customer Charge	38.87	Customer Charge	30.50	Customer Charge	25.00
All	0.10460	All	0.09573	All	0.16286
Subtotal	57.70	Subtotal	47.73	Subtotal	54.31
GCA Revenue	98.94	GCA Revenue	98.94	GCA Revenue	98.94
Total Revenue	<u>\$156.64</u>	Total Revenue	<u>\$146.67</u>	Total Revenue	<u>\$153.25</u>
Gas Cost Adjustment	0.54965	Gas Cost Adjustment	0.54965	Gas Cost Adjustment	0.54965
		South Texas @14.65 PSI		South Texas @14.65 PSI	
		Increase with Gas Cost	-6.4%	Increase with Gas Cost	-2.2%
		Increase without Gas Cost	-17.3%	Increase without Gas Cost	-5.9%

CURRENT RATES AND AVERAGE BILL		CENTERPOINT'S PROPOSED RATES AND AVERAGE BILL		SETTLEMENT RATES AND AVERAGE BILL	
General Service Small - South Texas - Current		General Service Small - South Texas - Proposed		General Service Small - South Texas - Settlement	
Average use @14.95 - 180 Ccf		Average use @14.95 - 180 Ccf		Average use @14.95 - 180 Ccf	
Rate Blocks	Ccf	Rate Blocks	Ccf	Rate Blocks	Ccf
Customer Charge	38.87	Customer Charge	30.50	Customer Charge	25.00
All	0.10670	All	0.09769	All	0.16620
Subtotal	58.08	Subtotal	48.08	Subtotal	54.92
GCA Revenue	100.97	GCA Revenue	100.97	GCA Revenue	100.97
Total Revenue	<u>\$159.05</u>	Total Revenue	<u>\$149.05</u>	Total Revenue	<u>\$155.89</u>
Gas Cost Adjustment	0.56092	Gas Cost Adjustment	0.56092	Gas Cost Adjustment	0.56092
		South Texas @ 14.95 PSI		South Texas @ 14.95 PSI	
		Increase with Gas Cost	-6.3%	Increase with Gas Cost	-2.0%
		Increase without Gas Cost	-17.2%	Increase without Gas Cost	-5.4%

