

Natural Gas Utility Ratemaking

City of Austin

Public Utility Committee

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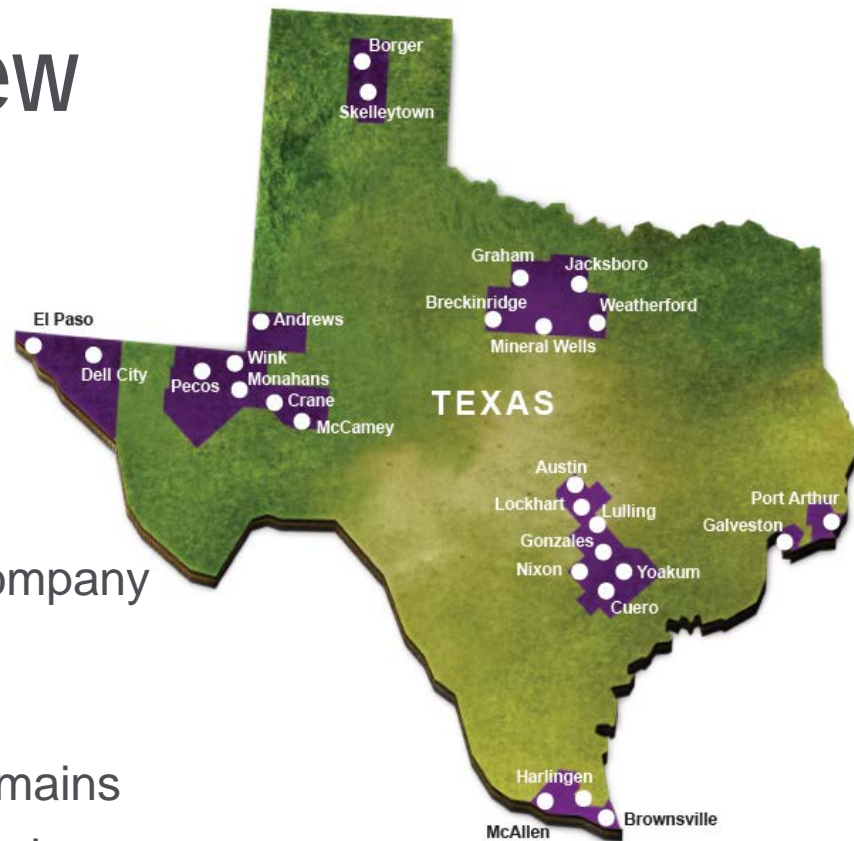
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Community Relations Manager, Texas Gas Service

Geographical Overview

Facts and Figures

- 640,000 customers
- 94% residential
- Large geographical service area
- Approximately 100 municipalities
- Third largest natural gas distribution company in Texas
- 100% regulated
- More than 10,000 miles of distribution mains
- More than 300 miles of transmission mains



Customer Base

Currently 9 Separate Rate Jurisdictions

- 37% in Austin & surrounding communities
- 38% in El Paso & surrounding communities
- 11% in Rio Grande Valley
- 14% in Gulf Coast, North Texas, Permian, South Texas

Statewide vs. Home Rule

How Texas differs

Other States - “Statewide”:

- Statewide rates set by a public utility commission
 - Oklahoma Corporation Commission
 - Kansas Corporation Commission

Texas - “Home Rule”:

- Individual cities have original jurisdiction over utility rate matters within their city limits.
- Railroad Commission of Texas (RRC) has original jurisdiction over utility rate matters within the environs.
- RRC has appellate jurisdiction over utility rate matters within the city limits.

Austin Service Area

Customer Count as of April 1, 2016

238,000 customers

- 213,000 in Austin
- 4,689 in Cedar Park, West Lake Hills, Rollingwood, Kyle, and Sunset Valley
- 439 in Lakeway, Bee Cave, and Dripping Springs (all three added since 2009 Rate Case)
- 20,047 in environs (unincorporated Travis County)

Regulatory Process Objectives

Basics

- Provide the utility with fair return on its investment
 - Ensure utility expenditures are prudent
 - Ensure rate levels are sufficient to allow the utility to attract capital
- Ensure consumers are charged a fair price for service
 - Rates should approximate those that would be charged if the enterprise were not a regulated monopoly but subject to competition
 - Rates should be “just and reasonable” and “non-discriminatory”

Establishing Rates

Revenue Requirement Calculation

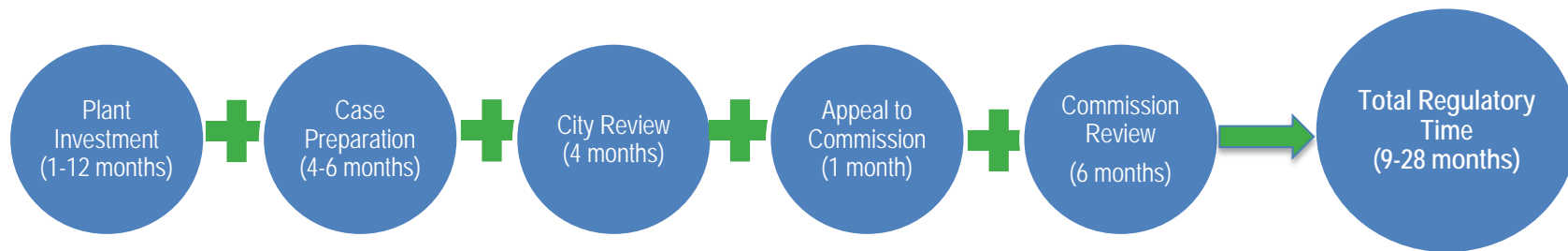
- Allowed return on investment +
- Recoverable operating expenses +
- Other taxes +
- Depreciation and amortization +
- Federal income taxes =

Revenue requirement

Regulatory Lag

What Drives Increases?

- Investment in our system drives the need to increase rates
 - Replacement of aging pipe and growth
- Time from investment to recovery can be from 9-28 months



Gas Reliability Infrastructure Program

The basics of a “GRIP”

- Annual recovery of increase in investment
- Requires a rate case within the past two years in order to implement
- Requires annual earnings monitoring and a full rate case every five years (which is why we are filing this case)
- Authorized by statute
- Cities have only ministerial responsibilities for the filing

General Rate Cases

Five Areas of Consideration

General rate cases reflect changes in ***distribution costs***, including:

- employee wages,
- the cost of maintaining pipeline system,
- taxes, and
- capital needed to finance the company.

A General Rate Case

- A general rate case will consider five areas:
 - Size of the utility's rate base
 - Amount and treatment of expenses
 - Sales levels and revenues for the test year
 - Return on investment to be allowed, and
 - Rate Design

City of Austin

How the Process Works

- City Council has authority to approve rate increases
- Office of Telecommunications and Regulatory Affairs (TARA) oversees regulatory filings and related issues (i.e. complaints)
 - Rondella Hawkins - Officer
- In previous rate cases, the city of Austin has hired an outside utility rate consultant to review filings
- TARA staff, their consultant, working with the City Manager and the Law dept, and TGS negotiate a settlement and bring it to the City Council for approval

Proposed Austin Rate Case Timeline

2016

- TGS will file with Austin (and other cities in the service area)
 - June 15, 2016
- City must suspend implementation of rates by 35th day to allow an additional 90 days of review
 - (July 20, 2016)
- Cities must act to approve/deny w/in 125 days (35 days + 90 days)
 - October 18, 2016

Questions