




City of Austin

Office of Telecommunications & Regulatory Affairs

TO: Mayor and Council Members

FROM: Rondella Hawkins, Telecommunications & Regulatory Affairs Officer 

DATE: March 22, 2019

SUBJECT: Review and Analysis of Texas Gas Service Pipeline Integrity Testing – Agenda item #51

OVERVIEW

Texas Gas Service Company (TGS) reported Pipeline Integrity Testing (PIT) expenses of \$758,590 in calendar year 2018. TGS had no reported PIT expenses in 2017. In order to recover its 2018 expenses, TGS is proposing a PIT surcharge of \$0.00449 per Ccf for the 12-month period between April 2019 and April 2020, which complies with the terms of the Pipeline Integrity Rider approved by the City Council in November 2016

Staff has reviewed TGS's filing and supporting documentation, including responses to informal discovery. Staff finds TGS's PIT expenses for 2018 to be supported by the evidence, reasonable, and to meet the criteria for cost recovery that is outlined in the Rider.

BASIS FOR THE PIT RIDER SURCHARGE

Rate Schedule PIT was approved as part of a unanimous settlement during the last TGS general rate case in 2016.¹ Rate Schedule PIT states that the PIT surcharge “promote[s] the public interest in pipeline safety by enabling the Company to recover the reasonable and necessary Pipeline Integrity Safety expenses incurred by the Company during the prior year[.]” TGS has only 11.6 miles of transmission lines in Central Texas that are subject to the federally mandated testing requirements. TGS is required to test each segment of transmission pipe once every seven years. TGS' current practice is to perform these tests over two years out of every seven. Because this is not a regular, predictable annual expense it was agreed to handle as a rider to allow TGS to recover its expenses during the year after they are incurred instead of putting them into base rates.

Rate Schedule PIT specifically explains the expense items that qualify for recovery. All recoverable expenses are related to operations and maintenance (O&M) of TGS's transmission lines. The O&M expenses that can be included in the PIT surcharge include contractor costs, but

¹ See Ordinance No. 20161103-077.

not the labor costs of TGS employees. Recoverable expenses do not include any capital expenditures associated with TGS's pipeline integrity program, as those costs are recovered through base rates and through any interim rate adjustments.

Pursuant to Rate Schedule PIT, TGS is permitted to recover its eligible expenses in a 12-month cost recovery period.

NOTICE

TGS customers were given proper notice of the PIT surcharge either through separate mailing or through bill inserts. TGS also posted the customer notice on its website.

STAFF REVIEW OF TGS'S FILING

TARA staff conducted informal discovery with Texas Gas Service and reviewed supporting documentation for all claimed expenses.

TGS performed pipeline integrity assessment on a total of 9.5 miles of its 11.6 miles of gas transmission lines in the central Austin area during 2018. Generally, transmission lines operate at a higher pressure than standard distribution pipelines. The actual definition of transmission is lines that operate above 20% SMYS (Specified Minimum Yield Strength) or by function. TGS's transmission lines are subject to regulatory requirements of the Federal Pipeline and Hazardous Materials Safety Administration (FPHMSA). TGS is required to perform tests on each segment of these lines no less than once every seven years.

The pipeline safety testing in TGS's Central Texas service area relied on hydrostatic pressure testing and in-line inspections (smart pig runs). In-line inspections use cameras to record and view the inside surface of the pipeline.

Staff has reviewed all invoices that support the claimed pipeline integrity testing expenses. All expenses were incurred in calendar year 2018. All expenses relate to pipeline integrity testing of three TGS transmission lines in central Austin. Staff concludes that TGS's proposed PIT Surcharge complies with the provisions of Rate Schedule PIT. Staff finds TGS's PIT expenses for 2018 to be supported by the evidence, reasonable, and to meet the criteria for cost recovery.

CC: Spencer Cronk, City Manager
Rodney Gonzales, Assistant City Manager