



MEMORANDUM

TO: Mayor & Council *Rondella Hawkins by Paul Lewis*

FROM: Rondella Hawkins, Telecommunications and Regulatory Affairs Officer

DATE: May 20, 2019

SUBJECT: Review and Analysis of Texas Gas Service's Gas Reliability Infrastructure Program Rate Filing to the City of Austin dated March 1, 2019

OVERVIEW

Texas Gas Service Company (TGS) reported that pursuant to the Gas Reliability Infrastructure Program (GRIP), its net increase in capital invested in the Central Texas Service Area (CTSA) in 2018 was \$43,584,405. TGS calculated that the Interim Rate Adjustment necessary to recover this incremental investment is \$5,545,677 on a system-wide basis, of which \$5,121,184 is attributable to customers in the incorporated areas, which includes the City of Austin. TGS's 2018 GRIP filing will increase the average residential bill by \$1.46 per month excluding taxes (or 3.89 percent) and the average commercial bill by \$6.41 (or 2.76 percent).

Staff has reviewed TGS's filing and supporting documentation including responses to informal discovery. Staff finds TGS's GRIP expenses for 2018 to be supported by the evidence, to be reasonable, and to meet the criteria for cost recovery under Section 104.301 "Interim Adjustment for Changes in Investment" of the Texas Utilities Code.

BASIS FOR THE RATE INCREASE

Section 104.301 of the Texas Utilities Code establishes the state's Gas Reliability Infrastructure Program and is commonly referred to as the "GRIP" statute. TGS explains that the purposes of the GRIP statute are to encourage timely investment in needed system improvements and to reduce the frequency of traditional rate cases by providing a streamlined process for utilities to recover the cost of those investments on an interim basis between rate cases. The GRIP statute allows for an annual interim adjustment of rates to reflect changes in the value of capital invested each year. Within two years of a general rate case, a utility may begin to file Interim Rate Adjustments with the regulatory authority to recover the cost of changes in the investment in service for gas utility services. The regulatory authority (the City of Austin in this case) has an initial period of not more than sixty (60) days to review the proposed rate adjustment and may act to suspend the implementation of the Interim Rate Adjustment for an additional forty-five (45) days. The City has limited authority to review the GRIP filing of gas utilities. All annual GRIP rate increases are then reviewed at the next general rate case filing.

NOTICE

TGS customers were given proper notice of the GRIP interim rate increase either through separate mailing or through bill inserts. TGS also posted the customer notice on its website.

STAFF REVIEW OF TGS'S GRIP FILING

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

All of TGS's claimed expenses were incurred in calendar year 2018 in the CTSA for capital items, such as gas mains, pipelines, meters and other related capital equipment. All expenses were allocated among customer classes using the percentages approved in TGS's last full rate case in 2016. The amount was based on the difference between the value of TGS's invested capital for the 2018 calendar year and the value of TGS's invested capital for the 2017 calendar year. The return on investment, depreciation, and incremental federal income tax factors used in the computation were the same as the factors reflected in the final settlement agreement approved by the City Council in 2016 establishing TGS's latest effective rates for the CTSA.

TGS's interim rate increase will increase the customer charge and the average monthly bill for typical Residential and Commercial customers' bills as follows:

	Current Customer Charge	2019 Interim Rate Adjustment based on 2018 GRIP Expenses	New Customer Charge Based on 2018 GRIP Expenses	% Change in Average Customer Charge	% Change in Average Monthly Bill
Residential	\$17.35	\$1.46	\$18.81	8.41 %	3.89%
Commercial	\$46.92	\$6.41	\$53.33	13.66 %	2.76%

Please note that the Recommendation for Action (RCA) posted on May 10, 2019 incorrectly stated the increase in the average monthly bills. The RCA provided the percentage change in the average *customer charge*; it did not provide the percentage change for the average monthly bill. The above table provides both.

Staff concludes that TGS's proposed GRIP interim rate increase complies with the provisions of Sec. 104.301 of the Texas Utilities Code. Staff finds TGS's GRIP expenses for 2018 to be supported by the evidence and to meet the statutory criteria for cost recovery.

TGS is required to file a full rate case before the end of 2022 at which time all investments claimed under annual GRIP filings will be subject to a detailed, full review.

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