

**CITY OF EL PASO, TEXAS  
AGENDA ITEM  
DEPARTMENT HEAD'S SUMMARY FORM**

**DEPARTMENT:** Financial Services

**AGENDA DATE:** March 23, 2010

**CONTACT PERSON NAME AND PHONE NUMBER:** Liza Ramirez-Tobias (915) 541-4074

**DISTRICT(S) AFFECTED:** All

**SUBJECT:**

Discussion and Action regarding Texas Gas Service, a division of ONEOK, Inc.'s Statement of Intent to Increase Rates, filed December 3, 2009.

**BACKGROUND / DISCUSSION:**

On December 3, 2009, Texas Gas Service, a division of ONEOK, Inc., filed a Statement of Intent to increase base rates in El Paso by \$7.2 million. The request was adjusted to \$5,145,022 at the time of the hearing conducted by the Public Utilities Regulation Board (PURB) on March 10, 2010. After hearing from the witnesses, the PURB finished its deliberations and their recommendation will result in a net rate decrease of approximately \$1.4 million, which includes approval of a rider for pipeline integrity expenses estimated at \$347,500. Details are further discussed in the Memorandum attached.

**PRIOR COUNCIL ACTION:**

City Council approved a resolution on December 22, 2009 suspending the effective date of the Statement of Intent to Increase rates

**AMOUNT AND SOURCE OF FUNDING:**

N/A

**BOARD / COMMISSION ACTION:**

The Public Utilities Regulation Board (PURB) considered the proposed increase at its March 10, 2010 meeting. The PURB's recommendation is attached.

\*\*\*\*\*REQUIRED AUTHORIZATION\*\*\*\*\*

**DEPARTMENT HEAD:**

  
\_\_\_\_\_  
(If Department Head Summary Form is initiated by Purchasing, client department should sign also)

*Information copy to appropriate Deputy City Manager*



## PUBLIC UTILITY REGULATION BOARD

### MEMORANDUM

TO: City Council

FROM: William Stafford Thurmond, Chair  
Public Utility Regulation Board

SUBJECT: PURB Recommendations regarding the Texas Gas Service Statement of Intent to Increase Rates

DATE: March 10, 2010

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This memorandum briefly sets forth the recommendations of the Public Utility Regulation Board made at its March 10, 2010 meeting regarding the Texas Gas Service Statement of Intent to Increase Rates. These recommendations were made by a majority of members present at the time that all of the testimony of TGS and City was completed. The board's recommendation would result in a net rate decrease of approximately \$1.4 million. The base rate decrease would be \$1.75 million and approval of a rider for pipeline integrity expenses would be estimated to be \$347,500.

Texas Gas Service Company filed its statement of intent on December 3, 2009. The original request was for a \$7.2 million increase. The request, as adjusted by Texas Gas at the time of the hearing was an increase in base rates of \$5,145,022. Of the \$5.1 million, approximately \$531,000 was requested for the cost of moving employees from the current location at Pollard Street to downtown El Paso.

In addition Texas Gas requested a Conservation Rider, and a Cost of Service Adjustment clause. The Conservation Rider would be an additional charge on customer bills. Texas Gas would use the revenues from that rider to conduct an education campaign and pay rebates for the installation or replacement of certain gas appliances. The Cost of Service Adjustment Clause is intended to streamline annual rate increase requests, and allow for rate changes on an annual basis without Texas Gas having to make a Gas Reliability Infrastructure Program (GRIP) filing for interim adjustments.

The City's consultants in their evaluation of the Texas Gas request concluded that instead of an increase, a decrease in rates of approximately \$2.4 million is warranted.

After the City Council constituted the PURB in order to hear this case and make recommendations, the board set a hearing on the case for March 10, 2010. On March 10, 2010, the Board convened at 9:00 A.M., heard sworn testimony from seven witnesses presented by Texas Gas Service Company and sworn testimony from three witnesses engaged by the City to evaluate the case. After hearing from the witnesses, the Board considered the issues, voting on the issues one by one to resolve the request. The Board finished its deliberations at approximately 10:30 P.M. All members of the Board were present at the beginning of the proceedings. However, three members could not remain until the end due to conflicts. The City's consultants and Texas Gas Service representatives then worked to quantify the effect of the Board's recommendations. This report summarizes those recommendations.

#### I. RATE OF RETURN

- A. Approved City recommendation on Return on Common Equity (10%).
- B. Instead of approving either City recommendation or TGS request regarding Capital Structure, PURB approved Capital Structure with 42.5% Equity (and implicitly 57.5% Debt).

#### II. RATE BASE

- A. Approved City recommendation that Cash Working Capital is negative number (-\$2,378,482) (6/30/2009).
- B. Approved the City recommendation that the cut off date for investment should be June 30, 2009, the end of the "test year" rather than January 31, 2010 as requested by Texas Gas Service in an adjustment to their filing at the time of the hearing.

#### III. EXPENSES

- A. Approved City recommendation regarding Vacant Positions (0), Incentive Compensation (0), Advertising Expense (\$89,121), Injuries and Damages (\$41,241), Corporate Costs, including Allocation Factors (-119,320), Direct Insurance Increase (-\$19,983) and Tax Center (-\$23,600) (all lower than TGS requests).
- B. Approved TGS request regarding Merit Increases (\$129,945) and Contractor Expense (1,724,270), Transportation and Work Equipment (all higher than City Consultant's recommendation).

- C. Approved TGS request regarding Pipeline Integrity Costs (\$347,500), but PURB recommends this be done through a separate surcharge instead of including it in the rate base.
- D. Instead of approving either TGS request or City recommendation regarding Depreciation Expenses, PURB approved 10% Salvage Value for Mains, and 22% Salvage Value for Services. In addition, PURB approved City recommendation regarding Amortization of Excess Depreciation Reserve (-\$1,166,961).
- E. PURB recommended against including Downtown Move as part of the rate base for several reasons, including fact that TGS made no real effort to implement, that ratepayer should not pay for downtown revitalization and concern about 100% employee subsidized parking. PURB also recommended that if there is a downtown move, the cost should not be passed to the ratepayer. The downtown move is estimated to cost \$531,000.
- F. Approved City recommendation that Weather Normalization of Revenues using 30-year historical weather data instead of 10 years
- G. PURB recommended that the rate case expenses be decided by City Council once TGS has provided expense total. Both Texas Gas Service and the City's consultants recommended that rate case expenses be recovered over a three-year period as part of the base rates.

#### IV. COST ALLOCATION AND RATE DESIGN

Approved City recommendation regarding Cost Allocation and Class Rate Design. PURB had no recommendation on Revenue Distribution issue. The recommendation would change the current rate structure from a minimum charge including 200 Ccf's of gas (not including the cost of gas) to a customer charge and usage charge rate structure.

#### V. COST OF SERVICE ADJUSTMENT

PURB recommended against automatic Cost of Service Adjustment clause requested by TGS.

#### VI. CONSERVATION PROGRAM RIDER

PURB recommended against Conservation Program Rider requested by TGS.

TEXAS GAS SERVICE COMPANY  
EL PASO SERVICE AREA  
TWELVE MONTHS ENDED JUNE 30, 2009

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PURB RECOMMENDATION  
SUMMARY OF REVENUE REQUIREMENT

Line No.	Description	From Schedule	TGS Proposed (a)	Adjustments (b)	PURB (c)
1	Rate Base	B	\$105,815,865	(\$3,676,034)	\$102,139,831
2	Rate of Return	E	8.8410%	-1.0890%	7.7520%
3	Required Return		\$9,355,181	(\$1,437,301)	\$7,917,880
4	Depreciation & Amortization Expense	G	4,635,308	(1,431,444)	3,203,864
5	Taxes Other Than Income Taxes	G	1,870,772	(33,883)	1,836,889
6	Interest on Customer Deposits	G	98,439	0	98,439
7	Distribution Expense	G	7,564,956	(851,127)	6,713,829
8	Customer Accounts Expense	G	5,845,329	(311,784)	5,533,545
9	Administrative and General Expense	G	8,944,304	(1,690,319)	7,253,985
10	Federal Income Tax	F	3,446,545	(1,181,517)	2,265,029
11	Revenue Requirement before Gross-ups		\$41,760,834	(\$6,937,375)	\$34,823,459
12	Test Year Adjusted Revenue	G	(36,615,812)	47,945	(36,567,867)
13	Revenue Deficiency		\$5,145,022	(\$6,889,430)	(\$1,744,408)
Gross-up for Revenue Related Expenses:		Factors:			
14	Uncollectible Expense	0.0050390	26,057	(34,891)	(8,834)
15	Total Revenue Deficiency		\$5,171,079	(\$6,924,321)	(\$1,753,242)
16	Total Revenue Requirement (Line 11 + Line 14)		\$41,786,891	(\$6,972,266)	\$34,814,625