



City of League City, TX

300 West Walker
League City TX 77573

Text File

File Number: 23-0522

Agenda Date: 11/14/2023

Version: 1

Status: Draft

In Control: City Council

File Type: Agenda Item

Title

Consider and take action on a resolution that denies an increase in revenue and a change in rates proposed by CenterPoint Energy Resources Corporation, D/B/A, CenterPoint Energy Entex and CenterPoint Energy Texas Gas; authorizes continued participation in the Texas Coast Utilities Coalition of Cities; representation of the City by special counsel intervention in proceedings related to CenterPoint's Statement of Intent; and requires the reimbursement of municipal rate case expenses (City Attorney)

..BACKGROUND

On or about October 30, 2023, CenterPoint Energy Resources Corporation, D/B/A, CenterPoint Energy Entex and CenterPoint Energy Texas Gas ("CenterPoint" or "Company") filed a Statement of Intent to increase rates by a total of approximately \$37.4 million. CenterPoint filed its application with the Railroad Commission of Texas (RRC) on the same date it filed its application with the City.

Further, though the overall increase is \$37.4 million, CenterPoint proposes to increase rates for its residential class of customers by \$58.4 million, and to decrease rates for its small and large commercial customers by a combined amount of about \$21 million.

Additionally, a key element of CenterPoint's application is that it proposes to consolidate its four rate divisions into a single rate division. Currently, CenterPoint has four divisions: the Beaumont/East Texas Division; the South Texas Division; the Texas Coast Division; and the Houston Division. CenterPoint asserts that the effect of combining the four divisions into a single division is to produce a decrease in rates in its Beaumont/East Texas Division and in its South Texas Division, while increasing rates in its Texas Coast Division and in the Houston Division. Note that the RRC has recently approved other utilities' similar requests that proposed consolidation of those other utilities' separate rate divisions into a single division.

Another central factor in CenterPoint's application is that even though CenterPoint's *overall* proposed increase is about \$37.4 million, the Residential class under CenterPoint's proposal, would see an increase in excess of \$58.4 million. This means that CenterPoint's proposed allocation of costs to the customer classes needs a close review.

These two factors - the increase to residential customers while decreasing rates for commercial customers, and the consolidation of CenterPoint's four divisions into a single rate division - warrant a closer review of its cost-allocation study.

CenterPoint also proposes an overall profit margin of about 8.25%, based on a return on equity of 10.50% and a capital structure comprised of 60.61% equity and 39.39% long-term debt. As with CenterPoint's proposed allocation of costs, its cost of capital, too, will require a thorough review.

EFFECT OF CENTERPOINT'S PROPOSED CHANGE IN RATES

The attached tables below show the changes in revenue CenterPoint proposes for each of its divisions.

CITY JURISDICTION TO SET CENTERPOINT'S RATES

Municipalities have exclusive, original jurisdiction over a gas utility's rates, services, and operations within a city's boundaries. But, the Railroad Commission has appellate jurisdiction over rate-setting decisions a city makes. This means that CenterPoint may appeal to the Railroad Commission, a city's decision regarding rates.

REPRESENTATION

As part of the Texas Coast Utilities Coalition of Cities (TCUC), the City in prior applications filed by CenterPoint has engaged the law firm of Herrera Law & Associates as Special Counsel to review CenterPoint's application. The attached Resolution, if adopted, continues that relationship.

RATE CASE EXPENSES

Cities, by statute, are entitled to recover their reasonable rate case expenses from the utility. The accompanying Resolution directs CenterPoint to continue to reimburse TCUC's rate case expenses on a monthly basis based on presentation of invoices from the cities.

CITY ACTION

At this juncture the City's options are to:

1. Do nothing, which means that CenterPoint's proposed change in rates will go into effect on Dec. 4, 2023;
2. "Suspend" CenterPoint's proposed effective date by 90 days, thus giving the cities 125 days to review CenterPoint's application and make a final decision; or
3. Deny CenterPoint's proposed change in rates; a denial of the application will mean that CenterPoint will file an appeal to the Railroad Commission.

RECOMMENDATION

Because CNP filed its application with the Railroad Commission on the same day it filed with the cities, and given how quickly these cases move, TCUC's Special Counsel recommends that the City deny CenterPoint's proposed change in rates and expeditiously intervene in the case at the Railroad Commission. Thus, if adopted the attached resolution:

1. Denies CNP's proposed increase in revenue and change in rates;
2. Directs CenterPoint to reimburse the TCUC cities' rate-case expenses;
3. Authorizes:
 - A. Continued participation in TCUC;
 - B. Intervention in proceedings at the Railroad Commission of Texas and related proceedings, including appeals, if any;

C. Representation of the City by the law firm of Herrera Law & Associates, PLLC as part of TCUC.

The City must take final action on CenterPoint's proposed increase by no later than December 4, 2023.

Attachments:

1. Data Sheet
2. Proposed Resolution
3. Tables Showing effect of Centerpoint's Proposed Chang in Rates

FUNDING

- Funds are available from Account # _____
- Requires Budget Amendment to transfer from Account # _____ to Account # _____
- NOT APPLICABLE

STRATEGIC PLANNING

- Addresses Strategic Planning Critical Success Factor # _____
- NOT APPLICABLE