



City of League City, TX

300 West Walker
League City TX 77573

Text File

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Title

Consider and take action on a resolution approving an amended application submitted by Centerpoint Energy Resources Corp. d/b/a Centerpoint Energy Entex ("Centerpoint") on or about October 11, 2019 for authority to issue a refund to customers; directing Centerpoint to issue a refund; directing Centerpoint to reimburse the City of League City's rate case expenses; finding that the meeting complies with the open meetings act; and making other findings and provisions related to the subject (City Attorney)

..Background:

On or about August 1, 2019 CenterPoint Energy-Entex ("CenterPoint" or "Company") simultaneously filed applications with the City and the Railroad Commission of Texas (the "Commission") pursuant to Section 104.111 of the Gas Utility Regulatory Act ("GURA"). A ratemaking proceeding under GURA § 104.111 is very limited in scope and allows a gas utility to reduce its rates without the need to present a full cost of service study.

In its application CenterPoint seeks approval to issue a refund to customers in its Texas Coast Division and Houston Division in the amount of about \$14.4 million, to reflect a reduction in its cost of service brought about by the federal Tax Cuts and Jobs Act of 2017 ("TCJA"). Among other things, the TCJA lowers the corporate income tax rate from 35% to 21%. Consequently, CenterPoint's cost of business has decreased because its federal income tax expense is lower and this decreased cost of business should be reflected in lower customer bills. As you may recall, in July, 2018 CenterPoint made a similar filing to pass through to customers the reduction in its cost of service related to the decrease in the federal income tax ("FIT") rate from 35% to 21%.

In its filing on August 1, 2019, CenterPoint sought authority to provide a refund to customers related to the impact of the TCJA on its deferred taxes, which again produced a reduction to its cost of service. CenterPoint's August 1, 2019 filing presented a net refund related to its deferred income taxes, but also included a request to recover restoration expenses it claimed to incur related to Hurricane Harvey. Thus, CenterPoint in its initial filing sought to offset its TCJA refund with increases it incurred related to Hurricane Harvey.

On August 16, 2019, CenterPoint presented a correction to its filing to reflect insurance proceeds it received related to its Hurricane Harvey expenses. Inclusion of those insurance proceeds, changed CenterPoint's proposed refund of about \$14.4 million, to about \$16.6 million.

CenterPoint's request to pass through to its customers the savings in its federal-tax expense is a result of an order issued by the Railroad Commission in February, 2018, applicable to all gas utilities in Texas. That order expressly limited applications to reduce rates under GURA § 104.111, to the difference in a company's most recently approved cost of service, and its reduced cost of service because of the reduction in the FIT rate. As initially filed, CenterPoint's application went beyond those parameters by seeking recovery of increases in expenses related to Hurricane Harvey.

After a series of discussions between the City's special regulatory counsel (as part of the Texas Coast Utilities Coalition ("TCUC") of cities) regarding the basis for CenterPoint's inclusion of Hurricane Harvey expenses in its filing under GURA § 104.111, CenterPoint amended its application, and on October 11, 2019, presented a request seeking approval of a refund that excluded the Hurricane Harvey expenses.

Thus, as initially filed, CenterPoint proposed a net refund of about \$14.3 million; ultimately its amended filing excluding matters related to Hurricane Harvey, produces a refund of about \$17.8 million. CenterPoint proposes to begin making refunds on bills rendered on or after January 1, 2020 and amortized over three years.

ALLOCATION OF THE REFUND TO CUSTOMER CLASSES

The decrease in revenue on a customer-class basis is as shown in Table I, below:

Estimated Amounts For

| Houston and Texas Coast Divisions, Combined | Year 1: 2020 | Year 2: 2021 | Year 3: 2022 | TOTAL |
|--|---------------|---------------|----------------|----------------|
| Total Impact to Base Rate Revenues | (\$6,994,963) | (\$6,450,916) | (\$4,318,0089) | (\$17,763,968) |
| Residential | (\$0.39) | (\$0.36) | (\$0.24) | |
| General Services - Small Volume | (\$0.59) | (\$0.54) | (\$0.36) | |
| General Services - Large Volume | (\$10.64) | (\$9.81) | (\$6.57) | |

RECOMMENDATION

TCUC's Special Counsel, recommends that the City:

- (1) Approve the tariff and rates shown in Attachment A (attached to proposed Resolution accompanying this agenda information sheet) and incorporated into the accompanying Resolution;
- (2) Approve the decrease in revenue per customer class shown in Table I, above (and incorporated as Attachment A into the accompanying Resolution);
- (3) Establish an effective date of January 1, 2020 for the tariff and rates shown Attachment A; and
- (4) Direct CenterPoint to reimburse the City's rate case expenses incurred as part of TCUC within 30 days from the date the accompanying Resolution is approved.

Lastly, City Council should take action as soon as practicable, and preferably by

mid-December, 2019, if possible, but in any event, with final rates having an effective date of January 1, 2020.

Attachments:

1. Data Sheet
2. Proposed Resolution

CONTRACT ORIGINATION: N/A

FUNDING

{x} NOT APPLICABLE

STRATEGIC PLANNING

{x} NOT APPLICABLE