

August 2, 2021
Item 6



Texas Gas Service®

A Division of ONE Gas

Rates Update, City of El Paso

Stacey McTaggart, Rates & Regulatory Director



About Us



Texas Gas Service Overview

- 3rd largest natural gas distribution company in Texas
- Serve more than 680,000 customers
- Service 100 municipalities
- ~ 890 employees
- El Paso is part of our West Texas service area, which is our largest service area in terms of customers



Our El Paso Service Center

Natural Gas Use

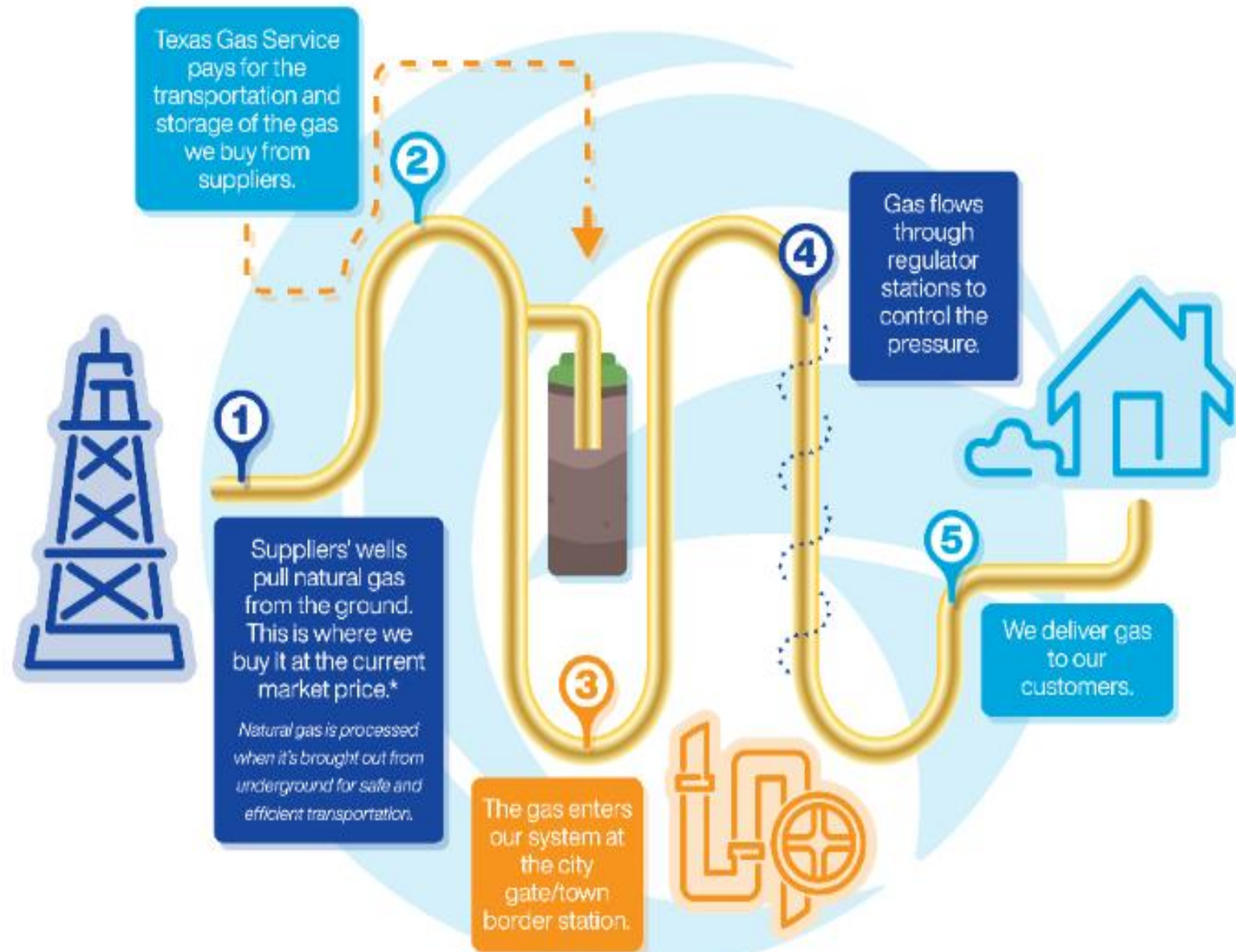
- In our West Texas service area, more than 277,000 customers depend on safe, reliable natural gas every day.
 - Residential customers
 - Schools & Universities
 - Hospitals
 - Fort Bliss
 - Sun Metro
 - Grocery Stores & Restaurants
 - Industrial customers
 - And many more



El Paso Service Technician

The Natural Gas System – From Wellhead to Our Customer

1. **Supplier's Well.** Gas is pulled from the ground. This is where we buy it at the current market price.
2. **Transportation/Storage of Gas.** We pay to have gas transported and stored.
3. **Citygate/Town Border Station.** This is where we take over the gas as it enters our system.
4. **Regulator Stations.** Areas where we control pressure and move gas through our system.
5. **Customers.** We deliver safe, reliable natural gas to our customers.



About Our Rates



Who Is Our Regulator?

- The City of El Paso is one of our regulators.
 - Individual cities have original jurisdiction over utility-rate matters within their city limits.
- The Railroad Commission of Texas (RRC) is one of our regulators.
 - RRC has original jurisdiction over utility-rate matters within the environs and over intrastate pipeline rates.
 - RRC has appellate jurisdiction over utility-rate matters within the city limits.

How Are We Regulated?

Types of Regulatory Filings

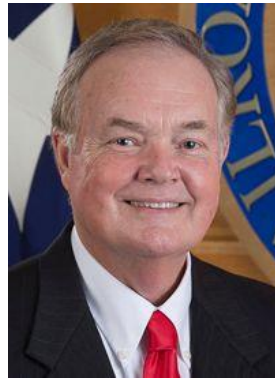
- Rate case
- Gas Reliability Infrastructure Program (GRIP) filings
- Other rate filings
- Compliance filings

Railroad Commission of Texas

- Authorized under the State of Texas Constitution (153 years old).
- Regulates oil and gas production, natural gas gathering, transmission and distribution, LP Gas, surface mining.
- Original jurisdiction over gas utility rates for customers in unincorporated areas and over utility safety and accounting matters.
- Appellate jurisdiction over gas utility rates for customers in incorporated areas
- Commissioners serve staggered six-year terms.



Jim Wright
Commissioner
Term expires 2026



Wayne Christian
Commissioner
Term expires 2022



Christi Craddick
Chairman
Term expires 2024

How Are Rates Developed?

The Revenue Requirement



Regulatory Process Objectives

- Provide the utility with fair return on its investment.
 - Ensure utility expenditures are prudent.
 - Ensure rate levels are sufficient to allow the utility to attract capital.
- Ensure consumers are charged a fair price for service.
 - Rates should approximate those that would be charged if the enterprise were not a regulated monopoly but subject to competition.
 - Rates should be “just and reasonable” and “non-discriminatory.”

Establishing Rates

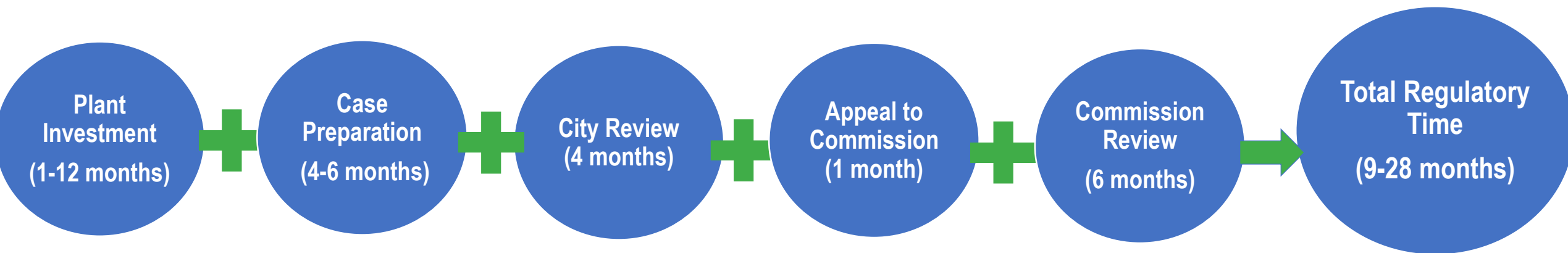
Revenue Requirement Calculation

- Revenue requirement =
 - Allowed return on investment plus
 - Reasonable and necessary expenses
- Allowed return on investment =
 - Investment multiplied by
 - Allowed rate of return

Rate Case Timeline

Doesn't Happen Overnight

- Begin with a 12-month “test year” **plus**
- 4 to 6 months to compile case (data cannot be more than 6 months old) **plus**
- 35 days plus 90 days for City to act upon case **plus**
- 30 days to appeal City’s action to Railroad Commission **plus**
- 185 days for Railroad Commission to act on appeal



Infrastructure Replacement Programs

GRIP (Gas Reliability Infrastructure Program)

- Annual recovery of increase in investment for safe and reliable service.
- In order to implement the interim rate under the GRIP statute, the statute requires that the factors included in the filing be no more than two years old.
- A utility can file GRIPs after a rate case up until the fifth anniversary and then needs another rate case.
- Authorized by statute.
- GRIP charges are interim rates until final approval in the next rate case.
- Regulators ensure the filing complies with the statutory requirements

Cost of Gas Clause

Purchased Gas Adjustment (PGA)

- Cost of gas clause tariff approved in a rate case.
- The cost Texas Gas Service pays for its gas supply is a pass through to customers without markup.
- Removes gas cost from base rates.
- Monthly adjustment to reflect that month's cost of gas.
- Annual reconciliation to ensure no under or over recovery.

Winter Storm Uri

Maintained Reliable Service

- Our employees worked around the clock to make sure human needs customers continued to receive service.
- Due to the tireless effort of so many, conservation efforts by customers and prior infrastructure investment, Texas Gas Service was able to maintain service to its customers with minimal outages.
- Due to the historically low temperatures and higher natural gas demand, we experienced a significant increase in natural gas market prices on a portion of the supply purchased during this period.
- Texas Gas Service included normal gas costs (similar to January pre-storm prices) in the monthly cost of gas.

Winter Storm Uri

“Extraordinary” Gas Cost Recovery

- Texas Gas Service secured financing to cover the additional amount the company had to pay during the extreme cold weather event and has deferred those costs from customer bills as directed by the Railroad Commission.
- The Texas Legislature passed House Bill 1520 to provide a method to recover those costs called “securitization,” which sets a monthly rate to recover extraordinary gas costs over a longer period of time than the cost of gas clause.
- Securitization provides an opportunity to spread recovery over a longer period of time thus reducing the monthly impact to customer bills.
- Following instructions from the Railroad Commission, Texas Gas Service and other gas utilities will make securitization filings with the Railroad Commission on July 30.

Securitization Timeline

- Railroad Commission has 150 days to determine the appropriate amount of extraordinary gas costs.
- Railroad Commission has 90 days to issue a financing order setting the length of recovery and monthly rate.
- Texas Public Financing Agency has 180 days to issue bonds to securitize the extraordinary gas costs.

Gas Supply Hedging Plan

- Plan consists of both financial hedges (call options) and physical storage.
- Helps mitigate volatility in the cost of gas to customers.
- Prevents, to the extent possible, price spikes in the customers' cost of gas.
- No expectation of cost savings, hedging is like an insurance plan.

Upcoming Texas Gas Service Filings

- Securitization filing with Railroad Commission of Texas on July 30.
- Annual excess deferred income tax (EDIT) filing in December 2021.
- Annual pipeline integrity testing (PIT) filing in February 2022.
- Annual GRIP filing due March 12, 2022.
- Required under the GRIP statute to file a full rate case no later than December 3, 2022.

Questions

