

ORDINANCE NO. 2020-027

AN ORDINANCE BY THE CITY OF MAGNOLIA, TEXAS DENYING THE RATE INCREASE REQUEST OF EPCOR GAS TEXAS INC. FILED ON JULY 1, 2020; SETTING JUST AND REASONABLE RATES FOR EPCOR GAS TEXAS INC. FOR SERVICE WITHIN THE INCORPORATED SERVICE AREAS OF THE CITY OF MAGNOLIA PURSUANT TO A SETTLEMENT AGREEMENT WITH EPCOR GAS TEXAS INC.; REQUIRING EPCOR GAS TEXAS INC. TO FILE UPDATED TARIFFS IN COMPLIANCE WITH THE APPROVED RATES; FINDING THAT THE MEETING COMPLIES WITH THE OPEN MEETINGS ACT; MAKING OTHER FINDINGS AND PROVISIONS RELATED TO THE SUBJECT; AND DECLARING AN EFFECTIVE DATE

WHEREAS, on or about July 1, 2020, EPCOR Gas Texas Inc. ("EPCOR Gas" or "Company") filed a Statement of Intent to increase natural gas rates within the incorporated service areas of the City of Magnolia ("City"); and

WHEREAS, the City has exclusive original jurisdiction over the rates and services of a gas utility within its municipal borders pursuant to the Gas Utility Regulatory Act, Tex. Util. Code § 103.001; and

WHEREAS, the Company requested a revenue increase of approximately \$117,254, excluding cost of gas, from customers located in the incorporated Magnolia service area; and

WHEREAS, EPCOR Gas concurrently filed a Statement of Intent with the Railroad Commission of Texas ("Commission" or "RRC") to increase natural gas rates within the unincorporated areas of Austin, Colorado, Grimes, Harris, Montgomery, and Waller Counties, Texas; and

WHEREAS, the Company requested a revenue increase of approximately \$958,645, excluding cost of gas, from customers located in its unincorporated service areas; and

WHEREAS, as part of its Statement of Intent, the Company proposed to consolidate the invested capital and operating costs of its affiliates, Alamo Pipeline LLC ("Alamo") and Pinehurst Construction LLC ("Pinehurst"), into the base rates of EPCOR Gas; and

WHEREAS, the Company proposed an effective date of August 4, 2020; and

WHEREAS, the City suspended the effective date of the Company's rates within its jurisdictional limits until at least November 2, 2020, and hired the Lawton Law Firm, P.C. to intervene and represent the City's interests in the proceedings pending at the Commission and to review the Company's rate change request and proposed tariffs; and

WHEREAS, the expert utility rate consultants retained to review the Company's Statement of Intent on behalf of the City concluded that the Company did not justify the need for a \$117,254 annual rate increase and proposed adjustments to the Company's filing; and

WHEREAS, EPCOR Gas, Commission Staff, and the City participated in a number of settlement discussions to resolve the rate case issues without litigation; and

WHEREAS, subject to the City's approval, the parties agreed to settle the rate request at a base rate increase level of \$101,164 per year for incorporated City customers and a reduction of \$4.66 per Mcf to the Company's cost of gas tariff for all customers; and

WHEREAS, under the proposed settlement, most customers will receive an overall decrease in their bills after cost of gas savings are included. The following settlement rates would apply to incorporated City customers:

Incorporated Residential Rate Impact Comparison¹

	# Custs	Cust. Charge	Vol. Rate	Base Rate (exc. Gas Cost)	Cost of Gas ²	Total Bill	\$ Change from Current	% Change from Current
Current	442	\$21.39	\$9.4276	\$44.96	\$19.65	\$64.61	-	-
Settlement (Standard Meter)	430	\$24.45	\$11.4150	\$52.99	\$8.00	\$60.99	\$(3.62)	-6%
Settlement (High Cap. Meter)	12	\$29.50	\$11.4150	\$58.04	\$8.00	\$66.04	\$1.43	2%

¹ Based on annual average usage of 2.5 MCF per month.

² Cost of Gas for residential and commercial customers estimated as follows: (1) Current Rates - \$7.86 per MCF and (2) Settlement Rates (Standard and HC Meter) - \$3.20 per MCF.

Incorporated Commercial Rate Impact Comparison³

	# Custs	Cust. Charge	Vol. Rate	Base Rate (exc. Gas Cost)	Cost of Gas ⁴	Total Bill	\$ Change from Current	% Change from Current
Current	72	\$21.39	\$9.4276	\$275.94	\$212.22	\$488.16	-	-
Settlement (Standard Meter)	29	\$40.00	\$11.4150	\$348.21	\$86.40	\$434.61	\$(53.55)	-11%
Settlement (High Cap. Meter)	43	\$55.00	\$11.4150	\$363.21	\$86.40	\$449.61	\$(38.55)	-8%

WHEREAS, the City finds that the rates proposed under the Settlement are just and reasonable and consistent with a reasonable resolution of the issues raised by Cities' expert consultants; and

WHEREAS, the Company's net plant investment in the amount of \$24,763,019 through June 30, 2020 is prudent, used and useful, and just and reasonable; and

WHEREAS, the depreciation rates as presented in the proposed Settlement are just and reasonable; and

WHEREAS, the following capital structure, cost of debt, cost of equity, weighted cost of capital, and overall rate of return are just and reasonable:

Class of Capital	Percent	Cost	After Tax Weighted Cost of Capital	Pre-Tax Weighted Cost of Capital
Long-Term Debt	41.00%	4.87%	1.997%	1.997%
Common Equity	59.00%	9.45%	5.576%	7.058%
Weighted Average Cost of Capital	100.00%		7.572%	9.055%

WHEREAS, the consolidation of Alamo and Pinehurst into EPCOR Gas is just and reasonable; and

WHEREAS, the consolidation of Alamo into EPCOR Gas is consistent with the public interest under Tex. Util. Code § 102.051; and

³ Based on annual average usage of 27 MCF per month.

⁴ See Footnote 3, above.

WHEREAS, reasonable rate case expenses will be recovered from all customers through a 60-month volumetric surcharge; and

WHEREAS, it is reasonable for the Company to reimburse the City's rate case expenses pursuant to Gas Utility Regulatory Act, Tex. Util. Code § 103.022(a); and

WHEREAS, the Lawton Law Firm and Commission Staff have recommended approval of the Settlement terms as a reasonable alternative to resolve the rate case issues without litigation; and

WHEREAS, the statutory deadline to act on the Company's rate increase request is November 2, 2020.

NOW THEREFORE, BE IT ORDAINED BY THE CITY COUNCIL OF THE CITY OF MAGNOLIA, TEXAS, THAT:

Section 1. The statement and findings set out in the preamble to this Ordinance are hereby in all things approved and adopted.

Section 2. The City of Magnolia hereby denies the rate increase requested in the Company's Statement of Intent filed July 1, 2020.

Section 3. The City of Magnolia hereby approves rates and tariffs consistent with the proposed Settlement.

Section 4. EPCOR Gas is hereby ordered to file with the City rates and tariffs consistent with the proposed Settlement.

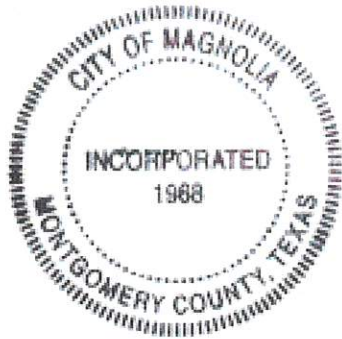
Section 5. EPCOR Gas shall reimburse the reasonable expenses incurred by the City in the review and processing of the Statement of Intent proceedings pending before the City and the Commission as provided under the proposed Settlement.

Section 6. The meeting at which this Ordinance was approved was in all things conducted in strict compliance with the Texas Open Meetings Act, Texas Government Code, Chapter 551.

Section 7. This ordinance shall become effective from and after its passage.

PASSED AND APPROVED this 13th day of October, 2020.

SIGNATURES TO FOLLOW ON NEXT PAGE



Todd Kana, Mayor

ATTEST:

Diane Hurley, Interim City Secretary