

Stop the Rate Cases! – Why in an Era of Streamlined Regulation Cities are Seeing More Rate Cases Than Ever

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Before ...TCAA – South Padre Island (2005)



You may be asking yourself...

Q. Is it just me, or are utilities constantly asking for rate increases lately?

A. It's not you.

The numbers....

2021-2024

- **Over 80 Combined Rate Increases Requested by Oncor, CenterPoint, AEP Texas and TNMP.**
- **Over 70 Combined Rate Increases Requested by Atmos, TGS and CenterPoint.**

Q. Why is this happening?

A. The Texas Legislature



Ok, so what's going on?



- **The Old Days....**

Full / Comprehensive / Base Rate Case (185 days): Every 4-5 years.

Fuel Reconciliation Case: Every 4-5 years (sometimes included with full case).

Q. So what happened?

A. The “War On Regulatory Lag”

So, what is regulatory lag?

- ▶ Regulatory Lag: The time between when a utility makes infrastructure investments, and when it receives reimbursement for those investments through rate increases.
- ▶ Regulated utilities often advocate for interim or streamlined ratemaking processes, arguing that such regulatory schemes would add to the efficiency of their operations by reducing “regulatory lag.” In short, utilities want regulatory lag reduced or eliminated.
- ▶ Regulatory lag works both ways: It encourages utility efficiency. This is because utilities always will seek to check their expenditures during the lag period. Such efficiencies disappear if utilities know they can rapidly increase rates every time they increase their infrastructure spending.

So, what is regulatory lag? (cont.)

- ▶ Eliminating or overly reducing regulatory lag can encourage overspending, and can exacerbate a separate phenomenon known as the “Averch-Johnson Effect.”
- ▶ The Averch-Johnson effect is defined as the tendency of regulated companies to make excessive amounts of capital investments and to engage in related activities in order to expand profits.
- ▶ In short, excessive capital accumulation under rate-of-return regulation is informally known as gold plating.

The Erosion of Traditional Ratemaking and Incremental Cost Recovery Mechanisms

- ▶ **Electric**
 - ▶ Automatic Adjustment Clauses
 - ▶ Storm Recovery Costs
 - ▶ TCRF (two per year)
 - ▶ DCRF (two per year)
 - ▶ EECRF (one per year)
 - ▶ Resiliency Plans
- ▶ **Gas**
 - ▶ GRIP (one per year)
 - ▶ COSA / RRM (one per year)

The Result?



**More cases, faster cases, but
NOT smaller rate impacts.**

Oh, and this doesn't include the full, comprehensive, base rate cased every four years where all of the interim filings are supposed to be reviewed for prudence and reasonableness along with everything else in 185 days.

So, what does all this mean?



Oncor

Base Rate Case

2022

Requested

\$250,691,114

Granted

-\$12,565,894

Oncor

System Resiliency Plan

2024

Total Requested

\$3,412,000,000

Oncor

Transmission Cost of Service

2020	\$42,560,682
2020	\$
2021	\$75,622,777
2021	\$
2022	\$53,144,348
2022	\$
2023	\$
2023	\$
2024	\$

Oncor

Distribution Cost Recovery Factor

	<u>Requested</u>	<u>Granted</u>
2020	\$75,889,531	\$69,889,531
2021	\$97,826,277	\$87,826,277
2023	\$152,777,465	\$152,508,937
2023	\$56,536,428	\$53,536,428
2024	\$81,323,915	\$81,323,915
Totals	\$439,566,129	\$417,297,601

Oncor

Energy Efficiency Cost Recovery Factor

	<u>Requested</u>
2020	\$83,410,515
2021	\$83,058,209
2023	\$72,274,769
2024	\$72,153,890

CenterPoint Electric

Base Rate Case

2024

Requested \$60,000,000

CenterPoint Electric

System Resiliency Plan

2024

Total Requested \$2,277,600,000

CenterPoint Electric

Transmission Cost of Service

2020	\$16,031,136
2021	\$18,936,842
<u>2022</u>	<u>\$63,949,558</u>
Total	\$98,917,536

CenterPoint Electric

Distribution Cost Recovery Factor

	<u>Requested</u>	<u>Authorized</u>
2022	\$85,779,965	\$77,979,965
2023	\$84,571,868	\$69,571,868
2023	\$85,901,658	\$72,901,658
Total	\$256,253,491	\$220,453,491

CenterPoint Electric

Temporary Emergency Electric Energy Facilities

2022	\$56,584,169	\$39,016,872
2023	\$187,875,401	\$153,203,047
Total	\$244,459,570	\$192,219,919

CenterPoint

Energy Efficiency Cost Recovery Factor

	<u>Requested</u>
2020	\$63,367,922
2021	\$63,528,280
2023	\$52,602,439
2024	\$65,240,346

AEP Texas

Base Rate Case

2024

Requested

\$163,000,000

AEP Texas

Transmission Cost of Service

2020	\$35,853,179
2021	\$27,109,118
2022	\$30,055,609
2023	\$42,794,444

AEP Texas

Distribution Cost Recovery Factor

	<u>Requested</u>	<u>Granted</u>	<u>Difference</u>
2020	\$39,870,472	\$39,105,472	\$765,000
2021	\$39,441,811	\$39,083,523	\$358,288
2022	\$27,557,697	\$24,651,775	\$2,905,922
2023	\$39,703,105	\$39,703,105	
2023	\$47,275,051	\$42,645,602	\$4,629,449
Totals	\$193,848,136	\$185,189,477	\$4,629,449

Temporary Emergency Electric Energy Facilities

2023	\$30,670,219	\$22,105,946	\$8,564,273
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AEP Texas

Energy Efficiency Cost Recovery Factor

	<u>Requested</u>
2020	\$26,921,197
2021	\$25,583,391
2023	\$24,683,795
2024	\$24,673,758



▶ Gas Cases

Atmos Pipeline

Base Rate Case

2023

Rate Increase Requested

\$119,400,000

Atmos

Gas Reliability Infrastructure Program

<u>Atmos Pipeline</u>		<u>Atmos West Texas</u>		<u>Mid Tex</u>	
2020	\$49,250,788	2020	\$12,198,286	2020	\$113,027,985
2021	\$43,868,433	2021	\$15,065,235	2021	\$111,211,960
2022	\$78,750,195	2022	\$14,686,365	2022	\$128,361,676
2023	\$84,930,551	2023	\$16,176,072	2023	\$128,696,564
2024	\$82,440,179	2024	\$16,815,930	2024	\$173,383,681
Total	\$339,240,146	Total	\$2,018,241,017	Total	\$654,681,866

Atmos Rate Review Mechanisms

		<u>Requested</u>	<u>Authorized</u>	
West Texas	2020	\$15,600,000	\$13,945,454	
Mid-Tex	2020	\$136,300,000	\$124,285,714.29	
West Texas	2021	\$903,390	\$152,000	
Mid-Tex	2021	\$127,000,000	\$92,036,263	
West Texas	2022	\$8,773,727.00	\$6,720,000	
Mid-Tex	2022	\$141,300,000	\$115,000,000	
West Texas	2023	\$11,400,000	\$8,400,000	
Mid-Tex	2023	\$165,900,000	\$142,000,000	
West Texas	2024	\$26,000,000	TBD	
Mid-Tex	2024	\$196,800,000	TBD	
Totals				Difference
Atmos West Texas		\$62,677,117	\$29,217,454	\$33,459,663
Atmos Mid-Tex		\$767,300,000	\$473,321,978	\$293,978,022

CenterPoint Gas

Base Rate Case

2023

Rate Increase Requested

Rate Increase Granted

\$37,400,000

TBD

CenterPoint

Gas Reliability Infrastructure Program

<u>Houston</u>	
2020	\$12,167,035
2021	\$13,844,809
2022	\$19,320,894
2023	\$38,860,543
Total	\$84,193,281

<u>Texas Coast Division</u>	
2020	\$2,785,407
2021	\$3,718,642
2022	\$5,982,606
2023	\$10,333,438
Total	\$22,820,093

<u>South Texas</u>	
2020	\$2,981,622
2021	\$4,602,635
2022	\$4,259,931
2023	\$7,723,694
Total	\$19,567,882

<u>Beaumont East Texas</u>	
2021	\$5,893,107
2022	\$3,912,987
2023	\$7,279,247
Total	\$17,085,341

Texas Gas Service

Base Rate Cases

2022

	<u>Requested</u>	<u>Granted</u>
North Service Area	\$12,995,128.00	\$8,826,587.00
Rio Grande Valley	\$9,810,000.00	\$5,875,000.00

2024

Central-Gulf Service	\$28,500,000	TBD
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Texas Gas Service

Gas Reliability Infrastructure Program

<u>TGS West Texas</u>	
2020	\$5,226,846
2020	\$4,666,421
2022\$	5,556,448
Total	\$15,449,715

<u>North Texas</u>	
2020	\$369,908
2021	\$1,553,269
Total	\$1,923,177

<u>Central Gulf Service Area</u>	
2021	\$10,698,852
2022	\$9,087,819
2023	\$11,506,645
2024	\$12,208,648
Total	\$43,501,964

<u>Rio Grande Valley</u>	
2020	\$1,507,180
2021	\$2,348,919
2021	\$2,348,919
2022	\$1,961,482
Total	\$8,166,500

<u>West North Service Area</u>	
2023	\$7,258,023
2024	TBD

Texas Gas Service

Cost of Service Adjustment

Rio Grande Valley

	<u>Requested</u>	<u>Authorized</u>	<u>Difference</u>
2020	\$1,924,585	\$1,893,252	\$31,333
2021	\$4,262,987	\$3,842,357	\$420,630
2022	\$2,920,405	\$2,700,000	\$220,405
Total	\$9,107,977	\$8,435,609	\$672,368

Q. Ok I hear you, Thomas. You might somehow enjoy all of this stuff but why am I involved and how does all of this impact me?



Relevant Statutory Provisions

PURA § 33.001. Municipal Jurisdiction – To provide fair, just and reasonable rates and adequate and efficient services, the governing body of a municipality has exclusive original jurisdiction over the rates, operation, and services of an electric utility in areas in the municipality, subject to the limitations imposed by this title.

PURA § 33.021. Rate Determination –

- (a) A municipality regulating an electric utility under this subtitle shall require the utility to submit information as necessary to make a reasonable determination of rate base, expenses, investment, and rate of return in the municipality.
- (b) A municipality shall make a determination under Subsection (a) using the procedures and requirements prescribed by this title.
- (c) A municipality shall retain personnel necessary to make the determination of reasonable rates.

Municipal Rate Jurisdiction

Pre-PURA -

Prior to 1975, municipalities had exclusive jurisdiction over utility rates within their city limits. Appeals of municipal rate ordinances were decided by the courts. In 1975, the Public Utility Regulatory Act ("PURA") was enacted establishing the Public Utility Commission of Texas ("PUC"). Municipal jurisdiction over public utilities was limited but not totally abolished under the Act, casting cities in a different but no less essential role in the ratemaking process.

Post-PURA -

Under PURA, the PUC has exclusive original jurisdiction over electric utilities in areas not within the incorporated limits of a municipality exercising exclusive original jurisdiction. In addition, the PUC has appellate jurisdiction over rate ordinances and orders of municipalities concerning electric utility service within municipal limits.

Exceptions to Original Jurisdiction

- ▶ **Advanced Meters**
- ▶ **Storm Recovery**
- ▶ **Transmission / TCOS / TCRF**
- ▶ **EECRF**
- ▶ **System Resiliency Plan**
- ▶ **But, not DCRF or GRIP (sort of...)**

So, what does the future look like?



After ...TCAA – South Padre Island (2024)



Questions?