



CITY OF HOUSTON - CITY COUNCIL

Meeting Date: 5/24/2016

ALL

Item Creation Date: 4/22/2016

Q14443 - Professional Consulting Services for Electric, Gas, and Water Regulatory - ORDINANCE

Agenda Item#: 10.

Summary:

Background:

S72-Q14443-A1 - Ordinance authorizing a first amendment extending the Agreement for Professional Consulting Services for Electric, Gas and Water Regulatory and Technical Professional Consulting Services (Contract No. 4600012752) from June 6, 2016 to June 6, 2017.

SPECIFIC EXPLANATION:

The Director of the Administration and Regulatory Affairs Department (ARA) and the Chief Procurement Officer recommend that City Council adopt an ordinance authorizing a first amendment to the contract between the City of Houston (City) and **Diversified Utility Consultants, Inc. (DUCI)** to extend the contract term from **June 6, 2016 to June 6, 2017**.

On May 14, 2014, City Council approved Ordinance No. 2014-443 authorizing the contract between the City and DUCI for electric, gas and water regulatory and technical professional consulting services. The contract provides for a two-year term, expiring June 6, 2016. The amendment will extend the contract term by one year from June 6, 2016 to June 6, 2017. This will ensure continuation of the contract services and corresponding projects, while the City completes the competitive procurement process.

The consultant will continue to assist the City with a broad range of utility issues as they relate to the municipal regulation of investor owned utilities and as outlined in the Scope of Work under the current contract. Specifically, services are currently needed to assist the City in addressing utility issues in certain local proceedings and initiatives; before the state commissions including the Public Utility Commission of Texas (PUC) and the Railroad Commission (RRC); and legislative initiatives.

Pursuant to State Law, the City exercises exclusive original jurisdiction over the rates, operations and services of investor owned utilities — electric, natural gas and water/sewer utilities — operating within Houston's jurisdiction. These utilities operate under State Law as monopolies in the areas they serve. The normal forces of competition that regulate prices in a free market are not in operation. Regulation serves as a necessary substitute for competition. Investor owned regulated utilities in Houston serve a combined 1.2 million customers — approximately 900,000 electric, 400,000 natural gas and 2,000 water/sewer utility customers.

The City, as the legislatively mandated regulator for services provided within municipal boundaries, is obligated to balance the interests of the utility and the customers — ensure customers receive safe, adequate and reliable utility service at just and reasonable rates; and utilities receive a reasonable return on their investment necessary to maintain the financial integrity of the utility and health of the infrastructure. In order to fulfill its legislatively mandated regulatory obligations, the City is routinely involved in complex and often time critical electric, natural gas and water utility related regulatory projects and proceedings locally, before State regulatory commissions, and before the Texas State Legislature.

For several decades, the City has retained regulatory and rate experts to assist City staff with electric, natural gas, and water/sewer regulatory, legislative and technical projects. Due to the complexity and number of regulatory issues facing the City, and the corresponding state mandated deadlines, the continued assistance of experienced expert utility consultants is necessary, and often critical. For example, in the 2010 CenterPoint Electric Rate Case proceeding, the City's utility experts played an integral role in preserving and protecting the City's franchise fees, a significant revenue source to the City. In this proceeding, PUC Staff challenged the City's ability to collect the full amount of its franchise fees. Had PUC Staff prevailed, the City would have experienced a potential \$18 to \$20 million annual reduction in franchise fees. In order to continue to protect the City's franchise fees and other interests as appropriate, the City must diligently monitor and participate in State regulatory commission proceedings and legislative initiatives.

The purpose of the contract is to engage a utility expert with experience across the water, electric and natural gas utility sectors to assist City staff in fulfilling the City's regulatory obligations. The contract also provides a streamlined approach for engaging utility consultants, necessary to ensure the City's timely and effective participation in utility proceedings.

DUCI has specialized knowledge and technical expertise, a thorough understanding of state and local regulations, is familiar with the City's regulated utilities, and has extensive experience before the State regulatory commissions and State Legislature on utility matters. DUCI also has a broad range of expertise and experience in gas, electric and water regulation. DUCI has assisted and guided

the City on utility matters for more than ten years. During this period, DUCI exhibited considerable discretion in accepting City related utility projects, and in identifying and recommending technical experts as appropriate and necessary to assist the City on complex regulatory matters. DUCI has assisted the City in several utility related projects and proceedings including:

- **CenterPoint Gas Notice of Inquiry (NOI):** Resulted in a favorable settlement agreement for the City and ratepayers. Results include a multi-year base rate freeze and the funding of an energy-focused City position (\$100,000 annually).
- **2009 CenterPoint Entex Gas Rate Case:** CenterPoint requested a \$25.4 million increase in gas rates. This request included a proposed 40.48% increase to the monthly fixed customer charge for residential customers. The Company's request was reduced by \$20.3 million.
- **2009 Southern Water Company (SWC) Rate Case:** SWC requested a \$1.3 million water/sewer rate increase. SWC appealed the City's actions to the Texas Commission on Environmental Quality (TCEQ). The TCEQ ultimately adopted substantial decreases to the Company's request based in large part on the City's testimony.
- **2008 Nitsch and Son Water Rate Case:** Nitsch requested a 27.43% rate increase. Council adopted a 4.86% increase instead. This increase represented a \$3.15 monthly increase versus the \$17.76 Nitsch proposed increase (based on the average consumption of 6,000 gallons per month). Rates approved by Council remain in place.

DUCI is also currently assisting the City in several PUC proceedings, including proceedings related to the transfer of water rate regulation from the TCEQ to the PUC. Additional activities include, but are not limited to the review of CenterPoint Energy Houston Electric's Distribution Cost Recovery Factor, the Sunset Advisory Commission review of the Railroad Commission, and utility related legislative initiatives.

Under the proposed amendment, DUCI will continue to assist and provide support on utility matters and will, in close collaboration with the City, hire additional qualified utility experts, as appropriate and necessary. The proposed amendment provides for a one-year extension of the contract to June 6, 2017.

The proposed contract spending authority does not include consulting services associated with a water "full base rate proceeding". If an investor owned water/sewer utility operating within Houston files an application to change rates for Houston customers, ARA will request additional spending authority from City Council. This contract does not include legal or consulting services for a natural gas or electric utility "full base rate proceeding." Those services are typically engaged by the City Attorney's Office.

M/WBE Participation:

M/WBE Zero Percentage Goal Document approved by the Office of Business Opportunity.



John J. Gillespie, Chief Procurement Officer
Finance/Strategic Procurement Division

Department Approval Authority Signature

Prior Council Action:

Ordinance No. 2014-0443, Passed on 05-14-2014

Amount of Funding:

No Additional Spending Authority Required.

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ATTACHMENTS:

Description	Type
<u>Previous Ordinance</u>	Backup Material
<u>OBO-M/WBE Waiver</u>	Backup Material