



CITY OF HOUSTON - CITY COUNCIL

Meeting Date: 10/30/2018

All Council District: ALL

Item Creation Date: 10/10/2018

ARA- Approve the CenterPoint TCJA Gas Rate Reduction

Background

The Administration & Regulatory Affairs Department (ARA) recommends that City Council adopt an ordinance approving a reduction in rates charged by CenterPoint Energy Resources Corp., D/B/A CenterPoint Energy Entex and CenterPoint Energy Texas Gas (CenterPoint or Company) related to the reduction in the federal corporate tax rate. CenterPoint provides natural gas distribution services in the Houston metropolitan area, serving approximately 385,000 residential, 24,000 small general service and 1,100 large volume general service customers in Houston. The City of Houston exercises original jurisdiction over the rates, operations, and services of CenterPoint under the provisions of the Texas Utilities Code for customers inside city limits.

On July 10, 2018, CenterPoint filed with the City a notice of intent to reduce base rates for the Houston Division pursuant to Section 104.111 of the Gas Utility Regulatory Act (Administrative 104.111 Filing). Section 104.111 allows for consideration of a decrease in rates outside of a full comprehensive base rate proceeding. On July 30, 2018 CenterPoint provided the City with the additional information needed to address the deficiencies in its filing, and the filing was accepted by the City as complete.

CenterPoint is proposing an adjustment to its base rates (customer charge and commodity charge), which were set in the Company’s 2016 full base rate proceeding (GUD 10567), to reflect changes in the federal income tax resulting from the Tax Cuts and Jobs Act of 2017 (TCJA). The TCJA reduced the federal corporate income tax rate from 35% to 21% effective January 1, 2018. The total customer charge consists of the customer charge set in GUD 10567 plus the 2018 Gas Reliability Infrastructure Program (GRIP) charge. The 2018 GRIP charge already reflects the corporate income tax change.

CenterPoint seeks an approximate \$7.5 million reduction to its annual revenue requirement. If CenterPoint’s request is adopted, base rates for all customer classes would decrease as follows:

Base Rates (Set in 2016 Full Base Rate Proceeding)			
Customer Class	Monthly Customer/Fixed Charge		Decrease
	Current	Proposed	
Residential	\$ 15.75	\$ 15.25	\$ (0.50)
General Service Small	\$ 18.25	\$ 17.67	\$ (0.58)
General Service Large	\$ 180.00	\$ 174.32	\$ (5.68)

Base Rates (Set in 2016 Full Base Rate Proceeding)			
Customer Class	Commodity/Volumetric Charge per CCF		Decrease
	Current	Proposed	
Residential	\$ 0.07431	\$ 0.07196	\$ (0.00235)
General Service Small	\$ 0.05839	\$ 0.05654	\$ (0.00185)
General Service Large	\$ 0.08466	\$ 0.08199	\$ (0.00267)

In addition to the reduction in rates going forward, the Company is also proposing a one-time refund to customers to account for revenues collected since January 1, 2018, through base rates and the carrying charge for gas in storage that reflected a corporate tax rate of 35% instead of 21%. The total amount of the refund for customers is \$5,079,168, which equates to an \$4.50 credit for residential customers.

On August 22, 2018, City Council approved an ordinance establishing as an interim, temporary, rate CenterPoint's proposed base rates to allow customers to benefit from the requested rate reduction during the pendency of the City's review. The interim rates became effective September 1, 2018.

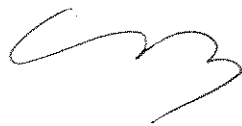
The City's rate expert completed the review of the company's request and determined that the Company's proposed reduction in rates to implement the reduction in the federal corporate income taxes are reasonable and recommends that the City approve the reduction in rates proposed by CenterPoint.

During the review, the City's rate expert also confirmed that the Company did not address the excess accumulated deferred federal income taxes (ADIT) in the current 104.111 application. Instead, the Company proposed to address the excess ADIT in its next full base rate proceeding, which it expects to file in 2023. Excess ADIT is the portion of the income taxes that the company already collected from the ratepayers, but the company no longer has to pay to the federal government as a result of the federal corporate income tax changes. Excess ADIT is an additional benefit of the TCJA.

Because the City believes this additional TCJA benefit should also be shared with the ratepayers, and customers should receive the benefit on a timelier basis than approximately five years, the City entered into discussions with CenterPoint. As a result of these discussions, CenterPoint agreed to work with the City to develop a mechanism to refund the unprotected excess ADIT to customers prior to its next full base rate proceeding, agreeing to an effective date of no later than January 1, 2020.

For the reasons outlined above, ARA recommends that City Council adopt an ordinance approving a reduction in rates charged by CenterPoint Gas related to the reduction in the federal corporate tax rate. The ordinance also requires the Company to file with the City a mechanism to refund the unprotected excess ADIT to customers no later than August 1, 2019.

Departmental Approval Authority:



Tina Paez, Director
Administration & Regulatory
Affairs Department

Other Authorization

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