

**City of Laredo
Special City Council Meeting
M2005-SC-08
City Council Chambers
1110 Houston Street
Laredo, Texas 78040
November 2, 2005
12:00 p.m.**

I. CALL TO ORDER

With a quorum present, Mayor Elizabeth G. Flores called the meeting to order.

II. PLEDGE OF ALLEGIANCE

The Mayor led in the Pledge of Allegiance.

III. ROLL CALL

In attendance:

Elizabeth G. Flores,	Mayor
Alfredo Agredano,	Council Member,
District I	
Hector Garcia,	Council Member,
District II	
John C. Galo,	Council Member,
District III	
Johnny Amaya,	Council Member,
District IV	
Johnny Rendon	Council Member,
District V	
Gene Belmares,	Council Member,
District VI	
Jose A. Valdez, Jr.,	Mayor Pro Tem, District
VII	
Juan Ramirez,	Council Member,
District VIII	
Gustavo Guevara, Jr.,	City Secretary
Larry Dovalina,	City Manager
Cynthia Collazo,	Deputy City Manager
Horacio De Leon,	Assistant City Manager
Rafael Garcia,	Assistant City Manager
Jaime Flores,	City Attorney

IV. MOTION

1. Authorization to adopt the rates recommended by 4MP Consultants, LLC, relating to ,

and alternative to, Centerpoint Energy Entex (CPE's) Proposal for Decision and Final Order in GED No. 9533.

Heberto Ramirez gave the following report:

CenterPoint Energy Entex (CPE) Rate Case

October 13, 2004 – CPE filed a Statement of Intent requesting that the Railroad Commission of Texas increase rates for customers located in the Environs of South Texas Division.

The Commission has the authority to suspend the proposed rates for a period of 150 days from the date on which the rates would otherwise become effective.

November 4, 2004 – The Commission suspends CPE's proposed rates in the statement of intent for a period of 150 days from the date that rates would go into effect.

April 5, 2005 – The Commission issued the Final Order in Gas Utilities Docket No. 9533, allowing CPE to change rates in the unincorporated areas of the South Texas Division. (Note: The resulting rate was 66% of what was originally requested by CPE)

June 30, 2005 – CPE filed with the City as Statement of Intent to change its rates in its South Texas Division to be effective August 4, 2005.

July 18, 2005 – The City of Laredo City Council adopted Resolution No. 2005-R-068 suspending the proposed new rates of CPE for a period of 90 days in order to review and ascertain that the proposed rates are fair and just.

City Council directed staff not to join any coalitions.

Staff proceeded to do a rate case study and hired 4MP Consulting, LLC.

Staff presents the three options:

Option # 1

City Council approves or takes no action on CPE's rate increase proposal.

1. Rates will take effect on November 3, 2005.
2. CPE agrees to offer a Favorite Nations Clause.
3. CPE agrees to reimburse the City its Rate Case Study expenditures up to \$25,000.
4. CPE would guarantee not to make an adjustment to base rate for at least five years; however, CPE may implement gas cost or other rate adjustment to plants.

Option # 2

Adopt the recommendations of our consultants, 4MP Consultants, LLC.

1. CPE would have to re-calculate the new rate based on 4MP Consultants, LLC report.
2. Reduced rate goes into effect; however, CPE would file an appeal.
3. Rate review expenditures associated with appeal would be passed on to the ratepayers through a surcharge.

Option # 3

The City Council would deny CPE the requested rate changes, authorize intervention in any appeal of the City's action to the Railroad Commission, and would provide a requirement for a prompt reimbursement of costs incurred.

1. CPE would file an appeal with the Railroad Commission.
2. Rates would be suspended. Estimated loss to CPE is \$581,234.94 ($\$4.29 \times 22,581 \times 180$).
3. All costs related to the appeal process would be included in final rate determination by the Commission and charged over a 1 to 3 years (surcharge).
 - a. Based on previous TRC cases, an average amount spent on appeal is about \$500,000.00 ($500,000/22,581/36$ months = \$0.62 per rate payer for 36 months)

Mike Lawrence, 4MP Consulting, LLC, made the following presentation:

Centerpoint Energy Entex South Texas Division Rate Case

4MP Consulting Executive Summary for the City of Laredo Entertainment Center Rate Case Summary

1. Rate case filed with the Railroad Commission (GUD No. 9533) for the South Texas Division environs customers 10/13/04.
2. Proposal for Decision (issued 3/31/05) and Final Order (issued 4/5/05) granted the equivalent of a \$6.9 million rate increase based on the whole South Texas Division, with new rates and charges applicable for environs customers, only.
3. Rate case filed with the cities in South Texas Division around 7/1/05 to get approval for the rates set by the Railroad Commission in GUD No. 9533.
4. Laredo suspended the effective date 90 days, with final city action required by

11/2/05.

5. Laredo retained 4MP Consulting to review the rate case and prepare a report on the rate case.

4MP Findings and Recommendations

1. If the Company is allowed to implement the proposed service charges, billing rates for the South Texas Division are \$570 thousand too high.
2. The City can approve the requested rate increase.
3. The City can deny the requested rate increase in full.
4. The City can adopt 4MP's report and:
 - The City can allow the full service charge increase and direct the Company to prepare billing rates that reflect a reduction in revenue.
 - The City can allow the full service charge increase and allow the billing rates to remain unchanged.
 - The City can reduce the service charge increase and allow the billing rates to remain unchanged.
 - The City can approve other combinations of increases and decreases.

Issues

1. 4MP was provided and based its review of the CenterPoint Energy Entex environs rate case (GUD No. 9533) on the Company's filing package in GUD no. 9533, the Proposal for Decision in that Docket, and the Final Order in that Docket.
2. The Company has apparently waited around for 20 years to file a rate case. Because of this, significant changes in investment, operating costs, service charges and rate design are being requested.
3. The rate case was based on a test year ended 3/31/04, adjusted to 6/30/05.
4. Adjustments to 6/30/05 were based on budgets, estimates, and projections, except for investment, which the Railroad Commission allowed to be based on per books investment at 12/31/04.
5. 4MP accepted the investment update to 12/31/04, but made adjustments for unsupported items such as investment transfers and the inclusion of construction work in progress, that is only allowed if the financial integrity of the Company requires the inclusion.

6. Monthly test year per books operating expense data included some unexplained significant variances in some accounts. 4MP removed the unexplained expense variances and recalculated the expense for the variance month at the average monthly expense for the account excluding the variances.
7. 4MP further adjusted operating expenses from 3/31/04 to 12/31/04 to match them with the investment. The combination of items 5 and 6 also allow the expense data to be based on actual expenditures for the undated test year rather than unsupported estimates, budgets, and projections.
8. 4MP accepted the capital structure and costs of long-term debt and preferred stock proposed by the Company, but reduced the cost of common equity from 11.25% to 10.75 to match the adjusted test year data.
9. The Company used a 1- year period for its weather normalization adjustment. 4MP disallowed the adjustment because the data did not support the conclusion that the use of this data was predictive of the future, it was not based on the 30 year data that the National Oceanic and Atmospheric Administration uses to calculate normal weather, and the climate of Laredo does not lend itself to the need for a weather normalization adjustment.
10. The Company proposes monthly customer charges of \$12.50 for residential service, \$15.00 for general service-small, and \$42.00 for general service-large. Laredo can approve these customer charges or lesser customer charges.
11. The Company proposes to recover all gas cost and revenue-related taxes through separate billing clauses. 4MP does not oppose these changes in rate design.
12. The Company recommends increasing annual service charge revenue from \$300 thousand to \$2.6 million for the South Texas Division. The reason for the significant increase is tied to the fact that the Company has apparently not filed to change service charges in years. Laredo can determine if it wants the following service charges or lesser service charges:
 - Institution of Service \$40.00
 - Reconnection of Service \$40.00
 - Collection Trip \$40.00
 - Returned Check \$40.00
 - After Hour Charge \$47.00

Larry Dovalina, City Manager, advised Council that a rejected motion would indicate the approval of one of the options listed above.

Mayor Flores asked the City Manager why the agenda was posted without listing the considered options.

Larry Dovalina, City Manager, indicated that the agenda was prepared by the Legal Department. He read the following letter:

"I am writing to confirm to you that if the City of Laredo approves the rates proposed by CenterPoint Energy and if the Railroad Commission of Texas shall subsequently establish a lower level of division – wide rates for customers in CenterPoint Energy's South Texas Division, Center point Energy shall file such lower level of rates with the City of Laredo immediately on the issuance of the final, non-appealable order of the Railroad Commission establishing such lower rates.

Additionally, by approving the proposed rate, the City of Laredo and its citizens will avoid potentially substantial litigation expenses associated with proceedings undertaken by other municipalities or coalitions of municipalities or the Railroad Commission of Texas. Furthermore, CenterPoint Energy will reimburse up to \$25,000 in consultant's fees the City may have incurred in reviewing CenterPoint Energy's Statement of Intent. Such reimbursement will be made to the City within 10 days of CenterPoint Energy's receipt of copies of the consultant's invoices to the City.

Finally, if proposed rates are implemented in the City of Laredo and remain in effect, CenterPoint Energy shall refrain from filing a Statement of Intent to change rates within the City of Laredo for a period of five (5) years beginning November 2, 2005. Notwithstanding the foregoing, CenterPoint Energy may, pursuant to Section 104.301 of the Texas Utilities Code and the terms of its rate schedules, implement gas cost or other rate adjustments within the City of Laredo during the five (5) year period.

The foregoing undertaking of CenterPoint Energy are predicted on the agreement of the City of Laredo that it will not directly or indirectly initiate, intervene in or otherwise participate in any proceeding concerning the rates and/or service of CenterPoint Energy, or its successors, including appeals thereof, during the five year period beginning November 2, 2005. The execution of the duplicate originals of this letter by the authorized representative of the City of Laredo in the place provided below shall indicate the City's acceptance of the terms of this letter."

*George C. Hepburn, III
Division Vice President and General Counsel, Center Point Energy*

Nelda Juarez, District Manager for CenterPoint Energy, advised Council that if they approve the motion the rates will go into effect tomorrow and CenterPoint will fund the consultant's fee. In addition to that, CenterPoint will not adjust the basic rates for the next five years.

Cm. Ramirez expressed his dissatisfaction in the way that the agenda was worded. He was displeased because he felt the posted agenda placed Council in an uncomfortable position. He said that the City Legal Department should be working in favor of the City that represents the people.

Melissa Saldana, Assistant City Attorney, advised that she was glad that the Council Member had brought up the issue because the Legal Department did not create the wording on the agenda. She said that she had consulted with Heberto Ramirez about the wording on the agenda and he was advised by her to place the options; however, the ultimate decision for the wording was his decision.

Motion to deny.

Moved: Cm. Garcia

Second: Cm. Galo

For: 8

Against: 0

Abstain:

0

VI. EXECUTIVE SESSION

The City Council hereby reserves the right to go into executive session at any time during this public meeting, if such is requested by the City Attorney or other legal counsel for the City, pursuant to his or her duty under Section 551.071. (2) of the Government Code, to consult privately with his or her client on an item on the agenda, or on a matter arising out of such item.

VII. ADJOURNMENT

Motion to adjourn.

Time: 12:45 p.m.

Moved: Cm. Galo

Second: Cm. Amaya

For: 8

Against: 0

Abstain: 0