



December 27, 2021

City of Magnolia, Texas
Attn: Kandice Garrett, City Secretary
18111 Buddy Riley Blvd.
Magnolia, TX 77354
kgarrett@cityofmagnolia.com
Via Email and FedEx

Re: *Universal Natural Gas, LLC's Statement of Intent Regarding Natural Gas Rates in the City of Magnolia*

To the Honorable Mayor and City Council of the City of Magnolia, Texas:

Universal Natural Gas, LLC d/b/a Universal Natural Gas, Inc. (“UniGas”) appreciates the opportunity to provide natural gas service to the residents and businesses of the City of Magnolia. UniGas is a member of the family of companies owned and operated by Centric Gas Services, LLC (“Centric”).

As you may recall, the City granted UniGas a franchise to provide this service in March 2020 (Ordinance No. O-2020-008), and the City also approved initial placeholder rates for UniGas service within the City pending a full rate case filing (Ordinance Nos. O-2020-009 and O-2021-014). Ordinance No. O-2020-009 required UniGas to make a base rate case filing for rates within the City by June 30, 2021, based on a test year ending December 31, 2020, and Ordinance No. 2021-014 extended that deadline to December 31, 2020, based on a reasonable test year.

Currently, UniGas anticipates it will begin serving customers within the City in the first quarter of 2022. UniGas currently projects it will serve approximately 100 customers within the City by the end of 2022. A map showing UniGas’s existing service footprint in Montgomery County, as well as the areas within the City it currently plans to serve in the near future, is attached as Exhibit A.

Since its inception in 1993, UniGas had never increased its rates until recently completing a rate case before the Railroad Commission of Texas (“Commission”) in April 2021. The passage of 27 years brought about numerous increases in operating and maintenance costs as well as the need to recover capital costs associated with constructing new facilities and improving or replacing older ones. In October 2020, UniGas filed a general base rate case with the Commission to adjust its rates for all UniGas environs customers (Texas customers outside municipalities). UniGas’s statement of intent to increase its rates, including all publicly-filed direct testimony and schedules supporting its request as filed with the Railroad Commission, are attached to this filing as Exhibit B. Staff of the Railroad Commission conducted numerous rounds of discovery and, after exhaustive negotiations, reached agreement with UniGas on a settlement that facilitated a fair and reasonable rate change. While UniGas had sought an annual revenue requirement increase of approximately \$1.64 million, the settlement agreement provided for a revenue requirement increase of \$995,000—reducing the requested increase by approximately 40%. By final order dated April 13, 2021, the Railroad Commission approved updated environs rates based on the settlement. That order is attached hereto as Exhibit C.

UniGas’s Commission-approved environs rates are summarized below:

Environs Customer Class	Customer Charge (Monthly)	Consumption Charge (per Mcf)
Residential	\$18.00	\$3.14
Small Commercial (≤150 Mcf/month)	\$45.00	\$2.91
Large Commercial (>150 Mcf/month)	\$175.00	\$2.91

UniGas believes that the rates it proposed before the Commission are fully cost-justified and supported by the relevant evidence it presented in that proceeding and re-submits herein. However, in an effort to provide service in a consistent manner for uniform, system-wide rates, UniGas hereby proposes that the City of Magnolia approve the same rates, tariff provisions and rate schedules for UniGas service within the City that the Commission recently approved for service to environs customers in Montgomery County outside the City. Please note that this settlement proposal is without prejudice to UniGas’s ability to appeal a determination by the City that approves rates for Magnolia customers that are lower than the Commission-approved rates for environs customers.

Numerous reasons support this rate settlement proposal. First, the environs rates set by the Commission were based on a recent historical test year ending June 30, 2020. Second, they resulted from a contested case proceeding before the Commission in which UniGas responded to over 100 requests for information and produced hundreds of pages of documents substantiating its requested revenue requirement. Third, the rates resulted from a heavily negotiated settlement agreement with Commission Staff in which UniGas, among other things, agreed to reduce its regulatory rate of return on equity from 12.00% to 9.50%. Fourth, the rates requested herein would provide uniformity in customer charges across UniGas’s service territory, ensuring fairness to City customers compared to other UniGas environs customers, including those in Montgomery County.

Attached as Exhibit D is a rate model comparing (1) the rates UniGas initially requested from the Railroad Commission with (2) the rates that UniGas and Commission Staff ultimately settled upon, and the Railroad Commission approved, in Docket No. OS-20-00004865. While that case ended in a “black box” settlement, this rate comparison model illustrates as best as possible the rate concessions UniGas agreed to in its recent Commission rate case.



In an effort to expeditiously resolve this rate request, UniGas likewise proposes adoption of the same tariff provisions and rate schedules as the Railroad Commission approved, but with appropriate adaptations for service to City customers rather than environs customers. These proposed tariff and rate schedule provisions are contained in Attachment 1 to the Commission’s final order included as Exhibit C, with the exception of Rate Schedules COG and RCE, as further discussed below.

Notably, UniGas would not charge customers within Magnolia the rate case expense surcharge that the Commission approved in Rate Schedule RCE for UniGas’ environs customers. Rather, UniGas and Magnolia would work cooperatively to determine appropriate rate case expenses that would be charged to Magnolia customers based on the expenses reasonably necessary for UniGas to prepare and present, and the City to review and process, this rate filing, as allowed under Texas law. Please see proposed Rate Schedule RCE-Magnolia included in Exhibit E for details.

Similarly, UniGas would not charge Magnolia customers the February 2021 Winter Event Surcharge that the Commission approved in Rate Schedule COG for UniGas’ environs customers. Rather, UniGas proposes adoption of an adapted version of Rate Schedule COG that would omit that surcharge for Magnolia customers, though the potential would remain for a securitized charge under legislation recently enacted during this year’s legislative session (House Bill 1520), which the Commission is currently considering in Case No. OS-21-00007061 pending before it. Please see proposed Rate Schedule COG-Municipal included in Exhibit E for details.

Other than the Magnolia-specific changes to Rate Schedule COG and Rate Schedule RCE as discussed above and included in Exhibit E, UniGas otherwise proposes that the City adopt the same rate schedules and tariffs for UniGas as approved by the Commission in its final order included as Exhibit C, including: Rate Schedules RES, COMM, WNA, PSFUG, M, TAXES, LINE EXTENSION POLICY, and QSR. UniGas also proposed adoption of the depreciation rates included in Attachment 2 of the Commission’s final order included as Exhibit C hereto.

UniGas’s proposed rates are highly competitive within the local market. The table below illustrates UniGas’s proposed residential customer rates compared to the residential rates in effect for EPCOR, another natural gas utility serving Magnolia.

CENTRIC & EPCOR – COMPARATIVE TARIFF ANALYSIS - City of Magnolia		
	 UniGas <small>UNIVERSAL NATURAL GAS</small> <i>Consolidated Rates</i>	 EPCOR <i>Magnolia Tariffs</i>
Volumetric Assumption (Mcf)	1.0	1.0
TXRRC Monthly Meter Fee	\$18.00	\$24.45
TXRRC Regulated Volumetric Charge Per Mcf	\$3.140	\$11.415
Comparative Tariff Totals	\$21.14	\$35.87

As the table shows, UniGas’s proposed rates would result in over 40% savings for residential gas customers—nearly \$15 per month—compared to EPCOR’s existing rates under the scenario shown. For each additional 1.0 Mcf consumed per month, customers would save an additional \$8.275 per Mcf with UniGas compared to EPCOR.

Finally, UniGas proposes that it would file another general rate case with the City at the same time it files its next general rate case with the Railroad Commission such that the Railroad Commission would be able to simultaneously review UniGas’ proposed environs rates under the Commission’s original jurisdiction and, if necessary, review Magnolia’s municipal rates under the Commission’s appellate jurisdiction. This will help keep UniGas’s rates charged to customers in Magnolia

aligned with those charged to environs customers in Montgomery County. Similarly, the rates charged to Magnolia customers would be subject to the same interim adjustments as the environs rate customers outside Magnolia.

UniGas will provide notice to the public and its prospective customers within Magnolia through publication in a newspaper with general circulation in Magnolia, consistent with the attached Exhibit F. The notice sets forth all current rates and proposed rates for all customer classes.

Because UniGas does not currently serve any customers within the City, the requested increase in rates does not have an effect on UniGas's revenues. This proposed change in rates does not constitute a "major change" as that term is defined under Section 104.101 of the Texas Utilities Code because the requested rate changes, if approved, would not increase the total aggregate revenues of UniGas by the greater of \$100,000 or more than two and one-half percent.

UniGas seeks an effective date for these updated rates that is 35 days after the date of this letter.

All notices relating to this filing should be sent to myself and to UniGas's legal counsel:

Winston Skinner
Vinson & Elkins LLP
2001 Ross Avenue, Suite 3900
Dallas, TX 75201
wskinner@velaw.com

A proposed form of ordinance approving this proposal is attached as Exhibit G for your consideration.

UniGas looks forward to closely working with you to set fair, updated rates for its upcoming natural gas utility service to the residents and businesses of Magnolia.

Respectfully submitted,

Robert S. Barnwell

Robert S. Barnwell, IV
Chief Executive Officer
Universal Natural Gas, LLC

Attachments:

Exhibit A: Map of UniGas's Planned Service Areas in Magnolia and Surrounding Environs

Exhibit B: UniGas's Statement of Intent Filing Package, Railroad Commission of Texas Docket No. OS-20-00004865 (filed October 9, 2020 – public version)

Exhibit C: Final Order, Railroad Commission of Texas Docket No. OS-20-00004865 (signed April 13, 2021)

Exhibit D: Rate Comparison Model – UniGas's Requested Rates vs. Final Approved Rates from Railroad Commission of Texas Docket No. OS-20-00004865

Exhibit E: Rate Schedule RCE-Magnolia (Rate Case Expense Surcharge); and
Rate Schedule COG-Municipal (Cost of Gas Adjustment)

Exhibit F: Form of Newspaper Notice