

AGENDA INFORMATION SHEET

Agenda Item No. _____

**APPROVAL TO JOIN IN SETTLEMENT
OF TNMP'S RATE REQUEST PENDING
ON APPEAL IN DOCKET NO. 36025
BEFORE THE PUBLIC UTILITY
COMMISSION OF TEXAS**

BACKGROUND

On August 29, 2008, TNMP filed a request to increase rates with the City Secretary and the Public Utility Commission of Texas. For the residential class, TNMP requested that rates increase by more than 23%; for the Street Lighting class TNMP requested that distribution rates increase by more than 82%, and for Small Commercial distribution customers, TNMP requested that rates increase by approximately 78.5%. The rates being requested relate to transmission and distribution operations. The rates sought by TNMP are passed on to the Retail Electric Providers ("REPs"), who pass these costs on to retail customers.

On March 31, TNMP amended its statement of intent to include recovery of storm-restoration costs related to Hurricane Ike, and to include recognition of increased debt costs arising from TNMP's refinancing of a majority of its debt, that in conjunction, raised TNMP's initial application from an increase in rates of approximately \$12.14 million, instead to an increase in rates of approximately \$24.36 million and a return on equity of 11.25%

The City timely denied TNMP's requested increase in rates and TNMP timely appealed the City's decision to the Public Utility Commission of Texas (PUCT) and is designated at the PUCT as Docket No. 36025.

COALITION OF CITIES

The City participated in Docket No. 36025 at the PUCT as part of a group of cities served by TNMP known as the Alliance of Texas-New Mexico Power Municipalities ("ATM"). Special Counsel and experts retained to review of TNMP's rate request conducted a detailed analysis of TNMP's application and participated in negotiations to attempt to resolve TNMP's rate case by way of settlement. After extensive review and negotiations, Special Counsel and the consultants assisting Special Counsel achieved a settlement of the rate case on fair and favorable terms to the cities in ATM resulting in an overall increase of approximately \$12.76 million instead of TNMP's request of approximately \$24.36 million. The key provisions of the settlement are summarized as follows:

- Base Rate Increase: TNMP's base rates will increase \$6.8 million over test year revenues, resulting in a total revenue requirement of \$160,997,798. The rates will be effective with billing statements rendered on or after September 1, 2009.
- Hurricane Ike system restoration costs: The costs associated with system restoration resulting from Hurricane Ike will be amortized over 5 years and recovered through a rate rider. The rider will be based on an agreed principal balance of \$17,554,375 and an accumulated carrying cost of approximately \$1,879,234. Based on a 5-year amortization schedule, the annual levelized recovery will be \$4,826,289.
- Competitive Transition Charge ("CTC"): TNMP's revised cost of debt of 9.43% will apply when calculating the updated CTC carrying charges. In addition, the industrial power class is no longer considered a capped class. The result is an annual increase of \$1,064,849 over currently authorized charges.
- Ratchets: TNMP will adjust its billing determinants to remove the effect of the ratchet for customers whose peak kW during the last 12 months is less than 20kW and for municipal pumping customers.
- Lighting increase: The Parties have agreed to limit the lighting class increase to the system average rate increase.
- Rate Case Expenses: TNMP will reimburse the City for reasonable rate case expenses.

RECOMMENDATION

Herrera & Boyle, PLLC, Special Counsel to the City and Alliance of Texas-New Mexico Power Municipalities recommends that the City join in the settlement reached in Docket No. 36025. The settlement will be presented to the PUCT for approval either at its meeting of August 13, or August 26, 2009.