

# WHAT'S IN A GAS BILL?

**When Texans pay home gas bills, some of the money is used by the utility to defray its cost to purchase gas, and some is used to defray the separate costs of operating the utility.**

## GAS COMMODITY

The first part — the gas cost component — simply reflects the market price of natural gas. It is set by the commodity market. That is, the utility negotiates a free-market price for gas with a supplier and then passes along the expense to its customers. Under Texas law, the utility is not allowed to profit when it passes through this cost to consumers. The Texas Railroad Commission may review gas procurement practices and specific expenditures to ensure the utility did not make them imprudently. However, the Commission has done so only on rare occasions.

## BASE RATE

The second part of the bill relates to the expense of operating a utility. Unlike the gas cost component, a utility's operations and infrastructure investments are subject to regulatory scrutiny in the context of setting rates. Because gas utilities operate as natural monopolies, no competitive forces exist that would prevent it from overcharging its customers for the use of its pipelines and distribution system. An unregulated monopoly, especially a monopoly that sells a service like gas service that is absolutely essential to the public's welfare, has the power to charge almost any price it wants. It is this fact that led to the establishment of gas rate regulation in Texas.

The utility's operations and infrastructure costs are covered in its base rate. The base rates are further divided into two parts: the customer charge and the consumption charge. The customer charge is a fixed monthly amount, while the consumption charge is a per unit charge that varies with the amount of gas consumed.

## REVENUE REQUIREMENT

The base rate is expected to cover the company's revenue requirement, which is the amount it needs to cover its annual operating expenses, its infrastructure costs and to collect a reasonable profit. If the Railroad Commission authorizes a revenue requirement that is greater than the annual revenues the utility already collects, then the result is a base rate increase. However, overall bills can still go down under such a scenario if there is a decline in the gas cost component — that is, if the commodity price of natural gas has gone down.

The Railroad Commission also oversees the allocation of rates between different classes of consumers. For instance, the Commission, on occasion, has shifted some of the relative responsibility for paying the revenue requirement from industrial consumers to residential consumers. This can result in a rate increase for residential customers, even if the overall revenue requirement has gone down.

## BASE RATE CASES IN 6 STEPS

- 1 Filing Notice**  
Utility files notice with a municipality of its intent to hike its base rates.
- 2 Council Action**  
The city council determines whether to accept, modify or reject the increase.
- 3 Appeal to RRC**  
If the city rejects the increase or awards less than the company requested, the utility may file an appeal with the Texas Railroad Commission.
- 4 185 Days To Act**  
The Commission holds a hearing on the rate request, and then must reach a decision within 185 days on whether and how much rate relief is merited.
- 5 Rehearing?**  
Parties to the rate case may request rehearing from the Railroad Commission.
- 6 Judicial Appeal**  
Parties may also appeal final Railroad Commission decisions to a state district court in Austin.