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MEMORANDUM

TO: Alliance of TXU Municipalities ("ATM") and other Interested Cities

FROM: Jim Boyle and Monte Akers

DATE: May 28, 2003

Re: Response to Questions on TXU Gas Statewide Rate Case

Today we have received a number of calls about how to respond to the resolutions dropped off by TXU with regard to the current rate filing.

Question: Should we adopt the TXU resolution?

Response: At this time it is best not to adopt the TXU resolution. It will take some time to determine whether TXU Gas has complied with notice and rate filing requirements. Municipal jurisdiction should not be given up lightly.

Question: Should we act right away to join ATM?

Response: Intervening promptly is beneficial. Many important decisions are made in the early stages of a rate case including the hiring of consultants, the procedures for discovery of information, the type of hearing to be held at the municipal level and what course of action to take if the rate filing is deficient or defective.

Question: Can you send us a resolution so that we can actively participate in ATM?

Response: A resolution suspending the rates and authorizing participation with the other ATM cities is attached.

Question: How can we learn more about the TXU rate case?

Response: On Friday there is a conference at TML where the TXU rate case will be discussed. The ATM Steering Committee should also have periodic meetings in order to update members of the coalition about the progress of the case.

Barbara Belz

From: Frank Salvato
Sent: Friday, June 06, 2003 1:10 PM
To: Barbara Belz
Subject: FW: HILLSBORO JOINS ATM

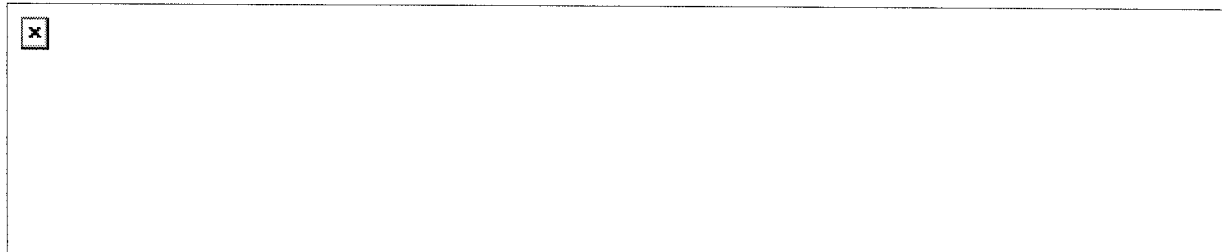
-----Original Message-----

From: Jim Boyle 2 [mailto:jboyle@jimboylelaw.com]

Sent: Friday, June 06, 2003 11:45 AM

To: Whiteman, Randy; Walker, Nobie; Walker, Hugh R; Thatcher, Ed; Talbot, Mike; Sullivan, Bill; Stanton, Martha; Smith, Linda; Shephard, Joe; Sheets, Steve; Scott, Bob; Scott, Charlie; Sandel, Harold; Frank Salvato; Roundtree, Bobby; Register, Kean; Ragsdale, Joe; Prouty, Herb; Palumbo, Dottie; Moore, Michael; McLelland, Bill; McGowan, Pat; McDuffie, Dennis; McClinton, Bob; McCain, Kyle; Looney, Jeff; Listi, Sam; Lawton, Dan; Kabala, Ken; Jalufka, Sheila; Ives, Don; Howell, Jeff; House, Cay Frances; Gustafon, Martin; Gilmore, Jean; Flatt, James; Finley, Jim; Emmons, Brandon; Dowell, Kenneth; Cosentino, Mike; Talbert, Sharon; Gilbreath, Truitt; Catoe, Paul; Carlton, John; Cantwell, James; Broaddus, Bill; Chamberlain, Don; Boudreaux, Brian; Barker, Jerry; Alexander, Steve; Akers, Monte; Watson, Sam; Shaunfield, Miles; Balthrop, Marie; Ward, Nelwyn; George, Lee Roy; Francis, Sharon; Nelson, Judy

Subject: HILLSBORO JOINS ATM



June 5, 2003

Council Joins Coalition To Fight TXU Rate Hike

A coalition of cities forming to fight a TXU Gas rate increase request will include Hillsboro following Tuesday night, June 3, action by the city council.

TXU Gas recently notified the over 400 cities served by the utility company that it would seek the rate increase from their respective governing bodies.

The documents project the increased costs to the 1,828 residential customers in Hillsboro to be \$3.41 per month, based on usage of three MCF per month.

A commercial customer using 30 MCF would realize a decrease of approximately \$2.58 per month under the filing.

Director of Community Development Jerry Barker represented Hillsboro at a Texas Municipal League seminar on the rate increase in Austin Friday, May 30.

The council had four options: approve the increase, suspend the case, deny the increase or defer jurisdiction to the Railroad Commission of Texas (RCT).

Mike Cain, town manager for TXU Gas, had requested that the council deny the increase so the issue could immediately be appealed to the RCT, which has the final say on the rate increase request.

By joining the coalition of several Central Texas cities, the council chose the option to suspend the rate request.

That gives a steering committee made up of representatives from the coalition cities an extra 90 days to review the five volumes of documents included in the filing.

Cain told the council that his company and the city were "both working toward a decision by the Railroad Commission," it was just a matter of timing on when it would reach that point.

The rate increase would generate \$69.5 million for the company, if it were granted.

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Barbara Belz

From: Frank Salvato
Sent: Thursday, June 05, 2003 8:32 AM
To: Barbara Belz
Subject: FW: ATM Update



ATM RECENT
VICTORIES.doc

-----Original Message-----

From: Mary Ann Miller [mailto:mmiller@ci.longview.tx.us]
Sent: Wednesday, June 04, 2003 5:22 PM
To: jcarlton@abaustin.com; barneylkn@aol.com; bobbyr@centex.net;
sansaba@centex.net; slisti@ci.belton.tx.us;
jeff.howell@ci.bridgeport.tx.us; salexander@ci.copperas-cove.tx.us;
stalbert@ci.corsicana.tx.us; tgilbreath@ci.corsicana.tx.us;
brandon.emmons@ci.gatesville.tx.us; ethatcher@ci.greenville.tx.us;
adm@ci.hamilton.tx.us; mtalbot@ci.lampasas.tx.us; Frank Salvato;
bbroaddus@cityofcaldwell-tx.com; dchamberlain@cityofcaldwell-tx.com;
dorothy.palumbo@cityofdenton.com; herbert.prouty@cityofdenton.com;
westpd@cji.net; citysec@clydecityhall.com; martincos@cox-internet.com;
bill.sullivan@cwftx.net; jshephard@dtnspeed.net; ciscocit@eastland.net;
dlawton@ecpi.com; city@ev1.net; kmccain@glade.net; mstanton@glade.net;
emory@globeco.net; citymgr@granbury.org; ives@granbury.org;
cityofvenus@hyperusa.com; bscott@koyote.com; patmcg@kfc.com;
cmcgregor@cmcgregor-texas.com; citymanagerbowie@morgan.net;
cityofdeport@neto.com; citymgr@rosebudtexas.net;
slsheets@round-rock.tx.us; monte@texasmunicipallawyers.com;
dublin@texinet.net; cityoffriesel@texnet.net; kdowell@tstar.net;
citymgr@web-access.net
Cc: Jim Finley; jboyle@jimboylelaw.com
Subject: ATM Update

Dear ATM Member Cities:

1. Yesterday ATM intervened at the Railroad Commission in the statewide rate case filed by TXU Gas. The proceeding has been docketed as GUD Docket No. 9400.

2. On May 30th the ATM cities held a conference at TML in Austin. A Steering Committee was established as follows:

Chair	Jim Finley, Longview, City Attorney,
Manager	Jeff Looney, Teague, City Manager Steve Alexander, Cooperas Cove, City
Community Planning	Bob McClinton, Lometa, Mayor Jerry Barker, Hillsboro, Director of Herb Prouty, Denton, City Attorney.

Railroad Commissioner Victor Carrillo spoke to the conference about recently passed legislation and he gave us a feel for his regulatory philosophy.

3. The Steering Committee will be expanded to include other members of ATM who wish to serve.

4. Dan Lawton, franchise expert, offered to review electric and gas franchises to make sure that your city is getting the maximum benefit from the franchise.

5. The Steering Committee will consider proposals from consultants in connection with its next meeting.

6. In response to requests from a number of cities, attached is a brief history of ATM.

RECENT ATM VICTORIES

In two cases filed last summer (2002), TXU asked the Railroad Commission for special rate treatment not permitted by the law or by Commission precedent.

In both cases, ATM took the lead, and prevailed in our opposition to these rate increases.

Docket No. 9292

TXU Lone Star Pipeline Expansion Cost Recovery

TXU LSP sought an order from the Railroad Commission permitting it to recover through a 10-year surcharge \$64 million in costs for a 76.5 mile gas transportation pipeline north of Dallas that would not be constructed and in operation for several years in the future. Construction, according to TXU, would take 23 months.

ATM filed several briefs filed at the Commission arguing that the application violated the law, that TXU could not show on a prospective basis that its costs were reasonable and necessary. The pipeline was currently not used and useful because it was not even built, and TXU could not show that its decisions in building the line and costs expended would be prudent. The Commission found ATM's arguments very compelling and dismissed the case.

Docket No. 9304

TXU Request for Annual (automatic) Rate Adjustment

TXU LSP proposed to recover the costs of pipeline testing and repair and class location changes, including installation of new class location pipe, through an annual incremental rate adjusted each year over a 10-year period. ATM argued in briefs to the Commission that to capture these costs, TXU LSP should do what it always had been required to do--replace the pipe where necessary and recover costs in a rate case. No special rate treatment was accorded the utility with respect to pipeline maintenance and

class location changes in the past. ATM filed several pleadings arguing that the law and regulatory process prevented this kind of piecemeal ratemaking. The Commission agreed and dismissed the case.

PRESERVATION OF MUNICIPAL JURISDICTION BY ATM CITIES

Notice Ordinance and Rate Filing Package Ordinances

Last year nine ATM cities passed ordinances regarding notice to be published by the utility in a rate application. The ordinances require the utility to

1. publish notice in local papers, instead of the papers in Dallas, Austin, or other remote areas.
2. include the percentage increase for residential customers from the present base rate revenues
3. include the dollar and cents base rate increase to the customer
4. show the increase in base rate revenues to the company, and
5. publish the notice in a readable size type

The old notice did not distinguish between base revenues and fuel costs. The notices were misleading, were written in tiny type, and not published in local papers.

The ATM cities passing these ordinances were:

Bertram
Burnet
Corsicana
Denton
Gatesville
Greenville
Leander
Longview
Manor

Two cities, Longview and Gatesville, and later Denton, also passed rate filing package ordinances requiring the utility to provide specific kinds of information in their application so that the city manager, city council, and others could be better informed about the costs and need for new revenues.

TXU filed a complaint at the Commission saying the cities had no jurisdiction to control these notice and rate filing matters. TXU complained long and hard about how costly it would be to publish notice in local papers and do the things the cities needed. The Commission sent the case to SOAH where the cities filed briefs in support of the ordinances. The Administrative Law Judges ruled against us. We appealed to the Commission in written briefs and then gave oral argument before the three commissioners. The cities fought hard in defending their right to control the ratemaking process authorized to them by law. The Commission understood our position, agreed it did not have jurisdiction over these city matters, and dismissed TXU's complaint.

With its current statewide rate case application, TXU has followed those notice and rate filing requirements, even though the Railroad Commission has no similar rules or filing requirements. TXU brags in its application about how it has a new and much improved filing package.

These ATM cities were courageous in exercising municipal jurisdiction to protect their residents and require the utility to do a better job. We are proud of their efforts.