



## **BOARD/COMMISSION RECOMMENDATION**

### **Resource Management Commission**

#### **Recommendation No. 20260120-002**

##### Recommendation on Texas Gas Service Franchise

### Introduction

The City of Austin (The City) has a 20-year franchise agreement with Texas Gas Service (TGS), which is the company's license to operate in the city limits. That franchise agreement expires in October of 2026.

The renewal of the franchise is a once-in-a-generation opportunity to correct or reform longstanding problems that include high rates, high fuel costs, poorly designed rate structures, poorly performing energy conservation programs, scant funding to assist low-income ratepayers, and lack of progress in shrinking the company's carbon footprint.

#### 1.0 Selection of Company and Term of Franchise

WHEREAS, Texas Gas Service, the fifth consecutive owner of the main private gas utility that has provided service in the city limits of Austin since the 1870s, has never participated in a competitive process to determine if the company offers ratepayers adequate or better service; and

WHEREAS, the current term of the franchise is 20 years (a 10-year initial period with a subsequent 10-year automatic renewal with minimal conditions), is too long a time period to lapse without a revised regulatory agreement; and

#### 1.1 High and Inequitable Rates

WHEREAS, Texas Gas Service (TGS) residential gas rates have gone up about 108% between 2019 and 2025, which is 79% above inflation; and

WHEREAS, Texas Gas Service has proposed three rate increases since 2024; and

WHEREAS, these rate increases are largely driven by the cost of capital expansion or improvements of the system, and no city or state regulator has the ability to prevent these expenditures prior to their occurrence; and

WHEREAS, TGS does not collect full payment for new infrastructure (known as Contribution in Aid of Construction or Capital Recovery Fees) required for new customers, thus subsidizing new customers while increasing gas bills of existing customers; and

WHEREAS, when Austin Energy and Austin Water implemented full capital recovery fees, they experienced rate decreases; and

WHEREAS, Austin's municipal utilities have progressive tiered rates that charge less per unit for less usage, while Texas Gas Service has historically maintained a regressive flat rate, which discourages conservation and adversely affects lower-income ratepayers who typically consume less energy; and

#### 1.2 Low-Income Assistance

WHEREAS, TGS currently has no customer assistance program that reduces monthly gas bills for low-income customers; and

WHEREAS, TGS only provides minimal funding for emergency bill payments for low-income customers; and

WHEREAS, in contrast, Austin Energy and Austin Water provide substantial funding for these kinds of low-income assistance; and

WHEREAS, fuel costs, which are added to rates as part of the total gas bill, have spiked in recent years due to increased storage and pipeline demand charges; adding to affordability problems; and

#### 1.4 Franchise Fees

WHEREAS, the City of Austin levies a 5% franchise fee on the gross receipts of rates and normal fuel costs, which support the City's General Fund services; and

WHEREAS, the City exempts franchise fee collections from public entities (including governments, educational institutions, and hospitals that provide indigent health care), which does not always occur in other Texas cities; and

#### 1.5 Energy Conservation

WHEREAS, Texas Gas Service (TGS) has been planning and operating Residential energy conservation incentive programs that do not pay for themselves in reduced fuel costs or reduced fuel consumption<sup>1</sup>; and

WHEREAS, some of these conservation programs are largely targeted at marketing gas appliances rather than energy efficiency<sup>2</sup>; and

WHEREAS, TGS conservation program incentives are, on average, much higher than those offered by other gas utilities around the country<sup>3</sup>; and

WHEREAS, Austin Energy already runs similar conservation programs for energy efficiency building improvements and serves most of the same customers as TGS. Austin's programs have proven much more successful at achieving cost-effective energy savings than TGS' programs; and

WHEREAS, there is precedent for the City of Austin to operate a gas utility conservation program, which took place between 1987 and 1997; and

WHEREAS, TGS is currently in violation of its franchise, which requires it to implement energy conservation programs as part of its normal operations; and

#### 1.6 Leak Detection and Repair

WHEREAS, methane leaks are an inherent risk in the operation of gas utilities and can pose significant safety concerns for people, businesses and infrastructure; and

WHEREAS, it is in the interest of the residents of the City of Austin to have visibility into the frequency and severity of methane leaks and the mitigation and repair procedures being employed to minimize the risk; and

WHEREAS, minimum leak detection standards are established by federal and state law and the City's current franchise agreements include only general provisions requiring gas utilities to comply with applicable federal and state regulations; and

WHEREAS, the public has limited visibility into the efforts to detect and reduce leaks, the effectiveness of such efforts, the frequency, duration, and persistence of non-hazardous leaks, and the volume of methane emissions from ongoing leaks; and

WHEREAS, current advanced leak detection and repair (LDAR) programs may include highly sensitive vehicle-mounted detectors, infrared optical imaging and other methodologies, but are continuously evolving;

THEN BE IT THEREFORE RESOLVED that the Resource Management Commission recommends that the Austin City Council implement the following policies related to the new Texas Gas Service franchise agreement:

#### 2.0 Selection of Company and Term of Franchise

- The new franchise agreement should be limited to a 10-year term with a firm expiration date and no automatic renewal, as a shorter term will ensure greater regulatory accountability.

- The agreement should maintain the City's option to purchase the distribution system throughout the entirety of the franchise term.
- Texas Gas Service should submit a biannual report to the City to monitor contractual compliance.

## 2.1 High and Inequitable Rates

In order to deal with high and constantly increasing rates, the new franchise agreement should include the following:

- Austin should demand full capital recovery fees for new hookups and developments in the same manner that it employs for its municipal electric and water utilities. This model should emulate how Austin Water collects water infrastructure improvements for the entire system from new customers as well as the infrastructure for the local infrastructure specific to these new customers.<sup>4</sup>
- Because TGS's capital costs in all of its Texas service areas are merged into a single rate base and allocated to all Texas TGS customers, regardless of where the capital project is located, Austin is concerned about and has a stake in the magnitude and prudence of all TGS capital projects. Therefore, The City of Austin, through the Resource Management Commission and the Austin City Council, should require an annual report by Texas Gas Service of its expected Plant Costs (Capital Improvements) for the coming year and actual capital projects and expenditures for the preceding fiscal year.
- The City should hire a consultant to review the proposed Plant Costs and actual capital expenditures for prudence.
- This consultant should be funded with either an increased franchise fee or a bill rider similar to the Texas Gas Service's Conservation Adjustment Charge or Austin Energy's Community Benefits Charges.
- Other large cities served by Texas Gas Service should be encouraged to co-fund this consultant and hold their own review of proposed Plant Costs.
- Financial penalties should be specified in the franchise should TGS withhold information from the City or the consultant.
- As a policy matter, the City of Austin recommends that Texas Gas Service implement a progressive residential tiered rate structure with no less than three tiers

## 2.2 Low Income Assistance

- The City should immediately require TGS to adopt an income-qualified monthly customer assistance program, to be phased in to enroll at least 7% of ratepayers in the Austin city limits by January 2029. This program could be funded with an increased franchise fee, a bill rider, or a modified rate structure.
- The City should require TGS to fund at least \$500,000 annually (to go up with annual inflation) for income-qualified emergency bill assistance in the Austin city limits, and to fund at least half of this with money paid by shareholders of the company.

## 2.3 High Fuel Costs

- TGS and the City should investigate ways to lower purchased gas costs, gas storage costs, demand fees, and reservation fees to historical levels.

## 2.4 Franchise Fees

- The City should conduct a benchmark study of large Texas cities to compare the practice of exempting public entities from natural gas utility franchise fees. If the City of Austin is found to be abnormally lenient in collecting franchise fees compared to other large Texas cities, then a phased-in collection of these fees should be enacted.

## 2.5 Energy Conservation Programs

- Austin should take over planning and management of TGS conservation programs as part of the new franchise agreements, with charges for gas conservation programs paid by TGS.

• These funds should be collected with either an increased franchise fee specific to each rate class of customers or a bill rider similar to the Texas Gas Service's Conservation Adjustment Charge of Austin Energy's Community Benefits Charges. The funds from an increased franchise fee or bill rider can be allowed to change from year to year, with a not-to-exceed amount or percentage<sup>5</sup>.

• Under certain circumstances, increased franchise fee revenue can also be used for Austin Energy's own energy conservation programs.

• All previously collected but unspent conservation funds and previously purchased equipment for implementation of the Texas Gas Service program should be transferred to the City of Austin for continued operation of the programs. Previously collected TGS conservation funds should be directed towards low-income home weatherization.

## 2.6 Leak Detection and Repair

The City should require that Texas Gas Service:

- Employ industry-leading advanced leak detection and repair technologies throughout the term of the agreement, including technologies that increase the speed and sensitivity of leak detection, expand the search footprint, reduce response time for gas emergencies, and/or increase the repair speed of leaks within the Austin metropolitan area,
- Regularly update its LDAR practices to reflect technological advancements,
- Submit annual reports to the City on the performance of its LDAR programs within the Austin metropolitan area. Information in reports could include but is not limited to:
  - LDAR practices & technology employed including leak detection survey frequency and mitigation strategies
  - Fugitive methane emissions and fugitive methane emissions rate
  - Average response time for gas emergencies
  - Average leak repair time
  - Number of leaks repaired and analysis of any patterns of leaks found that could require broader, systematic remediation to improve gas system safety

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<sup>1</sup> Evidence sent to the Texas Railroad Commission, "TGS Conservation Letter to RRC," on August 8, 2025.

<sup>2</sup> Ibid.

<sup>3</sup> Evidence sent to the Texas Railroad Commission, "2025 – Gas Utility Rebate Survey 1.0.xlsx," on August 8, 2025.

<sup>4</sup> The Commission particularly disagrees that revenue collected from new customers, for example during the first 10 years of their service, can be used as a justification for burdening existing customers by requiring them to subsidize the new development capital expenses. The City should require that this practice ends within the City and that developer contributions reflect the full cost of development so that existing customers are no longer burdened by system expansion. City should require that Austin ratepayers not be billed for uncollected development expenses within or outside of city limits.

<sup>5</sup> Using 2025 data as a benchmark, funding the current TGS Residential conservation program would require a franchise fee increase from 5% to about 6.5% on the Residential class. Funding the current TGS commercial program would raise the franchise fee from 5% to about 5.35% to 5.7%. These costs were formerly collected with a bill rider.

**Date of Approval:** January 20, 2026

City of Austin Climate, Water, Environment, and Parks Committee Meeting Backup: February 25, 2026

File ID: 26-1172

**Vote:** 10-0

**Motioned By:** Vice Chair Robbins

**Seconded By:** Commissioner Silverstein

**For:** Commissioner Charlotte Davis, Chair; Commissioner Paul Robbins, Vice Chair; Commissioner Kamil Cook; Commissioner Trey Farmer; Commissioner GeNell Gary; Commissioner Harry Kennard; Commissioner Martin Luecke; Commissioner Raphael Schwartz; Commissioner Alison Silverstein; Commissioner Danielle Zigon

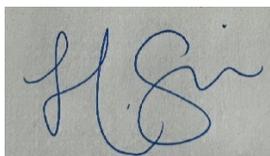
**Against:** None

**Abstentions:** None

**Off Dais:** None

**Absences:** Commissioner Joseph Gerland

**Vacancies:** None

A square image containing a handwritten signature in blue ink. The signature appears to be 'N. Goodwin'.

**Attest:**

Natasha Goodwin, Staff Liaison