

DATE: *August 4, 2017*
 TO: Mayor and City Council
 FROM: Assistant City Manager *[Signature]*
 SUBJECT: Subscriber Regulatory Compliance Services Contract Amendment



RECOMMENDED ACTION

Approve and authorize the Mayor to sign the contract amendment with SRCS for regulatory compliance services.

BUDGET IMPACT

The fee schedule calculations will result in an annual decrease in the cost of the services of about \$11,000 (\$0.08 per account per month) which will be programmed into the 2018 budget.

DISCUSSION

The Subscriber Regulatory Compliance Services program is proposing a new rate structure to capture its cost, spreading out to all of its participating members. Notably, the changes will allocate more of the cost to the base fee and extents of a system's distribution lines, while charging less to each service. An analysis of our cost is outlined below:

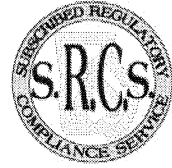
CURRENT			
Item	Unit Rate	No.	Annual Tot.
Fee Cap			\$ 57,881.00
Base	6875	1	\$ 6,875.00
Meter Fee	3.78	10559	\$ 39,913.02
			\$ 46,788.02
PROPOSED			
Item	Unit Rate	No.	Annual Tot.
Fee Cap			\$ 58,000.00
Base	7250	1	\$ 7,250.00
Services	2.5	10721	\$ 26,802.50
Main Fee	7.5	178	\$ 1,335.00
			\$ 34,052.50
CHANGE			
Base			\$ 375.00
Services/Meters			\$ (13,110.52)
Main			\$ 1,335.00
			\$ (11,400.52)

Therefore, depending on the size of the system, the change in cost will vary. The proposed rate structure has been authorized for consideration by the members and advantageous for our system compared to existing.

Attachments

Memo-SRCS

Proposed Contract Amendment



Proposed SRCS Contract Amendment

DATE: June 22, 2017

TO: SRCS Subscribers

FROM: Bill DeFoor, Director

SUBJECT: Proposed SRCS Contract Amendment

As we saw clearly during the preparation of our 2017 budget, the current SRCS fee structure has limitations that can pose challenges to fairness, equity, and flexibility in recovering the cost of delivering SRCS services. Specifically, our contract allows the Base Fee and the Fee Cap to increase no more than the Consumer Price Index, which has changed very little in the in recent years and was barely above zero for the last two. With two of the three annual fee components unchangeable, the only place to make any meaningful revenue adjustment is in the Meter Fee. This limitation resulted in some Subscribers seeing fee increases of 20% or more while others were less than 1%.

As we noted during the 2017 budget process and the 2016 Fall Regional Meetings, the SRCS fee structure needs to be changed. But, rather than simply removing the limitations on the Base and Cap Fees, we believe other changes are warranted. After thoroughly reviewing the reasoning behind each of the fee components, we believe the Base Fee and the Fee Cap are legitimate and necessary elements. And, of course, the Development Recovery Fee honors our commitment to the Charter Subscribers while offsetting the startup costs associated with new Subscribers. However, the Meter Fee, which uses the total number of active meters from the previous calendar year, does not accurately reflect the complexity of individual systems. We propose replacing this element of the fee structure with two new components – Miles of Main/Transmission Line and Number of Services, which together indicate the quantity of pipe in the ground and provide a more meaningful measure of the level of regulatory compliance service required by each Subscriber.

Attached for your review and comment is a draft of our proposed Second Amendment to the SRCS Agreement. In addition to the fee structure changes, we also propose to clarify the provisions for membership in the GMA Gas Section in order to maintain access to its Operator Qualification Plan, as well as a few other edits.

Please review this carefully and provide your comments by July 21. And feel free to contact me at bdefoor@gasauthority.com or 678-488-9470 if you would like to discuss the provisions of this proposed Amendment. Your input is important and will receive our full consideration. After comments have been evaluated and any necessary changes made, the final proposed Amendment will be presented to the Board. If approved, the final Amendment will be sent to you by July 28 with signatures due back by September 5.

Attachments

cc: Chris Strippelhoff
SRCS Staff



Proposed SRCS Contract Amendment

Fee Structure Comparison

2017 Fees in Current Structure

	<u>Georgia</u>	<u>Non-Georgia</u>
Base Fee	\$6,875 per year	\$7,275
Meter Fee	\$3.78 per active meter per year	\$3.78
Fee Cap	\$57,881 per year	\$58,281

Equivalent 2017 Fees in Proposed Structure

	<u>Georgia</u>	<u>Non-Georgia</u>
Base Fee	\$7,250 per year	\$7,675
Mains/Transmission Lines Fee	\$7.50 per mile per year	\$7.50
Services Fee	\$2.50 each per year	\$2.50
Fee Cap	\$58,000 per year	\$58,400

**SECOND AMENDMENT TO THE SUBSCRIBED REGULATORY
COMPLIANCE SERVICE PROGRAM AGREEMENT**

This Second Amendment to the Subscribed Regulatory Compliance Service Program Agreement (“Amendment”), is entered into by the Municipal Gas Authority of Georgia, a public body corporate and politic, a public corporation and an instrumentality of the State of Georgia (the “Gas Authority”), and the City of Sugar Hill (the “Subscriber”), a political subdivision of the State of Georgia (capitalized terms used herein but not defined will have the meaning assigned to such term in the hereinafter defined Agreement);

WITNESSETH
THAT:

WHEREAS, the Gas Authority and the Subscriber have entered into a Subscribed Regulatory Compliance Service Program Agreement, dated as of the date thereof, as amended (the “Agreement”), including as amended by the First Amendment thereto; and

WHEREAS, the Gas Authority and the Subscriber have caused to be prepared this Amendment to provide for certain changes to the Agreement, including, without limitation, revising certain fee structures to better reflect the complexity and regulatory demands of Subscribers and provide flexibility in adjusting revenues to address future budgetary requirements;

NOW, THEREFORE: For and in consideration of the premises and mutual covenants and agreements herein contained, the parties hereby agree as follows:

Section 1. Section 1(a) is hereby amended to delete the last two sentences thereof in their entirety and insert in lieu thereof the following:

““Subscribers” means the Subscriber together with other political subdivisions, governmental entities, operators and master meter operators contracting for Services pursuant to agreements substantially similar to this Agreement with only minor variations related to state of incorporation, entity type and allocation of fees through the year (e.g., equal installments vs. sculpting to more closely mirror gas system revenues) or other minor variations determined to be insubstantial by the Gas Authority.”

Section 2. Section 3(a) is hereby amended to delete the phrase “additional political subdivisions and natural gas contractors” and insert in lieu thereof the phrase “additional Subscribers”.

Section 3. Section 3(c) is hereby deleted in its entirety and the following is inserted in lieu thereof:

“Each Subscriber will pay its portion of all costs of the Program, including, but not limited to, costs of establishing, implementing and operating the Program (the “Program Costs”) as reflected in the Annual Budget. Such portion will be determined as the sum of the components set forth and as otherwise described in Exhibit “C” hereto (“Total Subscription Fees”).”

Section 4. Section 3(d) is hereby deleted in its entirety and the following is inserted in lieu thereof:

“Subscribers will maintain membership in the Georgia Municipal Association (GMA) Gas Section or successor(s), if any, controlling, owning or operating the Operator Qualification Plan or substantial equivalent thereof.”

Section 5. Exhibit “C” to the Agreement is hereby replaced with revised Exhibit “C” attached hereto.

Section 6. All instances of the word “shall” are deleted throughout the Agreement and the word “will” is inserted in lieu thereof.

Section 7. This Amendment will be read and taken together with the Agreement as one and the same instrument. The Agreement, as amended by this Amendment, is hereby ratified and affirmed in all respects; provided that, in accordance with the Intergovernmental Contracts Clause (Art. IX, Sect. III, Para. I) of the Georgia Constitution and O.C.G.A. Section 46-4-96(a)(7), it will terminate no later than 50 years after the effective date hereof unless its term is extended by an amendment to the Agreement prior to such date.

Section 8. This Amendment will become effective when duly approved and executed and delivered by the Subscriber, and when executed and delivered by the Gas Authority. The Gas Authority will only execute and deliver the Amendment when it has determined that the Amendment or similar amendments have been duly executed and delivered by each of the Subscribers. The Gas Authority will require that additional Subscribers added as parties to the Program after the effectiveness of this Amendment enter into an amendment substantially similar to this Amendment.

MUNICIPAL GAS AUTHORITY OF GEORGIA

By: _____

Name: _____

Title: _____

[Signatures Continue on Next Page]

SUBSCRIBER:

CITY OF SUGAR HILL

By: _____

Name: _____

Title: _____

[Signature Page to Second Amendment]

**Amended
Exhibit "C"
Total Subscription Fee**

A. Through calendar year 2017, Total Subscription Fees will be calculated in accordance with the Agreement not taking into account this Second Amendment. Effective for and after calendar year 2018, the Total Subscription Fees will be calculated annually to recover all Program Costs using the following components:

1. Base Subscription Fee: The Gas Authority will establish a Base Subscription Fee annually, which fee is initially estimated to be set as \$7,250 per year per Subscriber; plus
2. Mains/Transmission Lines and Services Subscription Fees: after accounting for total Base Subscription Fees, the remaining Program Costs will be allocated among the Subscribers based on Mains/Transmission Lines Subscription Fees and Services Subscription Fee by the Gas Authority, which fees will be calculated as follows:

Annual Mains/Transmission Lines Subscription Fee (initially estimated to be set as \$7.50 per mile per year) = (Remaining Annual Budget allocable to Mains/Transmission Lines Subscription Fees (i.e., Annual Budget – Sum Total of Base Subscription Fees – Sum Total Services Subscription Fee) / Total Miles of Subscribers' Mains/Transmission Lines installed as of December 31st of the calendar year preceding budget preparation and approval (e.g., the 2018 budget is prepared and approved in 2017 with fees based on the total miles of Mains/Transmission Lines reported as of 2016); and

Annual Services Subscription Fee (initially estimated to be set as \$2.50 per service (as such term is used in the hereinafter defined PHMSA reporting forms described below; "PHMSA Service") per year) = (Remaining Annual Budget allocable to Services Subscription Fees (i.e., Annual Budget – Sum Total of Base Subscription Fees – Sum Total Mains/Transmission Lines Subscription Fee) / Total Number of Subscribers' PHMSA Services installed as of December 31st of the calendar year preceding budget preparation and approval (e.g., the 2018 budget is prepared and approved in 2017 with fees based on the total number of PHMSA Services reported as of 2016).

B. Total Subscription Fees allocable by any single Subscriber will not exceed the subscription cap, initially established at \$58,000 per year (the “Subscription Cap”). To the extent application of the Subscription Cap causes any portion of aggregate Program Costs to be unallocated (“Unallocated Program Costs”), the Total Subscription Fees allocation methodology described herein will be applied and reapplied until all such Unallocated Program Costs have been allocated.

C. The Gas Authority will use Mains/Transmission Line and PHMSA Services data as reported in U.S. Department of Transportation Pipeline and Hazardous Materials Safety Administration (PHMSA) Form 7100.1-1 and, if applicable, PHMSA 7100.2-1 Reports (or any applicable industry standard successor reporting process). The allocation of Program Costs among the components described above will be determined by the Gas Authority in its sole discretion. Fee amount estimates described above, which are calculated based on the calendar year 2017 budget, are subject to adjustment in the calendar year 2018 budget preparation process.

D. Annual Subscription Cap increases will not exceed the greater of (i) the Consumer Price Index for all urban consumers (U.S. City Average) as posted by the U.S. Department of Labor, or, if such index is unavailable, a reasonably comparable index measuring similar statistics (collectively, the “Consumer Price Index”), for the most recent 12-month period available at the time of budget preparation or (ii) 3%.