



## MEMORANDUM

**To:** Mayor and City Council

**From:** Kent Collins, P.E., Deputy City Manager

**Date:** September 10, 2024

**Reference:** Consider approval of a Resolution of the City Council of the city of Coppell, Texas, approving a negotiated settlement between the Atmos Cities Steering Committee (“ACSC”) and Atmos Energy Corp., Mid-Tex Division regarding the Company’s 2024 rate review mechanism filing; declaring existing rates to be unreasonable; adopting tariffs that reflect rate adjustments consistent with the settlement; finding the rates to be set by the tariffs to be just and reasonable and in the public interest; requiring the Company to reimburse ACSC’s reasonable ratemaking expenses; determining that this resolution was passed in accordance with the requirements of the Texas open meetings act; and authorizing the Mayor to sign.

**2040:** Sustainable City Government

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### Introduction:

The proposed Resolution declares that existing rates are unreasonable, which is necessary to adopt new tariffs, and approves a negotiated settlement between ACSC cities and Atmos Energy Corporation to adopt tariffs that reflect rate adjustments consistent with the settlement. The effective date for new rates is October 1, 2024. The attachments include the Resolution, tariff summary and average bill comparisons.

### Background:

The City, along with 181 other Mid-Texas cities served by Atmos Energy Corporation, Mid-Tex Division (“Atmos Mid-Tex” or “Company”), is a member of the Atmos Cities Steering Committee (“ACSC”). In 2007, ACSC and Atmos Mid-Tex settled a rate application filed by the Company pursuant to Section 104.301 of the Texas Utilities Code for an interim rate adjustment commonly referred to as a GRIP filing (arising out of the Gas Reliability Infrastructure Program legislation). That settlement created a substitute rate review process, referred to as Rate Review Mechanism (“RRM”), as an alternate for future filings under the GRIP statute.

ACSC strongly opposed the GRIP process because it constitutes piecemeal ratemaking by ignoring declining expenses and increasing revenues while rewarding the Company for increasing capital investment on an annual basis. The GRIP process does not allow any review of the reasonableness

of capital investment and does not allow cities to participate in the Railroad Commission's review of annual GRIP filings or allow recovery of Cities' rate case expenses. The Railroad Commission undertakes a mere administrative review of GRIP filings (instead of a full hearing) and rate increases go into effect without any material adjustments. In ACSC's view, the GRIP process unfairly raises customers' rates without any regulatory oversight. In contrast, the RRM process has allowed for a more comprehensive rate review and annual evaluation of expenses and revenues, as well as capital investment.

Since 2007, there have been several modifications to the original RRM Tariff. The most recent iteration of an RRM Tariff was reflected in an ordinance adopted by ACSC members in 2018. On or about April 1, 2024, the Company filed a rate request pursuant to the RRM Tariff adopted by ACSC members. The Company claimed that its cost-of-service in a test year ending December 31, 2023, entitled it to additional system-wide revenues of \$196.8 million.

Application of the standards set forth in ACSC's RRM Tariff reduces the Company's request to \$182.5 million, \$132.6 million of which would be applicable to ACSC members. After reviewing the filing and conducting discovery, ACSC's consultants concluded that the system-wide deficiency under the RRM regime should be \$149.6 million instead of the claimed \$182.5 million. After several settlement meetings, the parties have agreed to settle the case for \$164.7 million. This is a reduction of \$32.1 million to the Company's initial request. This includes payment of ACSC's expenses. The Effective Date for new rates is October 1, 2024. ACSC members should take action approving the Resolution/Ordinance before September 30, 2024.

Atmos generated rate tariffs attached to the Resolution/Ordinance that will generate \$164.7 million in additional revenues. Atmos also prepared a Proof of Revenues supporting the settlement figures. ACSC consultants have agreed that Atmos' Proof of Revenues is accurate.

The impact of the settlement on average residential rates is an increase of \$5.52 on a monthly basis, or 6.84%. The increase for average commercial usage will be \$13.39 or 3.44%. Atmos provided bill impact comparisons containing these figures.

The Legislature's GRIP process allowed gas utilities to receive annual rate increases associated with capital investments. The RRM process has proven to result in a more efficient and less costly (both from a consumer rate impact perspective and from a ratemaking perspective) than the GRIP process. Given Atmos Mid-Tex's claim that its historic cost of service should entitle it to recover \$196.8 million in additional system-wide revenues, the RRM settlement at \$164.7 million for ACSC members reflects substantial savings to ACSC cities. Settlement at \$164.7 million is fair and reasonable.

#### **Benefit to Community:**

The proposed Resolution will approve Atmos RRM Tariff that reflects negotiated rates that are less than originally requested by Atmos Mid-Tex and are considered to be fair and reasonable.

#### **Legal Review:**

The City Attorney has reviewed this item.

**Fiscal Impact:**

There is no fiscal impact associated with this item.

**Recommendation:**

Staff recommends approval of the Resolution.