



MEMORANDUM

To: Mayor and City Council

Through: Mike Land, City Manager

From: Noel Bernal, Deputy City Manager

Date: March 27, 2018

Reference: Consider a Tariff authorizing an annual Rate Review Mechanism (RRM) as a substitution for the annual interim rate adjustment process defined by Section 104.301 of the Texas Utilities Code, and as negotiated between Atmos Energy Corporation, Mid-Tex Division and the steering committee of cities served by Atmos; requiring the company to reimburse cities' reasonable ratemaking expenses.

2030: Sustainable City Government: Goal 1 "Excellent City Services with High Level of Customer Satisfaction"

Introduction:

The Steering Committee of the Cities Served by Atmos Mid-Tex (ACSC) negotiated a new Rate Review Mechanism (RRM) for its member cities which will govern future annual rate filings by Atmos Energy Corporation, Mid-Tex Division.

Background:

The City, along with 171 other Mid-Texas Cities Served by Atmos Energy Corporation, Mid-Tex Division, is a member of the Steering Committee of Cities Served by Atmos (ACSC). In 2007, the ACSC and Atmos Mid-Tex settled a rate application filed by the Atmos 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 a substitute for future filings under the GRIP statute.

ACSC strongly opposed the GRIP process and argued that it constitutes piecemeal ratemaking by ignoring declining expenses and increasing revenues and rewarding Atmos for increasing capital investment. In addition, 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 the recovery of rate case expenses. Furthermore, 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 the 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 Ordinance that resolved Atmos' application under the RRM Tariff in 2017 also terminated the existing RRM Tariff and required renegotiation of the terms of that tariff. Negotiations have taken place over the past several months and have resulted in a revised RRM Tariff that has been agreed to by Atmos. The ACSC Executive Committee has recommended acceptance of the revised RRM Tariff, which is attached to the Ordinance.

Analysis:

The RRM Tariff on which the 2017 rates were based allowed a rate of return on equity of 10.50%. The revised RRM Tariff reduces that to 9.8%. The revised RRM Tariff also captures the reduction in federal income tax rates from 35% to 21% and should result in a rate reduction effective by mid-March 2018. Prior RRM tariffs allowed ACSC cities only three (3) months to review Atmos' filings. The new revised Tariff expands that time period by two (2) months.

New applications by Atmos should be made on or about April 1 of each year, with new rates effective October 1. A rate order from the Railroad Commission in an Atmos Texas Pipeline rate case adopted the position of ACSC with regard to incentive compensation related to Atmos' Shared Services Unit that reduced allowable expenses, and that reduced level of expenses will be applicable under the new RRM Tariff.

Legal:

The City Attorney has reviewed and approved Ordinance.

Fiscal Impact:

None.

Recommendation:

Staff recommends approval.