



MEMORANDUM

To: Mayor and City Council

From: Vicki Chiavetta, Deputy City Manager

Date: September 14, 2021

Reference: Consider approval of a Resolution approving a negotiated settlement between the Atmos Cities Steering Committee (ACSC) and Atmos Energy, Mid-Tex Division regarding the company's 2021 Rate Review Mechanism Filing; and authorizing the Mayor to sign.

Introduction:

The City, along with 171 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 a substitute for future filings under the GRIP statute.

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, 2021, 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, 2020, entitled it to additional system-wide revenues of \$43.4 million.

Application of the standards set forth in ACSC's RRM Tariff required Atmos to reduce its request to \$40.5 million, \$29.3 million of which would be applicable to ACSC members. ACSC's consultants concluded that the system-wide deficiency under the RRM regime should be \$22.34 million instead of the claimed \$40.5 million. The amount of the \$22.34 million deficiency applicable to ACSC members would be \$16.8 million.

After the Company reviewed ACSC's consultants' report, ACSC's Executive Committee and the Company negotiated a settlement whereby the Company would receive an increase of \$22.78 million from ACSC Cities, but with a two-month delay in the Effective Date until December 1, 2021. This should save ratepayers approximately \$3.8 million.

The Executive Committee recommends a settlement at \$22.78 million. The Effective Date for new rates is December 1, 2021. ACSC members should take action approving the Resolution before October 1, 2021.

PROOF OF REVENUES

Atmos generated proof that the rate tariffs attached to the Resolution will generate \$22.78 million in additional revenues from ACSC Cities. That proof is attached as Attachment 1 to this memo. ACSC consultants have agreed that Atmos' Proof of Revenues is accurate.

BILL IMPACT

The impact of the settlement on average residential rates is an increase of \$1.28 on a monthly basis, or 2.2 percent. The increase for average commercial usage will be \$4.03 or 1.61 percent. A bill impact comparison is attached as Attachment 2.

SUMMARY OF ACSC'S OBJECTION TO THE UTILITIES CODE SECTION 104.301 GRIP PROCESS

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.

RRM SAVINGS OVER GRIP

While residents outside municipal limits must pay rates governed by GRIP, there are some cities served by Atmos Mid-Tex that chose to remain under GRIP rather than adopt RRM. Additionally, the City of Dallas adopted a variation of RRM which is referred to as DARR. When new rates become effective on December 1, 2021, ACSC residents will maintain a slight economic monthly advantage over GRIP and DARR rates. See Attachment 3.

EXPLANATION OF "BE IT ORDAINED" PARAGRAPHS:

1. This section approves all findings in the Resolution.
2. This section adopts the RRM rate tariffs and finds the adoption of the new rates to be just, reasonable, and in the public interest.
3. This section makes it clear that Cities may challenge future costs associated with gas leaks like the explosion in North Dallas or the evacuation in Georgetown.

4. This section finds that existing rates are unreasonable. Such finding is a necessary predicate to establishment of new rates. The new tariffs will permit Atmos Mid-Tex to recover an additional \$22.78 million from ACSC Cities.
5. This section approves an exhibit that establishes a benchmark for pensions and retiree medical benefits to be used in future rate cases or RRM filings.
6. This section approves an exhibit to be used in future rate cases or RRM filings regarding recovery of regulatory liabilities, such as excess deferred income taxes.
7. This section requires the Company to reimburse the City for expenses associated with review of the RRM filing, settlement discussions, and adoption of the Resolution approving new rate tariffs.
8. This section repeals any resolution or ordinance that is inconsistent with the Resolution.
9. This section finds that the meeting was conducted in compliance with the Texas Open Meetings Act, Texas Government Code, Chapter 551.
10. This section is a savings clause, which provides that if any section is later found to be unconstitutional or invalid, that finding shall not affect, impair, or invalidate the remaining provisions of this Resolution. This section further directs that the remaining provisions of the Resolution are to be interpreted as if the offending section or clause never existed.
11. This section provides for an effective date upon passage. December 1, 2021 represents a two-month delay in the Effective Date established by the RRM tariff.
12. This section directs that a copy of the signed Resolution be sent to a representative of the Company and legal counsel for ACSC.

CONCLUSION

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 \$43.4 million in additional system-wide revenues, the RRM settlement at \$22.78 million for ACSC Cities reflects substantial savings to ACSC Cities. Settlement at \$22.78 million (plus \$3.8 million of additional savings due to the two-month delay) is fair and reasonable. The ACSC Executive Committee consisting of city employees of 18 ACSC members urges all ACSC members to pass the Resolution before October 1, 2021. New rates become effective December 1, 2021.

LEGAL REVIEW

This was reviewed by the Attorney for ACSC and the City Attorney.

RECOMMENDATION

Staff recommends approval.

**Attachment 1 to
Staff Memo**

2021 RRM

Proof of Revenues

ATMOS ENERGY CORP., MID-TEX DIVISION
RRM CITIES RATE REVIEW MECHANISM
PROOF OF REVENUES - RRM CITIES
TEST YEAR ENDING DECEMBER 31, 2020

Line No.	Customer Class (a)	Current (b)	Proposed (c)	Bills (d)	Ccf/MmBtu (e)	Current Revenues (f)	Proposed Revenues (g)	Increase (h)
1	Residential							
2	Customer Charge	\$	20.25	\$		\$ 280,698,048	\$ 289,015,027	\$ 8,316,979
3	Consumption Charge	0.26651	0.27979	13,861,632		167,181,199	175,511,717	\$ 8,330,518
4	Revenue Related Taxes				627,298,034	30,398,805	31,528,717	
5	Total Class Revenue					\$ 478,278,052	\$ 496,055,461	\$ 17,777,409
6	Commercial							
7	Customer Charge	\$	54.50	\$		\$ 59,642,184	\$ 61,830,888	\$ 2,188,704
8	Consumption Charge	0.11728	0.12263	1,094,352		42,672,431	44,619,033	\$ 1,946,602
9	Revenue Related Taxes				363,850,875	6,944,376	7,225,051	
10	Total Class Revenue					\$ 109,258,991	\$ 113,674,972	\$ 4,415,981
11	Industrial & Transportation							
12	Customer Charge	\$	1,014.50	\$		\$ 7,158,312	\$ 7,442,316	\$ 284,004
13	Consumption Charge Tier 1	\$	0.4157	\$	7,056	3,109,328	3,238,728	\$ 129,400
14	Consumption Charge Tier 2	\$	0.3044	\$		2,521,298	2,626,490	\$ 105,192
15	Consumption Charge Tier 3	\$	0.0653	\$		850,136	885,287	\$ 35,151
16	Revenue Related Taxes		0.0680		13,018,926	925,722	963,306	
17	Total Class Revenue					\$ 14,564,796	\$ 15,156,127	\$ 591,331
18	Total Excluding Other Revenue					\$ 602,101,840	\$ 624,886,561	\$ 22,784,721
19	Revenue Related Tax Factor	6.7873%						\$ 21,336,550

**Attachment 2
to 2021 RRM Staff Report**

Bill Impact

Line No.	Rate R @ 45.2 Ccf					Current	Proposed	Change
1						\$	20.25	
2	Customer charge							
3	Consumption charge							
4	Rider GCR Part A							
5	Rider GCR Part B							
6	Subtotal					\$	54.59	
7	Rider FF & Rider TAX							
8	Total					\$	3.71	
9								
10	Customer charge							
11	Consumption charge							
12	Rider GCR Part A							
13	Rider GCR Part B							
14	Subtotal					\$	55.79	
15	Rider FF & Rider TAX							
16	Total					\$	3.79	
17								
18								
19								
20	Customer charge					\$	54.50	
21	Consumption charge							
22	Rider GCR Part A							
23	Rider GCR Part B							
24	Subtotal					\$	234.20	
25	Rider FF & Rider TAX							
26	Total					\$	15.90	
27								
28	Customer charge							
29	Consumption charge							
30	Rider GCR Part A							
31	Rider GCR Part B							
32	Subtotal					\$	237.98	
33	Rider FF & Rider TAX							
34	Total					\$	16.15	
35								

**Attachment 3
to 2021 RRM Staff Report**

RRM Monthly Savings Over GRIP and DARR Rates

**ATMOS ENERGY CORP., MID-TEX DIVISION
RESIDENTIAL AVERAGE BILL COMPARISON
(EXCLUDING GAS COSTS)**

	ACSC Settled	DARR Settled	ATM Filing	ENVIRONS Filing
Customer Charge	\$20.85	\$23.80	\$27.68	\$25.90
Monthly Ccf [1]	45.2	52.7	45.2	45.2
Consumption Charge	\$0.27979	\$0.19526	\$0.14846	\$0.18653
Average Monthly Bill	\$33.50	\$34.09	\$34.39	\$34.33
		-\$0.60	-\$0.89	-\$0.83

[1] Recognizes that average normal usage for Dallas residential customers is greater than Mid-Tex average.