



## Legislation Text

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File #: R2021-116, Version: 1

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### **Consider approving Resolution No. 2021-116 approving a negotiated settlement between the Atmos Cities Steering Committee and Atmos Energy Corp., Mid-Tex Division regarding the Company's 2021 Rate Review Mechanism filings; and take appropriate action**

#### **BACKGROUND:**

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 reduces the Company's 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 consultant's 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 ACSC Cities 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.

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 Staff Report. ACSC consultants have agreed that Atmos' Proof of Revenues is accurate.

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.

#### **DISCUSSION:**

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.

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 an economic monthly advantage over GRIP and DARR rates. See Attachment 3.

The Legislature's GRIP process allowed gas utilities to receive annual rate increases associated with capital investments. The RRM process has proven to be more efficient and less costly (both from a consumer rate impact perspective and from a ratemaking perspective) than the GRIP process. Given that 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 (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.

**DISTRICT:**

ALL

**RECOMMENDATION:**

Recommended motion by City Administration to adopt Resolution No. 2021-116 approving a negotiated settlement between the Atmos Cities Steering Committee and Atmos Energy Corp., Mid-Tex Division regarding the Company's 2021 Rate Review Mechanism filings.

**POSSIBLE COUNCIL ACTION:**

1. I move to approve Resolution No. 2021-116 approving a negotiated settlement between the Atmos Cities Steering Committee and Atmos Energy Corp., Mid-Tex Division regarding the Company's 2021 Rate Review Mechanism filings.
2. I move to table the issue for further study or take no action.

**ATTACHMENT(S):**

1. Attachments 1, 2, and 3 to Staff Report
2. Resolution No. 2021-116 with Exhibits A, B, and C
3. Atmos RRM FAQ's