



## Legislation Text

---

**File #:** 18-235, **Version:** 1

---

**To:** Mark R. Hafner, City Manager

**From:** Sarah Hensley, Administrative Services Manager

**Subject:**

**Consider a resolution approving a negotiated settlement between the Atmos Cities Steering Committee (“ACSC”) and Atmos Energy Corp., Mid-Tex Division regarding the company’s 2018 Rate Review Mechanism (RRM) filings; declaring existing rates to be unreasonable; adopting tariffs that reflect rate adjustment consistent with the negotiated settlement; finding the rates to be set by the settlement tariffs to be just and reasonable and in the public interest; requiring reconciliation and rate adjustment if federal income tax rates change; terminating the RRM process for 2018 pending renegotiation of RRM terms and conditions; 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; adopting a savings clause; declaring an effective date; and requiring delivery of this resolution to the company and the ACSC’s legal counsel.**

**Action Requested:**

City Council consideration of a resolution approving a negotiated settlement between the Atmos Cities Steering Committee (“ACSC”) and Atmos Energy Corp., Mid-Tex Division regarding the company’s 2018 rate review mechanism filings; declaring existing rates to be unreasonable; finding the rates to be set by the settlement tariffs to be just and reasonable and in the public interest; and declaring an effective date.

**Background:**

The City, along with 171 other Mid-Texas cities served by Atmos Energy Corp., 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), the statutory provision that allows Atmos to bypass the City’s rate regulatory authority to increase its rates annually to recover capital investments. 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. The RRM Tariff has been modified several times, most recently in 2013.

The most recent iteration of an RRM Tariff was reflected in an ordinance adopted by ACSC members earlier this year. On or about April 1, 2018, 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, 2017, entitled it to additional system-wide revenues of \$42.0 million. Application of the standards set forth in ACSC’s RRM Tariff required Atmos to reduce its request to \$27.4 million. After review of the consultants’ report, the Company offered to settle for a system-wide

increase of \$25.9 million. Following further negotiations, ACSC's Executive Committee agreed to recommend a system-wide rate increase of \$24.9 million. That increase when allocated to ACSC members results in an increase of \$17.8 million. The Effective Date for new rates is October 1, 2018.

**Financial Impact:**

Atmos reduced its rates in March after ACSC demanded that Atmos reflect reduced federal income taxes in its cost-of-service, as reflected in the RRM Tariff adopted earlier this year. The rate increase associated with the proposed resolution is largely offset by the lowered federal income tax rates, such that out-of-pocket expense to consumers should be roughly the same under new rates as what was experienced by consumers last winter.

**Citizen Input/Board Review:**

Not Applicable

**Legal Review:**

Proposed Resolution has been reviewed and submitted by the Atmos Cities Steering Committee (ACSC) Executive Committee and its general counsel at Lloyd Gosselink, Rochelle & Townsend.

**Alternatives:**

City Council has the following alternatives:

- Approve as submitted
- Approve with changes
- Denial

**Council Action:**

The ACSC Executive Committee and its designated legal counsel and consultants recommend that all member cities approve the resolution with its attachments approving the negotiated rate settlement resolving the 2018 RRM filing, and implementing the rate change.