



FINANCE

To: Mayor and Town Council

From: Betty Pamplin, Finance Director

Through: Robert B. Scott, Executive Director of Administrative Services

Re: Town Council Meeting – August 9, 2022

Agenda Item:

Consider and act upon a resolution approving a negotiated settlement between the Atmos Cities Steering Committee ("ACSC") and Atmos Energy Corp., Mid-Tex Division regarding the company's 2022 rate review mechanism filing.

Description of Agenda Item:

The Town of Prosper, 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 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, 2022, 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, 2021, entitled it to additional system-wide revenues of \$141.3 million. Application of the standards set forth in ACSC's RRM Tariff reduces the Company's request to \$115 million, \$83.26 million of which would be applicable to ACSC members. ACSC's consultants concluded that the system-wide deficiency under the RRM regime should be \$95.8 million instead of the claimed \$141.3 million.

The Executive Committee recommends a settlement at \$115 million. The Effective Date for new rates is October 1, 2022. ACSC members should take action approving the Resolution before September 30, 2022.

Atmos generated proof that the rate tariffs attached to the resolution will generate \$115 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 \$4.60 on a monthly basis, or 6.7 percent. The increase for average commercial usage will be \$14.34 or 4.34 percent. Atmos provided bill impact comparisons containing these figures.

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 October 1, 2022, ACSC residents will maintain a slight economic monthly advantage over GRIP and DARR rates.

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 \$141.3 million in additional system-wide revenues, the RRM settlement at \$115 million for ACSC Cities reflects substantial savings to ACSC Cities. Settlement at \$115 million 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 September 30, 2022. New rates become effective October 1, 2022.

Legal Obligations and Review:

Thomas Brocato, ACSC's general counsel prepared the attached resolution. Terrence Welch of Brown & Hofmeister, L.L.P., has reviewed the resolution as to form and legality.

Attached Documents:

1. Resolution
2. Resolution Attachment 1 Rate Tariffs
3. Resolution Attachment 2 Pension and Retiree Medical Benefits Benchmarks

Town Staff Recommendation:

Town staff recommends approval of the resolution approving a negotiated settlement between the Atmos Cities Steering Committee ("ACSC") and Atmos Energy Corp., Mid-Tex Division regarding the company's 2022 rate review mechanism filing.

Proposed Motion:

I move to approve the resolution approving a negotiated settlement between the Atmos Cities Steering Committee ("ACSC") and Atmos Energy Corp., Mid-Tex Division regarding the company's 2022 rate review mechanism filing.