

August 6, 2024

MODEL STAFF REPORT FOR RESOLUTION OR ORDINANCE

BACKGROUND AND SUMMARY

The City, along with 70 other West Texas cities served by Atmos Energy Corporation, West Texas Division (“Atmos West Texas” or “Company”), is a member of Cities Served by Atmos West Texas (“Cities”). In 2007, the Cities and Atmos West Texas 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 Cities in 2018. On or about April 1, 2024, the Company filed a rate request pursuant to the RRM Tariff adopted by Cities. The Company claimed that its cost of service in a test year ending December 31, 2023, entitled it to a \$6.7 million increase to the WTX Cities. This was reduced to \$5.8 million due to limitations in the RRM tariff.

After a review of Cities’ consultants’ report and negotiations with Cities’ representatives, Atmos agreed to a rate increase of \$4.3 million plus revenue related taxes within the Cities, with an Effective Date of October 1, 2024.

RATE TARIFFS

Atmos generated rate tariffs associated with the Resolution/Ordinance. These tariffs are Attachment 1 to this Staff Report. Atmos also provided a proof of revenues associated with the new rates. The Cities’ consultants have confirmed the accuracy of the proof.

BILL IMPACT

The impact of this increase in revenues to an average residential customer's bill is an increase of approximately \$1.27 per month. Atmos provided a bill impact estimate for each customer class reflecting the new rates. Comparison of the new rates to rates in effect for areas not under the RRM process reveals that settling Cities will maintain an economic monthly advantage over rates in effect in Lubbock, and environs.

CITIES' OBJECTION TO THE SECTION 104.301 GRIP PROCESS

Cities strongly opposed the GRIP process because it constitutes piecemeal ratemaking by ignoring declining expenses and increasing revenues and rewarding the Company for increasing capital investment. 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 Cities to recover their 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 the Executive Committee'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.

EXPLANATION OF "BE IT RESOLVED" PARAGRAPHS

1. This section approves all findings in the Resolution.
2. This section adopts the attached RRM rate tariffs and finds the adoption of the new rates to be just, reasonable, and in the public interest.
3. 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 West Texas to recover an additional \$4.3 million over a 12-month period.

4. This section approves an exhibit that establishes a benchmark for pensions and retiree medical benefits to be used in future rate settings.
5. This section requires the Company to reimburse the City for expenses associated with adoption of the Resolution.
6. This section repeals any resolution or ordinance that is inconsistent with this Resolution.
7. This section finds that the meeting was conducted in compliance with the Texas Open Meetings Act, Texas Government Code, Chapter 551.
8. 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.
9. This section provides for an effective date upon passage.
10. This section directs that a copy of the signed Resolution be sent to a representative of the Company and legal counsel for the Executive Committee.