



COUNCIL AGENDA ITEM MEMORANDUM

DEPT./DIVISION SUBMISSION & REVIEW:

Kathryn Davis, City Attorney
Christina Demirs, Assistant City Attorney

ITEM DESCRIPTION: Consider adopting a resolution approving a negotiated settlement between the Atmos Cities Steering Committee (“ACSC”) and Atmos Energy Corp., Mid-Tex Division Regarding the Company’s 2024 rate review mechanism filing, declaring existing rates to be unreasonable, adopting tariffs that reflect rate adjustments 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, approving establishing a benchmark for pensions and retiree medical benefits, and requiring the company to reimburse ACSC’s reasonable ratemaking expenses.

BACKGROUND and SUMMARY: The City of Temple, 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, 2024, 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, 2023, entitled it to additional system-wide revenues of \$196.8 million.

Application of the standards set forth in ACSC’s RRM Tariff reduces the Company’s request to \$182.5 million, \$132.6 million of which would be applicable to ACSC members. After reviewing the filing and conducting discovery, ACSC’s consultants concluded that the system-wide deficiency under the RRM regime should be \$149.6 million instead of the claimed \$182.5 million.

After several settlement meetings, the parties have agreed to settle the case for \$164.7 million. This is a reduction of \$32.1 million to the Company’s initial request. This includes payment of ACSC’s expenses. The Effective Date for new rates is October 1, 2024.

RATE TARIFFS

Atmos generated rate tariffs that will generate \$164.7 million in additional revenues as presented in Attachment 1: CY23 MTX RRM - Tariffs. Atmos also prepared a Proof of Revenues supporting the settlement figures. ACSC consultants have agreed that Atmos’ Proof of Revenues is accurate. The Settlement Agreement also set the ratemaking treatment for pensions and retire medical benefits in Atmos’s next RRM filing as set forth in Attachment 2: CY23 MTX RRM – Pension Benchmarks.

BILL IMPACT

The impact of the settlement on average residential rates is an increase of \$5.52 on a monthly basis, or 6.84%. The increase for average commercial usage will be \$13.39 or 3.44%. Atmos provided bill impact comparisons containing these figures. Attachment 3: CY23 MTX RRM- Average Bill.

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 October 1, 2024, ACSC residents will maintain an economic monthly advantage over GRIP and DARR rates.

Comparison to Other Mid-Tex Rates (Residential)

	Average Bill		Compared to RRM Cities	
RRM Cities:	\$	48.19	\$	-
DARR:	\$	54.30	\$	6.11
ATM Cities:	\$	49.59	\$	1.40
Environs:	\$	49.53	\$	1.34

Note: ATM Cities and Environs rates are as filed. Also note that DARR uses a test year ending in September rather than December.

EXPLANATION OF “BE IT RESOLVED” PARAGRAPHS:

1. This section approves all findings in the Resolution/Ordinance.

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.
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 \$164.7 million on a system-wide basis.
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 requires the Company to reimburse the City for expenses associated with review of the RRM filing, settlement discussions, and adoption of the Resolution/Ordinance approving new rate tariffs.
7. This section repeals any resolution or ordinance that is inconsistent with the Resolution/Ordinance.
8. This section finds that the meeting was conducted in compliance with the Texas Open Meetings Act, Texas Government Code, Chapter 551.
9. 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/Ordinance. This section further directs that the remaining provisions of the Resolution/Ordinance are to be interpreted as if the offending section or clause never existed.
10. This section provides for an effective date upon passage.
11. This section directs that a copy of the signed Resolution/Ordinance 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 \$196.8 million in additional system-wide revenues, the RRM settlement at \$164.7 million for ACSC members reflects substantial savings to ACSC cities. Settlement at \$164.7 million is fair and reasonable. The ACSC Executive Committee consisting of city employees of 18 ACSC members has asked all ACSC members, which includes the City of Temple, to pass a Resolution approving the negotiated settlement. As a member City, Staff asks Council to approve the negotiated settlement agreement and a copy of the resolution approving the agreement be sent to a representative of the Company and legal counsel for ACSC.

ALIGNMENT WITH ADOPTED PLANS:

Plan	Comments
Strategic Plan	This item supports the Strategic Plan goal of "An efficient, transparent, and accountable government," and the Strategic Plan commitment to "Employ fiscally responsible practices and policies that ensure City investments are based on sound review and analysis."
Comprehensive Plan	This item supports the Comprehensive Plan goal of Growth and Development by giving thoughtful consideration to the economic impact of utility rate increases to Temple's citizens.

STAFF RECOMMENDATION: Adopt the resolution as presented.

BOARDS & COMMISSIONS RECOMMENDATION: This item was not reviewed by any of the official boards and commissions.

FISCAL IMPACT: The impact of the settlement on average residential rates is an increase of \$5.52 monthly, or 6.84%. The increase for average commercial usage will be \$13.39 or 3.44%. Atmos provided bill impact comparisons containing these figures.

ATTACHMENTS:

Resolution

Attachment 1 CY23 MTX RRM – Tariffs

Attachment 2 CY23 MTX RRM – Pension Benchmarks

Attachment 3 CY23 MTX RRM – Average Bill.