

Date: August 28, 2023
To: Plano City Council
From: Andrew Fortune, Director of Policy and Government Relations
Subject: Ordinance to Approve Atmos Energy Corporation, Mid-Tex Division RRM Tariff

Summary Around March 31, 2023, the Atmos Energy Corporation, Mid-Tex Division (“Atmos Mid-Tex” or “Company”) filed a rate request pursuant to the Rate Review Mechanism (“RRM”) Tariff adopted by Atmos Cities Steering Committee (“ACSC”) members. Atmos Mid-Tex claimed that its cost-of-service in a test year ending December 31, 2022, entitled it to additional system-wide revenues of \$165.9 million. In applying the standards set forth in the ACSC’s RRM Tariff, it reduces the Company’s request to \$142 million. The settlement also includes an additional \$19.5 million for the securitization regulatory asset expenses related to Winter Storm Uri. This was previously approved by the Texas Legislature and the Railroad Commission

The ACSC Executive Committee recommends a settlement at \$142 million. This is a reduction of \$23.9 million to Atmos Mid-Tex’s initial request. This settlement also includes payment of ACSC’s expenses. The Effective Date for new rates is October 1, 2023. ACSC members should take action approving the Ordinance before September 30, 2023.

Background The City of Plano, along with 181 other Mid-Texas cities served by Atmos Energy Corporation, Mid-Tex Division is a member of the Atmos Cities Steering Committee.

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, 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 that implemented new procedures and criteria for the RRM process was reflected in an ordinance adopted by ACSC members in 2018.

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.

Supporting Attachments for this Memo

In support of this RRM settlement Ordinance, the following two attachments provide further explanation of the current settlement between Atmos Mid-Tex and the Atmos Cities Steering Committee.

Attachment 1 - Proof of Revenues

Atmos submitted proof that the rate tariffs attached to the Ordinance will generate \$142 million in additional revenues from ACSC Cities. ACSC consultants have agreed that Atmos' Proof of Revenues is accurate.

Attachment 2 - Bill Impact

The impact of the settlement on average residential rates is an increase of \$6.47 on a monthly basis, or 7.31 percent. The increase for average commercial usage will be \$24.72 or 5.19 percent. An Average Bill Comparison of current rates with the proposed rates is provided in this attachment.

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, 2023, residents in ACSC member cities will maintain a slight economic monthly advantage over GRIP and DARR rates.

Comparison to Other Mid-Tex Rates (Residential)

	<u>Average Bill</u>	<u>Compared to RRM Cities</u>
RRM Cities:	\$42.62	-
DARR:	\$42.55	(\$0.07)
ATM Cities:	\$44.39	\$1.77
Environs:	\$44.27	\$1.65

Note: ATM (Atmos-Mid Tex) and Environs rates are as-filed. Also note that DARR uses a test year ending in September rather than December.

Explanation of Sections in the Ordinance

Section I. This section approves all findings in the Ordinance.

Section II. This section adopts the RRM rate tariffs and finds the adoption of the new rates to be just, reasonable, and in the public interest.

Section III. This section makes it clear that Cities may challenge future costs associated with gas leaks.

Section IV. 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 \$142 million from ACSC cities.

Section V. 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.

Section VI. This section requires the Company to reimburse the City for expenses associated with review of the RRM filing, settlement discussions, and adoption of the Ordinance approving new rate tariffs.

Section VII. This section repeals any resolution or ordinance that is inconsistent with the Ordinance.

Section VIII. This section finds that the meeting was conducted in compliance with the Texas Open Meetings Act, Texas Government Code, Chapter 551.

Section IX. 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 Ordinance. This section further directs that the remaining provisions of the Ordinance are to be interpreted as if the offending section or clause never existed.

Section X. This section provides for an effective date upon passage.

Section XI. This section directs that a copy of the signed 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 be 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 \$165.9 million in additional system-wide revenues, the RRM settlement at \$142 million for ACSC Cities reflects substantial savings to ACSC Cities. The settlement at \$142 million is fair and reasonable.

The ACSC Executive Committee consisting of city employees of 18 ACSC members urges all ACSC members to pass the Ordinance before September 30, 2023. New rates become effective October 1, 2023.