



CITY COUNCIL COMMUNICATION

May 26, 2015

SUBJECT: Approving a Negotiated Settlement Between the Atmos Cities Steering Committee and Atmos Energy Corporation, Mid-Tex Division.

SUBMITTED BY: Chris D. Barker, Assistant City Manager

REFERENCE NO: Ordinance No. 2066

ACTION REQUESTED:

Consider approval of Ordinance No. 2066, approving a negotiated settlement between the Atmos Cities Steering Committee and Atmos Energy Corporation, Mid-Tex Division regarding the company's 2014 and 2015 Rate Review Mechanism (RRM) filings.

ALTERNATIVES:

- Table the request
- Deny the request

SUMMARY OF SUBJECT:

The City, along with other similarly situated cities served by Atmos Energy Corporation, Mid-Tex Division (Atmos Mid-Tex or Company), is a member of the Atmos Cities Steering Committee (ACSC or Steering Committee). The RRM Tariff was adopted by the City as an alternative to the Gas Reliability Infrastructure Program ("GRIP"), the statutory provision that allows Atmos to bypass the City's rate regulatory authority to increase its rates annually to recover capital investments. In February 2014, Atmos Mid-Tex filed its second annual filing under the Rate Review Mechanism ("RRM") Tariff, seeking an increase of \$45.7 million. Although ACSC attempted to reach a settlement with the Company as it had in past years, the wide differences between the Company and ACSC's consultants' recommendations made a compromise impossible. On the recommendation of the ACSC Executive Committee and ACSC's legal counsel, the City in 2014 adopted a Resolution denying the requested rate increase.

The Company appealed the City's denial to the Railroad Commission of Texas ("Commission"), and revised its requested increase to \$43.8 million. A hearing was held on the Company's appeal on September 3, 2014. On April 28, 2015, the Commission's Hearings Examiner issued his Proposal for Decision ("PFD") in the Company's appeal of the City's denial of the 2014 RRM rate increase. This PFD was not favorable to ACSC, but did recommend a reduction of approximately \$860,000 to the Company's adjusted 2014 filing.

While the parties were waiting for the PFD from the Hearings Examiner in the appeal of the 2014 RRM filing, on February 27, 2015, Atmos Mid-Tex filed with the City another rate increase request under the RRM Tariff, seeking additional revenues in the amount of \$28.762 million (total system) or \$24.0 million (affected cities). The City worked with ACSC to analyze the schedules and evidence offered by Atmos Mid-Tex to support its 2015 request to increase rates. The Ordinance and attached Settlement Agreement and tariffs are the result of negotiation between the Mid-Tex Executive Committee and the Company to resolve issues raised by ACSC during the review and evaluation of Atmos Mid-Tex's filing. The recommended Settlement Agreement also requires Atmos to abate its appeal of the City's rejection of the 2014 RRM rate increase pending approval by all ACSC cities of the Settlement Agreement. The Agreement requires Atmos to give the City the benefit of the adjustments to the 2014 rate increase recommended by the PFD.

The Ordinance and Settlement tariffs approve rates that will increase the Company's revenues by \$65.7 million for the Mid-Tex Rate Division, effective for bills rendered on or after June 1, 2015. The monthly residential customer charge will be \$18.60. The consumption charge will change from \$0.08819 per Ccf to \$0.09931 per Ccf. The monthly bill impact for the typical residential customer consuming 60 Ccf will be an increase of \$1.14 (about a 1.59% increase in the base bill). The typical commercial customer will see an increase of \$2.69 or 0.96%. Because the 2014 rates have been in effect since June 1, 2014, the increase to currently-billed rates is \$21 million. Approval of the Ordinance will result in rates that implement an increase in Atmos Mid-Tex's revenues effective June 1, 2015.

The alternative to approval of the Settlement Agreement would be another contested case hearing on appeal of the 2015 filing, implementation of interim rates on June 1, 2015 at the full value of the Company's request (or \$6 million higher than proposed by the Settlement) and continuation of the 2014 appeal with resulting rate case expenses borne by ratepayers.

City staff, the ACSC Executive Committee and its designated legal counsel and consultants recommend that all Cities adopt the Ordinance approving the negotiated Settlement Agreement resolving both the 2014 and the 2015 RRM filings, and implementing the rate change.

SUPPORTING DOCUMENTS:

- Ordinance No. 2066

APPROVED BY:

_____ **LG** _____

City Manager's Office

_____ **KS** _____

City Secretary's Office