



18-791

TITLE: Consider/Discuss/Act on a Resolution of the City Council of the City of McKinney, Texas, Approving a Negotiated Settlement between the Atmos Cities Steering Committee (“ACSC”) and Atmos Energy Corp., Mid-Tex Division Regarding the Company’s 2018 Rate Review Mechanism Filings; 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 Attached Settlement Tariffs to be Just and Reasonable and in the Public Interest; Approving an Attached Exhibit Establishing a Benchmark for Pensions and Retiree Medical Benefits; Approving an Attached Exhibit Regarding Amortization of Regulatory Liability; Requiring the Company to Reimburse ACSC’S Reasonable Ratemaking Expenses; Determining that this Resolution was Passed in Accordance with the Requirements of the Texas Open Meeting Act; Adopting a Savings Clause; Declaring an Effective Date; and Requiring Delivery of this Resolution to the Company and the ACSC’S Legal Counsel.

COUNCIL GOAL: Financially Sound Government

MEETING DATE: September 18th, 2018

DEPARTMENT: City Manager’s Office

CONTACT: Trevor Minyard, Assistant to the City Manager

RECOMMENDED CITY COUNCIL ACTION:

- Staff recommends approval of the resolution.

ITEM SUMMARY:

- The Legislature’s GRIP (Gas Reliability Infrastructure Program) process allows gas utilities to receive annual rate increases associated with capital investments.
- The RRM (Rate Review Mechanism) process, which is summarized in the “background information” section of the staff report, 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 \$42 million in additional system-wide revenues, the RRM settlement at \$24.9 million reflects savings of \$17.1 million. ACSC's (Atmos Cities Steering Committee) consultants produced a report indicating that Atmos had justified increased revenues of at least \$21.7 million. Settlement at \$24.9 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, 2018. New rates become effective October 1, 2018.

BACKGROUND INFORMATION:

- McKinney, along with 171 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 earlier this year. On or about April 1, 2018, 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, 2017, entitled it to additional system-wide revenues of \$42.0 million. Application of the standards set forth in ACSC's RRM Tariff required Atmos to reduce its request to \$27.4 million. After review of the consultants' report, the Company offered to settle for a system-wide increase of \$25.9 million. Following further negotiations, ACSC's Executive Committee agreed to recommend a system-wide rate increase of \$24.9 million. That increase when allocated to ACSC members results in an increase of \$17.8 million. The Effective Date for new rates is October 1, 2018.

FINANCIAL SUMMARY:

- Given the fact that the ACSC demanded that Atmos reflect reduced federal income taxes in its cost-of-service, as reflected in the RRM Tariff adopted earlier this year, Atmos reduced its rates in March. The rate increase associated with the Resolution is largely offset by the lowered federal income tax rates, such that out-of-pocket expense to consumers should be roughly the same under new rates as what was experienced by consumers last winter. A bill impact comparison is attached as an attachment.

BOARD OR COMMISSION RECOMMENDATION: N/A

SUPPORTING MATERIALS:

[Resolution](#)

[Exhibit A](#)

[Exhibit B](#)

[Exhibit C](#)