



19-0733

TITLE: Consider/Discuss/Act on an Ordinance 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 2019 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 Ordinance was Passed in Accordance with the Requirements of the Texas Open Meetings 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 3rd, 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 \$38.7 million in additional system-wide revenues, the RRM settlement at \$35.4 million reflects savings of \$3.3 million. Settlement at \$35.4 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, 2019. New rates become effective October 1, 2019.

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.
- On or about April 1, 2019, 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, 2018, entitled it to additional system-wide revenues of \$70 million. Application of the standards set forth in ACSC's RRM Tariff required Atmos to reduce its request to \$54 million, \$39.3 million of which would be applicable to ACSC members. ACSC's consultants concluded that the system-wide deficiency under the RRM regime should be \$38.7 million instead of the claimed \$54 million. The amount of the \$38.7 million deficiency applicable to ACSC members would be \$28.2 million. After the Company reviewed ACSC's consultants' report, ACSC's Executive Committee and the Company negotiated a settlement whereby the Company would receive an increase of \$35.4 million from ACSC Cities. The Executive Committee recommends a settlement at this amount. The Effective Date for new rates is October 1, 2019. ACSC members should take action approving the Ordinance before the end of September.

FINANCIAL SUMMARY:

- Atmos generated proof that the rate tariffs attached to the Ordinance will generate \$35.4 million in additional revenues from ACSC Cities. That proof is attached as Attachment 1 to this Staff Report. ACSC consultants have agreed that Atmos' Proof of Revenues is accurate.
- The impact of the settlement on average residential rates is an increase of \$2.05 on a monthly basis, or 3.7 percent. The increase for average commercial usage will be \$6.18 or 2.31 percent. A bill impact comparison is attached as Attachment 2.

BOARD OR COMMISSION RECOMMENDATION: N/A

SUPPORTING MATERIALS:

[Ordinance](#)

[Report Attachments](#)