



22-0761

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 2022 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 Attached Settlement Tariffs to be Just and Reasonable and in the Public Interest; Approving an Attachment Establishing a Benchmark for Pensions and Retiree Medical Benefits; 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 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: August 16, 2022

DEPARTMENT: City Manager’s Office

CONTACT: Trevor Minyard, Director of Strategic Services

RECOMMENDED CITY COUNCIL ACTION:

- Approval of resolution.

ITEM SUMMARY:

- The Executive Committee recommends a settlement at \$115 million. The Effective Date for new rates is October 1, 2022. Action today would satisfy the requirement that Atmos Cities Steering Committee (“ACSC”) members act approving the Resolution before September 30, 2022.
- Application of the standards set forth in ACSC’s RRM Tariff reduces the Company’s request to \$115 million, \$83.26 million of which would be applicable to ACSC members. ACSC’s consultants concluded that the system-wide deficiency under the RRM regime should be \$95.8 million instead of the claimed

\$141.3 million.

- 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 \$141.3 million in additional system-wide revenues, the RRM settlement at \$115 million for ACSC Cities reflects substantial savings to ACSC Cities.
- Settlement at \$115 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/Ordinance before September 30, 2022.
- New rates become effective October 1, 2022.

BACKGROUND INFORMATION:

- The City, 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, 2022, 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, 2021, entitled it to additional system-wide revenues of \$141.3 million.

FINANCIAL SUMMARY:

- Atmos generated rate tariffs attached to the Resolution/Ordinance will generate \$115 million in additional revenues. Atmos also prepared a Proof of Revenues supporting the settlement figures. ACSC consultants have agreed that Atmos' Proof of Revenues is accurate.
- The impact of the settlement on average residential rates is an increase of \$4.60 monthly, or 6.7 percent. The increase for average commercial usage will be \$14.34 or 4.3 percent. Atmos provided bill impact comparisons containing these figures.

BOARD OR COMMISSION RECOMMENDATION:

- N/A

SUPPORTING MATERIALS:

[Resolution](#)

[CY21 Tariffs](#)

[CY21 Pension Benchmark](#)

[CY21 Average Bill](#)