



20-0850

**TITLE:** Consider/Discuss/Act on an Ordinance 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 2020 Rate Review Mechanism Riling; Declaring Existing Rates to be Unreasonable; Adopting Tariffs that Reflect Rate Adjustments Consistent With the Negotiated Settlement; Finding 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 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:** October 6, 2020

**DEPARTMENT:** City Manager’s Office

**CONTACT:** Trevor Minyard, Strategic Services 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 \$141.2 million in additional system-wide revenues, the RRM settlement at \$90 million for ACSC Cities reflects substantial savings to ACSC Cities. ACSC's consultants produced a report indicating that Atmos had justified increased revenues for ACSC Cities of at least \$81 million. Settlement at \$90 million (equivalent to \$81 million with a two-month delay) is fair and reasonable. New rates become effective December 1, 2020.

#### **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 March 31, 2020, 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, 2019, entitled it to additional system-wide revenues of \$141.2 million. Application of the standards set forth in ACSC's RRM Tariff required Atmos to reduce its request to \$136.3 million, \$98.7 million of which would be applicable to ACSC members. ACSC's consultants concluded that the system-wide deficiency under the RRM regime should be \$111.5 million instead of the claimed \$136.3 million. The amount of the \$111.5 million deficiency applicable to ACSC members would be \$80.8 million.

#### **FINANCIAL SUMMARY:**

- Atmos generated proof that the rate tariffs attached to the Resolution will generate \$90 million in additional revenues from ACSC Cities. ACSC consultants have agreed that Atmos' Proof of Revenues is accurate.
- The impact of the settlement on average residential rates is an increase of \$5.15 on a monthly basis, or 9.9 percent. The increase for average commercial usage will be \$15.48 or 6.56 percent.
- Further information is available in the body of Exhibits A-C in the Ordinance, and the ACSC Staff Report Attachments.

#### **BOARD OR COMMISSION RECOMMENDATION:**

- N/A

#### **SUPPORTING MATERIALS:**

[Ordinance](#)

[ACSC Staff Report](#)

[ACSC Staff Report Attachments](#)