



## STAFF REPORT

**DATE:** March 20, 2018

**TO:** Ronald L. Olson, City Manager

**VIA:** Kathy Davis, City Attorney

**FROM:** Traci Briggs, Deputy City Attorney

**SUBJECT:** Consider an ordinance approving a tariff to authorize an annual rate review mechanism (RRM) with Atmos Energy Corporation.

### **BACKGROUND AND FINDINGS:**

The city, along with 171 other cities served by Atmos Energy Corporation, Mid-Tex Division ("Atmos"), is a member of the Steering Committee of Cities Served by Atmos. In 2007, the cities and Atmos settled a rate case filed by Atmos pursuant to the statutory Gas Reliability Infrastructure Program ("GRIP") rate adjustment process. The settlement created a substitute rate review process referred to as Rate Review Mechanism ("RRM"). Cities oppose the GRIP process because it does not allow for review of the reasonableness of capital investments by Atmos, does not allow cities to participate in the Railroad Commission's review of annual GRIP filings and cities cannot recover any rate case expenses. The RRM has allowed for a more comprehensive rate review and annual evaluation of expenses and revenues, as well as capital investment.

The original RRM from 2007 has been modified over the years, and the ordinance passed by cities in 2017 to resolve the most recent RRM provided for termination of the RRM, forcing renegotiation of RRM terms. Negotiation resulted in the tariff attached to the ordinance. Among other things, it reduces the allowed rate of return on equity from 10.50% to 9.8%; reduces federal income taxes from 35% to 21%, which should result in a rate reduction effective mid-March 2018; and extends the amount of time cities have for review and action on an RRM filing by two months.

The Executive Committee of the Steering Committee of Cities Served by Atmos recommends approval of the RRM tariff.

### **THE ALTERNATIVES CONSIDERED:**

The city's options are to approve and continue with the RRM process or to follow the statutory GRIP review process.

### **Which alternative is recommended? Why?**

It is recommended that the City Council approve the ordinance to accept the RRM tariff. In addition to the benefits of the RRM process listed above, negotiations about system-wide rates occur through the Steering Committee, and the city receives recommendations for action on

Atmos filings. Not participating with the RRM process would require the city to review and analyze a GRIP filing alone, without the specialized knowledge of the attorneys, accountants and other consultants that perform a thorough review. This is a highly specialized and regulated area, and the assistance of experts is critical.

**CONFORMITY TO CITY POLICY:**

The ordinance conforms to all state laws and city policies.

**FINANCIAL IMPACT:**

**What is the amount of the expenditure in the current fiscal year? For future years?**

There is no fiscal impact in approving the RRM tariff.

**Is this a one-time or recurring expenditure?**

N/A

**Is this expenditure budgeted?**

N/A

**If not, where will the money come from?**

N/A

**Is there a sufficient amount in the budgeted line-item for this expenditure?**

N/A

**RECOMMENDATION:**

Staff and the Executive Committee of the Steering Committee of Cities Served by Atmos recommend approval of the ordinance accepting of the revised RRM tariff.

**DEPARTMENTAL CLEARANCES:**

City Attorney

**ATTACHED SUPPORTING DOCUMENTS:**

Exhibit A

Tariff

Ordinance