



ORDINANCE TO APPROVE RATE REVIEW MECHANISM WITH ATMOS

OR-18-004

March 20, 2018

Background

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- Texas cities have original jurisdiction over rates charged by natural gas companies within their city limits.
- Gas companies are allowed to recover costs for expanding, maintaining and replacing infrastructure, and state law establishes the Gas Reliability Infrastructure Program (“GRIP”) as the mechanism for doing so.
- Since 2007, cities served by Atmos have operated under a negotiated rate process called a Rate Review Mechanism rather than GRIP.
- The city is one of 172 members of the Steering Committee of Cities Served by Atmos.

Opposition to Gas Reliability Infrastructure Program

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- ❑ Allows no review of reasonableness of capital investments.
- ❑ Cities cannot participate in the Railroad Commission's review.
- ❑ Cities cannot recover any rate case expenses.

Rate Review Mechanism

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- The 2017 Rate Review Mechanism settlement included termination of the Rate Review Mechanism, forcing renegotiation.

- Proposed Rate Review Mechanism includes:
 - ▣ Reducing allowed rate of return on equity
 - ▣ Reducing Atmos' federal income tax, which should result in a rate reduction
 - ▣ Extending the amount of time cities have to review and act upon Rate Review Mechanism filings

Alternatives

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- Approve and continue with the Rate Review Mechanism process
 - ▣ Provides increased review for cities into the rate adjustment requests.
 - ▣ Continued participation with the Steering Committee.
 - ▣ The Rate Review Mechanism process has worked well for 10 years.
- Follow the Gas Reliability Infrastructure Program
 - ▣ Requires city staff to review and analyze a GRIP filing alone, without the assistance of the Steering Committee and the attorneys, accountants and consultants it hires to conduct an extensive review.

Conclusion

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- Staff and the Executive Committee of the Steering Committee of Cities Served by Atmos recommend approval of the ordinance accepting the revised Rate Review Mechanism.