

Rate Review Mechanism Background

The City, along with 171 other cities served by the Atmos Mid-Tex Division, is a member of the Steering Committee of Cities Served by Atmos, otherwise known as “*Atmos Cities Steering Committee (ACSC)*.” In 2007, ACSC and Atmos 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.

ACSC strongly opposes the GRIP process because it constitutes piecemeal ratemaking by ignoring declining expenses and increasing revenues and rewarding the Company for increasing capital investment. The GRIP process does not allow any review by cities of the reasonableness of capital investment and does not allow cities to participate in the Railroad Commission’s review of the annual GRIP filings or recover their rate case expenses. The Railroad Commission undertakes only a mere administrative review of GRIP filings (instead of a full hearing) and rate increases go into effect without any material adjustments. In ACSC’s view, the GRIP process unfairly raises customers’ rates without any regulatory oversight. In contrast, the RRM process has allowed for a more comprehensive rate review and annual evaluation of expenses and revenues, as well as capital investment.

In 2017, the RRM Tariff was revised, and Atmos Energy’s rate of return on equity was reduced from 10.5 percent to a rate of return of 9.8 percent. The prior RRM Tariffs allowed ACSC consultants and attorneys only three months to review the Company’s filing. The revised RRM Tariff expanded that period to five months, with new applications made on or about April 1 and effective dates of October 1 each year. The revised RRM Tariff also captured a reduction in the Company’s federal income tax rate from 35 percent to 21 percent that resulted in a decrease of \$1.68 per month (3.1%) for the typical residential customer and a decrease of \$5.06 per month (1.9%) for the typical commercial customer. The revised RRM Tariff became effective on April 1, 2018.