

City of Mesquite, Texas

Legislation Text

File #: 18-3311, **Version:** 1

An ordinance, on first reading, approving a tariff authorizing an annual Rate Review Mechanism (“RRM”) as a substitution for the annual interim rate adjustment process defined by Section 104.301 of the Texas Utilities Code, and as negotiated between Atmos Energy Corporation, Mid-Tex Division (“Atmos Mid-Tex” or “Company”) and the Steering Committee of Cities Served by Atmos; requiring the Company to reimburse cities’ reasonable ratemaking expenses; adopting a savings clause; determining that this ordinance was passed in accordance with the requirements of the Open Meetings Act; declaring an effective date; and requiring delivery of this ordinance to the Company and legal counsel for the Steering Committee.

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.

Since 2007, there have been several modifications to the original RRM Tariff. The ordinance that resolved the Company’s application under the RRM Tariff in 2017 also terminated the existing RRM Tariff and required a renegotiation of the terms of that tariff. Negotiations have taken place over the past several months, and have resulted in a revised RRM Tariff that has been agreed to by the Company.

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.

The prior RRM Tariff on which the 2017 rates were based allowed for a Company rate of return on equity of 10.5 percent. This revised RRM Tariff reduces that rate of return to 9.8 percent. The revised RRM Tariff also captures this year’s reduction in the Company’s federal income tax rate from 35 percent to 21 percent, and should result in a rate reduction for consumers. In addition, the prior RRM Tariffs allowed ACSC consultants and attorneys only three months to review the Company’s filing. This revised RRM Tariff expands that period to five months, with new applications made on or about April 1 of each year and new rates effective October 1. This revised RRM Tariff would become effective on April 1, 2018.

If cities do not approve this revised RRM Tariff, Atmos would reinstitute its annual filings under the GRIP provisions and future rate increases would be much higher. The ACSC Executive Committee recommends that ACSC member cities take action to authorize the revised RRM Tariff.

Recommended/Desired Action

Staff recommends approval of the attached ordinance, on first reading. A second and final reading would be scheduled for the March 19, 2018, City Council meeting.

Attachment(s)

Ordinance with Attached Rate Schedule

Drafter

Ted Chinn

Head of Department

Ted Chinn