

Mayor and Council Communication

DATE: 09/21/21

M&C FILE NUMBER: M&C 21-0716

LOG NAME: 21ADOPTION OF ATMOS 2021 RRM

SUBJECT

(ALL) Adopt Ordinance Approving Negotiated Settlement and Establishing Maximum Permitted Rates and Charges that Atmos Energy Corporation d/b/a Atmos Energy Corporation, Mid-Tex Division, may Assess Customers in the City of Fort Worth Effective December 1, 2021

RECOMMENDATION:

It is recommended that the City Council adopt the attached Ordinance establishing maximum permitted rates and charges that Atmos Energy Corporation, d/b/a Atmos Energy Corporation, Mid-Tex Division, may assess customers in the City of Fort Worth, effective December 1, 2021, pursuant to a negotiated settlement of Atmos' proposed rate increase under its 2021 Rate Review Mechanism filing.

DISCUSSION:

The purpose of this Mayor and Council Communication (M&C) is to approve a negotiated settlement with Atmos Energy Corporation, d/b/a Atmos Energy Corporation, Mid-Tex Division (Atmos or Company), regarding Atmos' 2021 filing under the Rate Review Mechanism (RRM). The settlement was negotiated and is recommended by the Executive Committee of the Atmos Cities Steering Committee (ACSC), a coalition of 175 cities including Fort Worth (ACSC Members), which works cooperatively to provide members with more effective and efficient representation on natural gas-related issues.

The RRM Tariff was most recently re-adopted in 2020 (M&C 20-0753) and serves as an alternative rate adjustment mechanism to the default process outlined in state law. Like the state-law adjustment mechanism, the RRM allows Atmos to adjust rates to recover capital improvement costs, but unlike state law, the RRM takes into account Atmos' overall financial situation, including operating costs and revenues and allows cities, as regulatory entities, to review filings and identify expenses or investments considered to be unreasonable or unnecessary that should be reduced or disallowed.

Since it was originally adopted, the RRM process has generally resulted in rate increases that are less than Atmos would have been entitled to implement under the default state-law adjustment mechanism.

On or about April 1, 2021, Atmos filed a rate request under the RRM Tariff. Given Atmos' claim that its cost-of-service in at test year ending December 31, 2020 entitled it to 43.4 million in additional system-wide revenues. The ACSC's RRM Tariff reduces Atmos's request to 40.5 million of which would be applicable to ACSC Members. ACSC's consultants concluded that the system-wide deficiency under the RRM regime should be 22.34 million of which 16.8 million would be applicable to ACSC Members. After the Atmos reviewed ACSC's consultants' report, ACSC's Executive Committee and Atmos negotiated a settlement whereby Atmos would receive an increase of 22.78 million from ACSC Cities, but with a two-month delay in the effective date until December 1, 2021. The two-month effective date delay results in an approximate savings of 3.8 million for ACSC Members.

The City of Fort Worth worked with and through ACSC to analyze the schedules and evidence offered by Atmos to support its request to increase rates. City staff concur with the ACSC Executive Committee in their recommendation that the City take action to approve the negotiated settlement's rates and charges before October 1, 2021; new rates become effective December 1, 2021.

The attached Ordinance reflects the terms of a negotiated settlement between ACSC and Atmos to resolve issues raised by ACSC during the review and evaluation of Atmos' filing. Under the Ordinance, Atmos will generate 22.78 million in additional revenues from ACSC Cities. Given Atmos Mid-Tex's claim that its historic cost of service should entitle it to recover 43.4 million in additional system-wide revenues, the RRM settlement at 22.78 million for ACSC Cities reflects substantial savings to ACSC Cities. Settlement at 22.78 million (plus 3.8 of additional savings due to the two-month delay) is fair and reasonable.

The monthly bill impact for the average residential customer in the Atmos system consuming 44.3 Ccf will be an increase of \$1.28, or about 2.20%. Within the City of Fort Worth, the average residential customer impact is projected to be \$1.23, or about 2.22%. The amount is slightly lower than the system-wide average because the typical Fort Worth residential customer consumes slightly less (41.7 Ccf) than the system-wide average. The average Atmos system commercial customer will see an increase of \$4.04, or 1.61%. Within the City of Fort Worth, the average commercial customer impact is projected to be \$4.57, but a somewhat lower percentage increase of 1.50% compared to the typical Atmos customer. This dollar amount is higher than the average Atmos customer increase because the average consumption for a Fort Worth commercial customer is about 28% greater than the average Atmos consumption. The lower percentage increase is attributable to the impact of having fixed and variable components (customer charge and consumption charge) in the rate.

On approval of the attached Ordinance, the rates shown in Exhibit A of the Ordinance will be effective for bills rendered on or after December 1, 2021. Key elements of the rate changes are as follows:

Tariff Rate - Customer Class	Current	Proposed
------------------------------	---------	----------

R - Residential		
Customer Charge	\$ 20.25	\$ 20.85
Consumption Charge	\$ 0.26651/Ccf	\$ 0.27979/Ccf
C - Commercial		
Customer Charge	\$ 54.50	\$ 56.50
Consumption Charge	\$ 0.11728/Ccf	\$ 0.12263/Ccf
I - Industrial & T - Transportation		
Customer Charge	\$ 1,014.50	\$ 1,054.75
Consumption Charge Tier 1	\$ 0.4157/MMBtu	\$ 0.4330/MMBtu
Consumption Charge Tier 2	\$ 0.3044/MMBtu	\$ 0.3171/MMBtu
Consumption Charge Tier 3	\$ 0.0653/MMBtu	\$ 0.0680/MMBtu

The ACSC staff report includes the Company's Average Bill Comparison regarding the impact of the settlement rates on the average monthly bills for Atmos Mid-Tex Division customers by Customer Class; Base Rates Test Year Ending December 31, 2020:

Tariff Rate-Customer Class	Average Consumption	Current	Proposed	Cost-Change	%-Change
R - Residential	45.2-Ccf	\$ 58.30	\$ 59.58	\$ 1.28	2.20\%
C - Commercial	332.5-Ccf	\$ 250.10	\$ 254.13	\$ 4.03	1.61\%
I - Industrial	4,079-MMBtu	\$ 11,737.14	\$ 11,842.81	\$ 105.67	0.90\%
T - Transportation	4,079-MMBtu	\$ 4,931.09	\$ 5,036.76	\$ 105.67	2.14\%

This M&C does not request approval of a contract with a business entity.

A Form 1295 is not required because: This M&C does not request approval of a contract with a business entity.

FISCAL INFORMATION / CERTIFICATION:

The Director of Finance certifies that approval of this recommendation will have no material effect on City funds.

Submitted for City Manager's Office by: Dana Burghdoff 8018

Originating Business Unit Head:

Steve Cooke 5134

Additional Information Contact:

Juanita Rigsby 8518