

# Mayor and Council Communication

DATE: 09/17/24

M&C FILE NUMBER: M&C 24-0796

LOG NAME: 21ADOPTION OF ATMOS 2024 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 October 1, 2024

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## **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 October 1, 2024, pursuant to a negotiated settlement of Atmos' proposed rate increase under its 2024 Rate Review Mechanism filing.

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## **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' 2024 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 181 cities including Fort Worth (ACSC Members), which work cooperatively to provide members with more effective and efficient representation on natural gas-related issues.

The RRM Settlement most recently adopted in 2023 (Ordinance 26402-09-2023), served 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 considers 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 2007, there have been several modifications to the original RRM Tariff. 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, 2024, Atmos filed a rate request under the RRM Tariff. Given Atmos' claim that its cost-of-service in a test year ending December 31, 2023 entitled it to \$196.8 million in additional system-wide revenues, the ACSC's RRM Tariff reduces Atmos request to \$182.5 million of which \$132.6 million would be applicable to ACSC Members.

After reviewing the filing and conducting discovery, ACSC's consultants concluded that the system-wide deficiency under the RRM regime should be \$149.6 million instead of the claimed \$182.5 million.

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 September 30, 2024; new rates become effective October 1, 2024.

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 \$164.7 million in additional revenues from ACSC Cities. Given Atmos Mid-Tex claim that its historic cost of service should entitle it to recover \$196.8 million in additional system-wide revenues, the RRM settlement at \$164.7 million reflects substantial savings to ACSC Cities; a reduction of \$32.1 million to Atmos' original request. ACSC consultants have agreed that the settlement at \$164.7 million is fair and reasonable.

### **Fort Worth vs. Atmos Mid-Tex Division RRM Tariff– Settlement Comparison:**

The average monthly residential consumption in Fort Worth is 39.8 Centum Cubic Feet (CCF), which is less than the 42.8 CCF average for Atmos residential customers. This corresponds to an average monthly residential bill of \$81.97 in Fort Worth, which is 5.3% lower than the average bill of \$86.28 for Atmos residential customers.

Conversely, the average monthly commercial consumption in Fort Worth is 481.8 CCF, which is higher than the 363.6 CCF average for all commercial customers in the incorporated areas of Atmos Mid-Tex Division. This corresponds to an average monthly commercial bill of \$504.96 in Fort Worth, which is 25.4% higher than the average bill of \$402.59 for all commercial customers in the incorporated areas of Atmos Mid Tex.

These are average base rate bills, including cost of gas and taxes.

### **Fort Worth – Current vs. Settlement**

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Atmos Customer Class for Fort Worth	Average Consumption	Current Average Monthly Bill with Gas Cost	Settlement Average Monthly Bill with Gas Cost	Settlement Monthly Change	Percentage Increase with Gas Cost
<b>Residential</b>	39.8 CCF	\$76.77	\$81.97	\$5.20	6.8%
<b>Commercial</b>	481.8 CCF	\$490.62	\$504.96	\$14.34	2.92%

**Atmos Mid-Tex Division RRM Tariff**

On approval of the attached Ordinance, the rates shown in Exhibit A of the Ordinance will be effective for bills rendered on or after October 1, 2024. Key elements of rate changes are as follows:

Tariff Rate - Customer Class	Current	RRM Settlement
<b>Residential</b>		
Customer Charge	\$22.25	\$22.95
Consumption Charge/CCF	\$0.49	\$0.59
<b>Commercial</b>		
Customer Charge	\$72.00	\$81.75
Consumption Charge/CCF	\$0.18	\$0.19
<b>Industrial</b>		
Customer Charge	\$1,382.00	\$1,587.75
Consumption Charge Tier 1 /MMBtu	\$0.75	\$0.66
Consumption Charge Tier 2 /MMBtu	\$0.60	\$0.48
Consumption Charge Tier 3 /MMBtu	\$0.27	\$0.10
<b>Transportation</b>		
Customer Charge	\$1,382.00	\$1,587.75
Consumption Charge Tier 1 /MMBtu	\$0.57	\$0.66
Consumption Charge Tier 2 /MMBtu	\$0.42	\$0.48
Consumption Charge Tier 3 /MMBtu	\$0.09	\$0.10

The ACSC staff report includes the Company's Average Bill Comparison base rates on average monthly bills for Atmos Mid-Tex Division customers, by Customer Class; Base Rates Test Year Ending December 31, 2023. As stated above, Fort Worth residential consumption is lower than the average while its commercial consumption is higher. The following table represents the average bill impact across all of the ACSC.

**Atmos Mid -Tex Bill Impact (ACSC):**

ACSC Tariff Rate- Customer Class Average Bill	Average Consumption	Current Average Monthly Bill with Gas Cost	Settlement Average Monthly Bill with Gas Cost	Settlement Monthly Change	Percentage Increase with Gas Cost
<b>Residential</b>	42.8 CCF	\$80.76	\$86.28	\$5.52	6.84%
<b>Commercial</b>	363.6 CCF	\$389.20	\$402.59	\$13.39	3.44%
<b>Industrial</b>	1335 MMBtu	\$7,508.72	\$7,596.06	\$87.34	1.16%
<b>Transportation</b>	4645 MMBtu	\$7,451.84	\$8,026.52	\$574.68	7.71%

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

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