

Mayor and Council Communication

DATE: 09/12/23

M&C FILE NUMBER: M&C 23-0762

LOG NAME: 21ADOPTION OF ATMOS 2023 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, 2023

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, 2023, pursuant to a negotiated settlement of Atmos' proposed rate increase under its 2023 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' 2023 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 works cooperatively to provide members with more effective and efficient representation on natural gas-related issues.

The RRM Settlement was most recently re-adopted in 2022 (M&C 22-0692) 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 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 March 31, 2023, Atmos filed a rate request under the RRM Tariff. Given Atmos' claim that its cost-of-service in a test year ending December 31, 2022 entitled it to \$165.9 million in additional system-wide revenues, the ACSC's RRM Tariff reduces Atmos request to \$156.1 million of which \$113.8 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 \$130.9 million instead of the claimed \$156.1 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, 2023; new rates become effective October 1, 2023.

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 \$142 million in additional revenues from ACSC Cities. Given Atmos Mid-Tex claim that its historic cost of service should entitle it to recover \$165.9 million in additional system-wide revenues, the RRM settlement at \$142 million reflects substantial savings to ACSC Cities. ACSC consultants have agreed that the settlement at \$142 million is fair and reasonable.

The average monthly residential consumption in Fort Worth is 40.2 Centum Cubic Feet (CCF), which is less than the 43.6 CCF average for all residential customers in the incorporated areas of Atmos Mid Tex. This corresponds to an average monthly residential bill of \$89.38 in Fort Worth, which is 7.2% lower than the average bill of \$95.88 for all residential customers in the incorporated areas of Atmos Mid Tex. Conversely, the average monthly commercial consumption in Fort Worth is 476.8 CCF, which is higher than the 356.6 CCF average for all commercial customers in the incorporated areas of Atmos Mid Tex. This corresponds to an average monthly commercial bill of \$644.35 in Fort Worth, which is 21.76% higher than the average bill of \$504.14 for all commercial customers in the incorporated areas of Atmos Mid Tex.

These are average base rate bills, including cost of gas and taxes, but excluding the Securitization Charge. The Securitization Charge will add \$0.79 to an average residential bill and \$9.34 to an average commercial bill.

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, 2023. Key elements of the rate changes are as follows:

Tariff Rate - Customer Class	Current	Proposed
R - Residential		

Tariff Rate - Customer Class	Current	Proposed
Customer Charge	\$21.55	\$22.25
Consumption Charge	\$ 0.36223/CCF	\$ 0.48567/CCF
C - Commercial		
Customer Charge	\$63.50	\$73.51
Consumption Charge	\$ 0.14137/CCF	\$ 0.18280/CCF
I - Industrial & T - Transportation		
Customer Charge	\$1,204.50	\$1,382.00
Consumption Charge Tier 1	\$ 0.4939/MMBtu	\$ 0.7484/MMBtu
Consumption Charge Tier 2	\$ 0.3617/MMBtu	\$ 0.5963/MMBtu
Consumption Charge Tier 3	\$ 0.0776/MMBtu	\$ 0.2693/MMBtu

The ACSC staff report includes the Company's Average Bill Comparison base rates on the average monthly bills for Atmos Mid-Tex Division customers by Customer Class; Base Rates Test Year Ending December 31, 2022. This table is the average across all of the ACSC. As stated above, Fort Worth residential consumption is lower than the average while its commercial consumption is higher:

Tariff Rate-Customer Class	Average Consumption	Current	Proposed	Cost-Change	% Change w/Gas Cost	% Change wo/Gas Cost
R - Residential	43.6-CCF	\$88.47	\$95.88	\$7.41	8.38%	18.67%
C - Commercial	356.6-CCF	\$476.43	\$348.63	\$27.71	5.82%	22.90%
I - Industrial	1720-MMBtu	\$14,651.36	\$15,354.00	\$702.64	4.80%	32.66%
T - Transportation	4,720-MMBtu	\$6,446.15	\$7,023.33	\$577.18	8.95%	17.47%

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.

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