

CITY COUNCIL MEMORANDUM

FROM: The Office of the City Manager **DATE:** September 8, 2025
SUBJECT: Consider Ordinance No. 3927, approving a negotiated settlement between the Atmos Cities Steering Committee and Atmos Energy Corp., Mid-Tex division regarding the company's 2025 rate review mechanism filing.
PRESENTER: Cori Reaume, Planning Director

SUMMARY:

The Steering Committee of Cities Served by Atmos (ACSC) has reached a settlement with Atmos related to the 2025 RRM filing. This settlement agrees to an increase in system-wide rates to allow Atmos to collect \$205.6 million, which is reduced from the requested \$245.2 million. Approval of this ordinance accepts the settlement and allows the rate change to recognize the additional revenue by Atmos.

GENERAL DESCRIPTION:

Background information:

The City, along with 181 other Mid-Texas cities served by Atmos Energy Corporation, Mid-Tex Division ("Atmos Mid-Tex" or "Company"), is a member of the Atmos Cities Steering Committee ("ACSC"). In 2007, ACSC and Atmos Mid-Tex settled a rate application filed by the Company 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 most recent iteration of an RRM Tariff was reflected in an ordinance adopted by ACSC members in 2018. On or about April 1, 2025, the Company filed a rate request pursuant to the RRM Tariff adopted by ACSC members. The Company claimed that its cost-of-service in a test year ending December 31, 2024, entitled it to additional system-wide revenues of \$245.2 million.

Application of the standards set forth in ACSC's RRM Tariff reduces the Company's request to \$225.6 million, \$163.5 million of which 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 \$185.6 million instead of the claimed \$245.2 million.



After several settlement meetings, the parties have agreed to settle the case for \$205.6 million. This is a reduction of \$20 million to the Company's initial request, and includes payment of ACSC's expenses. The Effective Date for new rates is October 1, 2025.

Rate tariffs:

Atmos generated rate tariffs attached to the Resolution/Ordinance that will generate \$205.6 million in additional revenues. Atmos also prepared a Proof of Revenues supporting the settlement figures. ACSC consultants have agreed that Atmos' Proof of Revenues is accurate.

Bill impacts:

The impact of the settlement on **average** residential rates is an increase of \$7.83 on a monthly basis, or 9.27%. The increase for average commercial usage will be \$25.73 or 6.56%. Atmos provided bill impact comparisons containing these figures.

The City's proposed 2025-2026 annual budget did take into consideration a potential increase in gas expenditures due to the ongoing RRM negotiations. Additional changes may be necessary, but would be addressed mid-year.

Summary of ACSC's objection to GRIP process:

ACSC strongly opposed the GRIP process because it constitutes piecemeal ratemaking by ignoring declining expenses and increasing revenues while rewarding the Company for increasing capital investment on an annual basis. The GRIP process does not allow any review of the reasonableness of capital investment and does not allow cities to participate in the Railroad Commission's review of annual GRIP filings or allow recovery of Cities' rate case expenses. The Railroad Commission undertakes 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.

Overview of savings utilizing RRM over GRIP

While residents outside municipal limits must pay rates governed by GRIP, there are some cities served by Atmos Mid-Tex that chose to remain under GRIP rather than adopt RRM. Additionally, the City of Dallas adopted a variation of RRM which is referred to as DARR. When new rates become effective on October 1, 2025, ACSC residents will maintain an economic monthly advantage over GRIP and DARR rates.

Comparison to Other Mid-Tex Rates (Residential)

	<u>Average Bill</u>	<u>Compared to RRM Cities</u>
RRM Cities:	\$54.68	-
DARR:	\$58.57	+\$3.89
ATM Cities:	\$57.39	+\$2.71



Environs: \$55.96 +\$1.28

Explanation of Ordinance:

- Section 1. This section approves all findings in the Ordinance.
- Section 2. This section adopts the RRM rate tariffs and finds the adoption of the new rates to be just, reasonable, and in the public interest.
- Section 3. This section makes it clear that Cities may challenge future costs associated with gas leaks.
- Section 4. This section finds that existing rates are unreasonable. Such finding is a necessary predicate to establishment of new rates. The new tariffs will permit Atmos Mid-Tex to recover an additional \$205.6 million on a system-wide basis.
- Section 5. This section approves an exhibit that establishes a benchmark for pensions and retiree medical benefits to be used in future rate cases or RRM filings.
- Section 6. This section requires the Company to reimburse the City for expenses associated with review of the RRM filing, settlement discussions, and adoption of the Ordinance approving new rate tariffs.
- Section 7. This section repeals any resolution or ordinance that is inconsistent with the Ordinance.
- Section 8. This section finds that the meeting was conducted in compliance with the Texas Open Meetings Act, Texas Government Code, Chapter 551.
- Section 9. This section is a savings clause, which provides that if any section is later found to be unconstitutional or invalid, that finding shall not affect, impair, or invalidate the remaining provisions of this Ordinance. This section further directs that the remaining provisions of the Ordinance are to be interpreted as if the offending section or clause never existed.
- Section 10. This section provides for an effective date upon passage.
- Section 11. This section directs that a copy of the signed Ordinance be sent to a representative of the Company and legal counsel for ACSC.

Conclusion:

The Legislature's GRIP process allowed gas utilities to receive annual rate increases associated with capital investments. The RRM process has proven to be more efficient and less costly (both from a consumer rate impact perspective and from a ratemaking perspective) than the GRIP process. Given Atmos Mid-Tex's claim that its historic cost of service should entitle it to recover \$245.2 million in additional system-wide revenues, the RRM settlement at \$205.6 million for ACSC members reflects substantial savings to



ACSC cities. Considering all factors, ACSC believes the settlement at \$205.6 million is fair and reasonable.

RECOMMENDATION:

Approve Ordinance No. 3927.