



City of Denton

City Hall
215 E. McKinney Street
Denton, Texas
www.cityofdenton.com

AGENDA INFORMATION SHEET

DEPARTMENT: City Manager's Office

CM/ DCM/ ACM: Mario Canizares

DATE: March 20, 2018

SUBJECT

Consider adoption of an ordinance of the City of Denton 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 Corp., 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.

BACKGROUND

On October 24, 2017, the City Council authorized that the City of Denton join the Atmos Cities Steering Committee ("ACSC"). The ACSC is a 172-member city coalition, representing approximately 1,053,840 Atmos Energy gas meters across the State of Texas. The Coalition is designed to advocate the interest of cities (and its citizens) regarding gas rate increases and other regulatory matters.

In 2007, the ACSC Cities and Atmos Mid-Tex 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 Company's application under the 2017 RRM Tariff 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 Atmos. The ACSC Executive Committee has recommended to its member Cities the acceptance of the revised RRM Tariff through the passage of an ordinance by April 1, 2017.

The revised RRM Tariff include the following changes:

- Reduces the rate of return on equity from 10.50% to 9.8%.
- Captures the reduction in federal income tax rates from 35% to 21% and should result in a rate reduction effective by mid-March, 2018.

- Extends the time period by two additional months for Cities to review a future Atmos rate filing application. Previously, Cities were only given three months to review Atmos' filing, that time is now five months. Atmos' new rate filing should be made on or about April 1 of each year, with new rates becoming effective October 1.
- Reduced the allowable expenses related to Atmos' Shared Services Unit.

RECOMMENDATION

Staff recommends that the City of Denton City Council adopt the attached ordinance approving a revised rate review process also known as the Rate Review Mechanism Tariff regarding Atmos Energy's gas rate increases and other regulatory matters.

PRIOR ACTION/REVIEW (Council, Boards, Commissions)

- On September 12, 2017, the Audit/Finance Committee recommended to City Council that Denton join the Atmos Cities Steering Committee (ACSC) coalition.
- On October 24, 2017, City Council authorized Denton to join the Atmos Cities Steering Committee (ACSC) coalition.

FISCAL INFORMATION

Not applicable.

STRATEGIC PLAN RELATIONSHIP

The City of Denton's Strategic Plan is an action-oriented road map that will help the City achieve its vision. The foundation for the plan is the five long-term Key Focus Areas (KFA): Organizational Excellence; Public Infrastructure; Economic Development; Safe, Livable, and Family-Friendly Community; and Sustainability and Environmental Stewardship. While individual items may support multiple KFAs, this specific City Council agenda item contributes most directly to the following KFA and goal:

Related Key Focus Area: **Organizational Excellence**
Related Goal: **1.1 Manage financial resources in a responsible manner**

EXHIBITS

1. Agenda Information Sheet
2. Ordinance
3. Rate Review Mechanism

Respectfully submitted:
 Mario Canizares
 Assistant City Manager

Prepared by:
 Mario Canizares
 Assistant City Manager