

AGENDA INFORMATION SHEET
ITEM NO. _____

**DENIAL OF ATMOS ENERGY'S PROPOSED INCREASE IN RATES
AND APPROVAL OF AN ALTERNATIVE INCREASE IN RATES**

BACKGROUND

On or about June 1, 2018, Atmos Energy Corporation ("Atmos" or "Company") filed a Statement of Intent with members of the coalition of cities known as the Atmos Texas Municipalities ("ATM) comprised of about 50 cities, of which the City is a member, to increase rates by approximately \$4.5 million, which equates to an increase of about 8% in annual non-gas-cost revenue in the ATM cities. On a system-wide basis, Atmos's proposed increase would be the equivalent of about \$46.0 million; this equates to an increase in annual revenue of about 7.3%.

The City, as part of the ATM coalition of cities, engaged the law firm of Herrera Law & Associates as Special Counsel to review Atmos' application. On behalf of ATM, Herrera Law & Associates engaged rate experts to assist in reviewing Atmos' application.

Special Counsel and the consulting firms of the Garrett Group, LLC; GDS and Associates, Inc.; and J. Randall Woolridge, Ph.D., recommend that the City deny Atmos' request to increase rates by \$46 million (system wide), and instead approve the rates shown in "**Exhibit A**" to this Agenda Information Sheet and a corresponding increase of about \$12.81 million, the details of which are presented in the schedules attached as "**Exhibit B**" to this Agenda Information Sheet.

Atmos proposed an effective date of July 6, 2018 for its change in rates. In prior action the City suspended Atmos's proposed effective date for the statutory time period of 90 days, to October 4, 2018.

The City must take final action on Atmos' proposed rates and must do so by no later than October 4, 2018.

CITY JURISDICTION TO SET ATMOS'S RATES

Unless a city ceded its original jurisdiction to the Railroad Commission of Texas, the Gas Utility Regulatory Act § 103.001 grants a city exclusive original jurisdiction over a gas utility's rates, services, and operations within the city limits. But even if a city has ceded its jurisdiction, to the Railroad Commission, the Gas Utility Regulatory Act § 103.023, grants a city the statutory right to participate in rate proceedings before the Railroad Commission.

ATMOS TEXAS MUNICIPALITIES

The Atmos Texas Municipalities (“ATM”) was organized by a number of municipalities, served by Atmos. Alfred R. Herrera with the law firm of Herrera Law & Associates, PLLC, has previously represented the City as part of ATM in rate cases involving Atmos. The ATM cities are:

Austin	Fredericksburg	Jacksboro	Ranger
Balch Springs	Gatesville	Kerens	Rice
Bandera	Glen Rose	Lampasas	Riesel
Bartlett	Goldthwaite	Lancaster	Rockdale
Belton	Granbury	Leander	Rogers
Blooming Grove	Greenville	Lometa	Round Rock
Burnet	Groesbeck	Longview	San Angelo
Cameron	Hamilton	Marble Falls	Sanger
Cedar Park	Heath	Mart	Somerville
Clifton	Henrietta	Mexia	Star Harbor
Commerce	Hickory Creek	Olney	Trinidad
Copperas Cove	Hico	Point	Whitney
Corsicana	Hillsboro	Pflugerville	
Electra	Hutto	Princeton	

OVERVIEW OF ATM’S SPECIAL COUNSEL RECOMMENDATION

ATM’s Special Counsel and rate experts, the Garrett Group, LLC and GDS Associates, Inc., and Dr. Woolridge (collectively referred to as “Special Counsel”), recommend that the ATM cities approve an increase in Atmos Energy’s annual revenue of about \$12.81 million (on a system-wide basis), which equates to an increase of about \$1.3 million for the ATM cities and represents an increase of about 2% in annual revenue.

Additionally, Special Counsel recommends that the ATM cities approve a surcharge to recover the ATM cities’ rate case expenses incurred through August 31, 2018, which total about \$116,000.00, as allowed under the Gas Utility Regulatory Act § 103.022. The tables below show the details of Special Counsel’s recommendations, including a comparison of Special Counsel’s recommendations to Atmos Energy’s proposed changes in revenue and rates.

Special Counsel further recommends that the rates approved by the City have an effective date Oct. 4, 2018, for service rendered on and after that date; that the City direct Atmos to file tariffs conformed to the rates shown in Attachment A; that in addition to rate case

expenses incurred through August 31, 2018, the City direct Atmos to reimburse the City's rate case expenses, as part of ATM, incurred after August 31, 2018.

COMPARISON OF CHANGE IN BILLS:

Class of Customer	ATMOS: Change in Average Bill (<i>excluding</i> cost of gas)	ATM: Change in Average Bill (<i>excluding</i> cost of gas)
Residential – Rate R	11.15% increase	1.47% increase
Commercial – Rate C	4.22% decrease	0.69% decrease
Industrial – Rate I	12.39% decrease	5.09% increase
Transportation – Rate T	12.39% decrease	5.09% increase

Class of Customer	ATMOS: Change in Average Bill (<i>including</i> cost of gas)	ATM: Change in Average Bill (<i>including</i> cost of gas)
Residential – Rate R	4.82% increase	0.76% increase
Commercial – Rate C	1.35% decrease	0.22% decrease
Industrial – Rate I	2.14% decrease	2.32% increase
Transportation – Rate T	2.33% decrease	2.32% increase

COMPARISON OF ATMOS' PROPOSED PERCENTAGE CHANGE IN REVENUE TO ATM'S PROPOSED CHANGE IN REVENUE:

Class of Customer	ATMOS: Change in Revenue (<i>excluding</i> cost of gas)	ATM: Change in Revenue (<i>excluding</i> cost of gas)
Residential – Rate R	11.18% increase	2.32% increase
Commercial – Rate C	0.14% decrease	1.06% increase
Industrial – Rate I	9.20% decrease	3.23% increase
Transportation – Rate T	9.20% decrease	3.23% increase

COMPARISON OF ATMOS' PROPOSED RATES TO ATM'S PROPOSED RATES:

Customer Class/Rate	Current	ATMOS: Proposed Rate	\$\$ and % Change	ATM: Proposed Rate	\$\$ and % Change
Rate R - Residential					
Customer Charge per month	\$18.35	\$20.21	\$1.86 / 10%	\$17.89	<\$0.46> / <2.52%>
Consumption Charge (per CCF)	\$ 0.13734	\$0.15701	\$0.01967 / 14.32%	\$0.16052	\$0.02318 / 16.88%

Rate C - Commercial					
Customer Charge per month	\$41.95	\$41.85	<\$0.10> / <0.24%	\$37.85	<\$4.10> / <9.78%
Consumption Charge (per CCF)	\$0.08746	\$0.07729	<\$0.01017> / <11.63%	\$0.10081	\$0.01335 / 15.26%
Rate I & T – Indus. & Transp.					
Customer Charge per month	\$752.00	\$752.00	<\$1.93> / <0.26%	\$619.85	<\$132.15> / <17.57%
Consumption Chrg - First 1,500 MMBTU	\$0.3172	\$0.2390	<\$0.7820> / <24.65%	\$0.3655	\$0.0483 / 15.21%
Consumption Chrg - Next 3,500 MMBTU	\$0.2322	\$0.1901	<\$0.0421> / <18.13%	\$0.2908	\$0.0586 / 25.23%
Consumption Chrg - Over 5,000 MMBTU	\$0.0498	\$0.0498	No change	\$0.0761	\$0.0263 / 52.90%

Atmos requested recovery of its rate case expenses. However, it did not provide the requisite information to support its request; thus the proposed resolution/ordinance does not address Atmos Energy’s rate case expenses. As noted above, cities have a statutory right to recover their reasonable rate case expenses under Gas Utility Regulatory Act § 103.022. Below are shown the monthly surcharges to recover the ATM cities’ rate-case expenses for an average customer:

Residential: \$0.01 per month (based on a surcharge of \$0.00030/ccf)
Commercial: \$0.03 per month (based on a surcharge of \$0.00011/ccf)
Industrial & Transportation: \$0.57 per month (based on a surcharge of \$0.0001/MMbtu)

Special Counsel has submitted its and the consultants’ invoices to the the City of Longview for review. The City of Longview’s City Attorney’s Office has served in this review/coordinating role for over 10 years. Following that review, the invoices are forwarded to Atmos Energy for reimbursement and provided to all ATM cities for their review.

Finally, Special Counsel recommends that the City approve the following elements to determine Atmos Energy’s cost of capital and to determine Atmos Energy’s rates.

Cost of Capital		
	Atmos Requested	ATM City Approved
Return on Equity	10.50%	9.80%
Cost of Long-Term Debt	5.45%	5.45%
Cost of Short-Term Debt	1.68%	1.68%

Capital Structure Ratios		
	Atmos Requested	ATM City Approved
Equity	60.18%	53.81%
Long-Term Debt	39.82%	7.21%
Short-Term Debt	0.0%	38.98%

Weighted Average Cost of Capital (aka, Rate of Return)		
	Atmos Requested	ATM City Approved
Weighted Cost	8.3876%	7.5189%
Pre-Tax Weighted Cost	10.0674%	8.9207%

ACTION REQUIRED BY October 4, 2018

The City must take action on Atmos’s Statement of Intent no later than October 4, 2018. Absent such action, Atmos’s rates are deemed approved by operation of law.

RECOMMENDATION

ATM’s Special Counsel and ATM’s rate experts recommend that the City adopt the attached resolution or ordinance, as the case may be, which if approved will deny Atmos Energy’s proposed increase about \$46 million and approve a lesser increase of about \$12.81 million; that the City approve the rates that correspond to such an increase, including approval of recovery of the ATM’s rate case expenses.

The City must take action no later than October 4, 2018. If the City does not take action by October 4, 2018, Atmos’s proposed rates will be deemed approved by operation of law, subject to the City’s right to hold a hearing to address Atmos’s rate application.