

AGENDA



Thursday, July 26, 2007

**Telecommunications & Regulatory Affairs
RECOMMENDATION FOR COUNCIL ACTION****Item No. 72**

Subject: Approve an ordinance denying an interim Gas Reliability Infrastructure Program (GRIP) rate adjustment for gas utility investment in 2006 proposed by ATMOS Energy Corp., Mid-Tex Division; and provide for notice of this ordinance to ATMOS Energy Corp., Mid-Tex Division.

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On May 31, 2007, ATMOS Energy Corporation, Mid-Texas Division, formerly TXU Gas Company, made a Gas Reliability Infrastructure Program (GRIP) filing in all cities it serves, including Austin, and at the Railroad Commission of Texas (RRC) to increase rates by approximately \$62.4 million.

Section 104.301 of the Utilities Code allows a gas utility to implement an interim rate adjustment to recover its capital investment in the gas system without filing a full rate case with the City. GRIP rates must be based on reasonable increases in invested capital. The City of Austin has original jurisdiction to approve or deny a gas utility's assessment against City customers.

Based on company-provided information, Council approval of the assessment will increase the average monthly bill for ATMOS' Austin customers, beginning July 30, 2007, and remain in effect until ATMOS has recovered the costs in full. The proposed monthly increase to customers is: Residential: \$0.59; Commercial: \$1.48; and Industrial and Transportation: \$28.90.

For ATMOS rate issues, including prior GRIP filings, the City has been a member of ATMOS Texas Municipalities ("ATM") which is a group of cities served by ATMOS. After review of the Company's prior filings in 2003 and 2004, ATM's determined that the Company's proposals were unjustified, unreasonable and were not in compliance with the GRIP statute. Further, ATM found that information provided by the Company in response to ATM's requests for information indicated that the Company actually decreased per-customer investment in infrastructure. ATM has indicated that there are similar concerns regarding the current filing.

Since 2004, ATMOS Energy Corporation has filed three GRIP filings. Despite the City's denial of the three prior GRIP filings, the Railroad Commission found in favor of GRIP filings thereby overturning the City's decision. City staff is currently in discussion with other ATM cities regarding a concerted approach to address the Railroad Commission's position and other rate matters.

Further, there is concern that ATMOS' implementation of GRIP interim surcharges promotes waste and disproportionately affects lower income customers. Although Section 104.103 of the Utilities Code gives utilities the discretion to put the GRIP surcharge either in the customer's base charge or in the volumetric charge. ATMOS is seeking to put the entire 2006 GRIP surcharge in the current customer base charge as they have done for the previous three filings. The current residential customer base charge for ATMOS is \$10.10.

Increasing the customer charge promotes consumption and waste of natural gas. The more gas a customer uses, the lower the unit rate (i.e. the charge per mcf of consumption). Such pricing encourages consumption of more natural gas and shifts costs of the proposed increase to lower volume use residential customers. Further, if as suspected, low to moderate income customers' use less gas on

average, the proposed increase continues to unfairly puts the cost burden on fixed income and modest income customers. Even when a customer uses a small quantity of gas or none at all in summer time, for example, the customer is billed for the charge.

Over time, if the policy of putting the GRIP surcharge in the customer base rate charge is continued, then, almost the entire revenue requirement for base rates will be in the customer charge. Large volume users of natural gas will, for the most part, be getting a benefit from the customer base charge paid by low volume use customers.

Based upon the reason above, City staff recommends that Council approve an ordinance denying the request by ATMOS Energy Corp. for its 2006 GRIP rate increase and provide notice of this ordinance to ATMOS Energy Corp., Mid-Tex.