

## AGENDA



Thursday, October 18, 2007

**Telecommunications & Regulatory Affairs  
RECOMMENDATION FOR COUNCIL ACTION****Item No. 31**

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**Subject:** Approve an ordinance denying a rate increase filing of Atmos Energy Corporation, Mid-Tex Division; requiring reimbursement of municipal rate case expenses; and providing notice.

**For More Information:** Rondella Hawkins, (512) 974-2422

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On September 20, 2007, ATMOS Energy Corporation filed a rate filing package with the City to increase rates in their Mid-Tex Division system by approximately \$52 million with an effective date of October 25, 2007.

The City has exclusive jurisdiction under the Gas Utilities Regulatory Act, Texas Utilities Code Section 103.001 to evaluate Atmos' proposed rate increase.

Based on Company-provided information, Atmos's proposal would result in an average monthly increase per customer for approximately 5,300 customers within the City of Austin as follows:

Residential: \$1.57 or approximately 8.27%; Commercial: \$ 9.21 or approximately 22.27%; and Industrial and Transportation: \$167.90 or approximately 38.95%.

Atmos has asked for a profit guarantee mechanism to be implemented which could push rates even higher for those customers.

Much of what is being requested by Atmos in the current proceeding was rejected by the Railroad Commission in the case that concluded on August 14, 2007. In that case, Atmos requested an increase of \$59 million. The Railroad Commission awarded \$4.8 million of that request, less than 10% of original request.

The City of Austin is a member of a coalition of cities, known as Atmos Texas Municipalities ("ATM"), which includes almost all of the cities served by Atmos in the Austin metropolitan region. ATM recommends that the requested increase in rates and revenue requirement by Atmos Energy be denied based on the following reasons:

- Atmos is requesting an increase in rates based upon several adjustments to its cost of service which were recently rejected by the Railroad Commission of Texas;
- The requested design of the rates puts more of the cost of gas utility operations on low-use residential customers who often are in the worst position to absorb such cost increases;
- The request asks that a rate mechanism to be implemented which provides a disincentive to reducing costs and becoming more productive or efficient; and
- Atmos is requesting an 11% return on equity which is excessive.

Under the Gas Utility Regulatory Act, municipalities are to be reimbursed for their reasonable rate case expenses.

Staff recommends that the Council deny Atmos's rate increase filing made on September 20, 2007 and that Atmos be directed to reimburse all municipal rate case expenses incurred by the City in relation to

the filing. Atmos will appeal the City's denial of their proposed rate increase to the Railroad Commission of Texas.