

AGENDA



Thursday, September 30, 2010

Public Hearings and Possible Actions
RECOMMENDATION FOR COUNCIL ACTION
Item No. 56

Subject: Conduct a Public Hearing and consider an ordinance regarding a proposal from Atmos Energy Corporation to increase customer gas rates and approving an agreement setting terms of rate review for the next two years.

For More Information: Rondella M. Hawkins, Manager, Office of Telecommunications & Regulatory Affairs; (512) 974-2422

Prior Council Action: September 23, 2010 - Council approved Setting a Public Hearing for September 30, 2010.

August 20, 2009 – Council approved revised gas tariffs of Atmos Energy Corporation, Mid-Tex Division.

March 6, 2008 – Council approved a settlement agreement establishing a new rate regulatory mechanism to review changes in rates, known as a Rate Review Mechanism.

Under the Gas Utilities Regulatory Act (Chapters 101 through 105 of the Texas Utilities Code) ("GURA"), the City of Austin has original jurisdiction over gas utility rates set for customers within its city limits. On March 15, 2010, Atmos Energy Corporation, Mid-Tex Division, filed an application to revise its rate review tariff and adjust its system-wide rates. The City Charter requires that City Council must conduct a public hearing prior to approving a franchisee's rate increase.

The City collectively with over 50 other Texas municipalities served by the Atmos Mid-Texas Division, known as the Atmos Texas Municipalities ("ATM"), approved an agreement between Atmos and the ATM related to the implementation of natural gas rates. That settlement was approved by the City and the other ATMs in 2008 to include a new rate regulatory mechanism to review changes in rates on a three-year trial basis as the Rate Review Mechanism ("RRM").

After almost five months of review and examination of the rate increase justification, ATM's experts were successful in getting Atmos to modify its requested increase in annual revenue to \$27 million from approximately \$70 million.

Atmos' current request, if approved, would modify and extend the RRM for an additional two years, increase the typical monthly bill for a residential customer by \$1.40 and for a commercial customer by \$3.82, and pay for 100,000 steel service line replacements serving homes and business in areas in the Mid-Texas Division that have been prone to leaks. Those are the lines that go from the main in the street to the meter at the house or business.

Key terms of agreement are as follows:

*The settlement addresses the replacement of steel service lines in locations where there have been a history of leaks. A total of 100,000 service lines within the Mid-Texas Division are covered by this settlement. In the first year of the settlement, it is contemplated that the steel service line replacement will cause the average monthly residential customer charge to increase by \$0.15 and the average monthly commercial customer charge to increase by \$0.41. The rates will be adjusted annually, however, in no case will the per customer monthly cost recovery factors attributable to a steel service line replacement

program exceed \$0.44 for residential customers or \$1.22 for commercial customers, either prior to or during the pendency of the general rate case that Atmos will file on or before June 1, 2013.

*The settlement provides that the RRM continue for two more years, however in a much more modified form. In the past, the RRM had two components: (1) a rate increase that was prospective in nature and (2) an increase based upon whether Atmos had actually earned a 9.6% return on equity, the stipulated rate in the RRM tariff, during the calendar year. This component is known as a “true-up”. The retroactive increase was difficult to implement. As part of the settlement, Atmos agreed to remove the true-up component from the RRM. This will mean much smaller increases over the next two years.

Staff recommends approval of the agreement.