

## AGENDA



Thursday, November 18, 2010

**Telecommunications & Regulatory Affairs  
RECOMMENDATION FOR COUNCIL ACTION**

**Item No. 49**

**Subject:** Approve a resolution authorizing the City to intervene as part of a coalition of cities in the Railroad Commission of Texas' rate proceedings or other related administrative or adjudicatory proceedings contesting Atmos Pipeline-Texas' 2010 request to increase rates for city-gate and pipeline transportation gas service.

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

Atmos Pipeline–Texas (APT) filed a request with the Railroad Commission of Texas (RCT) on September 17, 2010, to increase its city gate service wholesale rates and its pipeline transportation rates.

The "city gate" is the delivery point where the natural gas is transferred from a transmission pipeline to the local gas utility. The rates that APT charges at the wholesale level as its city gate rates are passed on to its subsidiary, Atmos Mid-Texas, which in turn are borne by the retail end-use customers.

Cities do not have original jurisdiction over APT's city gate rates. That jurisdiction lies with the RCT. However, cities have a statutory standing to participate in the case. The proposed increase will affect the rates of Atmos Mid-Texas retail, end-use customers. Local governments do have original jurisdiction over Atmos Mid-Texas.

In its application, APT seeks an increase of about \$39 million. However, because of reductions it proposes to its industrial pipeline transportation customers, the increase to Atmos Mid-Tex, and ultimately what will be passed on to Atmos Mid-Tex retail end-use customers, is an increase of about \$43 million. There are approximately 6,800 retail customers in Austin. The city gate component is approximately 35% to 40% of a gas customer's monthly bill.

APT's application raises numerous issues regarding its proposed increase that needs to be explored, including the validity of the requests:

- The reasonableness of the amount of the increase requested and the allocation of an increase of approximately 41.2% to Atmos Mid-Texas customers and a reduction of approximately 56.9% to the industrial pipeline-transportation customers;
- The proposal sets a high return on equity of 12.75%, well above what the RCT has approved in recent rate cases;
- Whether the Company's \$482 million in infrastructure investments from January 2003 through March 2010 are reasonable and eligible for recovery by increasing rates;
- Whether several included accounting adjustments that have been controversial in past Atmos Mid-Texas' cases (including incentive compensation plans, labor costs, deferred taxes, franchise taxes) are reasonable, just and appropriate; and
- APT is a part of a larger corporation, which raises issues regarding APT's affiliate transactions.

Austin has participated as a member of a coalition of cities, known as the Atmos Texas Municipalities (ATM) in matters regarding Atmos Mid-Texas and has benefitted from its participation and membership in the coalition.

Staff recommends that the City Council approve the proposed resolution authorizing the intervention in a rate case before the Railroad Commission of Texas and any related appeals to contest Atmos Pipeline–Texas' proposed rate increase affecting rates for city gate and pipeline transportation gas service and intervening as part of a coalition that includes other Atmos-served cities.

If approved and the City of Austin participates in the intervention, Austin residents who are Atmos Mid-Tex customers should realize a lesser increase in costs for gas. Section 103.022 of the Texas Utilities Code provides for cities to have their reasonable rate case expenses reimbursed. There will be no out-of-pocket expenses for the City. In addition, the City has the right at any time to terminate its participation in this proceeding or any related proceeding.