

# 2020 ACSC NEWSLETTER



## 2020 YEAR IN REVIEW ISSUE

This past year was a busy one for ACSC. This annual review highlights the significant events of 2020 that impacted ACSC and what's on the horizon next year.

## ACSC Has a Productive 2020

This past year was another active year for the Atmos Cities Steering Committee (ACSC). On behalf of its member cities and their residents, ACSC participated in numerous proceedings before the Railroad Commission of Texas (RRC) and the Texas Legislature. This Year in Review highlights the significant events in 2020 that impacted ACSC and previews what is on the horizon for the coming year. Looking ahead, 2021 will likely be another busy year for ACSC at the RRC, the Texas Legislature, and the courts.



## Atmos Mid - Tex and West Texas RRM's Settle

On March 31, 2020, Atmos Mid-Tex and West Texas submitted their 2020 Rate Review Mechanism (RRM) tariff filings.

Atmos has a statutory right to an annual increase in rates based on additional plant investment via a process that is referred to as "GRIP." RRM is a negotiated substitute for GRIP that only exists through the exercise of cities' original jurisdiction over rates and services. RRM is defined and controlled by ordinances that city councils adopted. The RRM tariff reflected in Mid-Tex and West Texas city ordinances is essentially a contractual commitment agreed to by both Atmos and cities.

### *Atmos Mid-Tex RRM Settlement*

Atmos' Mid-Tex filing was based on a system-wide increase of \$136.3 million. The portion to be allocated to the ACSC member Cities was \$98.7 million. This request is significantly larger than any filing Atmos has ever made in its history. No prior request in a traditional rate case filed at the Railroad Commission has exceeded \$70 million. The largest amount previously requested from ACSC in a RRM filing was \$46.4 million in 2017. Atmos claims that 95%

of the increase relates to recovery of expenses related to pipe replacement, damage prevention, and leak surveying activities. Atmos states that in 2019 it replaced 188 miles of steel pipe, 77 miles of cast iron pipe, and over 24,000 steel service lines. Atmos also reports that in 2019 it performed more than one million line-locates, and found that excavators struck its lines more than 3,500 times. Additionally, Atmos surveyed approximately 13,500 miles of pipe.

On July 1, 2020, ACSC's consultants provided a report that proposed reducing the system wide request by roughly \$25 million and suggested that the additional increase to ACSC's rates should be limited to \$80.8 million. Two of the significant issues leading to adjustments were unreasonable excessive overtime pay and incentive compensation.

After negotiations, ACSC agreed to settle the Mid-Tex RRM at \$90 million with a two month delay in the effective date. ACSC's consultants have determined that the two month delay in effective date is worth between \$9 million and \$15 million, which would essentially bring Atmos Mid Tex's increase to about \$80.8 million.

Atmos maintains that the settlement on ACSC's Mid-Tex RRM will result in an economic advantage over the City of Dallas' settlement on an RRM-like filing.

#### *Atmos West Texas RRM Settlement*

While Atmos West Texas filed for a \$7.1 million increase, that filing was not consistent with the tariff it agreed to honor. The Company made adjustments to bring its request into compliance with the RRM tariff. Those necessary adjustments reduced the request to \$6.6 million (or roughly \$500,000 less than what would have been requested had the Company filed a traditional rate case). ACSC consultants produced a report that suggested

further adjustments of approximately \$2 million based upon a reasonableness review.

Because of COVID-19 virus issues, ACSC negotiated a two month delay in the October 1 Effective Date specified in the RRM tariff and a total increase of \$5.9 million. The two month delay in the Effective Date is worth around \$800,000.

West Texas Cities under RRM rates currently enjoy a slight economic advantage over cities that remain under GRIP rates (i.e., Lubbock and Amarillo). That economic advantage will continue with the adoption of this settlement.

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## Atmos West Texas Updates Rates to Include Triangle System

In late 2019, Atmos West Texas filed at the Railroad Commission of Texas (RRC) a Statement of Intent to include assets known as the "Triangle System" in its rate base (RRC Gas Utilities Docket No. 10900).

ACSC (West Texas Cities) intervened, engaged consultants, and filed testimony recommending adjustments for several items. Shortly thereafter, the parties entered into settlement discussions, and on January 22, 2020, filed a settlement agreement in the docket.

Atmos had requested an increase in revenues of \$266,000. The "black box" settlement results in a revenue decrease of \$300,000 and establishes some ongoing requirements related to future filings by Atmos.

On April 21, 2020, the RRC issued its Final Order, approving the settlement agreement. The settled reduction in revenues will have a very minimal effect on rates, and will be accompanied by a full reimbursement of the West Texas Cities' rate case expenses.

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## Atmos Pipeline-Texas Files 2020 Rider REV Adjustment

On August 14, 2020, Atmos Pipeline – Texas (APT) filed its 2020 Rider REV Adjustment (Rider REV) in Gas Utility Docket No. 10999. The Rider REV rate adjustment procedure was approved by the Railroad Commission of Texas (RRC) in Gas Utility Docket No. 10580. Every year APT conducts a true-up: if APT's revenues from transportation customers were less than the revenues set in GUD 10580, APT gets to apply a surcharge, but if APT collected more, they have to return revenue to transportation customers.

The 2020 adjustments affect the capacity charge component of the monthly customer charge for City Gate Service (CGS) Tariffs, and a Rate Schedule for Pipeline Transportation. APT serves city gate customers in Atmos' Mid-Tex division and additionally serves CoServe Gas, WTG Marketing, Inc., Corix Utilities (Texas), Inc., Texas Gas Services Co., Terra Gas Supply, and the Cities of Rising Star, Navasota, and Winona.

APT's 2020 Rider REV adjustment will decrease APT's rates established in GUD Nos. 10580 and 10718, as adjusted by GRIP filings, by \$48,667,624. So while APT rates will increase because of APT's GRIP filings (which resulted in a \$49 million rate increase), the 2020 Rider REV will limit that increase.

The RRC approved the filing at the October 20, 2020 open meeting.



# Railroad Commission Adopts Measures to Address Coronavirus Threat

This year, the Railroad Commission of Texas (RRC) joined other state agencies and entities in adopting measures to address the threat presented by the COVID-19.

The RRC announced that most of its employees would be telecommuting, with the exception of a limited skeleton crew. This went into effect on Tuesday, March 17 and has continued throughout the year, until further notice. The public can still contact RRC Staff who are teleworking to ask questions about the energy industry, and operators can still contact the RRC about filings and processing. The RRC has also provided a 24-hour emergency number to report environmental emergencies.

Additionally, the RRC has no longer been accepting in-person filings. Parties may submit filings via U.S. Postal Service, FedEx or United Parcel Service. The RRC also provided a link to important resources for the public and for operators at the following web address: [rrc.state.tx.us/covid19/](http://rrc.state.tx.us/covid19/).

The RRC established a process for operators, utilities, and other licensed companies and individuals to request a waiver from regulatory requirements. Entities may request waivers of RRC regulations by providing justifications as to why the regulatory requirements cannot be met. The RRC will review the waiver requests on a case-by-case basis and determine whether to accept or deny the request.

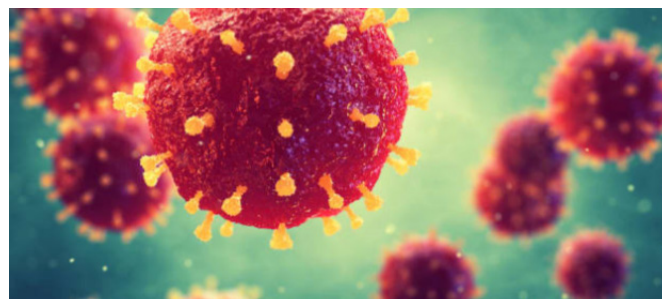
After the RRC cancelled its March 31, 2020 Open Meeting, the RRC has since held open meetings via virtual conference with full agendas.

[Recommendations to Suspend Disconnections and Accounting Mechanism for Recovery of Expenses Related to COVID-19](#)

In March, the RRC recommended that local gas

distribution companies temporarily suspend the disconnections of residential and small commercial gas utility customers for nonpayment while Texas remains in a State of Disaster, as declared by Governor Greg Abbott. In April, due to the financial uncertainty in collecting revenues due to the suspension of disconnects, the RRC authorized gas utilities the use of an accounting mechanism and subsequent process through which gas companies may seek future recovery of expenses resulting from the effects of COVID-19. Recoverable costs include but are not limited to: personal protective equipment; information technology equipment and associated costs to allow employees to work remotely; sanitizer and other cleaning supplies and services; medical and occupational health costs and services for advising employees that test positive or have been exposed to COVID-19 as a result of performing their job; bad debt and associated credit and collection costs; and other reasonable and necessary costs to address the impact of COVID-19 on gas utilities and their customers that would not have otherwise been incurred during the normal course of business.

Therefore, the RRC authorized each gas utility to record in a regulatory asset account the expenses associated with the COVID-19 State of Disaster. Any insurance proceeds resulting from claims, benefits resulting from government stimulus or other support programs, and/or donations or reimbursements received related to COVID-19 must be included as an offset to expenses in the regulatory account.



## Republican Jim Wright Elected Railroad Commissioner

In the 2020 general election, Republican Jim Wright defeated Democrat Chrysta Castañeda in the election for a seat at the Texas Railroad Commission (RRC). The RRC consists of three commissioners who are elected for statewide, six-year, staggering terms, all of which have been Republicans for at least 25 years. No Democrat has been elected to any statewide seat in Texas since 1994.

Wright will replace Ryan Sitton, who lost to Wright in the GOP primary in March despite raising significant-

ly more money and who had the support of top state leaders including Gov. Greg Abbot, Lt. Gov. Dan Patrick, and both of the state's Republican U.S. senators. Wright also defeated Castañeda, who received support from environmental groups nationwide, as well as a late fundraising boost of \$2.6 million from Michael Bloomberg. Wright owns an oilfield waste services company, which, as Castañeda pointed out in her scathing campaign ads, was fined \$181,519 in 2017 for stockpiled waste that leaked into the soil and unpermitted stormwater ponds.

# Atmos Energy Requests Rate Increase in Dallas

Atmos Energy (Atmos or Company) asked the City of Dallas to approve a rate increase for customers that would raise the company's revenues by \$18.3 million per year, or roughly 9.4%. This would result in a \$5.48 increase per month for the average customer. The City has limited control over the rate Atmos sets. Last year, the City Council denied Atmos' \$10.1 million rate increase, but the Commission approved an \$8.5 million rate increase.

Atmos said that its requested increase is due to the Company's efforts in 2019 to replace pipelines and better detect leaks. As you may recall, Atmos' aging pipelines have been under scrutiny after a natural gas explosion in northwest Dallas in February 2018 killed a 12 year-old girl. The Company says that it has eliminated over 16,000 leaks during the last fiscal year through "permanent replacement or repair" of pipelines in its mid-Texas region, according to its 2020 Dallas Annual Rate Review filing.

Members of the City Council agreed that pipeline quality and safety are important, but not all were convinced that approving the rate increase will lead to pipeline improvements. Council Member Lee Kleinman specified that he believes Atmos prioritizes paying dividends, and that when the City has approved rates in the past, the Company did not replace the aging infrastructure it should have.

On May 13, 2020, the City of Dallas deferred the timeline to act on Atmos' request due to COVID 19, until August 29, 2020.

On August 12, 2020, the City of Dallas determined that Atmos failed to demonstrate the reasonableness of the requested increase. Instead, Atmos and the City of Dallas agreed to an annual rate increase of \$15,800,000 to customers with the City.

The new rates went into effect as of September 1, 2020.



## 2021 ACSC Meetings

March 4  
May 6  
August 12  
December 9

## 2021 Officers

Chair—Jennifer Richie (Waco)  
Vice Chair—Meg Jakubik (Bedford)  
Secretary—Adrienne Lothery (Colleyville)

For more questions or concerns regarding any ACSC matter or communication, please contact the following representative, who will be happy to provide assistance:



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