2022 ACSC

Atmos Cities Steering Committee

2022 YEAR IN REVIEW ISSUE

This past year was a busy one for ACSC. This annual review highlights the significant events of 2022 that impacted ACSC and what's on the horizon next year.

ACSC Welcomes New 2022 Members

The Atmos Cities Steering Committee welcomed several new members to the coalition in 2022, including Archer City, Belton and Seymour. ACSC, an organization of more than 180 cities in north and central Texas with nearly 1.2 million residential customers, is one of the state's most important municipal coalitions active at the Texas Railroad Commission in ratemaking matters. Membership is determined by passage of a resolution by each governing body.

RRC Amends Gas Facilities Rules

On November 1, the Texas Railroad Commission updated rules relating to the designation of natural gas facilities as critical during emergencies.

Initially proposed last year by the Railroad Commission as part of its implementation of Senate Bill 3 and House Bill 3648 from the 87th Texas Legislature, the rules specify how the agency designates certain gas facilities as critical," which is particularly important when it comes to the power grid. This is because natural gas suppliers fuel many electric generators and failures by the gas industry have been identified as major contributing factors behind last year's rolling outages.

The Railroad Commission initially adopted the rules in November 2021, but then re-opened the rulemaking process soon afterwards there-after in response to additional staff and stakeholder input. On November 1, 2022 the three-member panel adopted new changes, many of them technical in nature. The rules took effect on November 21.

The Details

Some of the adopted changes incorporate suggestions from the Atmos Cities Steering Committee. For instance, the agency agreed to further clarify the process that gas facilities must follow when requesting critical designations, as per an ACSC suggestion. The agency also agreed to clarify how the agency makes such designations, as per an ACSC suggestion. Some of the other changes include the following:

- The Commission adopted amendments to provide more certainty regarding the definition of "energy emergency." In specific terms, the Commission adopted amendments to define an event with "potential to result in firm load shed" as when the reliability coordinator of a power region in Texas issues an Energy Emergency Alert Level 1 or 2.
- The Commission adopted amendments to the list of critical gas suppliers to exclude gas wells producing an average

of 250 Mcf of natural gas per day or less and oil leases producing an average of 500 Mcf of natural gas per day or less.

- The Commission adopted amendments clarifying that certain facilities designated as critical may request an exception unless the facility is included on the electricity supply chain map. The amendments likewise clarify acceptable reasons for requesting an exception.

More Information

More information about the rule designated as 16 TAC § 3.65 can be found at the Railroad Commission website.

Railroad Commission Sets Emergency Gas Curtailment Rules

In response to the massive gas supply failures during Winter Storm Uri, the Texas Railroad Commission on April 12 updated its rules governing emergency service priorities.

As a result of the action, gas suppliers will have to follow new rules during those emergency situations when they lack sufficient supply to serve all customers. The Atmos Cities Steering Committee earlier expressed general support for a draft of the new rules.

In specific terms, the agency reset its 1970s-era “Order 489” that relates to gas deliveries during “curtailment events;” i.e., when gas utilities lack sufficient supply to serve all customers. The new action amends a section of the Texas Administrative Code (16 TAC § 7.455) relating to curtailment standards and likewise repeals a section of the Texas Administrative Code (16 TAC § 7.305) relating to the commission’s existing curtailment program.

Prioritizing Human-Needs Customers

Of particular importance, the rules set forth various service priorities for gas suppliers that find themselves unable to meet all their firm delivery obligations. The rules name human-needs customers — such as residences, hospitals, water and wastewater facilities, and emergency responder facilities — as the top priority for gas service, as well as electric generation facilities. It then sets forth other customer categories, in priority-order of service. The agency’s three commissioners adopted the new rules after only a brief discussion, and they took effect on September 1.

Lawmakers Begin Filing Energy-Related Bills in Advance of 88th Legislature

The next Regular Session of the Texas Legislature — the 88th — convenes on January 10. Some of the bills filed so far would affect gas utility customers, including residential customers living within cities served by the Atmos Cities Steering Committee. However, given that Texas hasn’t suffered a repeat energy crisis like the one brought on by Winter Storm Uri, don’t expect to see a flood of energy-related bills similar to what the legislature experienced in 2021.

Two bills of interest we’ve seen filed so far are House Bills 697 and 743, by Reps. Justin Holland and Jay Dean respectively. Under HB 697 home sellers would be required to reveal the sort of gas piping installed at their residence. The disclosure holds importance for customer safety given that older iron pipes have been associated with various fatal accidents. Under House Bill 743, cities and counties would be prohibited from adopting ordinances that restrict the use of gas appliances in residential or commercial buildings. The issue has been pressed in recent years by gas utilities as they have witnessed a reduction in the use of gas appliances nationwide for environmental reasons.

Railroad Commission Oks Securitization Financing Order

On February 8, the Texas Railroad Commission approved a $3.4 billion financing order to pay natural gas costs from Winter Storm Uri.

Under the regulatory action, ratepayers will end up paying potentially for decades for fuel they consumed during the weeklong storm. The Railroad Commission had given its initial OK in November 2021, and the February action pushed the process forward by directing a separate agency known as the Texas Public Finance Authority to issue the bonds.

Atmos, CenterPoint, Texas Gas Service and 8 other gas utilities applied for financial recovery under the debt financing deal, which utilities promote as a method to help their customers avoid rate shock. Under ordinary circumstances, the cost of natural gas consumed by utility customers would have flowed directly into monthly bills. During last year's Winter Storm Uri, however, gas prices spiked to intolerable levels and so gas utilities instead set aside those fuel costs as "regulatory assets" to deal with later. The new bond financing allows utilities to receive reimbursements for these expenses. The downside for ratepayers, however, is that they will have to pay off the bonds over many years and with interest. The size of the resulting bill charges remains unclear.

UTILITIES PARTICIPATING IN PROGRAM

Under the financing order, Atmos Energy can receive reimbursements under the bond financing arrangement for approximately $2 billion in fuel costs, CenterPoint can receive approximately $1.1 billion and TGS can receive $197.3 million. Other utilities to receive recovery include Bluebonnet, Corix, EPCOR, SiEnergy, UniGas, TGS West Texas Service Area and CoServ.

The bond financing process (known as "securitization") received authorization in 2021 by the Texas Legislature, under House Bill 1520. By law, gas distribution utilities such as Atmos, CenterPoint and TGS cannot profit from the sale of the gas commodity, but instead must pass those costs directly to end users without markups.

UTILITY	STIPULATED MAXIMUM REGULATORY ASSET AMOUNT
Atmos	$2,021,888,534
Bluebonnet	$1,962,731
CenterPoint	$1,099,929,626
Corix	$294,407
EPCOR	$11,296,221
SiEnergy	$18,795,497
TGS	$197,342,375
UniGas	$32,431,370
TGS WTSA	$59,663,320
CoServ	$67,224,791

Atmos Reports More Financial Gains

Atmos Energy announced consolidated net income of $774.4 million for the year ending September 30, 2022. In a Nov. 10 call with financial analysts, the company also said its capital expenditures totaled $2.4 billion for the year, with capital expenditures expected to approximate $2.7 billion in fiscal 2023.

Due to the availability of interim rate mechanisms (such as the Gas Reliability Infrastructure Program in Texas that allows the utility to promptly implement rate increases), Atmos said that 90 percent of its annual capital expenditures begin to earn financial returns within six months.

Atmos noted that average residential monthly customer bills were $68 in the 2022 fiscal year, will rise to an estimated $79 in fiscal 2023, and rise to an estimated $91 in 2027. Meanwhile, the portion of customer bills associated with pass-through gas costs will decline — from about 50 percent in 2023, to 35 percent in 2027.

In addition to the effect of rate increases, some of the company's revenue growth has been driven by a growth in the number of its customers. Atmos noted that it added 62,000 customers in Texas during the 2022 fiscal year, including 50 new industrial customers. It estimated that it will add 120 industrial customers over the next three years.

The company said that 2022 marked the 20th consecutive year for earnings per share growth, and 39th consecutive year of dividend increases.

During the earnings call, Atmos also revealed other details regarding its financial performance:

Results for the Fiscal Year Ending September 30, 2022.

Consolidated operating income increased $16 million to $921 million for the year ending September 30, compared to $905 million during the previous year. Refunds of excess deferred income taxes reduced operating income by $111.8 million, although that was substantially offset by a corresponding decrease in income tax expenses. Excluding the impact of these refunds, operating income increased $127.8 million because of rate increases, customer growth in distribution operations and other factors.

Distribution operating income decreased $14 million to $604.5 million for the year ending September 30, as compared with $618.5 million during the corresponding prior-year period. Refunds of excess deferred taxes re-duced operating income by $98.5 million year over year, while a $149.9 million increase in rates, customer growth of $15.2 million and other factors drove up revenues.

Pipeline and storage operating income increased $29.9 million to $316.4 million for the year ending September 30, as compared with $286.5 million during the prior year. Key operating drivers for this segment include a $70.4 million increase from GRIP filings approved in fiscal 2021 and 2022.

Capital expenditures increased $474.9 million to $2.4 billion for the year ending September 30, compared with $2 billion during the prior year.

2022 Atmos RRM and GRIP Orders

Two of the most significant rate-setting mechanisms employed by the Atmos gas utility are the Gas Reliability Infrastructure Program (GRIP) and the Rate Review Mechanism (RRM). The first, GRIP, was created by the Texas Legislature; the other, the RRM, does not exist in statute but rather is the result of various covenants reached between the Atmos utility and participating member governments of the Atmos Cities Steering Committee.

Both GRIP and the RRM permit Atmos to hike rates on an annual basis. However, under GRIP, Atmos can effectuate these hikes without any contemporaneous and substantive regulatory review. This means that under GRIP, Atmos (or any other utility that employs it) can increase rates without consideration of offsetting savings, without consideration of revenue levels — without even consideration of the prudence of their underlying investments.

The RRM, by contrast, requires utilities to submit their rate requests to regulatory scrutiny, sets forth various deadlines for expedited reviews of those rate requests, and allows for examination of various mitigating factors that can limit rate hikes and potentially save money for Texas gas consumers. While outcomes may vary from year to year, on balance the RRM process consistently provides better long-term outcomes for ratepayers than GRIP.

Atmos, which serves about 2 million customers in north, central and west Texas, employs the RRM only in areas falling within the boundaries of ACSC cities. It employs GRIP in those sections of its service territory lying outside the territorial boundaries of ACSC cities and within some non-ACSC cites. Under GRIP, utilities can hike rates once per year for six years before submitting to a more thorough rate case at the Texas Railroad Commission.

Just below we summarize 2022 rate increases for Atmos customers under both mechanisms.

Atmos Mid-Tex RRM

On April 1, 2022, Atmos filed a rate request under the Rate Review Mechanism process claiming that it was entitled to additional system-wide revenues of $141.3 million for its Mid-Tex service territory, based on a 2021 test year. Under a 2022 settlement, that amount will be reduced to $115 million, $83.26 million of which would be applicable to ACSC members. ACSC's consultants concluded that the system-wide deficiency under the RRM regime should be $95.8 million instead of the claimed $141.3 million. The effective date for the new rates was October 1, 2022. The impact of the settlement on average residential rates is an increase of $4.60 monthly, or 6.7 percent. The increase for average commercial usage will be $14.34 or 4.3 percent.

Atmos West Texas RRM

On April 1, 2022, Atmos filed a rate request under the Rate Review Mechanism process claiming it was entitled to addition-al revenues of $8.77 million for 71 ACSC cities within the company's West Texas service territory, based on a 2021 test year. Under a 2022 settlement, that amount will be reduced to $6.72 million. The impact of this increase to an average residential customer's bill is approximately $3.36 per month. Comparison of these new rates to rates in effect for areas not under the RRM process reveals that settling cities will maintain an economic monthly rate advantage over Lubbock, and West Texas service territory environs.

Mid-Tex GRIP

On Feb. 25, 2022, Atmos filed for a GRIP increase for the unincorporated areas of its Mid-Tex Division, which has approximately 2,747,558 customers, of which 83, 056 were subject to the new GRIP order. The GRIP filing is the fourth since the company's most recent rate case in 2018. Under a June 7, 2022, GRIP order, the approved revenue requirement increase in the West Texas service area is $128,361,676, of which $5,645,756 is to be recovered from customers subject to the order. The GRIP filing will result in an increased residential customer charge of $5.15 per month. More information can be found on the Railroad Commission website, under Case No. 00008887.

West Texas GRIP

On Feb. 25, 2022, Atmos filed for a GRIP increase for the unincorporated areas of its West Texas Division, which has approximately 314,896 customers. However, 22,532 customers were subject to the new GRIP order. The GRIP filing is the fourth since the company's most recent rate case, in 2018. The Texas Railroad Commission approved the GRIP adjustment on June 7, 2022. Under it, the approved revenue requirement increase in the West Texas service area is $14,686,365, of which $1,221,084 is to be recovered from customers subject to the order. The GRIP filing will result in an increase in the residential customer charge of $3.20 per month, bringing the total customer charge to $27.99. More information can be found on the Railroad Commission website, under Case No. 00008885.

Expected 2023 RRM, GRIP and DARR Activities

- Atmos anticipates making a GRIP filing for its Texas Pipeline division in February 2023, with new rates anticipated for the third quarter of 2023.
- Atmos anticipates making a Dallas Annual Rate Review ("DARR") filing in January 2023, with new rates anticipated for the fourth fiscal quarter of 2023.
- Atmos anticipates making Rate Review Mechanism ("RRM") filings for Mid-Tex and West Texas Cities in April 2023, with new rates anticipated for the first fiscal quarter of 2024

2023 ACSC Meetings
March 9
June 8—Zoom only
September 7
December 7—Zoom only

2023 Officers
Chair—Jennifer Richie (Waco)
Vice Chair—Meg Jakubik (Bedford)
Secretary—Lupe Orozco (Keller)
Treasurer—David Johnson (Arlington)

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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