

AGENDA INFORMATION SHEET

APPROVAL OF A CHANGE IN ATMOS ENERGY CORPORATION, MID-TEX DIVISION'S ("ATMOS") RATES AS A RESULT OF SETTLEMENT BETWEEN ATMOS AND THE ATMOS TEXAS MUNICIPALITIES ("ATM") UNDER THE RATE REVIEW MECHANISM

ATMOS TEXAS MUNICIPALITIES

The City is a member of the Atmos Texas Municipalities ("ATM"). The ATM group was organized by a number of municipalities served by Atmos and has been represented by the law firm of Herrera & Boyle, PLLC (through Mr. Alfred R. Herrera). ATM also retained the services of a consulting firm, Utilitech, Inc. (Mr. Mike Brosch and Mr. Steve Carver) to assist in reviewing an application submitted by the Mid-Tex Division of Atmos Energy ("Atmos") that seeks to change Atmos' rates. The firm of Utilitech has also participated in prior rate cases involving Atmos.

RATE REVIEW MECHANISM

In the summer of 2013, Atmos and ATM entered into an agreement that approved a process for calculating annual changes to Atmos' rates under a tariff called the Rate Review Mechanism.

Atmos submitted its RRM package to the cities on or around July 15, 2013. Atmos requested an increase in rates on a system-wide basis of \$22.7 million. Atmos' requested amount of \$22.7 million includes a \$3 million reduction that is a component of the RRM tariff. Without the reduction, Atmos' request would have been \$25.7 million.

After reviewing Atmos' rate-filing package, experts retained by ATM concluded in a preliminary report that an increase of only \$8.5 million was supported by Atmos' data. ATM's experts' recommendations focused on Atmos' Operations and Maintenance expenses, Medical and Dental Benefits, Insurance expenses, Tax Adjustments, Capital Structure and Cost of Debt, and Regulatory Assets. Following a series of settlement negotiations between Atmos' experts and ATM's experts, and the back and forth that accompanies such negotiations, Atmos offered to resolve this matter for an increase of \$16.6 million, a \$6.1 million decrease from its original proposal. In response to ATM's request, and as part of its settlement offer, Atmos also agreed to postpone the effective date of the increased rates by two weeks, which has the effect of reducing its total system-wide increase by about \$300,000.00. Thus, at this juncture, the ATM cities' options are as follows:

Option 1. To deny Atmos' requested increase and approve no increase;

Option 2. To deny Atmos' requested increase and approve an increase of \$8.5 million, based on ATM's consultants' report; or

Option 3. To deny Atmos' requested increase of \$22.7 million but approve an increase of \$16.6 million.

Note that under Option 1 and Option 2, Atmos has the right to appeal the ATM cities' decisions to the Railroad Commission of Texas (Commission) and pending such an appeal would have the right to immediately implement its proposed increase of \$22.7 million, subject to refund if the Commission's review later finds it inappropriate.

In an appeal to the Commission, Atmos would in all likelihood argue that the costs of appeal should be borne by only the ATM cities. Given the Commission's tendency to err in favor of utilities, Atmos would likely prevail. An appeal would significantly increase the burden on ratepayers by adding rate case expenses, which would include both ATM's and Atmos' costs of preparing and prosecuting the appeal, and the costs of a hearing. Also, there is a substantial risk that the Commission would grant Atmos a greater increase than the currently proposed settlement amount.

RECOMMENDATION:

After a series of negotiations with Atmos, and given the risks of continued litigation of this matter, ATM's special counsel recommends approval of an increase of \$16.6 million. While this amount is materially higher than ATM's experts' preliminary report suggests, if the ATM cities reject Atmos' settlement offer, Atmos would appeal the cities' decision to reject their original request to the Commission, and there are a number of contested issues whose outcome would be uncertain in an appeal. Also, an increase of \$16.6 million is within the range of possible outcomes on appeal, particularly in light of the many rulings the Commission has issued that favor the utilities over ratepayers.

Therefore, given the cost of litigation, and the risks of an unfavorable outcome at the Commission, special counsel advises ATM to accept a settlement increasing rates by \$16.6 million which is about 27% less than Atmos' full requested increase. The rate schedules to accomplish the increase are attached to the Ordinance approving the increase. Approval of this increase in rates increases an average customers' total bill as follows:

Residential Customer:	\$0.74/month and 1.75% overall.
Commercial customer:	\$2.16/month and 1.01% overall.
Industrial/Transportation Customer:	\$53.65/month and 2.02% overall.

The attached Ordinance directs Atmos to reimburse ATM's rate-case expenses and also establishes Atmos' Pension and Other Post Employment Benefits for purposes of establishing the benchmark for Pension/OPEB costs.

The City should take action as soon as possible but no later than November 1, 2013.