

Atmos Cities Steering Committee

A timeline



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F O R W A R D

The purpose of this document is to reflect the regulatory history of gas utility rate making between 1996 and 2020 for the city members of the Atmos Cities Steering Committee (“ACSC”) and to explain when and how ACSC was transformed into a permanent standing committee from various *ad hoc* committees that resisted specific rate filings at specific points in time. The document is based on the work papers and memory of ACSC General Counsel, Geoffrey Gay.

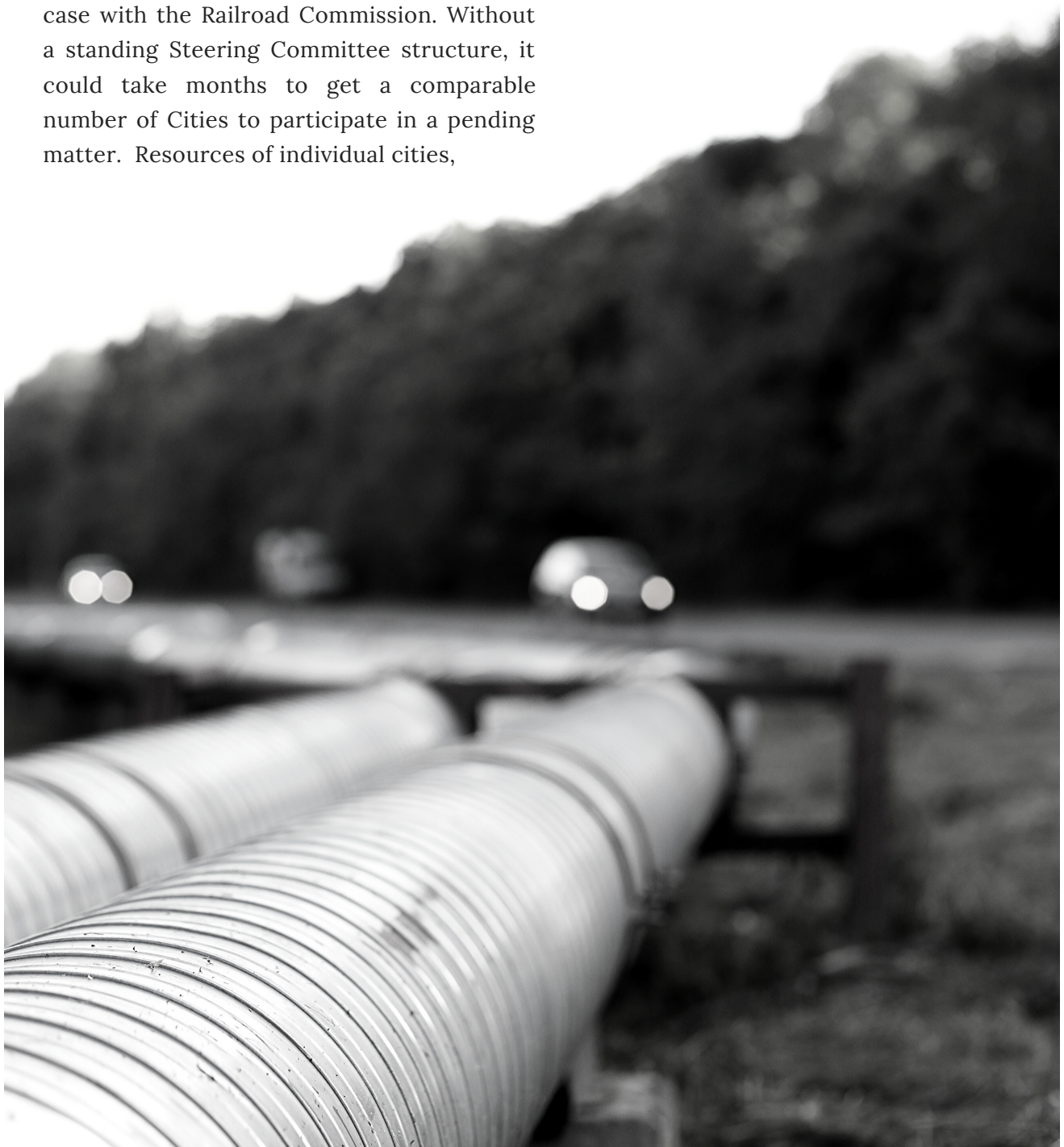
As of April 2020, ACSC is a coalition of around 170 cities that unite in common purpose to address gas utility rate and franchise issues related to Atmos Mid-Tex, a subsidiary of Atmos Energy Corporation, a multi-state corporation serving natural gas distribution customers in eight states (Texas, Colorado, Kansas, Louisiana, Mississippi, Kentucky, Tennessee and Virginia). ACSC became a permanent standing Steering Committee in March 2006 in recognition of the fact that Atmos intended to seek annual increases in rates for the foreseeable future. Previously, the group had referred to itself as the Steering Committee of Cities Served by Lone Star Gas and as the Steering Committee of Cities Served by TXU Gas, and had intervened in various Railroad Commission proceedings using names such as Allied Coalition of Cities (2003).

ACSC’s objectives are: (1) to ensure that gas utility rates charged to Cities and their residents are fair and reasonable; (2) to protect Cities’ original jurisdiction over rates and services; (3) to maintain reasonable franchise fee revenues for Cities; (4) to be a voice for consumers where no state agency assumes such a role; and (5) to promote sound rate making policies in the public interest.

Cities join the permanent standing committee by passing a resolution and agreeing to support the work of ACSC through modest occasional per capita assessments that support ongoing administrative and legislative advocacy and all expenses where Cities are not entitled to reimbursement. Each member City designates a representative to ACSC. Member representatives may volunteer to serve on the ACSC Executive Committee which sets policy, hires legal counsel and consultants, directs litigation, recommends settlement to members, approves annual budgets, establishes legislative agendas, sets assessments on members as needed, and meets quarterly, frequently with Atmos executives.

The ACSC membership resolution authorizes the Executive Committee to act on behalf of the entire membership subject to an individual member's right to withdraw from any action pursued by ACSC. Such authority increases the effectiveness of the regulatory role that Cities are authorized by statutes to play. ACSC can intervene its entire membership within hours of Atmos filing a case with the Railroad Commission. Without a standing Steering Committee structure, it could take months to get a comparable number of Cities to participate in a pending matter. Resources of individual cities,

both financial and human, are conserved by membership in ACSC. Additionally, membership enhances institutional memory of ratemaking issues, public policy debates, and right-of-way and franchise fee battles.



EXECUTIVE SUMMARY

Industry Transition: LSG to TXU

The Atmos pipeline and distribution systems were built, owned, and operated by Lone Star Gas (“Lone Star” or “LSG”), which maintained over 200 local rate jurisdictions until its assets were sold to Texas Utilities (“TXU”) in the late 1990’s. That meant that most Cities had unique distribution rates. System-wide gas rates did not exist. LSG-Pipeline provided natural gas to all 200-plus distribution systems, and pipeline rates were set by the Railroad Commission of Texas (“RRC”).

From the early 1980’s through the late 1990’s, LSG filed no pipeline cases at the RRC. When LSG was finally brought before the RRC (1996) to justify its rates, approximately 80 Cities intervened and created an *ad hoc* group known as the Steering Committee of Cities Served by Lone Star (initial precursor to ACSC).

When TXU purchased the LSG assets, it immediately commenced consolidating 200-plus ratemaking jurisdictions into regions with common rates. As regional cases were filed, Cities within each region created an



ad hoc committee to form a common strategy and negotiating position. Once TXU had aggregated the Cities into six or seven regions, each with a different rate, Texas Utilities Gas Company filed a system-wide case to bring all of the old LGS territory under one common set of rates. The different City regional committees then united as the Steering Committee of Cities Served By TXU Gas and intervened in GUD No. 9400 at the RRC as the Allied Coalition of Cities (“ACC”).

Atmos Replaces TXU

While TXU achieved a major objective in GUD No. 9400 by consolidating rates into one system-wide schedule, it was otherwise unhappy with its revenue increase. It sold its gas assets to Atmos Energy. ACC was then transformed into the Steering Committee of Cities Served by Atmos Gas.

In the 2003 legislative session, TXU and Atmos supported efforts to transform traditional public interest cost-of-service ratemaking into a piecemeal process where gas utility companies could obtain annual

rate relief to recover amounts spent on capital investment without opposition. The piecemeal process referred to as the Gas Reliability Infrastructure Program, or "GRIP," was opposed by Cities, but it became law effective September of 2003. Atmos filed GRIP cases at the RRC in 2004 for both its pipeline system, Atmos Pipeline-Texas ("APT") and its distribution system, Atmos Mid-Tex.

Cities Served by Atmos Gas attempted to intervene at the RRC in opposition to various GRIP cases, but the RRC adopted rules that precluded interventions in GRIP cases and rejected the filing of testimony and comments from Cities. Cities Served by Atmos Gas filed for declaratory relief in district court to overturn the RRC rules. Cities argued the rules contravened that portion of the Utilities Code that gives municipalities standing and a right to intervene in any RRC proceeding that involves rates. The district court, and ultimately the Texas Supreme Court, rejected the Cities position.

Following the second Atmos Mid-Tex GRIP case where Cities' participation was denied, Steering Committee Cities passed show cause resolutions that required Atmos Mid-Tex to file a traditional rate case in 2006 to demonstrate that its rates were justified. The Atmos response became GUD No. 9670 at the RRC. Hearings in that matter highlighted numerous abuses of GRIP where the Company capitalized numerous ordinary expenses to inflate GRIP recovery. Examiners in that case agreed with Cities and recommended a rate reduction. The RRC overruled its Examiners and ordered a rate increase of less than one-tenth of the

original request. In 2006, the Company filed its third GRIP case, leading to a second rate increase for 2006. Recognizing that annual Atmos rate increases would be the norm for the foreseeable future led the Cities Steering Committee to create a formal, permanent standing committee in March 2006. At its meeting on June 29, 2006, the Cities decided to adopt the name Atmos Cities Steering Committee ("ACSC").

Rejection of Atmos GRIP appeal

The District Court Order resulting from the declaratory action filed by the Cities' Steering Committee did have one beneficial effect. Atmos appealed to the RRC after Cities rejected the fourth annual Mid-Tex GRIP filing, but the Attorney General informed the Commission that based on the Court's Order, the RRC lacked authority to consider an appeal from Cities' denial of a GRIP rate increase, which forced Atmos Mid-Tex to file another traditional rate case with Cities in 2007.

The rejection of its GRIP appeal (along with the adverse publicity from the prior year) increased the desire of Atmos executives to resolve inherent conflicts with Cities. After Atmos met with more than 60 City officials, the Company and ACSC agreed to create an alternative to GRIP that would give Atmos expedited annual review of requested rate relief while allowing Cities to review possible revenue and expense offsets to increased rates that would result from exclusive reliance on recent asset purchases. The 2007 rate case was settled for about one-fifth of the requested relief and the annual Rate Review Mechanism ("RRM") was enacted by ordinances adopted by all Steering Committee Cities.



REGULATORY CHRONOLOGY

The original ACSC ordinance that created the RRM process has been revised several times. On March 31, 2020, Atmos Mid-Tex filed its 12th RRM case. Since Atmos purchased the gas assets from TXU, ACSC has had major roles to play in litigating several pipeline cases and several distribution cases at the RRC, in negotiating enhancements to franchise fee recovery and in protecting cities and consumers at the Legislature. These efforts are more specifically detailed in the chronology that follows.

Cities have original jurisdiction over gas rates and services within their municipal limits. They have no jurisdiction to regulate the cost of gas or the cost to transport gas to hypothetical “city gates.” Atmos Mid-Tex owns the gas distribution system that maintains over 400 city gates in North and Central Texas.

The exclusive supplier/transporter of gas to the Atmos Mid-Tex city gates is Atmos Pipeline Texas (“APT”). Both Atmos Mid-Tex and APT were originally owned by Enserch through its subsidiary Lone Star Gas.

Lone Star pursued a philosophy based on regulatory fragmentation and manipulation of local authorities. That is, to avoid regulation by the Federal Energy Regulatory Commission (“FERC”), Enserch sold assets that connected Lone Star to Oklahoma that would have suggested the Company had been engaged in interstate commerce. To avoid regulation by the RRC, Lone Star operated its distribution and pipeline assets as an integrated whole and maintained hundreds of local rate jurisdictions. It was a city-by-city, divide-and-conquer, file-a-case-and-settle and never-appeal-to-the-RRC-unless-a-city-completely-denied-rate-relief strategy.

ACSC BEGINS AS STEERING COMMITTEE OF CITIES SERVED BY LONE STAR GAS

Between 1983 and 1996, Lone Star Gas had no contested rate proceedings before the RRC. During that time period, certain cities communicated to the RRC a belief that the Company was over-earning and they requested that the Commission initiate a rate inquiry. The Commission ignored such requests until August 1996 when it opened Gas Utilities Division (“GUD”) Docket No. 8647 as an inquiry into the rates and services of Lone Star Gas. A group of 34 cities, including Abilene, Arlington, Dallas, Fort Worth, Grand Prairie, Plano, Waxahachie, Denison, Irving, Brownwood, and Waco passed resolutions authorizing Geoffrey Gay (“GMG”) to intervene and represent their interests. Two other city groups also intervened and the three groups were referred to as “Aligned Cities.”

The RRC decided that a rate inquiry was appropriate and Lone Star filed a rate case docketed as GUD No. 8664. In it, Aligned Cities not only won an \$18 million rate reduction but also established a need for a new gas review process after ACSC precursor Cities established that if FERC policies had been in place, Lone Star would have been forced to write-off portions of its take-or-pay contractual gas supply agreements that could have saved customers more than \$80 million. Lone Star attempted to argue in GUD No. 8664 that its pipeline system was riskier than the distribution portion of the Company and, as such, that the pipeline merited a higher rate of return on equity. The Commission rejected that argument.

In 1997, during the pendency of GUD No. 8664, Enserch merged with Texas Utilities (“TXU”), and Lone Star Gas became known as TXU Gas. Shortly thereafter, the Railroad Commission ordered TXU Gas to file a case within three years to prove-up any synergistic savings from that merger.

TXU CONSOLIDATES RATE JURISDICTIONS

In 1998, TXU began the process of consolidating approximately 200 rate jurisdictions and city-specific rates into regions. In the late 1990s, GMG handled several regional cases in what TXU Gas then referred to as Mid-Cities Region, Northeast Metro Region, and Northwest Metro Region.

Regional filings intensify in the 2000-2002 time period. In July 2000, there was a filing in the Northeast Metro area, and in August 2000, the cities in Ellis County were consolidated into a single region for gas ratemaking purposes.

In February 2001, TXU Gas filed a case to consolidate two regions—Northwest Metro and Mid-Cities. GMG represented 22 of 40 cities in the consolidated area, including Addison, Argyle, Arlington, Bedford, Carrollton, Colleyville, Dalworthington Gardens, Denton, Double Oak, Euless, Farmers Branch, Flower Mound, Grapevine, Highland Village, Hurst, Irving, Keller, Lewisville, Mansfield, Pantego, Ponder and Westlake. Most of the 18 non-participating cities received rate reductions from the new

proposed rates and were not interested in opposing the Company.

In March 2001, the Company filed to consolidate 121 East Texas cities under common rates. GMG represented 27 cities (Athens, Bells, Clarksville, Corsicana, Crandall, Denison, Ennis, Farmersville, Gainesville, Howe, Kaufman, Malakoff, Palestine, Paris, Pecan Hill, Point, Poyner, Princeton, Red Oak, Sherman, Sulphur Springs, Trenton, Waxahachie, and Whiteright) in that case. Most of the 94 non-participating cities were too small to take an interest in the filing.

In May 2001, there was a South Region filing wherein GMG represented Austin, Bellmead, College Station, Killeen, Robinson, Thorndale, Waco and Woodway.

In June 2001, TXU Gas made a West Region filing that consolidated 77 cities. GMG represented Abilene, Alvarado, Brownwood, Cleburne, Clyde, Haskell, San Angelo, Snyder, Stamford, Stephenville, and Sweetwater. Ninety percent of the requested increase in revenues were to come from the 11 participating cities.

All of the initial regional cases were resolved via settlements. In each, a group of city representatives functioned as a settlement committee. The common consultants used in these cases were Bill McMorries, Connie Cannady, and Steve Hill. The common city strategy was to restrain rate of return on equity, to resist unnecessary or unreasonable costs, to correct the unfair favoritism previously shown by LSG of industrial

customers, and to keep residential customer charges in the \$7.00 per month range.

In May 2002, TXU Gas made one final regional filing before attempting to combine all customers throughout the State under a common set of rates. The Company filed to create a North or Metroplex region by consolidating 86 cities from the Metroplex, except for Dallas. The filing added the Northeast Metro Region to the previously combined Northwest and Mid-Cities regions.

A settlement committee consisting of Danny Reed (Fort Worth), Jay Doegey (Arlington), Brian Davis (Richardson), Geoffrey Gay, and consultants Dan Lawton and Jack Pous negotiated with the Company. The “final” offer from TXU Gas was for an increase of \$12 million. Of the 86 affected cities, 35 agreed to accept the Company’s offer because acceptance would lead to rate reductions for consumers within municipal limits. The other 51 cities rejected the Company’s final offer and passed resolutions denying the requested rate relief. The Company appealed the denials to the RRC, which docketed the case as GUD No. 9313. Ultimately, the Company and Cities agreed to a compromise rate increase of \$7.5 million following an analysis of probabilistic outcomes of litigation that suggested the RRC would likely grant an increase greater than that amount.

RRC ACTIVITY IN 2000-2002

To comply with the Commission's Order that it file a case to establish synergistic savings from the merger with Enserch in early 2000, TXU Gas Pipeline filed GUD No. 8976. Seventy-nine Steering Committee Cities Intervened. Hearings lasted from February 16 until March 10th. The Company requested an increase of \$20 million. In May, a Proposal for Decision recommended a \$4 million rate reduction and on June 22, the Commission ultimately ordered a reduction of \$1.56 million. In this case, TXU Gas resurrected the argument that LoneStar had made in GUD No. 8664 regarding the relative risks of pipeline versus distribution assets, and again the Commission ruled that Enserch had built an integrated system and that the purpose of the pipeline was to serve LoneStar distribution customers.

Two cases during 2000 addressed billing issues. TXU Gas filed GUD No. 8935 to reform the cycle billing process and GMG filed an intervention on behalf of 16 cities (i.e., Arlington, Bedford, Carrollton, Clarksville, Comanche, Flower Mound, Fort Worth, Lewisville, Madisonville, Pantego, Plano, The Colony, Town of Little Elm, University Park, Vernon and Waxahachie). That case led to the filing of Docket No. 8996 relating to the reform of the "Gas Purchase Adjustment Clause" or "GPAC," which is the mechanism for passing pipeline charges approved by the Commission and actual costs of natural gas on to distribution customers. The 16 cities involved in GUD No. 8935 also participated in GUD 8996.

In September 2000, Cities participated in TXU Gas' complaint against PG&E, docketed

as GUD No. 9173. TXU Gas successfully established that PG&E (dba Valero Transmission) had been over-charging the pipeline system since 1994. The Commission approved refunds that would flow back to customers through the Gas Purchase Adjustment Clause.

In July 2001, TXU Gas filed GUD No. 9233, the first triennial gas cost review. It became necessary after Steering Committee Cities established in an earlier case, GUD No. 8664, that Lone Star had leveraged its pipeline system to push into distribution rates millions of dollars in expenses inappropriately associated with gas costs. The 9233 case reviewed Lone Star's gas purchases between November 1, 1997, and October 1, 2000. However, the Commission regretted ordering a gas review process and it was terminated after the second triennial review. The Commission did not enter an order in GUD No. 9233 until April 23, 2004.

TXU GAS' UNSUCCESSFUL EFFORTS AT THE RRC TO ACHIEVE PIECEMEAL REGULATION

TXU Gas Pipeline made two attempts in 2002 to persuade the RRC to allow it to increase revenues without justifying its overall expenses, revenues, or rate of return. In April, the Company requested imposition of surcharges (i.e., 37 cents per month for residential customers and \$2.10 per month for commercial customers) to support construction of a 76-mile pipeline to enhance gas supply to the Dallas area. The surcharge associated with GUD No. 9292 was represented to have a seven-year life. Cities filed opposition to the request as unlawful

piecemeal regulation. A month after filing GUD No. 9292, the Company filed GUD No. 9304, wherein it requested monthly surcharges (i.e., \$1.25 to \$2.50 for residential customers) to recover “unpredictable” expenses associated with implementation of a pipeline integrity and safety assessment program. Cities again opposed this attempt at piecemeal regulation. The Commission dismissed GUD No. 9292 on June 25, 2002, and dismissed GUD No. 9304 on August 22, 2002.

THE TEXAS LEGISLATURE APPROVES TXU GAS’ PLAN FOR PIECEMEAL REGULATION

In March 2003, GMG described House Bill 1942, supported by TXU, in a memo to client cities as a bill that “legalizes piecemeal ratemaking and allows the gas utilities to increase rates even if labor costs, interest rates, O&M and rate of return on equity would compel rate decreases.” GMG testified against the bill at the House Regulated Industries Committee. Representative Wolens could have killed the bill, but he became content when TXU agreed to allow cities a 60-day period to review what would become known as a Gas Reliability Infrastructure Program (“GRIP”) filing. Amended H.B. 1942, and its companion, S.B. 1271, passed the House and Senate and GRIP became effective in September 2003.

TXU GAS RATES ARE CONSOLIDATED STATEWIDE AND ATMOS BUYS THE GAS ASSETS

On May 23, 2003, TXU Gas filed GUD No. 9400 to consolidate its various regions and achieve system-wide distribution rates.

Anticipating a filing, approximately 50 representatives from cities around the state that were served by TXU met in Arlington on May 9, 2003 and agreed to support system-wide rates. One hundred and thirty-six city members of the Steering Committee of Cities Served By TXU Gas intervened as the Allied Coalition of Cities (“ACC”). As of July 2003, the Steering Committee’s Executive Committee consisted of the following: Jay Doegey (Arlington), Chester Nolen (Cleburne),



Nick Fehenbach, Don Knight and Amy Bock (Dallas), Tom Akins (Denison), Margaret Somereve and John Boyle (Farmers Branch), Van James and Steve Williams (Flower Mound), Danny Reed (Fort Worth), Cathy Cunningham (Irving),

Diane Weatherbee and John Gilliam (Plano), John Gayle and Carolyn House (Snyder), Dale Cheatham (The Colony), Art Pertile (Waco), and Bob Sokol and Janet Adkins (Waxahachie).

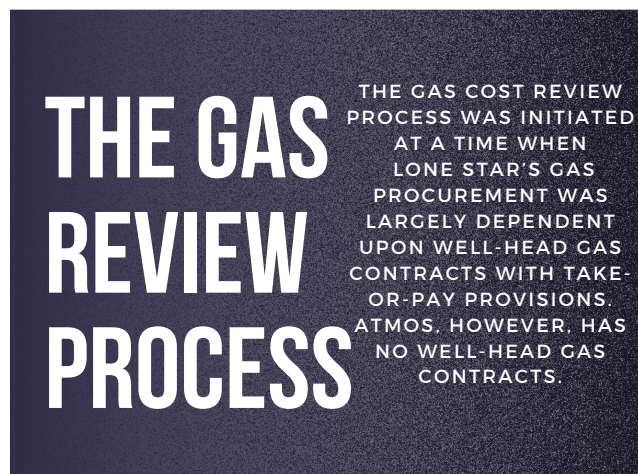
Dallas Files Separate Intervention

Dallas filed a separate intervention to oppose system-wide rates. Because Dallas had the lowest gas rates of any TXU Gas city, and because Dallas believed that population density led to lower cost per customer served, Dallas broke away from the Steering Committee of Cities with which it had participated in prior Lone Star and TXU Gas Pipeline proceedings.

The litigation focused in part on Lone Star's development and use of Poly-1 pipe in the 1970s. Three different city intervenor groups cooperated in successfully arguing that TXU should be responsible for Lone Star's imprudent acts with regard to the pipe's installation and its continued use. The city groups won disallowances of \$42.9 million of a regulatory asset and \$87.8 million of capitalized utility plant, and the Company received only \$11.7 million of its requested \$68.6 million increase. ACC testimony and evidence supported a rate reduction of \$19 million. Frustrated with the May 25, 2004 Order, TXU decided to sell the gas assets it purchased from Enserch, and a month later a merger with Atmos Energy was announced.

The acquisition by Atmos became effective October 1, 2004.

Multiple parties appealed the Commission's Order in GUD No. 9400. On August 2, 2006, a Travis County District Judge affirmed the Commission's Final Order on all issues.



SECOND AND FINAL GAS COST REVIEW

In 2005, the Texas Legislature considered and rejected Senate Bill 1169, authored by Senator Ken Armbrister. Had it passed, SB 1169 would have eliminated city jurisdiction over gas procurement costs and would have denied reimbursement of city expenses in such cases. However, despite that bill's failure—and despite ACSC opposition to it—the Commission nonetheless signaled in GUD No. 9530 that it would end future prudence reviews for gas acquisitions and disallow any city reimbursements for their expenses in such cases. In GUD No. 9530,

Atmos, in compliance with the order in Lone Star Gas GUD No. 8664, had to defend TXU's gas acquisitions between November 1, 2000, and October 31, 2003. Atmos and Cities then reached a settlement on Sept. 25, 2006 that granted customers a refund of \$8 million and reimbursed cities for their rate case expenses. With an eye toward a Commission Order in GUD No. 9530, the settlement also terminated future gas acquisition prudence reviews. Atmos Mid-Tex nonetheless continued to provide gas procurement briefings to ACSC members during the organization's end-of-year quarterly meetings in December.

Atmos Mid-Tex Rate Increases (\$000,000)				
Filing	Year	Company Request	ACSC Position	Resolution¹
RRM 12	2020	136.3	Pending	
RRM 11	2019	54.1	38.7	48.7 / 35.4
RRM 10	2018	27.3	21.6	24.9 / 17.8
RRM 9	2017	57.4	36.9	48 / 38.8
RRM 8	2016	35.4	18	29.6 / 21.9
RRM 7	2015	28.8	0.9	22.8 / 17.1
GUD 10539	2014 ²	43.8	—	—
RRM 6	2014	45.7	19.3	43 / 35.4
RRM 5	2013	22.7		16.6
GUD 10170	2012	53.7	(22.9)	27
RRM 4	2011	15.7		6.6
RRM 3	2010	70.2	20.3	27
RRM 2	2009	20.2	0.8	2.6
RRM 1	2008	35.5	19.8	20
2007 Rate Case	2007 ³	51.9		10
GRIP 4	2007	12.4	0	No Order
GUD 9670	2006	60.8	(37.5)	4.6
GRIP 3	2006	12.1	0	11.9
GRIP 2	2005	6.7	0	6.7
GRIP 1	2004	6.7	0	6.7
GUD 9400	2003 ⁴	69.5	(18.9)	11.5

¹ Atmos filings are based on the total system basis. Resolution reflects a total system and the allocation to ACSC members where appropriate.

² GUD 10539 was an appeal of RRM 6 which was settled and withdrawn by Atmos prior to entry of an order. The settlement resolved RRM 6 and 7.

³ The rate case was filed with cities and settled prior to appeal to the RRC.

⁴ GUD 9400 was filed by TXU and affected rates for both the pipeline system (APT) and the distribution system (Atmos Mid-Tex). \$11.5 million reflects the combined impact of a \$9.7 million increase in pipeline rates and other increases to Mid-Tex Rates.

GRIP FILINGS LEAD TO CREATION OF A PERMANENT STANDING COMMITTEE — ACSC

INITIAL ATMOS GRIP FILINGS

In December 2004, Atmos filed separate GRIP cases to increase rates for Atmos Pipeline Texas and Atmos Mid-Tex. Representatives from about 25 cities met in Arlington on December 16, 2004, to discuss action on the filings. It was decided that members of the Steering Committee of Cities Served by Atmos should suspend the Mid-Tex case for 60 days. Cities acknowledged that they had no authority to address APT GRIP cases. City action was suspended beyond that point by consent of Atmos as the parties attempted to settle GUD No. 9530, appeals of GUD No. 9400, and the GRIP filing. On May 12, 2005, 36 city representatives met in Arlington to discuss settlement positions and select a settlement committee. The first GRIP filing had not been resolved when Atmos made its second GRIP filing on or about September 15, 2005. The utility appealed the Steering Committee denials of relief requested in the first GRIP (GUD No. 9598), and the Commission did not rule on that case until October. The Steering Committee filed testimony and comments critical of the first GRIP filing and in defense of resolutions denying relief, but its attempts to intervene at the Commission were denied.

Similarly, the Commission ignored ACSC's testimony and comments showing GRIP was prematurely filed, contained calculation errors, and was unnecessary because Atmos was already earning its allowed return. Instead, the Commission approved the Atmos tariffs as proposed. On October 14, 2005, Steering Committee counsel advised Cities to deny a second GRIP filing and instead pass a show-cause resolution to compel the filing of a traditional cost-of-service rate case.

The first meeting of ACSC as a permanent standing Steering Committee occurred in Arlington on March 23, 2006. The ACSC formed a standing committee similar to the Steering Committee of Cities Served by Oncor ("OCSC") because Atmos' demands for rate relief were to become an annual event (for more about the OCSC, see their website at www.citiesservedbyoncor.org). The purpose of this first meeting was to discuss consultant Karl Nalepa's report on the extent of Atmos' over-earning and consider passage of a rate ordinance as a response to the Company's show-cause filing. Cities passed ordinances reducing rates by \$34.7 million.

As part of its appeal of Cities' action to the Commission, Atmos agreed to file a Statement of Intent (i.e., traditional rate case with an updated test year ending December 31, 2005) by May 31, 2006. On June 1, 2006, ACSC members were provided denial resolutions responsive to the Atmos filing.

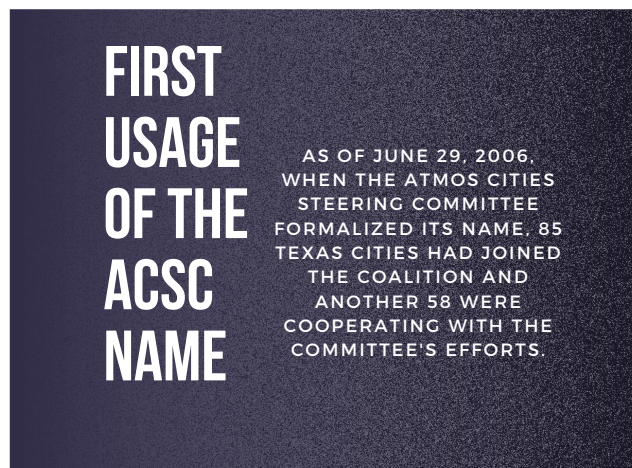
At a June 29, 2006, meeting in Arlington it was reported that approximately 85 cities had joined the permanent standing Steering Committee and that another 58 cities were cooperating with the committee's efforts. At that meeting, attendees formalized the name of the committee as Atmos Cities Steering Committee, ratified consultants and budgets for the rate case, and discussed GRIP and legislative matters.

The Commission docketed the rate case as GUD No. 9670 and hearings in it lasted 12 days. Atmos requested a \$60 million increase. ACSC filed testimony supporting a \$37.5 million rate reduction. ACSC testimony demonstrated that Atmos had indiscriminately capitalized meals, travel expenses, artwork, office furniture, and office supplies under the GRIP statute. Abuse of the GRIP statute also resulted in extensive media coverage. The Commission Staff undertook no discovery on the Company, participated in no depositions of Company witnesses, filed no testimony, presented no evidence and performed only limited cross-examination.

In early February, 2007, the Commission judges issued a Proposal For Decision recommending a \$23 million rate reduction and a \$2.5 million refund of GRIP surcharges. The Commission overruled its judges and ordered a \$5 million increase.

THIRD GRIP FILING

Atmos Mid-Tex filed its third GRIP case on March 30, 2006. The first and second GRIPs had residential surcharges of \$0.29. The residential surcharge in the third filing was \$0.51. ACSC was encouraged to suspend the effective date and delay final action until July 13, 2006. ACSC passed resolutions denying requested relief. The Commission again ignored Cities and granted the Company's request.



FOURTH GRIP FILING

On May 31, 2007, Atmos filed a pipeline GRIP case with the RRC and a distribution GRIP case with Cities. On June 6, 2007, the ACSC Executive Committee held a conference call to discuss the GRIP filings and legislative activity related to natural gas. The utility's distribution GRIP filing reflected its desire to assess a monthly residential surcharge of \$0.59. The Cities denied the request, which led Atmos to appeal the denials to the Commission. In September, the Attorney General advised the Commission that based on the district judge's ruling on ACSC's declaratory judgment case, the Commission lacked jurisdiction to consider an appeal of the Cities' denials of GRIP requests.

2007 LEGISLATIVE ACTIVITY

In 2007, during the 85th Regular Session of the Texas Legislature, Atmos backed House Bill 651 that would have eviscerated the original jurisdiction of municipalities over gas utilities. The bill's sponsor, following consultation with ACSC attorneys, decided not to push the bill once he understood its intent. Separately, ACSC helped draft Senate Bill 742 to repeal GRIP. It received unanimous approval from the Senate Business and Commerce Committee, but, under pressure from the utility lobby, the bill sponsor decided to replace the repeal language with language virtually identical to the existing statute. Several procedural concessions were made for municipalities, but fearing that the bill would lead to further abuses by Atmos, the ACSC Executive Committee decided to oppose the bill, which then failed.

A NEW RATE CASE SETTLEMENT RESULTS IN CREATION OF RRM

Given uncertainty over whether Atmos could appeal ACSC's denial of the fourth GRIP case, Atmos Mid-Tex filed a new rate case with Cities and the RRC. The Company requested a \$52 million increase in base rates, an amount that would have raised average residential bills by nearly \$20 per year. The filing set an Effective Date of October 25, 2007, that cities could suspend for 90 days. ACSC arranged a meeting to discuss the filing in Arlington on October 18, and invited executives from Atmos to attend. More than 60 city representatives attended the meeting. The Atmos executives who joined the meeting in progress included

Atmos Energy executive and future president Kim Conklin and Mid-Tex Region President John Paris. The Atmos executives expressed surprise at the engagement from City representatives. After Atmos representatives departed, City representatives approved the hiring of rate case witnesses and designated certain individuals to function as a settlement committee. This meeting precipitated serious settlement discussions. On January 9, 2008, John Paris and Geoffrey Gay (on behalf of 151 City members of ACSC) signed a Settlement Agreement.

With the Settlement, Atmos agreed to cut its \$52 million request to \$10 million. Both Atmos and ACSC agreed to dismiss all pending court appeals related to prior Commission GRIP and rate cases. Atmos agreed to reimburse ACSC more than \$500,000 associated with expenses connected to prior GRIP cases. However, the primary component of the settlement was creation of the Rate Review Mechanism Tariff ("RRM") as a substitute for GRIP and Atmos Mid-Tex's commitment not to file a GRIP application with ACSC members as long as the RRM process remained in place. The RRM process gives Atmos expedited annual rate relief similar to that associated with GRIP, but it also provides ACSC the opportunity to evaluate potential offsets to increasing plant investment stemming from additional revenues or diminished expenses. In this way, the RRM eliminates Cities' major complaint against GRIP as a piecemeal process. Subsequent to the Settlement Agreement, Atmos agreed to offer an increase in franchise fees, up to a maximum of 5% of gross receipts to any ACSC member that desired an increase. Negotiations with

Atmos also led to a willingness of Atmos to meet with Cities at quarterly meetings of ACSC. The first such meeting occurred on April 10, 2008, with Atmos discussing franchise fees, its first RRM filing and an opportunity for cities to purchase gas for delivery by Atmos to city gates. As of May 5, 2008, 69 ACSC members had informed Atmos of their intent to increase franchise fee revenues pursuant to the settlement agreement.

Following the presentation by Atmos, representatives of 20 cities agreed to serve as the Executive Committee. The Executive Committee elected Jay Doegey (Arlington), Odis Dolton (Abilene), and Rodney Adams (Irving) to serve as Co-Chairmen; Mary Buckley (Arlington) as Treasurer; and Melanie Harden (Flower Mound) as Secretary. The Executive Committee approved a five-cent per capita membership fee assessment for 2008.

THE FIRST RRM

Atmos filed its first RRM on ACSC members on April 14, 2008. The request was for increased revenues of \$33.5 million. ACSC held a meeting in Addison on July 10, 2008, to discuss the RRM filing. ACSC consultants prepared a report recommending adjustments to the Company's request that would result in an increase of \$19.8 million. On August 8, a tentative settlement was announced that reduced the requested \$33.5 million by \$13.5 million. The settled revenue was only \$200,000 more than that recommended by ACSC consultants.

2009 ACTIVITIES AND SECOND RRM

At its quarterly meeting on January 8, 2009, ACSC received a report from Atmos on the Company's compliance efforts regarding the RRC's order that required gas utilities to replace compression couplings on all pre-bent risers installed during the 1970s. Pre-bent risers are located outside homes and facilitate gas delivery into homes.

Atmos Pipeline Texas filed a GRIP application at the RRC and ACSC retained Karl Nalepa to review the application and file a report.

ACSC attempted to participate in the Commission's review, but the Commission denied it the opportunity.

Atmos Mid-Tex filed its second RRM application with ACSC members on March 6, 2009. The Company requested an additional \$20.2 million, consisting of a true-up portion of \$11.4 million and a prospective portion of \$8.7 million. ACSC's consultant recommended only \$500,000. Eight city representatives on a May 21 call approved an initial offer of \$2 million, but parties ultimately settled for \$2.6 million.

On September 3, 2009, ACSC held a quarterly meeting at the University of Texas at Arlington. Atmos provided presentations on the characteristics of the Mid-Tex system, pre-bent riser replacement efforts, the winter-gas supply plan, and economic development.

In October 2009, based on an ACSC consultant's analysis showing that Atmos Pipeline GRIP filings had escalated city-gate meter charges from \$200 to \$3,055 in six years, ACSC filed a petition with the RRC that requested it initiate an investigation into the reasonableness of pipeline charges passed through to Mid-Tex. The Commission ignored the request.

THIRD RRM FILING AND STEEL SERVICE LINES REPLACEMENT PROGRAM

On or about March 15, 2010, Atmos Mid-Tex provided an executive summary of its third RRM to the 149 members of the ACSC. The Company requested an increase of approximately \$56.8 million (\$29.3 million as a true-up and \$27.5 million as prospective). The settlement that originated the RRM process called for a three-year experiment with RRM and signaled that the process would end with this filing, in the fall of 2009. Atmos, however, made it clear it desired for the process to continue. ACSC designated a settlement committee to consider needed reforms for the continuation of RRM as well as the settlement of the third filing.

On April 1, 2010, Atmos provided a briefing to ACSC that: (1) quantified Operations and Maintenance expenses (which was essentially flat year-over-year) for the years 2007-2009; (2) quantified capital expenditures each year between 2004 and 2010 (projected); and (3) discussed the problem of steel service lines responsible for approximately 70% of gas leaks on Mid-Tex's system. The RRC imposed a risk assessment model for prioritization of

replacing more than 550,000 steel service lines. Atmos Mid-Tex mobilized 29 crews as of March 2010 to replace steel service lines, and the Company intended to have 50 crews mobilized by June.

ACSC's Settlement Committee and Executive Committee ultimately agreed to settle the third RRM for \$27 million while working toward a process for extending RRM beyond the initial three-year experiment. It also signaled its intent to negotiate with Atmos to have franchise fee payments included in gross receipt calculations for determination of franchise fees (every ACSC member was given an opportunity to decide whether they desired inclusion of fee-on-fee), and to track what was happening with Atmos and the Commission efforts regarding replacement of steel service lines. ACSC communicated to the RRC that the Cities' goal was to get Atmos to remove 80% of the risk associated with steel service lines within two years and then remove the least risky lines over the following decade in order to moderate rate impacts and maximize coordination of rights-of-way.

GUD NO. 10000

After receiving seven consecutive rate increases through GRIP from the Commission, Atmos Pipeline filed its first Statement of Intent—that is, a traditional rate case—at the RRC. The Commission docketed the case as GUD No. 10000. APT resurrected an argument that LSG and TXU had unsuccessfully presented in the two prior cases—that the pipeline system is riskier from an investors perspective than Atmos Mid-Tex. This time, APT was

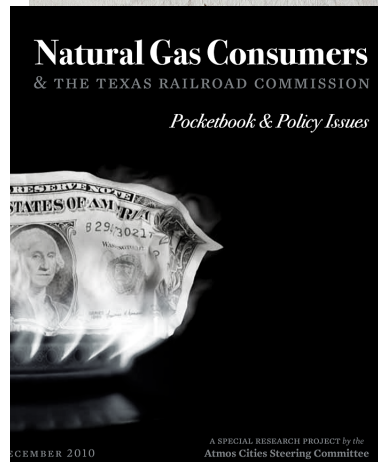


successful and now maintains an authorized rate of return on equity that is several hundred basis points higher than the authorized return for Atmos Mid-Tex.

OTHER ACTIVITY 2010-2011

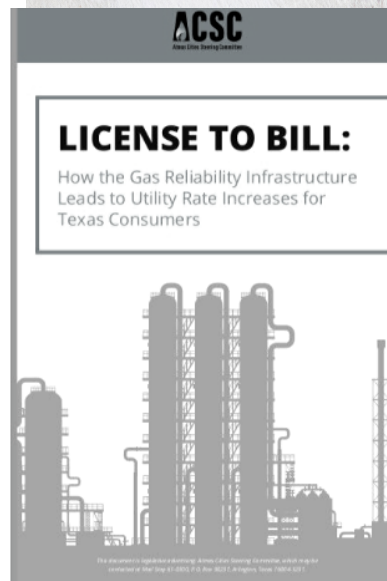
ACSC representatives met with the Sunset Commission Staff in 2010 to advocate reform positions for the Legislature's 2011 Sunset Review of the Railroad Commission. Several of ACSC's positions were recommended in the Staff's Report to the Legislature. Several ACSC representatives testified before the Sunset Commission, but the Legislature did not incorporate any ACSC recommended reforms into law. In December 2010, ACSC produced and distributed a 48-page analysis and historical document entitled "Natural Gas Consumers and the Texas Railroad Commission." That report can be found online at the ACSC website, at this link: atmoscitiessteeringcommittee.org.

ACSC and Atmos negotiated reforms to the RRM process, but failure to reach agreement by the end of 2010 led to a one-year extension of existing terms. The company filed the fourth RRM in 2011 with a request for \$15.7 million, but settled for \$6.6 million. While discussions to perpetuate the process continued, the failure to reach an agreement on the RRM by late 2011 led Atmos to plan the filing of a traditional rate case in 2012.



ACSC Reports

The ACSC has produced in-depth analytic reports over the years including a 2010 report entitled "Natural Gas Consumers and the Texas Railroad Commission," and a 2018 report entitled "How the Gas Reliability Infrastructure Program Leads to Utility Rate Increases for Texas Consumers."



2012 MID-TEX RATE CASE AND REVISED RRM

On January 31, 2012, Atmos Mid-Tex filed with Cities its Statement of Intent to Increase Utility Rates. The Company requested a system-wide increase of \$53.7 million, \$49.1 million of which would fall on Cities other than Dallas. ACSC consultants delivered a report on April 25 that recommended a rate reduction of \$22.9 million. ACSC members suspended the Effective Date and then denied relief, causing Atmos to appeal the denials to the RRC on May 31, 2012. ACSC intervened in GUD No. 10170, with hearings held September 12–21. The Commission entered a final order on December 4, 2012.

With the Commission’s Order in GUD No. 10170 as a benchmark, ACSC and Atmos went back to work attempting to re-create the RRM to avoid Atmos Mid-Tex relying upon GRIP. They agreed to a new RRM tariff, and Cities adopted it by June of 2013. The new process improved upon the original one in that it placed a limit on the increase to be included in the monthly customer charge, eliminated the true-up provision, prohibited post-test year adjustments to capital expenditures, limited the percentage of equity in capital structure, and prescribed a guaranteed reduction to the request by at least \$3 million annually.

The utility made its first filing under the new process (RRM 5) on July 15, 2013, for \$22.7 million, system-wide. A system-wide GRIP case would have been valued, according to Atmos, at \$26.8 million. The negotiated settlement reached with the Company was for \$16.6 million, which became effective on October 15, 2013, in the 165 ACSC members that adopted rate ordinances approving the settlement.

SECOND AND THIRD FILINGS UNDER A NEW RRM ARE SETTLED AFTER AN ADVERSE PROPOSED ORDER FROM THE RRC, 2014-2015

Atmos Mid-Tex made its second filing under the new RRM (RRM 6) on February 28, 2014. The Company requested a system-wide increase of \$49 million, which—pursuant to the RRM tariff—was adjusted downward to \$45.7 million. ACSC consultants could only justify an increase of \$19 million, but Atmos refused to accept any settlement offer below \$40 million. ACSC members passed resolutions denying relief, and the Company appealed to the RRC (GUD No. 10359 filed on May 30, 2014), and implemented its proposed rates, subject to refund. The Commission held hearings in September, but the case remained at the Commission until well past the point of Atmos filing another RRM in 2015.



On Dec, 17, 2014, ACSC held a quarterly meeting at the Arlington Convention Center.

At that meeting, Atmos made its annual gas supply presentation and Cities elected Jennifer Richie, City Attorney of Waco, as President of ACSC to replace Jay Doegey, who had retired from the City of Arlington.

On February 27, 2015, Atmos filed the third RRM (RRM 7) under the new RRM tariff. Its request was for \$29.5 million. ACSC held its first quarterly meeting of 2015 at Arlington City Hall on April 9, 2015. Members were briefed on the status of pending RRMs and activities at the Legislature, including action on ACSC sponsored bills. On April 29, 2015, a RRC hearings examiner finally proposed a decision on the appeal of the 2014 RRM. The proposal was for an increase of \$43 million, only about \$800,000 less than what Atmos desired. ACSC had considered abolishing RRM and allowing the return to GRIP at its April meeting, but ultimately agreed with Atmos on a settlement resolving both pending RRMs that produced a result more favorable (by more than \$15 million) than the most recent GRIP filed with the Environs.

Atmos withdrew its appeal and the RRC did not issue an Order in GUD No. 10359. Cities circulated ordinances on May 8, 2015 that adopted the settlement agreement. ACSC agreed to revenue increases of \$43.8 million to resolve RRM 6 and \$22.8 million to resolve RRM 7.

ACSC began holding joint quarterly meetings with the Oncor Cities Steering Committee on September 17, 2015 at the Grand Prairie Police and Fire Center on Arkansas Lane in Grand Prairie.

APT'S SECOND RATE CASE - 2016

While Atmos Pipeline Texas had received annual rate increases since adopting TXU Gas' Pipeline rates set in GUD No. 9400 in 2004, there have been only two traditional base rate filings by APT at the RRC. See the attached chart that reflects the history of annual rate increases for the Atmos Pipeline system. The first APT rate case was GUD No. 10000 that was finalized in 2011. The second was GUD No. 10580 filed on January 6, 2016. The five years of separation between rate cases reflects a statutory constraint to the number of annual interim GRIP increases that a gas utility can obtain following a rate order. GUD No. 10580 was filed, not because of a need for additional revenue, but so that APT could continue to file annual GRIP cases where ACSC has no opportunity to challenge the Company. Nonetheless, APT requested an additional \$80.75 million in base revenues. ACSC filed expert testimony to support a reduction to current revenues of \$22.7 million. The examiners who presided over hearings that occurred April 19-21, 2017, recommended an increase of \$30,697,359, which the Commission approved and ordered on August 1, 2017.

**Atmos Pipeline Texas
Rate Changes Since 2004**

Docket	Description	Order / Effective Date	Annual Increase	Percent Increase
GUD 10942	2019 GRIP	pending	\$ 49,250,788	10.4%
GUD 10886	Rider Rev	10/22/2019	\$ (57,640,463)	-10.9%
GUD 10813	2018 GRIP	5/7/2019	\$ 49,225,268	10.3%
GUD 10764	Rider Rev	10/16/2018	\$ (21,634,150)	-4.3%
GUD 10693	2017 GRIP	5/22/2018	\$ 46,615,067	10.2%
GUD 10649	Rider Rev	10/10/2017	\$ 4,786,781	1.1%
GUD 10580	2016 RC	8/1/2017	\$ 30,697,359	7.3%
GUD 10540	Rider Rev	10/11/2016	\$ 4,862,576	1.4%
GUD 10497	2016 GRIP	5/3/2016	\$ 40,657,746	12.9%
GUD 10454	Rider Rev	10/6/2015	\$ 84,216	0.0%
GUD 10422	2015 GRIP	4/8/2015	\$ 37,248,185	13.4%
GUD 10377	Rider Rev	10/14/2014	\$ 5,958,726	2.2%
GUD 10338	2014 GRIP	5/6/2014	\$ 45,589,404	20.2%
GUD 10293	Rider Rev	9/24/2013	\$ 5,847,734	2.7%
GUD 10240	2013 GRIP	5/7/2013	\$ 26,729,625	13.8%
GUD 10202	Rider Rev	10/2/2012	\$ 2,775,813	1.5%
GUD 10144	2012 GRIP	4/10/2012	\$ 14,684,326	8.4%
GUD 10099	Rider Rev	10/11/2011	\$ (3,807,186)	-2.1%
GUD 10078	2011 GRIP	7/26/2011	\$ 12,605,211	7.6%
GUD 10000	2010 RC	4/18/2011	\$ 24,983,996	17.6%
GUD 9950	2009 GRIP	4/20/2010	\$ 14,730,957	8.6%
GUD 9855	2008 GRIP	4/28/2009	\$ 7,549,500	4.6%
GUD 9788	2007 GRIP	4/8/2008	\$ 6,969,743	4.4%
GUD 9726	2006 GRIP	9/11/2007	\$ 13,201,664	9.2%
GUD 9664	2005 GRIP	7/6/2006	\$ 3,286,353	2.3%
GUD 9615	2004 GRIP	12/13/2005	\$ 1,918,699	1.4%
GUD 9560	2003 GRIP	3/22/2005	\$ 1,801,725	1.3%
GUD 9400	2002 RC	5/1/2004	\$ 9,673,638	7.6%

NOTE: Atmos Pipeline Texas (“APT”) has increased its revenues through GRIP and Rider Rev rate adjustments by \$70.6 million since its 2016 rate case. The increase was moderated by the fact that APT returned a total of \$79.3 million in excess transportation revenues in its 2018 and 2019 Rider Rev filings.

Even so, none of these increases has been subject to substantive review because neither GURA §104.301, which authorized the GRIP adjustment, nor the Railroad Commission Order in GUD 10000, which approved the Rider Rev adjustment, provides for more than an administrative review of the filings.

RESOLUTION OF RRM 8 AND RRM 9

ACSC gave Atmos notice that it wanted to renegotiate the terms of the RRM process during 2017, thus there were two additional RRM filings under the tariff adopted by ACSC members in 2013. In 2016, Atmos filed RRM 8 and requested \$35.4 million, but settled for \$29.6 million. It also filed RRM 9 in 2017 for \$57.4 million, but settled for \$48 million.

RESOLUTION OF RRM 8 AND RRM 9

In February 2018, an explosion occurred in a North Dallas neighborhood that alarmed a number of ACSC member cities and precipitated Atmos making briefings to ACSC, the Dallas City Council, and individual ACSC cities. Atmos turned off the gas supply to the neighborhood where the explosion occurred until it could replace its entire distribution system in the affected area. In March, ACSC and Atmos reached an agreement to establish a new RRM tariff. The new agreement incorporated the new Federal Income Tax rate of 21% and reduced return on equity from 10.5% to 9.8%. On April 3, 2018, Atmos made the first filing (RRM 10) under the new RRM tariff with a system wide request for additional revenue of \$27.3 million. The parties settled for a system-wide increase of \$24.9 million which resulted in an impact of \$17.8 million on ACSC members.

2019-2020 FILINGS

The second filing under the second revised RRM tariff (RRM 11), on or about March 31, 2019, was for a system-wide increase of \$54.1 million. It was settled for a system wide increase of \$48.7 million. The ACSC portion of that system-wide increase was \$35.4 million. On March 31, 2020, Atmos Mid-Tex filed its twelfth RRM request for a system-wide increase of \$136.3 million.

The portion that Atmos proposes to allocate to ACSC is \$98.7 million. The filing is being reviewed by consultants Connie Cannady and Karl Nalepa who have participated in all prior RRM filings. They will issue a report in June which will become the basis of settlement discussions with the Company. The ACSC Executive Committee will make a recommendation in mid-August regarding action to be taken by ACSC members to resolve the matter.

CONCLUSION

Cities have always played a significant role in Texas gas utility regulation. There is no public counsel or consumer advocate at the Railroad Commission, and the Commission Staff has always depended upon Cities to analyze rate filings and hire witnesses to present adjustments to the case presented by utilities. In some important Commission cases, the Staff submitted no requests for information, presented no witnesses and only asked a handful of questions during the hearing only to bolster the Company's case. Without City participation, the Commission could rubber stamp all utility rate requests, just as with GRIP cases where Cities are not allowed to participate.* Over the past two decades, ACSC has become the largest, most effective and most respected (by the Commission, the Legislature and the media) advocate for consumers.

Because it is the will of the Texas Legislature, annual rate filings by Atmos remain inevitable. The choice for Cities is to either maintain an ongoing relationship with Atmos and annually review Atmos' RRM filings on a traditional cost-of-service basis or allow the RRC to rubber-stamp GRIP requests. In either path, Atmos will get an annual rate increase. It is tempting to let the Commission assume full responsibility for the annual increase, but to date, RRM remains advantageous for the consuming public over rates imposed on Environs and cities that prefer to remain under GRIP.

ACSC's protests and opposition to the piecemeal nature of the GRIP process led to creation of RRM. This reflects the seriousness with which ACSC members take their statutory responsibility to serve as regulators of public gas utilities with exclusive original jurisdiction over rates and services. Certain utilities in the recent past have attempted to persuade the Legislature to strip Cities of their original jurisdiction, arguing that City involvement is unnecessary and ineffective. ACSC has led efforts to defeat such efforts, and the existence of the RRM process, which exists only because of City ordinances that are agreed to by Atmos, ensures that Cities will remain the primary defenders of the public interest in fair and reasonable rates.

*Lloyd Gosselink attorneys who have assisted Geoffrey Gay in representing Cities at the RRC since 2000 have included former employees Kristen Doyle, Eileen Keiffer and Betsy Todd and current principals Georgia Crump and Jamie Mauldin.