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IN THE MATTER OF ATMOS ENERGY CORPORATION'S APPLICATION FOR AN ORDER APPROVING SYSTEM SAFETY AND INTEGRITY COSTS RECOVERED THROUGH THE SYSTEM SAFETY AND INTEGRITY RIDER FROM JANUARY 1, 2022, THROUGH DECEMBER 31, 2022.

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Summary

Atmos Energy's System Safety and Integrity Rider (SSIR) was originally approved in Decision R15-1146 in Proceeding No. 15AL-0299G for a three-year term beginning in January 2016. The initial approval limited cost recovery under the rider to only capital expenditures associated with like-for-like replacement of aging distribution mains and services that had been constructed using bare steel or PVC materials. PHMSA, the federal agency tasked with regulating pipeline safety has specifically recognized PVC and bare steel utility piping as integrity concerns reflective of high and medium risk levels to the general public.

Decision R18-0014 in Atmos' 2017 phase I Rate Case approved a five year extension of Atmos' SSIR mechanism through December 31, 2023. As part of the approval, the Commission set forth additional SSIR stipulations that limited consumer billing impacts to 2.5% per year. Also of note is Decision R18-0818 issued in a 2017 SSIR cost prudence challenge, wherein Atmos was allowed code to add a project that assimilated paper equipment records into digital records in Atmos' existing GIS system.

Within this proceeding the Commission is being asked to consider the cost prudence of integrity work performed by Atmos during the 2022 construction cycle which spanned January 1, 2022 to December 31, 2022. Atmos previewed its 2022 SSIR work and associated costs in amended Advice Letter 577 filed with the Commission on November 23, 2021 in Proceeding 21AL-0572G showed anticipated capital expenditures to be \$21.18 million. Based on this information, Atmos was allowed to collect a predetermined volumetric fee from each of its' 2022 ratepayers.

Atmos completed seven projects during the 2022 construction cycle that cumulatively retired nearly 83,790 feet of 1970's vintage bare steel distribution mains and 594 associated bare steel services. The majority of the work was located in Class 2 & 3 locations in and around Greeley, Durango and Lamar. Pipe replacement projects were prioritized based on excessive historical leakage rates. Over a 10-year period, historical leak rates for the pipe replacement projects in the Greeley Area were 13 to 19 leaks/mile, and 2 to 3 leaks/mile for pipe in the Durango Area. While the pipe being replaced in the Lamar Area had no historical leakage, the replacement project solved a code compliance breach. All piping segments replaced were demarcated as high risk by Atmos' DIMP integrity management threat calculations. Replacement Project construction was slightly altered in the Durango area to coordinate with local paving programs to minimize cost expenditures and impacts to local businesses. In addition to the 2022 replacement projects, during 2022 Atmos assimilated 26,940 electronic equipment records into its GIS as part of the ongoing GIS Project.

On March 15, 2023, Atmos filed a report discussing project cost prudence and requested approval of expenditures associated with its 2022 SSIR work. Atmos' filing showed the Company completed the seven 2022 SSIR projects at total capital expense of \$18,904,522 which was \$2,273,821 less than the \$21,178,343 estimate submitted in its November pre-filing (a variance of -10.74%). In 2022 Atmos collected \$19,982,246 in revenues from customers which exceeded actual 2022 SSIR expenditures by \$1,077,724. The 2022 revenue overcollection will be reflected as true ups in Atmos' 2024 SSIR filing.

Discussion:

The previously approved revenue requirement associated with Atmos' 2022 SSIR capital investment translated into a 2.47% annual increase in consumer billing which began in January 2022. This increase did not exceed

the 2.5% maximum limit previously imposed by Commission decision. Therefore, the magnitude of costs incurred during the 2022 SSIR construction cycle was considered appropriate.

The 2022 SSIR actual cumulative expenditure variance from November 2021 estimated amounts was -10.74% and as such is deemed acceptable. In addition, none of the individual 2022 SSIR projects exceeded the 10% variance cap on project funding and were therefore considered appropriate. Staff has reviewed Atmos' submitted 2022 SSIR costs for prudence and finds the expenditures for each of the seven projects were prudently incurred.

Staff notes that approval of this cost prudence application will not impose any new costs on Atmos customers; it just validates costs and revenues that were collected over the course of the 2022 SSIR cycle.

Recommendation: Grant the application and deem Atmos' 2022 SSIR costs as prudently incurred.

Prepared by:

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4/18/2023