

Memorandum



CITY OF DALLAS

DATE May 2, 2014

TO Members of the Budget, Finance & Audit Committee: Jerry R. Allen (Chair),
Jennifer S. Gates (Vice Chair), Tennell Atkins, Sheffie Kadane, Philip T. Kingston

SUBJECT Atmos Energy Corporation: Dallas Annual Rate Review

The Monday, May 5th Budget, Finance and Audit Committee agenda will include a briefing on the Atmos Energy Corporation: Dallas Annual Rate Review.

Please let me know if you need additional information.

A handwritten signature in black ink, reading "Jeanne Chipperfield".

Jeanne Chipperfield
Chief Financial Officer

Attachment

c: Honorable Mayor and Members of City Council
A.C. Gonzalez, City Manager
Warren M.S. Ernst, City Attorney
Craig D. Kinton, City Auditor
Rosa A. Rios, City Secretary
Daniel F. Solis, Administrative Judge
Ryan S. Evans, Interim First Assistant City Manager
Jill A. Jordan, P.E., Assistant City Manager
Forest E. Turner, Assistant City Manager
Joey Zapata, Assistant City Manager
Charles M. Cato, Interim Assistant City Manager
Theresa O'Donnell, Interim Assistant City Manager
Shawn Williams, Interim Public Information Officer
Elsa Cantu, Assistant to the City Manager

Atmos Energy Corporation

Dallas Annual Rate Review

Budget, Finance & Audit Committee

May 5, 2014





Purpose

- Update Committee on the Dallas Annual Rate Review (DARR) filing by Atmos Energy Corporation (Atmos)
- Consider options and review the City Manger's recommendation

Background


- Current Franchise, Ordinance #27793, issued by the City on January 13, 2010, authorizes Atmos to provide natural gas utility service in Dallas
 - Original Franchise granted to “The Dallas Gas Co.” in 1905
 - Purchased by Lone Star Gas in 1927
 - Acquired by TXU Gas in 1996
 - Merged with Atmos in 2004

Background (Continued)

- Texas Utilities Code indicates jurisdictional responsibility for the regulation of natural gas in the State
 - City has original jurisdiction to set local distribution rates within the City's boundaries
 - Railroad Commission of Texas (RCT) has appellate jurisdiction over local distribution rates and original jurisdiction over pipeline rates

Background (Continued)

- A customer's gas utility bill has two primary components
 1. Pipeline costs (appears on bill as Rider GCR)
 - Approved by the Railroad Commission of Texas
 - Costs from producer and pipeline company to city limits
 - Includes pass through of actual cost of gas
 - The pipeline costs typically comprises 60% of residential charges and 70% of commercial charges



Background (Continued)

2. Local distribution charges

- Approved by City (RCT has appellate jurisdiction)
- Charges for distribution from City limits to customers' premises
- Includes costs for meter reading, billing and customer service
- Distribution charges split between monthly customer charge and consumption charge

Background (Continued)

- Four billing classes

- Residential

- Commercial

- Businesses and apartments with gas for common use

- Industrial

- Contract for a minimum of 125 Mcf per month

- Service may be interrupted in extreme conditions

- Transport

- Fee charged to transport gas between two other parties

Background (Continued)

- Last fully litigated case to set Dallas rates
 - November 5, 2008 Atmos requested an increase in rates of \$9,140,688
 - March 25, 2009, the City denied the increase and ordered Atmos to lower its rates
 - Atmos appealed this rate decision to the RCT
 - January 23, 2010 the RCT granted Atmos an increase in rates of \$1,581,273

Background (Continued)

- Gas Reliability Infrastructure Program (GRIP)
 - Rates are adjusted annually to account for changes in net investment
 - Enacted by the 78th Legislature (2003) as an incentive for gas utilities to invest in new infrastructure
 - February 25, 2011 filed with the City of Dallas
 - Atmos requested an increase of \$20.2 million (system wide)
 - Settled for an increase of \$11.0 million (system wide)
 - As part of settlement City authorized tariff DARR-Dallas Annual Rate Review (DARR)

Background (Continued)

- Tariff DARR-Dallas Annual Rate Review
 - Authorized by Ordinance No. 28281, June 22, 2011
 - Rates are adjusted annually to reflect changes in Atmos' cost of service and capital investment
 - The City has 135 days to review the requested rates and render a decision
 - Atmos may not file a GRIP case with the City while DARR tariff is in effect
 - Atmos may appeal the City's decision to the RCT

Background (Continued)

■ Prior DARR Filings

- First DARR filing, 2012 Atmos requested \$2,545,025 increase
 - Settled for \$362,000 decrease in rates
- Second DARR Filing, 2013 Atmos requested \$3,957,324 increase
 - Settled for \$1,800,000 increase in rates

Current Filing

- January 15, 2014, Atmos filed its third DARR rate request with a proposed effective date of June 1, 2014
 - Atmos requested an increase in base rates of \$8,747,948 annually
 - Includes \$304,989 for a depreciation regulatory asset authorized by City Ordinance No. 28653 adopted May 23, 2012
 - Overall increase without gas costs 12.28% in base rates
 - Monthly bill for average residential consumer would increase by \$2.75
 - City must take action by May 30, 2014

Current Filing (Continued)

- The City retained Diversified Utility Consultants, Inc. (DUCI) to assist in reviewing the filing
 - Expertise in gas rate regulation
 - Knowledge of DARR process and prior Atmos rate cases
 - Assisted the City with last two DARR cases, last five litigated cases and all prior GRIP cases

Proposed Settlement

- With the assistance of DUCI and our outside legal counsel, and after numerous meetings, a negotiated settlement was reached (pending approval of the City Council)
 - If approved, rates will become effective for gas sold on or after June 1, 2014

Proposed Settlement (Continued)

- Base rates to increase by \$6.3 million
- Depreciation Regulatory Asset
 - Recovered separately by rate rider SU-Depreciation Regulatory Asset
 - Total to be recovered \$669,428
 - Recovered over three years (2 years remaining)
- Overall increase is 9.51% (see appendix for additional details)
 - Average residential bill will increase by \$2.08 /month plus revenue related taxes

Options for City Council Consideration

1. Approve rates per original Atmos request
 - Overall increase of \$8.4 million (10.79%)
 - Average residential bill to increase by \$2.75/month
2. Approve rates per the negotiated settlement
 - Overall increase of \$6.3 million (9.51%)
 - Average residential bill to increase by \$2.08/month
3. Deny the rate request
 - Atmos will likely appeal the denial to the RCT and may immediately implement the rates as originally requested, subject to refund
4. Set the rates at some other level
 - Atmos may appeal the new rates to the RCT and may immediately implement the rates as originally requested, subject to refund

City Manager's Recommendation

- City Manager recommends that Option #2, approval of rates per the negotiated settlement, be accepted by the committee and forwarded on to the City Council for consideration and approval on May 14, 2014
 - Overall increase of \$6.3 million (9.51%)
 - Average residential bill to increase by \$2.08/month



Appendix

Appendix

COMPARISON OF CURRENT, REQUESTED AND NEGOTIATED TARIFF RATES FOR RESIDENTIAL CUSTOMERS

Residential Rates	Current Authorized Rates	Atmos Energy Requested Rates	Negotiated Settlement Rates
Customer Charge	\$17.75	\$18.75	\$18.50
Amount per Ccf	\$0.04888	\$0.07677	\$0.06980
Rider SUR-Depreciation Regulatory Asset	\$0.03	\$0.10	\$0.10
Bill for average residential customer using 60 Ccf of gas (does not include tax or gas cost)	\$20.71	\$23.46	\$22.79

Appendix

COMPARISON OF CURRENT, REQUESTED AND NEGOTIATED TARIFF RATES FOR COMMERCIAL CUSTOMERS

Commercial Customers	Current Authorized Rates	Atmos Energy Requested Rates	Negotiated Settlement Rates
Customer Charge	\$35.00	\$38.00	\$37.00
Amount per Ccf	\$0.05850	\$0.06801	\$0.06351
Rider SUR-Depreciation Regulatory Asset	\$0.06	\$0.24	\$0.24

Appendix

COMPARISON OF CURRENT, REQUESTED AND NEGOTIATED TARIFF RATES FOR INDUSTRIAL AND TRANSPORT CUSTOMERS

Industrial & Transportation Customers	Current Authorized Rates	Atmos Energy Requested Rates	Negotiated Settlement Rates
Customer Charge	\$622.00	\$675.00	\$665.00
Consumption Charge/MMBTU			
First 1,500 MMBTU	\$0.1402	\$0.1678	\$0.1570
Next 3,500 MMBTU	\$0.1020	\$0.1221	\$0.1142
Over 5,000 MMBTU	\$0.0162	\$0.0194	\$0.0181
Rider SUR-Depreciation Regulatory Asset	\$1.25	\$4.80	\$4.80