

# Memorandum



CITY OF DALLAS

DATE April 17, 2015

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

On April 20, 2015 the Budget, Finance and Audit Committee will be briefed on the Atmos Energy Corporation: Dallas Annual Rate Review. The briefing is attached for your review.

Please let me know if you need additional information.

A handwritten signature in blue ink that reads "Jeanne Chipperfield".

Jeanne Chipperfield  
Chief Financial Officer

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, First Assistant City Manager

Jill A. Jordan, P.E., Assistant City Manager  
Joey Zapata, Assistant City Manager  
Mark McDaniel, Assistant City Manager  
Eric D. Campbell, Assistant City Manager  
Sana Syed, Public Information Officer  
Elsa Cantu, Assistant to the City Manager  
Jack Ireland, Director, Office of Financial Services



# Atmos Energy Corporation: Dallas Annual Rate Review

Budget, Finance & Audit Committee

April 20, 2015



# 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
- See Appendix for additional regulatory background



# Current Filing

- January 15, 2015, Atmos filed its fourth Dallas Annual Rate Review Tariff (DARR) rate request with a proposed effective date of June 1, 2015
  - Atmos requested an increase in base rates of \$7.1m annually
  - Overall increase, without gas costs, 8.61% in base rates
  - Monthly bill for average residential consumer would increase by \$2.17
  - City Council must take action by May 30, 2015

# 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 three DARR cases, last five litigated cases and all prior GRIP cases

# Proposed Settlement

- With the assistance of DUCI and 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, 2015

# Proposed Settlement (Continued)

- Base rates to increase by \$4.7 m
- Overall increase is 5.69% (see appendix for additional details)
  - Average residential bill will increase by \$1.50 /month plus revenue related fees and taxes
- City and Atmos agree that Atmos has fulfilled the requirements contained in Section 4: Accounting Requirements of Ordinance No. 28026, Infrastructure Replacement Tariff

# Options for City Council Consideration

1. Approve rates per original Atmos request
  - Overall increase of \$7.1 m (8.61%)
  - Average residential bill to increase by \$2.17/month
2. Approve rates per the negotiated settlement
  - Overall increase of \$4.7 m (5.69%)
  - Average residential bill to increase by \$1.50/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 13, 2015
  - Overall increase of \$4.7 m (5.69%)
  - Average residential bill to increase by \$1.50/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
<b>Customer Charge</b>	<b>\$18.50</b>	<b>\$19.50</b>	<b>\$19.00</b>
<b>Amount per Ccf</b>	<b>\$0.06980</b>	<b>\$0.09003</b>	<b>\$0.08651</b>
<b>Rider SUR-Depreciation Regulatory Asset</b>	<b>\$0.10</b>	<b>\$0.10</b>	<b>\$0.10</b>
Bill for average residential customer using 60 Ccf of gas (does not include tax or gas cost)	<b>\$22.79</b>	<b>\$25.00</b>	<b>\$24.29</b>



# Appendix

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

<b>Commercial Customers</b>	<b>Current Authorized Rates</b>	<b>Atmos Energy Requested Rates</b>	<b>Negotiated Settlement Rates</b>
<b>Customer Charge</b>	<b>\$37.00</b>	<b>\$39.75</b>	<b>\$38.25</b>
<b>Amount per Ccf</b>	<b>\$0.06351</b>	<b>\$0.07134</b>	<b>\$0.06778</b>
<b>Rider SUR-Depreciation Regulatory Asset</b>	<b>\$0.24</b>	<b>\$0.24</b>	<b>\$0.24</b>

# Appendix

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

<b>Industrial &amp; Transportation Customers</b>	<b>Current Authorized Rates</b>	<b>Atmos Energy Requested Rates</b>	<b>Negotiated Settlement Rates</b>
<b>Customer Charge</b>	<b>\$665.00</b>	<b>\$714.50</b>	<b>\$690.50</b>
<b>Consumption Charge/MMBTU</b>			
<b>First 1,500 MMBTU</b>	<b>\$0.1570</b>	<b>\$0.1789</b>	<b>\$0.1735</b>
<b>Next 3,500 MMBTU</b>	<b>\$0.1142</b>	<b>\$0.1301</b>	<b>\$0.1262</b>
<b>Over 5,000 MMBTU</b>	<b>\$0.0181</b>	<b>\$0.0206</b>	<b>\$0.0200</b>
<b>Rider SUR-Depreciation Regulatory Asset</b>	<b>\$4.80</b>	<b>\$4.80</b>	<b>\$4.80</b>

# Appendix

## Regulatory Background

- Last fully litigated case to set Dallas rates
  - November 5, 2008 Atmos requested an increase in rates of \$9.1 m
  - March 25, 2009, the City denied the increase and set rates below Atmos existing rates
    - Atmos appealed this rate decision to the RCT
  - January 23, 2010 the RCT granted Atmos an increase in rates of \$1.6 m

# Appendix Regulatory Background (Continued)

- Gas Reliability Infrastructure Program (GRIP)
  - Rates are adjusted annually to account for changes in net investment
    - Enacted by the 78<sup>th</sup> 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 m (system wide)
    - Settled for an increase of \$11.0 m (system wide)
      - As part of settlement City authorized tariff DARR-Dallas Annual Rate Review (DARR)

# Appendix Regulatory 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

# Appendix Regulatory Background (Continued)

## ■ Prior DARR Filings

- First DARR filing, 2012 Atmos requested \$2.5 m increase
  - Settled for \$0.4 m decrease in rates
- Second DARR Filing, 2013 Atmos requested \$4.0 m increase
  - Settled for \$1.8 m increase in rates
- Third DARR Filing, 2014 Atmos requested \$8.7m
  - Settled for \$6.3 m increase in rates