

Memorandum



CITY OF DALLAS

DATE May 8, 2017

TO Members of the Budget, Finance, & Audit Committee: Jennifer S. Gates (Chair),
Philip T. Kingston (Vice Chair), Erik Wilson, Rickey D. Callahan, Scott Griggs,
Lee M. Kleinman

SUBJECT Atmos Energy Corporation – Dallas Annual Rate Review

On Monday, May 15, 2017, the Office of Financial Services will brief the Budget, Finance, & Audit Committee on Atmos Energy Corporation – Dallas Annual Rate Review. I have attached the briefing for your review.

Please let me know if you need additional information.

A handwritten signature in blue ink that reads "M. Elizabeth Reich".

M. Elizabeth Reich
Chief Financial Officer

Attachment

c: Honorable Mayor and Members of the City Council
T.C. Broadnax, City Manager
Larry Casto, City Attorney
Craig D. Kinton, City Auditor
Rosa A. Rios, City Secretary
Daniel F. Solis, Administrative Judge
Kimberly Bizzor Tolbert, Chief of Staff to the City Manager
Majed A. Al-Ghafry, Assistant City Manager
Raquel Favela, Chief of Economic Development & Neighborhood Services

Jo. M. (Jody) Puckett, P.E., Interim Assistant City Manager
Eric D. Campbell, Assistant City Manager
Jill A. Jordan, P.E., Assistant City Manager
Joey Zapata, Assistant City Manager
Cheritta Johnson, Interim Chief of Community Services
Theresa O'Donnell, Chief of Resilience
Directors and Assistant Directors

Atmos Energy Corporation – Dallas Annual Rate Review

**Budget, Finance, and Audit Committee
May 15, 2017**

**Nick Fehrenbach
Manager of Regulatory Affairs
Office of Financial Services
City of Dallas**



Presentation Overview

- Purpose
- Background
- Current filing
- Proposed settlement
- Options for City Council consideration
- City Manager's Recommendation and Next Steps



Purpose

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

Background

- Current franchise approved on 1/13/2010 (ordinance #27793) authorizes Atmos to provide natural gas utility service in city
- Original franchise granted to The Dallas Gas Company 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 regulation of natural gas in State
 - City has original jurisdiction to set local distribution rates within City's boundaries
 - Railroad Commission of Texas (RCT) has appellate jurisdiction over local distribution rates and original jurisdiction over pipeline rates

Background (continued)

- Customer's gas utility bill has 2 primary components
 1. Local distribution rates
 - 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
 2. Pipeline rates (appears on bill as Rider GCR)
 - Approved by Railroad Commission of Texas
 - Costs from producer and pipeline company to city limits
 - Includes pass through of actual cost of gas
 - Pipeline costs typically comprises 60% of residential charges and 70% of commercial charges

6

Background (continued)

- Gas utility customers are divided into 4 billing classes
 1. Residential
 2. Commercial
 - Businesses and apartments with gas for common use
 3. Industrial
 - Contract for a minimum of 125 Mcf per month
 - Service may be interrupted in extreme conditions
 4. Transport
 - Fee charged to transport gas between 2 other parties

7



Current Filing

- Atmos filed 6th DARR rate request on 1/13/17 with proposed effective date of 6/1/17
 - Atmos requested an increase in base rates of \$10.7m annually
 - 10.9% overall increase in base rates (without gas costs)
 - Monthly bill for average residential consumer would increase by \$3.25
 - City Council must take action by 5/28/17

Current Filing (continued)

- City retained Garrett Group LLC (Garrett) to assist in reviewing current filing
 - Expertise in gas rate regulation
 - Assisting City with Atmos Pipeline case currently before the Railroad Commission of Texas
 - Garrett contract approved by Administrative Action on 2/21/17

Proposed Settlement

- With assistance of Garrett and outside legal counsel, and after numerous meetings, negotiated settlement was reached (pending approval of City Council)
 - If approved, rates will become effective for gas sold on or after 6/1/17
 - Base rates would increase by \$7.8m as compared to \$10.7m originally requested by Atmos
 - Overall increase is 8.5% (see appendix for additional details)
 - Average residential bill will increase by \$2.46 per month plus revenue related fees/taxes
 - Atmos will negotiate modifications to DARR tariff to be brought back to committee in Oct 2017
 - Atmos will work with staff to modify rates if major revisions are made to federal income tax rates

10

Options for City Council Consideration

1. Approve rates originally requested by Atmos
 - Overall increase of \$10.7m (10.9%)
 - Average residential bill to increase by \$3.25 per month
2. Approve rates per negotiated settlement
 - Overall increase of \$7.8m (8.5%)
 - Average residential bill to increase by \$2.46 per month
3. Deny rate request
 - Atmos will likely appeal denial to RCT and may immediately implement rates as originally requested (subject to refund)
4. Set rates at some other level
 - Atmos may appeal new rates to RCT and may immediately implement rates as originally requested (subject to refund)

11

City Manager's Recommendation and Next Steps

- City Manager recommends City Council approval of Option #2 on 5/24/17 per negotiated settlement
 - Overall increase of \$7.8m (8.5%)
 - Average residential bill to increase by \$2.46 per month
 - Atmos and staff to negotiate revisions to DARR tariff and report back to committee in Oct 2017
 - Atmos to work with staff to modify rates if major changes are implemented to federal income tax rates

12

Atmos Energy Corporation – Dallas Annual Rate Review

**Budget, Finance, and Audit Committee
May 15, 2017**

**Nick Fehrenbach
Manager of Regulatory Affairs
Office of Financial Services
City of Dallas**



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	\$20.00	\$21.25	\$21.00
Amount per Ccf	\$0.09774	\$0.13042	\$0.12208
Bill for average residential customer using 60 Ccf of gas (does not include tax or gas cost)	\$25.86	\$29.08	\$28.32.



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	\$40.25	\$44.25	\$43.00
Amount per Ccf	\$0.07143	\$0.08210	\$0.07708



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	\$735.00	\$811.50	\$802.75
Consumption Charge/MMBTU			
First 1,500 MMBTU	\$0.1891	\$0.2243	\$0.2124
Next 3,500 MMBTU	\$0.1375	\$0.1631	\$0.1544
Over 5,000 MMBTU	\$0.0218	\$0.0259	\$0.0245

17



Appendix: Regulatory Background

- Last fully litigated case to set Dallas rates
 - 11/5/08 - Atmos requested an increase in rates of \$9.1m
 - 3/25/09 - City denied increase and set rates below Atmos existing rates
 - Atmos appealed this rate decision to RCT
 - 1/23/10 - RCT granted Atmos an increase in rates of \$1.6m

Appendix: Regulatory Background

- Gas Reliability Infrastructure Program (GRIP)
 - Enacted by 78th Legislature (2003) as an incentive for gas utilities to invest in new infrastructure
 - Rates are adjusted annually to account for changes in net investment
 - 2/25/11 - filed with City of Dallas
 - Atmos requested an increase of \$20.2m (system wide)
 - Settled for an increase of \$11.0m (system wide)
 - As part of settlement City authorized tariff DARR-Dallas Annual Rate Review (DARR)

Appendix: DARR Filing History

Year of DARR Filing	Atmos Request	Settlement
1 st filing in 2012	\$2.5m increase	\$0.4m decrease
2 nd filing in 2013	\$4.0m increase	\$1.8m increase
3 rd filing in 2014	\$8.7m increase	\$6.3m increase
4 th filing in 2015	\$7.4m increase	\$4.7m increase
5 th filing in 2016	\$7.4m increase	\$5.3m increase
6 th filing in 2017	\$10.7m increase	TBD

20

