

# Memorandum



CITY OF DALLAS

DATE December 31, 2015

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 January 4, 2016 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.

  
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  
Rosa A. Rios, City Secretary  
Craig D. Kinton, City Auditor  
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



# Atmos Energy Corporation Dallas Annual Rate Review

Budget, Finance & Audit Committee

January 4, 2016

# Purpose

- Update Committee on the upcoming Dallas Annual Rate Review (DARR) filing by Atmos Energy Corporation (Atmos)
- Request Committee recommendation to retain consultant
- Consider options and receive input from the Committee on Atmos' proposed Conservation and Energy Efficiency program

# 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

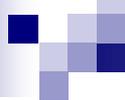
- On or about January 15, 2016, Atmos will file its fifth Dallas Annual Rate Review Tariff (DARR) rate request with a proposed effective date of June 1, 2016
  - City Council must take action by May 29, 2016
  - Atmos has not completed the filing but has indicated the amount of the increase being requested will be similar to prior years
    - Prior years' DARR filings are listed in the appendix
  - Atmos has indicated it will include a Conservation and Energy Efficiency program in the filing

# Consultant for Current Filing

- The January 13, 2016 City Council agenda includes an item to retain 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 four DARR cases, last five litigated cases and all prior GRIP cases

# Consultant (Continued)

- The assistance of DUCI is necessary to adequately review the filing and determine if the requested rates are fair and reasonable
  - DUCI will be ready to begin work as soon as the DARR filing is received by the City
  - Not to exceed amount for this contract is \$80,000
    - Pursuant to the DARR Tariff, consultant costs are reimbursable by Atmos



# Conservation and Energy Efficiency (CEE) Program

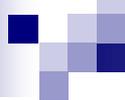
- Provides assistance to qualifying low-income and senior citizen customers to reduce energy consumption and lower utility bills (weatherization program)
- On July 1, 2013 the CEE program was expanded to provide cash rebates of up to \$500 to customers who install high efficiency gas appliances

# CEE Program (Continued)

- CEE program is currently offered in the Atmos MidTex system with the exception of the City of Dallas
  - Dallas withdrew from the program when it was expanded to include the appliance rebates
  - CEE program is funded by a monthly surcharge to all residential and commercial customers
    - Current rates in other jurisdictions are \$0.02 per month for both residential and commercial customers

# CEE Program (Continued)

- Dallas withdrew from the program when it was expanded to include the appliance rebates
  - No guarantee that fees paid by Dallas customers would remain in Dallas
  - Rebate program tends to benefit middle and upper income customers
    - Low income customers generally can not afford high efficiency appliances even with the rebate; however, they still pay the surcharge



# Options for City CEE Consideration

1. Should Dallas consider participating in the CEE program?
  - Cost shared by all rate payers
  - Dallas citizens would be eligible for the rebate and weatherization programs
2. If Dallas participates in the CEE, how should cost be recovered?
  - Included in base rates
  - Separate line item surcharge on bill
3. Should CEE be system wide or should City request a separate program only for Dallas citizens?

# What's Next

- January 13, 2016 - Agenda Item to retain Diversified Utility Consultants
- May 2, 2016 - Brief BF&A Committee on findings and recommendations pertaining to DARR filing
- May 11, 2016 - Agenda item to set rates for Atmos
- May 29, 2016 - Deadline for Council action on DARR filing
- June 1, 2016 - DARR rates go into effect



# Appendix

# Appendix

## Regulatory Background

- Last fully litigated case to set Dallas rates
  - November 5, 2008 - Atmos requested an increase in rates of \$9.1m
  - 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 - RCT granted Atmos an increase in rates of \$1.6m

# 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 \$20.2m (system wide)
    - Settled for an increase of \$11.0m (system wide)
      - As part of settlement City authorized tariff DARR-Dallas Annual Rate Review (DARR)

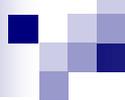
# Appendix Regulatory Background (Continued)

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



# Appendix Regulatory Background (Continued)

- Prior DARR Filings continued
  - Fourth DARR Filing, 2015 Atmos requested \$7.1m
    - Settled for \$4.7m increase in rates