

# Memorandum



CITY OF DALLAS

DATE January 19, 2024

TO Honorable Mayor and Members of the City Council

SUBJECT **Atmos Energy Corporation – DARR Filing**

On January 12, Atmos Energy Corporation, Mid-Tex Division (Atmos) filed a request with the City to increase rates. This filing was made under the Dallas Annual Rate Review (DARR) Tariff and is the company's sixth filing under the current DARR mechanism. Atmos is requesting an increase in annual revenues of \$47.9 million from within the city. This represents a monthly increase of 14.98 percent or \$13.72 per month (\$164.64 annually) for the average residential customer. Atmos has requested a June 1, 2024, effective date for the new rates.

Staff is currently reviewing the filing with the City's gas rate consultant and outside legal counsel and will brief their findings to the Government Performance and Financial Management Committee on May 21, 2024, with recommendations for Council action on May 22, 2024. The statutory deadline to take action on this matter is May 26, 2024.

Atmos provided an executive summary of the filing, which is attached. If you have any questions, please contact Nick Fehrenbach, Manager of Regulatory Affairs in Budget and Management Services.

A handwritten signature in blue ink that reads "Jack Ireland".

Jack Ireland  
Chief Financial Officer

c: T.C. Broadnax, City Manager  
Tammy Palomino, City Attorney  
Mark Swann, City Auditor  
Biliera Johnson, City Secretary  
Preston Robinson, Administrative Judge  
Kimberly Bizer Tolbert, Deputy City Manager

Jon Fortune, Deputy City Manager  
Majed A. Al-Ghafry, Assistant City Manager  
M. Elizabeth (Liz) Cedillo-Pereira, Assistant City Manager  
Dr. Robert Perez, Assistant City Manager  
Genesis D. Gavino, Chief of Staff to the City Manager  
Directors and Assistant Directors

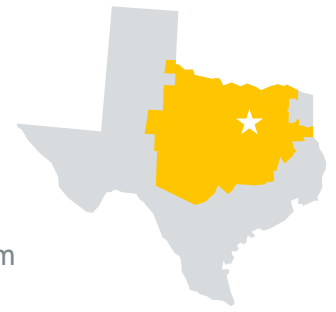
# Guided by SAFETY

2024 DARR FILING





# Mid-Tex Division Highlights



In 2023, Atmos Energy spent more than \$231 million in capital investment in the City of Dallas and more than 85 percent was spent to enhance the safety and reliability of our natural gas system.

This investment in system modernization also reduces our environmental impact. Our goal of reducing methane emissions from our distribution system mains and services by 50 percent from 2017 to 2035 is essential to our environmental commitment.

Atmos Energy submitted a Dallas Annual Rate Review (DARR) filing to the City of Dallas on January 12, 2024, requesting an increase in annual revenues of approximately \$47.9 million. \$15.8 million of the increase is due to the completion of the three - year period previously negotiated and agreed upon with the City of Dallas during which rates have been lowered to fully reflect the tax reduction of the 2017 Tax Cuts and Jobs Act and \$4.8 million of the increase is attributable to unrecovered interest expense related to extraordinary gas costs during Winter Storm Uri.

## DRIVERS BEHIND OUR \$47.9M FILING

Atmos Energy continues its comprehensive pipe replacement program that prioritizes the replacement of segments based on relative risk by analyzing many factors, including pipe material. This program is based on the company’s Distribution Integrity Management plan developed in compliance with state and federal regulatory requirements. This replacement activity includes all pipe types, including steel and plastic, on both mains and service lines.

54

Miles of pipe replaced in the City of Dallas

1.4 million

Lines located in the Mid-Tex Division

3,200

Steel service lines replaced in the City of Dallas

16,600

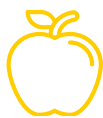
Miles surveyed for natural gas emissions in the Mid-Tex Division

4,000

Hazardous leaks caused by excavation damage in the Mid-Tex Division

## FUELING SAFE AND THRIVING COMMUNITIES

In 2023, Atmos Energy invested more than \$1.4 million to provide educational, literacy, financial assistance, and food security resources across the City of Dallas .



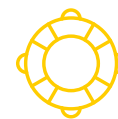
### Fueling bright minds and healthy futures for our kids.

We believe in making a difference in the lives of children by collaborating with local school districts and education foundations to offer nutritious meals and provide resources to help children read at grade level by third grade to increase their opportunities for success.



### Fueling honor and thanks for our community heroes.

We believe in showing our respect and gratitude to firefighters, police officers, medical teams, other first responders and teachers by providing meals and support throughout the year for our hometown heroes.



### Fueling hope and growth for our neighbors.

We believe in supporting our communities through programs that help eligible customers stay warm with financial assistance to pay their gas bill and upgrade their homes. We proudly support United Way, The Salvation Army and other local community welfare organizations so that our neighbors can grow and thrive.

# Our Customer Bill



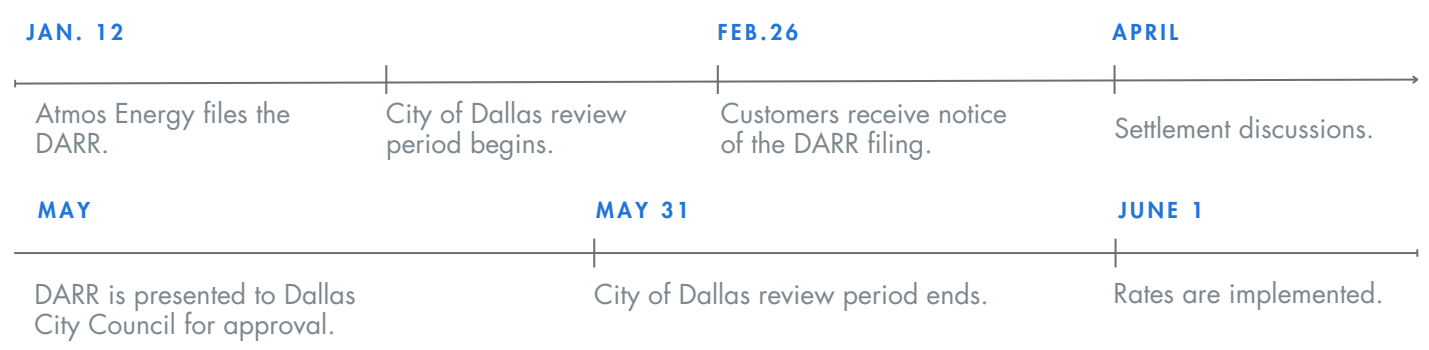
The average residential customer will see an increase totaling \$13.72 per month, which is comprised of \$8.06 associated with increases related to system growth and integrity, \$4.67 associated with the completion of the Tax Cuts and Jobs Act refund and \$0.99 for unrecovered interest expense.



The average commercial customer will see an increase totaling \$52.63 per month, which is comprised of \$27.03 associated with increases related to system growth and integrity, \$15.70 associated with the completion of the Tax Cuts and Jobs Act refund and \$9.90 for unrecovered interest expense.

## 2024 Timeline

Between October 2022 and September 2023, more than \$231 million was spent in the City of Dallas to further enhance the safety and reliability of our natural gas system.



## DARR FAQ

### WHY IS ATMOS ENERGY ASKING FOR A RATE ADJUSTMENT?

We are requesting an increase in annual revenue of \$47.9 million to begin recovering more than \$231 million of capital spent from October 2022 through September 2023 and to update rates to reflect the end of the three-year refund period associated with the Tax Cuts and Jobs Act. The rates we charge customers – coupled with investor and creditor capital –allow us to enhance the safety and reliability of our natural gas system through pipeline replacement and system modernization. Current rates don't allow us to begin recovering the additional spending incurred in 2023 to support safety and reliability.

### WHAT ROLE DOES THE CITY PLAY IN SETTING NATURAL GAS RATES?

The City Council reviews the rates we charge our customers in the City of Dallas. In Texas, cities have original jurisdiction over natural gas rates. In order to recover costs after they've been spent, natural gas utilities must file directly with the cities for approval to adjust rates. The Railroad Commission of Texas is the regulatory body for natural gas companies in Texas, with appellate jurisdiction over cities and jurisdiction over areas outside of city limits.

### WHAT IS THE DARR?

The Dallas Annual Rate Review (DARR) is a mechanism that was developed by the City of Dallas and Atmos Energy in 2010 to ensure all of our spending is reviewed annually. It takes into consideration precedent decided by the Railroad Commission of Texas and outlines specific factors such as return on equity, capital structure and other administrative items, reducing the need for costly litigation that is ultimately borne by our customers. The parties reached a negotiated settlement in nine out of eleven filings from 2012 through 2023. This process is not unique to Dallas – the other 444 cities served by the Mid-Tex Division also operate under similar annual mechanisms.

### WHAT IS A CAPITAL EXPENDITURE?

Just like highways, bridges and other utility lines across the country, natural gas pipelines must be modernized over time. The associated costs, or capital expenditures, primarily include pipe replacement and repair, service line replacement, growth and fortification of the natural gas distribution system and overall pipeline integrity.