

Memorandum



CITY OF DALLAS

DATE May 2, 2019

Honorable Members of the Government Performance & Financial Management
Committee: Jennifer S. Gates (Chair), Scott Griggs (Vice Chair), Sandy Greyson,
TO Lee M. Kleinman, Philip T. Kingston, Tennell Atkins, Kevin Felder

SUBJECT **Atmos' Dallas Annual Rate Review Filing**

On Monday, May 6, 2019, Nick Fehrenbach, Manager of Regulatory Affairs in the Office of Budget, will brief the Government Performance & Financial Management Committee on Atmos' Dallas Annual Rate Review Filing. I have attached the briefing for your review.

Please contact me 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
Chris Caso, Interim City Attorney
Mark Swann, City Auditor
Billerae Johnson, City Secretary
Preston Robinson, Administrative Judge
Kimberly Bizzor Tolbert, Chief of Staff to the City Manager

Majed A. Al-Ghafry, Assistant City Manager
Jon Fortune, Assistant City Manager
Joey Zapata, Assistant City Manager
Nadia Chandler Hardy, Assistant City Manager and Chief Resilience Officer
Michael Mendoza, Chief of Economic Development & Neighborhood Services
Laila Alequresh, Chief Innovation Officer
Directors and Assistant Directors

Atmos' Dallas Annual Rate Review Filing

**Government Performance and Financial
Management Committee
May 6, 2019**

**Nick Fehrenbach
Manager of Regulatory Affairs
Office of Budget**



Presentation Overview

- Update Council on Atmos Energy Corporation's (Atmos) Dallas Annual Rate Review (DARR) filing
- Provide summary of 2017 rate cases
 - 2017 Dallas Annual Rate Review
 - 2017 Statement of Intent
- Discuss current Dallas Annual Rate Review filing
- Provide options for City Council consideration
- Review City Manager's recommendation and next steps



Summary of 2017 Rate Cases

- Atmos rate filings in 2017 were complex due to two filings that overlapped during the year
 1. Jan 2017 DARR rate case was ultimately settled by RCT in Dec 2017 with Atmos receiving revenue increase of \$9.9M (\$3.16/month increase for residential customers that basically went into effect in June 2017)
 2. Aug 2017 Statement of Intent overlapped the previous filing and requested an additional \$6.3M (additional \$3.18/month increase for residential customers)
 - Settlement approved by Council on Feb 14, 2018 reduced \$5.7M from the rates approved by RCT in Dec 2017
 - Typical residential customer rates that had been in place since June 2017 were decreased \$1.60/month

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Summary of 2017 Rate Cases

- Settlement agreement included several changes to DARR Tariff
 - Reduced return on equity from 10.1% to 9.8%
 - Included changes to Federal income tax rate
 - Clarified regulatory treatment of incentive compensation
 - No rate filing until 2019

2019 DARR Filing

- On Jan 15, 2019, Atmos filed its 2019 DARR rate case
 - Requested an annual increase in rates of \$10.1M from within the City of Dallas
 - Rates to become effective June 1, 2019
 - Average residential bill to increase by \$3.05/month (10.72% without gas costs)
 - Deadline for City to take action is May 30, 2019

2019 DARR Filing

- Oct 25, 2017, City retained Garrett Group LLC (Garrett) to review gas rate cases such as the current DARR filing
 - Garrett reviewed the DARR filing and requested supplemental information from Atmos
 - After reviewing the filing and supplemental information Garrett recommended several adjustments to the filing
- Garrett recommended adjustments to the DARR filing to reduce the requested increase from \$10.1M to \$8.07M

2019 DARR Filing

- Garrett also recommended adjusting the cost of debt to reflect a post test year refinancing of long term debt
 - DARR permits Atmos to use 13-month average actual cost of debt
 - Atmos had \$450M of 8.5% long term debt due in March 2019
 - Atmos issued \$600M of 4.3% senior notes on Oct 4, 2018
 - Both of these transactions were after the end of the test year which ended Sep 30, 2018
 - This change in the cost of debt reduces Atmos' revenue requirement by an additional \$1.22M

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2019 DARR Filing

- Garrett further recommends modifying the capital structure allowed to be used under the DARR
 - DARR permits Atmos to use a 13-month average actual capital structure
 - Atmos' current equity level of 59.92% is causing rates to be much higher than necessary
 - Garrett recommends a 47% debt to 53% equity capital structure
 - Representative of Atmos' capital structure in other jurisdictions
 - Would lower revenue requirement by an additional \$2.19M

2019 DARR Filing

- Staff shared Garrett's preliminary findings with Atmos
- Staff met with Atmos on multiple occasions both in person and via telephone to negotiate a settlement of the DARR filing
 - No settlement reached
 - Atmos expressed being open to further negotiations but no additional proposal received as of May 1

Options for City Council Consideration

1. Approve rates originally requested by Atmos
 - Overall increase of \$10.1M (9.87%)
 - Average residential bill to increase by \$3.05 per month
2. Approve rates per Atmos proposed settlement
 - Atmos expressed being open to further negotiations but no additional proposal received as of May 1
3. Set rates at some other level
 - Atmos may appeal rates to RCT
4. Deny rates as requested
 - Atmos may appeal rates to RCT

City Manager's Recommendation and Next Steps

- City Manager recommends City Council approve Option #4, deny rates, on May 8
 - Atmos may appeal to RCT
 - Current rates will remain in effect until appeal is filed, then requested rates may go into effect subject to refund



Appendix



Appendix

- Current franchise approved on 1/13/2010 (ordinance #27793) authorizes Atmos to provide natural gas utility service in city
 - Initial term of 15 years
- 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

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Appendix

- 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



Appendix

- 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-Gas Cost Recovery)
 - 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

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Appendix

- 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

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	\$9.9M increase (By RCT on appeal)



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