

Memorandum



CITY OF DALLAS

DATE November 29, 2017

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 Rate Case**

On Monday, December 4, 2017, the Office of Budget will brief the Government Performance & Financial Management Committee on the Atmos Rate Case. I will provide the briefing for your review later this week once ongoing negotiations are finalized.

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

Honorable Mayor and Members of City Council
T.C. Broadnax, City Manager
Larry Casto, City Attorney
Craig D. Kinton, City Auditor
Billerae Johnson, City Secretary (Interim)
Daniel F. Solis, Administrative Judge
Kimberly Bizer Tolbert, Chief of Staff to the City Manager

Jon Fortune, Assistant City Manager
Joey Zapata, Assistant City Manager
Jo M. (Jody) Puckett, Assistant City Manager (Interim)
Nadia Chandler Hardy, Chief of Community Services
Raquel Favela, Chief of Economic Development & Neighborhood Services
Theresa O'Donnell, Chief of Resilience
Directors and Assistant Directors

Atmos Rate Case

**Government Performance and Financial
Management Committee
December 4, 2017**

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



Presentation Overview

- Purpose
- Background
- Prior rate case
- Current filing
- Next steps



Purpose

- Update committee on Atmos Energy Corporation's (Atmos) Statement of Intent to Increase Gas Utility Rates



Background

- Current franchise approved on 1/13/2010 (ordinance #27793) and 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



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 two 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 (RCT)
 - 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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Background (continued)

- Gas utility customers are divided into four 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 two other parties

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Prior Rate Case

- 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

Prior Rate Case (continued)

- City staff negotiated a settlement with Atmos
 - Base rates would increase by \$7.8m as compared to \$10.7m originally requested by Atmos
 - Overall increase would have been 8.5%
 - Average residential bill would have increased by \$2.46 per month plus revenue related fees/taxes
 - Atmos would have negotiated modifications to DARR tariff to be brought back to committee in Oct 2017
 - Atmos would have worked with staff to modify rates if major revisions are made to federal income tax rates

Prior Rate Case (continued)

- 5/24/17, City Council adopted Ordinance #30466, setting rates to be charged by Atmos
 - Authorized base rates increase of \$5m as compared to \$10.7m originally requested by Atmos and \$7.8m proposed settlement
- 5/26/17, Atmos appealed City's rate ordinance to RCT
- 6/1/17, Atmos began charging customers rates as requested in the appeal, an increase of \$10.4m over existing rates
 - Rates are subject to refund if full amount of increase is not authorized by RCT
- 10/30/17, hearing examiner issued Proposal For Decision in appeal
 - Recommends annual revenue increase of \$9.9m
 - RCT will issue final order 12/5/17

Current Filing

- About the same time as Atmos' appeal on 5/26/17, City Council approved resolution #17-0933 on 6/14/17 which requires:
 - Atmos to “Show Cause” why its rates should not be reduced
 - Atmos to file no later than 8/18/17 (Minimum notice allowed under Gas Utilities Regulatory Act)

Current Filing (continued)

- Atmos filed a Statement of Intent to increase rates on 8/18/17
 - Requested an annual increase in rates of \$16.2m (\$5.8m over interim rates of \$10.4m that went into effect on 6/1/17)
 - 20.88% overall increase in base rates (without gas costs)
 - Monthly bill for average residential consumer would increase by \$6.13 (22.69%)
 - City Council action required by 12/12/17 (deadline has been extended as discussed later)

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Current Filing (continued)

- City retained Garrett Group LLC (Garrett) to assist in reviewing current filing
 - Expertise in gas rate regulation
 - Assisted City with Atmos Pipeline case before RCT
 - Assisted City with 2017 DARR filing
 - Garrett contract approved by resolution #17-1662 on 10/25/17

Current Filing (continued)

- Garrett reviewed filing and requested additional supporting information from Atmos
- After full investigation, Garrett recommends several adjustments to filing
- Staff shared Garrett's preliminary findings with Atmos and attempted to negotiate settlement - negotiations with Atmos are still in progress
- Atmos has identified some potential issues with preliminary findings which are being reviewed by consultant
- Both staff and Atmos believe that settlement can be reached

Current Filing (continued)

- On 11/23/17 Atmos extended effective date by 56 days which provides additional time for negotiations
 - Additional time permits settlement discussions to continue
 - RCT appeal of prior case will be complete prior to proposed settlement
 - City must take final action by 2/15/18

Next Steps

- Continue current negotiations with Atmos
- Brief City Council on 1/3/18
- Agenda item to set rates to be scheduled for 1/10/18
- Statutory deadline to take action is 2/15/18

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