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**Nick Fehrenbach**

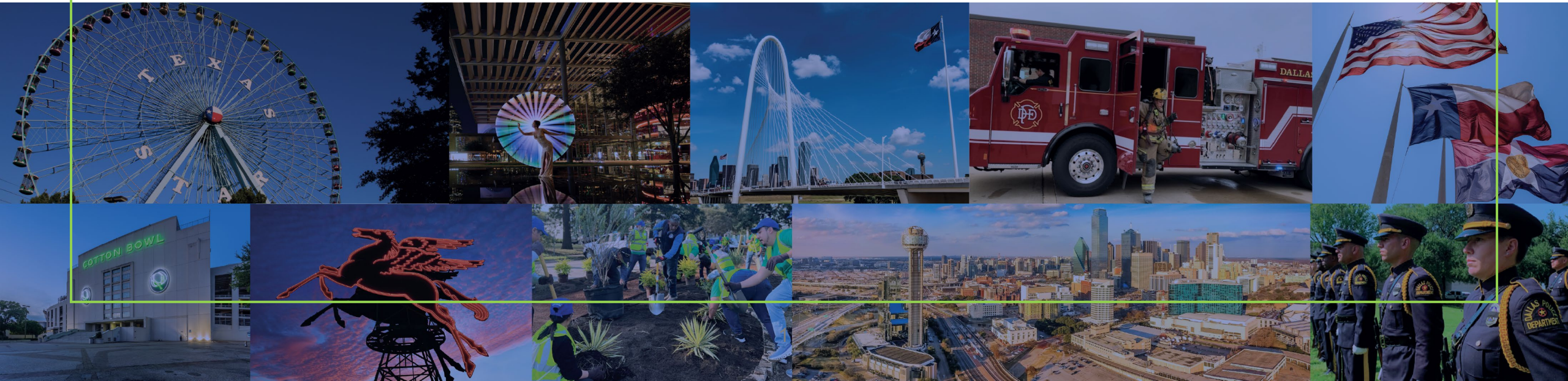
*Manager of Regulatory Affairs*

Budget and Management Services

# Atmos Dallas Annual Rate Review Filing

**Committee on Finance**

May 26, 2026



# Overview



- **Update City Council on Atmos Energy Corporation's (Atmos) Dallas Annual Rate Review (DARR) filing**
  - Provide summary of 2025 DARR rate case
  - Discuss current DARR filing
- Review proposed settlement agreement
- Discuss options
- Provide City Manager's recommendation
- Next steps

## 2025 DARR Filing

- Atmos filed its 2025 DARR rate case on January 15, 2025
- Requested annual rate increase of \$31.4 million from within the city of Dallas
  - Average residential bill to increase by \$8.28/month or 8.38% with gas costs
  - Average commercial bill to increase by \$21.72/month or 4.38% with gas costs
  - Atmos requested rates become effective June 1, 2025

## 2025 DARR Settlement Agreement

- City set rates by Ordinance on May 28, 2025 pursuant to a settlement agreement
  - Atmos increased rates in Dallas by \$27.9 million annually
  - Rates became effective June 1, 2025
  - Average residential bill increased by \$7.83 per month
  - Average commercial bill increased by \$12.19 per month

## 2026 DARR Filing

- Atmos filed its 2026 DARR rate case on January 15, 2026
  - The City has 135 days to review requested rates
  - Deadline to complete review is May 30, 2026
- Requested annual rate increase of \$38.1 million in base rates from within the city of Dallas
  - Average residential bill to increase by \$11.25/month or 10.51% with gas costs
  - Average commercial bill to increase by \$38.92/month or 7.38% with gas costs
- Requested rates to become effective June 1, 2026

## 2026 DARR Filing

- Although Atmos has had some increases in operating costs, the driving factor in this rate increase is Atmos' investment in new plant, virtually all of which is identified as safety related
- In the past year Atmos has:
  - Spent over \$321 million in new capital investment
  - Replaced 36 miles of pipe within the City of Dallas
    - Since 2016 Atmos has replaced 100% of cast iron pipe, 22.4% of steel pipe and 7.8% of poly pipe
  - Replaced 3,500 service lines within the City of Dallas
    - Since 2016 Atmos has replaced 45% of service lines

## 2026 DARR Filing

- City retained NewGen Strategies & Solutions (NewGen) under an AA to review the current DARR filing
- After reviewing the filing and supplemental information requested from Atmos, NewGen provided a draft report and preliminary findings, including recommendations for several adjustments to the filing totaling \$9.0 million (copy attached)
- Staff shared NewGen's preliminary findings with Atmos
- Staff (assisted by NewGen and outside legal counsel) met with Atmos on multiple occasions to negotiate a settlement
  - Reached proposed settlement on May 8, 2026

## 2026 DARR Proposed Settlement

- Atmos to increase rates in Dallas by \$34.1 million annually (\$4 million less than requested)
- Rates to become effective June 1, 2026
- Average residential bill will increase by \$9.46 per month an increase of 9.42%
- Average commercial bill will increase by \$32.35 per month an increase of 6.54%
- Atmos will reimburse City's rate case expense
  - Amount determined after adoption of settlement

## Average Bill vs. Typical Bill

- Average residential customer uses 46.9 Ccf of gas per month and this is what is used to calculate the “average bill.”
- Consumption varies greatly from winter to summer.
  - The average residential customer uses 122.2 Ccf in January but only 13.6 Ccf in August
  - The following chart compares an average residential bill with a typical winter bill and typical summer bill

## Average Residential Bill vs. Typical Residential Bill

| <b>Regulated Rates</b>                 | <b>Current Rates</b> | <b>Requested Rates</b> | <b>Increase from Current</b> | <b>Settlement Rates</b> | <b>Increase from Current</b> | <b>Savings of Settlement</b> |
|--|----------------------|------------------------|------------------------------|-------------------------|------------------------------|------------------------------|
| Average Bill                           | \$61.30              | \$71.86                | \$10.56                      | \$70.76                 | \$9.46                       | \$1.10                       |
| Typical January                        | \$99.53              | \$119.39               | \$19.86                      | \$124.16                | \$24.63                      | \$(4.77)                     |
| Typical August                         | \$44.40              | \$50.84                | \$6.44                       | \$47.15                 | \$2.75                       | \$3.69                       |
| <b>With Gas Cost, Taxes &amp; Fees</b> | <b>Current Rates</b> | <b>Requested Rates</b> | <b>Increase from Current</b> | <b>Settlement Rates</b> | <b>Increase from Current</b> | <b>Savings of Settlement</b> |
| Average Bill                           | \$106.95             | \$118.2                | \$11.25                      | \$117.03                | \$10.08                      | \$1.17                       |
| Typical January                        | \$214.49             | \$235.66               | \$21.17                      | \$240.75                | \$26.26                      | \$(5.09)                     |
| Typical August                         | \$59.39              | \$66.25                | \$6.86                       | \$62.32                 | \$2.92                       | \$3.94                       |

# Options

1. Adopt proposed settlement agreement
  - Atmos to increase rates by \$34.1 million annually
  - Rates to become effective June 1, 2026
  - Atmos to reimburse City for rate case expense
2. Adopt rates at some amount less than the proposed settlement
  - Atmos could appeal rates to the Railroad Commission of Texas
  - Atmos could implement requested increase of \$38.1 million in rates subject to refund while appeal was pending
3. Deny rate request, keeping current rates in effect
  - Atmos could appeal rates to the Railroad Commission of Texas
  - Atmos could implement requested rates subject to refund while appeal was pending

## City Manager's Recommendation

- Adopt proposed settlement agreement as negotiated by staff (Option 1)
  - Saves residents \$4.1 million off of requested rates
  - Atmos to pay City's rate case expenses
  - Rates to become effective June 1, 2026
  - Avoids uncertainty of litigating an appeal at the Railroad Commission of Texas
  - Avoids additional rate case expense which would be passed on to customers

## Next Steps

- May 27, 2026, agenda item to set rates to be charged by Atmos
- Deadline to set rates is May 30, 2026
- City will work with Atmos to educate residents about available bill assistance and weatherization programs
  - Agencies funded by Atmos include: Dallas County Health and Human Services, Emergent CDC, The Senior Source, West Dallas Multipurpose Center, Brother Bill, Catholic Charities, Faith Formula, Harmony CDC, and Oak Cliff Bible Fellowship



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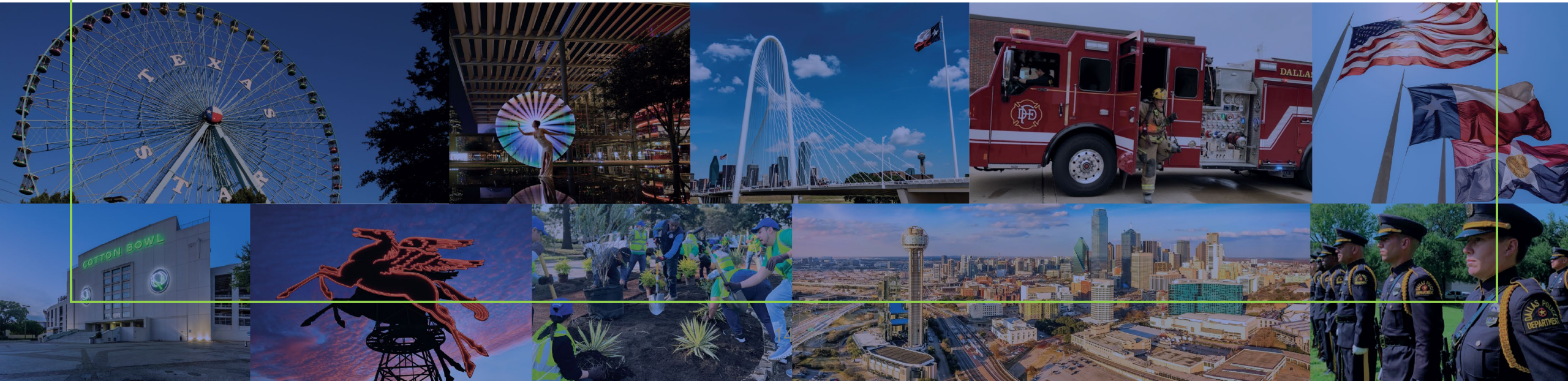
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# Atmos Dallas Annual Rate Review Filing

**Committee on Finance**

May 26, 2026



# Appendix

## Franchise History

- 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
- Current franchise approved January 13, 2010, by ordinance #27793 authorizes Atmos to provide natural gas utility service in city
  - Initial term of 15 years expiring December 31, 2025
  - Automatically renewed for an additional 15-year term expiring December 31, 2040

## Jurisdiction to Set Rates

- Texas Utilities Code indicates jurisdictional responsibility for regulation of natural gas in state
- City has original jurisdiction to set local distribution rates within city boundaries
- Railroad Commission of Texas (RCT) has appellate jurisdiction over local distribution rates and original jurisdiction over pipeline rates

# Utility Bill Breakdown

- Customer's gas utility bill has two primary components:
  - Local distribution rates
    - Approved by City Council (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
  - Pipeline rates (appear on bill as Rider GCR-Gas Cost Recovery)
    - Approved by RCT
    - Costs from producer and pipeline company to city limits
    - Includes pass-through of actual cost of gas
    - Typically comprise 60% of residential charges and 70% of commercial charges

## Billing Classes

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

## Gas Reliability Infrastructure Program (GRIP)

- Enacted by 78th Legislature (2003) as incentive for gas utilities to invest in new infrastructure
- Rates adjusted annually to account for changes in net investment
- 2/25/11 – Filed with City of Dallas
  - Atmos requested increase of \$20.2 million (systemwide)
  - Settled for increase of \$11.0 million (systemwide)
  - City authorized DARR tariff as part of settlement

# DARR Filing History

| Year of Filing | Atmos Request            | Settlement                                  |
|----------------|--------------------------|---|
| 2014           | \$8.7 million increase   | \$6.3 million increase                      |
| 2015           | \$7.4 million increase   | \$4.7 million increase                      |
| 2016           | \$7.4 million increase   | \$5.3 million increase                      |
| 2017           | \$10.7 million increase  | \$9.9 million increase By RCT on appeal     |
| 2018           | <b>No DARR filing</b>    |   |
| 2019           | \$10.1 million increase  | \$8.5 million increase Settled on appeal    |
| 2020           | \$18.3 million increase  | \$15.8 million increase                     |
| 2021           | \$17.04 million increase | \$1.9 million increase                      |
| 2022           | \$15.3 million increase  | \$13.3 million increase                     |
| 2023           | \$20.6 million increase  | \$18.2 million increase                     |
| 2024           | \$47.9 million increase  | \$45.1 million increase                     |
| 2025           | \$31.4 million increase  | \$27.9 million increase                     |
| 2026           | \$38.1 million increase  | Proposed settlement \$34.1 million increase |

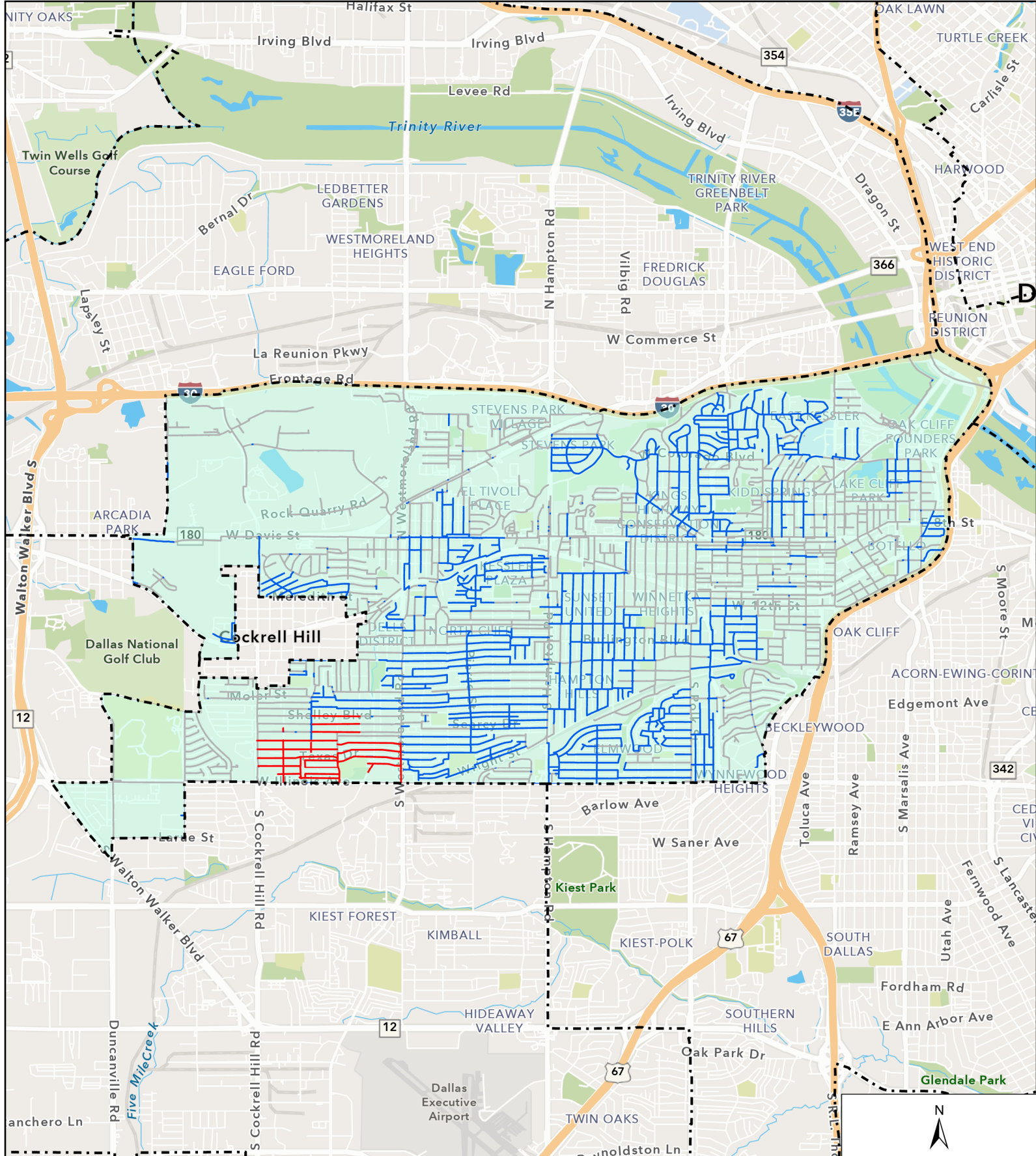
## Litigation History

- Last fully litigated case to set Dallas rates:
  - 11/5/08 – Atmos requested a rate increase of \$9.1 million
  - 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 a rate increase of \$1.6 million

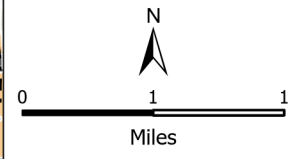


# Atmos Construction by City Council District



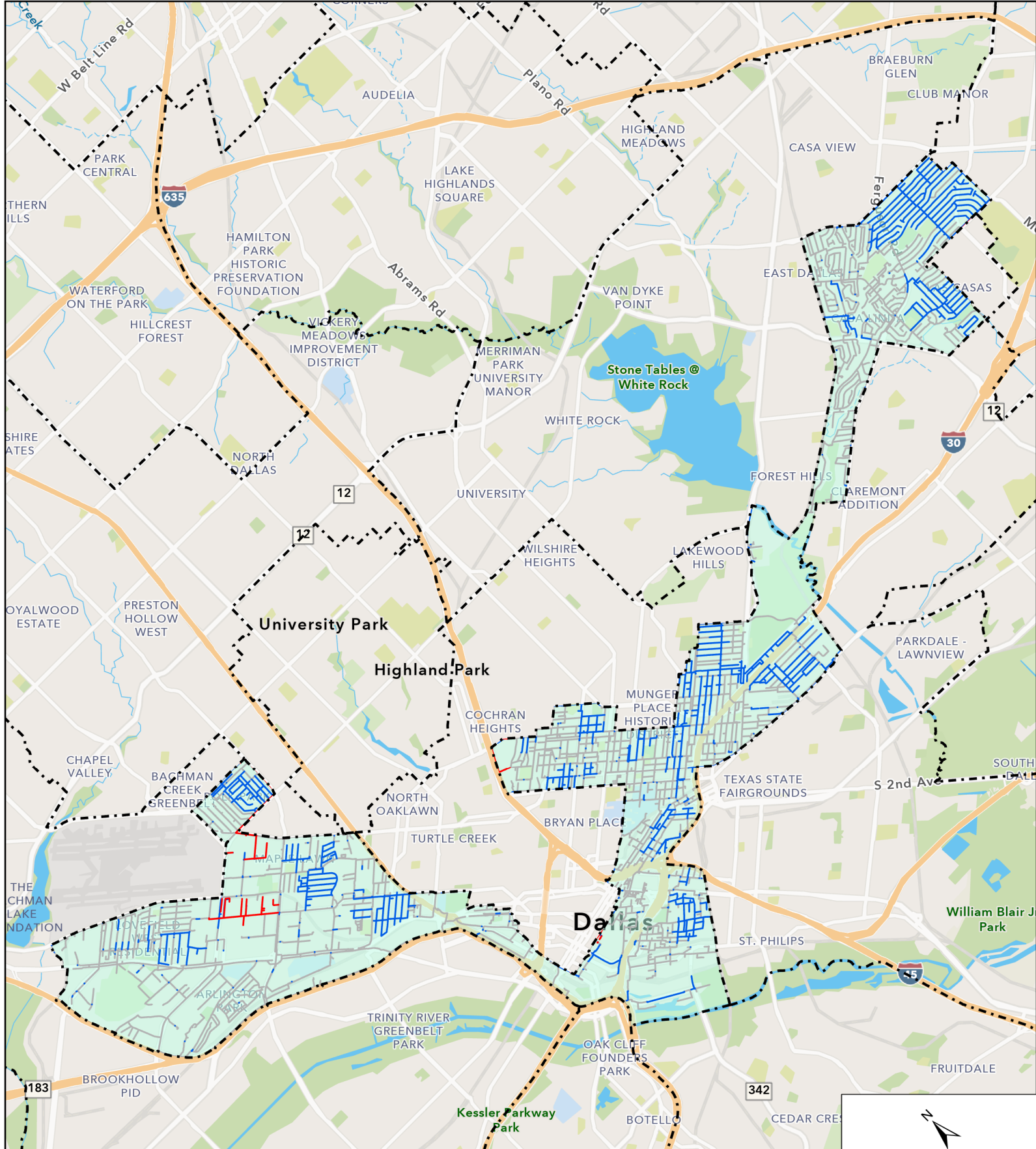


— Pipeline Replacement - 2015 to Present    
 — Pipeline Replacement - Proposed    
 — All Pipeline    
 - - - Council District

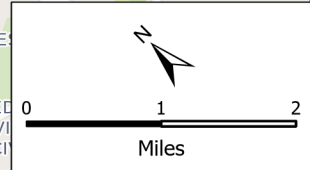


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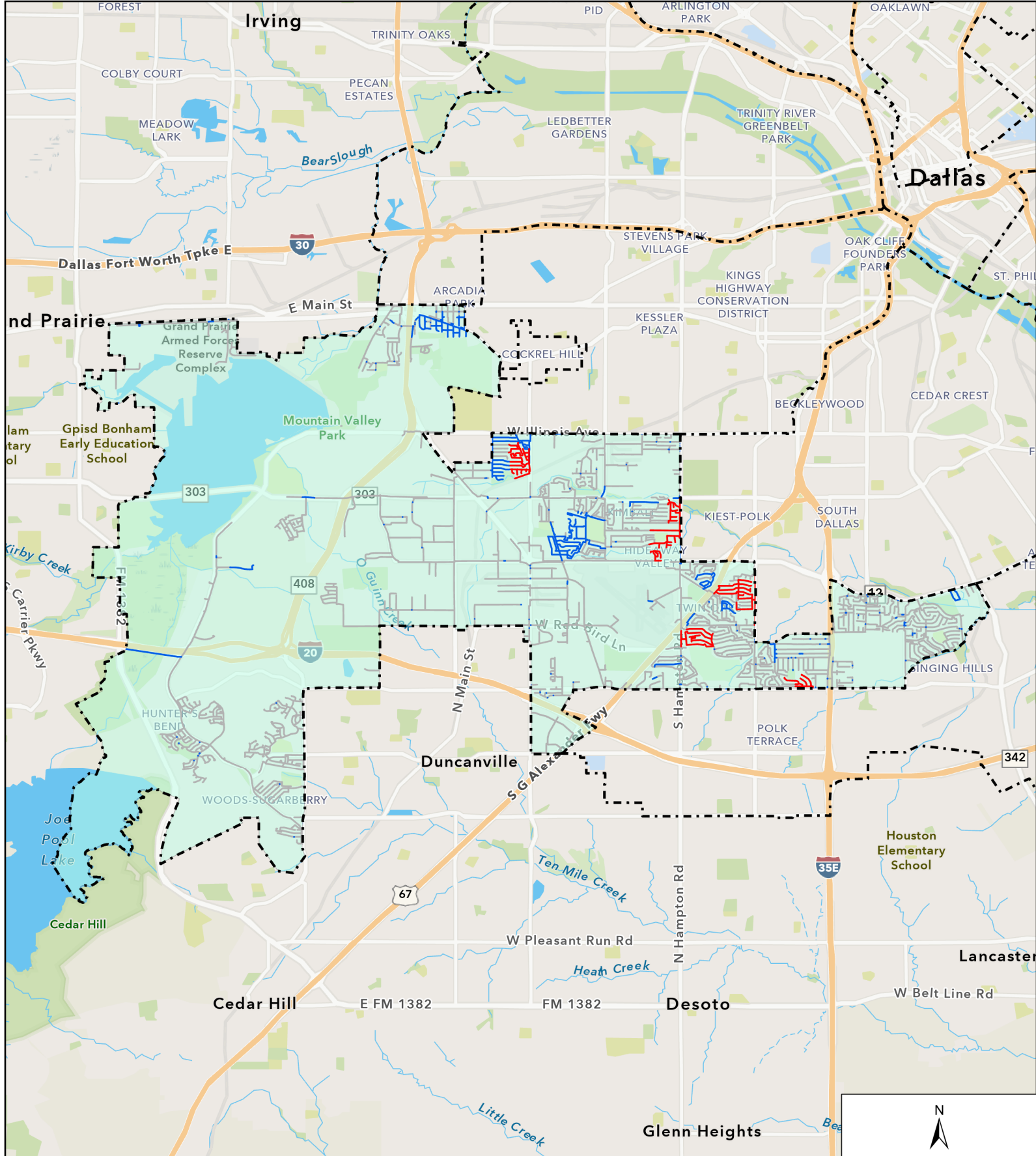


— Pipeline Replacement - 2015 to Present    
 — Pipeline Replacement - Proposed    
 — All Pipeline  
 Council District



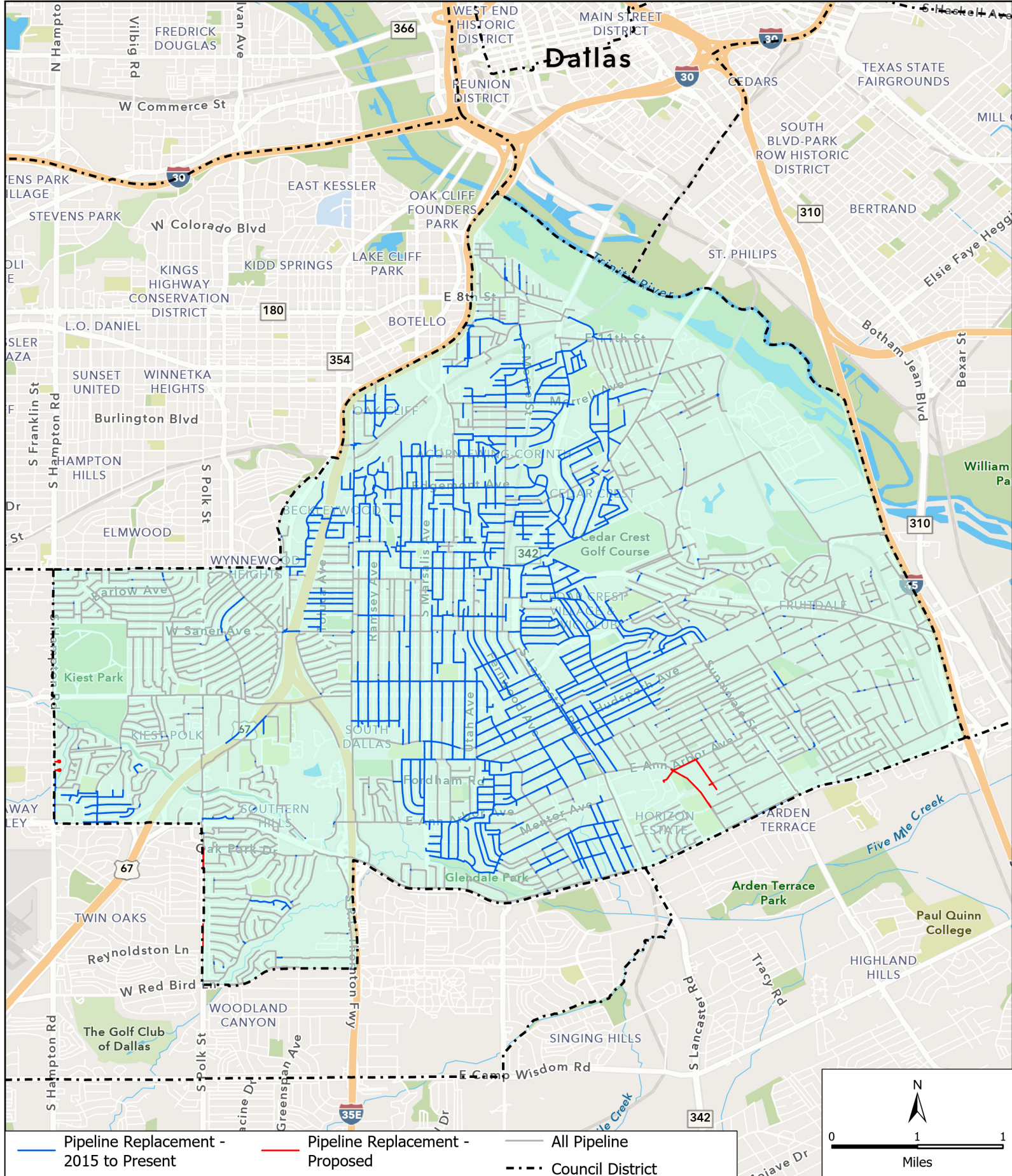
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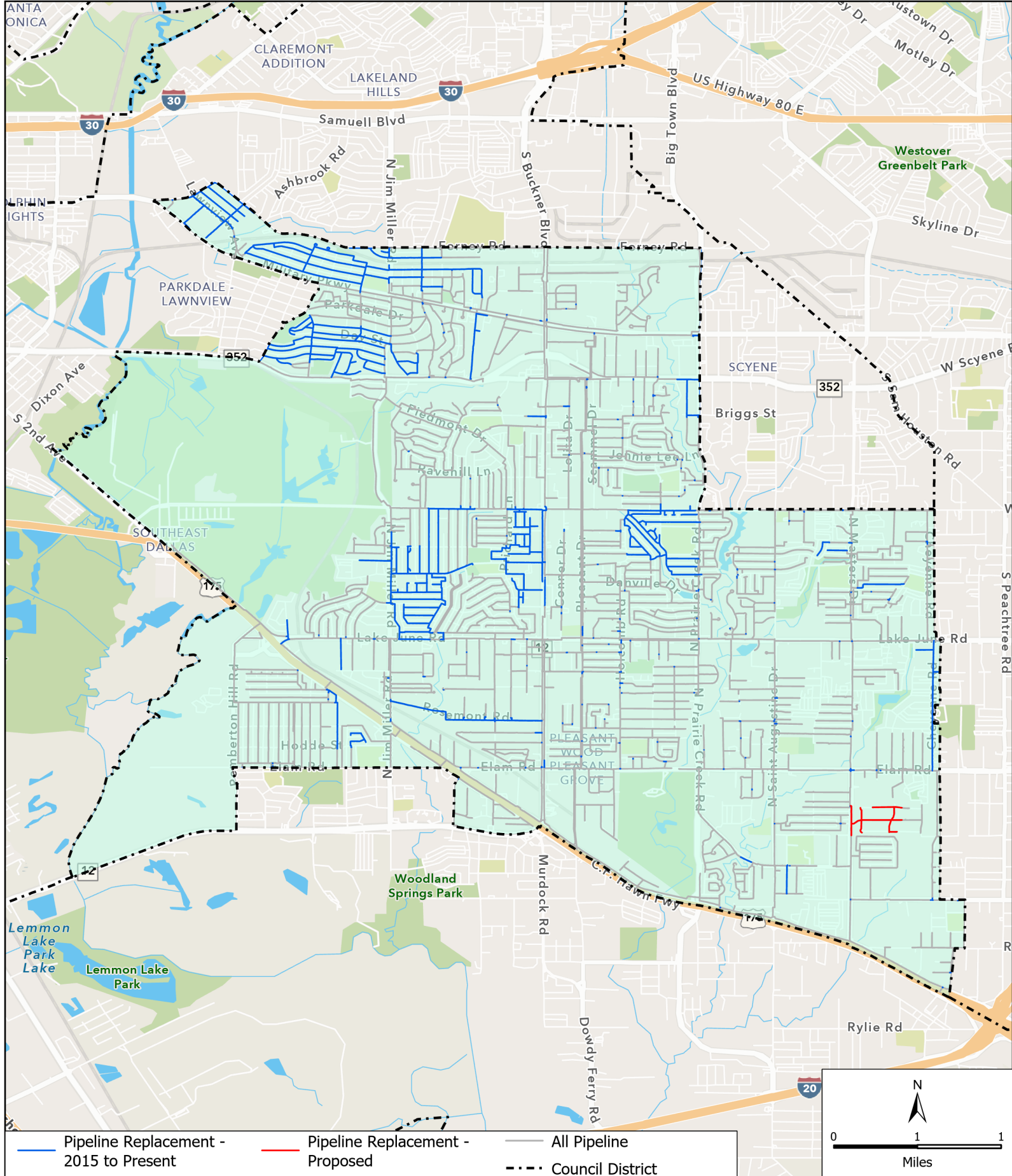
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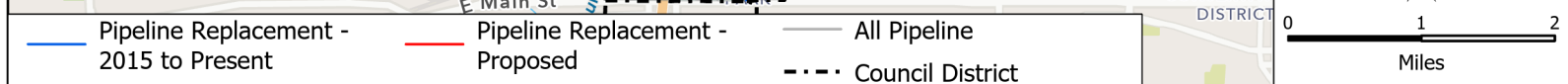
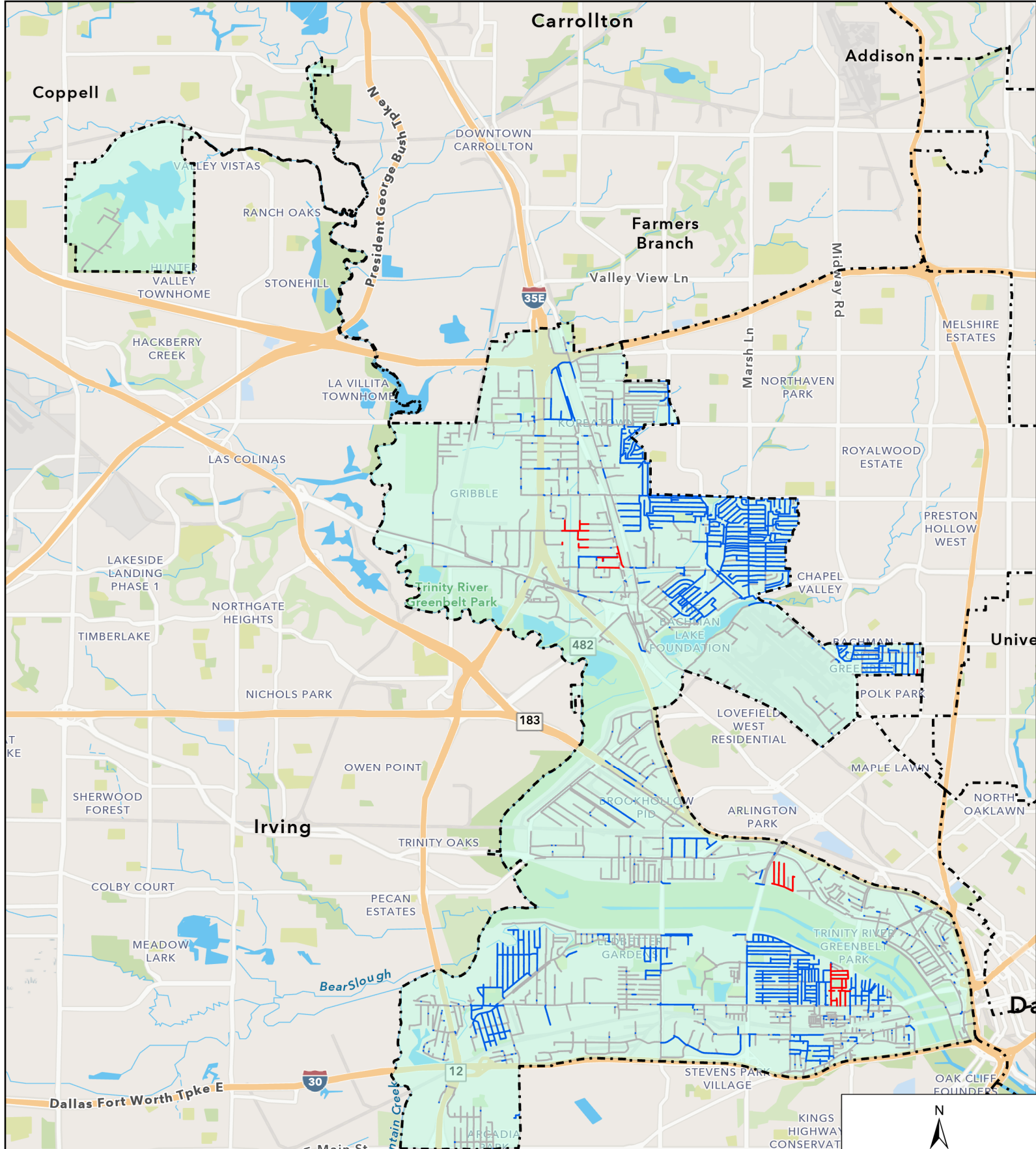
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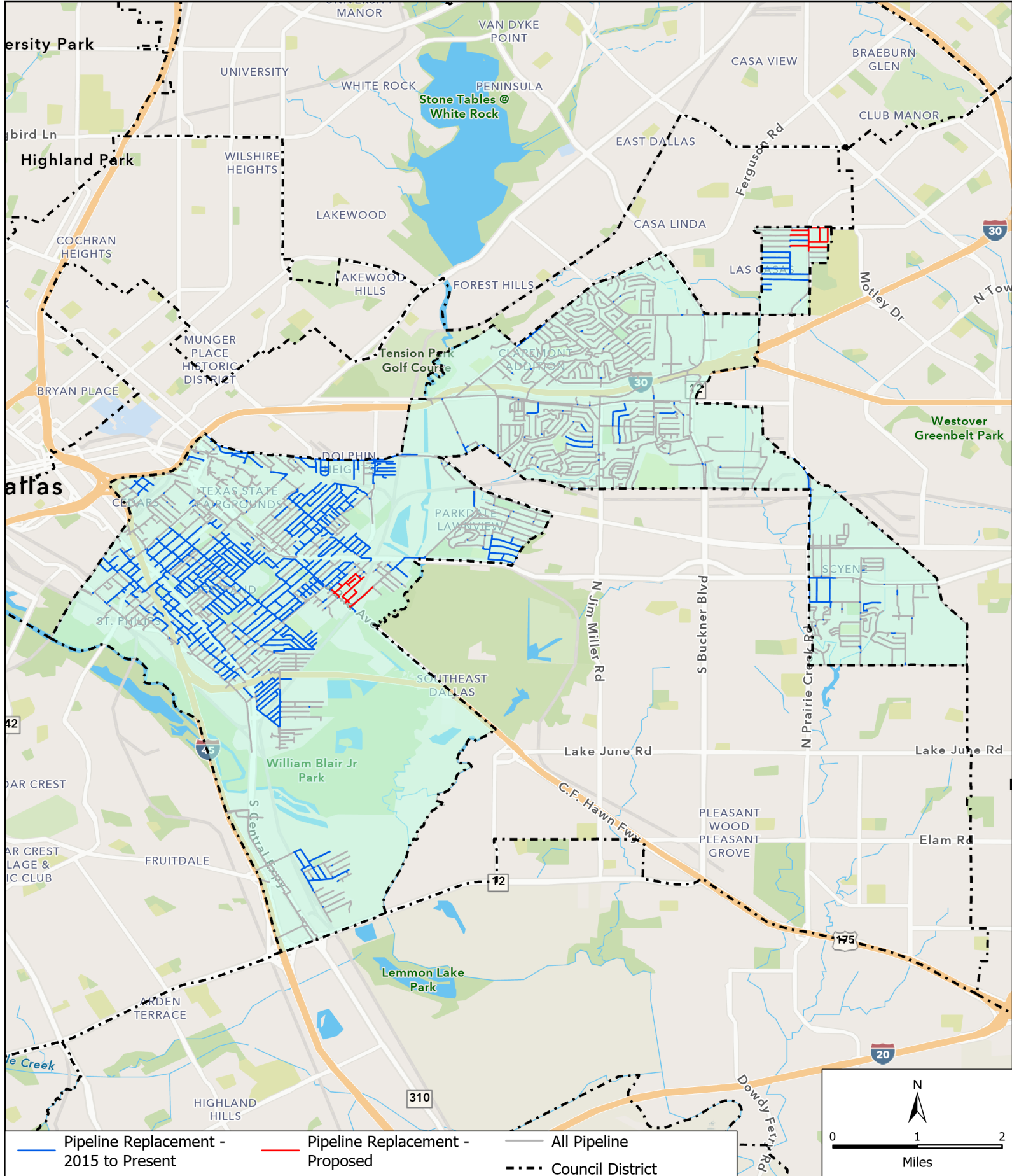
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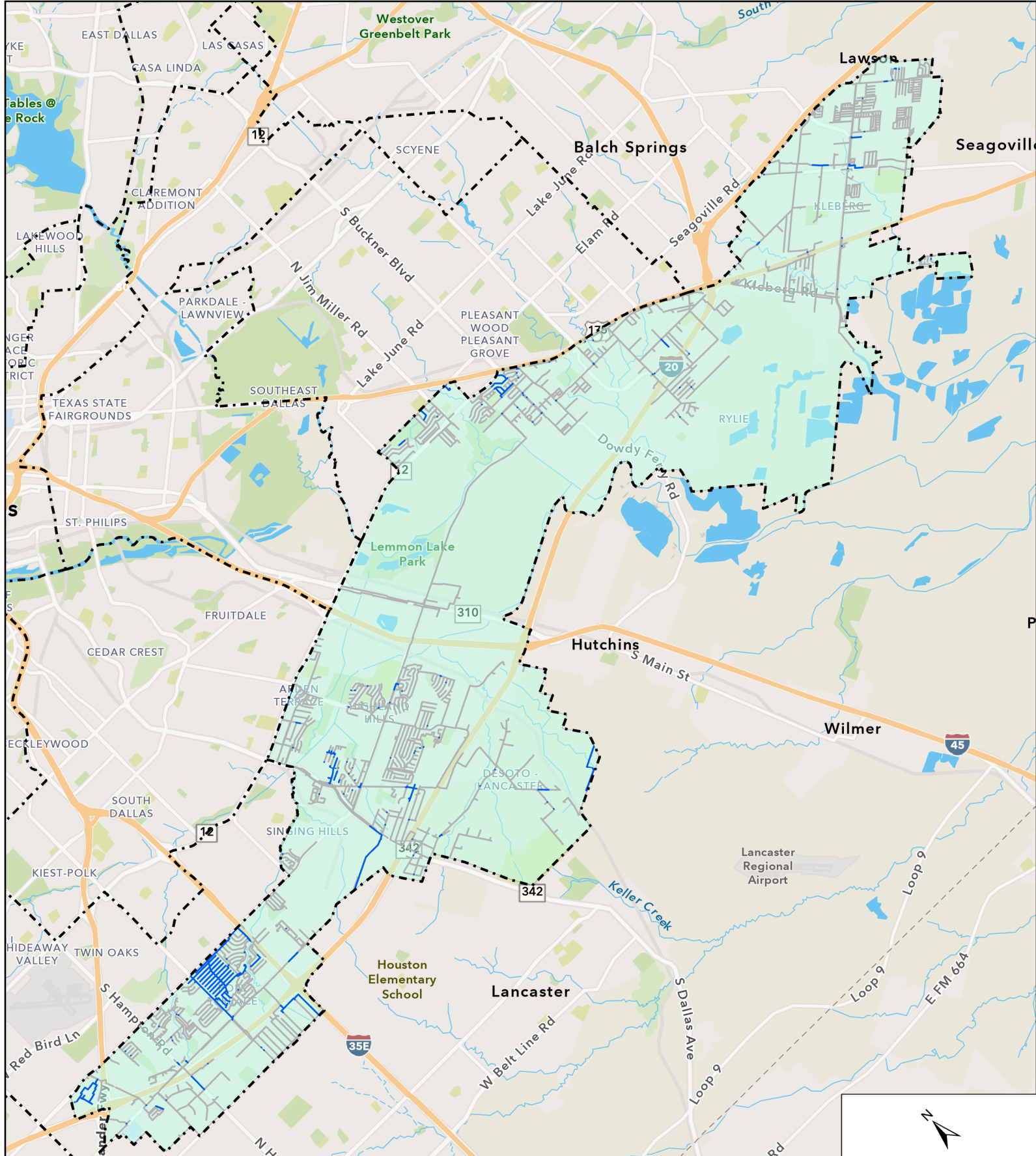
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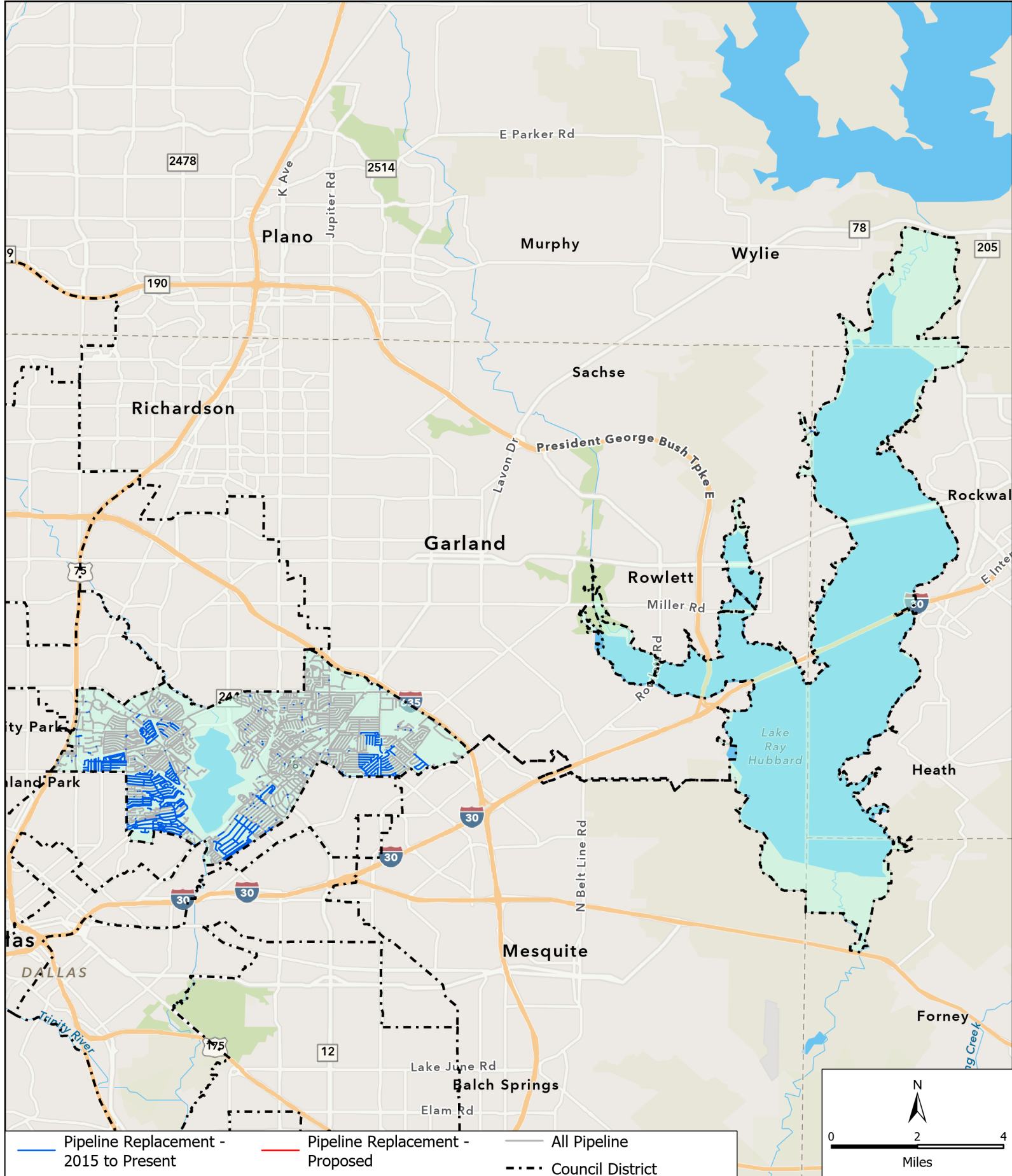
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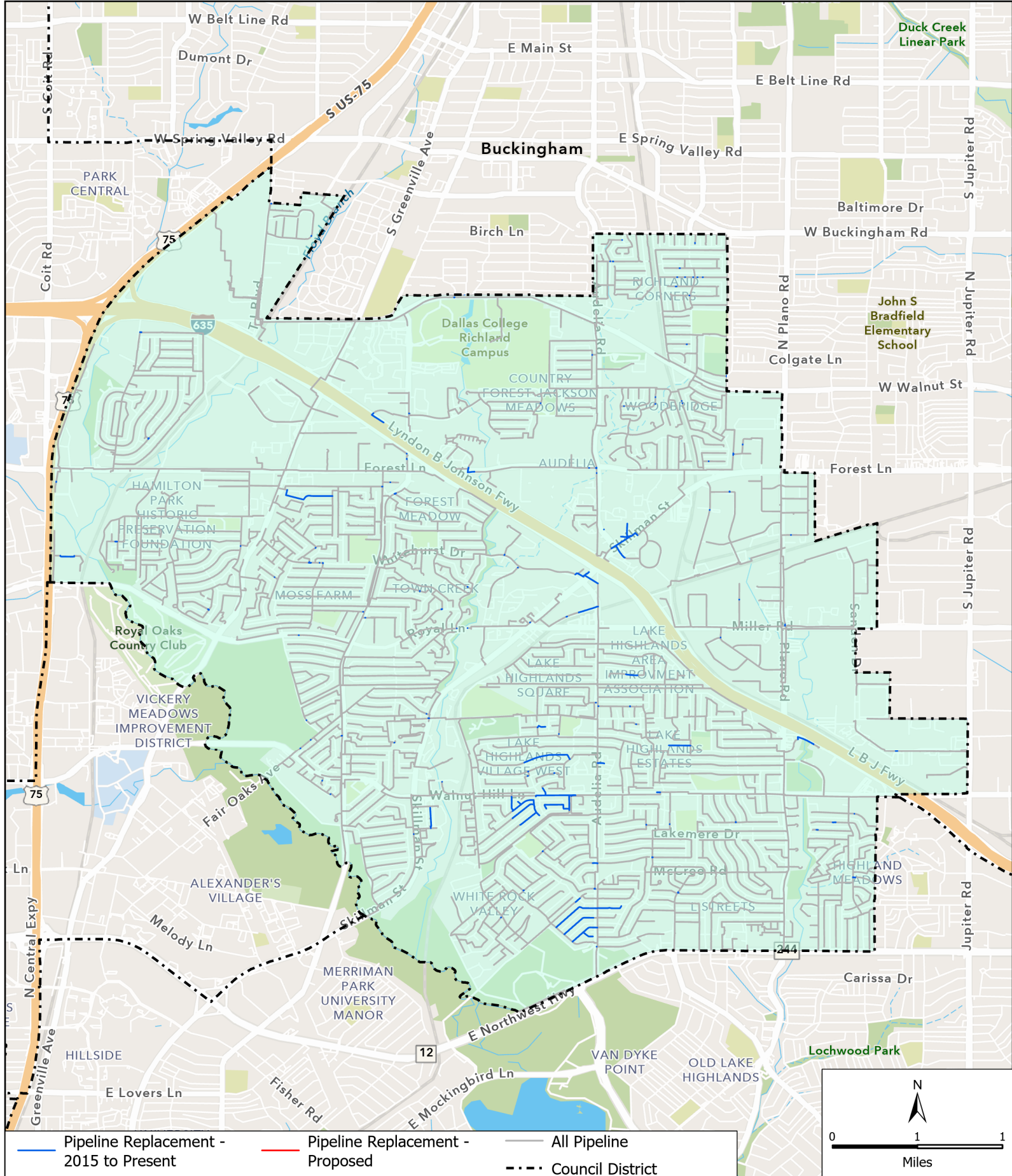
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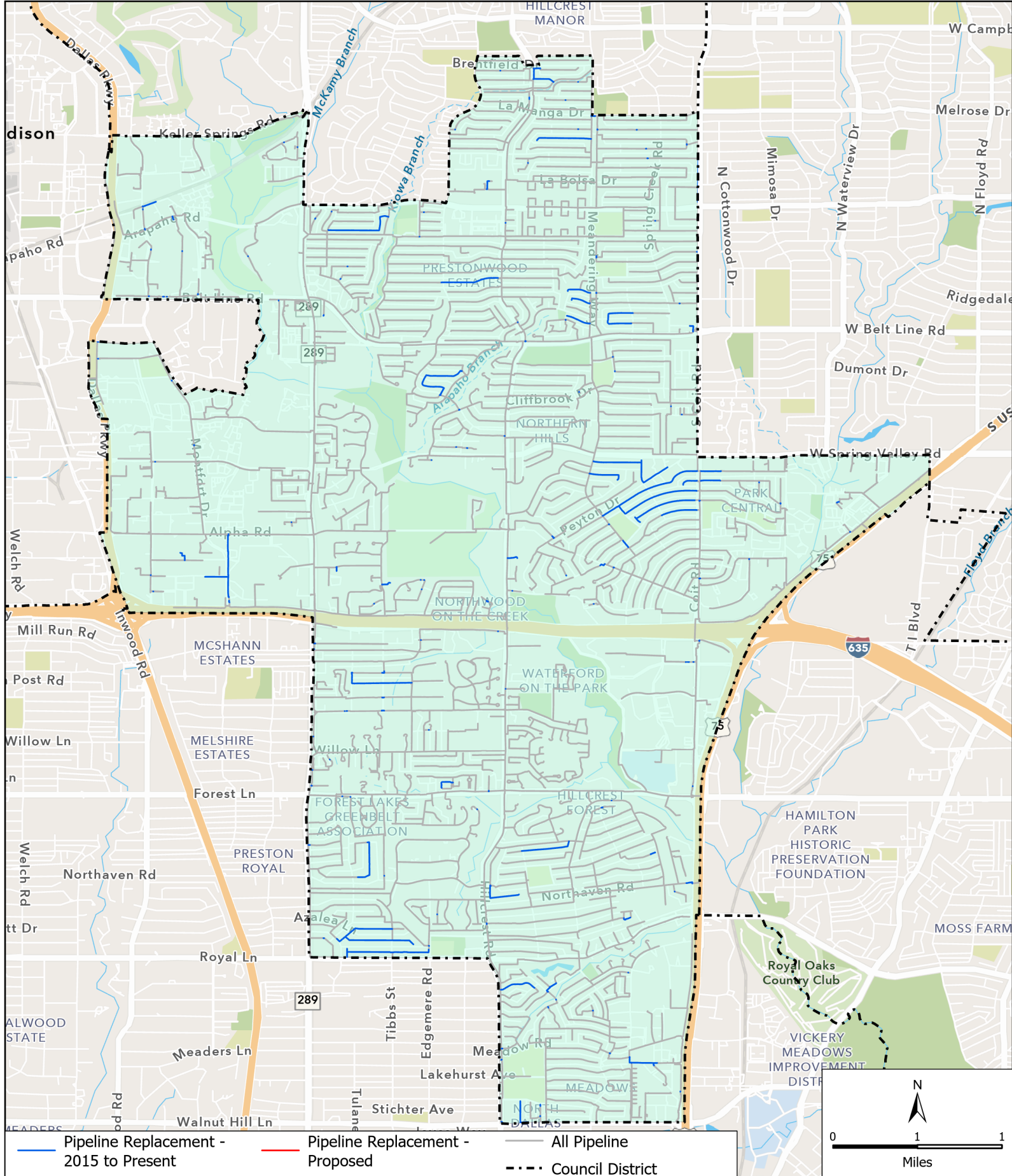
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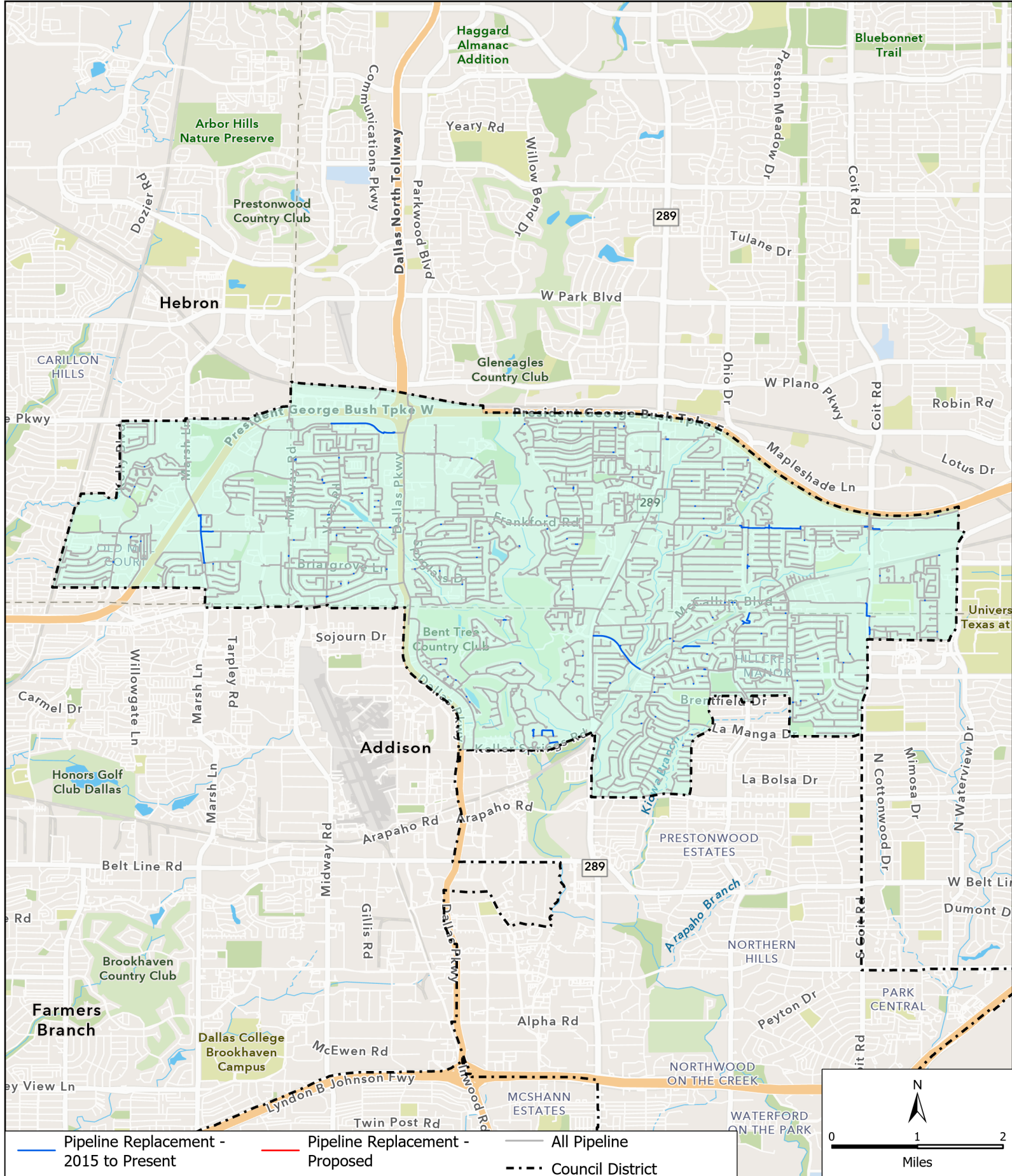
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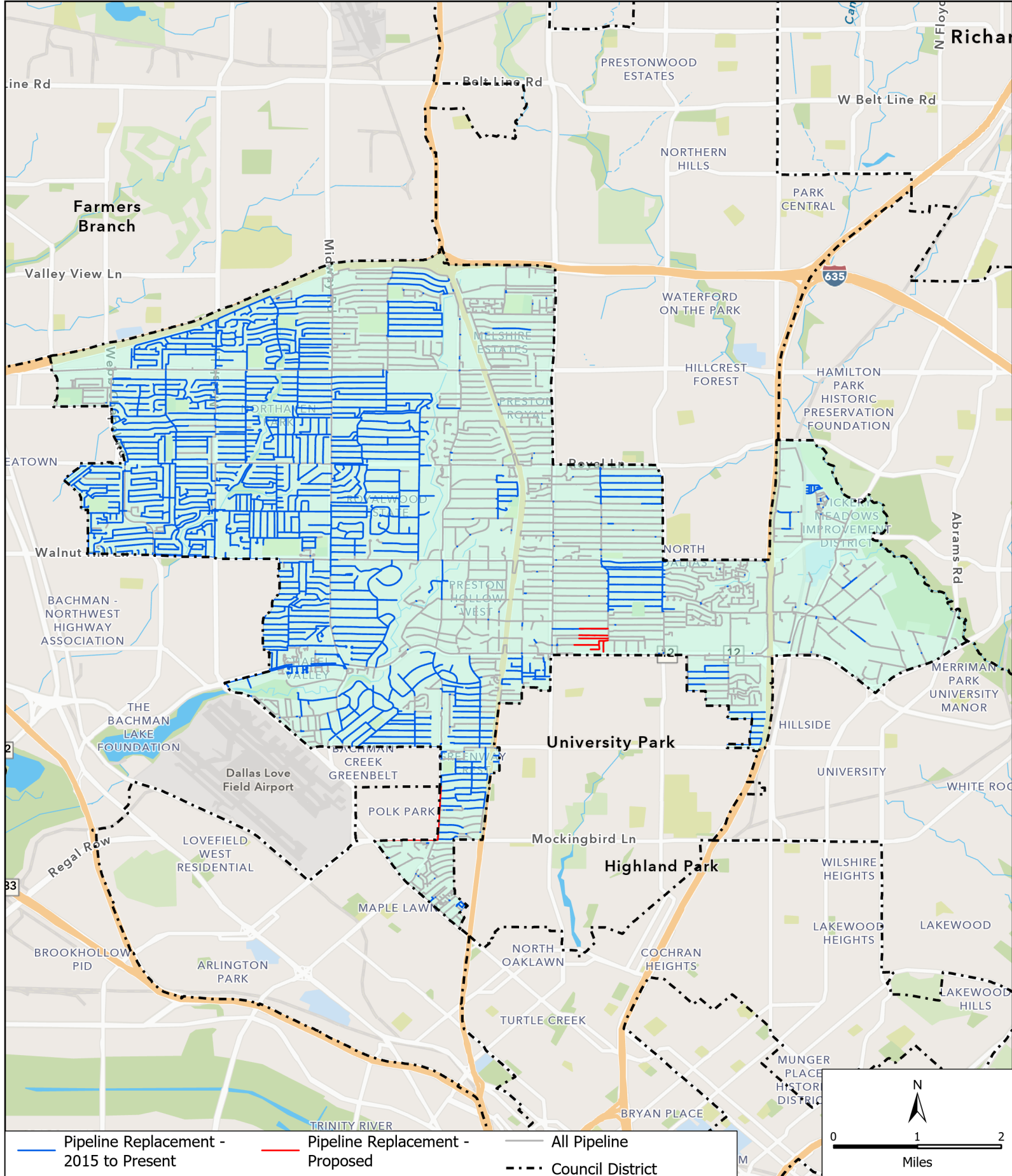
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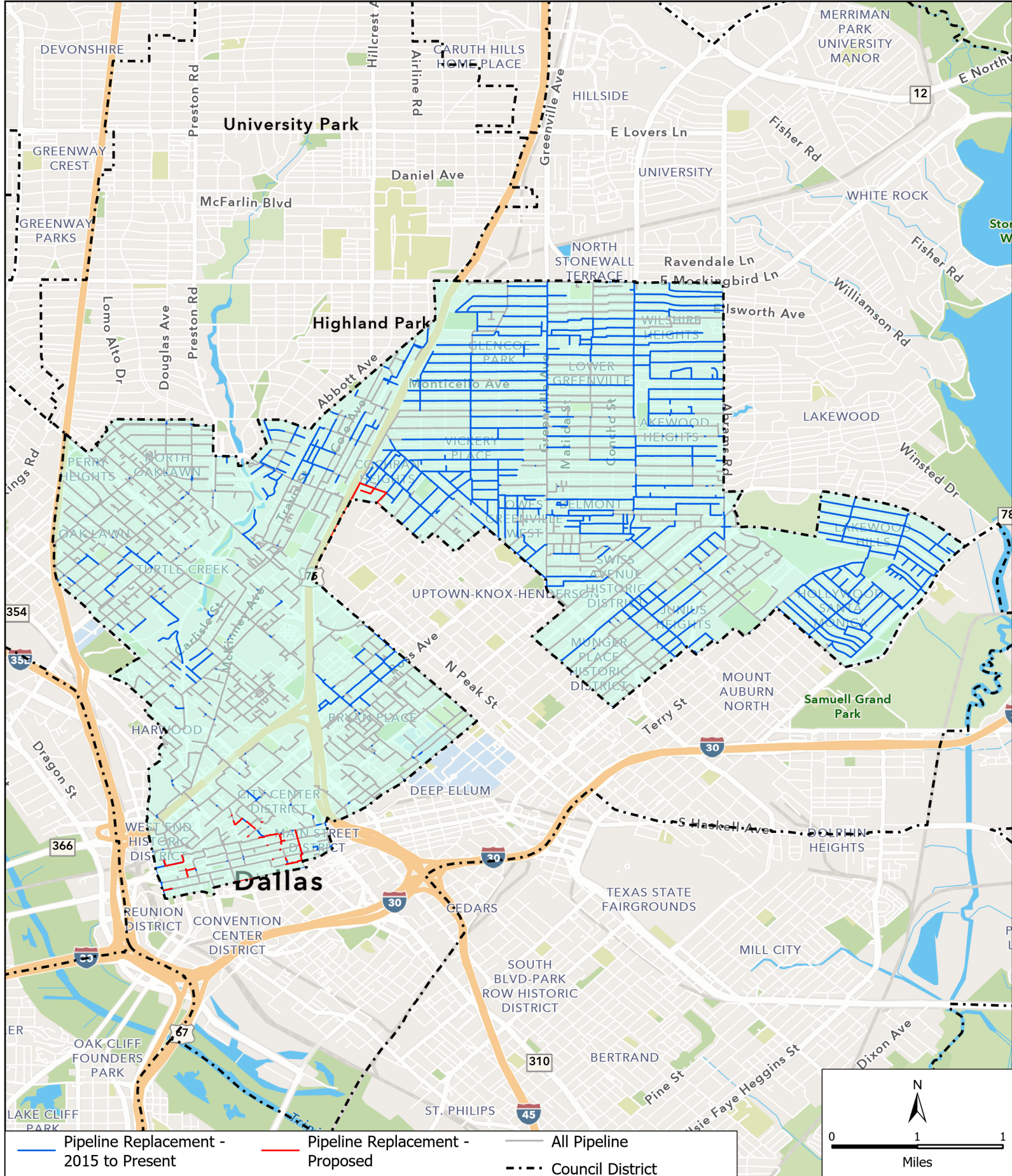
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# Consultant Report



Draft Report | April 28, 2026

# Dallas Annual Rate Review for 2026

City of Dallas

Prepared by:



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TEMPORARY AND PRELIMINARY – FOR DISCUSSION PURPOSES ONLY



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TEMPORARY AND PRELIMINARY – FOR DISCUSSION PURPOSES ONLY



## EXECUTIVE SUMMARY

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### A. Overview of Application

Atmos Energy Corporation, Mid-Tex Division (“Atmos” or “the Company”) filed its Dallas Annual Rate Review (“DARR”) on January 15, 2026, with the City of Dallas, Texas (“City”). The DARR filing reflects a proposed base rate increase of \$38.1 million for customers taking service inside the City of Dallas.<sup>1</sup> Atmos’ proposed increase represents a 10.51% increase for residential customers.<sup>2</sup>

### B. Overview of Proposed Adjustments

NewGen Strategies and Solutions, LLC, (“NewGen”) was retained by the City to review the Company’s current DARR filing and recommend any adjustments to the revenue requirements that are appropriate and necessary. As part of the analyses, NewGen reviewed requests for information submitted to the Company, prior DARR Reports, and Railroad Commission of Texas (“RCT” or “Commission”) orders.

Based on the review and analysis of the current year DARR, NewGen has identified adjustments in the amount of \$64,696,451 which reduces revenue requirement for Mid-Tex to a net rate increase of \$209,489,838, and corresponding adjustments in the amount of \$8,999,168 for the City of Dallas, resulting in a revenue requirement increase of \$29,139,687. The following table lists each adjustment identified by NewGen, along with the stand-alone impact. These adjustments are set forth in Exhibit KC-2, attached to this report.

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<sup>1</sup> Atmos Schedule A, line 30.

<sup>2</sup> Atmos WP J-4.1, line 22, column c.

**Table 1  
Impact of Individual Revenue Requirement Adjustments**

| <b>Adjustment</b>                             | <b>Mid-Tex Revenue Requirement Impact</b> | <b>City Revenue Requirement Impact</b> |
|---|---|--|
| Atmos Requested Rate Increase                 | \$274,186,289                             | \$38,138,856                           |
| Payroll                                       | \$3,169,724                               | \$440,903                              |
| Named Executive Officer Time-Lapse Incentives | 591,887                                   | 82,330                                 |
| Capitalized NEO Incentives                    | 147,234                                   | 20,480                                 |
| LTI Target Adjustment                         | 329,413                                   | 45,821                                 |
| Capitalized LTI Over Target                   | 52,989                                    | 7,371                                  |
| VPP & MIP Target Adjustment                   | 3,039,263                                 | 422,756                                |
| Capitalized VPP and MIP Over Target           | 562,136                                   | 78,192                                 |
| SSI Regulatory Asset Adj. Removal             | 3,131,577                                 | 433,597                                |
| Unprotected ADFIT - NOL                       | 15,524,009                                | 2,159,364                              |
| Interest Payable                              | 3,724,483                                 | 518,069                                |
| Insurance Reserves                            | 1,220,032                                 | 169,704                                |
| Net OPEB Liability                            | 4,769,089                                 | 663,372                                |
| Mid-Tex Deferred Ad Valorem Taxes             | 1,627,489                                 | 226,381                                |
| Mid-Tex Net Additions to Plant in Service     | 7,047,107                                 | 980,241                                |
| Depreciation on Net Plant Additions           | 2,664,989                                 | 370,695                                |
| Uncollectible Adjustment                      | 5,125,468                                 | 712,944                                |
| Taxes Other than Income Adjustment            | 3,999,337                                 | 556,301                                |
| Federal Income Tax Adjustment                 | 7,970,223                                 | 1,108,645                              |
| <b>Total Adjustments</b>                      | <b>\$64,696,451</b>                       | <b>\$8,999,168</b>                     |
| <b>Dallas Recommended Rate Change</b>         | <b>\$209,489,838</b>                      | <b>\$29,139,687</b>                    |

## Section 1

# RECOMMENDED ADJUSTMENTS

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### A. Payroll Increase

Atmos proposes to increase pro-forma payroll expense for post-test year pay raises in the amount of \$6,168,495.<sup>3</sup> While it may be reasonable to adopt post-test year adjustments for known and measurable changes to payroll expense, any such adjustments must also include all potential offsetting adjustments to payroll expense. In other words, an adjustment to increase payroll expense for post-test year pay raises addresses only one component of payroll expense and does not take into account other important information including employee turnover, increased productivity, capitalization ratios, and other factors which could reduce the impact of the pay raises on actual payroll expense levels. NewGen recommends the City remove Atmos' proposed post-test year pay increase as it is incomplete and inconsistent with the normal rate setting process. This recommendation results in a Mid-Tex reduction to payroll expense in the amount of \$3.2 million, which is \$440 thousand for Dallas. This adjustment is set forth in Exhibit KC-2.1.

### B. Named Executive Officers' Incentives

NewGen recommends an adjustment to exclude additional long-term incentives for time-lapse restrictive stock units that are awarded to named executive officers. Atmos failed to remove this component of the named executive officers' long-term incentives. This adjustment reduces the Mid-Tex expenses by \$592 thousand (\$82 thousand for Dallas) and reduces rate base for the capitalized portion of this incentive by \$1.6 million with a revenue requirement impact of \$147 thousand, which is \$20 thousand for Dallas. This adjustment is set forth in Exhibit KC-2.2.

### C. Long-Term Incentives Paid Over Target

Atmos has included the cost of long-term incentives paid over the competitive target levels. These costs are not covered in the Company's compensation studies and should not be included in the rate adjustment. This adjustment reduces the operating expenses for the Mid-Tex Division by \$329 thousand, which is \$46 thousand for Dallas, and reduces rate base by \$580 thousand, which reduces the Mid-Tex revenue requirement by \$53 thousand, and the Dallas revenue requirement by \$7 thousand, as set forth on Exhibit KC-2.3.

### D. Shared Services VPP & MIP Adjustment

An adjustment is recommended to remove the VPP & MIP incentive cost paid above the competitive target levels. This adjustment reduces the Mid-Tex expenses by \$3.0 million, which is \$423 thousand for Dallas and reduces rate base by \$6.2 million, which reduces the Mid-Tex revenue requirement by \$562 thousand and the Dallas revenue requirement by \$78 thousand. This adjustment is set forth on Exhibit KC-2.4.

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<sup>3</sup> WP\_F-2.1.

### **E. SSI Regulatory Asset Adjustment**

An adjustment is recommended to remove the Company's inclusion of the SSI Regulatory Asset Adjustment. The adjustment appears to be based on a request in the Mid-Tex statement of Intent, Case OS-24-000191 Dallas was not a party to that part of the case, and the case is not identified in the DAARR tariff. The adjustment reduces operating expenses for the Mid-Tex Division by \$3.2 million, which is \$436 thousand for Dallas, and is set forth in Exhibit KC-2.13.

### **F. Unprotected Accumulated Deferred Federal Income Taxes**

A rate base adjustment to remove an accumulated deferred federal income tax ("ADFIT") net operating loss ("NOL") amount in excess of the statutory protected depreciation rate ADFIT. Because utilities calculate their ADFIT NOL on a utility stand-alone basis and the Company is able to utilize its tax deductions on a consolidated basis which results in no total company NOL, ratepayers should not be penalized for an imputed NOL beyond what is required by federal law. The adjustment to remove the NOL in excess of the depreciation rate portion reduces rate base by \$170 million, the Mid-Tex revenue requirement by \$15.5 million, and the Dallas revenue requirement by \$2.2 million. This adjustment is found on Exhibit KC-2.8.

### **G. Interest Payable**

A rate base adjustment to recognize the reduced working capital requirement provided by the Company's interest payable on long-term debt. The adjustment for interest payable reduces rate base by \$40.8 million, the Mid-Tex revenue requirement by \$3.7 million, and the Dallas revenue requirement by \$518 thousand. This adjustment is found on Exhibit KC-2.9.

### **H. Insurance Reserves**

A rate base adjustment to recognize the reduced working capital requirement provided by the Company's insurance reserves. The adjustment for insurance reserves reduces rate base by \$13.4 million, the Mid-Tex revenue requirement by \$1.2 million, and the Dallas revenue requirement by \$170 thousand. This adjustment is found on Exhibit KC-2.10.

### **I. Unfunded Retirement Benefits**

A rate base adjustment to recognize the recorded liability for Other Post-Employment Benefits ("OPEB") is recommended. This regulatory liability is the result of funds collected through the rate setting process for the difference between the cumulative amounts recognized for financial reporting purposes and the funds expended for those purposes. These amounts originated before Atmos was required to fund its OPEB liability prospectively. Atmos has included the partly offsetting corresponding accumulated deferred income tax balance as an increase to rate base but has neglected to include the liability related to that tax asset. This adjustment recognizes this unfunded liability as a reduction to rate base. The reduction to rate base for the OPEB liability adjustment reduces rate base by \$52.2 million, the Mid-Tex revenue requirement by \$4.8 million, which is \$663 thousand for Dallas. This adjustment is set forth on Exhibit KC-2.5.

## **J. Mid-Tex Deferred Ad Valorem Tax**

A rate base adjustment to recognized that ad valorem taxes on plant additions will not be payable until more than a year after the plant is placed in service. The Railroad Commission’s Rule §8.209 permits the Company to continue to capitalize return, depreciation and ad valorem property taxes after the plant investment is completed until the rates include that additional investment. This rule is an accounting exception for safety related plant replacements. This adjustment recognizes that no shareholder funds are required until that time. This adjustment reduces rate base by \$17.7 million, the Mid-Tex revenue requirement by \$1.6 million, which is \$225 thousand for Dallas. This adjustment is found on Exhibit KC-2.6.

## **K. Mid-Tex Plant Additions Adjustment— Tex. Util. Code Section 8.209**

A review of the net additions to Plant in Service for the Mid-Tex Division found that some of the projects claimed to fall within Railroad Commission Rule §8.209 included metering and regulating equipment instead of failing pipelines. The metering and customer regulating equipment should not include post installation interest, taxes, and depreciation recoveries, as that is not the type of safety project contemplated by the rule. The reduction to rate base and depreciation expense for the plant addition adjustment net of the deferred ad valorem tax adjustment reduces rate base by \$60.2 million, the Mid-Tex revenue requirement by \$5.5 million, which is \$765 thousand for Dallas. This adjustment is set forth on Exhibit KC-2.7.

## **L. Mid-Tex Plant Additions Adjustment — Tex. Util. Code Section 104.032**

Based on review by Counsel, the City of Dallas recommends removing the Company’s inclusion of post in-service carrying costs, depreciation, and ad valorem taxes deferred under newly enacted Texas Utilities Code Section 104.302 (HB 4384, eff. June 20, 2025). Section 104.302 permits a gas utility to defer these costs on “unrecovered gross plant” as a regulatory asset. By its express terms, however, the statute directs that any such regulatory asset “must be included in the railroad commission’s authorized cost recovery mechanism under Section 104.301” - i.e., the GRIP statute. Tex. Util. Code Section 104.302(c). The DARR is not a Section 104.301 proceeding. III. Because the DARR substitutes for the statutory GRIP mechanism that Section 104.302 cross-references as its vehicle for recovery, Section 104.302 deferral has no proper home in this filing and should be removed. For these reasons, NewGen recommends removing Section 104.302 adjustment in its entirety. This reduces rate base by \$17.1 million, the Mid-Tex revenue requirement by \$1.6 million, and the Dallas revenue requirement by \$217 thousand for Dallas. This adjustment is set forth on Exhibit KC-212.

## **M. Uncollectible Expense Adjustment**

A review of the uncollectible expense calculation found that the 3-year average uncollectible experience rate includes lingering impacts from COVID-19. The lingering impacts from COVID-19 are artificially inflating the calculation of the uncollectible expense requested. The 2024 DARR filing included an uncollectible expense value of \$23.8 million, however, the actual uncollectible expense recognized in FY 2025 was only \$16.5 million. In this filing, the Company is requesting an uncollectible expense of \$25.7 million, which is nearly a 56% increase, when the uncollectible experience rate is going down. Therefore, an adjustment has been made to reflect the actual experience rate from FY24 of 0.784%. The impact of this adjustment, and the flow through impact of the previously discussed adjustments results in a Mid-

## Section 1

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Tex reduction in the amount of \$5.1 million, which is \$713 thousand for Dallas. This adjustment is set forth in Exhibit KC-2.14.

### **N. Flow Through Impacts**

The recommended adjustments previously discussed result in a flow through impact to the calculation of Taxes Other than Income and Federal Income tax. The flow through impact for these items results in a Mid-Tex reduction in the amount of \$12.0 million, which is \$1.7 million for Dallas. This adjustment is set forth in Exhibit KC-2.15 and 2.16.

TEMPORARY AND PRELIMINARY – FOR DISCUSSION PURPOSES ONLY

## Section 2 SETTLEMENT RESULTS

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I understand that Atmos has agreed to adjust its request to settle this matter. I recommend

TEMPORARY AND PRELIMINARY – FOR DISCUSSION PURPOSES ONLY