



City of Dallas

Atmos Dallas Annual Rate Review Filing

**Government Performance
and Financial Management
May 27, 2025**

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Budget and Management Services**



- Update City Council on Atmos Energy Corporation's (Atmos) Dallas Annual Rate Review (DARR) filing
 - Provide summary of 2024 DARR rate case
 - Discuss current 2025 DARR filing
- Review proposed settlement agreement
- Discuss options
- Provide City Manager's recommendation
- Next steps



2024 DARR Filing



- Atmos filed its 2024 DARR rate case on January 12, 2024
- Requested annual rate increase of \$47.9 million from within the city of Dallas
 - Average residential bill to increase by \$13.72/month or 14.98% with gas costs
 - Average commercial bill to increase by \$52.63/month or 10.26% with gas costs
 - Atmos requested rates become effective June 1, 2024



2024 DARR Settlement Agreement



- City agreed to a negotiated rate and set rates by Ordinance on May 22, 2024 pursuant to the settlement agreement
 - Atmos increased rates in Dallas by \$45.1 million annually
 - Rates became effective September 1, 2024
 - Average residential bill increased by \$13.69 per month an increase of 14.94%
 - Average commercial bill increased by \$41.36 per month an increase of 8.06%



2025 DARR Filing



- Atmos filed its 2025 DARR rate case on January 15, 2025
 - The City has 135 days to review requested rates
 - Deadline to complete review is May 30, 2025
- Requested annual rate increase of \$31.4 million in base rates 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
- Requested rates to become effective June 1, 2025



2025 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 \$217 million in new capital investment
 - Replaced 63 miles of pipe within the City of Dallas
 - Since 2016 Atmos has replaced 100% of cast iron pipe, 20.7% of steel pipe and 6.8% of poly pipe
 - Replaced 3,398 steel service lines within the City of Dallas
 - Since 2016 Atmos has replaced 44% of steel service lines



2025 DARR Filing



- City retained Garrett Group LLC (Garrett) under an AA to review the current DARR filing
- After reviewing the filing and supplemental information requested from Atmos, Garrett provided a draft report and preliminary findings, including recommendations for several adjustments to the filing totaling \$7.0 million
- Staff shared Garrett's preliminary findings with Atmos
- Staff (assisted by Garrett and outside legal counsel) met with Atmos on multiple occasions via virtual conference and telephone to negotiate a settlement
 - Reached proposed settlement on May 7, 2025



2025 DARR Proposed Settlement



- Atmos to increase rates in Dallas by \$27.9 million annually compared to \$31.4 million initially requested in the 2025 DARR filing
- Rates to become effective June 1, 2025
- Average residential bill will increase by \$7.83 per month an increase of 7.93%
- Average commercial bill will increase by \$12.19 per month an increase of 2.46%
- Atmos will reimburse City's rate case expense
 - Amount determined after adoption of settlement



Options



- 1) Adopt proposed settlement agreement
 - Atmos to increase rates by \$27.9 million annually
 - Rates to become effective June 1, 2025
 - 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 \$31.4 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 increase of \$31.4 million in rates subject to refund while appeal was pending



City Manager's Recommendation



- Adopt proposed settlement agreement as negotiated by staff (Option 1)
 - Saves residents \$3.46 million off of requested rates
 - Atmos to pay City's rate case expenses
 - Rates to become effective June 1, 2025
 - 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 28, 2025, agenda item to set rates to be charged by Atmos
- Deadline to set rates is May 30, 2025





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 renews for an additional 15-year term unless City gives notice at least 120 days before (September 2, 2025)



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



Litigation History



- Last fully litigated case to set Dallas rates:
 - November 5, 2008 – Atmos requested a rate increase of \$9.1 million
 - March 25, 2009 – City denied increase and set rates below Atmos existing rates
 - Atmos appealed this rate decision to RCT
 - January 23, 2010 – RCT granted Atmos a rate increase of \$1.6 million



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
- February 25, 2011 – 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
2012	\$2.5 million increase	\$0.4 million decrease
2013	\$4.0 million increase	\$1.8 million increase
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	No DARR filing	
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





Consultant Report
