

# Memorandum



CITY OF DALLAS

DATE January 21, 2022

TO Honorable Mayor and Members of the City Council

SUBJECT **DARR Filing**

On January 14, Atmos Energy Corp., 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 fourth filing under the current DARR mechanism. Atmos is requesting an increase in annual revenues of \$15.3 million for the City of Dallas. This represents a monthly increase of 6.33 percent or \$4.51 for the average residential customer. Atmos has requested a June 1, 2022 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 April 25, 2022, with recommendations for Council action on May 11, 2022. The statutory deadline to take action on this matter is May 29, 2022.

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 "M. Elizabeth Reich".

M. Elizabeth Reich  
Chief Financial Officer

[Attachment]

c: T.C. Broadnax, City Manager  
Chris Caso, City Attorney  
Mark Swann, City Auditor  
Biliera 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  
Dr. Eric A. Johnson, Chief of Economic Development and Neighborhood Services  
M. Elizabeth (Liz) Cedillo-Pereira, Chief of Equity and Inclusion  
Directors and Assistant Directors



# Guided by SAFETY

2022 DARR FILING



# Mid-Tex Division Highlights



In 2021, Atmos Energy spent more than \$325 million in capital expenditures in the City of Dallas, and more than 85% 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 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 14, 2022 requesting an increase in annual revenues of approximately \$15.3 million.

## DRIVERS BEHIND OUR \$15.3M FILING

16

Miles of steel replaced in the City of Dallas

192

Miles of cast iron replaced in the City of Dallas

15.1k

Steel service lines replaced in the City of Dallas

3,400

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

14,000

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

1.5 million

Lines located in the Mid-Tex Division

As of October 29, 2021, Atmos Energy has completed the replacement of cast iron pipe. Per our records, the City of Dallas has no cast iron pipe remaining. Atmos Energy continues its comprehensive pipe replacement program that prioritizes 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.

## FUELING SAFE AND THRIVING COMMUNITIES



In partnership with hundreds of organizations, Atmos Energy’s Fueling Safe and Thriving Communities outreach benefits school districts, nonprofits, after school programs, and food banks to everything from backpacks and laptops to nutritious breakfasts and books that help early childhood learners read on level by third grade. Vulnerable households also have access to funds through local energy assistance agencies that provide support with utility bills, weatherization, customer natural gas line repairs, and natural gas appliance repairs and replacements.

In 2021, Atmos Energy invested more than \$1.4 million to provide educational, literacy, financial assistance, and food security resources across the City of Dallas.

# Our Customer Bill



The average residential customer will see an increase of \$4.51 per month.



The average commercial customer will see an increase of \$14.90 per month.

## 2022 Timeline

Between October 2020 and September 2021, more than \$325 million was spent in the City of Dallas to further increase the safety and reliability of our natural gas system.



## DARR FAQ

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

Current rates don't allow us to recover our spending on safety and modernization. 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. We are requesting an increase in annual revenue of \$15.3 million to help recover more than \$325 million of capital spent from October 2021 through September 2021.

### 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?

A fully transparent annual review of the rates we charge our customers in the City of Dallas. The Dallas Annual Rate Review (DARR) is a mechanism that was developed by the City of Dallas and Atmos Energy in 2011 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 eight out of ten filings from 2011 through 2021. This process is not unique to Dallas – the other 441 cities served by the Mid-Tex Division also operate under similar annual mechanisms.

### WHAT IS A CAPITAL EXPENDITURE?

Costs associated with enhancing the safety and reliability of our natural gas system. 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.