

Memorandum

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CITY SECRETARY
DALLAS, TEXAS



DATE April 17, 2015

TO Members of the Budget, Finance & Audit Committee:
Jennifer S. Gates (Vice Chair), Tennell Atkins, Sheffie Kadane, Philip T. Kingston

SUBJECT Budget, Finance & Audit Committee Meeting

Monday, April 20, 2015, 1:00 p.m.

Dallas City Hall - 6ES, 1500 Marilla St., Dallas, TX 75201

The agenda for the meeting is as follows:

1. Consideration of minutes from the April 6, 2015 Budget, Finance & Audit Committee meeting
2. Proposer Presentations: External Auditing Services
(Questions/Answers with Proposers)
 - BKD CPA's & Advisors
 - Crowe Horwath
 - Grant Thornton
 - KPMG
 - McConnell & Jones/Banks, Finley, White & Co.
3. Atmos Energy Corporation: Nick Fehrenbach, Manager of Regulatory Affairs
Dallas Annual Rate Review Office of Financial Services

FYI

4. Upcoming Agenda Item: Service Line Warranties of America Agreement

Jerry R. Allen, Chair
Budget, Finance & Audit Committee

c: Honorable Mayor and Members of City Council
A.C. Gonzalez, City Manager
Warren M.S. Ernst, City Attorney
Craig D. Kinton, City Auditor
Rosa A. Rios, City Secretary
Daniel F. Solis, Administrative Judge
Ryan S. Evans, First Assistant City Manager
Jill A. Jordan, P.E., Assistant City Manager

Joey Zapata, Assistant City Manager
Mark McDaniel, Assistant City Manager
Eric D. Campbell, Assistant City Manager
Jeanne Chipperfield, Chief Financial Officer
Forest E. Turner, Chief Wellness Officer
Sana Syed, Public Information Officer
Elsa Cantu, Assistant to the City Manager

A quorum of the Dallas City Council may attend this Council Committee meeting.

A closed executive session may be held if the discussion of any of the above agenda items concerns one of the following:

1. Contemplated or pending litigation or matters where legal advice is requested of the City Attorney. Section 551.071 of the Texas Open Meetings Act.
2. The purchase, exchange, lease or value of real property, if the deliberation in an open meeting would have a detrimental effect on the position of the City in negotiations with a third person. Section 551.072 of the Texas Open Meetings Act.
3. A contract for a prospective gift or donation to the City, if the deliberation in an open meeting would have a detrimental effect on the position of the City in negotiations with a third person. Section 551.073 of the Texas Open Meetings Act.
4. Personnel matters involving the appointment, employment, evaluation, reassignment, duties, discipline or dismissal of a public officer or employee or to hear a complaint against an officer or employee. Section 551.074 of the Texas Open Meetings Act.
5. The deployment, or specific occasions for implementation of security personnel or devices. Section 551.076 of the Texas Open Meetings Act.

Budget, Finance & Audit Committee

Meeting Record- DRAFT

Meeting Date: 4.6.2015

Convened: 1:03 pm

Adjourned: 2:15 pm

Committee Members Present:

Jerry R. Allen, Chair
Sheffie Kadane

Jennifer S. Gates, Vice-Chair
Philip T. Kingston

Tennell Atkins

Committee Members Absent:

N/A

Other Council Members Present:

Scott Griggs

Staff Present:

Jeanne Chipperfield
Craig Kinton
Eileen Youens
Jaqueline Ware
Aurobindo Majumdar

Edward Scott
Lance Sehorn
Mike Frosch
Molly Carroll
Forest Turner

Robert Sims
Kimberly Mackey
Zarin Gracey
Dolores Lewis
Kris Sweckard

William Finch
Zachary Noblitt
Filicia Hernandez
Stephanie Cooper

Jody Puckett
Seferinus Okoth
Richard Soto
Theresa O'Donnell

Others Present:

David Gibson, Consultant, Health Management Associates

AGENDA:

1. Consideration of the March 2, 2015 Minutes

Presenter(s):

Information Only: _

Action Taken/Committee Recommendation(s):

A motion was made to approve the March 2, 2015 minutes. Motion passed unanimously.

Motion made by: Tennell Atkins

Motion seconded by: Sheffie Kadane

2. Day Labor Centers

Presenter(s): Theresa O'Donnell, Chief Planning Officer

Information Only: _

Action Taken/Committee Recommendation(s):

A motion was made to recommend City staff explore a Day Labor Center pilot program, to be brought back to the committee before the end of June. Councilmember Kingston requested the inclusion of Education as a Second Language and other adult literacy services. Councilmembers Atkins and Gates suggested researching partnerships and other opportunities for funding. Councilmember Allen supported the idea of partnerships and a program with staff on site. Motion passed unanimously.

Motion made by: Philip T. Kingston

Motion seconded by: Sheffie Kadane

Budget, Finance & Audit Committee

Meeting Record- DRAFT

3. **Employee and Retiree Health Benefits Overview**

Presenter(s): Molly Carroll, Director, Human Resources

Dolores Lewis, Human Resources

David Gibson, Consultant, Health Management Associates

Information Only: _

Action Taken/Committee Recommendation(s):

A motion was made to forward to the City Council for consideration on Wednesday, May 13, 2015. Motion passed unanimously.

Motion made by: Tennell Atkins

Motion seconded by: Sheffie Kadane

4. **Upcoming Proposer Presentations: External Auditing Services**

Presenter(s): Edward Scott, City Controller

Information Only: X

Action Taken/Committee Recommendation(s):

N/A

FYI

5. **Upcoming Agenda Item: Demolition and Asbestos Abatement Services**

Presenter(s):

Information Only: __

Action Taken/Committee Recommendation(s):

A motion was made to forward to the City Council for consideration on Wednesday, April 8, 2015. Motion passed unanimously.

Motion made by: Tennell Atkins

Motion seconded by: Sheffie Kadane

6. **Upcoming Agenda Item: Telephone Town Hall Meetings**

Presenter(s):

Information Only: __

Action Taken/Committee Recommendation(s):

A motion was made to forward to the City Council for consideration on Wednesday, April 8, 2015. Motion passed unanimously.

Motion made by: Tennell Atkins

Motion seconded by: Sheffie Kadane

7. **Upcoming Agenda Item: Contract Increase for the City's Microwave Communication System**

Presenter(s):

Information Only: __

Action Taken/Committee Recommendation(s):

A motion was made to forward to the City Council for consideration on Wednesday, April 8, 2015. Motion passed unanimously.

Motion made by: Tennell Atkins

Motion seconded by: Sheffie Kadane

Budget, Finance & Audit Committee

Meeting Record- DRAFT

8. **Upcoming Agenda Item: Acquisition of the New Cybersecurity Threat Protection System**

Presenter(s):

Information Only: ___

Action Taken/Committee Recommendation(s):

A motion was made to forward to the City Council for consideration on Wednesday, April 8, 2015. Motion passed unanimously.

Motion made by: Tennell Atkins

Motion seconded by: Sheffie Kadane

9. **Upcoming Agenda Item: Worksoft Maintenance and Support Contract**

Presenter(s):

Information Only: ___

Action Taken/Committee Recommendation(s):

A motion was made to forward to the City Council for consideration on Wednesday, April 8, 2015. Motion passed unanimously.

Motion made by: Tennell Atkins

Motion seconded by: Sheffie Kadane

10. **Upcoming Agenda Item: Traffic and Pedestrian Signal Heads and Supplies**

Presenter(s):

Information Only: ___

Action Taken/Committee Recommendation(s):

A motion was made to forward to the City Council for consideration on Wednesday, April 8, 2015. Motion passed unanimously.

Motion made by: Tennell Atkins

Motion seconded by: Sheffie Kadane

Jerry R. Allen, Chair
Budget, Finance & Audit Committee

Proposer Presentations: External Auditing Services (Questions/Answers with Proposers)

- BKD CPA's & Advisors
- Crowe Horwath
- Grant Thornton
- KPMG
- McConnell & Jones/Banks,
Finley, White & Co.

No materials to post.

Memorandum



CITY OF DALLAS

DATE April 17, 2015

TO Members of the Budget, Finance & Audit Committee: Jerry R. Allen (Chair),
Jennifer S. Gates (Vice Chair), Tennell Atkins, Sheffie Kadane, Philip T. Kingston

SUBJECT Atmos Energy Corporation: Dallas Annual Rate Review

On April 20, 2015 the Budget, Finance and Audit Committee will be briefed on the Atmos Energy Corporation: Dallas Annual Rate Review. The briefing is attached for your review.

Please let me know if you need additional information.

A handwritten signature in blue ink that reads "Jeanne Chipperfield".

Jeanne Chipperfield
Chief Financial Officer

c: Honorable Mayor and Members of City Council
A.C. Gonzalez, City Manager
Warren M.S. Ernst, City Attorney
Craig D. Kinton, City Auditor
Rosa A. Rios, City Secretary
Daniel F. Solis, Administrative Judge
Ryan S. Evans, First Assistant City Manager

Jill A. Jordan, P.E., Assistant City Manager
Joey Zapata, Assistant City Manager
Mark McDaniel, Assistant City Manager
Eric D. Campbell, Assistant City Manager
Sana Syed, Public Information Officer
Elsa Cantu, Assistant to the City Manager
Jack Ireland, Director, Office of Financial Services



Atmos Energy Corporation: Dallas Annual Rate Review

Budget, Finance & Audit Committee

April 20, 2015



Purpose

- Update Committee on the Dallas Annual Rate Review (DARR) filing by Atmos Energy Corporation (Atmos)
- Consider options and review the City Manger's recommendation

Background

- Current franchise, ordinance #27793, issued by the City on January 13, 2010, authorizes Atmos to provide natural gas utility service in Dallas
 - Original franchise granted to “The Dallas Gas Co.” 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 the regulation of natural gas in the State
 - City has original jurisdiction to set local distribution rates within the City's boundaries
 - Railroad Commission of Texas (RCT) has appellate jurisdiction over local distribution rates and original jurisdiction over pipeline rates

Background (Continued)

- A customer's gas utility bill has two primary components
 1. Pipeline costs (appears on bill as Rider GCR)
 - Approved by the Railroad Commission of Texas
 - Costs from producer and pipeline company to city limits
 - Includes pass through of actual cost of gas
 - The pipeline costs typically comprises 60% of residential charges and 70% of commercial charges

Background (Continued)

2. Local distribution charges

- 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

Background (Continued)

- Four billing classes
 - Residential
 - Commercial
 - Businesses and apartments with gas for common use
 - Industrial
 - Contract for a minimum of 125 Mcf per month
 - Service may be interrupted in extreme conditions
 - Transport
 - Fee charged to transport gas between two other parties
- See Appendix for additional regulatory background

Current Filing

- January 15, 2015, Atmos filed its fourth Dallas Annual Rate Review Tariff (DARR) rate request with a proposed effective date of June 1, 2015
 - Atmos requested an increase in base rates of \$7.1m annually
 - Overall increase, without gas costs, 8.61% in base rates
 - Monthly bill for average residential consumer would increase by \$2.17
 - City Council must take action by May 30, 2015

Current Filing (Continued)

- The City retained Diversified Utility Consultants, Inc. (DUCI) to assist in reviewing the filing
 - Expertise in gas rate regulation
 - Knowledge of DARR process and prior Atmos rate cases
 - Assisted the City with last three DARR cases, last five litigated cases and all prior GRIP cases

Proposed Settlement

- With the assistance of DUCI and outside legal counsel, and after numerous meetings, a negotiated settlement was reached (pending approval of the City Council)
 - If approved, rates will become effective for gas sold on or after June 1, 2015

Proposed Settlement (Continued)

- Base rates to increase by \$4.7 m
- Overall increase is 5.69% (see appendix for additional details)
 - Average residential bill will increase by \$1.50 /month plus revenue related fees and taxes
- City and Atmos agree that Atmos has fulfilled the requirements contained in Section 4: Accounting Requirements of Ordinance No. 28026, Infrastructure Replacement Tariff



Options for City Council Consideration

1. Approve rates per original Atmos request
 - Overall increase of \$7.1 m (8.61%)
 - Average residential bill to increase by \$2.17/month
2. Approve rates per the negotiated settlement
 - Overall increase of \$4.7 m (5.69%)
 - Average residential bill to increase by \$1.50/month
3. Deny the rate request
 - Atmos will likely appeal the denial to the RCT and may immediately implement the rates as originally requested, subject to refund
4. Set the rates at some other level
 - Atmos may appeal the new rates to the RCT and may immediately implement the rates as originally requested, subject to refund



City Manager's Recommendation

- City Manager recommends that Option #2, approval of rates per the negotiated settlement, be accepted by the committee and forwarded on to the City Council for consideration and approval on May 13, 2015
 - Overall increase of \$4.7 m (5.69%)
 - Average residential bill to increase by \$1.50/month



Appendix

Appendix

COMPARISON OF CURRENT, REQUESTED AND NEGOTIATED TARIFF RATES FOR RESIDENTIAL CUSTOMERS

Residential Rates	Current Authorized Rates	Atmos Energy Requested Rates	Negotiated Settlement Rates
Customer Charge	\$18.50	\$19.50	\$19.00
Amount per Ccf	\$0.06980	\$0.09003	\$0.08651
Rider SUR-Depreciation Regulatory Asset	\$0.10	\$0.10	\$0.10
Bill for average residential customer using 60 Ccf of gas (does not include tax or gas cost)	\$22.79	\$25.00	\$24.29

Appendix

COMPARISON OF CURRENT, REQUESTED AND NEGOTIATED TARIFF RATES FOR COMMERCIAL CUSTOMERS

Commercial Customers	Current Authorized Rates	Atmos Energy Requested Rates	Negotiated Settlement Rates
Customer Charge	\$37.00	\$39.75	\$38.25
Amount per Ccf	\$0.06351	\$0.07134	\$0.06778
Rider SUR-Depreciation Regulatory Asset	\$0.24	\$0.24	\$0.24

Appendix

COMPARISON OF CURRENT, REQUESTED AND NEGOTIATED TARIFF RATES FOR INDUSTRIAL AND TRANSPORT CUSTOMERS

Industrial & Transportation Customers	Current Authorized Rates	Atmos Energy Requested Rates	Negotiated Settlement Rates
Customer Charge	\$665.00	\$714.50	\$690.50
Consumption Charge/MMBTU			
First 1,500 MMBTU	\$0.1570	\$0.1789	\$0.1735
Next 3,500 MMBTU	\$0.1142	\$0.1301	\$0.1262
Over 5,000 MMBTU	\$0.0181	\$0.0206	\$0.0200
Rider SUR-Depreciation Regulatory Asset	\$4.80	\$4.80	\$4.80

Appendix

Regulatory Background

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

Appendix Regulatory Background (Continued)

- Gas Reliability Infrastructure Program (GRIP)
 - Rates are adjusted annually to account for changes in net investment
 - Enacted by the 78th Legislature (2003) as an incentive for gas utilities to invest in new infrastructure
 - February 25, 2011 filed with the City of Dallas
 - Atmos requested an increase of \$20.2 m (system wide)
 - Settled for an increase of \$11.0 m (system wide)
 - As part of settlement City authorized tariff DARR-Dallas Annual Rate Review (DARR)

Appendix Regulatory Background (Continued)

- **Tariff DARR-Dallas Annual Rate Review**
 - Authorized by Ordinance No. 28281, June 22, 2011
 - Rates are adjusted annually to reflect changes in Atmos' cost of service and capital investment
 - The City has 135 days to review the requested rates and render a decision
 - Atmos may not file a GRIP case with the City while DARR tariff is in effect
 - Atmos may appeal the City's decision to the RCT

Appendix Regulatory Background (Continued)

■ Prior DARR Filings

- First DARR filing, 2012 Atmos requested \$2.5 m increase
 - Settled for \$0.4 m decrease in rates
- Second DARR Filing, 2013 Atmos requested \$4.0 m increase
 - Settled for \$1.8 m increase in rates
- Third DARR Filing, 2014 Atmos requested \$8.7m
 - Settled for \$6.3 m increase in rates

Memorandum



DATE April 17, 2015

CITY OF DALLAS

TO Members of the Budget, Finance and Audit Committee: Jerry R. Allen (Chair), Jennifer S. Gates (Vice-Chair), Mayor Pro Tem Tennell Atkins, Sheffie Kadane and Phillip T. Kingston

SUBJECT Upcoming Agenda Item: Service Line Warranties of America Agreement

The April 22, 2015, Council Agenda will include an item to enter into a marketing agreement with Utility Service Partners Label, Inc. (USP), dba Service Line Warranties of America (SLWA). This is a one-year non-exclusive license agreement with three one-year optional renewals to use the City's name and logo on letterhead, billing, and marketing materials to advertise a utility service line warranty program and for the receipt and deposit of funds into the General Revenue Fund in the amount of \$450,000. This item was included in the FY 2014-15 budget as revenue.

SLWA is a private company that provides optional external sewer/water line and in-home plumbing warranties to homeowners for the portion of their water/sewer/in-home plumbing lines that are the responsibility of the homeowner, and will not be repaired by City crews if they break or fail. This is an optional and voluntary month-to-month program for homeowners in the City of Dallas. The program is offered at no cost to the City, and no public funds are used to promote or operate the program. SLWA is solely responsible for the administration and service of the warranty programs.

All marketing materials will be sent in both English and Spanish. If you have any additional questions, please feel free to contact me.

A handwritten signature in black ink, appearing to read 'Mark McDaniel'.

Mark McDaniel
Assistant City Manager

C: Honorable Mayor and Members of the City Council
A.C. Gonzalez, City Manager
Warren M.S. Ernst, City Attorney
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