



Atmos Energy Corporation Municipal Gas Rate Case

Finance, Audit & Accountability
Committee Briefing
January 14, 2008



Purpose

- Advise Council of:
 - Atmos Energy Corporation's Statement of Intent to Change Rates in the Atmos Energy Corp., Mid-Tex Division Gas Utility System
 - Consultant's findings
 - And City Manager's recommendation



Background

- Franchise Ordinance authorizes Atmos Energy Corporation (Atmos) to provide natural gas utility service in Dallas
- Texas Utilities Code
 - City has original jurisdiction for distribution rates
 - The Railroad Commission of Texas (RCT) has appellate jurisdiction



Background (Continued)

- Gas bill components
 - City Gate Rate usage charge
 - Approved by RCT
 - Cost from producer and transmission company to City limits
 - Includes the cost of gas
 - The Gate Rate typically comprises 70% of residential charges and 80% of commercial charges



Background (Continued)

- Local distribution charges
 - Approved by City
 - Charges for distribution from “City limits” to customers
 - Monthly customer charge
 - Local usage 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



Background (Continued)

- Rate setting process
 - On September 20, 2007 Atmos filed its notice of intent to increase gas rates
 - Original period of 35 days to render decision or extend the deadline an additional 90 days (125 days total)



Background (Continued)

- Rate setting process (Continued)
 - Deadline was extended for additional 90 days on October 24, 2007 Resolution #07-3155
 - Deadline to take action on the current rate filing is now January 23, 2008
 - Deadline may only be extended further by mutual agreement of City and Atmos



Background (Continued)

- Current Rates

- Rates currently being charged by Atmos were set March 29, 2007 by the Railroad Commission of Texas in GUD 9670
 - Rates were set on a system wide basis
- GUD 9670 is presently on appeal in Travis County District Court
 - The City of Dallas is participating in that appeal
 - Prior Case, GUD 9400 is also still on appeal



Background (Continued)

- Current Rates also include a Gas Reliability Infrastructure Program (GRIP) increase
 - GRIP allows interim rate increases based on increases in net investment in plant
 - City denied the GRIP adjustment 6/27/07
 - RCT refused to hear the GRIP appeal
 - Atmos implemented the GRIP increase in September 2007



Current Filing

- Atmos has filed this case with the 440 incorporated cities in its service area
 - The Cities have original jurisdiction on the distribution rates within the corporate limits
 - This is a system wide case and not Dallas specific



Current Filing

- Atmos filed an identical case with the RCT on 10/26/07 (GUD 9762)
 - The RCT has original jurisdiction in environs and unincorporated areas
 - The RCT has appellate jurisdiction over the cities' rates
 - Several cities denied the rate request within the first 35 days and those cases have been appealed to the RCT



Current Filing Continued

- Atmos is seeking an increase in revenues of \$51.9 million from all ratepayers
 - Residential Base Revenue increase 11.967%
 - Commercial Base Revenue increase 22.68%
 - Industrial/Transportation Base Revenue increase 26.58%
 - Service charge rev. unchanged
 - Total Base revenue increase 13.49%



Current Filing Continued

- Staff and outside legal counsel have determined that it is appropriate for the City to set rates in this matter
- The City retained Diversified Utility Consultants to review the rate filing and recommend rates to be set by the City
 - Contract approved October 24, 2007 by resolution #07-3156



Consultants' Findings

- Diversified Utility Consultants, Inc. (DUCI) issued its report to the City on January 9, 2008 (copy attached)
- DUCI identified several areas of concern with the rate request
 - Major issues explained on the following pages (impact amounts are approximate)
 - Other minor issues are in report, but not explained here



Consultants' Findings Continued

- Return on Common Equity (ROE)
 - Atmos requested a ROE of 11%
 - On 3/29, 2007 the RCT granted an ROE of 10% in the last Atmos case (GUD 9670)
 - Interest rates have declined since that time (US Treasury 10 Year Notes declined 9%)
 - DUCI recommends a ROE of 9%
 - Recommended change in ROE reduces the revenue requirement by \$19.2 million



Consultants' Findings Continued

- Cash Working Capital (CWC)
 - RCT ordered a negative CWC of \$46.4 million in GUD 9670 less than one year ago
 - Atmos is requesting a positive CWC in this filing of \$14.8 million
 - Request is based on new and flawed approaches to the calculation
 - DUCI made numerous adjustments to CWC and recommends a CWC of negative \$46.2 million
 - Recommended change in CWC reduces the revenue requirement by \$7.4 million



Consultants' Findings Continued

- Poly 1 Pipe
 - Atmos included an increase of \$10.4 million in rate base for poly 1 pipe
 - RCT ordered Atmos to remove this same amount from rate base in GUD 9670
 - DUCI has removed this amount from rate base consistent with the RCT Order
 - Recommended change in rate base reduces the revenue requirement by \$1.3 million



Consultants' Findings Continued

- Payroll Expense – Incentive Compensation
 - Incentive payments are based on the Company's earnings per share
 - Earnings benefit owners and not rate payers and thus this expense is not appropriate to include in rates
 - Recommended change in rate treatment of Incentive Compensation reduces the revenue requirement by \$6.7 million



Consultants' Findings Continued

- Merit Increases
 - Atmos adjusted its base payroll expense for future merit increases that may be awarded in 2008
 - Rates are set on historic costs adjusted for known and measurable changes
 - This proposal does not meet the known and measurable standard
 - Similar adjustments were disallowed in GUD 9670
 - Recommended change in Merit Increases reduces the revenue requirement by \$1.8 million



Consultants' Findings Continued

- Employee Benefits Expense
 - Atmos based benefit expenses on projected 2008 expenses rather than historic costs
 - Rates are set on historic costs adjusted for known and measurable changes
 - This proposal does not meet the known and measurable standard
 - Similar adjustments were disallowed in GUD 9670
 - Recommended change in Benefits Expense reduces the revenue requirement by \$1.7 million



Consultants' Findings Continued

- Shared Services Unit (SSU) Expense
 - Costs for the Shared Services Unit are allocated to Atmos Mid-Tex and other regulated and non-regulated affiliates
 - DUCI made numerous adjustments to the SSU Expense for Call Center allocation, Franklin Gas (located in Tennessee), non utility operations, rate case related costs and corporate allocation.
 - Recommended change in SSU Expense reduces the revenue requirement by \$4.5 million



Consultants' Findings Continued

- Shared Services Unit (SSU) Depreciation
 - Atmos consultants have underestimated the life expectancy of SSU assets
 - Atmos has fully depreciated over 1/3 of SSU assets that remain in service
 - Recommended change in SSU Depreciation reduces the revenue requirement by \$5 million



Consultants' Findings Continued

- Uncollectible Expense
 - Atmos used 3 year average of uncollectible expense (consistent with GUD 9670)
 - Write-offs unusually high last 6 months of 2006
 - Rates should not be based on "abnormal" levels of expense
 - Recommended change in Uncollectible Expense reduces the revenue requirement by \$2.2 million



Consultants' Findings Continued

- Taxes other than income tax
 - Rates as filed do not take into account the impact of legislation reducing property taxes
 - DISD to reduce taxes by 22% effective January 2008
 - Recommended change in property tax reduces the revenue requirement by \$2.2 million
- Revenue related taxes must be reduced due to the other adjustments to the rate filing



Consultants' Findings Continued

- The combination of the various rate base, return and expense adjustments results in a rate decrease being warranted
- A base rate decrease of approximately 14.4% from Atmos' request is warranted based on these adjustments
- This is a 1.0% decrease from current rates
 - Rates are contained in the following table



Consultants' Findings Continued

COMPARISON OF CURRENT, PROPOSED AND RECOMMENDED TARIFF RATES FOR RESIDENTIAL AND COMERCIAL CUSTOMERS

Residential Rates	Current Rates	Atmos Energy Requested Rates	Consultant Recommended Rates
Customer Charge	\$10.69	\$14.00	\$10.58
Amount per Mcf	\$1.2267	\$0.9231	\$1.2143
Commercial rates			
Customer Charge	\$20.29	\$25.00	\$20.08
Amount per Mcf	\$0.6006	\$0.7333	\$0.5945



Consultants' Findings Continued

COMPARISON OF CURRENT, PROPOSED AND CONSULTANT RECOMMENDED TARIFF RATES FOR INDUSTRIAL CUSTOMERS

	Current Rates	Atmos Energy Requested Rates	Consultant Recommended Rates
Customer Charge	\$344.75	\$500.00	\$341.27
Consumption Charge/MMBTU			
First 1,500 MMBTU	\$0.2087	\$0.2200	\$0.2066
Next 3,500 MMBTU	\$0.1522	\$0.1600	\$0.1507
Over 5,000 MMBTU	\$0.0326	\$0.0435	\$0.0323



Consultants' Findings Continued

Rate Review Mechanism (RRM) clause

- As requested by Atmos the RRM would produce an annual adjustment to rates based on changes in Atmos expenses and investment
- Per DUCI RRM is piecemeal rate making and fails to provide adequate protection for rate payers
- DUCI recommends rejecting the RRM



Consultants' Findings Continued

Weather Normalization clause (WNA)

- WNA adjusts rates to account for abnormal weather
 - Rates will increase during mild winters and decrease during sever winters
- WNA granted in GUD 9670
 - Atmos wants to change WNA by using regional weather stations rather than state wide
- DUCI recommends rejecting the changes to WNA



Consultants' Findings Continued

Uncollectible Rider GCR

- Atmos wants to place a portion of its uncollectible expense in its GCR rider
 - Currently uncollectible expense is in base rates
- RCT denied similar request by Atmos in GUD 9670
 - Automatic recovery of uncollectible expense in GCR would eliminate an incentive to minimize Uncollectibles
 - Potential for double recovery of uncollectible expense
- DUCI recommends rejecting the Uncollectible Rider GCR



Current Filing with Other Cities

Atmos Cities Steering Committee (ACSC)

- Member cities represent approximately 52% of Atmos residential customers
- 144 Member cities (roster attached)
- Members include: Abilene, Arlington, College Station, Farmers Branch, Ft Worth, Grand Prairie, Irving, Plano, Sherman, Temple and Waco



Current Filing with Other Cities

Atmos Cities Steering Committee (ACSC)

- Member cities extended deadline for 90 days to review filing
- Attorneys for ACSC have negotiated a settlement of this and prior cases
 - Press Release issued 1/9/08 (copy attached)
 - Each member city must adopt an ordinance agreeing to settlement
 - Atmos has granted an extension of the deadline to permit members to adopt Ordinances accepting the settlement



Current Filing with Other Cities

ACSC Settlement Agreement

- Base Rate Revenue Increase \$10.0 Million effective with bills issued on or after 3/1/08
- Approval of Uncollectible Rider GCR
 - Effect on customers' bills \$7.4 Million
 - Effective October 1, 2008
- Approval of RRM
 - First annual rate adjustment to be filed in March 31, 2008 with rates becoming effective 10/1/08
 - First RRM will include \$9.89 million in O & M expense deferred from this case plus an increase for any increases in O & M from the test year plus return on any increase in net plant investment
 - Atmos will not seek GRIP adjustments
 - GRIP would grant increase for change in net plant investment which is covered by RRM



Current Filing with Other Cities

ACSC Settlement Agreement (Continued)

- Dismiss appeals of GUD 9400 & GUC 9670
- Reimburse ACSC \$500k in prior GRIP expenses and dismiss all appeals of prior GRIP cases



Current Filing with Other Cities

ACSC Settlement Agreement (Continued)

- RRM not only adjusts future rates to account for changes in expense and investment, it also contains a true up of prior year revenue to insure company earns authorized return
 - As part of true up, Atmos would earn a return on investments before they are placed in service



Current Filing with Other Cities

Atmos Texas Municipalities (ATM)

- 43 Member cities (roster attached)
- Members include: Austin, Denton, Lampasas, Longview, Round Rock, and San Angelo
- Member cities represent approximately 15% of Atmos residential customers



Current Filing with Other Cities

Atmos Texas Municipalities (ATM)

- Member cities denied the rate request within initial 35 day review period
- Atmos has appealed those decisions to the RCT
 - Appeals have been consolidated with the environs case GUD 9762



Current Filing with Other Cities

Atmos Texas Municipalities (ATM) (cont.)

- ATM met with Atmos to discuss settlement on January 8, 2008
- Atmos offered ATM same settlement it had with ACSC.
- ATM has rejected that settlement offer



Current Filing Negotiations

Staff met with Atmos to Negotiate possible settlement on October 25, 2007, January 9, 2008, and January 10, 2008 and again on January 11, 2008 by teleconference

- Atmos offered to settle on terms similar to ACSC



Current Filing Negotiations

Staff has several issues with ACSC settlement agreement

- Would increase rates by \$10 million 3/1/08
- First RRM would be filed 3/31/08
- First RRM would increase rates by more than \$17 million 10/1/08
- RRM would grant return on investments before they are placed in service
- Would have to approve Riders WNA, Uncollectible GCA and CE



Options Available to City

1. Approve rates requested by Atmos
2. Set rates as recommended by DUCI
3. Adopt ACSC Settlement
4. Deny the rate increase (current rates would remain in effect)
5. Take No action (rates as requested would be deemed approved)



City Manager's Recommendation

- Adopt rates as recommended by Consultant



What's Next

- January 23, 2008 – Adopt Ordinance setting rates for Atmos
- January 23, 2008 – Deadline to take action on rates or they become approved by operation of law