

Memorandum



CITY OF DALLAS

DATE April 29, 2016

TO The Honorable Mayor and Members of the City Council

SUBJECT Atmos Energy Corporation Dallas Annual Rate Review

On Wednesday, May 4, 2016, the City Council 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

Attachment

cc: Honorable Mayor and Members of the City Council
AC Gonzalez, City Manager
Christopher D. Bowers, Interim City Attorney
Craig D. Kinton, City Auditor
Rosa A. Rios, City Secretary
Daniel F. Solis, Administrative Judge
Ryan S. Evans, First Assistant City Manager

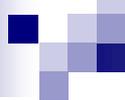
Eric D. Campbell, Assistant City Manager
Jill A. Jordan, P.E., Assistant City Manager
Mark McDaniel, Assistant City Manager
Joey Zapata, Assistant City Manager
Sana Syed, Public Information Officer
Elsa Cantu, Assistant to the City Manager – Mayor & Council



**Atmos Energy Corporation
Dallas Annual Rate Review**

Dallas City Council

May 4, 2016



Purpose

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

Background

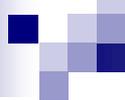
- Current franchise, ordinance #27793, issued by City on January 13, 2010, authorizes Atmos to provide natural gas utility service in Dallas
 - Original franchise granted to “The Dallas Gas Co.” in 1905
 - Purchased by Lone Star Gas in 1927
 - Acquired by TXU Gas in 1996
 - Merged with Atmos in 2004

Background (Continued)

- Texas Utilities Code indicates jurisdictional responsibility for regulation of natural gas in 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)

- Customer's gas utility bill has two primary components
 1. Pipeline costs (appears on bill as Rider GCR)
 - Approved by Railroad Commission of Texas
 - Costs from producer and pipeline company to city limits
 - Includes pass through of actual cost of gas
 - 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

Note: See Appendix for additional regulatory background.

Current Filing

- January 15, 2016, Atmos filed its 5th Dallas Annual Rate Review Tariff (DARR) rate request with proposed effective date of June 1, 2016
 - Atmos requested an increase in base rates of \$7.4m annually
 - Overall increase, without gas costs, 8.38% in base rates
 - Monthly bill for average residential consumer would increase by \$2.17
 - City Council must take action by May 30, 2016

Current Filing (Continued)

- Atmos included in base rates funding for Conservation and Energy Efficiency (CEE) program
 - Provides assistance to qualifying low-income and senior citizen customers to reduce energy consumption and lower utility bills (weatherization program)
 - On July 1, 2013, CEE program was expanded to provide cash rebates of up to \$500 to customers who install high efficiency gas appliances

Current Filing (Continued)

- CEE program is currently offered in Atmos MidTex system excluding City of Dallas
 - Dallas withdrew from CEE program when it was expanded to include appliance rebates
 - CEE program is funded by monthly surcharge to all residential and commercial customers
 - Current rates in other jurisdictions are \$0.02 per month for both residential and commercial customers

Current Filing (Continued)

- Dallas withdrew from CEE program when it expanded to include appliance rebates
 - No guarantee that fees paid by Dallas customers would remain in Dallas
 - Rebate program tends to benefit middle and upper income customers
 - Low income customers generally can not afford high efficiency appliances even with rebate; however, they still pay surcharge

Current Filing (Continued)

- Based on direction given by Budget, Finance and Audit Committee in January, staff removed CEE program costs from base rates and requested Atmos to file CEE as separate surcharge
 - Surcharge would be \$0.05 for residential customers and \$0.10 for commercial customers monthly
 - Proposed surcharge in other Atmos cities is \$0.02 and \$0.08 respectively

Current Filing (Continued)

- City retained Diversified Utility Consultants, Inc. (DUCI) to assist in reviewing current filing
 - Expertise in gas rate regulation
 - Knowledge of DARR process and prior Atmos rate cases
 - Assisted City with last four DARR cases, last five litigated cases and all prior GRIP cases
- DUCI contract amendment approved by City Council on January 13, 2016

Proposed Settlement

- With assistance of DUCI and outside legal counsel, and after numerous meetings, negotiated settlement was reached (pending approval of City Council)
 - If approved, rates will become effective for gas sold on or after June 1, 2016

Proposed Settlement (Continued)

- Base rates to increase by \$5.3m as compared to \$7.4m originally requested
- Overall increase is 5.99% (see appendix for additional details)
 - Average residential bill will increase by \$1.57 per month plus revenue related fees/taxes
- Reject CEE tariff
 - Dallas residents will not pay surcharge or be eligible for appliance rebates

Options for City Council Consideration

1. Approve rates per original Atmos request

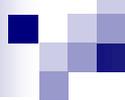
- Overall increase of \$7.4m (8.38%)
- Average residential bill to increase by \$2.17 per month

2. Approve rates per negotiated settlement

- Overall increase of \$5.3m (5.99%)
- Average residential bill to increase by \$1.57 per month
- Reject CEE Tariff

3. Approve rates per negotiated settlement and approve CEE tariff

- Overall increase of \$5.3m (5.99%)
- Average residential bill to increase by \$1.57 per month
- CEE tariff surcharged to residential customers (\$0.05 per month residential and \$0.10 per month commercial)



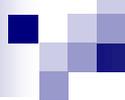
Options for City Council Consideration (continued)

4. Deny rate request

- Atmos will likely appeal denial to RCT and may immediately implement rates as originally requested, subject to refund

5. Set rates at some other level

- Atmos may appeal new rates to RCT and may immediately implement rates as originally requested, subject to refund



City Manager's Recommendation

- City Manager recommends approval of Option #2 on May 11, 2016
 - Option #2 – approve rates per negotiated settlement
 - Overall increase of \$5.3m (5.99%)
 - Average residential bill to increase by \$1.57 per month
 - Reject CEE tariff



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	\$19.00	\$20.00	\$20.00
Amount per Ccf	\$0.08651	\$0.10748	\$0.09774
Rider SUR-Depreciation Regulatory Asset	\$0.10	\$0.00	\$0.00
Bill for average residential customer using 60 Ccf of gas (does not include tax or gas cost)	\$24.29	\$26.45	\$25.86

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	\$38.25	\$41.00	\$40.25
Amount per Ccf	\$0.06778	\$0.07544	\$0.07143
Rider SUR-Depreciation Regulatory Asset	\$0.24	\$0.00	\$0.00

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	\$690.50	\$743.50	\$735.00
Consumption Charge/MMBTU			
First 1,500 MMBTU	\$0.1735	\$0.1975	\$0.1891
Next 3,500 MMBTU	\$0.1262	\$0.1437	\$0.1375
Over 5,000 MMBTU	\$0.0200	\$0.0228	\$0.0218
Rider SUR-Depreciation Regulatory Asset	\$4.80	\$0.00	\$0.00

Appendix: Regulatory Background

- Last fully litigated case to set Dallas rates
 - November 5, 2008 Atmos requested an increase in rates of \$9.1m
 - 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 an increase in rates of \$1.6m

Appendix: Regulatory Background (Continued)

- Gas Reliability Infrastructure Program (GRIP)
 - Rates are adjusted annually to account for changes in net investment
 - Enacted by 78th Legislature (2003) as an incentive for gas utilities to invest in new infrastructure
 - February 25, 2011, filed with City of Dallas
 - Atmos requested an increase of \$20.2m (system wide)
 - Settled for an increase of \$11.0m (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
- City has 135 days to review requested rates and render decision
- Atmos may not file a GRIP case with City while DARR tariff is in effect
- Atmos may appeal City's decision to RCT

Appendix: Regulatory Background (Continued)

■ DARR Filing History

Year of DARR Filing	Atmos Request	Settlement
1 st filing in 2012	\$2.5m increase	\$0.4m decrease
2 nd filing in 2013	\$4.0m increase	\$1.8m increase
3 rd filing in 2014	\$8.7m increase	\$6.3m increase
4 th filing in 2015	\$7.4m increase	\$4.7m increase
5 th filing in 2016	\$7.4m increase	TBD