

Memorandum



CITY OF DALLAS

DATE February 2, 2018

TO Honorable Mayor and Members of the City Council

SUBJECT **Atmos Rate Case: Proposed Settlement**

On Wednesday, February 7, 2018, you will be briefed on the Atmos Rate Case: Proposed Settlement. The briefing materials are attached for your review.

Please let me know if you need additional information.

A handwritten signature in blue ink that reads "M. Elizabeth Reich".

M. Elizabeth Reich
Chief Financial Officer

c: T.C. Broadnax, City Manager
Larry Casto, City Attorney
Craig D. Kinton, City Auditor
Billierae Johnson, City Secretary (Interim)
Daniel F. Solis, Administrative Judge
Kimberly Bizer 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
Jo M. (Jody) Puckett, Assistant City Manager (Interim)
Nadia Chandler Hardy, Chief of Community Services
Raquel Favela, Chief of Economic Development & Neighborhood Services
Theresa O'Donnell, Chief of Resilience
Directors and Assistant Directors

Atmos Rate Case: Proposed Settlement

**Dallas City Council
February 7, 2018**

**Nick Fehrenbach
Manager of Regulatory Affairs
Office of Budget**



Presentation Overview

- Purpose
- Summary of 2017 rate case and current rate case
 - 2017 rate case
 - Current rate case
- Proposed settlement
- Options for City Council consideration
- City Manager's recommendation and next steps



Purpose

- Update Council on Atmos Energy Corporation's (Atmos) statement of intent to increase gas utility rates
- Consider options and review City Manager's recommendation

Summary of 2017 Rate Case and Current Rate Case

- Atmos rate filings over past 12-months have been complex due to two filings that overlapped during the year
 - Jan 2017 rate case was ultimately settled by RCT in Dec 2017 with Atmos receiving revenue increase of \$9.9m (\$3.16/month increase for residential customers that basically went into effect in June 2017)
 - Aug 2017 (current rate case) overlapped the previous filing and requested an additional \$6.3m (additional \$3.18/month increase for residential customers)
 - Proposed settlement is to not increase \$6.3m and further to reduce an additional \$5.7m from the rates approved by RCT in Dec 2017
 - Bottom line is that typical residential customer rates that have been in place since June 2017 will decrease in Feb 2018 by \$1.60/month

2017 Rate Case

- Atmos filed 6th DARR rate request on 1/13/17 with proposed effective date of 6/1/17
 - Atmos requested an increase in base rates of \$10.7m annually
 - 10.9% overall increase in base rates (without gas costs)
 - Monthly bill for average residential consumer would increase by \$3.25

2017 Rate Case (continued)

- City staff negotiated a settlement with Atmos
 - Base rates would increase by \$7.8m as compared to \$10.7m originally requested by Atmos
 - Overall increase would have been 8.5%
 - Average residential bill would have increased by \$2.46 per month plus revenue related fees/taxes
- City Council adopted ordinance #30466 on 5/24/17 denying Atmos rate request and denying settlement agreement, and instead setting a lower increase to be charged by Atmos
 - Authorized base rates increase of \$5m as compared to \$10.7m originally requested by Atmos

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2017 Rate Case (continued)

- Atmos appealed City's rate ordinance to RCT on 5/26/17
- On 6/1/17, Atmos began charging customers rates as requested in the appeal (an increase of \$10.4m over existing rates)
 - Rates are subject to refund if full amount of increase is not authorized
- RCT issued final order on 12/5/17
 - Annual revenue increase of \$9.9m
 - Customers to receive credit on February bill for actual difference in interim rates and final rates charged from June to December

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Current Rate Case

- After denying Atmos' 2017 DARR rate filing, City Council passed Resolution #17-0933 on 6/14/17 requiring Atmos to “Show Cause” why its rates should not be reduced
 - Atmos required to file no later than 8/18/17 (Minimum notice allowed under Gas Utilities Regulatory Act)

Current Rate Case (continued)

- Atmos filed a statement of intent to increase rates on 8/18/17
 - Atmos requested an annual increase in rates of \$16.2m (\$6.3m over the \$9.9m rate increase approved by RCT on 12/5/17)
 - 20.88% overall increase in base rates (without gas costs)
 - Monthly bill for average residential consumer would increase by \$6.13 (22.69%) (\$3.18 increase over rates approved by RCT on 12/5/17)
 - City Council action needed by 12/12/17

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Current Rate Case (continued)

- On 11/23/17, Atmos extended effective date by 56 days to provide additional time for negotiations
 - Additional time permitted settlement discussions to continue and allowed time for RCT to make decision regarding 2017 DARR filing
 - City must take final action by 2/15/18

Current Rate Case (continued)

- City retained Garrett Group LLC (Garrett) to assist in reviewing current filing
 - Expertise in gas rate regulation
 - Assisted City with Atmos Pipeline case before RCT
 - Assisted City with 2017 DARR filing
 - Garrett contract approved by Resolution #17-1662 on 10/25/17

Current Rate Case (continued)

- Garrett reviewed filing and requested additional supporting information from Atmos
- After a full investigation, Garrett recommended several adjustments to filing and calculated fair and reasonable rates to be charged by Atmos
- Staff shared Garrett's findings with Atmos and negotiated a settlement



Current Rate Case (continued)

- Proposed settlement agreement
 - Atmos to reduce current rates by \$5.67m as opposed to increasing rates by \$6.3m as originally requested on 8/18/17
 - Average residential bill to decrease by \$1.60 per month
 - Rates are for bills issued on/after 2/15/18

Current Rate Case (continued)

- Proposed settlement agreement includes several changes to DARR Tariff
 - Reduced return on equity from 10.1% to 9.8%
 - Includes changes to Federal income tax rate
 - Clarifies regulatory treatment of incentive compensation
 - No rate filing until 2019

Options for City Council Consideration

1. Approve rates originally requested by Atmos
 - Overall increase of \$6.3m (6.73%)
 - Average residential bill to increase by \$3.18 per month
2. Approve rates per proposed settlement
 - Overall decrease of \$5.67m (5.61%)
 - Average residential bill to decrease by \$1.60 per month
3. Deny rate request
 - Atmos may appeal denial to RCT
 - Current rates would remain in effect until RCT ruling
4. Set rates at some other level
 - Atmos may appeal new rates to RCT
 - Current rates would remain in effect until RCT ruling

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City Manager's Recommendation and Next Steps

- City Manager recommends City Council approve Option #2, proposed settlement, on 2/14/18
 - Overall decrease of \$5.67m (5.61%)
 - Average residential bill to decrease by \$1.60 per month

Appendix



Appendix

- Current franchise approved on 1/13/2010 (ordinance #27793) authorizes Atmos to provide natural gas utility service in city
 - Initial term of 15 years
- 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

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Appendix

- Texas Utilities Code indicates jurisdictional responsibility for regulation of natural gas in State
 - City has original jurisdiction to set local distribution rates within City's boundaries
 - Railroad Commission of Texas (RCT) has appellate jurisdiction over local distribution rates and original jurisdiction over pipeline rates



Appendix

- Customer's gas utility bill has 2 primary components
 1. Local distribution rates
 - 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
 2. Pipeline rates (appears on bill as Rider GCR-Gas Cost Recovery)
 - 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

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Appendix

- Gas utility customers are divided into 4 billing classes
 1. Residential
 2. Commercial
 - Businesses and apartments with gas for common use
 3. Industrial
 - Contract for a minimum of 125 Mcf per month
 - Service may be interrupted in extreme conditions
 4. Transport
 - Fee charged to transport gas between 2 other parties

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	\$21.25	\$21.50	\$20.00
Amount per Ccf	\$0.12596	\$0.17555	\$0.12012
Bill for average residential customer using 60 Ccf of gas (does not include tax or gas cost)	\$28.81	\$31.99	\$27.21

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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	\$44.00	\$44.00	\$41.50
Amount per Ccf	\$0.08118	\$0.07054	\$0.07670

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	\$805.75	\$800.00	\$760.75
Consumption Charge/MMBTU			
First 1,500 MMBTU	\$0.2217	\$0.2096	\$0.2090
Next 3,500 MMBTU	\$0.1612	\$0.1690	\$0.1524
Over 5,000 MMBTU	\$0.0256	\$0.0327	\$0.0240

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Manager of Regulatory Affairs
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