



**City of Dallas**

# **Atmos Dallas Annual Rate Review Filing**

**City Council  
August 5, 2020**

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# Overview



- Update City Council on Atmos Energy Corporation's (Atmos) Dallas Annual Rate Review (DARR) filing
  - Provide summary of 2019 DARR rate case
  - Discuss current DARR filing
- Proposed settlement agreement
- Options
- City Manager's recommendation
- Next steps



# 2019 DARR Filing



- Atmos filed its 2019 DARR rate case on January 15, 2019
- Requested annual rate increase of \$10.1 million from within the city of Dallas
  - Rates to become effective June 1, 2019
  - Average residential bill to increase by \$3.05/month (10.72 percent without gas costs)
- City Council denied request by resolution on May 8, 2019
- Atmos appealed denial to Railroad Commission of Texas (RCT) on May 31, 2019
  - Requested rates went into effect June 1, 2019, subject to refund
  - Case settled at \$8.5 million on December 17, 2019



# 2020 DARR Filing



- Atmos filed its 2020 DARR rate case on January 15, 2020
- Requested annual rate increase of \$18.3 million from within the city of Dallas
  - Rates to become effective June 1, 2020
  - Average residential bill to increase by \$5.48/month (17.76 percent without gas costs)
- On May 13, 2020, City Council amended DARR tariff to permit extension of evaluation period if state of emergency is declared
  - Deadline to set rates extended from May 29 to August 29, 2020
  - Rates to become effective September 1, 2020



# Garrett Review of 2020 DARR Filing



- City retained Garrett Group LLC (Garrett) in 2017 to review gas rate cases such as the current DARR filing
- After reviewing the filing and supplemental information requested from Atmos, Garrett provided a draft report and preliminary findings, including recommendations for several adjustments to filing
- Staff shared Garrett's preliminary findings with Atmos
- Staff (assisted by Garrett and outside legal counsel) met with Atmos on multiple occasions via virtual conference and telephone to negotiate a settlement
  - Reached proposed settlement on July 23, 2020



# Proposed Settlement Agreement



- Atmos to increase rates by \$15.8 million annually
  - Rates to become effective September 1, 2020
  - Annual savings to Dallas residents of \$2.5 million
  - Atmos to reimburse City for rate case expense
- Average residential bill to increase by \$4.69 per month
- Average commercial bill to increase by \$11.11 per month



# Options



- Adopt proposed settlement agreement
  - Atmos to increase rates by \$15.8 million annually
  - Rates to become effective September 1, 2020
  - Atmos to reimburse City for rate case expense
- Adopt rates at some amount less than the proposed settlement
  - Atmos could appeal rates to RCT
  - Atmos could implement requested rates subject to refund while appeal was pending
- Deny rate request, keeping current rates in effect
  - Atmos could appeal rates to RCT
  - Atmos could implement requested rates subject to refund while appeal was pending



# City Manager's Recommendation



- Adopt proposed settlement agreement as negotiated by staff
  - Saves residents \$2.5 million off of requested rates
  - Atmos to pay City's rate case expenses
  - Rates to become effective September 1, 2020
  - Avoids uncertainty of litigating an appeal at RCT



# Next Steps



- August 12, 2020, agenda item to set rates to be charged by Atmos
- Deadline to set rates is August 29, 2020





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# Appendix

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# Franchise History



- Current franchise approved January 13, 2010, by 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



# Jurisdiction to Set Rates



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



# Utility Bill Breakdown



- Customer's gas utility bill has two primary components:
  - Local distribution rates
    - Approved by City Council (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
  - Pipeline rates (appear on bill as Rider GCR-Gas Cost Recovery)
    - Approved by RCT
    - Costs from producer and pipeline company to city limits
    - Includes pass-through of actual cost of gas
    - Typically comprise 60% of residential charges and 70% of commercial charges



# Billing Classes



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



# Litigation History



- Last fully litigated case to set Dallas rates:
  - 11/5/08 – Atmos requested a rate increase of \$9.1 million
  - 3/25/09 – City denied increase and set rates below Atmos existing rates
    - Atmos appealed this rate decision to RCT
  - 1/23/10 – RCT granted Atmos a rate increase of \$1.6 million



# Gas Reliability Infrastructure Program (GRIP)



- Enacted by 78th Legislature (2003) as incentive for gas utilities to invest in new infrastructure
- Rates adjusted annually to account for changes in net investment
- 2/25/11 – Filed with City of Dallas
  - Atmos requested increase of \$20.2 million (systemwide)
  - Settled for increase of \$11.0 million (systemwide)
  - City authorized DARR tariff as part of settlement



# DARR Filing History



Year of DARR Filing	Atmos Request	Settlement
2012 (1 <sup>st</sup> filing)	\$2.5 million increase	\$0.4 million decrease
2013	\$4.0 million increase	\$1.8 million increase
2014	\$8.7 million increase	\$6.3 million increase
2015	\$7.4 million increase	\$4.7 million increase
2016	\$7.4 million increase	\$5.3 million increase
2017	\$10.7 million increase	\$9.9 million increase By RCT on appeal
2019 (7 <sup>th</sup> filing)	\$10.1 million increase	\$8.5 million increase Settled on appeal

