



City of Dallas

Atmos Dallas Annual Rate Review Filing

**Government Performance
and Financial Management
May 21, 2024**

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Overview



- Update City Council on Atmos Energy Corporation's (Atmos) Dallas Annual Rate Review (DARR) filing
 - Provide summary of 2023 DARR rate case
 - Discuss current DARR filing
- Review proposed settlement agreement
- Discuss options
- Provide City Manager's recommendation
- Next steps



2023 DARR Filing



- Atmos filed its 2023 DARR rate case on January 13, 2023
- Requested annual rate increase of \$20.6 million from within the city of Dallas
 - Average residential bill to increase by \$6.10/month or 6.36% with gas costs
 - Average commercial bill to increase by \$20.30/month or 3.41% with gas costs
 - Atmos requested rates become effective June 1, 2023



2023 DARR Settlement Agreement



- City set rates by Ordinance on May 24, 2023 pursuant to a settlement agreement
 - Atmos increased rates in Dallas by \$18.2 million annually
 - Rates became effective September 1, 2023
 - Average residential bill increased by \$5.73 per month
 - Average commercial bill increased by \$14.11 per month



2024 DARR Filing



- Atmos filed its 2024 DARR rate case on January 12, 2024
 - The City has 135 days to review requested rates
 - Deadline to complete review is May 26, 2024
- Requested annual rate increase of \$43.1 million in base rates plus \$4.8 million for recovery of securitization regulatory asset expenses from within the city of Dallas for a total increase of \$47.9 million
 - Average residential bill to increase by \$13.72/month or 14.98% with gas costs
 - Average commercial bill to increase by \$52.63/month or 10.26% with gas costs
- Requested rates to become effective June 1, 2024



2024 DARR Filing



- The 2024 filing is the largest increase requested by Atmos under the DARR tariff since it was adopted in 2012
 - Although Atmos has had some increases in operating costs, the driving factor in this rate increase is Atmos' investment in new plant virtually all of which is identified as safety related
 - \$15.8 million of the increase is due to the completion of the three year credit amortization of the excess accumulated deferred federal income taxes from the 2017 Tax Cuts and Jobs Act
 - \$4.8 million of the increase is recovery of interest expense related to extraordinary gas costs during winter storm Uri
 - In the past year Atmos has:
 - Spent over \$231 million in new capital investment
 - Replaced 54 miles of pipe within the City of Dallas
 - Replaced 3,200 steel service lines within the City of Dallas



2024 DARR Filing



- City retained Garrett Group LLC (Garrett) under an AA to review 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 the filing totaling \$3.5 million
- 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 May 3, 2024



2023 DARR Proposed Settlement



- Atmos to increase rates in Dallas by \$45.1 million annually
- Rates to become effective June 1, 2024
- Average residential bill will increase by \$13.69 per month an increase of 14.94%
- Average commercial bill will increase by \$41.36 per month an increase of 8.06%
- Atmos will reimburse City's rate case expense
 - Amount determined after adoption of settlement



Options



- 1) Adopt proposed settlement agreement
 - Atmos to increase rates by \$45.1 million annually
 - Rates to become effective June 1, 2024
 - Atmos to reimburse City for rate case expense
- 2) Adopt rates at some amount less than the proposed settlement
 - Atmos could appeal rates to RCT
 - Atmos could implement requested increase of \$47.9M in rates subject to refund while appeal was pending
- 3) 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 (Option 1)
 - Saves residents \$2.8 million off of requested rates
 - Atmos to pay City's rate case expenses
 - Rates to become effective June 1, 2024
 - Avoids uncertainty of litigating an appeal at RCT
 - Avoids additional rate case expense which would be passed on to customers



Next Steps



- May 22, 2024, agenda item to set rates to be charged by Atmos
- Deadline to set rates is May 26, 2024





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Appendix

Franchise History



- 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
- Current franchise approved January 13, 2010, by ordinance #27793 authorizes Atmos to provide natural gas utility service in city
 - Initial term of 15 years



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	\$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
2018	No DARR filing	
2019	\$10.1 million increase	\$8.5 million increase Settled on appeal
2020	\$18.3 million increase	\$15.8 million increase
2021	\$17.04 million increase	\$1.9 million increase
2022	\$15.3 million increase	\$13.3 million increase
2023	\$20.6 million increase	\$18.2 million increase

