



City of Dallas

Atmos Dallas Annual Rate Review Filing

**Government Performance
and Financial Management
May 23, 2022**

**Nick Fehrenbach
Manager of Regulatory Affairs
Budget and Management Services**

Overview



- Update the Committee on Atmos Energy Corporation's (Atmos) Dallas Annual Rate Review (DARR) filing
- Review proposed settlement agreement
- Discuss options
- Provide City Manager's recommendation
- Next steps



2022 DARR Filing



- Atmos filed its 2022 DARR rate case on January 14, 2022*
- Requested annual rate increase of \$15.3 million from within the City of Dallas
 - Average residential bill to increase by \$4.51/month or 6.33% with gas costs
 - Average commercial bill to increase by \$14.90/month



**2022 DARR filed on January 14 due to January 15 being Saturday*

2022 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 May 10, 2022



2022 DARR Proposed Settlement



- Atmos to increase rates in Dallas by \$13.3 million annually
- Rates to become effective September 1, 2022
- Average residential bill will increase by \$4.17 per month
- Average commercial bill will increase by \$10.33 per month
- 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 \$13.3 million annually
 - Rates to become effective September 1, 2022
 - 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 \$15.3M 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 \$2.0 million off of requested rates
 - Atmos to pay City's rate case expenses
 - Rates to become effective September 1, 2022
 - Avoids uncertainty of litigating an appeal at RCT
 - Avoids additional rate case expense which would be passed on to customers



Next Steps



- May 25, 2022, agenda item to set rates to be charged by Atmos
- Deadline to set rates is August 27, 2022





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Appendix

2021 DARR Filing



- Atmos filed its 2021 DARR rate case on January 15, 2021
- Requested annual rate increase of \$17.04 million from within the City of Dallas
 - Average residential bill to increase by \$5.09/month or 8.16% with gas costs
- Atmos amended DARR filing on March 17, 2021, lowering the requested increase to \$9.2 million
 - Rates are effective September 1, 2021 (extended due to emergency declaration related to COVID-19)



2021 DARR Settlement Agreement



- Atmos increased rates by \$1.9 million annually
 - \$9.2 million to \$1.9 million change due to black box settlement agreement by Atmos and City of Dallas
 - Rates became effective September 1, 2021
- Average residential bill increased by \$0.61 per month 0.98% with gas costs
- Average commercial bill increased by \$1.48 per month 0.47% with gas costs
- Authorized Rider CEE - Conservation and Energy Efficiency – offers assistance to customers to encourage lower energy consumption and lower bills
 - Surcharge on residential bills is \$0.05 per month
 - Surcharge on commercial bills is \$0.02 per month



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* (proposed)

