

**BEFORE THE STATE CORPORATION COMMISSION  
OF THE STATE OF KANSAS**

In The Matter of The Application of Atmos )  
Energy Corporation For the Recovery of ) Docket No. 22-ATMG-538-TAR  
Qualified Extraordinary Costs and Issuance )  
of a Financing Order. )

**APPLICATION FOR FINANCING ORDER**

Atmos Energy Corporation, (“Atmos Energy” or “Company”), in accordance with the financial plan approved in Docket No. 21-ATMG-333-GIG (“21-333 Docket”), respectfully files this Application for Financing Order (“Application”) for the recovery of Securitized Utility Tariff Costs (i.e., Qualified Extraordinary Costs)<sup>1</sup> and Financing Costs incurred because of the February 2021 Winter Event, commonly referred to as Winter Storm Uri (“Winter Event”). Pursuant to Kansas’ Utility Financing and Securitization Act (“Act”), K.S.A. 66-1,240 *et seq.*, as well as K.S.A. 66-117, Atmos Energy respectfully requests authorization to issue Securitized Utility Tariff Bonds, in one or more series; to impose, charge, and collect Securitized Utility Tariff Charges; and create Securitized Utility Tariff Property related to the recovery of Qualified Extraordinary Costs. In support thereof, Atmos Energy states the following to the State Corporation Commission of the State of Kansas (“Commission”):

**I. DESCRIPTION OF ATMOS ENERGY CORPORATION**

1. Atmos Energy is a natural gas public utility operating in the state of Kansas pursuant to certificates of convenience and necessity issued by the Commission. Atmos Energy’s principal place of business within the state of Kansas is located at: 25090 W 110th Terrace, Olathe, KS 66061.

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<sup>1</sup> Pursuant to the Act, and relevant for this Application, “Securitized Utility Tariff Costs” means “Qualified Extraordinary Costs.” K.S.A. 66-1,240(b)(21). As such, Atmos Energy’s Application refers to these terms collectively as “Qualified Extraordinary Costs.”

## II. COMMUNICATION

2. The names, addresses, and phone numbers of the persons authorized to receive notices and communications with respect to this Application on behalf of Atmos Energy are as follows:

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## III. CONDENSED BACKGROUND

3. On February 15, 2021, in Docket No. 21-GIMX-303-MIS (“21-303 Docket”), the Commission issued an Emergency Order (“Emergency Order”). Sub-zero temperatures and increased demand for electricity and natural gas caused by the Winter Event placed significant stress on utilities. Wholesale natural gas prices increased 10 to 100 times higher than normal.<sup>2</sup>

4. The Commission ordered jurisdictional utilities to do everything necessary to ensure natural gas and electricity continued to be provided to customers in Kansas.<sup>3</sup> The Commission authorized every jurisdictional electric and natural gas utility to defer extraordinary costs related to the Winter Event to a regulatory asset account.<sup>4</sup> Concurrent with this decision, the

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<sup>2</sup> Emergency Order, 21-303 Docket, p. 1, ¶1 (Feb. 15, 2021) (Emergency Order).

<sup>3</sup> See *id.* at p. 2, ¶3.

<sup>4</sup> See *id.* at p. 2, ¶4.

Commission directed Atmos Energy to develop a plan to minimize the Winter Event’s financial impact on the Company’s customers.<sup>5</sup> For perspective, as of June 30, 2021, Atmos Energy estimated approximately \$109 million of costs related to the Winter Event to be securitized.<sup>6</sup>

5. On September 14, 2021, Atmos Energy submitted its plan to minimize the financial impact of the Winter Event on customers.<sup>7</sup> Supported by testimony from five witnesses,<sup>8</sup> Atmos Energy proposed to apply for a Financing Order in a separate docket. Atmos Energy would seek authorization to issue Securitized Utility Tariff Bonds to finance the Winter Event’s Qualified Extraordinary Costs.<sup>9</sup>

6. On February 9, 2022, Atmos Energy, Commission Staff (“Staff”), and the Citizens’ Utility Ratepayer Board (“CURB”) submitted a Joint Motion to Approve Settlement Agreement (“Financial Plan Settlement”).<sup>10</sup>

7. On March 24, 2022, in the 21-333 Docket, the Commission approved the Financial Plan Settlement in its entirety (“Financial Plan Settlement Order”).<sup>11</sup> The Commission emphasized: (1) it was in the public interest for Atmos Energy to incur extraordinary costs during the Winter Event,<sup>12</sup> (2) it is in the public interest to recover these costs,<sup>13</sup> and (3) the plan implemented by this Application will result in just and reasonable rates.<sup>14</sup>

#### IV. REQUEST FOR A FINANCING ORDER

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<sup>5</sup> See *id.* at p. 3, ¶5.

<sup>6</sup> See Direct Testimony of Kathleen A. Ocanas, 21-333 Docket, p. 3, ll. 13-21 (Sept. 14, 2021).

<sup>7</sup> Atmos Energy Corporation Plan to Minimize the Financial Effects of the 2021 Winter Weather Event, 21-333 Docket (Sept. 14, 2021) (Financial Plan).

<sup>8</sup> Barton Armstrong; Rob Leivo; Kenneth Malter; Kathleen Ocanas; and Jason Schneider.

<sup>9</sup> See Financial Plan, p. 1 (Sept. 14, 2021).

<sup>10</sup> Joint Motion to Approve Settlement Agreement, 21-333 Docket (Feb. 9, 2022) (“Financial Plan Settlement”).

<sup>11</sup> Order Approving Unanimous Settlement Agreement on Atmos Energy Corporation’s Financial Plan, 21-333 Docket, p. 9, Ordering Clause (A) (March 24, 2022) (“Financial Plan Settlement Order”).

<sup>12</sup> See *id.* at p. 8, ¶13.

<sup>13</sup> See *id.* at p. 9, ¶14.

<sup>14</sup> See *id.* at p. 9, ¶16.

8. Atmos Energy respectfully requests the Commission approve the proposed Financing Order attached to this Application and incorporated herein by reference.

**A. Linking the Financial Plan Settlement's Terms with This Application**

9. The Financial Plan Settlement requires Atmos Energy to apply for a Financing Order seeking authorization to issue Securitized Utility Tariff Bonds to finance the Qualified Extraordinary Costs incurred due to the Winter Event.<sup>15</sup> Likewise, the Financial Plan Settlement includes several elements which Atmos Energy must incorporate into this Application.

10. At the time of the Financial Plan Settlement, Atmos Energy had prudently incurred Qualified Extraordinary Costs totaling \$102,517,847.<sup>16</sup> The Company will update and verify the Qualified Extraordinary Costs as part of this proceeding.<sup>17</sup> The Qualified Extraordinary Costs included in the Financial Plan Settlement are:

- a) Gas Costs: \$76,652,625
- b) Carrying Costs: \$2,256,994
- c) KGS Penalties from 21-KGSG-332-GIG: \$9,559,372
- d) Financing Fees Relating to Securitization: \$13,230,139
- e) Legal and Consulting Costs (unrelated to financing): \$818,717.<sup>18</sup>

11. Atmos Energy may recover carrying charges on the Qualified Extraordinary Costs, at a rate of 2.0%, between the time the Qualified Extraordinary Costs were incurred until the Securitized Utility Tariff Bonds are issued and Atmos Energy begins to charge customers a Securitized Utility Tariff Charge.<sup>19</sup>

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<sup>15</sup> See Exhibit A to Financial Plan Settlement Order, p. 5, ¶9.

<sup>16</sup> See *id.* at p. 5, ¶8; Appendix A to Exhibit A to Financial Plan Settlement Order.

<sup>17</sup> See *id.*

<sup>18</sup> See *id.*; Appendix A to Exhibit A to Financial Plan Settlement Order.

<sup>19</sup> See *id.* at pp. 5-6, ¶10.

12. The Financial Plan Settlement deferred certain determinations to this proceeding. Notwithstanding the Act's requirements, this proceeding will determine: the term of the bonds, and how Securitized Utility Tariff Charges will be recovered from Atmos Energy's sales customers.<sup>20</sup> Unless otherwise prohibited by law, Securitized Utility Tariff Charges will not be charged to transportation customers.<sup>21</sup> Unless otherwise prohibited by law, sales customers who become transportation customers during the period Securitized Utility Tariff Charges are being recovered shall be required to pay a settlement fee prior to becoming a transportation customer.<sup>22</sup>

13. Atmos Energy's Application contains a reconciliation proposal. As contemplated by the Financial Plan Settlement, this proposal considers both the deferred tax liability associated with Qualified Extraordinary Cost recoveries, as well as the corresponding and offsetting deferred tax asset associated with the net operating loss carry-forward created by the Qualified Extraordinary Costs.<sup>23</sup>

### **B. Description of Securitization Process and Proposed Financing Order**

14. The proposed Financing Order, as well as testimony from Company witnesses, more fully describes Atmos Energy's securitization proposal. In general, the proposal consists of the following framework:

- a) The Qualified Extraordinary Costs will be updated, trued-up, verified, and allocated among Atmos Energy's sales customers;

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<sup>20</sup> See *id.* at p. 6, ¶11.

<sup>21</sup> See *id.* at pp. 6-7, ¶14.

<sup>22</sup> See *id.*, pp. 6 – 7, ¶14 (The settlement fee owed by the customer shall be based on the present value of the expected charges the customer would have paid as a sales customer over the remaining period in which the Securitized Utility Tariff Charge is being recovered. This settlement fee will be credited to Atmos Energy's other sales customers once a year through the PGA.).

<sup>23</sup> See *id.*, p. 6, ¶12.

- b) Atmos Energy will form a wholly owned, subsidiary, Delaware Special Purpose Entity LLC (“SPE”), referred to in the Act as an Assignee;<sup>24</sup>
- c) The SPE will be designed to be a bankruptcy-remote limited purpose entity;<sup>25</sup>
- d) The Financing Order will establish the mechanism for the creation of Securitized Utility Tariff Property<sup>26</sup>
- e) Atmos Energy will transfer, via a true sale, its rights in Securitized Utility Tariff Property to the SPE, rendering the Financing Order irrevocable;
- f) The SPE will issue Securitized Utility Tariff Bonds to investors;
- g) The proceeds from the Securitized Utility Tariff Bonds will be used, directly or indirectly to recover, finance or refinance Atmos Energy’s Qualified Extraordinary Costs and Financing Costs;
- h) The Securitized Utility Tariff Bonds and Financing Costs will be secured by or payable from the Securitized Utility Tariff Property transferred to the SPE;
- i) Atmos Energy will act as a collection agent or servicer for the SPE and the SPE’s right to collect and receive Securitized Utility Tariff Charges;
- j) Atmos Energy will, on a semi-annual basis, unless greater frequency becomes necessary, apply an Adjustment Mechanism to the Securitized Utility Tariff Charges to ensure the timely and complete payment of the Securitized Utility Tariff Bonds and all other Financing Costs.

### **C. Introduction of Witnesses**

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<sup>24</sup> “Assignee” means a corporation, limited liability company, general partnership, limited partnership, public authority, trust, financing entity or other entity to which a public utility assigns, sells or transfers, other than as security, all or a portion of its interest in, or right to, securitized utility tariff property. K.S.A. 66-1,240(b)(4).

<sup>25</sup> See the Direct Testimony of Jason L. Schneider, Section V., submitted concurrently with this Application.

<sup>26</sup> “Securitized Utility Tariff Property” includes:

(A) All rights and interests of a public utility, its successor or assignee under a financing order, including the right to impose, bill, charge, collect and receive securitized utility tariff charges authorized under the financing order and to obtain periodic adjustments to such charges authorized under this section and as provided in the financing order; and

(B) all revenues, collections, claims, rights to payments, payments, money or proceeds arising from the rights and interests specified in the financing order, regardless of whether such revenues, collections, claims, rights to payment, payments, money or proceeds are imposed, billed, received, collected or maintained together with or commingled with other revenues, collections, rights to payment, payments, money or proceeds.

15. The Act sets forth a series of elements Atmos Energy's Application must contain.<sup>27</sup> In particular, Atmos Energy's Application must be supported by direct testimony and schedules.<sup>28</sup> Two witnesses are testifying in support of Atmos Energy's Application:

**Kathleen R. Ocanas: Vice President of Rates and Regulatory Affairs for Atmos Energy Corporation (Colorado-Kansas Division)**

16. Ms. Ocanas is the Vice President of Rates and Regulatory Affairs for the Company's Colorado-Kansas Division and is the Company's primary witness. Ms. Ocanas discusses the Commission's March 24, 2022, Order approving the Financial Plan Settlement as well as the Act. Ms. Ocanas outlines how Atmos Energy's Application was contemplated by the Financial Plan Settlement, and how Atmos Energy satisfies the Act's Application requirements. In addition, Ms. Ocanas discusses other requirements of the Act. Specifically, Ms. Ocanas describes customer education and the appearance of Securitized Utility Tariff Charges on customer bills. Further, Ms. Ocanas introduces the other witness testifying on behalf of Atmos Energy.

**Jason L. Schneider: Assistant Treasurer for Atmos Energy Corporation**

17. Mr. Schneider is the Assistant Treasurer of Atmos Energy. Mr. Schneider provides an estimate of Financing Costs related to issuing Securitized Utility Tariff Bonds as well as an estimate of when the bonds can be issued. In addition, Mr. Schneider compares the net present value of Qualified Extraordinary Costs incurred by Atmos Energy's sales customers under Securitized Utility Tariff Bonds and under a traditional recovery mechanism. This comparison demonstrates how the issuance of Securitized Utility Tariff Bonds is expected to provide quantifiable net rate benefits to customers. Mr. Schneider provides background information on the use of securitization in other jurisdictions and discusses the basic framework of the bonds

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<sup>27</sup> See K.S.A. 66-1,241(c).

<sup>28</sup> See K.S.A. 66-1,241(c)(11).

proposed to be issued, including a proposed preliminary bond structure and structuring considerations. Mr. Schneider also details various agreements related to the proposed Financing Order, which will be submitted as late-filed exhibits to this Application within 30 days. These agreements include: a Servicing Agreement, the SPE LLC Agreement, Property Sales Agreement, and the Indenture.

#### **D. Statutory Filing Requirements**

18. The Act contains specific provisions Applications for Financing Orders and Financing Orders themselves must contain.<sup>29</sup> Atmos Energy's Application and proposed Financing Order satisfy each of these requirements.

##### **i. Qualified Extraordinary Cost Description; Avoidance of Extreme Customer Impacts**

19. K.S.A. 66-1,241(c)(1)(B) requires Atmos Energy's Application describe:

the qualified extraordinary costs that the public utility proposes to recover and how customary rate-making treatment of such costs would result in extreme customer rate impacts.

20. The Qualified Extraordinary Costs, subject to update, true-up, and verification were established in the Commission-approved Financial Plan Settlement.<sup>30</sup> This settlement established Atmos Energy would propose to recover \$102,517,847 of Qualified Extraordinary Costs.<sup>31</sup> These costs include:

- a) Gas Costs: \$76,652,625
- b) Carrying Costs: \$2,256,994

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<sup>29</sup> See K.S.A. 66-1,241(c),(e).

<sup>30</sup> See Exhibit A to the Financial Plan Settlement Order, p. 5, ¶8; Appendix A to Exhibit A to the Financial Plan Settlement Order.

<sup>31</sup> *I.e.*, Qualified Extraordinary Costs the Company incurred during the Winter Event to meet the Kansas Corporation Commission's Emergency Order (e.g., costs for procuring and transporting natural gas supplies for jurisdictional utility customers; costs associated with coordinating and assisting non-jurisdictional utilities with transporting gas supplies; other reasonable costs necessary to ensure stability and reliability of natural gas service). Emergency Order, ¶4.



- c) KGS Penalties from 21-KGSG-332-GIG: \$9,559,372
- d) Financing Fees Relating to Securitization: \$13,230,139
- e) Legal and Consulting Costs (unrelated to financing): \$818,717
- f) Additional Costs to be Updated, Trued-Up, and Verified in this Proceeding.

21. Ms. Ocanas provides a review of Commission orders issued in relevant regulatory proceedings (i.e., the 21-303 Docket and 21-333 Docket). This testimony links Atmos Energy's Application and the Financial Plan Settlement. Importantly, Ms. Ocanas details the nature of the Company's Qualified Extraordinary Costs, and the 21-333 Docket which described and evaluated these costs. Ms. Ocanas notes the costs incurred by Atmos Energy fully satisfy criteria the Commission established in its Emergency Order and the Act's definition of Qualified Extraordinary Costs.<sup>32</sup> Mr. Schneider updates the Qualified Extraordinary Costs.

22. Atmos Energy may recover carrying charges on the Qualified Extraordinary Costs, at a rate of 2.0%, between the time the costs were incurred until the Securitized Utility Tariff Bonds are issued and Atmos Energy begins to charge customers a Securitized Utility Tariff Charge.<sup>33</sup> Atmos Energy incorporates these costs in the update, true-up, and verification process. Mr. Schneider details this estimated cost at \$89,799,233 if the Securitized Utility Tariff Bonds are issued in March 2023.

23. Using customary rate-making treatment to recover Atmos Energy's Qualified Extraordinary Costs would result in extreme customer rate impacts.<sup>34</sup> If the proposed Financing Order is denied, Atmos Energy proposes to utilize a rider to recover the Qualified Extraordinary Costs over a five-year period. The rider would recover the Qualified Extraordinary Costs from all

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<sup>32</sup> See the Direct Testimony of Kathleen R. Ocanas, p. 11-12, submitted concurrently with this Application.

<sup>33</sup> See Exhibit A to the Financial Plan Settlement Order, p. 5, ¶9.

<sup>34</sup> See Direct Testimony of Kathleen R. Ocanas, 21-333 Docket, p. 7, ll. 9-17, (Sept. 14, 2021).

Atmos Energy’s sales customers using a fixed monthly charge. For residential customers, this amounts to \$10.56 per month if recovered over five years. This monthly charge, though shorter in duration than the Company’s securitization proposal, places an extreme rate impact on Atmos Energy’s customers. This impact can be avoided using securitization, which is the Company’s preferred cost recovery mechanism for the Qualified Extraordinary Costs.

**ii. Securitized Utility Tariff Costs Proposed to Be Recovered with Bond Proceeds**

24. K.S.A. 66-1,241(c)(2) requires Atmos Energy’s Application describe:

the securitized utility tariff costs<sup>35</sup> that the applicant proposes to recover with the proceeds of the securitized utility tariff bonds.

25. Ms. Ocanas discusses Atmos Energy’s proposal to recover Qualified Extraordinary Costs incurred because of the Winter Event using proceeds from Securitized Utility Tariff Bonds. Subject to update, true-up and verification, the Company proposes to recover \$85,877,476 of Qualified Extraordinary Costs.<sup>36</sup> After including estimated carrying costs, updates and true-ups, as well as initial Financing Costs, and completing the verification process, the estimated total to be securitized through March 31, 2023, using Atmos Energy’s proposed Financing Order is \$89,799,233.<sup>37</sup>

**iii. Financing All or Portion of Securitized Utility Tariff Costs**

26. K.S.A. 66-1,241(c)(3)(A) requires Atmos Energy’s Application describe:

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<sup>35</sup> “Securitized utility tariff costs” means either “energy transition costs or qualified extraordinary costs. K.S.A. 66-1,241(b)(24). “Qualified extraordinary costs” includes, at the option of and upon application by a public utility and as approved by the commission, costs that the public utility has incurred before, on or after the effective date of this act of an extraordinary nature that would cause extreme customer rate impacts if recovered through customary rate-making, including, but not limited to, purchases of gas supplies, transportation costs, fuel and power costs, including carrying charges incurred during anomalous weather events.” K.S.A. 66-1,241(b)(18).

<sup>36</sup> *I.e.*, Costs the Company incurred during the Winter Event to meet the Commission’s Emergency Order (e.g., costs for procuring and transporting natural gas supplies for jurisdictional utility customers; costs associated with coordinating and assisting non-jurisdictional utilities with transporting gas supplies; other reasonable costs necessary to ensure stability and reliability of natural gas service). 21-303 Emergency Order, ¶4.

<sup>37</sup> As discussed by Ms. Ocanas an adjustment relating to penalties from a transportation customer and an aggregator prior to bond issuance slightly reduced the total to be securitized.

whether the public utility proposes to finance all or a portion of the securitized utility tariff costs using securitized utility tariff bonds. If the public utility proposes to finance a portion of the securitized utility tariff costs, the public utility shall identify the specific portion in the application.

27. For clarity, the Act's definition of Securitized Utility Tariff Costs is the same as Qualified Extraordinary Costs. "Securitized utility tariff costs" means either energy transition costs or qualified extraordinary costs."<sup>38</sup>

28. Atmos Energy intends to finance 100.00% of Securitized Utility Tariff Costs using Securitized Utility Tariff Bonds. Ms. Ocanas discusses Atmos Energy's proposal to finance and securitize all Qualified Extraordinary Costs incurred by retail gas sales service customers due to the Winter Event. The Company's proposed Securitized Utility Tariff Costs, once updated, trued-up, and verified are \$90,199,233.

#### **iv. Estimated Financing Costs**

29. K.S.A. 66-1,241(c)(4) requires Atmos Energy's Application provide an estimate of the Financing Costs related to the Securitized Utility Tariff Bonds. Mr. Schneider testifies Atmos Energy estimates the upfront Financing Costs associated with its securitization proposal total \$2,885,000.<sup>39</sup> This total includes legal fees (for the Company, the underwriter and the trustee), underwriting fees, rating agency fees, servicer set-up fees, accounting/auditor fees, printing/filing fees, the set-up cost of the SPE, and fees for the Company and Commission's financial advisors. The upfront financing costs, including underwriting fees, are approximately 3.213% of the issuance amount. Additionally, the Company will incur ongoing Financing Costs. Ongoing costs include servicing fees, administrative fees, accounting and auditing fees, legal fees, rating agency surveillance, trustee fees, and the cost of an independent director.

#### **v. Estimated Charges; Recovery Period; Financing Structure; Payment and Maturity**

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<sup>38</sup> K.S.A. 66-1,240(b)(21).

<sup>39</sup> See the Direct Testimony of Jason L. Schneider, Exhibit JLS-3, submitted concurrently with this Application.

30. K.S.A. 66-1,241(c)(5) requires Atmos Energy's Application provide:

an estimate of the securitized utility tariff charges necessary to recover the securitized utility tariff costs and all financing costs, the period for recovery of such costs and a description of the proposed financing structure, including the proposed scheduled final payment dates and final maturity of the securitized utility tariff bonds.

31. Pursuant to the Financial Plan Settlement, the method used to recover Securitized Utility Tariff Charges will be decided in this proceeding.<sup>40</sup> Ms. Ocanas testifies Atmos Energy proposes to use a fixed monthly charge per customer and outlines how the monthly charge varies depending on the customer type and scheduled recovery period approved by the Commission. Mr. Schneider testify how utilizing a fixed monthly customer charge helps secure the highest rating possible for the Company's Securitized Utility Tariff Bonds.

32. The following table illustrates the estimated monthly charges for Atmos Energy's sales customers under the Company's proposed 10-year scheduled recovery period.

<b><u>Customer Class</u></b>	<b><u>Annual \$ Allocated to Class</u></b>	<b><u>Monthly Fixed Charge</u></b>
Residential Sales Service	\$8,387,436	\$5.46
Commercial/Public Authority	\$2,702,059	\$22.71
School Sales Service	\$29,498	\$39.65
Industrial Sales Service	\$17,867	\$106.35
Small Generator	\$11	\$0.01
Irrigation Engine	\$44,071	\$15.05

33. The Act requires the Commission afford Atmos Energy:

flexibility in establishing the terms and conditions for the securitized utility tariff bonds to accommodate changes in market conditions, including repayment schedules, interest rates, financing costs, collateral requirements, required debt service and other reserves and the ability of the public utility, at its option, to effect a series of issuances of securitized utility tariff bonds and correlated assignments,

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<sup>40</sup> See Exhibit A to the Financial Plan Settlement Order, p. 7, ¶13.

sales, pledges or other transfers of securitized utility tariff property. Any changes made under this subsection to terms and conditions for the securitized utility tariff bonds shall be in conformance with the financing order.<sup>41</sup>

34. Atmos Energy requests the Commission grant flexibility and authorize the Company to implement either a ten-, or fifteen-year scheduled recovery period depending on which period best serves sales customers. Based on available data, the Company's preference is to utilize a ten-year scheduled recovery period. Additionally, the term selected directly impacts the per-month Securitized Utility Tariff Charge to be collected from customers. As such, Ms. Ocanas presents estimates of Securitized Utility Tariff Charges depending on the scheduled recovery period authorized by the Commission.

35. Mr. Schneider describes the proposed financing structure, including the proposed scheduled final payment dates and final maturity dates of the Securitized Utility Tariff Bonds. The Company proposes to issue one tranche of bonds. While the company's securitization proposal is anticipated to occur over 10 years, to provide a maturity cushion the proposed Securitized Utility Tariff Bonds utilize legal maturities that extend beyond the bond's scheduled final maturity. Mr. Schneider more fully describes the preliminary structure of the proposed Securitized Utility Tariff Bonds.

#### **vi. Securitized Utility Tariff Charge Revenue Requirement Allocation**

36. K.S.A. 66-1,241(c)(6) requires Atmos Energy describe:

the proposed methodology for allocating the revenue requirement for the securitized utility tariff charge among customer classes, including special contract customers, as provided in [K.S.A. 66-1,241].

37. Ms. Ocanas testifies Atmos Energy proposes to allocate Qualified Extraordinary Costs to its sales customer classes based on each sales customer classes' percentage of the total

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<sup>41</sup> K.S.A. 66-1,241(h)(3).

estimated February 2021 sales volumes. Ms. Ocanas likewise testifies why Qualified Extraordinary Costs are not allocated to transportation customers. The proposed allocation method is as follows:

[Application continues on next page.]

<b>Customer Class</b>	<b><u>Estimated February 2021 Volume (Ccf)</u></b>	<b><u>Allocation %</u></b>
Residential Sales Service	23,505,675	75.015%
Commercial/Public Authority	7,572,483	24.167%
School Sales Service	82,668	0.264%
Industrial Sales Service	50,073	0.160%
Small Generator	31	0.0001%
Irrigation Engine	123,509	0.394%
Total	31,334,439	100%

**vii. Nonbypassable Securitized Utility Tariff Charge and Adjustment Mechanism**

38. K.S.A. 66-1,241(c)(7) requires Atmos Energy describe:

the nonbypassable securitized utility tariff charge required to be paid by all customers within the public utility's service area for recovery of securitized utility tariff costs and a proposed adjustment mechanism reflecting the allocation methodology referred to in [K.S.A. 66-1,241(c)(6)];

39. Ms. Ocanas describes the Winter Event Securitization Cost Recovery (“WESCR”), which is the proposed tariff necessary to recover Securitized Utility Tariff Costs from customers. As shown in the WESCR’s terms and Ms. Ocanas’ testimony, the WESCR will be recovered from the Company’s sales customers beginning the first billing cycle following the issuance of Securitized Utility Tariff Bonds. In addition, the WESCR implements the Financial Plan Settlement’s term for sales customers who switch to a transportation rate schedule. Customers

who elect to make this switch will be assessed a settlement fee based on the present value of the expected charges the customer would have paid under its sales rate schedule set in the WESCR. As such, the WESCR establishes the Company's Securitized Utility Tariff Charges satisfy the Act's nonbypassable requirement.

40. To obtain the highest bond rating possible, the Company's proposed WESCR modifies the Company's General Terms and Conditions. This ensures payments received by the Company's sales customers will first be applied to the WSCER portion of their bill, and then to their remaining charges. To the extent necessary, Atmos Energy requests a waiver of the Commission's Billing Standards to implement the WSCER's payment priority terms.

41. Atmos Energy proposes to implement the Act's adjustment mechanism on a semi-annual basis to determine any over- or under-collection and ensure the timely and complete payment of the Securitized Utility Tariff Bonds. Semi-annual filings will help minimize variations in the WESCR for customers. Atmos Energy also proposes to reserve the right to make more frequent optional adjustments at any time in the event any under-collection is projected. During the last year prior to the scheduled final maturity for the last Securitized Utility Tariff Bond tranche, adjustment calculations will be conducted on a quarterly basis to ensure the bonds and related ongoing financing costs will be paid in full by the scheduled final maturity of the last bond tranche. Pursuant to K.S.A. 66-1,241(g), and as established in the proposed Financing Order, the semi-annual Adjustment Mechanism will be accomplished using an administrative notice filing to determine if any mathematical or clerical errors are present in the adjustment mechanism's calculations.

42. Regarding Atmos Energy's service area, the proposed Financing Order and applicable Securitized Utility Tariff Charges will be imposed on and collected from all existing

and future retail customers located within Atmos Energy's service area as it exists on the date the Commission issues a financing order. In the event the Company's service area expands in the future, Atmos Energy proposes to retain discretion whether Securitized Utility Tariff Charges be imposed and collected within the expanded service area.

#### **viii. Proposed Timeline to Issue Bonds**

43. K.S.A. 66-1,241(c)(8) requires Atmos Energy provide "an estimate of the timing of the potential issuance of the Securitized Utility Tariff Bonds or series of bonds." Mr. Schneider testifies to the general process and steps necessary to execute a bond issuance and the anticipated issuance of Atmos Energy's Securitized Utility Tariff Bonds. Atmos Energy will create a SPE (i.e., a Special Purpose Entity founded and organized as a limited purpose Delaware Limited Liability Company), which will issue the Securitized Utility Tariff Bonds. Presently, the Company expects to issue Securitized Utility Tariff Bonds in March 2023.

#### **ix. Net Present Value Comparison**

44. K.S.A. 66-1,241(c)(9)(B) requires Atmos Energy provide:

a comparison between the net present value of the costs to customers that are estimated to result from the issuance of securitized utility tariff bonds and the costs that would result from the application of traditional methods of financing and recovery of such qualified extraordinary costs. The comparison shall demonstrate that the issuance of securitized utility tariff bonds and the imposition of securitized utility tariff charges are expected to provide net quantifiable rate benefits to customers or would avoid or mitigate rate impacts to customers.

45. Mr. Schneider describes how the issuance of Securitized Utility Tariff Bonds, and the imposition of Securitized Utility Tariff Charges will provide net quantifiable rate benefits to customers or would avoid or mitigate rate impact to customers. As evidenced by Mr. Schneider's testimony, using a ten-year scheduled final maturity securitization provides a quantifiable benefit to customers. A ten-year securitization is, on a present value basis, at least \$3.0 - \$17.0 million less expensive than a five-year amortization under a more traditional rate making method.



**x. Reconciliation Process; Statement of Non-Affect**

46. K.S.A. 66-1,241(c)(10)(A)-(B) requires Atmos Energy:

specify a future rate-making process to reconcile any difference between the securitized utility tariff costs financed by securitized utility tariff bonds and the final securitized utility tariff costs incurred by the public utility or the assignee;

[and provide]

a statement that the reconciliation may affect the public utility's rates or any rider but shall not affect the securitized utility tariff bonds, the securitized utility tariff property or the associated securitized utility tariff charges paid by customers.

47. Ms. Ocanas demonstrates not all costs or offsets to the costs to be securitized will be known at the time Atmos Energy submits this Application or, provided the Commission approves, at the time the bonds are issued. To account for this, the Company proposes to use a reconciliation process on the first anniversary of the issuance of the bonds. Because the reconciliation process cannot affect the Company's Securitized Utility Tariff Bonds, Securitized Utility Tariff Property, or Securitized Utility Tariff Charges, the Company proposes to implement the reconciliation process through its Purchased Gas Adjustment ("PGA") and Annual Cost Adjustment ("ACA") tariff. By using this existing tariff, the Company will implement the reconciliation process through an existing rate-making process in a manner that does not affect other securitization items. Atmos Energy hereby affirms the reconciliation process will not affect the Securitized Utility Tariff Bonds, the Securitized Utility Tariff Property or the associated Securitized Utility Tariff Charges paid by customers.

**xi. Direct Testimony and Schedules Supporting the Application**

48. K.S.A. 66-1,241(c)(11) requires Atmos Energy provide "direct testimony and schedules supporting the [A]pplication." As discussed above, two witnesses are testifying on behalf of Atmos Energy in this Application and have incorporated within their testimony schedules

supporting the Application. This testimony incorporates the Financial Plan Settlement's terms and applies these terms to satisfy the Act's application requirements.

### **E. Proposed Financing Order**

49. With this Application, Atmos Energy respectfully requests the Commission adopt and approve the proposed Financing Order attached to this Application and previously incorporated by reference. Atmos Energy has developed the proposed Financing Order to fully satisfy the Act's statutory requirements, and fully implement the Financial Plan's Settlement. Where applicable, the proposed Financing Order distinguishes elements agreed to in the Financial Plan Settlement as compared to elements proposed in Atmos Energy's Application.

#### **i. Financing Order Statutory Findings**

50. K.S.A. 66-1,241(d) authorizes the Commission to issue a financing order if the Commission finds:

- a. Securitized utility tariff costs described in the application are just and reasonable; and
- b. proposed issuance of securitized utility tariff bonds and the imposition and collection of securitized utility tariff charges are expected to provide net quantifiable rate benefits to customers when compared to the costs that would result from the application of the traditional method of financing and recovering the securitized utility tariff costs with respect to energy transition costs or that would avoid or mitigate rate impacts to customers.

51. As discussed above, the Commission has concluded: (1) it was in the public interest for Atmos Energy to incur extraordinary costs during the Winter Event,<sup>42</sup> (2) it is in the public interest to recover these costs,<sup>43</sup> and (3) the plan implemented by this Application will result in

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<sup>42</sup> Financial Plan Settlement Order at p. 8, ¶13.

<sup>43</sup> See *id.* at p. 9, ¶14.

just and reasonable rates.<sup>44</sup> Pursuant to the Act, Atmos Energy respectfully requests the Commission incorporate and adopt these conclusions in the proposed Financing Order.<sup>45</sup>

52. Likewise, Atmos Energy respectfully requests the Commission find the proposed issuance of Securitized Utility Tariff Bonds and the imposition and collection of Securitized Utility Tariff Charges will provide: (1) net quantifiable rate benefits to customers when compared to the costs that would result from the application of the traditional method of financing and recovering the securitized utility tariff costs with respect to energy transition costs or (2) would avoid or mitigate rate impacts to customers.<sup>46</sup>

### **ii. Financing Order Statutory Elements**

53. The Act details sixteen (16) separate elements a Financing Order must contain.<sup>47</sup> The proposed Financing Order attached to this Application fully satisfies the Act's requirements and is supported by the testimony of the Company's witnesses. In addition, the proposed Financing Order fully implements the Application and Financial Plan Settlement approved in the 21-333 Docket.

### **iii. Additional Financing Order Requirements and Elections**

54. Pursuant to K.S.A. 66-1,241(f), Atmos Energy intends to transfer all Securitized Utility Tariff Property to a SPE, which will then pledge such property to secure the Securitized Utility Tariff Bonds. This transfer will render the proposed Financing Order irrevocable except for changes made pursuant to the adjustment mechanism.<sup>48</sup>

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<sup>44</sup> *See id.*

<sup>45</sup> K.S.A. 66-1,241(d)(1).

<sup>46</sup> K.S.A. 66-1,241(d)(2).

<sup>47</sup> K.S.A. 66-1,241(e) lists eighteen (18) elements a financing order must contain. However, K.S.A. 66-1,241(e)(15) and (16) are only applicable to Energy Transition Costs as defined in the Act. Accordingly, since Atmos Energy is only seeking recovery of Qualified Extraordinary Costs and not Energy Transition Costs, these specific subsections are not relevant to the Company's Application.

<sup>48</sup> K.S.A. 66-1,241(h)(1).

55. Pursuant to K.S.A. 66-1,241(h)(2), the Act requires Atmos Energy retain sole discretion regarding the decision to issue Securitized Utility Tariff Bonds notwithstanding the issuance of a Financing Order.

56. Pursuant to K.S.A. 66-1,241(h)(3), the Act requires Atmos Energy be afforded flexibility in establishing terms and conditions for Securitized Utility Tariff Bonds, with any such changes being in conformance with the proposed Financing Order.

57. The proposed Financing Order fully allows for the Commission to participate in the issuance advice letter process established in K.S.A. 66-1,241(h)(4).

58. Pursuant to K.S.A. 66-1,241(h)(5), the costs incurred by the Commission to perform its responsibilities in issuing a Financing Order and to observe the steps taken by the Company to bring the Securitized Utility Tariff Bonds to market must be included as Financing Costs and included in the Securitized Utility Tariff Charge. Ms. Ocanas testifies the Company's proposed Financing Order satisfies this requirement.

59. The Act's definition of Financing Costs includes "any state and local taxes, franchise fees, gross receipts and other taxes or similar charges, including Commission assessment fees, whether paid, payable or accrued."<sup>49</sup> As such, the WESCR is subject to taxes and franchise fees as set out in the Company's General Terms and Conditions.

60. Pursuant to K.S.A. 66-1,252, the State of Kansas, its agencies, and the Commission pledge and agree with Bondholders, the owners of the Securitized Utility Tariff Property and other financing parties that the state and its agencies shall not take any action listed in K.S.A. 66-1,252. K.S.A. 66-1,252(b) authorizes any person or entity that issues Securitized Utility Tariff Bonds to include this language in the bonds and related documentation. Atmos Energy hereby incorporates

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<sup>49</sup> K.S.A. 66-1,240(b)(10)(E).

the pledges made by the State of Kansas, its agencies, and the Commission into its Application and proposed Financing Order.

## V. CONCLUSION

61. Securitizing the Winter Event's Qualified Extraordinary Costs minimizes the financial impact on Atmos Energy's customers. The Company's proposed Financing Order implements the Commission-approved Financial Plan Settlement, fully satisfies the Act's requirements, and results in just and reasonable rates for Atmos Energy's retail customers.

WHEREFORE, Atmos Energy respectfully requests the Commission adopt, approve, and issue the Company's proposed Financing Order, and any other relief the Commission deems just and reasonable.

Respectfully submitted,

/s/ James G. Flaherty

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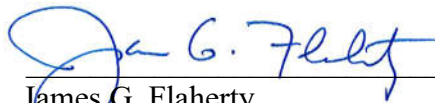
Attorney for Atmos Energy Corporation

**VERIFICATION**

STATE OF KANSAS  
COUNTY OF FRANKLIN, ss:

James G. Flaherty, of lawful age, being first duly sworn on oath, states:

That he is the attorney for Atmos Energy Corporation named in the foregoing Application for Financing Order and is duly authorized to make this affidavit; that he has read the foregoing and knows the contents thereof; and that the facts set forth therein are true and correct.

  
\_\_\_\_\_  
James G. Flaherty

SUBSCRIBED AND SWORN to before me this 25<sup>th</sup> day of May, 2022.



  
\_\_\_\_\_

Notary Public

Appointment/Commission Expires:

## CERTIFICATE OF SERVICE

I hereby certify that a copy of the above and foregoing was sent via electronic mail this 25<sup>th</sup> day of May, addressed to:

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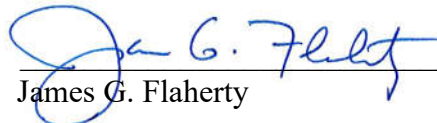
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