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

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

DIRECT TESTIMONY OF

JASON L. SCHNEIDER

MAY 25, 2022

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DIRECT TESTIMONY OF JASON L. SCHNEIDER

I. POSITION AND QUALIFICATIONS

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Jason L. Schneider. My business address is 5430 LBJ Freeway, Suite 600, Dallas, Texas 75240.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am the Assistant Treasurer for Atmos Energy Corporation ("Atmos Energy" or the "Company"), which includes the Colorado / Kansas Division (the "Division" or "CO / KS").

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND DESCRIBE YOUR WORK EXPERIENCE.

A. I earned a Bachelor of Science degree in Accounting Control Systems from the University of North Texas in 2000. I also earned a Master of Business Administration degree in Accounting from the University of North Texas in 2003. I have worked in various industries for nearly 25 years in a variety of accounting and finance staff and management roles. I have worked in the energy industry for nearly 18 years in various accounting and finance positions. I joined Atmos Energy in 2004 in the Plant Accounting group and assumed positions of increasing responsibility before assuming my current role in 2017.

Q. ARE YOU A MEMBER OF ANY PROFESSIONAL ORGANIZATIONS?

A. Yes. I am licensed by the State of Texas as a Certified Public Accountant. I am also a Certified Treasury Professional.

Q. WHAT ARE YOUR JOB RESPONSIBILITIES?

A. I am responsible for supporting the Company's Treasurer, who is, in turn, responsible for all of the Company's corporate treasury and account payables functions. My duties include planning, scheduling and administering the Company's financial requirements, including the sale and issuance of debt and equity securities. In addition to long-term financings, I am responsible for the Company's bank relations and other borrowing and investing activities. As a result of these activities, I am in frequent contact with financial institutions, and commercial and investment bankers.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE KANSAS CORPORATION COMMISSION ("COMMISSION") OR OTHER REGULATORY ENTITIES?

A. Yes, I have previously submitted testimony to this Commission in Docket Nos. 21-ATMG-333-GIG, 12-ATMG-564-RTS and 14-ATMG-320-RTS, to the Colorado Public Utilities Commission in Proceeding Nos. 13AL-0496G, 14AL-0300G, 15AL-0299G, and 17AL-0429G, to the Tennessee Regulatory Authority in Docket Nos. 12-00064 and 14-00146, to the Mississippi Public Service Commission in Docket No. 2015-UN-049, to the Virginia State Corporation Commission in Case No. PUE-2015-00119, to the Kentucky Public Service Commission in Case Nos. 2015-00343 and 2013-00148 and before the Railroad Commission of Texas in GUD No. 10779.

II. PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. I am testifying in support of key aspects of the Company's Application for Financing Order to satisfy Kansas' Utility Financing and Securitization Act ("Act"). I support the total amount Atmos Energy proposes to securitize with the associated carrying cost, the amount of issuance costs associated with the securitization, and the ongoing costs associated with the transaction. In addition, I testify on the framework of securitization generally as well as provide a description of the proposed transaction as well as execution of the securitization process. a fundamental aspect related to the benefits of securitization – the estimated savings that will accrue to the customers. Regarding cost recovery, I detail the reasons for using a fixed rate charge versus a volumetric rate charge. Additionally, I will discuss the need for a speedy process to save the customers as much money as possible. I am also testifying and sponsoring additional agreements Atmos Energy will need to execute to complete the securitization process. These agreements include a servicing agreement and administration agreement that Atmos Energy will enter into with the Special Purpose Entity ("SPE"), and the sales agreement to transfer the regulatory asset and Securitized Utility Tariff Property to the SPE. Atmos Energy intends to file these agreements and others as the docket progresses. Finally, I am sponsoring the portions of the Financing Order which relate to the items discussed in my testimony.

Q. ARE YOU SPONSORING ANY EXHIBITS AND WERE THESE EXHIBITS PREPARED BY YOU OR UNDER YOUR DIRECTION?

A. Yes, I am sponsoring the exhibits that were prepared by me or under my direction. The exhibits are listed after the cover page of my testimony.

III. QUALIFIED EXTRAORDINARY COSTS

Q. WHAT IS THE ESTIMATED TOTAL OF THE ATMOS ENERGY REGULATORY ASSET WITH CARRYING COST FOR KANSAS AT THE TIME OF ISSUANCE?

A. Ms. Ocanas' testimony provides the total Qualified Extraordinary Costs incurred by Atmos Energy through March 31, 2022. I provide the calculation of carrying costs on these amounts through March 31, 2023 as part of my Exhibit JLS-1 Qualified Extraordinary Costs. The estimated total to be securitized can change depending on when Securitized Utility Tariff Bonds ("Bonds") are issued. I have assumed Atmos Energy will issue Securitized Utility Bonds in March 2023. However, if the Bonds are issued sooner or later that this date, the costs incurred can be trued-up using the reconciliation process discussed by Ms. Ocanas with any additional savings or costs accounted for after the reconciliation collected or credited back to customers over the following 12-month period. The Commission's March 24, 2022, Order Approving Unanimous Settlement Agreement on the Company's Financial Plan ("Financial Plan Settlement Order") in Docket No. 21-ATMG-333-GIG ("21-333 Docket") determined that $102,517,847 in Qualified Extraordinary Costs were prudently incurred by Atmos Energy. In addition to determining that the Company should be able to recover these costs after true-up and verification, the Financial Plan Settlement Order allows the Company to incur carrying charges at 2% between the time the Qualified Extraordinary Costs were incurred and when the Bonds are issued. I have prepared Exhibit JLS-1, with additional Qualified Extraordinary Costs incurred through March 31, 2022, to show the calculation of the total estimated final regulatory asset to be approximately $90.199 million, which includes updates to legal and consulting fees. This total amount increased since the 21-333 Docket primarily due to additional financing costs experienced in the bond markets as well as updates to anticipated docket costs the Company will incur during this proceeding.

Q. CAN YOU OUTLINE WHAT ANTICIPATED FINANCING COSTS ARE?

A. In addition to the legal and consulting costs discussed by Ms. Ocanas, there are various costs associated with debt offerings and the Company's Bonds are no different. The Act established Financing Costs:

> Includes, if authorized by the Commission in a Financing Order, costs to issue, service, repay or refinance Securitized Utility Tariff Bonds, whether incurred or paid upon issuance of the Securitized Utility Tariff Bonds or over the life of the Securitized Utility Tariff Bonds.

The Act further provides an expansive list of Financing Costs. For example, premiums payable on the Bonds, costs related to issuances (e.g., servicing fees accounting and auditing fees, trustee fees, legal fees, consulting fees), taxes or license fees, and costs incurred by the Commission to perform its review of the Company's Application are all "Financing Costs" eligible for recovery.

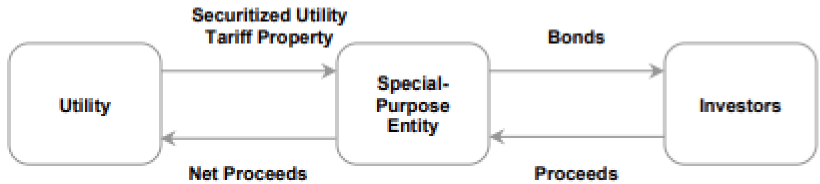
IV. SECURITIZATION FRAMEWORK

Q. WHAT ARE SOME OF THE BASIC FRAMEWORK ELEMENTS OF THE BONDS PROPOSED BY ATMOS ENERGY IN CONNECTION WITH THE

RECOVERY OF ATMOS ENERGY'S QUALIFIED EXTRAORDINARY COSTS?

A. Securitization is the financial practice of pooling various types of obligations (in this case, future recovery for gas purchased and used) and selling their related cash flows to third-party investors as bonds. Customer-backed bonds permit a utility to raise non-recourse debt financing through a separate legal entity based on a legislatively mandated recovery mechanism, which includes the recovery of a financing charge. The amount of debt the utility can issue is based on the legislatively authorized recovery of previous investments by the utility, or costs that the utility's customers owe through the imposition of a non-bypassable charge on each customer's bill. In this case, debt proceeds received by the issuing legal entity from investors are used to purchase, from the utility, the recovery rights of the securitized regulatory asset or receivable from the utility. The utility then acts as a "collection agent" for the trust, an entity that issues the debt, by including separate and distinct line-item charges on its customers' monthly statements, the proceeds which are turned over to the trustee.

The transaction will be structured in such a way that the payments to the bondholders would not be interrupted due to the "automatic stay" of debt payments that typically occurs during a bankruptcy. To have the funds needed to purchase the collateral, the SPE issues debt securities to investors, collateralized by the property right. In exchange for the issued debt, investors pay an upfront purchase price, which is passed through the SPE back to the utility. Below is a simplified schematic of the transaction closing mechanics described above:



In addition to the essential structure described above, the securitization process also includes another key component: ongoing collections of the cash generated by the collateral. A trustee (a "Trustee" is typically a commercial bank experienced with securitization trust services) and the utility play important roles. The utility performs its normal billing and collecting functions. In securitization, this function is called servicing and the utility takes on the Securitized Utility Tariff Property Utility Special Purpose Entity Investors Proceeds Bonds Net Proceeds role as the servicer. The utility will also develop reporting to capture the amount of money collected. The servicer will perform these functions for the SPE pursuant to a contractual arrangement known as the servicing agreement. The servicer will also perform other functions for the SPE pursuant to a separate administration agreement. The Trustee's role includes the process of the collecting and distributing them to investors. After receiving its collections, the servicer remits the funds to the SPE trust account held at the Trustee, which maintains those funds until it periodically remits them to investors according to a predetermined set of payment priorities (the "waterfall") and schedule (typically semi-annually in utility securitizations). The Trustee serves as a representative of the bond-holding investors and ensures that their rights are protected in accordance with the terms of the transaction.

V. DESCRIPTION OF PROPOSED TRANSACTION

Q. PLEASE DESCRIBE THE FORMATION OF THE SPE THAT WILL ISSUE THE BONDS.

A. Atmos Energy will form the SPE as a Delaware LLC, and a wholly owned subsidiary of Atmos Energy Corporation. The SPE LLC Agreement will contain provisions designed to ensure that the SPE will be a bankruptcy-remote limited purpose entity, so that in the unlikely event of an Atmos Energy Corporation bankruptcy, the SPE would not be consolidated with other Atmos Energy entities into the bankruptcy, and the payment of the securitization debt service would not be "stayed" or stopped during the bankruptcy process. This "bankruptcy-remote" concept is included in the Act in K.S.A. 66-1,241(j)(2), 66-1,244(d) (financing order remains in effect and unabated notwithstanding bankruptcy); K.S.A. 66-1,244(e) (interest of assignee not subject to setoff in bankruptcy); K.S.A. 66-1,244(f) (successor in bankruptcy required to perform all obligations under financing order). The SPE is structured to operate independently, requiring that fees paid to third parties providing services to the SPE, including Atmos Energy as Servicer and Administrator, are set on an arm's-length basis. These provisions supporting the bankruptcy-remote nature of the SPE are critical to achieving the desired "AAA" ratings for the Bonds.

Q. WHAT MAKES UP THE "SECURITIZED UTILITY TARIFF PROPERTY" THAT THE COMPANY SELLS TO THE SPE?

A. The Securitized Utility Tariff Property that is created pursuant to the Financing Order and sold to the SPE is the right to bill and collect a certain nonbypassable charge, the Securitized Utility Tariff Charge ("Securitized Charge"), directly from all retail sales customers within the Company's service area receiving natural gas delivery service, applying the applicable customer allocations, in amounts necessary to pay principal and interest on the Bonds, as well as other amounts, timely and in full. Included in this property right is the requirement, over the full life of the transaction, to adjust the amount of the Securitized Charges owed by the Company's retail sales natural gas customers, based on the number of the Company's sales customers, to ensure that the amounts collected are sufficient to pay all amounts owed with respect to the Bonds, as scheduled. This process is referred to as the "true-up" adjustment mechanism. Pursuant to the Act, and as defined in K.S.A. 66-1,240(b)(2) the "Adjustment Mechanism" is "utilized to make necessary corrections to adjust for over-collection or under-collection of such Securitized Charge or otherwise to ensure the timely and complete payment of the securitized utility tariff bonds and all other Financing Costs and other required amounts and charges payable in connection with the Securitized Utility Tariff Bonds."

Q. PLEASE FURTHER DESCRIBE THE SALE OF THE SECURITIZED UTILITY TARIFF PROPERTY BY ATMOS ENERGY TO THE SPE.

A. According to the Sales Agreement, in consideration for the payment by the SPE of the purchase price for the Securitized Utility Tariff Property (the "Securitized Property"), the Company will sell, assign, transfer and convey all right, title and interest of the Company in, to and under the Securitized Property to the SPE. The Sales Agreement will provide that such sale, transfer, assignment, and conveyance is expressly stated to be an absolute transfer and true sale. Pursuant to K.S.A. 66-1,246(a), if the sale agreement expressly so states, any sale, assignment, or transfer of Securitized Property to a financing entity assignee that is wholly owned, directly or indirectly, by the utility shall be an absolute transfer and true sale of, and not a pledge of or secured transaction relating to, the seller's right, title and interest in, to and under the Securitized Property. This "true sale" treatment is an essential component of legally isolating the Securitized Property collateral from the bankruptcy risk of Atmos Energy and achieving "AAA" ratings for the Bonds.

Q. PLEASE DESCRIBE THE SECURITIZED PROPERTY AND SECURITIZED CHARGES SUPPORTING THE BONDS.

A. The Securitized Property is defined in K.S.A. 66-1,240(b)(22) as the rights and interests of a qualifying utility such as Atmos Energy, or an assignee (i.e. the SPE) pursuant to the Financing Order that acquires such rights and interests of Atmos Energy, including the right to impose, charge, collect and receive Securitized Charges in an amount necessary to provide for full payment and recovery of all Qualified Extraordinary Costs identified in the Financing Order, including all revenues or other proceeds arising from those rights and interests. As set forth in K.S.A. 66-1,240(b)(20), the Securitized Charges are to be the nonbypassable charges paid by all Atmos Energy retail sales customers to recover the Qualified Extraordinary Costs ("Qualified Costs"), which include upfront and ongoing Financing Costs. The Securitized Charges will be designed to provide for amounts sufficient to pay the principal of and interest on the Bonds as scheduled and in full, as well as other ongoing Financing Costs associated with the Bonds. Included in the Securitized Property is the semi-annual true-up Adjustment Mechanism, which is a requirement to adjust the amount of the Securitized Charges owed by Atmos Energy's customers to ensure the amounts collected are sufficient to pay all amounts owed on the Bonds as scheduled and in full, including ongoing Financing Costs. The process for implementing the true-up Adjustment Mechanism is described in the testimony of Atmos Energy witness Ms. Ocanas.

Q. HOW ARE THESE BONDS DIFFERENT FROM CORPORATE BONDS?

A. The Bonds will be structured to amortize with scheduled principal and interest payments through specific points in time prior to the rated legal final maturity date of the Bonds. These points in time are referred to as the expected or scheduled maturities for the tranche of bonds issued in the transaction. Amortizing, or sinking-fund, structures are different from a traditional utility corporate bond, which generally have only a single "bullet" principal payment at the bond maturity date. Another difference is the Bonds will be structured with a time gap between the tranche's scheduled maturity and the rated legal maturity of that tranche. This time gap, also known as a "maturity cushion", provides extra time to pay the outstanding principal amount of the tranche in full in the event that unforeseen circumstances cause a material decrease in Securitized Charge collections.

Q. WHAT IS THE DIFFERENCE BETWEEN THE SCHEDULED FINAL MATURITY AND LEGAL FINAL MATURITY?

A. The scheduled final maturity of the Bonds represents the date at which final payment is expected to be made, but no legal obligation exists to retire the tranche in full by that date. The rated legal final maturity is the date by which the Bond principal must be paid to avoid a default. The actual maturity cushion will be determined by the final "AAA" stress scenarios required by the rating agencies during the rating process for the Bonds and may be shorter or longer. The difference between the scheduled final maturity and legal final maturity provides additional credit protection by allowing shortfalls in principal payments to be recovered over this additional period due to any unforeseen circumstance. This gap between the two maturity dates is a benefit to the Issuer (i.e., the SPE formed by Atmos Energy) and contributes to the strong credit quality of the transaction, helping lower the cost of funds on the Bonds and therefore benefiting customers. Many investors in utility securitization are familiar with this concept, which occurs in most Asset-Backed Securities ("ABS") transactions. The ratings on the Bonds are determined in part based on the assumption that the outstanding principal amount of the tranche will be paid in full by its legal final maturity date, and investors generally price the Bonds assuming the Bonds make the final scheduled principal payment in full at the earlier scheduled final maturity date. It is important that the final Financing Order provide for flexibility regarding the number of years between the scheduled final maturity of the bond tranche and the legal final maturity of the tranche.

Q. SHOULD THE TRANSACTION BE STRUCTURED AS A PUBLIC, SEC REGISTERED TRANSACTION OR A RULE 144A PRIVATE PLACEMENT TRANSACTION?

A. The Company recommends that the Bonds be marketed as a Public, SEC Registered Transaction. The company did consider structuring it as a Rule 144A Private Placement Transaction. However, when discussing with our bank partners, an additional 20-25 basis points would be required to execute; therefore, it was determined that the Public Transaction was in the best interest of our customers to have the lowest costs.

VI. DISCUSSION OF THE EXECUTION PROCESS

Q. HOW LONG WILL IT TAKE THE COMPANY TO ISSUE THE DEBT ONCE THE FINANCING ORDER IS RECEIVED?

A. It could take up to an additional three to five months once the financing order is received. The rating agencies will not rate an offering of this type until a financing order has been issued, and a number of legal opinions have been obtained. It's likely that the rating agencies will take two to three months to issue a rating. The company will need to comply with the SEC filing requirements. At that point, the Company will be ready to work with its bank to find an opportune time in the market to place the bonds.

Q. ARE THERE OTHER ACTIVITIES, OTHER THAN OBTAINING A RATING FROM THE AGENCIES AND SUBMITTING SEC FILING REQUIREMENTS, NECESSARY BEFORE ISSUANCE OF THE BONDS?

A. Yes, in addition to receiving a rating from the rating agencies, the Company will work with its bank to develop marketing materials and bring the Bond transaction to the attention of investors, to inform them of its structure and term, and to answer any questions they may have. This process is known as pre-marketing. It may include roadshow, one-on-one conference calls with significant potential investors, and open conference calls, which several investors may join. The purpose of this process is to generate broad investor demand for the issue, so that the pricing process will result in the lowest possible interest rate with market conditions at the time of pricing. The timing of this process and the specifics of the new issue process are also important factors. Typically, new transactions in this sector are announced to the market on Monday mornings. The new issue calendar may be busy at that time, so in order to get the attention of investors certain transactions are pre-marketed, starting approximately on a Thursday or Friday of the prior week. Most transactions that announce on Monday morning will target a pricing by Wednesday or Thursday (as issuers do not want to take the risk of an adverse event over a weekend).

During this phase of marketing, the Bonds will be offered for sale to investors through the underwriter. The underwriter, in conjunction with the Issuer, will begin to discuss informally with investors the price at which the Bond will be offered at initial issuance, stated as a credit spread relative to the benchmark rates for each tranche. Investors will provide initial indications of interest, generally specifying how much of the tranche for which they intend to submit an order at a given pricing level. The underwriter is responsible to keep the master record (known as “the book”) in which all indications of interest received by the underwriter from potential investors are recorded. Price guidance is the next step in the process. It is based on the total amount of indications of interest received from investors.

At this point, the underwriter will send out a notice to investors with price guidance, typically stated as a range of credit spreads stated against the given benchmark. Then, investors will be invited to place firm indications through the underwriter for the amount and specific tranche of Bonds they are willing to purchase, at certain credit spreads prices. At a certain point in time, when the book has sufficient interest from investors, the underwriter will stop taking orders (generally referred to as going "subject" to pricing and confirmation). The timing of this step will depend on the specifics of each transaction; however, it will occur only when the book has at least an equal amount of orders for the Bonds as the anticipated principal amount of the proposed tranche (generally referred to as "fully subscribed"). There is no specific level beyond that, and it will depend on market conditions, the speed at which orders came in from investors and the make up of investor types in the book, among other factors. The underwriter will exercise professional judgment in making a recommendation to take the book subject to final order confirmations, based on all relevant factors. Alternatively, if the tranche is undersubscribed, the underwriter may need to increase the credit spread or restructure the tranche to attract sufficient investor orders to sell the entire tranche.

Having exercised professional judgment and taken the transaction subject to pricing and final confirmation of orders, the underwriter will then work to refine the pricing levels. Based on the strength of the book, in close coordination with the Company, the underwriter may adjust the pricing levels lower (or tighter). This process is generally referred to as testing the pricing levels. It is done to ensure maximum distribution of the Bonds at the lowest bond yields consistent with market conditions. If a tranche is oversubscribed, the underwriter may continue to lower the pricing level (thus improving execution for the Issuer), provided that this adjustment does not decrease the total investor interest below the size of the tranche. If a tranche is undersubscribed, the pricing level may be adjusted higher until the tranche is fully subscribed. The underwriter will use professional judgment in close coordination with the Company with respect to the recommendation for the amount of tightening and number of testing attempts.

Once the pricing levels have been determined for the tranche in the transaction, the transaction will be launched at a specific pricing level. At this point, the investors know at which pricing levels, or credit spreads, the transaction will be issued. This will be the market-clearing pricing level, subject only to movements in the underlying benchmark rates.

At this stage, the pricing level has been determined, but the final book needs to be allocated to investors. The underwriter will work to recommend a specific amount of Bonds to be sold to each investor. Each allocation depends on a number of factors; e.g., the size of each investor's indication of preliminary orders, when the investor submitted its indication, its experience in the sector, its flexibility for the pricing process, the investor type, etc. Ultimately, each investor will purchase its final allocations for the transaction.

Once the pricing level and the book has been finalized, the transaction can be priced. At this stage, the underwriter coordinates with the Company to price the transaction by spotting the underlying benchmark rates and adding the credit spread to determine the coupons for the tranche. Soon after the pricing, the investor orders will be confirmed, and the final prospectus will be provided to investors.

At the conclusion of the pricing, the Company, with its underwriter and legal team, will work toward finalizing the transaction documents and close the transaction, typically approximately five days after pricing.

VII. SECURITIZATION FIXED INTEREST TERMS/PROPERTY/CAPITAL ACCOUNTS

Q. WILL THE BONDS PAY FIXED OR FLOATING INTEREST RATES?

A. I recommend that the Bonds be issued as fixed-rate securities. Fixed interest rates are necessary to maintain predictable revenue requirements over time. Maintaining predictable revenue requirements facilitates the ongoing management of the Adjustment Mechanism (or "true-up process").

Q. IN ADDITION TO THE SECURITIZED PROPERTY, ARE THERE ANY OTHER COMPONENTS OF THE COLLATERAL FOR THIS TRANSACTION?

A. Yes, the collateral for the transaction includes other components in addition to the Securitized Property. However, that property right is the principal asset pledged as collateral. Pursuant to the indenture by and between the SPE, as bond issuer, and the Trustee, as indenture trustee and securities intermediary (the "Indenture"), the other collateral includes a collection account, which is established by the SPE as a trust account to be held by the Trustee to ensure the scheduled payment of principal, interest and other costs associated with the Bonds are paid in full and on a timely basis. The collection account, in turn, is comprised of the three subaccounts: (1) the general subaccount, (2) the capital subaccount, (3) and the excess funds subaccount. The collateral also consists of the SPE's rights under certain agreements it enters into as part of the transaction, including the Sales Agreement and the Servicing Agreement.

Q. PLEASE DESCRIBE THE SUBACCOUNTS OF THE COLLECTION ACCOUNT REFERRED TO ABOVE.

A. The general subaccount is the subaccount in which the Trustee deposits Securitized Charge remittances it receives from the Servicer. Amounts in this subaccount will be applied by the Trustee on a periodic basis to make payments according to a prescribed order (or "waterfall"), which generally includes the payment of SPE expenses required to maintain the operations of the transaction, then interest on the Bonds, and then principal on the Bonds. The capital subaccount represents the equity capital of the SPE and is funded by an amount contributed by Atmos Energy at the time of the bond issuance that is equal to 0.50% of the initial Securitized Bond balance. If that subaccount is drawn upon, it is replenished from Securitized Charge collections through the Adjustment Mechanism and any available excess Securitized Charge collections. The Company's proposed equity investment of 0.50% has been derived from guidance from the Internal Revenue Service through its Revenue Procedure 2005-62 ("Revenue Procedure").[1] Having an equity investment in the SPE of at least 0.50% helps to ensure that the Company will not recognize in its taxable income the cash proceeds received from the issuance of the

[1] Please see Exhibit JLS-4 Affidavit of Joel J. Multer, Vice-President of Tax, for support for the Company's understanding of I.R.S. Revenue Procedure 2005-62.

Bonds. Rather, the Bonds will be considered borrowings of the Company for federal income tax purposes. The equity investment in the SPE is included in my testimony as Exhibit JLS-2 Issuance Costs and On-Going Costs. The excess funds subaccount is where any funds on deposit in the general account that are not required to meet the scheduled interest and principal obligations of the Bonds will be deposited. The initial balance is zero, and the target ongoing balance is also zero. To the extent there are funds on deposit in this subaccount, those amounts will be considered in the next available true-up process under the Adjustment Mechanism and the subaccount value will again be targeted to be zero.

Q. DOES THE ACT ESTABLISH ANY PARAMETERS FOR CAPITAL SUBACCOUNTS?

A. Yes. K.S.A. 66-1,241(e)(14) requires a Financing Order create:

> a procedure that allows the public utility to earn a return, at the cost of capital authorized from time to time by the commission in the public utility's rate proceedings, on any moneys advanced by the public utility to fund reserves, if any, or capital accounts established under the terms of any indenture, ancillary agreement or other financing documents pertaining to the securitized utility tariff bonds.

Q. WHAT IS THE COST OF CAPITAL THE COMMISSION SHOULD APPLY TO THE CAPITAL SUBACCOUNT?

A. In Atmos Energy last general rate proceeding, Docket No. 19-ATMG-525-RTS ("19-525 Docket"), the Commission approved a 7.03% as the cost of capital (a 8.39% pre-tax rate of return) for the capital subaccount. While this is the current cost of capital, the cost of capital will change in Atmos Energy's next and future rate cases. The Commission should apply the Company's most recently established cost of capital to the capital subaccount.

Q. DESCRIBE THE TREATMENT OF ANY FUNDS REMAINING IN THE VARIOUS SUBACCOUNTS AT THE FINAL MATURITY OF THE TRANSACTION.

A. Funds remaining in the general subaccount and the excess funds subaccount will be returned to the SPE upon final payment in full of the Bonds and all other Financing Costs, and equivalent amounts will be credited to customers in the form of a credit to the PGA. Funds remaining in the Atmos Energy funded capital subaccount along with the authorized return, will be returned to the Company through the SPE since the capital subaccount was funded at issuance with the Company's own funds.

VIII. IDENTIFICATION AND RECOVERY OF FINANCING COSTS

Q. HOW DOES THE COMPANY PLAN TO RECOVER THE FINANCING COSTS ASSOCIATED WITH ISSUING SECURITIZED UTILITY TARIFF BONDS?

A. Atmos Energy proposes to securitize those Financing Costs. In this proceeding, the Company will include those costs as part of the true-up and verification process. For any costs that are not securitized, the Company will utilize the reconciliation process and adjustment mechanism to ensure recovery and payment of those costs.

Q. DO YOU HAVE AN ESTIMATE OF WHAT THE DEBT OFFERING COSTS WILL BE RELATED TO THESE NOTES?

A. Yes, in discussion with banks, transactions of similar size have generated issuance costs of roughly $1.5-3.0 million. This 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, and the set-up costs of the SPE. I have outlined these costs on Exhibit JLS-2 Issuance Costs and On-Going Costs. The issuance costs are about 3.21% of the issuance amount.

Q. WHAT ARE THE ONGOING COSTS THAT YOU HAVE CONSIDERED IN EVALUATING A PUBLIC OFFERING VERSUS A PRIVATE PLACEMENT?

A. Ongoing costs include servicing fees, administrative fees, accounting and auditing fees, and legal fees.

Q. CAN THE DEBT OFFERING AND ONGOING COSTS VARY?

A. Yes, like any costs, these costs can vary over time. While the costs of the debt offering will be known shortly after Atmos Energy's Securitized Utility Tariff Bonds have been issued, the ongoing costs can vary over time. It is not uncommon for vendors such as rating agencies and trustee to raise their fees periodically with inflation.

Q. DID YOU CONSIDER THAT THE COMPANY MAY COLLECT PENALTIES PRIOR TO THE ISSUANCE OF THE DEBT WHICH WOULD REDUCE THE AMOUNT THAT NEEDS TO BE SECURITIZED?

A. Yes, I did. For this analysis, I assumed the Company would collect all passthrough penalties before Securitized Utility Tariff Bonds are issued. The amounts are immaterial to the financing costs of the Securitized Utility Tariff Bonds or the monthly charges to the customers.

IX. COMPANY’S PROPOSAL TO USE A FIXED CUSTOMER CHARGE

Q. WHY IS THE COMPANY RECOMMENDING A FIXED CUSTOMER CHARGE UNDER THE SECURITIZATION PROPOSAL AS OPPOSED TO A VOLUMETRIC CHARGE?

A. The variability in usage greatly impacts the company’s ability to achieve a AAA rated bond rating. There are two unique challenges for natural gas utilities when it comes to securitization. The first has to do with the fact that securitization has only been utilized by a natural gas-only utility once before.[2]

Atmos Energy’s Texas divisions are currently in the process of securitization their respective Winter Event’s costs. However, from a national perspective, securitization of natural gas related costs is a relatively new concept. The second challenge results from the nonbypassability of Securitized Utility Tariff Charges and how the Company accounts for customer migration. If these two challenges are not properly addressed, it will lead to uncertainty from the rating agencies and a lower bond rating will be the result. If the bonds have lower ratings, they will have higher coupon rates, and therefore reduced savings for customers.

Q. WHAT WILL THE RATING AGENCIES LOOK AT WHEN ASSIGNING AAA RATING TO THE BONDS?

A. The rating agencies are concerned with making sure that there is almost no probability the Securitized Utility Tariff Bonds default. They will look at the state guarantee, the Commission guarantee, the Financing Order, the design of the

[2] List of Investor-Owned Utility Securitization ROC/RRB Bond Transactions 1997-Present, Saber Partners. Retrieved at https://saberpartners.com/list-of-investor-owned-utilitysecuritization-rocrrb-bond-transactions-1997- present

Securitized Utility Tariff Charge, and the nonbypassibility of the charge. Additionally, rating agencies stress-test the term of the bond using both customers and volumes. In some cases, they may assume as many as 50% of the customers leave the system or that gas usage is cut in half. Additionally, rating agencies are mindful about each bond payment being made. When evaluating the likelihood a bond payment will be made, rating agencies are modeling the variability of volumes from summer to winter or year to year. The Company's throughput is sensitive to the weather which can greatly impact customer volumes and cause concerns in this area. Relying on a fixed customer charge helps isolate and remove these concerns during the rating agencies' analysis.

X. TIMING OF THE ISSUANCE OF THE FINANCING ORDER

Q. WHAT ARE YOUR CONCERNS ABOUT THE TIMING OF THE ISSUANCE OF THIS ORDER AND THE IMPACT IT COULD HAVE ON THE CUSTOMERS?

A. With inflation continuing, the Federal Reserve has started to raise interest rates and this will have a significant impact on the rates achieved on the securitized bonds. As an example, my exhibits used rates that were pulled on April 18, 2022, by JP Morgan based on our projected securitization. As widely reported in popular press, the Federal Reserve members continue to signal additional rate hikes in the range of 0.25% to 0.50% at each of their upcoming meetings for the foreseeable future. This will have an impact on longer term rates as anticipation grows and after the announcements. The chart below shows interest rates for different terms of treasury notes on April 18, 2022, one week prior, one month prior, and three months prior.

As of:	2-yr	3-yr	5-yr	7-yr	10-yr	20-yr	30-yr
4/14/2022	2.44%	2.66%	2.76%	2.81%	2.81%	3.09%	2.92%
1 Week Ago	2.46%	2.65%	2.69%	2.72%	2.65%	2.87%	2.69%
1 Month Ago	1.85%	2.04%	2.09%	2.15%	2.14%	2.56%	2.47%
3 Months Ago	0.97%	1.26%	1.55%	1.72%	1.77%	2.17%	2.11%

This chart clearly shows the impact the Federal Reserve has on interest rates and the need to act quickly to maximize customer savings.

Q. DO YOU HAVE ANY ESTIMATES AS TO WHAT RATES MAY LOOK LIKE IN THE FUTURE?

A. Yes, I have discussed with several banks and all have indicated that rates will increase in the next 12 months. Below is a forecast received from JP Morgan which summarizes its view on rates for the next 4 quarters that was received on April 18, 2022.

J.P. Morgan interest rate forecasts

	Present	2Q22	3Q22	4Q22	1Q23
Fed funds upper bound	0.50%	1.35%	1.85%	2.35%	2.85%
Overnight SOFR	0.29%	1.05%	1.60%	2.20%	2.70%
3-month LIBOR	1.06%	1.75%	2.25%	2.80%	3.00%
2-year U.S. Treasury	2.44%	2.55%	2.75%	2.90%	3.10%
3-year U.S. Treasury	2.66%	2.70%	2.85%	2.95%	3.05%
5-year U.S. Treasury	2.76%	2.65%	2.80%	2.90%	3.05%
7-year U.S. Treasury	2.81%	2.70%	2.85%	2.95%	3.05%
10-year U.S. Treasury	2.81%	2.60%	2.75%	2.85%	3.00%
30-year U.S. Treasury	2.92%	2.65%	2.75%	2.80%	2.95%

XI. FINANCING ORDER

Q. CAN YOU EXPLAIN THE PURPOSE OF THE PROPOSED FINANCING ORDER THAT IS SUBMITTED AS PART OF THE APPLICATION?

A. The Financing Order ultimately approved by the Commission and the provisions of the Act will allow Atmos Energy to structure the securitization financing in a way that will be consistent with investor expectations and rating agencies preferences at the time of pricing the Bonds. The Financing Order approves the payments of bond interest, principal, and ongoing expenses in order to minimize the amount of additional credit enhancements required by the rating agencies in order to achieve the highest possible ratings and the lowest possible interest costs that will be paid by customers.

Q. WHAT ARE THE MAJOR PROVISIONS CONTAINED IN THE PROPOSED FINANCING ORDER?

A. The Act identifies the major provisions to be included in the Financing Order. In order to achieve the highest possible rating from the rating agencies, it is essential that the Issuer of the securitization bonds, the SPE, is highly unlikely to become the subject of a bankruptcy proceeding in the unlikely event of an Atmos Energy bankruptcy. The creation of the bankruptcy-remote SPE, which is legally distinct from Atmos Energy, is designed to limit the ability of the SPE to be included with Atmos Energy in the unlikely event of a Company bankruptcy. Even if Atmos Energy were to declare bankruptcy, the SPE would not become the subject of the Company's bankruptcy proceeding and the SPE's debt service payments to investors would not be subject to the automatic stay provisions contained in the federal bankruptcy code. This means that the charges to pay the SPE's debt and ongoing financing costs would not be interrupted. This structure of the transaction is set forth in the provisions contained in the proposed Financing Order and is an essential component of the Financing Order.

There are several provisions in the proposed Financing Order that will allow the SPE to be considered bankruptcy-remote. The SPE will have at least one independent manager. The independent manager would be required to approve any major change or action of the SPE, including voluntarily filing a bankruptcy. The Financing Order also requires the transfer of the Securitized Property from Atmos Energy to the SPE be a "true sale". A "true sale" is a sale that a bankruptcy court should not overturn in the case of an Atmos Energy bankruptcy. The Financing Order allows the SPE to issue the Bonds and pledge the Securitized Property as security for the payment of the Bonds.

Q. CAN YOU IDENTIFY AND EXPLAIN THE PROVISIONS IN THE PROPOSED FINANCING ORDER THAT ALLOW FOR CREDIT ENHANCEMENTS TO THE TRANSACTION?

A. There are a number of provisions contained in the proposed Financing Order that provide for credit enhancement to the transaction. The most significant provision relating to credit enhancement is the true-up process set forth in the Adjustment Mechanism. The provisions in the Act, which are carried over to the Financing Order, ensure that the collection of the Securitized Utility Tariff Charges ("Securitized Charge") arising from the Securitized Property is anticipated to be sufficient to pay all amounts owed on the Bonds in full and in a timely manner, even if there are reductions in natural gas usage or payment deficiencies by Atmos Energy's customers. The Adjustment Mechanism is the most important provision of credit enhancement to investors and is referred to by experts in this area as the "cornerstone of utility securitization." Under the Adjustment Mechanism, true-up calculations are made at least semi-annually throughout the term of the Bonds. This is done for the purpose of achieving the highest possible credit ratings and to meet the expectations of the investors. The Adjustment Mechanism also allows for cross-collateralization among customer classes so that if revenues decline in one customer class, then those lost revenues can be made up by adjusting the Securitized Charge paid by the other customer classes. The true-up adjustments are automatic and go into effect after being reviewed only for any mathematical or clerical error by the Commission. The adjustments will take into account changes in the ongoing financing costs, expected debt service requirements, customer counts, and projected un-collectibles and delinquencies. The true-up adjustment mechanism will remain in effect until the Bonds and all associated financing costs have been paid in full and any under-collection (charge) or over-collection (credit) from the customers is accounted for by the Company.

The provision that requires that the capital subaccount be funded by Atmos Energy making a capital contribution in the amount equal to 0.50% of the initial principal balance of the Bond transaction, is another credit enhancement of the transaction.

The provisions in the proposed Financing Order also allow for other forms of credit enhancements and other mechanisms if such is necessary to improve the marketability of the Bonds. Those would include letters of credit, and additional amounts of over-collateralization or reserve accounts and allow the Company to enter into one or more “ancillary agreements”, which are defined in the Act. Atmos Energy does not anticipate that these other forms of credit enhancements will be necessary. However, it is important that such built-in flexibility is included in the Act and the ultimate Financing Order.

Q. ARE THERE OTHER PROVISIONS IN THE ACT AND FINANCING ORDER THAT PROVIDE CREDIT ENHANCEMENTS TO THE TRANSACTION?

A. Yes. The Act and proposed Financing Order require that all retail sales customers, no specifically exempted, in the Company’s service territory receiving natural gas delivery service from the Company, or a successor, must pay the Securitized Charge regardless of whether or not the distribution system is operated by the Company or a successor.

In addition, the proposed Financing Order establishes a binding obligation for the Company and its successors and assigns as a Servicer to collect the Securitized Charge from customers. It also allows that obligation to be done by a replacement servicer appointed by the Trustee, if the Company does not perform that obligation. This means that the obligation to collect and account for the Securitized Charge survives in case the Company does not perform such services and is binding on any other entity that provides natural gas service in the service territory on any other entity responsible for billing and collecting the Securitized Charge on behalf of Atmos Energy.

Finally, after the Securitized Property is transferred to the SPE and the Bonds are issued, the Act states that the Financing Order issued by the Commission is irrevocable and the Securitized Charge is not subject to reduction, alteration or impairment by any further action of the Commission, except for the mathematical and clerical error review set forth in the Adjustment Mechanism. This means that the rights and benefits arising from the Securitized Property created by the Financing Order can be definitively relied upon by investors and the rating agencies as long as the Bonds are outstanding. The Act and the Financing Order also affirm the pledge of the State of Kansas that it will not take any action that would impair the value of the Securitized Property authorized by the Financing Order.

Q. WHAT IS THE PURPOSE FOR INCLUDING THE FINDINGS OF FACT, CONCLUSIONS OF LAW AND ORDERING PARAGRAPHS IN THE PROPOSED FINANCING ORDER?

A. There are several reasons why the proposed Financing Order contains the Findings of Fact, Conclusions of Law and Ordering Paragraphs. Those parts of the Financing Order set forth the basis by which the Commission affirms that the proposed financing conforms to the applicable provisions of the Act. The Findings of Fact, Conclusions of Law and Ordering Paragraphs in the Financing Order also provide the details in support of the financing that will be relied upon by investors, rating agencies and legal counsel.

Q. CAN YOU EXPLAIN WHY THE ORDERING PARAGRAPHS OF THE PROPOSED FINANCING ORDER PROVIDE ATMOS ENERGY WITH

SOME FLEXIBILITY TO ESTABLISH THE FINAL TERMS AND CONDITIONS OF THE BONDS?

A. Yes. Providing Atmos Energy with some flexibility to establish the final terms and conditions of the Bonds will give it the ability to obtain a structure and price that results in the least cost to customers based on the market conditions in existence on the day of pricing, rating agency preferences and conformance to the provisions in the Act and the Financing Order. The final terms of the transaction will be provided to the Commission via the Issuance Advice Letter process, as more fully set forth in the proposed Financing Order.

XII. DISCUSSION OF TRANSACTION DOCUMENTS

Q. BEYOND FINANCIAL ANALYSIS AND INSIGHT, ARE YOU SPONSORING ANY ADDITIONAL AGREEMENTS OR EXHIBITS?

A. Yes. For the Company's proposed Financing Order to operate and become effective, a number of additional agreements are required. These agreements cover the mechanics of the Company's securitization proposal. For example, Atmos Energy will create a SPE and transfer the Company's interest in Securitized Utility Tariff Property to the SPE. Accordingly, a transfer and sales agreement must be created and executed. Because Atmos Energy will act as a "servicer" and "administrator" for the SPE (i.e., billing customers Securitized Utility Tariff Charges and remitting payments to the SPE's Trustee), a servicing agreement and administrative agreement must be created and executed. I am sponsoring a series of these agreements which are critical to the Company's proposed Financing Order.

Q. ARE YOU SPONSORING THE SERVICING AGREEMENT AND ADMINISTRATIVE AGREEMENT THAT ATMOS ENERGY WILL ENTER INTO WITH THE SPE?

A. Yes. These agreements will require Atmos Energy to bill, collect, and remit payments to the SPE. They will also lay out the reporting requirements to the Commission, the Trustee, and the rating agencies.

Q. ARE YOU SPONSORING THE PURCHASE AND SALES AGREEMENT BETWEEN ATMOS ENERGY AND THE SPE?

A. Yes. This agreement identifies the Securitized Utility Tariff Property created by the Company's proposed Financing Order as the asset to be sold to the SPE. This agreement also documents that Atmos Energy no longer has any liability or asset associated with the Winter Storm.

Q. ARE THERE ANY OTHER AGREEMENTS THE COMPANY INTENDS TO PROVIDE FOR WHICH YOU WILL SPONOR?

A. Yes. The issuance of Securitized Utility Tariff Bonds will require additional agreements to be prepared by Atmos Energy. Once a draft form of the SPE LLC agreement is prepared, Atmos Energy will file the draft agreement in this docket as a late -filed exhibit. Once the SPE LLC Agreement is officially executed, Atmos Energy will submit the agreement to the Commission.

Q. WHY WILL ATMOS ENERGY SUBMIT THE SPE LLC AGREEMENT TO THE COMMISSION TWICE, ONCE IN DRAFT FORM AND ONCE UPON EXECUTION?

A. It is my understanding the SPE LLC Agreement, and others like it, will be considered a contract with an affiliated interest. K.S.A.66-1402 requires these contracts be submitted to the Commission. While the Act does not require these agreements be submitted with Atmos Energy' application, the Company intends to provide as much transparency into its securitization process as possible. Therefore, Atmos Energy intends to provide this information in draft form for stakeholder review, as well as in compliance with the Commissions' affiliated interest statutes.

Q. WHAT AGREEMENTS WILL ATMOS ENERGY SUBMIT TO THE COMMISSION?

A. In this proceeding, Atmos Energy will provide five agreements: (1) the Purchase and Sales Agreement, (2) the Servicing Agreement, (3) the Administrative Agreement, (4) the indenture between the SPE and the Indenture Trustee, and (5) the SPE LLC Agreement. Within 30 days of filing its Application, Atmos Energy will submit these agreements to the Commission pursuant to the Commission's affiliated interest statutes.

Q. ARE THERE ANY ASPECTS OF THE ISSUANCE PROCESS YOU ARE SPONSORING?

A. Yes. Atmos Energy's proposed Financing Order establishes several items regarding the Issuance Advice Letter Process. Among others, I am sponsoring these aspects of the proposed Financing Order

XIII. NET PRESENT VALUE BENEFIT SECURITIZATION VERSUS A TRADITIONAL RECOVERY MECHANISM

Q. HAVE YOU QUANTIFIED THE NET BENEFITS OF SECURITIZATION?

A. Yes. Exhibit JLS-3 Present Value of Securitization compares the net present value to the customer of recovering these extraordinary costs through the PGA, a 5-year period at WACC, a 10-year securitization, or a 15-year securitization. The analysis uses a variety of discount rates to illustrate the various means that a customer could potentially pay for these costs. For those customers that have money to invest, their opportunity cost may currently be relatively low, while for those customers carrying balances on their credit cards, their time value of money may be in excess of 20%. Accordingly, I used a range of interest rates –5%, 10%, 15%, and 20%. With the exception of the PGA at 5%, all other net present values are lower. As discussed further in the next question, the PGA from an affordability perspective is not an optimal solution.

Q. IF SECURITIZATION IS NOT AN OPTION FOR RECOVERY OF ATMOS ENERGY'S REGULATORY ASSET BALANCE, WHAT OPTIONS DOES ATMOS ENERGY HAVE FOR RECOVERY OF ITS EXTRAORDINARY COSTS?

A. In this case Atmos Energy believes that securitization is the best option for its customers because it provides a longer period over which to recover the costs and at a lower overall cost to the customers. If securitization is not approved, however, Atmos Energy's purchased gas adjustment ("PGA") tariff could be used to recover the extraordinary gas costs. In accordance with its PGA tariff, the Company is authorized to recover the actual cost of gas it incurs every month from customers. There is an annual true-up mechanism in the PGA tariff that operates over a twelve-month period, but in simple terms, Atmos Energy recovers the actual cost of gas it pays suppliers. This means Atmos Energy has, absent the Commission's authorization to move extraordinary gas costs into a regulatory asset, the regulatory ability to charge customers for the costs incurred to purchase the natural gas consumed by its customers. Atmos Energy, however, does not believe it is reasonable, nor does the Company want to attempt to recover the extraordinary amount in a single month as authorized by the PGA tariff or even over the twelve-month reconciliation period. Instead, Atmos Energy requests to spread recovery over a longer period to avoid sending exorbitantly high bills to its customers.

Alternatively, if securitization were not an option, then Atmos Energy could request Commission approval to recover the amount in the authorized Regulatory Asset over a multi-year period, while the Company earns a return on the Regulatory Asset based upon its overall cost of capital. However, the cost to do this would be much higher than the securitization option being requested by Atmos Energy in this case due to the high rating, expected to be AAA, of the securitization bonds issued. If securitization isn't approved, then Atmos Energy proposes to recover its Regulatory Asset over a five-year period whereby Atmos Energy would finance these costs on its balance sheet and earn a full rate of return. Please see the testimony of Ms. Ocanas for customer impacts under this option. In this case, Atmos Energy would need to evaluate its overall capital structure and credit metrics and may be required to issue additional debt and equity in order to maintain appropriate investment-grade credit ratings. This approach results in a higher financing costs to the customer.

Q. IS SECURITIZATION A BETTER OPTION THAN RECOVERY THROUGH THE PGA TARIFF FOR THE EXTRAORDINARY COSTS IN THE REGULATORY ASSET BALANCE?

A. Yes. Securitization is a lower-cost form of financing the extraordinary gas and other costs related to the Winter Event and the most appropriate means of financing extraordinary utility costs. Please refer to my Exhibit JLS-1 for the calculation of the difference in financing costs between securitization and recovery under the PGA tariff. Please see Mrs. Ocanas testimony for a calculation of the approximate monthly cost to customers based on (1) recovery over a 1-year period through the PGA; (2) a 5-year period with a carrying cost at the Company's weighted average cost of capital ("WACC"); (3) a 10-year period with securitization; and (4) a 15-year period with securitization. Her calculations clearly show that recovering the Regulatory Asset balance through securitization is more affordable for customers than the other conventional methods and provides the best way to mitigate costs to customers.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

Atmos Energy Corporation
Docket No. 22-ATMG-XXX-TAR (2021 February Weather Event)
Summary Extraordinary Gas Cost Recovery Support

Line No.	Description	Reference	Amortization 5 Year Period	Securitization 10 Year Period	Securitization 15 Year Period
	(a)	(b)	(c)		
1	Extraordinary Gas Costs		$ 76,652,625	$ 76,652,625	$ 76,652,625
2	KGS Penalties (Docket No. 21-KGSG-332-GIG)		9,559,372	9,559,372	9,559,372
3	Less Passthrough of Penalties to ATO Transportation Customers		(334,521)	(334,521)	(334,521)
4	Total Extraordinary Gas Costs to Securitize		85,877,476	85,877,476	85,877,476
5					
6	Carrying cost from March 2021 until start of billing	[1]	2,640,257	3,142,758	3,142,758
7					
8	Docket Costs, including customer education		779,000	$ 779,000	$ 779,000
9	**Total Extraordinary Gas Costs Deferred**		**$ 89,296,733**	**$ 89,799,233**	**$ 89,799,233**
10					
11					
12	Carrying Cost for billing term (Financing Fees)	[2]	18,743,384	19,125,188	29,573,818
13	Securitization Issuance Costs			2,885,000	2,885,000
14	**Total Billed to Customers**		**$ 108,040,117**	**$ 111,809,422**	**$ 122,258,052**
15					
16	Notes:				
17	[1] 5 Year assumes a December 1, 2022 start for billing; Securitization assumes a April 1, 2023 start for billing				

Atmos Energy Corporation
Docket No. 22-ATMG-XXX-TAR (2021 February Weather Event)
Interim Carrying Costs from March 2021 through March 2023

Line No.	Description	Total	Rate	Interim Carrying Cost	**3/9/2021**	**3/31/21**	**4/30/21**	**5/31/21**	**6/30/21**	**7/31/21**	**8/31/21**	**9/30/21**	**10/31/21**
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)
1													
2	Interest on Interim Debt (no issuance costs included)	$ 76,652,625	**2.0000%**	$ 3,142,758		$ 93,687	$ 127,754	$ 127,754	$ 127,754	$ 127,754	$ 127,754	$ 127,754	$ 127,754
3													
2					**11/30/21**	**12/31/21**	**1/31/22**	**2/28/22**	**3/31/22**	**4/30/22**	**5/31/22**	**6/30/22**	**7/31/22**
5					(n)	(o)	(p)	(q)	(r)	(s)	(t)	(u)	(v)
6													
7													
8	Interest on Interim Debt (no issuance costs included), continued				$ 127,754	$ 127,754	$ 127,754	$ 119,237	$ 127,754	$ 127,754	$ 127,754	$ 127,754	$ 127,754
9													
10					**8/31/22**	**9/30/22**	**10/31/22**	**11/30/22**	**12/31/22**	**1/31/23**	**2/28/23**	**3/31/23**	
11					(w)	(x)	(y)	(z)	(aa)	(ab)	(ac)	(ae)	
12													
13													
14	Interest on Interim Debt (no issuance costs included), continued			2,640,257	$ 127,754	$ 127,754	$ 127,754	$ 127,754	$ 127,754	$ 127,754	$ 119,237	$ 127,754	

Atmos Energy Corporation
Docket No. 22-ATMG-XXX-TAR (2021 February Weather Event)
Summary of Docket Costs

Line No.	Description		Total Amount
	(a)		(b)
1	**Actual Docket Expenses:**		
2	Legal	$	104,296
3	Staff [2]		-
4	CURB		-
5			
6			
7	**Total Actual**	$	104,296
8			
9	**Estimated Remaining**		
10	Legal	$	524,704
11	CURB		50,000
12	Customer Education		100,000
13			
14	**Total Estimated**	$	674,704
15			
16	**Actual + Remaining Estimated Expenses** [1]	**$**	**779,000**
17			
18	Note:		
19	1. The Legal and Consulting Expenses and Professional Fees are actual expenses incurred through March 31, 2022. Estimated amounts include costs related to this docket and for the securitization docket for April 2022 through December 2022.		
20	2. Staff's estimated costs are including in issuance		

Atmos Energy Corporation
Docket No. 22-ATMG-XXX-TAR (2021 February Weather Event)
Extraordinary Gas Costs

Line No.	Division	Total Purchases (Dth)	Total Actual Cost (1)	Actual Cost/Dth	Normalized Cost/(Mcf)	Normalized Gas Cost (2)	Extraordinary Gas Costs
	(a)	(b)	(c)	(d) = (c/b)	(e)	(f) = (b*e)	(g)=(c-f)
1	Kansas	2,410,425	$ 83,556,032	$ 34.664	$ 2.8640	$ 6,903,407	$ 76,652,625
2							
3							
4	**Total (Sum of Lns 1 - 3)**	**2,410,425**	**$ 83,556,032**	**$ 34.664**	**$ 2.8640**	**$ 6,903,407**	**$ 76,652,625**
5							
6							
7							
8							
9	Notes:						
10	1. The Total Cost for Kansas is for all Gas Purchase costs for the month of February, 2021 including Penalties						
11							

Atmos Energy Corporation
Docket No. 22-ATMG-XXX-TAR (2021 February Weather Event)
Estimate of Issuance Costs and On-Going Costs

Line #		
1	**Estimate Issuance Costs**	
2	Legal	$640,000
3	Underwriting Fee	$500,000
4	Issuer/Underwriter/Trustee Legal Fees	$55,000
5	Rating Agency Fees	$440,000
6	Accountants / Auditors Fees	$250,000
7	Printing/Filing/SEC Registration	$100,000
8	Servicer Set-Up Fee	$400,000
9	SPV Set-Up Fee	$100,000
10	Commission's Financial Advisor Fee	$400,000
11	**Total Estimate Issuance Costs [1]**	$2,885,000
12	Issuance Costs as a % of Issuance Amount	3.21%
13	Annual amoritzation of these costs (10 years)	288,500
14		
15		
16	**Estimated Annual On-Going Financing Costs [2]**	
17	Servicing Fees	$50,000
18	Administration Fees	$100,000
19	Accounting Fees	$100,000
20	Legal Fees	$30,000
21	Rating Agency Surveillance	$67,000
22	Trusteee Fees	$15,000
23	Independent Director Fees	$5,000
24	**Total Ongoing Financing Costs**	$367,000
25	Ongoing Financing Costs as a % of Issuance Amount	0.41%
26	Total Ongoing Financing Costs plus Interest Costs	$655,500
27		
28	Equity investment in SPE by Atmos Energy Corp at 0.5%	$448,996
29		

30 Note: [1] Any difference between the estimated issuance costs financed for, and the actual issuance costs incurred
29 by the Utility will be resolved, if estimates are more or less than actual, pursuant to the Financing Order issued in
30 this proceeding.
31
32
33 Note: [2] The amounts shown for each category of ongoing Financing Costs in this attachment are the expected
34 costs for the first year of the Securitized Utility Tariff Bonds. Securitized Utility Tariff Charges will be adjusted at
35 least semi-annually to reflect the actual ongoing Financing Costs through the true-up process described in the
36 Financing Order, except that the servicing fee is fixed as long as the Utility (or any affiliate) is servicer.

DATA SUMMARY

	Amount to be Recovered		
	5-year Amortization (000s)	Securitization 10 Year (000s)	Securitization 15 Year (000s)
	89,297	89,799	89,799
	18,743	22,010	32,459
Totals	**108,040**	**111,809**	**122,258**

Customer Count and Usage Information

	Customers			
	Annual Count	Annual Mcf	Avg Customer Month Count	% Use Total (Mcf)
Residential Sales Service	1,536,888	9,847,225	128,074	69.8%
Commercial/Public Authority	118,980	3,355,104	9,915	23.8%
School Sales Service	744	33,754	62	0.2%
Industrial Sales Service	168	60,074	14	0.4%
Small Generator	864	116	72	0.0%
Irrigation Engine	2,928	813,833	244	5.8%
Totals	**1,660,572**	**14,110,106**	**138,381**	**100.0%**

COST-EFFECTIVENESS OF 10-YEAR BONDS VERSUS ALTERNATIVE METHOD

Annual Costs (000s):

		Alternative Method	
Year	Securitization 10 Year	Purchased Gas Cost	5-Year Amortization
1	13,204	89,297	29,772
2	12,916	-	27,958
3	12,625	-	26,144
4	12,331	-	24,329
5	12,034	-	22,515
6	11,734	-	-
7	11,431	-	-
8	11,125	-	-
9	10,816	-	-
10	10,503	-	-

Present Value (000s):

5%	94,885	87,145	116,768
10%	78,003	85,141	105,311
15%	65,694	83,270	95,788
20%	56,482	81,516	87,784

Savings from Securitized CRR Bonds (000s):

5%		(7,741)	21,882
10%		7,138	27,309
15%		17,576	30,094
20%		25,034	31,302

ANNUAL COST OF 5-YEAR AMORTIZATION

Rate of Return:

Source	% of Total	Component Cost	Weighted Cost	Tax Factor	Weighted Cost
Debt	43.68%	4.37%	1.91%		1.9088%
Equity	56.32%	9.10%	5.13%	79.00%	6.4875%
Total	**100.0%**				**8.3960%**

Annual Costs (000s):

Year	Regulatory Asset	Average Accumulated Amortization	Average Unamortized Balance	Return and Income Taxes	Amortization Expense	Annual Costs
1	108,040	10,804	97,236	8,164	21,608	29,772
2	108,040	32,412	75,628	6,350	21,608	27,958
3	108,040	54,020	54,020	4,536	21,608	26,144
4	108,040	75,628	32,412	2,721	21,608	24,329
5	108,040	97,236	10,804	907	21,608	22,515

ANNUAL COST OF 10-YEAR SENSITIVITY

Bond Principal (000s):

Total Regulatory Asset		89,799
Underwriting Expenses @	0.5568%	500
Issuance Expenses @	2.6559%	2,385
Debt Service Reserve Funding	50.0%	5,735
Bond Principal		**98,419**

Annual Costs (000s):

Year	Interest Rate	Principal Payment	Interest Expense	Bond Costs	Operation & Admin. @ 0.41%	Annual Costs
1	4.25%	8,859	3,943	12,802	402	13,204
2	4.25%	8,948	3,566	12,514	402	12,916
3	4.25%	9,037	3,186	12,223	402	12,625
4	4.25%	9,127	2,801	11,928	402	12,331
5	4.25%	9,219	2,413	11,631	402	12,034
6	4.25%	9,311	2,021	11,331	402	11,734
7	4.25%	9,404	1,624	11,028	402	11,431
8	4.25%	9,498	1,224	10,722	402	11,125
9	4.25%	9,593	820	10,413	402	10,816
10	4.25%	15,424	412	10,101	402	10,503
Total		98,420				

COST-EFFECTIVENESS OF 15-YEAR BONDS VERSUS ALTERNATIVE METHODS

Annual Costs (000s):

Year	Securitized Customer Rate Relief Bonds	Alternative Methods: Purchased Gas Cost	Alternative Methods: 5-Year Amortization
1	10,170	89,297	29,772
2	9,978	-	27,958
3	9,784	-	26,144
4	9,588	-	24,329
5	9,391	-	22,515
6	9,191	-	-
7	8,989	-	-
8	8,785	-	-
9	8,580	-	-
10	8,372	-	-
11	8,162	-	-
12	7,950	-	-
13	7,736	-	-
14	7,520	-	-
15	7,301	-	-

Present Value (000s):

5%	95,203	87,145	116,768
10%	72,736	85,141	105,311
15%	58,084	83,270	95,788
20%	48,070	81,516	87,784

Savings from Securitized CRR Bonds:

5%		(8,059)	21,564
10%		12,405	32,575
15%		25,186	37,705
20%		33,446	39,714

ANNUAL COST OF 15-YEAR SENSITIVITY

Required Bond Principal (000s):

Regulatory Asset (000s)		89,799
Underwriting Expenses @	0.5568%	500
Issuance Expenses @	2.6559%	2,385
Debt Service Reserve Funding	50.00%	4,185
Bond Principal		96,869

Annual Costs (000s):

Year	Interest Rate	Principal Payment	Interest Expense	Bond Costs	Operation & Admin. @ 0.41%	Annual Costs
1	4.33%	5,758	4,016	9,774	396	10,170
2	4.33%	5,815	3,767	9,582	396	9,978
3	4.33%	5,874	3,515	9,388	396	9,784
4	4.33%	5,932	3,260	9,192	396	9,588
5	4.33%	5,992	3,003	8,995	396	9,391
6	4.33%	6,052	2,743	8,795	396	9,191
7	4.33%	6,112	2,481	8,593	396	8,989
8	4.33%	6,173	2,216	8,390	396	8,785
9	4.33%	6,235	1,949	8,184	396	8,580
10	4.33%	6,297	1,679	7,976	396	8,372
11	4.33%	6,360	1,406	7,766	396	8,162
12	4.33%	6,424	1,130	7,554	396	7,950
13	4.33%	6,488	852	7,340	396	7,736
14	4.33%	6,553	571	7,124	396	7,520
15	4.33%	10,804	287	6,905	396	7,301
Total		96,869				

BEFORE THE STATE CORPORATION COMMISSION OF KANSAS

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

AFFIDAVIT OF JOEL J. MULTER

BEFORE ME, the undersigned authority, on this day personally appeared Joel J. Multer, who, having been placed under oath by me, did depose as follows:

1. "My name is Joel J. Multer. I am over the age of eighteen (18) and fully competent to make this affidavit. I am Vice President of Tax for Atmos Energy Corporation ("Atmos Energy" or the "Company"), which includes the Colorado-Kansas Division (the "Division").
2. In my role with the Company, I am responsible for the overall tax policy and tax compliance.
3. I.R.S. Revenue Procedure 2005-62 ("Revenue Procedure") sets forth the way an investor-owned utility may treat, for federal income tax purposes, the issuance of a financing order by a state regulatory agency and the securitization of the rights created by the financing order.
4. Having an equity investment in the Special Purpose Entity of at least 0.50% of the aggregate principal amount of non-equity instruments issued is within the safe harbor provided in the Revenue Procedure and helps to ensure that the Company will not recognize in its taxable income the cash proceeds received from the issuance of the Bonds. Rather, the Bonds will be considered borrowings of the Company for federal income tax purposes.

I do affirm that the information provided herein is true and accurate to the best of my knowledge."

Joel J. Multer

SUBSCRIBED AND SWORN TO BEFORE ME by the said Joel J. Multer this 19 day of May, 2022.

WENDY M BROOKS
NOTARY PUBLIC
STATE OF TEXAS
MY COMM. EXP. 03/31/26
NOTARY ID 12564029-8

Wendy M Brooks
Notary Public, State of Texas

CERTIFICATE OF SERVICE

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

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