

**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.)

**REVISED DIRECT TESTIMONY OF
JASON L. SCHNEIDER**

JULY 22, 2022

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LIST OF EXHIBITS

Revised Exhibit JLS-1	Qualified Extraordinary Costs
Revised Exhibit JLS-3	Net Present Value Benefit

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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. ARE YOU THE SAME JASON SCHNEIDER WHO FILED TESTIMONY IN THIS DOCKET ON MAY 25, 2022?

A. Yes.

II. PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR REVISED DIRECT TESTIMONY?

A. I am revising my direct testimony to incorporate information that has come to light as a result of discovery and the two technical conferences in this docket. I am also providing updated treasury cost and “spread” information to the anticipated securitization costs. The primary change is to align Revised Exhibit JLS-1 and Revised Exhibit JLS-3 to more precisely measure the net present value for purposes of demonstrating that securitization is in the public interest.

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

A. Yes, as a result of the changes discussed below, I am providing Revised Exhibit JLS-1 and Revised Exhibit JLS-3 which replace my direct testimony Exhibits JLS-1 and JLS-3. The exhibits are listed after the cover page of my testimony.

1 **III. QUALIFIED EXTRAORDINARY COSTS**

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

5 A. I provide the revised calculation of carrying costs on Qualified Extraordinary Costs
6 amounts through March 31, 2023 as part of my Revised Exhibit JLS-1 Qualified
7 Extraordinary Costs. The estimated total to be securitized will change depending
8 on when Securitized Utility Tariff Bonds (“Bonds”) are issued. I continue to
9 assume that Atmos Energy will issue Securitized Utility Bonds in March 2023.
10 However, if the Bonds are issued sooner or later than this date, the costs incurred
11 can be trued-up using the reconciliation process discussed in the Direct Testimony
12 of Ms. Ocanas with any additional savings or costs accounted for after the
13 reconciliation collected or credited back to customers over the following 12-month
14 period. Revised Exhibit JLS-1 shows the calculation of the total estimated final
15 regulatory asset to be approximately \$92.7 million. This includes legal, consulting
16 fees, and issuance costs but excludes the interest cost and ongoing annual
17 administrative costs which vary depending on the term of the Bond. The annual
18 administrative costs were included in my direct testimony, but not summarized on
19 Revised Exhibit JLS-1 Page 1. Also, the interest expense calculation workpaper
20 has been updated to align with changes made to Revised Exhibit JLS-3. These
21 changes, along with the use of updated capital market information result in updated
22 customer impact information that is discussed further by Ms. Ocanas.

1 **IV. CURRENT CAPITAL MARKET INFORMATION (AS OF JULY 2022)**

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

5 A. To fight ongoing inflation, the Federal Reserve has started to raise interest rates and
6 this will have a significant impact on the rates received for the securitized bonds.
7 As an example, my exhibits used rates that were estimated on July 20, 2022, by JP
8 Morgan based on our projected securitization. As widely reported in the popular
9 press, the Federal Reserve members continue to signal additional rate hikes in the
10 range of 0.25% to 0.50% at each of their upcoming meetings for the foreseeable
11 future. This will have an impact on longer term rates as anticipation grows and after
12 the announcements. The chart below shows interest rates for different terms of
13 treasury notes on July 1, 2022, one week prior, one month prior, and three months
14 prior.

15

As of:	2-yr	3-yr	5-yr	7-yr	10-yr	20-yr	30-yr
7/1/2022	2.84%	2.87%	2.90%	2.94%	2.90%	3.38%	3.13%
1 Week Ago	3.06%	3.14%	3.18%	3.19%	3.12%	3.51%	3.26%
1 Month Ago	2.66%	2.85%	2.94%	2.98%	2.93%	3.30%	3.08%
3 Months Ago	2.43%	2.61%	2.55%	2.49%	2.37%	2.59%	2.42%

16

17 This chart clearly shows the impact the Federal Reserve's actions have on interest
18 rates and the need to act quickly to maximize customer savings.

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

1 A. Yes, I have discussed with several banks and all have indicated that rates will
2 increase in the next 12 months. Below is a forecast received from JP Morgan which
3 summarizes its view on rates for the next 4 quarters that was received on July 1,
4 2022.

J.P. Morgan interest rate forecasts

	Present	3Q22	4Q22	1Q23	2Q23
Effective funds rate	1.58%	2.60%	3.10%	3.35%	3.35%
SOFR*	1.50%	2.20%	2.95%	3.30%	3.30%
3-month LIBOR	2.29%	3.00%	3.45%	3.50%	3.55%
2-year U.S. Treasury	2.84%	3.50%	3.60%	3.50%	3.35%
3-year U.S. Treasury	2.87%	3.60%	3.60%	3.55%	3.50%
5-year U.S. Treasury	2.90%	3.55%	3.60%	3.55%	3.45%
7-year U.S. Treasury	2.94%	3.55%	3.60%	3.55%	3.40%
10-year U.S. Treasury	2.90%	3.45%	3.50%	3.45%	3.35%
30-year U.S. Treasury	3.13%	3.40%	3.45%	3.45%	3.40%

*1-month trailing average

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**V. NET PRESENT VALUE BENEFIT SECURITIZATION VERSUS A
TRADITIONAL RECOVERY MECHANISM**

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9
10 **Q. WHAT CHANGES WERE MADE TO REVISED EXHIBIT JLS-3
11 PRESENT VALUE OF SECURITIZATION?**

12 A. Several changes were made, including changes to the data entry tab that feeds pages
13 1 – 6 of Exhibit JLS-3. On page 3 a correction to the 5-year amortization option
14 was made to correct for over-counting of carrying costs. On pages 4 and 6 the
15 calculation of the bond amortization was changed to result in fixed annual

1 payments as well as fixed semi-annual payments, On pages 2 and 5 the net present
2 value of bond payments was linked to semi-annual fixed bond payments for
3 purposes of calculating the net present value of the two bond options. The data entry
4 tab (not included in the filed Revised Exhibit JLS-3) was updated to change the
5 10% present value factor to the Company's current weighted cost of capital of
6 8.396%. Also, the data entry tab also reflects the Interest Rate was updated for
7 more recent capital markets information (vs. 5-7-2022 in the original filing). These
8 data inputs flow through to several pages within Revised Exhibit JLS-3.

9 **Q. HAVE YOU QUANTIFIED THE NET BENEFITS OF SECURITIZATION?**

10 A. Yes. Revised Exhibit JLS-3 Present Value of Securitization compares the net
11 present value to the customer of recovering these extraordinary costs through the
12 PGA, a 5-year period at WACC, a 10-year securitization, or a 15-year
13 securitization. As with the original Exhibit JLS-3, the analysis uses a variety of
14 discount rates to illustrate the various means that a customer could potentially pay
15 for these costs. For those customers that have money to invest, their opportunity
16 cost may currently be relatively low, while for those customers carrying balances
17 on their credit cards, their time value of money may be in excess of 20%. As shown
18 in Revised Exhibit JLS-3 Net Present Value Benefit of \$1.3 – \$17.3 million on a
19 ten-year bond and a Net Present Value Benefit/(Cost) of \$(5.3) - \$23.5 million on
20 a fifteen-year bond.

21 **Q. DOES SECURITIZATION CONTINUE TO BE A BETTER OPTION THAN**
22 **RECOVERY THROUGH THE PGA TARIFF FOR THE**
23 **EXTRAORDINARY COSTS IN THE REGULATORY ASSET BALANCE?**

1 A. Yes. Although the Net Present Value calculations are yielding lower values,
2 securitization continues to show that it is a lower-cost form of financing the
3 extraordinary gas and other costs related to the Winter Event and the most
4 appropriate means of financing extraordinary utility costs. Net Present Value is
5 narrower due to increased costs in capital markets and inclusion of ongoing
6 administrative costs in the total cash flow streams.

7 **Q. DOES SECURITIZATION PROVIDE ANY OTHER ADVANTAGES TO**
8 **CONSUMERS WHEN COMPARED TO TRADITIONAL COST**
9 **RECOVERY?**

10 A. Yes, bonds provide rate certainty. Once the securitized bonds are issued, the interest
11 rate is “locked-in” for the term of those bonds. If the extraordinary costs were
12 recovered through traditional cost recovery, the Company’s WACC would likely
13 change throughout the recovery period in response to normal ratemaking activity.


14 **Q. DOES THIS CONCLUDE YOUR REVISED DIRECT TESTIMONY?**

15 A. Yes.

VERIFICATION

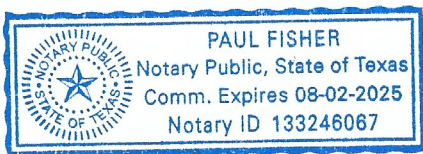
STATE OF TEXAS)
COUNTY OF Collin)

Jason L. Schneider, being duly sworn upon his oath, deposes and states that he is Assistant Treasurer of Atmos Energy Corporation's which includes the Colorado-Kansas Division; that he has read and is familiar with the foregoing Revised Direct Testimony filed herewith; and that the statements made therein are true to the best of his knowledge, information and belief.



Jason L. Schneider

Subscribed and sworn before me this 22nd day of July, 2022.





NOTARY PUBLIC

My appointment expires: 08-02-2025

CERTIFICATE OF SERVICE

I hereby certify that a copy of the Revised Direct Testimony and Exhibits of Jason L. Schneider was sent via electronic mail, this 25th day of July, 2022, addressed to:

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