

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

**IN THE MATTER OF THE INVESTIGATION)
INTO ATMOS ENERGY CORPORATION)
REGARDING FEBRUARY 2021 WINTER) DOCKET NO. 21-ATMG-333-GIG
WEATHER EVENTS, AS CONTEMPLATED)
BY DOCKET NO. 21-GIMX-303-MIS)**

**DIRECT TESTIMONY OF

JASON L. SCHNEIDER**

SEPTEMBER 14, 2021

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

2 **I. POSITION AND QUALIFICATIONS**

3 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

4 A. My name is Jason L. Schneider. My business address is 5430 LBJ Freeway, Suite
5 600, Dallas, Texas 75240.

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

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

10 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND**
11 **DESCRIBE YOUR WORK EXPERIENCE.**

12 A. I earned a Bachelor of Science degree in Accounting Control Systems from the
13 University of North Texas in 2000. I also earned a Master of Business
14 Administration degree in Accounting from the University of North Texas in 2003.
15 I have worked in various industries for over 20 years in a variety of accounting and
16 finance staff and management roles. I have worked in the energy industry for more
17 than 17 years in various accounting and finance positions. I joined Atmos Energy
18 in 2004 in the Plant Accounting group and assumed positions of increasing
19 responsibility before assuming my current role in 2017.

20 **Q. ARE YOU A MEMBER OF ANY PROFESSIONAL ORGANIZATIONS?**

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

23 **Q. WHAT ARE YOUR JOB RESPONSIBILITIES?**

24 A. I am responsible for supporting the Company’s Treasurer, who is, in turn,
25 responsible for all of the Company’s corporate treasury and account payables

1 functions. My duties include planning, scheduling and administering the
2 Company's financial requirements, including the sale and issuance of debt and
3 equity securities. In addition to long-term financings, I am responsible for the
4 Company's bank relations and other borrowing and investing activities. As a result
5 of these activities, I am in frequent contact with financial institutions, and
6 commercial and investment bankers.

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

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

18 **II. PURPOSE OF TESTIMONY**

19 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

20 A. During Winter Storm Uri ("Winter Event"), Atmos Energy management
21 determined that obtaining long-term financing was necessary to pay for the
22 extraordinary gas costs incurred during the Winter Event to allow the Company the
23 ability to maintain sufficient liquidity under its credit facilities to enable it to

1 continue providing safe and reliable service to customers. My testimony covers the
2 following:

3 (1) the steps taken by the Company during the Winter Event to obtain
4 incremental financing so Atmos Energy could maintain the liquidity it needed to
5 pay for the extraordinary gas costs incurred by the Company to maintain service to
6 customers;

7 (2) an explanation of what is meant by the term liquidity as it relates to
8 Atmos Energy's ability to pay the extraordinary costs in order to obtain natural gas
9 supplies for its customers during the Winter Event;

10 (3) the support for the reasonableness and necessity of the financing
11 costs incurred by the Company, that Atmos Energy is seeking to recover in this
12 matter through the Regulatory Asset authorized by the Commission in its
13 Emergency Order dated February 15, 2021 ("Emergency Order"), and

14 (4) the identification and quantification of the net benefits of recovering
15 the amount of the Regulatory Asset through securitization under the Kansas Utility
16 Financing and Securitization Act ("Act") rather than through the traditional
17 methods of financing and recovery of such extraordinary costs.

18 The financing and carrying costs incurred by the Company in response to the
19 Winter Event and identified in my testimony qualify as "extraordinary purchased
20 gas costs" and fall within the scope of the Commission's Emergency Order and
21 directive to local utilities. The Emergency Order authorized the creation of the
22 Regulatory Asset that Atmos Energy will seek to recover when it requests approval
23 of a Financing Order in a separate proceeding. The Emergency Order also stated

1 that extraordinary costs may include “. . .but are not limited to the cost of procuring
2 and transporting natural gas supplies for jurisdictional utility customers, costs
3 associated with jurisdictional utilities coordinating and assisting non-jurisdictional
4 utilities with the transportation of gas supplies, and any other reasonable costs
5 necessary to ensure stability and reliability of natural gas and electricity service.”¹

6 Further, the Act defines Qualified Extraordinary Costs as: “costs that the public
7 utility has incurred before, on or after the effective date of this act of an
8 extraordinary nature that would cause extreme customer rate impacts if recovered
9 through customary ratemaking, including, but not limited to, purchases of gas
10 supplies, transportation costs, fuel and power costs, including carrying charges
11 incurred during anomalous weather events.”² The Emergency Order authorizes the
12 inclusion of carrying costs at the utility’s weighted average cost of capital.³

13 **III. TREASURY DECISIONS RELATED TO GAS PROCUREMENT**
14 **DURING THE WINTER EVENT**

15 **Q. HOW WOULD YOU DESCRIBE ATMOS ENERGY’S FINANCIAL STATE**
16 **DURING TYPICAL OPERATIONS, PRIOR TO THE WINTER EVENT IN**
17 **FEBRUARY 2021?**

18 A. Prior to the Winter Event, Atmos Energy was a highly rated company with
19 sufficient liquidity to meet its ongoing operations and capital spending plan with
20 periodic needs for the issuance of long-term debt or equity and had a long-term /
21 short-term credit rating of “A/A-1, stable” from S&P and a long-term/short-term

¹ See Emergency Order, issued in KCC Docket No. 21-GIMX-303, ¶4 (February 15, 2021).

² Utility Financing and Securitization Act, Section 1, (b) 18.

³ See Emergency Order at ¶4.

1 credit rating of “A2/P-1, stable” from Moody’s. As of December 31, 2020, Atmos
2 Energy had a capital structure made up of \$7.2 billion in equity and \$5.1 billion in
3 long-term debt. The Company’s equity to total capitalization was 58.46%. The
4 combination of long-term debt with these credit ratings, equity issuances and
5 revolving credit facilities, was sufficient to allow Atmos Energy to finance its
6 ongoing operations and capital spending plan for the coming years. If Atmos
7 Energy had not had such a strong credit rating, then it would have found it even
8 more difficult and costly to raise the amount of long-term debt financing capital it
9 needed to pay for these extraordinary gas purchase costs.

10 **Q. PLEASE DESCRIBE THE ACTIONS TAKEN BY THE VARIOUS CREDIT**
11 **RATING AGENCIES AFTER THE WINTER EVENT IN FEBRUARY**
12 **2021?**

13 A. On Friday, February 19, 2021, Atmos Energy filed an 8-K with the Securities and
14 Exchange Commission stating that its gas purchases during the Winter Event would
15 range between \$2.5 billion to \$3.5 billion and that it had approximately \$3.0 billion
16 in total liquidity, including approximately \$800 million in total cash assets. On
17 February 22, 2021, Standard and Poors (“S&P”) lowered its long-term/short-term
18 credit ratings from A/A-1 to A-/A-2 and placed the Company on CreditWatch
19 Negative, which reflects the opinion of S&P’s outlook on the Company. The
20 CreditWatch Negative outlook highlights S&P’s opinion regarding the potential for
21 a lower short-term or long-term rating for Atmos Energy. On February 25, 2021,
22 Moody’s changed their outlook on the Company to negative. On March 11, 2021,
23 after the Company announced the completion of the long-term debt issuance that I

1 will discuss later, S&P removed the CreditWatch Negative for the Company and
2 affirmed the long-term/short-term credit ratings from February 22, 2021 with a
3 negative ratings outlook.

4 **Q. WHAT WERE TREASURY'S PRIORITIES AS THE IMPACTS OF THE**
5 **STORM BECAME APPARENT?**

6 A. Treasury makes financing decisions on a consolidated basis on behalf of the
7 Company's divisions. The Winter Event significantly affected daily natural gas
8 prices in three states that the Company operates in: Kansas, Colorado, and Texas.
9 Treasury was tasked with addressing three primary issues, all of which related to
10 cash liquidity needs. The first issue was taking necessary steps to provide adequate
11 assurance to our creditors (gas suppliers in this situation). Atmos Energy needed to
12 demonstrate to its suppliers that Atmos Energy would be able to pay for the gas it
13 was purchasing so it could continue to provide service to customers, although this
14 was not an issue with the Company's Kansas suppliers. The second issue was to
15 borrow enough cash to ensure each of its divisions could pay for the gas that had
16 been purchased on customers' behalf. The third issue was to ensure that Atmos
17 Energy and its divisions were in a position to continue to operate in the same
18 manner as prior to this event.

19 **Q. PLEASE EXPLAIN THE TERMS "LIQUIDITY" AND "ADEQUATE**
20 **ASSURANCE."**

21 A. "Liquidity" as I have used the term is the available cash and borrowing capacity in
22 place for a company. "Adequate assurance" is a term used in the base contract for
23 sale and purchase of natural gas, which is based on a standard established by the

1 North American Energy Standards Board (“NAESB”). My Exhibit JLS-1 shows
2 the standard language used in Section 10 of a NAESB contract related to Financial
3 Responsibility. When there are reasonable grounds to assert that the purchaser of
4 the natural gas supplies may be unable to pay for the natural gas, the seller may
5 request the purchaser provide what is referred to as “adequate assurance” that it
6 will be able to pay seller for the natural gas supplies. In an NAESB contract,
7 adequate assurance can be given in several forms including; (1) a company’s debt
8 rating, which is a proxy for the probability of bankruptcy, (2) an early cash payment
9 (prepayment), (3) an irrevocable letter of credit, (4) a corporate guarantee of a
10 subsidiary by its parent, or (5) security interest in an asset. These items help
11 guarantee that the supplier will be paid timely.

12 **Q. WAS THERE A POINT IN TIME WHEN ATMOS ENERGY REALIZED**
13 **THAT IT MAY NOT BE ABLE TO FINANCE GAS PURCHASES DURING**
14 **THE WINTER EVENT THROUGH TYPICAL MEANS?**

15 A. Yes, on Thursday, February 11, 2021, the Company’s Gas Supply Department
16 began to see natural gas prices spike as the Company was preparing for the severe
17 and what turned out to be a sustained winter storm, affecting three states in which
18 Atmos Energy operates. Atmos Energy was faced with several gas supply issues:
19 high customer demand; the inability of gas suppliers to deliver gas; and spiking
20 commodity prices. The significant increase in the price for the daily purchases on
21 Friday, February 12, 2021, coincided with a holiday weekend requiring the
22 Company to procure gas on that Friday for a four-day period (Saturday, Sunday,
23 Monday, and Tuesday). Monday, February 15, 2021, was Presidents’ Day and the

1 financial markets and banks were closed in observance of the national holiday.
2 Atmos Energy faced potential liquidity constraints due to the unprecedented
3 increase in the natural gas commodity costs and high customer demand caused by
4 the Winter Event. Although Atmos Energy had approximately \$3.0 billion in total
5 liquidity, including approximately \$800 million in total cash assets, management
6 determined that it would be prudent to issue additional long-term debt to pay for
7 gas purchases when those payments were due (generally on or around March 25,
8 2021) to maintain the liquidity under its credit facilities to continue to provide
9 adequate assurance and support the Company's ability to continue providing safe
10 and reliable service.

11 **Q. WAS ATMOS ENERGY'S DIVISION IN KANSAS THE ONLY GAS**
12 **UTILITY AFFECTED BY HIGH GAS PRICES DURING THE STORM?**

13 A. No, as the Commission is aware, Black Hills Energy, and Kansas Gas Service also
14 experienced extraordinary gas prices in February, 2021. As explained in the Direct
15 Testimony of Kenny Malter, it quickly became apparent that prices in Texas and
16 Colorado also increased to record levels. Considering these circumstances, some
17 suppliers became concerned and sought adequate assurance from Atmos Energy,
18 although none in connection with Kansas purchases. As previously mentioned,
19 during the storm on Friday, February 19, 2021, Atmos Energy filed an 8-K with the
20 Securities and Exchange Commission stating that its gas purchases would range
21 between \$2.5 billion to \$3.5 billion. This disclosure gave investors, suppliers, and
22 other stakeholders an indication that Atmos Energy and other utilities in the same
23 footprint could be facing natural gas procurement costs of a similar magnitude.

1 **Q. WOULD THE COMPANY HAVE BEEN ABLE TO SECURE AND PAY**
2 **FOR THE NATURAL GAS SUPPLIED TO CUSTOMERS DURING THE**
3 **2021 WINTER EVENT IF IT HAD NOT TAKEN THESE FINANCIAL**
4 **ACTIONS?**

5 A. Yes, however, doing so could have placed pressure on the Company's balance sheet
6 and its ability to transact business in normal course. As noted above, the Company
7 had approximately \$3 billion of total liquidity. However, paying for the gas costs
8 without issuing additional long-term debt would have used substantially all of the
9 Company's liquidity.

10 As I will further address below, issuing \$2.2 billion of new notes was necessary to
11 allow the Company to maintain the liquidity under its credit facilities to continue
12 to provide adequate assurance and support the Company's ability to continue
13 providing safe and reliable service. Additionally, it demonstrated to S&P that the
14 Company had secured the necessary capital to meet the Company's obligations,
15 while maintaining flexibility of paying off the debt given the structure used. This
16 allowed S&P to remove its CreditWatch Negative outlook. The removal of the
17 CreditWatch Negative outlook indicated to investors that the Company had
18 addressed the events that had originally resulted in S&P's outlook.

1 **IV. FINANCING AND CARRYING COST OF GAS SUPPLY COSTS**

2 **a. Financing Cost**

3 **Q. WITH REGARD TO THE FEBRUARY 2021 WINTER EVENT, PLEASE**
4 **BRIEFLY DESCRIBE THE FINANCIAL ACTIONS ATMOS ENERGY**
5 **TOOK TO PAY FOR GAS PURCHASED DURING THAT TIME.**

6 A. Atmos Energy completed a public offering of \$1.1 billion of 0.625% senior notes
7 due 2023, with an effective interest rate of 0.834%, after giving effect to the
8 offering costs, and \$1.1 billion floating rate senior notes due 2023 that bear interest
9 at a rate equal to the Three-Month LIBOR plus 0.38% on March 9, 2021. The net
10 proceeds of \$2.2 billion from the offering, after the underwriting discount and
11 offering expenses, combined with available cash on hand and net proceeds
12 available through our At-The-Market Equity Issuance Program, were used for the
13 payment of unplanned and extraordinary natural gas costs incurred during the
14 Winter Event in Kansas, Colorado, and Texas. The table below summarizes the net
15 proceeds received from the issuance.

16 **Table JLS-1 Net Proceeds Received from Debt Issuance**

Category	Fixed	Floating	Total
Issued	\$1,100,000,000	\$1,100,000,000	\$2,200,000,000
Less: Original Issue Discount	44,000		\$ 44,000
Less: Underwriting Discount	2,750,000	2,750,000	\$ 5,500,000
Less: Other Expenses	1,880,832	1,880,832	\$ 3,761,664
Net Proceeds Received	\$1,095,325,168	\$1,095,369,168	\$2,190,694,336

1 **Q. WAS THIS FINANCING OBTAINED EXCLUSIVELY TO ADDRESS THE**
2 **EXTRAORDINARY COSTS INCURRED AS A RESULT OF THE**
3 **FEBRUARY 2021 WINTER EVENT?**

4 A. Yes. Due to the historic nature of this winter storm, we experienced unforeseeable
5 and unprecedented market pricing for gas costs, which resulted in aggregated
6 natural gas purchases during the month of February 2021.

7 **Q. WHY DID THE COMPANY OBTAIN FINANCING AND WAS IT A**
8 **REASONABLE AND NECESSARY RESPONSE TO SECURE AND PAY**
9 **FOR THE NATURAL GAS SUPPLIED TO CUSTOMERS DURING THE**
10 **FEBRUARY 2021 WINTER EVENT?**

11 A. The Company took the financial actions indicated to ensure that it had sufficient
12 liquidity to continue its normal course of business. This action was reasonable and
13 necessary to allow the Company to maintain the liquidity under our credit facilities
14 to support on-going day-to-day operations.

15 **Q. DOES ATMOS ENERGY TYPICALLY INCUR FEES WHEN IT OBTAINS**
16 **FINANCING AS IT DID WITH THE NOTES ISSUED?**

17 A. Yes. Fees for the bank, underwriters, attorney, printers and rating agencies are
18 common fees.

19 **Q. ARE THE FEES INCURRED FOR THE FINANCING REASONABLE?**

20 A. Yes. Fees for the bank, underwriters, attorney, printers and rating agencies are
21 common fees when obtaining financing. The bank and underwriters' fee are based
22 on the overall amount of the notes. Attorney fees are billed hourly, which is
23 standard practice for the lawyers Atmos Energy uses for these transactions. Fees

1 for the printer and rating agencies are based on standard rates issued by the service
2 providers. The interest rates on the notes also include the risk premium that the
3 banks and investors placed on the two notes issued by Atmos Energy.

4 **b. Carrying Costs**

5 **Q. ARE CARRYING COSTS INCLUDED IN THE REGULATORY ASSET**
6 **AMOUNT THE COMPANY SEEKS TO RECOVER ?**

7 A. Yes. \$10.3 million in carrying costs associated with a ten-year securitization
8 issuance are included as extraordinary costs that resulted because of the Winter
9 Event. As a result, as permitted in the Commission's Emergency Order issued on
10 February 15, 2021, these carrying costs are appropriate costs to seek to recover in
11 this case.⁴

12 **Q. FROM A TREASURY OR FINANCIAL PERSPECTIVE, HAVE YOU**
13 **PREVIOUSLY EXPERIENCED CIRCUMSTANCES LIKE THOSE**
14 **OCCURRING DURING THE WINTER EVENT?**

15 A. No. Given the geographic scale, intensity and duration of this weather event, Atmos
16 Energy had never faced a financing need like the one it faced in February 2021 due
17 to the Winter Event. Additionally, in my 17 years with Atmos Energy, I have never
18 seen circumstances that had the potential to impact liquidity this significantly. To
19 put the situation in perspective, the debt issued on March 9, 2021, (\$2.2 billion)
20 was nearly 43% of our total debt outstanding at the time of the storm (\$5.1 billion).
21 Similarly, no event specific to Kansas comes close to approximating the

⁴ See, Emergency Order, ¶ 4, Docket No. 21-GIMX-303-MIS (February 15, 2021).

1 circumstances the Company dealt with to maintain safe and reliable service to
2 residential and other human needs customers.

3 **V. RECOVERY OF REGULATORY ASSET BALANCE THROUGH**
4 **SECURITIZATION**

5 **Q. DESCRIBE YOUR UNDERSTANDING OF SECURITIZATION?**

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

20 **Q. WHAT ARE THE BENEFITS OF SECURITIZATION COMPARED TO**
21 **OTHER FINANCING ALTERNATIVES?**

22 A. At a high level, securitization is a process that allows debts to be paid by the
23 issuance of bonds that are repaid by utility customers over a longer, more
24 manageable timeframe for the customer than a typical recovery period.

1 Securitization has proven to be a low-cost capital option compared to traditional
2 financing which commonly carries carrying cost. Generally, securitized debt is
3 issued with an AAA rating, resulting in a lower cost to the customer.

4 **Q. WHAT ARE THE STEPS INVOLVED IN SECURITIZATION?**

5 A. A more in-depth view of securitization is shown in Exhibit JLS-2 to my direct
6 testimony, which is a flow chart of the securitization process, as I understand it.
7 Steps 1 through 6 are the steps needed to establish the approved asset for recovery
8 through securitization, the transfer of the asset to a trustee, the issuance of
9 securitized or rate relief bonds and the payment to Atmos Energy for the trust assets.
10 Steps 7 through 11 show the steps involved with the repayment of these bonds.

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

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

1 **Q. IF SECURITIZATION IS NOT AN OPTION FOR RECOVERY OF ATMOS**
2 **ENERGY’S REGULATORY ASSET BALANCE, WHAT OPTIONS DOES**
3 **ATMOS ENERGY HAVE FOR RECOVERY OF ITS EXTRAORDINARY**
4 **COSTS?**

5 A. In this case Atmos Energy believes that securitization is the best option for its
6 customers because it provides a longer period over which to recover the costs and
7 at a lower overall cost to the customers. If securitization is not approved, however,
8 Atmos Energy’s purchased gas adjustment (“PGA”) tariff could be used to recover
9 the extraordinary gas costs. In accordance with its PGA tariff, the Company is
10 authorized to recover the actual cost of gas it incurs every month from customers.
11 There is an annual true-up mechanism in the PGA tariff that operates over a twelve-
12 month period, but in simple terms, Atmos Energy recovers the actual cost of gas it
13 pays suppliers. This means Atmos Energy has, absent the Commission’s
14 authorization to move extraordinary gas costs into a regulatory asset, the regulatory
15 ability to charge customers for the costs incurred to purchase the natural gas
16 consumed by its customers. Atmos Energy, however, does not believe it is
17 reasonable, nor does the Company want to attempt to recover the extraordinary
18 amount in a single month as authorized by the PGA tariff or even over the twelve-
19 month reconciliation period. Instead, Atmos Energy requests to spread recovery
20 over a longer period to avoid sending exorbitantly high bills to its customers.
21 Alternatively, if securitization were not an option, then Atmos Energy could
22 request Commission approval to recover the amount in the authorized Regulatory
23 Asset over a multi-year period, while the Company earns a return on the Regulatory

1 Asset based upon its overall cost of capital. However, as explained below, the cost
2 to do this would be much higher than the securitization option being requested by
3 Atmos Energy in this case due to the high rating, expected to be AAA, of the
4 securitization bonds issued. If securitization isn't approved, then Atmos Energy
5 proposes to recover its Regulatory Asset over a three-year period whereby Atmos
6 Energy would finance these costs on its balance sheet and earn a full rate of return.
7 Please see the testimony of Kathleen Ocanas for customer impacts under this
8 option. In this case, Atmos Energy would need to evaluate its overall capital
9 structure and credit metrics and may be required to issue additional debt and equity
10 in order to maintain appropriate investment-grade credit ratings. This approach
11 results in a higher financing costs to the customer.

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

15 A. Yes. Securitization is a lower-cost form of financing the extraordinary gas and
16 other costs related to the Winter Event and the most appropriate means of financing
17 extraordinary utility costs. Please see Mrs. Ocanas' Direct Testimony for the
18 calculation of the difference in financing costs between securitization and recovery
19 under the PGA tariff. In her testimony, Mrs. Ocanas supplies a calculation of the
20 approximate monthly cost to customers based on (1) recovery over a 1-year period
21 through the PGA; (2) a 3-year period with a carrying cost at the Company's
22 weighted average cost of capital ("WACC"); (3) a 10-year period with
23 securitization; and (4) a 15-year period with securitization. Her calculations clearly

1 show that recovering the Regulatory Asset balance through securitization is more
2 affordable for customers than the other conventional methods and provides the best
3 way to mitigate costs to customers.

4 **VI. SEPARATE SECURITIZATION FILING**

5 **Q. ASSUMING THE COMMISSION AGREES THAT THE**
6 **EXTRAORDINARY GAS COSTS AND RELATED COSTS SHOULD BE**
7 **FINANCED USING SECURITIZED UTILITY TARIFF BONDS UNDER**
8 **THE ACT, HOW WOULD ATMOS ENERGY PROCEED IN OBTAINING**
9 **COMMISSION APPROVAL OF THE BONDS AND ISSUANCE OF THE**
10 **BONDS IF APPROVED?**

11 A. As indicated in Mrs. Ocanas' testimony and assuming the Commission agrees as
12 a result of this docket that the extraordinary gas costs and related costs should be
13 financed using securitized utility tariff bonds under the Act, then Atmos Energy
14 would plan to submit an application for a Financing Order in a separate docket to
15 obtain approval from the Commission to issue securitized utility tariff bonds under
16 the Act.

17 **Q. ARE THERE PARAMETERS RELATING TO THE SECURITIZED**
18 **UTILITY TARIFF BONDS THAT ATMOS ENERGY IS SEEKING**
19 **APPROVAL OR GUIDANCE ON FROM THE COMMISSION IN THIS**
20 **DOCKET?**

21 A. Yes. Atmos Energy is seeking approval or guidance from the Commission in this
22 docket as to whether it could have the flexibility in setting the term of the bonds
23 and the matching amortization period used to recover the extraordinary gas costs

1 and related costs that will be financed using the bonds. Having some flexibility in
2 setting the term of the bonds, will provide Atmos Energy the ability to negotiate the
3 lowest carrying costs assigned to the bonds and find the recovery period that puts
4 the least pressure on customers' bills.

5 **Q. WHAT TYPE OF FLEXIBILITY IN SETTING THE TERM OF THE**
6 **BONDS IS ATMOS ENERGY SEEKING IN THIS DOCKET?**

7 A. As set forth in the testimony of Mrs. Ocanas, Atmos Energy proposes it be granted
8 the flexibility to choose up to a 15-year amortization period.

9 **Q. HOW IS THIS FLEXIBILITY IN SETTING THE TERM OF THE BONDS**
10 **BENEFICIAL?**

11 A. The flexibility provides the Company the opportunity to adjust the monthly cost to
12 the customer and for the duration the customers will be paying.

13 **Q. IS THERE A BENEFIT TO HAVING A FIXED CHARGE PER CUSTOMER**
14 **CLASS VERSUS A VOLUMETRIC CHARGE?**

15 A. Yes. Both Moody's and Standard and Poor's rating agencies look at the variability
16 in the collection mechanism when establishing the rating on the bonds. The
17 issuance is more likely to get the AAA/Aaa rating if the charge is fixed. A
18 volumetric mechanism not only fluctuates greatly from the summer to the winter,
19 but it can also fluctuate from year to year. To offset these volumetric issues, a larger
20 reserve must be established, and this inefficiency will cost the customers more in
21 the long run. The fixed charge gives more certainty to the monthly collection.


22 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

23 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 for Atmos Energy Corporation; that he has read and is familiar with the foregoing Direct Testimony filed herewith; and that the statements made therein are true to the best of his knowledge, information and belief.



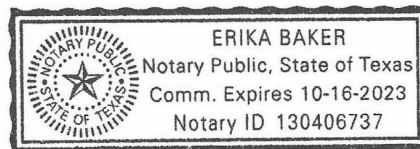
Jason L. Schneider

Subscribed and sworn before me this 13th day of September, 2021.



Notary Public

My appointment expires: Oct 16, 2023



SECTION 10. FINANCIAL RESPONSIBILITY

10.1. If either party ("X") has reasonable grounds for insecurity regarding the performance of any obligation under this Contract (whether or not then due) by the other party ("Y") (including, without limitation, the occurrence of a material change in the creditworthiness of Y or its Guarantor, if applicable), X may demand Adequate Assurance of Performance. "Adequate Assurance of Performance" shall mean sufficient security in the form, amount, for a term, and from an issuer, all as reasonably acceptable to X, including, but not limited to cash, a standby irrevocable letter of credit, a prepayment, a security interest in an asset or guaranty. Y hereby grants to X a continuing first priority security interest in, lien on, and right of setoff against all Adequate Assurance of Performance in the form of cash transferred by Y to X pursuant to this Section 10.1. Upon the return by X to Y of such Adequate Assurance of Performance, the security interest and lien granted hereunder on that Adequate Assurance of Performance shall be released automatically and, to the extent possible, without any further action by either party.

10.2. In the event (each an "Event of Default") either party (the "Defaulting Party") or its Guarantor shall: (i) make an assignment or any general arrangement for the benefit of creditors; (ii) file a petition or otherwise commence, authorize, or acquiesce in the commencement of a proceeding or case under any bankruptcy or similar law for the protection of creditors or have such petition filed or proceeding commenced against it; (iii) otherwise become bankrupt or insolvent (however evidenced); (iv) be unable to pay its debts as they fall due; (v) have a receiver, provisional liquidator, conservator, custodian, trustee or other similar official appointed with respect to it or substantially all of its assets; (vi) fail to perform any obligation to the other party with respect to any Credit Support Obligations relating to the Contract; (vii) fail to give Adequate Assurance of Performance under Section 10.1 within 48 hours but at least one Business Day of a written request by the other party; (viii) not have paid any amount due the other party hereunder on or before the second Business Day following written Notice that such payment is due; or ix) be the affected party with respect to any Additional Event of Default; then the other party (the "Non-Defaulting Party") shall have the right, at its sole election, to immediately withhold and/or suspend deliveries or payments upon Notice and/or to terminate and liquidate the transactions under the Contract, in the manner provided in Section 10.3, in addition to any and all other remedies available hereunder.

10.3. If an Event of Default has occurred and is continuing, the Non-Defaulting Party shall have the right, by Notice to the Defaulting Party, to designate a Day, no earlier than the Day such Notice is given and no later than 20 Days after such Notice is given, as an early termination date (the "Early Termination Date") for the liquidation and termination pursuant to Section 10.3.1 of all transactions under the Contract, each a "Terminated Transaction". On the Early Termination Date, all transactions will terminate, other than those transactions, if any, that may not be liquidated and terminated under applicable law ("Excluded Transactions"), which Excluded Transactions must be liquidated and terminated as soon thereafter as is legally permissible, and upon termination shall be a Terminated Transaction and be valued consistent with Section 10.3.1 below. With respect to each Excluded Transaction, its actual termination date shall be the Early Termination Date for purposes of Section 10.3.1.

The parties have selected either "Early Termination Damages Apply" or "Early Termination Damages Do Not Apply" as indicated on the Base Contract.

Early Termination Damages Apply:

10.3.1. As of the Early Termination Date, the Non-Defaulting Party shall determine, in good faith and in a commercially reasonable manner, (i) the amount owed (whether or not then due) by each party with respect to all Gas delivered and received between the parties under Terminated Transactions and Excluded Transactions on and before the Early Termination Date and all other applicable charges relating to such deliveries and receipts (including without limitation any amounts owed under Section 3.2), for which payment has not yet been made by the party that owes such payment under this Contract and (ii) the Market Value, as defined below, of each Terminated Transaction. The Non-Defaulting Party shall (x) liquidate and accelerate each Terminated Transaction at its Market Value, so that each amount equal to the difference between such Market Value and the Contract Value, as defined below, of such Terminated Transaction(s) shall be due to the Buyer under the Terminated Transaction(s) if such Market Value exceeds the Contract Value and to the Seller if the opposite is the case; and (y) where appropriate, discount each amount then due under clause (x) above to present value in a commercially reasonable manner as of the Early Termination Date (to take account of the period between the date of liquidation and the date on which such amount would have otherwise been due pursuant to the relevant Terminated Transactions).

For purposes of this Section 10.3.1, "Contract Value" means the amount of Gas remaining to be delivered or purchased under a transaction multiplied by the Contract Price, and "Market Value" means the amount of Gas remaining to be delivered or purchased under a transaction multiplied by the market price for a similar transaction at the Delivery Point determined by the Non-Defaulting Party in a commercially reasonable manner. To ascertain the Market Value, the Non-Defaulting Party may consider, among other valuations, any or all of the settlement prices of NYMEX Gas futures contracts, quotations from leading dealers in energy swap contracts or physical gas trading markets, similar sales or purchases and any other bona fide third-party offers, all adjusted for the length of the term and differences in transportation costs. A party shall not be required to enter into a replacement transaction(s) in

order to determine the Market Value. Any extension(s) of the term of a transaction to which parties are not bound as of the Early Termination Date (including but not limited to "evergreen provisions") shall not be considered in determining Contract Values and Market Values. For the avoidance of doubt, any option pursuant to which one party has the right to extend the term of a transaction shall be considered in determining Contract Values and Market Values. The rate of interest used in calculating net present value shall be determined by the Non-Defaulting Party in a commercially reasonable manner.

Early Termination Damages Do Not Apply:

10.3.1. As of the Early Termination Date, the Non-Defaulting Party shall determine, in good faith and in a commercially reasonable manner, the amount owed (whether or not then due) by each party with respect to all Gas delivered and received between the parties under Terminated Transactions and Excluded Transactions on and before the Early Termination Date and all other applicable charges relating to such deliveries and receipts (including without limitation any amounts owed under Section 3.2), for which payment has not yet been made by the party that owes such payment under this Contract.

The parties have selected either "Other Agreement Setoffs Apply" or "Other Agreement Setoffs Do Not Apply" as indicated on the Base Contract.

Other Agreement Setoffs Apply:

Bilateral Setoff Option:

10.3.2. The Non-Defaulting Party shall net or aggregate, as appropriate, any and all amounts owing between the parties under Section 10.3.1, so that all such amounts are netted or aggregated to a single liquidated amount payable by one party to the other (the "Net Settlement Amount"). At its sole option and without prior Notice to the Defaulting Party, the Non-Defaulting Party is hereby authorized to setoff any Net Settlement Amount against (i) any margin or other collateral held by a party in connection with any Credit Support Obligation relating to the Contract; and (ii) any amount(s) (including any excess cash margin or excess cash collateral) owed or held by the party that is entitled to the Net Settlement Amount under any other agreement or arrangement between the parties.

Triangular Setoff Option:

10.3.2. The Non-Defaulting Party shall net or aggregate, as appropriate, any and all amounts owing between the parties under Section 10.3.1, so that all such amounts are netted or aggregated to a single liquidated amount payable by one party to the other (the "Net Settlement Amount"). At its sole option, and without prior Notice to the Defaulting Party, the Non-Defaulting Party is hereby authorized to setoff (i) any Net Settlement Amount against any margin or other collateral held by a party in connection with any Credit Support Obligation relating to the Contract; (ii) any Net Settlement Amount against any amount(s) (including any excess cash margin or excess cash collateral) owed by or to a party under any other agreement or arrangement between the parties; (iii) any Net Settlement Amount owed to the Non-Defaulting Party against any amount(s) (including any excess cash margin or excess cash collateral) owed by the Non-Defaulting Party or its Affiliates to the Defaulting Party under any other agreement or arrangement; (iv) any Net Settlement Amount owed to the Defaulting Party against any amount(s) (including any excess cash margin or excess cash collateral) owed by the Defaulting Party to the Non-Defaulting Party or its Affiliates under any other agreement or arrangement; and/or (v) any Net Settlement Amount owed to the Defaulting Party against any amount(s) (including any excess cash margin or excess cash collateral) owed by the Defaulting Party or its Affiliates to the Non-Defaulting Party under any other agreement or arrangement.

Other Agreement Setoffs Do Not Apply:

10.3.2. The Non-Defaulting Party shall net or aggregate, as appropriate, any and all amounts owing between the parties under Section 10.3.1, so that all such amounts are netted or aggregated to a single liquidated amount payable by one party to the other (the "Net Settlement Amount"). At its sole option and without prior Notice to the Defaulting Party, the Non-Defaulting Party may setoff any Net Settlement Amount against any margin or other collateral held by a party in connection with any Credit Support Obligation relating to the Contract.

10.3.3. If any obligation that is to be included in any netting, aggregation or setoff pursuant to Section 10.3.2 is unascertained, the Non-Defaulting Party may in good faith estimate that obligation and net, aggregate or setoff, as applicable, in respect of the estimate, subject to the Non-Defaulting Party accounting to the Defaulting Party when the obligation is ascertained. Any amount not then due which is included in any netting, aggregation or setoff pursuant to Section 10.3.2 shall be discounted to net present value in a commercially reasonable manner determined by the Non-Defaulting Party.

10.4. As soon as practicable after a liquidation, Notice shall be given by the Non-Defaulting Party to the Defaulting Party of the Net Settlement Amount, and whether the Net Settlement Amount is due to or due from the Non-Defaulting Party. The Notice shall include a written statement explaining in reasonable detail the calculation of the Net Settlement Amount, provided that failure to give such Notice shall not affect the validity or enforceability of the liquidation or give rise to any claim by the Defaulting Party against the Non-Defaulting Party. The Net Settlement Amount as well as any setoffs applied against such amount pursuant to Section 10.3.2, shall be paid by the close of business on the second

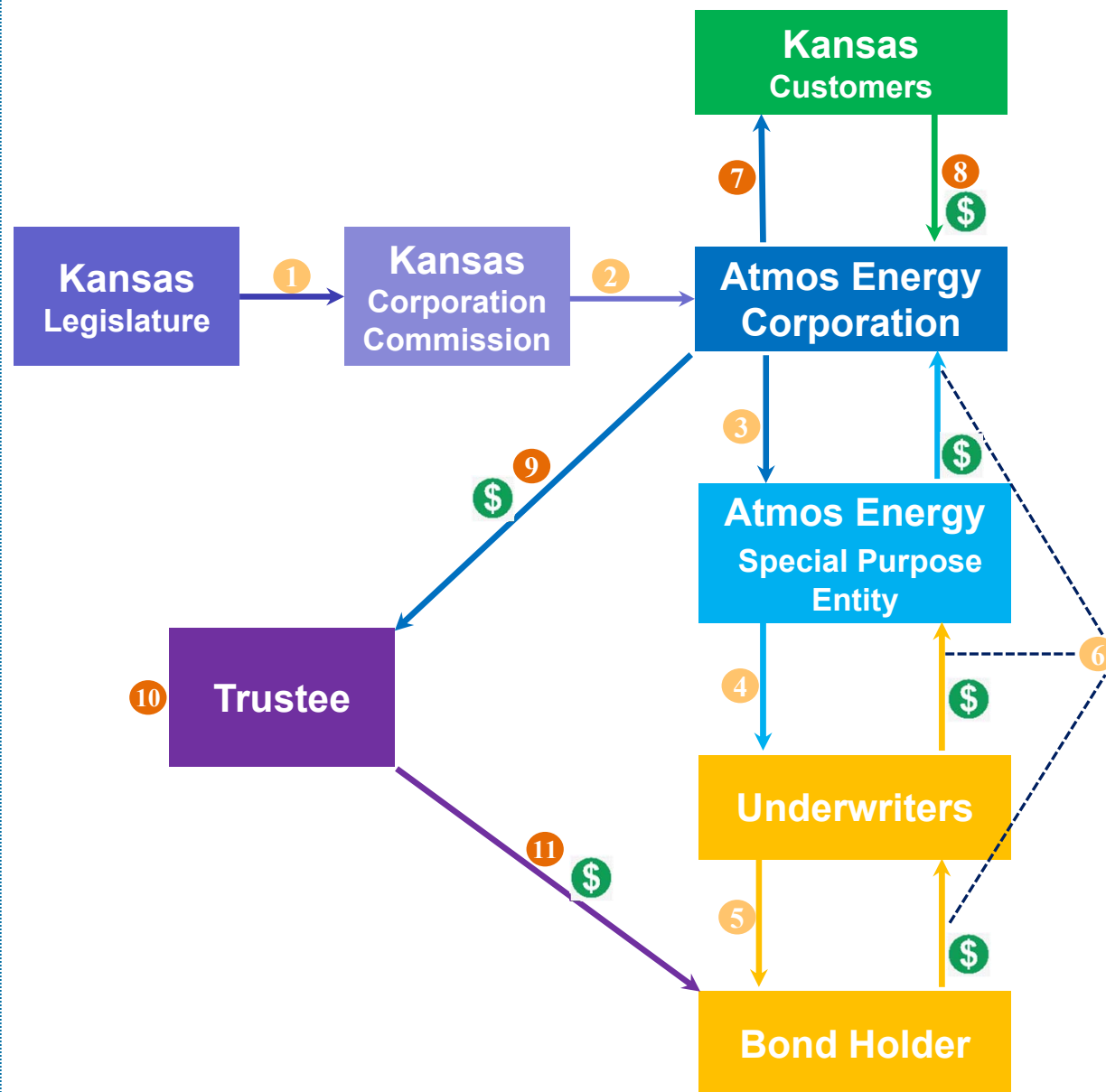
Business Day following such Notice, which date shall not be earlier than the Early Termination Date. Interest on any unpaid portion of the Net Settlement Amount as adjusted by setoffs, shall accrue from the date due until the date of payment at a rate equal to the lower of (i) the then-effective prime rate of interest published under "Money Rates" by The Wall Street Journal, plus two percent per annum; or (ii) the maximum applicable lawful interest rate.

10.5. The parties agree that the transactions hereunder constitute a "forward contract" within the meaning of the United States Bankruptcy Code and that Buyer and Seller are each "forward contract merchants" within the meaning of the United States Bankruptcy Code.

10.6. The Non-Defaulting Party's remedies under this Section 10 are the sole and exclusive remedies of the Non-Defaulting Party with respect to the occurrence of any Early Termination Date. Each party reserves to itself all other rights, setoffs, counterclaims and other defenses that it is or may be entitled to arising from the Contract.

10.7. With respect to this Section 10, if the parties have executed a separate netting agreement with close-out netting provisions, the terms and conditions therein shall prevail to the extent inconsistent herewith.

Securitization, Issuance and Repayment



Issuance of the securitized notes

- 1 The Legislature puts a law in place to allow for the securitization of cost that dictates how securitization works
- 2 The Commission issues an irrevocable financing order
- 3 ATO transfers the (receivable) to the Special Purpose Entity
- 4 The State agency issues AAA/Aaa rated notes to the underwriters to sell
- 5 The underwriters deliver the notes to the buyers
- 6 Proceeds from the bonds are passed from the bondholder to the underwriters, then to the state agency, and ultimately to the utility.

Collection of the receivable and repayment of the bonds

- 7 A special non-by-passable charge is added to customer's monthly bills. This special charge may be adjusted from time to time to assure that the correct amount is collected to pay the bond holders.
- 8 The monthly special charge collected by ATO
- 9 ATO remits the amount collected to the Trustee
- 10 The Trustee holds the cash and the asset (receivable) on behalf of the bondholders
- 11 The Trustee makes semi-annual interest and/or principal payments to investors.

DATA SUMMARY

	Amount to be Recovered			
	Purchased Gas Costs	3-year Amortization	Securitization 10 Year	Securitization 15 Year
	(000s)	(000s)	(000s)	(000s)
	94,138	106,917	98,175	98,175
Totals	94,138	106,917	98,175	98,175

Customer Count and Usage Information			
Customers		Avg Customer	% Use
Annual Count	Annual Mcf	Month Count	Total (Mcf)

COST-EFFECTIVENESS OF 10-YEAR BONDS VERSUS ALTERNATIVE METHODS

Annual Costs (000s):

Year	Securitization 10 Year	Alternative Methods	
		Purchased Gas Cost	3-Year Amortization
1	12,113	94,138	43,119
2	12,029	-	40,127
3	11,945	-	37,135
4	11,859	-	-
5	11,773	-	-
6	11,686	-	-
7	11,598	-	-
8	11,509	-	-
9	11,419	-	-
10	11,329	-	-

Present Value (000s):

5%	93,057	91,869	112,246
10%	76,002	89,757	105,156
15%	63,632	87,784	98,931
20%	54,422	85,935	93,430

Savings from Securitized CRR Bonds (000s):

5%	(1,188)	19,190
10%	13,755	29,155
15%	24,152	35,300
20%	31,514	39,008

ANNUAL COST OF 3-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	106,917	17,819	89,097	7,481	35,639	43,119
2	106,917	53,458	53,458	4,488	35,639	40,127
3	106,917	89,097	17,819	1,496	35,639	37,135

ANNUAL COST OF 10-YEAR SENSITIVITY

Bond Principal (000s):

Total Regulatory Asset		98,175
Underwriting Expenses @	0.6500%	638
Issuance Expenses @	0.6742%	662
Debt Service Reserve Funding	50.0%	5,548
Bond Principal		105,023

Annual Costs (000s):

Year	Interest Rate	Principal Payment	Interest Expense	Bond Costs	Operation & Admin. @ 0.60%	Annual Costs
1	1.88%	9,508	1,974	11,483	630	12,113
2	1.88%	9,603	1,796	11,399	630	12,029
3	1.88%	9,699	1,615	11,314	630	11,945
4	1.88%	9,796	1,433	11,229	630	11,859
5	1.88%	9,894	1,249	11,143	630	11,773
6	1.88%	9,993	1,063	11,056	630	11,686
7	1.88%	10,093	875	10,968	630	11,598
8	1.88%	10,194	685	10,879	630	11,509
9	1.88%	10,296	493	10,789	630	11,419
10	1.88%	15,947	300	10,699	630	11,329
Total		105,024				

COST-EFFECTIVENESS OF 15-YEAR BONDS VERSUS ALTERNATIVE METHODS

Annual Costs (000s):

Year	Securitized Customer Rate Relief Bonds	Alternative Methods	
		Purchased Gas Cost	15-Year Amortization
1	9,253	94,138	14,513
2	9,169	-	13,964
3	9,084	-	13,414
4	8,998	-	12,865
5	8,911	-	12,315
6	8,824	-	11,765
7	8,735	-	11,216
8	8,646	-	10,666
9	8,556	-	10,117
10	8,464	-	9,567
11	8,372	-	9,018
12	8,279	-	8,468
13	8,185	-	7,919
14	8,090	-	7,369
15	7,995	-	6,820

Present Value (000s):

5%	92,729	91,869	118,724
10%	70,133	89,757	92,634
15%	55,527	87,784	75,276
20%	45,629	85,935	63,190

Savings from Securitized CRR Bonds:

5%	(860)	25,995
10%	19,623	22,501
15%	32,256	19,748
20%	40,306	17,560

ANNUAL COST OF 15-YEAR SENSITIVITY

Required Bond Principal (000s):

Regulatory Asset (000s)		98,175
Underwriting Expenses @	0.7000%	687
Issuance Expenses @	0.7260%	713
Debt Service Reserve Funding	50.00%	4,008
Bond Principal		103,583

Annual Costs (000s):

Year	Interest Rate	Principal Payment	Interest Expense	Bond Costs	Operation & Admin. @ 0.60%	Annual Costs
1	2.36%	6,186	2,446	8,632	622	9,253
2	2.36%	6,248	2,300	8,547	622	9,169
3	2.36%	6,310	2,152	8,462	622	9,084
4	2.36%	6,373	2,003	8,376	622	8,998
5	2.36%	6,437	1,853	8,290	622	8,911
6	2.36%	6,502	1,701	8,202	622	8,824
7	2.36%	6,567	1,547	8,114	622	8,735
8	2.36%	6,632	1,392	8,024	622	8,646
9	2.36%	6,699	1,235	7,934	622	8,556
10	2.36%	6,766	1,077	7,843	622	8,464
11	2.36%	6,833	918	7,751	622	8,372
12	2.36%	6,902	756	7,658	622	8,279
13	2.36%	6,971	593	7,564	622	8,185
14	2.36%	7,040	429	7,469	622	8,090
15	2.36%	11,119	263	7,373	622	7,995
Total		103,583				