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February 2, 2022

Linda C. Bridwell
Executive Director
Public Service Commission
211 Sower Blvd.
Frankfort, KY 40601

Re: Atmos Energy Corporation
Case No. 2021-00214

Dear Ms. Bridwell:

Atmos Energy Corporation submits its response to PSC DR 7.

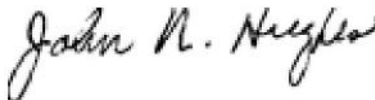
I certify that the electronic documents are true and correct copies of the original documents and that no party has been excused from electronic service.

If you have any questions about this filing, please contact me.

Submitted By:

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And



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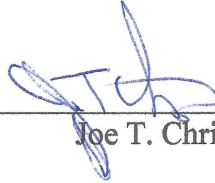
COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF)
RATE APPLICATION OF) Case No. 2021-00214
ATMOS ENERGY CORPORATION)

CERTIFICATE AND AFFIDAVIT

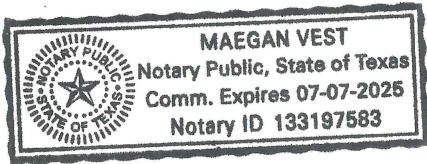
The Affiant, Joe T. Christian, being duly sworn, deposes and states that the attached responses to Commission Staff's seventh request for information are true and correct to the best of his knowledge and belief.



Joe T. Christian

STATE OF TEXAS
COUNTY OF DALLAS

SUBSCRIBED AND SWORN to before me by Joe T. Christian on this the 2nd day of February, 2022.



Notary Public

My Commission Expires: 7-7-2025

COMMONWEALTH OF KENTUCKY

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IN THE MATTER OF)
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ATMOS ENERGY CORPORATION)

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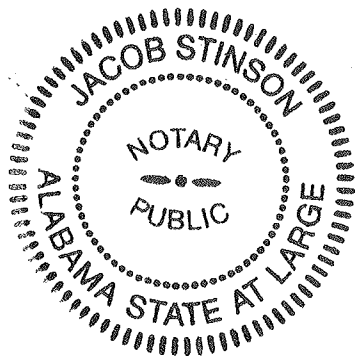
The Affiant, Brannon C. Taylor, being duly sworn, deposes and states that the attached responses to Commission Staff's seventh request for information are true and correct to the best of his knowledge and belief.




Brannon C. Taylor

STATE OF ALABAMA
COUNTY OF BALDWIN

SUBSCRIBED AND SWORN to before me by Brannon C. Taylor on this the 2 day of February, 2022.





Notary Public
My Commission Expires: 11-19-2024

Case No. 2021-00214
Atmos Energy Corporation, Kentucky Division
Staff DR Set No. 7
Question No. 7-01
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REQUEST:

Refer to the Application, Volume 6, FR_16(8)(j)_Att1_-_Schedule_J, schedule J-2 F, page 8 of 8, the short-term debt balance of \$21.557 million and commitment fees of \$5.305 million. Also refer to the spreadsheet filed on December 3, 2021, 2021_KY_Rev_Req_Model_-_Rebuttal_-_Revised.xlsx, Tab J-2F. Here the short-term debt balance decreased to \$6.705 million and the commitment fees increased to \$5.417 million.

- a. Explain why Atmos decreased its short-term debt balance. Provide support for this decrease.
- b. Explain why the commitment fees increased. Provide support for this increase.
- c. Refer to the Direct Testimony of Lane Kollen, page 41. Here Mr. Kollen calculated commitment fees based upon each line of credit if the maximum amount was borrowed. Explain why Atmos's commitment fees are almost double that of the amount calculated by Mr. Kollen.

RESPONSE:

- a. As discussed in the Direct Testimony of Joe Christian, page 53, lines 3-13, the original filed application is based on the Company's consolidated capital structure at March 31, 2021. Company response to Staff 1-55 provides the detail support for the March 31, 2021 capital structure (Capital Structure 03-31-21_Consolidated.xlsm). The Company updated its capital structure, as noted in the Rebuttal Testimony of Joe Christian, page 6, lines 5-9, to September 30, 2021 to reflect the 13 month average capital structure and long-term debt costs through the end of the base period. The decrease noted in the question is simply the result of updating from March 31, 2021 to September 30, 2021.
- b. Bank fees increased period over period for the following reasons:
 - i. During March 2021, the existing \$1.5 billion credit facility was renewed and S&P lowered our long-term/short-term ratings from A/A-1 to A-/A-2. As a result of these two things during the 12 months ended March 2021, compared to the twelve months ended September 2021, fees recorded was \$451,109 higher.
 - ii. During March 2021, the existing \$600 million 364-day credit facility was replaced with a new \$900 million three-year credit facility. As a result of this replacement during the 12 months ended March 2021 compared to the twelve months ended September 2021, the fees recorded decreased \$347,332.

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- iii. During April 2020, the existing \$25 million 364-day credit facility with Bank of Texas was increased to \$50 million. This resulted in a net-fee increase of \$8,599.

- c. Please refer to the Company's response to Staff DR No. 1-55 (the folder "Staff_1-55_Folder 2 - Revenue Requirements Model and WPs", subfolder "Relied Upons"), the file named "Capital Structure 03-31-21_Consolidated.xlsx". In this file, consolidated balance sheet detail tab, spreadsheet columns "M" - "O", rows "11-23". As shown in these rows, Mr. Kollen has not included the Utility Bank Administration fees in his calculation, column O, only the commitment fees shown in column N. The Company does acknowledge that the label on Schedule J-2 (F), which says "COMMITMENT FEE", could be clearer if it was the same as the label on Schedule J-2 (B), which says, "COMMITMENT FEE & BANK ADMIN"; however, Mr. Kollen's calculations and use of AG DR No. 1-55 in his calculation does not consider all of the costs needed to maintain its short term borrowing.

Respondent: Joe Christian

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Question No. 7-02
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REQUEST:

Refer to the spreadsheet filed by Atmos on December 3, 2021, 2021_KY_Rev_Req_Model_-_Rebuttal_-_Revised.xlsx, Tab J-1.

- a. Explain the adjustment made for Interest Rate Swaps.
- b. Explain why this adjustment was not included in the original filing.
- c. Provide all interest rate swaps and the associated gains and losses since 2018.

RESPONSE:

- a. Please see the Rebuttal Testimony of Joel Multer, page 7, lines 3-13 where Mr. Multer explains that the Company agrees with Mr. Kollen's proposed reduction to rate base for unrealized interest rate swaps if the corresponding adjustment is made to the Company's capital structure. Tab J-1 reflects the impact of interest rate swaps on the Company's capital structure.
- b. The Company had excluded the unrealized interest rate swaps (T-Lock adjustment) from ADIT therefore no adjustment to capital structure to reflect the reduction to other comprehensive income was necessary. However, in accepting Mr. Kollen's adjustment for the interest rate swap, the other side of the entry is to include the impact of interest rate swaps included in other comprehensive income.
- c. Atmos Energy has settled the following interest rate swaps since 2018:

February 2019 – loss of \$90,141,479

October 2020 – loss of \$4,426,058

October 2021 – gain of \$62,159,387

Please see the Company's FY 2021 10K, Liquidity and Capital Resources section for details of currently open swap positions.

Respondent: Joe Christian

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Question No. 7-03
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REQUEST:

Refer to the Rebuttal Testimony of Joe T. Christian (Christian Rebuttal Testimony), page 8 line 16 through page 9, line 8.

- a. Explain how Atmos allocates funds to its subsidiaries.
- b. Mr. Christian states that Atmos makes business decisions in the best interest of all of its stakeholders.
 - (1) Explain who these stakeholders are.
 - (2) Explain how Atmos prioritizes these stakeholders.
 - (3) Explain how Atmos prioritizes these stakeholders for its Kentucky operations.
- c. When Atmos goes to the market for a loan, explain if the lenders review Atmos's capital structure or do lenders review the capital structure applied for rate making purposes in each of its subsidiaries.
- d. Explain if a capital structure is altered for rate making purposes, if these changes directly alter Atmos's capital structure.

RESPONSE:

- a. Please see the Direct Testimony of Mr. Christian, page 52, lines 5-11 where he explains that Atmos Energy's utility divisions are not subsidiaries. Please see response to Staff 1-29 for an explanation regarding the determination of the Company's capital budgeting process.
- b.
 - (1) The Company's stakeholders include our customers and communities that we serve, our employees, and and our shareholders and bondholders.
 - (2) The below image best illustrates how the priorities are derived:

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Atmos Energy's management team is executing its strategy to achieve these goals, which has included streamlining our business to focus our efforts as solely a regulated natural gas distributor; pursuing operational efficiencies; keeping our primary focus on customer service and safety enhancements; and strengthening and maintaining our balance sheet through actions such as issuances of equity and refinancing of long-term debt to be able to make capital investments in system safety at a reasonable cost of capital.

- (3) Within the envelope of its vision to be the safest provider of natural gas services, Atmos Energy operates pursuant to the statutes and regulations promulgated by each of its regulators. One example specific to Kentucky in this regard is restraint of capital investment as directed in our previous two rate cases. In this case Atmos Energy has respectfully requested that we be able to focus more investment in our Kentucky operations to proactively address the safety needs of the natural gas distribution system.

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- c. Please see the Direct Testimony of Joe Christian, page 52, lines 9-11 where he explains that all debt and equity funding of the operations of the utility divisions is Atmos Energy is issued on a consolidated basis.

- d. If the capital structure used in a jurisdiction for rate making purposes is artificially altered to be something different than Atmos Energy's actual cost of capital, those changes do not directly alter Atmos Energy's actual capital structure. However, as explained in the direct and rebuttal testimony, this alteration functions as a disallowance of prudently incurred costs of capital and has an adverse effect on Atmos Energy's ability to earn a reasonable and fair return on its investment, resulting in adverse consequences and working against Atmos Energy's ability to meet the needs of all of its stakeholders, as described above.

Respondent: Joe Christian

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Question No. 7-04
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REQUEST:

Refer to the Christian Rebuttal Testimony, Exhibit JTC-R-2.

- a. Explain what this exhibit represents.
- b. Explain whether this analysis represents Atmos or Atmos's Kentucky operations.
- c. Provide the actual time periods Year 1, Year 2, etc. represent.
- d. Explain whether rating agencies such as Moody's or Standard and Poor's use a capital structure used for rate making purposes for a subsidiary or use Atmos's capital structure as a whole.
- e. Explain whether this analysis implies that if the capital structure is modified for rate making purposes for a subsidiary of Atmos, it will impact Atmos's capital structure as rating agencies will use this differing capital structure for the calculation of key financial indicators.
- f. Explain whether Kentucky operations represent the entire company when Atmos goes to the market for financing.

RESPONSE:

- a. Please see the Rebuttal Testimony of Joe Christian, page 10, line 1 through page 11, line 12. As further explained in this section of his testimony, Exhibit JTC-R-2 provides the analytical basis to support the Company's requested capital structure. This Exhibit demonstrates that the OAG's recommended capital structure, when compared to the Company's consolidated capital structure, results in lower key financial indicators and thus affirms that the if the OAG's capital structure were adopted then the resulting rates would create a negative impact as compared to the Company's other regulated utility operations.
- b. As noted in the Rebuttal Testimony of Joe Christian, page 10, lines 5-6, it is based on Atmos Energy's Kentucky operations.
- c. FY 2020, FY 2021, FY 2022, FY 2023, FY 2024, FY 2025, FY 2026.

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- d. Please see Company response to Staff DR No. 2-35 for the full ratings agency reports. Financially, the ratings agencies utilize the consolidated capital structure but a portion of their evaluation is their assessment of the regulatory environment. In the case of Atmos Energy this is an accumulation of our eight state operating area so overall it is both consolidated information as well as an assessment of each of our regulatory jurisdictions.
- e. Please see the Company's response to Staff DR No. 7-03 (a) regarding the legal structure of Atmos Energy. As Mr. Christian stated in his rebuttal testimony, if the Commission fully adopted OAG's recommendations, the Kentucky operations would not pull the same weight in the generation of funds from operations or coverage of debt obligations as the Company's other utility operations. Mr. Christian does not know how the ratings agencies would react to the Commission adopting a hypothetical capital structure in this case.
- f. Atmos Energy's Kentucky operations represent only a portion of the financial information provided to ratings agencies for evaluation and market participants when debt and equity is sold under our shelf registration.

Respondent: Joe Christian

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Question No. 7-05
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REQUEST:

Refer to Atmos's response to Commission Staff's Sixth Request for Information, Item 6, Attachment 1, regarding the returned check charge. That request asked for the number of returned payments by month for calendar years 2016 to 2020 and 2021 to date as well as the dollar amount of fees banks have charged Atmos by month for returned payments for those same periods. While Atmos's response appears to have included the number of returned payments by month for the requested periods, Atmos appears to have provided the amount it charged customers for returned payments instead of the amount it was charged for returned payments by the banks it does business with.

- a. Provide the amount Atmos was charged by its banks for returned payments for the previously requested periods.
- b. Atmos's response seems to indicate it assessed less returned payment charges than there were returned payments. Confirm that this is accurate, and if so, explain why there were less returned payment charges assessed than there were returned payments. If not confirmed, explain why the amounts in the Returned Fee Charge Count columns are less than the amounts in the Returned Payment Count columns.

RESPONSE:

- a. The Company also referred to Commission Staff's Sixth Request, Item 2 to help prepare this response. Amarillo National Bank does not charge a fee for ACH returns. Please see Attachment 1 for information requested for non-ACH returned payments in Kentucky.
- b. Confirmed. Not all returns are subject to a fee and therefore the count will always be higher than the amounts assessed. For example, we receive returns that are not returned for a traditional return reason such as NSF or stop payment. Due to this, there is not a return fee to charge the customer.

ATTACHMENT:

ATTACHMENT 1 - Staff_7-05_Att1 - Non-ACH Returned Payments 2016 - 2021.xls, 6 Pages.

Respondent: Brannon Taylor

Atmos Energy Corporation
Non-ACH Returned Payments
2016

Month	Returned Payment Count	US Bank Return Fee Sum
Jan-16	14	\$ 63.00
Feb-16	29	\$ 130.50
Mar-16	18	\$ 81.00
Apr-16	14	\$ 63.00
May-16	15	\$ 67.50
Jun-16	11	\$ 49.50
Jul-16	17	\$ 76.50
Aug-16	20	\$ 90.00
Sep-16	17	\$ 76.50
Oct-16	16	\$ 72.00
Nov-16	26	\$ 117.00
Dec-16	27	\$ 121.50
Grand Total	224	\$ 1,008.00

Atmos Energy Corporation
Non-ACH Returned Payments
2017

Month	Returned Payment Count	US Bank Return Fee Sum
Jan-17	27	\$ 121.50
Feb-17	19	\$ 85.50
Mar-17	52	\$ 234.00
Apr-17	26	\$ 117.00
May-17	25	\$ 112.50
Jun-17	15	\$ 67.50
Jul-17	16	\$ 72.00
Aug-17	19	\$ 85.50
Sep-17	13	\$ 58.50
Oct-17	18	\$ 81.00
Nov-17	8	\$ 36.00
Dec-17	21	\$ 94.50
Grand Total	259	\$ 1,165.50

Atmos Energy Corporation
Non-ACH Returned Payments
2018

Month	Returned Payment Count	US Bank Return Fee Sum
Jan-18	20	\$ 90.00
Feb-18	12	\$ 54.00
Mar-18	30	\$ 135.00
Apr-18	25	\$ 112.50
May-18	18	\$ 81.00
Jun-18	15	\$ 67.50
Jul-18	15	\$ 67.50
Aug-18	18	\$ 81.00
Sep-18	15	\$ 67.50
Oct-18	15	\$ 67.50
Nov-18	12	\$ 54.00
Dec-18	16	\$ 72.00
Grand Total	211	\$ 949.50

Atmos Energy Corporation
Non-ACH Returned Payments
2019

Month	Returned Payment Count	US Bank Return Fee Sum	Fifth Third Bank Return Fee Sum
Jan-19	21	\$ 94.50	N/A
Feb-19	12	\$ 54.00	N/A
Mar-19	30	\$ 135.00	N/A
Apr-19	14	\$ 63.00	N/A
May-19	15	\$ 67.50	N/A
Jun-19	7	\$ 31.50	N/A
Jul-19	20	\$ 90.00	N/A
Aug-19	13	\$ 58.50	N/A
Sep-19	22	\$ 99.00	N/A
Oct-19	13	\$ 58.50	N/A
Nov-19	9	\$ 40.50	N/A
Dec-19	22	\$ 76.50	\$ 16.50
Grand Total	198	\$ 868.50	\$ 16.50

Atmos Energy Corporation
Non-ACH Returned Payments
2020

Month	Returned Payment Count	Fifth Third Bank Return Fee Sum	US Bank Return Fee Sum
Jan-20	34	\$ 105.60	\$ 6.60
Feb-20	23	\$ 75.90	N/A
Mar-20	23	\$ 75.90	N/A
Apr-20	20	\$ 66.00	N/A
May-20	13	\$ 42.90	N/A
Jun-20	9	\$ 29.70	N/A
Jul-20	11	\$ 36.30	N/A
Aug-20	21	\$ 69.30	N/A
Sep-20	16	\$ 52.80	N/A
Oct-20	17	\$ 56.10	N/A
Nov-20	13	\$ 42.90	N/A
Dec-20	16	\$ 52.80	N/A
Grand Total	216	\$ 706.20	\$ 6.60

Atmos Energy Corporation
Non-ACH Returned Payments
2021

Month	Returned Payment Count	Fifth Third Bank Return Fee Sum
Jan-21	29	\$ 95.70
Feb-21	14	\$ 46.20
Mar-21	28	\$ 92.40
Apr-21	11	\$ 36.30
May-21	13	\$ 42.90
Jun-21	15	\$ 49.50
Jul-21	10	\$ 33.00
Aug-21	14	\$ 46.20
Sep-21	11	\$ 36.30
Oct-21	21	\$ 69.30
Nov-21	12	\$ 39.60
Dec-21	17	\$ 56.10
Grand Total	195	\$ 643.50

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REQUEST:

Explain how Atmos uses short-term debt.

- a. Explain when Atmos decides to roll short-term debt into long term debt.
- b. Explain if there is a trigger amount or balance that signals a need to roll short-term debt into long-term debt and if so, provide this trigger or balance.
- c. Provide the number of times Atmos has accessed its short-term debt since 2018.

RESPONSE:

- a. The Company would note that short-term debt is replaced with funds retained from operations and equity issuances as well as long-term debt. With regard to long-term debt, there are several considerations used when the Company decides to issue long-term debt to reduce outstanding short-term debt. These considerations include, but are not limited to, the following: working capital, index eligible amounts, and capital market dynamics.

If working capital results in positive cash flows, those funds can be used to reduce short-term debt; however, the Company's capital spending levels the past few years have resulted in the Company needing to raise new long-term external capital on a frequent basis. Issuing long-term debt in "Index Eligible" amounts are preferred to ensure a broad investor base to issue bonds at better coupon rates than non-index eligible bonds. Capital Market dynamics include, but are not limited to, interest rate volatility, geopolitical news, financial news, and other market participants accessing the capital markets.

- b. There is not a trigger amount or balance that signals a need to replace short-term debt with long-term debt. However, the items listed in (a) above are several of the considerations that are used to determine when to pay down short-term debt with a long-term debt issuance.
- c. Since 2018, Atmos Energy has accessed the short-term debt market 432 times resulting in gross proceeds of approximately \$6.5 billion.

Respondent: Joe Christian