Atmos Energy
Second Quarter Conference Call
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<u>Presenters</u>
Kevin Akers, President and CEO
Chris Forsythe, Senior Vice President and CFO
Dan Meziere, Vice President and Treasurer

<u>Q&A Participants</u>
Aga Zmigrodzka - UBS
Richie Ciciarelli - Bank of America
Charles Fishman - Morningstar
Ryan Levine - Citi
Insoo Kim - Goldman Sachs

Operator
Greetings and welcome to the Atmos Energy Second Quarter Conference Call. At this time, all participants are in a listen-only mode. A question and answer session will follow the formal presentation. If anyone should require operator assistance during the conference, please press *0 on your telephone keypad. As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Dan Meziere, Vice President and Treasurer for Atmos Energy. Thank you. You may begin.

Dan Meziere
Thanks, Doug.

Good morning, everyone, and thank you for joining us. This call is being webcast live on the internet. Our earnings release and conference call slide presentation, which we will reference in our prepared remarks, are available at AtmosEnergy.com under the Investor Relations tab.

As we review these financial results and discuss future expectations, please keep in mind that some of our discussion might contain forward-looking statements within the meaning of the Securities Act and the Securities Exchange Act. Our forward-looking statements and projections could differ materially from actual results. The factors that could cause such material differences are outlined on slide 32 and are more fully described in our SEC filings.

Our first speaker is Kevin Akers, President and CEO of Atmos Energy. Kevin.

Kevin Akers
Thank you, Dan, and good morning, everyone. We appreciate you joining us and your interest in Atmos Energy. I hope you and your families are safe and healthy as we continue to navigate our

way through this challenge together. I want to take this opportunity to recognize and thank our everyday heroes, those who are helping our country battle this pandemic, our first responders, healthcare workers, law enforcement officials, grocery store employees, truck drivers delivering our nation's supplies, those serving in our branches of the military, and all essential services providers working to support our communities. Thank you for what you are doing to help all of us. We are eternally grateful.

Also want to thank our 4800 Atmos Energy everyday heroes as they continue to provide our customers safe and reliable natural gas service. I am extremely proud of their dedication and commitment to keeping our 3.1 million customers of 1400 communities and themselves healthy and safe. Atmos Energy's commitment to safety, paired with our culture, have led us during unique times and this will be no different.

In early February, our Chief Information Officer led a team effort to assess and test our companywide remote work capabilities, including our two customer support centers, gas supply, our two gas control centers, our shared service functions, and over 200 operational service centers across our eight state service territory. Through their effort, by mid-March, when local and state governments started issuing shelter-in-place orders, we were ready to transition every facet of our business to a fully remote work environment.

Today, we have over 95% of our employees working remotely and continuing to perform at the highest levels. As an example of their outstanding effort, for the month of April, our customer service agents' satisfaction scores were 97.6% and our service technicians' satisfaction scores were 97.4%. Truly outstanding work by that team.

In addition, our risk management and compliance committee, along with senior leaders from across the company, focused on several operational scenario-planning exercises in early March. These exercises, based on current world and U.S. situations, were focused on maintaining the safety of our customers, communities, and employees as we continue to provide reliable natural gas service. Specific areas of focus were emergency response, system maintenance and compliance work, including pipe replacement, line locating, system inspections, as well as the ability to remotely train employees.

Beside working remotely, you will see employees doing our part to reduce the spread of the virus by practicing social distancing, wearing face coverings while working in our communities, or working in smaller construction crews. We believe the above implemented practices for our employees and our contractors, along with using CDC guidelines to design safety protocols with things such as self-temperature and system screening, have us positioned to continue providing safe and reliable natural gas service.

Using the safety practices and protocols mentioned above under shelter-in-place orders, we have been able to safely perform distribution and transmission pipeline system work. This work includes maintenance and compliance activities, pipe replacement, line locating, and system inspections. In preparing our work plans, practices, and protocols, we worked with our regulatory agencies, local and state officials, emergency management, the American Gas Association, and industry peers across our service territory. We greatly appreciate their leadership and ongoing support as we all work together for the health and safety of our employees, customers, and communities.

Our culture, Atmospirit, has guided us in the past, is guiding us during this challenging time, and will continue to guide us into the future as we look to be at our best, (inaudible) the best in others, and make a difference--making a difference for local food banks and communities across our 8 states to help keep meals on tables through our donation of $1.5 million dollars. Being at our best, Atmos Energy employees partnered with many nonprofit agencies, schools, hospitals throughout our service territory to fill lunch bags for children, provide meals for our healthcare heroes and first responders, or by donating much-needed plasma.

Making a difference for our customers by temporarily suspending disconnections for nonpayment and delayed late payment and certain reconnect fees during these challenging times so customers continue to have safe and reliable natural gas service for heat, water heat, and cooking. I'm extremely proud of our 4800 employees and how their Atmos spirit has shined so brightly upon our neighbors and our communities.

Also making a difference, we closely worked with our regulators to develop solutions to the mutual benefit of our customers and the company. We have elected to defer implementation of new rates for approximately 32% of our customers in Texas from our fiscal third quarter to at least September 1st of this year. Additionally, we have received regulatory orders in four states, covering approximately 80% of our customers, to defer any COVID-19-related calls including bad debt expense.

In April, we executed $900 million dollars in new financing arrangements to further solidify our liquidity. As of April 30th, our liquidity was $2.9 billion dollars and our balance sheet remains very strong. Now, I would like to turn the call over to Chris for a financial update and I will return shortly with a few closing remarks.

Chris Forsythe
Thank you, Kevin, and good morning, everyone. Last night, we reported fiscal 2020 second quarter diluted earnings per share of $1.95 compared to $1.82 per diluted share in the prior year quarter. Year to date, diluted earnings per share were $3.42 compared with $3.21 per diluted share in the prior year period.

As Kevin mentioned in his opening remarks, mitigation efforts to slow the spread of COVID-19 began to impact our service territories during the last two weeks of March. Therefore, we did not experience a material impact from COVID-19 during the first six months of the fiscal year. Consolidated operating income during the six months ending March 31 rose over 9% to $584 million dollars.

I will touch on a few of the highlights now. Rate increases in both our operating segments, driven by increased safety and reliability capital spending, totaled $83 million dollars. Customer growth in our distribution segment contribute an incremental $8.5 million dollars as we continue to benefit from the strong population growth in several of our service areas, most notably in the DFW metroplex. For the 12 months ending March 31st, we experienced 1.5% net customer growth in our north Texas distribution business and 1.2% net customer growth across our eight state footprint.

Consolidated O&M increased $12 million dollars, or 4.2%, primarily driven by higher employee and information technology costs, and pipeline to maintenance activities. The period-over-period increase also reflects well-integrity work that incurred during our first fiscal quarter. Slides 5 and 6 provide additional details of the period-over-period changes to operating income for each of our segments.

Consolidated capital spending for the 6-month period grew 28% to $995 million dollars with 87% directed toward safety and reliability spending to modernize our system. Because of our designation as an essential service provider and the measures we have taken to protect our employees and contractors, we still believe our fiscal 2020 capital spending will range between $1.85 and $1.95 billion dollars. Our fiscal second quarter is the busiest regulatory filing period of our fiscal year. Year to date, we have implemented $58 million dollars in annualized operating regulatory outcomes and, currently, we have about $215 million dollars in progress. Of this amount, we currently anticipate to implement approximately $100 million dollars in annualized regulatory outcomes by the end of the fiscal year. Slides 21 to 31 provide details to all of these filings. Slide 20 outlines our plan activities for the remainder of the fiscal year.

Maintaining the strength of our balance sheet and the strong liquidity position continues to be one of our primary financial objectives and it has served us well during this uncertain time. During the second quarter, we filed a $4 billion dollar shelf registration statement and we filed a new $1 billion dollar ATM program. Also, in the second quarter, we executed new forward-sales agreements for approximately 1.6 million shares with anticipated proceeds of $180 million dollars.

As of March 31st, we had about $419 million dollars in cash available under equity forward arrangements. With this activity, we have priced all our anticipated equity needs for fiscal 2020 and a portion of fiscal 2021. Additionally, the strength of our balance sheet supports our tier-1 commercial paper rating. As a result, we have been able to maintain reasonable access to the commercial paper markets. As of March 31st, we had about $200 million dollars in outstanding commercial paper.

At the end of the second quarter, our equity capitalization was 58.2 percent and we had approximately $2 billion dollars of liquidity under our credit facilities and equity forward agreements. As Kevin mentioned in his opening remarks, we took action in April to increase our liquidity to approximately $2.9 billion dollars. We accomplished this through the execution of a

$200 million dollar 2-year term loan and three new 364-day credit facilities totaling $700 million dollars.

The net proceeds from the term loan were used to repay all outstanding commercial paper, backstopped by our primary $1.5 billion dollar credit facility. This facility is fully available and in place through September 2023. Additional details regarding our liquidity can be found in slide 10. We believe this liquidity position, the strength of our balance sheet, and $3 billion dollars available under our shelf registration statement gives us the financial flexibility to support our operations as we move forward.

Looking forward towards the second half of the fiscal year, we are certainly aware that the economies of the service areas we serve have been impacted by the COVID-19 pandemic and recent economic debt reflects rising unemployment in each of our states; however, based on what we know today, we still expect earnings per share in the range of $4.58 to $4.73.

We considered a number of factors in our evaluation. First, our winter-heating season is complete. We typically earn approximately 70% of our distribution revenues during the first half of our fiscal year. In our distribution segment, although we are not fully decoupled, we believe there are factors that mitigate revenue risk for this segment. These factors are summarized on slide 14. Residential revenues comprise approximately 60% of the segment's revenues during the second half of the fiscal year and residential bills were at their lowest during this time.

Additionally, we collect a significant portion of our revenues, excluding gas costs, with a base charge, which partially insulates us from the volumetric risk. For most of our service territories, the base charge represents the largest portion of a customer's bill by the middle of our third fiscal quarter. We typically experience a decline in volumes during April; however, given that April is a shoulder month, it is difficult for us to identify if changes in volumes are weather-related or representative of underlying economic activity. Therefore, we have provided some sensitivity information by customer class on slide 14.

Additionally, the right design and various annual filing mechanisms in our distribution segment support our ability to recover our costs timely. Slide 15 summarizes various aspects of a rate designed by state. Most of these mechanisms are well understood by you; however, I wanted to highlight that, since March 31st, our regulars in Louisiana, Mississippi, Texas, and Virginia have issued orders to divert COVID-19-related costs, including bad-debt expense, into a regulatory asset for consideration for future recovery. These orders cover approximately 80% of our customers.

Finally, as Kevin mentioned in his opening remarks, for approximately 32% of our customers in Texas, including the city of Dallas, we have voluntarily delayed implementation of new rates that were scheduled to go into effect during our fiscal third quarter to at least September 1st. These delayed implementations will not have a material impact to our fiscal 2020 finance performance due to the time of year these rates would have been implemented.

In our pipeline and storage segment, revenues are earned primarily through demand fees. As you're aware, performance of this segment is predominately driven by APT. Over 80% of APT's revenues are earned from delivery services to our north Texas distribution company and a few other LDCs under a straight-fixed variable rate design. The remainder of APT's revenues relate to its three-system business and other ancillary pipeline services. As a reminder, APT only keeps 25% of their revenues earned from these activities under its rate design and the COVID-19 Regulatory Asset Order issued by the Texas Railroad Commission also applies to APT.

Finally, from an O&M perspectives, we have deferred some discretionary spending to future periods as we remain focused on the health and safety of our employees. Slide 17 and 18 provide additional details around our guidance. Thank you for your time this morning. I will now turn the call back over the Kevin for some closing remarks.

Kevin Akers
As you can see, we have a robust risk management process that has served us extremely well during this pandemic and will continue to guide us as we navigate our way through. As you just heard, we have continued to execute at the highest levels on all facets of our business. Our year-to-date results were in line with our expectations, our balance sheet is strong, and we have further enhanced our liquidity. And, as we stated earlier, we have continued our system maintenance and compliance work, including pipe replacement, line locating, and system inspections.

Our leadership team and all 4800 employees were prepared to operate in this environment as it developed in our service areas and have continued to adjust and adapt as new information or local and state orders were issued. We were early to transition to remote work and we will be very intentional about reopening our offices. As you have heard, orders to shelter in place began in mid-March with others being issued in April across our service territory. Therefore, we have not yet seen material impacts to our business.

Additionally, six of our eight states have now lifted their shelter-in-place orders and have begun phased reopening plans. Over the next quarter, we anticipate having further information and results available to assess any operational or financial impact. Our focus remains the same--the health and safety of our employees, customers, and communities as we execute our proven investment strategy and continue delivering safe, reliable, affordable, and efficient natural gas to homes, business, and industries to fuel our energy needs now and in the future. With that, we'll open up for questions. Operator.

Operator
Thank you. Ladies and gentlemen, at this time we will be conducting a question and answer session. If you would like to ask a question, you may press *1 on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press *2 if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the * key.

Our first question comes from the line of Aga Zmigrodzka with UBS. Please proceed with your question.

Aga Zmigrodzka
Good morning. Could you please provide--.

Chris Forsythe
--Good morning--.

Aga Zmigrodzka
--More color on the reaffirmed CapEx range? Which factors could potentially push you to the lower end of the range?

Chris Forsythe
Yeah. With respect to the CapEx range at $1.85 to $1.95 billion dollars, again, we are an essential service provider. Our crews are working using -- practicing self-social distances. So, to the extent that, a regulatory authority were to come in and change our designation as essential service provider, asks us to stop or slow down for whatever reason as they navigate through the pandemic that could be a factor that could drive us towards the lower end of that range.

Aga Zmigrodzka
Thank you. You discussed-- you know --what you are seeing in terms of COVID-19. You provide some sensitivities. Uh, what is the impact that you are actually including in your 2020 guidance?

Chris Forsythe
Well, as I said, you know, April is a shoulder month for us. We have certainly modeled some potential outcomes, but we really can't see yet what is driving the decline in volumes that we typically see in April--if it's seasonality or if it's-- true underlying economic activity. So, we put those sensitivities out there for everyone to use in their modeling and in their evaluation.

Aga Zmigrodzka
And my last question is have you seen any delays from PUCs (SP) on your pending or expected filings?

Chris Forsythe
No we haven't. As I mentioned, we have $215 million dollars in progress at this point in time. This is our busiest filing period of the year. A large number of those filings were filed right at the end of March or the first part of April and we are working through the discovery process with our interveners in due course. Now everyone's working really well from home so, information's flowing back and forth. Um, for a large number--about--you know--roughly $100 million dollars of that filing for--in--including the $215 million, is not scheduled to be implemented until October 1st, and those are our Texas RRM filings, so we're very early in the process and we

have another $15 million dollars or so that was filed for in Louisiana that's scheduled to be implemented on July 1st and, at this time we have no indication of any delays.

Aga Zmigrodzka
Thank you and stay safe.

Chris Forsythe
Thank you, Aga.

Operator
Our next question comes from the line of Richie Ciciarelli with Bank of America. Please proceed with your question.

Richie Ciciarelli
Hey. Morning. Hope everyone's staying safe and healthy out there. I appreciate you guys--.

Chris Forsythe
--Thank you, Richie--

Richie Ciciarelli
My question. Yeah, just had question on the O&M guidance reduced to essentially flat outlook for 2020. Um, is this principally in response to COVID and can you kind of discuss where these cost cuts are coming from and how you're thinking about O&M over the forecast period?

Chris Forsythe
Sure. Uh, yeah, a lot of it is COVID-related. Uh, we're focused on the health and safety of our employees. So, to the extent that we don't have to perform compliance-related work in order to keep those employees out of the community--or limit--or act--exposure to employees in the community, we decided to pull back on some of that discretionary O&M.

So, that's typical work like you know, encroachment, right-of-way maintenance. We've done a really good job over the years about keeping up with a lot of that work, so it gave us some flexibilities to defer that to future periods and other types of work be to--noncompliance-related inline inspection and other noncompliance-related pipeline maintenance activity. So you see the guidance range on page 18 for O&M. As you noted, it is flattish to last year and we'll just continue to monitor our O&M and really the entire organizational that'd be operations (PH) to the organization as we move through the next 6 months.

Richie Ciciarelli
That--got it. That's very helpful. And you're still for long-term forecast, are you still expecting the 2.5 to 3 percent? Or is it something less than that now?

Chris Forsythe

At this point given what we know we're holding to the 2.5 to 3.5 percent. We, again--you know--we were gonna come through the pandemic and at some point this work that we're deferring will have to be completed so, for now, we're holding to that.

Richie Ciciarelli
Okay, got it. That's very helpful. And sorry if I missed it, but did you explicitly reaffirm your 2020 guidance? Um, I know you said it was unchanged, but just curious if you explicitly reaffirmed it 'cause I mean--it seems like minimal sales impact. As best we can tell, you have all the regulatory mechanisms in place. I just wanted to make sure we understand you correctly here on 2020.

Chris Forsythe
Sure. Sure. I mean, you can see it in our earnings release, so it's in the title. It says it's reaffirmed and, again, based on what we know today, we believe the range of $4.58 to $4.73 is appropriate.

Richie Ciciarelli
Got it. That's very helpful. I appreciate it.

Operator
Our next question comes from the line of Charles Fishman with Morningstar. Please proceed with your question.

Charles Fishman
Thank you. Um, you have a unique regulatory framework in Texas on the distribution with the municipalities and the Railroad Commission. When you made the statement, Kevin, that--with respect to the treatment of the asset deferral, with respect to any COVID-19-related cost. Is that similar to how the state commissions work and how that's gonna be treated or is there any unique factors just because of the different regulatory framework you have in Texas?

Kevin Akers
No, I don't think there's any uniqueness to it. It works very similar, as it does in the other jurisdictions. We'll incur those costs and in our next filing they'll take those under consideration and review, so it worked just like our other jurisdictions.

Charles Fishman
So, the municipalities actually gave you that order or was that done at the Railroad Commission? How did that work?

Kevin Akers
That was through the Railroad Commission.

Charles Fishman
--Okay.

Kevin Akers
Yes.

Charles Fishman
Which is the ultimate regulator for the distribution.

Kevin Akers
That is correct.

Charles Fishman
Okay. And then I heard you talk about 2020 CapEx. Are you also reaffirming all the $10 to $11 billion dollars of CapEx between 2020 and 2024?

Kevin Akers
Yeah, as we said, we've been able to continue our capital work through this program designated as an essential service provider. We anticipate continuing to be able to do that and, at this point, don't see anything out there that would defer our capital strategy that we have in place right now.

Charles Fishman
Okay. That's all I had. Thanks, guys. Stay safe.

Kevin Akers
Thank you.

Chris Forsythe
Thank you.

Operator
Our next question comes from the line of Ryan Levine with Citi. Please proceed with your question.

Ryan Levine
Good morning. Um, would you be--.

Chris Forsythe
--Morning, Ryan--.

Ryan Levine
--Able to comment. Morning. Um, would you be able to comment on what you're seeing in the labor market within your service territory and how that impacts any of your hiring or spending programs?

Chris Forsythe
Sure.

Kevin Akers:
--(Crosstalk)--.

Chris Forsythe
--I'd like to mention that we are--oh--go ahead, Kevin.

Kevin Akers
Well, right now, as Chris and I said in our opening remarks we've been able to do the work that we need to get done to maintain the safety and reliability of our system both on the distribution and transmission side and, coupled with our employees and our contract employees, believe we have the appropriate staff levels at this point. There are some impacts, as you would imagine, from the oil fields at this point--uh--on the unemployment numbers, but we believe we are fully staffed and operational--continue to do the things we need to do on a daily basis.

Ryan Levine
Okay. Uh, and then in terms of just practical implementation of some of your spending programs, you mentioned that practice or additional social distancing in order to implementing the projects. I mean, what does that mean in practice? Uh--does that mean you need to you--takes a little longer to do the jobs or you just can you kind of just delineate what the practical implications are?

Kevin Akers
Yeah. For example on our main replacement, we would have a larger crew that would go out and work on the main and service lines at the same time. What we've chosen to do now is break those into smaller crews, wearing their facemasks, social distancing driving separate vehicles to the project at some times, and then working as best they can remotely from each other until they have to get in the ditch and inspect. And then we have a separate crew that'll come in later and work on the service lines, so we don't have all those employees at one side at one time.

Ryan Levine
Does that drive any changes in the cost profile or like what are the financial implications of this new social distancing?

Kevin Akers
No, it does not affect the cost at all.

Ryan Levine
Okay. Thank you.

Operator
As a reminder, ladies and gentlemen, it is *1 to ask your question.

Our next question comes from the line of Insoo Kim with Goldman Sachs. Please proceed with your question.

Insoo Kim
Thank you. Um, my first question is regarding just your--you know--language and around the guidance and your ability to hit that range. You gave a lot of details, which definitely I appreciate, but--you know--just coming when I think about how how you guys are situated on your--you know--business profile and your point that--you know--the bulk of the distribution revenues have already been earned through March, as well as all the regulatory mechanisms. Like what concerns do you have I guess besides just the length of how long we're going to be in this current situation that you think could potentially impact you to go down sudden--are you at--are you seeing some--you know--economic deterioration already in some of your jurisdictions as a result of COVID?

Kevin Akers
Can you restate that second part there? I think you broke up a little bit. Your last part.

Insoo Kim
Oh, I was just asking are you seeing any initial signs of economic deterioration in any of your jurisdictions?

Kevin Akers
Um, not at this point. As we said, the--our first full month of operation was April. Those bills are just now going out and we'll have some more information as those come through in the next few weeks on into later into May and first part of June. But, um--excuse me--as--uh--as we have said with these shelter-in-place orders across our states, a lot of businesses have been able to continue to operate. We've seen--uh--construction--uh--continue to go on. We've seen a lot of roadwork continue to go on. Uh--some of the restaurants have continued to be open without the in-room dining, but it continued to provide pickup and carryout-type service. So, we've seen a lot of activity even though there's some shelter in place, and we're just waiting to see how that plans out as we go through these phased reopenings and get a look at some of those bills to see if--uh--those loads--uh--picked up or maintained what they normally would have been.

Insoo Kim
Understood. And then, regarding your flat O&M guidance for the year did that, I assume that's excluding the O&M--you know--costs that are related to COVID-19 in jurisdictions that you're allowed to defer from the income statement?

Chris Forsythe
Yeah, it does and yeah--to this point-- yeah-- we're closing out the books for April right now, so we'll have a clearer look here in the coming days as to what that spend is. But, to your point

anything that is COVID-related or incremental although over and above our run rates would be considered for regulatory asset treatment.

Insoo Kim
Understood. Thank you very much and stay safe, everyone.

Chris Forsythe:
Thank you.

Operator: There are no further questions in the queue. I'd like to hand the call back to management for closing remarks.

Dan Meziere
We appreciate your interest in Atmos Energy and thank you for joining us. A recording of this call is available for replay on our website through August 6th. Have a good day.

Ladies and gentlemen, this does conclude today's teleconference. Thank you for your participation. You may disconnect your lines at this time and have a wonderful day.