Atmos Energy
Third Quarter Earnings Call
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Presenters
Kevin Akers, President and Chief Executive Officer
Chris Forsythe, Senior Vice President and Chief Financial Officer
Dan Meziere, Vice President Investor Relations and Treasurer

Q&A Participants
Richie Ciciarelli - Bank of America
Aga Zmigordzka - UBS
Insoo Kim - Goldman Sachs
Ryan Levine - Citi
Charles Fishman - Morningstar
Peter Giannuzzi - JP Morgan

Operator
Hello, and welcome to the Atmos Energy third quarter 2020 earnings conference call. At this time, all participants are in a listen only mode. If anyone should require operator assistance during the conference, please press star zero on your telephone keypad. A question and answer session will follow the formal presentation. As a reminder, this conference is being recorded.

It is now my pleasure to turn the call over to Dan Meziere, vice president investor relations and treasurer. Please go ahead, Dan.

Dan Meziere
Thank you, Kevin. Good morning, everyone, and thank you for joining us today. With me this morning are Kevin Akers, president and chief executive officer, and Chris Forsythe, senior vice president and chief financial officer. 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.

Today's presentation also includes references to non-GAAP financial measures. You should refer to the information contained in the slide accompanying today's presentation for definitional information and reconciliations of non-GAAP measures to the closest GAAP financial measures.

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. They are more fully described in our SEC filings.

With that I will now turn the call over to Kevin. Kevin?

Kevin Akers
Thank you, Dan, and good morning, everyone. We appreciate you joining us today 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. The safety of our employees, our customers, and the safety of our communities remain our focus as we continue to deliver safe and reliable natural gas service.

Today, over 95 percent of our employees continue to work remotely as we are doing our part to reduce the spread of the virus by following the CDC guidelines as well as following our safety protocols such as handwashing, practicing social distancing, and wearing face coverings. As I said before, we were early to transition to remove work, and we will be very intentional about returning to our offices. We continue listening closely to the health experts and following the data as we go about our daily operations.

As I shared last quarter, through the outstanding work of our risk, management, and compliance committee, our senior leadership team and all 4,800 Atmos Energy employees, we were well prepared to transition every facet of our business to a remote work environment in mid-March. That level of preparation and agility served us well as we continued executing at the highest levels during the third fiscal quarter.

For example, our customer service agents and service technicians continued providing exceptional customer service as indicated by our customers rating their satisfaction with our agents and technicians at 98 percent.

Our strategic focus on digital bill delivery and payment options is yielding benefits as the percentage of electronic bills issues as of the end of the third quarter increased to 45 percent. And our electronic methods of payments received, such as bank drafts, credit cards, and online banking increased to 76 percent of the payments received as of June 30th. Through these innovative electronic bill delivery and payment channels, Atmos Energy and our customers are doing our part to conserve environmental resources.

For example, on an annual basis, the use of this technology saves approximately 1,300 tons of wood, nearly six million pounds of carbon dioxide equivalent, seven million gallons of water, and nearly 400,000 pounds of waste.

During the quarter, we deployed Mobile Wallet, a unique bill delivery platform enabling customers to view and pay their bill and manage their Atmos Energy accounts from Apple Wallet or Google Pay.

I also want to highlight the great work of our safety and enterprise services and operations teams that they are doing in the area of damage prevention, especially given we are just five days away from national 811 day. This work is an integral part of our ongoing commitment to safety and our proactive measures to help raise awareness about third party excavation damage, which is one of the greatest threats to the safety of distribution systems.

Our teams have implemented a damage prevention ambassador program. They've developed social media alerts and other public awareness campaigns such as postponing nonessential digging during the COVID-19 pandemic. All these efforts support the year to date result of a damage rate that is less than the industry average.

Using our safety practices and protocols I mentioned earlier, we have continued executing our proven investment strategy and remain on track to meet our capital spending range of $1.8 billion to $1.95 billion. By safely performing distribution and transmission pipeline system work that includes maintenance and compliance activities, pipe replacement, line locating and system inspections, our fiscal year to date consolidated capital spending grew 17 percent to $1.4 billion with approximately 88 percent being directed towards safety and reliability, all to modernize our system.

Finally, our financial position remains very strong, and at the end of the June, our liquidity was almost $3 billion, and our balance sheet continues to be very strong.

Now, I'd like to turn the call over to Chris for a financial update. And I'll return shortly with a few closing remarks. Chris?

Chris Forsythe
Thank you, Kevin, and good morning, everyone.   Yesterday, we reported fiscal 2020 third quarter diluted earnings per share of $00.96 compared to $00.68 in the prior year quarter. Year to date, we reported diluted earnings per share of $4.37 compared to $3.88 in the prior year period.

Results for the quarter and yield to date periods included a one-time non cash income tax benefit of $21 million or $00.17 per diluted share related to a change in our state deferred tax rate resulting from legislation that was passed by the Kansas legislature in June to eliminate the assessment of state income taxes on regulated utilities operating in the state. As a result of the change in our state deferred tax rate, we reduced our deferred tax liability by $33 million in the fiscal third quarter.

We established a $12 million regulatory liability for excess deferred taxes that will be returned to Kansas customers. And we recognize a remaining $21 million as a one-time income tax benefit. Excluding this non-recurring benefit, diluted earnings per share for the third fiscal quarter was $00.79 and $4.20, year to date.

Consolidated operating income during the nine months ended June 30th rose over ten percent to $723 million. Rate increases in both our operating segments, driven by increased safety and reliability spending, totaled $111 million. We also experienced a $10 million increase in distribution operating income, primarily due to customer growth in our Mid-Tex division. During the 12 months ended June 30th, our Mid-Tex division experienced net customer growth of 1.6 percent. On a consolidated basis, we experience net customer growth of 1.3 percent over the same period.

The impact of COVID-19 did not have a material impact on our year to date operating income, as we were able to align our O&M spending with a decline in non-residential customer consumption, we experienced during the third quarter. Through the first nine months of the fiscal year, we earned approximately 85 percent of our distribution revenues. Additionally, residential revenues comprised approximately 60 percent of our distribution revenues during the second half of the year. These bills were at their lowest during this time.

Finally, we collect a significant portion of our revenues, excluding gas cost, through the base charge, which partially insulates us from 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.

For the year to date period, we experienced a $7 million reduction in operating income due to lower sales and transportation volumes during the third quarter. We did not identify a meaningful change in residential consumption due to COVID. However, we did experience a 14 percent decline in non-residential consumption. We also saw a $3 million decline in service order revenue, primarily due to suspension of collection activities.

Our non-residential consumption decline was concentrated in our commercial customer class, which supplied 18 percent during the third quarter compared to the prior year quarter. We experienced most of the volumetric decline in our Mid-Tex and Louisiana divisions.

During the quarter, we saw commercial consumption decline by as much as 30 percent, compared to the two-year historical average. And certain of our states by mid-May have shelter in place orders in our service areas impacted their businesses. However, since that time, we have seen a steady improvement. Through mid-July, commercial customer usage was just 11 percent below the two-year average for the same period.

Additionally, we experienced a 12 percent decline in our transportation volumes during the third quarter, primarily due to slower economic activity in the automotive and metal sectors. These declines in operating income were offset by a $17 million decrease in O&M expense, primarily associated with employee cost for overtime, standby, and other costs, lower travel and training costs, and the temporary deferral of pipeline maintenance activities.

In our pipeline and storage segments, over 80 percent of APT's revenues are earned from delivery services to our Mid-Tex division and a few other LBCs under a straight fixed variable rate design. The remainder of APT's revenues relates to its through system business and other ancillary pipeline services. As a reminder, APT only keeps 25 percent of the revenues earned from these activities under its rate design.

During the third quarter, we experienced a net $2.5 million decrease in transportation other revenue in this segment. APT's quarter over quarter through system volume supplied 19 percent, and prices declined by 30 percent, due to reduced associated gas production in the Permian Basin. Year to date, transportation and other revenue declined at less than $1 million. Slide six and seven provide additional details of period over period changes to operating income for each of our segments.

On the regulatory front, to date, we have implemented $123 million in annual operating income increases. Additionally, we received approval for the four Texas GRIP filings that we voluntarily delayed in March for $23 million. These filings will be implemented on September 1st. Currently, we have $141 million in regulatory filings in progress, most of which are scheduled to be implemented during the first quarter of fiscal 2021. Details of these filings can be found in slide 19 through 29.

In other regulatory matters, we have orders in five of our eight states that address the impacts of COVID-19. These orders cover more than 85 percent of our distribution customers and APT. Generally, these orders allow us to defer net incremental expenses, including bad debt expense and, in a few of our states, certain lost revenues due to COVID-19. We are still evaluating these orders. Therefore, we did not record any regulatory assets or liabilities related to COVID-19 as of June 30th. Slide 14 summarizes these orders.

As of June 30th, our balance sheet and liquidity remain strong. Our equity capitalization is 58.8 percent, and we finished the quarter with approximately $2.9 billion in liquidity, including $750 million cash between our operating accounts and ATM net proceeds. During the third quarter, we executed new forward sales arrangements for approximately 2.3 million shares with anticipated net proceeds of $234 million. Additionally, we sell approximately one million shares for $100 million. Through June 30th, we have sold about 3.6 million shares for $359 million. And, as of June 30th, we had about $547 million in cash available under equity forward arrangements.

Yesterday, we reaffirmed our adjusted earnings per share guidance range of $4.58 to $4.73. We now have more clarity around how COVID has and continues to affect our business from a customer perspective and an operational perspective. Based on what we understand today, we now believe earnings per share will be at the upper end of the range. For the fourth quarter, we had assumed similar non-residential consumption declines to what we experienced in the third quarter as several of our states have slowed the pace of reopening their economies. Additionally, we expect fourth quarter O&M trends similar to what we experienced during the third quarter. Slides 15 and 16 provide additional details around our guidance.

Thank you for your time this morning. I will now turn the call back over to Kevin for some closing remarks.

Kevin Akers
Thank you, Chris. Community service is woven into the fabric of Atmos Energy's culture, we all Atmos Spirit. And our 4,800 employees take pride in fueling safe and thriving communities each and every day.

During national hospitality week--or hospital week, in May, we saluted our medical professionals' heroic efforts by delivering more than 12,000 meals to healthcare heroes across our eight-state service area. In valuing our strong partnerships with local restaurant owners and chefs across our 1,400 communities, we celebrated Take Out Tuesday, an initiative that brings support to local restaurants by offering all employees the opportunity to eat and enjoy lunch from their favorite neighborhood restaurant.

Along with these enterprise wide efforts to lift each other up during these uncertain times, we are fueling safe and thriving communities in ways both large and small, by working with school districts, early childhood programs, and nonprofits across our service area to improve the reading proficiency by third grade and to feed hungry children so they can learn and thrive. I'm truly inspired by the many ways our employees come together to give of their time and talent to further support those who need a helping hand.

As I said earlier, our robust risk management process has served us extremely well during this pandemic and will continue to guide us as we execute at the highest levels on all facets of our business.

On year to date results, we're in line with our expectations, our balance sheet is strong, and we have further enhanced our liquidity. 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, businesses, and industries to fuel our energy needs now and in the future.

With that, I'll open it up for questions.

Operator
Thank you. We will now be conducting a question and answer session. If you would like to be placed in the question queue, please press star one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star two if you'd like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing star one. One moment please while we pull for questions.

Our first question today is coming from Richie Ciciarelli from Bank of America. Your line is now live.

Richie Ciciarelli
Hey. Good morning, guys. Hope you are doing well.

Chris Forsythe
Good morning, Richie. How are you doing?

Kevin Akers
Good morning. Thank you.

Richie Ciciarelli
Doing well. Thanks for taking my question here. Um, just curious, uh, given some of the deterioration in volumes you've seen on the non-residential side--and honestly, appreciate the--the confidence for the back half or--or the remainder of the year in 2020. Um, but, just curious how you're thinking of things beyond that, uh, in light of the COVID impacts and--and just really considering the fact that you and--and really all of your gas and utility peers haven't gotten to experience this through the more, uh, meaningful peak winter heating season.

Chris Forsythe
Well, Rich, that's a good question. You know, with the fiscal year end, you know, rapidly coming to a close, we're deep in our planning cycle right now, and we're certainly evaluating, what's going on in the economies in the--in the eight states that we serve. And so, we're keeping a close eye on that.

We're not ready to announce yet what assumptions we're going to put into the fiscal 2021 guidance. As you know, we'll roll that out here in the fall, in November. But what we are, you know--taking a look at that. We're also assessing operationally what we're going to be doing to keep our employees safe and the community safe. And we'll have a better picture and more information to provide in November.

Richie Ciciarelli
Got it. And just to, um, follow up on that a little bit if I can. Um, just given like the annual true up mechanisms you have for--for your O&M efforts, uh, is there--is there any other offsets that you can pursue into next year if the, uh, economic recovery is a bit more prolonged?

Chris Forsythe
When you say "offsets," I mean, it's primarily--we'll just have to continue to see, first and foremost, you know, what we can do, you know, in terms of work that can be performed to--and doing it in a way that we can keep our employees safe, keep our employees safe, and like Kevin said at the top of the call, you know, doing our part to minimize the spread of the virus in the communities.

So, you know, we obviously have compliance work that has to be completed on certain schedules and timelines, and we can't let that slip. But, we will be evaluating things where we do have a little bit of discretion, you know, in the event that we do need to align our O&M with any potential volumetric and revenue declines due to--due to the pandemic.

Richie Ciciarelli
Alright. Great. Thanks a lot. That's very helpful. That's all I had.

Richie Ciciarelli
Thank you. Have a good day.

Operator
Thank you. Our next question today is coming from Aga Zmigrodzka from UBS. Your line is now live.

Aga Zmigrodzka
Good morning.

Chris Forsythe
Good morning, Aga. How are you doing?

Kevin Akers
Hey, good morning.

Aga Zmigrodzka
Good. How are you?

Chris Forsythe
Great.

Kevin Akers
Doing well.

Aga Zmigrodzka
How should we think about--how should we think about your equity needs for 2021? Is it fair to assume that with the updated forward equity agreements that it will be sufficient, or should we expect a larger equity offering?

Chris Forsythe
I think we've been pretty consistent now for the last year, 15--12 to 15 months that the ATM is our preferred method for raising equity. We've got our financing plan out there, and we intend to do--you know, execute that financing plan in a balanced fashion with those, long term debt and equity. And we'll seek to use the ATM to the best of our ability to meet those equity needs for fiscal 2021 and beyond.

Aga Zmigrodzka
Thank you. And what has been an increase in bad debt, and how quickly you can recover those costs for the--that kind of stuff you have in place?

Chris Forsythe
So far, it really hasn't materially impacted us. And there's a couple things to keep in mind around bad debt and collections. First, in all of our service territories moratoriums are still in place that--or in most of our service territories to prohibit the, you know--the disconnect or resumption of collection activities.

We then need to evaluate what the tone is, from the regulatory environment, what's the tone from, you know, just the community in terms of those types of activities? And once we do begin to collect or resume collection activities, one, that can be several months down the road, and then, number two, we won't see the impact of really bad debt until well beyond the resumption of those activities because it takes a certain number of months for it to work through the process of collection before ultimately what gets written off.

So, right now, as we sit here today, hasn't had a material impact on our business for fiscal 2020. Certainly, we're keeping an eye on for fiscal 2021. But we think it's going to be some time before we begin to see that you know that those bad debts really begin to rise up. And then, you have to work it through the regulatory process.

And because we do have the opportunity first to have an annual filing mechanism--and, as I mentioned, we do have the reg asset orders in five of our eight states, which provides us another tool to address those types of costs I think, at this point, it's probably just a little too soon to tell when exactly we're going to see that rise in bad debt. And then, number two, when we will ultimately need to collective in rates.

Kevin Akers
Yeah, Aga. This is Kevin. I'll just follow up a little bit on that. In addition, our customer service agents and our customer advocacy team that supports those agents have been, for several months now, reaching out to customers in all classes, residential, commercial, and industrial, about different payment options that exist out there for them, LiHeap, local health agencies, those sort of things. And whether those were outbound calls, letters, some folks allow us to have their email address--getting in contact with them that way, we've been very proactive in reaching out to customers that appear to be having a tough time paying their bill. And we'll continue to do that as we move forward and head toward this upcoming heating season.

Aga Zmigordzka
Thank you for that color. I have a last question. Could you please maybe discuss, in a little more detail--what are the components of lower O&M? What is shortened nature and you could still benefit from that in 4Q and how might have cost savings you're expecting going forward, kind of more sustainable?

Kevin Akers
Well, I was going to talk about the components and things that we looked at that we could defer going into the period. I'll hand off to Chris to talk to you about the number specifically. But there's such things like--there's right of way, encroachment, clearing, trees, overhang, brush, those sorts of things clean up around GIS data, record digitization, those sort of things.

And where we're ahead on certain inspections on our systems right now, those things that we can move out to a different period, not do away with, not cancel, but move to a different period. Those are the sort of O&M things that we have shifted during, you know, the last quarter to two quarters and are currently evaluating now. What opportunities do we have maybe to pick back up some of that, and what does that kind of like as we head into the end of this fiscal year, end of next fiscal year? Chris?

Chris Forsythe
Yeah. I was just going to add to that too--you know, as, you know, we are still working remotely--so, you know, as I mentioned, in my prepared remarks, we are still seeing, lower employee travel, entertainment costs, you know, some of the overtime and standby, certainly into the third quarter. We expect that to be consistent as we move into the fourth quarter.

And again, it's--you know, it's basically items that are certainly within our control, items that we don't have to, --where there's--it's not a compliance deadline related, where we have a little bit of discretion around the timing of that. And in terms of actual dollars saved, you know, again, as we think about 2021, we'll provide a little bit more color around our O&M spending levels, for '21 in November.

Aga Zmigordzka
Thank you.

Operator
Thank you. Our next question today is coming from Insoo Kim from Goldman Sachs. Your line is now live.

Insoo Kim
Thank you. Question on just, demand trends that you're seeing on a more geographic basis. I know, you know, the bulk of your exposure is in Texas, but you do have, you know, exposure to a lot of different states. Just which, you know, jurisdictions, um, are performing from a demand perspective, you know, better than, you know, what you had expected, and which are a little bit more concerning?

Chris Forsythe
Well, as, you know--as I, you know--really, the, what we're seeing across the board, as I mentioned, you know, Mid-Tex and Louisiana in the third quarter were probably the hardest hit, from a volumetric perspective, and that was in the--you know, all in the 20 percent range. The other states range anywhere from nine to 17, 18 percent. And, as I mentioned too, we have seen a steady improvement, since really the middle part of May kind of when things tended to, seemed to, have bottomed out.

So, all in, you know--when I talked about that 11 percent versus the two-year historical average, most of our divisions now are kind of right in that range. You do see a little bit of weakness still, but, again, it's improving in Mississippi and Louisiana. But overall, things continue to trend in a better way than what we were seeing in the first, you know, the first half of the third quarter.

Kevin Akers
Yeah. And to that the other thing I'll just add is if you go back and--as we did, as we're looking at these volumes, we also look at the unemployment rates as some of our jurisdictions opened up, their phased reopening's and moved into the second or third tiers of those, if you will.

We've noticed, slight improvements in the unemployment rates in just about every jurisdiction from an April Bureau of Labor statistics average, if you look at those, through the June numbers. Almost every one of them has shown some slight improvement. And we think that's reflected, again, back in those phase reopening's. Commercial, retail, some other businesses, industrial is opening back up, bringing folks back in and picking up some of the business there. So, that was a good indicator for us as well.

Insoo Kim
Great. Uh, thanks for the color. Um, in terms of cost contingencies that I think you--you spoke on it and a couple of people have asked the questions already. But, given, you know, a little bit

stronger than expected performance, uh, for this year, does it, almost being equal, give you a little bit more, you know, contingencies that you could utilize in 2021?

Chris Forsythe
I said earlier, yeah, we're still evaluating and putting together our fiscal 2021 budgets. We'll have to obviously see what--what's happening, with our--with our customer behavior, particularly in the non-residential side and in the--here in the fourth quarter before we make a final determination, of what--of how we align our O&M going into 2021. So, we'll have more color on that in November.

Insoo Kim
Got it. And then, finally just on the technology side, I think you mentioned, you know, things like, you know, automated customer bill payments and whatnot. Whether it's that or other, you know, technological advances you either are making or plan to make on the horizon, you know, are--what type of efficiencies, uh, could you realize from those type of, uh--that type of work?

Kevin Akers
Yeah. I'll talk a little bit about that. And the more data--access to data and providing data in a sooner format, in a better format, a consumable format, more in real time, if you will--an example of that is our WMR network. We're now working with our vendor to have real time methodic detection pilots on our system. So now, instead of going out and having manual reads on our system, we can upload those through our network and get those readings off of our pipeline and our distribution system in real time.

Now, that--again, not much from an efficiency standpoint. But it provides continuous monitoring of your system and allows you to identify where you might have a methodic detection system down sooner rather than later.

We continue to roll our automated, leak detection, equipment as well. And you've heard us talk before about our, locus map technology that we are in the final stages of rolling out to some of our crews here in the Mid-Tex division, which allows us to gather construction, material information, geolocation positions in real time as we're at these sites and upload those right back into our compliance systems.

Insoo Kim
Got it. Thank you very much. And stay safe.

Kevin Akers
Great. Thank you. You as well.

Chris Forsythe
You too.

Operator
Thank you. Our next question is coming from Ryan Levine from Citi. Your line is now live.

Ryan Levine
Good morning.

Kevin Akers
Good morning, Ryan.

Ryan Levine
What's the capacity of your system to handle hydrogen, and is that capacity different than the RNG capacity from a constraint standpoint?

Kevin Akers
Yeah, Ryan. Two separate things there. We know there's a lot of, discussion here lately about hydrogen, particular with some of the things that are going on in Europe right now. And I know some of the--dual fuel companies are talking about projects at particular sites, a site-specific hydrogen utilization, if you will.

So, it's a much different look than if you think about some of the discussion of blending. That's not yet on the near-term horizon. There are studies going on through particular groups, associations. GPI even has a group together that's studying opportunities around hydrogen at this point.

So, that's to say I think it's early, for us to think about, to your question, how does that fit into our current distribution system. There's a lot of things that need to be worked out from a materials standpoint, a supplies standpoint, a utilization standpoint at the customer premises. So, I think that's further out for us.

It is separate from RNG. RNG, whether, you know, it comes from landfill or it's captured through digestors--the only challenge there is the BTU content, the quality of the gas. But, once you get over that hurdle, it blends right in with the rest of our stream that we're delivering to customers. And, as we talked about before with you, we're doing about five to six Bcf a year of RNG across our system that we're moving, and we continue to look for those, opportunities near our system today.

Ryan Levine
Thanks. And then, to clarify some of the earlier questions--in terms of, uh, contingencies in place to the extent that COVID impacts extend into the winter months, uh, am I correct in

hearing that the key tools that you're looking at are O&M cost management and potentially, uh, capital market activity? Or are there other opportunities that you can pursue in order to adapt to the market condition?

Chris Forsythe
I think, you know--I think you hit it on the head. It's just again, looking at the O&M, aligning that O&M, with the revenues that we're--that we're expected to get, going into the next fiscal year, we're certainly mindful of the, of the capital markets opportunities as well. And you can see, in our 10Q, we have layered in, some hedges, for future financing activities, going out for a few years now to help lock in or take advantage of some of the, the current interest rate environment. So, that--those are a couple of opportunities as well. So, I think, those are two very good ones, to keep an eye on and those are certainly items that we are contemplating, as we finalize our fiscal 2021 plans.

Ryan Levine
On the capital market activity, given your regulatory construct, uh, would you look to cement those plans in the coming months, um, or could they be phased in over a broader time period, if you were to (inaudible)?

Chris Forsythe
I'm not sure I understand your question, Ryan.

Ryan Levine
Would needed--would you need to refinance debt or raise equity, um, into, the calendar year end, given the regulatory construct in different jurisdictions, or can you, uh, be more patient if that's an option that you wanted to pursue?

Chris Forsythe
I see. Yeah. Really, the financing needs, of the corporation--they're outlined, on the website. It's a $5 billion to $6 billion over the current five-year planning window of 2020 through 2024. Obviously, we'll update that in the fall as well. And those financing needs are really driven just by the--primarily by the cash flow needs of the corp and the spending needs.

So, I think we'll evaluate the timing and the execution, of the various tools that we have available to us from a financing perspective. But, you know, we--and obviously, you can also see we've layered in hedges out for the fall, for an anticipated debt issuance. So, that one is kind of forecast already and is out there for all to see.

Ryan Levine
Okay, great. Thank you.

Chris Forsythe
Thank you.

Operator
Thank you. Our next question today is coming from Charles Fishman from Morningstar. Your line is now live.

Charles Fishman
Good morning. Uh, you know, I had a question on slide eight, uh, capital spending. Certainly, the 17 percent increase is terrific. You say you're on target. I guess--I happened to be in the Dallas area over the July 4th weekend. The construction along I75 is amazing. And I was just wondering if you could provide some color. Is your new construction connections, which I believe is not part of the 88 percent safety and reliability--is that on target as well? Uh, has that been impacted, uh, by COVID-19, at least with respect to your plan?

And obviously, my viewing is just a small piece of all your jurisdictions. I wonder if you could maybe provide some color on, um--on new construction in your other jurisdictions because, obviously, you don't have as much control over that as you do in the safety and reliability spend.

Kevin Akers
Right. I'll start out with a little color on the north Texas area there, as you talked about, and on some of our other jurisdictions. But, in going into COVID, in particular, you know, the first month, month and half, we did see a bit of a slowdown, a dip, if you will, in the housing market in particular.

But they quickly rebounded. We're doing virtual tours of homes. The inventory of available homes on the market quickly tightened up, and we're seeing a lot of, individuals, as you know, with the low interest rate, moving to the new construction. So, we've certainly seen that pick up as things started to open back up and we got into these phased reopening's.

We continue to see good, in that market here in the north Texas area. I think, as we said, last year, we were expensing somewhere around 1.5 and 1.6, net customer growth on the system, particularly all--most of that's going to be here in the metroplex area. So, we continue to see a little bit of a lull but now a pickup in that residential market.

And in other areas, not to quite that scale--but, outside of Nashville in our Franklin, service territory, we continue to see some good residential growth there as well. And then, outside of, Kansas City location there in Olathe, that area we do continue to see some residential growth as well. All taking advantage of, we believe, as we keep a handle on and conversations with builders, developers, and realtors association, trying to take advantage of this low interest rate environment.

Charles Fishman
So, as we look here--as we sit here today, 2021--you expect customer growth to still be around the one and a half percent?

Kevin Akers
Yeah. I think that's, you know, a good indication here as we, you know, talk to builders and developers, they're continuing to develop properties. They're continuing to have people coming in. Right now, we are continuing to see strong activity in that area. And yes.

Charles Fishman
Okay. That's all I had.

Charles Forsythe
And another things that's--yeah.

Charles Fishman
Oh.

Charles Forsythe
I was just going to say the other piece that's driving it too is that, you know, same home sales--you know, folks that already have homes are staying in their homes, for obvious reasons. And so, folks that are looking to get out of the apartment environment or maybe out of an urban downtown environment are now flocking into that new home and growth market. So, it's--you know, that's just another piece, you know, that's driving some of that--some of that customer growth.

Charles Fishman
Okay. That's all I had. Thank you.

Chris Forsythe
Thank you.

Operator
Thank you. As a reminder, ladies and gentlemen, that's star one to be placed in the question queue. Our next question today is coming from Jeremy Tonet from JP Morgan. Your line is now live.

Peter
Hi, everyone. Uh, this is actually Peter on for Jeremy.

Chris Forsythe
Hey, Peter

Peter
I have a quick--hey, how are you doing?

Chris Forsythe
Good.

Peter
Good. I just--I have a quick question on the ETS sensitivities, the update that you gave here. Is the change each quarter, uh, or at least what we have strictly related to historical demand for each customer class, or are there, uh, other factors as you kind of think about, um, when you give these?

Chris Forsythe
Yeah. So, on slide 13, we do have the ETS sensitivity that--we've updated that for the fourth quarter. So, you can see, again, on the bottom third or the bottom half of the page, the revenue by customer class, residential on down to the non-residential and then the sensitivities to the right. So, that's basically, you know, the one percent change relative, you know--and the customer volumes in the fourth quarter and how that moves for us. So, in terms of how that compares to the prior year, I mean, that's just a one percent change, for each of those customer classes, produces that--you know, the ETS sensitivity.

Peter
Right. Okay. And so, that's for the last quarter, um, kind of on a standalone basis.

Chris Forsythe
Right.

Peter
And then, just to clarify, the one that, uh--the sensitivity provided at your last call--that was for just the back half or that was for--on a full year basis?

Chris Forsythe
That was for the back half of the fiscal year. So, we'll probably update this slide again in November to provide a better impact--what that one percent looks like on a full fiscal year basis here in November.

Peter
Okay. And I guess just last one here. Um, I guess looking at the sensitivities, um, you know, obviously lower, uh, for each class compared to what you showed for, uh, the back half last quarter. But, should we think about, um, the net impact kind of being the same as we see recovery across all classes where, uh, residential still kind of offsets the same amount of, I

guess, drag from the other classes on, you know, on a relative basis, kind of like what we saw in 3Q?

Chris Forsythe
Well, a couple of comments there. I mean, the impacts are smaller here in the fourth quarter, as I mentioned in my prepared remarks. You know, the first half of the third quarter, you're still seeing some volumetric influence across all customer classes. And now, beginning in the latter half of May to June all the way to December, we're primarily into the--into the base charge component only of the bill, given the summer months.

So, I think what remains to be seen exactly how our customers are going to behave. Like I said, we have seen, most improvement since the lows have been May. That's something we're watching very closely. And, it's--you know, for that reason, we don't have--it's hard for us to predict, as we look out, particularly as some of our, reopening's have slowed a little bit--so, that's why we provided the sensitivities on 13 for you to make that assessment.

Peter
Okay. Great. Uh, thanks, guys. That's it for me.

Chris Forsythe
Yeah. Thanks, Peter.

Operator
Thank you. We have reached the end of our question and answer session. I'd like to turn the floor back over to management for any further or closing comments.

Dan Meziere
We appreciate your interest in Atmos Energy and thank you for joining us. A recording of this call will be available for replay on our website through November 12, 2020. Have a good day.

Operator
Thank you. That does conclude today's teleconference and webinar. You may disconnect your line at this time. And have a wonderful day. We thank you for your participation today.