ATMOS ENERGY CORP
Form 10-Q
February 06, 2018

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q
(Mark One)
þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended December 31, 2017
or
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number 1-10042
Atmos Energy Corporation
(Exact name of registrant as specified in its charter)

Texas and Virginia (State or other jurisdiction of incorporation or organization)	75-1743247 (IRS employer identification no.)
Three Lincoln Centre, Suite 1800 5430 LBJ Freeway, Dallas, Texas (Address of principal executive offices)	75240 (Zip code)

(972) 934-9227
(Registrant's telephone number, including area code)
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer", "smaller reporting company", and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer þ	Accelerated Filer ¨	Non-Accelerated Filer ¨	Smaller Reporting Company ¨	Emerging growth company ¨

(Do not check if a smaller reporting company)
If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) Yes ¨ No þ
Number of shares outstanding of each of the issuer's classes of common stock, as of February 1, 2018.

Class	Shares Outstanding
No Par Value	110,967,636

GLOSSARY OF KEY TERMS

Adjusted diluted EPS from continuing operations	Non-GAAP measure defined as diluted earnings per share from continuing operations before the one-time, non-cash income tax benefit
Adjusted income from continuing operations	Non-GAAP measure defined as income from continuing operations before the one-time, non-cash income tax benefit
AEC	Atmos Energy Corporation
AEH	Atmos Energy Holdings, Inc.
AEM	Atmos Energy Marketing, LLC
AOCI	Accumulated other comprehensive income
ARM	Annual Rate Mechanism
Bcf	Billion cubic feet
DARR	Dallas Annual Rate Review
ERISA	Employee Retirement Income Security Act of 1974
FASB	Financial Accounting Standards Board
GAAP	Generally Accepted Accounting Principles
GRIP	Gas Reliability Infrastructure Program
Gross Profit	Non-GAAP measure defined as operating revenues less purchased gas cost
GSRS	Gas System Reliability Surcharge
Mcf	Thousand cubic feet
MMcf	Million cubic feet
Moody’s	Moody’s Investors Services, Inc.
PPA	Pension Protection Act of 2006
PRP	Pipeline Replacement Program
RRC	Railroad Commission of Texas
RRM	Rate Review Mechanism
RSC	Rate Stabilization Clause
S&P	Standard & Poor’s Corporation
SAVE	Steps to Advance Virginia Energy
SEC	United States Securities and Exchange Commission
SGR	Supplemental Growth Filing
SIR	System Integrity Rider
SRF	Stable Rate Filing
SSIR	System Safety and Integrity Rider
TCJA	Tax Cuts and Jobs Act of 2017
WNA	Weather Normalization Adjustment

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

ATMOS ENERGY CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

	December 31, 2017 (Unaudited)	September 30, 2017
	(In thousands, except share data)	
ASSETS		
Property, plant and equipment	$ 11,609,627	$ 11,301,304
Less accumulated depreciation and amortization	2,090,835	2,042,122
Net property, plant and equipment	9,518,792	9,259,182
Current assets		
Cash and cash equivalents	54,750	26,409
Accounts receivable, net	489,217	222,263
Gas stored underground	163,959	184,653
Other current assets	70,984	106,321
Total current assets	778,910	539,646
Goodwill	730,132	730,132
Deferred charges and other assets	236,886	220,636
	$ 11,264,720	$ 10,749,596
CAPITALIZATION AND LIABILITIES		
Shareholders' equity		
Common stock, no par value (stated at $0.005 per share); 200,000,000 shares authorized; issued and outstanding: December 31, 2017 — 110,962,112 shares; September 30, 2017 — 106,104,634 shares	$ 555	$ 531
Additional paid-in capital	2,940,062	2,536,365
Accumulated other comprehensive loss	(106,316)	(105,254)
Retained earnings	1,729,319	1,467,024
Shareholders' equity	4,563,620	3,898,666
Long-term debt	3,067,469	3,067,045
Total capitalization	7,631,089	6,965,711
Current liabilities		
Accounts payable and accrued liabilities	285,675	233,050
Other current liabilities	336,919	332,648
Short-term debt	336,816	447,745
Total current liabilities	959,410	1,013,443
Deferred income taxes	1,033,206	1,878,699
Regulatory excess deferred taxes (See Note 6)	746,246	—
Regulatory cost of removal obligation	480,086	485,420
Pension and postretirement liabilities	233,337	230,588
Deferred credits and other liabilities	181,346	175,735
	$ 11,264,720	$ 10,749,596

See accompanying notes to condensed consolidated financial statements.

ATMOS ENERGY CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended December 31	
	2017	2016
	(Unaudited) (In thousands, except per share data)	
Operating revenues		
Distribution segment	$860,792	$754,656
Pipeline and storage segment	126,463	109,952
Intersegment eliminations	(98,063)	(84,440)
Total operating revenues	889,192	780,168
Purchased gas cost		
Distribution segment	463,758	395,346
Pipeline and storage segment	912	355
Intersegment eliminations	(97,753)	(84,396)
Total purchased gas cost	366,917	311,305
Operation and maintenance expense	129,567	124,938
Depreciation and amortization expense	88,374	76,958
Taxes, other than income	62,773	57,049
Operating income	241,561	209,918
Miscellaneous expense, net	(2,035)	(994)
Interest charges	31,509	31,030
Income from continuing operations before income taxes	208,017	177,894
Income tax (benefit) expense	(106,115)	63,856
Income from continuing operations	314,132	114,038
Income from discontinued operations, net of tax ($0 and $6,841)	—	10,994
Net income	$314,132	$125,032
Basic and diluted net income per share		
Income per share from continuing operations	$2.89	$1.08
Income per share from discontinued operations	—	0.11
Net income per share - basic and diluted	$2.89	$1.19
Cash dividends per share	$0.485	$0.450
Basic and diluted weighted average shares outstanding	108,564	105,284

See accompanying notes to condensed consolidated financial statements.

ATMOS ENERGY CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended December 31	
	2017	2016
	(Unaudited) (In thousands)	
Net income	$314,132	$125,032
Other comprehensive income (loss), net of tax		
Net unrealized holding losses on available-for-sale securities, net of tax of $62 and $476	(107)	(828)
Cash flow hedges:		
Amortization and unrealized gain (loss) on interest rate agreements, net of tax of $(549) and $52,429	(955)	91,214
Net unrealized gains on commodity cash flow hedges, net of tax of $0 and $3,183	—	4,982
Total other comprehensive income (loss)	(1,062)	95,368
Total comprehensive income	$313,070	$220,400

See accompanying notes to condensed consolidated financial statements.

ATMOS ENERGY CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended December 31	
	2017	2016
	(Unaudited)	
	(In thousands)	
Cash Flows From Operating Activities		
Net income	$314,132	$125,032
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	88,374	77,143
Deferred income taxes	53,149	67,241
One-time income tax benefit	(161,884)	—
Discontinued cash flow hedging for natural gas marketing commodity contracts	—	(10,579)
Other	6,915	4,842
Net assets / liabilities from risk management activities	2,030	3,969
Net change in operating assets and liabilities	(129,478)	(150,685)
Net cash provided by operating activities	173,238	116,963
Cash Flows From Investing Activities		
Capital expenditures	(383,238)	(297,962)
Acquisition	—	(85,714)
Available-for-sale securities activities, net	(135)	(10,263)
Other, net	2,001	1,802
Net cash used in investing activities	(381,372)	(392,137)
Cash Flows From Financing Activities		
Net (decrease) increase in short-term debt	(110,929)	110,936
Net proceeds from equity offering	395,099	49,400
Issuance of common stock through stock purchase and employee retirement plans	5,660	8,998
Proceeds from issuance of long-term debt	—	125,000
Interest rate agreements cash collateral	—	25,670
Cash dividends paid	(51,837)	(47,740)
Other	(1,518)	—
Net cash provided by financing activities	236,475	272,264
Net increase (decrease) in cash and cash equivalents	28,341	(2,910)
Cash and cash equivalents at beginning of period	26,409	47,534
Cash and cash equivalents at end of period	$54,750	$44,624

See accompanying notes to condensed consolidated financial statements.

ATMOS ENERGY CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
December 31, 2017

1. Nature of Business

Atmos Energy Corporation ("Atmos Energy" or the "Company") is engaged in the regulated natural gas distribution and pipeline and storage businesses. Our distribution business is subject to federal and state regulation and/or regulation by local authorities in each of the states in which our regulated divisions and subsidiaries operate.
Our distribution business delivers natural gas through sales and transportation arrangements to over three million residential, commercial, public authority and industrial customers through our six regulated distribution divisions, which at December 31, 2017, covered service areas located in eight states.
Our pipeline and storage business, which is also subject to federal and state regulations, includes the transportation of natural gas to our Texas and Louisiana distribution systems and the management of our underground storage facilities used to support our distribution business in various states.

2. Unaudited Financial Information

These consolidated interim-period financial statements have been prepared in accordance with accounting principles generally accepted in the United States on the same basis as those used for the Company's audited consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended September 30, 2017. In the opinion of management, all material adjustments (consisting of normal recurring accruals) necessary for a fair presentation have been made to the unaudited consolidated interim-period financial statements. These consolidated interim-period financial statements are condensed as permitted by the instructions to Form 10-Q and should be read in conjunction with the audited consolidated financial statements of Atmos Energy Corporation included in our Annual Report on Form 10-K for the fiscal year ended September 30, 2017. Because of seasonal and other factors, the results of operations for the three-month period ended December 31, 2017 are not indicative of our results of operations for the full 2018 fiscal year, which ends September 30, 2018.
Except for the actions of our regulators regarding tax reform as discussed in Note 6 and the receipt of funds held in escrow related to the prior year sale of AEM, no events have occurred subsequent to the balance sheet date that would require recognition or disclosure in the condensed consolidated financial statements.

Significant accounting policies

Our accounting policies are described in Note 2 to the consolidated financial statements in our Annual Report on Form 10-K for the fiscal year ended September 30, 2017.
In May 2014, the Financial Accounting Standards Board (FASB) issued a comprehensive new revenue recognition standard that will supersede virtually all existing revenue recognition guidance under generally accepted accounting principles in the United States. Under the new standard, an entity will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In doing so, companies may need to use more judgment and make more estimates than under current guidance. The new guidance will become effective for us October 1, 2018 and can be applied either retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption.
As of December 31, 2017, we had substantially completed the evaluation of our sources of revenue and the impact that the new guidance will have on our financial position, results of operations, cash flows and business processes. Based on this evaluation, we currently do not believe the implementation of the new guidance will have a material effect on our financial position, results of operations, cash flows or business processes. We expect to apply the new guidance using the modified retrospective method on the date of adoption. We are currently still evaluating the impact on our financial statement presentation and related disclosures.
In January 2016, the FASB issued guidance related to the classification and measurement of financial instruments. The amendments modify the accounting and presentation for certain financial liabilities and equity investments not

consolidated or reported using the equity method. The guidance is effective for us beginning October 1, 2018; limited early adoption is permitted. We are currently evaluating the potential impact of this new guidance on our financial position, results of operations and cash flows.

In February 2016, the FASB issued a comprehensive new leasing standard that will require lessees to recognize a lease liability and a right-of-use asset for all leases, including operating leases, with a term greater than 12 months on its balance sheet. The new standard will be effective for us beginning on October 1, 2019; early adoption is permitted. The new leasing standard requires modified retrospective transition, which requires application of the new guidance at the beginning of the

earliest comparative period presented in the year of adoption. Additionally, in January 2018, the FASB issued amendments to the standard that provides a practical expedient for entities to not evaluate existing or expired land easements that were not previously accounted for as leases under the current guidance. We are currently evaluating the effect of this standard and amendments on our financial position, results of operations and cash flows.

In June 2016, the FASB issued new guidance which will require credit losses on most financial assets measured at amortized cost and certain other instruments to be measured using an expected credit loss model. Under this model, entities will estimate credit losses over the entire contractual term of the instrument from the date of initial recognition of that instrument. In contrast, current U.S. GAAP is based on an incurred loss model that delays recognition of credit losses until it is probable the loss has been incurred. The new guidance also introduces a new impairment recognition model for available-for-sale securities that will require credit losses for available-for-sale debt securities to be recorded through an allowance account. The new standard will be effective for us beginning on October 1, 2021; early adoption is permitted beginning on October 1, 2019. We are currently evaluating the potential impact of this new guidance on our financial position, results of operations and cash flows.

In January 2017, the FASB issued new guidance that simplifies the accounting for goodwill impairments by eliminating step 2 from the goodwill impairment test. Under the new guidance, if the carrying amount of a reporting unit exceeds its fair value, an impairment loss will be recognized in an amount equal to that excess, limited to the total amount of goodwill allocated to that reporting unit. The new standard will be effective for our fiscal 2021 goodwill impairment test; however, early adoption is permitted for goodwill impairment tests performed on testing dates after January 1, 2017. We have elected to early adopt the new standard, which will be effective for our goodwill impairment test performed in our second fiscal quarter. We do not anticipate the new standard will have a material impact on our results of operations, consolidated balance sheets or cash flows.

In March 2017, the FASB issued new guidance related to the income statement presentation of the components of net periodic benefit cost for an entity's sponsored defined benefit pension and other postretirement plans. The new guidance requires entities to disaggregate the current service cost component of the net benefit cost from the other components and present it with other current compensation costs for related employees in the statement of income. The other components of net benefit cost will be presented outside of income from operations on the statement of income. In addition, only the service cost component of net benefit cost is eligible for capitalization (e.g., as part of inventory or property, plant, and equipment). However, we believe that we will be allowed to defer the other components of net periodic benefit cost as a regulatory asset and that we will still be allowed to capitalize all components of net periodic benefit cost for ratemaking purposes. The new guidance will be effective for us in the fiscal year beginning on October 1, 2018 and for interim periods within that year. We are currently evaluating the potential impact of this new guidance on our financial position, results of operations and cash flows.

Regulatory assets and liabilities

Accounting principles generally accepted in the United States require cost-based, rate-regulated entities that meet certain criteria to reflect the authorized recovery of costs due to regulatory decisions in their financial statements. As a result, certain costs are permitted to be capitalized rather than expensed because they can be recovered through rates. We record certain costs as regulatory assets when future recovery through customer rates is considered probable. Regulatory liabilities are recorded when it is probable that revenues will be reduced for amounts that will be credited to customers through the ratemaking process. Substantially all of our regulatory assets are recorded as a component of deferred charges and other assets and a portion of our regulatory liabilities are recorded as a component of deferred credits and other liabilities. Deferred gas costs are recorded either in other current assets or liabilities and our regulatory excess deferred taxes and regulatory cost of removal obligation is reported separately.

Significant regulatory assets and liabilities as of December 31, 2017 and September 30, 2017 included the following:

	December 31, 2017	September 30, 2017
	(In thousands)	
Regulatory assets:		
Pension and postretirement benefit costs[1]	$24,598	$ 26,826
Infrastructure mechanisms[2]	54,571	46,437
Deferred gas costs	18,505	65,714
Recoverable loss on reacquired debt	10,580	11,208
Deferred pipeline record collection costs	12,942	11,692
APT annual adjustment mechanism	—	2,160
Rate case costs	3,160	2,629
Other	9,703	10,132
	$134,059	$ 176,798
Regulatory liabilities:		
Regulatory excess deferred taxes[3]	$746,246	$ —
Regulatory cost of removal obligation	520,483	521,330
Deferred gas costs	19,739	15,559
Asset retirement obligation	12,827	12,827
APT annual adjustment mechanism	1,720	—
Other	7,673	5,941
	$1,308,688	$ 555,657

(1) Includes $8.6 million and $9.4 million of pension and postretirement expense deferred pursuant to regulatory authorization.

(2) Infrastructure mechanisms in Texas and Louisiana allow for the deferral of all eligible expenses associated with capital expenditures incurred pursuant to these rules, including the recording of interest on deferred expenses until the next rate proceeding (rate case or annual rate filing), at which time investment and costs would be recoverable through base rates.

(3) The TCJA resulted in the remeasurement of the net deferred tax liability included in our rate base. The excess deferred taxes will be returned to utility customers in accordance with regulatory requirements. See Note 6 for further information.

3. Segment Information

We manage and review our consolidated operations through the following reportable segments:

- The distribution segment is primarily comprised of our regulated natural gas distribution and related sales operations in eight states.
- The pipeline and storage segment is comprised primarily of the pipeline and storage operations of our Atmos Pipeline-Texas division and our natural gas transmission operations in Louisiana.
- The natural gas marketing segment was comprised of our discontinued natural gas marketing business.

Our determination of reportable segments considers the strategic operating units under which we manage sales of various products and services to customers in differing regulatory environments. Although our distribution segment operations are geographically dispersed, they are aggregated and reported as a single segment as each natural gas distribution division has similar economic characteristics. In addition, because the pipeline and storage operations of our Atmos Pipeline-Texas division and our natural gas transmission operations in Louisiana have similar economic characteristics, they have been aggregated and reported as a single segment.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies found in our Annual Report on Form 10-K for the fiscal year ended September 30, 2017. We evaluate performance based on net income or loss of the respective operating units. We allocate interest and pension expense to the pipeline and storage segment; however, there is no debt or pension liability recorded on the pipeline and storage segment balance sheet. All material intercompany transactions have been eliminated; however, we have not eliminated intercompany profits when such amounts are probable of recovery under the affiliates' rate regulation process. Income taxes are allocated to each segment as if each segment's taxes were calculated on a separate return basis.

Income statements and capital expenditures for the three months ended December 31, 2017 and 2016 by segment are presented in the following tables:

	Three Months Ended December 31, 2017			
	Distribution	Pipeline and Storage	Eliminations	Consolidated
	(In thousands)			
Operating revenues from external parties	$860,453	$28,739	$ —	$ 889,192
Intersegment revenues	339	97,724	(98,063)	—
Total operating revenues	860,792	126,463	(98,063)	889,192
Purchased gas cost	463,758	912	(97,753)	366,917
Operation and maintenance expense	103,737	26,140	(310)	129,567
Depreciation and amortization expense	65,434	22,940	—	88,374
Taxes, other than income	55,107	7,666	—	62,773
Operating income	172,756	68,805	—	241,561
Miscellaneous expense	(1,400)	(635)	—	(2,035)
Interest charges	21,368	10,141	—	31,509
Income before income taxes	149,988	58,029	—	208,017
Income tax benefit	(99,111)	(7,004)	—	(106,115)
Net income	$249,099	$65,033	$ —	$ 314,132
Capital expenditures	$241,249	$141,989	$ —	$ 383,238

	Three Months Ended December 31, 2016				
	Distribution	Pipeline and Storage	Natural Gas Marketing	Eliminations	Consolidated
	(In thousands)				
Operating revenues from external parties	$754,266	$25,902	$ —	$ —	$ 780,168
Intersegment revenues	390	84,050	—	(84,440)	—
Total operating revenues	754,656	109,952	—	(84,440)	780,168
Purchased gas cost	395,346	355	—	(84,396)	311,305
Operation and maintenance expense	92,714	32,268	—	(44)	124,938
Depreciation and amortization expense	61,157	15,801	—	—	76,958
Taxes, other than income	50,546	6,503	—	—	57,049
Operating income	154,893	55,025	—	—	209,918
Miscellaneous expense	(633)	(361)	—	—	(994)
Interest charges	21,118	9,912	—	—	31,030
Income from continuing operations before income taxes	133,142	44,752	—	—	177,894
Income tax expense	47,778	16,078	—	—	63,856
Income from continuing operations	85,364	28,674	—	—	114,038
Income from discontinued operations, net of tax	—	—	10,994	—	10,994
Net income	$85,364	$28,674	$ 10,994	$ —	$ 125,032
Capital expenditures	$222,484	$75,478	$ —	$ —	$ 297,962

Balance sheet information at December 31, 2017 and September 30, 2017 by segment is presented in the following tables:

	December 31, 2017			
	Distribution	Pipeline and Storage	Eliminations	Consolidated
	(In thousands)			
Property, plant and equipment, net	$7,010,709	$2,508,083	$—	$9,518,792
Total assets	$10,633,234	$2,729,455	$(2,097,969)	$11,264,720

	September 30, 2017			
	Distribution	Pipeline and Storage	Eliminations	Consolidated
	(In thousands)			
Property, plant and equipment, net	$6,849,517	$2,409,665	$—	$9,259,182
Total assets	$10,050,164	$2,621,601	$(1,922,169)	$10,749,596

4. Earnings Per Share

We use the two-class method of computing earnings per share because we have participating securities in the form of non-vested restricted stock units with a nonforfeitable right to dividend equivalents, for which vesting is predicated solely on the passage of time. The calculation of earnings per share using the two-class method excludes income attributable to these participating securities from the numerator and excludes the dilutive impact of those shares from the denominator. Basic and diluted earnings per share for the three months ended December 31, 2017 and 2016 are calculated as follows:

	Three Months Ended December 31	
	2017	2016
	(In thousands, except per share amounts)	
Basic and Diluted Earnings Per Share from continuing operations		
Income from continuing operations	$314,132	$114,038
Less: Income from continuing operations allocated to participating securities	328	153
Income from continuing operations available to common shareholders	$313,804	$113,885
Basic and diluted weighted average shares outstanding	108,564	105,284
Income from continuing operations per share — Basic and Diluted	$2.89	$1.08
Basic and Diluted Earnings Per Share from discontinued operations		
Income from discontinued operations	$—	$10,994
Less: Income from discontinued operations allocated to participating securities	—	14
Income from discontinued operations available to common shareholders	$—	$10,980
Basic and diluted weighted average shares outstanding	108,564	105,284
Income from discontinued operations per share — Basic and Diluted	$—	$0.11
Net income per share — Basic and Diluted	$2.89	$1.19

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5. Debt

The nature and terms of our debt instruments and credit facilities are described in detail in Note 5 to the consolidated financial statements in our Annual Report on Form 10-K for the fiscal year ended September 30, 2017. There were no material changes in the terms of our debt instruments during the three months ended December 31, 2017.

Long-term debt at December 31, 2017 and September 30, 2017 consisted of the following:

	December 31, 2017	September 30, 2017
	(In thousands)	
Unsecured 8.50% Senior Notes, due March 2019	$450,000	$450,000
Unsecured 3.00% Senior Notes, due 2027	500,000	500,000
Unsecured 5.95% Senior Notes, due 2034	200,000	200,000
Unsecured 5.50% Senior Notes, due 2041	400,000	400,000
Unsecured 4.15% Senior Notes, due 2043	500,000	500,000
Unsecured 4.125% Senior Notes, due 2044	750,000	750,000
Medium-term note Series A, 1995-1, 6.67%, due 2025	10,000	10,000
Unsecured 6.75% Debentures, due 2028	150,000	150,000
Floating-rate term loan, due September 2019(1)	125,000	125,000
Total long-term debt	3,085,000	3,085,000
Less:		
Original issue premium / discount on unsecured senior notes and debentures	(4,398)	(4,384)
Debt issuance cost	21,929	22,339
	$3,067,469	$3,067,045

(1) Up to $200 million can be drawn under this term loan.

We utilize short-term debt to provide cost-effective, short-term financing until it can be replaced with a balance of long-term debt and equity financing that achieves the Company’s desired capital structure with an equity–to–capitalization ratio between 50% and 60%, inclusive of long–term and short–term debt. Our short–term borrowing requirements are affected primarily by the seasonal nature of the natural gas business. Changes in the price of natural gas and the amount of natural gas we need to supply our customers’ needs could significantly affect our borrowing requirements. Our short–term borrowings typically reach their highest levels in the winter months.

Currently, our short-term borrowing requirements are satisfied through a combination of a $1.5 billion commercial paper program and three committed revolving credit facilities with third-party lenders that provide approximately $1.5 billion of total working capital funding. The primary source of our funding is our commercial paper program, which is supported by a five-year unsecured $1.5 billion credit facility that expires September 25, 2021. The facility bears interest at a base rate or at a LIBOR-based rate for the applicable interest period, plus a spread ranging from zero percent to 1.25 percent, based on the Company’s credit ratings. Additionally, the facility contains a $250 million accordion feature, which provides the opportunity to increase the total committed loan to $1.75 billion. At December 31, 2017 and September 30, 2017 a total of $336.8 million and $447.7 million was outstanding under our commercial paper program.

Additionally, we have a $25 million 364-day unsecured facility and a $10 million 364-day unsecured revolving credit facility, which is used primarily to issue letters of credit. At December 31, 2017, there were no borrowings outstanding under either of these facilities; however, outstanding letters of credit reduced the total amount available to us under our $10 million facility to $4.4 million.

The availability of funds under these credit facilities is subject to conditions specified in the respective credit agreements, all of which we currently satisfy. These conditions include our compliance with financial covenants and the continued accuracy of representations and warranties contained in these agreements. We are required by the

financial covenants in each of these facilities to maintain, at the end of each fiscal quarter, a ratio of total-debt-to-total-capitalization of no greater than 70 percent. At December 31, 2017, our total-debt-to-total-capitalization ratio, as defined in the agreements, was 44 percent. In addition, both the interest margin and the fee that we pay on unused amounts under certain of these facilities are subject to adjustment depending upon our credit ratings.

These credit facilities and our public indentures contain usual and customary covenants for our business, including covenants substantially limiting liens, substantial asset sales and mergers. Additionally, our public debt indentures relating to our senior notes and debentures, as well as certain of our revolving credit agreements, each contain a default provision that is triggered if outstanding indebtedness arising out of any other credit agreements in amounts ranging from in excess of $15 million to in excess of $100 million becomes due by acceleration or is not paid at maturity. We were in compliance with all of our debt covenants as of December 31, 2017. If we were unable to comply with our debt covenants, we would likely be required to repay our outstanding balances on demand, provide additional collateral or take other corrective actions.

6. Impact of the Tax Cuts and Jobs Act of 2017

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (the "TCJA") was signed into law. The TCJA introduced several significant changes to corporate income tax laws in the United States. The most significant change that will affect Atmos Energy is the reduction of the federal statutory income tax rate from 35% to 21%. As a rate-regulated entity, the accelerated capital expensing and the limitation on interest deductibility provisions included in the TCJA are not applicable to us.

Under generally accepted accounting principles, we use the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

At September 30, 2017, we measured our net deferred tax liability using the enacted federal statutory tax rate of 35%. The enactment of the TCJA on December 22, 2017 required us to remeasure our deferred tax assets and liabilities, including our U.S. federal income tax net operating loss carryforwards, at the newly enacted federal statutory income tax rate. As the Company’s fiscal year end is September 30, the Internal Revenue Code requires the Company to use a blended statutory federal corporate income tax rate of 24.5% for fiscal 2018.

The decrease in the federal statutory income tax rate reduced our net deferred tax liability by $908.1 million. Of this amount, $746.2 million relates to regulated operations and has been recorded as a regulatory liability, which will be returned to utility customers. The period and timing of these revenue adjustments are subject to Internal Revenue Code provisions and regulatory actions in each of the eight states in which we operate. The remaining $161.9 million has been reflected as a one-time income tax benefit in our condensed consolidated statement of income because these taxes were not considered in our cost of service ratemaking.

At December 31, 2017, we had $330.4 million of remeasured federal net operating loss carryforwards. The federal net operating loss carryforwards are available to offset future taxable income and will begin to expire in 2029. The Company also has $10.1 million of federal alternative minimum tax credit carryforwards that do not expire and are expected to be fully refunded to us between 2019 and 2022 as a result of changes introduced by the TCJA. These credit carryforwards are now reflected as taxes receivable within the deferred charges and other assets line item on our condensed consolidated balance sheet. In addition, the Company has $5.1 million in remeasured charitable contribution carryforwards to offset future taxable income. The Company’s charitable contribution carryforwards expire between 2018 and 2023.

The Company also has $25.9 million of state net operating loss carryforwards and $1.5 million of state tax credit carryforwards (net of $6.9 million and $0.4 million of remeasured federal effects). Depending on the jurisdiction in which the state net operating loss was generated, the carryforwards will begin to expire between 2018 and 2032.

Due to the changes introduced by the TCJA, we now believe it is more likely than not that the benefit from certain charitable contribution carryforwards for which a valuation allowance was previously established will be realized. As a result, we reduced our valuation allowance by $4.2 million during the first quarter. This amount is included in the $161.9 million one-time income tax benefit.

The SEC issued guidance in Staff Accounting Bulletin 118 (SAB 118), which allows us to record provisional amounts during a one-year measurement period, similar to the measurement period in accounting for business combinations. The Company has determined a reasonable estimate for the measurement and accounting for certain effects of the TCJA, including the remeasurement of our net deferred tax liabilities and the establishment of a regulatory

liability, which have been reflected as provisional amounts in the December 31, 2017 condensed consolidated financial statements and are described in further detail above. The amounts represent our best estimates based upon records, information and current guidance. We are still analyzing certain aspects of the TCJA, refining our calculations and expect additional guidance relating to the TCJA from the U.S. Department of the Treasury and the Internal Revenue Service. Any additional issued guidance or future actions of our regulators could potentially affect the final determination of the accounting effects arising from the implementation of the TCJA.

We are actively working with our regulators in each jurisdiction to address the impact of the TCJA on our cost of service based rates. Accounting orders have been issued for our Colorado, Kansas, Kentucky, Tennessee and Virginia service areas that require us to establish, effective January 1, 2018, a separate regulatory liability for the difference in taxes included in our rates that have been calculated based on a 35% statutory income tax rate and the new 21% statutory income tax rate. The establishment of this regulatory liability relating to our cost of service rates will result in a reduction to our revenues beginning in the second quarter of fiscal 2018. The period and timing of the return of these liabilities to utility customers will be determined by regulators in each of our jurisdictions.
Regulators in our other services areas, including Texas, Mississippi and Louisiana, have also taken action in response to the TCJA:
- On January 23, 2018, the Railroad Commission of Texas directed the Commission Staff to develop recommendations to ensure that, beginning January 1, 2018, all gas utility customers in Texas receive the full benefit of the TCJA.
- On January 26, 2018, the Mississippi Public Service Commission (MPSC) entered an order requiring each utility to file within thirty days a detailed description identifying how the TCJA will be reflected in the formula rate plan or other rate structures under which the utility operates.
- On January 31, 2018, Louisiana Public Service Commission (LPSC) directed utilities to file reports on February 14, 2018, regarding savings for ratepayers as a result of the new federal tax laws. The LPSC is also considering an accounting order to direct the utilities to track and record the impacts of the TCJA and a rule making docket to address the TCJA.

7. Shareholders' Equity

Shelf Registration, At-the-Market Equity Sales Program and Equity Issuance
On March 28, 2016, we filed a registration statement with the Securities and Exchange Commission (SEC) that originally permitted us to issue, from time to time, up to $2.5 billion in common stock and/or debt securities, which expires March 28, 2019. At December 31, 2017, approximately $1.2 billion of securities remained available for issuance under the shelf registration statement.
On November 14, 2017, we filed a prospectus supplement under the registration statement relating to an at-the-market (ATM) equity sales program under which we may issue and sell shares of our common stock up to an aggregate offering price of $500 million, which expires March 28, 2019. During the three months ended December 31, 2017, no shares of common stock were sold under the ATM program.
On November 30, 2017, we filed a prospectus supplement under the registration statement relating to an underwriting agreement to sell 4,558,404 shares of our common stock. We received aggregate gross proceeds of $400 million and received net proceeds, after expenses, of $395.1 million from the offering.

Accumulated Other Comprehensive Income (Loss)
We record deferred gains (losses) in AOCI related to available-for-sale securities, interest rate cash flow hedges and prior to the sale of Atmos Energy Marketing on January 3, 2017, commodity contract cash flow hedges. Deferred gains (losses) for our available-for-sale securities and commodity contract cash flow hedges are recognized in earnings upon settlement, while deferred gains (losses) related to our interest rate agreement cash flow hedges are recognized in earnings as they are amortized. The following tables provide the components of our accumulated other comprehensive income (loss) balances, net of the related tax effects allocated to each component of other comprehensive income (loss):

	Available-for-Sale Securities	Interest Rate Agreement Cash Flow Hedges	Total
	(In thousands)		
September 30, 2017	$7,048	$(112,302)	$(105,254)

Other comprehensive loss before reclassifications	(107)	(1,332)	(1,439)
Amounts reclassified from accumulated other comprehensive income	—	377	377
Net current-period other comprehensive loss	(107)	(955)	(1,062)
December 31, 2017	$6,941	$(113,257)	$(106,316)

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	Available-for-Sale Securities	Interest Rate Agreement Cash Flow Hedges	Commodity Contracts Cash Flow Hedges	Total
	(In thousands)			
September 30, 2016	$4,484	$(187,524)	$ (4,982)	$(188,022)
Other comprehensive income (loss) before reclassifications	(828)	91,127	9,847	100,146
Amounts reclassified from accumulated other comprehensive income	—	87	(4,865)	(4,778)
Net current-period other comprehensive income (loss)	(828)	91,214	4,982	95,368
December 31, 2016	$3,656	$(96,310)	$ —	$(92,654)

The following tables detail reclassifications out of AOCI for the three months ended December 31, 2017 and 2016. Amounts in parentheses below indicate decreases to net income in the statement of income:

Accumulated Other Comprehensive Income Components	Three Months Ended December 31, 2017 Amount Reclassified from Accumulated Other Comprehensive Income (In thousands)	Affected Line Item in the Statement of Income
Cash flow hedges		
Interest rate agreements	$(594)	Interest charges
	(594)	Total before tax
	217	Tax benefit
Total reclassifications	$(377)	Net of tax

Accumulated Other Comprehensive Income Components	Three Months Ended December 31, 2016 Amount Reclassified from Accumulated Other Comprehensive Income (In thousands)	Affected Line Item in the Statement of Income
Cash flow hedges		
Interest rate agreements	$(137)	Interest charges
Commodity contracts	7,967	Purchased gas cost[(1)]
	7,830	Total before tax
	(3,052)	Tax expense
Total reclassifications	$4,778	Net of tax

(1) Amounts are presented as part of income from discontinued operations in the condensed consolidated statements of income.

8. Interim Pension and Other Postretirement Benefit Plan Information

The components of our net periodic pension cost for our pension and other postretirement benefit plans for the three months ended December 31, 2017 and 2016 are presented in the following table. Most of these costs are recoverable through our tariff rates; however, a portion of these costs is capitalized into our rate base. The remaining costs are

recorded as a component of operation and maintenance expense.

	Three Months Ended December 31			
	Pension Benefits		Other Benefits	
	2017	2016	2017	2016
	(In thousands)			
Components of net periodic pension cost:				