ATMOS ENERGY CORP
Form 10-Q
February 04, 2009

Table of Contents

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, 2008**
	or
o	**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	**75-1743247**
(State or other jurisdiction of incorporation or organization)	*(IRS employer identification no.)*
Three Lincoln Centre, Suite 1800 **5430 LBJ Freeway, Dallas, Texas**	**75240**
(Address of principal executive offices)	*(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 o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer þ Accelerated Filer o Non-Accelerated Filer o Smaller Reporting Company o

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) Yes o No þ

Number of shares outstanding of each of the issuer s classes of common stock, as of January 27, 2009.

Class	Shares Outstanding
No Par Value	91,634,602

TABLE OF CONTENTS

Table of Contents

GLOSSARY OF KEY TERMS

AEC	Atmos Energy Corporation
AEH	Atmos Energy Holdings, Inc.
AEM	Atmos Energy Marketing, LLC
AOCI	Accumulated other comprehensive income
APS	Atmos Pipeline and Storage, LLC
Bcf	Billion cubic feet
FASB	Financial Accounting Standards Board
Fitch	Fitch Ratings, Ltd.
GRIP	Gas Reliability Infrastructure Program
Mcf	Thousand cubic feet
MMcf	Million cubic feet
Moody s	Moody s Investors Services, Inc.
NYMEX	New York Mercantile Exchange, Inc.
RRC	Railroad Commission of Texas
RRM	Rate Review Mechanism
S&P	Standard & Poor s Corporation
SEC	United States Securities and Exchange Commission
SFAS	Statement of Financial Accounting Standards
WNA	Weather Normalization Adjustment

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. ***Financial Statements***

ATMOS ENERGY CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

	December 31, 2008 (Unaudited)	September 30, 2008
	(In thousands, except share data)	
ASSETS		
Property, plant and equipment	$ 5,803,491	$ 5,730,156
Less accumulated depreciation and amortization	1,608,743	1,593,297
Net property, plant and equipment	4,194,748	4,136,859
Current assets		
Cash and cash equivalents	69,799	46,717
Accounts receivable, net	833,125	477,151
Gas stored underground	582,743	576,617
Other current assets	197,441	184,619
Total current assets	1,683,108	1,285,104
Goodwill and intangible assets	738,929	739,086
Deferred charges and other assets	202,114	225,650
	$ 6,818,899	$ 6,386,699
CAPITALIZATION AND LIABILITIES		
Shareholders equity		
Common stock, no par value (stated at $.005 per share); 200,000,000 shares authorized; issued and outstanding: December 31, 2008 91,599,495 shares; September 30, 2008 90,814,683 shares	$ 458	$ 454
Additional paid-in capital	1,757,834	1,744,384
Retained earnings	381,633	343,601
Accumulated other comprehensive loss	(61,849)	(35,947)
Shareholders equity	2,078,076	2,052,492
Long-term debt	1,719,920	2,119,792
Total capitalization	3,797,996	4,172,284
Current liabilities		

Accounts payable and accrued liabilities	815,095	395,388
Other current liabilities	441,481	460,372
Short-term debt	360,833	350,542
Current maturities of long-term debt	400,507	785
Total current liabilities	2,017,916	1,207,087
Deferred income taxes	431,324	441,302
Regulatory cost of removal obligation	305,784	298,645
Deferred credits and other liabilities	265,879	267,381
	$ 6,818,899	$ 6,386,699

See accompanying notes to condensed consolidated financial statements

2

Table of Contents

ATMOS ENERGY CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended December 31	
	2008	2007
	(Unaudited) (In thousands, except per share data)	
Operating revenues		
Natural gas distribution segment	$ 1,055,968	$ 928,177
Regulated transmission and storage segment	54,682	45,046
Natural gas marketing segment	787,495	840,717
Pipeline, storage and other segment	16,448	6,727
Intersegment eliminations	(198,261)	(163,157)
	1,716,332	1,657,510
Purchased gas cost		
Natural gas distribution segment	757,584	654,977
Regulated transmission and storage segment		
Natural gas marketing segment	757,472	794,754
Pipeline, storage and other segment	3,903	729
Intersegment eliminations	(197,839)	(162,588)
	1,321,120	1,287,872
Gross profit	395,212	369,638
Operating expenses		
Operation and maintenance	134,755	121,189
Depreciation and amortization	53,126	48,513
Taxes, other than income	44,137	41,427
Total operating expenses	232,018	211,129
Operating income	163,194	158,509
Miscellaneous expense	(301)	(93)
Interest charges	38,991	36,817
Income before income taxes	123,902	121,599
Income tax expense	47,939	47,796
Net income	$ 75,963	$ 73,803
Basic net income per share	$ 0.84	$ 0.83
Diluted net income per share	$ 0.83	$ 0.82

Cash dividends per share	$	0.330	$	0.325
Weighted average shares outstanding:				
Basic		90,471		89,006
Diluted		91,066		89,608

See accompanying notes to condensed consolidated financial statements

Table of Contents

ATMOS ENERGY CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended December 31 2008	2007
	(Unaudited) (In thousands)	
Cash Flows From Operating Activities		
Net income	$ 75,963	$ 73,803
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization:		
Charged to depreciation and amortization	53,126	48,513
Charged to other accounts	8	23
Deferred income taxes	27,175	11,978
Other	7,683	4,406
Net assets / liabilities from risk management activities	(22,793)	16,883
Net change in operating assets and liabilities	9,553	(94,169)
Net cash provided by operating activities	150,715	61,437
Cash Flows From Investing Activities		
Capital expenditures	(107,367)	(94,155)
Other, net	(1,210)	(1,874)
Net cash used in investing activities	(108,577)	(96,029)
Cash Flows From Financing Activities		
Net increase in short-term debt	5,312	50,690
Repayment of long-term debt	(278)	(1,741)
Cash dividends paid	(30,165)	(29,178)
Issuance of common stock	6,075	5,970
Net cash provided by (used in) financing activities	(19,056)	25,741
Net increase (decrease) in cash and cash equivalents	23,082	(8,851)
Cash and cash equivalents at beginning of period	46,717	60,725
Cash and cash equivalents at end of period	$ 69,799	$ 51,874

See accompanying notes to condensed consolidated financial statements

Table of Contents

ATMOS ENERGY CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
December 31, 2008

1. Nature of Business

Atmos Energy Corporation (Atmos Energy or the Company) and our subsidiaries are engaged primarily in the regulated natural gas distribution and transmission and storage businesses as well as certain other nonregulated businesses. Through our natural gas distribution business, we deliver natural gas through sales and transportation arrangements to approximately 3.2 million residential, commercial, public authority and industrial customers through our six regulated natural gas distribution divisions in the service areas described below:

Division	Service Area
Atmos Energy Colorado-Kansas Division	Colorado, Kansas, Missouri[1]
Atmos Energy Kentucky/Mid-States Division	Georgia[1], Illinois[1], Iowa[1], Kentucky, Missouri[1], Tennessee, Virginia[1]
Atmos Energy Louisiana Division	Louisiana
Atmos Energy Mid-Tex Division	Texas, including the Dallas/Fort Worth metropolitan area
Atmos Energy Mississippi Division	Mississippi
Atmos Energy West Texas Division	West Texas

(1) Denotes states where we have more limited service areas.

In addition, we transport natural gas for others through our distribution system. Our natural gas distribution business is subject to federal and state regulation and/or regulation by local authorities in each of the states in which our natural gas distribution divisions operate. Our corporate headquarters and shared-services function are located in Dallas, Texas, and our customer support centers are located in Amarillo and Waco, Texas.

Our regulated transmission and storage business consists of the regulated operations of our Atmos Pipeline Texas Division. The Atmos Pipeline Texas Division transports natural gas to our Mid-Tex Division, transports natural gas for third parties and manages five underground storage reservoirs in Texas. We also provide ancillary services customary to the pipeline industry including parking arrangements, lending and sales of inventory on hand. Parking arrangements provide short-term interruptible storage of gas on our pipeline. Lending services provide short-term interruptible loans of natural gas from our pipeline to meet market demands.

Our nonregulated businesses operate primarily in the Midwest and Southeast and include our natural gas marketing operations and pipeline, storage and other operations. These businesses are operated through various wholly-owned subsidiaries of Atmos Energy Holdings, Inc. (AEH), which is wholly owned by the Company and based in Houston, Texas.

Our natural gas marketing operations are conducted through Atmos Energy Marketing, LLC (AEM), which is wholly owned by AEH. AEM provides a variety of natural gas management services to municipalities, natural gas utility systems and industrial natural gas customers, primarily in the Southeast and Midwest and to our Colorado-Kansas, Kentucky/Mid-States and Louisiana divisions. These services consist primarily of furnishing natural gas supplies at fixed and market-based prices, contract negotiation and administration, load forecasting, gas storage acquisition and management services, transportation services, peaking sales and balancing services, capacity utilization strategies and gas price hedging through the use of financial instruments.

ATMOS ENERGY CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Our pipeline, storage and other segment primarily consists of the operations of Atmos Pipeline and Storage, LLC (APS) and Atmos Power Systems, Inc., which are wholly owned by AEH. APS owns or has an interest in underground storage fields in Kentucky and Louisiana. We use these storage facilities to reduce the need to contract for additional pipeline capacity to meet customer demand during peak periods. Additionally, APS manages our natural gas gathering operations. These operations did not significantly impact our financial results for the period ended December 31, 2008. Through Atmos Power Systems, Inc., we have constructed electric peaking power-generating plants and associated facilities and lease these plants through lease agreements that are accounted for as sales under generally accepted accounting principles in the United States.

2. Unaudited Interim Financial Information

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, 2008. Because of seasonal and other factors, the results of operations for the three-month period ended December 31, 2008 are not indicative of our results of operations for the full 2009 fiscal year, which ends September 30, 2009.

Significant accounting policies

Our accounting policies are described in Note 2 to the financial statements in our Annual Report on Form 10-K for the fiscal year ended September 30, 2008, and there were no changes to those policies. However, during the three months ended December 31, 2008, we recognized a non-recurring $8.1 million increase in gross profit associated with a one-time update to our estimate for gas delivered to customers but not yet billed, resulting from base rate changes in several jurisdictions.

Effective October 1, 2008, the Company adopted Statement of Financial Accounting Standards (SFAS) 157, *Fair Value Measurements*, the measurement date requirements of SFAS 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R),* SFAS 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115* and SFAS 161, *Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133.* Except for the adoption of these accounting pronouncements, which are further discussed below, there were no significant changes to our accounting policies during the three months ended December 31, 2008.

SFAS 157 defines fair value, establishes a framework for measuring fair value and enhances disclosure on fair value measurements required under other accounting pronouncements but does not change existing guidance as to whether or not an instrument is carried at fair value. The adoption of this standard did not materially impact our financial position, results of operations or cash flows. The new disclosures required by this standard are presented in Note 4.

Effective October 1, 2008, the Company adopted the measurement date requirements of SFAS 158 using the remeasurement approach. Under this approach, the Company remeasured its projected benefit obligation, fair value of plan assets and its fiscal 2009 net periodic cost. In accordance with the transition rules of SFAS 158, the impact of changing the measurement date from June 30, 2008 to September 30, 2008 decreased retained earnings by

$7.8 million, net of tax, decreased the unrecognized actuarial loss by $9.0 million and increased our postretirement liabilities by $3.5 million.

SFAS 159 permits an entity to measure certain financial assets and financial liabilities at fair value. The objective of the standard is to improve financial reporting by allowing entities to mitigate volatility in reported

Table of Contents

ATMOS ENERGY CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. Entities that elect the fair value option will report unrealized gains and losses in earnings at each subsequent reporting date. The fair value option may be elected on an instrument-by-instrument basis. The fair value option is irrevocable, unless a new election date occurs. The adoption of this standard did not impact our financial position, results of operations or cash flows.

SFAS 161 expands the disclosure requirements for derivative instruments and hedging activities. This statement requires specific disclosures regarding how and why an entity uses derivative instruments; the accounting for derivative instruments and related hedged items; and how derivative instruments and related hedged items affect an entity s financial position, results of operations and cash flows. Since SFAS 161 only requires additional disclosures concerning derivatives and hedging activities, this standard did not have an impact on our financial position, results of operations or cash flows. The new disclosures required by this standard are presented in Note 3.

Regulatory assets and liabilities

We record certain costs as regulatory assets in accordance with SFAS 71, *Accounting for the Effects of Certain Types of Regulation,* 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 substantially all 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 the regulatory cost of removal obligation is reported separately.

Significant regulatory assets and liabilities as of December 31, 2008 and September 30, 2008 included the following:

	December 31, 2008	September 30, 2008
	(In thousands)	
Regulatory assets:		
Pension and postretirement benefit costs	$ 90,394	$ 100,563
Merger and integration costs, net	7,480	7,586
Deferred gas costs	122,524	55,103
Environmental costs	888	980
Rate case costs	11,243	12,885
Deferred franchise fees	627	651
Deferred income taxes, net	343	343
Other	7,294	8,120
	$ 240,793	$ 186,231
Regulatory liabilities:		
Deferred gas costs	$ 68,226	$ 76,979

Regulatory cost of removal obligation	323,517	317,273
Other	5,569	5,639
	$ 397,312	$ 399,891

Currently, our authorized rates do not include a return on certain of our merger and integration costs; however, we recover the amortization of these costs. Merger and integration costs, net, are generally amortized on a straight-line basis over estimated useful lives ranging up to 20 years. Environmental costs have been deferred to be included in future rate filings in accordance with rulings received from various state regulatory commissions.

Table of Contents

ATMOS ENERGY CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Comprehensive income

The following table presents the components of comprehensive income (loss), net of related tax, for the three-month periods ended December 31, 2008 and 2007: