

ATMOS ENERGY CORP
Form 10-Q
February 03, 2010

Table of Contents

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

Form 10-Q

(Mark One)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended December 31, 2009**
- 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)*

**Three Lincoln Centre, Suite 1800
5430 LBJ Freeway, Dallas, Texas**

(Address of principal executive offices)

75-1743247

*(IRS employer
identification no.)*

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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, 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 No

* The registrant has not yet been phased into the interactive data requirements.

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 Accelerated Filer Non-Accelerated Filer Smaller Reporting Company
(Do not check if a smaller reporting company)

Edgar Filing: ATMOS ENERGY CORP - Form 10-Q

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

Number of shares outstanding of each of the issuer's classes of common stock, as of January 28, 2010.

Class	Shares Outstanding
No Par Value	93,054,189

TABLE OF CONTENTS

GLOSSARY OF KEY TERMS

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CONDENSED CONSOLIDATED BALANCE SHEETS

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Item 4. Controls and Procedures

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Item 6. Exhibits

SIGNATURE

EXHIBITS INDEX Item 6

EX-12

EX-15

EX-31

EX-32

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.
GAAP	Generally Accepted Accounting Principles
GRIP	Gas Reliability Infrastructure Program
GSRS	Gas System Reliability Surcharge
ISRS	Infrastructure System Replacement Surcharge
LPSC	Louisiana Public Service Commission
Mcf	Thousand cubic feet
MMcf	Million cubic feet
MPSC	Mississippi Public Service Commission
Moody's	Moody's Investors Services, Inc.
NYMEX	New York Mercantile Exchange, Inc.
PPA	Pension Protection Act of 2006
PRP	Pipeline Replacement Program
RRC	Railroad Commission of Texas
RRM	Rate Review Mechanism
S&P	Standard & Poor's Corporation
SEC	United States Securities and Exchange Commission
WNA	Weather Normalization Adjustment

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****ATMOS ENERGY CORPORATION****CONDENSED CONSOLIDATED BALANCE SHEETS**

	December 31, 2009	September 30, 2009
	(Unaudited)	
	(In thousands, except share data)	
ASSETS		
Property, plant and equipment	\$ 6,196,043	\$ 6,086,618
Less accumulated depreciation and amortization	1,672,855	1,647,515
Net property, plant and equipment	4,523,188	4,439,103
Current assets		
Cash and cash equivalents	174,829	111,203
Accounts receivable, net	597,012	232,806
Gas stored underground	399,582	352,728
Other current assets	115,155	132,203
Total current assets	1,286,578	828,940
Goodwill and intangible assets	739,907	740,064
Deferred charges and other assets	325,751	335,659
	\$ 6,875,424	\$ 6,343,766

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, 2009 92,970,838 shares;		
September 30, 2009 92,551,709 shares	\$ 465	\$ 463
Additional paid-in capital	1,802,606	1,791,129
Retained earnings	467,449	405,353
Accumulated other comprehensive loss	(12,444)	(20,184)
Shareholders' equity	2,258,076	2,176,761
Long-term debt	2,159,470	2,169,400
Total capitalization	4,417,546	4,346,161

Edgar Filing: ATMOS ENERGY CORP - Form 10-Q

Current liabilities		
Accounts payable and accrued liabilities	578,805	207,421
Other current liabilities	413,754	457,319
Short-term debt	179,712	72,550
Current maturities of long-term debt	10,131	131
Total current liabilities	1,182,402	737,421
Deferred income taxes	588,423	570,940
Regulatory cost of removal obligation	314,126	321,086
Deferred credits and other liabilities	372,927	368,158
	\$ 6,875,424	\$ 6,343,766

See accompanying notes to condensed consolidated financial statements

Table of Contents**ATMOS ENERGY CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

	Three Months Ended December 31	
	2009	2008
	(Unaudited)	
	(In thousands, except per share data)	
Operating revenues		
Natural gas distribution segment	\$ 802,894	\$ 1,055,968
Regulated transmission and storage segment	46,860	54,682
Natural gas marketing segment	544,271	787,495
Pipeline, storage and other segment	11,623	16,448
Intersegment eliminations	(112,796)	(198,261)
	1,292,852	1,716,332
Purchased gas cost		
Natural gas distribution segment	508,267	757,584
Regulated transmission and storage segment		
Natural gas marketing segment	484,486	757,472
Pipeline, storage and other segment	1,633	3,903
Intersegment eliminations	(112,383)	(197,839)
	882,003	1,321,120
Gross profit	410,849	395,212
Operating expenses		
Operation and maintenance	123,862	132,677
Depreciation and amortization	53,839	53,126
Taxes, other than income	42,552	44,137
Asset impairments		2,078
Total operating expenses	220,253	232,018
Operating income	190,596	163,194
Miscellaneous expense	(269)	(301)
Interest charges	38,708	38,991
Income before income taxes	151,619	123,902
Income tax expense	58,289	47,939
Net income	\$ 93,330	\$ 75,963
Basic net income per share	\$ 1.00	\$ 0.83

Edgar Filing: ATMOS ENERGY CORP - Form 10-Q

Diluted net income per share	\$	1.00	\$	0.83
Cash dividends per share	\$	0.335	\$	0.330
Weighted average shares outstanding:				
Basic		92,152		90,471
Diluted		92,509		90,769

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	
	2009	2008
	(Unaudited)	
	(In thousands)	
Cash Flows From Operating Activities		
Net income	\$ 93,330	\$ 75,963
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization:		
Charged to depreciation and amortization	53,839	53,126
Charged to other accounts	36	8
Deferred income taxes	12,832	27,175
Other	4,382	7,683
Net assets/liabilities from risk management activities	(26,891)	9,213
Net change in operating assets and liabilities	(42,372)	(22,453)
Net cash provided by operating activities	95,156	150,715
Cash Flows From Investing Activities		
Capital expenditures	(115,439)	(107,367)
Other, net	(1,873)	(1,210)
Net cash used in investing activities	(117,312)	(108,577)
Cash Flows From Financing Activities		
Net increase in short-term debt	111,335	5,312
Repayment of long-term debt		(278)
Cash dividends paid	(31,234)	(30,165)
Issuance of common stock	5,681	6,075
Net cash provided by (used in) financing activities	85,782	(19,056)
Net increase in cash and cash equivalents	63,626	23,082
Cash and cash equivalents at beginning of period	111,203	46,717
Cash and cash equivalents at end of period	\$ 174,829	\$ 69,799

See accompanying notes to condensed consolidated financial statements

Table of Contents

ATMOS ENERGY CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

December 31, 2009

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. Our corporate headquarters and shared-services function are located in Dallas, Texas and our customer support centers are located in Amarillo and Waco, Texas.

Through our natural gas distribution business, we deliver natural gas through sales and transportation arrangements to over 3 million residential, commercial, public authority and industrial customers through our six regulated natural gas distribution divisions which cover service areas located in 12 states. In addition, we transport natural gas for others through our distribution system. Our regulated activities also include our regulated pipeline and storage operations, which include the transportation of natural gas to our distribution system and the management of our underground storage facilities. Our natural gas distribution and regulated pipeline and storage businesses are 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 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. Through our nonregulated businesses, we primarily provide natural gas management and marketing services to municipalities, other local gas distribution companies and industrial customers and natural gas transportation and storage services to certain of our natural gas distribution divisions and third parties.

We operate the Company through the following four segments:

the *natural gas distribution segment*, which includes our regulated natural gas distribution and related sales operations,

the *regulated transmission and storage segment*, which includes the regulated pipeline and storage operations of the Atmos Pipeline Texas Division,

the *natural gas marketing segment*, which includes a variety of nonregulated natural gas management services and

the *pipeline, storage and other segment*, which is comprised of our nonregulated natural gas gathering, transmission and storage services.

2. Unaudited Interim 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, 2009. 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, 2009. Because of seasonal and other factors, the results of operations for the three-month period ended December 31, 2009 are not indicative of our results of operations for the full 2010 fiscal year, which ends September 30, 2010. We have evaluated subsequent events from the December 31, 2009 balance sheet date through the date these financial statements were filed with the Securities and Exchange

Table of Contents

ATMOS ENERGY CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Commission (SEC). No events have occurred subsequent to the balance sheet date that would require recognition or disclosure in the financial statements.

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, 2009.

Effective October 1, 2009, the Company adopted accounting standards related to the measurement of liabilities at fair value, fair value measurements of plan assets of a defined benefit pension or other postretirement plan, the determination of participating securities in the basic earnings per share calculation, business combination accounting and the accounting and reporting for minority interests. Except as indicated below, the adoption of these standards did not have a material impact on our financial position, results of operations or cash flows. There were no other significant changes to our accounting policies during the three months ended December 31, 2009.

Measurement of liabilities at fair value When a quoted price in an active market for an identical liability is not available, we will be required to measure fair value using a valuation technique that uses quoted prices of similar liabilities, quoted prices of identical or similar liabilities when traded as assets, or another valuation technique that is consistent with U.S. generally accepted accounting principles (GAAP), such as the income or market approach. Additionally, when estimating the fair value of a liability, we will not be required to include a separate input or adjustment to other inputs relating to the existence of a restriction that prevents our transfer of the liability.

Fair value measurements of plan assets of a defined benefit pension or other postretirement plan The Financial Accounting Standards Board (FASB) issued guidance which requires employers to disclose annually information about fair value measurements of the assets of a defined benefit pension or other postretirement plan in a manner similar to the requirements established for financial and non-financial assets. The objectives of the required disclosures are to provide users of financial statements with an understanding of how investment allocation decisions are made, the major categories of plan assets, the inputs and valuation techniques used to measure fair value of plan assets and significant concentrations of risk within plan assets. These disclosures will appear in our Form 10-K for the year ending September 30, 2010.

The determination of participating securities in the basic earnings per share calculation The FASB issued guidance related to determining whether instruments granted in share-based payment transactions are considered participating securities. The FASB determined that non-vested share-based payments with a nonforfeitable right to dividends or dividend equivalents are participating securities and, as a result, companies with these types of participating securities must use the two-class method to compute earnings per share. Based on this guidance, the Company is required to calculate earnings per share using the two-class method and will include non-vested restricted stock and restricted stock units for which vesting is only predicated upon the passage of time in the basic earnings per share calculation. Non-vested restricted stock and restricted stock units for which vesting is predicated, in part upon the achievement of specified performance targets, continue to be excluded from the calculation of earnings per share. Although the provisions of this standard were effective for us as of October 1, 2009, prior-period earnings per share data must be recalculated and adjusted accordingly. The calculation of basic and diluted earnings per share pursuant to the two-class method

Table of Contents**ATMOS ENERGY CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

is presented in Note 6. The application of the two-class method resulted in the following changes to basic and diluted earnings per share for the three months ended December 31, 2008.

	Three Months Ended December 31, 2008 (In thousands, except per share amounts)
Basic Earnings Per Share	
Basic EPS as previously reported	\$ 0.84
Basic EPS as adjusted	\$ 0.83
Weighted average shares outstanding as previously reported	90,471
Weighted average shares outstanding as adjusted	90,471
Diluted Earnings Per Share	
Diluted EPS as previously reported	\$ 0.83
Diluted EPS as adjusted	\$ 0.83
Weighted average shares outstanding as previously reported	91,066
Weighted average shares outstanding as adjusted	90,769

Business combination accounting This new pronouncement establishes new principles and requirements for how the acquirer in a business combination recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any noncontrolling interest in the acquiree at the acquisition date fair value. This update significantly changes the accounting for business combinations in a number of areas, including the treatment of contingent consideration, preacquisition contingencies, transaction costs and restructuring costs. In addition, under the new guidelines, changes in an acquired entity's deferred tax assets and uncertain tax positions after the measurement period will impact current period income tax expense. The provisions of this standard will apply to any acquisitions we complete after October 1, 2009.

Accounting and reporting for minority interests In December 2007, the FASB issued guidance related to the accounting and reporting for minority interests, which will be recharacterized as noncontrolling interests and classified as a component of equity. This new consolidation method significantly changes the accounting for transactions with minority interest holders. As of December 31, 2009, Atmos Energy did not have any transactions with minority interest holders.

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 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.

Table of Contents**ATMOS ENERGY CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Significant regulatory assets and liabilities as of December 31, 2009 and September 30, 2009 included the following:

	December 31, 2009	September 30, 2009
	(In thousands)	
Regulatory assets:		
Pension and postretirement benefit costs	\$ 195,015	\$ 197,743
Merger and integration costs, net	7,049	7,161
Deferred gas costs	53,818	22,233
Environmental costs	988	866
Rate case costs	4,137	5,923
Deferred franchise fees	6,893	10,014
Deferred income taxes, net	639	639
Other	6,323	6,218
	\$ 274,862	\$ 250,797
Regulatory liabilities:		
Deferred gas costs	\$ 36,826	\$ 110,754
Regulatory cost of removal obligation	336,315	335,428
Other	7,890	7,960
	\$ 381,031	\$ 454,142

Currently 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 applicable state regulatory commissions.

Comprehensive income

The following table presents the components of comprehensive income, net of related tax, for the three-month periods ended December 31, 2009 and 2008:

**Three Months Ended
December 31
2009 2008
(In thousands)**

Edgar Filing: ATMOS ENERGY CORP - Form 10-Q

Net income	\$ 93,330	\$ 75,963
Unrealized holding gains (losses) on investments, net of tax expense (benefit) of \$390 and \$(3,330) for the three months ended December 31, 2009 and 2008	664	(5,433)
Other than temporary impairment of investments, net of tax expense of \$790 for the three months ended December 31, 2008		1,288
Amortization of interest rate hedging transactions, net of tax expense of \$248 and \$482 for the three months ended December 31, 2009 and 2008	422	787
Net unrealized gains (losses) on commodity hedging transactions, net of tax expense (benefit) of \$4,254 and \$(13,817) for the three months ended December 31, 2009 and 2008	6,654	(22,544)
Comprehensive income	\$ 101,070	\$ 50,061

Table of Contents**ATMOS ENERGY CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Accumulated other comprehensive loss, net of tax, as of December 31, 2009 and September 30, 2009 consisted of the following unrealized gains (losses):

	December 31, 2009	September 30, 2009
	(In thousands)	
Accumulated other comprehensive loss:		
Unrealized holding gains on investments	\$ 3,124	\$ 2,460
Treasury lock agreements	(7,076)	(7,498)
Cash flow hedges	(8,492)	(15,146)
	\$ (12,444)	\$ (20,184)

3. Financial Instruments

We currently use financial instruments to mitigate commodity price risk in our natural gas distribution, natural gas marketing and pipeline, storage and other segments. Additionally, we periodically utilize financial instruments to manage interest rate risk. The objectives and strategies for using financial instruments have been tailored to our regulated and nonregulated businesses. The accounting for these financial instruments is fully described in Note 2 to the financial statements in our Annual Report on Form 10-K for the fiscal year ended September 30, 2009. During the first quarter there were no changes in our objectives, strategies and accounting for these financial instruments. Currently, we utilize financial instruments in our natural gas distribution, natural gas marketing and pipeline, storage and other segments. However, our pipeline, storage and other segment uses financial instruments acquired from Atmos Energy Marketing, LLC (AEM) on the same terms that AEM received from an independent counterparty. On a consolidated basis, these financial instruments are reported in the natural gas marketing segment. We currently do not manage commodity price risk with financial instruments in our regulated transmission and storage segment.

Our financial instruments do not contain any credit-risk-related or other contingent features that could cause payments to be accelerated when our financial instruments are in net liability positions.

Regulated Commodity Risk Management Activities

Although our purchased gas cost adjustment mechanisms essentially insulate our natural gas distribution segment from commodity price risk, our customers are exposed to the effect of volatile natural gas prices. We manage this exposure through a combination of physical storage, fixed-price forward contracts and financial instruments, primarily over-the-counter swap and option contracts, in an effort to minimize the impact of natural gas price volatility on our customers during the winter heating season.

Our natural gas distribution gas supply department is responsible for executing this segment's commodity risk management activities in conformity with regulatory requirements. In jurisdictions where we are permitted to mitigate commodity price risk through financial instruments, the relevant regulatory authorities may establish the level of

heating season gas purchases that can be hedged. Historically, if the regulatory authority does not establish this level, we seek to hedge between 25 and 50 percent of anticipated heating season gas purchases using financial instruments. For the 2009-2010 heating season, in the jurisdictions where we are permitted to utilize financial instruments, we anticipate hedging approximately 29 percent, or 26.9 Bcf of the winter flowing gas requirements. We have not designated these financial instruments as hedges.

The costs associated with and the gains and losses arising from the use of financial instruments to mitigate commodity price risk are included in our purchased gas adjustment mechanisms in accordance with regulatory requirements. Therefore, changes in the fair value of these financial instruments are initially recorded as a component of deferred gas costs and recognized in the consolidated statement of income as a component of purchased gas cost when the related costs are recovered through our rates and recognized in

Table of Contents

ATMOS ENERGY CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

revenue in accordance with applicable authoritative accounting guidance. Accordingly, there is no earnings impact on our natural gas distribution segment as a result of the use of financial instruments.

Nonregulated Commodity Risk Management Activities

Our natural gas marketing segment, through AEM, aggregates and purchases gas supply, arranges transportation and/or storage logistics and ultimately delivers gas to our customers at competitive prices. To facilitate this process, we utilize proprietary and customer-owned transportation and storage assets to provide the various services our customers request.

We also perform asset optimization activities in both our natural gas marketing segment and pipeline, storage and other segment. Through asset optimization activities, we seek to maximize the economic value associated with the storage and transportation capacity we own or control. We attempt to meet this objective by engaging in natural gas storage transactions in which we seek to find and profit from pricing differences that occur over time. We purchase physical natural gas and then sell financial instruments at advantageous prices to lock in a gross profit margin. Through the use of transportation and storage services and financial instruments, we also seek to capture gross profit margin through the arbitrage of pricing differences that exist in various locations and by recognizing pricing differences that occur over time. Over time, gains and losses on the sale of storage gas inventory should be offset by gains and losses on the financial instruments, resulting in the realization of the economic gross profit margin we anticipated at the time we structured the original transaction.

As a result of these activities, our nonregulated operations are exposed to risks associated with changes in the market price of natural gas. We manage our exposure to such risks through a combination of physical storage and financial instruments, including futures, over-the-counter and exchange-traded options and swap contracts with counterparties. Futures contracts provide the right to buy or sell the commodity at a fixed price in the future. Option contracts provide the right, but not the requirement, to buy or sell the commodity at a fixed price. Swap contracts require receipt of payment for the commodity based on the difference between a fixed price and the market price on the settlement date.

We use financial instruments, designated as cash flow hedges of anticipated purchases and sales at index prices, to mitigate the commodity price risk in our natural gas marketing segment associated with deliveries under fixed-priced forward contracts to deliver gas to customers. These financial instruments have maturity dates ranging from one to 55 months. We use financial instruments, designated as fair value hedges, to hedge our natural gas inventory used in our asset optimization activities in our natural gas marketing and pipeline, storage and other segments.

Also, in our natural gas marketing segment, we use storage swaps and futures to capture additional storage arbitrage opportunities that arise subsequent to the execution of the original fair value hedge associated with our physical natural gas inventory, basis swaps to insulate and protect the economic value of our fixed price and storage books and various over-the-counter and exchange-traded options. These financial instruments have not been designated as hedges.

Our nonregulated risk management activities are controlled through various risk management policies and procedures. Our Audit Committee has oversight responsibility for our nonregulated risk management limits and policies. A risk committee, comprised of corporate and business unit officers, is responsible for establishing and enforcing our nonregulated risk management policies and procedures.

Under our risk management policies, we seek to match our financial instrument positions to our physical storage positions as well as our expected current and future sales and purchase obligations to maintain no open positions at the end of each trading day. The determination of our net open position as of any day, however, requires us to make assumptions as to future circumstances, including the use of gas by our customers in relation to our anticipated storage and market positions. Because the price risk associated with any net open

Table of Contents**ATMOS ENERGY CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

position at the end of each day may increase if the assumptions are not realized, we review these assumptions as part of our daily monitoring activities. Our operations can also be affected by intraday fluctuations of gas prices, since the price of natural gas purchased or sold for future delivery earlier in the day may not be hedged until later in the day. At times, limited net open positions related to our existing and anticipated commitments may occur. At the close of business on December 31, 2009, AEH had net open positions (including existing storage) of 0.5 Bcf.

Interest Rate Risk Management Activities

Currently, we are not managing interest rate risk with financial instruments. However, in prior years, we periodically managed interest rate risk by entering into Treasury lock agreements to fix the Treasury yield component of the interest cost associated with anticipated financings. These Treasury locks were settled at various times at a cumulative net loss. These realized gains and losses were recorded as a component of accumulated other comprehensive income (loss) and are being recognized as a component of interest expense over the life of the associated notes from the date of settlement. The remaining amortization periods for these Treasury locks extend through fiscal 2035. However, the majority of the remaining amounts of these Treasury locks will be recognized through fiscal 2019.

Quantitative Disclosures Related to Financial Instruments

The following tables present detailed information concerning the impact of financial instruments on our condensed consolidated balance sheet and income statements.

As of December 31, 2009, our financial instruments were comprised of both long and short commodity positions. A long position is a contract to purchase the commodity, while a short position is a contract to sell the commodity. As of December 31, 2009, we had net long/(short) commodity contracts outstanding in the following quantities:

Contract Type	Hedge Designation	Natural Gas Distribution	Natural Gas Marketing Quantity (MMcf)	Pipeline, Storage and Other
Commodity contracts	Fair Value		(17,318)	(2,420)
	Cash Flow		27,127	(4,660)
	Not designated	22,182	44,903	450
		22,182	54,712	(6,630)

Financial Instruments on the Balance Sheet

The following tables present the fair value and balance sheet classification of our financial instruments by operating segment as of December 31, 2009 and September 30, 2009. As required by authoritative accounting literature, the fair value amounts below are presented on a gross basis and do not reflect the netting of asset and liability positions permitted under the terms of our master netting arrangements. Further, the amounts below do not include \$1.3 million

of cash due on margin as of December 31, 2009 and \$11.7 million of cash held on deposit in margin accounts as of September 30, 2009 to collateralize certain financial instruments. Therefore, these gross balances are not indicative of either our actual credit exposure or net economic exposure. Additionally, the amounts below will not be equal to the amounts presented on our condensed

Table of Contents

ATMOS ENERGY CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

consolidated balance sheet, nor will they be equal to the fair value information presented for our financial instruments in Note 4.

	Balance Sheet Location	Natural Gas Distribution	Natural Gas Marketing ⁽¹⁾ (In thousands)	Total
December 31, 2009:				
Designated As Hedges:				
Asset Financial Instruments				
Current commodity contracts	Other current assets	\$	\$ 37,258	\$ 37,258
Noncurrent commodity contracts	Deferred charges and other assets		5,920	5,920
Liability Financial Instruments				
Current commodity contracts	Other current liabilities		(36,276)	(36,276)
Noncurrent commodity contracts	Deferred credits and other liabilities		(2,053)	(2,053)
Total			4,849	4,849
Not Designated As Hedges:				
Asset Financial Instruments				
Current commodity contracts	Other current assets	849	39,230	40,079
Noncurrent commodity contracts	Deferred charges and other assets	105	7,764	7,869
Liability Financial Instruments				
Current commodity contracts	Other current liabilities	(17,076)	(18,157)	(35,233)
Noncurrent commodity contracts	Deferred credits and other liabilities	(1,348)	(1,380)	(2,728)
Total		(17,470)	27,457	9,987
Total Financial Instruments		\$ (17,470)	\$ 32,306	\$ 14,836

⁽¹⁾ Our pipeline, storage and other segment uses financial instruments acquired from AEM on the same terms that AEM received from an independent counterparty. On a consolidated basis, these financial instruments are reported in the natural gas marketing segment; however, the underlying hedged item is reported in the pipeline, storage and other segment.

Balance Sheet Location	Natural Gas Distribution	Natural Gas Marketing ⁽¹⁾	Total
------------------------	--------------------------	--------------------------------------	-------

(In thousands)

September 30, 2009:**Designated As Hedges:****Asset Financial Instruments**

Current commodity contracts	Other current assets	\$	\$	53,526	\$	53,526
Noncurrent commodity contracts	Deferred charges and other assets			6,800		6,800

Liability Financial Instruments

Current commodity contracts	Other current liabilities			(47,146)		(47,146)
Noncurrent commodity contracts	Deferred credits and other liabilities			(999)		(999)

Total

12,181 12,181

Not Designated As Hedges:**Asset Financial Instruments**

Current commodity contracts	Other current assets	4,395	27,559	31,954
Noncurrent commodity contracts	Deferred charges and other assets	1,620	7,964	9,584

Liability Financial Instruments

Current commodity contracts	Other current liabilities	(20,181)	(19,657)	(39,838)
Noncurrent commodity contracts	Deferred credits and other liabilities		(1,349)	(1,349)

Total

(14,166) 14,517 351

Total Financial Instruments

\$ (14,166) \$ 26,698 \$ 12,532

(1) Our pipeline, storage and other segment uses financial instruments acquired from AEM on the same terms that AEM received from an independent counterparty. On a consolidated basis, these financial instruments are reported in the natural gas marketing segment; however, the underlying hedged item is reported in the pipeline, storage and other segment.

Table of Contents**ATMOS ENERGY CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)***Impact of Financial Instruments on the Income Statement*

The following tables present the impact that financial instruments had on our condensed consolidated income statement, by operating segment, as applicable, for the three months ended December 31, 2009 and 2008.

Hedge ineffectiveness for our natural gas marketing and pipeline storage and other segments is recorded as a component of unrealized gross profit and primarily results from differences in the location and timing of the derivative instrument and the hedged item. Hedge ineffectiveness could materially affect our results of operations for the reported period. For the three months ended December 31, 2009 and 2008 we recognized a gain arising from fair value and cash flow hedge ineffectiveness of \$45.3 million and \$20.4 million. Additional information regarding ineffectiveness recognized in the income statement is included in the tables below.

Fair Value Hedges

The impact of commodity contracts designated as fair value hedges and the related hedged item on our condensed consolidated income statement for the three months ended December 31, 2009 and 2008 is presented below.

	Three Months Ended December 31, 2009		
	Natural Gas Marketing	Pipeline, Storage and Other	Consolidated
	(In thousands)		
Commodity contracts	\$ (2,182)	\$ (457)	\$ (2,639)
Fair value adjustment for natural gas inventory designated as the hedged item	43,312	5,871	49,183
Total impact on revenue	\$ 41,130	\$ 5,414	\$ 46,544
The impact on revenue is comprised of the following:			
Basis ineffectiveness	\$ 64	\$	\$ 64
Timing ineffectiveness	41,066	5,414	46,480
	\$ 41,130	\$ 5,414	\$ 46,544

	Three Months Ended December 31, 2008		
	Natural Gas Marketing	Pipeline, Storage and Other	Consolidated
	(In thousands)		

Edgar Filing: ATMOS ENERGY CORP - Form 10-Q

Commodity contracts	\$ 25,683	\$ 3,939	\$ 29,622
Fair value adjustment for natural gas inventory designated as the hedged item	(11,860)	(1,553)	(13,413)
Total impact on revenue	\$ 13,823	\$ 2,386	\$ 16,209
The impact on revenue is comprised of the following:			
Basis ineffectiveness	\$ 1,952	\$	\$ 1,952
Timing ineffectiveness	11,871	2,386	14,257
	\$ 13,823	\$ 2,386	\$ 16,209

Table of Contents**ATMOS ENERGY CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Basis ineffectiveness arises from natural gas market price differences between the locations of the hedged inventory and the delivery location specified in the hedge instruments. Timing ineffectiveness arises due to changes in the difference between the spot price and the futures price, as well as the difference between the timing of the settlement of the futures and the valuation of the underlying physical commodity. As the commodity contract nears the settlement date, spot to forward price differences should converge, which should reduce or eliminate the impact of this ineffectiveness on revenue.

Cash Flow Hedges

The impact of cash flow hedges on our condensed consolidated income statements for the three months ended December 31, 2009 and 2008 is presented below. Note that this presentation does not reflect the financial impact arising from the hedged physical transaction. Therefore, this presentation is not indicative of the economic gross profit we realized or will realize when the underlying physical and financial transactions are settled.

	Three Months Ended December 31, 2009			
	Natural	Natural	Pipeline,	
	Gas	Gas	Storage	
	Distribution	Marketing	and	Consolidated
	(In thousands)			
Gain (loss) reclassified from AOCI into revenue for effective portion of commodity contracts				\$