

Atmos Energy: How should the next wave of investment be paced?

Internal ID: S&F-STR-071

Topic: Growth Strategy, Customer Strategy, Capital Allocation

Industry: Gas Utilities

Source: Strategy & Finance

Publication date: 5 October 2026

License: Not specified

Information cutoff: August 5, 2026 (end of day).

Teaching case: This case presents a hypothetical planning exercise. Public disclosures do not show that Atmos Energy's leadership or board voted on the choice described here.

The decision

On August 5, 2026, Atmos Energy reported its third-quarter results and reaffirmed its fiscal-year outlook. The company had a large multiyear investment plan underway. A hypothetical strategy director preparing a FY2027-and-beyond planning brief must frame how the company should pace and channel future network investment among safety and reliability work, regulatory programs, and service or system growth.

Three postures are available for analysis:

1. Maintain the disclosed investment trajectory, executing the current multiyear plan as efficiently as possible.
2. Stage marginal projects against evidence on customer affordability, cost recovery and financing, while preserving safety-critical, legally required and otherwise committed work.
3. Rebalance future work by risk and evidence, prioritizing the highest-risk integrity and reliability needs and the clearest customer or system-growth cases.

The public record does not classify every project, identify which costs are legally or regulatorily committed, or quantify the effects of moving individual projects. The remaining portion of a stated plan cannot simply be treated as discretionary.

A regulated network with a large capital plan

Atmos Energy describes itself as a natural-gas-only energy company serving approximately 3.4 million residential, commercial, public-authority and industrial customers in eight states, primarily in the South. It reports two segments: regulated distribution and Pipeline and Storage, which includes the pipeline and storage operations of Atmos Pipeline-Texas and natural-gas transmission operations in Louisiana. Its stated vision is to be "the safest provider of natural gas services."¹

The FY2025 annual report projected approximately \$26 billion in capital expenditures over FY2026 through FY2030, with more than 80% dedicated to safety and reliability. The filing said planned spending would modernize distribution and transmission, meet safety requirements, and prepare for community growth. It identified regulation and policy, population growth, and labor and material costs as factors that could affect the amount and allocation. Management

believed costs were recoverable under existing frameworks but cautioned that full recovery was not assured.²

That outlook combined different kinds of work. Atmos says capital spending is used for pipeline replacement and system modernization, as well as enhancement and expansion to meet customer needs. Its public filings do not provide a project-level schedule showing how much of the plan is mandatory replacement, risk-driven work, customer connections, expansion, corporate systems or work that can be moved to a later year.

A strong year so far, with competing cost pressures

For the nine months ended June 30, 2026, Atmos reported \$3.076 billion in capital expenditures; over 85% was invested to improve safety and reliability. The company said a significant portion was under regulatory mechanisms that reduced recovery lag to six months or less. Its Q3 release reaffirmed FY2026 capital-spending guidance of approximately \$4.2 billion. The nine-month actual and the five-year forecast have different periods and scopes.³

Atmos reported \$355 million in annualized operating-income increases from regulatory actions implemented during the first nine months of FY2026 and \$373.4 million of annualized increases sought in proceedings still in progress as of June 30. These are reported ratemaking outcomes, not cash collected. In the same period, the company reported \$1.228 billion in net income and diluted earnings per share of \$7.33, compared with \$1.024 billion and \$6.40 in the prior-year period. Management attributed much of the increase to rate outcomes driven by safety and reliability spending; depreciation and property taxes, safety and compliance costs, and employee costs partially offset the increase.⁴

The funding picture included both access to capital and continued financing needs. Atmos reported approximately \$2.2 billion of long-term debt and equity financing completed during the nine months, equity capitalization of 59.8%, and approximately \$4.6 billion in total liquidity at June 30. That liquidity comprised \$521 million in cash, \$936.8 million available through equity-forward sales agreements and \$3.094 billion in undrawn credit capacity. The \$4.6 billion is not cash on hand.⁵

Recovery, customer bills and timing

Atmos described formula-rate mechanisms in four states and infrastructure programs in all its distribution states. In its FY2025 10-K, the company said it had the ability to begin recovering approximately 95% of capital expenditures within six months and substantially all within 12 months. This is a company description of recovery under existing mechanisms, not a guarantee that every expenditure will be approved or collected on that schedule. The company also operates across multiple rate jurisdictions, each with its own proceedings and mechanisms.⁶

The Q3 filing described several features of distribution revenue: approximately 70% is earned in the first six months of the fiscal year; roughly 50% of distribution revenue excluding gas costs is recovered through the base customer charge; and weather-normalization mechanisms cover approximately 97% of residential and commercial revenues. These mechanisms address parts of seasonal and usage exposure. They do not establish whether a given customer can afford future bills or how costs from a particular project would be distributed among customer classes.⁷

What can happen to the fixed-cost base?

Natural-gas distribution networks have substantial shared costs. When customers leave, some costs may remain with the customers still connected; where service territories and customer counts grow, new customers may spread or change those costs. Which customers leave, what infrastructure can be retired, and how local regulators recover costs all matter.

Several studies offer different lenses, none of them an Atmos forecast:

- A U.S. utility study of leak repair and pipe replacement found very different cost estimates for operating repairs and capital replacement. Its replacement estimates are leveled methane-abatement costs, not a complete safety-adjusted cost-benefit test. The authors' safety estimates were noisy and they noted that specific high-risk locations could differ from the average.⁸
- A national natural-gas tariff study modeled a revenue-neutral shift toward marginal-cost volumetric prices and higher fixed charges. Its bill effects varied by household income and by the assistance scenario. The analysis used historical national tariff and household data rather than Atmos customer bills.⁹
- A study of historical U.S. gas utilities found that residential network mileage responded differently to customer growth and contraction. Its illustrative exit scenarios showed higher revenue recovery per remaining customer as customer counts fell, but the analysis did not establish specific tariff changes or forecast Atmos bills.¹⁰
- A 2025 scenario model examined combined pipeline replacement and building electrification, including Massachusetts and a selected national sample of utilities with leak-prone pipe. Its outputs varied by location, replacement costs and customer-exit assumptions. The modeled results are not observed effects or predictions for Atmos's territories.¹¹

A peer disclosure example

ONE Gas, a 100%-regulated natural-gas utility that reported serving about 2.3 million customers, presented a five-year capital outlook that separately identified system integrity/replacement and customer growth. Its December 2025 investor presentation also showed financing and rate-base assumptions. Atmos has a different reported segment structure and territory scale; the ONE Gas presentation is an example of how a peer frames its plan, not a direct performance benchmark.¹²

Planning brief

You are a hypothetical strategy director asked to prepare a brief for an internal FY2027 planning discussion. The assignment is not to assume that safety-critical work can be deferred or that a public target is a binding project list. Your brief should:

- state a recommended investment posture and explain what evidence supports it;
- distinguish safety-critical, legally required, committed and more timing-flexible work, noting where public information is insufficient to classify projects;
- identify the customer, regulatory and financing evidence that would change your recommendation;
- explain how the posture would preserve reliability and customer service while managing recovery risk and affordability concerns; and

- identify the first project-level information you would request before turning the posture into a budget.

Discussion questions

1. Which parts of Atmos's investment outlook are established facts, management forecasts, and unresolved questions?
2. What evidence would justify maintaining the trajectory, gating marginal work, or rebalancing by risk? Which evidence should be collected before choosing among them?
3. How do recovery mechanisms affect the timing and financing of investment? What do they leave unresolved about ultimate approval and household bills?
4. How should a planner compare leak repair, targeted pipe replacement, system modernization and expansion when the company does not disclose project-level costs or risk rankings?
5. What customer-count, electrification, weather, labor-cost and regulatory scenarios should the planning process test?

Exhibits

Exhibit 1. Capital outlook versus spending to date

Measure	Amount / share	Period and scope
Capital-expenditure outlook	~\$26 billion; >80% dedicated to safety and reliability	FY2026-FY2030 management forecast
Capital expenditures reported	\$3.0763 billion; >85% invested in safety and reliability	Nine months ended June 30, 2026
FY2026 capital-spending guidance	~\$4.2 billion	Reaffirmed August 5, 2026

Sources: Atmos FY2026 Q3 Form 10-Q, Item 2, “Overview,” p. 28; “Executive Summary,” p. 29; Q3 earnings release, “Outlook.” Forecast and YTD actual should not be treated as directly comparable shares.^{2 3}

Exhibit 2. Regulatory outcomes and timing

Company-reported item	Amount / description	Status / scope
Implemented ratemaking outcomes	\$355.0 million annualized operating-income increase	Implemented in first nine months FY2026
Ratemaking requests in progress	\$373.4 million annualized operating-income increase sought	In progress as of June 30, 2026
Capital-recovery timing	Ability to begin recovery of ~95% in six months; substantially all within 12 months	FY2025 10-K description of existing mechanisms
Distribution revenue earned in first six fiscal months	~70%	Q3 10-Q company description
Distribution revenue excluding gas costs recovered through base customer charge	~50%	Q3 10-Q company description
Residential/commercial revenue covered by weather normalization	~97%	Q3 10-Q company description

Annualized operating-income outcomes and recovery-timing statements are not cash collection or individual household bill forecasts.^{4 6 7}

Exhibit 3. Funding context at June 30, 2026

Item	Reported value
Long-term debt/equity financing completed, nine months	~\$2.2 billion
Equity capitalization	59.8%
Cash and cash equivalents	\$521.0 million
Funds available through equity-forward agreements	\$936.8 million
Undrawn credit-facility capacity	\$3,094.4 million
Total liquidity	~\$4.6 billion

Total liquidity includes financing availability and should not be read as cash on hand.⁵

Exhibit 4. Peer plan disclosure

ONE Gas's December 2025 presentation described a five-year capital plan of approximately \$4.3 billion, including approximately \$2.5 billion for system integrity/replacement and \$1.2 billion for growth. It reported an average rate-base growth forecast of 7-9%. The presentation's figures are management forecasts for ONE Gas and not direct comparators for Atmos.¹²

Exhibit 5. Selected research claims and boundaries

Evidence	What it can help students examine	Boundary
Hausman & Muehlenbachs (2019), Tables 3-4, §3.2.2, Appendix Table A16	Differences between repair/replacement costs, methane-abatement benefits and safety risk	Historical U.S. utility estimates; safety estimates noisy; no Atmos project-specific benefits
Borenstein & Davis (2012), Table 3, §5.1	Distributional effects of a modeled change in residential tariff structure	Static national counterfactual using 2010 dollars; no Atmos tariff/customer calibration
Davis & Hausman (2022), Tables 3-4, Figure 4	Customer growth/contraction, persistent network costs and recovery per remaining customer	Historical associations and scenarios; no Atmos bill forecast
Garibay-Rodriguez et al. (2025), Figures 4-5	Sensitivity of network costs and customer burdens to replacement and electrification assumptions	Scenario model, selected utilities and non-Atmos settings; no company-specific prediction

Sources

1. Atmos Energy FY2025 Form 10-K, Item 1 “Overview and Strategy” and “Operating Segments,” pp. 4-5, [SEC filing](#).
2. Atmos Energy FY2025 Form 10-K, Item 7 “Overview,” p. 25; Atmos FY2026 Q3 Form 10-Q, Item 2 “Overview,” p. 28, [SEC filing](#).
3. Atmos Energy FY2026 Q3 Form 10-Q, Item 2 “Executive Summary,” p. 29; Atmos FY2026 Q3 earnings release, “Outlook,” 5 Aug. 2026, [SEC Exhibit 99.1](#).
4. Atmos Energy FY2026 Q3 Form 10-Q, Item 2 “Executive Summary,” p. 29; pending rate-case schedules, pp. 32-33, [SEC filing](#).
5. Atmos Energy FY2026 Q3 Form 10-Q, Item 2 “Executive Summary,” p. 29; financing details, pp. 37-38, [SEC filing](#).
6. Atmos Energy FY2025 Form 10-K, Item 1 “Ratemaking Activity-Overview,” pp. 5-6, [SEC filing](#).
7. Atmos Energy FY2026 Q3 Form 10-Q, Item 2 “Distribution Segment,” p. 29, [SEC filing](#).
8. Catherine Hausman and Lucija Muehlenbachs, “Price Regulation and Environmental Externalities: Evidence from Methane Leaks,” *Journal of the Association of Environmental and Resource Economists* 6(1) (2019), §§3.2.1-3.2.2, Tables 3-4 and Appendix Table A16, [publisher article](#).
9. Severin Borenstein and Lucas W. Davis, “The Equity and Efficiency of Two-Part Tariffs in U.S. Natural Gas Markets,” *Journal of Law and Economics* 55(1) (2012), §5.1 and Table 3, [article PDF](#).
10. Lucas W. Davis and Catherine Hausman, “Who Will Pay for Legacy Utility Costs?” *Journal of the Association of Environmental and Resource Economists* 9(6) (2022), §§3.1, 4.2, Tables 3-4 and Figure 4, [published article](#).
11. Jaime Garibay-Rodriguez et al., “Effects of uncoordinated electrification on energy burdens for natural gas customers,” *Scientific Reports* 15 (2025), Methods and Results, Figures 4-5, [article](#).
12. ONE Gas, December 2025 2026 Financial Guidance presentation, slides 2, 4-6, 10, 14, 16 and 18, [SEC Exhibit 99.2](#).