

Risk Factors Comparison 2023-11-14 to 2022-11-14 Form: 10-K

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Our financial and operating results are subject to a number of risk factors, many of which are not within our control. Investors should carefully consider the following discussion of risk factors as well as other information appearing in this report. These factors include the following, which are organized by category: Regulatory and Legislative Risks We are subject to federal, state and local regulations that affect our operations and financial results. We are subject to regulatory oversight from various federal, state and local regulatory authorities in the eight states that we serve. Therefore, our returns are continuously monitored and are subject to challenge for their reasonableness by the appropriate regulatory authorities or other third- party intervenors. In the normal course of business, as a regulated entity, we often need to place assets in service and establish historical test periods before rate cases that seek to adjust our allowed returns to recover that investment can be filed. Further, the regulatory review process can be lengthy in the context of traditional ratemaking. Because of this process, we suffer the negative financial effects of having placed assets in service without the benefit of rate relief, which is commonly referred to as “ regulatory lag.” Regulatory authorities in the states we serve have approved various infrastructure and annual rate adjustment mechanisms to effectively reduce the regulatory lag inherent in the ratemaking process. Regulatory lag could significantly increase if the regulatory authorities modify or terminate these rate mechanisms. The regulatory process also involves the risk that regulatory authorities may (i) review our purchases of natural gas and adjust the amount of our gas costs that we pass through to our customers or (ii) limit or disallow the costs we may have incurred from our cost of service that can be recovered from customers. We are also subject to laws, regulations and other legal requirements enacted or adopted by federal, state and local governmental authorities relating to protection of the environment and health and safety matters, including those that govern discharges of substances into the air and water, the management and disposal of hazardous substances and waste, the clean- up of contaminated sites, groundwater quality and availability, plant and wildlife protection, as well as work practices related to employee health and safety. Environmental legislation also requires that our facilities, sites and other properties associated with our operations be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Failure to comply with these laws, regulations, permits and licenses may expose us to fines, penalties or interruptions in our operations that could be significant to our financial results. In addition, existing environmental regulations may be revised or our operations may become subject to new regulations. Some of our operations are subject to increased federal regulatory oversight that could affect our operations and financial results. FERC has regulatory authority over some of our operations, including the use and release of interstate pipeline and storage capacity. FERC has adopted rules designed to prevent market power abuse and market manipulation and to promote compliance with FERC’ s other rules, policies and orders by companies engaged in the sale, purchase, transportation or storage of natural gas in interstate commerce. These rules carry increased penalties for violations. Although we have taken steps to structure current and future transactions to comply with applicable current FERC regulations, changes in FERC regulations or their interpretation by FERC or additional regulations issued by FERC in the future could also adversely affect our business, financial condition or financial results. We may experience increased federal, state and local regulation of the safety of our operations. The safety and protection of the public, our customers and our employees is our top priority. We constantly monitor and maintain our pipeline and distribution systems to ensure that natural gas is delivered safely, reliably and efficiently through our network of more than 75, 000 miles of distribution and transmission lines. As in recent years, natural gas distribution and pipeline companies are continuing to encounter increasing federal, state and local oversight of the safety of their operations. Although we believe these are costs ultimately recoverable through our rates, the costs of complying with new laws and regulations may have at least a short- term adverse impact on our operating costs and financial results. Operational Risks We may incur significant costs and liabilities resulting from pipeline integrity and other similar programs and related repairs. PHMSA requires pipeline operators to develop integrity management programs to comprehensively evaluate certain areas along their pipelines and to take additional measures to protect pipeline segments located in “ high consequence areas ” where a leak or rupture could potentially do the most harm. As a pipeline operator, the Company is required to: • perform ongoing assessments of pipeline integrity; • identify and characterize applicable threats to pipeline segments that could impact a “ high consequence area ”; • improve data collection, integration and analysis; • repair and remediate the pipeline as necessary; and • implement preventative and mitigating actions. The Company incurs significant costs associated with its compliance with existing PHMSA and comparable state regulations. Although we believe these are costs ultimately recoverable through our rates, the costs of complying with new laws and regulations may have at least a short- term adverse impact on our operating costs and financial results. For example, the adoption of new regulations requiring more comprehensive or stringent safety standards could require installation of new or modified safety controls, new capital projects, or accelerated maintenance programs, all of which could require a potentially significant increase in operating costs. Distributing, transporting and storing natural gas involve risks that may result in accidents and additional operating costs. Our operations involve a number of hazards and operating risks inherent in storing and transporting natural gas that could affect the public safety and reliability of our distribution system. While Atmos Energy, with the support from each of its regulatory commissions, is accelerating the replacement of pipeline infrastructure, operating issues such as leaks, accidents, equipment problems and incidents, including explosions and fire, could result in legal liability, repair and remediation costs, increased operating costs, significant increased capital expenditures, regulatory fines and penalties and other costs and a loss of customer confidence. We maintain liability and property insurance coverage in place for many of these hazards and risks. However, because some of our transmission pipeline and storage facilities are near or are in populated areas, any loss of human life or

adverse financial results resulting from such events could be large. If these events were not fully covered by our general liability and property insurance, which policies are subject to certain limits and deductibles, our operations or financial results could be adversely affected. If contracted gas supplies, interstate pipeline and / or storage services are not available or delivered in a timely manner, our ability to meet our customers' natural gas requirements may be impaired and our financial condition may be adversely affected. In order to meet our customers' annual and seasonal natural gas demands, we must obtain a sufficient supply of natural gas, interstate pipeline capacity and storage capacity. If we are unable to obtain these, either from our suppliers' inability to deliver the contracted commodity or the inability to secure replacement quantities, our financial condition and results of operations may be adversely affected. If a substantial disruption to or reduction in interstate natural gas pipelines' transmission and storage capacity occurred due to operational failures or disruptions, legislative or regulatory actions, hurricanes, tornadoes, floods, extreme cold weather, terrorist or cyber- attacks or acts of war, our operations or financial results could be adversely affected. Our operations are subject to increased competition. In residential and commercial customer markets, our distribution operations compete with other energy products, such as electricity and propane. Our primary product competition is with electricity for heating, water heating and cooking. **If increases in the price of natural gas could negatively impact our competitive position by decreasing the price benefits of natural gas to the consumer. This could adversely impact our business if our customer growth slows or existing if our customers further choose to conserve their use of gas or choose another energy product, resulting in reduced gas purchases and customer billings could adversely impact our business.** In the case of industrial customers, such as manufacturing plants, adverse economic conditions, including higher gas costs, could cause these customers to use alternative sources of energy, such as electricity, or bypass our systems in favor of special competitive contracts with lower per- unit costs. Our pipeline and storage operations historically have faced limited competition from other existing intrastate pipelines and gas marketers seeking to provide or arrange transportation, storage and other services for customers. **The completion of However, in the last few years, several new pipelines in our service area may have been completed, which has increased- increase the level of competition in this segment of our business.** Failure to attract and retain a qualified workforce could adversely affect our results of operations. The competition for talent has become increasingly intense and we may experience increased employee turnover due to a tightening labor market. If we are unable to recruit and retain an appropriately qualified workforce, the Company could encounter operating challenges primarily due to a loss of institutional knowledge and expertise, errors due to inexperience, or the lengthy time period typically required to adequately train replacement personnel. In addition, higher costs could result from loss of productivity, increased safety compliance issues, or cost of contract labor. Additionally, our ability to operate is contingent on maintaining a healthy workforce and a safe working environment. As a provider of essential services, we have an obligation to provide natural gas services to customers. Incidents **that impact of COVID-19 or any other -- the future pandemic in health and availability of** our workforce **could challenge the availability of our workforce which** could threaten the continuity of our business operations. Natural disasters, terrorist activities or other significant events could adversely affect our operations or financial results. Natural disasters are always a threat to our assets and operations. In addition, the threat of terrorist activities could lead to increased economic instability and volatility in the price of natural gas that could affect our operations. Also, companies in our industry may face a heightened risk of exposure to actual acts of terrorism, which could subject our operations to increased risks. As a result, the availability of insurance covering such risks may become more limited, which could increase the risk that an event could adversely affect our operations or financial results. Technology and Cybersecurity Risks Increased dependence on technology may hinder the Company' s business operations and adversely affect its financial condition and results of operations if such technologies fail. Over the last several years, the Company has implemented or acquired a variety of technological tools including both Company- owned information technology and technological services provided by outside parties. These tools and systems support critical functions including scheduling and dispatching of service technicians, automated meter reading systems, customer care and billing, operational plant logistics, management reporting and external financial reporting. The failure of these or other similarly important technologies, or the Company' s inability to have these technologies supported, updated, expanded, or integrated into other technologies, could hinder its business operations and adversely impact its financial condition and results of operations. Although the Company has, when possible, developed alternative sources of technology and built redundancy into its computer networks and tools, there can be no assurance that these efforts would protect against all potential issues related to the loss of any such technologies. Cyber- attacks or acts of cyber- terrorism could disrupt our business operations and information technology systems or result in the loss or exposure of confidential or sensitive customer, employee or Company information. Our business operations and information technology systems may be vulnerable to an attack by individuals or organizations intending to disrupt our business operations and information technology systems, even though the Company has implemented policies, procedures and controls to prevent and detect these activities. We use our information technology systems to manage our distribution and intrastate pipeline and storage operations and other business processes. Disruption of those systems could adversely impact our ability to safely deliver natural gas to our customers, operate our pipeline and storage systems or serve our customers timely. Accordingly, if such an attack or act of terrorism were to occur, our operations and financial results could be adversely affected. In addition, we use our information technology systems to protect confidential or sensitive customer, employee and Company information developed and maintained in the normal course of our business. Any attack on such systems that would result in the unauthorized release of customer, employee or other confidential or sensitive data could have a material adverse effect on our business reputation, increase our costs and expose us to additional material legal claims and liability. Even though we have insurance coverage in place for many of these cyber- related risks, if such an attack or act of terrorism were to occur, our operations and financial results could be adversely affected to the extent not fully covered by such insurance coverage. Compliance with and changes in cybersecurity requirements have a cost and operational impact on our business, and failure to comply with such laws and regulations could adversely impact our reputation, results of operations, financial condition and / or cash flows. As cyber- attacks are becoming more sophisticated, U. S. government warnings have

indicated that critical infrastructure assets, including pipeline infrastructure, may be specifically targeted by certain groups. In 2021-recent years, the U. S. government has issued Transportation Security Administration (TSA) announced two new security directives in response to a ransomware attack on the Colonial Pipeline that occurred earlier in the year. These directives require critical pipeline owners to comply with mandatory reporting measures, designate a cybersecurity coordinator, provide vulnerability assessments, and ensure compliance with certain cybersecurity requirements. Such directives or other requirements may require expenditure of significant additional resources to respond to cyber- attacks, to continue to modify or enhance protective measures, or to assess, investigate and remediate any critical infrastructure security vulnerabilities. Any failure to comply with such government regulations or failure in our cybersecurity protective measures may result in enforcement actions that may have a material adverse effect on our business, results of operations and financial condition. In addition, there is no certainty that costs incurred related to securing against threats will be recovered through rates. Climate Risks Adverse weather conditions could affect our operations or financial results. We have weather- normalized rates for approximately 96 percent of our residential and commercial revenues in our distribution operations, which substantially mitigates the adverse effects of warmer- than- normal weather for meters in those service areas. However, there is no assurance that we will continue to receive such regulatory protection from adverse weather in our rates in the future. The loss of such weather- normalized rates could have an adverse effect on our operations and financial results. In addition, our operating results may continue to vary somewhat with the actual temperatures during the winter heating season. Additionally, sustained cold weather could challenge our ability to adequately meet customer demand in our operations. Greenhouse gas emissions or other legislation or regulations intended to address climate change could increase our operating costs, adversely affecting our financial results, growth, cash flows and results of operations. Six of the eight states in which we operate have passed legislation to prevent block attempts by local governments to from limit limiting the types of energy available to customers. However, federal, regional and / or state legislative and / or regulatory initiatives may attempt to control or limit the causes of climate change, including greenhouse gas emissions, such as carbon dioxide and methane. Such laws or regulations could impose costs tied to greenhouse gas emissions, operational requirements or restrictions, or additional charges to fund energy efficiency activities. They could also provide a cost advantage to alternative energy sources, impose costs or restrictions on end users of natural gas, or result in other costs or requirements, such as costs associated with the adoption of new infrastructure and technology to respond to new mandates. The focus on climate change could adversely impact the reputation of fossil fuel products or services. The occurrence of the foregoing events could put upward pressure on the cost of natural gas relative to other energy sources, increase our costs and the prices we charge to customers, reduce the demand for natural gas or cause fuel switching to other energy sources, and impact the competitive position of natural gas and the ability to serve new or existing customers, adversely affecting our business, results of operations and cash flows. The operations and financial results of the Company could be adversely impacted as a result of climate change. As climate change occurs, our businesses could be adversely impacted. To the extent climate change results in materially increasing temperatures that differ materially from temperatures we are currently experiencing, financial results could be adversely affected through lower gas volumes and revenues. Climate change could also cause shifts in population, including customers moving away from our service territories. It could also result in more frequent and more severe weather events, such as hurricanes and tornadoes, which could increase our costs to repair damaged facilities and restore service to our customers or impact the cost of gas. If we were unable to deliver natural gas to our customers, our financial results would be impacted by lost revenues, and we generally would have to seek approval from regulators to recover restoration costs. To the extent we would be unable to recover those costs, or if higher rates resulting from our recovery of such costs would result in reduced demand for our services, our future business, financial condition or financial results could be adversely impacted.

Financial, Economic and Market Risks Our growth in the future may be limited by the nature of our business, which requires extensive capital spending. Our operations are capital- intensive. We must make significant capital expenditures on a long- term basis to modernize our distribution and transmission system and to comply with the safety rules and regulations issued by the regulatory authorities responsible for the service areas we operate. In addition, we must continually build new capacity to serve the growing needs of the communities we serve. The magnitude of these expenditures may be affected by a number of factors, including new policy and regulations, and the general state of the economy and weather. The liquidity required to fund our working capital, capital expenditures and other cash needs is provided from a combination of internally generated cash flows and external debt and equity financing. The cost and availability of borrowing funds from third party lenders or issuing equity is dependent on the liquidity of the credit markets, interest rates and other market conditions. This in turn may limit the amount of funds we can invest in our infrastructure. The Company is dependent on continued access to the credit and capital markets to execute our business strategy. Our long- term debt is currently rated as “ investment grade ” by Standard & Poor’ s Corporation and Moody’ s Investors Service, Inc. Similar to most companies, we rely upon access to both short- term and long- term credit and capital markets to satisfy our liquidity requirements. If adverse credit conditions were to cause a significant limitation on our access to the private credit and public capital markets, we could see a reduction in our liquidity. A significant reduction in our liquidity could in turn trigger a negative change in our ratings outlook or even a reduction in our credit ratings by one or more of the credit rating agencies. Such a downgrade could further limit our access to private credit and / or public capital markets and increase our costs of borrowing. While we believe we can meet our capital requirements from our operations and the sources of financing available to us, we can provide no assurance that we will continue to be able to do so in the future, especially if the market price of natural gas increases significantly. The future effects on our business, liquidity and financial results of a deterioration of current conditions in the credit and capital markets could be material and adverse to us, both in the ways described above or in other ways that we do not currently anticipate. We are exposed to market risks that are beyond our control, which could adversely affect our financial results. We are subject to market risks beyond our control, including (i) commodity price volatility caused by market supply and demand dynamics, counterparty performance or counterparty creditworthiness and (ii) interest rate risk. We are

generally insulated from commodity price risk through our purchased gas cost mechanisms. With respect to interest rate risk, increases in interest rates could adversely affect our future financial results to the extent that we do not recover our actual interest expense in our rates. The concentration of our operations in the State of Texas exposes our operations and financial results to economic conditions, weather patterns and regulatory decisions in Texas. Approximately 70 percent of our consolidated operations are located in the State of Texas. This concentration of our business in Texas means that our operations and financial results may be significantly affected by changes in the Texas economy in general, weather patterns and regulatory decisions by state and local regulatory authorities in Texas. A deterioration in economic conditions could adversely affect our customers and negatively impact our financial results. Any adverse changes in economic conditions in the states in which we operate could adversely affect the financial resources of many domestic households. As a result, our customers could seek to use less gas and it may be more difficult for them to pay their gas bills. This would likely lead to slower collections and higher than normal levels of accounts receivable. This, in turn, could increase our financing requirements. Additionally, should economic conditions deteriorate, our industrial customers could seek alternative energy sources, which could result in lower transportation volumes. Increased gas costs could adversely impact our customer base and customer collections and increase our level of indebtedness. Rapid increases in the costs of purchased gas would cause us to experience a significant increase in short- term or long- term debt. We must pay suppliers for gas when it is purchased, which can be significantly in advance of when these costs may be recovered through the collection of monthly customer bills for gas delivered. Increases in purchased gas costs also slow our natural gas distribution collections as customers **may are more likely to** delay the payment of their gas bills, leading to higher than normal accounts receivable. This could result in higher short- term debt levels, greater collection efforts and increased bad debt expense. **The Our pension and other postretirement benefit plans are subject to investment and interest rate risk that could negatively impact our financial condition. We have pension and other postretirement benefit plans that provide benefits to many of our employees and retirees.** costs of providing health care benefits, pension and postretirement health care benefits and related funding requirements **of these** may increase substantially. We provide health care benefits, a cash- balance pension plan **plans** and postretirement health care **are** benefits **subject** to eligible full- time employees **changes in the market value of the assets that fund the plans**. The **funded status of the plans and the related costs of providing health care reflected in the Company's financial statements** **are** **are affected by various factors** benefits to our employees could significantly increase over time due to rapidly increasing health care inflation, and any future legislative changes related to the provision of health care benefits. The impact of additional costs which are likely to be passed on to the Company is difficult to measure at this time. The costs of providing a cash- balance pension plan to eligible full- time employees prior to 2011 and postretirement health care benefits to eligible full- time employees and related funding requirements could be influenced by changes in the market value of the assets funding our pension and postretirement health care plans. Any significant declines in the value of these investments due to sustained declines in equity markets or a reduction in bond yields could increase the costs of our pension and postretirement health care plans and related funding requirements in the future. Further, our costs of providing such benefits and related funding requirements are also subject to a number **an inherent degree** of factors **uncertainty**, including (i) changing demographics, including longer life expectancy of beneficiaries and an expected increase in the number of eligible former employees over the next five to ten years; (ii) various actuarial calculations and assumptions which may differ materially from actual results due primarily to changing market and economic conditions, including changes in **financial market performance**, interest rates, **life expectancies** and higher **demographics**. **Poor investment returns** or lower withdrawal **interest** rates; and (iii) future **may necessitate accelerated funding of the plans to meet minimum federal** government regulation. The costs to **requirements, which could have an adverse impact on** the Company **'s** of providing these benefits and related funding requirements could also increase materially in the future, should there be a material reduction in the amount of the recovery of these costs through our rates or should significant delays develop in the timing of the recovery of such costs, which could adversely affect our financial **condition and** results **of operations**.