BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE

IN RE:

UNITED CITIES GAS COMPANY, a Division of ATMOS ENERGY CORPORATION INCENTIVE PLAN ACCOUNT (IPA) AUDIT	DOCKET NO. 01-00704

AFFIDAVIT OF JOHN HACK

I, John Hack, being duly sworn, depose and state as follows:

1. I have personal knowledge of the facts stated herein.

2. I am currently Director of Gas Supply Planning for Atmos Energy Corporation ("Atmos"). I have held various positions in Atmos' Gas Supply Department since 1969. I have been responsible for United Cities Gas Company's ("UCG")[1] supply function since Atmos acquired UCG.

3. As Director of Gas Supply Planning, one of my primary duties is the negotiation and implementation of the company's gas supply and transportation contracts.

4. Before 1999, UCG's transportation contracts were priced at the maximum rate allowed for each particular pipeline by the Federal Energy Regulatory Commission (the "maximum FERC rate"). It was standard practice throughout the industry for local distribution companies to enter into long term contracts with pipelines and pay the maximum FERC rate for transportation.

[1] United Cities Gas is an unincorporated division of Atmos Energy Corporation doing business in Tennessee as United Cities Gas Company. As indicated by a recent tariff filing, Atmos Energy Corporation has elected to cease doing business as United Cities Gas Company, and to instead use the company's legal corporate name, Atmos Energy Corporation. In all proceedings before the Tennessee Regulatory Authority, the terms "United Cities Gas Company" and "Atmos Energy Corporation" have the same meaning and can be used interchangeably.

5. In late 1999, UCG was successful in negotiating shorter term discounted transportation contracts for the first time as existing long term pipeline contracts came up for renewal. In order to provide UCG's customers with lower rates, and because of the incentives contained within UCG's performance-based ratemaking ("PBR") tariff that allow UCG to share in savings from avoided costs, UCG began to aggressively pursue pipeline discounts.

6. By October of 1999, UCG had successfully completed negotiations for discounted rates for three of its smaller transportation contracts. These contracts represented a small percentage of UCG transportation costs.

7. UCG continued aggressive negotiations to pursue discount rates in 2000 with Tennessee Gas Pipeline Company and East Tennessee Pipeline (which was owned by Tennessee Gas Pipeline Company at that time), two of the major pipelines serving UCG's Tennessee area. By November of 2000, UCG had successfully completed negotiations for discounted rates with Tennessee Gas Pipeline Company for both of its systems, which represented a significant discount to UCG's Tennessee transportation costs.

8. UCG devoted a substantial amount of resources to negotiating these discounts, and had to expend considerable effort to be successful. The discounts were not simply granted as a result of UCG's request. UCG had multiple meetings with Tennessee Gas Pipeline Company representatives. For a period of over a year, UCG spent substantial amounts of time negotiating, drafting, exchanging, and revising the terms of the transportation contracts. One reason UCG invested so much time and effort into negotiating the discounted transportation rates was because of the incentives provided under UCG's PBR tariff. If UCG did not think it would be able to share in the savings it obtained through the negotiations, UCG may not have expended so much effort in negotiating the contract, and would have focused its resources in more profitable areas.

9. Sometime around the beginning of January 2001, UCG contacted Mike Horne, then Chief of the TRA Energy and Water Division, to request a meeting between UCG representatives and TRA staff. The purpose of the meeting was to discuss the transportation discounts UCG had recently negotiated and how they would be accounted for under UCG's PBR tariff.

10. The meeting was held on January 31, 2001, at the TRA offices in Nashville. I participated in the meeting. The meeting was fairly lengthy, lasting more than an hour.

11. TRA Chief of Energy and Water Division Mike Horne, and TRA staff members Dave McClanahan and Pat Murphy were present at the meeting.

12. UCG had arranged for several members of its management to attend the meeting, and had asked me and Patti Dathe, Gas Supply Analyst, to travel from the home office of Atmos in Dallas, Texas to attend. Present at the meeting representing UCG were, in addition to Ms. Dathe and myself:

(1) Patricia Childers, then Manager of Rates and Regulatory Affairs;

(2) her supervisor, Attorney Mark Thessin, then Vice-President of Rates and Regulatory Affairs;

(2) Alicia Rye, Rate Analyst; and

(3) Ms. Rye's supervisor, Bob Cline, Manager of Rate Administration.

13. At the meeting, UCG representatives provided all of the attendees with packet of information, which included a Meeting Agenda. A copy of the information packet is attached as collective Exhibit 1 to the Affidavit of Patricia Childers.[2]

14. The purpose of the January 31 meeting was to inform the TRA staff that UCG had successfully negotiated discounted rates for a substantial portion of its transportation contracts. At

[2] Because the exhibit contains confidential and proprietary information belonging to UCG, it has been filed under seal.

the meeting, UCG informed the TRA staff that UCG, motivated by the PBR provisions allowing UCG to share in savings from avoided costs, had actually begun efforts to negotiate discounted transportation rates in late 1999. UCG informed the TRA staff at the meeting that around October of 1999, UCG was successful in completing negotiated discounts for three of its transportation contracts. The combined totals for these contracts represented a very small portion of UCG's total transportation costs. The second page of the information packet UCG provided to the attendees at the January 31 meeting showed the savings that resulted from those discounted transportation contracts, which totaled $1,160,050 for UCG's 1999-2000 PBR plan year. (Childers Aff. Exhibit 1 at p. 2.)

15. At the meeting, UCG informed the TRA staff, that due to an oversight, UCG had neglected to report the savings resulting from the discounted contracts in its annual report for the 1999-2000 PBR plan year. In response to concerns raised by the TRA staff regarding making corrections to the 1999-2000 plan year, which had already been closed, UCG agreed that it would not seek recovery of its share of the $1,160,050 in savings for the 1999-2000 plan year.

16. UCG then told the TRA staff that just a few months earlier, around November of 2000, UCG had successfully completed negotiated discounted rates for the Tennessee Gas Pipeline Company and the East Tennessee Pipeline systems. These newly negotiated discounted contracts represented a significant portion of UCG's total transportation costs as compared to the 1999 discounts. Page 3 of the information packet UCG provided to the attendees at the meeting gave a breakdown of the savings. This sheet listed the maximum FERC rate, the negotiated rate, and the resulting discount for each contract, and computed total monthly and annual savings resulting from those discounts. (Childers Aff. Exhibit 1 at p. 2.) UCG explained to the TRA staff that the savings resulting from the discounted transportation contracts UCG had negotiated would be

considered "avoided costs" under the PBR tariff, and consequently, UCG would be able to share in those savings under the PBR tariff.

17. At the January 31 meeting, UCG also explained to the TRA staff how those savings would be calculated under the PBR. UCG walked through the fact that the transportation discounts would be calculated by subtracting the negotiated rate from the maximum FERC rate for each particular pipeline. UCG also explained that the monthly discounts for all transportation contracts would be added together to reach a total annual savings, which UCG would then be able to share in according to the percentages outlined in the PBR tariff. (Childers Aff. Exhibit 1.) UCG informed the TRA staff at the meeting that they would begin using this calculation in future quarterly reports, which were due in the upcoming months.

18. The response from the TRA staff at the January 31 meeting was positive. The TRA staff members actively participated in meeting and asked numerous questions. It appeared that the TRA staff agreed with UCG's position that the savings from the negotiated discounts were to be included within the avoided costs provisions of the PBR, and did not object to UCG's proposed method of calculating the savings.

FURTHER AFFIANT SAITH NOT.

John Hack

John Hack

Sworn to and subscribed before me this
17th day of October, 2002.

Lori Carrier

NOTARY PUBIC

My Commission Expires: 1-26-03

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was served via facsimile and/or hand delivery on October ___, 2002.

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