BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

September 30, 2002

IN RE:

ATMOS ENERGY CORPORATION
WEATHER NORMALIZATION ADJ. (WNA) AUDIT

) Docket No. 02-00798

NOTICE OF FILING BY ENERGY AND WATER DIVISION OF THE TENNESSEE REGULATORY AUTHORITY

Pursuant to Tenn. Code Ann. §§ 65-4-104, 65-4-111 and 65-3-108, the Energy and Water Division of the Tennessee Regulatory Authority (the "Energy and Water Division") hereby gives notice of its filing of the Atmos Energy Corporation WNA Audit Report in this docket and would respectfully state as follows:

1. The present docket was opened by the Authority to hear matters arising out of the audit of Atmos Energy Corporation (the "Company").

2. The Company's WNA filings were received on November 1, 2001, through April 30, 2002, and the Staff completed its audit of same on September 6, 2002.

3. On September 13, 2002, the Energy and Water Division issued its preliminary WNA audit findings to the Company, and on September 19, 2002, the Company responded thereto.

4. The preliminary WNA audit report was modified to reflect the Company's responses and a final WNA audit report (the "Report") resulted therefrom. The Report is

attached hereto as Exhibit A and is fully incorporated herein by this reference. The Report contains the audit findings of the Energy and Water Division, the Company's responses thereto and the recommendations of the Energy and Water Division in connection therewith.

5. The Energy and Water Division hereby files its Report with the Tennessee Regulatory Authority for deposit as a public record and approval of the recommendations and findings contained therein.

Respectfully Submitted:

Pat Murphy
Energy and Water Division of the
Tennessee Regulatory Authority

CERTIFICATE OF SERVICE

I hereby certify that on this 30th day of September, 2002, a true and exact copy of the foregoing has been either hand-delivered or delivered via U.S. Mail, postage pre-paid, to the following persons:

Sara Kyle
Chairman
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37243

Ms. Patricia Childers
Vice President of Regulatory Affairs
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Pat Murphy

EXHIBIT A

COMPLIANCE AUDIT REPORT

OF

ATMOS ENERGY CORPORATION

WEATHER NORMALIZATION ADJUSTMENT (WNA) RIDER

Docket No. 02-00798

PREPARED BY

TENNESSEE REGULATORY AUTHORITY

ENERGY AND WATER DIVISION

SEPTEMBER 2002

COMPLIANCE AUDIT

UNITED CITIES GAS COMPANY

WEATHER NORMALIZATION ADJUSTMENT (WNA) RIDER

DOCKET NO. 02-00798

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COMPLIANCE AUDIT

ATMOS ENERGY CORPORATION[1]

WEATHER NORMALIZATION ADJUSTMENT RIDER

DOCKET NO. 02-00798

I. OBJECTIVE OF AUDIT

In its September 26, 1991 Order in Docket 91-01712, the Tennessee Regulatory Authority ("TRA" or "Authority"), formerly the Tennessee Public Service Commission, approved a three year experimental Weather Normalization Adjustment ("WNA") Rider to be applied to residential and commercial customers' bills during the months of October through May of each year. In its June 21, 1994 Order, the Commission adopted the WNA Rider as a permanent rule, to be applied November through April of each year for United Cities Gas Company, now doing business as Atmos Energy Corporation ("AEC"). (See Attachment 1) The purpose of this audit is to determine if the WNA rider was calculated and applied to customers' bills correctly between November 1, 2001 and April 30, 2002.

II. SCOPE OF AUDIT

In meeting the objective of the audit, the Staff compared the following on a daily basis:

(1) the Company's actual heating degree days to National Oceanic and Atmospheric Administration ("NOAA") actual heating degree days;
(2) The Company's normal heating degree days to the normal heating degree days calculated in the last rate case; and
(3) The Company's calculation of the WNA factor to Staff's calculation.

The Staff also audited a sample of customers' bills during the WNA period to verify that the WNA factor had been correctly applied to the bills. Pat Murphy and Butch Phillips of the Energy and Water Division conducted this audit.

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[1] On July 31, 1997, United Cities Gas Company was acquired by Atmos Energy Corporation, which is located in Dallas, Texas. Since that time, the Company has continued operating as United Cities Gas Company, a division of Atmos Energy Corporation. On September 4, 2002, Atmos Energy Corporation filed tariffs with the Authority to cease the use of the name "United Cities Gas Company" and to reflect the corporate name of "Atmos Energy Corporation." Effective October 1, 2002, Atmos Energy Corporation has announced that all divisions of the company will start doing business as Atmos Energy™.

III. BACKGROUND OF WEATHER NORMALIZATION ADJUSTMENT (WNA) RIDER

In setting rates, the Tennessee Regulatory Authority uses a normalized level of revenues and expenses for a test year, which is designed to be the most reasonable estimate of the Company's operations during the time the rates are to be in effect. Use of normalized operating levels eliminates unusual fluctuations that may occur during the test period, which causes rates to be set too high or too low.

Specifically, one part of normalizing revenues consists of either increasing or decreasing the test year weather related sales volumes to reflect the difference between the normal and actual heating degree days. (A heating degree day is calculated as the difference in the average daily temperature and 65 degrees Fahrenheit.) This average daily temperature constitutes normal weather and is determined based on the previous thirty years weather data.

However, normal weather rarely occurs. This has two impacts. One, the customers' bills fluctuate dramatically due to changes in weather from month to month. And two, gas companies earn more or less than their authorized rate of return. For example, if weather is colder than normal, then more gas than anticipated in the rate case will be sold. This results in higher customer bills and overearnings for the company. On the other hand, if weather is warmer than normal, less gas than anticipated in the rate case will be sold, the customers' bills will be lower and the company will underearn.

In recognition of this fact, the TRA approved an experimental WNA mechanism, which became permanent on June 21, 1994, to reduce the impact abnormal weather has on the customers' bills and on the gas utilities' operations. In periods of weather colder than normal, the customer receives a credit on his bill, while in periods of warmer than normal weather, the customer is billed a surcharge. Thus, customers' monthly bills should not fluctuate as dramatically and the gas company should have a more stable rate of return.

IV. IMPACT OF WNA RIDER

The graphs appearing at the end of this section show a comparison of actual heating degree days to normal heating degree days for Atmos Energy Corporation during the 2001 - 2002 heating season, in each of its four service areas. Weather conditions changed dramatically from the previous winter. In each service area, nearly all of the months were warmer than normal. Overall, weather was 11.3% warmer in the Bristol area, 14.2% warmer in the Knoxville area, 12.8% warmer in the Nashville area, and 7.4% warmer in the Paducah area. The following tables show a comparison of the actual degree days (ADD) to normal degree days (NDD) by month for the four weather stations.

Bristol:

Month	ADD	NDD	Percent Change	
November 2001	435	531	18.1%	Warmer
December 2001	678	805	15.8%	Warmer
January 2002	822	937	12.3%	Warmer
February 2002	737	756	2.5%	Warmer
March 2002	541	553	2.2	Warmer
April 2002	215	284	24.3%	Warmer
Total	3428	3866	11.3%	Warmer

Knoxville:

Month	ADD	NDD	Percent Change	
November 2001	320	460	30.4%	Warmer
December 2001	594	726	18.2%	Warmer
January 2002	719	853	15.7%	Warmer
February 2002	656	665	1.4%	Warmer
March 2002	451	463	2.6%	Warmer
April 2002	152	203	25.1%	Warmer
Total	2892	3370	14.2%	Warmer

Nashville:

Month	ADD	NDD	Percent Change	
November 2001	315	451	30.2%	Warmer
December 2001	617	729	15.4%	Warmer
January 2002	704	870	19.1%	Warmer
February 2002	677	678	0.1%	Warmer
March 2002	477	466	2.4%	Colder
April 2002	171	201	14.9%	Warmer
Total	2961	3395	12.8%	Warmer

Paducah:

Month	ADD	NDD	Percent Change	
November 2001	396	483	18.0%	Warmer
December 2001	713	797	10.5%	Warmer
January 2002	781	954	18.1%	Warmer
February 2002	705	736	4.2%	Warmer
March 2002	603	503	19.9%	Colder
April 2002	203	199	2.0%	Colder
Total	3401	3672	7.4%	Warmer

Due to the fact that overall the winter was warmer than normal, the net impact the WNA Rider had on the Company's revenues was that residential and commercial customers were **surcharged** $1,496,387 and $766,175 respectively. This equates to an increase in revenues from residential and commercial sales of 7.75% and 5.92% respectively. (See Table 1) This is up from the previous year when the residential and commercial customers were **refunded** $1,235,609 and $686,731 respectively. (See Table 2)

Table 1

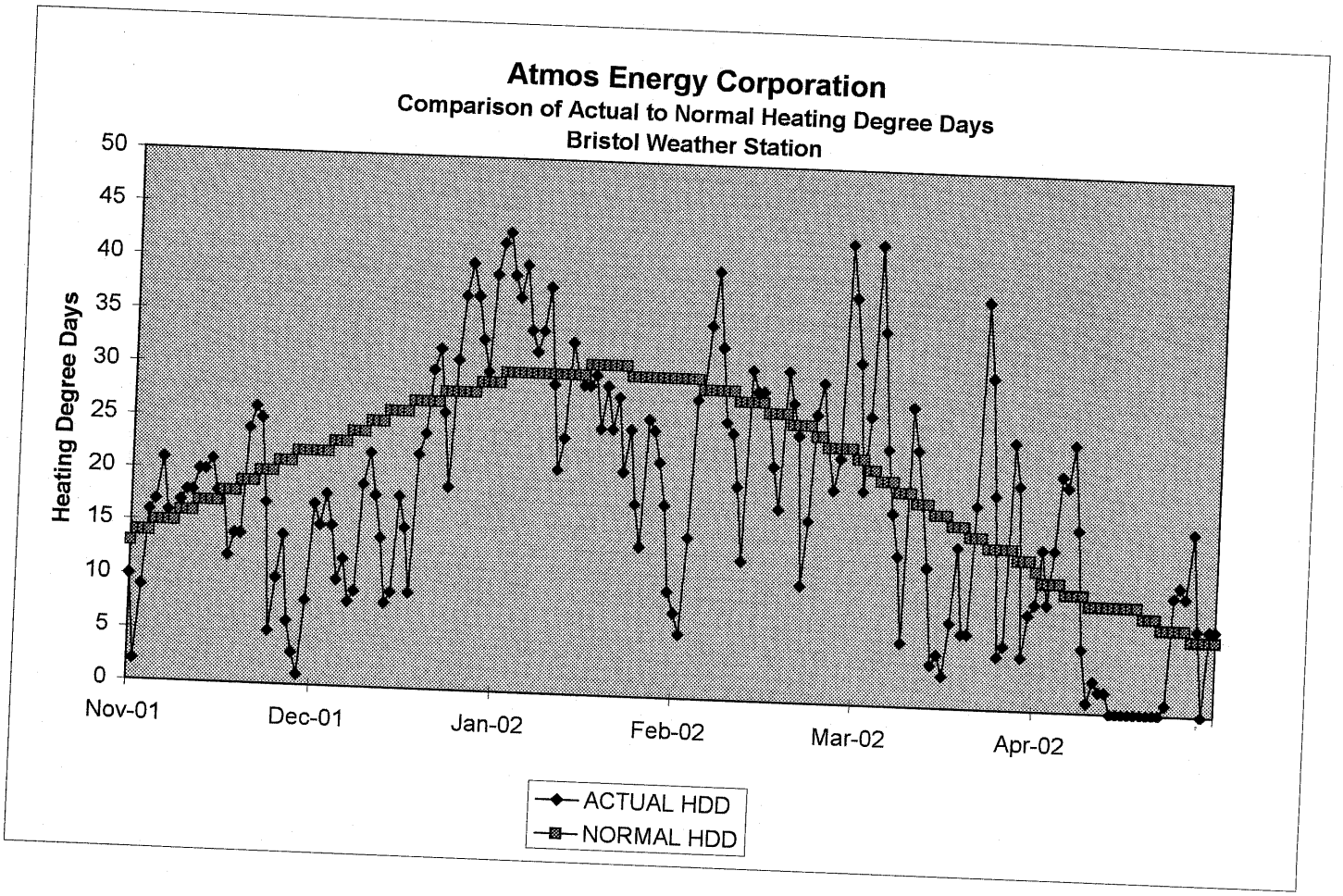
Impact of WNA Rider on Residential & Commercial Revenues
November 1, 2001 - April 30, 2002

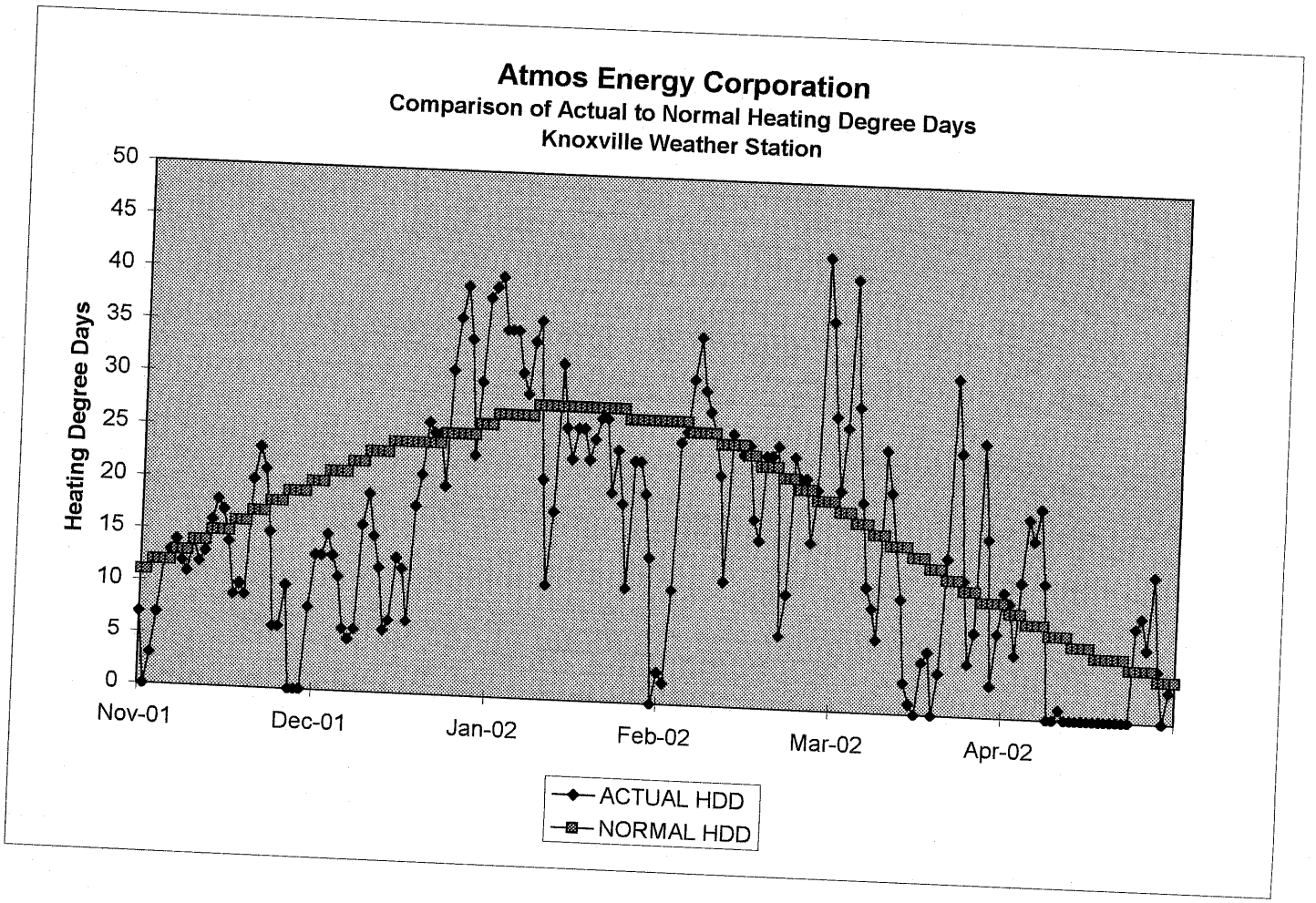
	WNA Rider Revenues	Total Revenues	Percentage Impact of WNA Rider On Revenues
Residential Sales	$ 1,496,387	$ 19,301,442	7.75%
Commercial Sales	766,175	12,951,589	5.92%
Total	$ 2,262,562	$ 32,253,031	7.02%

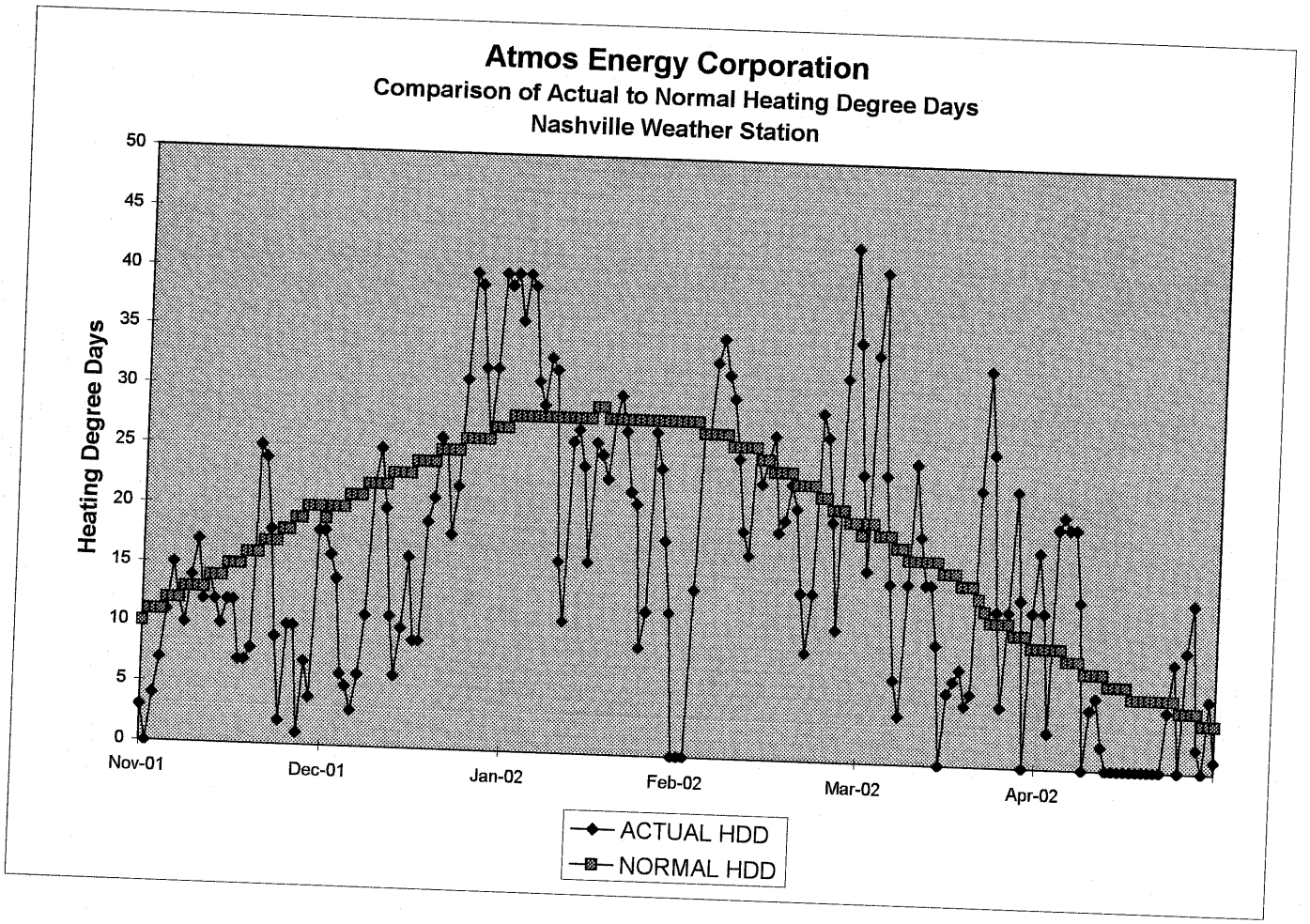
Table 2

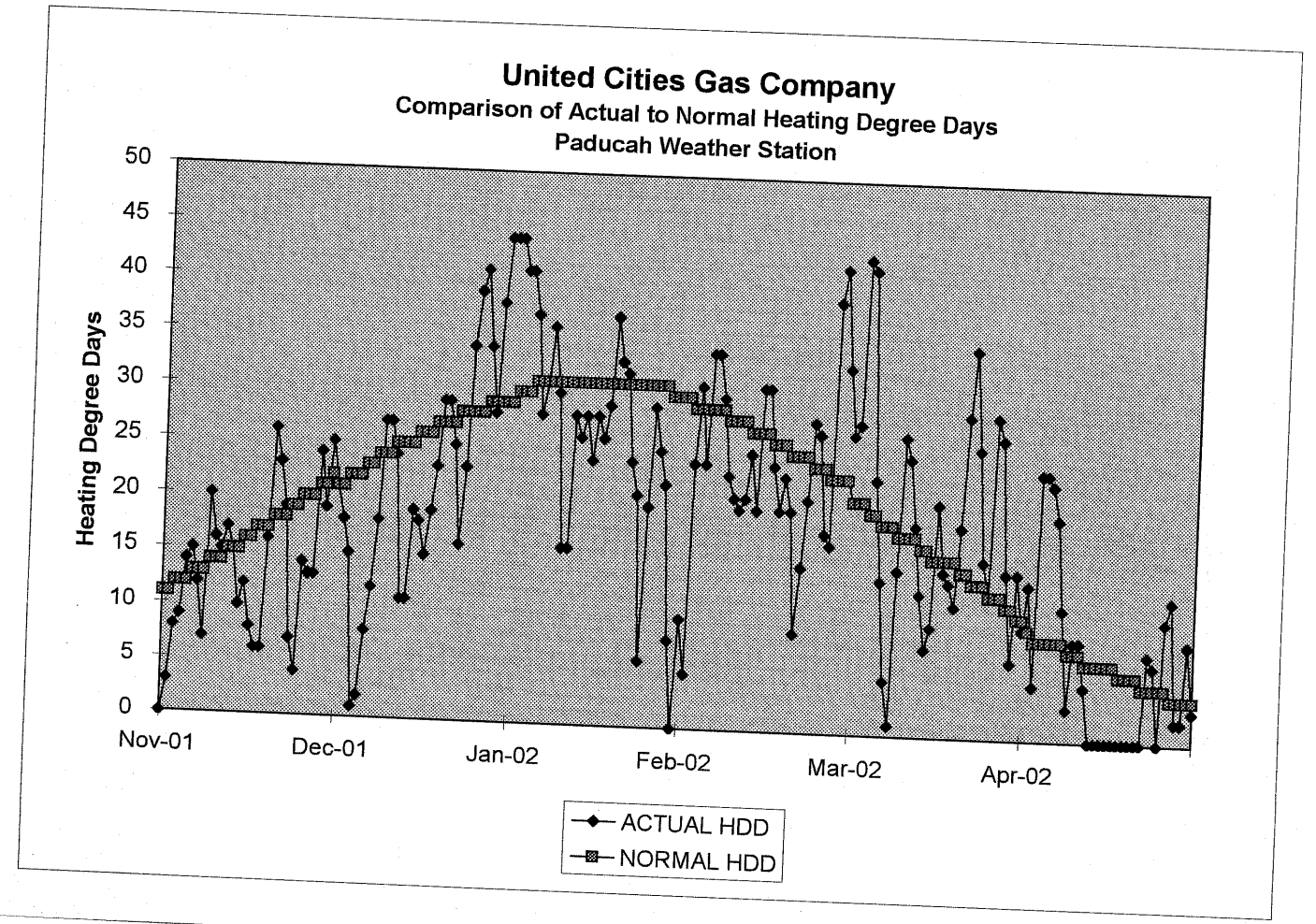
Amount Surcharged (Refunded)
1999 - 2002

	Residential	Commercial	Total Surcharge/(Refund)
11/99-4/00	$ 1,749,787	801,525	$ 2,551,312
11/00-4/01	(1,235,609)	(686,731)	(1,922,340)
11/01-4/02	1,496,387	766,175	2,262,562
Total	$ 2,010,565	$ 880,969	$ 2,891,534


Atmos Energy Corporation
Comparison of Actual to Normal Heating Degree Days
Bristol Weather Station
Heating Degree Days
50
45
40
35
30
25
20
15
10
5
0
Nov-01
Dec-01
Jan-02
Feb-02
Mar-02
Apr-02
ACTUAL HDD
NORMAL HDD


Atmos Energy Corporation
Comparison of Actual to Normal Heating Degree Days
Knoxville Weather Station
Heating Degree Days
50
45
40
35
30
25
20
15
10
5
0
Nov-01
Dec-01
Jan-02
Feb-02
Mar-02
Apr-02
ACTUAL HDD
NORMAL HDD


Atmos Energy Corporation
Comparison of Actual to Normal Heating Degree Days
Nashville Weather Station
Heating Degree Days
50
45
40
35
30
25
20
15
10
5
0
Nov-01
Dec-01
Jan-02
Feb-02
Mar-02
Apr-02
ACTUAL HDD
NORMAL HDD


United Cities Gas Company
Comparison of Actual to Normal Heating Degree Days
Paducah Weather Station
Heating Degree Days
50
45
40
35
30
25
20
15
10
5
0
Nov-01
Dec-01
Jan-02
Feb-02
Mar-02
Apr-02
ACTUAL HDD
NORMAL HDD

V. BACKGROUND INFORMATION ON THE COMPANY

Atmos Energy Corporation with its principal office at 810 Crescent Centre Drive, Franklin, Tennessee, is a wholly owned subsidiary of its parent company Atmos Energy Corporation, located in Dallas, Texas. AEP is a multi-state gas distributor, providing service to multiple communities in Tennessee. The gas to serve these areas is purchased by Woodward Marketing[2], and delivered by four natural gas pipelines in accordance with separate and individual tariffs approved by the Federal Energy Regulatory Commission. The four interstate pipelines are East Tennessee Natural Gas ("ETNG"), Texas Eastern Transmission Corporation ("TETC"), Columbia Gulf Transmission Corporation ("CGTC"), and Texas Gas Transmission Corporation ("TGTC").

ETNG provides service to UCG in Tennessee for the Columbia, Shelbyville, Lynchburg, Maryville-Alcoa, Morristown, Bristol, Elizabethton, Gray, Greeneville, Johnson City, and Kingsport areas.

TETC and CGTC provide service to UCG in Tennessee for Murfreesboro, Nolensville, Franklin, and adjacent areas in Rutherford and Williamson Counties.

TGTC provides service to UCG in Tennessee to Union City and adjacent areas in Obion County.

[2] Woodward Marketing is the wholly owned marketing arm of Atmos Energy Corporation.

VI. WNA FINDINGS

The Staff's audit results showed an **over-recovery** from AEC's ratepayers in the amount of **$124,549** (summarized below). This overrecovery resulted from a single finding, which is explained on the following page.

Weather Station	Company Filed	Corrected Filing	Difference	Under/(Over)-Recovery
Bristol	$ 534,499.09	$ 505,530.78	$ (28,968.31)	Over-Recovery
Knoxville	470,605.27	455,432.77	(15,172.50)	Over-Recovery
Nashville	1,202,176.76	1,125,565.50	(76,611.26)	Over-Recovery
Paducah	55,280.47	51,483.62	(3,796.85)	Over-Recovery
Total	$2,262,561.59	$2,138,012.67	**$(124,548.92)**	**Over-Recovery**

FINDING #1:

Exception

The Company used inaccurate actual daily heating degree days in the calculation of the WNA factor.

Discussion

The audit period consisted of 848 weather observations (212 days in the period times four weather stations). Staff's audit indicates that the Company used inaccurate actual daily heating degree days in the calculation of the WNA factor on 71 days of the WNA period for the Paducah weather station, 72 days for the Nashville weather station, 69 days for the Knoxville weather station, and 87 days for the Bristol weather station, for a total of **299 weather observations**.

The Company's error rate in calculating the WNA factor during this audit period was **35%**. This is significantly higher than last year when the error rate was 3%. These inaccuracies resulted from the fact that, for the days in question, daily heating degree days published in NOAA's Local Climatological Data report[3] differed from the daily heating degree days that the Company obtained from its weather provider. All but 27 of the 299 differences were one degree day. The one-day differences can sometimes be explained by rounding differences in the formula used to calculate the number of degree days on a specific day. The Company has indicated to Staff that it had changed weather providers this year. See the Company's Response below for a more complete explanation of the reasons for this unusually high number of errors.

The net result of these actual degree day errors is that customers were **overcharged $124,549.**

Company Response

The contract we had with SSI (Surface Systems, Inc) was entered into September 2001. Previously our weather services contract was with WeatherMarkets. The switch was made to SSI to not only reduce cost but to also benefit from other forecasting services. Due to the "abnormally" high settle-up as a result of incorrect heating degree day information provided by SSI, we terminated the contract by letter dated September 5, effective September 30, 2002. We have executed a new contract with our previous provider WeatherMarkets for an initial period of one year beginning September 1, 2002. This contract has an annual evergreen provision, unless cancelled by either party with 30 days notice.

If you need further documentation, I do have the cancellation letter and new contract.

[3] This published report is the official data supplied by NOAA and is the standard that the Staff uses to audit the Weather Normalization Rider.

VII. RECOMMENDATIONS AND CONCLUSIONS

Despite the materiality of the finding in this year's audit, the errors were easily explained. The Company has taken appropriate steps to correct the cause and Staff anticipates no problems in the upcoming heating season. Therefore, we conclude that except for the single finding noted in this report, the Company is correctly implementing the mechanics of the WNA Rider as specified by the TRA and included in the Company's tariff. (See Attachment 1) We recommend that the Company include this overcollection in its next Refund Due Customers filing with the TRA. This is the method the Company has customarily used.

ATMOS ENERGY CORPORATION

T.R.A. No. 1
1st Revised Sheet No. 50
Cancelling Original Sheet No. 50

WEATHER NORMALIZATION ADJUSTMENT (WNA) RIDER

Provisions for Adjustment

The base rate per therm/Ccf (100,000 Btu) for gas service set forth in any Rate Schedules utilized by the Tennessee Regulatory Authority in determining normalized test period revenues shall be adjusted by an amount hereinafter described, which amount is referred to as the "Weather Normalization Adjustment." The Weather Normalization Adjustment shall apply to all residential and commercial bills based on meters read during the revenue months of November through April.

Definitions

For purpose of this Rider:

"Regulatory Authority" means the Tennessee Regulatory Authority

"Relevant Rate Order" means the final order of the Regulatory Authority in the most recent litigated rate case of the Company fixing the rates of the Company or the most recent final order of the Regulatory Authority specifically prescribing or fixing the factors and procedures to be used in the application of this Rider.

Computation of Weather Normalization Adjustment

The Weather Normalization Adjustment shall be computed to the nearest one-hundredth cent per therm/Ccf by the following formula:

$$WNA_i = R_i \frac{(HSF_i \quad (NDD-ADD) \quad)}{(BL_i \quad + \quad (HSF_i \times ADD)}$$

Where

i	=	any particular Rate Schedule or billing classification within any such particular Rate Schedule that contains more than one billing classification
WNA_i	=	Weather Normalization Adjustment Factor for the i^{th} rate schedule or classification expressed in cents per therm/Ccf
R_i	=	weighted average base rate of temperature sensitive sales for the i^{th} schedule or classification utilized by the Tennessee Regulatory Authority in the Relevant Rate Order for the purpose of determining normalized test year revenues

Issued by: **Patricia J. Childers, VP Rates and Regulatory Affairs** **Effective Date:** **October 4, 2002**
Date Issued: **September 4, 2002**

WEATHER NORMALIZATION ADJUSTMENT (WNA) RIDER (Continued)

HSF_i = heat sensitive factor for the i^{th} schedule or classification utilized by the Regulatory Authority in the Relevant Rate Order for the purpose of determining normalized test year revenues

NDD = normal billing cycle heating degree days utilized by the Regulatory Authority in the Relevant Rate Order for the purpose of determining normalized test year revenues

ADD = actual billing cycle heating degree days

BI_i = base load sales for the i^{th} schedule or classification utilized by the Regulatory Authority in the Relevant Rate Order for the purpose of determining normalized test year revenues

Filing with Regulatory Authority

The Company will file as directed by the Regulatory Authority (a) a copy of each computation of the Weather Normalization Adjustment, (b) a schedule showing the effective date of each such Weather Normalization Adjustment, and (c) a schedule showing the factors or values derived from the Relevant Rate Order used in calculating such Weather Normalization Adjustment.

Heat Use/Base Use Factors

	Residential		Commercial	
Town	Base use Ccf	Heat use Ccf/HDD	Base use Ccf	Heat use Ccf/HDD
Union City	13.906292	.156369	124.595029	.453633
Columbia Shelbyville Franklin Murfreesboro	13.035323	.173948	99.021858	.624513
Maryville Morristown	13.886330	.153366	111.454966	.658649
Johnson City Elizabethton Kingsport Greeneville Bristol	10.696903	.162066	169.773651	.611201