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July 17, 2006

Ron Jones, Chairman
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37243

Filed Electronically in Docket Office on 07/17/06 @ 2:05pm

Re: ***In Re: Petition to Open an Investigation to Determine Whether Atmos Energy Corp Should be Required by the TRA to Appear and Show Cause That Atmos Energy Corp. is Not Overearning in Violation of Tennessee Law and That it is Charging Rates That Are Just and Reasonable***

Docket Number: 05-00258

Dear Chairman Jones:

In behalf of Atmos Intervention Group, please accept for filing in the above-captioned proceeding the direct testimony of William H. Novak.

Very truly yours,

BOULT, CUMMINGS, CONNERS & BERRY, PLC

By: Henry Walker

HW/djc
Enclosure

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106977-001
7/17/2006

BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE

July 17, 2006

In re: Petition to Open an Investigation to Determine Whether Atmos Energy Corp. Should be Required by the TRA to Appear and Show Cause That Atmos Energy Corp. is Not Overearning in Violation of Tennessee Law and That it is Charging Rates That are Just and Reasonable	))))))	Docket No. 05-00258

DIRECT TESTIMONY OF WILLIAM H. NOVAK
IN BEHALF OF ATMOS INTERVENTION GROUP

Q. Would you state your name, business address and occupation for the record, please?

A. My name is William H. Novak. My business address is 19 Morning Arbor Place, The Woodlands, TX, 77381. I am the owner of WHN Consulting, a utility consulting and expert witness services company.

Q. Please provide a summary of your background and professional experience.

A. I have both a Bachelors degree in Business Administration with a major in Accounting, and a Masters degree in Business Administration from Middle Tennessee State University. I am also licensed to practice as a Certified Public Accountant in Tennessee.

My work experience has centered around regulated utilities for over 24 years. Before establishing WHN Consulting, I was Chief of the Energy & Water Division of the Tennessee Regulatory Authority where I had either presented testimony or advised the Authority on a host of regulatory issues for over 19 years. In addition, I was previously the Director of Rates & Regulatory Analysis for two years with Atlanta Gas Light Company, a natural gas distribution utility with operations in Georgia and Tennessee. I also served for two years as the Vice President of Regulatory Compliance for Sequent Energy Management, a natural gas trading and optimization company in Texas.

Q. What is the purpose of your testimony in this proceeding?

A. The purpose of my testimony is to present Atmos Intervention Group's ("AIG's") recommended structural changes (other than rates) to the industrial tariffs of Atmos Energy Corporation ("Atmos" or "the Company") for the TRA's consideration. I have also prepared draft industrial tariffs that incorporate these recommendations as Exhibits AIG-1 through AIG-5.

Q. Why are structural changes to the Company's industrial rate schedules necessary?

A. It has been a number of years since the Company's last rate case in 1995. Since then, a number of changes have occurred in the gas industry that require tariff language changes in order to be properly implemented. The TRA has already addressed these tariff changes for Chattanooga Gas Company and Nashville Gas Company in previous rate cases. AIG is proposing to implement these same tariff changes in this docket for Atmos.

Q. Please summarize the tariff changes that you are recommending.

A. AIG proposes that the following changes be made to the Company's existing tariffs:

1. Consolidation and revision of the Company's existing Small and Large Commercial/Industrial Gas Service tariff (Rate Schedules 220 and 230) as shown on Exhibit AIG-1.
2. Consolidation and revision of the Company's existing Demand/Commodity Gas Service and Optional Gas Service (Rate Schedules 240 and 250) as shown on Exhibit AIG-2.
3. A new gas Storage Tariff Option (Rate Schedule 255) offered to Transportation Customers as shown on Exhibit AIG-3.
4. New language for the Company's existing Transportation (Rate Schedule 260) tariff as shown on Exhibit AIG-4.
5. Introduction of a new Firm Transportation (Rate Schedule 265) tariff as shown on Exhibit AIG-5 that will address balancing and penalties to allow more customers access to purchase their own gas supplies and also encourage competition among gas suppliers.

Q. Please describe your recommended changes to the Company's Small Commercial & Industrial (Rate Schedules 220 and 230) tariff as shown on Exhibit AIG-1.

A. We recommend that Rate Schedules 220 and Rate 230 be consolidated into one rate schedule with a two tiered, seasonal rate design. The difference between these two rate schedules currently does not justify two separate tariffs. In addition, it is our opinion that a significantly reduction in the second tier of this rate is needed to reflect a more accurate cost of service. We recommend that the 2nd tier rate apply to all consumption greater than 5,000 Ccf per month, and the rate be reduced by 50% of the 1st tier rate.

Q. Have other gas utilities adopted rate designs similar to what you are now proposing here?

A. Yes. This methodology is consistent with the rate designs previously approved by the TRA for other gas utilities. For example, the TRA has approved commercial rates for Chattanooga Gas Company's ("CGC's") C-1 tariff that contains a second tier rate that is a 54% discount from the first tier rate.

Q. Why have you proposed that the Company adopt seasonal charges for this tariff?

A. It has been our experience that the typical smaller customers on this type of rate schedule expect their gas bills to be significantly less in the summer when their usage is lower. We are therefore proposing that the Company adopt a winter (November – April) customer charge that is approximately 50% greater than the summer (May – October) customer charge. Again, this change is consistent with the rate structure already implemented by the TRA for other gas utilities.

Q. Please describe your recommended changes to the Company's Large Commercial & Industrial (Rate Schedules 240 and 250) tariff as shown on Exhibit AIG-2.

A. We recommend that Rate Schedules 240 and Rate 250 also be consolidated into one rate schedule, with both fixed and variable components in the Customer Base Use Charge, and elimination of the existing Demand Charge in Rate Schedule

240. The rate steps would be similar to the current design with some slight modifications.

Q. How are you proposing to combine fixed and variable components into the Customer Base Use Charge?

A. By combining a portion of the existing Rate Schedule 240 Demand Charge into the monthly Customer Charge. Since firm and interruptible customers would both be assessed this charge, we would recommend that the charge be reclassified as a base use charge.

Q. Will the total gas rate to these customers be identical for the Company's firm and interruptible sales customers that are now served under the existing Rate Schedules 240 and 250?

A. No. The interruptible customers served under the existing Rate Schedule 250 will continue to buy gas under the Company's interruptible PGA while the firm customers served by the existing Rate Schedule 240 will purchase gas under the Company's firm PGA.

Q. Won't this change produce a higher total customer charge for the existing interruptible customers presently served under Rate Schedule 250?

A. Yes. For the interruptible customers presently being served under the Company's existing Rate Schedule 250, this change will produce an increase in the monthly customer charge. These customers receive a higher value of service relative to the Company's other customers. For example, the existing Rate 250 customers make no contribution to the Company's interstate pipeline demand costs, yet they have use of this demand capacity for almost all of the year with very few interruptions. In addition, these customers have "no-notice" capabilities, which allows them to "swing" or move back and forth between the Company's sales and transportation rate schedules with the Company bearing the burden of assuming their gas scheduling and nominations. Finally, the Company assumes a singificanly greater credit risk for these customers. For these reasons, we are recommending that the monthly customer charges to this class be increased to reflect a more accurate cost of providing this service.

Q. Won't the proposed Rate Schedule 250 result in a significant cost reduction for the existing Rate Schedule 240 customers since only a portion of their existing demand charge is converted to a base use charge?

A. Yes. We are recommending a substantial reduction of approximately 80% in the Company's existing demand charge of $1.6293 per Ccf unit of Billing Demand to $0.3000 per Ccf unit of Billing Demand that would now be combined into the Customer Base Use Charge.[1] We believe that this change will better reflect the cost of providing this service and closely follows similar charges of other gas utilities.

For example, our proposed demand charge of $0.3000 per Ccf unit of Billing Demand is identical to the existing demand rate of CGC's I-1 tariff. In addition, the Company's current demand charge of $1.6293 per Ccf unit of Billing Demand is far in excess of the current rate of $0.8000 per therm unit of Billing Demand charged by Nashville Gas Company.[2]

Q. Please describe your recommended proposal for a Storage Tariff Option (Rate Schedule 255) as shown on Exhibit AIG-3.

A. Since the Company's last rate case, there has been an exodus of many large commercial/industrial customers that were served through the Company's bundled sales rate schedules that are now buying gas through a gas marketer. Subsequently, many of the storage assets that were needed to serve the Company's customers are stranded, and could provide better value through a

[1] See the rate design section of this testimony on Page 11 for further detail on proposed rates.
[2] Ccf and therm approximate the same billing unit, with therms reflecting a 2% - 4% difference based on the BTU factor of the gas consumed.

Transportation Storage rate that would assist transportation customers with mitigating gas volatility risks and exposure in the marketplace. Furthermore, since transportation customers do make a contribution to the Company's base rates, including the Company's return on storage inventory, a pro-rata amount of storage should be made available to transportation customers.

Q. Would this Storage Tariff Option compromise reliability of service to the Company's other rate classes?

A. No. This service would be recallable by the Company if their other customers have any gas supply risks. However, this situation would only occur when the Company has a gas supply shortage and is unable to buy gas on the market.

Q. How would the Storage Tariff Option be implemented?

A. Under the proposed tariff, the Company would post approximately 20% of their storage deliverability and capacity on August 1 of each year, and allow their transportation customers to bid on the rights to utilize this stored gas during the months of November through March. The storage gas would be awarded to the highest bidders until all of the available storage had been exhausted. The revenues earned through this rate schedule would then be credited to the Company's Purchased Gas Adjustment ("PGA").

Q. How does the Storage Tariff Option benefit the Company's transportation customers?

A. The Storage Tariff Option provides transportation customers with some ability to mitigate potential spikes in natural gas pricing. Given the price volatility of natural gas, transportation customers today are actually paying more just to get price stability. To the extent that the Company has excess storage capacity available, their asset manager is currently profiting from selling this same storage and then sharing it with the Company. This change ensures that the value of this storage flows directly to the Company's ratepayers, and is not diverted to the Company's asset manager.

Q. How will this Storage Tariff Option benefit the Company's other bundled sales customers?

A. Revenues from this service will reflect true market prices of this service, and 100% of these revenues will then be credited to the Purchased Gas Adjustment which will reduce the gas costs for the Company's other bundled sales customers. This service allows the full market value of these storage assets to be realized with the all of the proceeds flowing to the Company's ratepayers instead of the existing sharing formula with the Company's asset manager.

Q. How were the minimum bid amounts calculated?

A. The minimum bid reflects only a nominal value for this service. The market will determine the final bid amounts.

Q. What happens to unused gas in storage?

A. Any unused gas will be returned to the Company's inventory on April 1 of the following year.

Q. Do other gas utilities offer this same type of storage service to their customers?

A. Yes. The TRA approved a similar service for CGC in their last rate case.[3] The Storage Tariff Option presented here is a similar in design to the CGC service, but has been simplified to a rate format that is easier to understand and apply.

Q. Please describe your recommended changes to the Company's Interruptible Transportation (Rate Schedule 260) tariff as shown on Exhibit AIG-4.

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[3] TRA Docket 04-00034.

A. We have numerous recommendations for the Company's Interruptible Transportation Rate Schedule 260 that we feel will encourage more competition and reduce costs for large gas users.

First, our proposed tariff clarifies some balancing language that we feel is necessary to align imbalance charges with the Company's actual costs. An imbalance occurs when a transportation customer either brings in more or less gas to the Company's system than they have used. The existing provisions of the Company's tariff related to balancing are based on the Company's connecting pipeline balancing costs. However, the Company is typically allowed to aggregate all of their delivery points in order to mitigate these imbalances. Furthermore, most interstate pipeline tariffs automatically use the Company's storage as a supply buffer to help manage their supply imbalances. Therefore, it is our position that applying the provisions of a pipeline's imbalance tariff to a specific transportation customer is not appropriate. Instead, our recommendations for balancing are intended to provide an incentive for customers to sustain a reasonable imbalance level with the Company while aligning these incentives with the Company's actual cost of maintaining imbalances.

We have also proposed new penalty language which mitigates some of the penalty exposure to large customers and allows the Company to waive penalties when they do not first incur penalties themselves. This language is intended to align the penalty charges with the Company's actual costs and associated risks. This language has been modeled after the TRA's approved tariff for CGC's transportation customers.

In addition, we have proposed language that allows the Company's large customers the right to designate an agent for balancing purposes. Aggregation of imbalances among customers will make it easier for competing shippers to serve individual customers behind Atmos and this competition will in turn reduce the costs for transportation customers. It is our understanding that the Company's marketing affiliate is allowed to aggregate the same imbalances. The proposed language allows all shippers to compete on an even footing.

Finally, we have proposed language to address the cost of telemetering in the Company's tariffs. It is our position that the expense of telemetering or remote metering equipment should be included in the base rates and paid for by the company for all customers who desire to transport gas. Similar to mains and services, the company should capitalize these costs which would then be recovered through the base rates.

Q. Will your proposed changes to Rate Schedule 260 result in these transportation customers paying a lower base rate than the sales customers on Rate Schedule 250?

A. Yes. The transportation customers on Rate Schedule 260 are required to arrange and manage their own gas commodity purchases. In addition, these customers may be making a contribution to the Company's demand costs depending on how the capacity release revenue is credited to the Company's firm customers. Finally, these customers allow the Company to reduce their carrying costs of purchasing gas and the associated credit risk of recovering this cost. Because the cost of providing service to these transportion customers is less than it is for sales customers, we have proposed lower rates to better reflect it.

Q. Please describe your recommended proposal for a Firm Transportation (Rate Schedule 265) tariff as shown on Exhibit AIG-5.

A. AIG proposes a new firm transportation tariff (Rate Schedule 265) to give more of the Company's firm customers the opportunity to purchase their own gas supplies and then have those gas supplies transported by the Company. These tariff changes are designed to clarify the Company's balancing and penalty rules, and align the applicable tariff imbalance and unauthorized gas usage penalties with the Companies actual costs and risk exposure. The other large gas utilities under the TRA's jurisdiction already have these same features in their tariffs.

We are recommending that the minimum volume level to qualify for this tariff be set at 25,000 Ccf per year. In today's volatile gas environment, many customers desire to manage their gas cost risk by purchasing gas through a gas marketer/shipper who offers them a variety of risk management tools. Setting a lower threshold for transporting gas for these customers will give them this option which we feel is a positive change.

Q. What are the differences between the proposed Firm Transportation tariff (Rate Schedule 265) and the Interruptible Transportation tariff (Rate Schedule 260)?

A. Rate Schedule 265 is a firm transportation rate schedule and is designed for those transporation customers without an adequate backup system to use in times of curtailment. As a result, there are is no language on curtailment penalties similar to that found on Rate Schedule 260.

The balancing language for Rates 260 and 265 are identical, and the customer would be able to designate an authorized agent for the purpose of nominating and balancing gas in both tariffs. In addition, we are recommending that the Company pay for the cost of providing telemetering equipment for both tariffs in order to properly calculate the daily imbalances.

Q. Mr. Novak, do you have any recommendations for the Company's other commercial and industrial tariffs?

A. The Company has other commercial and industrial tariffs that have either not been used at all, or just used sparingly. These tariffs include:

Rate Schedule 221, Experimental School Service;

Rate Schedule 280, Economic Development Gas Service;

Rate Schedule 291, Negotiated Gas Service;

Rate Schedule 292, Cogeration Service; and

Rate Schedule 293, Large tonnage Air Conditioning Gas Service.

At present, we see very little need for continuing these tariffs. As mentioned above, they have seen very little or no usage, and they have no counter parts in the tariffs approved by the TRA for other gas utilities. However, if they are continued, we would recommend that their rate structure be altered to fall in line with the recommendations that we have made for other commercial and industrial tariffs.

Q. Mr. Novak, do you have any recommendations for the Company's Special Contracts?

A. To our knowledge, the Company currently has the following six active Special Contracts that have been approved by the TRA:

Docket	Company
86-07410	Saturn Corporation
97-01443	Alumax Extrusions
98-00277	Middle Tennessee State University
00-01022	Superior Industries International
01-00138	Mountain Home Energy Center
03-00540	Goodyear Tire & Rubber Company

The components of these individual Special Contracts will need to be reexamined after the TRA first determines the total rate adjustment necessary. It may well be that the rate advantages of these Special Contracts will now be obsolete and can be incorporated into the Company's regular tariff rates.

Q. Mr. Novak, are you proposing any specific rates for the commercial and industrial classes at this time?

A. No. Instead we have tried describe only how the rates should be structured within the individual commercial and industrial tariffs. Until the TRA first makes a decision as to the total rate adjustment amount necessary, it will be impossible to make a specific recommendation for any tariff rates. As a result, we have labeled the specific rates contained in our Exhibits as "TBD", meaning "to be determined".

For this rate case, we would first ask the TRA to apportion any rate change that it deems appropriate evenly across-the-board to all customer classes based on the existing gross margin in each rate class. We would then like to present the TRA through either supplemental testimony or post hearing briefs, with specific rate recommendations that will produce this new level of revenue.

Q. Do you have any other recommendations for the TRA to consider?

A. Yes. We would ask the TRA to require the Company to file a class cost of service study in their next rate case. Because of the accelerated pace of this docket, there has not been enough time to prepare and present such a study for the TRA's consideration. Without such a study, it is impossible to know if the rates for one class of customers is too high, thereby resulting in a subsidy to the other customer classes. A similar study was recently filed in the latest rate case for Chattanooga Gas Company[4], and we feel that such a review is certainly warranted in the Company's next case.

Q. Mr. Novak, have you reviewed the prefiled testimony and exhibits of the Consumer Advocate and Protection Division ("CAPD") for this case?

A. Yes. I have reviewed their testimony and exhibits for this case. AIG agrees with the CAPD's calculation of revenue surplus for this case and recommends that it be adopted by the TRA.

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[4] TRA Docket 06-00175.

Q. Does this conclude your testimony?

A. Yes, it does.

VERIFICATION

STATE OF TENNESSEE)

COUNTY OF DAVIDSON)

I, William H. Novak, being duly sworn state that I am authorized to make this verification on behalf of Atmos Intervention Group; that I have read the foregoing Testimony and Exhibits and know the content thereof; that the same are true and correct to the best of my knowledge, information and belief.

William H. Novak

Sworn and subscribed before me this 17th day of July, 2006.

Theresa Hostetler

Notary Public

My Commission Expires:

THERESA HOSTETLER
NOTARY PUBLIC AT LARGE
DAVIDSON COUNTY, TENN.

My Commission Expires NOV. 24, 2007

ATMOS ENERGY CORPORATION
COMMERCIAL/INDUSTRIAL GAS SERVICE

Rate Schedule 230: All Service Areas

Availability

This service is available within the Company's service area to any commercial/industrial customer consistently using less than 270,000 Ccf per year for any purpose at the option of the Company, to the extent that gas is available. This schedule is not available to residences, apartment or federal housing projects.

Character of Service

Natural gas, with a heating value of approximately 1,000 Btu per cubic foot, at the delivery pressure of the distribution system in the area, or at such higher delivery pressure as agreed upon by the Customer and Company.

Monthly Base Rate

	Net Rate
Customer Charge	
Winter (Nov-April)	$<<TBD>>
Summer (May-Oct)	$<<TBD>>
Commodity Charge	
First 5,000 Ccf per Month	$<<TBD>> per Ccf
Over 5,000 Ccf per Month	$<<TBD>> per Ccf

Minimum Bill

The minimum net monthly bill shall be the Customer Charge per meter location as described above.

Payment

Each monthly bill for service is due and payable on the date it is issued. A charge of five percent (5%) may be added to the amount of any bill remaining unpaid at the close of the first business day after fifteen (15) days following such date of issue.

Gas Lights

For all metered gas light services under this tariff, the charge for such service shall be based on actual usage through a metered source at this tariff rate. It shall be within the Company's discretion whether a gas light should be metered, however if the gas light is unmetered, the Company may estimate and determine the appropriate consumption of the light and charge the applicable rate under this rate schedule.

Purchased Gas Cost Adjustment

Bills for service are subject to the cost of purchased gas in accordance with the Purchased Gas Adjustment (PGA) Rider approved by the Tennessee Regulatory Authority.

Service Regulations

Gas service at these schedules will be furnished in accordance with the Company's General Rules and Regulations, copies of which for public reference during business hours at each of the Company's offices.

ATMOS ENERGY CORPORATION
LARGE COMMERCIAL/INDUSTRIAL DEMAND/COMMODITY GAS SERVICE

Rate Schedule 240: All Service Areas

Availability

To any commercial or industrial customer consistently using on an annual basis, a minimal daily volume of 500 Ccf/day, or 15,000 Ccf in any single month on an annual basis.

Character of Service

Natural gas, with a heating value of approximately 1,000 Btu per cubic foot, supplied through a single delivery point or on contiguous property through multiple meter locations, at a delivery pressure of the distribution system in the area, or at such higher delivery pressure as agreed upon by the Customer and Company. Service under this rate schedule may be terminated by either party following twelve (12) months notice to the other party.

MONTHLY BASE RATE

	Net Rate
Customer Base Use Charge	$<<TBD>>
Commodity Charge	
First 20,000 Ccf Per Month	$<<TBD>>
Next 480,000 Ccf Per Month	$<<TBD>>
Over 500,000 Ccf Per Month	$<<TBD>>

Minimum Bill

The minimum net monthly bill shall be the Customers Base Use Charge plus the Monthly Demand Charge as described above.

Payment Terms

Each monthly bill for service is due and payable on the date it is issued. A charge of five percent (5%) may be added to the amount of the bill remaining unpaid at the close of the first business day after fifteen (15) days following date of issue.

Billing Demand

The Billing Demand for the current month shall be redetermined effective November 1 of each successive year. The Billing Demand is the highest demand day in any of the previous billing months November, December, January, February, and March.

Whenever a customer commences taking service under this Rate Schedule, the billing demand shall be either 6% of the monthly consumption in each month until redetermined as stated above, or the actual highest daily demand day recorded if electronic gas metering monitoring is installed.

Determination of Demand Day

The demand day shall be determined at the option of the Customer by one of the following methods:

1. By measuring the maximum volume of gas taken by the Customer in any one day through the use of Measurement Data Collection Equipment installed by the Company.

2. When gas is delivered to a Customer through a positive displacement meter without the use of daily recording and measuring equipment, the maximum volume of gas taken in any one day

ATMOS ENERGY CORPORATION
LARGE COMMERCIAL/INDUSTRIAL DEMAND/COMMODITY GAS SERVICE

Rate Schedule 240: All Service Areas

during the billing month shall be six percent (6%) of the total volume of gas used by the customer during such billing month.

Measurement Data Collection Equipment

Customers served by this Rate Schedule shall be required to install Data Collection Equipment for the purpose of measuring daily volumes of natural gas taken by the customers. Customer shall be responsible for providing telephone and power to the gas metering location, and paying associated monthly usage charges for providing these utilities to metering location. Company will be responsible for the cost and installation of the Data Collection Equipment.

Gas Lights

For all metered gas light services under this tariff, the charge for such service shall be based on the actual usage through a metered source at this tariff rate. It shall be within the Company's discretion whether a gas light should be metered, however, if the gas light is unmetered, the Company may estimate and determine the appropriate consumption of the light and charge the applicable rate under this rate schedule.

Limiting and Curtailing Gas Service

This schedule is subject to interruption on one-half-hour's notice given by the Company by telephone or otherwise. The Company will curtail transportation gas service to the Customers under this schedule in order to prevent a shortage of gas for the use of Customers under the Company's other rate schedules.

Customer shall immediately discontinue the use of transported gas service, to the extent of curtailment ordered, when and as directed by the Company; and authorized representatives of the Company shall have at all times the right of ingress and egress to the Customer's premises. Upon determination by the Company that the necessity for curtailment has ceased the Company shall so notify the Customer by telephone or otherwise and the Customer shall not resume service until so notified.

In the event Customer takes daily gas deliveries in excess of Customer's daily contract entitlement where such consumption is measured and recorded on a daily basis, or in the event Customer does not comply with a curtailment order as directed by the Company and takes gas in excess of the daily volume allowed by the Company in the curtailment order, such gas taken in excess of Customer's daily contract entitlement or such daily volumes taken in excess of curtailment volumes and/or shall be paid for by the Customer at the greater of the rate of $15.00 per Dth or the average daily index on curtailment days plus $5.00, and all applicable pipeline and/or gas supplier penalties and/or charges because of the Customer's failure to comply with a curtailment order as directed by the Company. This penalty rate will only apply to unauthorized volumes of gas used by Customer in excess of 50 Mcf over the Customer's contract entitlement or allocated volumes from authorized shipper. These additional charges shall be in addition to all other charges payable under this Rate Schedule.

If Customer can validate that a localized interstate pipeline restriction prohibited delivery of third party gas during a curtailment, and the Company incurred no penalties from the pipeline as a direct result of Customer's unauthorized usage of gas, then Company will agree to waive any penalties pursuant to this tariff.

The payment of a charge for unauthorized over-run shall not under any circumstances be considered as giving any such Customer the right to take unauthorized over-run volumes, nor shall such payment be considered as a substitute for any other remedies available to Company against Customer for failure to respect its obligations to adhere to the provisions of its contract with the Company.

ATMOS ENERGY CORPORATION
TRANSPORTATION STORAGE OPTION

Rate Schedule 255: All Service Areas

Availability

This Transportation Storage Option (TSO) Rate Schedule is a bundled sales service available to those Customers served under the Company's Transportation Rate Schedules 260 and 265, to assist such Customers with mitigating the volatility of gas costs by providing the option of using storage volumes when such volumes can be made available by the Company.

Service under this Rate Schedule will be awarded to winning bidders for November 1 of the current year through March 31 of the following year (Heating Season). Service provided under this Rate Schedule may be interrupted on any given day provided that the Company interrupts this service only when alternate supplies cannot first be purchased by the Company.

Title to Gas

All gas dedicated to TSO annually shall remain the property of the Company. Title to said dedicated Gas shall pass from the Company to the Customer when Gas is delivered to the Customer pursuant to the terms of this Rate Schedule.

Available Volumes

On August 1 of each year, the Company will post approximately 20% of the total storage reserves and daily deliverability to be made available for Customers under this Rate Schedule for the upcoming Heating Season. In addition the Company will post acceptable minimum seasonal Deliverability and Reservation rates specified below as well as the commodity rate that will be applied to the total aggregate Reserved Volumes upon delivery.

Customers eligible to receive service under TSO may submit bids to the Company on or before August 20. Bids must include the following: Customer's desired Maximum Daily Deliverability; the dollar value the Customer places on the requested Maximum Daily Deliverability Volume in the form of a monthly unit Maximum Daily Deliverability Rate; Customer's desired total Reserved Volume; and the dollar value the Customer places on the requested Reserved Volume during the Heating Season in the form of a monthly unit Reservation Rate On or before August 25 the Company will evaluate all bids and award the reserved Daily Deliverability and Reserved Volumes to the bid(s) that optimize the value of the storage asset. If a customer nominates TSO service for a given day and fails to take delivery of such amounts, then such volumes will be carried over to the subsequent day.

If two or more bids generate the same value and the requested volumes exceed the total Daily Deliverability or total Reserved Volume available for use under this Rate Schedule, the Daily Deliverability will be allocated to the winning bidders on a pro rata basis. On or before August 31, the winning bidders shall enter into a contract to purchase from the Company the requested and/or allocated Reserved Volume.

Deliverability

Service provided under this Rate Schedule on a daily basis is limited to the total remaining capacity of the Company after firm requirements are satisfied. In the event of a curtailment, TSO supply must be nominated and will be delivered as long as the Company's firm requirements are satisfied. If on any day, the Company is unable to meet the total TSO nominations because the demand for Gas to be delivered under this Rate Schedule exceeds the Company's ability to deliver Gas using the Company's existing capacity, nominations will be confirmed based on the highest unit rate bid for the monthly Deliverability Rate. In the event that multiple bids are the same, the volumes will be reduced prorata. In no event will a Customer's cumulative receipt of Gas under this Rate Schedule exceed the Customer's total Reserved Volume for the Heating Season.

ATMOS ENERGY CORPORATION
TRANSPORTATION STORAGE OPTION

Rate Schedule 255: All Service Areas

Rates

These rates are in addition to the rates applicable to the Customer under Rate Schedules 260 and 265. The following charges shall be billed monthly during the Heating Season:

(a) Maximum Deliverability Rate - A charge per Dth applied to the Maximum Daily Deliverability that the Customer bid and the Company accepted. The minimum acceptable bid for the Maximum Deliverability Rate shall be $3.00. A one time charge per Dth of daily deliverability will be allocated to the Customer for the winter withdrawal season. All revenue collected from this charge shall be credited to the Deferred Gas Cost Account as recovered Demand Cost under the Purchase Gas Adjustment (PGA) provisions of the Company's tariff.

(b) Reservation Rate - A charge per Dth applied to the Reserved Volume that the Customer bid and the Company accepted. The minimum acceptable bid for the Reservation Rate shall be $.10/dekatherm. All revenue collected from this charge shall be credited to the Deferred Gas Cost Account as recovered Demand Cost under the Purchase Gas Adjustment (PGA) provisions of the Company's tariff.

(c) Commodity Rate - The rate to be applied to the Reservation Volumes will be posted on August 1 of any given year. The Commodity rate will represent a projection of the storage gas delivered to the city gate to include all variable charges including the cost of storage gas, storage commodity and withdrawal costs, and Company's FT commodity and pipeline fuel charges. Revenues collected from this charge shall be credited to the Deferred Gas Cost Account as recovered Commodity Cost under the Purchased Gas Adjustment (PGA) provisions of the Company's tariff.

Payment for the Maximum Daily Deliverability Charge and the Reservation Charge, shall be in five equal monthly payments due on the first of the month beginning November 1. All other charges shall be due upon presentation. Payments received after the due date shall be for an amount which shall be greater by five percent (5%) than the net billing.

Notification by Customers

Qualifying Customers that have been approved for TSO volumes will notify the Company by fax or e-mail by 12:00 Noon prior to the effective Gas Day that they desire to use volumes available under this Rate Schedule. Customers will be notified via e-mail or fax when demand for gas volumes under this Rate Schedule are terminated or allocated due to deliverability limitations pursuant to the availability provisions of this Rate Schedule. Provision of Gas under this Rate Schedule will automatically end when the Customer has utilized the Customer's Reserved Volume for the applicable Heating Season.

Gas Volume Remaining at March 31

If a Customer does not utilize the Customer's total Reserved Volume awarded by the Company, the remaining volume as of April 1 will be transferred to the Company's system inventory (excluding Company LNG).

ATMOS ENERGY CORPORATION
LARGE COMMERCIAL/INDUSTRIAL TRANSPORTATION
Interruptible Transportation

Rate Schedule 260: All Service Areas

Availability

This rate schedule provides for the transportation of gas received by the Company from the Connecting Pipeline Company for the Customer's account to that Customer's facilities Service under this rate schedule is available to commercial and industrial customers using either 270,000 Ccf or more per year or 1,000 Ccf per day during off-peak periods. Qualifying customers must install and maintain adequate standby facilities and alternate fuel supply in case gas deliveries are interrupted at any time.

Definitions

For purposes hereof:

i. "Connecting Pipeline Company" means a pipeline supplier to the Company whose facilities in the sole judgment of the Company can be utilized to transport gas to the Company for delivery by the Company to the Customer under this rate schedule.

ii. "Transportation Imbalance" occurs when more gas is received by the Company from the Connecting Pipeline Company for the Customer's account, less the unaccounted for gas adjustment, than is delivered to that customer's facilities for the month.

iii. "PGA Rider" means the Company's Purchased Gas Adjustment Rider, as amended and approved by the Tennessee Regulatory Authority from time to time.

Rate

MONTHLY BASE RATE

		Net Rate
Customer Base Use Charge		$<<TBD>>
Commodity Charge		
First 20,000	Ccf Per Month	$<<TBD>>
Next 480,000	Ccf Per Month	$<<TBD>>
Over 500,000	Ccf Per Month	$<<TBD>>

Customers with partial firm requirements will also be charged the demand rate pursuant to the Rate 240 Rate Schedule.

Terms and Provisions of Service under this Rate Schedule

i. Except as expressly modified by the provisions of this rate schedule, all of the terms, provisions, and conditions of the rate schedule (as made effective by the Tennessee Regulatory Authority from time to time) applicable to Customers shall also apply to service by the Company to Customer under this rate schedule.

ii. Receipts and deliveries of gas hereunder shall be at uniform rates of flow with no significant fluctuations or imbalance. Any imbalances shall be corrected by the customers, insofar as practicable, during the month in which they occur. Customers may adjust its daily nominations during the month in order to correct accumulated imbalance, subject to the limitations of the Company.

iii. Customer shall notify Company in advance of authorized shippers to transport gas for the Customers usage. Such notification shall be by fax or email confirmation to Company's Gas Control department.

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Interruptible Transportation

Rate Schedule 260: All Service Areas

The quantity of gas delivered to Customer shall be based on total nominated volume of gas delivered by Customer to Company less any adjustments made by Connecting pipeline during the month.

iv. The Customer is responsible for making all arrangements for transporting the gas from its source of supply to the Company's interconnection with the Connecting Pipeline Company unless other arrangements have been made between the Customer and the Company.

v. If rendition of service to Customer under this rate schedule causes the Company to incur additional charges from the Connecting Pipeline Company, Customer shall reimburse Company for all charges.

vi. Once a customer elects and has qualified for service under this rate schedule, all services will be provided under the terms and conditions of this rate schedule for a term of no less than 12 months. At any time following the first six months of service under this rate schedule, service may be terminated by either party following at least 30 days written notice to the other party.

Balancing Provisions:

Any difference between the quantities delivered to the Company's city gate facilities for the account of the Customer for the month, and the quantities consumed by the Customer as metered for the month, shall be the monthly imbalance. This imbalance shall be resolved monthly by "cashing out" the imbalance as it is known at that time.

If the Customer consumes more gas than it has delivered to the Company, the Customer will be deemed to be "short" by the amount of the deficiency and will buy an amount of gas equal to the deficiency from the Company. The Customer shall pay a price equal to the highest Average Weekly Cost of Gas, as determined from the "Daily Price Survey" set forth in *Gas Daily* published by Platts, in the first issue of such publication following the date of the transaction plus the Ft commodity rate, applicable surcharges and fuel on the relevant pipeline times the premium percentage corresponding to the percentage of the deficiency listed in the table below.

If the Customer consumes less gas than it has delivered to the Company, the Customer will be deemed to be "long" by the amount of the surplus, and the Company will buy the amount of the surplus by paying the Customer a price equal to the lowest Weekly Average Index Cost of Gas, as determined from the "Daily Price Survey" set forth in *Gas Daily* published by Platts, in the first issue of such publication following the date of the transaction, Ft commodity rate, applicable surcharges and fuel on the relevant pipeline times the discount percentage corresponding to the percentage of the deficiency listed in the table below:

Percentage of the Imbalance	Short Premium	Long Discount
Equal to or less than 20%	100%	100%
Over 20%	120%	80%

The Daily Index Cost of Gas shall be derived from the prices published in *Gas Daily* in the Daily Price Survey, per Atmos WACOG source of natural gas from pipelines, and adjusted for each service area.

	+	
Interstate Pipeline A Index	A	WA%
	+	
Interstate Pipeline B Index	B	WA%
	+	

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Rate Schedule 260: All Service Areas

Where Interstate (A..X) represents interstate pipeline index serving an Atmos service area and WA% represents the percentage gas sourced from this receipt source, and A represents the highest Average Weekly Daily pricing for the applicable interstate pipeline or source point.

Agency Authorization

A customer may authorize an agent to act on its behalf with respect to the nominations, imbalance resolution, and/or billing under this rate schedule by executing an Agency Authorization From provided by the Company. To the extent that the Agent appointed by the customer is common to other customers on the Company, the Company will permit such Agent to aggregate all such qualifying customers' transportation quantities for purposes of administering service to such Agent. Once a customer has designated an agent, the agent is then authorized to act on behalf of the customer and as such, the agent can be considered in all references contained within this rate schedule. The customer may not change agents within the calendar month without permission of the Company.

Limiting and Curtailing Gas Service

This schedule is subject to interruption on one-half-hour's notice given by the Company by telephone or otherwise. The Company will curtail transportation gas service to the Customers under this schedule in order to prevent a shortage of gas for the use of Customers under the Company's other rate schedules.

Customer shall immediately discontinue the use of transported gas service, to the extent of curtailment ordered, when and as directed by the Company; and authorized representatives of the Company shall have at all times the right of ingress and egress to the Customer's premises. Upon determination by the Company that the necessity for curtailment has ceased, the Company shall so notify the Customer by telephone or otherwise and the Customer shall not resume service until so notified.

In the event Customer takes daily gas deliveries in excess of Customer's daily contract entitlement where such consumption is measured and recorded on a daily basis, or in the event Customer does not comply with a curtailment order as directed by the Company and takes gas in excess of the daily volume allowed by the Company in the curtailment order, such gas taken in excess of Customer's daily contract entitlement or such daily volumes taken in excess of curtailment volumes and/or shall be paid for by the Customer at the greater of the rate of $15.00 per Dth or the average daily index on curtailment days plus $5.00, and all applicable pipeline and/or gas supplier penalties and/or charges because of the Customer's failure to comply with a curtailment order as directed by the Company. This penalty rate will only apply to unauthorized volumes of gas used by Customer in excess of 50 Mcf over the Customer's contract entitlement or allocated volumes from authorized shipper. These additional charges shall be in addition to all other charges payable under this Rate Schedule.

If Customer can validate that a localized interstate pipeline restriction prohibited delivery of third party gas during a curtailment, and the Company incurred no penalties from the pipeline as a direct result of Customer's unauthorized usage of gas, then Company will agree to waive any penalties pursuant to this tariff.

The payment of a charge for unauthorized over-run gas shall not under any circumstances be considered as giving any such Customer the right to take unauthorized over-run volumes, nor shall such payment be considered as a substitute for any other remedies available to Company against Customer for failure to respect its obligations to adhere to the provisions of its contract with the Company.

The curtailment of interruptible transportation service deliveries in whole or in part under this schedule shall not be the basis for claims against the Company for any damages sustained by the Customer.

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Rate Schedule 260: All Service Areas

Measurement Data Collection Equipment

Customers served by this Rate Schedule shall be required to install Data Collection Equipment for the purpose of measuring daily volumes of natural gas taken by the customers. Customer shall be responsible for providing telephone and power to the gas metering location, and paying associated monthly usage charges for providing these utilities to metering location. Company will be responsible for the cost and installation of the Data Collection Equipment.

Gas Lights

For all metered gas light services under this tariff, the charge for such service shall be based on the actual usage through a metered source at this tariff rate. It shall be within the Company's discretion whether a gas light should be metered, however, if the gas light is unmetered, the Company may estimate and determine the appropriate consumption of the light and charge the applicable rate under this rate schedule.

Terms and Provisions of Service Under This Rate Schedule

The Company will collect gross receipt tax on the incremental gross gas related charges.

The Purchased gas Adjustment computed in accordance with TRA Administrative Rule 1220-4-7 shall not apply. Other adjustments, charges/or credits as determined in accordance with the Tennessee Regulatory Authority's Rules and Regulations and applicable taxes shall be added to the above rates.

Except as expressly modified by the provisions of this rate schedule, all of the terms, provisions, and conditions of the rate schedule (as made effective by the Tennessee Regulatory Authority from time to time) applicable to Customer shall also apply to service by the Company to Customer under this rate schedule.

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Rate Schedule 265: All Service Areas

Availability

This rate schedule provides for the transportation of gas received by the Company from the Connecting Pipeline Company for the Customer's account to that Customer's facilities. Service under this rate schedule is available to commercial and industrial customers using 25,000 Ccf or more per year. This rate schedule is offered as a companion to the customers existing sales rate schedule.

Definitions

For purposes hereof:

i. "Connecting Pipeline Company" means a pipeline supplier to the Company whose facilities in the sole judgment of the Company can be utilized to transport gas to the Company for delivery by the Company to the Customer under this rate schedule.

ii. "Transportation Imbalance" occurs when more gas is received by the Company from the Connecting Pipeline Company for the Customer's account, less the unaccounted for gas adjustment, than is delivered to that customer's facilities for the month.

iii. "PGA Rider" means the Company's Purchased Gas Adjustment Rider, as amended and approved by the Tennessee Regulatory Authority from time to time.

Rate

Subject to the base rates charged by the Company's Companion Rate Schedule

Terms and Provisions of Service under this Rate Schedule

i. Except as expressly modified by the provisions of this rate schedule, all of the terms, provisions, and conditions of the rate schedule (as made effective by the Tennessee Regulatory Authority from time to time) applicable to Customers shall also apply to service by the Company to Customer under this rate schedule.

ii. Receipts and deliveries of gas hereunder shall be at uniform rates of flow with no significant fluctuations or imbalance. Any imbalances shall be corrected by the customers, insofar as practicable, during the month in which they occur. Customers may adjust its daily nominations during the month in order to correct accumulated imbalance, subject to the limitations of the Company.

iii. Customer shall notify Company in advance of authorized shippers to transport gas for the Customers usage. Such notification shall be by fax or email confirmation to Company's Gas Control department. The quantity of gas delivered to Customer shall be based on total nominated volume of gas delivered by Customer to Company less any adjustments made by Connecting pipeline during the month.

iv. The Customer is responsible for making all arrangements for transporting the gas from its source of supply to the Company's interconnection with the Connecting Pipeline Company unless other arrangements have been made between the Customer and the Company.

v. If rendition of service to Customer under this rate schedule causes the Company to incur additional charges from the Connecting Pipeline Company, Customer shall reimburse Company for all charges.

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Firm Transportation

Rate Schedule 265: All Service Areas

vi. Once a customer elects and has qualified for service under this rate schedule, all services will be provided under the terms and conditions of this rate schedule for a term of no less than 12 months. At any time following the first six months of service under this rate schedule, service may be terminated by either party following at least 30 days written notice to the other party.

Balancing Provisions:

Any difference between the quantities delivered to the Company's city gate facilities for the account of the Customer for the month, and the quantities consumed by the Customer as metered for the month, shall be the monthly imbalance. This imbalance shall be resolved monthly by "cashing out" the imbalance as it is known at that time.

If the Customer consumes more gas than it has delivered to the Company, the Customer will be deemed to be "short" by the amount of the deficiency and will buy an amount of gas equal to the deficiency from the Company. The Customer shall pay a price equal to the highest Average Weekly Cost of Gas, as determined from the "Daily Price Survey" set forth in *Gas Daily* published by Platts, in the first issue of such publication following the date of the transaction plus the Ft commodity rate, applicable surcharges and fuel on the relevant pipeline times the premium percentage corresponding to the percentage of the deficiency listed in the table below.

If the Customer consumes less gas than it has delivered to the Company, the Customer will be deemed to be "long" by the amount of the surplus, and the Company will buy the amount of the surplus by paying the Customer a price equal to the lowest Weekly Average Index Cost of Gas, as determined from the "Daily Price Survey" set forth in *Gas Daily* published by Platts, in the first issue of such publication following the date of the transaction, Ft commodity rate, applicable surcharges and fuel on the relevant pipeline times the discount percentage corresponding to the percentage of the deficiency listed in the table below:

Percentage of the Imbalance	Short Premium	Long Discount
Equal to or less than 20%	100%	100%
Over 20%	120%	80%

The Daily Index Cost of Gas shall be derived from the prices published in *Gas Daily* in the Daily Price Survey, per Atmos WACOG source of natural gas from pipelines, and adjusted for each service area.

	+	
Interstate Pipeline A Index	A	WA%
	+	
Interstate Pipeline B Index	B	WA%
	+	

Where Interstate (A, X) represents interstate pipeline index serving an Atmos service area and WA% represents the percentage gas sourced from this receipt source, and A represents the highest Average Weekly Daily pricing for the applicable interstate pipeline or source point.

Agency Authorization

A customer may authorize an agent to act on its behalf with respect to the nominations, imbalance resolution, and/or billing under this rate schedule by executing an Agency Authorization From provided by the Company. To the extent that the Agent appointed by the customer is common to other customers on the Company, the Company will permit such Agent to aggregate all such qualifying customers' transportation quantities for purposes of administering service to such Agent. Once a customer has designated an agent, the agent is then authorized to act on

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Rate Schedule 265: All Service Areas

behalf of the customer and as such, the agent can be considered in all references contained within this rate schedule. The customer may not change agents within the calendar month without permission of the Company.

Measurement Data Collection Equipment

Customers served by this Rate Schedule shall be required to install Data Collection Equipment for the purpose of measuring daily volumes of natural gas taken by the customers. Customer shall be responsible for providing telephone and power to the gas metering location, and paying associated monthly usage charges for providing these utilities to metering location. Company will be responsible for the cost and installation of the Data Collection Equipment.

Gas Lights

For all metered gas light services under this tariff, the charge for such service shall be based on the actual usage through a metered source at this tariff rate. It shall be within the Company's discretion whether a gas light should be metered, however, if the gas light is unmetered, the Company may estimate and determine the appropriate consumption of the light and charge the applicable rate under this rate schedule.

Terms and Provisions of Service Under This Rate Schedule

The Company will collect gross receipt tax on the incremental gross gas related charges.

The Purchased gas Adjustment computed in accordance with TRA Administrative Rule 1220-4-7 shall not apply. Other adjustments, charges/or credits as determined in accordance with the Tennessee Regulatory Authority's Rules and Regulations and applicable taxes shall be added to the above rates.

Except as expressly modified by the provisions of this rate schedule, all of the terms, provisions, and conditions of the rate schedule (as made effective by the Tennessee Regulatory Authority from time to time) applicable to Customer shall also apply to service by the Company to Customer under this rate schedule.

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing is being forwarded via email and U.S. mail, postage prepaid, to:

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on this the 17th day of July 2006.

Henry M. Walker