

**BEFORE THE
TENNESSEE PUBLIC SERVICE COMMISSION
DOCKET NO. 05-00258
PREPARED DIRECT TESTIMONY OF
DANIEL M. MEZIERE
On Behalf of
ATMOS ENERGY CORPORATION**

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I. POSITION AND QUALIFICATIONS

1
2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is Daniel M. Meziere. My business address is 5430 LBJ Freeway, Suite
4 600, Dallas, Texas 75240.

5 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

6 A. I am the Director of Accounting Services for Atmos Energy Corporation (hereinafter
7 “Atmos” or the “Company”).

8 **Q. WHAT ARE YOUR JOB RESPONSIBILITIES?**

9 A. I am primarily responsible for directing various accounting activities and policies
10 within the Company. My primary duties include the oversight of general accounting,
11 fixed assets accounting, accounts payable, payroll, and cost allocations. I also serve
12 on an internal committee which is responsible for the oversight and monitoring of
13 Sarbanes-Oxley (SOX) compliance. In addition, I work with both our internal and
14 external auditors on implementing, testing, maintaining and modifying the
15 Company’s accounting controls, as well as interfacing between the auditors and the
16 Company.

1 I am also responsible for ensuring effective financial and internal controls for the
2 Company's accounting processes, system and procedures. I have knowledge of the
3 Company's accounting activities, which include compiling, processing, reporting and
4 analyzing financial information to satisfy the requirements of internal management,
5 internal independent auditors, external independent auditors and regulatory agencies.

6 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND**
7 **PROFESSIONAL EXPERIENCE.**

8 A. I earned a Bachelor of Science degree in Accounting from East Central Oklahoma
9 State University in 1983 and a Masters of Business Administration from the
10 University of Dallas in 1997.

11 I have worked in the energy industry for almost 20 years in a variety of accounting
12 and finance positions. I joined Atmos Energy Corporation in 2002 in my current
13 position.

14 **Q. ARE YOU A MEMBER OF ANY PROFESSIONAL ORGANIZATIONS?**

15 A. Yes. I am licensed by the State of Oklahoma as a Certified Public Accountant.

16 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE TENNESSEE**
17 **REGULATORY AUTHORITY OR OTHER REGULATORY ENTITIES?**

18 A. I have not testified before the Tennessee Regulatory Authority. However, I have
19 testified before the Georgia Public Service Commission in Docket No. 20298-U, the
20 Missouri Public Service Commission in Docket No. GR-2006-0387 and the Railroad
21 Commission of Texas in Docket No. 9676.

22 **II. PURPOSE OF TESTIMONY**

23 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

1 A. The purpose of my testimony is to authenticate the historic books and records of the
2 Company and demonstrate the integrity of the financial information that has been
3 filed in this case. I am also providing testimony concerning the Company's Cost
4 Allocation Manual (CAM) which prescribes the methodology for shared services cost
5 allocations.

6 **Q. ARE YOU SPONSORING ANY SCHEDULES TO YOUR TESTIMONY?**

7 A. Yes. I am sponsoring Schedule DMM-1. This exhibit is a true and correct copy of
8 Atmos' current Cost Allocation Manual.

9 **III. AUTHENTICATION OF BOOKS AND RECORDS**

10 **Q. ARE THE BOOKS AND RECORDS OF THE COMPANY PREPARED**
11 **UNDER YOUR DIRECTION?**

12 A. Yes, for the areas under my direction (which do not include gas accounting or
13 taxation).

14 **Q. HOW DOES ATMOS MAINTAIN AND UTILIZE ITS BOOKS AND**
15 **RECORDS IN THE REGULAR COURSE OF BUSINESS?**

16 A. Atmos maintains its books and records in accordance with the Federal Energy
17 Regulatory Commission's (FERC) Uniform System of Accounts (USOA) and
18 Generally Accepted Accounting Principles (GAAP). The USOA is the prescribed
19 methodology for maintaining utility records in all of the state jurisdictions which
20 regulate the Company's natural gas utility operations, which currently include
21 Colorado, Georgia, Illinois, Iowa, Kansas, Kentucky, Louisiana, Mississippi,
22 Missouri, Tennessee, Texas and Virginia.

1 Atmos' accounting organization utilizes integrated computerized business systems to
2 efficiently process, record and maintain transactions generated in the regular course
3 of business. Financial transactions are created and entered into the system at or near
4 the time of the transaction by the responsible personnel in various divisions having
5 personal knowledge, or acting in reliance on information transmitted by persons
6 having personal knowledge of the transactions, as well as of the applicable
7 accounting procedures and requirements. Reports are generated by the system in the
8 regular course of business to assist in management's review of the results of
9 operations and to assist in the analysis of the cost data of gas operations.

10 **Q. AS DIRECTOR OF ACCOUNTING SERVICES, HOW DO YOU ASSURE**
11 **YOURSELF THAT TRANSACTIONS ARE RECORDED PROPERLY?**

12 As Director of Accounting Services, I have personal knowledge of the organizational
13 business processes and staffing in the Controllershship function. The Controller's
14 organization is staffed with highly qualified accounting managers and staff, with
15 many accounting positions filled by CPAs. The managers in the organization are
16 charged with the responsibility to inspect, review and revise, if appropriate, the work
17 of the accountants they supervise. To fill certain management positions, an individual
18 is required to have an accounting degree as well as significant accounting experience.
19 We have established and maintained controls that ensure the accuracy of our books
20 and records. These controls help identify any necessary adjustments to accounting
21 entries which are then recorded to the original books and records in a timely manner.
22 Additionally, Atmos contracts with KPMG for internal audit services. This group
23 periodically performs reviews of those controls.

1 Q. WHAT TYPES OF REGULAR AUDITS ARE CONDUCTED TO
2 AUTHENTICATE ATMOS ENERGY'S BOOKS AND RECORDS?

3 A. Atmos' books and records are audited annually by the independent public accounting
4 firm of Ernst & Young LLP. In addition, Ernst & Young LLP also performs reviews
5 of Atmos' quarterly financial statements. These audits and reviews are conducted in
6 accordance with the standards of the Public Company Accounting Oversight Board
7 (United States).

8 **IV. COST ALLOCATION MANUAL**

9 Q. WHAT IS THE COST ALLOCATION MANUAL?

10 A. The Cost Allocation Manual (CAM), contained in Schedule DMM-1, describes and
11 documents the process whereby allocations are made within the books and records of
12 the Company. These include allocations of various common expenses which are
13 incurred for the benefit of two or more of the Company's rate divisions and are
14 therefore allocable to those rate divisions. Additionally, the CAM also describes and
15 documents the processes whereby allocations are made between Atmos and its
16 affiliates and between affiliates.

17 Q. PLEASE DESCRIBE THE HISTORY OF THE COST ALLOCATION
18 MANUAL.

19 A. The CAM was first developed in response to Kentucky regulation 807 KAR 5:080
20 and was first filed with the Kentucky Public Service Commission in April of 2001.
21 The Company is required to update the CAM each year. Atmos has used the CAM to
22 document its allocation processes in the regular course of business since it was first
23 filed.

1 **Q. ARE THE ALLOCATIONS DESCRIBED IN THE CAM APPLICABLE IN**
2 **EVERY JURISDICTION IN WHICH ATMOS OPERATES?**

3 A. Yes. The CAM is applicable in all twelve states in which Atmos has regulated utility
4 operations for allocations involving both utility divisions and affiliates.

5 **Q. HAS THE CAM BEEN ACCEPTED BY OTHER REGULATORY**
6 **AUTHORITIES?**

7 A. Yes. Additionally, the allocation processes described in the CAM have not been
8 rejected by regulators in any of our jurisdictions.

9 **Q. DOES THE CAM DESCRIBE ALLOCATIONS OF BALANCE SHEET**
10 **AMOUNTS?**

11 A. No. There is no allocation of balance sheet amounts within the Company's books and
12 records. Allocations of these amounts are made only for ratemaking purposes in the
13 context of a rate filing or certain regulatory reports. Company witness James Cagle is
14 providing testimony on the appropriate allocations of ratebase amounts within this
15 filing.

16 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

17 A. Yes.

ATMOS ENERGY CORPORATION
COST ALLOCATION MANUAL
May 1, 2006

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1. Introduction:

a. Corporate Structure

Atmos Energy Corporation ("Atmos") operates its utility business in twelve states through eight operating divisions. The operating divisions are divisions of Atmos and are not subsidiaries or separate legal entities. The operating divisions are Mid-Tex and West Texas Divisions through which Atmos operates in Texas; Colorado-Kansas Division through which Atmos operates in Kansas, Colorado and a small portion of the Company's Missouri operations; Louisiana Division through which Atmos operates in Louisiana; Mid-States Division through which Atmos operates in Tennessee, Georgia, Missouri, Virginia, Illinois and Iowa; Kentucky Division through which Atmos operates in Kentucky; Mississippi Division through which Atmos operates in Mississippi and Atmos Pipeline-Texas Division through which Atmos operates its intrastate pipeline business in Texas. The operating divisions are not separate legal entities, and therefore, by definition, cannot be affiliates of Atmos.

Technical and support services are provided to the operating divisions by centralized shared services departments at the Atmos headquarters in Dallas. These centralized functions include, but are not limited to, accounting, human resources, legal, rates and the Customer Support Centers. The costs for these shared services are allocated to the operating divisions. In addition, for operating divisions that operate in more than one jurisdiction, costs from the operating division general office are allocated to separate rate divisions within the operating division.

In addition to its utility business, Atmos also has non-utility operations. The non-utility business is operated through a number of subsidiaries, which are separate legal entities and one division. A chart showing Atmos' current organizational structure is contained in Appendix A. As the organizational structure indicates, Atmos Energy Corporation owns 100% of Mississippi Energies, Inc., Blueflame Insurance Services, LTD, PDH I Holding Company, Inc, and Atmos Energy Holdings, Inc. Atmos Energy Holdings, Inc., is the sole owner of Egasco, LLC, Atmos Pipeline and Storage, LLC, Atmos Energy Services, LLC, Atmos Power Systems, Inc., Atmos Energy Marketing, LLC, Enermart Energy Services Trust and United Cities Propane Gas, Inc.. Atmos Pipeline and Storage, LLC, is the sole owner of WKG Storage, Inc., Trans Louisiana Gas Storage, Inc., UCG Storage Inc., Atmos Exploration and Production, Inc. and Trans Louisiana Gas Pipeline, Inc. Atmos Energy Services, LLC, is the sole owner of Energas Energy Services Trust. Mississippi Energies, Inc. holds an equity interest in Legendary Lighting, LLC (50%) and Unitary GH&C Products, LLC (28%).

Please note. The descriptions contained herein do not address tariffed services

b. Accounting:

Atmos' account coding structure enables it to capture the costs for allocable activities. Expenses, Assets, and Liabilities for Atmos' shared services and other operating division general and regional office divisions are coded to applicable location codes and cost centers which are then allocated to the appropriate rate divisions based upon the methodologies described herein.

Atmos account coding structure is as follows:

XXX.	XXXX.	XXXX.	XXXXX.	XXXXXX.	XXXX.
Company	Cost	FERC	Sub-	Service	Future
	Center	Account	Account	Area	Use
3 digit	4 digit	4 digits	5 digits	6 digits	4 digits

Within the above coding structure, "Company" and "Cost Center" are primarily utilized for management reporting purposes and reflects the internal management "cost responsibility" structure of Atmos Energy Corporation, exclusive of its subsidiaries. The term "Company" as utilized for account coding refers to a subsidiary or separate legal entity or to one of the Company's various eight operating divisions and under which Atmos conducts the vast majority of its utility business in twelve states. "Cost Center" addresses departmental cost responsibility and is primarily utilized for budget control purposes. Utilization of the "Company" or "Cost Center" fields is not suitable for financial or regulatory reporting purposes.

The field described by FERC account contains the 3 digit FERC USOA account plus one extension digit which is in some cases utilized by the FERC USOA.

The first three digits of the Service Area field are the primary coding utilized for cost allocations within Atmos and is generally referred to as "rate division number". This portion of the field denotes Atmos' various rate divisions as well as the Company's various shared services, operating division general office and regional office divisions. These codes are the primary source of information for regulatory reporting and rate activity. The remaining 3 digits represent "town" location which is utilized only for some accounts.

c. Glossary of Terms:

Affiliate - For purposes of this document, one or more of Atmos' subsidiaries.

Atmos Pipeline-Texas Division – The operating division within which Atmos Energy Corporation conducts its intrastate pipeline business within the state of Texas.

Below the Line - Amounts which are generally not included in an analysis of costs from which gas service rates are derived.

Colorado-Kansas Division - The operating division within which Atmos Energy Corporation conducts business within the states of Colorado, Kansas and a small portion of the Company's Missouri operation.

Composite Factor - The Company's general allocation factor which is derived for each applicable area based upon the simple average of gross plant in service, average number of customers and direct operation and maintenance expenses as a percentage of the total of each of these items.

Corporate Headquarters - The headquarters of Atmos Energy Corporation in Dallas, Texas.

Cost Centers - Account coding which denotes cost responsibility primarily for management purposes.

Direct Charges - Those charges which may originate at a shared services department, operating division general office division or regional office division which are booked directly to the applicable rate division.

FERC USOA - The Uniform System of Accounts as prescribed by the Federal Energy Regulatory Commission.

Kentucky Division - The operating division within which Atmos Energy Corporation conducts business within the Commonwealth of Kentucky.

Louisiana Division - The operating division under which Atmos Energy Corporation does business within the state of Louisiana.

Mid-States Division - The operating division within which Atmos Energy Corporation does business in the Commonwealth of Virginia, the states of Illinois, Iowa, Tennessee, Georgia and the majority of the Company's operations in Missouri.

Mid-Tex Division - The operating division within which Atmos Energy Corporation conducts business within the central part of the state of Texas.

Mississippi Division - The operating division within which Atmos Energy Corporation does business in the state of Mississippi.

Municipal Jurisdiction - For Atmos' operations in Texas, each municipality, which it serves, has original jurisdiction over rates.

Operating Division - The Company's operations within each of its seven utility regional divisions are typically referred to as "operating divisions" in more general discussions or "Company" within the context of Atmos account coding structure. Operating divisions are not subsidiaries or separate legal entities. An operating division contains at least one rate division. Operating divisions with multiple rate divisions have one operating division general office rate division and may also have other regional office rate divisions in addition to rate divisions corresponding to regulatory jurisdictional areas. There is also one non-utility operating division referred to as Atmos Pipeline – Texas.

Operating Division General Office - Administrative offices that are located outside of shared services offices and which serve as the base of operations and central office for each "operating division".

Rate Division - Denotes Atmos' regulatory jurisdictions that are defined by state boundaries, geographic boundaries within states or municipal boundaries within the State of Texas. The term also denotes Atmos' various shared services, operating division general office divisions and regional office divisions. These codes are the primary source for regulatory reporting and rate activity.

Regional Office Divisions - Represents the offices which serve portions of an operating division. See "operating division" as defined above.

Service Area - The portion of the Company's account coding structure of which the first three digits denote rate division. The last three digits of this code denote "town" which is used only in certain instances.

Shared Services - The Company's functions that serve multiple rate divisions. These services include departments such as Legal, Billing, Call Center, Accounting, Rates Administration among others. Shared Services is comprised of Shared Services – General Office and Shared Services – Customer Support

Shared Services – Customer Support – The Company's functions that serve multiple rate divisions. These services include billing, customer call center functions and customer support related services.

Shared Services – General Office – The Company's functions that serve multiple rate divisions. These services include all other functions not encompassed by Shared Services – Customer Support.

Subsidiaries - The Atmos Energy Corporation Subsidiaries are:

Atmos Energy Holdings, Inc.
Atmos Energy Marketing, LLC
Atmos Exploration & Production, Inc.
Atmos Pipeline and Storage, LLC
Atmos Power Systems, Inc.
Atmos Energy Services, LLC
Blueflame Insurance Services, LTD
Egasco, LLC
Energas Energy Services Trust

Enermart Energy Services Trust
Mississippi Energies, Inc.
Trans Louisiana Gas Pipeline, Inc.
Trans Louisiana Gas Storage, Inc.
UCG Storage, Inc.
WKG Storage, Inc.
Legendary Lighting, LLC (50%)
PDH I Holding Company, Inc.
Unitary GH&C Products, LLC (28%)
United Cities Propane Gas, Inc.

West Texas Division - The operating division within which Atmos Energy Corporation conducts business within the western part of the state of Texas.

Service:	Capitalized overhead (general)
Description:	Overhead related to capital expenditures
Current Provider of Service	<p>Shared Services</p> <p>Atmos Pipeline – Texas</p> <p>Louisiana Division general office</p> <p>Kentucky Division</p> <p>Mid-States Division general office</p> <p>Colorado-Kansas Division general office</p> <p>Mid-States Division regional offices</p> <p>Mid-Tex Division</p> <p>Mississippi Division</p>
Current Use of Service	Rate divisions
Basis for allocation	<p>Capitalized overhead costs are accumulated by operating division or regional office. Each operating division sets an application rate for the year based on projected expenditures. As expenditures for CWIP are booked, the overhead assigned is applied at the application rate. Periodically, the application rate is reviewed. Shared services overhead is allocated to operating divisions based on operating division capital expenditures.</p>

Service:	Capitalized overhead (West Texas Division)
Description:	Overhead related to capital expenditures
Current Provider of Service	West Texas Division general office
Current Use of Service	West Texas rate divisions
Basis for allocation	Capitalized overhead costs are accumulated at the operating division level. The West Texas Division sets an application rate for the year based on projected expenditures for non-irrigation rate divisions. As expenditures for CWIP are booked, the overhead assigned is applied at the application rate. Periodically, the application rate is reviewed. At year-end, a total overhead amount is applied to capital expenditures in the irrigation rate division based on proportion of irrigation customers served to the West Texas Division customers served.

Service:	Stores overhead
Description:	Overhead related to inventory warehousing is allocated to materials as issued.
Current Provider of Service	Shared Services Operating division general office
Current Use of Service	Atmos Pipeline – Texas West Texas Division rate divisions Louisiana Division rate divisions Kentucky Division rate division Mid-States Division rate divisions Mid-Tex Division rate division Colorado-Kansas Division rate divisions Mississippi Division rate division
Basis for allocation	Overhead costs for inventory items, including rent, labor, supervision and adjustments are accumulated by operating division. Each operating division sets an application rate for the year based on projected overhead and materials activity. As materials are issued from the warehouse, the overhead assigned is also allocated to the same account. Periodically, the balance in the undistributed stores overhead account is compared to the materials on hand balance and a new rate is determined. Shared Services stores overhead is allocated monthly to the operating divisions based on number of meters.

Service:	Expenses in Shared Services – Customer Support cost centers
Description:	Includes all expenses for Customer Support.
Current Provider Of Service	Shared Services
Current Use of Service	West Texas Division Mid-Tex Division Louisiana Division Kentucky Division Mid-States Division Colorado-Kansas Division Mississippi Division
Basis for allocation	Costs allocated from the Shared Services – Customer Support are allocated based on number of customers utilizing these services.

Service:	Expenses in Shared Services – General Office cost centers
Description:	Includes all expenses in Shared Services – General Office.
Current Provider Of Service	Shared Services
Current Use of Service	Atmos Energy Holdings, Inc Atmos Energy Marketing, LLC Atmos Power Systems, Inc Atmos Pipeline and Storage, LLC UCG Storage, Inc WKG Storage, Inc Atmos Energy Services, LLC Egasco, LLC Atmos Exploration and Production, Inc Trans Louisiana Gas Storage, Inc Trans Louisiana Gas Pipeline, Inc Enermart Energy Services Trust Energas Energy Services Trust West Texas Division Mid-Tex Division Atmos Pipeline - Texas Louisiana Division Kentucky Division Mid-States Division Colorado-Kansas Division Mississippi Division Mississippi Energies, Inc.
Basis for allocation	Costs are allocated to affiliates and operating divisions based on a composite factor applied to the Shared Services departments. Shared Services departments which provide services to the Company's affiliates utilize a composite factor the computation of which includes the affiliates (If Mid-Tex and Pipeline are provided services by a department the composite factor will included Mid-Tex and Pipeline at a 25%, 50%, 75% or 100% rate depending on how much service the department provides) . Shared Services departments that do not provide services to the Company's affiliates utilize a composite factor the computation of which does not include the Company's affiliates (If Mid-Tex and Pipeline are provided services by a department the composite factor will included Mid-Tex and Pipeline at a 25%, 50%, 75% or 100% rate depending on how much service the department provides) . Costs for Overhead capitalized are allocated using the rate of shared service O&M expenses charged to each affiliates and operating divisions.

Service:	SSU – Customer Support depreciation and taxes other than income taxes
Description:	Includes all depreciation and taxes other than income tax charged in Shared Services – Customer Support.
Current Provider Of Services	Shared Services
Current Use of Service	West Texas Division Louisiana Division Kentucky Division Mid-States Division Mid-Tex Division Colorado-Kansas Division Mississippi Division
Basis for allocation	Costs are allocated to the divisions in total based on the average number of customers in each operating division as a percentage of the total number of customers in all of the operating divisions.

Service:	SSU – General Office depreciation and taxes other than income taxes
Description:	Includes all depreciation and taxes other than income tax charged in Shared Services – General Office.
Current Provider Of Services	Shared Services
Current Use of Service	Atmos Pipeline – Texas West Texas Division Louisiana Division Kentucky Division Mid-States Division Mid-Tex Division Colorado-Kansas Division Mississippi Division
Basis for allocation	<p>Costs are allocated to the divisions in total based on the Composite Factor. The Composite Factor is the simple average of three percentages:</p> <p>The percentage of Gross Direct Property Plant and Equipment in each operating division unit as a percentage of the total Direct Property Plant and Equipment in all of the operating divisions.</p> <p>The number of customers in each operating division as a percentage of the total number of customers in all of the operating divisions.</p> <p>The total direct O&M expense in each operating division as a percentage of the total direct O&M expense in all operating divisions.</p>

Service:	West Texas Division general office expenses to municipal rate division levels.
Description:	Allocation of general office costs to rate division levels
Current Provider of Service	West Texas Division general office
Current Use of Service	West Texas Division rate divisions
Basis for allocation	<p>Costs are allocated to the rate divisions in total based on the Composite Factor. The Composite Factor is the simple average of three percentages:</p> <p>The percentage of Gross Direct Property Plant and Equipment in each rate division as a percentage of the total Direct Property Plant and Equipment in the West Texas Division rate divisions.</p> <p>The number of customers in each rate division as a percentage of the total number of customers in the West Texas Division rate divisions.</p> <p>The total direct O&M expense in each municipal rate division as a percentage of the total direct O&M expense in the West Texas Division rate divisions.</p>

Service:	West Texas Division rent expenses.
Description:	Charge for rent expenses related to employees physically located in the West Texas Division
Current Provider of Service	West Texas Division
Current Use of Service	Atmos Energy Services, LLC
Basis for allocation	A charge for rent, utilities and office equipment usage will be billed based on the amount of space in the West Texas Division office occupied by Atmos Energy Services employees.

Service:	Colorado-Kansas Division general office expenses to state regional office division level.
Description:	Allocation of division general office costs to state regional office division levels
Current Provider of Service	Colorado-Kansas Division general office
Current Use of Service	Colorado-Kansas Division regional office divisions
Basis for allocation	<p>Costs are allocated to the states in total based on the Composite Factor. The Composite Factor is the simple average of three percentages:</p> <p>The percentage of Gross Direct Property Plant and Equipment in each state as a percentage of the total Direct Property Plant and Equipment in Colorado-Kansas Division.</p> <p>The number of customers in each state as a percentage of the total number of customers in Colorado-Kansas Division.</p> <p>The total direct O&M expense in each state as a percentage of the total direct O&M expense in Colorado-Kansas Division.</p>

Service:	Mid-States Division general office and regional office expenses to rate division level
Description:	Allocation of operating division general office costs and regional offices costs to rate division levels
Current Provider Of Service	Mid-States Division general office Mid-States Division regional offices
Current Use of Service	Mid-States Division rate divisions
Basis for allocation	O&M costs are allocated in total based on the average number of customers in each rate division divided by the average total customers encompassed within the Mid-States Division. Depreciation and taxes other than income tax are allocated in total based on the gross plant in each rate division divided by the total gross plant encompassed by the Mid-States Division.

Service:	Louisiana Division general office expenses to rate divisions.
Description:	Allocation of general office costs to rate division levels
Current Provider of Service	Louisiana Division general office
Current Use of Service	Louisiana Division rate divisions
Basis for allocation	Costs are allocated to the rate divisions in total based on 25% going to division 007 and 75% going to division 077.

Service:	Benefits cost allocation
Description:	Accumulates fringe benefits (workers compensation, basic life insurance, SFAS/106, medial/dental insurance, long term disability, ESOP, pension cost etc.) and allocates to the rate jurisdictions and/or subsidiaries.
Current Provider of Service	Shared Services
Current Use of Service	Atmos Pipeline – Texas Division Atmos Power Systems, Inc UCG Storage, Inc Atmos Energy Services, LLC Atmos Energy Marketing, LLC West Texas Division Louisiana Division Kentucky Division Mid-States Division Mid-Tex Division Colorado-Kansas Division Mississippi Division
Basis for allocation	Fringe benefits components are accumulated by each operating division general office. Benefit expenses are allocated to rate jurisdictions by multiplying each rate jurisdiction's labor dollars by that particular operating division's benefits load percentage. The load percentage is calculated using total budgeted benefits divided by total labor. An allocation of fringe benefits from Shared Services to the subsidiaries is calculated based on the number of employees of each subsidiary.

Service:	Intercompany labor
Description:	To the extent operating division or affiliate employees provide labor services to another operating division or affiliate the labor costs for the services will be charged to the appropriate operating division or affiliate.
Current Provider of Service	Atmos Energy Services, LLC Louisiana Division Colorado-Kansas Division Mid-States Division Mid-Tex Division Kentucky Division Mississippi Division
Current Use of Service	UCG Storage, Inc. Atmos Pipeline – Texas Division Atmos Energy Marketing, LLC Colorado-Kansas Division Mid-States Division Kentucky Division WKG Storage, Inc Trans Louisiana Gas Pipeline, Inc. Trans Louisiana Gas Storage, Inc. Mississippi Division West Texas Division
Basis for allocation	Labor charges are captured through direct time sheet entries and transferred to the appropriate operating division or subsidiary receiving the labor services.

Service:	Intercompany labor
Description:	To the extent operating division employees provide services to an affiliate a fee will be charged to the affiliate.
Current Provider of Service	Kentucky Division
Current Use of Service	WKG Storage, Inc
Basis for allocation	For the operation and maintenance of the East Diamond Storage Facilities, WKG Storage, Inc. shall pay Atmos Energy Corporation a monthly fee as set forth in the Natural Gas Storage Field and Pipeline Operations Agreement dated August 1, 2004.

Service:	Vehicle insurance allocation
Description:	Allocation of operating division insurance amortization to cost center and jurisdiction levels
Current Provider of Service	West Texas Division general office Louisiana Division general office Kentucky Division general office Mid-States Division general office Colorado-Kansas Division general office Mississippi Division general office
Current Use of Service	Texas Division rate divisions Louisiana Division rate divisions Kentucky Division rate division Mid-States Division rate divisions Colorado-Kansas Division rate divisions Mississippi Division rate division
Basis for allocation	Insurance costs are accumulated to the operating division general office and allocated monthly using the ratio of rate division vehicle expense to total operating division vehicle expense.

Service:	Installing yard lines
Description:	Includes all costs incurred by the operations of the Kentucky Division to install customer-owned yard line. In Kentucky, Atmos does not own the yard line and the work it conducts on such yard lines is not regulated for ratemaking purposes.
Current Provider of Service	Kentucky Division
Current Use of Service	Kentucky Division
Basis for allocation	Materials and labor (including overheads) are charged to other expense below the line. Use of transportation or work equipment is recorded in the same account by journal entry based on actual usage. Billing to the customer is reclassified from revenue to other income below the line.

Service:	Bad debt expense allocation
Description:	Allocation of operating division bad debt expense amortization to cost center and jurisdiction levels
Current Provider of Service	West Texas Division general office Louisiana Division general office Mid-States Division general office Colorado-Kansas Division general office
Current Use of Service	West Texas Division rate divisions Louisiana Division rate division Mid-States Division rate divisions Colorado-Kansas Division rate divisions
Basis for allocation	Bad debt expense is accumulated to the operating division general office and allocated monthly using the ratio of rate division gross sales to total operating division gross sales.

Service:	Adjustments to Uncollectible Accounts Expense
Description:	Allocation of additional expense amounts booked to adjust the Provision for Uncollectibles (Account 144)
Current Provider of Service	Operating Division General Office
Current Use of Service	West Texas Division rate divisions Louisiana Division rate divisions Mid-States Division rate divisions Colorado-Kansas Division rate divisions
Basis of Intra-company Allocations	Costs are allocated to the rate divisions in total based on Sales Revenue.

Service:	Intra-company labor allocation – other than operating division general office labor
Description:	Certain employee activities cross multiple rate divisions within an operating division. The costs associated with such activities include labor, benefits and associated taxes.
Current Provider of Service	Atmos Pipeline – Texas Division West Texas Division Louisiana Division Kentucky Division Mid-States Division Mid-Tex Division Colorado-Kansas Division Mississippi Division
Current Use of Service	Atmos Pipeline – Texas Division West Texas Division Louisiana Division Kentucky Division Mid-States Division Mid-Tex Division Colorado-Kansas Division Mississippi Division
Basis of Intra-company Allocations	Labor associated with cross-jurisdictional activities is allocated to each jurisdiction based on the level of employee activity. The allocations are captured either through direct time sheet entries or fixed labor distribution percentages.

Service:	Other income and interest expense
Description:	Allocation of Shared Services' other income and interest expense
Current Provider of Service	Shared Services
Current Use of Service	West Texas Division Louisiana Division Kentucky Division Mid-States Division Mid-Tex Division Colorado-Kansas Division Mississippi Division
Basis for allocation	Interest Expense, Interest Income and Other Non Operating Income in shared services are allocated to each utility division general office based on the budget allocation percentages. The budget allocation is based on net investment by business unit as of the latest month available when the budget is prepared, with normalizing or averaging adjustments to working capital. Net investment is total assets less non-debt liabilities (excluding long-term debt, notes payable and current maturities.) The allocation factors are the same for the whole year

Service:	Retail services marketing support
Description:	Atmos provides certain retail services through partnering with an outside firm, where customers are provided the opportunity to learn about other non-utility services that may be of interest to them.
Current Provider of Service	Shared Services
Current Use of Service	Atmos Energy Services, LLC
Basis for allocation	Costs are charged on a fixed basis. The fixed charge is based on allocation factors applied to the Shared Services departments. Please see "Expenses in Shared Service cost centers", page 10.

Service:	Gas cost between state jurisdictions for contiguous systems.
Description:	Gas costs that apply to contiguous systems that cross state jurisdictional boundaries are allocated between those rate jurisdictions.
Current Provider of Service	West Texas Division Colorado-Kansas Division Mid-States Division
Current Use of Service	West Texas Division Colorado-Kansas Division Mid-States Division
Basis of Allocations	Allocations are based upon throughput for the West Texas Division and the Colorado-Kansas Division's Southeast Colorado/Southwest Kansas operations. For the Colorado-Kansas Division's Kansas/Missouri system and for the Mid-States Division, demand costs are allocated based on peak-day requirements. Commodity costs are allocated based upon throughput.

Service:	Gas storage services between an operating division and an affiliate
Description:	To the extent an operating division stores gas in a storage field owned by an affiliate, a rental fee for the use of the storage field shall be charged by the affiliate.
Current Provider of Service	UCG Storage, Inc.
Current Use of Service	Mid-States Division
Basis for allocation	An annual demand charge for the operating division is calculated based on fiscal year plant in service, gas inventory, actual operational costs incurred, and application of revenue and cost of capital conversion factors based on prior regulatory approval. In the calculation of the demand charge costs not specifically related to a designated area are allocated to each affiliate based on percentage of total plant servicing that affiliate.

Service:	Allocation of lost & unaccounted (L&U) storage gas
Description:	Lost & unaccounted (L&U) gas related to an affiliate's gas storage field is allocated to all affiliates and operating division that store gas in the field.
Current Provider of Service	UCG Storage, Inc.
Current Use of Service	UCG Storage, Inc. Mid-States Division
Basis for allocation	Lost & unaccounted (L&U) gas related to an affiliate's gas storage field is calculated by a third party on an annual basis and is allocated to all relevant subsidiaries and operating divisions that utilize the field for storage. The amount of L&U allocated is based on each subsidiary or operating division's average of the total volumes.

Service:	Gas supply services
Description:	Purchase, management and administration of gas supply arrangements
Current Provider of Service	Atmos Energy Marketing, L.L.C. Atmos Energy Services, LLC Trans Louisiana Gas Pipeline, Inc
Current Use of Service	Kentucky Division Mid-States Division Colorado-Kansas Division Louisiana Division Mississippi Division West Texas Division
Basis for allocation	Charges are a result of either an open market bid process or other market based rate.

Service:	Facilities services
Description:	System operating and maintenance services
Current Provider of Service	Louisiana Division
Current Use of Service	Atmos Energy Marketing, LLC
Basis for allocation	Rate per volumetric unit is cost based.

Service:	Working capital funds management
Description:	Funds are invested on behalf of or provided to affiliates based on operations.
Current Provider of Service	Atmos Energy Corporation
Current Use of Service	Atmos Energy Holdings, Inc. Atmos Energy Marketing, LLC Atmos Energy Services, LLC Atmos Power Systems, Inc. Atmos Pipeline and Storage, LLC Atmos Pipeline Texas UCG Storage, Inc. WKG Storage, Inc. Atmos Exploration & Production, Inc. Trans Louisiana Gas Storage, Inc. Trans Louisiana Gas Pipeline, Inc. Atmos Energy Services, LLC Egasco, LLC Enermart Energy Services Trust Energas Energy Services Trust Mississippi Energies, Inc. PDH I Holding Company, Inc United Cities Propane Gas, Inc
Basis for allocation	Interest income or expense is recognized each month at the subsidiaries' level based on the average outstanding balance of each respective inter-company receivable/payable balance and Atmos' average effective rate of short term debt net of commitment fees plus 2.75 basis points.

Service:	Gas sampling analysis
Description:	To the extent an operating division provides gas-sampling analysis to an affiliate, the affiliate is charged a fee for the analysis and related services provided.
Current Provider of Service	Louisiana Division
Current Use of Service	Trans Louisiana Gas Storage, Inc. Trans Louisiana Gas Pipeline, Inc. Atmos Energy Marketing, LLC
Basis for allocation	The gas sampling analysis charge is based on the lesser of cost of service or market rate applicable to the affiliate's location for the services provided. Gas sampling analysis may also include other related services as required such as a moisture test, H2S, CO2, sample collection, and mileage.

Service:	Gas storage services provided between affiliates
Description:	To the extent an affiliate stores gas in a storage field owned by another affiliate, a fee for the use of the storage field shall be charged.
Current Provider of Service	WKG Storage, Inc. Trans Louisiana Gas Storage, Inc.
Current Use of Service	Kentucky Division Trans Louisiana Gas Pipeline, Inc.
Basis for allocation	The fee to the affiliate utilizing the storage service is based on services provided at actual cost, market rate, or as otherwise provided under tariff.

Service:	Derivative activities
Description:	Financial and physical derivative activities.
Current Provider of Service	Atmos Energy Services, LLC
Current Use of Service	Mid-States Division Kentucky Division Colorado-Kansas Division Louisiana Division Mississippi Division West Texas Division
Basis for allocation	Transaction fees are determined based on actual cost while carrying costs are based on market.

Service:	Storage service to TLGP
Description:	Storage Services
Current Provider of Service	Trans Louisiana Gas Storage, Inc.
Current Use of Service	Trans Louisiana Gas Pipeline, Inc.
Basis for allocation	Charges are based on a market rate.

Service:	Intrastate pipeline service
Description:	Intrastate pipeline service
Current Provider of Service	Trans Louisiana Gas Pipeline
Current Use of Service	Atmos Energy Marketing, LLC Louisiana Division
Basis for allocation	Charges are market based.

Service:	Salaries & benefits cost allocation
Description:	Salaries and benefits (medical insurance, profit sharing plan) cost allocations between affiliates.
Current Provider of Service	Atmos Energy Marketing, L.L.C
Current Use of Service	Trans Louisiana Gas Storage, Inc. Trans Louisiana Gas Pipeline, Inc. Atmos Energy Marketing. LLC Atmos Power Systems, Inc.
Basis for allocation	Costs are allocated based on each individual employee's calculated allocation rate between companies.

Service:	Property Insurance
Description:	Blueflame Insurance Services, LTD. provides a direct property insurance policy. The policy covers the property against all risks of direct physical loss or damage.
Current Provider of Service	Blueflame Insurance Services, LTD
Current Use of Service	Kentucky Division Mid-States Division Colorado-Kansas Division Louisiana Division Mississippi Division Mid-Tex Division West Texas Division Atmos Pipeline – Texas Division Atmos Energy Marketing, LLC Atmos Exploration & Production, Inc. Atmos Pipeline and Storage, LLC Atmos Power Systems, Inc. Trans Louisiana Gas Pipeline, Inc. Trans Louisiana Gas Storage, Inc. UCG Storage, Inc. WKG Storage, Inc.
Basis for allocation	Atmos Energy Corp. is invoiced by Blueflame Insurance Services. Costs are then further allocated based on property value of each affiliate.

Appendix A

ATMOS ENERGY CORPORATION - 12/01/04

