BEFORE THE
TENNESSEE REGULATORY AUTHORITY

IN RE: PETITION OF THE CONSUMER ADVOCATE TO OPEN AN INVESTIGATION TO DETERMINE WHETHER ATMOS ENERGY CORP. SHOULD BE REQUIRED BY THE TENNESSEE REGULATORY AUTHORITY 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 05-00258

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PREFILED DIRECT TESTIMONY

OF

JERRY KETTLES

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JULY 17, 2006

Q: PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A: My name is Jerry Lamar Kettles. My business address is 460 James Robertson Parkway, Nashville, Tennessee 37243.

Q: BY WHOM ARE YOU EMPLOYED AND IN WHAT POSITION?

A: I am employed by the Tennessee Regulatory Authority in the position of TRA Economist.

Q: WHAT IS YOUR EDUCATIONAL BACKGROUND?

A: I have a B.A. in Mathematics from Berea College in Berea, Kentucky. I have completed all requirements for a Ph.D. in Economics from the University of Tennessee – Knoxville, save completing my dissertation.

Q: PLEASE DESCRIBE YOUR PROFESSIONAL BACKGROUND.

A: During my time in graduate school, I served in various research and teaching assistant positions. I was an Instructor of Economics at Carson Newman College in Jefferson City, Tennessee during the 1999-2000 school year. I joined the TRA in June 2000. I have held the position of TRA Economist since 2002.

Q: HAVE YOU PREVIOUSLY TESTIFIED BEFORE OR BEEN AN EXPERT WITNESS IN PROCEEDINGS BEFORE REGULATORY BODIES?

A: No. This is my first opportunity to provide testimony.

Q: WHAT IS THE NATURE OF YOUR TESTIMONY IN THIS CASE?

A: My testimony is a recommendation on the fair rate of return for Atmos Energy Corporation based upon it capital structure, debt cost, equity cost and prevailing economic conditions.

Q: WHAT DATE DID YOU CHOOSE TO FORECAST ATMOS' CAPITAL STRUCTURE, DEBT COST AND EQUITY COST?

A: I chose September 30, 2006 as the end-point of my forecast. September 30, 2006 is appropriate since it lies approximately one year after the filing of the petition that initiated this proceeding. Further, Atmos' fiscal year closes on September 30th. By using September 30, 2006 as the forecast date, I am able to utilize company information from audited 10-K filing as of September 30, 2005, and forecast out a single year.

Q: ARE YOU SPONSORING ANY EXHIBITS WITH YOUR TESTIMONY?

A: Yes. I am providing one exhibit consisting of 9 schedules marked JLK-1 through JLK-9 as an attachment to my testimony.

General Discussion of Ratemaking Principles

Q: WHAT OBJECTIVE SHOULD BE MET IN SETTING RATES IN THIS PROCEEDING?

A: The goal of regulatory rate setting is to ensure a fair rate of return on the company's investments while ensuring that safety and reliability of the service provided.

Q: WHAT DO YOU MEAN BY FAIR RATE OF RETURN?

A: The fair rate of return standard descends from court decisions in the *Hope* and *Bluefield* cases.[1] A fair rate of return is achieved when (1) the return is comparable to other businesses that bear similar risks; (2) the allowed return is sufficient to ensure financial integrity; and (3) the company can attract, at reasonable cost, credit to meet its capital requirements. Each of these three requirement is conditioned on the continued ability to meets its service and safety obligations to its customers.

Q: WHAT IS THE IMPACT ON THE COMPANY AND CONSUMERS IF IT IS NOT ALLOWED TO EARN A FAIR RATE OF RETURN ON ITS INVESTMENTS?

A: If a utility is not provided with the opportunity to earn a fair rate of return it will be unable to attract sufficient capital required to meet its responsibilities over time. Ultimately consumers are harmed by the inability of the firm to attract sufficient capital to finance facility improvements, safety upgrades and expand service to new areas.

Capital Structure

Q: WHAT IS YOUR GENERAL APPROACH TO DETERMINING THE COMPONENTS OF ATMOS' CAPITAL STRUCTURE?

A: My general approach is to rely primarily on the information presented in Atmos' 2005 10-K filing which details company information as of September 30, 2005. Using the information from the 2005 10-K, I will make projections up to September 30, 2006. The basis for adjustments of the 2005 numbers to reach the September 30, 2006

[1] Bluefield Water Works & Improvement Co. v. P.S.C. of West Virginia, 262 U.S. 679 (1923) and F.P.C. v. Hope Natural Gas Co., 320 U.S. 591 (1944).

projections are derived again from the 10-K filing and discovery provided by the company.

Q: WHAT ADVANTAGES ARISE FROM RELYING ON INFORMATION FROM ATMOS' 10-K FILING?

A: The information is audited and represents an agreed upon starting point to make projections for elements of the capital structure.

Q: HOW DID YOU DETERMINE THE LEVEL OF LONG-TERM DEBT?

A: I projected the September 30, 2006 long-term debt level by using the outstanding debt at September 30, 2005 adjusted for debt maturing in 2006 as detailed in Atmos' 2005 10-K filing.

Q: HOW DID YOU DETERMINE THE LEVEL OF SHORT-TERM DEBT?

A: Reviewing Atmos' 2005 10-K filing reveals that Atmos does not project outstanding short-term debt balances after September 30, 2006. Given this information, I chose to exclude short-term debt from the capital structure.

Q: TRADITIONALLY THE AUTHORITY HAS INCLUDED SHORT-TERM DEBT IN CAPITAL STRUCTURE: ON WHAT BASIS, OTHER THAN FINANCIAL PROJECTIONS, DO YOU RECOMMEND EXCLUDING SHORT TERM DEBT FROM ATMOS' CAPITAL STRUCTURE?

A: As detailed in Schedule JLK-1, Atmos showed no short-term debt in 2004. Given that Atmos does not project short-term debt obligations past September 30, 2006, short-term debt does not appear to be a permanent fixture in the capital structure of Atmos. As a general rule, only permanent financing elements should be included in the capital structure. Given Atmos' history with respect to short-term debt, it is appropriate to exclude short-term debt from the company's capital structure.

Q: HOW DID YOU DETERMINE THE LEVEL OF COMMON EQUITY?

A: Starting with the September 30, 2005 calculation of common equity, I adjusted the figure upward to reflect the value of new stock issues projected by the company in 2006.

Q: WHAT DO YOU THINK IS THE APPROPRIATE CAPITAL STRUCTURE FOR THE COMPANY IN THIS PROCEEDING?

A: As detailed in Schedule 1, I project a capital structure consisting of 56.91% equity and 43.09% long-term debt as of September 30, 2006.

Q: HOW DOES YOUR PROPOSED CAPITAL STRUCTURE RELATE TO PROJECTIONS MADE BY THE COMPANY?

A: Atmos has made representations that it plans to increase its equity ratio. Atmos' 2005 10-K report reads "within three to five years from the closing of the TXU Gas

acquisition, we intend to reduce our capitalization ratio to a target range of 50 to 55 percent."[2]

Q: IS YOUR FORECASTED CAPITAL STRUCTURE CONSISTENT WITH THE COMPANY'S DESIRED CAPITALIZATION RATIO?

A: Yes. My analysis suggests that Atmos is making steps towards reaching a minimum equity ratio of 45%. However, information provided by the company suggests that is will at least several years into the future before they reach their desired capital structure. In discovery, the company provided projections of its equity ratio showing that it would achieve 43% equity in 2008 and reach 45% equity by 2010.

Cost of Debt

Q: WHAT WAS ATMOS' REPORTED LONG TERM DEBT COST AS REPORTED ON SEPTEMBER 30, 2005?

A: Atmos reported an effective cost of long-term debt of 5.58%.

Q: ARE THERE TERMS AND CONDITIONS ASSOCIATED WITH SOME OF THE LONG-TERM DEBT INSTRUMENTS THAT MATERIALLY IMPACTED THE LONG-TERM DEBT COST OF ATMOS?

A: Yes. The $300 million dollar Senior Notes due 2007 bear a floating rate. The interest rate is equal to the three month LIBOR rate plus 0.375 percent. Per the 10-K filing, the interest rate on the floating rate note was 3.974% at September 30, 2005. Since September 2005, the LIBOR has increased significantly.

[2] Page 49.

Q: HOW DID YOU FORECAST THE INTEREST RATE ON THE $300 MILLION SENIOR NOTES?

A: To account for the increase in the LIBOR rate, I averaged the closing rates from January 3, 2006 to July 5, 2006. I found the average LIBOR rate of 4.998% which set the floating rate for the Senior Notes at 5.373%.

Q: WHAT DID YOU DETERMINE IS THE EMBEDDED COST OF LONG-TERM DEBT FOR USE IN CALCULATING THE COST OF CAPITAL OF THE COMPANY IN THIS PROCEEDING?

A: After determining the interest rate for the floating rate notes, I calculated a debt cost of 5.77%. The calculation of long-term debt cost is found on Schedule JLK-2.

Q: WHAT IS THE COST OF SHORT TERM DEBT THAT IS RELEVANT FOR THIS PROCEEDING?

A: I do not propose the inclusion of short-term debt in the company's capital structure, so I am not proposing a short-term debt cost at this time.

Cost of Equity

Q: WHAT IS YOUR GENERAL APPROACH TO DETERMINING A FAIR EQUITY RETURN FOR ATMOS?

A: I will employ two economic models commonly used for asset valuation in regulatory proceedings. I will estimate equity returns for Atmos using the Capital Asset Pricing Model ("CAPM") and the Discounted Cash Flow model ("DCF").

Q: WHY IS IT NECESSARY TO USE TWO DIFFERENT MODELS TO DETERMINE THE COST OF EQUITY?

A: Each model provides useful information that the analyst can incorporate into the final recommendation of equity return. Further, each model has its own unique strengths and weaknesses. Using several distinct models has the advantage of being able to check the results of one model against another.

Q: IS IT USEFUL TO LOOK AT THE PERFORMANCE OF FIRMS OPERATING IN THE SAME LINE OF BUSINESS AS ATMOS AS A COMPARISON?

A: Yes. The financial results of other firms are useful to frame the financial position of the company under examination. Further, application of the CAPM and DCF models to the comparison group provides another way to assess the degree of risk, and thus required equity return, for the subject company.

Q: WHAT COMPANIES DID YOU SELECT AS A COMPARISON GROUP?

A: I choose to use the companies listed by Value Line as part of the Natural Gas Distribution industry.

Q: DID YOU EXCLUDE ANY COMPANIES IN THE VALUE LINE NATURAL GAS DISTRIBUTION INDUSTRY GROUP?

A: Yes. I removed SEMCO Energy and Southern Union because they have an inconsistent history of dividend payments. Although I can still compute equity costs using the CAPM model for these two companies, the lack of dividend data precluded calculations under the DCF model.

Q: PLEASE DESCRIBE THE CAPITAL ASSET PRICING MODEL.

A: The fundamental idea underlying the Capital Asset Pricing Model is that investors demand higher returns for assuming additional risk. The CAPM produces a quantitative measure of the additional return required for bearing additional risk. The additional return needed to induce an investor to engage in a riskier investment is known as the risk premium. The formal representation of the CAPM is:

$K = R_f + \beta(R_m - R_f)$

Where: K = expected return

R_f = risk free return

R_m = overall market return

β = measure of asset risk relative to market risk.

Q: WHAT IS THE SIGNIFICANCE OF BETA IN THE CONTEXT OF THE CAPITAL ASSET PRICING MODEL?

A: β is a measure of the sensitivity of asset returns to market returns. Stated differently, β identifies the non-diversifiable risk of an individual security and measures

the sensitivity of rates of return on a particular security with general market movements. Practically, if a security that has a β of 1.0, it should theoretically provide a return equivalent to prevailing market return. If β is less than one, then the asset is considered less risky than the market while a β greater than one indicates a security that is riskier than the market as a whole.

Q: AS A PRACTICAL MATTER, WHAT INFORMATION IS REQUIRED TO IMPLEMENT THE CAPITAL ASSET PRICING MODEL?

A: To implement the CAPM, the analyst needs three measurements of β, the risk-free market return and the overall market return.

Q: HOW DID YOU SELECT THE BETAS FOR YOUR CAPITAL ASSET PRICING MODEL CALCULATIONS?

A: I used β calculations taken from Value Line Investment Survey. Value Line β measures have been utilized by several witnesses in rate proceedings held by the TRA.

Q: HOW DID YOU DETERMINE THE RISK FREE RATE OF RETURN FOR USE IN YOUR CAPM CALCULATIONS?

A: I choose 5.5% for the risk free return based upon the prevailing rates for long-term treasury bills and analyst forecasts of rates. T-Bill returns are often used to proxy risk free investment returns. Schedule JLK-3 shows the trend in returns on treasury bills maturing from 90 days to 30 years. As the graphic Schedule JLK-4 shows, long-term rates are converging to 5.35% for the 20 year T-Bill and 5.2% for the 30 year bill as of

May 2005. Looking at analyst reports and statements released by the Federal Reserve after recent meetings suggest a further increase in rates is anticipated early this fall. Assuming a quarter point increase in rates this fall and the May 2005 twenty and thirty year T-Bill returns places the risk free return at approximately 5.5%.

Q: WHAT DID YOU DETERMINE TO BE THE PREVAILING MARKET RETURN FOR USE IN THE CAPM?

A: I determined that a risk premium of 7% is appropriate based upon a prevailing market return of 12.5%.

Q: GIVEN YOUR DETERMINATIONS OF β, THE RISK FREE RETURN AND THE PREVAILING MARKET RETURN, WHAT DID YOU DETERMINE TO THE CAPM COST OF EQUITY?

A: My calculation of the Capital Asset Pricing Model for Atmos indicates an equity cost of 10.75%. My calculations for Atmos and other gas distribution companies are detailed on Schedule JLK-5.

Q: PLEASE DESCRIBE THE DISCOUNTED CASH FLOW MODEL.

A: The Discounted Cash Flow ("DCF") model explains the value of an asset as the present value of the cash flow the asset is expected to generate adjusted for the risk associated with asset. The cost of equity as determined by the DCF model is based on a combination dividend yield and expected dividend growth of these two components and

represents the total return that investors can expect with regard to an equity investment. A more formal statement of the DCF model is:

$K = D/P + g$

Where: K = cost of equity

D = dividend per share

P = price per share

g = growth rate

The expression D/P is the dividend yield. The measurement of growth rate, g, is measured as dividend growth, but often other measures like earnings per share growth are used.

Q: AS A PRACTICAL MATTER, WHAT INFORMATION IS REQUIRED TO IMPLEMENT THE DISCOUNTED CASH FLOW MODEL?

A: To implement the DCF model, data on stock price and dividends are necessary to calculate the dividend yield component of the DCF model. Additional information to quantify the growth of dividends or earnings per share are required to complete the DCF calculations.

Q: HOW DID YOU CALCULATE DIVIDEND YIELD?

A: I compiled information detailing the highest and lowest price at which Atmos' stock has traded during the previous 52 weeks. The dividend amount of $1.25 was for the year 2005 as reported by Value Line.

Q: WHAT MEASURES DID YOU USE FOR THE GROWTH RATE IN THE DCF MODEL CALCULATIONS?

A: I utilized two measures of growth in my DCF calculations. I used long-term forecasts of growth in earnings per share and dividends in my calculations. Both measures are for the time frame 2003-2005 until 2009-2011 and provided by Value Line. The DCF calculations associated with earnings per share growth and dividend growth measures are provided on Schedules JLK-6 and JLK-7, respectively.

Q: WHAT EQUITY RETURNS ARE PRODUCED BY YOUR DCF CALCULATIONS?

A: The DCF calculation using the long-term forecast of earnings per share supports an equity return between 11.17% and 12% based upon the lowest and highest dividend yield in the past 52 weeks. The DCF calculation using dividend growth provided much lower equity returns of 6.17% to 7% per the low and high ranges of dividend yields.

Q: CAN YOU EXPLAIN THE LOW EQUITY RETURNS GENERATED BY THE DCF MODEL WHEN USING DIVIDEND GROWTH PROJECTIONS FOR ATMOS?

A: Atmos has been increasing its dividend payments by $0.02 per year since 2000 and per its discovery responses plans to maintain the $0.02 yearly increase until 2010. Given that dividends are increasing by only $0.02 per year, dividend growth calculations will show only modest increases.

Q: GIVEN THE RESULTS OF THE CAPM AND DCF ANALYSES, WHAT DO YOU RECOMMEND FOR ATMOS' RETURN IN THIS PROCEEDING?

A: The results of my CAPM and DCF analysis are found in schedule JLK-8. The results of the CAPM and the DCF analysis using forecasted earnings per share are very similar. However, the DCF results using forecast dividends yields a substantially lower equity return. I chose the CAPM result of 10.75% equity return as it represents a loose midpoint between the DCF estimates.

The DCF model, due to its theoretical construction, approximates the marginal cost of equity for a firm. That is, it represents the minimum equity return required to attract investment in common stock. Based on Atmos' historically low growth in yearly dividends, it is impossible to ignore the low valuation results given by the DCF when using dividend growth factors. Tempered by the DCF results with dividend growth factors, the returns generated by using the DCF with earnings growth projections likely overestimates the equity return required to attract investment. Using the CAPM estimates provides weight to the low equity returns generated from the DCF model with dividend growth by representing a downward adjustment from the equity return suggested by the DCF with earnings growth results. The CAPM estimates also alleviates concern that setting equity returns at the level suggested by the DCF model with dividend growth level endangers the opportunity to earn a fair return as it accounts for only the marginal cost of investment and not other relevant factors. The CAPM estimate is higher the dividend growth DCF calculations while still relatively close to the other DCF figures.

Overall Rate of Return

Q: WHAT IS YOUR RECOMMENDATION FOR THE OVERALL FAIR RATE OF RETURN FOR ATMOS?

A: Based upon the proposed capital structure comprised of 56.91% long term debt and 43.09% equity with respective costs of 5.77% and 10.75%, the overall fair rate of return is 7.916%. The calculation of the fair rate of return is documented in Schedule JLK-9.

Q: DOES THIS CONCLUDE YOUR TESTIMONY AT THIS TIME?

A: Yes, it does.

Exhibit 1
Schedule JLK-1

Atmos Energy Company
Capital Structure
Historic and Projected Months Ended September 30

	2004		2005		2006	
Item	Capital	Ratio	Capital	Ratio	Capital	Ratio
Long Term Debt	$868,549,846	43.38%	$2,186,367,572	55.58%	$ 2,183,547,704	56.91%
Short Term Debt	$0	0.00%	$144,809,035	3.68%	$0	0.00%
Common Equity	$1,133,458,775	56.62%	$1,602,421,868	40.74%	$1,653,521,868	43.09%
Total	$2,002,008,621	100.00%	$3,933,598,474	100.00%	$3,837,069,571	100.00%

Exhibit 1
Schedule JLK-2

Atmos Energy Company
Long Term Debt - Embedded Cost
September 30, 2006 Projection

Debt Series	Outstanding 9/30/2006	End Int Rate	Annual Int at 9/30/2006
10% Senior Notes due Dec 2011	2,303,308	10.00%	230,331
7.38% Senior Notes due May 2011	350,000,000	7.38%	25,812,500
6.75% Debentures Unsecured due July 2028	150,000,000	6.75%	10,125,000
5.125% Senior Notes due Feb 2013	250,000,000	5.13%	12,812,500
10.43% First Mortgage Bond P due 2017 (eff 2012)	10,000,000	10.43%	1,043,000
6.67% MTN A1 due Dec 2025	10,000,000	6.67%	667,000
6.27% MTN A2 due Dec 2010	10,000,000	6.27%	627,000
2.465% Sr Note 3Yr Floating due 10/15/2007	300,000,000	5.37%	16,119,000
4.00% Sr Note due 10/15/2009	400,000,000	4.00%	16,000,000
4.95% Sr Note due 10/15/2014	500,000,000	4.95%	24,750,000
5.95% Sr Note due 10/15/2034	200,000,000	5.95%	11,900,000
Subtotal -- Utility Long-Term Debt	$ 2,182,303,308		$ 120,086,331
United Cities Propane Gas, Inc.			
Evensville, TN -- E-Con due 06/08	168,125	7.00%	11,769
Pulaski -- Ingas, Ingram & Carvell 06/08	300,000	6.00%	18,000
Total Propane	$468,125		$29,769
Atmos Leasing, Inc.			
Industrial Develop Revenue Bond 07/13	1,047,618	7.90%	82,762
Atmos Power Sys - Wells Fargo 05/08	2,608,546	5.65%	147,383
US Bancorp - 04/09	3,714,602	5.29%	196,502
Total Leasing	7,370,766		426,647
Total Long-Term Debt	$ 2,190,142,199		$ 120,542,747
Less Maturity Adjustment	$ 3,264,000		
Less Unamortized Debt Discount	$ 3,330,496		
Annualized Amortization of Debt Exp. & Debt Dsct.			$ 5,552,087
	$ 2,183,547,704		$ 126,094,834
Effective Avg Cost of Consol Debt		**5.77%**	end of period

Exhibit 1
Schedule JLK-3

Selected Interest Rates - Percent

Time	GS3M	GS6M	GS1	GS3	GS5	GS7	GS10	GS20	GS30	AAA
2004-05-01	1.04	1.33	1.78	3.10	3.85	4.31	4.72	5.46	#N/A	6.04
2004-06-01	1.29	1.64	2.12	3.26	3.93	4.35	4.73	5.45	#N/A	6.01
2004-07-01	1.36	1.70	2.10	3.05	3.69	4.11	4.50	5.24	#N/A	5.82
2004-08-01	1.50	1.76	2.02	2.88	3.47	3.90	4.28	5.07	#N/A	5.65
2004-09-01	1.68	1.91	2.12	2.83	3.36	3.75	4.13	4.89	#N/A	5.46
2004-10-01	1.79	2.05	2.23	2.85	3.35	3.75	4.10	4.85	#N/A	5.47
2004-11-01	2.11	2.32	2.50	3.09	3.53	3.88	4.19	4.89	#N/A	5.52
2004-12-01	2.22	2.50	2.67	3.21	3.60	3.93	4.23	4.88	#N/A	5.47
2005-01-01	2.37	2.68	2.86	3.39	3.71	3.97	4.22	4.77	#N/A	5.36
2005-02-01	2.58	2.85	3.03	3.54	3.77	3.97	4.17	4.61	#N/A	5.20
2005-03-01	2.80	3.09	3.30	3.91	4.17	4.33	4.50	4.89	#N/A	5.40
2005-04-01	2.84	3.14	3.32	3.79	4.00	4.16	4.34	4.75	#N/A	5.33
2005-05-01	2.90	3.17	3.33	3.72	3.85	3.94	4.14	4.56	#N/A	5.15
2005-06-01	3.04	3.22	3.36	3.69	3.77	3.86	4.00	4.35	#N/A	4.96
2005-07-01	3.29	3.53	3.64	3.91	3.98	4.06	4.18	4.48	#N/A	5.06
2005-08-01	3.52	3.78	3.87	4.08	4.12	4.18	4.26	4.53	#N/A	5.09
2005-09-01	3.49	3.79	3.85	3.96	4.01	4.08	4.20	4.51	#N/A	5.13
2005-10-01	3.79	4.13	4.18	4.29	4.33	4.38	4.46	4.74	#N/A	5.35
2005-11-01	3.97	4.30	4.33	4.43	4.45	4.48	4.54	4.83	#N/A	5.42
2005-12-01	3.97	4.33	4.35	4.39	4.39	4.41	4.47	4.73	#N/A	5.37
2006-01-01	4.34	4.47	4.45	4.35	4.35	4.37	4.42	4.65	#N/A	5.29
2006-02-01	4.54	4.69	4.68	4.64	4.57	4.56	4.57	4.73	4.54	5.35
2006-03-01	4.63	4.79	4.77	4.74	4.72	4.71	4.72	4.91	4.73	5.53
2006-04-01	4.72	4.90	4.90	4.89	4.90	4.94	4.99	5.22	5.06	5.84
2006-05-01	4.84	5.01	5.00	4.97	5.00	5.03	5.11	5.35	5.20	5.95

Source: Board of Governors of the Federal Reserve System
GS3M: 3-Month Treasury Constant Maturity Rate
GS6M: 6-Month Treasury Constant Maturity Rate
GS1: 1-Year Treasury Constant Maturity Rate
GS3: 3-Year Treasury Constant Maturity Rate
GS5: 5-Year Treasury Constant Maturity Rate
GS7: 7-Year Treasury Constant Maturity Rate
GS10: 10-Year Treasury Constant Maturity Rate
GS20: 20-Year Treasury Constant Maturity Rate
GS30: 30-Year Treasury Constant Maturity Rate
AAA: Moody's Seasoned Aaa Corporate Bond Yield

Schedule JLK-4: Selected Interest Rates

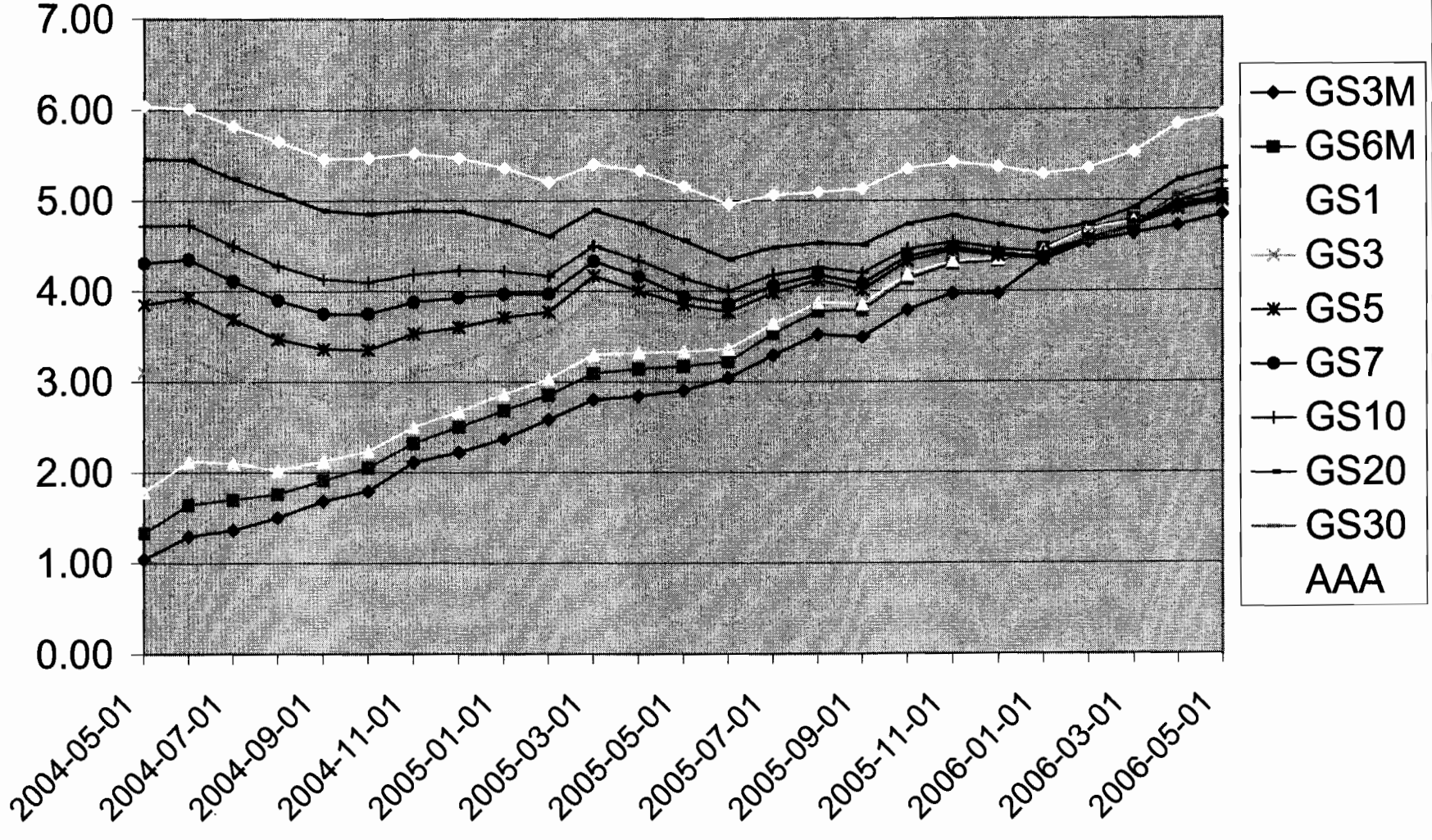

Exhibit 1
Schedule JLK-5

Atmos Energy Company
Comparable Gas Companies
Capital Asset Pricing Model

	Risk Free Return	Beta	Equity Risk Premium	Cost of Equity
Atmos Energy Corp.	5.50%	0.75	7.00%	10.75%
AGL Resources Inc.	5.50%	0.95	7.00%	12.15%
Cascade Natural Gas Corp.	5.50%	0.85	7.00%	11.45%
KeySpan Corp.	5.50%	0.9	7.00%	11.80%
Laclede Group Inc.	5.50%	0.85	7.00%	11.45%
New Jersey Resources Corp.	5.50%	0.8	7.00%	11.10%
Nicor Inc.	5.50%	1.2	7.00%	13.90%
Northwest Natural Gas Co.	5.50%	0.75	7.00%	10.75%
Peoples Energy Corp.	5.50%	0.9	7.00%	11.80%
Piedmont Natural Gas Co. Inc.	5.50%	0.85	7.00%	11.45%
South Jersey Industries Inc.	5.50%	0.7	7.00%	10.40%
Southwest Gas Corp.	5.50%	0.85	7.00%	11.45%
UGI Corp.	5.50%	0.9	7.00%	11.80%
WGL Holdings Inc.	5.50%	0.8	7.00%	11.10%
Comparable Companies' Average	5.50%	0.87	7.00%	11.58%

Exhibit 1
Schedule JLK-6

Atmos Energy Company
Comparable Gas Companies
Discounted Cash Flow using Earnings per Share Growth Rate
52 Week Stock Price Range

	Share Price		2005	2005 Yield		Growth	Cost of Capital	
	low	high	Dividend	low	high	Rate	low	high
Atmos Energy Corp.	$25.00	$29.97	$1.25	4.17%	5.00%	7.00%	11.17%	12.00%
AGL Resources Inc.	$32.23	$39.09	$1.30	3.33%	4.03%	4.00%	7.33%	8.03%
Cascade Natural Gas Corp.	$18.95	$25.68	$0.96	3.74%	5.07%	9.00%	12.74%	14.07%
KeySpan Corp.	$32.66	$41.52	$1.82	4.38%	5.57%	1.50%	5.88%	7.07%
Laclede Group Inc.	$28.60	$35.55	$1.38	3.88%	4.83%	6.00%	9.88%	10.83%
New Jersey Resources Corp.	$40.68	$48.35	$1.36	2.81%	3.34%	4.50%	7.31%	7.84%
Nicor Inc.	$37.42	$43.12	$1.86	4.31%	4.97%	4.00%	8.31%	8.97%
Northwest Natural Gas Co.	$32.83	$39.63	$1.32	3.33%	4.02%	7.00%	10.33%	11.02%
Peoples Energy Corp.	$34.34	$45.52	$2.18	4.79%	6.35%	1.50%	6.29%	7.85%
Piedmont Natural Gas Co. Inc.	$21.26	$25.80	$0.91	3.53%	4.28%	6.00%	9.53%	10.28%
South Jersey Industries Inc.	$25.63	$30.80	$0.86	2.79%	3.36%	7.00%	9.79%	10.36%
Southwest Gas Corp.	$25.12	$32.41	$0.82	2.53%	3.26%	9.50%	12.03%	12.76%
UGI Corp.	$20.21	$29.98	$0.65	2.17%	3.22%	5.50%	7.67%	8.72%
WGL Holdings Inc.	$27.04	$34.70	$1.32	3.80%	4.88%	2.00%	5.80%	6.88%
Comparable Companies' Average	$29.00	$36.32	$1.29	3.49%	4.40%	5.19%	8.68%	9.59%

Sources:
Value Line Investment Survey
Wall Street Journal

Exhibit 1
Schedule JLK-7

Atmos Energy Company
Comparable Gas Companies
Discounted Cash Flow using Dividend Growth Rate
52 Week Stock Price Range

	Share Price		2005	2005 Yield		Growth	Cost of Capital	
	low	high	Dividend	low	high	Rate	low	high
Atmos Energy Corp.	$25.00	$29.97	$1.25	4.17%	5.00%	2.00%	6.17%	7.00%
AGL Resources Inc.	$32.23	$39.09	$1.30	3.33%	4.03%	6.50%	9.83%	10.53%
Cascade Natural Gas Corp.	$18.95	$25.68	$0.96	3.74%	5.07%	0.50%	4.24%	5.57%
KeySpan Corp.	$32.66	$41.52	$1.82	4.38%	5.57%	2.50%	6.88%	8.07%
Laclede Group Inc.	$28.60	$35.55	$1.38	3.88%	4.83%	2.00%	5.88%	6.83%
New Jersey Resources Corp.	$40.68	$48.35	$1.36	2.81%	3.34%	4.50%	7.31%	7.84%
Nicor Inc.	$37.42	$43.12	$1.86	4.31%	4.97%	1.50%	5.81%	6.47%
Northwest Natural Gas Co.	$32.83	$39.63	$1.32	3.33%	4.02%	4.00%	7.33%	8.02%
Peoples Energy Corp.	$34.34	$45.52	$2.18	4.79%	6.35%	0.50%	5.29%	6.85%
Piedmont Natural Gas Co. Inc.	$21.26	$25.80	$0.91	3.53%	4.28%	5.50%	9.03%	9.78%
South Jersey Industries Inc.	$25.63	$30.80	$0.86	2.79%	3.36%	6.00%	8.79%	9.36%
Southwest Gas Corp.	$25.12	$32.41	$0.82	2.53%	3.26%	0.00%	2.53%	3.26%
UGI Corp.	$20.21	$29.98	$0.65	2.17%	3.22%	5.00%	7.17%	8.22%
WGL Holdings Inc.	$27.04	$34.70	$1.32	3.80%	4.88%	2.00%	5.80%	6.88%
Comparable Companies' Average	$29.00	$36.32	$1.29	3.49%	4.40%	3.12%	6.61%	7.51%

Sources:
Value Line Investment Survey
Wall Street Journal

Exhibit 1
Schedule JLK-8

Atmos Energy Company
Comparable Gas Companies
Comparison of Equty Returns - CAPM versus DCF

	CAPM	DCF with Dividend Growth		DCF with Earnings per share Growth	
		low	high	low	high
Atmos Energy Corp.	10.75%	6.17%	7.00%	11.17%	12.00%
AGL Resources Inc.	12.15%	9.83%	10.53%	7.33%	8.03%
Cascade Natural Gas Corp.	11.45%	4.24%	5.57%	12.74%	14.07%
KeySpan Corp.	11.80%	6.88%	8.07%	5.88%	7.07%
Laclede Group Inc.	11.45%	5.88%	6.83%	9.88%	10.83%
New Jersey Resources Corp.	11.10%	7.31%	7.84%	7.31%	7.84%
Nicor Inc.	13.90%	5.81%	6.47%	8.31%	8.97%
Northwest Natural Gas Co.	10.75%	7.33%	8.02%	10.33%	11.02%
Peoples Energy Corp.	11.80%	5.29%	6.85%	6.29%	7.85%
Piedmont Natural Gas Co. Inc.	11.45%	9.03%	9.78%	9.53%	10.28%
South Jersey Industries Inc.	10.40%	8.79%	9.36%	9.79%	10.36%
Southwest Gas Corp.	11.45%	2.53%	3.26%	12.03%	12.76%
UGI Corp.	11.80%	7.17%	8.22%	7.67%	8.72%
WGL Holdings Inc.	11.10%	5.80%	6.88%	5.80%	6.88%
Comparable Companies' Average	11.58%	6.61%	7.51%	8.68%	9.59%

Sources:
Value Line Investment Survey
Wall Street Journal

Exhibit 1
Schedule JLK-9

Atmos Energy Company
Overall Rate of Return

Item	Capital	Ratio	Cost Rate	Weighted Cost of Capital
Long Term Debt	$ 2,183,547,704	56.91%	5.77%	3.2835%
Common Equity	$1,653,521,868	43.09%	10.75%	4.6325%
Total	$3,837,069,571	100.00%		7.9160%