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BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE

August 4, 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

RESPONSES OF ATMOS INTERVENTION GROUP TO
ATMOS ENERGY CORPORATION'S
FIRST REQUESTS FOR INFORMATION

The Atmos Intervention Group ("AIG") submits the following responses to Atmos Energy Corporation's First Requests for Information filed on July 21, 2006.

<u>RESPONSES</u>

1. **Produce all documents related to the Atmos show cause petition, the Staff investigative report, or to these proceedings which were exchanged by and between any member of one or more of the following: (i) the CAPD, (ii) the Staff, and/or the Intervention Group. This request includes all documents, as defined above, including e-mails, correspondence, notes, memoranda, drafts, edits, and other communications between or among the foregoing persons.**

<u>RESPONSE:</u>

To our knowledge, the only documents exchanged between the Atmos Intervention Group and the CAPD involved draft copies of Mr. McCormac's and Mr. Buckner's testimony and a draft copy of Mr. Novak's testimony. The drafts of the testimony from the CAPD are attached. The first draft of Mr. Novak's testimony (see response to

Question 3) was sent to the CAPD. To our knowledge, no documents were exchanged between the Atmos Intervention Group and the Staff.

Q. Please state your name for the record.

A. My name is Terry Buckner.

Q. By whom are you employed and what is your position?

A. I am employed by the Consumer Advocate and Protection Division ("CAPD") in the Office of the Attorney General for the state of Tennessee ("Office") as a Regulatory Analyst.

Q. How long have you been employed in conjunction with the public utility industry?

A. I have been employed in conjunction with the public utility industry for approximately twenty-eight years. Before my current employment with the Office, I was employed by the Comptroller of the Treasury for the state of Tennessee for nearly two years as the Assistant Director responsible for public utility audits after approximately eight years of prior employment with the Office. Formerly, I was employed with the Tennessee Public Service Commission ("Commission") in the Utility Rates Division as a financial analyst for approximately six years. My responsibilities included testifying before the Commission as to the appropriate cost of service for public utilities operating in Tennessee. Prior to my employment with the Commission, I was employed by TDS Telecom for eight years and the First Utility District of Knox County for three years.

Q. What is your educational background and what degrees do you hold?

A. I have a Bachelors degree in Business Administration from the University of Tennessee, Knoxville with a major in Accounting. I am also a Tennessee Certified Public Accountant and a member of the American Institute of Certified Public Accountants. Additional education background with respect to my qualifications is provided in Attachment A.

Q. Would you briefly describe your responsibilities as a Regulatory Analyst with the CAPD?

A. I prepare testimony and financial exhibits in rate proceedings as an employee with the CAPD. Additionally, I review tariffs filed with the Tennessee Regulatory Authority ("TRA") by certificated utilities operating in Tennessee.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to present the forecasted financial exhibits prepared by the CAPD ("CAPD EXHIBITS") and to present the CAPD work papers ("CAPD WORK PAPERS") for forecasted Operation and Maintenance Expenses, forecasted Depreciation Expense, forecasted Taxes Other Than Income, forecasted Income Taxes, forecasted Rate Base, and Net Operating Income ("NOI") adjustments for Atmos Energy Corporation ("Atmos") for the attrition year ended September 30, 2006.

Q. Please summarize the results of the CAPD forecast of Atmos' earnings for the attrition year.

A. The CAPD forecast of Atmos' earnings for the attrition year results in a recommended $12,407,308[1] decrease in rates. The CAPD forecast is based on an overall rate of return of 6.56%[2] as recommended by CAPD economist, Dr. Steve Brown.

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[1]CAPD EXHIBIT, Schedule 1, Line 8.

[2]CAPD EXHIBIT, Schedule 8, Line 5.

Q. Please describe the overall forecasting methodology adopted by the CAPD.

A. The CAPD has adopted the actual amounts reported by Atmos for the twelve months ending March 31, 2006 and has normalized for known or reasonably anticipated and measurable changes. Consequently, the attrition year reflects a forecasting methodology which contains partial historic and partial projected amounts. A forecast, attrition, or test year may be based on historical data, current data (partial historic and partial projected), or projected data.[3] The use of a partial historic and partial forecast mitigates the level of pro forma adjustments. As long as the test period or attrition period properly match revenues, expenses, and investments (rate base), rates can be set to allow the company a just and reasonable return on investment.

OPERATION AND MAINTENANCE EXPENSES:

Q. Please describe your forecasting methodology for Operation and Maintenance Expenses.

A. There are four broad Operation and Maintenance Expense categories subject to forecast in this docket: (1) Storage, Transmission and Distribution expenses; (2) Customer Accounts

[3] *Accounting for Public Utilities*, Hahne and Aliff § 7.03.

expenses; (3) Sales expenses; and (4) Administrative and General expenses. Within the categories, the direct payroll of Atmos' Tennessee employees is an element of Operation and Maintenance Expense. The calculation of the attrition year direct payroll assumed a full-year of employment normalized at the latest actual wage rates. Direct payroll was calculated using actual employee levels as of March 31, 2006, the latest actual wage rates per employee, and actual overtime hours by employee for the twelve months ended September 30, 2005.[4] The total Operation and Maintenance Labor amount was derived from the calculated total labor dollars minus labor dollars charged to capitalization. The capitalization dollars were calculated using Atmos' actual average rate for the twelve months ended September 30, 2005.[5] All of the direct labor calculations were based on the discovery responses received from Atmos.[6]

In summary, \$2,877,636[7] of the forecasted Operation and Maintenance Expense for the attrition year is attributable to direct labor.

For the non-labor charges of the four Operations and

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[4]Latest fiscal year provided by Atmos.

[5]Latest fiscal year provided by Atmos.

[6]Source files: Q10DTB093end05, Summary of Discovery Response ("DR") DR#11, #18, #19, and Minimum Filing Requirement ("MFR") MFR #31, and DR#21.

[7]CAPD WORK PAPER, E-PAY-5, INDEX OF WORK PAPERS, PAGE P12.

Maintenance Expense categories, the CAPD primarily adopted the amounts per account for the twelve months ended March 31, 2006 and grew each amount for customer growth and inflation growth. One half of the annual customer growth of 3% and inflation growth of 2.91%[8] were used in the development of the combined growth rate. The combined growth rate from March 31, 2006 through September 30, 2006 is approximately 2.2%. Total Operation and Maintenance Expense including Uncollectible Expense is $13,433,009 for the attrition year.[9]

Q. Please explain your analysis of Uncollectible Accounts Expense.

A. The most recent reported uncollectible expenses on base revenues were examined. Since uncollectible expense related to gas costs can be recovered through the Purchased Gas Adjustment ("PGA") in compliance with the TRA's ruling in Docket #03-00209, the only costs that should be included in the cost of service is the portion of uncollectible expense related to base rates. Therefore, uncollectible expense has been adjusted to exclude the "gas cost" portion of uncollectible expense. $95,760[10] is the base rate

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[8]CAPD WORK PAPER, E-GDP, INDEX OF WORK PAPERS, PAGE P78.

[9]CAPD EXHIBIT, Schedule 4, Line 6.

[10]CAPD WORK PAPER, E-UNCOL, INDEX OF WORK PAPERS, PAGE P176.

uncollectible expense included in the cost of service for the attrition year ended September 2006.

Q. Please discuss the significant Operation and Maintenance Expense amounts excluded from the CAPD's cost of service forecast.

A. There are two major exclusions from the fiscal year to date Operation and Maintenance expense amounts. The exclusions are the recognition of incentive pay and pension expense. First, Atmos has reported $189,762[11] through fiscal year to date March 2006 in its Operations and Maintenance Expense for the "incentive plan."[12] The Long-Term Incentive Plan ("LTIP") payroll is based on one sole performance measure: "Earnings Per Share."[13] Consequently, all of the incentive payroll is based on the financial operating results of Atmos. Under the incentive plan, Atmos increases the compensation to its employees for increasing Atmos' regulated earnings. Because there is no mechanism under the LTIP for Atmos' ratepayers to share in these increased earnings, Atmos' employees and shareholders will reap all of the financial rewards of these higher earnings.

[11]CAPD WORK PAPER, E-LTIP, INDEX OF WORK PAPERS, PAGE P173.

[12]Atmos response to TRA Data Request, MFR #38.

[13]Atmos response to TRA Data Request, MFR #38.

Additionally, ratepayers are the sole source of Atmos' regulated earnings; therefore, the incentive plan is a circular one whose success is a by-product of the over-earnings identified in this docket, rewarding Atmos' employees and shareholders for inflated natural gas rates charged to ratepayers. Also, it is a "crude"[14] method of measuring specific accomplishments of employees. For these reasons, there is no reasonable basis to charge the cost of this LTIP to ratepayers, as all of the plan benefits will inure entirely to Atmos' employees and shareholders and all of the plan's burden will be charged directly to ratepayers. As a result, this amount has been excluded and should be borne solely by Atmos' shareholders.

Additionally, Atmos has capitalized a large portion of LTIP costs. Based on the data provided by Atmos, the rate base portion of the LTIP has been excluded.[15] Further, $174,842 of depreciation expense associated with the LTIP has been excluded for the attrition year.[16]

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[14]Washington Utilities and Transportation Commission Docket No. UT-950200, Fifteenth Supplemental Order, dated March 8, 1995, Page 49.

[15]CAPD WORK PAPER, RB-LTIP, INDEX OF WORK PAPERS, PAGE P215.

[16]CAPD WORK PAPER, E-LTIP-DEP, INDEX OF WORK PAPERS, PAGE P174.

Q. Please explain the exclusion of Pension Expense from the CAPD forecast.

A. The CAPD has adopted the Pension funding amount of zero as disclosed in the latest Form 10-K report filed by Atmos with the United States Securities and Exchange Commission ("SEC").[17] Historically, in Tennessee, only actual pension contributions have been recognized for setting rates. Please note the following examples:

Tennessee-American Water Company	U-87-07534	Mar. 1988
Tennessee-American Water Company	89-15388	May 1990
Tennessee-American Water Company	91-05224	Dec. 1991
Tennessee-American Water Company	96-00959	Oct. 1996
Chattanooga Gas Company	U-87-07531	Apr. 1989
Chattanooga Gas Company	91-05224	Dec.1991
Nashville Gas Company	U-87-07499	Apr. 1987
Nashville Gas Company	89-10491	Nov.1989
Nashville Gas Company	91-02636	Nov.1991
Nashville Gas Company	94-01054	Oct.1994
United Cities Gas Company	89-10017	Nov. 1989
United Cities Gas Company	92-02987	Sep. 1992
Kingsport Power Company	90-05735	Dec. 1990
Kingsport Power Company	92-04425	Nov. 1992
Tellico Telephone Company	91-09061	Feb. 1992
Tennessee Telephone Company	91-09062	Feb. 1992
Concord Telephone Company	91-09063	Feb. 1992

Atmos records pension expense in accordance with Financial Accounting Standard ("FAS") No.87. The FAS 87 amount prescribed in the latest actuarial report for total Atmos pension expense for the

[17] Atmos 2005 10K, page 92.

attrition year is $14,443,374.[18] Tennessee's portion of the FAS 87 pension expense for fiscal year to date ended March 31, 2006 is estimated to be $215,669[19] and was excluded for rate-setting purposes in Tennessee.

DEPRECIATION EXPENSE

Q. Please discuss your calculation of Depreciation Expense for the attrition year.

A. A composite depreciation rate of 3.9% was used for the attrition year, which is consistent with the actual amounts for the first six months of the fiscal year ended September 2006. The composite depreciation rate was applied to the previous monthly Tennessee Plant in Service balances for the remaining forecasted six months. The actual and forecasted amounts net of the LTIP exclusion results in total Depreciation Expense of $11,055,705.[20]

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[18] Atmos response to TRA Data Request, MFR #37.

[19] CAPD WORK PAPER, E-PENSION, INDEX OF WORK PAPERS, PAGE P175.

[20] CAPD WORK PAPER, E-DEP, INDEX OF WORK PAPERS, PAGE P172.

TAXES OTHER THAN INCOME:

Q. Please describe your calculation of Taxes Other Than Income for the forecasted attrition year?

A. In CAPD WORK PAPERS, work paper T-OTAX0[21] provides a summary of the calculation of Taxes Other Than Income.

Taxes Other Than Income for the attrition year are: (1) Property Taxes; (2) the TRA Inspection Fee; (3) Payroll Taxes (FICA, FUTA, and SUTA); (4) State Franchise Tax; and (5) State Gross Receipts Taxes.

Q. Please explain the calculation of Property Taxes.

A. In CAPD WORK PAPERS, work paper T-OTAX1[22] provides a historical summary of property taxes paid by Atmos, their gross assessment values, their composite tax rate, and their reported rate base amounts. This schedule reflects an increase in the property taxes due by Atmos for the years 2004-2005. The gross assessment value for the year 2006 indicates an increase too. Consequently, the forecasted tax amount for 2006 is $2.7 million, which is based on the actual gross assessment values for the years 2005 and 2006 at the 2005 composite tax rate.

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[21] CAPD WORK PAPER, E-OTAX0, INDEX OF WORK PAPERS, PAGE P177.

[22] CAPD WORK PAPER, E-OTAX1, INDEX OF WORK PAPERS, PAGE P178.

Q. Provide an explanation of the TRA Inspection Fee amount.

A. The attrition year TRA Inspection Fee amount is summarized in work paper T-OTAX2,[23] which is simply the actual amounts paid by Atmos to the TRA on TRA Form UD-20. Atmos has paid $413,077 in TRA Inspection Fees applicable to the attrition year.

Q. Please explain the calculation of Payroll Tax Expense.

A. A summary of Payroll Taxes is prepared in work paper T-OTAX3.[24] Payroll Taxes were calculated using the latest actual wage rates per employee for a normalized fiscal year ending September 30, 2006 at the current payroll tax rates subject to the taxable wage bases per employee. The capitalized portion of payroll taxes was deducted from the total payroll tax calculation to arrive at the attrition year Payroll Tax Expense of $145,232.

Q. Please explain the calculation of Franchise Tax.

A. State of Tennessee Franchise Tax amounts are summarized in work paper T-OTAX6[25] for the fiscal years 2003-2006. The Franchise Tax calculation for the attrition year of $446,830 is derived

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[23]CAPD WORK PAPER, E-OTAX2, INDEX OF WORK PAPERS, PAGE P179.

[24]CAPD WORK PAPER, E-OTAX3, INDEX OF WORK PAPERS, PAGE P180.

[25]CAPD WORK PAPER, E-OTAX6, INDEX OF WORK PAPERS, PAGE P188.

from forecasted Plant in Service, forecasted Accumulated Depreciation, forecasted Construction Work in Progress, forecasted Materials and Supplies and a factored forecasted Rental Expense value times the statutory tax rate.

Q. Please explain the calculation of Gross Receipts Taxes.

A. In CAPD WORK PAPERS, work paper T-OTAX7[26] provides a calculation of State Gross Receipts Tax for the attrition year. The CAPD forecasted amount is based on the actual Gross Receipts Tax Return amount of $1,992,791 as filed with the Tennessee Department of Revenue.[27] This return is for the tax period July 1, 2005 through June 30, 2006. The remaining three months of the attrition year were calculated based on actual amounts and forecasted amounts. The total Gross Receipts Tax for the attrition years is $1,829,611.

INCOME TAXES:

Q. Please describe your calculation of Income Taxes for the forecasted attrition year?

A. Income taxes were calculated using the forecasted Net Operating Income ("NOI") for the attrition year, less interest expense

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[26]CAPD WORK PAPER, E-OTAX7, INDEX OF WORK PAPERS, PAGE P189.

[27]Atmos response to TRA Data Request, MFR Question #47.

based upon the weighted cost of debt prescribed by Dr. Brown, times forecasted attrition year rate base, less forecasted permanent tax differences as provided by Atmos times the statutory federal and state tax rates. Investment Tax Credit ("ITC") amortization provided by Atmos was deducted from the calculated federal income tax expense. The net income taxes amount to $7,511,463.[28]

RATE BASE:

Q. Please summarize your calculation of Rate Base items in the attrition year forecast for Atmos.

A. Work paper RB-SUM-1 summarizes the results of the calculations and attributes most of the results to actual or forecasted amounts from discovery responses of Atmos. However, there is one normalizing adjustment, which affects four rate base categories: Plant in Service, Construction Work in Progress, Depreciation Reserve (Accumulated Depreciation), and Accumulated Deferred Taxes. The normalizing adjustment is the allocation of Shared Services amounts to Tennessee. Atmos has reported allocation percentages for these four categories on the TRA 3.03 surveillance report through March 2006 that are higher than the allocation percentages it disclosed in

[28] CAPD EXHIBIT, Schedule 3, Sum of Lines 10 and 11.

discovery. In their discovery response, Atmos indicates a 4.28%[29] allocation factor for the remaining five months. This percentage has been adopted for the entire attrition year amounts, both historical and forecasted. Also, the 4.28% allocation factor is more consistent with Tennessee's portion of Operations and Maintenance Expenses for Atmos' total Operations and Maintenance Expense amounts.[30]

No amounts were included for working capital and unpaid materials and supplies, because there is no basis for an amount at this time. Further, the Virginia and Georgia regulatory agencies have found that the level of cash working capital should be zero for Atmos operations in those states.[31]

The total Rate Base amount nets to $157,426,273.[32]

NOI ADJUSTMENTS:

Q. Describe your NOI adjustments.

A. All of the NOI adjustments forecasted by Atmos were adopted for the attrition year. However, Atmos has historically failed to report the Allowance for Funds Used During Construction

[29]Atmos response to TRA Data Request, DR #33, DR #36.

[30] CAPD WORK PAPER, E-HIST1, INDEX OF WORK PAPERS, PAGE P159, 4.05%.

[31]Georgia Public Service Commission Docket No. 20298-U, Order on Reconsideration and Final Order acted on December 20, 2005, page 10. Virginia State Corporation Commission, Docket No. 2003-00507, Final Order, dated January 7, 2005.

[32]CAPD WORK PAPER, E-RB-SUM1, INDEX OF WORK PAPERS, PAGE P190.

("AFUDC"). An amount of $143,054[33] was forecasted based on actual year to date amounts annualized through the attrition year ended September 30, 2006.

Q. What is Atmos currently earning?

A. The results submitted by Atmos on the September 2004 and September 2005 TRA 3.03 surveillance reports are shown in CAPD work paper H-COM1. Atmos' reports a 11.02%[34] rate of return for the twelve months ended September 2004 and 10.16% for the twelve months ended September 2005. The TRA Staff report and recommendation in this Docket found that the adjusted earnings of Atmos for the fiscal year ended September 2005 was 10.53% with a revenue surplus of $7.8 million.

Based on the historical evidence reported by Atmos and the extensive discovery responses of Atmos, the forecasted earnings for the twelve months ended September 2006 should result in a 11.37% rate of return.

Therefore, based on this consistent trend[35] of earnings in excess

[33]CAPD WORK PAPER, NOI-AFUDC, INDEX OF WORK PAPERS, PAGE P216.

[34] CAPD WORK PAPER, H-COM1, INDEX OF WORK PAPERS, PAGE P2, Line 38.

[35]September 2004 is a historical unadjusted rate of return, September 2005's reported rate of return of 10.16% was adjusted to 10.53% by the TRA Staff and September 2006 reflects known and reasonably anticipated adjustments.

of a just and reasonable rate of return, a rate decrease to Atmos is warranted by the TRA for the benefit of Tennessee ratepayers.

A rate decrease of $12,407,308[36] will put Atmos on track to earn an overall rate of return of 6.56%, which is consistent with the recommendation of Dr. Steve Brown.

Q. Does this conclude your testimony?

A. Yes, it does.

[36]CAPD EXHIBIT, Schedule 1, Line 8.

Walker, Henry

From: Walker, Henry
Sent: Friday, July 14, 2006 3:23 PM
To: Hal Novak
Subject: FW: Emailing: 05-00258 McCormac Test., Exhibits & Work Papers
Attachments: 05-00258 McCormac Test & exh.pdf

From: Dan McCormac [mailto:Dan.McCormac@state.tn.us]
Sent: Friday, July 14, 2006 3:17 PM
To: Walker, Henry
Subject: RE: Emailing: 05-00258 McCormac Test., Exhibits & Work Papers

Sooner than I though. See attached.

>>> "Walker, Henry" <hwalker@boultcummings.com> 7/14/2006 2:50 PM >>>
Could I also see a draft of dan's testimony?(and feel free to show him Hal's draft, too)

-----Original Message-----
From: Terry Buckner [mailto:Terry.Buckner@state.tn.us]
Sent: Friday, July 14, 2006 2:48 PM
To: Walker, Henry
Subject: RE: Emailing: 05-00258 Buckner Exhibits & Work Papers.pdf

I hope to find out some specifics shortly. We've heard they're going to agree with Dan and I, but the method or the extend of agreement is not known.

>>> "Walker, Henry" <hwalker@boultcummings.com> 7/14/2006 2:32 PM >>>
Thanks/ any word yet on whether the staff is going to join in your testimony?

-----Original Message-----
From: Terry Buckner [mailto:Terry.Buckner@state.tn.us]
Sent: Friday, July 14, 2006 2:19 PM
To: Walker, Henry
Subject: Fwd: Emailing: 05-00258 Buckner Exhibits & Work Papers.pdf

Henry,

Not exactly sure about the revenue requirement, because Jerry and Dr. Brown have different capital structure, but we think that the TRA staff will come in at $9.9M. Jerry's weighted debt cost would affect the income tax calculation, etc. Just don't know what the TRA staff is going to say Monday about that.

See attached. Enjoy.

Terry

Before the

TENNESSEE REGULATORY AUTHORITY

IN RE: REQUEST FOR AN ADJUSTMENT OF THE RATES AND CHARGES OF ATMOS ENERGY CORPORATION

DOCKET NO. 05-00258

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DIRECT TESTIMONY

OF

DANIEL W. McCORMAC, CPA

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July 17, 2006

BEFORE THE TENNESSEE REGULATORY AUTHORITY

AT NASHVILLE, TENNESSEE

IN RE: REQUEST FOR AN ADJUSTMENT OF THE RATES AND CHARGES OF ATMOS ENERGY CORPORATION

DOCKET NO. 05-00258

AFFIDAVIT

I, Daniel W. McCormac, Coordinator of Analysts for the Consumer Advocate and Protection Division of the Attorney General's Office, hereby certify that the attached Direct Testimony represents my opinion in the above-referenced case and the opinion of the Consumer Advocate and Protection Division.

Daniel W. McCormac

DANIEL W. McCORMAC

Sworn to and subscribed before me this 14th day of [illegible], 2006.

[illegible]

NOTARY PUBLIC

My commission expires: [illegible]

EMILY KNIGHT NOTARY PUBLIC DAVIDSON COUNTY, TENN.

My Commission Expires SEPT. 22, 2007

Q. Would you state your name for the record?

A. My name is Daniel W. McCormac.

Q. By whom are you employed and what is your position?

A. I am employed by the Attorney General's Office as Coordinator of Analysts for the Consumer Advocate and Protection Division.

Q. Are you the same Dan McCormac that filed testimony in this docket on September 15, 2005?

A. Yes.

Q. What are your qualifications as a witness?

A. Please see Appendix A for my education, licenses, and work experience.

Q. What is the scope and purpose this testimony?

A. This testimony represents the views of the Consumer Advocate and Protection Division (CAPD) regarding the appropriate revenues to be used in measuring the earnings of Atmos Energy Corporation in Tennessee.

Q. Please give a summary of your findings on Revenues.

A. Atmos reported total operating revenues of \$243,290,027 and production expenses of \$189,294,907 on the TRA 3.03 monthly financial statement for the 12 months ended March 31, 2006. Thus Atmos reported \$53,995,120 in gross profits or operating margin on gas sales, forfeited discounts revenue, and other miscellaneous charges to consumers for the 12 months ended March 31, 2006.

I used several methods to determine a reasonable estimate for gross profits for the 12 months ending September 30, 2006. As shown on Exhibits DM1 and DM2, my analysis indicates that \$54,491,796 is a reasonable estimate of the gross profits that

Atmos will receive for the 12 months ending September 30, 2006.

Q. Please give a more detailed description of your analysis.

A. As shown on Exhibit DM1, I examined the gross margins reported on the TRA 3.03 reports for each of the years ended March 31, 2002, 2003, 2004, 2005, and 2006. The gross margins have grown at a rate of $993,352 per year or $496,676 every six months. The $54,491,796 estimate for the year ended September 30, 2006 is based on one half year's growth of $496,676 added to the $53,995,120 recorded for the 12 months ended March 31, 2006. This equates to an annual revenue growth rate of 1.82%.

As shown on Exhibits DM3 and DM4, I tested this estimate with the long range growth since the last detailed analysis of revenues in the 1995 rate case. Gross margin has grown at an annual growth rate of 1.88% per year for the last 11 years, which supports the 1.82% that I have calculated.

Q. Would you explain your analysis of customer growth?

A. As shown in my Exhibit DM5, I examined the growth for the last five years and it appears that customer growth is close to 3% per year. This further supports the 1.82% growth rate assumption above and is used by Mr. Buckner in estimating growth in certain unknown expenses.

Q. Would you explain your analysis of forfeited discounts revenue as shown on Exhibit DM7?

A. Forfeited discount revenues for the year ended March 31, 2006 were .75% of revenues. Forfeited discount revenues as a percentage of revenues have declined from .82% for the 12 months ended November 2004 to .57% in November 2005. However, the percentage has recently recovered to .75% as of March 2006. The .75% actual appears to be a reasonable ratio and is used on Schedule 7 of Exhibit

CAPD to compute a revenue conversion factor.

Q. Does this conclude your pre-filed direct testimony?

A. Yes.

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Q. What is your educational background and what degrees and licenses do you hold?

A. I have a Bachelor of Science Degree in Accounting from David Lipscomb College and I am a licensed Certified Public Accountant in the State of Tennessee.

Q. What is your experience in the field of ratemaking and regulatory accounting?

A. I have 30 years of experience in the field of utility ratemaking and regulatory accounting including more than two years with the Certified Public Accounting firm of Wilson, Work, Fossett & Greer as the supervisor in the utility consulting segment. I served sixteen years with the Tennessee Public Service Commission, including one year as Technical Assistant to the Commissioners. I served two years as Chief of Energy and Water at the Tennessee Regulatory Authority ("TRA") and ten years with the Office of the Attorney General. While employed by the Commission and the Attorney General's Office, I supervised the preparation of many utility rate cases and earnings reviews. As part of these investigations, we developed financial exhibits to present to the Commission or TRA. These investigations supplied evidence to the TRA to enable it to set just and reasonable rates for utility services. In addition, I participated in various special studies and provided technical assistance in other cases in which I did not testify.

As the Technical Assistant to the Commissioners I observed hearings and analyzed the issues in each case from an independent technical perspective. I responded to the Commissioners' requests for expert assistance in evaluating and interpreting the financial evidence in the record. I also provided and checked calculations based on that evidence. In each position, my responsibilities have included making decisions on whether the information provided was adequate and suitable for deciding the questions presented.

My duties with the Consumer Advocate and Protection Division ("CAPD") are similar, but also include the review of various tariffs filed before the TRA. I assist in the decision making process as to whether the terms and conditions of the numerous filings are just and reasonable or whether additional evidence is needed to support the filings. When significant consumer interests appear to be in jeopardy, we investigate further and provide expert testimony before the TRA when needed.

Q. What expertise do you have related to the natural gas industry?

A. Since 1976 I have been involved in auditing gas companies, reviewing testimony, tariffs and exhibits, negotiating rates and preparing testimony and exhibits relating to various revenue, expense and rate base issues of all major Tennessee gas distribution companies. I have prepared testimony in every major case involving a gas utility since my employment with the Attorney General's office in 1994.

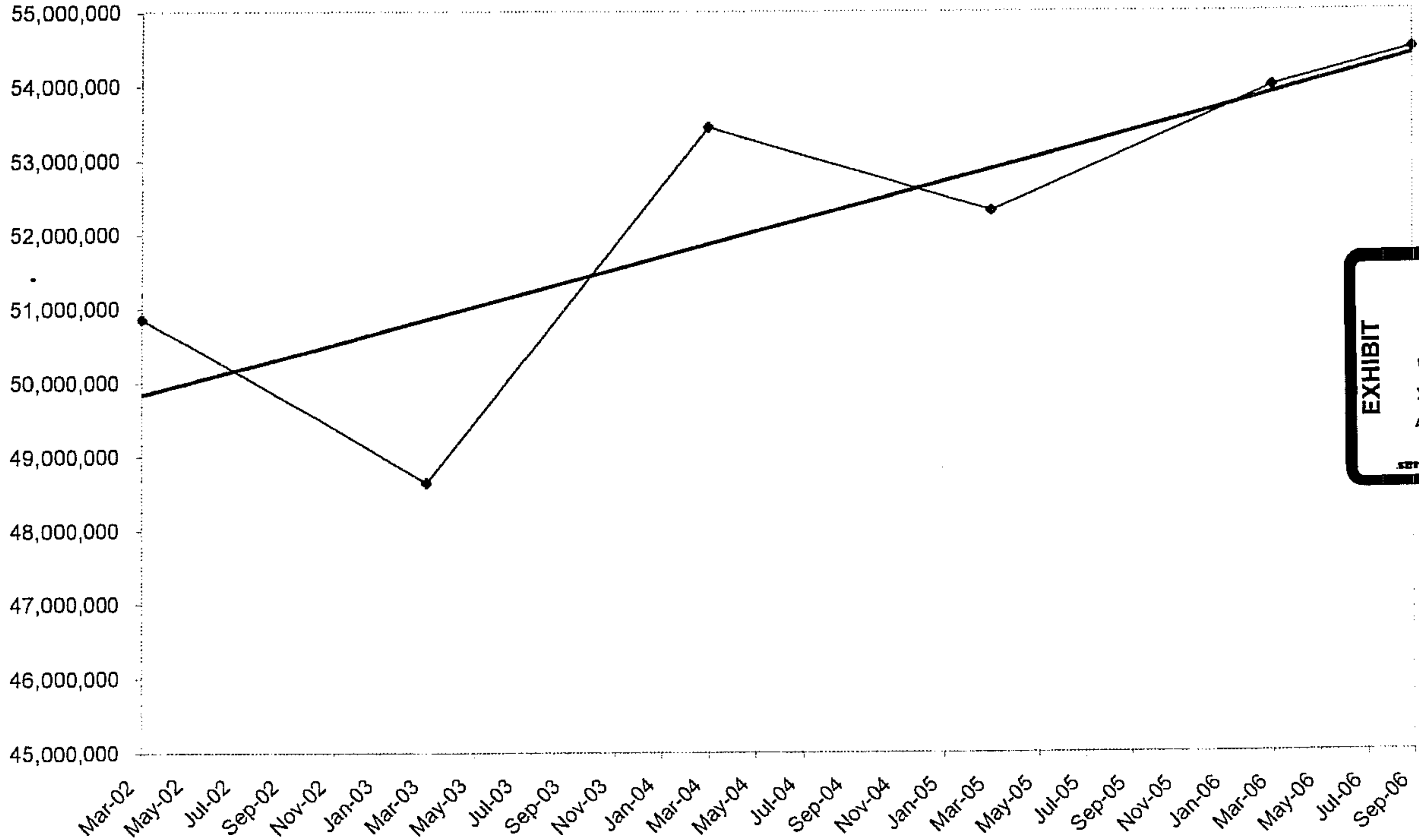
		Total Margin:	Revenues	COG		
3/31/02	Apr. 2001 - Mar. 2002	50,862,547	126,039,539	75,176,992		
3/31/03	Apr. 2002 - Mar. 2003	48,643,849	160,581,530	111,937,681	(2,218,698)	-4.4%
3/31/04	Apr. 2003 - Mar. 2004	53,444,043	170,208,366	116,764,323	4,800,194	9.9%
3/31/05	Apr. 2004 - Mar. 2005	52,317,057	162,990,795	110,673,738	(1,126,986)	-2.1%
3/31/06	Apr. 2005 - Mar. 2006	53,995,120	243,290,027	189,294,907	1,678,063	3.2%
9/30/06		54,491,796		496,676	1/2 year's growth	
9/30/07		55,485,148	1.823%	993,352	1 year's growth	
3/31/06		53,840,316				
3/31/07		54,833,668	1.845%	**993,352**		

EXHIBIT

DM 1

Atmos Gross Margin

12 Months to Date



EXHIBIT

DM 2

PSC-3.13 MONTHLY REPORT OF TENNESSEE REVENUES, EXPENSES AND INVESTMENTS-GAS COMPANIES

United Cities Gas Company
Month of Report March, 1995

ITEM	Month-to-Date This Year	Month-to-Date Last Year	Year-to-Date This Year	Year-to-Date Last Year	12 Months-to-Date This Year	12 Months-to-Date Last Year
(A)	(b)	(c)	(d)	(e)	(f)	(g)
1 Residential Sales	4,197,516	4,972,566	16,938,144	19,640,717	35,194,324	40,141,928
2 Commercial & Industrial Sales	6,037,423	7,270,409	21,628,970	25,511,997	61,199,860	67,026,594
3 Other Sales	206,288	204,242	546,819	750,504	1,265,716	1,529,216
5 Total Operating Revenues	10,441,227	12,447,217	39,113,933	45,903,218	$\boxed{97,659,900}$	108,697,738
6 Production	5,526,430	7,809,294	21,344,902	28,695,204	$\boxed{55,868,081}$	69,037,793
7 Storage, Trans. & Dist.-Oper	230,358	209,492	634,885	600,152	2,391,991	2,508,461
8 Storage, Trans. & Dist.-Mtnce	120,204	103,732	378,012	320,012	1,441,102	1,346,970
9 Customer Accounts Expense	293,750	257,194	910,310	782,808	2,955,213	2,741,650
10 Sales Expense	97,752	71,280	271,660	213,629	1,312,873	1,100,846
11 Adm. & Gen'l. Expense	817,845	1,016,225	2,549,076	2,657,516	9,417,135	9,839,033
12 Deprn. & Amort. Expense	535,094	491,337	1,573,445	1,474,204	6,159,848	5,766,788
13 Taxes Other Than Income Taxes	360,575	319,470	1,061,460	939,841	3,931,862	3,715,316
14 Income Taxes	837,115	700,067	3,467,057	3,391,398	3,449,816	2,760,631
15 Total Operating Expenses	8,819,123	10,978,091	32,190,806	39,074,764	86,927,922	98,817,488
16 Net Operating Income	1,622,104	1,469,126	6,923,127	6,828,454	10,731,978	9,880,250
17 Other Income	244,984	96,060	230,851	44,569	666,929	610,841
18 Misc. Income Deductions	27,510	13,537	62,217	37,523	223,719	251,390
19 Interest Charges	471,437	407,494	1,425,369	1,292,762	5,536,975	5,727,859
20 Net Income	1,368,141	1,144,155	5,666,391	5,542,738	5,638,214	4,511,843

Selected Balance Sheet Items *	Co. Balance at Month-End This Year	Co. Balance at Month-End Last Year	Average 12 Months-to-Date This Year	Average 12 Months-to-Date Last Year
	(h)	(i)	(j)	(k)
21 Utility Plant in Service	151,435,731	141,389,968	146,476,378	136,314,004
22 Construction Work in Progress	7,374,187	747,578	3,460,187	1,642,757
23 Acquisition Adjustments, Net	0	0	0	0
24 Property Held for Future Use	0	0	0	0
25 Depreciation	52,434,421	47,725,544	49,944,547	44,696,176
26 Materials and Supplies	2,925,256	1,868,430	6,630,128	5,021,165
27 Unamortized ITC *	4,554,198	4,922,800	4,722,613	5,093,337
28 Deferred Federal Income Tax	6,805,274	6,133,307	6,356,618	12,145,608
29 Contributions in aid of Const	606,312	606,312	606,312	606,312
30 Customer Advances for Const	428,231	369,701	401,923	348,138
31 Preferred & Preference Stock *	0	0	0	86,525
32 Common Stock *	77,081,878	71,384,932	73,759,226	69,973,637
33 Premium on Cap. Stk. & Other Cap. *	18,672,485	18,838,035	18,784,725	20,572,250
34 Retained Earnings *	11,778,643	13,949,521	5,799,948	6,828,643
35 Long-Term Debt *	141,061,000	129,955,000	153,497,761	141,571,897

11/15/95
Rate 1
41,792
2,227
44,019 $\boxed{3/95}$
53,995 $\boxed{3/06}$
10.0 Mill in 11 yr.
= 1.88%
Annual growth
= $1,015,000
per yr.

EXHIBIT
DM 3

V. Commission Determination.

The Commission has fully reviewed the settlement in all its parts, as described above, and finds it to be reasonable and in the public interest. Therefore, the Commission ratifies and approves the foregoing settlement and resolution of the issues as a whole and orders that the same be implemented as indicated below.

IT IS THEREFORE ORDERED:

1. That the Petition of United Cities Gas Company for a rate increase of $3,950,613 is denied.

2. That the stipulation between the Commission Staff and United Cities Gas Company which is attached as Appendix A is hereby approved as though copied into this Order verbatim.

3. That the Company shall file tariff sheets designed to produce $2,227,000 in additional annual revenue and in accordance with this Order and the agreements approved hereby, said tariff sheets to become effective as of November 15, 1995, for service rendered on and after that date.

4. That any party aggrieved with the Commission's decision in this may file a Petition for Reconsideration with the Commission within ten (10) days from and after the date of this Order; and

5. That any party aggrieved with the Commission's decision in this matter has the right of judicial review by filing a Petition for Review in the Tennessee Court of Appeals, Middle Section, within sixty (60) days from and after the date of this Order.

Keith Bissell
CHAIRMAN

COMMISSIONER

COMMISSIONER

EXHIBIT
DM 4

12 month avg. customers	FY2000	FY2001	Year to Year Change	FY2002	Year to Year Change	FY2003	Year to Year Change	FY2004	Year to Year Change	FY2005	Year to Year Change	Oct - Mar 06	6 mo growth	Atmos' '07 proj.	Atmos' '06 proj.	CAPD Proj.	Resulting Additions	4 yr. growth	Atmos' '06 proj.
Residential	94,568	95,851	1,283	97,501	1,650	101,532	4,031	103,565	2,033	106,337	2,772	108,737	2,400	2.5%	3.1%	3.0%	3,262	2.6%	3,371
Commercial	13,548	13,786	238	13,981	196	14,400	419	14,643	243	14,821	178	15,049	228	6.1%	4.9%	2.0%	301	1.8%	737
Public Authority	150	150	0	194	44	116	(77)	148	32	329	181	483	154	0	0.0%	25.0%	121	21.7%	-
Industrial	372	358	(14)	361	4	388	26	271	(116)	362	90	355	(7)	0	0.0%	0.0%	-	0.3%	-
Transportation	28	36	8	53	17	57	5	74	17	83	9	83	(0)	0	0.0%	0.0%	-	23.4%	-
	108,666	110,181	1,515	112,090	1,909	116,493	4,403	118,701	2,208	121,931	3,230	124,706	2,775	-	3.3%	$\boxed{3.0\%}$	3,684	2.6%	4,108
			1.39%		1.73%		3.93%		1.90%		2.72%	2.28%	4.55% (annualized)						

EXHIBIT
DM 5

MFR #22 Customer growth trends

Tennessee
MFR #22

Provide a copy of any usage and growth trends and any adjustments used to project revenues.

	FY06 Fcst	FY07 Fcst	
Customer Usage Trends			
Residential base load per customer	1.177	1.159	98.54%
Commercial base load per customer	12.307	11.993	97.44%

Customer Growth Trends	FY 06	FY07 Growth Customers
Residential Customers	3.1%	2,742
Commercial Customers	4.9%	914

EXHIBIT

DM6

4820 Other TOTAL	12 MTD	12 MTD	12 MTD	12 MTD	12 MTD	12 MTD	12 MTD	12 MTD	12 MTD	12 MTD	12 MTD	12 MTD	12 MTD	12 MTD	12 MTD	12 MTD	12 MTD	12 MTD	12 MTD
4825 Unbil TOTAL	SEP-04	Oct-04	Nov-04	Dec-04	Jan-05	FEB-05	MAR-05	Apr-05	MAY-05	JUN-05	JUL-05	AUG-05	SEP-05	OCT-05	NOV-05	DEC-05	JAN-06	FEB-06	MAR-06
4870 Forfe TOTAL	-1,373,044	-1,365,926	-1,375,684	-1,313,742	-1,288,385	-1,205,682	-1,074,917	-1,087,096	-1,061,789	-1,049,793	-1,047,310	-1,053,213	-1,050,632	-1,063,462	-1,100,911	-1,245,100	-1,443,534	-1,648,020	-1,814,815
4880 Misce TOTAL																			
4890 Reven TOTAL																			
4895 Reven TOTAL																			
4896 Reven TOTAL																			
4897 Reven TOTAL																			
4898 Disco TOTAL																			
4930 Rent TOTAL																			
4950 Other TOTAL																			
3.03																			
Residential Sales																			
Other Sales																			
Total Revenues	-169,415,893	-168,737,172	-167,672,844	-169,193,963	-162,111,514	-158,198,810	-162,992,949	-162,863,393	-164,369,850	-165,397,717	-165,321,891	-165,494,075	-170,089,292	-176,619,729	-192,710,705	-218,638,591	-231,782,765	-243,362,177	-243,290,026
	0.81%	0.81%	0.82%	0.78%	0.79%	0.76%	0.66%	0.67%	0.65%	0.63%	0.63%	0.64%	0.62%	0.60%	0.57%	0.57%	0.62%	0.68%	0.75%

EXHIBIT

DM 7

2. Produce copies of documents constituting any testimony (whether prefiled testimony or transcripts of live testimony) which you have given before the Tennessee Regulatory Authority.

<u>RESPONSE:</u>

Mr. Novak has given testimony before the Tennessee Regulatory Authority and its predecessor the Tennessee Public Service Commission, on numerous occasions since 1982. His testimony is contained within the public record of the dockets at the TRA. Mr. Novak no longer has any copies of his prior testimony.

3. Produce all documents relating to any communications between the Intervention Group and Earl Burton. In addition, please state whether Earl Burton reviewed Hal Novak's testimony. If so, please include in your production all documents relating or referring to any edits, additions, changes, or other communications with Earl Burton regarding Hal Novak's testimony.

RESPONSE:

As a Member of the Atmos Intervention Group, Mr. Burton both collaborated on and reviewed Mr. Novak's direct testimony in this docket. Attached are copies of all email exchanges between Mr. Novak and Mr. Burton concerning Mr. Novak's testimony.

Walker, Henry

From: Hal Novak [halnovak@whnconsulting.com]

Sent: Thursday, July 13, 2006 7:53 AM

To: Earl Burton; Walker, Henry

Subject: Re: Atmos Testimony and Exhibits (Draft-1)

Earl -

If you're proposing to eliminate interruptible sales altogether, we need to clearly state that in the testimony and the reasons why. This is pretty radical, and would be a big departure from anything the TRA has considered before. We need MUCH more testimony on this point.

Also, we will need language to cover the situation where a transportation customer uses more gas than they nominate. Right now, this is interruptible gas.

On your comments below that "the Company needs a more modern gas operation system..." we need testimony on that if you want to have it considered.

We also need testimony on requiring the Company to file a class cost of service study in their next rate case and that we expect the industrial rate reduction to be a pro rata across-the-board portion based on existing margins with other rate classes. I can write these two points.

> ----- Original Message -----
> **From:** Earl Burton
> **To:** Hal Novak
> **Sent:** Thursday, July 13, 2006 6:50 AM
> **Subject:** RE: Atmos Testimony and Exhibits (Draft-1)
>
> The Company may insist on an interruptible sales rate, Let's keep it like it is. I frankly think they should pay a premium to buy from the Company.
>
> Make the following changes:
>
> Tone down language Page 7. Starting with "These practices ... Let replace it with.. We believe that the recommended changes will make the Company's system a fair playing field for competitive gas suppliers which will reduce transportation costs for Atmos customers.
>
> Page 17 on the Rate 265. Delete the Rate: Remember, this is a companion rate to the Company's 230 and 240's rate schedules. They will pay the applicable rate on the firm rate schedule, with the exception that the Customer will buy gas from a third party supplier or agent and not through the PGA.
>
> One more comment on your testimony.
>
> The Company needs a modern gas operating system that is interactive and allows customers better access to make gas nominations, scheduling etc.. in lieu of the existing system which is manual and outdated. The asset manager and Company affiliate should be required to make timely nominations and be required to use the same system and adher to the same balancing rules. We would recommend that the Company be able to recover the costs of this system

through the rates.

Everything else looks good.

-----Original Message-----
From: Hal Novak [mailto:halnovak@whnconsulting.com]
Sent: Wed 7/12/2006 12:02 AM
To: Earl Burton; Henry Walker
Cc:
Subject: Atmos Testimony and Exhibits (Draft-1)

Earl/Henry -

Attached is the draft of the testimony and exhibits.

I've included a combined PDF file of all the documents to help you navigate through everything. I've also included the individual word files for you to edit.

Of particular note that needs editing:

Rate Schedule 240 - by combining Rate 240 (firm sales) with Rate 250 (Interruptible Sales) we lost all of the Company's curtailment language in Rate 250. Right now, Rate 240 just covers firm industrial sales -- there is nothing covering interruptible sales. Earl, you may have some heavy editing to do here.

Rate Schedules 260 and 265 (interruptible and firm transportation) need some work WACOG source from pipelines.

Also, I'm not happy with the way that the testimony ends. It speaks heavy on the changes that we made to Rate 265, but we also made these same changes to Rate 260 and they weren't mentioned. It may be better to combine Rates 260 and 265 into a single Exhibit.

Hal Novak
WHN Consulting
Phone: 713-298-1760
Fax: 615-301-3962

Walker, Henry

From: Walker, Henry
Sent: Friday, July 14, 2006 1:40 PM
To: Earl Burton
Cc: Hal Novak
Subject: RE: Possible Spam:2 other points

hal may be tied up on other stuff/ why dont you just call me when it is convenient for you. say around 3 or 4 pm central time? I'll conference hal in if he is free.

From: Earl Burton [mailto:eburton@aeedinc.com]
Sent: Friday, July 14, 2006 1:44 PM
To: Walker, Henry
Subject: RE: Possible Spam:2 other points

Better if later. But let me know the time. Earl.

Earl Burton P.E.
Tennessee Energy Consultants
100 E. 10th Street Suite 401
Chattanooga TN 37402
423-421-3732
Fax: 423-752-1369
Earl.Burton@aeedinc.com

Tennesseee Energy Consultants owned by Earl Burton P.E., a registered Professional Engineer with over 20 years experience in the energy and natural gas industry. Earl Burton is also an associate of Advanced Energy Engineering and Design, Inc., a full service engineering and facility management company. Tennessee Energy Consultants manages energy costs for 35 industrial and municipal clients in the Southeast, and is an approved energy auditor through the State ot Tennesseee's energy program.

From: Walker, Henry [mailto:hwalker@boultcummings.com]
Sent: Friday, July 14, 2006 2:35 PM
To: Earl Burton
Cc: Hal Novak
Subject: RE: Possible Spam:2 other points

earl/Hal/ do both (or either) of you have time for a call this afternoon to go over the issues in the testimony? I need to have a better understanding of the issues so I can work with Hal in making edits.

From: Earl Burton [mailto:eburton@aeedinc.com]
Sent: Friday, July 14, 2006 1:20 PM
To: Walker, Henry
Cc: Hal Novak
Subject: RE: Possible Spam:2 other points

Yes, I will send Hal the exhibit.

Didn't address this originally, since I wasn't sure we should go into this. Earl.

Earl Burton P.E.
Tennessee Energy Consultants
100 E. 10th Street Suite 401
Chattanooga TN 37402
423-421-3732
Fax: 423-752-1369
Earl.Burton@aeedinc.com

Tennesseee Energy Consultants owned by Earl Burton P.E., a registered Professional Engineer with over 20 years experience in the energy and natural gas industry. Earl Burton is also an associate of Advanced Energy Engineering and Design, Inc., a full service engineering and facility management company. Tennessee Energy Consultants manages energy costs for 35 industrial and municipal clients in the Southeast, and is an approved energy auditor through the State ot Tennesseee's energy program.

From: Walker, Henry [mailto:hwalker@boultcummings.com]
Sent: Friday, July 14, 2006 2:10 PM
To: Earl Burton
Subject: RE: Possible Spam:2 other points

are you going to send Hal the exhibit?

From: Earl Burton [mailto:eburton@aeedinc.com]
Sent: Friday, July 14, 2006 12:41 PM
To: Walker, Henry
Subject: RE: Possible Spam:2 other points

Henry, they are in violation of the affiliate rules. Grossly, They are allowed to balance their own accounts. They incur no balancing charges where a competitive shipper has to pay balancing penalties.

I have exhibits on this. One balancing worksheet with AEM, and one with another marketer. I want to make sure this is in our testimony. Earl.

Earl Burton P.E.
Tennessee Energy Consultants
100 E. 10th Street Suite 401
Chattanooga TN 37402
423-421-3732
Fax: 423-752-1369
Earl.Burton@aeedinc.com

Tennesseee Energy Consultants owned by Earl Burton P.E., a registered Professional Engineer with over 20 years experience in the energy and natural gas industry. Earl Burton is also an associate of Advanced Energy Engineering and Design, Inc., a full service engineering and facility management company. Tennessee Energy Consultants manages energy costs for 35 industrial and municipal clients in the Southeast, and is an approved energy auditor through the State ot Tennesseee's energy program.

From: Walker, Henry [mailto:hwalker@boultcummings.com]
Sent: Friday, July 14, 2006 12:46 PM
To: Hal Novak; Earl Burton
Subject: Possible Spam:2 other points

page 5, lines 6 through 9.. i would delete this sentence as unnecessary. we may get company to agree to this but are less likely to get agreement if we are seen as implying that they would rig the bid.

page 6 // add some language explaining better how AEM has an advantage over competitors in balancing. (this would be a violation of the company's affiliate transaction guidelines so we need further explanation.)

****
CONFIDENTIALITY NOTICE: This e-mail and any attachments are confidential and may also be privileged. If you are not the named recipient, please notify the sender immediately and delete the contents of this message without disclosing the contents to anyone, using them for any purpose, or storing or copying the information on any medium.
****
****
CONFIDENTIALITY NOTICE: This e-mail and any attachments are confidential and may also be privileged. If you are not the named recipient, please notify the sender immediately and delete the contents of this message without disclosing the contents to anyone, using them for any purpose, or storing or copying the information on any medium.
****

Walker, Henry

From: Walker, Henry
Sent: Friday, July 14, 2006 10:50 AM
To: Terry Buckner
Cc: Hal Novak
Subject: FW: Atmos Testimony and Exhibits (Draft-1)
Attachments: AIG Combined Testimony & Exhibits - Draft 1.pdf; Novak-Draft Testimony-1.DOC; Proposed Rate 265 Firm Transportation.doc; Proposed Rate 230-General Com-Ind Rate.doc; Proposed Rate 240-Large Commodity Service.doc; Proposed Rate 255-Transportation Storage Option.doc; Proposed Rate 260 Int Transportation.doc

terry/ here is a draft of Hal's testimony on rate design/ he says he is still making some revisions but they will only affect industrial class customers. Please let us know of any suggestions or comments you have.

As soon as you can, please send Hal a draft of your testimony so he can review it. I want him to say in his testimony that he agrees with your analysis and numbers. thanks .

From: Hal Novak [mailto:halnovak@whnconsulting.com]
Sent: Tuesday, July 11, 2006 11:02 PM
To: Earl Burton; Walker, Henry
Subject: Atmos Testimony and Exhibits (Draft-1)

Earl/Henry -

Attached is the draft of the testimony and exhibits.

I've included a combined PDF file of all the documents to help you navigate through everything. I've also included the individual word files for you to edit.

Of particular note that needs editing:

Rate Schedule 240 - by combining Rate 240 (firm sales) with Rate 250 (Interruptible Sales) we lost all of the Company's curtailment language in Rate 250. Right now, Rate 240 just covers firm industrial sales -- there is nothing covering interruptible sales. Earl, you may have some heavy editing to do here.

Rate Schedules 260 and 265 (interruptible and firm transportation) need some work WACOG source from pipelines.

Also, I'm not happy with the way that the testimony ends. It speaks heavy on the changes that we made to Rate 265, but we also made these same changes to Rate 260 and they weren't mentioned. It may be better to combine Rates 260 and 265 into a single Exhibit.

Hal Novak
WHN Consulting
Phone: 713-298-1760
Fax: 615-301-3962

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 prepared draft industrial tariffs that incorporate these recommendations as Exhibit AIG.

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 Large Commercial and Industrial Rate Schedule 260 as shown on Exhibit WHN, Schedule 2.
5. Introduction of a new transportation rate schedule 250 as shown on Exhibit WHN, Schedule 3 that will address balancing and penalties to allow more customers access to purchase their own gas supplies and also encourage competition with 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. 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 a demand charge substantially less than the Company's current rate. The rate steps would be similar to the current design with some slight modifications. The demand charge reflects the higher value of service provided by the Company since these customers are paying for a bundled no-notice service which is a higher value service in the gas market which commands a premium to comparable transportation service where gas purchases and nominations are managed by the Customer or Customer's agent.

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 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 are paying a considerable premium to fix natural gas prices. This risks places a premium over the actual price risks that are prevalent in the marketplace. It also ensures that the value of this storage flows 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 customers?

A. Revenues from this service will reflect true market prices of this service, and 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.

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. This process prevents either the Company or the Company's asset manager from setting the rate for the minimum bid since there may otherwise be a profit incentive on their part to overprice the value of this service.

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

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. The current language regarding balancing references the connecting pipeline's tariff which we feel does not apply to Atmos since the Company is allowed to aggregate imbalances which helps to mitigate and eliminate most of their interstate pipeline balancing costs.

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.

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 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. The Company's marketing affiliate currently has a dominant share of the market for transportation service, and we attribute much of this to the ambiguity of language in the tariffs along with the fact that the Company's affiliate is allowed to balance their own accounts, which is an unfair advantage to non-affiliate shippers. AIG's proposed language change removes this ambiguity and 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. 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.

Through past practices, the Company's unregulated affiliate has been given an unfair advantage by allowing them to balance their own transportation accounts. Non-affiliates are required to adhere to the Company's tariffs and incur imbalance costs and have greater risks with providing gas service. These practices have increased transportation costs for Atmos Transportation customers since they are misled to pay a cost premium for transportation service through the Company's affiliate.

Therefore, the proposed tariff language includes the following changes that we feel are needed:

- Minimum volumes required to obtain service;
- Clarification of imbalance costs;
- New language on curtailing and limiting service;
- Provision for telemetering installation; and
- Agency Authorization; .

Q. Does this conclude your testimony?

A. Yes, it does.

ATMOS ENERGY CORPORATION
LARGE COMMERCIAL/INDUSTRIAL TRANSPORTATION
Interruptible Transportation

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 50,000 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

MONTHLY BASE RATE

	Net Rate*
Customer Base Use Charge	$310.00
Demand Charge	$.30/Ccf
Commodity Charge	
First 20,000 Ccf Per Month	$.0996
Next 480,000 Ccf Per Month	$.0671
Over 500,000 Ccf Per Month	$.0329

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.

ATMOS ENERGY CORPORATION
LARGE COMMERCIAL/INDUSTRIAL TRANSPORTATION
Interruptible Transportation

Rate Schedule 265: All Service Areas

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%
	+	

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.

ATMOS ENERGY CORPORATION
LARGE COMMERCIAL/INDUSTRIAL TRANSPORTATION
Interruptible Transportation

Rate Schedule 265: All Service Areas

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.

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.

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	$310.00
Demand Charge	$.30/Ccf
Commodity Charge	
First 20,000 Ccf Per Month	$.0996
Next 480,000 Ccf Per Month	$.0671
Over 500,000 Ccf Per Month	$.0329

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.

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

Rate Schedule 240: All Service Areas

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 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.

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 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		$310.00
Commodity Charge		
First 20,000	Ccf Per Month	$.0996
Next 480,000	Ccf Per Month	$.0671
Over 500,000	Ccf Per Month	$.0329

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.

ATMOS ENERGY CORPORATION
LARGE COMMERCIAL/INDUSTRIAL TRANSPORTATION
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%
	+	

ATMOS ENERGY CORPORATION
LARGE COMMERCIAL/INDUSTRIAL TRANSPORTATION
Interruptible Transportation

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.

ATMOS ENERGY CORPORATION
LARGE COMMERCIAL/INDUSTRIAL TRANSPORTATION
Interruptible Transportation

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.

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)	$30.00
Summer (May-Oct)	$20.00
Commodity Charge	
First 5,000 Ccf per Month	$.300 per Ccf
Over 5,000 Ccf per Month	$.160 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
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).

Walker, Henry

From: Hal Novak [halnovak@whnconsulting.com]

Sent: Saturday, July 15, 2006 3:04 PM

To: Walker, Henry; Earl Burton

Subject: AIG Testimony & Exhibits-Draft 2

Attachments: AIG Combined Testimony & Exhibits - Draft 2.pdf; VERIFICATION.pdf

Henry/Earl -

Attached is the 2nd version of our testimony and exhibits. There have been numerous changes, so please read carefully.

I've also attached a verification page with my electronic signature for you to attach.

Hal Novak
WHN Consulting
Phone: 713-298-1760
Fax: 615-301-3962

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 better reflects 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 Transportation Storage rate that would assist transportation customers with

[1] See the rate design Section of this testimony 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.

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 are paying a considerable premium to fix natural gas prices. This risks places a premium over the actual price risks that are prevalent in the marketplace. It also ensures that the value of this storage flows 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.

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

[3] TRA Docket 04-00034.

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.

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 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 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. The Company currently has Special Contracts with Goodyear Tire & Rubber Company, Saturn Corporation and Middle Tennessee State University. 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 now 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.

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.

Q. Does this conclude your testimony?

A. Yes, it does.

[4] TRA Docket 06-00175.

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)	$30.00
Summer (May-Oct)	$20.00
Commodity Charge	
First 5,000 Ccf per Month	$.300 per Ccf
Over 5,000 Ccf per Month	$.160 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	$310.00
Demand Day Unit Charge	$.30/Ccf
Commodity Charge	
First 20,000 Ccf Per Month	$.0996
Next 480,000 Ccf Per Month	$.0671
Over 500,000 Ccf Per Month	$.0329

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
LARGE COMMERCIAL/INDUSTRIAL DEMAND/COMMODITY GAS SERVICE

Rate Schedule 240: All Service Areas

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 Customers

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
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		$310.00
Commodity Charge		
First 20,000	Ccf Per Month	$.0996
Next 480,000	Ccf Per Month	$.0671
Over 500,000	Ccf Per Month	$.0329

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.

ATMOS ENERGY CORPORATION
LARGE COMMERCIAL/INDUSTRIAL TRANSPORTATION
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%
	+	

ATMOS ENERGY CORPORATION
LARGE COMMERCIAL/INDUSTRIAL TRANSPORTATION
Interruptible Transportation

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.

ATMOS ENERGY CORPORATION
LARGE COMMERCIAL/INDUSTRIAL TRANSPORTATION
Interruptible Transportation

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.

ATMOS ENERGY CORPORATION
LARGE COMMERCIAL/INDUSTRIAL TRANSPORTATION
Firm Transportation

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 50,000 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.

ATMOS ENERGY CORPORATION
LARGE COMMERCIAL/INDUSTRIAL TRANSPORTATION
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

ATMOS ENERGY CORPORATION
LARGE COMMERCIAL/INDUSTRIAL TRANSPORTATION
Firm Transportation

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.

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

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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.

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 ________ day of July, 2006.

____
Notary Public

My Commission Expires: ________________________

Walker, Henry

From: Earl Burton [eburton@aeedinc.com]
Sent: Monday, July 17, 2006 12:44 PM
To: Walker, Henry
Subject: RE: AIG Testimony and Exhibits for Atmos Rate Case - Draft 3

I am o.k. with the current version. Earl.

Earl Burton P.E.
Tennessee Energy Consultants
100 E. 10th Street Suite 401
Chattanooga TN 37402
423-421-3732
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Earl.Burton@aeedinc.com

Tennesseee Energy Consultants owned by Earl Burton P.E., a registered Professional Engineer with over 20 years experience in the energy and natural gas industry. Earl Burton is also an associate of Advanced Energy Engineering and Design, Inc., a full service engineering and facility management company. Tennessee Energy Consultants manages energy costs for 35 industrial and municipal clients in the Southeast, and is an approved energy auditor through the State ot Tennesseee's energy program.

From: Walker, Henry [mailto:hwalker@boultcummings.com]
Sent: Monday, July 17, 2006 1:30 PM
To: Hal Novak
Cc: Earl Burton
Subject: RE: AIG Testimony and Exhibits for Atmos Rate Case - Draft 3

any more changes/ ? we've got about 90 minutes

From: Hal Novak [mailto:halnovak@whnconsulting.com]
Sent: Sunday, July 16, 2006 10:27 PM
To: Walker, Henry; Earl Burton
Subject: AIG Testimony and Exhibits for Atmos Rate Case - Draft 3

Henry/Earl -

Attached is draft 3 of our testimony and exhibits. This version addresses the following items:

Earl's issues:
1. 25,000 Ccf threshold on Rate Schedule 265
2. Full listing of ALL special contracts
   Saturn, Superior Industries, Mountain Home Energy, MTSU, Alumax, Goodyear

Henry's issues:

1. Tariffs rates now say "To Be Determined"
2. Eliminate "Demand Day" caption from Rate 240
3. Changed reference to "will better reflect cost" on page 5

4. Footnote #1 refers to Testimony page number
5. Change language on page 6 for storage on paying over market rates.
6. Rate 265 includes language that refers to similar provisions for Nashville and Chattanooga.

Henry - A REMINDER TO ASK THE COMPANY HOW MANY LARGE CUSTOMERS ARE NOW TRANSPORTING GAS THAT WERE PREVIOUSLY A SALES CUSTOMER IN THE LAST RATE CASE.

Walker, Henry

From: Hal Novak [halnovak@whnconsulting.com]
Sent: Sunday, July 16, 2006 10:27 PM
To: Walker, Henry; Earl Burton
Subject: AIG Testimony and Exhibits for Atmos Rate Case - Draft 3
Attachments: VERIFICATION.pdf; AIG Combined Testimony & Exhibits - Draft 3.pdf

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Henry - A REMINDER TO ASK THE COMPANY HOW MANY LARGE CUSTOMERS ARE NOW TRANSPORTING GAS THAT WERE PREVIOUSLY A SALES CUSTOMER IN THE LAST RATE CASE.

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.

[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.

Exhibit AIG-1
Schedule 1

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
LARGE COMMERCIAL/INDUSTRIAL DEMAND/COMMODITY GAS SERVICE

Rate Schedule 240: All Service Areas

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 Customers

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
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.

ATMOS ENERGY CORPORATION
LARGE COMMERCIAL/INDUSTRIAL TRANSPORTATION
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%
	+	

ATMOS ENERGY CORPORATION
LARGE COMMERCIAL/INDUSTRIAL TRANSPORTATION
Interruptible Transportation

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.

ATMOS ENERGY CORPORATION
LARGE COMMERCIAL/INDUSTRIAL TRANSPORTATION
Interruptible Transportation

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.

ATMOS ENERGY CORPORATION
LARGE COMMERCIAL/INDUSTRIAL TRANSPORTATION
Firm Transportation

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.

ATMOS ENERGY CORPORATION
LARGE COMMERCIAL/INDUSTRIAL TRANSPORTATION
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

ATMOS ENERGY CORPORATION
LARGE COMMERCIAL/INDUSTRIAL TRANSPORTATION
Firm Transportation

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.

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 ________ day of July, 2006.

____

Notary Public

My Commission Expires:________________________

4. **Relative to WHN Consulting, which Mr. Novak indicated he owned, please identify:**

   (i.) All persons who are owners or employees;

   (ii.) The types of business activities it is engaged in, including, without limitation, whether the firm engages in gas marketing and asset management; and

   (iii.) If it is engaged in gas marketing and asset management, the States in which it provides those services and the customers it provides those services to.

   Please produce all documents constituting marketing materials that describe WHN Consulting's services and personnel.

RESPONSE:

WHN Consulting is a sole proprietorship owned by Mr. Novak, who is the only employee. WHN Consulting is a utility consulting and expert witness services company. WHN Consulting does not engage in gas marketing and asset management. WHN Consulting has no marketing materials that describe its services and personnel.

5. Identify all representatives, employees and other agents of Atmos with whom you (Hal Novak) had any discussions about your testimony. Specifically, please identify any persons at Atmos that you contacted to either verify or refute any of the statements in your testimony.

<u>RESPONSE:</u>

Mr. Novak has not had any discussions with any Atmos representatives, employees or other agents regarding his testimony.

6. **Please produce all documents that you (Hal Novak) relied upon, referenced, created, or otherwise reviewed in preparation of your testimony. This request includes all work papers, reference sources, financial information, discovery responses, e-mails and other materials. Please produce working excel files for all work papers and exhibits.**

RESPONSE:

AIG used Atmos existing rate schedules, 220, 230, 240, 250 and 260 as the basic template or foundation for AIG's proposed tariffs, with modifications from Chattanooga Gas Company's and Nashville Gas Company's tariffs as follows:

AIG has proposed to consolidate Atmos' existing rate schedule 220 and 230 into one rate schedule 230, and has proposed a two tiered rate structure with a discounted 2nd step to align this rate more closely with the cost of service. AIG reviewed several commercial rate schedules more recently approved by the TRA for Chattanooga Gas Company and Nashville Gas Company. Chattanooga Gas Company's C-1 Commercial and Industrial Large Service Rates was designed with a declining rate step structure with 4 tiers that we believe more accurately reflects the Company's cost of service, and allows the Company a more competitive gas price for the larger gas users that may have competitive options such as fuel oil or electricity. Chattanooga Gas Company's C-1 rate also features a discounted tail block step that is 46% of the 1st block which AIG believes more closely reflects the cost of service in lieu of Atmos's existing rate schedules 220 and 230. Atmos's rate schedule 230 only provides a rate that is discounted approximately 15% for larger Commercial/Industrial gas users.

AIG has proposed to consolidate Atmos' Rate Schedules 240 and Rate 250 firm and interruptible sales service proposed to change the base customer charge and eliminate the firm demand charge. AIG used several rate schedules more recently approved by the TRA as models for these rate changes that we believe more accurately aligns these rate with Atmos' cost of service. AIG proposes to reduce the firm demand charge to $.30 per Ccf which is identical to Chattanooga Gas Company's T-2 rate. AIG also proposes to change the qualifications of this rate schedule to allow more customers to qualify for this rate schedule. For this qualification, AIG used Nashville Gas Company's Rate Schedule 303's qualification language which would allow more customers to participate under this rate schedule.

AIG has proposed to implement a Transportation Storage Option rate that we believe is a better utilization of Atmos' storage assets, and makes available to transportation customers storage benefits that will assist them with managing gas costs. AIG used Chattanooga Gas Company's existing SF-1 rate schedule as a template for this rate with modifications to simplify this rate offering and establish the minimum bid rates for this service in lieu of the Company setting the minimum rates. We believe that this rate offering will provide value to our customers and flow the benefits of storage to Tennessee Ratepayers.

AIG's recommendations for changes to Atmos's existing Transportation rate schedule 260, and introduction of a firm transportation rate schedule 265 will achieve the following objectives that will benefit Atmos transportation customers. First, AIG desires for our clients to have competitive supplier options that will reduce transportation costs. Second, AIG proposes changes to the Atmos' balancing and penalty language that will more accurately align the tariff with Atmos' actual penalty and balancing costs exposure with Atmos interstate pipeline suppliers.

In drafting the proposed changes to Atmos' transportation tariffs, AIG used language from Chattanooga Gas Company's T-1 and T-2 interruptible transportation tariffs and Nashville Gas Company's 313 and 314 interruptible and firm transportation tariffs to develop balancing and penalty provisions that will encourage competition and flexibility that will reduce costs for Atmos transportation customers.

AIG believes that competition for gas transportation reduces costs for our clients and Atmos Transportation customers. Furthermore, a survey of Chattanooga Gas Company's and Nashville Gas Company's competing gas marketers will reveal that these markets have multiple gas marketers that provide for gas requirements, and transportation costs are very competitive which reduce costs for Nashville and Chattanooga ratepayers. In contrast, a survey of Atmos Energy Corporation's Tennessee market will likely reveal a dominant and majority market share of these customers being served by Atmos Energy Marketing. Therefore, AIG would contend that our proposed tariffs would encourage competition, reduce balancing costs for transportation customers.

7. **State whether Hal Novak has ever done any work with or for the CAPD or the Staff. If so, please identify the specific instances of when you have worked with the CAPD or the Staff, the nature of the assignment or work, and the total compensation received.**

RESPONSE:

As stated in his direct testimony, Mr. Novak was previously employed by the Tennessee Regulatory Authority for over 19 years. He has no specific records relating to the nature of his work assignments or compensation during this time. Mr. Novak has never worked either with or for the CAPD.

8. In your testimony, you state that you have "prepared draft industrial tariffs that incorporate [your] recommendations as Exhibits AIG-1 through AIG-5." Identify the source of the tariffs, including any tariffs that you used as a template that you consulted, and that you considered or otherwise reviewed in preparing Exhibits AIG-1 through AIG-5. Produce copies of any documents relating to or referring to the draft tariffs and the source of the draft tariffs.

RESPONSE:

See response to Item 6. Specifically, Atmos Intervention Group used the tariffs of both Nashville Gas Company and Chattanooga Gas Company as templates in designing our recommendations contained in Exhibits AIG-1 through AIG-5. The tariffs of Nashville Gas and Chattanooga Gas Company described in the Response to Question 6 are publicly available at TRA and on each company's website.

9. **On page 2 of your testimony, you state that "[i]t 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." Please identify all "changes [that] have occurred in the gas industry" since 1995 that support your tariff language changes.**

RESPONSE:

The objective of AIG's tariff proposals closely mirror those at the Federal level with the implementation of FERC Order 636 in 1992 and FERC Order 637 in 2000. What were the major changes to the gas industry with these two orders, and how do they relate to AIG's tariff proposals?

First, theses Orders changed the rates methodology of how interstate pipeline's allocated costs whereby costs were allocated based on demand and not on volume. This straight fixed variable rate design and allocates most of the costs based on customer demand in lieu of the traditional volumetric rates that were in effect. This type of rate recover favors high load factor customers and larger customers who use natural gas year round. AIG has proposed several rate tariffs with a declining block rate design which is more consistent with FERC Order 636 and 637 rate design, and more accurately reflects the cost of service.

Another objective of these FERC Order 636 and 637 was to provide open access to the natural gas market and unbundled interstate pipeline assets. AIG has proposed several tariffs consistent with the objectives of these orders including, giving more customers the option of buying through a third party, and introducing the Transportation Storage Option, TSO Rate, that gives transportation customers access to the benefits of storage assets. These customers still have the option of buying the bundled sales service through Atmos Energy Corporation.

Another objective of FERC Order 636 and 637 was to facilitate a competitive market where competing shippers could conduct business, and streamline the costs of natural gas delivery. AIG's transportation tariff proposals have similar objectives to facilitate competition and add flexibility to the balancing/penalty rules to streamline costs for Atmos customers.

AIG's tariff proposals are designed to pass through similar changes that would more accurately reflect cost of service, provide more customers supplier choice, unbundled storage assets and flow this value to the ratepayers, and increase flexibility of system to facilitate competition and lower costs for customers.

10. On Page 2 of your testimony, you state that "[t]he TRA has already addressed these tariff changes for Chattanooga Gas Company and Nashville Gas Company in previous rate cases." Please identify:

(i.) The case in which the TRA addressed these tariff changes;

(ii.) How the tariff changes were addressed; and

(iii.) Any differences with the Chattanooga Gas Company and Nashville Gas Company tariffs, and any differences of those tariffs with the tariffs you have proposed.

<u>RESPONSE:</u>

See Response to Question 6 and the TRA's final orders in dockets 03-00313 and 04-00034.

11. Identify the exact name of the customers that engaged you (i.e. the specific Atmos customers that comprise the Intervention Group).

RESPONSE:

Koch Foods, Inc. and Berkline LLC

12. For each customer that you are representing in this proceeding, please identify:

(i.) The customer name and place of business;

(ii.) The monthly and annual volume;

(iii.) Whether they are currently transporting;

(iv.) Whether they are eligible to transport; and

(v.) Whether they are firm or interruptible.

<u>RESPONSE:</u>

Question withdrawn.

13. On page 2 of your testimony, you proposed five "changes be made to [Atmos'] existing tariffs." Identify exactly how each of the five changes that you are proposing will affect (both positively and negatively) the customers that have engaged you and that you identified in your previous response as being members of the Intervention Group.

RESPONSE:

Both Koch Foods, Inc. and Berkline LLC have larger firm accounts that are currently served under Atmos's rate schedule 220. Both Koch and Berkline would benefit from the proposed rate schedule 230 since their larger volume gas usage would have gas billed under the 2nd tier block which is significantly discounted from the 1st tier of the proposed rate.

Both Koch Foods, Inc. and Berkline LLC could potentially benefit from the proposed Rate Schedule 240 since a few of their firm accounts will qualify under the proposed Availability provisions. The savings from this proposal will depend on several factors including the firm account's load factor and billing demand, and the final rate approved by the TRA.

Koch Foods, Inc. and Berkline LLC could potentially benefit from the proposed TSO rate depending on whether or not they were the high bidder for the storage gas, and the price of gas in storage relative to future winter pricing.

Koch Foods, Inc. currently transports gas under the rate schedule 260 and would potentially benefit from the proposed changes by AIG. The proposed changes seeks to clarify balancing and penalty language and align these costs with Atmos Energy's actual exposure. Koch Foods, Inc. would benefit since these proposed changes would foster increased competition and lower transportation rates.

Berkline LLC would be eligible to transport gas under the proposed Rate Schedule 265. The proposed Rate 265 would make transportation available to more customers, however, any potential cost benefits would be based on the costs of transporting gas versus buying gas through Atmos Energy's PGA.

14. Have you (Hal Novak) ever worked with or consulted with Earl Burton on any previous occasions? Please identify all such occasions and all customers of Earl Burton with whom you have had contact.

RESPONSE:

From 1999 through 2003, both Mr. Novak and Mr. Burton were employees of AGL Resources. In 2003 and 2004, Mr. Burton was employed as a consultant by the Tennessee Regulatory Authority under Mr. Novak's supervision, while Mr. Novak was Chief of the Energy & Water Division of the Tennessee Regulatory Authority.

Mr. Novak has had no contact with the customers of Mr. Burton.

15. On page 3, line 16 of your testimony you state that "[i]t 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." Please explain who you are referring to when you say "our" and identify exactly what experience, contact and engagements with the "typical smaller customer" that forms the basis for this statement.

RESPONSE:

By "our" we mean the collective experience of Atmos Intervention Group. In this specific example, Mr. Novak is referring to the complaints from the Company's customers that he responded to while he was Chief of the Energy & Water Division at the Tennessee Regulatory Authority.

16. **Produce all documents constituting, relating or referring to engagement agreements and other communications between the Intervention Group and William H. Novak (or WHN Consulting).**

RESPONSE:

There are no engagement agreements or similar documentation between the Atmos Intervention Group and either William H. Novak or WHN Consulting.

17. How much are you [Hal Novak] being paid for your services in this case? Please identify your hourly rate, how many hours you spent preparing your testimony, and the total billings in this case to date.

<u>RESPONSE:</u>

Mr. Novak will receive one-third (1/3) of the net proceeds from the clients of Atmos Intervention Group when this case is completed. There is no hourly rate charged, and there are no records kept of Mr. Novak's time in preparing his testimony on behalf of the clients of Atmos Intervention Group.

18. Who is paying your invoices for your work in this case? Produce all documents constituting, relating or referring to any payments made to Hal Novak or WHN Consulting for services rendered in this case, including but not limited to copies of all drafts, checks invoices, and billing letters.

<u>RESPONSE:</u>

See response to Question17.

19. Identify all persons with whom you spoke or consulted about your testimony before you filed it. Specifically, and without limitation of the foregoing, please identify:

(i.) All persons at Berkline who you spoke to;

(ii.) All persons at Koch Foods who you spoke to;

(iii.) All persons on the Staff that you spoke to;

(iv.) All persons at the CAPD that you spoke to; and

(v.) Whether you spoke to Earl Burton.

RESPONSE:

Mr. Novak has not had any conversations with the employees or management of Berkline or Koch Foods. Mr. Novak had no conversations with the Staff about his testimony. Mr. Novak did speak with Dan McCormac at the CAPD about his testimony. As mentioned already in our response to Item 3, Mr. Novak collaborated with Earl Burton on his testimony.

20. On page 3 of your testimony, you state that "[w]e recommend that the 2nd tier rate apply to all consumption greater than 5,000 Ccf per month, and that the rate be reduced by 50% of the 1st tier rate." If the threshold is lowered, how many more customers would be eligible? What effect will your proposal have on Atmos' margin?

<u>RESPONSE:</u>

We are awaiting the Company's response to our second data request in order to determine exactly how many customers would be eligible for the second tier rate.

Because the rates ultimately approved by the TRA in this proceeding will be designed to produce the Company's total revenue requirement, there will be no effect on Atmos' margin.

21. Are you proposing a difference in the sales rate and transport rates? Please explain.

<u>RESPONSE:</u>

Yes. This is explained in Mr. Novak's prefiled testimony.

22. Do your proposed changes result in a margin loss to Atmos? How are you proposing this margin loss would be recovered?

<u>RESPONSE:</u>

Because the rates ultimately approved by the TRA in this proceeding will be designed to produce the Company's total revenue requirement, there will no margin loss.

23. On page 9 of your testimony, you state that "[i]t 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 would then be recovered through the base rates." Please identify:

(i.) The cost you have estimated for Atmos providing telemetering equipment, if any;

(ii.) Whether you believe it is discriminatory for current customers to have paid the cost and new customers' to get telemetering at the expense of the other ratepayers; and

(iii.) Explain why you believe other rate payers should pay for the added costs of a transportation customer.

RESPONSE:

We have not estimated the total costs of telemetering equipment, but expect the cost to be approximately $500 to $750 for each new customer.

We do not believe that changing the policy for telemetering equipment is discriminatory for any customer group. Rate policies often get changed for various reasons with the related impact felt on different customer groups (eg: a change in WNA procedures). The cost of telemetering for new customers is not being provided "at the expense of other ratepayers" but rather by the higher anticipated usage from the type of customers that need telemetering equipment.

We have yet to see any evidence placed in the record supporting the conclusion that the cost to serve a transportation customer is any greater than the related cost to serve a sales customer.

24. Please explain whether you believe economic development rates are a good thing?

RESPONSE:

We believe that economic development rates, if necessary, can only be justified on a case-by-case basis.

25. On page 5 of your testimony you state that "[s]ince 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." Please identify:

(i.) Your source for this statement;

(ii.) The large commercial/industrial customers that have left;

(iii.) The gas marketers those customers are now buying gas through; and

(iv.) Produce all documents relating or referring to this statement.

<u>RESPONSE:</u>

This statement reflects our understanding of the general trends in the gas industry for larger gas users to buy their gas through a third party in lieu of the traditional bundled sales rates. The Company can confirm this trend by comparing their current test year volumes for transportation volumes versus the transportation volumes forecasted in their latest rate case in 1995.

26. On page 8 you state that you "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." Please identify which entities will face increased competition, and by whom.

RESPONSE:

The Company's wholly owned marketing affiliate, Atmos Energy Marketing, will face increased competition from numerous smaller marketers once a level playing field for competition is created.

27. Please identify all options that exist for transportation customers to use hedging tools for price stability other than storage.

<u>RESPONSE</u>:

The options available for transportation customers will depend on many factors depending on marketer offerings available to transportation customers and transportation customer's credit worthiness. These options may or may not include buying fixed gas for a contract term, or some type of call option that would cap the price of gas paid in a certain time period.

28. On page 10, line 2, you state that "[t]he other large gas utilities under the TRA's jurisdiction already have these same features in their tariffs." Please produce all documents constituting, relating or referring to the other large gas utilities tariffs that you are relying on for this statement.

RESPONSE:

We are referring to the tariffs of Nashville Gas Company and Chattanooga Gas Company. These tariffs are already on file at the Tennessee Regulatory Authority and available on the websites of both companies. See also the Response to Question 6.

29. Please identify any harm to the Intervention Group customers in leaving the current rate schedules intact.

<u>RESPONSE:</u>

If the current rate schedules remain intact, then Berkline, LLC and Koch Foods, Inc. will have accounts that are paying more than the costs of service in lieu of the declining block rate structure proposed by AIG. Furthermore, Koch Foods, Inc. and Berkline, LLC will have fewer options and may not be able to transport gas through a competitive marketer. If the current transportation tariffs remain in effect, then Koch Foods, Inc. will have fewer competitive options and will likely incur higher balancing costs with transporting their gas. See also the Response to Question 13.

30. **Would your proposed changes require Atmos to use additional resources or incur additional costs? Why or why not? If yes, please identify all such additional resources and/or costs.**

RESPONSE:

We feel that most of the proposed tariff changes would not require additional resources with the exception of the remote metering equipment for new transportation customers. However, since new transportation customers will be buying and managing their own gas commodity, there are related costs associated with this function that the Company will not longer incur, the net cost to the Company will be minimal.

31. Please identify all facts which support your position that there should be two-tier system and that the second tiered block should have a lower rate. Have you done an analysis of the specific characteristics of the Atmos customers 220, 230, 240, etc. rate schedule?

<u>RESPONSE:</u>

We are awaiting the Company's response to our second data request in order to determine the specific characteristics of the customers on Rate Schedules 220, 230, 240, etc. However, the policy of the TRA with respect to the commercial and industrial tariffs for the other large gas utilities in Tennessee, reveals that declining block rates are appropriate.

32. On page 12 of your testimony, you state "I have reviewed [the prefiled testimony and exhibits of the CAPD] for this case. AIG agrees with the CAPD's calculation of revenue surplus for this case and recommends [sic] that it be adopted by the TRA." Please identify:

(i.) Exactly when you received the CAPD's testimony;

(ii.) How long you took to review it;

(iii.) What independent analysis you did of their conclusions and approach;

(iv.) Anything that you do not agree with;

(v.) Whether you reviewed the Staff's prefiled testimony and exhibits;

(vi.) What independent analysis you did of the Staff's conclusions and approach;

(vii.) Anything in the Staff's analysis that you do not agree with;

(viii.) All documents which were provided to you by the CAPD or the Staff related to this proceeding.

Specifically, please produce all documents comprising, relating or referring to the exact copy of the prefiled testimony and exhibits that you were given to review, and all communications with any person at the CAPD or Staff with whom you discussed your testimony prior to filing.

<u>RESPONSE:</u>

We received a copy of the CAPD's pre-filed testimony and exhibits approximately five (5) days before it was filed with the TRA. We spent approximately two to three days reviewing this information, which we compared to the Company's present monthly earnings, investment and return calculations on file with the TRA. There was no information contained in the CAPD's pre-filed testimony or exhibits that we specifically disagreed with at the time it was reviewed.

We did not review the Staff's pre-filed testimony and exhibits.

Mr. Novak discussed his pre-filed testimony with Mr. Dan McCormac of the CAPD's office on at least one occasion by telephone.

33. **You stated you agree with the CAPD's calculation of revenue surplus. Explain why you believe the use of 12 months ended September 30, 2006, as the CAPD did, is appropriate for these proceedings.**

RESPONSE:

In our opinion, the use of any specific test period or adjusted period can be appropriate for a rate case if the necessary timing adjustments are made. Our review of the CAPD's testimony and exhibits indicated to us that they had made the appropriate adjustments for their adjusted test period.

34. During your tenure as Chief of the Energy & Water Division of the Tennessee Regulatory Authority, "where [you] had either presented testimony or advised the Authority on a host of regulatory issues for over 19 years," please identify:

(i.) The TRA's policies and procedures with regard to the appropriate attrition year to be used in setting rates;

(ii.) Any case in which the TRA used an attrition year that was not forward looking from the date of the order; and

(iii.) Provide copies of any testimony which you presented during those 19 years where you have testified on an attrition year.

RESPONSE:

To our knowledge, the TRA has no written policy or procedure with respect to the appropriate attrition year to be used in setting rates. This issue is generally decided by the TRA on a case-by-case basis.

As mentioned in Item 2, Mr. Novak has given testimony before the Tennessee Regulatory Authority and its predecessor the Tennessee Public Service Commission, on numerous occasions since 1982. His testimony is contained within the public record of the dockets at the TRA. Mr. Novak does not currently have any copies of his prior testimony.

35. **During your tenure as director of Rates & Regulatory Analysis "for two years with Atlanta Gas Light Company, a natural gas distribution utility with operations in Georgia and Tennessee," and your service "for two years as the Vice President of Regulatory Compliance for Sequent Energy Management, a natural gas trading and optimization company in Texas," please identify:**

(i.) **The TRA's policies and procedures with regard to the appropriate attrition year to be used in setting rates;**

(ii.) **Any case in which the TRA used an attrition year that was not forward looking from the date of the order; and**

(iii.) **Provide copies of any testimony which you presented during those 4 years where you have testified on an attrition year.**

RESPONSE:

See response to Question 34. In addition, Mr. Novak cannot speak to policy of the TRA during a time period when he was employed elsewhere. Mr. Novak did not present any testimony during this four year period that dealt with attrition period concepts.

36. For each gas rate in Tennessee in which you have been involved in any capacity, please identify the date of the Order and the attrition year used.

RESPONSE:

During his employment with the Tennessee Regulatory Authority, and its predecessor the Tennessee Public Service Commission, Mr. Novak was involved in some capacity with almost every gas utility rate case since 1982. However, Mr. Novak does not have a catalog of the dates of the TRA's orders in these cases or the attrition period adopted.

37. **Have you reviewed Atmos's prefiled testimony and exhibits provided in this proceeding? Do any of Atmos's proposals address any of the issues that you raise in your testimony? Please explain.**

RESPONSE:

In my opinion, the changes to the Company's Rate Schedule 260 will result in the following disadvantage to Atmos customers. First, it will discourage competition and competitive suppliers by increasing penalties, balancing costs and monitoring costs involved with serving Atmos customers. Secondly, it will increase costs for transportation customers with tighter balancing rules and increased penalties. Third it will favor Atmos's marketing affiliate since they will have the largest pool thus balancing costs will be lower.

38. **On page 43 of your testimony, you state that "[w]e 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." Please identify all facts which support this statement, and identify:**

(i.) Why you believe that 25,000 Ccf is appropriate;

(ii.) What you believe customers of this size would save were your suggestions to be adopted;

(iii.) Whether you have considered the risk of penalty for this customer if your suggestion were adopted, and whether those increases are due to their inability to nominate;

(iv.) What risk management tools would be available and whether, as the monthly volumes get smaller, fewer risk management tools are available to the customer; and

(v.) Whether you agree that risk management tools benefit large volume customers much more than small volume customers.

RESPONSE:

In today's environment we believe that smaller customers desire the option and of transporting their natural gas and having the opportunity of managing their own gas costs. However, there is an economic threshold whereby the effort does not justify the potential benefits of transportation. We have estimated this threshold at 25,000 Ccf per year. A small commercial customer of this may or may not save depending on a number of variables, however, they would have fixed pricing options available to them to hedge their natural gas cost exposure. The penalty risk to transportation customers will depend on their agreement with their transporter, and may not expose them to any more risk compared to the Atmos Bundled Sales Schedules. We would anticipate that fixed price risk management products would be offered to small transportation customers. In Georgia's deregulated market, fixed price gas offerings are available to residential and small customers, therefore, we do not anticipate a problem with hedging small volumes. Relative to the benefits of risk management tool benefits, customers with higher volume gas usage have greater financial risks than lower volume gas customers, and will more likely subscribe to risk management tools as compared to smaller customers. However, the perceived benefits to a smaller customer may be as important to a large customer based on many considerations. Therefore, we would not necessarily agree that risk management tools benefit large customers more than smaller customers.

39. **Please provide a detailed explanation of how each of the tariff changes you have proposed, if implemented, will impact the business of WHN Consulting or Earl Burton, including without limitation whether such changes would increase the number of potential clients or the ability to gain clients.**

RESPONSE:

The proposed tariff changes are intended to benefit the members of AIG as explained in the Response to Question 13. None of these proposed changes is intended to benefit WHN Consulting or Mr. Burton's business.

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 4 day of August 2006.

Henry M. Walker