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August 27, 2006

VIA HAND DELIVERY

Vance L. Broemel, Esq.
Joe Shirley, Esq.
Office of Attorney General
Consumer Advocate and Protection Division
P.O. Box 20207
Nashville, TN 37202

Re: *In re: Petition to Open an Investigation re: Atmos Energy Corp.*
Docket No. 05-00258

Dear Vance and Joe:

In preparing for the case and reviewing the discovery produced from the Consumer Advocate ("CAPD") and Staff, it has come to our attention that there may be some confusion regarding the Barnsley Storage Fee incurred by Atmos Energy Corporation ("Atmos" or the "Company") and identified on Exhibit GW-2 to the testimony of Greg Waller. Because some of the CAPD's testimony seems to imply that Atmos' treatment of the Barnsley Storage fee is somehow different than the CAPD's treatment of the same issue, this letter is intended to provide some additional information. We believe that a careful review of the issue now will save valuable time at the Hearing in this matter.

The Required Regulatory Treatment of the Fee. The Barnsley Storage Field is a depleted natural gas field the Company's storage affiliate (then known as UCG Energy) purchased in 1989 to provide storage to benefit the Tennessee ratepayers. UCG Energy took title to the Storage Field, and leased it to Atmos to use for the Tennessee ratepayers, in exchange for a monthly fee. The Tennessee Public Service Commission ("PSC") approved the purchase and use of the Barnsley Storage Field in 1989 in Docket No. 89-10017. Atmos injects gas into the Barnsley Storage Field during the off-season when gas prices are low, and withdraws the gas from storage during the during periods of peak consumption, when the prices are higher, which allows the Tennessee ratepayers to benefit from the lower injected price during periods of higher prices. The PSC ordered that for ratemaking purposes, it would ignore the fact that Atmos leased the Barnsley Storage Field from the Company's storage affiliate and would instead treat the Barnsley Storage Field as if it is owned by Atmos. This is similar to the ratemaking treatment of other property that Atmos leases from its affiliates.

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2015477-000029

The ratemaking treatment of the Barnsley Storage Field is memorialized in the order from Atmos' last rate case, TRA Docket No. 95-02258, where the following Stipulation and Agreement was made:

> [United Cities Gas Company ("UCGC")] will by year-end make a good faith effort to modify the PSC 3.03 monthly report to include in rate base the assets leased between UCG Energy (Energy) and UCGC with corresponding adjustments for rental expense, depreciation expense and income taxes. The Company will provide a detailed report on a monthly basis which shows the calculation of the above information.

(11/20/1995 Order in Docket No. 95-02258 at App. A, ¶ 1.) We have attached a copy for your convenience as **Exhibit A**. In other words, for ratemaking purposes, Atmos was to be treated as if it owned the leased assets, which included the Barnsley Storage Field. Consequently, the monthly rental fee Atmos pays to its storage affiliate is not recovered through the PGA, nor is it billed to the Tennessee ratepayers, through base rates or otherwise. Instead, for ratemaking purposes, two calculations are performed: (1) the net investment for the Barnsley Storage Field is included in Atmos' rate base; (2) the depreciation and operating expenses related to the Barnsley Storage Field are included in the Company's expenses. This ratemaking treatment results in a revenue requirement that is approximately $900,000 lower than if Atmos included the monthly fee as a gas cost or other expense.

Atmos' Per Book Treatment of the Fee. Per its books, Atmos pays the Barnsley Storage Fee as a rental fee for the use of the Barnsley Storage Field for the benefit of Tennessee ratepayers. However, for regulatory purposes, the TRA Order in Docket No. 95-02258 requires that Atmos be treated as if it owns the assets.

For purposes of the 3.03 reports and Atmos' per book gross margin, the Barnsley Storage fee is treated as part of the Company's gas cost, reflected in the "Production" line of the Monthly Report of Tennessee Revenues, Expenses and Investments—Gas Companies. As an example, from the December 2004 Report:

Chart # 1: Atmos Gross Margin Per Books December 2004 Report Example		
Total Operating Revenues	$169,336,539	Includes all Residential Sales, Commercial & Industrial Sales, and Other Sales Revenue
Production	$115,336,539	Includes all Gas Costs, including (i) those gas costs recovered through the PGA and (ii) the Barnsley Storage Fee
Total Gross Margin (per books)	**$53,857,422**	**Represents the Gross Margin Per Books, which is net of the Barnsley Storage Fee as an unrecoverable gas cost**

A copy of the December 2004 Report is attached as **Exhibit B**. However, to adjust for the regulatory treatment, the Tennessee Supplemental Financial Data includes an adjustment to: (1) remove from expenses the monthly fee that was added to gas costs for booking purposes; (2) add in the depreciation and operating expenses; (3) add the net investment to rate base. These adjustments reflected as follows:

5	**Net elimination of intercompany leased property**	7,829,500
20	**Elimination of leased property: Decreased rent**	2,151,549
21	**Elimination of leased property: Increased Depreciation Expense**	(238,214)
22	**Elimination of leased property: Tax effect**	(717,497)

This treatment on Atmos' 3.03 Reports is consistent with the Order in Docket No. 95-02258 that disallows the inclusion of monthly fee in the rates (or through the PGA), and requires that, for ratemaking purposes, Atmos treat the Barnsley Storage Field as if it were owned by Atmos.

Atmos' Treatment of the Barnsley Storage Fee in this Case. In preparing the priceout in this case, Atmos used detailed billing determinants to calculate Atmos' margin for the attrition period twelve months ended September 30, 2007. Obviously, the priceout assumes that all the gas cost Atmos incurs will be recovered through the PGA. However, to convert the priceout to gross margin per books (i.e., as is reflected on Chart # 1), the Barnsley Storage Fee must be included as part of gas cost. Thus, the priceout must be adjusted per books to reflect the Barnsley Storage Fee as is reflected on the following chart with the data from GW-2:

Chart # 2: Atmos Gross Margin Per Books Using the Priceout as Reflected in GW-1		
Subtotal	$53,898,370	Includes Revenues Less Gas Costs recovered through the PGA
Barnsley Storage Fee	$1,818,133	
Total Gross Margin (per books)	**$52,080,237**	**Represents the Gross Margin Per Books, which includes the Barnsley Storage Fee as an unrecoverable gas cost**

To complete the ratemaking adjustments, as done on the 3.03, Mr. Thomas Petersen then adjusted Atmos' expenses to: (1) remove the rent from expenses; (2) add in the depreciation and operating expenses; and (3) add the net investment to rate base. The expenses on THP-4 include an adjustment which reduces expenses in the amount of the Barnsley Storage Fee and other leased properties treated the same way. THP-4 has the following "negative" expense (i.e. it reduces expenses):

Net elimination of intercompany leased property	(2,079,882)

Therefore, this negative expense reduces expenses in the same amount that margin was adjusted in Mr. Waller's GW-2 to properly reflect per books margin, and results in a complete elimination of the Barnsley Storage Fee for ratemaking purposes.

Atmos Learns that Confusion Exists as the Barnsley Storage Fee. Mr. McCormac stated in his testimony that that "CAPD Second Discovery Item # 26, asked for supporting documentation and explanation of the $1,818,133 "Barnsley Storage fee" being subtracted from gross margin by company witness Waller on Schedule GW-2 to arrive at his estimate of $52,080,237. The reply to Item #26 gave no support for adjusting revenues or gross margin." (McCormac Rebuttal at p. 2.)

The Barnsley Storage Fee was not raised as an issue by any Mr. McCormac or any other CAPD witness until rebuttal testimony, which was filed after Atmos responded to the data request referenced in Mr. McCormac's testimony (DR #26). DR #26 (attached as **Exhibit C**) asked very specific questions as to the purpose of the Barnsley Storage Fee, the amounts that comprised the fee, and whether the fee has ever been billed to customers. Because the Company was not aware of any questions or issues concerning the reason the fee was subtracted from the margin on Mr. Waller's Schedule GW-2, the Company answered the specific questions posed by DR #26, and explained what the fee was for, how much it was, and stated that it has never been billed to customers. At the time Atmos filed its response, it appeared from the questions in DR#26 that there may have been some questions concerning the amount of the fee. Atmos clearly answered the questions that were posed regarding the purpose and amounts of "the Barnsley Storage fee ***as subtracted*** from the margin on Schedule GW-2," without realizing that the CAPD may have been actually asking "why" the fee was subtracted from margin. That explanation is above.

The CAPD Treats the Barnsley Storage Fee the Same Way. To calculate his margin estimate, Mr. McCormac trended the per book margins from the 3.03 reports. *See* 7/17/2006 McCormac Direct at pp. 1-2, and DM 1 and DM-2. In other words, Mr. McCormac's treatment of the inclusion of the Barnsley Storage Fee is exactly the same as Atmos' treatment.

Similarly, Mr. Buckner's treatment of the expense adjustment to the account for the Barnsley Storage Fee is exactly the same as Mr. Peterson's. As reflected on the summary exhibit TB-1:

CAPD Exhibit TB-1 Treatment of the Barnsley Storage Fee Expense Adjustment				
LINE #	**DESCRIPTION**	**A/ COMPANY FORECAST 2007**	**Adjustment**	**B/ CAPD FORECAST 2007**
21	Elimination of leased property; Decreased Rent	2,079,882		2,079,882

For convenience, a copy of TB-2 is attached as **Exhibit D**.

Conclusion. We hope that this letter clears up any confusion regarding the treatment of the Barnsley Storage Fee so that the parties can concentrate on the myriad of issues that are actually in dispute at the very short hearing scheduled in this matter.

Very truly yours,

Misty Smith Kelley
Clinton P. Sanko
For the Firm

CPS:lgg

Enclosure

cc: See attached service list

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing has been hand-delivered, e-mailed or faxed and mailed to the following parties of interest this __ day of August, 2006.

Vance L. Broemel
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____

BEFORE THE TENNESSEE PUBLIC SERVICE COMMISSION

Nashville, Tennessee

November 20, 1995

IN RE: PETITION OF UNITED CITIES GAS TO PLACE INTO EFFECT REVISED TARIFF SHEETS

DOCKET NO. 95-02258

ORDER

This matter is before the Tennessee Public Service Commission upon the Petition of United Cities Gas Company for a rate increase of $3,950,613 in annual revenue. The Petition was filed on May 15, 1995, and was heard by the Commission on October 11, 1995. Sitting at the hearing were Chairman Keith Bissell, Commissioner Stephen O. Hewlett, and Commissioner Sara Kyle.

Appearances were as follows:

For the Petitioner:

Jack M. Irion
Bomar, Shofner, Irion & Rambo
P. O. Box 129
Shelbyville, TN 37160

For the Intervenors
Associated Valley Industries Intervenor Group:

Henry Walker
Boult, Cummings, Conners & Berry
414 Union Street
Suite 1660
Nashville, TN 37219

For the Intervenor
Consumer Advocate Division, Office of the Attorney General:

David Yates and Steven A. Hart
Consumer Advocate Division
404 James Robertson Parkway
Suite 1504
Nashville, TN 37243-0500

EXHIBIT
A

Special and Limited Appearance
For the Commission Staff :

Jeanne Moran, Legal Counsel
Tennessee Public Service Commission
460 James Robertson Parkway
Nashville, TN 37243-0505

The Commission has considered the Petition, Exhibits, testimony of witnesses, and the resolution of the issues as described below. In accordance with Tennessee Code Annotated § 4-5-314, the Commission makes the following findings of fact and conclusions of law:

I. Description of Petitioner:

United Cities Gas Company ("United Cities," "Company," or "Petitioner") is a natural gas distribution company, organized and existing under the laws of the States of Illinois and Virginia. It operates franchises in the following areas of Tennessee which will be affected by the revised tariffs filed herewith, to-wit:

(1) Bristol, Tennessee, and environs in Sullivan County;

(2) Columbia, Tennessee, and environs in Maury County;

(3) Elizabethton, Tennessee, and environs in Carter County;

(4) Franklin and Nolensville, Tennessee, and environs in Williamson County;

(5) Greeneville, Tennessee, and environs in Greene County;

(6) Johnson City and Jonesboro, Tennessee, and environs in Washington County;

(7) Kingsport, Tennessee, and environs in Sullivan County;

(8) Lynchburg, Tennessee, and environs in Moore County;

(9) Maryville and Alcoa, Tennessee, and environs in Blount County;

(10) Morristown, Tennessee, and environs in Hamblen County;

(11) Murfreesboro, Tennessee, and environs in Rutherford County;

(12) Shelbyville, Tennessee, and environs in Bedford County;

(13) Spring Hill, Tennessee, and environs in Maury and Williamson County;

(14) Union City, Tennessee, and environs in Obion County.

United Cities last filed an application for general rate relief in the year 1992 in Docket No. 92-02987. Since 1970, United Cities' rates have been subject to a Purchased Gas Adjustment (PGA) provision in its rate tariff which permits the Company to track increases or decreases in its purchased gas cost. This PGA has periodically been revised pursuant to the generic proceeding in Docket No. G-86-1 and also United Cities' Application To Establish An Experimental Performance-Based Ratemaking Mechanism (Incentive Ratemaking) in Docket No. 95-01134. United Cities' rates are also subject to a Weather Normalization Adjustment (WNA). Said WNA was modified and made permanent pursuant to the Commission's Order of June 21, 1994 in the generic proceeding in Docket No. 91-01712.

II. Criteria for Establishing Just and Reasonable Rates.

The Commission has traditionally considered petitions such as this one, filed pursuant to Tennessee Code Annotated §65-5-203, in light of the following considerations:

1. The investment or rate base upon which the utility should be permitted to earn a fair rate of return.
2. The proper level of revenues for the utility.

3. The proper level of expenses for the utility.

4. The rate of return the utility should earn.

5. The safety, adequacy and efficiency of the services provided by the utility.

III. <u>Prehearing Conference; Hearing; Resolution of Issues</u>

The parties attended a prehearing conference on October 2, 1994, conducted by Administrative Judge Ralph B. Christian, II. Prior to the date of the prehearing, there had been informal settlement negotiations, however, no settlements had been reached at the time of the prehearing conference. Nor were there any settlements of any contested issues at the prehearing conference. The parties did agree to certain adjustments which were in the nature of a correction of errors or of a correction of methodology. But beyond these minor adjustments, no resolution of contested issues was reached.

This matter came on for hearing, as stated above, on October 11, 1995. Counsel for the various parties identified their prefiled testimony and exhibits. The first witness called was John Antonuk, whose presence was obtained by the Commission's Staff. Mr. Antonuk was the project manager for the management audit conducted pursuant to the Company's agreement in its last general rate case, <u>Docket No. 92-02987</u>. Mr. Antonuk was examined by the parties concerning the findings of the management audit team and whether those findings should be applied in a rate case environment. He also was questioned as to the detail of the findings and whether they could be tied to the test period.

Following Mr. Antonuk's testimony, the Company presented witnesses, Gene C. Koonce, Michael R. Walker, David P. Vondle, and Morris H. Jacobs. Following a recess, the Commission's Staff made a special and limited appearance for the purpose of discussing and explaining a settlement reached by the Commission Staff with the Petitioner in regard to the management audit mentioned hereinabove. That settlement and the Commission's action thereon are discussed below. The Staff's witness for this limited purpose was William H. Novak.

Following Mr. Novak's testimony, the Company continued with witnesses, Walter S. Hulse III and James B. Ford. Following these witnesses, as set out hereinbelow, there were further settlement discussions which eliminated the need for further witnesses to take the stand. At the conclusion of the hearing, the parties moved for the admission of all prefiled testimony and Exhibits, and this motion was granted.

Prior to the hearing, the Company and the Staff reached an agreement as to certain issues arising from the Company's management audit mentioned hereinabove. This agreement was reached without the concurrence of the intervenors. The Commission's Staff, as stated above, made a special and limited appearance for the purpose of presenting and explaining this settlement. The settlement, in the form of a Stipulation and Agreement dated October 6, 1995, was admitted into the record as Exhibit No. 26 and is attached as Appendix A to this Order. The Commission's action upon this Stipulation and Agreement is described below:

During various recesses at the hearing, the parties continued settlement discussions. Upon representation of the parties that a complete settlement might be possible, the Commission allowed additional time for further discussions. Subsequently, the parties announced to the Commission that they believed an overall settlement on revenue deficiency could be reached if the Commission could give an indication of what its action would be upon the aforementioned Stipulation and Agreement attached hereto as Appendix A. This settlement involved $1,502,000 of proposed disallowances. The settlement would permit the Company to recover those amounts in return for the Company's agreement as to certain accounting and reporting practices, all as set forth in Appendix A.

The Commission indicated that it believed that the Company had borne the burden of proof on these issues and that the Stipulation and Agreement attached hereto as Appendix A should be approved as part of any overall settlement. The Commission did, however, indicate that its action should not be viewed as any indication that the Company should close any customer service centers in any of the neighborhoods or areas that are currently served, or where those currently exist. The Company agreed to continue to study these issues, but stated that its general philosophy was to continue on a town-oriented customer service approach (see the discussion on this point at pages 195-197 of the official transcript).

Thereafter, the parties announced that a settlement had been reached on revenue deficiency. This settlement involves what is commonly referred to as a "black box settlement", whereby the issues are settled by agreeing upon a bottom line revenue deficiency without any elaboration as to the resolution of specific contested issues. The Company did file as a part of this case recovery of SFAS 106 costs in accordance with Docket No. 92-14631 (C) and the Compliance Audit Report dated September 13, 1995. No exceptions were filed to recovery of the SFAS 106 costs.

The parties stated that they would continue to discuss the issue of rate design and would present an overall settlement, including rate design, or would request an additional short hearing from the Commission on this one issue. The Commission approved this approach, and then the hearing was adjourned.

IV. The Settlement.

A. Methodology and Underlying Principles.

The parties agreed at the outset, and it is specifically understood that their settlement represents a negotiated settlement in the public interest with respect to the various rate matters described. Neither United Cities, the Commission, its Staff, nor the Intervenors shall be prejudiced or bound thereby in any other proceeding except as specifically provided herein. Neither United Cities, the Commission, its Staff, nor the Intervenors shall be deemed to have approved, accepted or agreed to any concept, methodology, theory, or principle underlying or supposed to underlie any of the matters provided for in said settlement except as specifically provided.

B. Revenue Deficiency.

After extensive discussions, the Company and the intervenors agreed upon a revenue deficiency of $2,227,000, which figure includes the sum of $1,502,000 that is the subject of the Stipulation and Agreement attached hereto as Appendix A. The Commission, upon consideration of all evidence, finds the settlement as to revenue deficiency to be reasonable and approves the same.

C. Rate Design.

By letter dated October 24, 1995, the Office of the Consumer Advocate notified the Commission that as of that date the parties had been unable to reach an agreement on rate design. The Commission, therefore, set this matter for a further hearing on November 7, 1995. At this hearing, however, it was announced that in the interim period an agreement on rate design had been reached. Under the terms of said agreement, the Company's interruptible industrial customers and customers billed at interruptible rates (Rate Schedules 240 and 250) would receive a rate increase equivalent to $0.050 per Mcf. The remaining portion of the revenue deficiency discussed in Subsection B would be spread in equal percentages to the remaining customer classes (See Appendix B). Subsequent to the November 7, 1995, hearing, it was determined that there was a misunderstanding as to the exact agreement with regard to the interruptible customer class. The parties' agreement was for a $0.050 increase to the interruptible customer class as a whole. The Company and the industrial intervenors also agreed to certain changes within that customer class. The Consumer Advocate took no position about changes within the interruptible industrial class so long as the total revenue to be recovered from that class did not change. The changes outlined below only affect rates within the interruptible class and do not affect the total revenue to be recovered from that class. The changes are (1) the customer surcharge is increased from $280 to $310; (2) usage in the first rate block is increased by $0.10 per Mcf; (3) usage in the second rate block is increased by $0.021 per Mcf; and (4) a new third rate block price of $.329 per Mcf is created for usage over 50,000 Mcf per month. In reaching just and reasonable rates the Commission considers, among other things, the utility's total cost, the value of the service provided to individual customers or customer groups, the impact of the rate change on the various classes of customers, and customers' ability to convert to alternate fuels. Taking these factors into consideration, the rate design appears to be reasonable and is approved, subject to the submission and approval of appropriate tariff sheets.

D. Transition Costs.

By Order dated February 9, 1995, the Commission, upon it own Motion, opened a generic docket to determine the appropriate allocation of FERC Order No. 636 costs (commonly referred to as transition costs) of gas utilities in Tennessee. This generic docket was assigned Docket No. 94-04478. By further Order dated June 29, 1995, in the said Docket No. 94-04478, the Commission approved a settlement of this matter as to United Cities Gas Company. Said settlement provided, *inter alia*,

> "No final resolution of the transition cost issue should be made without consideration of the impact of the company's pending rate case. Therefore, the transition cost issue should be addressed during the rate design portion of the company's rate case."

Said settlement provided that United Cities should, effective August 1, 1995, begin charging all interruptible customers a transition cost surcharge of $0.050 per Mcf. At the hearing on

November 7, 1995, the parties announced that they had agreed that this transition cost surcharge to interruptible customers should be increased to $0.088 (See Appendix B). To the extent that the transition costs are increased to the interruptible customers, they shall be decreased to the remaining customer classes. The Commission, upon consideration of all evidence, finds the settlement as to transition costs to be reasonable and approves the same.

E. Other Tariff Issues.

Certain other tariff issues were also agreed to by the parties. It was agreed that the Company's existing Sales Adjustment Mechanism (SAM) applicable to its customer, Goodyear Tire & Rubber Company, located in Union City, Tennessee, should be continued as at present. The Company proposed that it implement a zero-based Purchase Gas Adjustment (PGA). In a zero-based PGA, all gas costs are removed from base rates and are included in the PGA. All parties agreed to this change provided that in the Company's future tariff filings it will show not only the base rate and the PGA, but also the combined rate. The Company agreed to this condition. This issue has no revenue impact. Certain other tariff changes were also sought by the Company in its filing and by way of certain changes announced at the hearing on November 7, 1995. These changes were minor in nature and were unopposed by any other party. None of said changes has any significant revenue impact. The Commission finds the aforementioned resolutions of tariff issues reasonable and the same are hereby approved. The parties also agree that the summer rate for residential customers will remain in effect.

F. Other Issues.

The remaining issues in this proceeding were likewise settled as between United Cities and the parties, and these settlements are incorporated in the above-described "black box settlement" as to revenue deficiency.

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

ATTEST:

Maria Givens

EXECUTIVE DIRECTOR's OFFICE

APPROVED FOR ENTRY:

BOMAR, SHOFNER, IRION & RAMBO

By: Jack M. Irion
Jack M. Irion
Attorney for United Cities Gas Company

BOULT, CUMMINGS, CONNERS & BERRY

By: Henry Walker JMI by permission
Henry Walker
Attorney for Associated Valley
Industries Intervenor Group

CONSUMER ADVOCATE DIVISION,
OFFICE OF THE ATTORNEY GENERAL

By: David W. Yates JMI by permission
David W. Yates
Associate Consumer Advocate

Before The
Tennessee Public Service Commission
Nashville, Tennessee

In the Matter of: Petition of United Cities Gas Company To Place Into Effect Revised Tariff Sheets	))))	Docket No. 95-02258

STIPULATION AND AGREEMENT

United Cities Gas Company (UCGC) and the Staff of the Tennessee Public Service Commission (Staff) hereby enter into this Stipulation and Agreement (S & A) for the purpose of resolving all issues, except the non-compete/consulting and equity funding fees, relating to the management audit which impacts the revenue requirement of UCGC. In order to avoid litigating and settling the $1,502,000 adjustment proposed by Consumer Advocate (CA), UCGC and Staff hereby agree to the following:

1. UCGC will by year-end make a good faith effort to modify the PSC 3.03 monthly report to include in rate base the assets leased between UCG Energy (Energy) and UCGC with corresponding adjustments for rental expense, depreciation expense and income taxes. The Company will provide a detailed report on a monthly basis which shows the calculation of the above information.

2. Both UCGC and Staff agree that the information necessary to calculate the proper accumulated deferred federal income tax on the leased assets is readily available for inclusion in subsequent rate case and this resolves the concern in the management audit finding 2.12-1.

3. The issues concerning the Company's management audit will be deemed to be resolved and no further adjustments, ratemaking or otherwise, except the non-compete/consulting and equity funding fees, will be proposed or made in any future proceedings before the Tennessee Public Service Commission.

4. The terms set forth in the Stipulation and Agreement are the results of negotiations among the signatory parties. Because the terms are

interdependent, if the Commission does not approve and adopt all of the terms of this Stipulation and Agreement, this Stipulation and Agreement shall be void and no signatory shall be bound by any of the agreement or provisions hereof.

5. This agreement may be executed in several counterparts and all so executed shall constitute but one and the same instrument binding all parties thereto, notwithstanding that all parties are not signatory to the same counterpart, each shall be fully effective as an original.

Executed this 6th day of October, 1995.

James G. Sager
James G. Sager
Senior Manager Accounting/Regulatory Affairs
UNITED CITIES GAS COMPANY

William H. Novak
Manager of Energy and Water
Tennessee Public Service Commission

APPENDIX B

Settlement = $2,227,000

	Per MCF		
Class of Service	Base Rate Increase (Decrease)	Transitition Cost Increase (Decrease)	Overall Increase (Decrease)
Residential A/	$ 0.167	$ (0.0280)	$ 0.139
Commercial (220)	0.141	$ (0.0280)	$ 0.113
Industrial - Firm	0.114	$ (0.0280)	$ 0.086
Interruptible	0.050	$ 0.0380	$ 0.088

REVISED

A/ Maintain summer/ winter rate differential.

ATMOS ENERGY CORPORATION
TENNESSEE SUPPLEMENTAL FINANCIAL DATA
TO THE TENNESSEE REGULATORY AUTHORITY 3.03 FOR
December-04

Line No.		Average for 12 Months to Date
1.	Gas plant in service	288,188,557
2.	Construction work in progress	4,902,147
3.	Materials and supplies/Storage gas	5,991,139
4.	Working capital	1,176,346
5.	Net elimination of intercompany leased property	7,829,500
6.	Unamoritized Maryland Way Gain	(83,536)
7.	Total (L1 thru L6)	308,004,153
	Deductions:	
8.	Depreciation reserve	120,083,311
9.	Unpaid for portion of materials and supplies	106,768
10.	Customer deposits (a/c 235)	5,467,985
11.	Contributions and advances in aid of construction	29,925
12.	Accumulated deferred tax-accelerated depreciation	29,541,051
13.	Unamortized investment tax credit-pre 1971 (a/c254102)	0
14.	Total (L8 thru L13)	155,229,040
15.	Rate Base (L7-L14)	152,775,113
16.	Net Operating Income	15,455,663
17.	Accrued interest on customer deposits	(328,079)
18.	Allowance for funds used during construction	0
19.	Gain on sale of Maryland Way Property	20,244
20.	Elimination of leased property: Decreased rent	2,151,549
21.	Elimination of leased property: Increased depreciation expense	(238,214)
22.	Elimination of leased property: Tax effect	(717,497)
23.	Total (L16 thru L22)	16,343,666
24.	Rate of Return (L23 by L15)	10.70%

CONTINUING SURVEILLANCE CONSIDERATIONS. Estimate the effect on net income of very significant, known changes occurring within the period covered by this report which are not fully reflected in the revenue and expense amounts shown in the report.

Net op income	16,343,666
Less interest	(6,724,769)
Net op inc less interest	9,618,897

Rate Base	152,775,113
Equity% for Dec 2004	47.47%
Equity	72,522,346
Return on Equity	13.26%

EXHIBIT
B

TRA-3.03 MONTHLY REPORT OF TENNESSEE REVENUES, EXPENSES AND INVESTMENTS-GAS COMPANIES

Atmos Energy Corporation
December-04

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...............	27,231,958	26,377,325	159,878,548	164,335,793	159,878,548	164,335,793
2 Commercial & Industrial Sales...	0	0	0	0	0	0
3 Other Sales....................	1,451,712	785,225	9,315,413	7,439,576	9,315,413	7,439,576
5 Total Operating Revenues	28,683,670	27,162,550	169,193,961	171,775,369	169,193,961	171,775,369
6 Production.....................	20,173,185	19,430,547	115,336,539	119,827,250	115,336,539	119,827,250
7 Storage, Trans. & Dist.-Oper....	492,351	204,476	3,944,461	3,502,659	3,944,461	3,502,659
8 Storage, Trans. & Dist.-Mtnce...	51,700	54,873	405,071	714,636	405,071	714,636
9 Customer Accounts Expense.	379,177	306,112	1,706,114	2,717,057	1,706,114	2,717,057
10 Sales Expense....................	9,239	10,983	158,178	155,623	158,178	155,623
11 Adm. & Gen'l. Expense...........	920,814	854,458	9,369,474	10,773,949	9,369,474	10,773,949
12 Deprn. & Amort. Expense.........	953,169	940,713	11,395,799	11,014,613	11,395,799	11,014,613
13 Taxes Other Than Income Taxes...	610,037	516,261	5,085,663	5,641,332	5,085,663	5,641,332
14 Income Taxes....................	1,710,895	1,698,935	6,336,998	4,496,803	6,336,998	4,496,803
15 Total Operating Expenses.........	25,300,566	24,017,358	153,738,298	158,843,922	153,738,298	158,843,922
16 Net Operating Income............	3,383,104	3,145,192	15,455,663	12,931,447	15,455,663	12,931,447
17 Other Income....................	(108,387)	131,274	1,307,502	1,075,571	1,307,502	1,075,571
18 Misc. Income Deductions.........	2,708	13,279	84,911	66,021	84,911	66,021
19 Interest Charges................	584,717	594,679	6,724,769	6,877,895	6,724,769	6,877,895
20 Net Income......................	2,687,292	2,668,508	9,953,485	7,063,102	9,953,485	7,063,102

Selected Balance Sheet Items *		Co. Balance at Month-End This Year (h)	Co. Balance at Month-End Last Year (i)	Average 12 Months-to-Date This Year (j)	Average 12 Months-to-Date Last Year (k)
21 Utility Plant in Service..........	......	294,532,125	281,781,574	288,188,557	277,517,373
22 Construction Work in Progress....	......	4,839,918	3,263,464	4,902,147	5,522,232
23 Acquisition Adjustments, Net....	......	0	0	0	0
24 Property Held for Future Use.....	......	0	0	0	0
25 Depreciation.....................	......	124,033,048	114,896,882	120,083,311	113,251,427
26 Materials and Supplies...........	......	9,470,444	8,417,058	5,991,139	4,531,196
27 Unamortized ITC..................	..*..	634,462	781,205	732,578	881,036
28 Deferred Federal Income Tax......	......	28,538,734	30,451,272	29,541,051	26,378,423
29 Contributions in aid of Const....	......	0	0	0	0
30 Customer Advances for Const......	......	29,994	29,902	29,925	29,914
31 Preferred & Preference Stock....	..*..	0	0	0	0
32 Common Stock.....................	..*..	396,302	258,999	307,528	244,579
33 Premium on Cap. Stk. & Other Cap.	..*..	1,393,170,202	743,511,950	974,316,361	676,682,906
34 Retained Earnings...............	..*..	(66,194,087)	(53,922,222)	(83,683,122)	(78,414,638)
35 Long-Term Debt..................	..*..	2,168,195,580	964,098,275	1,135,184,787	872,020,966

December-04

Type of Customer (a)	Number Billed at the End of Period This Year (b)	Last Year (c)
36. Residential........	105,987	103,466
37. Commercial.........	14,794	14,646
38. Industrial Firm....	294	301
39. Interruptible......	176	170
40. Other.............	143	117
	121,394	118,700

INSTRUCTIONS

1. This report is required of all gas companies which had operating revenues for the preceding year in excess of $1,500,000 as provided in the Commission's rules. Prepare on a typewriter and file within 60 days after the end of the month covered by the report. Show amounts adjusted to the nearest dollar.

2. If any amount for the current month differs materially from that for the previous month or the same month a year ago and the difference is not self-explanatory notate the amount and explain the occasioning facts under "Remarks".

3. List the type of other customers in the customer service data section under "Remarks".

REMARKS

I certify that to the best of my knowledge and belief this is a true and correct report.

Date: February 28, 2005 (Signed)

Title and Address

Sr. Analyst
Atmos Energy Corporation
381 Riverside Drive
Suite 440
Franklin, TN 37064-8934

Please see the Company's response to DR 27 for work papers supporting projected sales volumes and customer bills rendered. Please see the response to DR 26 for detail concerning Barnsley Storage fees.

26. Provide supporting documentation and explanation of the $1,818,133 "Barnsley Storage fee" as subtracted from the margin on Schedule GW-2, including, but not limited to:

a. The purpose of the "Barnsley Storage fee."

b. Whether the "Barnsley Storage fee" has been and/or is currently being billed to consumers.

c. The actual amounts of the "Barnsley Storage fee" for each month from January 2001 through the most recent month available.

d. The projected amounts of the "13amsley Storage fee" for each month forecasted.

RESPONSE:

(a) The Barnsley Storage fee is the storage fee that Atmos Energy pays to Atmos Storage subsidiary for the use of the storage field. This practice was approved by the Tennessee Public Service Commission in Docket No. 89 – 10017.

(b) Atmos Energy does not and has never billed the service fee to the customers. As approved in the above case the fee is recorded as any other expense and is not separately recovered from customers.

(c) The monthly amount is set forth in a contract for a one year period. That time frame is from November 1 each year until October 31 the next year. The monthly amount for the yearly contract is in the table below.

Nov.2000 – Oct. 2001	$143,770
Nov. 2001 – Oct. 2002	$143,765
Nov. 2002 – Oct. 2003	$146,642
Nov. 2003 – Oct. 2004	$148,410
Nov. 2004 – Oct. 2005	$145,882

(d)

Nov. 2005 – Oct. 2006	$149,606
Nov. 2006 – Oct. 2007	$151,684

27. What are the weather normalized billing determinates for the twelve months ended March 31, 2006, the twelve months ended May 31, 2006, and Atmos's projection for the twelve months ended September 30, 2007?

C CPS 354396 v2
2015477-000029

EXHIBIT

C

EXHIBIT TB-1

CONSUMER ADVOCATE AND PROTECTION DIVISION
COMPARATIVE FORECASTS ANALYSIS SUMMARY
ATMOS ENERGY CORPORATION TRA DOCKET #05-00258
FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2006-2007

Line #		A/ COMPANY FORECAST 2007	ADJUSTMENTS		B/ CAPD FORECAST 2007	C/ CAPD FORECAST 2006
1	Total Operating Revenues	$ 195,166,303			$ 244,780,055	$ 243,786,703
2	Production Expense	143,086,066			189,294,907	$ 189,294,907
3	Gross Margin	$ 52,080,237	$ 3,404,911	ADJ#1	$ 55,485,148	$ 54,491,796
4	Labor	$ 3,394,765	$ (416,411)	ADJ#2	$ 2,978,354	2,877,636
5	Long Term Incentive Pay ("LTIP")	444,447	(444,447)	ADJ#3	-	-
6	Pension Expense	417,131	(417,131)	ADJ#4	-	-
7	Uncollectible Expense	351,679	(255,919)	ADJ#5	95,760	95,760
8	Environmental Expense	637,802	(637,802)	ADJ#6	-	-
9	Rate Case Expense	55,000	(38,500)	ADJ#7	16,500	-
10	Other Operations & Maintenance ("O&M") Exp	11,109,235	(340,072)	ADJ#8	10,769,163	10,318,502
11	Total Operations and Maintenance Expense	16,410,059			13,859,777	13,291,898
12	Depr. & Amort. Expense	12,519,876	(813,111)	ADJ#9	11,706,765	11,189,631
13	Taxes Other Than Income Taxes	6,090,833	(766,088)	ADJ#10	5,324,745	5,596,906
14	Income Taxes	5,230,057	3,094,384	ADJ#11	8,324,441	8,278,084
15	Total Operating Expenses	$ 40,250,825	$ (1,035,097)		$ 39,215,728	$ 38,356,519
16	Net Operating Income("NOI")	$ 11,829,412	$ 4,440,008		$ 16,269,420	$ 16,135,277
17	Adjustments to NOI					
18	Accrued interest on customer deposits	$ (470,796)	$ (80,132)	ADJ#12	$ (390,664)	$ (367,537)
19	Allowance for funds used during construction	-	235,383	ADJ#13	235,383	235,383
20	Gain on Sale of Maryland Way Property	20,244			20,244	20,244
21	Elimination of leased property: Decreased rent	2,079,882			2,079,882	2,064,752
22	Elimination of leased prop: Incr. depreciation exp.	(238,584)			(238,584)	(238,584)
23	Adjusted NOI	$ 13,220,158	$ 4,595,259		$ 17,975,681	$ 17,849,535
24	Rate Base					
25	Gas Plant in Service	$ 317,595,022	$ (2,739,522)	ADJ#14	$ 314,855,500	$ 300,002,089
26	Construction work in progress	5,170,361	(51,374)	ADJ#15	5,118,987	5,738,935
27	Materials and supplies/Storage gas	16,655,238	(2,146)	ADJ#16	16,653,092	15,612,317
28	Working capital	861,072	(861,072)	ADJ#17	-	-
29	Net elimination of intercompany leased property	7,126,069			7,126,069	7,401,176
30	Unamortized Maryland Way Gain	(28,708)			(28,708)	(48,952)
31	Total	$ 347,379,054	$ (3,654,114)		$ 343,724,940	$ 328,705,565
32	Deductions:					
33	Accumulated Depreciation	$ 138,491,810	$ 414,045	ADJ#18	$ 138,905,855	$ 129,777,072
34	Customer deposits	6,082,633	428,437	ADJ#19	6,511,070	6,125,620
35	Contributions & advances in aid of construction	39,063	550	ADJ#20	39,613	39,612
36	Accumulated deferred tax-accelerated depr.	32,917,653	6,900,511	ADJ#21	39,818,164	38,235,772
37	New Company Adjustment	419,556	(419,556)	ADJ#22	-	
38	Total	$ 177,950,715	$ 7,323,987		$ 185,274,702	$ 174,178,076
39	Rate Base(Line 28-Line 36)	$ 169,428,339	$ (10,978,101)		$ 158,450,238	$ 154,527,489
40	Rate of Return(Line 20/Line 37)	7.80%			11.34%	11.55%
41	Fair Rate of Return	9.02%			6.56%	6.56%
42	Deficient (Excess) Rate of Return	1.22%			-4.78%	-4.99%
43	Deficient (Excess) NOI	$ 2,062,278			$ (7,581,345)	$ (7,712,532)
44	Gross Revenue Conversion Factor	1.64541	(0.009372)	ADJ#23	1.636038	1.63604
45	Revenue Deficiency (Surplus)	$ 3,393,293	$ (15,796,659)		$ (12,403,366)	$ (12,618,008)

A/ Atmos Direct Testimony, Schedule THP-1 and work papers.
B/ CAPD 2007 Rebuttal Exhibit.
C/ CAPD 2006 Rebuttal Exhibit.

EXHIBIT

D