

**BEFORE THE TENNESSEE REGULATORY AUTHORITY  
NASHVILLE, TENNESSEE**

**September 29, 2006**

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*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

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**REPLY OF TRA INVESTIGATIVE STAFF  
TO CHATTANOOGA GAS COMPANY'S PROPOSAL FOR RULEMAKING**

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Pursuant to the Hearing Officer's directive at the Tennessee Regulatory Authority's ("Authority") status conference held in this matter on September 26, 2006, the TRA Investigative Staff ("Staff") files this reply to the *Response of Chattanooga Gas Company to the Issues Proposed for Phase II* ("CGC's Proposal"), filed on September 25, 2006, which proposed, in essence, that Phase II issues of this docket be considered in a rulemaking proceeding.

At the status conference, counsel for Staff suggested that CGC's Proposal to proceed with a rulemaking as an alternative to a contested case for Phase II issues was an interesting idea for the Authority to consider. Counsel stated that there are certain issues in Phase II that may be more appropriately addressed in a rulemaking, as they encompass policies that may be applied industry-wide. Specifically, there are four areas that could possibly be given a generic treatment: (1) the request for proposal process ("RFP"); (2) the appropriate fee structure (fixed fee or percentage of gain, and sharing percentage); (3) periodic review by outside/independent consultant; and (4) third-party vs. affiliate manager considerations. Counsel stated that after rules were developed to address these areas, company-specific issues could then be addressed in a separate proceeding.

After completing the noticed objectives of the status conference, the Hearing Officer adjourned to allow the parties to discuss whether there were any alternative ways to proceed with Phase II issues. Counsel for Staff met with representatives of the Consumer Advocate and Protection Division ("CAPD") and the Atmos Intervention Group ("AIG"); during the ensuing conversation, both the CAPD and AIG listed several issues that they believed were company-specific issues that required discovery and a contested case to resolve. Counsel for AIG suggested that upon resolution of these ratemaking issues, the generic areas that effect the entire industry could then be addressed by the Authority in a rulemaking proceeding.

After reflection on all the statements made by the parties at the status conference, Staff believes that the CAPD and AIG have a compelling argument that certain issues can only be resolved through litigation in Phase II of this docket, and that certain generic issues (as suggested in 1-4, above) could subsequently be addressed in an industry-wide rulemaking. Staff will not presume to make the CAPD's and AIG's arguments on their behalf, but respectfully requests that such issues and arguments be presented to the full panel of Directors at the Authority's earliest opportunity.

Respectfully submitted,

By: 

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**CERTIFICATE OF SERVICE**

I hereby certify that a true and exact copy of the foregoing has been forwarded by electronic mail to the following parties on the 29th day of September, 2006.

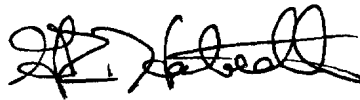
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