NEAL & HARWELL, PLC
LAW OFFICES
150 FOURTH AVENUE, NORTH
SUITE 2000
NASHVILLE, TENNESSEE 37219-2498

TELEPHONE
(615) 244-1713

FACSIMILE
(615) 726-0573

October 25, 2007

Sharla Dillon, Docket Manager
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37238

VIA HAND DELIVERY

filed electronically in docket office on 10/25/07

RE: Atmos Energy Corporation Tariff Filing to Modify and Add Language Regarding Transportation Service, TRA Docket No. 07-00020

Dear Ms. Dillon:

Enclosed are the originals and four copies of the testimony of the following individuals to be filed on behalf of Atmos Energy Corporation in the referenced matter:

Michael H. Ellis;
Danny P. Bertotti;
Patricia J. Childers; and
Kenneth Malter.

Electronic copies also have been provided by e-mail. Please file this testimony in the order listed above.

Best regards.

Sincerely,

A. Scott Ross

ASR:prd

Enclosures

xc: All Counsel of Record (w/ Enclosures)

BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE

IN RE:

ATMOS ENERGY CORPORATION	)	
TARIFF FILING TO MODIFY AND	)	
ADD LANGUAGE REGARDING	)	
TRANSPORATION SERVICE	)	**DOCKET NO. 07-00020**

PRE-FILED TESTIMONY OF MICHAEL H. ELLIS
ON BEHALF OF ATMOS ENERGY CORPORATION

I. POSITION AND QUALIFICATIONS

Q. PLEASE STATE YOUR NAME, POSITION AND BUSINESS ADDRESS.

A. My name is Michael H. Ellis. I am Vice President of Marketing of the Kentucky/Mid-States Division of Atmos Energy Corporation ("Atmos" or "Company"). My business address is 810 Crescent Centre Drive, Suite 600, Franklin, Tennessee 37067-6226. I also maintain an office in Atmos' Johnson City, Tennessee location.

Q. PLEASE BRIEFLY DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND, AND CURRENT RESPONSIBILITIES.

A. I have an Associates Degree from Hiwassee College and a Bachelor of General Studies from East Tennessee State University. I have been employed in the natural gas industry since 1980 and have held various positions in the marketing area. I serve on the Tennessee Gas Association's Board of Directors, where I am currently President for the 2007-2008 year. I have also served on the Southeastern Gas Association's Board of Directors as well as many other marketing related committees in various state and regional associations.

I have been employed by the Company since 1980, which, at that time, was known as Volunteer Natural Gas Company. Volunteer subsequently became known as Tennessee-Virginia Energy Company (TVEC), and TVEC subsequently was acquired by United Cities Gas Company. Atmos acquired United Cities in 1997.

I assumed my current position in 2000. As Vice President of Marketing of Atmos' Kentucky/Mid-States division, my primary responsibilities include the development, coordination and implementation of marketing programs to increase market share, sales and revenue for the Company. I also serve on both internal and external committees involved in monitoring technological advances in gas equipment and efficiencies and the resulting change in customer consumption profiles.

Q. HAVE YOU EVER TESTIFIED BEFORE THE TENNESSEE REGULATORY AUTHORITY?

A. Yes. I filed testimony in the Company's general rate proceeding before the Tennessee Regulatory Authority (the "Authority") in Docket No. 07-00105. I have also filed testimony in support of the Company's past general rate cases filed in Georgia, Missouri and Virginia.

II. PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to support the Company's changes to its transportation tariff, which I will refer to throughout the remainder of my testimony as "Rate Schedule 260." As part of my testimony, I will also provide an overview of the Company's natural gas distribution system in Tennessee and the evolution of its transportation tariff.

Q. WHAT CHANGES TO RATE SCHEDULE 260 ARE YOU SPONSORING?

A. The Company proposes the following changes:

- Defining the term "Maximum Daily Quantity" (MDQ) and limiting daily nominations to the applicable MDQ (Rate Schedule 260, Subsection (B)(iv), 2nd Revised Tariff Sheet No. 21);
- Defining Operational Flow Order (OFO) and implementing provisions for OFOs (Rate Schedule 260, Subsection (C)(v)(e), 2nd Revised Tariff Sheets Nos. 23 and 24);
- Clarifying procedures used to calculate monthly cash-outs (Rate Schedule 260, Subsection (C)(v)(c), 2nd Revised Tariff Sheet No. 22);
- Implementing daily scheduling fees for daily imbalances outside of a 10% tolerance for under- or over nominated quantities (Rate Schedule 260, Subsection (C)(v)(d), 2nd Revised Tariff Sheet No. 23);
- Adding pooling provisions (Rate Schedule 260, Subsection (E), Original Tariff Sheet No. 24.1).

A true and correct copy of the Company's new proposed Rate Schedule 260 is attached to my testimony as Exhibit MHE-1.

Q. WHY IS THE COMPANY PROPOSING THESE CHANGES?

A. The Company actually began proposing changes to its transportation tariff over two years ago, exclusive of any rate proceedings. The Company proposed these changes without respect to revenue needs. In fact, these changes were drafted based on the combination of input from customers, input from the Company's gas supply department, and changes that we were seeing in the "transportation market." As more and more large commercial/ industrial customers became more familiar and more comfortable with the concept of securing their own gas supplies, it became apparent that the Company's transportation tariff as it was written lacked certain detail and clarification.

Q CAN YOU GIVE SOME EXAMPLES OF THIS?

A. Yes. For example, the current tariff states: "the Company shall enforce the balancing provisions of the respective Connecting Pipeline which could result in monthly scheduling/ balancing fees and/ or penalties..." This somewhat vague language left the customer with no clear understanding of the potential results of its purchasing decisions. Having a tariff that points to someone else's tariff, requirements, or rules was confusing and not very customer-friendly.

Q. OTHER THAN QUESTIONS FROM CUSTOMERS, WERE THERE OTHER REASONS FOR MAKING CHANGES TO THE CURRENT TARIFF?

A. Yes, the Company's Gas Supply department also had concerns with the current tariff language. Gas Supply is the department in the Company that actually works with customers and their marketers to accept daily nominations, schedule the gas, determine customer balances, and manage the supply and delivery of gas to all of the Company's firm sales customers. The overriding concern from the Gas Supply department was the potential for transportation activity to harm sales customers.

Q PLEASE EXPLAIN HOW SUCH ACTIVITY IN THE TRANSPORTATION MARKET CAN HARM SALES CUSTOMERS.

A. Mr. Daniel Bertotti, another Company witness in this proceeding, provides some specific examples in his pre-filed direct testimony, but in general when transportation customers use more or less gas than what they nominate, within a reasonable tolerance, then sales customers bear the cost of that failure to properly manage that activity.

Q. HAVE THESE TARIFF CHANGES PREVIOUSLY BEEN DISCUSSED WITH THE AUTHORITY'S STAFF?

A. Yes, even prior to Docket No. 05-00258, the Company and the Staff had informal discussions and meetings about making changes to this tariff. As the discussions proceeded, they were eventually included in Docket No. 05-00258. However, the Authority concluded that the transportation tariff changes should be brought in another proceeding.[1] As a result, the Company filed the revised Rate Schedule 260 in this proceeding and, after several third-party marketers intervened, the Authority convened this matter as a contested case.

Q. IS THE COMPANY MAKING ANY REVISIONS TO EXHIBIT MHE-1?

A. Yes. When this docket was commenced, the Company proposed to revise the lost and unaccounted for gas adjustment to 2% in Rate Schedule 260, as set out in Subsection (C)(vi) of Exhibit MHE-1. The Company is no longer proposing to implement this change and, instead, proposes to keep the current language. Subsection (C)(vi) of the Exhibit would read as follows:

Such percentage shall be equal to the percent that unaccounted-for gas bore to total send-out as recorded by the Company during its most recent 12 months ending June.

The above language is the same language that appears in Subsection (C)(viii) of the Company's Rate Schedule 260 that is currently in effect and on file with the Authority

Q. ARE THERE ANY OTHER WITNESSES WHO HAVE SUBMITTED PRE-FILED DIRECT TESTIMONY ON BEHALF OF THE COMPANY IN THIS PROCEEDING?

[1] *See* Docket No. 05-00258, 10/25/06 Motion of Director Pat Miller, p. 15, adopted by vote of presiding panel per 11/2/06 Transcript of Proceedings.

A. Yes. Mr. Daniel Bertotti, a Sales Representative for the Company's Kentucky/Mid-States Division and who ultimately reports to me, will provide additional testimony regarding the reasons necessitating the Company's tariff filing as well as detailed explanation of the Rate Schedule 260 mechanisms. Mrs. Patricia Childers, the Vice President of Rates and Regulatory Affairs for the Kentucky/Mid-States Division, will provide testimony regarding the Company's purchased gas adjustment clause (PGA) in Tennessee and the regulatory treatment and accounting of any non-margin revenue derived by the Company under Rate Schedule 260. Mrs. Childers will also provide a comparison of the provisions of Rate Schedule 260 to the Company's existing tariff and to the comparable tariffs of Chattanooga Gas Company and Nashville Gas Company. Mr. Kenneth Malter, the Company's Director of Gas Supply, will provide testimony regarding the Company's interstate storage assets and how storage is used by the Company to keep its system in balance.

III. OVERVIEW OF THE COMPANY'S TENNESSEE SYSTEM AND TRANSPORTATION SERVICE

Q. PLEASE DESCRIBE THE COMPANY'S NATURAL GAS DISTRIBUTION SYSTEM IN TENNESSEE?

A. The Company has a multitude of local gas distribution systems in Tennessee that are generally divided into four tariff areas that are served by various interstate pipeline systems. Tariff Area One, which includes Union City, Tennessee and surrounding areas in Obion County, is served by Texas Gas Transmission Corporation ("Texas Gas"). Tariff Area Two, which includes the communities of Columbia, Shelbyville, Lynchburg, Maryville and Alcoa, Tennessee, as well as other surrounding communities, is served by primarily East Tennessee Natural Gas' ("ETN") 3200 Line under the ETN Zone 1 Rate Schedule (with the exception of Columbia whose primary source is Columbia Gulf Transmission). Tariff Area Three, which includes the communities of Franklin, Murfreesboro and Nolensville, Tennessee, as well as other surrounding communities, is served primarily by Columbia Gulf Transmission, and also by Texas Eastern Transmission Corporation ("TETCO"). Tariff Area Four, which includes the communities of Johnson City, Elizabethton, Greeneville, Kingsport, Morristown and Bristol, Tennessee, as well as other surrounding communities, is served from ETN's 3300 Line under the ETN Zones 2 and 3 Rate Schedules.

Q. ARE THE SYSTEMS YOU HAVE DESCRIBED ALL PHYSICALLY CONNECTED TO EACH OTHER?

A. No, unlike most of the other large natural gas distribution companies in Tennessee that serve concentrated metropolitan areas such as Memphis, Knoxville, Nashville or Chattanooga, many of the Company's distribution systems that serve the communities I listed above are not continuous nor completely contiguous. For example, the Company's distribution system that serves the Maryville-Alcoa area near Knoxville is not actually connected to the Company's distribution system that serves Greeneville, the next closest town to the Maryville-Alcoa area that we serve. Similarly, the Company's system in Columbia is not currently connected to the system that serves Franklin, a neighboring community to Columbia. Instead, the Company's natural gas distribution systems are a series of systems that are served by various interstate pipeline systems.

Q. PLEASE DESCRIBE THE SERVICE PROVIDED BY THE INTERSTATE PIPELINE SYSTEMS TO THE COMPANY.

A. The Company typically subscribes to firm transportation service on the interstate pipelines or firm city-gate service with suppliers for volumes of natural gas necessary to meet the demands of its firm sales customers such as residential, small commercial, and public authority. More simply stated, the Company has reserved capacity on the interstate pipelines (or has contracted with suppliers who have capacity and can ensure firm city gate deliveries) that ensures the Company's system supply is delivered to the Company's city gates. The services subscribed with the interstate pipelines may be comprised of firm transportation, storage or a combination thereof. As more particularly described in the direct testimony of Mrs. Childers, the costs associated with the interstate pipeline services are recovered by the Company through its PGA clause and the Company makes no margin on these costs.

Q. DOES THE COMPANY PURCHASE ITS GAS COMMODITY FROM THE PIPELINES?

A. No. The Company purchases natural gas from suppliers that are selected through a periodic competitive procurement and bidding process. The gas purchased by the Company is transported on the interstate pipelines to the Company's city gates, or purchased at the city gates, using the Company's interstate capacity or the supplier's capacity.

Q. WHAT IS A TRANSPORTATION CUSTOMER?

A. A transportation customer is a customer behind the Company's city gate that is eligible to receive transportation service under Rate Schedule 260. Basically, a transportation customer purchases its own gas commodity requirements from a third party, such as a marketer, and causes that gas to be delivered to the Company's city gate by its own capacity arrangements on an interstate pipeline. Subject to curtailment, pipeline OFOs or other operational constraints, the Company accepts the transportation customer's gas at the city gate and then delivers, or transports, the gas to the customer's facility. Unlike its system supply gas, the Company never actually holds title to a transport customer's gas.

Q. WHY WOULD A CUSTOMER ELECT TO RECEIVE TRANSPORTATION SERVICE FROM THE COMPANY IN LIEU OF SALES SERVICE?

A. Transportation customers that are eligible to receive service under Rate Schedule 260 are typically large-volume gas users that may have the ability to purchase their gas commodity at a lower price and/or secure their own firm transportation on an interstate pipeline. As a result, and as more particularly described in Mrs. Childers' testimony, eligible Rate Schedule 260 customers do not pay for the Company's gas and pipeline costs through the Company's PGA as do firm sales customers.

Q. HOW DO ELIGIBLE RATE SCHEDULE 260 CUSTOMERS HAVE THIS ABILITY?

A. In or around 1992, the Federal Energy Regulatory Commission (FERC) required the interstate pipelines to unbundle their transportation services from the sale of gas commodity. As a result, the pipelines became purely transporters of natural gas. Ultimately, industrial customers behind the city gate of a local distribution company (LDC) had the ability to bypass the LDC's system and connect with the pipeline, or elect to transport only on the LDC's system and purchase their commodity from suppliers other than the distribution company. LDCs began offering transportation service to such customers in order to avoid bypass and losing transportation customers entirely to the interstate pipelines. In many cases, this option was more economical to the customer than the construction of a bypass fuel line for its facility directly to the closest interstate pipeline.

Q. WHY ARE THE PROPOSED CHANGES TO RATE SCHEDULE 260 NECESSARY?

A. The changes proposed by the Company will control subsidization of service to transportation customers by the Company's firm sales customers. Subsidization results when transportation customers take more or less gas from the Company's system than they have nominated, or fail to maintain their balances in accordance with the requirements of the interconnecting interstate pipeline. If the transportation customer takes more gas than it has nominated for transportation on the Company's system, then that is gas that actually belongs to the firm sales customers and the transportation customer should be required to pay a premium for the use of that gas. Conversely, if the transportation customer takes less gas than it has nominated and the Company is required to purchase such excess volumes to keep its system in balance, then the firm sales customers should be able to purchase that gas at a discounted price. The basic idea is to encourage transportation customers to manage their supplies more effectively without relying on firm sales customers to manage their swings. The firm sales customers benefit from the tariff provisions because any revenue generated from imbalance charges or other fees under Rate Schedule 260, other than the Company's approved margin rates for the provision of transportation service, are credited to gas costs through the PGA.

Q. IS THE COMPANY PROPOSING TO INCREASE THE RATES PAID BY TRANSPORTATION CUSTOMERS UNDER THE PROPOSED RATE SCHEDULE 260?

A. No. The actual rate that a transportation customer pays to the Company is unaffected by the new Rate Schedule 260. This rate is composed of two parts – the monthly customer charge of $310.00 and the volumetric rate (under the applicable companion rate schedule) per thousand cubic feet (Mcf) of natural gas transported. The Company's rates are determined and set by the Authority within the context of a general rate proceeding, the most recent being Docket No. 07-00105. Accordingly, while there are certain fees, penalties and costs prescribed by Rate Schedule 260 that may be assessed to a transportation customer who does not abide by the terms of service under the tariff, any such fees, penalties or costs collected will, as more particularly described in Mrs. Childers' testimony, be credited dollar for dollar to gas costs through the PGA. Thus, the changes that Atmos has requested in this docket will not cause any net revenue increase for the Company. They are revenue neutral.

IV. CLOSING REMARKS

Q. DO YOU HAVE ANY CLOSING REMARKS THAT YOU WOULD LIKE TO MAKE?

A. Yes. I anticipate that the marketers who have intervened in this docket will contend that the Company is attempting to stifle competition for transportations customers that are served by the Company's distribution system through the implementation of the tariff herein proposed, and that the Company's gas marketing affiliate, Atmos Energy Marketing (AEM), will be exempt from the terms of the tariff. However, nothing could be further from the truth. The Company will administer Rate Schedule 260 in a non-discriminatory manner, and AEM, to the extent it acts as a pool manager, and its transportation customers behind the Company's city gates will be subject to the same fees, penalties, and costs prescribed by the tariff as any other third-party marketer serving as a pool manager or its transportation customers.

The Company does not wish to discourage competition for the commodity sales business of transportation customers and, in fact, fully supports a transportation customer's right to procure its own natural gas commodity. However, the first and foremost obligation of the Company is to provide service to meet the needs of its firm sales customers such as residential, small commercial and school customers. The Company will not and cannot allow the activities of any transportation customer or marketer to interfere with the Company's paramount firm service obligations. Firm sales customers cannot be required or allowed to subsidize the gas supply needs of large commercial and industrial customers. The Company's proposed Rate Schedule 260 is a fair means for encouraging transportation customers to effectively and efficiently manage their supply needs while at the same time protecting firm sales customers from paying for the failure of a transportation customer or its marketer to do so.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE

IN RE:	)	
	)	
ATMOS ENERGY CORPORATION	)	
TARIFF FILING TO MODIFY AND	)	
ADD LANGUAGE REGARDING	)	
TRANSPORTATION SERVICE	)	**DOCKET NO. 07-00020**

VERIFICATION

STATE OF TENNESSEE	)
	)
COUNTY OF WASHINGTON	)

I, Mike Ellis, being first duly sworn, state that I am Vice President, Marketing for the Kentucky/Mid-States Division of Atmos Energy Corporation, that I am authorized to testify on behalf of Atmos Energy Corporation in the above referenced docket, that the Direct Testimony of Mike Ellis pre-filed in this docket on the date of filing herein is true and correct to the best of my knowledge, information and belief.

Mike Ellis

Sworn and subscribed before me this 23rd day of October, 2007.

Notary Public

EILEEN HENDRIX
STATE OF TENNESSEE
NOTARY PUBLIC
WASHINGTON COUNTY

My Commission Expires: 10/27/08

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing has been served, via the method(s) indicated below, on the following counsel of record, this the 25th day of October 2007.

( ) Hand (✓) Mail ( ) Fax ( ) Fed. Ex. (✓) E-Mail	Vance Broemel, Esq. Stephen Butler, Esq. Office of the Attorney General Consumer Advocate and Protection Division P. O. Box 20207 Nashville, TN 37202
( ) Hand (✓) Mail ( ) Fax ( ) Fed. Ex. (✓) E-Mail	Henry M. Walker, Esq. Boult, Cummings, Conners, & Berry, PLC 1600 Division Street, Suite 700 P. O. Box 340025 Nashville, TN 37203
( ) Hand (✓) Mail ( ) Fax ( ) Fed. Ex. (✓) E-Mail	D. Billye Sanders, Esq. Waller, Lansden, Dortch & Davis, LLP 511 Union Street, Suite 2700 Nashville, TN 37219-8966
( ) Hand (✓) Mail ( ) Fax ( ) Fed. Ex. (✓) E-Mail	John M. Dosker, Esq. General Counsel Stand Energy Corporation 1077 Celestial Street Rockwood Building, Suite 110 Cincinnati, OH 45202-1629
( ) Hand (✓) Mail ( ) Fax ( ) Fed. Ex. (✓) E-Mail	R. Dale Grimes, Esq. David R. Esquivel, Esq. Bass, Berry & Sims, PLC 315 Deaderick Street, Suite 2700 Nashville, TN 37238-3001

TENNESSEE REGULATORY AUTHORITY GAS TARIFF

OF

ATMOS ENERGY CORPORATION

Communications Regarding This Tariff
Should be Addressed to:

Patricia J. Childers, VP Rates & Regulatory Affairs
Atmos Energy Corporation
810 Crescent Centre Drive, Suite 600
Franklin, Tennessee 37067

TRANSPORTATION SERVICE

Schedule 260: All Service Areas

A. 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 100,000 Ccf or more per year. This rate schedule is offered as a companion to the customers existing sales rate schedule.

B. 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 or less 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.

(iv) "Maximum Daily Quantity" (MDQ) means the maximum daily volume of gas, as determined by the Company based on Customer's historical metered volumes, that a Customer under this Rate Schedule will be allowed to nominate and have delivered into the Company's system for the Customer's account.

(v) "Operational Flow Order" (OFO) is any order from the Company or the Connecting Pipeline Company that requires transporter to hold to their daily allocated volumes, or any other pipeline directive, or any Company directive.

C. 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 Customer shall also apply to service by the Company to Customer under this rate schedule.

(ii) The Customer must notify the Company on Company's standard form of the quantity of gas to be received by the Company from the Connecting Pipeline Company for the Customer's account during the billing month and the daily rate of delivery. This nomination must be received by the Company by the nomination deadline of the Connecting Pipeline Company for both first of the month nominations and mid-month changes. The quantity of gas received by the Company from the Connecting Pipeline Company for the Customer's account shall be based on the transportation nomination for that month. Adjustments will be made if the Connecting Pipeline Company's allocated volumes vary from the nominated volume. Daily nominations shall not exceed the Customer's Maximum Daily Quantity (MDQ)

TRANSPORTATION SERVICE (Continued)

Schedule 260: All Service Areas

C. Terms and Provisions of Service Under This Rate Schedule (Continued)

(iii) 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.

(iv) The Customer shall warrant that they have good and legal title to all gas which Customer causes to be delivered into the Company's facilities and Customer shall hold the Company harmless from any loss or claim in regard to the same.

(v) The Customer shall have the obligation to balance receipts of transportation gas by the Company at the Company's applicable Receipt Point(s) with deliveries of such gas by the Company to the Customer's Point of Delivery plus retention amounts pursuant to item (vi) below. Cash outs for Positive and Negative imbalances will be levied as described below.

(a) Imbalance equals the volume of gas received by the Company from the Connecting Pipeline Company for the Customer's account minus the volume of gas delivered to the Customer's Point of Delivery.

(b) Imbalance percentage equals the difference of the volume of gas received by the Company from the Connecting Pipeline Company for the Customer's account minus the volume of gas delivered to the Customer's Point of Delivery divided by the volume of gas received by the Company from the Connecting Pipeline Company for the Customer's account.

(c) Cash out of Monthly Imbalances

1. If the volume of gas delivered to the Customer's point of delivery is greater than the volume of gas received by the Company from the Connecting Pipeline Company for the Customer's account (negative imbalance), the Company will sell the difference in gas volumes to the Customer based on the highest index price for the respective Connecting Pipeline Company for any week beginning in the calendar month as published in *Natural Gas Week,* plus applicable pipeline fuel and transportation charges. If the volume of gas delivered to the Customer's point of delivery is less than the volume of gas received by the Company from the Connecting Pipeline Company for the Customer's account (positive imbalance), the Company will buy the difference in gas volumes from the Customer based on a price equal to the lowest index price for the respective Connecting Pipeline Company for any week beginning in the calendar month as published in *Natural Gas Week*, plus applicable pipeline fuel and transportation charges.
2. The monthly cash out bill will be based on the accumulated sum of the results of the formulas listed below such that and until the total monthly imbalance is fully accounted for:

	Cash out Price	
% of Imbalance	**for Positive Imbalances**	**for Negative Imbalances**
0% up to 5%	100%	100%
5% up to 10%	85%	115%
10% up to 15%	70%	130%
15% up to 20%	60%	140%
20% and over	50%	150%

TRANSPORTATION SERVICE (Continued)

Schedule 260: All Service Areas

(d) Daily Scheduling Fees

The Company may assess a daily scheduling fee for any daily transportation imbalance in excess of 10% of the Customer's daily confirmed nomination. The fee will be calculated as follows:

([annual storage demand charges/MDWQ]/365) + (annual storage capacity charges/total capacity) + average injection and withdrawal costs.

Costs for all storages used in providing for balancing will be included.

Customers' agents shall be allowed to aggregate their customers' usages and the daily scheduling fee will be applied to the aggregated volume of the pool, pursuant to the Pooling Service in Section E

(e) Operational Flow Orders (OFO)

1. Company will have the right to issue an Operational Flow Order that will require actions by the Customer to alleviate conditions that, in the sole judgment of the Company, jeopardize the operational integrity of Company's system required to maintain system reliability. Customer shall be responsible for complying with the directives set forth in the OFO.
2. Upon issuance of an OFO, the Company will direct Customer to comply with one of the following conditions:
   a. Customer must take delivery of an amount of natural gas from the Company that is no more than the hourly or daily amount being received by the Company from the Connecting Pipeline Company for the Customer's account. All volumes delivered to the Customer in excess of volumes received by the Company from the Connecting Pipeline Company for the Customer's account, that are in violation of the above condition, with the exception of a 5% daily tolerance, shall constitute an unauthorized overrun by Customer on the Company's system. Customer shall be charged a penalty of $25.00 per dth, plus the Gas Daily Index price for the respective Connecting Pipeline Company for such unauthorized overruns during the OFO, or
   b. Customer must take delivery of an amount of natural gas from the Company that is no less than the hourly or daily amount being received by the Company from the Connecting Pipeline Company for the Customer's account. All volumes delivered to the Customer which are less than volumes received by the Company from the Connecting Pipeline Company for the Customer's account, that are in violation of the above condition, with the exception of a 5% daily tolerance, shall constitute an unauthorized delivery by Customer to Company. Customer shall be charged a penalty of $25.00 per dth for such unauthorized deliveries to Company's system.

3. Any penalties charged due to unauthorized overruns or deliveries during an OFO will be in addition to any cash out charges described in Subsection C(v)(c) above.

TRANSPORTATION SERVICE (Continued)

Schedule 260: All Service Areas

(a) The Company may charge the Customer for any daily or monthly overrun penalties assessed to the company, which are applicable to the Customer, by the Connecting Pipeline Company.

(b) Customers' agents shall be allowed to aggregate their customers' usages for the purposes of balancing, pursuant to the Pooling Service in Section E.

(vi) A percentage adjustment for lost and unaccounted for gas shall be made to the volumes of gas received by the Company from the Connecting Pipeline Company for the Customer's account, and the volumes of gas deliverable to the Customer under this rate schedule shall be reduced by such percentage. Such percentage shall be equal to the percentage that unaccounted-for gas bore to total sendout as recorded by the Company during its most recent 12 months ended June.

(vii) If the 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 such charges.

(viii) All volumes transported under the terms of this rate schedule shall be included in the Purchased Gas Adjustment computations and included in the sales volumes of the Purchased Gas Adjustment computations.

(ix) The Customers served under this Rate Schedule shall be required to pay for the cost of, installation of, replacement of, and maintenance of measurement data collection and verification equipment, including applicable income taxes. Customers shall also be required to pay the cost of installation, maintenance and any monthly usage charges associated with dedicated telephone, power or other utilities or energy sources required for the operation of the data collection and verification equipment, including applicable income taxes. Customers shall also be required to provide adequate space in new or existing facilities for the installation of the data collection equipment.

(x) 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 six months written notice to the other party. After termination of this service, Customer may not re-elect for transportation service for a period of no less than 12 months after termination.

D. Rate

Customer Charge

A monthly customer charge of $310.00 per meter is payable regardless of the usage of gas.

Monthly Demand Charge

The Customers eligible to receive service under companion Rate Schedule 240 shall be billed the applicable Monthly Demand Charge.

Monthly Rate

The Customer shall be billed for the quantity of gas delivered under this rate schedule at the monthly rate of the companion rate schedule, plus any applicable taxes or fees.

TRANSPORTATION SERVICE (Continued)

Schedule 260: All Service Areas

Minimum Bill

The minimum monthly bill shall be the Customer Charge plus the Monthly Demand Charge, if any, as described above.

E. Pooling Service

(i) For the purpose of this section, A Pool Manager is defined as an entity which has been appointed by a customer or group of customers served under this rate schedule to perform the functions and responsibilities of requesting information, nominating supply, and other related duties. The Pool Manager shall have all of the rights under this Transportation Service as does a Customer transporting gas supply directly under this Transportation Service.

(ii) The Pool Manager will be responsible for arranging for volumes of transportation gas to meet the daily and monthly requirements of customers in the pool. The cash out provisions and daily scheduling provisions of Subsection C (v) shall be applied against the aggregate volume of all customers in a specific pool. The Pool Manager will be responsible for the payment of any monthly cash out payments, scheduling fees and any penalties incurred by a specific pool as a result of monthly, daily, or hourly imbalances.

(iii) The Company, at the Company's sole discretion, shall establish pooling areas by Connecting Pipeline, Pipeline zone, Company receipt point, geographic area, operational area, administrative or other appropriate parameters.

(iv) No customer shall participate in a Pool that does not individually meet the availability conditions of this rate schedule, and no customer shall participate in more than one pool concurrently.

(v) To receive service hereunder, the Pool Manager shall enter into a Pool Management Agreement with Company and shall submit an Agency Authorization Form for each member of the pool, signed by both Customer and its Pool Manager.

(vi) The Pool Manager shall submit a signed Pool Management Agreement and an Agency Authorization Form for each member of the pool at least 30 days prior to the beginning of a billing period when service under this rate schedule shall commence. A customer who terminates service under this rate schedule or who desires to change Pool Managers shall likewise provide Company with a written notice at least 30 days prior to the end of a billing period.

(vii) The Pool Manager shall upon request of the Company agree to maintain a cash deposit, a surety bond, an irrevocable letter of credit, or such other financial instrument satisfactory to Company in order to assure the Pool Manager's performance of its obligations under the Pool Management Agreement. In determining the level of the deposit, bond, or other surety to be required of the Pool Manager, the Company shall consider such factors, including , but not limited to, the following: the volume of natural gas to be transported on behalf of the Pool members, the general credit worthiness of the Pool Manager, and the Pool Managers prior credit record with the Company, if any. In the event that the Pool Manager defaults on its obligations under this rate schedule or the Pool Management Agreement, the company shall have the right to use such cash deposit, or proceeds from such bond, irrevocable letter of credit, or other financial instrument to satisfy the Pool Manager's obligation hereunder. Specific terms and conditions regarding credit requirements shall be included in the Pool Management Agreement. Such credit requirements shall be administered by the Company in

TRANSPORTATION SERVICE (Continued)

Schedule 260: All Service Areas

a non-discriminatory manner, and such credit requirements may change as the requirements of the pool change.

(viii) The Pool Manager shall notify the Company in writing of any changes in the composition of the pool at least 30 days prior to the beginning of the first billing period that would apply to the modified pool.

(ix) The Pool Management Agreement will be terminated by the Company upon 30 days written notice if a Pool Manager fails to meet any condition of this rate schedule. The Pool Management Agreement will also be terminated by the Company upon 30 days written notice if the Pool Manager has payments in arrears. Written notice of termination of the Pool Management Agreement shall be provided both to the Pool Manager and to the individual members of the pool by the Company.

(x) Company shall directly bill the Pool Manager for the monthly cash out charges, penalties, or other payments contained in this rate schedule. The monthly bill will be 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.

(xi) Company shall directly bill the individual customers in the pool for all Customer Charges, Demand Charges, and Commodity Charges as provided for in either this rate schedule or its companion rate schedule.

BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE

IN RE:

ATMOS ENERGY CORPORATION	)	
TARIFF FILING TO MODIFY AND	)	
ADD LANGUAGE REGARDING	)	
TRANSPORATION SERVICE	)	**DOCKET NO. 07-00020**

PRE-FILED TESTIMONY OF DANNY P. BERTOTTI
ON BEHALF OF ATMOS ENERGY CORPORATION

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME, POSITION AND BUSINESS ADDRESS.

A. My name is Danny Bertotti. I am a Sales Representative for Atmos Energy Corporation ("Atmos" or "the Company") in Tennessee and the Kentucky/Mid-States region. My business address is 200 Noah Drive, Franklin, Tennessee 37064.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The primary purpose of my testimony is to address the objections raised by interveners against the proposed revisions to the transportation tariff ("Rate Schedule 260" or "the tariff") at issue in this Docket, and to provide specific detail around the mechanisms proposed in Rate Schedule 260.

Q. PLEASE BRIEFLY DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND, AND CURRENT RESPONSIBILITIES.

A. I am a 1994 graduate of the University of Tennessee, with a Bachelor of Science Degree in Mechanical Engineering. I have been employed by Atmos full time since 1994. Currently, I am responsible for initiating, developing and maintaining relationships with Atmos's industrial and large volume commercial customers to promote business development and the continued use of the company's products and services that add value for those customers. I routinely conduct on-site visits to become and remain knowledgeable about customer operations.

Q. HAVE YOU EVER TESTIFIED BEFORE THE TENNESSEE REGULATORY AUTHORITY ("TRA")?

A. Yes. I submitted rebuttal testimony in the Company's two most recent general rate case proceedings before the TRA (Docket No's. 05-00258 and 07-00105).

III. INTERVENING PARTIES AND OBJECTIONS

Q. BRIEFLY DESCRIBE THE PARTIES WHO HAVE FILED COMPLAINTS IN OPPOSITION TO ATMOS' PROPOSED TARIFF.

A. The three parties who have intervened in this docket are the Atmos Intervention Group ("AIG"), Southstar Energy Services LLC ("Southstar"), and Stand Energy Corporation ("Stand Energy"). AIG is an informal group of large customers who purchase natural gas and/or transportation services from Atmos, and assert that this proceeding will address the terms and conditions under which AIG members purchase natural gas and transportation services. Southstar is a shipper of natural gas who provides transportation services to a number of Atmos Energy's customers pursuant to the Rate Schedule 260 at issue in this proceeding. Stand Energy is an independent marketer of retail energy purporting to operate in the state of Tennessee, and claims that the Company's tariffs affect the competitive environment in which they operate.

Q. PLEASE SUMMARIZE THE MAJOR OBJECTIONS OF THE INTERVENING PARTIES.

A. In April 2007, AIG and Southstar filed complaints in this docket against the Company's proposed revisions to Rate Schedule 260, and Stand Energy later outlined their opposition to the tariff amendments in a response to Atmos' objection to Stand Energy's request to intervene in this proceeding.

Atmos Intervention Group is primarily opposed to the proposed daily scheduling fees, penalty charges for violation of the Operational Flow Order ("OFO") provision, and the flat 2% adjustment to volumes received on behalf of transportation customers for Lost and Unaccounted for Gas (L&U). (The Company has since withdrawn its request to amend the L&U provision.) They also assert the tariff changes will likely result in higher charges to transportation customers, and have expressed concern that the Company's affiliate, Atmos Energy Marketing ("AEM"), will be exempt from the aforementioned penalty charges by retroactively balancing the deliveries of their customers. AIG also makes the assertion that any additional revenues resulting from the proposed fees and penalties would be a "windfall" to Atmos.

Southstar Energy Services LLC raises objections very similar to those of AIG. Additionally, Southstar opposes the cash out of monthly imbalances ("Cash Out") provision included in the tariff, expressing concern that their customers "may incur significant rate increases" if the tariff revisions are approved. Thus far, Stand Energy's only stated objection to the Company's proposed tariff relates to the Company's discretion concerning the application of the daily scheduling fees, and the assumption that the Company may not subject its affiliate, AEM, to the proposed penalties under the OFO provision.

Q. WILL THE PROPOSED CHANGES TO RATE SCHEDULE 260 CREATE ADDITIONAL INCOME FOR THE COMPANY?

A. Absolutely not. First, it is important to emphasize that if the Company's transportation customers effectively manage their supply needs within the reasonable tolerances allowed by the tariff and comply with the requirements outlined therein, they will not incur penalty charges or other costs associated with the proposed tariff amendments. Second, all revenue generated from the proposed mechanisms in Rate Schedule 260 will be credited dollar-for-dollar to gas costs, thereby lowering the gas costs that the Company's firm sales customers pay. This treatment of the revenue is appropriate and is designed to fairly compensate firm sales customers for gas supply, capacity, and storage utilized by transportation customers, and will ensure that the firm sales customers are not subsidizing the activities of transportation customers and third party marketers. The particulars of the crediting of any non-margin revenue derived by the Company under Rate Schedule 260 are described in the direct testimony of Mrs. Childers.

Q. WILL ALL OF THE TERMS OF RATE SCHEDULE 260 APPLY TO THE COMPANY'S MARKETING AFFILIATE (AEM)?

A. Yes, all the terms of Rate Schedule 260 will apply to every customer, including those served by the Company's marketing affiliate, AEM. Both AIG and Southstar incorrectly assert that AEM will have an unfair advantage in that they would be allowed to retroactively match the aggregated volumes with the nominations of their customers each month, ensuring that customers of AEM are always in balance and would never be penalized under the new provisions of the tariff. Again, this tariff and its revised terms are non-discriminatory and will apply to any and all third party marketers and their customers, and will apply to any pool of customers and their pool manager, whether that pool manager is AEM or any other entity. Therefore, if AEM serves as a pool manager for any transportation customers behind the Company's city gate, then the provisions of the tariff will be enforced against the AEM pool in the same manner as any other pool managed by any other marketer. If necessary, the Company is willing to change the language proposed in Rate Schedule 260, Subsection (C)(v)(c), 2nd Revised Tariff Sheet No. 23 to substitute the term "may" with "shall," to remove the concern expressed by Stand Energy that the proposed language would allow the Company discretion in the application of the tariff mechanisms.

Q. HAVE THESE PROPOSED TARIFF CHANGES BEEN COMMUNICATED TO CUSTOMERS OF ATMOS WHO MAY BE AFFECTED?

A. Yes. In February 2007, the Company sent a letter to all transportation customers and third party marketers that may be affected by the proposed tariff changes. An example of the letter sent to the transportation customers and third party marketers is attached hereto as <u>Exhibit DPB-</u>1. Atmos initiated this contact in order to provide sufficient notice of the filing prior to approval and implementation, and to provide an opportunity for customers to ask questions or request a related meeting with the Company.

Q. **OTHER THAN COMPLAINTS FILED BY THIRD PARTY MARKETERS IN THIS CASE, HAS ATMOS RECEIVED ANY OBJECTIONS TO THE PROPOSED TARIFF CHANGES FROM ITS TRANSPORTATION CUSTOMERS?**

A. No. Outside of the complaints filed by the interveners described earlier in my testimony, the Company has not received any negative feedback from any of its customers concerning the tariff filing, and is unaware of any other objections to the proposed revisions. Atmos did receive a call from one of its largest transportation customers in Tennessee asking what the impact to them would have been if these provisions had been in place over the previous six months. The customer asked Atmos to calculate any charges that the customer would have incurred based on its past six-month volume history and imbalances. Interestingly, that customer's agent advised the customer that had these provisions been in place, the agent would have managed that customer's daily and monthly deliveries differently in order to minimize any charges associated with these proposed provisions.

IV. PROPOSED TARIFF MECHANISMS

Q. WHAT CHANGES DOES THE COMPANY PROPOSE TO RATE SCHEDULE 260?

A. The Company proposes the following changes:

- Defining the term "Maximum Daily Quantity" (MDQ) and limiting daily nominations to the applicable MDQ (Rate Schedule 260, Subsection (B)(iv), 2nd Revised Tariff Sheet No. 21);
- Defining Operational Flow Order (OFO) and implementing provisions for OFOs (Rate Schedule 260, Subsection (C)(v)(e), 2nd Revised Tariff Sheets Nos. 23 and 24);
- Clarifying procedures used to calculate monthly cash-outs (Rate Schedule 260, Subsection (C)(v)(c), 2nd Revised Tariff Sheet No. 22);

- Implementing daily scheduling fees for daily imbalances outside of a 10% tolerance for under- or over nominated quantities (Rate Schedule 260, Subsection (C)(v)(d), 2nd Revised Tariff Sheet No. 23);
- Adding pooling provisions (Rate Schedule 260, Subsection (E), Original Tariff Sheet No. 24.1).

The foregoing changes are set forth in the revised Rate Schedule 260 attached to the direct testimony of Company witness Mr. Michael H. Ellis.

Q. WHAT IS AN MDQ?

A. An MDQ is the maximum volume of natural gas that a transportation customer can nominate for delivery into the Company's distribution system on any given day. The customer can nominate amounts below or up to the MDQ, but cannot exceed the MDQ. The MDQ is customer-specific in that it is developed based upon historic metered volumes for existing customers and projected volumes for new customers. The definition of MDQ the Company proposes to include in Rate Schedule 260 is "the maximum daily volume of gas, as determined by the Company based on Customer's historical metered volumes, that a Customer under this Rate Schedule will be allowed to nominate and have delivered into the Company's system for the Customer's account."

Q. WHAT IS THE PURPOSE OF AN MDQ?

A. In the context of transportation services, the assignment of an MDQ for each transportation customer enables the Company to more effectively manage available distribution system capacity and maximize the availability of transportation service for those customers who desire this service. MDQs also aid the Company in administering an Operational Flow Order (OFO) for purposes of allocating available capacity. If conditions on the

Company's system necessitate the implementation of an OFO, then on-system capacity may become severely constrained and the Company may need all or most available capacity merely to ensure that homes are heated. The proposed language of new Rate Schedule 260 limits a transportation customer's daily nominations to its applicable MDQ. (Rate Schedule 260, Subsection (C)(ii), 2nd Revised Tariff Sheet No. 21) This will ensure that the Company is not obligated by tariff or contract to receive any quantity of gas on the customer's account greater than the MDQ. Knowing that customers cannot demand more than their maximum daily quantity facilitates the Company's daily system capacity management.

Q. DO OTHER TRANSPORTERS OF NATURAL GAS UTILIZE MDQs FOR THEIR CUSTOMERS?

A. Yes. It is commonplace for transporters of natural gas such as pipelines and LDCs to prescribe MDQs for transportation customers. The nomenclature of the requirement may differ from one company to the next[1], but effectively all transporters recognize that imposition of a maximum daily volume of gas is necessary for effective system capacity management.

Q. WHY IS THE COMPANY PROPOSING THIS CHANGE?

A. An MDQ limits the volume of gas that a transportation customer can nominate and deliver into the Company's system to the maximum volume that customer can actually consume on a peak day. By limiting this volume to the level the transportation customer can actually consume, the Company avoids having to inject excess gas delivered for the cus-

[1] For example, each of the other two regulated LDCs in Tennessee, which collectively own Southstar Energy Services, LLC, have comparable provisions in their own transportation tariffs. *See* Nashville Gas Company Rate Schedules 313 and 314 where the term "maximum allowable daily deliveries" is used and Chattanooga Gas Company Rate Schedules T-1 and T-2 where the term "daily contract entitlement" is used.

tomer into the Company's storage system, which has been paid for by the Company's sales customers.

Q. IS THE REQUESTED CHANGE REASONABLE?

A. Yes. This change will enable the Company to more effectively manage the capacity available on its distribution system in Tennessee and will eliminate any doubt as to the maximum daily volume of natural gas that a transportation customer can nominate for delivery into the Company's system. Moreover, specified MDQs are common in interstate pipeline transportation contracts and, as I previously noted, already have been implemented by Nashville Gas and Chattanooga Gas.

Q. PLEASE PROVIDE EXAMPLES THAT SUPPORT THE COMPANY'S NEED TO PROPOSE AN MDQ IN THE TARIFF.

A. On several occasions, when an interstate pipeline OFO was in effect, the volumes for certain transportation customers who are members of AIG, were reduced to zero, but the customer continued to burn gas. When the pipeline restriction was lifted, the transportation customer or its broker nominated more gas for the remaining days of the month than they intended to consume in order to reduce the monthly cash-out. The Company was then forced to inject this excess gas into storage. Having an MDQ in place would have prevented the over delivery of gas and the injection of the excess gas into storage. Additionally, transportation customers and/or their brokers will no longer be allowed to "game" the system. This will require the transportation customer and or broker to manage the delivered volumes and not rely on the Company's firm sales customers to pay for the cost that is created by the usage of unauthorized gas during the OFO and the cost to inject the excess gas into storage after the OFO.

The MDQ also will prevent a customer, or broker, who has under-delivered for the majority of the month from dumping excess gas into the Company's system over the last few days of the month in order to minimize the monthly cash out charges. For example, in October 2006 one of Atmos' transportation customers, served by Southstar, under-delivered gas for the first 30 days of the month by a total of 668 Mcf. The customer then increased its nomination for the 31st day of the month to 421 Mcf in an attempt to bring the month into balance. However, the customer only used 54 Mcf on the 31st. This resulted in an over-delivery into Atmos' system of 367 Mcf on the 31st, more than 7 times the amount the customer actually used. The Company was again forced to inject this extra 367 Mcf into storage. Had this provision been in place, this customer's MDQ would have been approximately 150 Mcf. The customer would have only been allowed to deliver 150 Mcf on the 31st, rather than the 367 Mcf it did deliver. This would have limited the amount of gas the Company had to inject into storage.

Q. WHAT WOULD HAVE HAPPENED WITH THIS EXCESS GAS IF THE COMPANY WERE ALREADY AT ITS MAXIMUM ALLOTED STORAGE CAPACITY?

A. It would have been included in volumes by the interstate pipeline for determining whether the Company was in balance or not. If the excess gas created a positive imbalance for the Company on the pipeline, then the pipeline would "cash out" the positive imbalance by purchasing the excess gas commodity from the Company at a discounted commodity rate as provided in the pipeline's FERC-approved tariff. If the purchase price for such excess gas were less than the relevant market price for which the Company was purchasing gas at the time, then the difference would have been an additional cost to firm sales customers through the Company's purchased gas adjustment ("PGA") clause.

Q. HAVE ANY OF THE INTERVENORS IN THIS DOCKET RAISED OBJECTION TO THE MAXIMUM DAILY QUANTITY (MDQ) PROPOSED IN THE REVISED TARIFF?

A. No. There have been no stated objections to the MDQ portion of the proposed tariff by the interveners or any other customer or marketer who may be affected by this provision.

Q. CAN YOU DESCRIBE IN MORE DETAIL THE DAILY SCHEDULING FEE PROVISIONS THE COMPANY PROPOSES IN RATE SCHEDULE 260?

A. The Company proposes to add daily scheduling fees for any daily imbalance in excess of a 10% tolerance. The proposed provision reads as follows (the Company has proposed to change the word "may" to "shall" as previously noted):

> *The Company may assess a daily scheduling fee for any daily transportation imbalance in excess of 10% of the Customer's daily confirmed nomination. The fee will be calculated as follows:*
>
> *([annual storage demand charges/MDWQ]/365) + (annual storage capacity charges/total capacity) + average injection and withdrawal costs.*
>
> *Costs for all storages used in providing for balancing will be included.*
>
> *Customers' agents shall be allowed to aggregate their customers' usages and the daily scheduling fee will be applied to the aggregated volume of the pool, pursuant to the Pooling Service in Section E.*

The daily scheduling fee rate will be calculated based on the Company's cost for all storage services used in providing for daily balancing. These provisions are designed to pass on a portion of the costs of storage services to those transportation customers benefiting from the service and to offset the costs of storage incurred by the Company's firm sales customers.

Q. HOW WILL THE SCHEDULING FEES BE CALCULATED?

A. Because the Company's costs associated with storage will vary from time to time, a pre-defined rate per volumetric unit of gas would not be flexible enough to account for cost increases or decreases. As a result, the Company proposes to implement a daily scheduling fee based upon the formula set forth in the tariff language quoted above.

Q. DOES THE COMPANY USE THIS FORMULA IN ANY OTHER JURISDICTIONS TO SET DAILY SCHEDULING FEES?

A. Yes. This same formula has been approved in Atmos' transportation tariffs by the Public Service Commissions in Georgia and Missouri.

Q. **PLEASE ADDRESS THE INTERVENOR COMPLAINTS CONCERNING THE PROPOSED DAILY SCHEDULING FEES.**

A. AIG and Southstar allege that the proposed daily scheduling fees are not cost based because the pipelines serving Atmos do not impose daily balancing fees or penalties.

Q. ARE THE DAILY SCHEDULING FEES PROPOSED IN RATE SCHEDULE 260 DEPENDENT UPON THE IMPOSITION OF DAILY SCHEDULING FEES BY ANY INTERCONNECTING INTERSTATE PIPELINE?

A. No. Parties who associate the Company's daily scheduling fees with unrelated fees charged by an interstate pipeline do not understand the intended purpose of this provision. The Company's firm storage on the interstate system is paid for by firm sales customers. Since the Company utilizes this storage to manage daily imbalances to avoid penalties by the interstate pipelines, transportation customers who go outside the allotted

10% tolerance are benefiting from the use of storage assets paid for by firm sales customers. Therefore, scheduling fees are collected from transportation customers to compensate the firm sales customers for use of these assets. As demonstrated, the Company's proposal to add daily scheduling fees is not dependent on any scheduling fees imposed by an interstate pipeline. This is more particularly discussed in the direct testimony of Mr. Malter.

Q. PLEASE PROVIDE AN EXAMPLE OF HOW TRANSPORTATION CUSTOMERS WHO USE MORE OR LESS GAS THAN THEY PROCURE BENEFIT FROM STORAGE ASSETS PAID FOR BY FIRM CUSTOMERS.

A. In November 2005 one of the Company's transportation customers, served by Southstar, scheduled approximately 54 Mcf to be delivered into Atmos' system each day during the first 17 days of the month. During this time, they actually used an average volume of over 78 Mcf per day (this is an under delivery of approximately 44% per day). In order to cover the additional 24 Mcf/day not delivered by the transportation customer, the Company used its storage assets paid for by its firm sales customers. For the next 4 days of the month, the customer over delivered by an average of almost 80 Mcf/day. For these four days, the company had to inject this excess gas into storage. In such situations, it is entirely reasonable and necessary to require transportation customers to pay daily scheduling fees that are based on the Company's actual storage costs to reimburse the costs Atmos' firm sales customers.

Q. WHAT IS AN OPERATIONAL FLOW ORDER (OFO)?

A. Simply stated, an OFO is in effect a curtailment order that requires a transportation customer to consume no more gas (or no less gas depending on the season) than it has scheduled for delivery into the Company's system. The specific language of the proposed tariff is as follows:

> 1. *Company will have the right to issue an Operational Flow Order that will require actions by the Customer to alleviate conditions that, in the sole judgment of the Company, jeopardize the operational integrity of Company's system required to maintain system reliability. Customer shall be responsible for complying with the directives set forth in the OFO.*
>
> 2. *Upon issuance of an OFO, the Company will direct Customer to comply with one of the following conditions:*
>
> a. *Customer must take delivery of an amount of natural gas from the Company that is <u>no more</u> than the hourly or daily amount being received by the Company from the Connecting Pipeline Company for the Customer's account. All volumes delivered to the Customer in excess of volumes received by the Company from the Connecting Pipeline Company for the Customer's account, that are in violation of the above condition, with the exception of a 5% daily tolerance, shall constitute an unauthorized overrun by Customer on the Company's system. Customer shall be charged a penalty of $25.00 per dth, plus the Gas Daily Index price for the respective Connecting Pipeline Company for such unauthorized overruns during the OFO, or*
>
> b. *Customer must take delivery of an amount of natural gas from the Company that is <u>no less</u> than the hourly or daily amount being received by the Company from the Connecting Pipeline Company for the Customer's account. All volumes delivered to the Customer which are less than volumes received by the Company from the Connecting Pipeline Company for the Customer's account, that are in violation of the above condition, with the exception of a 5% daily tolerance, shall constitute an unauthorized delivery by Customer to Company. Customer shall be charged a penalty of $25.00 per dth for such unauthorized deliveries to Company's system.*
>
> 3. *Any penalties charged due to unauthorized overruns or deliveries during an OFO will be in addition to any cash out charges described in Subsection C(v)(c) above.*

An OFO can be issued by the Company for a specific period of time, such as a day or several days, or for a designated operational area. An OFO would be issued to alleviate conditions that threaten the safe operation or integrity of the Company's distribution system, such as when one or more upstream pipelines call an operational flow order that creates conditions on the Company's system. For example, ETN frequently issues OFOs and/or MADD (Maximum Allowable Daily Delivery) orders with respect to one or more delivery points into the Company's distribution system and the Company's failure to comply with the terms of an ETN OFO can result in penalties being assessed to the Company by the pipeline.

Q. IS THE REQUESTED CHANGE TO ADD OFO PROVISIONS TO THE TARIFF REASONABLE?

A. Yes. Maintaining the integrity and reliability of the Company's distribution system is a primary concern, and is especially critical during the heating season. Where multiple parties are responsible for delivering supplies to the Company's city gates on behalf of customers, system integrity and safety could be compromised if a transportation customer fails to deliver gas to meet its daily requirements. The responsibility to deliver enough gas to maintain system reliability in such a case falls upon the Company. During OFO periods, the Company relies upon all resources available to it, including both upstream capacity as well as storage. These resources, and especially the local facilities, will typically operate at maximum capacity during such periods. Under-deliveries by transportation customers outside of the 5% tolerance zone prescribed in Rate Schedule 260 put the Company's system at peril because it must acquire sufficient gas commodity supplies to meet firm requirements.

Accordingly, the OFO imbalance penalty is intended to encourage transportation customers to comply with OFOs. The penalty level must be sufficient, without being overly punitive, to serve as an effective incentive for transportation customers and their marketers to comply during OFO periods. The penalty proposed by the Company accomplishes this purpose.

Q. PLEASE EXPLAIN THE REASONS FOR INCLUDING THE OFO PROVISION IN THE REVISED TARIFF.

A. Atmos proposes to include provisions allowing it to issue an OFO that will require a transportation customer to take delivery of an amount of natural gas that is no more (or no less) than the daily amount being received from the Connecting Pipeline Company (the upstream interstate pipeline) for the customer's account. Any daily amount delivered to the customer that is more or less than the amount received by Atmos from the Connecting Pipeline Company for the customer's account outside of a 5% daily tolerance will be penalized at a rate of $25 per dekatherm, plus the *Gas Daily* index price for the respective Connecting Pipeline Company. Any revenue generated through this provision by Atmos would be credited back to the gas costs of firm sales customers. System integrity is put at particular risk during OFO periods, when reliability is critical and greater potential exists for market indices to fluctuate significantly. Accordingly, the OFO imbalance penalty level is an important component in ensuring system integrity and reliability. Transportation customers can avoid the penalty by simply staying within the proposed 5% tolerance, which is imminently reasonable. If transportation customers do not wish to comply with an OFO, then, because any penalties associated with the OFO flow back through the PGA, they are effectively reimbursing firm sales customers for the use of their gas.

As an example, evidence exists that transportation customers, including members of the Atmos Intervention Group, have taken advantage of the absence of OFO penalties, to the detriment of the firm sales customers. In December 2006 and February 2007, East Tennessee Natural Gas Pipeline called for an OFO, which reduced particular transportation customers' gas allocations to zero. However, the customer continued to use gas on those days, even though no gas was delivered on its behalf. By default, it was Atmos who provided the gas used by the customer on those days, which Atmos had to pull out of storage. The transportation customer's bills show that the customer made nominations for the end of the month in amounts far larger than the customer could actually use in an attempt to balance out the gas taken during the OFO period. The customer was not charged any penalties, and did not pay for the expense incurred in covering the volumes of gas Atmos had to either pull from storage or purchase at market rates to serve the customer during the OFO period. The inactions by the transportation customer during the OFO period put the Company at risk of penalties from the pipeline company.

Q. IS THE COMPANY PROPOSING A NEW PROVISION TO CASH OUT MONTHLY IMBALANCES OF TRANSPORTATION CUSTOMERS?

A. No, the Company is not proposing a new cash out provision. Atmos currently cashes out its transportation customers who have an imbalance at the end of each month. In fact, the Company does not understand why Southstar is opposing the proposed cash out provision since its customers are currently being cashed out each month. Atmos is only proposing to clarify the language in its transportation tariff and make explicit in the tariff the formulas that will be used to calculate the cash outs each month. The language proposed in the tariff reads:

1. If the volume of gas delivered to the Customer's point of delivery is greater than the volume of gas received by the Company from the Connecting Pipeline Company for the Customer's account (negative imbalance), the Company will sell the difference in gas volumes to the Customer based on the highest index price for the respective Connecting Pipeline Company for any week beginning in the calendar month as published in *Natural Gas Week*, plus applicable pipeline fuel and transportation charges. If the volume of gas delivered to the Customer's point of delivery is less than the volume of gas received by the Company from the Connecting Pipeline Company for the Customer's account (positive imbalance), the Company will buy the difference in gas volumes from the Customer based on a price equal to the lowest index price for the respective Connecting Pipeline Company for any week beginning in the calendar month as published in *Natural Gas Week*, plus applicable pipeline fuel and transportation charges.
2. The monthly cash out bill will be based on the accumulated sum of the results of the formulas listed below such that and until the total monthly imbalance is fully accounted for:

	Cash out Price	
% of Imbalance	**for Positive Imbalances**	**for Negative Imbalances**
0% up to 5%	100%	100%
5% up to 10%	85%	115%
10% up to 15%	70%	130%
15% up to 20%	60%	140%
20% and over	50%	150%

The proposal also will allow Atmos to use the same formula for any transportation customer, regardless of the connecting pipeline serving that customer.

Q. WHAT IS THE PURPOSE OF THE CASH-OUT PROVISION OF THE COMPANY'S PROPOSED RATE SCHEDULE 260?

A. The cash out provision insures that both the customer and the Company are kept whole on their gas purchases, meaning the customer pays for no more, or no less, than the volume of gas it consumes during the month. It is designed to deter a transportation customer from taking gas in excess of the level it has delivered to the Company, which has an adverse impact upon system supply. It is also designed to remove the economic incentives that transportation customers have to over- or under-deliver gas in order to profit from volatile swings in natural gas prices.

Q. PLEASE EXPLAIN THE PRICING MECHANISM OF THE CASH-OUT PROVISION OF PROPOSED RATE SCHEDULE 260.

A. If a transportation customer has a positive imbalance, meaning that it has used less gas in a month than it caused to be delivered into the Company's distribution system, then the Company will purchase the excess gas from the customer at the lowest index price for the applicable connecting interstate pipeline for any week beginning in the calendar month as published in *Natural Gas Week*, plus applicable pipeline fuel and reservation charges. The applicable price payable by the Company is discounted using a tier level based upon the imbalance percentage once the customer exceeds an imbalance tolerance of 5%.

If a transportation customer has a negative imbalance, meaning that it has consumed more gas in a month than it has caused to be delivered into the Company's distribution system, then the Company will charge the customer for the excess gas consumed at a per unit rate equal to the highest index price for the applicable connecting interstate pipeline for any week beginning in the calendar month as published in *Natural Gas Week*, plus applicable pipeline fuel and transportation charges. The applicable price payable by the customer for the excess gas consumed increases using a tier level based upon the negative imbalance percentage once the customer exceeds an imbalance tolerance of 5%.

Q. WHY ARE THE PRICING MECHANISMS DIFFERENT FOR POSITIVE AND NEGATIVE IMBALANCES?

A. The Company's goal is to ensure that it has sufficient quantities of gas to meet the needs of its firm sales customers through system supply planning. If a transportation customer does not consume all of the gas that it has caused to be delivered into the Company's system thereby creating a positive imbalance, then this is excess gas that the Company does not need to meet firm sales demand and firm sales customers should not be required to purchase excess gas at any sort of a premium commodity rate. Accordingly, the lowest applicable index price is appropriate for the purchase of excess volumes from transportation customers. The more excess gas a transportation customer delivers into the Company's system that is not needed, the lower the price that firm sales customers should be required to pay for it.

On the other hand, if a transportation customer consumes gas in excess of that which it has caused to be delivered into the Company's system, thereby creating a negative imbalance, then the customer has consumed system supply that has been earmarked for the requirements of firm sales customers and the transportation customer should be required to pay a premium for consuming such gas. The highest index price is therefore the appropriate rate to be charged a transportation customer for using the firm customers' supply. If a transportation customer consumes excessive quantities of system supply gas, then it should be required to pay a premium price for that gas based upon the percentages set forth in Rate Schedule 260.

Q. WHAT DID ATMOS USE AS THE BASIS FOR ITS TIER LEVELS IN THE CASH OUT FORMULA?

A. Atmos' proposed tier levels match the tier levels of East Tennessee Natural Gas, Atmos' most strict interstate pipeline in Tennessee, and the pipeline that delivers a significant portion of Atmos' gas supply for the state.

Q. DO THE OTHER REGULATED NATURAL GAS UTILITIES IN TENNESSEE

USE THE SAME FORMULA?

A. The other regulated utilities in Tennessee do not use the exactly same formula, but one that is very similar. The table below shows a comparison of the cash out tier levels of the three regulated gas utilities in Tennessee.

Balance range	Atmos	Nashville	Chattanooga
0% - 5%	0%	0%	0%
5% - 10%	15%	20%	0%
10% - 15%	30%	30%	20%
15% - 20%	40%	40%	40%
20% +	50%	50%	50%

Q. ARE THE PROPOSED CASH-OUT PROVISIONS REASONABLE?

A. Yes. Unlike firm sales customers, transportation customers have the option of purchasing their commodity requirements from someone other than the Company and, in making that election, they have effectively eliminated the Company's responsibility of including their commodity demand requirements as part of the Company's system supply forecasting and planning. As a result, those firm sales customers who do purchase their commodity from the Company should not be required to fund the commodity requirements of the transportation customers who do not. The terms of the tariff are fair because it prescribes a reasonable tolerance of 5% for transportation imbalances and keeps the firm sales customers whole. If a transportation customer cannot effectively manage its imbalances within the prescribed tolerances, then it always has the option of either going back to tariff sales service or hiring a more experienced third-party gas supplier or marketer.

Q. HAS ATMOS EXPERIENCED TRANSPORTATION CUSTOMERS THAT DID NOT ATTEMPT TO BALANCE THEIR MONTHLY GAS VOLUMES?

A. Yes, Atmos would note that at least one customer served by Southstar was out of monthly balance by 8%, 47%, 2%, 27%, 32%, 17%, 10% and 7% for the months of May through

December 2006, with very few intra-month nomination changes, apparently doing little or nothing to keep the account in balance.

Q. WHAT IS THE POOLING SERVICE PROPOSED BY THE COMPANY IN RATE SCHEDULE 260?

A. The pooling service will allow a third-party gas marketer, which has been appointed by a group of transportation customers served under this rate schedule, to aggregate the volumes of all customers in the pool for purposes of the cash-out and OFO provisions of the tariff. The Company would enforce these provisions on the pool, rather than on each individual transportation customer. This process may reduce potential cash-out charges and OFO penalties to customers in the pool by offsetting one customer's positive imbalance with another customer's negative imbalance. The specific tariff language proposed by the Company for pooling is as follows:

> *(i) For the purpose of this section, A Pool Manager is defined as an entity which has been appointed by a customer or group of customers served under this rate schedule to perform the functions and responsibilities of requesting information, nominating supply, and other related duties. The Pool Manager shall have all of the rights under this Transportation Service as does a Customer transporting gas supply directly under this Transportation Service.*
>
> *(ii) The Pool Manager will be responsible for arranging for volumes of transportation gas to meet the daily and monthly requirements of customers in the pool. The cash out provisions and daily scheduling provisions of Subsection C (v) shall be applied against the aggregate volume of all customers in a specific pool. The Pool Manager will be responsible for the payment of any monthly cash out payments, scheduling fees and any penalties incurred by a specific pool as a result of monthly, daily, or hourly imbalances.*
>
> *(iii) The Company, at the Company's sole discretion, shall establish pooling areas by Connecting Pipeline, Pipeline zone, Company receipt point, geographic area, operational area, administrative or other appropriate parameters.*
>
> *(iv) No customer shall participate in a Pool that does not individually meet the availability conditions of this rate schedule, and no customer shall participate in more than one pool concurrently.*

(v) To receive service hereunder, the Pool Manager shall enter into a Pool Management Agreement with Company and shall submit an Agency Authorization Form for each member of the pool, signed by both Customer and its Pool Manager.

(vi) The Pool Manager shall submit a signed Pool Management Agreement and an Agency Authorization Form for each member of the pool at least 30 days prior to the beginning of a billing period when service under this rate schedule shall commence. A customer who terminates service under this rate schedule or who desires to change Pool Managers shall likewise provide Company with a written notice at least 30 days prior to the end of a billing period.

(vii) The Pool Manager shall upon request of the Company agree to maintain a cash deposit, a surety bond, an irrevocable letter of credit, or such other financial instrument satisfactory to Company in order to assure the Pool Manager's performance of its obligations under the Pool Management Agreement. In determining the level of the deposit, bond, or other surety to be required of the Pool Manager, the Company shall consider such factors, including , but not limited to, the following: the volume of natural gas to be transported on behalf of the Pool members, the general credit worthiness of the Pool Manager, and the Pool Managers prior credit record with the Company, if any. In the event that the Pool Manager defaults on its obligations under this rate schedule or the Pool Management Agreement, the company shall have the right to use such cash deposit, or proceeds from such bond, irrevocable letter of credit, or other financial instrument to satisfy the Pool Manager's obligation hereunder. Specific terms and conditions regarding credit requirements shall be included in the Pool Management Agreement. Such credit requirements shall be administered by the Company in a non-discriminatory manner, and such credit requirements may change as the requirements of the pool change.

(viii) The Pool Manager shall notify the Company in writing of any changes in the composition of the pool at least 30 days prior to the beginning of the first billing period that would apply to the modified pool.

(ix) The Pool Management Agreement will be terminated by the Company upon 30 days written notice if a Pool Manager fails to meet any condition of this rate schedule. The Pool Management Agreement will also be terminated by the Company upon 30 days written notice if the Pool Manager has payments in arrears. Written notice of termination of the Pool Management Agreement shall be provided both to the Pool Manager and to the individual members of the pool by the Company.

(x) Company shall directly bill the Pool Manager for the monthly cash out charges, penalties, or other payments contained in this rate schedule. The monthly bill will be due and payable on the date it is issued. A charge of five per-

cent (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.

(xi) Company shall directly bill the individual customers in the pool for all Customer Charges, Demand Charges, and Commodity Charges as provided for in either this rate schedule or its companion rate schedule.

Q. WHY DID THE COMPANY PROPOSE THE POOLING TERMS OF THE TARIFF?

A. In recognition of the fact that some transportation customers may view some of the proposed tariff terms unfavorably, Atmos has included an ability of a group of transportation customers to designate a "pool manager." Essentially, the pooling service will allow a third-party gas marketer, which has been appointed by a group of transportation customers served under this rate schedule, to aggregate the volumes of all customers in the pool for purposes of the cash out, scheduling fee and operational flow order provisions of the tariff. Atmos would enforce these provisions on the pool, rather than on each individual transportation customer.

Pooling could reduce potential cash out charges, daily scheduling fees and operational flow order penalties to customers in the pool by offsetting one customer's positive imbalance with another customer's negative imbalance

Q. IS THE PROVISION REASONABLE?

A. Yes. Pooling is clearly a benefit to transportation customers that provides them with additional options for procuring their commodity from someone other than the Company while also maintaining the ability to stay within the tariff's permitted tolerances.

Q. DOES THE COMPANY HAVE ANY OTHER SYSTEMS OR PROCEDURES IN PLACE, OTHER THAN THE PROPOSED POOLING PROVISIONS, TO HELP

A TRANSPORTATION CUSTOMER MINIMIZE FEES CAUSED BY DAILY OR MONTHLY IMBALANCES?

A. Yes, the Company requires transportation customers to have Electronic Flow Measurement installed on their meters. Using the EFM equipment, the Company posts the transportation customer's daily volumes on the Company web site and will set up a login and password to allow customers access to the daily volumes. This allows the customer and their marketer to see the actual daily volumes during the month. The customer and their broker can then use this information to determine if they need to make changes to the nominations and deliver more or less gas to stay within the proposed tolerances for daily and monthly balances. Atmos also allows customers to make intra-month nomination changes to match their actual daily consumption.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE

IN RE:	)	
	)	
ATMOS ENERGY CORPORATION	)	
TARIFF FILING TO MODIFY AND ADD	)	
ADD LANGUAGE REGARDING	)	
TRANSPORTATION SERVICE	)	**DOCKET NO. 07-00020**

VERIFICATION

STATE OF TENNESSEE)
)
COUNTY OF WILLIAMSON)

I, Danny Bertotti, being first duly sworn, state that I am a Sales Representative for Atmos Energy Corporation, that I am authorized to testify on behalf of Atmos Energy Corporation in the above referenced docket, that the Direct Testimony of Danny Bertotti pre-filed in this docket on the date of filing herein is true and correct to the best of my knowledge, information and belief.

Danny P Bertotti
Danny Bertotti

Sworn and subscribed before me this 23rd day of Oct, 2007.

Ronnie Myatt
Notary Public

My Commission Expires: June 20, 2011

RONNIE MYATT
STATE OF TENNESSEE NOTARY PUBLIC
WILLIAMSON COUNTY

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing has been served, via the method(s) indicated below, on the following counsel of record, this the 25th day of October 2007.

( ) Hand (✓) Mail ( ) Fax ( ) Fed. Ex. (✓) E-Mail	Vance Broemel, Esq. Stephen Butler, Esq. Office of the Attorney General Consumer Advocate and Protection Division P. O. Box 20207 Nashville, TN 37202
( ) Hand (✓) Mail ( ) Fax ( ) Fed. Ex. (✓) E-Mail	Henry M. Walker, Esq. Boult, Cummings, Conners, & Berry, PLC 1600 Division Street, Suite 700 P. O. Box 340025 Nashville, TN 37203
( ) Hand (✓) Mail ( ) Fax ( ) Fed. Ex. (✓) E-Mail	D. Billye Sanders, Esq. Waller, Lansden, Dortch & Davis, LLP 511 Union Street, Suite 2700 Nashville, TN 37219-8966
( ) Hand (✓) Mail ( ) Fax ( ) Fed. Ex. (✓) E-Mail	John M. Dosker, Esq. General Counsel Stand Energy Corporation 1077 Celestial Street Rockwood Building, Suite 110 Cincinnati, OH 45202-1629
( ) Hand (✓) Mail ( ) Fax ( ) Fed. Ex. (✓) E-Mail	R. Dale Grimes, Esq. David R. Esquivel, Esq. Bass, Berry & Sims, PLC 315 Deaderick Street, Suite 2700 Nashville, TN 37238-3001

____

Exhibit DPB-1

February 13, 2007

David Gray
MTSU
MTSU P.O. Box 32
Murfreesboro, TN 37132

Dear David Gray,

Atmos Energy currently delivers natural gas to you utilizing the Transportation Gas Service, Schedule 260. We have submitted a revision of this tariff to the Tennessee Regulatory Authority (TRA). The transportation gas service will continue to be offered as a companion to your existing sales rate schedule.

These new additions are designed to protect the reliability of your service and our distribution system. With the increase in number customers using the transportation gas service, we have to institute measures to maintain both your ability to deliver the gas you use and the gas that other customers are scheduled to use. We feel these and other additions to the tariff will continue to improve our ability to serve you both save and reliable gas service you have come to count on.

Attached is a copy of the new tariff. For your convenience we have listed below the major changes or additions to the tariff.

- Maximum Daily Quantity (MDQ). The MDQ will limit your nomination on any given day to the maximum volume of gas your facility can actually burn in a given day.
- Operational Flow Orders (OFO). During periods of system or pipeline constraints, Atmos Energy would be able to call an OFO and limit your daily volume to a level that is no more (or no less depending on the situation) to the volume of gas your marketer delivered for you that day.
- Daily Scheduling Fees. Daily Scheduling Fees allow Atmos Energy to recover costs of storage which is used when you burn more or less gas in a day than what your marketer has delivered for you for that day. The fee will be based on Atmos' actual storage costs and each customer will be given a 10% daily tolerance.
- Pooling Service. The Pooling Service allows multiple customers served by the same marketer, or Pool Manager, to pool their nominations and volumes together in an attempt to offset any scheduling fees, cash outs or OFO penalties. Cash outs, scheduling fees and any penalties will be charged to the marketer, or Pool Manager, rather than to the individual customers.

Atmos expects the TRA to address these changes in the near future.

Please contact me or your marketer for more information.

Best regards,

Danny Bertotti
Sales Representative

BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE

IN RE:

ATMOS ENERGY CORPORATION	)	
TARIFF FILING TO MODIFY AND	)	
ADD LANGUAGE REGARDING	)	
TRANSPORATION SERVICE	)	**DOCKET NO. 07-00020**

PRE-FILED TESTIMONY OF PATRICIA J. CHILDERS
ON BEHALF OF ATMOS ENERGY CORPORATION

I. INTRODUCTION

Q. PLEASE INTRODUCE YOURSELF.

A. My name is Patricia J. Childers. I am Vice President – Rates and Regulatory Affairs of the Kentucky/Mid-States Division of Atmos Energy Corporation ("Atmos" or the "Company"). My business address is 810 Crescent Centre Drive, Suite 600, Franklin, Tennessee, 37067.

II. SUMMARY OF TESTIMONY

Q. WHAT SUBJECTS DO YOU PLAN TO COVER IN YOUR TESTIMONY?

A. I will testify regarding the treatment of any non-margin revenues derived from the Company's revised transportation tariff filed in this docket. The revised tariff is referred to in my testimony as "Rate Schedule 260". I will also compare Rate Schedule 260 against the Company's current Rate Schedule 260 and against the comparable tariffs of Nashville Gas Company and Chattanooga Gas Company.

Q. PLEASE SUMMARIZE YOUR TESTIMONY REGARDING THIS SUBJECT MATTER.

A. The tariff changes requested in this case are entirely revenue-nuetral. Any non-margin revenue derived by the Company under Rate Schedule 260 will be credited against gas costs through the Company's Purchased Gas Adjustment rider (PGA). The Company's PGA already has this requirement.

With respect to comparable tariff provisions of Nashville Gas and Chattanooga Gas, Rate Schedule 260 merely clarifies some of the Company's existing tariff provisions and embodies several of the same provisions that the other two major gas utilities in Tennessee already have in place.

III. WITNESS QUALIFICATIONS

Q. PLEASE SUMMARIZE YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND, AND CURRENT RESPONSIBILITIES.

A. I have a Bachelor of Science in Business Administration from Middle Tennessee Statue University. I have worked for Atmos and its predecessors since 1979. In 2001, I assumed my current position, Vice President – Rates and Regulatory Affairs Atmos' Mid-States Division (now the Kentucky/Mid-States Division). My job responsibilities include oversight of rates and regulatory affairs for the Company's regulated utility operations in the States of Tennessee, Iowa, Illinois, Missouri, Virginia and Georgia. I also serve on internal and external committees involved in monitoring and addressing developments and trends in regulated gas utility rates.

Q. HAVE YOU EVER TESTIFIED BEFORE THIS AUTHORITY?

A. Yes. Throughout my years with the Company I have provided testimony in several dockets before the Tennessee Regulatory Authority ("Authority"), most recently in Docket No. 07-00105.

Q. HAVE YOU TESTIFIED ON MATTERS BEFORE OTHER STATE REGULATORY COMMISSIONS?

A. Yes, I have testified before the Illinois State Corporation Commission, the Missouri Public Service Commission, the Virginia State Corporation Commission and the Georgia Public Service Commission.

IV. TREATMENT OF NON-MARGIN REVENUE

Q. WHAT IS THE PURPOSE OF RATE SCHEDULE 260?

A. This tariff enables the Company to provide transportation-only service to larger users of natural gas, such as industrial customers, who have the wherewithal to purchase their own gas commodity. Such a customer will typically purchase its commodity from a marketer or broker and cause that gas to be delivered to the Company's city gate. For example, for a transportation customer receiving transportation service under Rate Schedule 250 as the applicable companion rate schedule to Rate Schedule 260, the Company will transport the customer's gas from the city gate to the meter at the customer's plant or other facility for a fee of $0.091 per hundred cubic feet (Ccf) (up to the first 20,000 Ccf) of natural gas and a monthly fixed charge of $310.00.

Q. WHAT ARE THE FEES YOU HAVE JUST DESCRIBED?

A. The monthly fixed charge and the volumetric rate together form the rate that the Company is permitted to charge a Rate Schedule 260 (as a companion schedule to Rate

Schedule 250) customer by the Authority as determined in the Company's most recent general rate proceeding.

Q. DOES RATE SCHEDULE 260 PERMIT THE COMPANY TO ASSESS OTHER CHARGES OR FEES?

A. Yes. Mr. Ellis and Mr. Daniel Bertotti discuss these fees, penalties and other charges in their direct testimony. I refer to these items in the aggregate as "non-margin revenue".

Q. WHY DO YOU REFER TO THEM AS SUCH?

A. The Company does not make any profit on gas commodity or interstate pipeline charges and passes the actual cost of the commodity, together with associated interstate pipeline and storage charges (all of which are referred to as "gas costs"), through the PGA to firm sales customers such as residential and small business customers. Because a Rate Schedule 260 customer acquires its own gas commodity, it does not contribute to gas costs. However, when a transportation customer fails to comply with the terms of Rate Schedule 260, the Company must use system supply gas and/or interstate pipeline and storage assets to continue to provide service to the transportation customer lest curtailment to that customer should occur.

The fees, charges and penalties are assessed to the customer under the terms of Rate Schedule 260 to compensate firm sales customers for the transportation customer's use of the gas costs (including storage) for which the firm sales customers are paying. Any such non-margin revenue derived by the Company as a result of Rate Schedule 260 fees, charges or penalties are credited dollar for dollar against gas costs through the PGA.

Q. IN YOUR OPINION, IS THIS PROCESS EQUITABLE FOR BOTH FIRM SALES CUSTOMERS AND THOSE CUSTOMERS WHO HAVE ELECTED TO TRANSPORT?

A. Yes. If a transportation customer requires the use of gas supply or supply-related assets paid for by firm sales customers in order to continue receiving service, then it should pay a cost associated with that use. The firm sales customers, correspondingly, should receive the credit for that use. Rate Schedule 260 has a reasonable tolerance built in so that a transportation customer has some margin for error over or under the customer's anticipated gas supply requirements before penalties or other charges are incurred.

Q. IS THIS GAS COST CREDITING MECHANISM A NEW PROPOSAL?

A. No. To the extent the Company derives any non-margin revenue under current Rate Schedule 260, then that is credited to gas costs through the PGA.

Q. HOW ARE NON-MARGIN REVENUES ACCOUNTED FOR?

A. When a transportation customer's nomination of gas is greater (or less) than actual usage and the percentage of this difference exceeds a tolerance threshold set forth in the tariff, the transportation customer is subject to a charge (or credit) for the gas volume in excess of the threshold. The customer receives on its bill a line item charge (if nominations were less than actual usage) or a credit (if nominations were more than actual usage) identified on the bill as a Cash-Out. This is a separate line item on the bill and is exclusive of any other type of charge (*i.e.* margin charges, taxes etc.).

If the transport customer uses more gas than it nominates, a line item Cash-Out charge is shown on the bill. The total cash-out charge is credited to FERC account 804 (Gas Purchases) and debited to FERC account 142 (Accounts Receivable). All gas purchases in the FERC 804 account are re-classed as a credit to deferred gas costs in the FERC 191 account. This entry effectively reduces gas costs to sales customers. The rationale is that transportation customers using more gas than they nominated actually end up using gas that the Company's sales customers purchased. Therefore, transport customers should pay for this gas and sales customers should receive the credit for the gas used by non-sales customers.

On the other hand, if the transport customer uses less gas than it nominates, a line item on the bill marked as Cash-Out is credited. This credit is booked to FERC account 804 (Gas Purchases) as a debit and a credit is made to FERC account 142 (Accounts Receivable). Once again, all FERC 804 accounts are re-classed to FERC 191 (Deferred Gas Cost) account creating a debit to deferred gas costs in the FERC 191 account. This entry increases the gas costs to sales customers. The rationale is that sales customers received the benefit of gas purchased by transport customers and should pay for this gas. All deferred gas costs in the FERC 191 account are recovered through the PGA process.

Q. WHAT HAPPENS IF A TRANSPORTATION CUSTOMER DOES NOT PAY ITS BILL FOR BILLED GAS COSTS? ARE THOSE COSTS CYCLED THROUGH THE PGA WITH OTHER GAS COSTS UNCOLLECTED FROM SALES CUSTOMERS?

A. If a transport customer does not pay the gas costs billed, these unpaid gas costs do not recycle through the bad debt mechanism. The bad debt mechanism is designed to collect unpaid PGA gas costs only. Cash-outs are not PGA recoveries and therefore are excluded from the bad debt recycled to other sales customers. Instead, a write off of a bad debt for a transport customer goes against the Company's net income.

Q. SO, IN FACT, THE COMPANY DOES NOT OBTAIN ANY NET REVENUE BENEFIT FROM THE CHARGES, COSTS AND PENALTIES PROPOSED UNDER RATE SCHEDULE 260?

A. That is correct. These proposals are designed entirely to enable the Company to effectively and efficiently manage its system capacity as well as ensure that firm sales customers are not subsidizing supply costs for transportation customers or their marketers.

Q. ARE NON-MARGIN REVENUES THAT MAY BE DERIVED UNDER RATE SCHEDULE 260 RELATED TO COSTS INCURRED BY THE COMPANY?

A. Yes. The following table illustrates the associated cost which drives the tariff charge:

Tariff Provision	*Cost Basis*
Maximum Daily Quantity	Does not in and of itself result in non-margin revenue
Operational Flow Order	Connecting interstate pipeline tariff
Cash-outs	Connecting interstate pipeline tariff
Daily Scheduling Fees	Costs of interstate system storage
Pooling	Does not in and of itself result in non-margin revenue

Q. HOW ARE OFO FEES AFFECTED BY THE CONNECTING INTERSTATE PIPELINE TARIFF?

A. As described in Mr. Ellis' testimony, the Company's distribution systems in Tennessee are served by Texas Gas Transmission ("Texas Gas"), East Tennessee Natural Gas ("ETN") and Columbia Gas Transmission ("Columbia"). Each of these interstate pipelines has an OFO provision in its tariff on file with the Federal Energy Regulatory Commission ("FERC") detailing the events that may necessitate an OFO by the pipeline as well as penalties for shippers who fail to comply with an OFO. Texas Gas charges a penalty of $50.00 per dekatherm, ETN charges $15.00 per dekatherm plus a stated gas price index, and Columbia charges three times a prescribed index rate per dekatherm. Tennessee Gas Pipeline, which is a transporter upstream of ETN and on which the Company also holds firm capacity, charges $15.00 per dekatherm plus a stated gas price index. As more particularly described in Mr. Bertotti's testimony, an OFO issued by any one or more of these pipelines will constrain the Company's system capacity, and the fee proposed by the Company is comparable to that charged by the interstates. Obviously, there may be times when the Company could implement an OFO on its system that is related to an issue on its system and is not caused by interstate pipeline restrictions. However, the same fee amount should apply irrespective of the actual cause necessitating the OFO.

Q. HOW ARE CASH-OUTS FEES AFFECTED BY THE CONNECTING INTERSTATE PIPELINE TARIFF?

A. The Company's existing transportation tariff already provides for the enforcement of the balancing provisions of the respective connecting interstate pipeline. Most of the interstate pipelines serving the Company's distribution systems prescribe a step-rate for cash-outs in their tariffs on file with FERC, and the Company's proposed cash-out provision in Rate Schedule 260 merely tracks the language of ETN's cash-out tariff. As Mr. Bertotti has stated in his pre-filed direct testimony, ETN was used because it is the strictest and the Company transports more volumes on ETN than any other pipeline in Tennessee.

Q. HOW ARE DAILY SCHEDULING FEES RELATED TO THE COMPANY'S STORAGE COSTS?

A. As more fully explained in the testimony of Mr. Kenneth Malter, the Company uses storage to stay in balance on the interstate system. The costs associated with this activity include the demand costs of storage, capacity costs, and related injection and withdrawal fees. All of these costs are factored in the formula proposed in Rate Schedule 260.

V. COMPARATIVE ANALYSIS OF TARIFFS

Q. HAVE YOU COMPARED THE COMPANY'S PROPOSED RATE SCHEDULE 260 TO ITS EXISTING TARIFF AND TO COMPARABLE TARIFFS OF OTHER GAS UTILITIES IN TENNESSEE?

A. Yes. The results of my analysis are set out in Exhibit PJC-1 attached to my testimony.

Q. PLEASE DESCRIBE THE EXHIBIT.

A. The Exhibit compares the Company's existing tariff, the Company's proposed Rate Schedule 260, the comparable tariffs of Chattanooga Gas, and those of Nashville Gas. The tariff provisions compared include MDQs, OFOs, Cash-outs, Scheduling Fees and Pooling.

Q. WHAT ARE THE RESULTS OF YOUR ANALYSIS WITH RESPECT TO MDQs?

A. The Company's existing Rate Schedule 260, Subsection (C)(vii) specifies that the Company is not obligated to provide delivery service under the tariff in excess of the levels specified in the transportation customer's firm contract. The MDQ provision of proposed Rate Schedule 260 merely clarifies the existing provision. Chattanooga Gas' Rate Schedule T-1 specifies that the gas company is not obligated to deliver any quantities in excess of the customer's "daily contract entitlement," which is basically an MDQ. Nashville Gas does not specifically identify any comparable provision in its Rate Schedule No. 314, but it does limit firm transportation deliveries under its Rate Schedule No. 313 to "maximum allowable daily deliveries," which is also basically an MDQ.

Q. PLEASE EXPLAIN THE RESULTS OF YOUR ANALYSIS WITH RESPECT TO OFOs.

A. The Company does not have a comparable provision under its existing Rate Schedule 260. Revised Rate Schedule 260 proposes to assess an unauthorized overrun penalty of $25.00 per dekatherm plus the Gas Daily Index price for the respective connecting interstate pipeline company. Chattanooga Gas and Nashville Gas have similar provisions for unauthorized overruns during a curtailment period, which is basically an OFO. For example, Chattanooga Gas' Rate Schedule T-1 provides as follows:

> *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 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 Customer's daily contract entitlement or such daily volumes taken in excess of curtailment volumes shall be paid for by the Customer at the greater of the rate of (1.) $15.00 per Dth or (2.) the average daily index on curtailment days plus $5.00 per Dth. 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. These additional charges shall be in addition to all other charges payable under this Rate Schedule.

Nashville Gas' Rate Schedule No. 306 prescribes extensive terms under which the gas company can issue a curtailment order and sets forth an unauthorized overrun penalty equal to $1.50 per therm plus the higher of two defined commodity indices. Since one dekatherm is equal to ten therms, the base penalty rate charged by Nashville Gas is $15.00 per dekatherm, or the same as Chattanooga Gas.

Q. PLEASE EXPLAIN YOUR CONCLUSION REGARDING CASH-OUT PROVISIONS.

A. The Company's existing tariff already permits it to cash out monthly transportation customer imbalances based upon the terms of the upstream interstate pipeline. Proposed Rate Schedule 260, as explained previously in my testimony and in the direct testimony of Mr. Bertotti, merely adopts the most stringent interstate pipeline provisions of those serving the Company in Tennessee, which is ETN. Notably, Nashville Gas already has a tiered rate cash out provision in its Rate Schedule No. 314 for increments of 5% as is proposed by the Company. Chattanooga Gas also has a tiered rate in its tariff, but it uses increments of 10%. As proposed by the Company, both Nashville Gas and Chattanooga Gas also pay a transportation customer a decreasing price for excess gas resulting from a positive imbalance and charge a transportation customer an increasing price for gas used and resulting in a negative imbalance.

Q. PLEASE EXPLAIN YOUR CONCLUSION REGARDING SCHEDULING FEES.

A. Nashville Gas and Chattanooga Gas do not specifically prescribe daily scheduling fees in their transportation tariffs. However, under the "Balancing" provision in the transportation tariffs of both Companies, each reserves the right to pass on any penalties assessed by the customers connecting pipeline, to the extent that a customer or its agent is responsible for causing such penalties.

Q. PLEASE EXPLAIN YOUR CONCLUSION REGARDING POOLING.

A. Both Nashville Gas and Chattanooga Gas currently provide a pooling service in their transportation tariffs very similar to that which Atmos has proposed. Furthermore, the Company does not believe any of the intervenors in this proceeding are opposed to the pooling provision proposed by the Company.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE

IN RE:	)	
	)	
ATMOS ENERGY CORPORATION	)	
TARIFF FILING TO MODIFY AND	)	
ADD LANGUAGE REGARDING	)	
TRANSPORTATION SERVICE	)	**DOCKET NO. 07-00020**

VERIFICATION

STATE OF TENNESSEE	)
	)
COUNTY OF WILLIAMSON	)

I, Patricia Childers, being first duly sworn, state that I am the Vice President, Rates and Regulatory Affairs of the Kentucky/Mid-States Division of Atmos Energy Corporation, that I am authorized to testify on behalf of Atmos Energy Corporation in the above referenced docket, that the Direct Testimony of Patricia Childers pre-filed in this docket on the date of filing herein is true and correct to the best of my knowledge, information and belief.

Patricia Childers
Patricia Childers

Sworn and subscribed before me this 23rd day of October, 2007.

Pamela Todd
Notary Public

PAMELA TODD
STATE OF TENNESSEE NOTARY PUBLIC
DAVIDSON COUNTY, TENN.

My Commission Expires: MAY 24, 2008

My Commission Expires 05-24-08

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing has been served, via the method(s) indicated below, on the following counsel of record, this the 25th day of October 2007.

( ) Hand (✓) Mail ( ) Fax ( ) Fed. Ex. (✓) E-Mail	Vance Broemel, Esq. Stephen Butler, Esq. Office of the Attorney General Consumer Advocate and Protection Division P. O. Box 20207 Nashville, TN 37202
( ) Hand (✓) Mail ( ) Fax ( ) Fed. Ex. (✓) E-Mail	Henry M. Walker, Esq. Boult, Cummings, Conners, & Berry, PLC 1600 Division Street, Suite 700 P. O. Box 340025 Nashville, TN 37203
( ) Hand (✓) Mail ( ) Fax ( ) Fed. Ex. (✓) E-Mail	D. Billye Sanders, Esq. Waller, Lansden, Dortch & Davis, LLP 511 Union Street, Suite 2700 Nashville, TN 37219-8966
( ) Hand (✓) Mail ( ) Fax ( ) Fed. Ex. (✓) E-Mail	John M. Dosker, Esq. General Counsel Stand Energy Corporation 1077 Celestial Street Rockwood Building, Suite 110 Cincinnati, OH 45202-1629
( ) Hand (✓) Mail ( ) Fax ( ) Fed. Ex. (✓) E-Mail	R. Dale Grimes, Esq. David R. Esquivel, Esq. Bass, Berry & Sims, PLC 315 Deaderick Street, Suite 2700 Nashville, TN 37238-3001

EXHIBIT PJC-1

COMPARATIVE ANALYSIS OF TARIFFS

Utility	*MDQ*	*OFO*	*Cash-out*	*Scheduling Fee*	*Pooling*
Atmos (current) – Rate Schedule 260	Level specified in contract	None	Connecting pipeline terms	None	None
Atmos (proposed) – Rate Schedule 260	Customer to be assigned MDQ	$25.00 per dekatherm	Tier rate based on 5% initial tolerance	As described in testimony	As described in testimony
Chattanooga Gas – Rate Schedule T-1	Daily contract entitlement	$15.00 per dekatherm for violating curtailment order	Tier rate based on 10% initial tolerance	None specified, but Company has right to pass on penalties assessed by pipeline if customer/agent responsible	Third Party Supplier customer volumes are automatically aggregated for purposes of applying imbalance premiums
Nashville Gas – Rate Schedule No. 314	None specified under Rate Schedule 314. Maximum allowable daily deliveries under Rate Schedule 313.	Service Schedule No. 306 - $1.50 per therm unauthorized overrun penalty during curtailment period	Tier rate based on 2% initial tolerance	None specified, but Company has right to pass on penalties assessed by pipeline if customer/agent responsible	Company allows agent to aggregate customer volumes for purpose of administering service to agent

BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE

IN RE:

PETITION OF ATMOS ENERGY CORPORATION FOR APPROVAL OF ADJUSTMENT OF ITS RATES AND REFISED TARIFF	))))	**DOCKET NO. 07-00020**

PRE-FILED TESTIMONY OF KENNETH MALTER ON BEHALF OF ATMOS ENERGY CORPORATION

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME, BUSINESS AFFILIATION AND BUSINESS ADDRESS.

A. My name is Kenneth Malter. I am the Director of Gas Supply for Atmos Energy Corporation. My business address is 1515 Poydras Street, Suite 2180, New Orleans, Louisiana 70112.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to describe the Company's revision to Schedule 260 Transportation Services insofar as it pertains to daily scheduling fees. I believe the modifications are reasonable and necessary. My testimony will clarify the Company's reasoning for the proposed implementation of these fees.

Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND DESCRIBE YOUR WORK EXPERIENCE.

A. I have a degree in Finance from Louisiana State University and an MBA from Tulane University. I have worked in the gas industry since 1990. I worked for a production company, Louisiana Land and Exploration, and held various commercial positions from 1990 through 1998. I began working in the utility business in gas supply in 1998 for Citizens Communications and began working with Atmos in 2001 with its acquisition of Citizens Utilities' Louisiana properties. I am currently the Director, Gas Supply for Atmos Energy Corporation.

Q. WHAT ARE YOUR JOB RESPONSIBILITIES?

A. I am responsible for gas supply, planning, and hedging for all divisions of Atmos Energy Corporation except for our Mid-Tex Division, which serves the Dallas/Forth Worth metroplex and other areas in Texas.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE TENNESSEE REGULATORY AUTHORITY ("TRA") OR OTHER REGULATORY ENTITIES?

A. I have never testified before the TRA. However, I have testified in various proceedings for our Louisiana Division with the Louisiana Public Service Commission on matters related to gas cost, hedging, and planning.

II. SCHEDULING FEES

Q. ARE YOU FAMILIAR WITH THE COMPANY'S FILED REVISION TO ITS RATE SCHEDULE 260?

A. Yes. The Company has filed revisions to Rate Schedule 260 that will implement a Maximum Daily Quantity (MDQ), a more specific cash-out provision, daily scheduling fees, procedures to implement Operational Flow Orders (OFOs), and provisions for pooling services. The changes proposed by the Company are more specifically discussed in the pre-filed direct testimony of Company witness Mr. Daniel Bertotti.

Q. WHAT IS THE COMPANY'S PROPOSAL FOR DAILY SCHEDULING FEES?

A. The Company's proposal is to charge a daily scheduling fee to a transportation customer that is outside a 10% tolerance from its nominated gas quantity. The scheduling fee is based upon the Company's actual costs of storage.

Q. WHAT IS THE STORAGE TO WHICH YOU REFER?

A. For purposes of supplying natural gas to its firm sales customers in Tennessee, the Company subscribes to firm storage service on East Tennessee Natural Gas

("ETN"), and also uses the Barnsley Storage Field in Kentucky. The Company has no storage facilities behind its city gates in Tennessee.

Q. HOW DOES THE COMPANY UTILIZE A STORAGE FIELD THAT IS LOCATED IN KENTUCKY TO SERVE TENNESSEE CUSTOMERS?

A. Through a gas supply methodology commonly referred to as displacement. The Barnsley Storage Field is connected to the Texas Gas Transmission ("Texas Gas") interstate pipeline system downstream of the Company's distribution system in and around Union City, Tennessee, that is served by Texas Gas. In effect, the Company will nominate deliveries from Texas Gas into the Union City distribution system and then nominate a like quantity for delivery out of Barnsley into the Texas Gas system downstream. In this manner, the Company keeps Texas Gas whole for gas taken upstream at Union City.

Q. HOW DOES THE COMPANY UTILIZE STORAGE TO SERVE TENNESSEE CUSTOMERS?

A. First and foremost, gas storage is utilized to provide reliable service to firm customers. Storage withdrawal capacity is essential in providing service during peak conditions. Physical storage is also utilized to help mitigate extreme short-term winter gas price spikes. Gas can be withdrawn from storage and utilized during the heating season in lieu of purchasing all of the Company's system supply at the time when the market price may be higher. In cases of displacement, the physical gas molecules may not be actually utilized for burner tip consumption, but the gas withdrawn from storage is delivered into the interstate pipeline system in place of gas the Company receives for physical delivery at its city gate.

The Company also uses storage to manage its balancing obligations with the connected interstate pipelines. For example, if the Company has nominated with ETN on a given day a quantity of 10,000 dekatherms for delivery at a city gate, but the Company's distribution system actually pulls 11,000 dekatherms on account of both firm sales and transportation customer consumption, then the Company will have a negative imbalance with ETN equal to 1,000 dekatherms. In order to stay in balance with ETN, the Company may withdraw 1,000 dekatherms from storage for delivery into the ETN system. If the negative imbalance results in whole or in part because transportation customers behind that city gate burned more gas from the Company's system than they nominated for delivery on their account at the city gate, then they have caused or contributed to cause the withdrawal of storage gas.

Q. SO DOES THE PROPOSED DAILY SCHEDULING FEE HAVE ANYTHING TO DO WITH COMPARABLE FEES CHARGED BY THE INTERSTATE PIPELINES?

A. No. The Company is unaware of any interstate pipeline that serves the Company's systems in Tennessee that currently charges a daily scheduling fee. However, that is completely irrelevant to the Company's proposed daily scheduling fee, which is tied to the Company's storage costs.

Q. WHY DOES THE COMPANY PROPOSE TO IMPLEMENT DAILY SCHEDULING FEES?

A. Firm customers have carried a higher burden relative to customers that were provided transportation services. The Company seeks to implement a system that is just and reasonable so that costs of service are distributed appropriately. The proposed changes will ensure the utility continues to provide safe, adequate, and efficient service to all the customers served in the State of Tennessee, including transportation customers.

Q. CAN YOU EXPLAIN HOW THE NEW SCHEDULE 260 DISTRIBUTES COSTS?

A. In order to avoid the imposition of imbalance penalties by the interstate pipelines serving the Company's system in Tennessee and which would otherwise be assessed to customers, the Company uses storage to manage its imbalances. However, the use of storage entails incurring certain costs comprised of demand, capacity, injection and withdrawal fees that must be recovered by the Company. The Company believes that a portion of the costs arising from storage usage should be imposed on transportation customers that benefit from the services.

Q. WHAT IMBALANCE PENALTIES CAN BE ASSESSED BY THE INTERSTATE PIPELINES?

A. Imbalance penalties vary from pipeline to pipeline and are much more severe during critical notice periods. On East Tennessee, for example, a balancing alert penalty is $15.00 per dekatherm out of balance in addition to the actual commodity cost. On Tennessee Gas Pipeline, non-compliance with an OFO is also a $15.00 per dekatherm penalty. On Columbia Gulf Transmission, the penalty for non-compliance with an OFO is three times the daily midpoint price per dekatherm.

Q. CAN THE COMPANY USE AN OBA IN LIEU OF STORAGE FOR PURPOSES OF FULFILLING ITS PIPELINE BALANCING OBLIGATIONS?

A. An Operational Balancing Agreement (OBA) is typically a contract between two parties that specifies the procedures to manage operating variances at an interconnect. With an OBA, the allocation of any daily variances between scheduled nominations and metered flow at such interconnection point is resolved between the parties. Utilizing the OBA alone to manage imbalances does not bypass potential penalties and fees that can be assessed by pipelines. Imbalances carried on an OBA are typically subject to the same penalties that the pipeline charges to shippers that are out of balance on individual contracts. The OBA simply aggregates all imbalances at an interconnect and places the burden of the imbalance resolution on the Company via the terms of the pipeline tariff. Therefore, storage is essential in minimizing imbalances, even when an OBA is in place.

Q. HOW DO THE PROPOSED TARIFF CHANGES PROMOTE SAFE, ADEQUATE, AND EFFICIENT SERVICE?

A. Under the current tariff, transportation customers have no reason to adjust their supply to balance with their demand, which leads to unnecessary storage utilization and ultimately may require the Company to curtail all transportation customers during peak demand periods in order to maintain service to firm customers. The proposed daily scheduling fees, in conjunction with the other provisions such as OFOs, will enable the Company during periods of constrained pipeline capacity to incentivize transportation customers to provide appropriate supply levels.

Q. WHAT DO YOU MEAN BY INCENTIVIZE BEHAVIOR?

A. The daily scheduling fee will financially motivate transportation customers to actively monitor their imbalances and stay within the prescribed tolerance. The company recognizes that most transportation customers do not themselves intentionally over or under supply the system, but whether intentional or unintentional, the aggregate effect of many transportation customers neglecting to respond to changes in demand has a detrimental impact to the system.

Q. IS THE AMOUNT OF THE PROPOSED DAILY SCHEDULING FEE REASONABLE?

A. Yes. The formula for determining the applicable fee, which is set forth in the revised tariff and discussed in the testimony of Mr. Bertotti, is based upon the Company's actual cost of storage, which includes capacity, demand and injection/withdrawal fee components.

Q. IS THE TOLERANCE PRESCRIBED BY THE TARIFF REASONABLE?

A. Yes. Daily scheduling fees will not be assessed as long as a transportation customer maintains usage within plus or minus 10% of its nominated quantities. Such a tolerance should enable a transportation customer to effectively and efficiently manage its supply requirements.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE

IN RE:

ATMOS ENERGY CORPORATION	)	
TARIFF FILING TO MODIFY AND	)	
ADD LANGUAGE REGARDING	)	
TRANSPORTATION SERVICE	)	**DOCKET NO. 07-00020**

VERIFICATION

STATE OF LOUISIANA)
)
PARISH OF ORLEANS)

I, Kenny Malter, being first duly sworn, state that I am Director of Gas Supply and Services , Atmos Energy Corporation, that I am authorized to testify on behalf of Atmos Energy Corporation in the above referenced docket, that the Direct Testimony of Kenny Malter pre-filed in this docket on the date of filing herein is true and correct to the best of my knowledge, information and belief.

K. M. Malter

Kenny Malter

Sworn and subscribed before me this 23rd day of October, 2007.

Notary Public BAR Roll # 19508

My Commission Expires: at death

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing has been served, via the method(s) indicated below, on the following counsel of record, this the 25th day of October 2007.

( ) Hand (✓) Mail ( ) Fax ( ) Fed. Ex. (✓) E-Mail	Vance Broemel, Esq. Stephen Butler, Esq. Office of the Attorney General Consumer Advocate and Protection Division P. O. Box 20207 Nashville, TN 37202
( ) Hand (✓) Mail ( ) Fax ( ) Fed. Ex. (✓) E-Mail	Henry M. Walker, Esq. Boult, Cummings, Conners, & Berry, PLC 1600 Division Street, Suite 700 P. O. Box 340025 Nashville, TN 37203
( ) Hand (✓) Mail ( ) Fax ( ) Fed. Ex. (✓) E-Mail	D. Billye Sanders, Esq. Waller, Lansden, Dortch & Davis, LLP 511 Union Street, Suite 2700 Nashville, TN 37219-8966
( ) Hand (✓) Mail ( ) Fax ( ) Fed. Ex. (✓) E-Mail	John M. Dosker, Esq. General Counsel Stand Energy Corporation 1077 Celestial Street Rockwood Building, Suite 110 Cincinnati, OH 45202-1629
( ) Hand (✓) Mail ( ) Fax ( ) Fed. Ex. (✓) E-Mail	R. Dale Grimes, Esq. David R. Esquivel, Esq. Bass, Berry & Sims, PLC 315 Deaderick Street, Suite 2700 Nashville, TN 37238-3001

____