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July 10, 2007

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

VIA HAND DELIVERY

filed electronically in docket office on 07/10/07

**RE: Petition of Atmos Energy Corporation for Approval of Tariff Establishing
Environmental Cost Recovery Rider, TRA Docket No. 07-00081**

Dear Ms. Dillon:

Enclosed for filing in the above-referenced matter is the Response of Atmos Energy Corporation to First Discovery Requests of the Consumer Advocate and Protection Division. An original and four copies are enclosed. In addition, an electronic copy has been forwarded to you by e-mail.

With respect to Request Nos. 24 and 25, the CAPD has agreed to extend the deadline through July 17, 2007. Atmos will supply a supplemental response to these two requests by that date.

Best regards.

Sincerely,

A. Scott Ross

ASR:prd

Enclosure

xc: Via E-Mail:
Joe Shirley (w/ Enclosure)
Henry M. Walker (w/ Enclosure)
Patricia D. Childers (w/ Enclosure)

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

IN RE:)	
)	
PETITION OF ATMOS ENERGY)	DOCKET NO. 07-00081
CORPORATION FOR APPROVAL)	
OF TARIFF ESTABLISHING)	
ENVIRONMENTAL COST RECOVERY)	
RIDER)	

**RESPONSE OF ATMOS ENERGY CORPORATION TO FIRST DISCOVERY
REQUESTS OF THE CONSUMER ADVOCATE AND PROTECTION DIVISION**

Atmos Energy Corporation (“AEC”) respectfully submits these responses to the First Discovery Requests of the Consumer Advocate and Protection Division (“CAPD”).

GENERAL OBJECTIONS

A. AEC objects to the definitions and instructions contained in the requests to the extent that the definitions and instructions attempt to impose on AEC a burden or obligation greater than that required by the *Tennessee Rules of Civil Procedure* and applicable statutes and regulations governing contested case hearings.

B. AEC objects to the requests to the extent they call for information or documents protected from disclosure by the attorney-client privilege, common interest privilege, work product doctrine, or any other applicable privilege or protection. AEC objects to the requests to the extent that the CAPD is attempting to impose on AEC obligations with regard to identification of privileged documents beyond those required by the *Tennessee Rules of Civil Procedure* and applicable statutes and regulations governing contested case hearings.

C. AEC objects to CAPD’s requests to the extent they seek information relating to

matters not at issue in this litigation or to the extent they are not reasonably calculated to lead to the discovery of admissible evidence. By providing information in response to these requests, AEC does not concede that such information is relevant, admissible, or discoverable, or that other information on the same or similar subjects would be discoverable. AEC expressly reserves the right to: (a) object to other discovery requests, despite their involving or relating to the subject matter of any of the requests responded to here; and (b) object to the introduction into evidence of any answer or produced document on relevancy or any other grounds.

D. AEC objects to CAPD's requests to the extent that CAPD is attempting to require AEC to provide information and produce documents beyond those in its possession, custody, or control as that phrase is used in the *Tennessee Rules of Civil Procedure* and applicable statutes and regulations governing contested case hearings.

E. AEC objects to CAPD's requests to the extent they seek information and documents that are available through public sources or are in CAPD's own possession, custody or control. It is unduly burdensome to require AEC to respond or produce documents that are equally available to CAPD.

F. AEC's objections and responses to these requests are and will be based on information then known to it. AEC reserves the right to amend, modify or supplement its objections and responses if it learns of new information.

G. AEC's objections and responses to these requests are and will be made without waiving or intending to waive the right to object to the use of any information provided in any subsequent proceeding or trial of this or any other action. AEC's responses to these requests are also not a waiver of any of the foregoing objections or any objections it has made or may make with respect to any similar, related, or future request, and AEC specifically reserves the right to

interpose any objection to further requests notwithstanding any response or lack of objection made in this response.

H. AEC objects to requests that seek “all” documents pertaining to a certain issue or falling into a certain category. Such requests by their nature are unduly burdensome, and unreasonably cumulative and duplicative. When served on a corporate or other institutional defendant, literal compliance with such a request is impossible to assure. Requiring a party to produce “all” documents showing a certain fact when one document will do is, by its nature, unreasonably cumulative and duplicative. And such requests are often vague and indefinite. Where documents are produced in response to such a request, Atmos has interpreted the request in light of reason and the matters at issue in this case, and has made a reasonable search for responsive documents. In so doing, Atmos has complied with its discovery obligations.

I. AEC objects to any requests that it “detail” certain information on the grounds that such requests are vague and indefinite. Atmos has interpreted such requests in light of reason and the matters at issue in this case, and has made a reasonable effort to provide responsive information at a reasonable level of detail. In so doing, Atmos has complied with its discovery obligations.

J. AEC objects to any request seeking all documents reviewed by its witnesses over an undefined time period. Such a request is ambiguous, overly broad, and unduly burdensome.

K. For the sake of brevity, AEC expressly incorporates these general objections in response to each of the CAPD’s discovery requests in this case, whether or not separately listed below.

RESPONSES TO SPECIFIC REQUESTS

1. Please identify each person whom you expect to call as an expert witness at the hearing on the merits in this matter, and for each such expert witnesses:
 - (a) Identify the field in which the witness is to be offered as an expert;
 - (b) Provide complete background information, including the witness's current employer, as well as his or her educational, professional and employment history, and qualifications within the field in which the witness is expected to testify;
 - (c) Identify all publications written or presentations presented in whole or in part by the witness, including either a copy of all such publications and presentations or a reference to where such publications and presentations may be publicly obtained;
 - (d) Provide the grounds (including without limitation any factual bases) for the opinions to which the witness is expected to testify, and provide a summary of the grounds for each such opinion;
 - (e) Identify any matter in which the expert has testified (through deposition or otherwise) by specifying the name, docket number and forum of each case, the dates of the prior testimony and the subject of the prior testimony, and identify the transcripts of any such testimony;
 - (f) Identify the terms of the retention or engagement of each expert including but not limited to the terms of any retention or engagement letters or agreements relating to his/her engagement, testimony, and opinions as well as the compensation to be paid for the testimony and opinions;
 - (g) Identify any exhibits to be used as a summary of or support for the testimony or opinions provided by the expert; and
 - (h) Please produce copies of all documents, summaries, charts, trade articles, journals, treatises, publications, workpapers, file notes, chart notes, tests, test results, interview notes, and consultation notes provided to, reviewed by, utilized by, relied upon, created by, or produced by any proposed expert witness in evaluating, reaching conclusions or formulating an opinion in this matter.

RESPONSE:

In addition to its General Objections, AEC objects to this request on the grounds that it exceeds the permissible bounds of written expert discovery under Rule 26.02(4), which states that a party may, through interrogatories, require any other party to identify each person whom

the other party expects to call as an expert witness at trial, to state the subject matter on which the expert is expected to testify, and to state the substance of the facts and opinions to which the expert is expected to testify and a summary of the grounds for each opinion. AEC further objects to subpart (g) on the grounds that it is premature.

Subject to and without waiving these objections,

- (a) AEC may call Stuart Schulz to testify at the hearing in this matter as an expert witness. Mr. Schulz is an Environmental Specialist who has been employed by AEC (and its predecessor, United Cities Gas Company) since 1994. Mr. Schulz's contact information is set forth in response to Question No. 2 below.
- (b) Mr. Schulz is an Environmental Geologist and possesses the following environmental certifications: Registered Professional Geologist (RPG) in Tennessee, Kentucky, Missouri, and Illinois, and with the American Institute of Professional Geologists; Certified Hazardous Materials Manager (CHMM) with The Institute of Hazardous Materials Management. He graduated from the University of Tennessee, Knoxville in 1987 with a Bachelor of Arts degree in geology, and from the University of Maryland University College in 2003 with a Master of Science degree in Environmental Management
- (c) Mr. Schulz has the following written publications and presentations:

Publications

Schulz, S.P., Minnich, T.R., Scotto, R. L., Perry, S.P. *ORS-Based Air Monitoring During an MGP Site Cleanup: The Eye That Never Sleeps*, Pipeline and Gas Journal, November 2005.

Presentations

Schulz, S.P. *Advances in Optical Remote Sensing (ORS) at MGP Sites*, presented at the Southern Gas Association 2007 Environmental Roundtable, Colorado Springs, Colorado, June 2007.

Schulz, S.P., *Environmental Tales from Katrina, Keynote presentation at the Natural Gas Technologies 2006 Conference, Orlando, Florida, October 2006.*

Schulz, S.P., Luttinger, J. *Innovative Application of Geophysical Techniques and Solid Phase Micro Extraction Laboratory Analysis to Locate Buried Odorant Drums*, presented at the Natural Gas Technologies 2006 Conference, Orlando, Florida, October 2006.

Schulz, S.P. *Bristol TN Case Study: How to Expedite Site Closure*, presented at 2006 American Gas Association Manufactured Gas Plant Workshop, Chicago, Illinois, July 2006.

Schulz, S.P., Minnich, T.R., Scotto, R. L., Perry, S.P. *Application of Open-Path Fourier-Transform Infrared Spectroscopy for Ambient Air Monitoring at a Former Manufactured Gas Plant Removal Action*, presented at the Natural Gas Technologies 2005 Conference, Orland, Florida, January 2005.

Schulz, S.P. *Application of Open-Path Fourier-Transform Infrared Spectroscopy for Ambient Air Monitoring at a Former Manufactured Gas Plant Removal Action*, presented at the Southern Gas Association 2005 Environmental Roundtable, Nashville, Tennessee, June 2005.

Schulz, S.P., Page, G.B., Hughes II, C.T. *Enhanced Natural Attenuation of BTEX and PAH Compounds Using ORC[®] at a Former Manufactured Gas Plant Site*, presented at the 14th International Symposium on Site Remediation & Environmental Management in the Utility Industry, Orland, Florida, December 2001.

- (d) Mr. Schulz is of the opinion that the environmental remediation work performed by AEC was necessitated by applicable Tennessee laws and regulations and that the costs incurred by AEC in connection with such remediation activities was both reasonable and necessary. Mr. Schulz has been involved in these remediation activities since they began in the early to mid-1990s and a complete recitation of the facts known to him for this time period is both unreasonable and unduly burdensome. Mr. Schulz prepared the environmental report that was filed with AEC's petition in this docket based upon the facts known to him and AEC would refer the CAPD thereto.
- (e) Mr. Schulz has not testified in any prior proceedings.
- (f) Not applicable.
- (g) Beyond the environmental summary report prepared by Mr. Schulz and filed with AEC's petition in this proceeding, AEC has not yet made any determination as to what additional exhibits may be submitted at the hearing of this matter. This response will be supplemented if any such additional exhibits are intended to be submitted in connection with Mr. Schulz's testimony.
- (h) Documents responsive to this request will be made available for inspection and copying in connection with the documents responsive to Question No. 14.

2. Please identify the name and location of all persons having knowledge of discoverable matters in this case.

RESPONSE:

In addition to its General Objections, AEC objects to this request on the grounds that it is vague and indefinite.

Subject to and without waiving these objections, AEC identifies the following current or past Company employees:

- a. Stuart Schulz, Environmental Geologist, Mid-States Division, Atmos Energy Corporation, 810 Crescent Centre Dr., Suite 600, Franklin, TN 37067-6226.
- b. Douglas C. Walther, Associate General Counsel, Atmos Energy Corporation, 5430 LBJ Freeway, Suite 1800, Dallas, TX 75240.
- c. Greg Waller, Vice President, Finance, Mid-States Division, Atmos Energy Corporation, 810 Crescent Centre Dr., Suite 600, Franklin, TN 37067-6226.
- d. Patricia Childers, Vice President, Rates and Regulatory Affairs, Mid-States Division, Atmos Energy Corporation, 810 Crescent Centre Dr., Suite 600, Franklin, TN 37067-6226.
- e. Rad Cook, Vice President, Technical Services, Mid-States Division, Atmos Energy Corporation, 2401 New Hartford Road, Owensboro, KY 42303.
- f. Connie Fennell, Supply Chain Specialist, Mid-States Division, Atmos Energy Corporation, 810 Crescent Centre Dr., Suite 600, Franklin, TN 37067-6226.
- g. Heidi Corey (former Financial Analyst with Mid-States Division of Atmos Energy Corporation), 754 Overbrook Point, Brentwood, TN 37027 .
- h. Dan Lindsey, (retired, former Vice President, Technical Services, Mid-States Division, Atmos Energy Corporation), 3214 Elm Creek Court, Bryan, TX 77807.
- i. Karol Sole (former Manager of Environmental Services, United Cities Gas Company division of Atmos Energy Corporation), 1920 S. Highland Ave., Suite 113, Lombard, IL 60148..
- j. Jeff Lane (former Engineer with United Cities Gas Company), last known address is 9544 Secretariat Lane, Brentwood, TN 37027.
- k. Gary Price (former Chief Engineer, United Cities Gas Company), 410 Woodcrest Lane, Franklin, TN 37067.
- l. Thomas Upchurch (former Risk Manager, United Cities Gas Company, retired), 2109 Dearborn Drive, Nashville, TN 37214.
- m. Bryan Stroud, Lead Planning Analyst, Atmos Energy Corporation, 5430 LBJ Freeway, Suite 160, Dallas, TX 75240.
- n. Ray Hoover, Director of Risk Management, Atmos Energy Corporation, 5430 LBJ Freeway, Suite 700, Dallas, TX 75240.

3. Please produce copies of all documents referred to or relied upon in responding to these discovery requests.

RESPONSE:

In addition to its General Objections, AEC objects to this request as vague and indefinite, overly broad, and unduly burdensome. To the extent that it is meant to include documents containing communications with counsel, or reflecting the advice of counsel, AEC objects on grounds of attorney client privilege.

4. Please produce copies of all hearing exhibits that you plan to introduce, use, or reference at the hearing on the merits in this matter.

RESPONSE:

In addition to its General Objections, AEC objects to this request as premature. Subject to and without waiving this objection, AEC counsel will work cooperatively in an effort to assure that neither party is unfairly surprised by the introduction of any document at the hearing of this matter.

5. Please produce copies of all documents – including, without limitation, workpapers, spreadsheets, summaries, charts, notes, exhibits, articles, journals, treatises, periodicals, publications, reports, records, statements, Internet web pages, or financial information – that you contend support the factual assertions, conclusions, or opinions of any of your witnesses in this matter.

RESPONSE:

In addition to its General Objections, AEC objects to this request as vague and indefinite, unreasonably cumulative and duplicative, and unduly burdensome. Subject to and without waiving this objection, AEC believes that the documents principally relied upon by its witnesses will be included among those that will be made available for inspection and copying in this matter.

6. Please produce copies of all documents – including, without limitation, workpapers, spreadsheets, summaries, charts, notes, exhibits, articles, journals, treatises, periodicals, publications, reports, records, statements, Internet web pages, or financial information – relied upon by any of your witnesses in evaluating, reaching conclusions, or formulating an opinion in this matter.

RESPONSE:

In addition to its General Objections, AEC objects to this request as vague and indefinite, unreasonably cumulative and duplicative, and unduly burdensome. Subject to and without waiving this objection, AEC believes that the documents principally relied upon by its witnesses will be included among those that will be made available for inspection and copying in this matter.

7. Please produce copies of all documents – including, without limitation, workpapers, spreadsheets, summaries, charts, notes, and exhibits – created by or for or prepared by or for any of your witnesses in evaluating, reaching conclusions, or formulating an opinion in this matter.

RESPONSE:

In addition to its General Objections, AEC objects to this request as unreasonably cumulative and duplicative, and unduly burdensome. To the extent that it is meant to include documents containing communications with counsel, or reflecting the advice of counsel, AEC objects on grounds of attorney client privilege. Subject to and without waiving this objection, AEC believes that the documents principally relied upon by its witnesses will be included among those that will be made available for inspection and copying in this matter.

8. Identify all information, documents and things filed in the present docket record, including all responses to discovery of the parties and data request from the TRA Staff, which Atmos produced in this docket and does not agree to stipulate to the authenticity of such information, documents and things in this proceeding. For each separate piece of information, documents and things which Atmos produced in this docket and Atmos contends is not admissible as evidence describe in specific detail any objection(s) Atmos claims as to admissibility into the evidentiary record in this matter.

RESPONSE:

In addition to its general objections, AEC objects to this request on the grounds that it is vague and indefinite in its reference to “information, documents and things.” AEC further objects to this request on the grounds that it is unduly burdensome. Compliance with this request would involve a legal analysis of the admissibility of thousands of pages of documents and all of the other “information” that may be produced in discovery, much of which may never be offered into evidence. The legal cost of such an effort could be enormous, and largely unproductive. Initial legal analysis of the admissibility of documents and other “information” that the CAPD may wish to introduce into evidence should not be shifted onto counsel for AEC. Subject to and without waiving these objections, at an appropriate time after the parties have narrowed the documents they may actually offer at trial, AEC counsel will work with the CAPD in an effort to stipulate the authenticity of such documents, and resolve other evidentiary questions.

9. Did the price that Atmos paid for the acquisition and merger of United Cities Gas Company into Atmos take into consideration any discount for the environmental liabilities of United Cities Gas Company? Please explain your answer in detail, including but not confined to, the amount of and the procedures used to arrive at any such discount, or the specific reasons why the environmental liabilities were not considered in the business valuation of United Cities Gas Company.

RESPONSE:

In addition to its general objections, AEC objects on the grounds that this request seeks information that is neither relevant, nor reasonably calculated to lead to the discovery of admissible evidence in this matter. Subject to and without waiving these objections, AEC responds as follows:

In connection with its acquisition and merger of United Cities Gas Company (UCG), Atmos conducted due diligence of UCG, including an evaluation of the environmental liabilities that UCG had disclosed. However, considering the structure of the transaction, individual assets or liabilities did not significantly factor into the valuation inasmuch as the value of UCG was evaluated in terms of a viable enterprise. As a result, the transaction method selected by the parties was a share exchange effected through a merger that was accounted for as a pooling of interests, a financial accounting method for such transactions that was acceptable at that time. Under this transaction structure, UCG merged into Atmos and out of separate corporate existence and Atmos thereby assumed all liabilities and assets of UCG, including the pre-existing environmental liabilities for which deferral authority had previously been granted by the TRA. Because the transaction was accounted for as a pooling of interest instead of an asset acquisition, the benefits to ratepayers, such as UCG's accumulated deferred income taxes, carried forward to the books of Atmos. It should be noted that the TRA, when it approved the transaction in Docket No. 96-01299, specifically found the transaction to be in the public interest.

10. Please produce a copy of the last financial report of United Cities Gas Company immediately prior to its acquisition by Atmos, including, but not confined to, a balance sheet, an income statement and the notes to the financial statements.

RESPONSE:

Subject to and without waiving its general objections, AEC responds as follows. The last audited annual report on Form 10-K for the fiscal year ending December 31, 1996 and filed with the Securities and Exchange Commission (SEC) by United Cities Gas Company prior to the merger is attached as CAPD DR1-10 ATT1. The last unaudited quarterly report on Form 10-Q for the quarter ending March 31, 1997 and filed with the SEC by United Cities Gas Company prior to the merger is attached as CAPD DR1-10 ATT2. Both of these reports are available electronically on the SEC's EDGAR database found at www.sec.gov. Other than the foregoing, there were no subsequent financial reports published and filed by United Cities Gas Company prior to the merger.

11. Please produce a copy of all documents related to any business valuations of United Cities Gas Company performed in connection with Atmos' acquisition of United Cities Gas Company.

RESPONSE:

Subject to and without waiving its general objections, AEC responds as follows. Documents responsive to this request are confidential and will be made available pursuant to the terms of the protective order entered in this proceeding. The documents will be made available for inspection and copying with the documents responsive to Question No. 14.

12. Please produce a copy of all closing documents related to Atmos' acquisition of United Cities Gas Company, including, but not confined to, all documents related to actual or potential environmental claims, litigation, liabilities or issues.

RESPONSE:

In addition to its general objections, AEC objects on the grounds that the request is unduly burdensome in that the requested documents are voluminous and contain information that is neither relevant nor reasonably calculated to lead to the discovery of admissible evidence. Subject to and without waiving these objections, AEC responds as follows. Attached as CAPD DR1-12 ATT is an index of the closing documents relating to the acquisition. If the CAPD will identify those documents from the list that it desires to inspect, then copies will be made available. The acquisition agreement and amendment thereto have been copied and will be made available for inspection and copying together with the documents responsive to Question No. 14. All of AEC's responses will be subject to the terms of the protective order entered in this proceeding for documents that are confidential.

13. Please produce a copy of all environmental audits, studies or consultant reports involving environmental issues performed in connection with Atmos' acquisition of United Cities Gas Company.

RESPONSE:

In addition to its general objections, Atmos objects to this request to the extent that it calls for the production of documents pertaining to any environmental site that is not the subject of this proceeding. Such documents are neither relevant nor reasonably calculated to lead to the discovery of admissible evidence. There were sites in other states, but they are not the subject of this proceeding. Atmos also objects to this request to the extent it seeks information protected from disclosure by the attorney/client privilege and attorney work product doctrine. Subject to and without waiving these objections, documents will be made available for inspection and copying with the documents responsive to Question No. 14.

14. Please produce a copy of all environmental audits, studies or consultant reports involving the environmental remediation sites that are the subject of this proceeding or otherwise affecting the environmental issues in this proceeding.

RESPONSE:

In addition to its general objections, Atmos objects to this request to the extent it seeks information protected from disclosure by the attorney/client privilege and attorney work product doctrine. Subject to and without waiving these objections, the requested documents are voluminous and will be made available for inspection and copying at the offices of Neal & Harwell in Nashville, TN at a mutually agreeable time and date.

15. Please produce a copy of all documents related to any requests or claims for reimbursement, offset, payment or compensation of costs related to actual or planned environmental remediation activities in Tennessee from 1993 through 2007 from any federal or state governmental or fund administered by any federal or state governmental entity, insurance company, previous property owner (including the prior owners of United Cities Gas Company) or other third party.

RESPONSE:

Subject to and without waiving its general objections, documents reflecting receipt of compensation from the Tennessee Underground Storage Tank Removal Fund are already included and reflected in Atmos' petition filed in this proceeding and Atmos would refer the CAPD thereto. Additional documents may exist and will be made available for inspection and copying with the documents responsive to Question No. 14.

Although no insurance claims have been paid, documents pertaining to insurance claims not otherwise protected from disclosure by the attorney/client privilege or attorney work product doctrine will also be made available for inspection and copying with the documents responsive to Question No. 14.

The prior owners of United Cities Gas Company were the company's shareholders and they became shareholders of Atmos because the acquisition transaction was structured as a share exchange and merger. Accordingly, no claims regarding environmental liabilities was made upon the former United Cities shareholders.

No claims have been submitted to or made upon any third parties in connection with the environmental liabilities subject of this proceeding.

16. Please produce a copy of all documents related to any actual or potential insurance claims related to actual or planned environmental remediation activities from 1993 to 2007, including, but not confined to, insurance recoverability studies, insurance policies, insurance claims forms and correspondence with insurance companies.

RESPONSE:

Subject to and without waiving its general objections, responsive documents not otherwise protected from disclosure by the attorney/client privilege or attorney work product doctrine will be made available for inspection and copying with the documents responsive to Question No. 14.

17. Please disclose the date, payor's name and amount received as a result of any requests or claims for reimbursement, offset, payment or compensation of costs to actual and planned environmental remediation activities in Tennessee from 1993 through 2007 from any federal or state governmental entity or fund administered by any federal or state governmental entity, insurance company, previous property owner (including the prior owners of United Cities Gas Company) or other third party.

RESPONSE:

See Response to Question No. 15.

18. Please provide a schedule that classifies the individual charges that constitute the "total deferred costs" of \$2,714,756.72 into the following categories: (a) charges by independent contractors or outside vendors related directly to the clean-up and remediation of the environmental hazard existing at the affected sites; (b) charges for work performed by employees, agents or affiliates of Atmos or United Cities Gas Company related directly to the clean-up and remediation of the environmental hazard existing at the affected sites; (c) charges for legal fees; (d) charges for fines or civil penalties; (e) charges for payments of judgments or claims; (f) administrative charges; and (g) other charges (please provide a detailed description of costs classified as other charges).

RESPONSE:

Subject to and without waiving its general objections, see spreadsheet attached hereto and labeled CAD DR1-18 ATT.

19. Please provide a schedule that shows the amount of the “total deferred costs” of \$2,714,756.72 accumulated for each of the years from 1993 to 2007.

RESPONSE:

Subject to and without waiving its general objections, Atmos currently has no such schedule, but the CAPD may prepare its own from the invoices to be produced in response to Question No. 20, and the burden of producing such a spreadsheet would be substantially the same. Atmos, therefore, invokes its option to respond by producing business records, pursuant to the provisions of Tenn. R. Civ. P. 33.03.

20. Please provide a copy of the vendor invoices, statements or other source documents for the individual charges that constitute the “total deferred costs” of \$2,714,756.72, including, but not confined to, the charges identified in Schedule GW-3.

RESPONSE:

Subject to and without waiving its general objections, responsive documents not otherwise protected from disclosure by the attorney/client privilege or attorney work product doctrine will be made available for inspection and copying with the documents responsive to Question No. 14.

21. Please provide a copy of the United Cities Gas Company application or petitions, as well as a copy of all other pleadings and documents, filed in TPSC Docket No. 94-02529, *In re: Application of United Cities Gas Company for the Deferral of Accounts Incurred in Connection with Environmental Control Requirements*.

RESPONSE:

Subject to and without waiving its general objections, Atmos has diligently searched its records and has been unable to locate any documents from this docket other than the TPSC’s order. However, the CAPD may obtain copies of documents filed in the docket from the Tennessee Regulatory Authority (TRA).

22. Please provide a copy of the environmental control requirements and regulations that are the subject of TPSC Docket No. 94-02529, *In re: Application of United Cities Gas Company for Deferral of Accounts Incurred in Connection with Environmental Control Requirements*.

RESPONSE:

Subject to and without waiving its general objections, please refer to Atmos' petition and direct testimony filed in this proceeding, including the attachments thereto which detail the applicable environmental requirements.

23. The Order entered in TPSC Docket No. 94-02529 stated, "United Cities is not requesting approval of any ratemaking treatments of these costs at this time. The review and appropriate disposition of these costs would be reserved for and determined in the Company's next application for adjustment of its rates and charges...[United Cities] states that this issue will be reserved for determination in its next rate case, at which time a hearing may be had." Please provide a copy of all documents relating to this issue filed in TPSC Docket No. 95-02258, *In re: Petition of United Cities Gas Company 1995 General Rate Increase*.

RESPONSE:

Subject to and without waiving its general objections, Atmos has diligently searched its records and has been unable to locate any documents from this docket other than the TPSC's order. However, the CAPD may obtain copies of documents filed in the docket from the TRA. Atmos does not believe that any of the deferred environmental costs were addressed in the 1995 rate case because the deferral order was entered on October 4, 1994 and the rate case was filed on May 15, 1995, and any amounts that may have been deferred to that point would have been *de minimus*.

24. Please provide a copy of the general ledger account(s) for each fiscal year ending September 30 that accumulates to the \$2,364,756.72 recorded as of September 30, 2006, referenced in Schedule GW-3, as well as a copy of the financial source document supporting each journal entry recorded therein.

RESPONSE:

The CAPD has agreed to extend the deadline for this response through July 17, 2007, and Atmos will supply a supplemental response by that date.

25. Please provide a schedule detailing the \$797,750.77 total "General Ledger Balance at time of system conversion following acquisition of UCG by Atmos, October, 1998,"

referenced in Schedule GW-3, including Date, Vendor, Invoice Number and Amount for each individual charge.

RESPONSE:

The CAPD has agreed to extend the deadline for this response through July 17, 2007, and Atmos will supply a supplemental response by that date.

26. Please provide the cost of removal for each of the underground storage tanks.

RESPONSE:

Subject to and without waiving its general objections, the total cost for the removal of all tanks was \$189,882.72. Atmos does not have a prepared schedule that separates the cost of removal between each of the tanks. Pursuant to its option to produce business records under Tenn. R. Civ. P. 33.03, Atmos would note that the CAPD could prepare its own schedule from the invoices that will be produced in response to Question No. 20.

27. Please describe in detail the particular purpose(s) for which the gasoline and diesel were used for each of the underground storage tanks that are the subject of this proceeding. Include in your description for each underground storage tank whether the tank was ever used at all by Atmos or United Cities Gas Company, whether the tank was ever used to support any non-regulated operation, and whether the tank was ever used to support any operation in any state jurisdiction other than Tennessee.

RESPONSE:

Subject to and without waiving its general objections, the gasoline and diesel fuel were used by United Cities Gas Company construction and service crews to fuel the vehicles and equipment used in the daily operation of their duties serving customers. All underground storage tanks that are the subject of this proceeding were used by Atmos or United Cities Gas Company with the exception of the diesel and gasoline tanks located at the 118 Second Avenue North facility in Franklin, TN. At one time, Atmos/United Cities had a propane company and it is possible (although Atmos has not been able to verify that this did in fact occur inasmuch as the propane company had its own separate offices and service centers) that the tanks could have been used on occasion to provide fuel to propane trucks. It is also possible (although Atmos has not been able to verify that this did in fact occur) that the tanks in East Tennessee could have been used on occasion to support operations in Virginia (see answer to Question No. 28).

28. Were the gasoline and diesel stored in the underground storage tanks that are the subject of this proceeding used exclusively for Tennessee intrastate regulated operations? Please explain your answer.

RESPONSE:

Subject to and without waiving its general objections, yes. However, it is conceivable that the tanks in Bristol, Johnson City and/or Kingsport, Tennessee could have been used on occasion to support operations in Virginia. Construction and service crews based out of these locations could have been called to work locations in Virginia but fueled their trucks and equipment in Tennessee.

29. Schedule GW-1 states in part, "United Cities purchased this property located at 118 Second Avenue North, Franklin, Tennessee on December 30, 1988. As part of the property acquisition, United Cities acquired an 8,000 gallon underground storage tank which contained diesel fuel. At the time United Cities acquired the diesel tank, it no longer was in use." Please state your reasons for requesting Tennessee ratepayers to pay for the removal of an underground storage tank that was never used and useful for provisioning of regulated natural gas services.

RESPONSE:

Subject to and without waiving its general objections, the tank was located at the Franklin Service Center, which was used for provisioning of regulated natural gas services. Additionally, the Franklin underground storage tank was specifically identified in the deferral application as one of the five underground storage tanks in Tennessee where action was required. Regardless of whether the tanks were ever used, United Cities Gas Company was required by state environmental control requirements to either upgrade the tank to meet Tennessee requirements or permanently remove the tank from service.

30. Please produce a copy of all closing documents related to United Cities Gas Company's purchase of the property located at 118 Second Avenue North, Franklin, Tennessee including, but not confined to, all documents related to actual or potential claims, litigation, liabilities or issues.

RESPONSE:

Subject to and without waiving its general objections, the closing documents that Atmos has been able to locate regarding the subject transaction include the contract of sale and amendment thereto and the warranty deed. Atmos has also located an environmental assessment report (Phase I) regarding the property. All of these documents will be made available for

inspection and copying together with the documents to be made available in response to Question No. 14.

31. Approximately when were the MGP site in Johnson City and Bristol placed into service and approximately when were these plants taken out of service?

RESPONSE:

Subject to and without waiving its general objections, the Johnson City MGP site was placed into service in 1915 and taken out of service in 1954 when natural gas came to Johnson City. The Bristol MGP was placed into service in 1892 and was taken out of service in 1940 when natural gas came to Bristol.

32. Please describe in detail the uses of the gas that was manufactured at the MGP sites in Johnson City and Bristol. Please include in your description the various types of customers that used gas (e.g., residential, business, industrial, municipal, etc.) and the primary uses of the gas (e.g., heating, lighting, manufacturing, etc.).

RESPONSE:

Subject to and without waiving its general objections, initially, the primary use of gas manufactured from the Johnson City and Bristol MGP sites was for street lighting and gas burning appliances such as water heaters, room heaters, and domestic ranges. Commercial and industrial uses increased as the plants were expanded. For example, according to the 1920 *Brown's Directory of American Gas Companies*, Bristol's sales were divided 80% residential and 20% industrial. However, by 1939, the last year of manufactured gas production at the Bristol site, sales were reported as 59.2% domestic, 31.5% commercial, and 9.3% hotel/restaurant. Johnson City's sales reported for 1939 were 46.7% domestic, 0.5% space heating, and 52% commercial/industrial.

33. Was any of the gas manufactured at the MGP site in Bristol used to serve any customers (including the City of Bristol, VA) located in Virginia? If so, approximately what percentage of manufactured gas was used to serve customers in Virginia?

RESPONSE:

Subject to and without waiving its general objections, based on the historical layout of the cast iron piping system in Bristol, it is possible that up to 50% of the gas manufactured at the Bristol MGP site was used to serve customers in Virginia. However, the environmental control

requirements that necessitated the remediation activities and incurring remediation costs arise under Tennessee law because the MGP is located in Tennessee.

34. Has Atmos or United Cities Gas Company ever made any request to the Commonwealth of Virginia, State Corporation Commission, or any other Virginia governmental agency, for any type of cost recovery or ratemaking treatment related to any actual or planned environmental remediation activities for underground storage tanks or MGP sites located in Kingsport, Johnson City, or Bristol? If so, please provide a copy of all documents related to each such request, as well as the status and disposition of each such request.

RESPONSE:

Subject to and without waiving its general objections, no. The environmental control requirements that necessitated the remediation activities and incurring remediation costs arise under Tennessee law, not Virginia, because the subject sites are located in Tennessee.

35. Have any multi-state jurisdictional costs related to environmental remediation activities for underground storage tanks of MGP site been incurred? If so, please identify all such costs and explain how these costs were allocated to the affected state jurisdictions.

RESPONSE:

Subject to and without waiving its general objections, no. The environmental control requirements that necessitated the remediation activities and incurring remediation costs arise under Tennessee law because the subject sites are located in Tennessee.

36. Please provide the address or location of the property containing each underground storage tank and each MGP site that are the subject of this proceeding, and for each such address or location please describe in detail the particular use(s) of the property since January 1, 1990, including, but not confined to, the property's present use.

RESPONSE:

Subject to and without waiving its general objections,

Property	Address or location	Particular Use(s)
Franklin UST	118 Second Avenue North Franklin, TN 37064	Used as a service center until 2004. Property sold in 2002 and is now vacant.
Kingsport UST	1575 Jared Drive Kingsport, TN 37660	Formerly used as a propane air plant. Property sold to Eastman Chemical in 2000.
Bristol UST	816 Shelby Street Bristol, TN 37620	Used as a service center until 1991. Property under long-term lease to City for use as parking lot.
Johnson City UST	Tennessee St. and Security Ln. Johnson City, TN 37604	Used as a service center until 1995. Building demolished in 2001. Property is now vacant.
Johnson City UST	2833 W. Market Street Johnson City, TN 37605	Currently used as a service center.
Bristol MGP	816 Shelby Street Bristol, TN 37604	Used as a service center until 1991. Property under long-term lease to City for use as parking lot.
Johnson City MGP	Tennessee St. and Security Ln. Johnson City, TN 37604	Used as a service center until 1995. Building demolished in 2001. Property is now vacant.

Respectfully submitted,

NEAL & HARWELL, PLC

By: 

William T. Ramsey, #9245

A. Scott Ross, #15634

2000 One Nashville Place

150 Fourth Avenue, North

Nashville, TN 37219-2498

(615) 244-1713 – Telephone

(615) 726-0573 – Facsimile


Counsel for Atmos Energy Corporation

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 10 day of July 2007.

<input type="checkbox"/> Hand	Joe Shirley, Esq.
<input type="checkbox"/> Mail	Office of the Attorney General
<input type="checkbox"/> Fax	Consumer Advocate and Protection Division
<input type="checkbox"/> Fed. Ex.	P. O. Box 20207
<input checked="" type="checkbox"/> E-Mail	Nashville, TN 37202

<input type="checkbox"/> Hand	Henry M. Walker, Esq.
<input type="checkbox"/> Mail	Boult, Cummings, Conners, & Berry, PLC
<input type="checkbox"/> Fax	1600 Division Street, Suite 700
<input type="checkbox"/> Fed. Ex.	P. O. Box 340025
<input checked="" type="checkbox"/> E-Mail	Nashville, TN 37203



CAPD DR 1-10 ATT2

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 PUBLIC DOCUMENT COUNT: 3
 CONFORMED PERIOD OF REPORT: 19970331
 FILED AS OF DATE: 19970513
 SROS: NASD

FILER:

COMPANY DATA:
 COMPANY CONFORMED NAME: UNITED CITIES GAS CO
 CENTRAL INDEX KEY: 0000101105
 STANDARD INDUSTRIAL CLASSIFICATION: NATURAL GAS DISTRIBUTION [4924]
 IRS NUMBER: 361801540
 STATE OF INCORPORATION: IL
 FISCAL YEAR END: 1231

FILING VALUES:
 FORM TYPE: 10-Q
 SEC ACT: 1934 Act
 SEC FILE NUMBER: 000-01284
 FILM NUMBER: 97602997

BUSINESS ADDRESS:
 STREET 1: 5300 MARYLAND WAY
 CITY: BRENTWOOD
 STATE: TN
 ZIP: 37027
 BUSINESS PHONE: 6153735310

MAIL ADDRESS:
 STREET 1: 5300 MARYLAND WAY
 CITY: BRENTWOOD
 STATE: TN
 ZIP: 37027

FORMER COMPANY:
 FORMER CONFORMED NAME: SOUTHEASTERN ILLINOIS GAS CO
 DATE OF NAME CHANGE: 19670829

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
 Washington, D.C. 20549

FORM 10-Q

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
 EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 1997.

OR
 [] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
 EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 0-1284-1

UNITED CITIES GAS COMPANY

(Exact name of registrant as specified in its charter)

Illinois and Virginia 36-1801540

(State or other jurisdiction of
 incorporation or organization) (IRS Employer
 Identification Number)

5300 Maryland Way, Brentwood, TN 37027

(Address of principal
 executive offices) (Zip Code)

(615) 373-5310

 Registrant's telephone number, including area code

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceeding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

[X] Yes

[] No

At April 30, 1997, 13,283,787 shares of the common stock of the Registrant were outstanding.

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UNITED CITIES GAS COMPANY AND SUBSIDIARIES

QUARTERLY REPORT ON FORM 10-Q
 FOR THE QUARTER ENDED MARCH 31, 1997

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UNITED CITIES GAS COMPANY AND SUBSIDIARIES
 CONSOLIDATED STATEMENTS OF INCOME

<TABLE>
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	THREE MONTHS ENDED MARCH 31,		TWELVE MONTHS ENDED MARCH 31,	
(Unaudited, in thousands, except per share amounts)	1997	1996	1997	1996
<S>	<C>	<C>	<C>	<C>
UTILITY OPERATING REVENUES	\$ 147,448	\$ 144,709	\$ 356,120	\$ 310,563
Natural gas cost	96,886	93,803	230,448	191,057
UTILITY OPERATING MARGIN	50,562	50,906	125,672	119,506

OTHER UTILITY OPERATING EXPENSES:				
Operations and maintenance	15,873	16,250	62,328	62,838
Depreciation and amortization	4,290	4,246	16,658	15,701
Federal and state income taxes	8,789	8,676	7,136	5,848
Other taxes	3,656	3,471	12,776	12,350
Total other utility operating expenses	32,608	32,643	98,898	96,737
UTILITY OPERATING INCOME	17,954	18,263	26,774	22,769
OTHER UTILITY INCOME, NET OF TAX	107	152	424	848
	18,061	18,415	27,198	23,617
UTILITY INTEREST EXPENSE:				
Interest on long-term debt	3,119	3,316	12,575	12,311
Other interest expense	933	426	2,495	1,992
Total utility interest expense	4,052	3,742	15,070	14,303
UTILITY INCOME	14,009	14,673	12,128	9,314
OTHER INCOME:				
Operations of UCG Energy Corporation-				
Revenues	13,748	18,672	38,977	40,722
Operating expenses	(11,318)	(14,604)	(32,660)	(31,467)
Interest expense	(340)	(363)	(1,343)	(1,317)
Depreciation and amortization	(1,005)	(914)	(3,910)	(4,308)
Other income, net	2,058	1,531	3,569	2,920
Federal and state income taxes	(1,193)	(1,641)	(1,759)	(2,492)
	1,950	2,681	2,874	4,058
Operations of United Cities Gas Storage Company-				
Revenues	1,593	2,989	4,268	8,549
Operating expenses	(1,027)	(2,392)	(1,750)	(5,984)
Interest expense	(213)	(222)	(832)	(955)
Depreciation	(100)	(98)	(396)	(374)
Federal and state income taxes	(98)	(108)	(499)	(477)
	155	169	791	759
NET INCOME	\$ 16,114	\$ 17,523	\$ 15,793	\$ 14,131
NET INCOME PER SHARE	\$ 1.22	\$ 1.35	\$ 1.20	\$ 1.14
AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	13,242	12,962	13,156	12,358
COMMON STOCK DIVIDENDS PER SHARE	\$ 0.255	\$ 0.255	\$ 1.02	\$ 1.02

</TABLE>

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UNITED CITIES GAS COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

<TABLE>

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(Unaudited, in thousands)	THREE MONTHS ENDED MARCH 31,		TWELVE MONTHS ENDED MARCH 31,	
	1997	1996	1997	1996
<S>	<C>	<C>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income	\$ 16,114	\$ 17,523	\$ 15,793	\$ 14,131
Adjustments to reconcile net income to net cash provided by (used in) operating activities:				
Depreciation and amortization	5,395	5,258	20,964	20,383
Deferred taxes	(45)	(46)	1,579	1,728
Investment tax credits, net	(90)	(90)	(362)	(363)
Investment income from Woodward Marketing, LLC	(1,868)	(1,267)	(2,599)	(2,047)
Changes in current assets and current liabilities:				
Receivables	17,005	(6,698)	9,287	(24,923)
Materials and supplies	79	(70)	(359)	435
Gas in storage	12,322	9,367	(9,100)	3,437
Gas costs to be billed in the future	4,528	4,432	2,688	(48)
Prepayments and other	640	843	(1,562)	(204)
Accounts payable	(29,542)	1,863	(15,367)	10,065

Customer deposits and advance payments	(2,953)	(4,600)	446	(3,481)
Accrued interest	3,257	2,744	380	808
Supplier refunds due customers	7,285	2,912	(1,280)	(1,697)
Accrued taxes	7,689	13,015	1,198	5,730
Other, net	43	2,011	(1,230)	2,215
Total adjustments	23,745	29,674	4,683	12,038
Net cash provided by operating activities	39,859	47,197	20,476	26,169
CASH FLOWS FROM INVESTING ACTIVITIES:				
Additions to property - utility	(7,426)	(7,106)	(33,087)	(32,553)
Additions to property - non-utility	(1,236)	(1,607)	(6,201)	(5,385)
Investment in Woodward Marketing, LLC, net	125	215	705	(617)
Net cash used in investing activities	(8,537)	(8,498)	(38,583)	(38,555)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Short-term borrowings - net	(23,631)	(24,010)	33,754	(9,758)
Proceeds from issuance of long-term debt	--	--	--	27,000
Proceeds from issuance of common stock	613	583	2,670	22,587
Long-term debt retirements	(2,346)	(3,359)	(12,804)	(5,208)
Dividends paid	(2,741)	(2,745)	(11,058)	(10,584)
Net cash provided by (used in) financing activities	(28,105)	(29,531)	12,562	24,037
NET INCREASE (DECREASE) IN CASH AND TEMPORARY INVESTMENTS	3,217	9,168	(5,545)	11,651
CASH AND TEMPORARY INVESTMENTS AT BEGINNING OF PERIOD	7,408	7,002	16,170	4,519
CASH AND TEMPORARY INVESTMENTS AT END OF PERIOD	\$ 10,625	\$ 16,170	\$ 10,625	\$ 16,170
CASH PAID DURING THE PERIOD FOR:				
Interest, net of amounts capitalized	\$ 1,334	\$ 1,414	\$ 16,981	\$ 15,579
Income taxes	\$ 1,373	\$ 278	\$ 8,978	\$ 6,733
NONCASH INVESTING AND FINANCING ACTIVITIES:				
Dividends reinvested	\$ 636	\$ 507	\$ 2,310	\$ 1,946
Debt incurred to acquire assets of Harlan LP Gas, Inc	\$ 1,000	--	\$ 1,000	--
Debt incurred to acquire assets of Duncan Gas Service	--	\$ 2,957	--	\$ 2,957
Common stock issued in investment in Woodward Marketing, LLC ..	--	--	--	\$ 5,000
Increase in common stock equity due to acquisition of Monarch Gas Company	--	\$ 2,433	--	\$ 2,433

</TABLE>

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UNITED CITIES GAS COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

<TABLE>
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(In thousands)	MARCH 31, 1997	DECEMBER 31, 1996
ASSETS	(Unaudited)	
<S>	<C>	<C>
UTILITY PLANT:		
Plant in service, at cost	\$485,173	\$477,832
Less-accumulated depreciation	179,919	175,156
	305,254	302,676
NON-UTILITY PROPERTY:		
Property, plant, and equipment	77,684	76,480
Less-accumulated depreciation	21,405	21,536
	56,279	54,944
CURRENT ASSETS:		
Cash and temporary investments	10,625	7,408
Receivables, less allowance for uncollectible accounts of \$2,547 in 1997 and \$1,746 in 1996	51,928	68,933
Materials and supplies	5,343	5,422
Gas in storage	16,376	28,698
Gas costs to be billed in the future	8,593	13,121
Prepayments and other	2,747	3,387
	95,612	126,969

DEFERRED CHARGES:		
Unamortized debt discount and expense, net	2,716	2,775
Investment in Woodward Marketing, LLC, net	9,706	8,062
Non-compete agreements, net	3,139	3,183
Other deferred charges	14,918	15,040
	-----	-----
	30,479	29,060
	-----	-----
	\$487,624	\$513,649
	=====	=====
CAPITALIZATION AND LIABILITIES		
CAPITALIZATION:		
Common stock equity	\$171,270	\$157,284
Long-term debt	152,364	153,859
	-----	-----
	323,634	311,143
	-----	-----
CURRENT LIABILITIES:		
Current portion of long-term obligations	7,828	7,679
Notes payable	42,057	65,688
Accounts payable for gas costs	12,831	39,486
Other accounts payable	2,982	5,869
Accrued taxes	18,633	10,944
Customer deposits and advance payments	7,924	10,877
Accrued interest	6,736	3,479
Supplier refunds due customers	8,086	801
Other	10,788	11,514
	-----	-----
	117,865	156,337
	-----	-----
DEFERRED CREDITS:		
Accumulated deferred income tax	32,999	33,017
Deferred investment tax credits	3,846	3,936
Income taxes due customers	4,881	4,943
Other	4,399	4,273
	-----	-----
	46,125	46,169
	-----	-----
	\$487,624	\$513,649
	=====	=====

</TABLE>

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UNITED CITIES GAS COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CAPITALIZATION

<TABLE>

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(In thousands, except share amounts)

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COMMON STOCK EQUITY:

	MARCH 31, 1997		DECEMBER 31, 1996	
	(Unaudited)			
	<C>	<C>	<C>	<C>
Common stock without par value, authorized 40,000,000 shares, outstanding 13,277,584 in 1997 and 13,220,538 in 1996.....	\$109,305		\$108,056	
Capital surplus.....	22,462		22,462	
Retained earnings.....	39,503		26,766	
	-----		-----	
Total common stock equity.....	171,270	52.9%	157,284	50.6%
	-----		-----	
LONG-TERM DEBT:				
First mortgage bonds.....	113,000		115,000	
Medium term notes, 6.20% through 6.67%, due 2000 through 2025.....	22,000		22,000	
Senior secured storage term notes, 7.45%, due in installments through 2007.....	9,200		9,353	
Rental property adjustable rate term notes due in installments through 1999.....	4,368		4,497	
Rental property fixed rate term note, 7.90%, due in installments through 2013.....	2,161		2,161	
Propane term note, 6.99%, due in installments through 2002.....	4,500		4,500	
Other long-term obligations due in installments through 2005.....	4,963		4,027	
	-----		-----	
	160,192		161,538	
Less-current requirements.....	7,828		7,679	
	-----		-----	
Total long-term debt, excluding amounts due within one year..	152,364	47.1%	153,859	49.4%
	-----		-----	
TOTAL CAPITALIZATION	\$323,634	100.0%	\$311,143	100.0%
	=====	=====	=====	=====

</TABLE>

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UNITED CITIES GAS COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The accompanying unaudited financial statements reflect all adjustments (which are of a normal recurring nature) that are, in the opinion of management, necessary for a fair statement of the results for the interim periods presented. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to SEC rules and regulations. The statements should be read in conjunction with the Summary of Significant Accounting Policies and Notes to Consolidated Financial Statements included in the Company's annual report for the year ended December 31, 1996.

The Company's business is seasonal in nature resulting in greater earnings during the winter months. The results of operations for the three-month period ended March 31, 1997, are not necessarily indicative of the results to be expected for the full year.

Effective February 28, 1997, United Cities Propane Gas of Tennessee, Inc. (UCPT), a subsidiary of UCG Energy Corporation (UCG Energy), purchased substantially all of the propane assets of Harlan LP Gas, Inc., a retail propane distribution company, and Propane Sales and Service, Inc., a wholesale propane distribution company, for approximately \$2,040,000. In addition, UCPT entered into four ten-year non-compete agreements with the prior owners totaling \$150,000 to be paid over a ten-year period. This acquisition added approximately 3,100 propane customers in the Harlan, Kentucky and New Tazewell, Tennessee areas.

On July 19, 1996, the Company and Atmos Energy Corporation (Atmos) entered into a definitive agreement whereby the Company will be merged with and into Atmos, with Atmos as the surviving corporation. Under the definitive agreement, one share of Atmos stock will be exchanged for each share of the Company's stock. The transaction is expected to be accounted for as a pooling of interests. The transaction was approved by the shareholders of the Company and Atmos on November 12, 1996. The Company and Atmos have received regulatory approval for the merger in all the states in which they operate that require approval, except Illinois. In a proposed order dated April 7, 1997, the Illinois hearing examiner recommended that the Illinois Commerce Commission deny approval of the merger. The Company is currently working with the Illinois Commerce Commission staff to resolve the issues in the proposed order. The Company expects to be successful in resolving these issues and the merger to be approved by mid-summer, 1997. Atmos is based in Dallas, Texas, and currently provides natural gas service to approximately 680,000 customers in Texas, Colorado, Kansas, Missouri, Louisiana and Kentucky.

In February 1997, the Financial Accounting Standards Board issued Statement No. 128 (SFAS 128), "Earnings per Share." This statement establishes standards for computing and presenting earnings per share. SFAS 128 is effective for financial statements for both interim and annual periods ending after December 15, 1997. Earlier application is not permitted. On a proforma basis for the periods presented herein, the net income per share as calculated under SFAS 128 is not materially different than the amounts presented.

UCG Energy and Woodward Marketing, Inc. (WMI), sole shareholders of Woodward Marketing, L.L.C. (WMLLC), act as guarantors of a \$12,500,000 credit facility for WMLLC with a certain bank. UCG Energy's 45% portion of the amount outstanding on this credit facility at March 31, 1997, was \$4,275,000. UCG Energy and WMI also act as guarantors on certain purchases of natural gas and transportation services from suppliers by WMLLC. UCG Energy's 45% portion of these outstanding obligations amounted to \$4,937,000 at March 31, 1997. UCG Energy and WMI are jointly and severally liable for the total amount outstanding under the above obligations.

Certain reclassifications were made conforming prior year's financial statements with 1997 financial statement presentation. The Company's 1996 financial statements and other information have been restated to reflect the acquisition of Monarch Gas Company.

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UNITED CITIES GAS COMPANY AND SUBSIDIARIES

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS.

Overview

The Company's 1997 first quarter net income was \$16,114,000 compared to the first quarter 1996 net income of \$17,523,000. Net income per share in the first quarter of 1997 was \$1.22 compared to \$1.35 for the first quarter of 1996. Net income for the twelve-month period ended March 31, 1997, was \$15,793,000 compared to \$14,131,000 for the twelve-month period ended March 31, 1996. Net income per share increased from \$1.14 in the twelve-month period in 1996 to \$1.20 in the twelve-month period in 1997.

The following table summarizes certain information regarding the operation of each segment of the Company's business for the periods ended March 31:

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(Unaudited, in thousands)	THREE MONTHS ENDED		TWELVE MONTHS ENDED	
	1997	1996	1997	1996
<S>	<C>	<C>	<C>	<C>
OPERATING REVENUES:				
Utility	\$147,448	\$144,709	\$356,120	\$310,563
Subsidiaries:				
UCG Energy Corporation-				
Propane Division	12,559	16,868	34,064	32,500
Rental Division	1,037	1,119	4,122	5,548
Utility Services Division	152	685	791	2,674
Total UCG Energy Corporation	13,748	18,672	38,977	40,722
United Cities Gas Storage Company	1,593	2,989	4,268	8,549
Total Subsidiaries	15,341	21,661	43,245	49,271
Total Operating Revenues	\$162,789	\$166,370	\$399,365	\$359,834
	=====	=====	=====	=====
NET INCOME:				
Utility	\$ 14,009	\$ 14,673	\$ 12,128	\$ 9,314
SUBSIDIARIES:				
UCG Energy Corporation-				
Propane Division	719	1,583	412	1,521
Rental Division	306	359	1,184	1,617
Utility Services Division	925	739	1,278	920
Total UCG Energy Corporation	1,950	2,681	2,874	4,058
United Cities Gas Storage Company	155	169	791	759
Total Subsidiaries	2,105	2,850	3,665	4,817
Total Net Income	\$ 16,114	\$ 17,523	\$ 15,793	\$ 14,131
	=====	=====	=====	=====

</TABLE>

OPERATING RESULTS-UTILITY

The utility income for the three months ended March 31, 1997, decreased \$664,000 from the same period in 1996 and for the twelve-month period utility income increased \$2,814,000 from the 1996 period due predominantly to the factors mentioned below:

The operating margin for the first quarter decreased from \$50,906,000 in 1996 to \$50,562,000 in 1997 primarily due to the significantly warmer weather during 1997 as compared to 1996. The effect of the warmer weather was somewhat offset by the December 1996 rate increase in Georgia, the weather normalization adjustments (WNAs) in Tennessee and Georgia and an increased number of natural gas customers. During the first quarter of 1997 the net effect of the WNAs was an increase in revenues of \$3,200,000 as opposed to a decrease in revenues of \$1,200,000 in the 1996 first quarter. The operating margin for the twelve-month period increased from \$119,506,000 in 1996 to \$125,672,000 in 1997. The effect of the warmer weather during the 1997 period was more than offset by rate increases in various states, the weather normalization adjustments, the Monarch Gas Company acquisition and an increased number of natural gas customers.

Utility operating expenses other than natural gas cost decreased \$35,000 in the first quarter and increased \$2,161,000 in the twelve-month period ended March 31, 1997, as compared to the previous year periods. The increase in the twelve-month period is primarily a result of increased distribution expenses and increased leasing expense on computer related equipment. In 1996, the Company began leasing computer related equipment as opposed to purchasing the equipment as was done in prior years. In addition, depreciation and amortization expense increased primarily due to additional plant in service and other taxes increased primarily as a result of franchise taxes on additional revenues. The effect of these increases in utility operating expenses was somewhat offset by a decrease in certain administrative expenses primarily attributable to the Virginia/East Tennessee Division consolidation that occurred in the third quarter of 1995. Five of the Company's local operations in this division were consolidated into two new operating centers. As a result, costs of approximately \$900,000 (\$550,000 after income taxes) related to early retirement and severance programs and employee relocation expenses were recorded in September 1995. In addition, outside services expense decreased from the twelve-month period ended March 31, 1996, to the current year period. Outside services expense for the 1996 period included incremental expenses related to addressing labor and personnel related activities, strategic planning and the IRS audit.

Other utility income, net of tax decreased \$45,000 and \$424,000 in the first quarter and twelve-month period ended March 31, 1997, respectively, as compared to the previous year periods. The decrease in the twelve-month period is primarily a result of a decreased amount of revenues recognized by the Company related to the release of its excess firm capacity on the pipelines which serve the Company. The effect of this decrease in revenues from the prior year period was somewhat offset by additional revenues during the 1997 period from the incentive rate program in Tennessee.

Utility interest expense increased in both the first quarter and twelve months ended March 31, 1997, as compared to the previous year periods. Other interest expense increased in both periods primarily as a result of increased outstanding balances of short-term debt. In addition, other interest expense for the twelve-month period ended March 31, 1996, was impacted by a \$349,000 reduction to interest expense related to the capitalization of the debt portion of the allowance for funds used during construction of the twenty-eight mile main in Middle Tennessee. The effect of the increased interest expense in the twelve-month period for the reasons set forth above was slightly offset by decreased interest on lower outstanding balances of miscellaneous liabilities outstanding during the 1997 period.

The table below reflects operating revenues, natural gas through-put and weather data for the periods ended March 31:

<TABLE>
<CAPTION>

Operating Statistics-Utility	THREE MONTHS ENDED		TWELVE MONTHS ENDED	
	1997	1996	1997	1996
(Unaudited, in thousands)				
<S>	<C>	<C>	<C>	<C>
UTILITY OPERATING REVENUES:				
Residential	\$ 77,569	\$ 75,408	\$168,083	\$148,345
Commercial	41,864	40,581	96,967	82,312
Industrial	24,531	21,778	75,554	63,529
Transportation	2,675	2,850	10,390	8,851
Other Revenues	809	4,092	5,126	7,526
Total	\$147,448	\$144,709	\$356,120	\$310,563
NATURAL GAS THROUGH-PUT (MCF):				
Residential	10,643	12,681	23,420	25,216
Commercial	6,276	7,271	15,711	16,191
Industrial-				
Firm	2,442	2,440	7,085	7,371
Interruptible	2,525	3,024	10,625	11,551
Transportation	21,886	25,416	56,841	60,329
Total	4,828	4,358	18,082	17,259
Total	26,714	29,774	74,923	77,588
WEATHER DATA-COLDER (WARMER)				
THAN NORMAL*	(16.1%)	6.2%	(6.0%)	7.3%

</TABLE>

*Based on system weighted average. Data for 1997 is preliminary.

<PAGE> 10
ITEM 2. CONTINUED

OPERATING RESULTS-NON-UTILITY

Revenues of UCG Energy Corporation (UCG Energy) decreased from \$18,672,000 and \$40,722,000, respectively, in the first quarter and twelve-month period ended March 31, 1996, to \$13,748,000 and \$38,977,000, respectively, in the first quarter and twelve-month period ended March 31, 1997. The propane division's revenues decreased in the first quarter due to decreased retail and wholesale volumes sold because of warmer than normal weather as compared to the previous year period. For the twelve-month period, revenues increased because of an increase in annual fees billed to customers in October 1996, and an increase in the retail and wholesale price of propane volumes sold as compared to the previous year period. Revenues in the utility services division decreased from 1996 in both periods as a result of decreased gas brokerage sales due to the transfer of certain gas brokerage contracts to Woodward Marketing, L.L.C. (WMLLC). The rental division's revenues decreased from the first quarter and twelve months ended March 31, 1996, due to the elimination of rental revenues as a result of the transfer of certain rental units to the parent company.

Expenses of UCG Energy, including cost of sales, decreased from \$14,604,000 in the first quarter of 1996 to \$11,318,000 in the first quarter of 1997 and increased from \$31,467,000 in the twelve-month period ended March 31, 1996 to \$32,660,000 in the twelve-month period ended March 31, 1997. Expenses decreased in the first quarter in the propane division principally as a result of lower cost of sales from decreased propane volumes sold due to warmer than normal weather as compared to the previous year period. Expenses increased in the twelve-month period as a result of the increased wholesale cost of propane volumes as compared to the previous year period. Also, contributing to the increase was increased general and administrative expenses due to normal increases and the acquisitions of Duncan Gas Service in January 1996, Arrow Propane, Inc. in September 1996 and Harlan LP Gas, Inc. and Propane Sales and Service, Inc. in February 1997. Expenses of the utility services division decreased in both periods as a result of lower cost of sales from decreased brokerage activities. Expenses increased only slightly in the quarter and twelve-month periods as compared to the previous year periods in the rental division.

Other income, net of UCG Energy increased \$527,000 and \$649,000, respectively, in the first quarter and twelve-month period ended March 31, 1997, primarily as a result of increased investment income from WMLLC in the amounts of \$601,000 and \$552,000, respectively, as compared to the previous year periods.

UCG Energy's net income decreased from \$2,681,000 and \$4,058,000, respectively, in the first quarter and twelve-month period ended March 31, 1996, to \$1,950,000 and \$2,874,000, respectively, for those same periods ended March 31, 1997. The decrease in net income for the first quarter can be attributed to decreased sales in the propane division partially offset by increased investment income from WMLLC. The decrease in net income for the twelve-month period can be primarily attributed to a combination of decreased volume sales, increased cost of sales and increased general and administrative expenses in the propane division. Contributing to the decrease was reduced rental revenues in the rental division. The decrease in net income was partially offset by increased investment income from WMLLC.

Effective February 28, 1997, United Cities Propane Gas of Tennessee, Inc. (UCPT), a subsidiary of UCG Energy purchased substantially all of the propane assets of Harlan LP Gas, Inc., a retail propane distribution company, and Propane Sales and Service, Inc., a wholesale propane distribution company, for approximately \$2,040,000. In addition, UCPT entered into four ten-year non-compete agreements with the prior owners totaling \$150,000 to be paid over a ten-year period. This acquisition added approximately 3,100 propane customers in the Harlan, Kentucky and New Tazewell, Tennessee areas.

United Cities Gas Storage Company had net income for the three and twelve-month periods ended March 31, 1997, of \$155,000 and \$791,000, respectively, as compared to \$169,000 and \$759,000 for the same periods in 1996. The revenues of the subsidiary were primarily derived from natural gas storage services and natural gas provided to United Cities Gas Company.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

Total cash provided by operations for the three and twelve-month periods ended March 31, 1997, was \$39,859,000 and \$20,476,000, respectively. Changes in accounts receivable, gas in storage and accounts payable were primarily a result of the weather sensitive nature of the Company's business. Changes in gas costs to be billed in the future and supplier refunds due customers were primarily a result of the timing of the recoveries from, or refunds to, customers of these costs through the Purchased Gas Adjustment mechanism. The financing activities for the three and twelve-

<PAGE> 11

ITEM 2. CONTINUED

month periods ended March 31, 1997, reflect the retirement of long-term debt, dividend payments, the issuance of stock through the Company's various stock purchase plans and the net activity of short-term borrowings.

The Company had authorized as of March 31, 1997, specific purchases and construction projects amounting to \$9,736,000 of its 1997 utility capital budget of \$33,300,000 and \$465,000 of its non-utility capital budget of \$2,600,000.

On July 19, 1996, the Company and Atmos Energy Corporation (Atmos) entered into a definitive agreement whereby the Company will be merged with and into Atmos, with Atmos as the surviving corporation. Under the definitive agreement, one share of Atmos stock will be exchanged for each share of the Company's stock. The transaction is expected to be accounted for as a pooling of interests. The transaction was approved by the shareholders of the Company and Atmos on November 12, 1996. The Company and Atmos have received regulatory approval for the merger in all the states in which they operate that require approval, except Illinois. In a proposed order dated April 7, 1997, the Illinois hearing examiner recommended that the Illinois Commerce Commission deny approval of the merger. The Company is currently working with the Illinois Commerce Commission staff to resolve the issues in the proposed order. The Company expects to be successful in resolving these issues and the merger to be approved by mid-summer, 1997. Atmos is based in Dallas, Texas, and currently provides natural gas service to approximately 680,000 customers in Texas, Colorado, Kansas, Missouri, Louisiana and Kentucky.

In February 1997, the Financial Accounting Standards Board issued Statement No. 128 (SFAS 128), "Earnings per Share." This statement establishes standards for computing and presenting earnings per share. SFAS 128 is effective for financial statements for both interim and annual periods ending after December 15, 1997. Earlier application is not permitted. On a proforma basis for the periods presented herein, the net income per share as calculated under SFAS 128 is not materially different than the amounts presented.

UCG Energy and Woodward Marketing, Inc. (WMI), sole shareholders of WMLLC, act as guarantors of a \$12,500,000 credit facility for WMLLC with a certain bank. UCG Energy's 45% portion of the amount outstanding on this credit facility at March 31, 1997, was \$4,275,000. UCG Energy and WMI also act as guarantors on certain purchases of natural gas and transportation services from suppliers by WMLLC. UCG Energy's 45% portion of these outstanding obligations amounted to \$4,937,000 at March 31, 1997. UCG Energy and WMI are jointly and severally liable for the total amount outstanding under the above obligations.

The Company believes its short-term lines of credit are sufficient to meet anticipated short-term requirements. At March 31, 1997, the Company had \$105,000,000 in short-term lines of credit available, including master and banker's acceptance notes, bearing interest primarily at the lesser of the prime rate or a negotiated rate during the term of each borrowing. Under these arrangements, \$42,057,000 in short-term debt was outstanding at March 31, 1997.

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UNITED CITIES GAS COMPANY AND SUBSIDIARIES

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

See December 31, 1996 Form 10-K.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

- (a) Exhibits-See list of Exhibits on page 13 hereof.
- (b) The following Form 8-K was filed during the quarter ended March 31, 1997:
 - 1. Form 8-K, Item 5 dated March 17, 1997.

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<PAGE> 13

UNITED CITIES GAS COMPANY AND SUBSIDIARIES

LIST OF EXHIBITS

- 12.01 Computation of Ratio of Consolidated Earnings to Fixed Charges.
(Page 15)
- 27 Financial Data Schedule (SEC use only)

13

<PAGE> 14

UNITED CITIES GAS COMPANY AND SUBSIDIARIES

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

UNITED CITIES GAS COMPANY

/s/ ADRIENNE H. BRANDON

ADRIENNE H. BRANDON
Vice President and Controller
On behalf of the Registrant

Date: May 13, 1997

14

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UNITED CITIES GAS COMPANY AND SUBSIDIARIES

COMPUTATION OF RATIO OF CONSOLIDATED EARNINGS TO FIXED CHARGES

FOR THE TWELVE MONTHS ENDED

(Unaudited, in thousands, except ratio amounts)

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Interest on long-term debt	\$14,418	\$14,681	\$13,697	\$14,026	\$14,553	\$12,965
Amortization of debt discount	278	285	227	227	220	181
Total	\$14,696	\$14,966	\$13,924	\$14,253	\$14,773	\$13,146
Earnings, as defined:						
Net income	\$15,793	\$17,202	\$ 9,935	\$12,093	\$12,150	\$10,218
Taxes on income	9,643	10,006	6,970	6,503	5,681	5,171
Fixed charges, as above	14,696	14,966	13,924	14,253	14,773	13,146
Total	\$40,132	\$42,174	\$30,829	\$32,849	\$32,604	\$28,535
Ratio of Consolidated Earnings to Fixed Charges	2.73	2.82	2.21	2.30	2.21	2.17

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED BALANCE SHEETS AND THE CONSOLIDATED STATEMENTS OF INCOME, CASH FLOWS AND CAPITALIZATION AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS. </LEGEND>

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JAN-01-1997

MAR-31-1997

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CONFORMED SUBMISSION TYPE: 10-K

PUBLIC DOCUMENT COUNT: 5

CONFORMED PERIOD OF REPORT: 19961231

FILED AS OF DATE: 19970325

SROS: NASD

FILER:

COMPANY DATA:

COMPANY CONFORMED NAME:	UNITED CITIES GAS CO
CENTRAL INDEX KEY:	0000101105
STANDARD INDUSTRIAL CLASSIFICATION:	NATURAL GAS DISTRIBUTION [4924]
IRS NUMBER:	361801540
STATE OF INCORPORATION:	IL
FISCAL YEAR END:	1231

FILING VALUES:

FORM TYPE:	10-K
SEC ACT:	1934 Act
SEC FILE NUMBER:	000-01284
FILM NUMBER:	97562737

BUSINESS ADDRESS:

STREET 1:	5300 MARYLAND WAY
CITY:	BRENTWOOD
STATE:	TN
ZIP:	37027
BUSINESS PHONE:	6153735310

MAIL ADDRESS:

STREET 1:	5300 MARYLAND WAY
CITY:	BRENTWOOD
STATE:	TN
ZIP:	37027

FORMER COMPANY:

FORMER CONFORMED NAME:	SOUTHEASTERN ILLINOIS GAS CO
DATE OF NAME CHANGE:	19670829

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

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[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF
THE SECURITIES EXCHANGE ACT OF 1934 (NO FEE REQUIRED,
EFFECTIVE OCTOBER 7, 1996)

FOR THE FISCAL YEAR ENDED DECEMBER 31, 1996 COMMISSION FILE NUMBER 0-1284

OR

[] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF
THE SECURITIES EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM TO

</TABLE>

UNITED CITIES GAS COMPANY
(Exact name of registrant as specified in its charter)

<TABLE>

<C>

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ILLINOIS & VIRGINIA
(State or other jurisdiction of
incorporation or organization)

36-1801540
(I.R.S. Employer
Identification No.)

11.	Executive Compensation	28
12.	Security Ownership of Certain Beneficial Owners and Management	28
13.	Certain Relationships and Related Transactions	28
	PART IV	
14.	Exhibits, Financial Statement Schedules, and Reports on Form 8-K	28
	Signatures	52
	List of Exhibits	56

</TABLE>

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<PAGE> 3

PART I

ITEM 1. BUSINESS

GENERAL

United Cities Gas Company (Cities) was incorporated under the laws of the State of Illinois on September 21, 1929. Cities' predominant business is the distribution of natural gas. As of December 31, 1996, Cities supplied natural gas service to approximately 320,000 customers. In addition to its business of natural gas distribution, Cities sells and installs gas appliances and performs certain appliance service work.

Since 1986, Cities has significantly increased its customer base by adding approximately 166,000 new customers to its natural gas distribution system. The table below reflects the areas of growth through acquisitions and internal marketing efforts, including population growth within Cities' service areas.

<TABLE>

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AREAS OF GROWTH	CUSTOMERS ADDED
<S>	<C>
Acquisition of Great River Gas Company (May 1989)	17,000
Acquisition of Union Gas System, Inc (December 1989)	65,000
Other acquisitions	9,000
Internal growth	75,000

	166,000
	=====

</TABLE>

Cities has two wholly-owned subsidiaries. One subsidiary, United Cities Gas Storage Company (UCG Storage), was formed as a Delaware corporation in December 1989 to provide natural gas storage services. In 1989, a natural gas storage field was purchased in Kentucky to supplement natural gas used by Cities' customers in Tennessee. In addition, natural gas storage fields located in Kansas and included in Cities' 1989 acquisition of Union Gas System, Inc. were sold to UCG Storage. These fields are used to supplement natural gas used by Cities' Kansas customers.

The other subsidiary, UCG Energy Corporation (UCG Energy), incorporated under the laws of Delaware in 1965, leases appliances, real estate and equipment, and vehicles to Cities and others, and is engaged in exploration and production activities. UCG Energy also owns a 45% interest in Woodward Marketing, L.L.C. (WMLLC) which provides natural gas marketing services to industrial customers, municipalities and local distribution companies, including Cities. WMLLC was formed in 1995.

UCG Energy has two wholly-owned subsidiaries, United Cities Propane Gas of Tennessee, Inc. and UCG Leasing, Inc. United Cities Propane Gas of Tennessee, Inc., incorporated under the laws of Tennessee in 1976, is engaged in the retail distribution of propane (LP) gas. As of December 31, 1996, the propane operation served approximately 27,000 customers in Tennessee, Virginia and North Carolina. UCG Leasing, Inc. was incorporated under the laws of Georgia in 1987 and leases vehicles, equipment and real estate to Cities.

Cities and its subsidiaries, UCG Storage and UCG Energy and its subsidiaries, are herein referred to collectively as the "company".

On July 19, 1996, the company and Atmos Energy Corporation (Atmos) entered into a definitive agreement whereby the company will be merged with and into Atmos, with Atmos as the surviving corporation. Under the definitive agreement, one share of Atmos stock will be exchanged for each share of the company's stock. The transaction is expected to be accounted for as a pooling of interests. The transaction was approved by the shareholders of the company and Atmos on November 12, 1996. Pending approval by appropriate regulatory bodies, the company expects to close the transaction during the second quarter of 1997. Atmos is based in Dallas, Texas, and currently provides natural gas service to approximately 673,000 customers in Texas, Colorado, Kansas, Missouri, Louisiana and Kentucky.

1

<PAGE> 4

The following table summarizes certain information regarding the operation of each segment of the company's business for the last three years ended December 31,

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	1996		1995		1994	
REVENUES	(IN THOUSANDS)					
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Utility	\$353,382	88%	\$271,860	87%	\$280,984	86%
Subsidiaries:						
UCG Energy Corporation -						
Propane Division	38,373	9%	24,651	8%	20,788	6%
Rental Division	4,204	1%	5,959	2%	6,449	2%
Utility Services Division	1,325	1%	3,823	1%	11,146	4%
Total UCG Energy Corporation	43,902	11%	34,433	11%	38,383	12%
United Cities Gas Storage Company	5,664	1%	7,443	2%	7,128	2%
Total Subsidiaries	49,566	12%	41,876	13%	45,511	14%
Total Revenues (1)	\$402,948	100%	\$313,736	100%	\$326,495	100%
	=====	=====	=====	=====	=====	=====
COMMON STOCK EARNINGS						
Utility	\$ 12,791	74%	\$ 5,745	58%	\$ 7,817	65%
Subsidiaries:						
UCG Energy Corporation -						
Propane Division	1,276	8%	1,123	11%	1,122	9%
Rental Division	1,237	7%	1,693	17%	2,024	17%
Utility Services Division	1,092	6%	634	6%	604	5%
Total UCG Energy Corporation	3,605	21%	3,450	34%	3,750	31%
United Cities Gas Storage Company	806	5%	740	8%	526	4%
Total Subsidiaries	4,411	26%	4,190	42%	4,276	35%
Total Common Stock Earnings	\$ 17,202	100%	\$ 9,935	100%	\$ 12,093	100%
	=====	=====	=====	=====	=====	=====
IDENTIFIABLE ASSETS						
Utility	\$429,974	84%	\$389,278	85%	\$358,364	85%
Subsidiaries:						
UCG Energy Corporation	58,583	11%	47,098	10%	39,402	9%
United Cities Gas Storage Company	25,092	5%	24,001	5%	23,434	6%
Total Subsidiaries	83,675	16%	71,099	15%	62,836	15%
Total Identifiable Assets	\$513,649	100%	\$460,377	100%	\$421,200	100%
	=====	=====	=====	=====	=====	=====

</TABLE>

(1) Sales to affiliated companies described under "Subsidiary Operations".

For additional information, see the "Consolidated Statements of Income" for the years ended December 31, 1996, 1995 and 1994 under Item 8. Financial Statements and Supplementary Data.

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UTILITY OPERATIONS

GENERAL

Cities distributes natural gas under regulated rates to approximately 320,000 customers in the states of Tennessee, Kansas, Georgia, Illinois, Virginia, Missouri, Iowa and South Carolina. Total operating revenues for the year ended December 31, 1996 were \$353,382,000, of which approximately 47% was derived from residential customers, 24% from industrial customers, 27% from commercial customers and 2% from other sources. The ten largest customers of Cities accounted for 5.5% of operating revenues in 1996 and the largest of these customers accounted for 1.6%. Cities serves a diverse industrial load with customers engaged in the manufacture or production of asphalt, cars, car parts, chemicals, electronics, food products, metals, textiles and wire, among others. Cities also serves several colleges and a major army base.

Cities is currently structured into four operating divisions. The percent of revenues contributed by each division for the three years ended December 31 is as follows:

<TABLE>
<CAPTION>

DIVISIONS	1996	1995	1994
<S>	<C>	<C>	<C>

Virginia/East Tennessee	32%	31%	32%
Georgia/South Carolina	20%	21%	22%
Illinois/Tennessee/Missouri	22%	22%	21%
Kansas/Iowa/Missouri	26%	26%	25%
	-----	-----	-----
	100%	100%	100%

</TABLE>

NATURAL GAS SUPPLY

To encourage more competition among natural gas suppliers, the Federal Energy Regulatory Commission (FERC) issued Orders 636, 636-A and 636-B (collectively, Order 636) in 1992. Order 636 required interstate pipelines to unbundle or separate gas sales, transportation and storage services by the 1993-1994 winter heating season. The pipelines' sales services were previously combined and sold as a single service. With the implementation of Order 636, the pipelines discontinued their traditional merchant function. Each distribution company is now responsible for obtaining all of its gas supply in the open market. The unbundling of these services allows Cities more flexibility in selecting and managing the type of services required to provide its customers with the lowest possible priced gas while maintaining a reliable gas supply. However, this also places an additional responsibility on Cities to obtain its natural gas supply in the open market on a timely basis to fulfill its commitments during peak demand periods. Management believes that, to date, Cities has been successful in managing its portfolio of spot and term supplies that it purchases from producers and marketers in the open market on the thirteen interstate pipelines on which it operates, resulting in reliable supplies at a competitive price.

Another aspect of Order 636 allowed the pipelines to set rates to recover a higher portion of their fixed costs through monthly demand charges. As a result, Cities is charged a higher fixed amount each month, regardless of through-put. Since Cities must contract for pipeline capacity to meet peak demand, this has the effect of increasing Cities' fixed cost of gas. Many elements such as company owned gas storage facilities, peak shaving plants and a liquefied natural gas (LNG) plant and, in some instances, storage contracts with Cities' suppliers are being utilized by Cities to reduce these higher pipeline demand charges. Order 636 also required pipelines to set up capacity release mechanisms on their systems to allow holders of firm capacity and firm storage to release these services when they are not needed. Cities is active in releasing capacity during off peak periods and the majority of revenues generated by this activity is used to offset pipeline demand charges. Cities also maximizes its capacity release revenues by assigning certain of its pipeline transportation and storage contracts to agents, including WMLLC. Because of the nature of their business, these agents are able to utilize these contracts for customers not on Cities' system, thereby resulting in higher capacity release revenues and lower gas costs to Cities. In addition, several projects have recently been completed and another project is in the preliminary stage to add additional pipeline suppliers in several of Cities' operating areas. These projects not only promote competition among the pipelines, but also provide increased reliability of gas supply. Adding alternatives provides bargaining power which may decrease Cities' pipeline capacity costs.

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Purchased Gas Adjustment (PGA) clauses in effect in the states in which Cities operates allow Cities to pass through to its customers, subject to an incentive rate program in Tennessee and prudence and/or administrative reviews in the other seven states, any increase or decrease in rates charged to Cities related to the purchase and transportation of natural gas. Effective April 1, 1995, and for an experimental two-year period, the PGA clause in Tennessee was modified by an incentive rate program which compares Cities' purchased gas prices to market prices. The gains or losses recognized by Cities as a result of the incentive program were limited to a maximum of \$25,000 per month in the plan year ended March 31, 1996, and limited to a maximum of \$600,000 per year in the plan year ending March 31, 1997. Cities recognized gains related to the incentive program in Tennessee of \$675,000 and \$213,000 for fiscal 1996 and 1995, respectively. On March 5, 1997, the Tennessee Court of Appeals (the Court) issued a decision reversing and remanding the Tennessee Regulatory Authority's (formerly the Tennessee Public Service Commission) order which approved the incentive rate program for the plan year ending March 31, 1997. The Court found a procedural fault in how the Tennessee Regulatory Authority arrived at the order. At this time, further hearings have not been scheduled. An incentive rate program similar to the Tennessee program has also been approved in Georgia for an experimental two-year period and is expected to be effective by the second quarter of 1997.

Considerable planning is required to project demand for the winter period. In order to provide natural gas at the lowest possible price and to meet peak demand, Cities must have a sufficient volume of natural gas in underground storage with its pipeline suppliers, natural gas in UCG Storage's underground storage facilities, and propane and LNG in its own facilities. Cities normally injects gas into pipeline storage systems and UCG Storage's storage system during the summer months and withdraws it in the winter months. At the present time, the underground storage facilities of UCG Storage have a maximum daily output capability of approximately 45,000 Mcf.

Other storage facilities owned by Cities are used to provide short-term supplies to meet peak demand. Cities has nine propane peak shaving plants with a total capacity of approximately 1,050,000 gallons that can produce an equivalent of 19,459 Mcf daily and a LNG storage facility with a capacity of 500,000 Mcf which can inject a daily volume of 30,000 Mcf in the system. Cities has the

ability to serve approximately 60% of its peak day load through the use of company owned storage facilities, storage contracts with Cities' suppliers and peaking facilities throughout the system. This ability provides the operational flexibility and security of supply required to meet the needs of the highly weather sensitive firm market.

REGULATION

In each state in which Cities operates, its rates, services and operations as a natural gas distribution company are subject to general regulation by the state public service commission. Cities' pipeline suppliers, but not Cities, are subject to regulation by the FERC (see "Utility Operations-Natural Gas Supply"). Cities' rates, which vary in its different regulatory jurisdictions, are determined by the cost of purchased gas to Cities, rate of return, type of service and volume of use by the customer. In addition, the issuance of securities by Cities is subject to approval by the state commissions, except in South Carolina and Iowa. Missouri only regulates the issuance of secured debt.

Cities operates in each community where necessary under a franchise granted by the municipality for a fixed term of years. To date, Cities has been able to renew franchises and expects to continue to do so in the future. Cities considers the franchises held valid and adequate for the conduct of its business. In each of the service areas where it operates, Cities considers that its rights to maintain gas lines through unincorporated communities over private rights-of-way are, as a group or system, satisfactory for the adequate conduct of the business of Cities. Cities also has all required certificates of convenience and necessity for the operation of its properties and the conduct of its business from the appropriate state public utility regulatory agencies.

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The Georgia Public Service Commission and the Tennessee Regulatory Authority have approved Weather Normalization Adjustments (WNAs). The WNAs, effective October through May each year in Georgia and November through April each year in Tennessee, allow Cities to increase the base rate portion of customers' bills when weather is warmer than normal and decrease the base rate when weather is colder than normal. The net effect of the WNAs was a decrease in revenues of \$2,612,000 in 1996 and an increase in revenues of \$1,030,000 and \$2,050,000 in 1995 and 1994, respectively.

On November 11, 1996, Cities filed to increase rates on an annual basis by \$1,234,000 in the state of Illinois. Cities expects that any increase granted will be effective by the fourth quarter of 1997. Effective December 2, 1996, Cities received an annual rate increase of \$3,160,000 in the state of Georgia. Cities had filed to increase rates by \$5,003,000 on an annual basis. Effective May 17, 1996, Cities received an annual rate increase of \$410,000 in the state of Iowa. Cities had filed to increase rates by \$750,000 on an annual basis. Included in the rate increase in Iowa was the recovery of \$1,787,000 over a ten-year period related to Cities' agreement with Union Electric Company (Union Electric) whereby Union Electric agreed to assume responsibility for Cities' continuing investigation and environmental response action obligations as outlined in the feasibility study pertaining to a manufactured gas plant site in Keokuk, Iowa.

Effective November 15, 1995, Cities received an annual rate increase of \$2,227,000 in the state of Tennessee. Cities had filed to increase rates by \$3,951,000 on an annual basis. Effective October 14, 1995, Cities received an annual rate increase of \$903,000 in the state of Missouri. Cities had filed to increase rates by \$1,100,000 on an annual basis. Effective September 1, 1995, Cities received an annual rate increase of \$2,700,000 in the state of Kansas. Cities had filed to increase rates by \$4,230,000 on an annual basis. Effective February 7, 1995, Cities received an annual rate increase of \$253,000 in the state of South Carolina. Cities had filed to increase rates by \$341,000 on an annual basis.

In April 1995, Cities filed to increase rates on an annual basis by \$810,000 in the state of Virginia. Cities was granted permission by the Virginia State Corporation Commission to implement the proposed rate increase effective September 29, 1995. The increase is subject to refund pending a final order which is expected by mid-1997.

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Set forth below is a table containing information relating to the state regulatory bodies which have jurisdiction over Cities and its rates. Amounts realized from rate increases may differ significantly from amounts authorized depending on volumes of gas sold and customer mix.

<TABLE>
<CAPTION>

	REGULATORY JURISDICTION			
	GEORGIA	TENNESSEE	VIRGINIA	SOUTH CAROLINA
<S>	<C>	<C>	<C>	<C>
Purchased Gas Adjustment	Allowed upon filing	Allowed upon filing	Allowed upon filing	Allowed upon filing
Weather Normalization	Effective November	Effective November	-	-

Adjustment	1990	1991		
Regulatory Commission Make Up	5 commissioners elected at large	3 commissioners appointed by Governor and General Assembly	3 commissioners elected by General Assembly	7 commissioners elected by legislature on approval of merit selection panel
Statutory Time Limit on Rate Orders	6 months from date of filing	6 months from date of filing	150 days from date of filing	6 months from date of filing
Empowered to Grant Interim Rate Relief	Yes	Yes	Yes	No
Latest General Rate Adjustment	December 1996	November 1995	November 1994	February 1995
Date of Application	May 1996	May 1995	April 1993	August 1994
Annualized Revenue Increase (Decrease) Authorized	\$3,160,000	\$2,227,000	(\$218,000)	\$253,000
Rate of Return on Investment Authorized	10.10%	11.03% (1)	10.261%	10.73%
Rate of Return on Equity Authorized </TABLE>	11.50%	12.60% (1)	11.20%	11.75%

(1) Because the 1995 rate case was stipulated, the returns on investment and equity were not agreed upon. These rates represent the last authorized rates.

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<TABLE>
<CAPTION>

	REGULATORY JURISDICTION			
	ILLINOIS	MISSOURI	KANSAS	IOWA
<S> Purchased Gas Adjustment	<C> Allowed upon filing	<C> Allowed upon filing	<C> Allowed upon filing	<C> Allowed upon filing
Weather Normalization Adjustment	-	-	-	-
Regulatory Commission Make Up	5 commissioners appointed by Governor	5 commissioners appointed by Governor	3 commissioners appointed by Governor	3 commissioners appointed by governor with Senate approval and minority party representation
Statutory Time Limit on Rate Orders	11 months from date of filing	11 months from date of filing	240 days from date of filing	10 months from date of filing
Empowered to Grant Interim Rate Relief	Yes	Yes	Yes	Yes
Latest General Rate Adjustment	November 1990	October 1995	September 1995	May 1996
Date of Application	December 1989	November 1994	January 1995	December 1995
Annualized Revenue Increase (Decrease) Authorized	\$639,000 \$108,000 (1)	\$903,000	\$2,700,000	\$410,000
Rate of Return on Investment Authorized	11.75%	10.58%	10.638% (2)	10.405%

Rate of Return on Equity Authorized </TABLE>	13.62%	12.15%	12.00% (2)	11.00%
--	--------	--------	------------	--------

(1) The court awarded an additional increase in rates which was effective October 1992.

(2) Because the 1995 rate case was stipulated, the returns on investment and equity were not agreed upon. These rates represent the last authorized rates.

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<TABLE>
<CAPTION>UTILITY OPERATING STATISTICS
AVERAGE NUMBER OF CUSTOMERS(1)

	1996	1995	1994
<S>	<C>	<C>	<C>
Residential	276,892	266,532	259,895
Commercial	35,620	34,435	33,861
Industrial Firm	404	395	395
Industrial Interruptible	233	251	258
	313,149	301,613	294,409
ACTUAL NUMBER OF CUSTOMERS AT YEAR END(1)	319,992	307,856	300,929

NATURAL GAS THROUGH - PUT (MCF) (IN THOUSANDS) (2)

Residential	25,458	22,901	21,352
Commercial	16,706	15,165	14,116
Industrial Firm	7,083	7,324	8,134
Industrial Interruptible	11,124	11,920	11,002
	60,371	57,310	54,604
Transported Volumes	17,612	17,184	12,574
Total Through-Put	77,983	74,494	67,178

REVENUES (IN THOUSANDS) (1)

Residential	\$ 165,922	\$ 127,603	\$ 129,519
Commercial	95,683	70,967	73,376
Industrial Firm	31,876	27,438	33,772
Industrial Interruptible	40,925	33,338	35,297
Other	8,411	4,412	1,813
	342,817	263,758	273,777
Transportation	10,565	8,102	7,207
	\$ 353,382	\$ 271,860	\$ 280,984

RESIDENTIAL (AVERAGE PER CUSTOMER)

Annual Usage Mcf	92	86	82
Annual Revenue	\$ 599	\$ 479	\$ 498
Revenue Per Mcf	\$ 6.52	\$ 5.57	\$ 6.07
COMMERCIAL (AVERAGE PER CUSTOMER)			
Annual Usage Mcf	469	440	417
Annual Revenue	\$ 2,686	\$ 2,061	\$ 2,167
Revenue Per Mcf	\$ 5.73	\$ 4.68	\$ 5.20

</TABLE>

(1) Residential, industrial firm and certain commercial customers are entitled to receive gas service on a continuous, uninterrupted basis subject to the application of their priority classification in the event of gas shortages. Industrial interruptible and certain commercial customers receive a low cost, load balancing service, which permits Cities to interrupt service and which is limited to users with alternative fuel sources for use when service is interrupted. Interruptible rates are generally lower than firm rates.

(2) The following table classifies the effect of changes in volumes (Mcfs) of natural gas delivered during 1996, 1995 and 1994

<TABLE>
<CAPTION>

	1996	1995	1994
	(IN THOUSANDS)		
<S>	<C>	<C>	<C>
Prior year volumes	74,494	67,178	68,543
Changes in volumes:			
Residential	2,557	1,549	(1,703)
Commercial	1,541	1,049	(319)
Industrial Firm	(241)	(810)	625
Industrial Interruptible	(796)	918	(659)
Transported volumes	428	4,610	691
	77,983	74,494	67,178

</TABLE>

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ACQUISITIONS

On June 28, 1996, Monarch Gas Company (Monarch) was merged into the company. The merger was accounted for as a pooling of interests in which the company issued 207,366 shares of the company's common stock in exchange for the common stock of Monarch. In addition, the company entered into five-year non-compete agreements with the prior owners of Monarch totaling \$400,000. The merger added approximately 2,900 natural gas customers in the Vandalia, Illinois area. The company did not restate prior years' financial statements due to immateriality.

SEASONAL NATURE OF BUSINESS

Cities' business is highly seasonal in nature and heavily dependent upon weather due to Cities' substantial heating load. In order to moderate the impact of weather on the financial results of the utility operation, Cities sought and received approval from the Georgia Public Service Commission and the Tennessee Regulatory Authority to implement Weather Normalization Adjustments (WNAs). See "Utility Operations-Regulation" for additional information concerning WNAs. Cities' business will still be seasonal in nature resulting in greater earnings during the winter months and will continue to be dependent upon weather, especially in those states where a WNA has not been implemented. However, Cities seeks to minimize the quarterly variations in sales volumes and earnings by sales to industrial customers and the diversified activities of its unregulated subsidiaries. See chart of quarterly earnings on page 47 for the years 1996 and 1995.

OTHER UTILITY OPERATIONS

In addition to its sales of natural gas, Cities engages in direct merchandising and repair of gas appliances. The following table summarizes revenues from these sources for 1996, 1995 and 1994.

<TABLE>
<CAPTION>

	1996	1995	1994
	-----	-----	-----
	(IN THOUSANDS)		
<S>	<C>	<C>	<C>
Appliance Sales	\$ 788	\$ 1,791	\$ 2,537
Jobbing and Service	1,201	1,288	1,256
	-----	-----	-----
	\$ 1,989	\$ 3,079	\$ 3,793
	=====	=====	=====

</TABLE>

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SUBSIDIARY OPERATIONS

UNITED CITIES GAS STORAGE COMPANY

UCG Storage is engaged in maintaining and operating gas wells for natural gas storage. UCG Storage owns and operates storage fields in Kansas and Kentucky. The storage fields provide a mechanism to purchase and store gas for distribution during the winter and other times when feasible. In addition to providing peak shaving gas, the storage facilities can also be used to balance gas supplies, allowing extra gas to be diverted into the field when contract demand is not needed and withdrawn when gas usage exceeds contract demand. Included in the revenues of UCG Storage are affiliated revenues of \$5,524,000, \$7,341,000 and \$7,037,000 in 1996, 1995 and 1994, respectively, for storage services and natural gas provided to Cities' customers in Tennessee, Kansas and Illinois.

The following table provides information about the storage fields.

<TABLE>
<CAPTION>

FIELD	CAPACITY	CUSHION GAS	DELIVERABILITY
	-----	-----	-----
		(MCF)	
<S>	<C>	<C>	<C>
Kansas storage fields.....	7,037,000	1,879,000	15,000
Kentucky storage field.....	3,300,000	1,600,000	30,000
	-----	-----	-----
	10,337,000	3,479,000	45,000
	=====	=====	=====

</TABLE>

UCG ENERGY CORPORATION AND SUBSIDIARIES

The activities of UCG Energy and its subsidiaries are described below.

PROPANE DIVISION

The Propane Division currently operates through United Cities Propane Gas of Tennessee, Inc. (UCPT), a wholly-owned subsidiary of UCG Energy. The Propane Division engages in the retail distribution of propane (LP) gas, the wholesale supply and transportation of LP gas, the transportation of certain products for other companies and the direct merchandising and repair of propane gas appliances. Each town operation has its own storage facility with a total Propane Division storage capacity of 2,119,000 gallons.

The following table contains information, as of December 31, 1996, regarding the number of customers.

<TABLE>
<CAPTION>

SERVICE AREAS	CUSTOMERS
<S>	<C>
Jackson, TN	1,010
Winchester, TN/Manchester, TN	2,385
Rock Island, TN	1,478
Franklin, TN	1,377
Murfreesboro, TN	1,936
Hartsville, TN	1,842
Maryville, TN	3,092
Dandridge, TN	3,343
Kingston, TN	1,525
New Tazewell, TN	314
Johnson City, TN	5,271
Mountain City, TN/Boone, NC	3,481
Total	27,054
	=====

</TABLE>

Effective February 28, 1997, UCPT purchased substantially all of the propane assets of Harlan LP Gas, Inc., a retail propane distribution company, and Propane Sales and Service, Inc., a wholesale propane distribution company, for approximately \$2,040,000. In addition, UCPT entered into ten-year non-compete agreements with the prior owners for \$150,000 to be paid over a ten-year period. This acquisition added approximately 3,100 propane customers in the Harlan, Kentucky and New Tazewell, Tennessee areas.

Effective September 1, 1996, UCPT purchased substantially all of the propane assets of Arrow Propane, Inc. for approximately \$610,000. In addition, UCPT entered into a ten-year non-compete agreement with the prior owners for \$50,000. This acquisition added approximately 700 propane customers in the Woodbury, Tennessee area.

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Effective January 1, 1996, UCPT purchased substantially all of the assets of Duncan Gas Service for approximately \$4,310,000. In addition, UCPT entered into a ten-year non-compete agreement with the prior owners for \$250,000, to be paid over a ten-year period. This acquisition added approximately 2,000 customers in the Johnson City, Tennessee area.

Effective May 22, 1995, UCPT purchased all of the propane transportation assets of Transpro South, Inc., a common carrier corporation, for approximately \$218,000. In addition, UCPT entered into a ten-year non-compete agreement with the prior owner for \$6,000.

Effective January 1, 1995, UCPT purchased substantially all of the assets of Harrell Propane, Inc. for approximately \$1,383,000. In addition, UCPT entered into ten-year non-compete agreements with the prior owners for \$250,000, to be paid over an eight-year period. This acquisition added approximately 1,300 propane customers in the Murfreesboro, Tennessee area.

Effective April 14, 1994, UCPT purchased all of the assets of Hurley's Propane Gas for approximately \$938,000. In addition, UCPT entered into ten-year non-compete agreements with the prior owners for \$100,000, to be paid over a five-year period. This acquisition added approximately 700 propane customers in the Morristown, Tennessee area.

In 1996, 1995 and 1994, the Propane Division contributed 87%, 72% and 54%, respectively, of UCG Energy's total revenues. Of UCG Energy's gross properties at December 31, 1996, approximately 51% was related to the Propane Division.

RENTAL DIVISION

UCG Energy's Rental Division, which includes UCG Leasing, Inc., leases real estate and vehicles to Cities and real estate and appliances to non-affiliated third parties. The Rental Division's revenues were approximately 10%, 17%, 17% of UCG Energy's total revenues in 1996, 1995 and 1994, respectively. Included in the revenues of the Rental Division are affiliated revenues of \$3,588,000, \$5,307,000 and \$5,827,000 for the years 1996, 1995 and 1994, respectively, representing rental charges to Cities for transportation equipment and office facilities. Of UCG Energy's gross properties at December 31, 1996, approximately 49% was related to the Rental Division.

UTILITY SERVICES DIVISION

UCG Energy's Utility Services Division is engaged in exploration and production activities. The revenues from this division were approximately 3% in 1996, 11% in 1995 and 29% in 1994, of UCG Energy's total revenues. Included in the Utility Services Division's revenues are affiliated revenues of \$112,000 and

\$701,000 for 1995 and 1994, respectively. These revenues represent purchases by Cities of energy-related products from the Utility Services Division. There were no affiliated revenues during 1996. A decision to discontinue the distribution of energy-related products by the Utility Services Division was made by management in June 1994. The discontinuance of this activity, which was completed mid-1995, had no material effect on the results of operations, financial condition or cash flows of the company.

During the first quarter of 1995, UCG Energy purchased a 45% interest in certain contracts related to the gas marketing business of Woodward Marketing, Inc. (WMI), a Texas corporation. In exchange for the acquired interest, the shareholders of WMI received \$5,000,000 in the company's common stock (320,512 shares) and \$832,000 in cash in May 1995, and may, if certain earnings targets are met, receive up to \$1,000,000 in cash to be paid over a five-year period. In exchange for its own gas marketing contracts and the acquired 45% interest in the WMI gas marketing contracts, UCG Energy received a 45% interest in a newly formed limited liability company, Woodward Marketing, L.L.C. (WMLLC). WMI received a 55% interest in WMLLC in exchange for its remaining 55% interest in the WMI gas marketing contracts. WMLLC provides gas marketing services to industrial customers, municipalities and local distribution companies, including Cities. UCG Energy utilized equity accounting, effective January 1, 1995, for this acquisition. The excess of the purchase price over the value of the net tangible assets, amounting to approximately \$5,400,000, was allocated to intangible assets consisting of customer contracts and goodwill, which are being amortized over ten and twenty years, respectively.

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COMPETITION

Cities distributes natural gas primarily to residential, commercial and high-priority industrial users and intends to aggressively seek additional numbers of such customers. Competition exists between natural gas and other forms of energy available to customers. Cities is experiencing competition for each class of customer; electricity is the primary competition for residential and commercial customers, and #2 and #6 fuel oil is the primary competition for industrial customers. In addition, certain customers, primarily industrial, may have the ability to by-pass Cities' distribution system by connecting directly with a pipeline.

Cities has received approval from all the public service commissions in the states in which it operates, except Iowa, to place into effect a negotiated tariff rate which allows Cities to maintain industrial loads at lower margin rates. Iowa has rules which allow for flexible rates. These rates are competitive with the price of alternative fuels. In addition, certain industrial customers have changed from firm to interruptible rate schedules in order to obtain natural gas at a lower cost. Additionally, Cities has received approval from all state commissions to provide transportation service of customer-owned gas (see Item 1. Business - "Utility Operations-Natural Gas Supply").

UCG Energy's propane subsidiary is in competition with other suppliers of propane, natural gas and electricity. Competition exists in the areas of price and service. The wholesale cost of propane is subject to fluctuations primarily based on demand, availability of supply and product transportation costs. Propane storage facilities can be utilized to store purchased gas when the cost is more economical, thus enabling UCG Energy to more competitively price its product. However, during periods of colder than normal weather, when demand is high, UCG Energy may have to replace its supply of gas at higher costs, which may require UCG Energy to sell at reduced margins to match its competition.

The Utility Services Division of UCG Energy, through its 45% interest in WMLLC, competes with other natural gas brokers in obtaining natural gas supplies for customers. The Rental Division competes with other rental companies.

UCG Storage charges rates to Cities that are subject to review by the various commissions in the states within which the storage service is provided to Cities. Therefore, UCG Storage's rates must be competitive with other storage facilities. UCG Storage also stores natural gas for WMLLC. As a result, UCG Storage is in competition with other companies that store natural gas as to rates charged and deliverability of natural gas. Storage agreements between UCG Storage and Cities give Cities first priority to any storage services.

PERSONNEL

At December 31, 1996, the company employed 1,211 full time employees, including 115 who are represented by a union. Of the full time employees, 217 are engaged in the operations of the Illinois/Tennessee/Missouri Division, 225 in the Virginia/East Tennessee Division, 204 in the Georgia/South Carolina Division, 237 in the Kansas/Iowa/Missouri Division, 185 administrative and supervisory personnel in the corporate office, and 143 in UCG Energy's operating locations. At December 31, 1996, there were 465 employees participating in the employee stock purchase plan and 968 employees participating in the company's 401(k) savings plan. All corporate general and administrative functions, as well as the overseeing of engineering, marketing, accounting, finance, operations and human resources are handled at the company's corporate offices in Brentwood and Franklin, Tennessee. Direct functions dealing with engineering, marketing, operations and human resources for the service locations of each division are handled at the division levels.

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(Map of Operating Areas)

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<PAGE> 16

<TABLE>

Natural Gas	ILLINOIS/TENNESSEE/MISSOURI DIVISION		
	<S>	<C>	<C>
	Illinois	Tennessee	Missouri
	- Virden	- Union City	-Neelyville
	- Vandalia	- Franklin +	
	- Salem	- Murfreesboro	
	- Harrisburg	- Columbia	
	- Metropolis	- Shelbyville	
	KANSAS/IOWA/MISSOURI DIVISION		
	Kansas	Iowa	Missouri
	- Wyandotte Cty	- Keokuk	- Canton
	- Johnson Cty +		- Hannibal
	- Yates Center		- Palmyra
	- Independence		
	- Coffeyville		
	VIRGINIA/EAST TENNESSEE DIVISION		
	Virginia	Tennessee	
	- Abingdon	- Maryville	
	- Marion	- Morristown	
	- Wytheville	- Greeneville	
	- Pulaski	- Johnson City +	
	- Radford	- Kingsport	
	- Blacksburg	- Bristol	
	GEORGIA/SOUTH CAROLINA DIVISION		
	Georgia	South Carolina	
	- Gainesville	- Gaffney	
	- Columbus+		
Propane	TENNESSEE		
	- Franklin+	- Hartsville	- Murfreesboro
	- Rock Island	- Manchester	- Winchester
	- Maryville	- Morristown	- Johnson City
	- Mountain City	- Kingston	- Jackson
	- Sevierville	- New Tazewell	- Dandridge
	NORTH CAROLINA		
	- Boone	KENTUCKY	
		- Baxter	
Storage Facilities:	NATURAL GAS STORAGE		
	- Columbus, GA (LNG)	PROPANE BULK STORAGE	
	- Barnsley Storage, KY (underground)	- Morristown, TN	
	- Liberty Storage, KS (underground)	- Winchester, TN	
		- Bristol, TN	
Pipeline Suppliers	-		
	- East Tennessee Natural Gas Co.	- Columbia Gulf Transmission Co.	
	- Southern Natural Gas Co.	- Natural Gas Pipeline Co. of America	
	- Williams Natural Gas Co.	- Panhandle Eastern Pipe Line Co.	
	- Transcontinental Gas Pipe Line Co.	- Trunkline Gas Co.	
		- Mississippi River	

- Texas Eastern Transmission Corp.
- Texas Gas Transmission Corp.
- Transmission Corp.
- ANR Pipeline Company
- Tennessee Gas Pipeline Co.

* Corporate Office-Brentwood, Tennessee
+ Division Office

</TABLE>

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EXECUTIVE OFFICERS OF THE COMPANY

<TABLE>
<CAPTION>

NAME AND POSITION	AGE	HELD PRESENT OFFICE SINCE	OTHER POSITIONS HELD DURING PAST FIVE YEARS
-----	---	-----	-----
<S>	<C>	<C>	<C>
Gene C. Koonce Chairman, President and Chief Executive Officer	64	May 1996	President and Chief Executive Officer (October 1978-April 1996)
Thomas R. Blose, Jr. Senior Vice President- Operations and Engineering	47	July 1990	
James B. Ford Senior Vice President and Treasurer	54	April 1986	
Shirley M. Hawkins Senior Vice President and Secretary	57	August 1993	Senior Vice President-Administration (April 1993-July 1993) Vice President-Human Resources (April 1987-March 1993)
Glenn B. Rogers Senior Vice President- Gas Supply and Marketing	58	April 1983	

</TABLE>

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ITEM 2. PROPERTIES

Cities' properties are located in operating areas as indicated on page 14, and consist primarily of approximately 7,523 miles of distribution and transmission mains and approximately 5,059 miles of service lines connecting the mains to customers' premises. The company also owns and operates nine peak shaving plants and a LNG plant, as well as underground storage fields which are used to supplement the supply of natural gas in periods of peak demand (see Item 1. Business - "Utility Operations-Natural Gas Supply").

Substantially all of Cities' property is subject to the lien of the Indenture of Mortgage securing Cities' first mortgage bonds. The following table sets forth the percentages of property located in the various operating divisions.

<TABLE>
<CAPTION>

DIVISION	PERCENT
-----	-----
<S>	<C>
Illinois/Tennessee/Missouri	29%
Virginia/East Tennessee	25%
Georgia/South Carolina	18%
Kansas/Iowa/Missouri	28%

	100%
	=====

</TABLE>

The capital budget for the company for 1997 is approximately \$35,900,000 (utility, \$33,300,000 and non-utility, \$2,600,000). Based on information currently available, which is subject to change, the company anticipates capital expenditures of approximately \$36,000,000 each year in 1998 and 1999. These reflect the normal growth in Cities' service areas along with the increased demands expected for natural gas and propane (LP) service.

Cities follows a regular program of improvements and additions to its properties. Utility plant additions during 1996 amounted to approximately \$32,767,000 for system upgrading, relocations, and providing new mains, service lines and metering equipment. Total utility property at December 31, 1996 amounted to \$477,832,000.

The following table sets forth information with respect to utility property additions, excluding acquisitions, made by Cities during each of the five years ended December 31.

<TABLE>
<CAPTION>

PERIOD	GROSS ADDITIONS	RETIREMENTS	NET ADDITIONS
(IN THOUSANDS)			
<S>	<C>	<C>	<C>
1992	\$23,484	2,531	\$20,953
1993	\$27,030	2,826	\$24,204
1994	\$30,888	2,199	\$28,689
1995	\$35,160	2,535	\$32,625
1996	\$32,767	3,943	\$28,824

</TABLE>

Non-utility property additions during 1995 amounted to approximately \$6,572,000 (UCG Energy, \$6,164,000 and UCG Storage, \$408,000). The majority of UCG Energy's 1996 additions are related to rental facilities and propane related equipment. The upgrading of underground storage facilities accounts for the majority of property additions for UCG Storage. Gross non-utility property as of December 31, 1996 amounted to \$76,480,000 (UCG Energy, \$56,617,000 and UCG Storage, \$19,863,000).

The company believes its facilities are suitable and adequate for the purpose of serving the needs of its customers.

ITEM 3. LEGAL PROCEEDINGS.

Except as set forth in Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations - Environmental Matters," there is no material litigation involving the company as of December 31, 1996. There are certain claims which are adequately covered by liability insurance or reserves.

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ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

A special meeting of shareholders was held on November 12, 1996, to ratify and approve an Agreement and Plan of Reorganization dated July 19, 1996 as amended by Amendment No. 1 to Agreement and Plan of Reorganization dated October 3, 1996, by and between United Cities Gas Company and Atmos Energy Corporation, a Texas Corporation, and approve the Plan of Merger and the Merger of United Cities Gas Company with and into Atmos Energy Corporation, with Atmos as the surviving corporation. The results were as follows:

<TABLE>
<CAPTION>

FOR	AGAINST	ABSTAIN
---	-----	-----
<S>	<C>	<C>
9,445,280	64,096	76,290

</TABLE>

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PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

APPROXIMATE NUMBER OF STOCKHOLDERS

<TABLE>
<CAPTION>

TITLE OF CLASS	NUMBER OF STOCKHOLDERS OF RECORD AS OF DECEMBER 31, 1996
<S>	<C>
Common Stock, without par value	7,848
	=====

</TABLE>

The Common Stock of the company is traded over-the-counter on the Nasdaq National Market System under the symbol UCIT. The high and low closing sales prices, compiled from quotations supplied by the Nasdaq Monthly Statistical Report, and the dividends paid per share, were as follows:

<TABLE>
<CAPTION>

	1996			1995		
	High	Low	Dividends per share	High	Low	Dividends per share
<S>	<C>	<C>	<C>	<C>	<C>	<C>

1st Quarter	\$18 1/2	\$15 3/4	\$.255	\$16 1/4	\$15 1/4	\$.255
2nd Quarter	\$17	\$14 3/4	\$.255	\$16 1/4	\$14 1/2	\$.255
3rd Quarter	\$23	\$15	\$.255	\$16 1/2	\$14 3/4	\$.255
4th Quarter	\$23 5/8	\$20	\$.255	\$18 3/4	\$15 3/4	\$.255

</TABLE>

At its regularly scheduled meeting held on February 1, 1997, the Board of Directors declared a quarterly dividend of \$.255 per share, payable March 15, 1997, to all shareholders of record on February 28, 1997. Dividends have been paid by Cities for the past 166 consecutive quarters.

The Common Stock is entitled to dividends when, as and if declared by the Board of Directors, subject to various limitations on the declaration or payment of dividends imposed by the provisions of Cities' Indenture of Mortgage. Under these provisions, none of the company's retained earnings at December 31, 1996, was unavailable to pay dividends on the Common Stock.

ITEM 6. SELECTED FINANCIAL DATA.

<TABLE>

<CAPTION>

FOR THE YEAR ENDED DECEMBER 31,					
	1996	1995	1994	1993	1992
	(IN THOUSANDS EXCEPT PER SHARE DATA)				
<S>	<C>	<C>	<C>	<C>	<C>
Utility Operating Revenues	\$ 353,382	\$ 271,860	\$ 280,984	\$ 287,507	\$ 265,460
Net Income/Common Stock Earnings	\$ 17,202	\$ 9,935	\$ 12,093	\$ 12,120	\$ 10,104
Net Income/Common Stock Earnings Per Share	\$ 1.31	\$ 0.84	\$ 1.16	\$ 1.19	\$ 1.07
Total Assets	\$ 513,649	\$ 460,377	\$ 421,200	\$ 401,520	\$ 370,150
Long-Term Debt	\$ 153,859	\$ 163,160	\$ 144,344	\$ 151,843	\$ 157,734
Cash Dividends Declared Per Common Share	\$ 1.02	\$ 1.02	\$ 1.005	\$ 0.985	\$ 0.965

</TABLE>

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

UNITED CITIES GAS COMPANY & SUBSIDIARIES

United Cities Gas Company (Cities) and its subsidiaries (collectively, the company) is primarily a distributor of natural and propane gas serving approximately 340,000 customers in parts of ten states. The financial condition and results of operations of the company are significantly affected by the weather and the regulatory environment in the eight states in which it distributes natural gas. The following discussion focuses on the financial condition and results of operations for the company for the past three years and its capital expenditure plans for the foreseeable future.

On July 19, 1996, the company and Atmos Energy Corporation (Atmos) entered into a definitive agreement whereby the company will be merged with and into Atmos, with Atmos as the surviving corporation. Under the definitive agreement, one share of Atmos stock will be exchanged for each share of the company's stock. The transaction is expected to be accounted for as a pooling of interests. The transaction was approved by the shareholders of the company and Atmos on November 12, 1996. Pending approval by appropriate regulatory bodies, the company expects to close the transaction during the second quarter of 1997. Atmos is based in Dallas, Texas, and currently provides natural gas service to approximately 673,000 customers in Texas, Colorado, Kansas, Missouri, Louisiana and Kentucky.

LIQUIDITY AND CAPITAL RESOURCES

Total cash provided by operations of the company totaled \$27,700,000, \$25,300,000 and \$27,500,000 in 1996, 1995 and 1994, respectively. Changes in accounts receivable, gas in storage and accounts payable were primarily a result of the weather sensitive nature of the company's business. Changes in gas costs to be billed in the future and supplier refunds due customers were primarily a result of the timing of the recoveries from, or refunds to, customers of these costs through the Purchased Gas Adjustment (PGA) mechanism.

A substantial portion of the company's cash requirements is to fund its ongoing construction program in order to provide natural gas services to a growing customer base. Investing activities of the company include capital expenditures for the company's utility and non-utility operations totaling \$39,300,000, \$40,100,000 and \$35,100,000 in 1996, 1995 and 1994, respectively. During 1995, Cities completed construction of a twenty-eight mile main which connects two of its fastest growing distribution systems located in Middle Tennessee and is designed to provide Cities' current customers with the lowest possible priced gas through increased gas supply flexibility. Included in the 1995 and 1994 utility capital expenditures stated above is \$5,700,000 and \$3,700,000, respectively, related to this project. Capital expenditures totaling \$33,300,000 for the utility operations and \$2,600,000 for the non-utility operations are budgeted for 1997. Total capital expenditures for 1998 and 1999 are expected to be approximately \$36,000,000 each year, based on information

currently available, which is subject to change.

Because the company's business is highly seasonal and weather sensitive, the company uses short-term debt during the non-heating season as a means of funding its ongoing construction program and working capital requirements. The short-term debt is retired with cash from operations or long-term securities, whichever management deems appropriate. At December 31, 1996, the company had total short-term lines of credit of \$105,000,000 in the form of master and banker's acceptance notes bearing interest primarily at the lesser of prime or a negotiated rate during the term of each borrowing. Under these arrangements, \$65,688,000 in short-term debt was outstanding at December 31, 1996.

The financing activities for 1996, 1995 and 1994 reflect the retirement of long-term debt; dividend payments; the issuance of stock through the company's various stock purchase plans; and the net activity of short-term borrowings. The financing activities of 1995 also included common stock and long-term debt securities issued under the company's shelf registration statement which became effective in 1995. The shelf registration statement gives the company the flexibility to issue from time to time in one or more public offerings up to \$200,000,000 of its securities which may include common stock, unsecured notes and/or first mortgage bonds. In June 1995, the company issued 1,380,000 shares of common stock under the shelf registration statement in an underwritten public offering with net proceeds from the sale amounting to approximately

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

UNITED CITIES GAS COMPANY & SUBSIDIARIES

\$18,900,000. In addition, \$22,000,000 of medium-term notes were issued under the shelf registration statement in the last quarter of 1995. The proceeds of long-term debt in 1995 also included a \$5,000,000 term note in United Cities Propane Gas of Tennessee, Inc. (UCPT), a wholly-owned subsidiary of UCG Energy Corporation (UCG Energy). The proceeds of these activities were used to repay short-term borrowings, retire long-term debt, finance the company's construction program and for other corporate purposes.

In 1994, the company implemented a customer stock purchase plan whereby residents in the company's service territory can make a one-time purchase of common stock at a 5% discount below the average market value. A participant can invest any amount ranging from \$250 to \$10,000. During 1996, 1995 and 1994, 77,914, 166,609 and 147,148 shares of common stock, respectively, were issued under the plan resulting in net proceeds to the company of approximately \$1,218,000, \$2,457,000 and \$2,099,000, respectively.

In June 1996, in connection with the acquisition of Monarch Gas Company (Monarch), 207,366 shares of the company's common stock were exchanged for the common stock of Monarch. In May 1995, 320,512 shares of common stock valued at \$5,000,000 were issued in connection with the purchase of a 45% interest in Woodward Marketing, L.L.C. (WMLLC) by UCG Energy.

UCG Energy and Woodward Marketing, Inc. (WMI), sole shareholders of WMLLC, act as guarantors of a \$12,500,000 credit facility for WMLLC with a certain bank. UCG Energy's portion of the amount outstanding on this credit facility at December 31, 1996, was \$607,000. UCG Energy and WMI also act as guarantors on certain purchases of natural gas and transportation services from suppliers by WMLLC. UCG Energy's portion of these outstanding obligations amounted to \$9,437,000 at December 31, 1996.

In 1997, funds for capital expenditures, long-term debt maturities, sinking fund requirements and dividend payments are expected to be provided by internally generated cash, issuance of stock through the company's various stock purchase plans and short-term borrowings. At December 31, 1996, the company had bondable property to support a first mortgage bond issuance of approximately \$75,200,000.

In connection with the pending merger of the company and Atmos, the company has requested certain amendments to the Indenture of Mortgage dated July 15, 1959. The company currently is in negotiations with its bondholders and expects approval of requested amendments. If any bondholder does not approve the requested amendments the company could experience an event of default upon the merger. However, in most cases the company has the option of redeeming, in some cases at a premium, that portion of outstanding first mortgage bonds.

REGULATORY MATTERS

On November 11, 1996, Cities filed to increase rates on an annual basis by \$1,234,000 in the state of Illinois. Cities expects that any increase granted will be effective by the fourth quarter of 1997. Effective December 2, 1996, Cities received an annual rate increase of \$3,160,000 in the state of Georgia. Cities had filed to increase rates by \$5,003,000 on an annual basis. Effective May 17, 1996, Cities received an annual rate increase of \$410,000 in the state of Iowa. Cities had filed to increase rates by \$750,000 on an annual basis. Included in the rate increase in Iowa was the recovery of \$1,787,000 over a ten-year period related to Cities' agreement with Union Electric Company (Union Electric) whereby Union Electric agreed to assume responsibility for Cities' continuing investigation and environmental response action obligations as outlined in the feasibility study pertaining to a manufactured gas plant site in Keokuk, Iowa.

Effective November 15, 1995, Cities received an annual rate increase of

\$2,227,000 in the state of Tennessee. Cities had filed to increase rates by \$3,951,000 on an annual basis. Effective October 14, 1995, Cities received an annual rate increase of \$903,000 in the state of Missouri. Cities had filed to increase rates by \$1,100,000 on an annual basis. Effective September 1, 1995, Cities received an annual rate increase of \$2,700,000 in the state of Kansas. Cities had filed to increase rates by \$4,230,000 on an annual basis. Effective February 7, 1995, Cities received an annual rate increase of \$253,000 in the state of South Carolina. Cities had filed to increase rates by \$341,000 on an annual basis.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

UNITED CITIES GAS COMPANY & SUBSIDIARIES

In April 1995, Cities filed to increase rates on an annual basis by \$810,000 in the state of Virginia. Cities was granted permission by the Virginia State Corporation Commission to implement the proposed rate increase effective September 29, 1995. The increase is subject to refund pending a final order which is expected by mid-1997.

The Georgia Public Service Commission and the Tennessee Regulatory Authority (formerly the Tennessee Public Service Commission) have approved Weather Normalization Adjustments (WNAs). The WNAs, effective October through May each year in Georgia and November through April each year in Tennessee, allow Cities to increase the base rate portion of customers' bills when weather is warmer than normal and decrease the base rate when weather is colder than normal. The net effect of the WNAs was a decrease in revenues of \$2,612,000 in 1996 and an increase in revenues of \$1,030,000 and \$2,050,000 in 1995 and 1994, respectively.

Effective April 1, 1995, and for an experimental two-year period, the PGA clause in Tennessee was modified by an incentive rate program which compares Cities purchased gas prices to market prices. The gains or losses recognized by Cities as a result of the incentive program were limited to a maximum of \$25,000 per month in the plan year ended March 31, 1996, and limited to a maximum of \$600,000 per year in the plan year ending March 31, 1997. Cities recognized gains related to the incentive program in Tennessee of \$675,000 and \$213,000 for fiscal 1996 and 1995, respectively. On March 5, 1997, the Tennessee Court of Appeals (the Court) issued a decision reversing and remanding the Tennessee Regulatory Authority's order which approved the incentive rate program for the plan year ending March 31, 1997. The Court found a procedural fault in how the Tennessee Regulatory Authority arrived at the order. At this time, further hearings have not been scheduled. An incentive rate program similar to the Tennessee program has also been approved in Georgia for an experimental two-year period and is expected to be effective by the second quarter of 1997.

ENVIRONMENTAL MATTERS

Cities is the owner or previous owner of manufactured gas plant sites which were used to supply gas prior to the availability of natural gas. Manufactured gas was an inexpensive source of fuel for lighting and heating nationwide. As a result of the gas manufacturing process, certain by-products and residual materials, including coal-tar, were produced and may have been accumulated at the plant sites. This was an acceptable and satisfactory process at the time such operations were being conducted. Under current environmental protection laws and regulations, Cities may be responsible for response action with respect to such materials, if response action is necessary.

In June 1995, Cities entered into an agreement to pay \$1,787,000 to Union Electric whereby Union Electric agreed to assume responsibility for Cities' continuing investigation and environmental response action obligations as outlined in the feasibility study related to a former manufactured gas plant site in Keokuk, Iowa. At December 31, 1996, Cities had \$1,072,000 accrued for its remaining liability related to the agreement. This amount is to be paid in equal annual payments over each of the next three years. Cities deferred the agreement amount of \$1,787,000 and was granted recovery over a ten-year period in the May 1996 Iowa rate increase.

Cities owns former manufactured gas plant sites in Johnson City and Bristol, Tennessee and Hannibal, Missouri. Cities and the Tennessee Department of Environment and Conservation entered into a consent order effective January 23, 1997, for the purpose of facilitating the investigation, removal and remediation of the Johnson City site. Cities began the implementation of the consent order in the first quarter of 1997. Cities is unaware of any information which suggests that the Bristol site gives rise to a present health or environmental risk as a result of the manufactured gas process or that any response action will be necessary. The Missouri Department of Natural Resources (MDNR) conducted a site reconnaissance and sampling at the Hannibal site. The most recent MDNR report received concludes that hazardous substances and hazardous wastes are present on site, and that a release of hazardous substances to soils has occurred; however, the risk of human exposure appears to be

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

UNITED CITIES GAS COMPANY & SUBSIDIARIES

minimal. Additional site work is likely. As of December 31, 1996, Cities had incurred and deferred for recovery \$309,000, including \$258,000 related to an insurance recoverability study, and accrued and deferred for recovery an additional \$750,000 associated with the preliminary survey and invasive study of these three sites. The Tennessee Regulatory Authority granted Cities permission to defer, until its next rate case, all costs incurred in Tennessee in connection with state and federally mandated environmental control requirements. In addition, based on a decision by the Missouri Public Service Commission concerning the recovery of environmental response action costs incurred by another company, Cities expects recovery of the costs involved in the investigation and response action, if any, associated with the manufactured gas plant site in Missouri.

Pursuant to the Tennessee Petroleum Underground Storage Tank Act, Cities is required to upgrade or remove certain underground storage tanks (USTs) situated in Tennessee. As of December 31, 1996, Cities had identified a small number of USTs in this category in Tennessee and had incurred and deferred for recovery \$96,000 and, based on available current information, accrued and deferred for recovery an additional \$70,000 for the upgrade or removal of these USTs. The Tennessee Regulatory Authority granted Cities permission to defer, until its next rate case, all costs incurred in connection with state and federally mandated environmental control requirements. In addition, Cities may be able to recover a portion of any corrective action costs from the Tennessee Underground Storage Tank Fund for certain of the UST sites in Tennessee.

In October 1995, Cities received two Notices of Violation (NOVs) from the Tennessee Department of Environment and Conservation (TDEC) concerning historic releases from a UST in Kingsport, Tennessee. This UST was formerly owned by Holston Oil Co., Inc. (Holston), which at one time was a wholly-owned subsidiary of Tennessee-Virginia Energy Corporation (TVEC). Prior to TVEC's merger with the company in 1986, TVEC sold the common stock of Holston to an unrelated party. Cities has responded to the NOVs advising the TDEC that Cities is not a responsible party for any environmental contamination at the site. Cities does not anticipate incurring any response action costs at this site.

The Kansas Department of Health and Environment (KDHE) identified the need to investigate gas industry activities which utilize mercury equipment in Kansas. Cities and the KDHE have signed a Consent Order for the investigation and possible response action for mercury contamination at any gas pipeline site which is identified as exceeding the KDHE's established acceptable concentration levels. As of December 31, 1996, Cities had identified approximately 720 meter sites where mercury may have been used and had incurred and deferred for recovery \$62,000 and, based on available current information, accrued and deferred for recovery an additional \$280,000 for the investigation of these sites. Cities has estimated that it may incur an additional amount of up to \$4,100,000 over the next seven years in responding to a future administrative order for those sites, if any, that exceed the KDHE's established acceptable concentration levels. Cities has received an order from the Kansas Corporation Commission (KCC) allowing Cities to defer and seek recovery in future rate proceedings the reasonable and prudent costs and expenses associated with the Consent Order. In the order, the commission approved a Stipulation and Agreement which provides a cap of \$1,500,000 on amounts deferred with the ability to exceed this cap if reasonable costs of response action are incurred. Based on a decision by the KCC concerning the recovery of environmental response action costs incurred by another company, Cities expects recovery of the costs involved in the investigation and response action associated with the mercury meter sites in Kansas.

Cities addresses other environmental matters from time to time in the regular and ordinary course of its business. Management expects that future expenditures related to response action at any site will be recovered through rates or insurance, or shared among other potentially responsible parties. Therefore, the costs of responding to these sites are not expected to materially affect the results of operations, financial condition or cash flows of the company.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

UNITED CITIES GAS COMPANY & SUBSIDIARIES

ACQUISITIONS

Effective February 28, 1997, UCPT purchased substantially all of the propane assets of Harlan LP Gas, Inc., a retail propane distribution company, and Propane Sales and Service, Inc., a wholesale propane distribution company, for approximately \$2,040,000. In addition, UCPT entered into ten-year non-compete agreements with the prior owners for \$150,000 to be paid over a ten-year period. This acquisition added approximately 3,100 propane customers in the Harlan, Kentucky and New Tazewell, Tennessee areas.

Effective September 1, 1996, UCPT purchased substantially all of the propane assets of Arrow Propane, Inc. for approximately \$610,000. In addition, UCPT entered into a ten-year non-compete agreement with the prior owners for \$50,000. This acquisition added approximately 700 propane customers in the Woodbury, Tennessee area.

On June 28, 1996, Monarch Gas Company (Monarch) was merged into the company. The merger was accounted for as a pooling of interests in which the

company issued 207,366 shares of the company's common stock in exchange for the common stock of Monarch. In addition, the company entered into five-year non-compete agreements with the prior owners of Monarch totaling \$400,000. The merger added approximately 2,900 natural gas customers in the Vandalia, Illinois area. The company did not restate prior years' financial statements due to immateriality.

Effective January 1, 1996, UCPT purchased substantially all of the assets of Duncan Gas Service for approximately \$4,310,000. In addition, UCPT entered into a ten-year non-compete agreement with the prior owners for \$250,000, to be paid over a ten-year period. This acquisition added approximately 2,000 propane customers in the Johnson City, Tennessee area.

Effective May 22, 1995, UCPT purchased all of the propane transportation assets of Transpro South, Inc., a common carrier corporation, for approximately \$218,000. In addition, UCPT entered into a ten-year non-compete agreement with the prior owner for \$6,000.

During the first quarter of 1995, UCG Energy purchased a 45% interest in certain contracts related to the gas marketing business of Woodward Marketing, Inc. (WMI), a Texas corporation. In exchange for the acquired interest, the shareholders of WMI received \$5,000,000 in the company's common stock (320,512 shares) and \$832,000 in cash in May 1995, and may, if certain earnings targets are met, receive up to \$1,000,000 in cash to be paid over a five-year period. In exchange for its own gas marketing contracts and the acquired 45% interest in the WMI gas marketing contracts, UCG Energy received a 45% interest in a newly formed limited liability company, Woodward Marketing, L.L.C. (WMLLC). WMI received a 55% interest in WMLLC in exchange for its remaining 55% interest in the WMI gas marketing contracts. WMLLC provides gas marketing services to industrial customers, municipalities and local distribution companies, including Cities. UCG Energy utilized equity accounting, effective January 1, 1995, for the acquisition. The excess of the purchase price over the value of the net tangible assets, amounting to approximately \$5,400,000, was allocated to intangible assets consisting of customer contracts and goodwill, which are being amortized over ten and twenty years, respectively.

Effective January 1, 1995, UCPT purchased substantially all of the assets of Harrell Propane, Inc. for approximately \$1,383,000. In addition, UCPT entered into ten-year non-compete agreements with the prior owners for \$250,000, to be paid over an eight-year period. This acquisition added approximately 1,300 propane customers in the Murfreesboro, Tennessee area.

Effective April 14, 1994, UCPT purchased all of the assets of Hurley's Propane Gas for approximately \$938,000. In addition, UCPT entered into ten-year non-compete agreements with the prior owners for \$100,000, to be paid over a five-year period. This acquisition added approximately 700 propane customers in the Morristown, Tennessee area.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

UNITED CITIES GAS COMPANY & SUBSIDIARIES

ACCOUNTING PRONOUNCEMENTS

The Financial Accounting Standards Board (FASB) has approved a statement of financial accounting standards effective for the fiscal years ending after December 15, 1997, which establishes standards for computing and presenting earnings per share and also establishes standards with respect to disclosure of information about an entity's capital structure. The company is required to adopt the provisions of the statement in the first quarter of 1997 and does not expect the adoption thereof to have a material effect on the company's results of operations.

In October 1995, the FASB issued Statement No. 123 (SFAS 123), "Accounting for Stock-Based Compensation." This statement requires new disclosures in the notes to the financial statements about stock-based compensation plans based on the fair value of equity instruments granted. Companies also may base the recognition of compensation cost for instruments issued under stock-based compensation plans on these fair values. The company adopted SFAS 123 effective January 1, 1996. Because of the limited nature of the company's stock-based compensation plans, the adoption of SFAS 123 was immaterial.

In March 1995, the FASB issued Statement No. 121 (SFAS 121), "Accounting for the Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed Of." This statement imposes stricter criteria for regulatory assets by requiring that such assets be probable of future recovery at each balance sheet date. The company adopted SFAS 121 effective January 1, 1996, and because of the current regulatory structure in which Cities operates, the adoption did not have a material effect on the results of operations, financial condition or cash flows of the company.

INTERNAL REVENUE SERVICE AUDITS

The Internal Revenue Service (IRS) has reviewed the consolidated federal income tax returns of the company for the years 1991 through 1993. In September 1995, the revenue agent issued a report proposing certain adjustments to the company's taxable income. In December 1995, the company filed a formal protest and disagreement with the IRS on two proposed adjustments. Settlement of the two issues was made at the IRS appeals office in July 1996, with no material effect on the results of operations, financial condition or cash flows of the company.

CONTINGENCIES

The company is involved in certain legal or administrative proceedings before various courts and agencies with respect to rates and other matters. Although unable to predict the outcome of these matters, it is management's opinion that final disposition of these proceedings will not have a material effect on the results of operations, financial condition or cash flows of the company.

IMPACT OF INFLATION

The company experiences the effect of inflation primarily through the cost of materials, labor and related employee benefits, and services. Since Cities can only adjust its rates to recover these additional costs through the regulatory process, increased costs may have a significant impact on its results of operations. Management continually assesses the need to file for rate increases in each of the states in which Cities operates. Cities has PGA clauses in the states in which it operates which permit any fluctuations in gas costs to be passed through to its customers, subject to the incentive rate program in Tennessee and prudence and/or administrative reviews by the commissions in the other seven states.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

UNITED CITIES GAS COMPANY & SUBSIDIARIESRESULTS OF OPERATIONS
CONSOLIDATED NET INCOME AND DIVIDENDS

The company had net income of \$17,202,000 or \$1.31 per share in 1996, an increase of \$7,267,000 or \$.47 per share from 1995 net income. The increase was primarily a result of an increase in operating margin, offset slightly by an increase in operating expenses. Net income of \$9,935,000 in 1995 or \$.84 per share represented a decrease of \$2,158,000 or \$.32 per share from 1994 net income. The decrease was primarily a result of increased operating expenses, offset slightly by an increase in operating margin. The company's annual dividend paid per share was \$1.02 in 1996.

UTILITY OPERATING MARGIN

The operating margin of \$126,016,000 in 1996 represents an increase of \$13,332,000 over the 1995 margin of \$112,684,000. The increase in operating margin was primarily a result of colder weather during 1996 as compared to 1995, rate increases granted during 1996 and late-1995 in several states, the acquisition of Monarch Gas Company, and volumes sold to new residential and commercial customers. The operating margin increased \$4,668,000 from 1994 to 1995 primarily as a result of slightly colder weather during 1995 as compared to 1994, volumes sold to new residential and commercial customers, and rate increases granted during 1995 in several states.

UTILITY OPERATING EXPENSES

Operation and maintenance expenses increased \$880,000 from \$61,826,000 in 1995 to \$62,706,000 in 1996. The increase is primarily a result of an increase in payroll and related benefits, increased distribution expenses and increased leasing expense on computer related equipment. In 1996, the company began leasing computer related equipment as opposed to purchasing the equipment as was done in prior years. The effect of these increases in operation and maintenance expenses from 1995 to 1996 was somewhat offset by a decrease in certain administrative expenses primarily attributable to the Virginia/East Tennessee Division consolidation that occurred in the third quarter of 1995. Five of the company's local operations in this division were consolidated into two new operating centers. As a result, costs of approximately \$900,000 (\$550,000 after income taxes) related to early retirement and severance programs and employee relocation expenses were recorded in September 1995. In addition, outside services expense decreased from 1995 to 1996. Outside services expense for 1995 included incremental expenses related to addressing labor and personnel related activities, strategic planning and the IRS audit.

Operations and maintenance expenses increased \$4,522,000 from \$57,304,000 in 1994 to \$61,826,000 in 1995. The increase is primarily a result of increased payroll and related benefits, the Virginia/East Tennessee Division consolidation in 1995 and increased outside services expense.

Depreciation and amortization expense increased \$1,496,000 in 1996 and \$1,185,000 in 1995 from the prior year periods primarily due to additional plant in service. Federal and state income taxes varied in all periods in relation to changes in income. In addition, federal and state income taxes increased from 1994 to 1995 as a result of additional accruals made in 1995 to true-up current and deferred income taxes and provide for permanent differences. Other taxes increased \$290,000 from 1995 to 1996 primarily as a result of franchise taxes on additional revenues. Other taxes increased \$1,561,000 from 1994 to 1995 primarily due to property taxes on additional plant in service.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF

OPERATIONS

UNITED CITIES GAS COMPANY & SUBSIDIARIES

OTHER UTILITY INCOME (EXPENSE), NET OF TAX

Other utility income (expense), net of tax decreased \$191,000 from income of \$655,000 in 1995 to \$464,000 in 1996. Other utility income (expense), net of tax increased \$917,000 from an expense of \$262,000 in 1994 to income of \$655,000 in 1995. The increase was a result of revenues from the incentive rate program in Tennessee and an increased amount of revenues recognized by Cities related to the release of its excess firm capacity on the pipelines which serve Cities. In addition, the increase in other utility income (expense), net of tax was a result of a \$171,000 credit for the capitalization of the equity portion of the allowance for funds used during construction (AFUDC) of the twenty-eight mile main in Middle Tennessee and increased interest income on deferred gas costs that are to be billed in the future.

UTILITY INTEREST EXPENSE

Interest expense increased from \$14,299,000 in 1995 to \$14,760,000 in 1996. Interest on long-term debt increased \$739,000 as a result of interest on the medium-term notes issued in late-1995, slightly offset by the retirement of other long-term debt. Other interest expense decreased \$278,000 as a result of lower outstanding balances of short-term debt and other miscellaneous liabilities during 1996. Other interest expense in 1995 was impacted by a \$349,000 reduction to interest expense related to the capitalization of the debt portion of the AFUDC of the twenty-eight mile main in Middle Tennessee.

Interest expense increased from \$14,087,000 in 1994 to \$14,299,000 in 1995. Interest on long-term debt decreased \$317,000 due to the retirement of long-term debt. Other interest expense increased \$529,000 primarily as a result of interest on additional short-term debt and other miscellaneous liabilities outstanding during 1995. This increase was somewhat offset by the \$349,000 reduction to interest expense in 1995 related to the capitalization of the debt portion of the AFUDC of the twenty-eight mile main in Middle Tennessee.

SUBSIDIARY OPERATIONS

Subsidiary operations contributed 25.6%, 42.2% and 35.4% of the company's net income in 1996, 1995 and 1994, respectively. The following is a discussion of the results of operations of the company's subsidiaries, UCG Energy Corporation and United Cities Gas Storage Company.

UCG ENERGY CORPORATION

Revenues increased from \$34,433,000 in 1995 to \$43,902,000 in 1996. Revenues in the Utility Services Division decreased \$2,498,000 as a result of the transfer of certain natural gas contracts to WMLLC. The Propane Division's revenues increased \$13,722,000 due to increased retail and wholesale volumes sold and increased transport revenues, both due to colder weather in 1996 as compared to 1995, and the acquisitions of Arrow Propane, Inc. in September 1996, Duncan Gas Service in January 1996 and Transpro South, Inc. in May 1995. The Rental Division's revenues decreased \$1,755,000 due to the elimination of rental revenues related to the transfer of certain rental units to Cities.

Revenues decreased from \$38,383,000 in 1994 to \$34,433,000 in 1995 principally because of decreased gas brokerage sales to municipalities, industrial and other customers. This decrease was primarily due to the transfer of certain gas brokerage contracts in the Utility Services Division to WMLLC. Also contributing to the decrease was the discontinuance of the distribution of energy-related products in the Utility Services Division. This decrease was partially offset by an increase in revenues in the Propane Division generated by additional wholesale and retail volumes sold resulting from the acquisitions of Transpro South, Inc. in May 1995, Harrell Propane, Inc. in January 1995 and Hurley's Propane Gas in April 1994. The Rental Division experienced a decrease in revenues due to lower rental rates on particular rental units in service as well as the elimination of certain revenues due to the transfer of certain rental units to Cities in 1995.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

UNITED CITIES GAS COMPANY & SUBSIDIARIES

Operating expenses increased from \$25,625,000 in 1995 to \$35,947,000 in 1996. Expenses of the Utility Services Division decreased \$2,537,000 as a result of decreased cost of sales due to decreased gas brokerage activities. Expenses increased \$12,766,000 in the Propane Division due to a combination of the cost of increased propane volumes sold as well as increased administrative and general expenses. These increases were the result of colder weather in 1996 as compared to 1995, and the acquisitions of Arrow Propane, Inc., Duncan Gas Service and Transpro South, Inc. Expenses increased \$93,000 from 1995 to 1996 in the Rental Division.

Operating expenses decreased from \$28,713,000 in 1994 to \$25,625,000 in 1995. The decrease of \$3,088,000 is related to the decrease in the cost of sales resulting from reduced sales in the Utility Services Division. This decrease was partially offset by an increase in the cost of sales in the Propane Division on

additional volumes sold as well as an increase in general and administrative expenses, all principally due to the propane acquisitions during 1995 and 1994.

Interest expense increased from \$1,192,000 in 1995 to \$1,366,000 in 1996 due to interest payments associated with both the long-term financing of a 1996 acquisition and short-term borrowings outstanding at the end of 1995 which were converted to long-term debt in 1996 in the Propane Division. Interest expense increased from \$773,000 in 1994 to \$1,192,000 in 1995 primarily due to interest payments on short-term financing resulting from the WMLLC acquisition. Contributing to this increase was interest expense on additional short-term borrowings in the Propane Division.

Depreciation and amortization expense decreased from \$4,378,000 in 1995 to \$3,820,000 in 1996. The decrease was due to the elimination of depreciation expense on certain rental units in the Rental Division which were transferred to Cities at the end of 1995. This decrease was partially offset by depreciation expense on additional plant and equipment in the Propane Division. Depreciation and amortization expense increased from \$3,580,000 in 1994 to \$4,378,000 in 1995. This increase was due primarily to the amortization of the intangible assets related to the investment in WMLLC of approximately \$374,000 in the Utility Services Division. Also, contributing to the increase was increased amortization on exploration projects and depreciation on additional plant and equipment.

Other income of UCG Energy increased from \$2,330,000 in 1995 to \$3,043,000 in 1996. Investment income from WMLLC in the Utility Services Division increased \$643,000 from \$1,354,000 in 1995 to \$1,997,000 in 1996. Also contributing to the increase in other income was additional income from investments in oil and natural gas exploration and production projects in the Utility Services Division. Other income of UCG Energy increased from \$727,000 in 1994 to \$2,330,000 in 1995 primarily as a result of investment income from WMLLC.

Net income for UCG Energy was \$3,605,000, \$3,450,000 and \$3,750,000 in 1996, 1995 and 1994, respectively.

UNITED CITIES GAS STORAGE COMPANY

United Cities Gas Storage Company's net income was \$806,000, \$740,000 and \$526,000 in 1996, 1995 and 1994, respectively. The increase in net income from 1995 to 1996 was primarily a result of decreased interest expense resulting from the retirement of long-term debt outstanding. The increase in net income from 1994 to 1995 was primarily a result of increased revenues for storage services provided primarily to the utility company and a decrease in operating expenses other than gas cost.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.
<TABLE>
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	<C>
<S>	
Financial Statements:	
Consolidated Statements of Income for the years ended December 31, 1996, 1995 and 1994	30
Consolidated Statements of Cash Flows for the years ended December 31, 1996, 1995 and 1994	31
Consolidated Balance Sheets as of December 31, 1996 and 1995	32
Consolidated Statements of Capitalization as of December 31, 1996 and 1995	33
Consolidated Statements of Retained Earnings, Capital Surplus and Common Stock for the years ended December 31, 1996, 1995 and 1994	34
Notes to Consolidated Financial Statements	35
Report of Independent Public Accountants	46
Consolidated Financial and Operating Data	47
Quarterly Financial Data	47
Market Information	47

</TABLE>

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

PART III

ITEM 10, 11, 12, AND 13, constituting Part III of the Form 10-K, have been omitted from this annual report pursuant to the provisions of Instruction G to Form 10-K, since a definitive proxy statement, which is incorporated herein by reference, except for the report of the compensation committee of the board of directors and the performance graph, will be filed on or about March 31, 1997. Information required for executive officers is included in Part I, Item 1.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K.

(a) (1) Financial Statements:
See Part II, Item 8

<TABLE>
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(2) Financial Statement Schedules:

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<S>		<C>
Report of Independent Public Accountants		53
Schedule Number		

I	Condensed Financial Information of Registrant	54
II	Valuation and Qualifying Accounts	55

</TABLE>

All other schedules are not submitted because they are not applicable or because the required information is included in the financial statements or notes thereto.

Individual financial statements of United Cities Gas Company are omitted as Cities is primarily an operating company and the subsidiaries (UCG Energy Corporation, United Cities Propane Gas of Tennessee, Inc., UCG Leasing, Inc., and United Cities Gas Storage Company) included in the consolidated financial statements are wholly-owned.

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(3) Exhibits filed:

A complete listing of exhibits required is given in the Exhibit Index (page 56) which precedes the exhibits filed with this report. A list of the compensation plans is set forth below.

- 10.01 Annual Incentive Compensation Plan effective January 1, 1989, as revised, (filed with the Registrant's Annual Report on Form 10-K for the year ended December 31, 1994, and incorporated herein by reference).
- 10.02 Supplemental Executive Retirement Compensation Agreement, as revised (filed with the Registrant's Annual Report on Form 10-K for the year ended December 31, 1995, and incorporated herein by reference).
- 10.03 Long-Term Stock Plan of 1989, (filed with the Registrant's Annual Report on Form 10-K for the year ended December 31, 1989, and incorporated herein by reference).
- 10.04 Directors' Deferred Compensation Plan effective February 1, 1992, (filed with the Registrant's Annual Report on Form 10-K for the year ended December 31, 1992, and incorporated herein by reference).
- 10.05 Non-Employee Director Stock Plan effective February 28, 1995, (filed with the Registrant's Form 10-Q dated June 30, 1995, and incorporated herein by reference).
- 10.06 Key Management Deferred Compensation Plan effective January 1, 1995, (filed with the Registrant's Annual Report on Form 10-K for the year ended December 31, 1995, and incorporated herein by reference).

(b) Reports filed on Form 8-K:

The following Form 8-Ks have been filed subsequent to the filing of the Form 10-Q dated September 30, 1996:

- 1. Form 8-K, Item 5 dated November 7, 1996.
- 2. Form 8-K, Item 5 dated November 18, 1996.
- 3. Form 8-K, Item 5 dated December 10, 1996.

(c) Exhibits filed:

A complete listing of exhibits required is given in the Exhibit Index (page 56) which precedes the exhibits filed with this report.

(d) Financial Statements Omitted from Annual Report to Security Holders:

None.

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CONSOLIDATED STATEMENTS OF INCOME

UNITED CITIES GAS COMPANY & SUBSIDIARIES

<TABLE>

<CAPTION>

For the Years Ended December 31,

	1996	1995	1994
(In Thousands, except per share data)			
<S>	<C>	<C>	<C>
UTILITY OPERATING REVENUES	\$ 353,382	\$ 271,860	\$ 280,984
Natural gas cost	227,366	159,176	172,968
UTILITY OPERATING MARGIN	126,016	112,684	108,016
OTHER UTILITY OPERATING EXPENSES:			
Operations	56,073	55,426	51,299
Maintenance	6,633	6,400	6,005
Depreciation and amortization	16,615	15,119	13,934
Federal and state income taxes	7,018	4,050	3,873
Other taxes	12,590	12,300	10,739
Total other utility operating expenses	98,929	93,295	85,850
UTILITY OPERATING INCOME	27,087	19,389	22,166
OTHER UTILITY INCOME (EXPENSE), NET OF TAX	464	655	(262)
	27,551	20,044	21,904
UTILITY INTEREST EXPENSE:			
Interest on long-term debt	12,772	12,033	12,350
Other interest expense	1,988	2,266	1,737
Total utility interest expense	14,760	14,299	14,087
UTILITY INCOME	12,791	5,745	7,817
OTHER INCOME:			
Operations of UCG Energy Corporation--			
Revenues	43,902	34,433	38,383
Operating expenses	(35,947)	(25,625)	(28,713)
Interest expense	(1,366)	(1,192)	(773)
Depreciation and amortization	(3,820)	(4,378)	(3,580)
Other income	3,043	2,330	727
Federal and state income taxes	(2,207)	(2,118)	(2,294)
	3,605	3,450	3,750
Operations of UCG Storage Company--			
Revenues	5,664	7,443	7,128
Operating expenses	(3,114)	(4,905)	(4,952)
Interest expense	(841)	(965)	(948)
Depreciation and amortization	(394)	(368)	(366)
Federal and state income taxes	(509)	(465)	(336)
	806	740	526
NET INCOME	\$ 17,202	\$ 9,935	\$ 12,093
NET INCOME PER SHARE	\$ 1.31	\$.84	\$ 1.16
AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	13,086	11,792	10,409
COMMON STOCK DIVIDENDS PER SHARE	\$ 1.02	\$ 1.02	\$ 1.005

</TABLE>

The accompanying notes are an integral part of these consolidated statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS

UNITED CITIES GAS COMPANY & SUBSIDIARIES

<TABLE>

<CAPTION>

For the Years Ended December 31,

	1996	1995	1994
(In Thousands)			
CASH FLOWS FROM OPERATING ACTIVITIES:			
<S>	<C>	<C>	<C>
Net income	\$ 17,202	\$ 9,935	\$ 12,093
Adjustments to reconcile net income to net cash provided by (used in)			
operating activities:			
Depreciation and amortization	20,829	19,865	17,880
Deferred taxes	1,578	1,780	1,301
Investment tax credits, net	(362)	(364)	(370)
Investment income from Woodward Marketing, L.L.C	(1,997)	(1,354)	--
Changes in current assets and current liabilities:			

Receivables	(14,416)	(11,187)	7,032
Materials and supplies	(508)	266	193
Gas in storage	(12,055)	9,808	(468)
Gas costs to be billed in the future	2,592	244	(7,911)
Prepayments and other	(1,359)	18	1,007
Accounts payable	16,038	144	(8,437)
Customer deposits and advance payments	(1,201)	(2,095)	2,190
Accrued interest	(133)	267	(1,112)
Supplier refunds due customers	(5,653)	1,013	1,227
Accrued taxes	6,524	(1,955)	2,489
Other, net	652	(1,095)	409
Total adjustments	10,529	15,355	15,430
Net cash provided by operating activities	27,731	25,290	27,523
CASH FLOWS FROM INVESTING ACTIVITIES:			
Additions to property--utility	(32,767)	(35,160)	(30,888)
Additions to property--non-utility	(6,572)	(4,926)	(4,228)
Proceeds from (investment in) Woodward Marketing, L.L.C.	795	(832)	--
Net cash used in investing activities	(38,544)	(40,918)	(35,116)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Short-term borrowings, net	33,375	(13,875)	23,325
Proceeds from issuance of long-term debt	--	27,000	--
Proceeds from issuance of common stock	2,640	23,314	3,262
Long-term debt retirements	(13,734)	(6,347)	(7,833)
Dividends paid	(11,062)	(10,206)	(9,215)
Net cash provided by financing activities	11,219	19,886	9,539
NET INCREASE IN CASH AND TEMPORARY INVESTMENTS	406	4,258	1,946
CASH AND TEMPORARY INVESTMENTS AT BEGINNING OF YEAR	7,002	2,744	798
CASH AND TEMPORARY INVESTMENTS AT END OF YEAR	\$ 7,408	\$ 7,002	\$ 2,744
CASH PAID DURING THE PERIOD FOR:			
Interest, net of amounts capitalized	\$ 17,061	\$ 16,164	\$ 16,946
Income taxes	\$ 7,883	\$ 8,623	\$ 3,720
NON-CASH INVESTING AND FINANCING ACTIVITIES:			
Dividends reinvested	\$ 2,181	\$ 1,799	\$ 1,254
Debt incurred to acquire assets of Harrell Propane, Inc.	\$ --	\$ 1,250	\$ --
Debt incurred to acquire assets of Duncan Gas Service	\$ 2,957	\$ --	\$ --
Common stock issued for investment in Woodward Marketing, L.L.C.	\$ --	\$ 5,000	\$ --
Increase in common stock equity due to acquisition of Monarch Gas Co.	\$ 2,433	\$ --	\$ --

</TABLE>

The accompanying notes are an integral part of these consolidated statements.

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CONSOLIDATED BALANCE SHEETS

UNITED CITIES GAS COMPANY & SUBSIDIARIES

<TABLE>

<CAPTION>

As of December 31,

1996

1995

(In Thousands)

ASSETS

UTILITY PLANT:

<S>

Plant in service, at cost	\$ 477,832	\$ 445,058
Less--accumulated depreciation	175,156	157,968
	302,676	287,090

NON-UTILITY PROPERTY:

Property, plant and equipment	76,480	67,423
Less--accumulated depreciation	21,536	19,501
	54,944	47,922

CURRENT ASSETS:

Cash and temporary investments	7,408	7,002
Receivables, less allowances for uncollectible accounts of \$1,746 in 1996 and \$1,352 in 1995	68,933	54,517
Materials and supplies	5,422	4,914
Gas in storage	28,698	16,643
Gas costs to be billed in the future	13,121	15,713
Prepayments and other	3,387	2,028
	126,969	100,817

DEFERRED CHARGES:		
Unamortized debt discount and expense, net	2,775	2,896
Non-compete agreements, net	3,183	3,259
Investment in Woodward Marketing, L.L.C., net	8,062	7,012
Other deferred charges	15,040	11,381
	29,060	24,548
	\$ 513,649	\$ 460,377
CAPITALIZATION AND LIABILITIES		
CAPITALIZATION:		
Common stock equity	\$ 157,284	\$ 146,071
Long-term debt	153,859	163,160
	311,143	309,231
CURRENT LIABILITIES:		
Current portion of long-term obligations	7,679	9,155
Notes payable	65,688	32,313
Accounts payable for gas costs	39,486	24,433
Other accounts payable	5,869	4,884
Accrued taxes	10,944	4,420
Customer deposits and advance payments	10,877	12,078
Accrued interest	3,479	3,612
Supplier refunds due customers	801	6,454
Other	11,514	8,580
	156,337	105,929
DEFERRED CREDITS:		
Accumulated deferred income tax	33,017	31,599
Deferred investment tax credits	3,936	4,281
Income taxes due customers	4,943	5,190
Other	4,273	4,147
	46,169	45,217
	\$ 513,649	\$ 460,377

</TABLE>

The accompanying notes are an integral part of these consolidated balance sheets.

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CONSOLIDATED STATEMENTS OF CAPITALIZATION

UNITED CITIES GAS COMPANY & SUBSIDIARIES

<TABLE>

<CAPTION>

As of December 31,

	1996	1995
(In Thousands, except share amounts)		
<S>	<C>	<C>
COMMON STOCK EQUITY:		
Common Stock without par value, authorized		
40,000,000 shares, outstanding 13,220,538 in 1996	\$ 108,056	\$ 101,735
and 12,727,280 in 1995	22,462	22,462
Capital surplus	26,766	21,874
Retained earnings	157,284	146,071
Total common stock equity	50.6%	47.2%
LONG-TERM DEBT:		
First mortgage bonds--		
Series N, 8.69%, due 2000	7,000	10,000
Series P, 10.43%, due 2017	25,000	25,000
Series Q, 9.75%, due 2020	20,000	20,000
Series R, 11.32%, due 2004	15,000	15,000
Series S, 8.71%, due 1997	--	7,000
Series T, 9.32%, due 2021	18,000	18,000
Series U, 8.77%, due 2022	20,000	20,000
Series V, 7.50%, due 2007	10,000	10,000
Total first mortgage bonds	115,000	125,000
Medium term notes, 6.20% through 6.67%,		
due 2000 through 2025	22,000	22,000
Senior secured storage term notes, 7.45%,		
due in installments through 2007	9,353	9,926
Rental property adjustable rate term notes		
due in installments through 1999	4,497	5,691
Rental property fixed rate term note,		
7.9%, due in installments through 2013	2,161	2,292
Propane term note, 6.99%, due in installments		
through 2002	4,500	5,000
Other long-term obligations due in installments		
through 2004	4,027	2,406

Less--current requirements	161,538		172,315	
	7,679		9,155	
Total long-term debt, excluding amounts due within one year	153,859	49.4%	163,160	52.8%
TOTAL CAPITALIZATION	\$ 311,143	100.0%	\$ 309,231	100.0%

The accompanying notes are an integral part of these consolidated statements.

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CONSOLIDATED STATEMENTS OF RETAINED EARNINGS, CAPITAL SURPLUS AND COMMON STOCK
UNITED CITIES GAS COMPANY & SUBSIDIARIES

	RETAINED EARNINGS	CAPITAL SURPLUS	COMMON STOCK
(In Thousands, except share amounts)			
<S>	<C>	<C>	<C>
BALANCE DECEMBER 31, 1993	\$ 22,320	\$ 22,462	\$ 67,106
Add-net income	12,093	-	-
Common stock activity:			
Sold under employee stock purchase, dividend reinvestment, long-term stock and customer stock purchase plans (299,415 shares)	-	-	4,516
	34,413	22,462	71,622
Deduct-common stock dividends	10,469	-	-
BALANCE DECEMBER 31, 1994	23,944	22,462	71,622
Add-net income	9,935	-	-
Common stock activity:			
Sold under employee stock purchase, dividend reinvestment, long-term stock, 401(k) and customer stock purchase plans (413,327 shares)	-	-	6,213
Issued in acquisition of Woodward Marketing, L.L.C. (320,512 shares)	-	-	5,000
Issuance of 1,380,000 shares of common stock	-	-	18,900
	33,879	22,462	101,735
Deduct-common stock dividends	12,005	-	-
BALANCE DECEMBER 31, 1995	21,874	22,462	101,735
ADJUSTMENTS FOR POOLING OF INTERESTS (207,366 SHARES)	933	-	1,500
BALANCE DECEMBER 31, 1995, AS RESTATED	22,807	22,462	103,235
Add-net income	17,202	-	-
Common stock activity:			
Sold under employee stock purchase, dividend reinvestment, long-term stock, non-employee director and customer stock purchase plans (285,892 shares)	-	-	4,821
	40,009	22,462	108,056
Deduct-common stock dividends	13,243	-	-
BALANCE DECEMBER 31, 1996	\$ 26,766	\$ 22,462	\$108,056

The accompanying notes are an integral part of these consolidated statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
UNITED CITIES GAS COMPANY & SUBSIDIARIES

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
PRINCIPLES OF CONSOLIDATION-

The consolidated financial statements include the accounts of United Cities Gas Company (Cities) and its subsidiaries (collectively, the company). The operations of UCG Energy Corporation (UCG Energy) and United Cities Gas Storage Company (UCG Storage), wholly-owned subsidiaries of Cities, shown in the accompanying Consolidated Statements of Income, include affiliated revenues of \$9,112,000, \$12,760,000 and \$13,565,000 for the years 1996, 1995 and 1994, respectively.

The affiliated revenues of UCG Energy represent rental charges to Cities for transportation equipment and office facilities, and in 1995 and 1994, the affiliated revenues also included the sale of gas-related equipment to Cities. The affiliated revenues of UCG Storage consist of charges for natural gas storage services and natural gas sales to Cities. In management's opinion, such intercompany charges compare favorably with terms which Cities could obtain from

other sources under comparable conditions.

SYSTEM OF ACCOUNTS-

Cities is a public utility which distributes natural gas in Tennessee, Kansas, Georgia, Virginia, Illinois, Missouri, Iowa and South Carolina. Cities is subject to regulation with respect to rates, service, maintenance of accounting records and various other matters by the respective regulatory authorities in the states in which it operates. The consolidated financial statements are based on generally accepted accounting principles (GAAP) which for Cities give appropriate recognition to the ratemaking and accounting practices and policies of the various regulatory commissions.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

BASIS OF ACCOUNTING-

The consolidated financial statements reflect actions by the regulatory authorities in the states in which Cities operates that result in the recognition of revenues and expenses in different time periods than do companies that are not regulated. As a result of the ratemaking process, regulatory assets and liabilities are deferred in accordance with Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation."

UTILITY PLANT-

Utility plant is stated at the historical cost of construction. Such costs include direct construction costs, payroll related costs (taxes, pensions and other fringe benefits), administrative and general costs, and the estimated cost of allowance for funds used during construction. The estimated cost of allowance for funds is as follows:

<TABLE> <CAPTION>			
	1996	1995	1994
<S>	<C>	<C>	<C>
Debt portion of the cost of funds	5.4%	6.5%	5.7%
Equity portion of the cost of funds	4.7%	4.3%	3.5%
Total	10.1%	10.8%	9.2%
=====			
</TABLE>			

The debt portion of the cost of funds is reflected as a credit to "Other interest expense" in the amounts of \$258,000, \$489,000 and \$183,000 in 1996, 1995 and 1994, respectively. The equity portion of the cost of funds is reflected in "Other utility income (expense), net of tax" in the amounts of \$186,000, \$256,000 and \$111,000 in 1996, 1995 and 1994, respectively.

DEPRECIATION AND MAINTENANCE-

Depreciation is provided in the accounts based on straight-line composite rates of 3.5%, 3.6% and 3.4% of the cost of depreciable utility plant in service in 1996, 1995 and 1994, respectively.

Cities follows the practice of charging to maintenance the cost of normal repairs of property and the replacements and renewals of items considered to be less than units of property. Replacements and renewals of items considered to be units of property are charged to utility plant accounts. Units of property replaced or retired are credited to the utility plant accounts and charged to accumulated depreciation.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

UNITED CITIES GAS COMPANY & SUBSIDIARIES

CUSTOMER RECEIVABLES AND OPERATING REVENUES-

The company is primarily engaged in the distribution and sales of natural and propane gas to a diverse base of residential, commercial and industrial customers in 49 operating areas in the states of Tennessee, Kansas, Georgia, Virginia, Illinois, Missouri, Iowa, South Carolina, North Carolina and Kentucky.

Cities' operating revenues are based on rates approved by the regulatory commissions in the states in which it operates. Cities follows the practice of accruing for services rendered but unbilled at the end of the accounting period.

The Georgia Public Service Commission and the Tennessee Regulatory Authority (formerly the Tennessee Public Service Commission) have approved the implementation of Weather Normalization Adjustments (WNAs). The WNAs, effective October through May each year in Georgia and November through April each year in Tennessee, allow Cities to increase the base rate portion of customers' bills when weather is warmer than normal and decrease the base rate when weather is colder than normal. The net effect of the WNAs was a decrease in revenues of

\$2,612,000 in 1996 and an increase in revenues of \$1,030,000 and \$2,050,000 in 1995 and 1994, respectively.

REFUNDABLE OR RECOVERABLE GAS COSTS-

Cities' refunds from pipeline suppliers and changes in cost of gas delivered to customers, which are different from the amounts recovered through rates, are deferred and are being refunded or recovered in accordance with procedures approved by the state commissions. Effective April 1, 1995, and for an experimental two-year period, the Purchased Gas Adjustment (PGA) clause in Tennessee was modified by an incentive rate program which compares Cities' purchased gas prices to market prices. The gains or losses to be recognized by Cities as a result of the incentive program were limited to a maximum of \$25,000 per month in the plan year ended March 31, 1996, and limited to a maximum of \$600,000 per year in the plan year ending March 31, 1997. Cities recognized gains related to the incentive program in Tennessee of \$675,000 and \$213,000 for fiscal 1996 and 1995, respectively. An incentive rate program similar to the Tennessee program has also been approved in Georgia for an experimental two-year period and is expected to be effective by the second quarter of 1997.

INVENTORIES-

Inventories consist primarily of materials and supplies and gas in storage. Materials and supplies include merchandise and appliances and are valued at average cost.

Cities' liquefied natural gas and propane inventories and gas stored underground are valued on a first-in, first-out basis. Propane owned by UCG Energy is priced at average cost. Gas stored underground and owned by UCG Storage is valued on a last-in, first-out (LIFO) basis. At December 31, 1996 and 1995, \$5,004,000 and \$3,799,000, respectively, of the total gas in storage was valued on the LIFO basis. In accordance with Cities' PGA clauses, the liquidation of a LIFO layer would be reflected in subsequent gas adjustments in customer rates and does not affect the results of operations.

The categories of current gas in storage are as follows:

(In Thousands)	1996	1995
Natural gas stored underground	\$ 7,674	\$ 4,784
Liquefied natural gas	1,550	835
Propane	1,539	830
Natural gas stored by pipeline suppliers	17,935	10,194
Total gas in storage	\$ 28,698	\$ 16,643

EARNINGS PER SHARE-

Primary earnings per share have been computed on the basis of the weighted-average number of shares of common stock outstanding during the year.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

UNITED CITIES GAS COMPANY & SUBSIDIARIES

FAIR VALUE OF FINANCIAL INSTRUMENTS-

The carrying amounts of cash and temporary investments, short-term debt and accrued interest approximate fair value because of the short-term nature of these items. Based on the current market rates offered for similar debt of the same maturities, the fair value of the company's long-term debt, including the current portion, exceeded the carrying amount by approximately \$18,200,000 and \$29,100,000 at December 31, 1996 and 1995, respectively. Management believes that the prepayment provisions of the company's first mortgage bonds do not make it economically feasible to refinance the long-term debt at this time.

STATEMENTS OF CASH FLOWS-

For the purpose of the statements of cash flows, the company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Accounting Pronouncements-

In March 1995, the Financial Accounting Standards Board (FASB) issued Statement No. 121 (SFAS 121), "Accounting for the Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed Of." This statement imposes stricter criteria for regulatory assets by requiring that such assets be probable of future recovery at each balance sheet date. The company adopted SFAS 121 effective January 1, 1996, and because of the current regulatory structure in which Cities operates, the adoption did not have a material effect on the results of operations, financial condition or cash flows of the company.

RECLASSIFICATIONS-

Certain reclassifications were made conforming prior years' financial statements with 1996 financial statement presentation.

REGULATORY MATTERS

In April 1995, Cities filed to increase rates on an annual basis by \$810,000 in the state of Virginia. Cities was granted permission by the Virginia State Corporation Commission to implement the proposed rate increase effective September 29, 1995. The increase is subject to refund pending the final order by the commission which is expected by mid-1997.

EMPLOYEE BENEFIT PLANS

PENSION-

The company has a trustee noncontributory defined benefit pension plan which covers substantially all employees. The plan provides benefits based on years of credited service and final average salary. The plan assets consist principally of marketable equity securities, corporate and government debt securities, and deposits with insurance companies. The company's policy is to fund the plan in accordance with the requirements of the Employee Retirement Income Security Act.

The company also has an excess benefit pension plan that is unfunded and may provide supplemental benefits to officers of the company after retirement.

Actuarial assumptions used for the plans are as follows:

<TABLE> <CAPTION>			
	1996	1995	1994
<S>	<C>	<C>	<C>
Weighted-average discount rate	7.50%	7.50%	8.00%
Rate of increase in future compensation levels ...	5.50%	5.50%	5.50%
Expected long-term rate of return	9.00%	9.00%	9.00%
</TABLE>			

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

UNITED CITIES GAS COMPANY & SUBSIDIARIES

Net periodic pension expense for the plans in fiscal 1996, 1995 and 1994 consists of the following components:

<TABLE> <CAPTION> (In Thousands)			
	1996	1995	1994
<S>	<C>	<C>	<C>
Service cost	\$ 3,268	\$ 3,451	\$ 3,129
Interest cost	4,890	4,296	3,857
Actual return on plan assets	(7,937)	(10,365)	(1,067)
Net amortization and other	2,441	5,772	(3,591)
Net periodic pension expense	\$ 2,662	\$ 3,154	\$ 2,328
</TABLE>			

A reconciliation of the funded status of the plans to the amounts recognized in the company's consolidated financial statements at December 31, 1996 and 1995, is presented below:

<TABLE> <CAPTION> (In Thousands)			1996	1995
			<C>	<C>
<S>				
Vested benefit obligation			\$ 46,974	\$ 49,048
Nonvested benefit obligation			8,719	5,857
Accumulated benefit obligation			55,693	54,905
Projected salary increases			15,866	11,596
Projected benefit obligation			71,559	66,501
Plan assets at fair value			71,978	63,732
Funded status			(419)	2,769
Unrecognized net obligation being recognized over participants' average remaining service period			(1,616)	(1,800)
Unrecognized net transition liability			(191)	(250)
Unrecognized net gain (loss)			1,939	(231)
Adjustment to recognize minimum liability			9	461
Accrued (prepaid) pension expense			\$ (278)	\$ 949
</TABLE>				

Included in the 1995 accumulated benefit obligation and net periodic pension expense is \$576,000 of costs related to the company's consolidation activities in its Virginia/East Tennessee Division.

POSTRETIREMENT BENEFITS AND OTHER-

The company provides postretirement health care benefits for retired employees. Substantially all of the company's employees will become eligible for those benefits if they reach the normal retirement age while working for the company. Net periodic postretirement benefit expense for the company's plan in 1996, 1995 and 1994 consists of the following components:

<CAPTION> (In Thousands)			
	1996	1995	1994

<S>	<C>	<C>	<C>
Service cost	\$ 153	\$ 120	\$ 196
Interest cost	1,037	1,051	894
Actual return on plan assets	(212)	(107)	13
Amortization of transition costs	445	445	445
Other	233	182	101

Net periodic postretirement benefit expense	\$ 1,656	\$ 1,691	\$ 1,649
=====			

</TABLE>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

UNITED CITIES GAS COMPANY & SUBSIDIARIES

A reconciliation of the funded status of the plan to the amounts recognized in the company's consolidated financial statements at December 31, 1996 and 1995 is presented below:

<CAPTION> (In Thousands)			1996	1995

<S>	<C>	<C>		
Accumulated postretirement benefit obligation:				
Retirees	\$ 12,834	\$ 10,903		
Fully eligible active plan participants	1,015	2,302		
Other active plan participants	2,033	988		

	15,882	14,193		
Plan assets at fair value, primarily listed stocks and bonds	3,715	2,703		

Accumulated obligation in excess of plan assets	12,167	11,490		
Unrecognized net transition obligation	(7,115)	(7,559)		
Unrecognized net loss	(5,278)	(4,019)		

Prepaid postretirement benefit expense	\$ (226)	\$ (88)		
=====				

</TABLE>

Actuarial assumptions used for the plan are as follows:

<CAPTION>			
	1996	1995	1994

<S>	<C>	<C>	<C>
Weighted-average discount rate	7.50%	7.50%	8.50%
Rate of increase in future compensation levels	5.50%	5.50%	5.50%
Expected long-term rate of return after estimated taxes	4.25%	4.25%	4.25%

</TABLE>

For measurement purposes, a 10% annual rate of increase in the per capita cost of covered health care benefits was assumed for 1996 and 1995, and a 12% annual rate of increase was assumed for 1994. In 1996, the rate was assumed to decrease gradually to 5.5% over eight years and remain at that level thereafter. The health care cost trend rate assumption has a significant effect on the amounts reported. To illustrate, increasing the assumed health care cost trend rates by one percentage point in each year would increase the accumulated postretirement benefit obligation as of December 31, 1996, by \$1,099,000 and the aggregate of the service and interest cost components of net periodic postretirement benefit cost for the year then ended by \$79,000.

The company's 401(k) savings plan allows participants to make contributions toward retirement savings. Each participant may contribute up to 15% of qualified compensation. For employee contributions up to 6% of the participant's qualified compensation, the company will contribute 30% of the employee's contribution. The company may also contribute up to an additional 20% of the employee's contribution based on certain criteria specified in the plan. Effective January 1, 1995, any additional contribution made by the company will be through the issuance of the company's common stock. For 1996, 1995 and 1994, the company contributed \$826,000, \$478,000 and \$750,000, respectively, to the 401(k) plan.

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 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

 UNITED CITIES GAS COMPANY & SUBSIDIARIES

INCOME TAXES

A detail of the federal and state income tax provision is set forth below:

<TABLE> <CAPTION> (In Thousands)			
	1996	1995	1994

<S>	<C>	<C>	<C>
Charged to operating expenses--			
Federal income taxes--			
Current	\$ 4,927	\$ 2,244	\$ 2,481
Deferred, net	1,228	1,542	1,052
Investment tax credits, net	(362)	(364)	(370)
State income taxes--			
Current	991	450	496
Deferred, net	234	178	214
	7,018	4,050	3,873

Charged to other income, net--			
Federal income taxes--			
Current	2,447	2,450	2,039
Deferred, net	99	52	30
State income taxes--			
Current	425	410	421
Deferred, net	17	8	5
	2,988	2,920	2,495

Total federal and state income tax provision	\$10,006	\$ 6,970	\$ 6,368
=====			

</TABLE>

Income taxes differ from amounts computed by applying the statutory rates to pre-tax income as follows:

<TABLE> <CAPTION> (In Thousands)			
	1996	1995	1994

<S>	<C>	<C>	<C>
Net income	\$17,202	\$ 9,935	\$12,093
Income tax provision	10,006	6,970	6,368

Pre-tax income	\$27,208	\$16,905	\$18,461
=====			
Federal income tax at statutory rate of 34%	\$ 9,251	\$ 5,748	\$ 6,277
State income tax, net	1,100	690	750
Additional federal income tax provision	210	875	--
Amortization of investment tax credits	(362)	(364)	(370)
Amortization of excess deferred income tax	(183)	26	(288)
Other, net	(10)	(5)	(1)
Total federal and state income tax provision	\$10,006	\$ 6,970	\$ 6,368
=====			

</TABLE>

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 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

 UNITED CITIES GAS COMPANY & SUBSIDIARIES

The temporary differences which gave rise to the net deferred tax liability at December 31, 1996 and 1995, were as follows:

<TABLE> <CAPTION> (In Thousands)			1996	1995

<S>	<C>	<C>		
Deferred tax assets--				
Unamortized investment tax credit	\$ 1,346	\$ 1,410		
Other	4,517	4,095		
	5,863	5,505		

Deferred tax liabilities--				
Accelerated depreciation and other plant-related differences	36,153	34,785		
AFUDC-equity	690	721		
Regulatory tax assets	105	354		
Additional deferred federal income tax liability accrued	--	425		
Deductible legal fees	640	--		
Miscellaneous deferred charges	478	191		

Pension funding	805	628
Other	9	--
<hr/>		
	38,880	37,104
<hr/>		
Net accumulated deferred income tax liability	\$ 33,017	\$ 31,599
<hr/>		

</TABLE>

The Internal Revenue Service (IRS) has reviewed the consolidated federal income tax returns of the company for the years 1991 through 1993. In September 1995, the revenue agent issued a report proposing certain adjustments to the company's taxable income. In December 1995, the company filed a formal protest and disagreement with the IRS on two proposed adjustments. Settlement of the two issues was made at the IRS appeals office in July 1996, with no material effect on the results of operations, financial condition or cash flows of the company.

ENVIRONMENTAL ISSUES

Cities is the owner or previous owner of manufactured gas plant sites which were used to supply gas prior to the availability of natural gas. Manufactured gas was an inexpensive source of fuel for lighting and heating nationwide. As a result of the gas manufacturing process, certain by-products and residual materials, including coal-tar, were produced and may have been accumulated at the plant sites. This was an acceptable and satisfactory process at the time such operations were being conducted. Under current environmental protection laws and regulations, Cities may be responsible for response action with respect to such materials, if response action is necessary.

In June 1995, Cities entered into an agreement to pay \$1,787,000 to Union Electric Company (Union Electric) whereby Union Electric agreed to assume responsibility for Cities' continuing investigation and environmental response action obligations as outlined in the feasibility study related to a former manufactured gas plant site in Keokuk, Iowa. At December 31, 1996, Cities had \$1,072,000 accrued for its remaining liability related to the agreement. This amount is to be paid in equal annual payments over each of the next three years. Cities deferred the agreement amount of \$1,787,000 and was granted recovery over a ten-year period in the May 1996 Iowa rate increase.

Cities owns former manufactured gas plant sites in Johnson City and Bristol, Tennessee and Hannibal, Missouri. Cities and the Tennessee Department of Environment and Conservation entered into a consent order effective January 23, 1997, for the purpose of facilitating the investigation, removal and remediation of the Johnson City site. Cities began the implementation of the consent order in the first quarter of 1997. Cities is unaware of any information which suggests that the Bristol site gives rise to a present health or environmental risk as a result of the manufactured gas process or that any response action will be necessary. The Missouri Department of Natural Resources (MDNR) conducted a site reconnaissance and sampling at the Hannibal site. The most recent MDNR report received concludes that hazardous substances and hazardous wastes are present on site, and that a release of hazardous substances to soils has occurred; however, the risk of human exposure appears to be minimal. Additional site work is likely. As of December 31, 1996, Cities had incurred and deferred for recovery \$309,000, including \$258,000 related to an insurance recoverability study, and accrued and deferred for recovery an additional \$750,000 associated with the preliminary survey and invasive study of these three sites. The Tennessee Regulatory Authority granted Cities permission to defer, until its next rate case, all costs incurred in Tennessee in connection with state and federally

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

UNITED CITIES GAS COMPANY & SUBSIDIARIES

mandated environmental control requirements. In addition, based on a decision by the Missouri Public Service Commission concerning the recovery of environmental response action costs incurred by another company, Cities expects recovery of the costs involved in the investigation and response action, if any, associated with the manufactured gas plant site in Missouri.

Pursuant to the Tennessee Petroleum Underground Storage Tank Act, Cities is required to upgrade or remove certain underground storage tanks (USTs) situated in Tennessee. As of December 31, 1996, Cities had identified a small number of USTs in this category in Tennessee and had incurred and deferred for recovery \$96,000 and, based on available current information, accrued and deferred for recovery an additional \$70,000 for the upgrade or removal of these USTs. The Tennessee Regulatory Authority granted Cities permission to defer, until its next rate case, all costs incurred in connection with state and federally mandated environmental control requirements. In addition, Cities may be able to recover a portion of any corrective action costs from the Tennessee Underground Storage Tank Fund for the UST sites in Tennessee.

In October 1995, Cities received two Notices of Violation (NOVs) from the Tennessee Department of Environment and Conservation (TDEC) concerning historic releases from a UST in Kingsport, Tennessee. This UST was formerly owned by Holston Oil Co., Inc. (Holston), which at one time was a wholly-owned subsidiary of Tennessee-Virginia Energy Corporation (TVEC). Prior to TVEC's merger with the company in 1986, TVEC sold the common stock of Holston to an unrelated party. Cities has responded to the NOVs advising the TDEC that Cities is not a responsible party for any environmental contamination at the site. Cities does

not anticipate incurring any response action costs at this site.

The Kansas Department of Health and Environment (KDHE) identified the need to investigate gas industry activities which utilize mercury equipment in Kansas. Cities and the KDHE have signed a Consent Order for the investigation and possible response action for mercury contamination at any gas pipeline site which is identified as exceeding the KDHE's established acceptable concentration levels. As of December 31, 1996, Cities had identified approximately 720 meter sites where mercury may have been used and had incurred and deferred for recovery \$62,000 and, based on available current information, accrued and deferred for recovery an additional \$280,000 for the investigation of these sites. Cities has estimated that it may incur an additional amount of up to \$4,100,000 over the next seven years in responding to a future administrative order for those sites, if any, that exceed the KDHE's established acceptable concentration levels. Cities has received an order from the Kansas Corporation Commission (KCC) allowing Cities to defer and seek recovery in future rate proceedings the reasonable and prudent costs and expenses associated with the Consent Order. In the order, the commission approved a Stipulation and Agreement which provides a cap of \$1,500,000 on amounts deferred with the ability to exceed this cap if reasonable costs of response action are incurred. Based on a decision by the KCC concerning the recovery of environmental response action costs incurred by another company, Cities expects recovery of the costs involved in the investigation and response action associated with the mercury meter sites in Kansas.

Cities addresses other environmental matters from time to time in the regular and ordinary course of its business. Management expects that future expenditures related to response action at any site will be recovered through rates or insurance, or shared among other potentially responsible parties. Therefore, the costs of responding to these sites are not expected to materially affect the results of operations, financial condition or cash flows of the company.

CAPITAL STOCK

COMMON STOCK--

As of December 31, 1996, the company had 2,200,878 shares of common stock reserved for issuance under the company's employee and customer stock purchase plans, the company's dividend reinvestment and stock purchase plan, the company's 401(k) savings plan, the company's non-employee director stock plan, and the company's long-term stock plan of 1989.

Under the company's long-term stock plan implemented in 1989, incentive stock options, nonqualified stock options, stock appreciation rights, restricted stock or any combination thereof may be granted to officers and key employees of the company. The option price per share must be at least equal to the fair market value of one share of common stock on the date of the grant. The options granted become exercisable at a rate of 20% per year and expire ten years after the date of grant. The long-term stock plan has a Stock Appreciation Right (SAR) feature which provides optionees the right to receive appreciation in the shares of common stock subject to such option in common stock or cash, or a combination thereof, equal in value to the difference between the fair market value of such shares on the date of exercise and the option exercise price. Option and SAR transactions during the three years ended December 31, 1996, are as follows:

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

UNITED CITIES GAS COMPANY & SUBSIDIARIES

<TABLE>

<CAPTION>

	Options	Exercise Price	SARs	Exercise Price
<S>	<C>	<C>	<C>	<C>
Outstanding December 31, 1993	46,200	\$12.50-15.125	16,170	\$12.50-15.125
Granted	46,000	16.00	--	--
Exercised	(3,000)	12.50-15.125	(1,050)	12.50-15.125
Forfeited	--	--	--	--
Outstanding December 31, 1994	89,200	\$ 12.50-16.00	15,120	\$12.50-15.125
Granted	39,000	15.75	--	--
Exercised	(6,000)	12.50-16.00	(1,960)	12.50-15.125
Forfeited	(3,700)	12.50-15.125	(210)	12.50-15.125
Outstanding December 31, 1995	118,500	\$ 12.50-16.00	12,950	\$12.50-15.125
Granted	39,000	15.50	--	--
Exercised	(16,900)	12.50-16.00	(4,130)	12.50-15.125
Forfeited	--	--	--	--
OUTSTANDING DECEMBER 31, 1996	140,600	\$ 12.50-16.00	8,820	\$12.50-15.125

</TABLE>

As of December 31, 1996 and 1995, there were 45,200 and 39,400 options, respectively, and 8,820 and 10,710 SARs, respectively, which were exercisable. As of December 31, 1996, 170,100 shares of common stock were reserved under the company's long-term stock plan.

In October 1995, the FASB issued Statement No. 123 (SFAS 123), "Accounting for Stock-Based Compensation." This statement requires new disclosures in the notes to the financial statements about stock-based compensation plans based on the fair value of equity instruments granted. Companies also may base the recognition of compensation cost for instruments issued under stock-based compensation plans on these fair values. The company adopted SFAS 123 effective January 1, 1996. Because of the limited nature of the company's stock-based compensation plans, the adoption of SFAS 123 was immaterial.

ACQUISITIONS

Effective September 1, 1996, United Cities Propane Gas of Tennessee, Inc. (UCPT), a wholly-owned subsidiary of UCG Energy, purchased substantially all of the propane assets of Arrow Propane, Inc. for approximately \$610,000. In addition, UCPT entered into a ten-year non-compete agreement with the prior owners for \$50,000. This acquisition added approximately 700 propane customers in the Woodbury, Tennessee area.

On June 28, 1996, Monarch Gas Company (Monarch) was merged into the company. The merger was accounted for as a pooling of interests in which the company issued 207,366 shares of the company's common stock in exchange for the common stock of Monarch. In addition, the company entered into five-year non-compete agreements with the prior owners of Monarch totaling \$400,000. The merger added approximately 2,900 natural gas customers in the Vandalia, Illinois area. The company did not restate prior years' financial statements due to immateriality.

Effective January 1, 1996, UCPT purchased substantially all of the assets of Duncan Gas Service for approximately \$4,310,000. In addition, UCPT entered into a ten-year non-compete agreement with the prior owners for \$250,000, to be paid over a ten-year period. This acquisition added approximately 2,000 propane customers in the Johnson City, Tennessee area.

Effective May 22, 1995, UCPT purchased all of the propane transportation assets of Transpro South, Inc., a common carrier corporation, for approximately \$218,000. In addition, UCPT entered into a ten-year non-compete agreement with the prior owner for \$6,000.

During the first quarter of 1995, UCG Energy purchased a 45% interest in certain contracts related to the gas marketing business of Woodward Marketing, Inc. (WMI), a Texas corporation. In exchange for the acquired interest, the shareholders of WMI received \$5,000,000 in the company's common stock (320,512 shares) and \$832,000 in cash in May 1995, and may, if certain earnings targets are met, receive up to \$1,000,000 in cash to be paid over a five-year period. In exchange for its own gas marketing contracts and the acquired 45% interest in the WMI gas marketing contracts, UCG Energy received a 45% interest in a newly formed limited liability company, Woodward Marketing, L.L.C. (WMLLC). WMI received a 55% interest in WMLLC in exchange for its remaining 55% interest in the WMI gas marketing contracts. WMLLC provides gas marketing services to industrial customers, municipalities and local distribution companies, including Cities. UCG Energy utilized equity accounting, effective January 1, 1995, for the acquisition. The excess of the purchase price over the value of the net tangible assets, amounting to approximately \$5,400,000, was allocated to intangible assets consisting of customer contracts and goodwill, which are being amortized over ten and twenty years, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

UNITED CITIES GAS COMPANY & SUBSIDIARIES

Effective January 1, 1995, UCPT purchased substantially all of the assets of Harrell Propane, Inc. for approximately \$1,383,000. In addition, UCPT entered into ten-year non-compete agreements with the prior owners for \$250,000, to be paid over an eight-year period. This acquisition added approximately 1,300 propane customers in the Murfreesboro, Tennessee area.

Effective April 14, 1994, UCPT purchased all of the assets of Hurley's Propane Gas for approximately \$938,000. In addition, UCPT entered into ten-year non-compete agreements with the prior owners for \$100,000, to be paid over a five-year period. This acquisition added approximately 700 propane customers in the Morristown, Tennessee area.

LONG-TERM DEBT

The company's mortgage dated as of July 15, 1959, as amended and supplemented, securing the first mortgage bonds issued by the company constitutes a direct first lien on substantially all of Cities' fixed property and franchises. The company was in compliance with the requirements of its indentures during 1996. The company's medium-term notes, issued in 1995, are unsecured and at December 31, 1996, bore a weighted-average interest rate of 6.60%. The company's senior secured storage term notes bear interest at a rate of 7.45% and are secured by storage plant assets. The weighted-average interest rate of the company's other long-term debt was approximately 6.81% at December 31, 1996. Annual maturities and sinking fund requirements of the company's First Mortgage Bonds and other long-term debt for the years 1997 through 2001 are \$7,679,000, \$8,354,000, \$8,473,000, \$8,482,000 and \$6,021,000, respectively.

INTERIM FINANCING

The company has arrangements with several banks which provide, through mid-1997, a total line of credit of \$105,000,000 in the form of master and banker's acceptance notes bearing interest primarily at the lesser of the prime rate or a negotiated rate during the term of each borrowing. Under these arrangements, at December 31, 1996 and 1995, the company had short-term debt outstanding of \$65,688,000 and \$32,313,000, respectively, with a weighted-average interest rate of 6.39% and 6.41%, respectively.

UCG Energy and WMI, sole shareholders of WMLLC, act as guarantors of a \$12,500,000 credit facility for WMLLC with a certain bank. UCG Energy's portion of the amount outstanding on this credit facility at December 31, 1996, was \$607,000. UCG Energy and WMI also act as guarantors on certain purchases of natural gas and transportation services from suppliers by WMLLC. UCG Energy's portion of these outstanding obligations amounted to \$9,437,000 at December 31, 1996.

OTHER

In the third quarter of 1995, the company announced a consolidation plan under which five of the company's local operations in its Virginia/East Tennessee Division were consolidated into two new operating centers. As a result of the plan implementation, costs of approximately \$900,000 (\$550,000 after income taxes) related to early retirement and severance programs and employee relocation expenses were recorded in September 1995.

COMMITMENTS AND CONTINGENCIES

The company is involved in certain legal or administrative proceedings before various courts and agencies with respect to rates and other matters. Although unable to predict the outcome of these matters, it is management's opinion that final disposition of these proceedings will not have a material effect on the results of operations, financial condition or cash flows of the company.

ATMOS MERGER

On July 19, 1996, the company and Atmos Energy Corporation (Atmos) entered into a definitive agreement whereby the company will be merged with and into Atmos, with Atmos as the surviving corporation. Under the definitive agreement, one share of Atmos stock will be exchanged for each share of the company's stock. The transaction is expected to be accounted for as a pooling of interests. The transaction was approved by the shareholders of the company and Atmos on November 12, 1996. Pending approval by appropriate regulatory bodies, the company expects to close the transaction during the second quarter of 1997. Atmos is based in Dallas, Texas, and currently provides natural gas service to approximately 673,000 customers in Texas, Colorado, Kansas, Missouri, Louisiana and Kentucky.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

UNITED CITIES GAS COMPANY & SUBSIDIARIES

SUBSEQUENT EVENTS (UNAUDITED)

Effective February 28, 1997, UCPT purchased substantially all of the propane assets of Harlan LP Gas, Inc., a retail propane distribution company, and Propane Sales and Service, Inc., a wholesale propane distribution company, for approximately \$2,040,000. In addition, UCPT entered into ten-year non-compete agreements with the prior owners for \$150,000 to be paid over a ten-year period. This acquisition added approximately 3,100 propane customers in the Harlan, Kentucky and New Tazewell, Tennessee areas.

On March 5, 1997, the Tennessee Court of Appeals (the Court) issued a decision reversing and remanding the Tennessee Regulatory Authority's order which approved the incentive rate program for the plan year ending March 31, 1997. The Court found a procedural fault in how the Tennessee Regulatory Authority arrived at the order. At this time, further hearings have not been scheduled.

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

UNITED CITIES GAS COMPANY & SUBSIDIARIES

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS
To United Cities Gas Company:

We have audited the accompanying consolidated balance sheets and consolidated statements of capitalization of United Cities Gas Company (an Illinois corporation) and subsidiaries as of December 31, 1996 and 1995, and the related consolidated statements of income, retained earnings, capital surplus and common stock and cash flows for each of the three years in the period ended December 31, 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of United Cities Gas Company and subsidiaries as of December 31, 1996 and 1995, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1996 in conformity with generally accepted accounting principles.

Nashville, Tennessee
February 14, 1997

Arthur Andersen LLP

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CONSOLIDATED FINANCIAL AND OPERATING DATA

UNITED CITIES GAS COMPANY & SUBSIDIARIES

QUARTERLY FINANCIAL DATA

(In Thousands, except per share data)

<TABLE>

<CAPTION>

1996	MARCH 31	JUNE 30	SEPTEMBER 30	DECEMBER 31
<S>	<C>	<C>	<C>	<C>
Utility Operating Revenues	\$144,709	\$ 60,698	\$ 39,953	\$108,022
Utility Operating Income (Loss)	\$ 18,263	\$ 521	\$ (3,055)	\$ 11,358
Net Income (Loss) (a)	\$ 17,523	\$ (3,112)	\$ (6,472)	\$ 9,263
Net Income (Loss) Per Share(b)	\$ 1.35	\$ (.24)	\$ (.49)	\$.70

<CAPTION>

1995	MARCH 31	JUNE 30	SEPTEMBER 30	DECEMBER 31
<S>	<C>	<C>	<C>	<C>
Utility Operating Revenues	\$106,006	\$ 42,246	\$ 32,248	\$ 91,360
Utility Operating Income (Loss)	\$ 14,883	\$ (557)	\$ (4,084)	\$ 9,147
Net Income (Loss) (a)	\$ 13,327	\$ (3,962)	\$ (6,916)	\$ 7,486
Net Income (Loss) Per Share(b)	\$ 1.25	\$ (.35)	\$ (.55)	\$.59

</TABLE>

(a) The pattern of quarterly earnings (loss) is the result of the highly seasonal nature of the business as variations in weather conditions generally result in greater earnings during the winter months.

(b) May not add to year-end results due to changes in average number of outstanding common shares between periods.

MARKET INFORMATION

The common stock of the company is traded over-the-counter on the Nasdaq National Market System under the symbol UCIT. The following table reflects the quarterly high and low closing sales prices of the common stock, as compiled from quotations supplied by the Nasdaq Monthly Statistical Report, and the quarterly dividends paid per share, for the years 1996 and 1995.

<TABLE>

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1996	MARCH 31	JUNE 30	SEPTEMBER 30	DECEMBER 31
<S>	<C>	<C>	<C>	<C>
High	\$ 18.50	\$ 17.00	\$ 23.00	\$ 23.63
Low	\$ 15.75	\$ 14.75	\$ 15.00	\$ 20.00
Dividends per share	\$.255	\$.255	\$.255	\$.255

<CAPTION>

1995	MARCH 31	JUNE 30	SEPTEMBER 30	DECEMBER 31
<S>	<C>	<C>	<C>	<C>
High	\$ 16.25	\$ 16.25	\$ 16.50	\$ 18.75
Low	\$ 15.25	\$ 14.50	\$ 14.75	\$ 15.75
Dividends per share	\$.255	\$.255	\$.255	\$.255

</TABLE>

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CONSOLIDATED FINANCIAL AND OPERATING DATA

UNITED CITIES GAS COMPANY & SUBSIDIARIES

<TABLE>
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	1996	1995	1994
UTILITY OPERATING REVENUES:*			
<S>	<C>	<C>	<C>
Residential	\$165,922	\$127,603	\$129,519
Commercial	95,683	70,967	73,376
Industrial--			
Firm	31,876	27,438	33,772
Interruptible	40,925	33,338	35,297
Other	8,411	4,412	1,813
Transportation	342,817	263,758	273,777
Total	10,565	8,102	7,207
Total	\$353,382	\$271,860	\$280,984
OPERATING MARGIN*	\$126,016	\$112,684	\$108,016
NATURAL GAS THROUGH-PUT (MCF):*			
Residential	25,458	22,901	21,352
Commercial	16,706	15,165	14,116
Industrial--			
Firm	7,083	7,324	8,134
Interruptible	11,124	11,920	11,002
Transportation	60,371	57,310	54,604
Total	17,612	17,184	12,574
Total	77,983	74,494	67,178
CUSTOMERS (AVERAGE FOR YEAR):			
Residential	276,892	266,532	259,895
Commercial	35,620	34,435	33,861
Industrial--			
Firm	404	395	395
Interruptible	233	251	258
Natural gas	313,149	301,613	294,409
Propane	26,108	23,359	21,693
Total customers	339,257	324,972	316,102
ACTUAL CUSTOMERS AT DECEMBER 31,	347,046	331,958	322,851
PROPANE:*			
Sales	\$ 34,730	\$ 22,124	\$ 18,510
Cost of sales	23,832	13,038	10,126
Gross margin	\$ 10,898	\$ 9,086	\$ 8,384
Gross margin % of sales	31.4%	41.1%	45.3%
Gallons	40,723	28,854	23,175

</TABLE>

* In thousands

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CONSOLIDATED FINANCIAL AND OPERATING DATA

UNITED CITIES GAS COMPANY & SUBSIDIARIES

<TABLE>
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	1993	1992	1991	1990	1989	1988	1987
UTILITY OPERATING REVENUES:*							
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Residential	\$134,856	\$119,245	\$109,081	\$ 95,916	\$ 79,245	\$ 75,659	\$ 68,668
Commercial	74,361	69,447	62,052	55,576	50,502	46,341	41,327
Industrial--							
Firm	31,252	32,805	33,392	33,924	33,430	33,865	35,195
Interruptible	36,703	29,607	25,182	26,028	26,406	25,077	26,250
Other	3,411	6,530	2,692	6,797	3,957	1,777	2,812
Transportation	280,583	257,634	232,399	218,241	193,540	182,719	174,252
Total	6,924	7,826	6,756	6,352	4,385	4,690	3,897
Total	\$287,507	\$265,460	\$239,155	\$224,593	\$197,925	\$187,409	\$178,149
OPERATING MARGIN*	\$106,499	\$ 99,300	\$ 87,779	\$ 80,231	\$ 71,536	\$ 63,748	\$ 57,480

NATURAL GAS THROUGH-PUT (MCF):*

Residential	23,055	20,481	19,679	17,765	14,135	13,675	12,162
Commercial	14,435	13,324	12,573	11,697	10,577	9,671	8,542
Industrial--							
Firm	7,509	7,690	8,323	8,407	8,059	7,930	8,011
Interruptible	11,661	10,101	9,050	8,432	8,088	7,701	8,092
Transportation	56,660	51,596	49,625	46,301	40,859	38,977	36,807
Total	11,883	11,117	9,484	8,977	4,462	4,614	3,363
Total	68,543	62,713	59,109	55,278	45,321	43,591	40,170

CUSTOMERS (AVERAGE FOR YEAR):

Residential	250,051	242,990	236,215	228,678	166,859	157,022	151,304
Commercial	31,849	31,124	30,493	29,592	24,680	21,614	19,212
Industrial--							
Firm	395	397	376	466	443	413	362
Interruptible	245	231	223	208	171	159	168
Natural gas	282,540	274,742	267,307	258,944	192,153	179,208	171,046
Propane	20,498	21,120	24,480	31,300	28,184	24,996	19,522
Total customers	303,038	295,862	291,787	290,244	220,337	204,204	190,568
ACTUAL CUSTOMERS AT DECEMBER 31,	313,788	302,781	295,729	297,855	289,639	211,716	200,786

PROPANE:*

Sales	\$ 16,506	\$ 15,194	\$ 14,727	\$ 16,781	\$ 13,334	\$ 12,394	\$ 9,882
Cost of sales	8,920	8,053	7,539	9,773	5,538	5,239	4,429
Gross margin	\$ 7,586	\$ 7,141	\$ 7,188	\$ 7,008	\$ 7,796	\$ 7,155	\$ 5,453
Gross margin % of sales	46.0%	47.0%	48.8%	41.8%	58.5%	57.7%	55.2%
Gallons	20,180	19,063	16,066	17,931	17,499	16,535	13,363

</TABLE>

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<PAGE> 52

CONSOLIDATED FINANCIAL AND OPERATING DATA

UNITED CITIES GAS COMPANY & SUBSIDIARIES

<TABLE>

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	1996	1995	1994
COMMON STOCK INFORMATION:			
<S>	<C>	<C>	<C>
Net income/common stock earnings:*			
Utility	\$ 12,791	\$ 5,745	\$ 7,817
UCG Energy	3,605	3,450	3,750
UCG Storage	806	740	526
Total	\$ 17,202	\$ 9,935	\$ 12,093
Net income/earnings per share	\$ 1.31	\$.84	\$ 1.16
Average number of shares*	13,086	11,792	10,409
Shares outstanding*	13,221	12,727	10,613
Dividends per share	\$ 1.02	\$ 1.02	\$ 1.005
Dividend pay-out	77.9%	121.4%	86.6%
Dividend yield	4.5%	5.4%	6.4%
Market value per share:			
High	\$ 23.63	\$ 18.75	\$ 18.75
Low	\$ 14.75	\$ 14.50	\$ 15.44
Close	\$ 22.50	\$ 18.75	\$ 15.75
Price/Earnings ratio	17.2x	22.3x	13.6x
RETURN ON AVERAGE EQUITY	11.3%	7.5%	10.5%
WEATHER DATA--COLDER (WARMER) THAN NORMAL	6.1%	(2.3%)	(10.2%)

CAPITALIZATION:

Capitalization:*			
Long-term debt	\$ 153,859	\$ 163,160	\$ 144,344
Preferred and preference stock	--	--	--
Common stock equity	157,284	146,071	118,028
Total	\$ 311,143	\$ 309,231	\$ 262,372

Capitalization (percent):			
Long-term debt	49.4%	52.8%	55.0%
Preferred and preference stock	--	--	--
Common stock equity	50.6%	47.2%	45.0%
Total	100.0%	100.0%	100.0%
TOTAL ASSETS*	\$ 513,649	\$ 460,377	\$ 421,200

</TABLE>

*In thousands

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CONSOLIDATED FINANCIAL AND OPERATING DATA

UNITED CITIES GAS COMPANY & SUBSIDIARIES

<TABLE>
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1993	1992	1991	1990	1989	1988	1987
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\$ 7,877	\$ 5,865	\$ 4,777	\$ 1,490	\$ 7,140	\$ 4,684	\$ 3,731
3,775	3,681	2,570	1,375	2,790	2,262	1,504
468	558	394	346	78	--	--
\$ 12,120	\$ 10,104	\$ 7,741	\$ 3,211	\$ 10,008	\$ 6,946	\$ 5,235
\$ 1.19	\$ 1.07	\$.97	.44	\$ 1.52	\$ 1.24	\$ 1.00
10,197	9,459	8,000	7,238	6,572	5,621	5,251
10,314	10,052	8,517	7,292	7,197	5,677	5,300
\$.985	\$.965	\$.93	\$.92	\$.88	\$.84	\$.80
82.8%	90.2%	95.9%	209.1%	57.9%	67.7%	80.0%
5.3%	5.8%	5.7%	6.8%	5.9%	6.8%	6.7%
\$ 20.50	\$ 16.50	16.25	\$ 15.63	\$ 15.50	\$ 13.13	\$ 15.13
\$ 16.00	\$ 12.75	12.00	\$ 13.00	\$ 12.25	\$ 11.75	\$ 11.75
\$ 18.50	\$ 16.50	16.25	\$ 13.50	\$ 14.88	\$ 12.38	\$ 12.00
15.5x	15.4x	16.8x	30.7x	9.8x	10.0x	12.0x
11.1%	10.5%	9.9%	4.4%	15.9%	14.0%	11.4%
2.8%	(7.8%)	(12.8%)	(20.4%)	.9%	3.5%	(4.0%)
\$151,843	\$157,734	\$127,430	\$ 96,521	\$ 78,230	\$ 69,138	\$ 73,325
--	--	1,352	1,483	2,203	4,871	5,156
111,888	106,206	85,953	71,118	73,204	52,279	46,964
\$263,731	\$263,940	\$214,735	\$169,122	\$153,637	\$126,288	\$125,445
57.6%	59.8%	59.4%	57.1%	50.9%	54.7%	58.5%
--	--	0.6%	0.9%	1.4%	3.9%	4.1%
42.4%	40.2%	40.0%	42.0%	47.7%	41.4%	37.4%
100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
\$401,520	\$370,150	\$368,283	\$338,167	\$307,160	\$212,629	\$197,946

</TABLE>

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereto duly authorized.

UNITED CITIES GAS COMPANY
(Registrant)

By: /s/ GENE C. KOONCE

Gene C. Koonce
Chairman, President and
Chief Executive Officer

Dated: March 20, 1997

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrants and in the capacities and on the date indicated.

SIGNATURE	Title	Date
<S>	<C>	<C>
/s/ GENE C. KOONCE	Chairman, President and Chief Executive Officer	
Gene C. Koonce		
/s/ JAMES B. FORD	Senior Vice President and Treasurer and Principal Financial Officer	
James B. Ford		
/s/ ADRIENNE H. BRANDON	Vice President and Controller	
Adrienne H. Brandon		
	Director	
Jerry H. Ballengee		
/s/ DWIGHT C. BAUM	Director	
Dwight C. Baum		
/s/ THOMAS J. GARLAND	Director	March 20, 1997
Thomas J. Garland		
/s/ DALE A. KEASLING	Director	
Dale A. Keasling		
/s/ VINCENT J. LEWIS	Director	
Vincent J. Lewis		
	Director	
Dennis L. Newberry, II		
/s/ STIRTON OMAN, JR.	Director	
Stirton Oman, Jr.		
/s/ TIMOTHY W. TRIPLETT	Director	
Timothy W. Triplett		
/s/ GEORGE C. WOODRUFF, JR.	Director	
George C. Woodruff, Jr.		

</TABLE>

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To United Cities Gas Company:

We have audited in accordance with generally accepted auditing standards, the consolidated financial statements of United Cities Gas Company and subsidiaries included in this Form 10-K, and have issued our report thereon dated February 14, 1997. Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the index are the responsibility of the Company's management and are presented for purposes of complying with the Securities and Exchange Commission's rules and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

ARTHUR ANDERSEN LLP

Nashville, Tennessee
February 14, 1997

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UNITED CITIES GAS COMPANY AND SUBSIDIARIES

SCHEDULE I - CONDENSED FINANCIAL INFORMATION OF REGISTRANT
FOR THE YEARS ENDED DECEMBER 31, 1996, 1995 AND 1994

DIVIDENDS FROM SUBSIDIARIES.

Cash dividends declared to Cities from the registrant's wholly-owned subsidiaries were \$100,000 in 1996, \$6,100,000 in 1995 and \$1,350,000 in 1994.

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UNITED CITIES GAS COMPANY AND SUBSIDIARIES

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS
FOR THE YEARS ENDED DECEMBER 31, 1996, 1995 AND 1994<TABLE>
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DESCRIPTION	BALANCE AT BEGINNING OF PERIOD	ADDITIONS CHARGED TO INCOME	DEDUCTIONS	OTHER CHANGES INCREASE (DECREASE)	BALANCE AT END OF PERIOD
			(IN THOUSANDS)		
<S>	<C>	<C>	<C>	<C>	<C>
YEAR ENDED DECEMBER 31, 1996 -					
Deducted in the balance sheet from the					
asset to which it applies:					
Allowance for uncollectible accounts	\$ 1,352	1,620	1,226 (a)	-	\$ 1,746
	=====	=====	=====	=====	=====
Included in the deferred credits section of					
the balance sheet:					
Injuries and damages reserve	\$ 1,134	60	66	-	\$ 1,128
	=====	=====	=====	=====	=====
Included in the current liabilities section					
of the balance sheet:					
Injuries and damages reserve	\$ 105	87	-	-	\$ 192
	=====	=====	=====	=====	=====
YEAR ENDED DECEMBER 31, 1995 -					
Deducted in the balance sheet from the					
asset to which it applies:					
Allowance for uncollectible accounts	\$ 1,017	1,331	996 (a)	-	\$ 1,352
	=====	=====	=====	=====	=====
Included in the deferred credits section of					
the balance sheet:					
Injuries and damages reserve	\$ 774	360	-	-	\$ 1,134
	=====	=====	=====	=====	=====
Included in the current liabilities section					
of the balance sheet:					
Injuries and damages reserve	\$ 313	96	304	-	\$ 105
	=====	=====	=====	=====	=====
YEAR ENDED DECEMBER 31, 1994 -					
Deducted in the balance sheet from the					
asset to which it applies:					
Allowance for uncollectible accounts	\$ 1,150	1,021	1,154 (a)	-	\$ 1,017
	=====	=====	=====	=====	=====
Included in the deferred credits section of					
the balance sheet:					
Injuries and damages reserve	\$ 1,064	60	350	-	\$ 774
	=====	=====	=====	=====	=====
Included in the current liabilities section					
of the balance sheet:					
Injuries and damages reserve	\$ 277	36	-	-	\$ 313
	=====	=====	=====	=====	=====

</TABLE>

(a) Represents write-off of accounts considered to be uncollectible, less collection of accounts previously written off.

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<PAGE> 58

LIST OF EXHIBITS

- 3.01 Amended Articles of Incorporation of Company, as amended May 3, 1996, (filed with the Registrant's Form 10-Q dated June 30, 1996 and incorporated herein by reference).
- 3.02 Amended By-Laws of Company, as amended August 22, 1996, (filed with the Registrant's Form 10-Q dated September 30, 1996, and incorporated herein by reference).
- 4.01 Indenture of Mortgage, dated as of July 15, 1959, from the Company to

First Trust of Illinois, National Association, and M. J. Kruger, as Trustees, as amended and supplemented through December 1, 1992, (the Indenture of Mortgage through the 20th Supplemental Indenture, filed with the Registrant's Registration Statement on Form S-3 (File No. 33-56983) and incorporated herein by reference).

- 4.02 Form of Indenture between the Company and First Trust of Illinois, National Association, as trustee (filed with the Registrant's Registration Statement on Form S-3 (File No. 33-56983) and incorporated herein by reference).
- 10.01 Annual Incentive Compensation Plan effective January 1, 1989, as revised, (filed with the Registrant's Annual Report on Form 10-K for the year ended December 31, 1994, and incorporated herein by reference).
- 10.02 Supplemental Executive Retirement Compensation Agreement, as revised, (filed with the Registrant's Annual Report on Form 10-K for the year ended December 31, 1995, and incorporated herein by reference).
- 10.03 Long-Term Stock Plan of 1989, (filed with the Registrant's Annual Report on Form 10-K for the year ended December 31, 1989, and incorporated herein by reference).
- 10.04 Directors' Deferred Compensation Plan effective February 1, 1992, (filed with the Registrant's Annual Report on Form 10-K for the year ended December 31, 1992, and incorporated herein by reference).
- 10.05 Non-Employee Director Stock Plan effective February 28, 1995 (filed with the Registrant's Form 10-Q dated June 30, 1995, and incorporated herein by reference).
- 10.06 Key Management Deferred Compensation Plan effective January 1, 1995, (filed with the Registrant's Annual Report on Form 10-K for the year ended December 31, 1995, and incorporated herein by reference).
- 12.01 Computation of Ratio of Consolidated Earnings to Fixed Charges. (Page 57)
21. Subsidiaries of United Cities Gas Company. (Page 58)
23. Consent of Independent Public Accountants. (Page 59)
27. Financial Data Schedule (for SEC use only).

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EXHIBIT 12.01

UNITED CITIES GAS COMPANY AND SUBSIDIARIES

COMPUTATION OF RATIO OF CONSOLIDATED EARNINGS TO FIXED CHARGES

FOR THE YEARS ENDED DECEMBER 31,

(In thousands, except ratio amounts)

	1996	1995	1994	1993	1992
	<C>	<C>	<C>	<C>	<C>
<S>					
Fixed Charges, as defined:					
Interest on long-term debt	\$ 14,681	\$ 13,697	\$ 14,026	\$ 14,553	\$ 12,965
Amortization of debt discount	285	227	227	220	181
Total	\$ 14,966	\$ 13,924	\$ 14,253	\$ 14,773	\$ 13,146
	=====	=====	=====	=====	=====
Earnings, as defined:					
Net income	\$ 17,202	\$ 9,935	\$ 12,093	\$ 12,150	\$ 10,218
Taxes on income	10,006	6,970	6,503	5,681	5,171
Fixed charges, as above	14,966	13,924	14,253	14,773	13,146
Total	\$ 42,174	\$ 30,829	\$ 32,849	\$ 32,604	\$ 28,535
	=====	=====	=====	=====	=====
Ratio of Consolidated Earnings to Fixed Charges	2.82	2.21	2.30	2.21	2.17
	=====	=====	=====	=====	=====

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EXHIBIT 21

SUBSIDIARIES OF UNITED CITIES GAS COMPANY

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NAME ----	STATE OF INCORPORATION -----	PERCENT OF STOCK -----
<S>	<C>	<C>
United Cities Gas Storage Company	Delaware	100%
UCG Energy Corporation	Delaware	100%
United Cities Propane Gas of Tennessee, Inc (wholly- owned subsidiary of UCG Energy Corporation)	Tennessee	100%
UCG Leasing, Inc (wholly-owned subsidiary of UCG Energy Corporation)	Georgia	100%

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EXHIBIT 23

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our reports included in this Annual Report on Form 10-K for the year ended December 31, 1996 into the Company's previously filed Registration Statements on Form S-8 for the Company's Employee Stock Purchase Plan (File No. 33-54759), on Form S-3 for the Company's Dividend Reinvestment and Stock Purchase Plan (File No. 333-01221), on Form S-3 for the Company's shelf registration (File No. 33-56983) and on Form S-3 for the Company's Customer Stock Purchase Plan (File No. 33-56799).

ARTHUR ANDERSEN LLP

Nashville, Tennessee
 March 20, 1997

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-----END PRIVACY-ENHANCED MESSAGE-----

156. Certificate of Existence and Good Standing dated July 22, 1997, from the Secretary of State of Delaware as to UCG Energy Corporation.
157. Certificate of Qualification dated July 23, 1997, from the Secretary of State of Alabama as to UCG Energy Corporation.
158. Certificate of Existence dated July 22, 1997, from the Secretary of State of Georgia as to UCG Energy Corporation.

Bring Down Telegram dated July 25, 1997, from The United States Corporation Company certifying that UCG Energy Corporation is in good standing in the State of Georgia.
159. Certification of Authority and Good Standing dated July 22, 1997, from the Secretary of State of Illinois as to UCG Energy Corporation.
160. Certificate of Authorization dated July 22, 1997, from the Secretary of State of Iowa as to UCG Energy Corporation.
161. Certification of Authority and Good Standing dated July 22, 1997, from the Secretary of State of Kansas as to UCG Energy Corporation.
162. Certification of Authority and Good Standing dated July 22, 1997, from the Secretary of State of Louisiana as to UCG Energy Corporation.
163. Certificate of Existence and Authority dated July 23, 1997, from the Secretary of State of Mississippi as to UCG Energy Corporation.
164. Certificate of Corporate Good Standing dated July 22, 1997, from the Secretary of State of Missouri as to UCG Energy Corporation.
165. Certificate of Authorization dated July 22, 1997, from the Secretary of State of North Carolina as to UCG Energy Corporation.
166. Certificate of Authorization dated July 28, 1997, from the Secretary of State of South Carolina as to UCG Energy Corporation.
167. Certificate of Authorization dated July 22, 1997, from the Secretary of State of Tennessee as to UCG Energy Corporation.
168. Certification of Authority dated July 22, 1997, from the Secretary of State of Texas as to UCG Energy Corporation.

Certification of Account Status dated July 22, 1997, from the Texas Comptroller of Public Accounts as to UCG Energy Corporation.
169. Certification of Authority and Good Standing dated July 22, 1997, from the State Corporation Commission of the Commonwealth of Virginia as to UCG Energy Corporation.

170. Certificate of Corporate Secretary of UCG Energy Corporation dated July 29, 1997.

Exhibit A: Certificate of Incorporation of UCG Energy Corporation
Exhibit B: Bylaws of UCG Energy Corporation

E. Incorporation, Business Qualification and Authority Documents of UCG Leasing, Inc.

171. Copy of the Articles of Incorporation of UCG Leasing, Inc. certified by the Secretary of State of Georgia.

172. Certificate of Existence dated July 22, 1997, from the Secretary of State of Georgia as to UCG Leasing, Inc.

Bring Down Telegram dated July 25, 1997, from The United States Corporation Company certifying that UCG Leasing, Inc., is in good standing in the State of Georgia.

173. Certificate of Authorization dated July 22, 1997, from the Secretary of State of South Carolina as to UCG Leasing, Inc.

174. Certificate of Corporate Secretary of UCG Leasing, Inc., dated July 29, 1997.

Exhibit A: Articles of Incorporation of UCG Leasing, Inc.
Exhibit B: Bylaws of UCG Leasing, Inc.

F. Incumbency and Officers Certificates of United Cities Gas Company

175. Incumbency Certificate of United Cities Gas Company dated July 29, 1997.

176. Certificate of Corporate Officers of United Cities Gas Company dated July 29, 1997.

G. Resignation Letters

177. Resignation Letters of the Directors and Officers of UCG Energy Corporation.

178. Resignation Letters of the Directors and Officers of United Cities Gas Storage Company.

179. Resignation Letters of the Directors and Officers of United Cities Propane Gas of Tennessee, Inc.

180. Resignation Letters of the Directors and Officers of UCG Leasing, Inc.

H. Securities Act Rule 145 Affiliate Documents

181. Officer's Certificate of United Cities Gas Company dated July 29, 1997, certifying the names of those persons who are affiliates of United Cities Gas Company for purposes of Rule 145.
182. Letter dated July 1, 1997, from Jerry H. Ballengee to Atmos Energy Corporation agreeing to comply with the provisions of Rule 145.
183. Letter dated July 1, 1997, from Dwight C. Baum to Atmos Energy Corporation agreeing to comply with the provisions of Rule 145.
184. Letter dated July 11, 1997, from Thomas R. Blose, Jr., to Atmos Energy Corporation agreeing to comply with the provisions of Rule 145.
185. Letter dated July 1, 1997, from Richard W. Cardin to Atmos Energy Corporation agreeing to comply with the provisions of Rule 145.
186. Letter dated July 2, 1997, from James B. Ford to Atmos Energy Corporation agreeing to comply with the provisions of Rule 145.
187. Letter dated July 1, 1997, from T.J. Garland to Atmos Energy Corporation agreeing to comply with the provisions of Rule 145.
188. Letter dated June 30, 1997, from Shirley M. Hawkins to Atmos Energy Corporation agreeing to comply with the provisions of Rule 145.
189. Letter dated June 30, 1997, from Dale A. Keasling to Atmos Energy Corporation agreeing to comply with the provisions of Rule 145.
190. Letter dated June 7, 1997, from Gene C. Koonce to Atmos Energy Corporation agreeing to comply with the provisions of Rule 145.
191. Letter dated July 2, 1997, from Vincent J. Lewis to Atmos Energy Corporation agreeing to comply with the provisions of Rule 145.
192. Letter dated July 10, 1997, from Dennis L. Newberry to Atmos Energy Corporation agreeing to comply with the provisions of Rule 145.
193. Letter dated June 30, 1997, from Stirton Oman, Jr., to Atmos Energy Corporation agreeing to comply with the provisions of Rule 145.
194. Letter dated July 11, 1997, from Glenn B. Rogers to Atmos Energy Corporation agreeing to comply with the provisions of Rule 145.
195. Letter dated June 30, 1997, from Timothy W. Triplett to Atmos Energy Corporation agreeing to comply with the provisions of Rule 145.
196. Letter dated July 1, 1997, from George C. Woodruff, Jr., to Atmos Energy Corporation agreeing to comply with the provisions of Rule 145.

I. Opinion Letters

197. Opinion Letter dated July 29, 1997, from Chapman and Cutler to Atmos Energy Corporation.

Certificate of Officers of United Cities Gas Company to Chapman and Cutler.

198. Opinion Letter dated July 29, 1997, from Thompson & Knight to Chapman and Cutler and Atmos Energy Corporation.
199. Opinion Letter dated July 29, 1997, from Mark G. Thessin, Vice President – Regulatory Affairs, United Cities Gas Company, to Chapman and Cutler and Atmos Energy Corporation.

J. Termination of United Cities Gas Company Common Stock Plans, Effective Registration Statements and Nasdaq Stock Market Listing

200. Certificate of the Secretary of United Cities Gas Company dated July 29, 1997, as to Resolutions of the Board of Directors of United Cities Gas Company authorizing the termination of the Shelf Program, the United Cities Gas Company Non-Employee Director Stock Plan, the United Cities Gas Company Employee Stock Purchase Plan, the United Cities Gas Company Customer Stock Purchase Plan and the United Cities Gas Company Dividend Reinvestment and Stock Purchase Plan; authorizing the deregistration of the common stock of United Cities Gas Company under the Securities Exchange Act of 1934; and authorizing the termination of the Nasdaq Stock Market Listing of United Cities Gas Company.

K. Documents Relating to Lost Stock Certificates

201. Joint Written Unanimous Consent to Corporate Action by the Sole Shareholder and Board of Directors of UCG Leasing, Inc., dated July 24, 1997, concerning lost share certificates.
202. Joint Written Unanimous Consent to Corporate Action by the Sole Shareholder and Board of Directors of UCG Energy Corporation dated July 24, 1997, concerning lost share certificates.
203. Joint Written Unanimous Consent to Corporate Action by the Sole Shareholder and Board of Directors of United Cities Gas Storage Company dated July 24, 1997, concerning lost share certificates.
204. Joint Written Unanimous Consent to Corporate Action by the Sole Shareholder and Board of Directors of United Cities Propane Gas of Tennessee, Inc., dated July 24, 1997, concerning lost share certificates.

III. Documents Delivered at Closing – Atmos Energy Corporation

A. Incorporation, Business Qualification and Authority Documents of Atmos Energy Corporation

- 205. Copy of Restated Articles of Incorporation of Atmos Energy Corporation certified by the Secretary of State of Texas.
- 206. Certificate of Existence dated July 22, 1997, from the Secretary of State of Texas as to Atmos Energy Corporation.

Certification of Account Status dated July 22, 1997, from the Texas Comptroller of Public Accounts as to Atmos Energy Corporation.
- 207. Certification of Authority and Good Standing dated July 11, 1997, from the Secretary of State of Colorado as to Atmos Energy Corporation.

Bring Down Telegram dated July 28, 1997, from The United States Corporation Company certifying that Atmos Energy Corporation is in good standing in the State of Colorado.
- 208. Certification of Authority and Good Standing dated July 22, 1997, from the Secretary of State of Illinois as to Atmos Energy Corporation.
- 209. Certification of Authority and Good Standing dated July 22, 1997, from the Secretary of State of Kansas as to Atmos Energy Corporation.
- 210. Certificate of Authorization dated July 23, 1997, from the Secretary of State of the Commonwealth of Kentucky as to Atmos Energy Corporation.
- 211. Certification of Authority and Good Standing dated July 22, 1997, from the Secretary of State of Louisiana as to Atmos Energy Corporation.
- 212. Certificate of Corporate Good Standing dated July 22, 1997, from the Secretary of State of Missouri as to Atmos Energy Corporation.
- 213. Certificate of Corporate Secretary of Atmos Energy Corporation dated July 29, 1997.

Exhibit A: Restated Articles of Incorporation of Atmos Energy Corporation
Exhibit B: Bylaws of Atmos Energy Corporation
Exhibit C-1: Resolutions adopted by the Board of Directors of Atmos Energy Corporation at a Special Meeting held July 19, 1996
Exhibit C-2: Resolutions adopted by the Board of Directors of Atmos Energy Corporation at a Special Meeting held October 3, 1996
Exhibit D: Minutes of a Special Meeting of the Shareholders of Atmos Energy Corporation held November 12, 1996

B. Incumbency and Officers Certificates of Atmos Energy Corporation

- 214. Incumbency Certificate of Atmos Energy Corporation dated July 29, 1997.

215. Certificate of Corporate Officers of Atmos Energy Corporation dated July 29, 1997.

C. Documents Relating to Corporate Status and Good Standing of the Subsidiaries of Atmos Energy Corporation

216. Bring Down Telegram dated July 25, 1997, from the United States Corporation Company certifying that Atmos Energy Services, Inc., a Delaware corporation, is active and in good standing in the State of Delaware.

Bring Down Telegram dated July 25, 1997, from the United States Corporation Company certifying that Atmos Energy Services, Inc., a Delaware corporation, is active and in good standing in the State of Colorado.

Bring Down Telegram dated July 25, 1997, from the United States Corporation Company certifying that Atmos Energy Services, Inc., a Delaware corporation, is active and in good standing in the State of Kansas.

Bring Down Telegram dated July 25, 1997, from the United States Corporation Company certifying that Atmos Energy Services, Inc., a Delaware corporation, is active and in good standing in the Commonwealth of Kentucky.

Bring Down Telegram dated July 25, 1997, from the United States Corporation Company certifying that Atmos Energy Services, Inc., a Delaware corporation, is active and in good standing in the State of Louisiana.

Bring Down Telegram dated July 25, 1997, from the United States Corporation Company certifying that Atmos Energy Services, Inc., a Delaware corporation, is active and in good standing in the State of Missouri.

Bring Down Telegram dated July 25, 1997, from the United States Corporation Company certifying that Atmos Energy Services, Inc., a Delaware corporation, is active and in good standing in the State of Texas.

217. Bring Down Telegram dated July 25, 1997, from the United States Corporation Company certifying that Egasco, Inc., a Texas corporation, is active and in good standing in the State of Texas.

Bring Down Telegram dated July 25, 1997, from the United States Corporation Company certifying that Egasco, Inc., a Texas corporation, is active and in good standing in the State of Colorado.

218. Bring Down Telegram dated July 25, 1997, from the United States Corporation Company certifying that Enermart, Inc., a Delaware corporation, is active and in good standing in the State of Delaware.

Bring Down Telegram dated July 25, 1997, from the United States Corporation Company certifying that Enermart, Inc., a Delaware corporation, is active and in good standing in the State of Texas.

- 219. Bring Down Telegram dated July 25, 1997, from the United States Corporation Company certifying that Enermart Trust, a Pennsylvania business trust, is active and in good standing in the State of Pennsylvania.
- 220. Bring Down Telegram dated July 25, 1997, from the United States Corporation Company certifying that Trans Louisiana Industrial Gas Company, Inc., a Louisiana corporation, is active and in good standing in the State of Louisiana.
- 221. Bring Down Telegram dated July 25, 1997, from the United States Corporation Company certifying that Western Kentucky Gas Resources Company, a Delaware corporation, is active and in good standing in the State of Delaware.

Bring Down Telegram dated July 25, 1997, from the United States Corporation Company certifying that Western Kentucky Gas Resources Company, a Delaware corporation, is active and in good standing in the State of Louisiana.

Bring Down Telegram dated July 25, 1997, from the United States Corporation Company certifying that Western Kentucky Gas Resources Company, a Delaware corporation, is active and in good standing in the Commonwealth of Kentucky.

Bring Down Telegram dated July 25, 1997, from the United States Corporation Company certifying that Western Kentucky Gas Resources Company, a Delaware corporation, is active and in good standing in the State of Oklahoma.

D. Opinion Letters

- 222. Opinion Letter dated July 29, 1997, from Locke Purnell Rain Harrell to United Cities Gas Company.
- 223. Opinion Letter dated July 29, 1997, from Glen A. Blanscet, Vice President, General Counsel and Corporate Secretary of Atmos Energy Corporation, to Locke Purnell Rain Harrell and United Cities Gas Company.

E. Stock Certificate Legends

- 224. Stock Certificate Legend for certificates of persons who are affiliates for purposes of Securities Act Rule 145.
- 225. Stock Certificate Legend for certificates of Charles R. Lowe.

F. Miscellaneous Documents

- 226. Stock Exchange Agent Agreement dated July 28, 1997, by and between Atmos Energy Corporation and BankBoston N.A.
- 227. Atmos Energy Corporation's Secretary's Certificate as to Resolutions adopted by the Board of Directors of Atmos Energy Corporation relating to Atmos Energy Corporation's Assumption of the First Mortgage Bonds of United Cities Gas Company and the Amendment of the Atmos Energy Corporation Supplemental Executive Benefits Plan for Gene C. Koonce.

IV. Documents Delivered at Closing – Third Parties

- 228. Pooling Letter dated July 29, 1997, from Ernst & Young, LLP to the Board of Directors of Atmos Energy Corporation.
- 229. Bring-Down Comfort Letter dated July 29, 1997, from Ernst & Young, LLP to the Board of Directors of Atmos Energy Corporation.
- 230. Pooling Letter dated July 29, 1997, from Arthur Andersen LLP to the Board of Directors of United Cities Gas Company.
- 231. Bring-Down Comfort Letter dated July 29, 1997, from Arthur Andersen LLP to the Board of Directors of United Cities Gas Company and the Board of Directors of Atmos Energy Corporation.

Assurance letter dated July 29, 1997, from Atmos Energy Corporation to Arthur Andersen LLP.

- 232. Tax Opinion Letter dated July 29, 1997, from Locke Purnell Rain Harrell to Atmos Energy Corporation.

Representation Letter dated July 29, 1997, from Atmos Energy Corporation to Locke Purnell Rain Harrell.

Representation Letter dated July 29, 1997, from United Cities Gas Company to Locke Purnell Rain Harrell.

- 233. Tax Opinion Letter dated July 29, 1997, from Chapman and Cutler to United Cities Gas Company.

Representation Letter dated July 29, 1997, from United Cities Gas Company to Chapman and Cutler.

Representation Letter dated July 29, 1997, from Atmos Energy Corporation to Chapman and Cutler.

V. Documents Executed and/or Filed at Or Contemporaneously with Closing

A. *Merger and Organizational Documents*

- 234. Amendment No. 1 to Plan of Merger dated July 28, 1997, by and between Atmos Energy Corporation and United Cities Gas Company.
- 235. Certificate of Merger of United Cities Gas Company, an Illinois and Virginia Corporation, into Atmos Energy Corporation, a Texas corporation, from the Secretary of State of Texas dated July 29, 1997, and effective July 31, 1997, at 11:59 p.m.

Articles of Merger of United Cities Gas Company, an Illinois and Virginia corporation, with and into Atmos Energy Corporation, a Texas corporation, filed with the Secretary of State of Texas on July 29, 1997.

Exhibit "A" - Plan of Merger by and between Atmos Energy Corporation and United Cities Gas Company, an Illinois and Virginia corporation.

Exhibit "A" - Restated Articles of Incorporation of Atmos Energy Corporation as Amended.

Assumed Name Certificate for the assumed name "United Cities Gas Company" filed with the Secretary of State of Texas on July 29, 1997.

236. Certificate of Merger of United Cities Gas Company, a Virginia corporation, into Atmos Energy Corporation, a Texas corporation, from the State Corporation Commission of Virginia dated July 29, 1997, and effective July 31, 1997, at 11:59 p.m.

Articles of Merger of United Cities Gas Company, an Illinois and Virginia corporation, with and into Atmos Energy Corporation, a Texas corporation, filed with the Secretary of State of Texas on July 29, 1997.

Exhibit "A" - Plan of Merger by and between Atmos Energy Corporation and United Cities Gas Company, an Illinois and Virginia corporation.

Exhibit "A" - Restated Articles of Incorporation of Atmos Energy Corporation as Amended.

Certification issued by the State Corporation Commission of Virginia dated July 31, 1997.

237. Certificate of Merger of United Cities Gas Company, an Illinois corporation, into Atmos Energy Corporation, a Texas corporation, from the Secretary of State of Illinois dated July 29, 1997, and filed with the Recorder of Cook County, Illinois on August 1, 1997, and the Recorder of Sangamon County, Illinois, on August 15, 1997.

Articles of Merger, Consolidation or Share Exchange of United Cities Gas Company, an Illinois and Virginia corporation, with and into Atmos Energy Corporation, a Texas corporation, filed with the Secretary of State of Illinois on July 29, 1997.

Exhibit "A" - Plan of Merger by and between Atmos Energy Corporation and United Cities Gas Company, an Illinois and Virginia corporation.

Exhibit "A" - Restated Articles of Incorporation of Atmos Energy Corporation as Amended.

Certificate of fact of merger from the Secretary of State of Illinois dated July 31, 1997.

Application to Adopt, Change or Cancel an Assumed Corporate Name for the name "United Cities Gas Company" filed with the Secretary of State of Illinois on July 31, 1997.

B. Atmos Energy Corporation Long-Term Stock Plan for the United Cities Gas Company Division

238. Letter dated July 29, 1997, from Atmos Energy Corporation to United Cities Gas Company confirming the assumption by Atmos of all rights, duties and obligations under the United Cities Gas Company Long Term Stock Plan of 1989.
239. Cumulative Award Agreement dated July 25, 1997, by and between Atmos Energy Corporation and David Anglin.
240. Cumulative Award Agreement dated July 29, 1997, by and between Atmos Energy Corporation and Thomas R. Blose, Jr.
241. Cumulative Award Agreement dated July 29, 1997, by and between Atmos Energy Corporation and Adrienne Brandon.
242. Cumulative Award Agreement dated July 29, 1997, by and between Atmos Energy Corporation and William C. Carmon.
243. Cumulative Award Agreement dated July 25, 1997, by and between Atmos Energy Corporation and Robert M. Elam.
244. Cumulative Award Agreement dated July 29, 1997, by and between Atmos Energy Corporation and James B. Ford.
245. Cumulative Award Agreement dated July 29, 1997, by and between Atmos Energy Corporation and Clyde W. Guy.
246. Cumulative Award Agreement dated July 28, 1997, by and between Atmos Energy Corporation and Shirley M. Hawkins.
247. Cumulative Award Agreement dated July 29, 1997, by and between Atmos Energy Corporation and Tom S. Hawkins.
248. Cumulative Award Agreement dated July 25, 1997, by and between Atmos Energy Corporation and Herbert L. Haynes.
249. Cumulative Award Agreement dated July 29, 1997, by and between Atmos Energy Corporation and Lynn L. Hord.
250. Cumulative Award Agreement dated July 29, 1997, by and between Atmos Energy Corporation and Donald L. Howard.
251. Cumulative Award Agreement dated July 29, 1997, by and between Atmos Energy Corporation and Paul E. Kennedy.

- 252. Cumulative Award Agreement dated July 29, 1997, by and between Atmos Energy Corporation and Gene C. Koonce.
- 253. Cumulative Award Agreement dated July 28, 1997, by and between Atmos Energy Corporation and Ron McDowell.
- 254. Cumulative Award Agreement dated July 29, 1997, by and between Atmos Energy Corporation and Gary W. Price.
- 255. Cumulative Award Agreement dated July 25, 1997, by and between Atmos Energy Corporation and Anthony W. Slayden.
- 256. Cumulative Award Agreement dated July 25, 1997, by and between Atmos Energy Corporation and Mark G. Thessin.
- 257. Registration Statement on Form S-8 filed with the Securities and Exchange Commission on July 29, 1997.
- 258. Prospectus for the Atmos Energy Corporation Long-Term Stock Plan for the United Cities Gas Company Division.

C. Waivers of Closing Conditions

- 259. Waiver of Closing Condition regarding James B. Ford dated July 29, 1997.
- 260. Waiver of Closing Condition regarding Gene C. Koonce dated July 29, 1997.

D. Employment Agreements

- 261. Employment Agreement dated July 29, 1997, by and between Atmos Energy Corporation and Thomas R. Blose, Jr.
- 262. Termination Agreement dated July 29, 1997, by and between Atmos Energy Corporation and James B. Ford.

Employment Agreement dated July 29, 1997, by and between Atmos Energy Corporation and James B. Ford.
- 263. Employment Agreement dated July 29, 1997, by and between Atmos Energy Corporation and Gene C. Koonce.

E. Atmos Energy Corporation Supplemental Executive Retirement Plan Participation Documents

- 264. Participation Agreement dated as of August 1, 1997, by and between Atmos Energy Corporation and Thomas R. Blose, Jr.
- 265. Noncompetition Agreement dated as of August 1, 1997, by and between Atmos Energy Corporation and Thomas R. Blose, Jr.

266. Participation Agreement dated as of August 1, 1997, by and between Atmos Energy Corporation and Gene C. Koonce.
267. Noncompetition Agreement dated as of August 1, 1997, by and between Atmos Energy Corporation and Gene C. Koonce.

F. Transfers of Franchises

268. Ordinance No. 1301 of the City of Radford, Virginia, adopted February 10, 1997, accepted by Atmos Energy Corporation on July 29, 1997, and filed with the City Clerk of Radford, Virginia, on August 11, 1997.
269. Notice of Merger dated July 31, 1997, to the Town of Nolensville, Tennessee, filed with the Town Recorder on August 8, 1997.

G. Assumption of United Cities Gas Company Indentures

270. Twenty-Second Supplemental Indenture dated as of July 29, 1997, by and among Atmos Energy Corporation and First Trust National Association and Russell C. Bergman, supplementing Indenture of Mortgage dated as of July 15, 1959.
271. First Supplemental Indenture dated as of July 29, 1997, by and between Atmos Energy Corporation and First Trust National Association, supplementing Indenture of Mortgage dated as of November 15, 1995.

Officers' Certificate Pursuant to Section 1101(C) of the Indenture.

Opinion Letter dated July 29, 1997, from Chapman and Cutler to First Trust National Association.

VI. Post-Closing Documents

A. Business Qualification and Other Merger Filings

Georgia

272. Certificate of Authority to Transact Business dated October 20, 1997, issued by the Secretary of State of Georgia to Atmos Energy Corporation.

Certificate of Withdrawal of United Cities Gas Company as a foreign corporation issued by the Secretary of State of Georgia on January 15, 1998.

Illinois

273. Amended Certificate of Authority dated September 11, 1997, issued by the Secretary of State of Illinois to Atmos Energy Corporation and filed with the Recorder of Sangamon County, Illinois.

Report Following Merger or Consolidation filed with the Secretary of State of Illinois on September 11, 1997.

Iowa

274. Application for Certificate of Authority of Atmos Energy Corporation filed with the Secretary of State of Iowa on August 27, 1997, and Acknowledgment of Document Filed.

Acknowledgment of Document Filed dated December 19, 1997, acknowledging the filing of the Certificate of Merger (as issued by the Secretary of State of Illinois).

Certificate of Revocation dated February 23, 1998, revoking the certificate of authority of United Cities Gas Company.

Kansas

275. Certificate issued by the Secretary of State of Kansas on November 19, 1997, evidencing filing in the State of Kansas of the merger of United Cities Gas Company with and into Atmos Energy Corporation, and being recorded in the Deed Records of Shawnee County, Kansas.

Certificate issued by the Secretary of State of Kansas on December 2, 1997, registering the service mark "United Cities Gas Company" to Atmos Energy Corporation.

Kentucky

276. Application for Amended Certificate of Authority of Atmos Energy Corporation filed with the Secretary of State of Kentucky on August 27, 1997, and the Clerk of the County Court of Franklin County, Kentucky, on August 28, 1997.

Application for Certificate of withdrawal of United Cities Gas Company filed with the Secretary of State of Kentucky on January 22, 1998.

Missouri

277. Certificate of the Secretary of State of Missouri dated September 5, 1997, evidencing the filing of the merger of United Cities Gas Company into Atmos Energy Corporation.

North Carolina

278. Certificate of Authority dated September 16, 1997, issued by the Secretary of State of North Carolina to Atmos Energy Corporation.

Certificate of Withdrawal by Reason of Merger dated September 16, 1997, issued by the Secretary of State of North Carolina as to United Cities Gas Company.

South Carolina

279. Certificate of Authorization dated October 28, 1997, issued by the Secretary of State of South Carolina to Atmos Energy Corporation.

Certificate of Merger issued by the Secretary of State of Illinois as filed with the Secretary of State of South Carolina on December 19, 1997.

Tennessee

280. Certificate of Authority dated August 27, 1997, issued by the Secretary of State of Tennessee to Atmos Energy Corporation.

B. Filings with the Securities and Exchange Commission

281. Form 15 filed with the Securities and Exchange Commission on July 31, 1997, to de-register United Cities Gas Company common stock registered under any remaining effective registration statements after the close of business on July 31, 1997.

282. Post-Effective Amendment No. 1 to Form S-3 Registration Statement (Registration No. 33-56799) of United Cities Gas Company filed with the Securities and Exchange Commission on July 30, 1997.

Order of the Securities and Exchange Commission declaring Post-Effective Amendment effective as of August 14, 1997.

283. Post-Effective Amendment No. 1 to Form S-3 Registration Statement (Registration No. 333-01221) of United Cities Gas Company filed with the Securities and Exchange Commission on July 30, 1997.

Order of the Securities and Exchange Commission declaring Post-Effective Amendment effective as of August 14, 1997.

284. Post-Effective Amendment No. 2 to Form S-3 Registration Statement (Registration No. 33-56983) of United Cities Gas Company filed with the Securities and Exchange Commission on July 30, 1997.

Order of the Securities and Exchange Commission declaring Post-Effective Amendment effective as of August 14, 1997.

285. Post-Effective Amendment No. 1 to Form S-8 Registration Statement (Registration No. 33-54759) of United Cities Gas Company filed with the Securities and Exchange Commission on July 30, 1997.

C. Nasdaq De-Listing

286. Letter dated July 29, 1997, from Chapman and Cutler to the Nasdaq National Stock Market de-listing the common stock of United Cities Gas Company.

D. Exchange of Share Certificates

287. Letter of Transmittal from BankBoston, N.A., Exchange Agent to the holders of shares of Common Stock of United Cities Gas Company concerning the exchange of such shares for shares of Common Stock of Atmos Energy Corporation.
288. Letter of Welcome dated August 1, 1997, from Robert W. Best, Chairman, President and CEO of Atmos Energy Corporation, to the former shareholders of United Cities Gas Company.

E. FERC Approval

289. Order of the Federal Energy Regulatory Commission dated November 5, 1997, authorizing the transfer of the limited certificates of authority of United Cities Gas Company to Atmos Energy Corporation.

F. Recording of Twenty-Second Supplemental Indenture and Related Merger Documents

290. State and County recording information concerning the filing of the Twenty-Second Supplemental Indenture, Articles and/or Certificates of Merger and UCC-2 Statements in Georgia, Illinois, Iowa, Kansas, Kentucky, Missouri, South Carolina, Tennessee and Virginia.

G. Press Releases

291. Form 8-K of Atmos Energy Corporation filed with the Securities and Exchange Commission on August 13, 1997.
292. Press Release dated October 15, 1997.

VII. Closing Memorandum

293. Closing Memorandum and Checklist.

**ACQUISITION BY MERGER
OF UNITED CITIES GAS COMPANY BY
ATMOS ENERGY CORPORATION**

July 31, 1997

TABLE OF CONTENTS

I. Pre-Merger Documents

A. Merger Agreement and Related Documents

1. Agreement and Plan of Reorganization dated July 19, 1996, by and between United Cities Gas Company and Atmos Energy Corporation.
2. Amendment No. 1 to Agreement and Plan of Reorganization dated October 3, 1996, by and between United Cities Gas Company and Atmos Energy Corporation.
3. Letter Agreement dated March 14, 1997, by and between United Cities Gas Company and Atmos Energy Corporation extending the date for the consummation of the merger from March 31, 1997 to August 31, 1997.
4. Fairness Opinion dated July 19, 1996, from Merrill Lynch to the Board of Directors of Atmos Energy Corporation.
5. Fairness Opinion dated July 19, 1996, from PaineWebber Incorporated to the Board of Directors of United Cities Gas Company.

B. Hart-Scott-Rodino Filing

6. Notification and Report Form for Certain Mergers and Acquisitions filed with the Federal Trade Commission and the Department of Justice pursuant to the Hart-Scott-Rodino Antitrust Improvements Act of 1976.

Letter dated November 26, 1996, from the Federal Trade Commission to Locke Purnell Rain Harrell confirming the early termination of the waiting period under the Hart-Scott-Rodino Act.

C. Registration of Shares

7. Form S-4 Registration Statement (Registration No. 333-13429) filed by Atmos Energy Corporation with the Securities and Exchange Commission on October 4, 1996.
8. Bring Down Comfort Letter dated October 4, 1996, from Ernst & Young LLP to the Board of Directors of Atmos Energy Corporation.
9. Bring Down Comfort Letter dated October 4, 1996, from Arthur Andersen LLP to the Boards of Directors of United Cities Gas Company and Atmos Energy Corporation.

Letter of Assurance dated October 4, 1996, from Atmos Energy Corporation to Arthur Andersen LLP.

10. Order of the Securities and Exchange Commission dated October 4, 1996, declaring the Form S-4 Registration Statement effective at 12:15 p.m., Eastern Standard Time, on October 4, 1996.
11. Preliminary Summary Opinion dated October 4, 1996, of Locke Purnell Rain Harrell to Atmos Energy Corporation concerning the requirements of state Blue Sky laws relating to the issuance shares in connection with the merger.

Supplemental Opinion dated January 17, 1997, of Locke Purnell Rain Harrell concerning the exemption of the issuance of shares from state Blue Sky laws under the provisions of the National Securities Markets Improvements Act of 1996.

D. Listing of Shares

12. Listing Application for 13,600,000 Shares to the New York Stock Exchange, Inc. dated July 24, 1997, approved by the New York Stock Exchange, Inc.

E. State Regulatory Approvals

13. Order of the Public Utilities Commission of the State of Colorado dated September 11, 1996, authorizing the issuance by Atmos Energy Corporation of up to 16,000,000 shares of its common stock.
14. Order of the Georgia Public Service Commission dated January 22, 1997, authorizing the merger of United Cities Gas Company with and into Atmos Energy Corporation and authorizing the issuance by Atmos Energy Corporation of up to 18,000,000 shares of its common stock.
15. Interim Order of the Illinois Commerce Commission dated October 9, 1996, holding that Atmos Energy Corporation is not required to incorporate under the laws of the State of Illinois.

Order of the Illinois Commerce Commission dated June 25, 1997, authorizing the merger of United Cities Gas Company with and into Atmos Energy Corporation and authorizing the issuance by Atmos Energy Corporation of up to 18,000,000 shares of its common stock.

16. Order Canceling Hearing, Authorizing Discontinuance of Service and Terminating Docket dated December 19, 1996, of the Iowa Utilities Board.
17. Order Approving Stipulation and Agreement dated February 26, 1997, of the State Corporation Commission of the State of Kansas.
18. Order of the Public Service Commission of the Commonwealth of Kentucky authorizing the issuance by Atmos Energy Corporation of up to 16,000,000 shares of its common stock.

19. Report and Order of the Public Service Commission of the State of Missouri dated March 31, 1997, authorizing the merger of United Cities Gas Company with and into Atmos Energy Corporation and authorizing the issuance by Atmos Energy Corporation of up to 16,000,000 shares of its common stock.
20. Order of the Public Service Commission of South Carolina dated February 13, 1997, issuing Certificate of Public Convenience and Necessity to Atmos Energy Corporation and authorizing discontinuance of service by United Cities Gas Company.
21. Order of the Tennessee Regulatory Authority dated January 24, 1997, authorizing the merger of United Cities Gas Company with and into Atmos Energy Corporation and authorizing the issuance by Atmos Energy Corporation of up to 18,000,000 shares of its common stock.
22. Order of the State Corporation Commission of the Commonwealth of Virginia dated February 20, 1997, authorizing the merger of United Cities Gas Company with and into Atmos Energy Corporation, authorizing the issuance by Atmos Energy Corporation of shares of its common stock and authorizing the issuance of certificates of public convenience and necessity to Atmos Energy Corporation.

Order of the State Corporation Commission of the Commonwealth of Virginia dated March 12, 1997, approving certain affiliate arrangements between Atmos Energy Corporation and its subsidiaries.

F. Consents from and Agreements with Lenders of United Cities Gas Company and its Subsidiaries

23. Letter dated July 23, 1997, from NationsBank to United Cities Gas Company and United Cities Gas Storage Company consenting to the merger of United Cities Gas Company with and into Atmos Energy Corporation in connection with the \$11,500,000 Senior Secured Term Notes Due 2007 and the \$1,000,000 Senior Secured Floating Rate Note Due June 1, 1998.
24. Seventh Amendment to Credit Facility Agreement dated July 29, 1997, by and between NationsBank of Tennessee, N.A. and United Cities Gas Storage Company.
25. First Amendment to Credit Facility Agreement dated July 29, 1997, by and between NationsBank of Tennessee, N.A. and United Cities Propane Gas of Tennessee, Inc.

Guaranty Agreement dated July 29, 1997, executed by UCG Energy Corporation in favor of NationsBank of Tennessee, N.A., regarding Credit Facility Agreement dated December 15, 1995, by and between NationsBank of Tennessee, N.A. and United Cities Propane Gas of Tennessee, Inc.

First Amendment to Negative Pledge Agreement dated July 29, 1997, by and between NationsBank of Tennessee, N.A. and United Cities Propane Gas of Tennessee, Inc.

26. Assumption and Modification Agreement dated July 29, 1997, by and between United Cities Gas Company, Atmos Energy Corporation and First American National Bank regarding Master Promissory Note dated June 25, 1997, in the principal amount of \$17,500,000.
27. Letter dated July 28, 1997, from Bank of Montreal to Atmos Energy Corporation regarding United Cities Gas Company's unsecured \$17,500,000 Line of Credit.
28. Letter dated November 22, 1996, from NationsBank of Tennessee, N.A. to UCG Energy Corporation consenting to change in ownership and pertaining to that certain Negative Pledge and Loan Agreement dated as of November 22, 1996, by and between NationsBank of Tennessee, N.A. and UCG Energy Corporation.
29. Letter dated January 31, 1997, from NationsBank of Tennessee, N.A. to United Cities Gas Company accepting Atmos Energy Corporation as borrower under the \$10,500,000 Line of Credit and Promissory Note of United Cities Gas Company.

G. Consents of Bondholders of United Cities Gas Company

30. Consent Agreement dated June 17, 1997, by and between United Cities Gas Company and Allstate Life Insurance Company of New York.
31. Consent Agreements dated June 17, 1997, by and between United Cities Gas Company and Allstate Life Insurance Company.
32. Consent Agreement dated June 17, 1997, by and between United Cities Gas Company and American United Life Insurance Company.
33. Consent Agreement dated June 17, 1997, by and between United Cities Gas Company and Annuitant & Co.
34. Consent Agreement dated June 17, 1997, by and between United Cities Gas Company and Atwell & Co.
35. Consent Agreement dated June 17, 1997, by and between United Cities Gas Company and Cudd & Co.
36. Consent Agreement dated June 17, 1997, by and between United Cities Gas Company and First Colony Life Insurance Company.
37. Consent Agreement dated June 17, 1997, by and between United Cities Gas Company and The Franklin Life Insurance Company.
38. Consent Agreement dated June 17, 1997, by and between United Cities Gas Company and Great-West Life & Annuity Insurance Co.
39. Consent Agreement dated June 17, 1997, by and between United Cities Gas Company and Harris Trust, as Trustee.
40. Consent Agreement dated June 17, 1997, by and between United Cities Gas Company and Jefferson – Pilot Life Insurance Company.

41. Consent Agreement dated June 17, 1997, by and between United Cities Gas Company and John Hancock Life Insurance Company of America.
42. Consent Agreement dated June 17, 1997, by and between United Cities Gas Company and John Hancock Mutual Life Insurance Company.

H. Consents from and Agreements with Lenders of Atmos Energy Corporation

43. Letter Agreement dated May 21, 1997, by and between Atmos Energy Corporation and American General Life Insurance Company.
44. Letter Agreement dated June 3, 1997, by and between Atmos Energy Corporation and John Hancock Mutual Life Insurance Company.
45. Letter Agreement dated June 19, 1997, by and between Atmos Energy Corporation and Mellon Bank N.A.
46. Letter Agreement dated May 21, 1997, by and between Atmos Energy Corporation and Merit Life Insurance Company.
47. Letter Agreement dated May 21, 1997, by and between Atmos Energy Corporation and NationsBank of Texas, N.A.
48. Letter Agreement dated June 11, 1997, by and between Atmos Energy Corporation and New York Life Insurance Company.
49. Letter Agreement dated May 21, 1997, by and between Atmos Energy Corporation and The Variable Annuity Life Insurance Company.
50. Amendment to Note Purchase Agreement dated July 29, 1997, by and between Atmos Energy Corporation and John Hancock Mutual Life Insurance Company regarding Note Purchase Agreement dated October 11, 1989.
51. Amendment to Note Purchase Agreement dated July 29, 1997, by and between Atmos Energy Corporation and John Hancock Mutual Life Insurance Company regarding Note Purchase Agreement dated December 21, 1987.
52. Amendment to Note Purchase Agreement dated July 29, 1997, by and between Atmos Energy Corporation and Mellon Bank N.A., Trustee Under Master Trust Agreement of AT&T Corporation Dated January 1, 1984 for Employee Pension Plans – AT&T – John Hancock – Private Placement, regarding Note Purchase Agreement dated December 21, 1987.
53. Amendment to Note Purchase Agreement dated July 29, 1997, by and between Atmos Energy Corporation, New York Life Insurance Company, New York Life Insurance and Annuity Corporation, The Variable Annuity Life Insurance Company, American General Life Insurance Company and Merit Life Insurance Company, regarding Note Purchase Agreement dated November 14, 1994.

54. Amendment to Note Purchase Agreement dated July 29, 1997, by and between Atmos Energy Corporation and The Variable Annuity Life Insurance Company regarding Note Purchase Agreement dated August 29, 1991.
55. Amendment to Note Purchase Agreement dated July 29, 1997, by and between Atmos Energy Corporation and The Variable Annuity Life Insurance Company regarding Note Purchase Agreement dated August 31, 1992.

I. Franchisor Consents

56. Letter dated January 22, 1997, from the City Manager of Columbus, Georgia consent to transfer of franchise not required in connection with merger.
57. Resolution BR 97-21 of the City of Gainesville, Georgia dated March 18, 1997, authorizing transfer of franchise.
58. Ordinance No. 290 of the City of Altamont, Illinois dated January 27, 1997, authorizing transfer of franchise.
59. Ordinance No. 342 of the Village of Beecher City, Illinois dated February 6, 1997, authorizing transfer of franchise.
60. Ordinance No. 012197 of the Village of Brownstown, Illinois dated January 21, 1997, authorizing transfer of franchise.
61. Ordinance No. 1997-2-3-1 of the Village of Farina, Illinois dated February 3, 1997, authorizing transfer of franchise.
62. Ordinance No. 687 of the City of St. Elmo, Illinois dated April 7, 1997, authorizing transfer of franchise.
63. Ordinance No. 1997-2-3 of the Village of St. Peter, Illinois dated February 3, 1997, authorizing transfer of franchise.
64. Ordinance No. 3998 of the City of Hannibal, Missouri dated February 18, 1997, authorizing transfer of franchise.
65. Ordinance No. 97-03 of the City of Brentwood, Tennessee dated February 10, 1997, authorizing transfer of franchise.
66. Ordinance No. 97-06 of the City of Franklin, Tennessee dated March 25, 1997, authorizing transfer of franchise.
67. Ordinance No. 4346 of the City of Kingsport, Tennessee dated February 18, 1997, authorizing transfer of franchise.
68. Ordinance of the Metropolitan Government of Lynchburg/Moore County, Tennessee dated February 17, 1997, authorizing transfer of franchise.
69. Ordinance No. 97-12 of the City of Maryville, Tennessee dated March 4, 1997, authorizing transfer of franchise.

70. Ordinance No. 97-0-11 of the City of Murfreesboro, Tennessee dated March 20, 1997, authorizing transfer of franchise.
71. Ordinance No. 2-97 of the City of Shelbyville, Tennessee dated January 9, 1997, authorizing transfer of franchise.
72. Ordinance No. 97-1 of the Town of Spring Hill, Tennessee dated February 17, 1997, authorizing transfer of franchise.
73. Ordinance of the Town of Abingdon, Virginia dated March 3, 1997, authorizing transfer of franchise.
74. Letter dated December 6, 1996, from the Town Attorney of the Town of Blacksburg, Virginia confirming that formal transfer of franchise is unnecessary under Virginia law.
75. Ordinance of the Town of Christiansburg, Virginia dated January 21, 1997, authorizing transfer of franchise.
76. Ordinance No. 97-1 of the Town of Dublin, Virginia dated March 20, 1997, authorizing transfer of franchise.
77. Ordinance of the Town of Glade Spring, Virginia dated February 3, 1997, authorizing transfer of franchise.
78. Ordinance No. 97-4 of the Town of Pulaski, Virginia dated January 21, 1997, authorizing transfer of franchise.
79. Ordinance of the Town of Saltville, Virginia dated February 11, 1997, authorizing transfer of franchise.
80. Ordinance No. 1077 of the Town of Wytheville, Virginia dated March 10, 1997, authorizing transfer of franchise.

J. Consent of Woodward Marketing, L.L.C.

81. Amendment No. 1 to Woodward Marketing, L.L.C. Transfer Restriction Agreement, effective July 31, 1997, by and among Woodward Marketing, L.L.C., Woodward Marketing, Inc., UCG Energy Corporation, J.D. Woodward, III, and James Kifer.

K. Consents of Lessors

82. Consent Letter dated May 31, 1997, executed by Appalachian Properties, Inc., authorizing assignment and assumption of Lease Agreement dated November 6, 1981, between Appalachian Properties, Inc., as Lessor, and United Cities Gas Company, as Lessee.
83. Consent Letter dated May 31, 1997, executed by Bane & White, a Virginia partnership, authorizing assignment and assumption of Lease Agreement dated

October 29, 1992, between Bane & White, as Lessor, and United Cities Gas Company, as Lessee.

84. Consent Letter dated May 31, 1997, executed by The Industrial Development Board of Blount County, Tennessee, authorizing assignment and assumption of Lease Agreement and Grant of Options to Purchase dated October 31, 1983, between The Industrial Development Board of Blount County, Tennessee, as Landlord, and United Cities Gas Company, as Tenant.
85. Consent Letter dated May 31, 1997, executed by Donald D. Jones and J.B. McCarty, Jr., authorizing assignment and assumption of Lease Agreement dated July 17, 1981, between Donald D. Jones and J.B. McCarty, Jr., as Lessor, and United Cities Gas Company, as successor to Tennessee-Virginia Energy Corporation, as Lessee.
86. Consent Letter dated May 31, 1997, executed by JTAR Rentals authorizing assignment and assumption of Lease Agreement dated October 5, 1994, between JTAR Rentals, as Lessor, and United Cities Gas Company, as Lessee.
87. Consent Letter dated May 31, 1997, executed by Knickerbocker Properties, Inc. XXI authorizing assignment and assumption of Lease dated March 1, 1990, between Knickerbocker Properties, Inc. XXI, as successor in interest to Metropolitan Life Insurance Company, as successor in interest to Corporate Woods Associates, as Landlord, and United Cities Gas Company, as Tenant.
88. Consent Letter dated May 31, 1997, executed by J. Blair Spillman and Betty E. Spillman authorizing assignment and assumption of Lease Agreement dated May 18, 1994, between J. Blair Spillman and Betty E. Spillman, as Lessor, and United Cities Gas Company, as Lessee.

L. Tenant Estoppel Certificates

89. Tenant Estoppel Certificate executed by Boat Locker Corporation of Franklin, Tennessee, pertaining to Lease dated February 1, 1997, with United Cities Gas Company, as Landlord.
90. Tenant Estoppel Certificate executed by Dr. Vital Chapa pertaining to Lease dated June 24, 1996, with United Cities Gas Company, as Landlord.
91. Tenant Estoppel Certificate executed by Robert W. Dodd, Attorney, pertaining to Lease dated June 24, 1996, with United Cities Gas Company, as Landlord.
92. Tenant Estoppel Certificate executed by Golden Sky Systems, Inc., pertaining to Lease dated June 1, 1997, with United Cities Gas Company, as Landlord.
93. Tenant Estoppel Certificate executed by Independence Travel Service pertaining to Lease dated May 1, 1997, with United Cities Gas Company, as Landlord.
94. Tenant Estoppel Certificate executed by Jean-Michael Link, D.D.S., pertaining to Lease dated June 13, 1996, with United Cities Gas Company, as Landlord.

95. Tenant Estoppel Certificate executed by Townley Manufacturing Company pertaining to Lease dated February 29, 1996, with United Cities Gas Company, as Landlord.

M. Other Third-Party Consents

96. Consent Letter dated May 31, 1997, executed by Texas Gas Transmission Corporation authorizing assignment and assumption of Agreement for Field Operating Services dated June 8, 1989, between United Cities Gas Company, as Owner, and TXG Engineering, Inc., as Engineer, as subsequently assigned to Texas Gas Transmission Corporation by Engineer.

N. Consents of Merging Parties

97. Consent Letter dated February 17, 1997, from Atmos Energy Corporation to United Cities Gas Company as to various matters requiring Atmos' consent under the Agreement and Plan of Reorganization, as amended.
98. Consent Letter executed on June 9, 1997, by United Cities Gas Company as to various matters requiring United Cities' consent under the Agreement and Plan of Reorganization, as amended.

O. Termination of United Cities Gas Company Supplemental Executive Retirement Plan

99. Minutes of a Special Meeting of the Board of Directors of United Cities Gas Company on July 19, 1996, and excerpt from the Minutes of the Meeting of the Board of Directors of United Cities Gas Company on May 2, 1997, authorizing the termination of the United Cities Gas Company Supplemental Executive Retirement Plan ("SERP").
100. Agreement dated August 7, 1996, between David L. Anglin and United Cities Gas Company waiving and releasing rights and claims under the SERP.
101. Agreement dated August 7, 1996, between Thomas R. Blose, Jr., and United Cities Gas Company waiving and releasing rights and claims under the SERP.
102. Agreement dated August 7, 1996, between Adrienne H. Brandon and United Cities Gas Company waiving and releasing rights and claims under the SERP.
103. Agreement dated August 23, 1996, between William Craig Carmon and United Cities Gas Company waiving and releasing rights and claims under the SERP.
104. Agreement dated August 7, 1996, between Robert M. Elam and United Cities Gas Company waiving and releasing rights and claims under the SERP.
105. Agreement dated August 1, 1996, between James B. Ford and United Cities Gas Company waiving and releasing rights and claims under the SERP.
106. Agreement dated August 20, 1996, between Clyde W. Guy, Jr. and United Cities Gas Company waiving and releasing rights and claims under the SERP.

107. Agreement dated August 1, 1996, between Shirley M. Hawkins and United Cities Gas Company waiving and releasing rights and claims under the SERP.
108. Agreement dated August 23, 1996, between Tom S. Hawkins, Jr. and United Cities Gas Company waiving and releasing rights and claims under the SERP.
109. Agreement dated August 1, 1996, between Herbert L. Haynes and United Cities Gas Company waiving and releasing rights and claims under the SERP.
110. Agreement dated August 1, 1996, between Lynn Hord and United Cities Gas Company waiving and releasing rights and claims under the SERP.
111. Agreement dated August 1, 1996, between Don L. Howard and United Cities Gas Company waiving and releasing rights and claims under the SERP.
112. Agreement dated August 14, 1996, between Paul Kennedy and United Cities Gas Company waiving and releasing rights and claims under the SERP.
113. Agreement dated October 25, 1996, between Gene C. Koonce and United Cities Gas Company waiving and releasing rights and claims under the SERP.
114. Agreement dated August 20, 1996, between Ronald McDowell and United Cities Gas Company waiving and releasing rights and claims under the SERP.
115. Agreement dated August 8, 1996, between Gary W. Price and United Cities Gas Company waiving and releasing rights and claims under the SERP.
116. Agreement dated August 7, 1996, between Glenn B. Rogers and United Cities Gas Company waiving and releasing rights and claims under the SERP.
117. Agreement dated August 2, 1996, between Anthony W. Slayden and United Cities Gas Company waiving and releasing rights and claims under the SERP.
118. Agreement dated August 22, 1996, between Mark G. Thessin and United Cities Gas Company waiving and releasing rights and claims under the SERP.
119. Consent to Payment of Additional Supplemental Executive Retirement Plan Payments dated July 29, 1997, executed by Atmos Energy Corporation.
120. Letter dated July 29, 1997, from United Cities Gas Company to Atmos Energy Corporation advising of the termination of the United Cities Gas Company Supplemental Executive Retirement Plan effective at 11:59 p.m., Eastern time, on July 31, 1997.

P. Agreements Relating to United Cities Gas Company Benefit Plans

121. Letter agreement dated July 23, 1997, between Atmos Energy Corporation and United Cities Gas Company concerning the termination of the United Cities Gas Company Employee Stock Purchase Plan.

122. Letter agreement dated July 24, 1997, between Atmos Energy Corporation and United Cities Gas Company concerning limited assumption of obligations under United Cities Gas Company Directors' Deferred Compensation Plan.

Q. Directors and Officers Liability Insurance

123. Letter agreement dated July 23, 1997, between Atmos Energy Corporation and United Cities Gas Company relating to the purchase by Atmos of directors and officers liability insurance for the coverage of officers and directors of United Cities Gas Company.

R. Pre-Merger Business Qualifications of Atmos Energy Corporation

124. Certificate of Authority to Transact Business dated July 15, 1997, from the Secretary of State of Illinois as to Atmos Energy Corporation, a Texas corporation.
125. Certificate of Authority to Transact Business dated July 21, 1997, from the State Corporation Commission of the Commonwealth of Virginia as to Atmos Energy Corporation, a Texas corporation.

II. Documents Delivered at Closing – United Cities Gas Company

A. Incorporation, Business Qualification and Authority Documents of United Cities Gas Company

126. Copy of United Cities Gas Company's Articles of Incorporation and all amendments thereto certified by the Secretary of State of Illinois.
127. Certificate of Existence and Good Standing dated July 22, 1997, as to United Cities Gas Company from the Secretary of State of Illinois.
128. Copy of United Cities Gas Company's Articles of Incorporation and all amendments thereto certified by the State Corporation Commission of the Commonwealth of Virginia.
129. Certificate of Existence and Good Standing dated July 22, 1997, as to United Cities Gas Company from the State Corporation Commission of the Commonwealth of Virginia.
130. Certificate of Existence dated July 22, 1997, from the Secretary of State of Georgia as to United Cities Gas Company.

Bring Down Telegram dated July 25, 1997, from the United States Corporation Company certifying that United Cities Gas Company is in good standing in the State of Georgia.

131. Certificate of Authorization dated July 22, 1997, as to United Cities Gas Company from the Secretary of State of Iowa.

132. Certificate of Authority and Good Standing dated July 22, 1997, as to United Cities Gas Company from the Secretary of State of Kansas.
 133. Certificate of Authorization and Good Standing dated July 23, 1997, as to United Cities Gas Company from the Secretary of State of the Commonwealth of Kentucky.
 134. Certificate of Corporate Good Standing dated July 22, 1997, as to United Cities Gas Company from the Secretary of State of Missouri.
 135. Certificate of Authorization dated July 22, 1997, as to United Cities Gas Company from the Secretary of State of North Carolina.
 136. Certificate of Authorization dated July 22, 1997, as to United Cities Gas Company from the Secretary of State of South Carolina.
 137. Certificate of Authorization dated July 22, 1997, as to United Cities Gas Company from the Secretary of State of Tennessee.
 138. Certificate of Corporate Secretary of United Cities Gas Company dated July 29, 1997.
- Exhibit A-1: Certified Articles of Incorporation and amendments – Illinois
 Exhibit A-2: Certified Articles of Incorporation and amendments – Virginia
 Exhibit B: Bylaws of United Cities Gas Company
 Exhibit C-1: Resolutions of the Board of Directors of United Cities Gas Company – Special Meeting of July 19, 1996
 Exhibit C-2: Resolutions of the Board of Directors of United Cities Gas Company – Special Meeting of October 3, 1996
 Exhibit D: Minutes of Special Meeting of the Shareholders of United Cities Gas Company dated November 12, 1996

B. Incorporation, Business Qualification and Authority Documents of United Cities Gas Storage Company

139. Copy of the Certificate of Incorporation of United Cities Gas Storage Company certified by the Secretary of State of Delaware.
140. Certificate of Existence and Good Standing dated July 22, 1997, from the Secretary of State of Delaware as to United Cities Gas Storage Company.
141. Certificate of Authority and Good Standing dated July 25, 1997, from the Secretary of State of Kansas as to United Cities Gas Storage Company.
142. Certificate of Authorization dated July 23, 1997, from the Secretary of State of the Commonwealth of Kentucky as to United Cities Gas Storage Company.
143. Certificate of Authorization dated July 22, 1997, from the Secretary of State of Tennessee as to United Cities Gas Storage Company.

144. Certificate of Corporate Secretary of United Cities Gas Storage Company dated July 29, 1997.

Exhibit A: Certificate of Incorporation of United Cities Gas Storage Company
Exhibit B: Bylaws of United Cities Gas Storage Company

C. Incorporation, Business Qualification and Authority Documents of United Cities Propane Gas of Tennessee, Inc.

145. Copy of the Charter of United Cities Propane Gas of Tennessee, Inc. certified by the Secretary of State of Tennessee.
146. Certificate of Existence dated July 28, 1997, from the Secretary of State of Tennessee as to United Cities Propane Gas of Tennessee, Inc.
147. Certificate of Authorization dated July 23, 1997, from the Secretary of State of Alabama as to United Cities Propane Gas of Tennessee, Inc.
148. Certificate of Authorization and Good Standing dated July 22, 1997, from the Secretary of State of Illinois as to United Cities Propane Gas of Tennessee, Inc.
149. Certificate of Authorization dated July 23, 1997, from the Secretary of State of Indiana as to United Cities Propane Gas of Tennessee, Inc.
150. Certificate of Authorization dated July 23, 1997, from the Secretary of State of the Commonwealth of Kentucky as to United Cities Propane Gas of Tennessee, Inc.
151. Certificate of Authorization dated July 22, 1997, from the Secretary of State of North Carolina as to United Cities Propane Gas of Tennessee, Inc.
152. Certificate of Authorization and Good Standing dated July 24, 1997, from the Secretary of State of Ohio as to United Cities Propane Gas of Tennessee, Inc.
153. Certificate of Authorization and Good Standing dated July 22, 1997, from the State Corporation Commission of the Commonwealth of Virginia as to United Cities Propane Gas of Tennessee, Inc.
154. Certificate of Corporate Secretary of United Cities Propane Gas of Tennessee, Inc., dated July 29, 1997.

Exhibit A: Charter of United Cities Propane Gas of Tennessee, Inc.
Exhibit B: Bylaws of United Cities Propane Gas of Tennessee, Inc.

D. Incorporation, Business Qualification and Authority Documents of UCG Energy Corporation

155. Copy of Certificate of Incorporation of UCG Energy Corporation certified by the Secretary of State of Delaware.