

**IN THE TENNESSEE REGULATORY AUTHORITY  
NASHVILLE, TENNESSEE**

<b>In re: Petition of Atmos Energy Corporation</b>	)	
<b>for Approval of Tariff Establishing Environ-</b>	)	<b>Docket No. 07-00081</b>
<b>mental Cost Recovery Rider</b>	)	

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**SETTLEMENT AGREEMENT**

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For the purpose of settling this case, Tennessee Regulatory Authority (“TRA”) Docket Number 07-00081, Robert E. Cooper, Jr., the Tennessee Attorney General and Reporter, through the Consumer Advocate and Protection Division (“Consumer Advocate”), Atmos Energy Corporation (“Petitioner” or “Atmos”), and the Atmos Intervention Group (“AIG”), the parties in this litigation, respectfully submit this settlement agreement and request that it be considered and approved by the TRA. The parties stipulate to and agree to the following:

1. Atmos is incorporated under the laws of the State of Texas and the Commonwealth of Virginia and is engaged in the business of transporting, distributing and selling natural gas in Bedford, Blount, Carter, Greene, Hamblen, Maury, Moore, Obion, Rutherford, Sullivan and Williamson Counties within the State of Tennessee, with its principal Tennessee office and place of business located at 810 Crescent Centre Drive, Suite 600, Franklin, Tennessee 37067-6226.

2. Atmos is a public utility pursuant to the laws of Tennessee, and its public utility operations are subject to the jurisdiction of the TRA.

3. The Atmos Intervention Group is an informal group of customers who purchase gas and/or gas transportation services from Atmos.

4. On March 29, 2007, Atmos filed a Petition for Approval of Tariff Establishing Environmental Cost Recovery Rider (“Petition”), Docket No. 07-00081. In that filing, Atmos sought

the recovery of \$2,714,756.72 for environmental cleanup costs. Petition at ¶ 5.

5. On April 27, 2007, the Consumer Advocate filed a petition to intervene. By order dated June 13, 2007, the TRA granted the intervention request of the Consumer Advocate.

6. The Atmos Intervention Group filed a Petition to Intervene in this case on June 6, 2007. By order dated June 13, 2007, the TRA granted the intervention request of the Atmos Intervention Group.

7. The parties to this proposed settlement agreement have engaged in substantial discovery and have undertaken extensive discussions to resolve all known disputed issues. As a result of the information obtained during discovery and the discussions between the parties, the parties have agreed to adjustments that reduce Atmos's proposed cost recovery for all environmental cleanup costs in this case to \$1,650,000 to be recovered over four (4) years. Additional terms of the settlement are set forth below.

8. The \$1,650,000 settlement amount shall be recovered through an Environmental Cost Recovery Rider ("ECRR") which shall be filed by Atmos.

9. The ECRR shall provide that the period of recovery is four (4) years.

10. The implementation of the ECRR will provide for the recovery of the \$1,650,000 settlement amount by adjusting the rates per Ccf (100 cubic feet) of gas set forth in all of Petitioner's Rate Schedules by an amount equal to the Environmental Costs Recovery Factor (the "ECR Factor"), as hereinafter described.

11. The ECR Factor will be computed to the nearest one-hundredth cent per Ccf based upon total deferred costs of \$1,650,000 to be recovered over a four (4) year period for an annual amount of \$412,500. The annual expense will then be divided by the adjusted test period volumes

approved in the Petitioner's most recent general rate proceeding by the TRA<sup>1</sup>, resulting in an ECR Factor of \$0.0021 per Ccf which will be applied to all volumes<sup>2</sup> delivered by Petitioner (both sales and transportation) no earlier than the effective date of the approval of the ECRR.

12. Commencing with the period forty-eight months after implementation of the ECRR, Petitioner is required to calculate the amount by which the revenue recovered by it under the ECRR during each twelve month period was greater or less than the actual expense, such amount being referred to as the "Balancing Adjustment". The Balancing Adjustment, if positive (under-recovery) or if negative (over-recovery), would be divided by the adjusted test period sales utilized in the initial computation of the ECRR to derive a factor to the nearest one-hundredth cent per Ccf to be applied to all volumes delivered<sup>3</sup> (sales and transportation) by Petitioner during the ensuing twelve month period. Atmos agrees to provide to the Consumer Advocate and file, as directed by the TRA, a copy of each Balancing Adjustment, including a copy of all information and financial data on which each Balancing Adjustment is based..

13. Atmos agrees to provide to the Consumer Advocate and file, as directed by the TRA, a copy of each computation of the ECR Factor, including a copy of all information and financial data on which each computation is based, as well as any reasonable periodic reporting which the TRA

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<sup>1</sup>The most recent general rate proceeding of Petitioner before the TRA was Docket No. 05-00258. Adjusted test period volumes in that docket were found to be 193,251,300 Ccf (less special contract and Saturn automobile plant volumes). If another rate proceeding involving the Petitioner is commenced and concluded before the TRA while the ECRR is still in effect, then the ECR Factor would be re-calculated for the remaining term of the ECRR based upon the adjusted test period volumes approved in the subsequent rate proceeding.

<sup>2</sup>Other than volumes delivered to special contract customers, which are GM/Saturn, Goodyear Tire & Rubber Company, UCAR International, Middle Tennessee State University, and Mountain Home.

<sup>3</sup>*Id.*

may prescribe in connection with the Company's administration of the ECRR.

14. The settlement amount of \$1,650,000 for environmental cleanup costs includes anticipated expenditures during Petitioner's 2007 fiscal year in the amount of \$350,000 for costs to be incurred for the cleanup of the Johnson City site referred to in the Atmos Petition. When the cleanup of the Johnson City site is completed, the settlement amount shall be adjusted upward or downward to reflect the difference between the actual expenditure and the estimated cost of \$350,000, and any difference, positive or negative, will then be applied over the then remaining term of the tariff as either an additional amount to be recovered, if positive, or a reduction of the total amount to be recovered, if negative, and the ECR Factor will be appropriately adjusted on account thereof. Atmos will maintain documentation supporting all future environmental expenses and will make this documentation available to the parties and the TRA upon request.

15. This settlement covers all environmental problems in the State of Tennessee known by the Petitioner as of the date of this agreement.

16. If Atmos receives any payments or credits of any kind for the cleanup of sites at issue in this case from government funds, insurance companies, or other third parties, Atmos shall promptly inform the TRA and the parties of such payments or credits, and the settlement amount shall be adjusted downward to reflect these payments or credits.

17. For the purposes of this settlement, all prefiled testimony and exhibits, as well as all responses to discovery requests, are introduced into evidence without objection, and the parties waive their right to cross examine all witnesses with respect to all such prefiled testimony and exhibits. If, however, at the hearing to consider approval of this settlement questions should be asked by any person, including a Director, who is not a party to this stipulation, the parties may

present truthful testimony and exhibits to respond to such questions and may cross examine any witnesses with respect to such testimony and exhibits; provided, however, that such cross examination shall not be inconsistent with this stipulation.


18. The provisions of this proposed settlement agreement do not necessarily reflect the positions asserted by any party, and no party to this proposed settlement agreement waives the right to assert any position in any future proceeding. This proposed settlement agreement shall not have any precedential effect in any future proceeding or be binding on any parties except to the limited extent necessary to implement the provisions hereof.

19. If the TRA does not accept the proposed settlement in whole, the parties are not bound by any position set forth in this proposed settlement agreement. In the event that the TRA does not approve this proposed settlement agreement, each of the signatories to this proposed settlement agreement will retain the right to terminate this proposed settlement agreement. In the event of such action by the TRA, any of the signatories to this proposed settlement agreement would be entitled to give notice within five (5) business days that it is exercising its right to terminate this proposed settlement agreement; provided, however, that the signatories to this proposed settlement agreement could, by unanimous consent, elect to modify this proposed settlement agreement to address any modification required by, or issues raised by, the TRA. Should this proposed settlement agreement terminate, it would be considered void and have no binding precedential effect, and the signatories to this proposed settlement agreement would reserve their rights to fully participate in all relevant proceedings notwithstanding their agreement to the terms of this proposed settlement agreement.

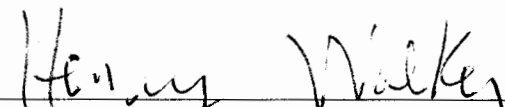
20. This Agreement shall be governed by and construed under the laws of the State of

Tennessee, notwithstanding conflict of laws provisions.

**FOR ATMOS ENERGY CORPORATION:**

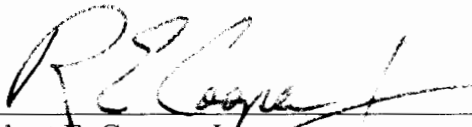
  
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Dated: August \_\_\_, 2007

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