IN THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE

In re: Petition of Atmos Energy Corporation	)	
for Approval of a General Rate Increase	)	Docket No. 07-00105
	)	

SECOND DISCOVERY REQUEST OF THE CONSUMER ADVOCATE AND PROTECTION DIVISION TO ATMOS ENERGY CORPORATION

To: Atmos Energy Corporation
c/o William T. Ramsey
A. Scott Ross
Neal & Harwell, PLC
One Nashville Place, Suite 2000
150 Fourth Avenue North
Nashville, TN 37219

This Discovery Request is hereby served upon Atmos Energy Corporation, ("Atmos" or "Company"), pursuant to Rules 26, 33, 34 and 36 of the Tennessee Rules of Civil Procedure and Tenn. Comp. R. & Reg 1220-1-2-.11. We request that full and complete responses be provided pursuant to the Tennessee Rules of Civil Procedure. The responses are to be produced at the Office of the Tennessee Attorney General and Reporter, Consumer Advocate and Protection Division, 425 Fifth Avenue North, Nashville, Tennessee 37243, c/o Vance Broemel.

SECOND DISCOVERY REQUESTS

1. Please provide on diskette or CD all tabulations included in the Depreciation Studies and all data necessary to recreate, in their entirety, the analyses and calculations performed for the preparation of the Depreciation Studies. Please provide this and all electronic data in Excel (or .txt format if appropriate), with all formulae intact. Please provide any record layouts necessary to interpret the data. Include in the response electronic spreadsheet copies of all of the schedules and/or tables included in the Depreciation Studies, with all formulae intact.

RESPONSE:

2. Please provide for each plant account, and for each year since the inception of the account up to and including 2006, the following standard depreciation study data as identified at pages 30-33 of the August 1996 NARUC Public Utility Depreciation Practices Manual ("NARUC Manual"). Please provide the data in electronic format (Excel or .txt). Provide aged vintage data if available. Use the codes identified for each type of data, unless the Company regularly uses other codes. In those circumstances, identify and explain the Company's coding system.

Code	Data Type
9	Addition
0	Ordinary Retirement
1	Reimbursement
2	Sale
3	Transfer - In
4	Transfer - Out
5	Acquisition
6	Adjustment
7	Final retirement of life span property (see NARUC Manual, Chapter X)
8	Balance at Studies Date
	Initial Balance of Installation

RESPONSE:

3. If the depreciation study data provided in response to the preceding question are not the exact set of data used for the Depreciation Studies submitted in this case, please explain all differences and reconcile the amounts provided to those used in the Depreciation Studies.

RESPONSE:

4. Please provide the cost of removal and gross salvage data used in the Depreciation Studies' net salvage analyses. If this data differs from that reflected on the Company's books, please explain the differences and provide a reconciliation. Please provide this data in electronic (Excel or .txt) format.

RESPONSE:

5. Please provide the following annual accumulated depreciation amounts for each plant account for the last 10 years (up to, and including, 2006). If the requested data are not available for the last 10 years, please provide the data for as many years as are available. Please provide data in both hard copy and electronic format (Excel or .txt).

a. Beginning and ending reserve balances,
b. Annual depreciation expense,
c. Annual retirements,
d. Annual cost of removal and gross salvage,
e. Annual third party reimbursements.

RESPONSE:

6. Provide a summary of annual maintenance expense by USOA account (for all accounts) for the last 5 years. Please provide data in both hard copy and electronic format and explain what consideration, if any, was given to annual maintenance expense data in Mr. Roff's estimation of service lives, dispersion patterns and net salvage.

RESPONSE:

Depreciation Rate Calculations

7. Please provide the calculation of the proposed depreciation rates in electronic format (Excel) with all formulae intact. Include Excel versions of all Tables included in the Depreciation Studies, with all formulae intact.

RESPONSE:

8. At what level of aggregation does the Company maintain its book reserves, e.g. functional category, plant account?

RESPONSE:

9. Does the Company depreciate its plant on a Tennessee regulated basis? If not, describe fully how the Company determines the depreciation expenses and reserves applicable to Tennessee plant. If the Company does not maintain its book reserve by plant account and by Tennessee jurisdiction, please provide the calculation of the recorded reserves shown in the Depreciation Studies.

RESPONSE:

10. Please describe fully how Mr. Roff identified the reserves applicable to each plant account for his computation of remaining life depreciation. Include in your response all remaining life calculations resulting from the Depreciation Studies both in hard copy and in electronic format with all formulae intact.

RESPONSE:

11. Was Equal Life Group (ELG) weighting used in any of the depreciation rate calculations? If yes, please provide all calculations using both ELG and direct weighting. Provide these calculations in hardcopy and in electronic format (Excel).

RESPONSE:

12. If applicable, please calculate all depreciation rates using the same weighting procedure used in the current depreciation rates, i.e., the same procedure used the last time depreciation rates were calculated.

RESPONSE:

13. Please provide the **proposed** and **current** depreciation rates split into three separate components: capital recovery, gross salvage and cost of removal.

RESPONSE:

14. Please provide a schedule showing the calculation of test year depreciation. Show the plant depreciated at whatever level of aggregation the Company computes depreciation, the depreciation rates, and the amount of depreciation expense incorporated into the proposed revenue requirement.

RESPONSE:

Net Salvage

15. Please provide electronic (Excel) versions of the net salvage studies included in the Depreciation Studies with all formulae intact. For each of the years included in the net salvage studies, explain whether gross salvage and cost of removal were normal or abnormal and why.

RESPONSE:

16. Please explain, and provide examples of, the Company's retirement unit cost procedures for each account. Identify all changes to retirement unit costs which have occurred over the years.

RESPONSE:

17. Were any retirements, classified as sales or reimbursements, excluded from the life studies? If yes, were the retirements and related gross salvage and cost of removal also excluded from the net salvage studies?

RESPONSE:

18. Please explain the Company's procedures for distinguishing between cost of removal and cost of new additions for each plant account when new plant is replacing old plant. Provide copies of actual source documents showing this allocation.

RESPONSE:

19. Does Atmos agree that, in the case of a replacement, Atmos has control over how much of the cost of the replacement is assigned to the retirement as cost of removal, and how much is capitalized to plant-in-service? Please explain the answer fully.

RESPONSE:

20. Please provide all manuals, guidelines, memoranda or other documentation that deal with the Company's policies on the assignment of capital costs and net salvage with regard to the replacement of retired plant. Include in your response a narrative explanation of the Company's procedures for assigning the value of retirements from each account. Also, please provide a sample work order for a replacement project, showing these cost assignments.

RESPONSE:

21. Please identify and explain the Company's expectations with respect to future removal requirements and markets for retired equipment and materials. Please provide the basis for these expectations.

RESPONSE:

22. Please explain how the Company accounts for third party reimbursements and how they are reflected in the Depreciation Studies. If third-party reimbursements were excluded from the net salvage studies, was the related retirement also excluded from the life studies?

RESPONSE:

23. For calendar year 2006 and for the test year ended May 31, 2007 in this case, please identify the amount and proportion of each account that was (will be) capitalized as overhead to construction and the proportion and amount that was treated as an annual expense.

RESPONSE:

24. Do Mr. Roff's net salvage estimates for mass property accounts incorporate inflation expected to be incurred in the future? If yes, provide the net present value of all of these ratios.

RESPONSE:

25. Is it correct that Mr. Roff's mass property net salvage estimates project past inflation into the future net salvage estimate? If not, please explain why not.

RESPONSE:

26. Please state whether the Company's capital and construction budgets for the next five years anticipate any change in the rate of retirements from any of the plant accounts. For each such instance, describe fully and quantify the change.

RESPONSE:

27. Please provide a comparison of the annual cost of removal and gross salvage amounts shown on the Company's federal tax returns with the corresponding book amounts, for the last 5 years. Provide the annual deferred tax expense associated with each of the differences. Also,

provide the beginning and ending accumulated deferred tax balances and state whether they are rate base additions or rate base deductions.

RESPONSE:

Service Lives

28. If not provided in the work papers, please provide the retirement rate analysis ranking of best-fit life/curve combinations for each account. For any accounts where Mr. Roff did not base his service life/curve selection on the results of his retirement rate analysis, explain why he did not. Also, explain in detail how each service life/curve combinations was selected.

RESPONSE:

29. Please provide copies of any and all actuarial, semi-actuarial studies, and life extension studies prepared by the Company since the last depreciation study(ies). Life extension refers to any program, maintenance or capital, designed to extend lives and/or increase capacity of existing plant. Identify the functions to which these studies relate.

RESPONSE:

30. Identify and explain all Company programs which might affect plant service lives.

RESPONSE:

31. Please provide the ARO/ARC calculations for each of ATMOS's property accounts assuming that ATMOS has legal AROs for all of its plant.

RESPONSE:

Account Specific

32. Please provide all manuals, guidelines, memoranda or other documentation that deal with the Company's policies with regard to the physical removal of retired mains and, separately, services from the ground as opposed to capping these pipes and leaving them in place. Include in your response a narrative explanation of a typical Main and Service replacement project with a sample work order showing the retirement of a gas main.

RESPONSE:

33. Please explain the process by which the labor associated with Mains and Services replacement projects is split between the new asset and cost of removal. Please identify and explain the three largest Mains and Services replacement projects currently taking place.

RESPONSE:

34. Please provide a summary of the last 10 years of Mains and Services additions, up to and including 2006. Identify on a year-by-year basis the new additions vs. replacement additions. Please explain any anticipated changes to these proportions.

RESPONSE:

35. Please provide a summary of all Main and Service Replacement projects during 2006. Separately identify all major costs, including the removal of the existing Main and/or Service.

RESPONSE:

Existing Rates

36. Provide a copy of the Company's most recent prior depreciation studies and the Order(s) and/or Settlement Agreements establishing the present deprecation rates. Identify and explain all changes between the current studies and the most recent prior studies.

RESPONSE:

37. Provide a table summarizing separately by account the depreciation rate changes proposed by Mr. Roff that are caused by life changes, net salvage changes, and other changes. Provide additional explanations of the "other changes".

RESPONSE:

38. Please describe fully any redistribution or rebalancing of reserves among accounts that Mr. Roff has performed.

RESPONSE:

SFAS No. 143 and FIN 47

39. Please provide any and all studies concerning the Company's implementation of FASB Statement No. 143 and FIN 47. Include in your response all complete copies of all correspondence with the following parties regarding the Company's implementation of FASB Statement No. 143 and FIN 47:

a. External auditors and other public accounting firms.
b. Consultants
c. External counsel
d. Federal and State regulatory agencies
e. Internal Revenue Service

RESPONSE:

40. Regarding FASB Statement No. 143 and FIN 47, on a plant account basis, please identify any and all "legal obligations" associated with the retirement of the assets contained in the account that result from the acquisition, construction, development and (or) the normal operation of the assets in the account. For the purposes of this question, please use the definition of a "legal obligation" provided in FASB Statement No. 143: "an obligation that a party is required to settle as a result of an existing or enacted law, statute, ordinance, or written or oral contract under the doctrine of promissory estoppel."

RESPONSE:

41. For any asset retirement obligations (ARO) identified above, please provide the "fair value" of the obligation. For the purposes of the question, fair value means "the amount at which that liability could be settled in a current [not future] transaction between willing parties, that is, other than in a forced or liquidation transaction". Please provide all assumptions and calculations underlying these amounts.

RESPONSE:

42. Please provide the "credit adjusted risk free rate" used for any and all ARO calculations under FASB Statement No. 143 and FIN 47.

RESPONSE:

43. Please provide complete copies of all Board of Director's minutes and internal management meeting minutes during the past five years in which any or all of the following subjects were discussed: the Company's gas and/or common plant depreciation rates; retirement unit costs; SFAS No. 143 and FIN 47.

RESPONSE:

44. Please provide the accounting entries (debits and credits) used to implement SFAS No. 143 and FIN 47, along with all work papers supporting those entries. Please provide all these work papers and calculations in electronic format (Excel) with all formulae intact.

RESPONSE:

45. Please refer to Atmos's September 30, 2006 Form 10-K to the SEC, page 63. If not provided elsewhere, please provide the work papers supporting the calculation of the liability for "Regulatory cost of removal obligation" of $263,424,000 as of September 30, 2005 and $103,579,000 as of September 30, 2004. Provide the Tennessee portion of each of the numbers identified, broken down into the greatest level of refinement available in electronic format (Excel), with all formulae intact.

RESPONSE:

46. What impact, if any, did the application of FIN 47 have upon the proposed depreciation rates and expense in this rate case? Provide all work papers supporting the answer. If the application of FIN 47 had no impact, please explain why not.

RESPONSE:

47. Provide an analysis of the regulatory liability for cost of removal since inception, identifying and explaining each debit and credit entry and amount.

RESPONSE:

48. Provide Atmos's projection of the annual year-end balance in the regulatory liability for non-legal AROs for Atmos, for the next 5 years. If not available for the next five years, provide for as many years into the future that the projection is available. If this projection has not been made, please explain why not. Provide in electronic format (Excel) with all formulae intact.

a. For this projection assume that all of Atmos's proposed depreciation rates are approved as requested.

b. Explain all other assumptions used to make this projection.

RESPONSE:

49. With respect to the Tennessee portion of the "Regulatory cost of removal obligation" reported in Atmos's 10-K,

a. Does Atmos agree that this constitutes a regulatory liability for regulatory purposes in Tennessee? If not, why not?

b. Does Atmos agree that this amount is a refundable obligation to ratepayers until it is spent on its intended purpose (cost of removal)? If not, why not?

c. Identify and explain all other similar examples of Atmos's advance collections of estimated future costs for which it does not have a legal obligation.

RESPONSE:

50. Does ATMOS consider that it is bound by SEC regulations to record accruals for future costs of removal as regulatory liabilities? If not, please explain why not.

RESPONSE:

51. Would the Company object to separating retirement cost accounting from depreciation accounting, with separate rates and reserves? If so, please explain your objections fully.

RESPONSE:

52. Please provide all studies of the economic or operational desirability of replacing any of the Company's distribution facilities, whether or not those studies have led to plans to conduct the replacement.

RESPONSE:

53. Please identify and describe the level of detail, e.g. by account, functional category, at which the Company computes the depreciation expense for purposes of financial reporting, Commission reporting, and rate making in this case. Explain fully any differences among these three depreciation calculations.

RESPONSE:

54. State whether your company has accrued reserves against any non-legal removal costs that it has not classified as regulatory liabilities on its financial books. Please describe these costs in detail, state fully the reason(s) for your belief that such accruals are not regulatory liabilities, and

identify the amounts of such accruals in as much detail as is available. Provide the supporting documentation for each amount.

RESPONSE:

55. Please identify and describe fully any administrative, accounting, computational or conceptual objections that your company has to the treatment of non-legal plant retirement cost obligations in similar manner as legal asset retirement obligations are treated under SFAS 143.

RESPONSE:

56. SFAS 143 contains an Appendix B, "Background Information and Basis for Conclusions". Paragraph B22, as follows:

> Paragraph 37 of Statement 19 states that "estimated dismantlement, restoration, and abandonment costs...shall be taken into account in determining amortization and depreciation rates." Application of that paragraph has the effect of accruing an expense irrespective of the requirements for liability recognition in the FASB Concepts Statements. In doing so, it results in recognition of accumulated depreciation that can exceed the historical cost of a long-lived asset. The Board concluded that an entity should be precluded from including an amount for an asset retirement obligation in the depreciable base of a long-lived asset unless that amount also meets the recognition criteria of this Statement. When an entity recognizes a liability for an asset retirement obligation, it also will recognize an increase in the carrying amount of the related long-lived asset. Consequently, depreciation of that asset will not result in the recognition of accumulated depreciation in excess of the historical cost of a long-lived asset.

a. Does the present method of accounting for non-legal retirement costs allow for the accumulation of depreciation in excess of the historical cost of assets being depreciated?

b. If the answer to (a) is yes, please explain fully whether your company's accounting is maintained in accordance with the Board's directives in the foregoing paragraph.

c. Can your company offer any alternative method of removal cost accounting that would not result in the accrual of depreciation in excess of the historical cost of the asset being depreciated? If so, please describe such alternative accounting in detail.

RESPONSE:

57. SFAS 143 contains an Appendix B, "Background Information and Basis for Conclusions". Paragraph B73 states as follows:

> Many rate-regulated entities currently provide for the costs related to asset retirement obligations in their financial statements and recover those amounts in rates charged to their customers. Some of those costs related to asset retirement obligations within the scope of this Statement; others are not with in the scope of this Statement and, therefore, cannot be recognized as liabilities under its provisions. The objective of including those amounts in rates currently charged to customers is to allocate costs to customers over the lives of those assets. The amount charged to customers is adjusted periodically to reflect the excess or deficiency of the amounts charged over the amounts incurred for the retirement of long-lived assets. The Board concluded that if asset retirement costs are charged to customers of rate-regulated entities but no liability is recognized, a regulatory liability should be recognized if the requirements of Statement 71 are met.

a. Does your company agree with this statement? If not, explain fully the nature of your disagreement.

b. Has your company established regulatory liabilities in accordance with the recommendations in this paragraph? If not, explain fully why not?

c. If your company has established regulatory liabilities in accordance with the recommendations in this paragraph, please identify those liabilities in as much detail as is available.

d. Please describe fully the derivation of any amounts identified in response to (c) and provide full documentation, including source data, work papers, calculations, etc. of that derivation.

RESPONSE:

Shared Services - Utility (SSU)

58. Please provide a narrative description of the facilities, equipment or software in each of the SSU accounts. Include in this description the location and a jurisdictional breakdown of the assets in each SSU asset account and the manner in which they benefit Atmos's operations in Tennessee.

RESPONSE:

59. Please describe fully the "Fully Depreciated" and "Late Retirements" lines in Schedule 1 of the SSU study.

RESPONSE:

60. Provide a historical record of account 399.24, "General Start-up Cost." Explain fully why the depreciation (or amortization) rate for this account is proposed to be increased from 8.33% to 10.32%. Why isn't the depreciation rate for this account the reciprocal of its amortization period, that is, 10%?

RESPONSE:

Respectfully submitted,

Robert E. Cooper, Jr.
Attorney General and Reporter
State of Tennessee

Vance L. Broemel

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#107583

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was served via U.S. Mail or electronic mail to:

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this the 11th day of July, 2007

Vance Broemel

Vance Broemel
Senior Counsel

#109105