BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

February 5, 2008

IN RE:	)
	)
ATMOS ENERGY CORPORATION	) **Docket No. 07-00198**
ACTUAL COST ADJUSTMENT ("ACA") AUDIT	)

NOTICE OF FILING BY THE UTILITIES DIVISION OF THE TENNESSEE REGULATORY AUTHORITY

Pursuant to Tenn. Code Ann. §§65-4-104, 65-4-111 and 65-3-108, the Utilities Division of the Tennessee Regulatory Authority ("Authority") hereby gives notice of its filing of the Compliance Audit Report of the Actual Cost Adjustment Audit (hereafter "ACA") component of the Purchased Gas Adjustment Rule for Atmos Energy Corporation (the "Company) in this docket and would respectfully state as follows:

1. The present docket was opened by the Authority to hear matters arising out of the audit of the Company's ACA filing for the period July 1, 2006 through June 30, 2007.

2. The Company's ACA filing was received on August 30, 2007, and the Staff completed its audit of same on February 1, 2008.

3. On January 22, 2008, the Utilities Division submitted its preliminary ACA audit findings to the Company via e-mail. The Company responded on January 23, 2008 via e-mail and their responses have been incorporated into the final report. The Report is attached hereto as Exhibit A and is fully incorporated herein by this reference.

4. The Utilities Division hereby files its Report with the Tennessee Regulatory Authority for deposit as a public record and approval of the Report and the recommendations contained therein.

Respectfully Submitted:

Mike Warner

Mike Warner
Utilities Division of the
Tennessee Regulatory Authority

CERTIFICATE OF SERVICE

I hereby certify that on this 5th day of February, 2008, a true and exact copy of the foregoing has been either hand-delivered or delivered via U.S. Mail, postage pre-paid, to the following persons:

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COMPLIANCE AUDIT REPORT

OF

ATMOS ENERGY CORPORATION

ACTUAL COST ADJUSTMENT

DOCKET NO. 07-00198

PREPARED BY

TENNESSEE REGULATORY AUTHORITY

UTILITIES DIVISION

February 2008

EXHIBIT A

COMPLIANCE AUDIT

ATMOS ENERGY CORPORATION

ACTUAL COST ADJUSTMENT

DOCKET NO. 07-00198

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I. INTRODUCTION

The subject of this audit is Atmos Energy Corporation's ("Company" or "Atmos") compliance with the Actual Cost Adjustment and Refund Adjustment of the Purchased Gas Adjustment Rule ("PGA Rule") of the Tennessee Regulatory Authority ("TRA" or the "Authority"). The objective of the audit is to determine whether the Purchased Gas Adjustments, which are encompassed by the Actual Cost Adjustment ("ACA") as more fully described in Section IV, for the year ended June 30, 2007 are calculated correctly and are supported by appropriate source documentation.

II. AUDIT OPINION

The Audit Staff ("Staff") concludes that, except for the finding noted in Section VIII, the Purchased Gas Adjustment mechanism as calculated in the Actual Cost Adjustment appears to be working properly and in accordance with the TRA rules for Atmos Energy Corporation. The amount of the findings contained herein is not material with respect to the total gas costs.

III. SUMMARY OF COMPANY FILING

The Company filed its annual report of the transactions in the Deferred Gas Costs Account ("ACA Account") for its Tennessee service areas on August 30, 2007. This ACA filing showed $122,991,542 in total gas costs, with $126,467,003 being recovered from customers through rates. Adding a beginning balance in the ACA account of negative $6,824,989 in net over-recovered gas costs from the preceding ACA period and interest due to customers for the current period of $426,916 resulted in an ACA Account balance at June 30, 2007 of negative $10,727,366 in over-recovered gas costs. The Company's filing is summarized in the table below:

ATMOS ENERGY CORPORATION
ACA FILING FOR PERIOD JULY 2006-JUNE 2007

Line		Union City	Other TN Towns	Total
1	Beginning Balance (July 2006)	$(1,584,831.95)	$(5,240,156.57)	$(6,824,988.52)
2	Purchased Gas Costs	2,966,143.17	120,025,398.83	122,991,542.00
3	Gas Costs recovered through rates	2,035,717.44	124,431,285.40	126,467,002.84
4	Interest on monthly balances	(90,654.74)	(336,261.49)	(426,916.23)
5	Ending Balance (June 2007) (Line 1 + Line 2 – Line 3 + Line 4)	$(745,060.96)	$ (9,982,304.63)	$(10,727,365.59)

**A number in ( ) is a negative or credit balance which represents an over-collection of gas costs.

The Company began a refund to its Union City customers and customers in other Tennessee service areas on October 1, 2007, to distribute the balances in the ACA accounts as of June 30, 2007. The Audit Staff's findings resulting from this audit are described in detail in Section VIII of this report.

IV. DESCRIPTION OF PURCHASED GAS ADJUSTMENT RULE

Actual Cost Adjustment Audits:

The PGA Rule can be found in Chapter 1220-4-7 of the Rules of the Tennessee Regulatory Authority. The PGA Rule permits a gas company to recover, in a timely manner, the total cost of gas purchased for delivery to its customers and to assure that a company does not over-collect or under-collect gas costs from its customers. The PGA Rule consists of three major components:

1. **The Actual Cost Adjustment (ACA)**
2. **The Gas Charge Adjustment (GCA)**
3. **The Refund Adjustment (RA)**

The ACA is the difference between the revenues billed customers by means of the GCA and the cost of gas invoiced the Company by suppliers plus margin loss (if allowed by order of the TRA in another docket) as reflected in the Deferred Gas Cost account. The ACA then "trues-up" the difference between the actual gas costs and the gas costs recovered from customers through a surcharge or a refund. The RA refunds the "true-up" along with other supplier refunds. For a more complete definition of the GCA and RA, please see the PGA Formula in Appendix A.

Section 1220-4-7-.03(2) of the PGA Rule requires:

> Each year, the Company shall file with the [Authority] an annual report reflecting the transactions in the Deferred Gas Cost Account. Unless the [Authority] provides written notification to the Company within one hundred eighty (180) days from the date of filing the report, the Deferred Gas Cost Adjusment Account shall be deemed in compliance with the provisions of these Rules. This 180 day notification period may be extended by mutual consent of the Company and the [Authority] Staff or by order of the [Authority].

Prudence Audit of Gas Purchases:

Section 1220-4-7-.05 of the PGA Rule requires, unless otherwise ordered by the Authority, an "Audit of Prudence of Gas Purchases" by a qualified consultant. This specialized audit evaluates and reports annually on the prudence of any gas costs included in the PGA. In Docket 97-01364, Atmos Energy was authorized to operate under a Performance-Based Ratemaking Mechanism ("PBR"), beginning April 1, 1999, and continuing each year unless terminated by the Company or the Authority. For each year that the mechanism is in effect, the requirements of Section 1220-4-7-.05 of the PGA Rule is waived.

V. SCOPE OF ACTUAL COST ADJUSTMENT AUDIT

The ACA audit is a limited compliance audit of the Company's Deferred Gas Cost account ("ACA Account"). The audit goal was to verify that the Company's calculations of gas costs incurred and recovered were materially correct,[1] and that the Company is following all Authority orders and directives with respect to its calculation of the ACA account balance. Also included in this audit is the Company's PGA filing implementing a net refund of the ACA account balances, effective October 1, 2007. Refer to the ACA Account detail provided in Section III, Summary of Company Filing.

To accomplish the audit goal, Audit Staff reviewed gas supply invoices, as well as supplemental schedules and other source documentation provided by Atmos. Where appropriate, Staff requested additional information to clarify the filing.

VI. BACKGROUND INFORMATION ON COMPANY AND GAS SUPPLIERS

Atmos Energy Corporation, with its corporate headquarters located in Dallas, Texas, has its local offices in Franklin, Tennessee. On October 4, 2002, the Company filed tariffs to officially change its name from United Cities Gas Company to Atmos Energy Corporation. Atmos is a multi-state gas distributor, providing service to customers in twelve cities and surrounding areas in Tennessee. The natural gas used to serve these areas is purchased from four natural gas pipelines in accordance with separate and individual tariffs approved by the Federal Energy Regulatory Commission (FERC). The interstate pipelines are Tennessee Gas Pipeline (TGP), East Tennessee Natural Gas (ETNG), Texas Gas Transmission Corporation (TGTC), and Texas Eastern Transmission Corporation (TETC).

TGP and ETNG provide service to east Tennessee towns, which include Columbia, Shelbyville, Maryville, Morristown, Elizabethton, Greeneville, Johnson City, Kingsport, Bristol and adjacent areas in Maury, Bedford, Moore, Blount, Hamblen, Sullivan, Carter, Washington, and Greene Counties.

TETC provides service to Atmos in Murfreesboro and Franklin and adjacent areas in Rutherford and Williamson Counties. TGTC provides service to Atmos in Union City and adjacent areas in Obion County.

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[1] The audit goal is not to guarantee that the Company's results are 100% correct. Where it is appropriate, Staff utilizes sampling techniques to determine whether the Company's calculations are materially correct. Material discrepancies would dictate a broadening of the scope of Staff's review.

VII. JURISDICTION OF THE TENNESSEE REGULATORY AUTHORITY

Tennessee Code Annotated (T.C.A.) gave jurisdiction and control over public utilities to the Tennessee Regulatory Authority. T.C.A. §65-4-104 states that:

> The [A]uthority has general supervisory and regulatory power, jurisdiction, and control over all public utilities, and also over their property, property rights, facilities, and franchises, so far as may be necessary for the purpose of carrying out the provisions of this chapter.

Further, T.C.A. §65-4-105 grants the same power to the Authority with reference to all public utilities within its jurisdiction as chapters 3 and 5 of Title 65 of the T.C.A. have conferred on the Department of Transportation's oversight of the railroads or the Department of Safety's oversight of transportation companies. By virtue of T.C.A. §65-3-108, this power includes the right to audit:

> The department is given full power to examine the books and papers of the companies, and to examine, under oath, the officers, agents, and employees of the companies and any other persons, to procure the necessary information to intelligently and justly discharge its duties and carry out the provisions of this chapter and chapter 5 of this title.

The TRA's Utilities Division is responsible for auditing those gas, electric, and water companies under its jurisdiction, to ensure that each company is abiding by Tennessee statute as well as the Rules and Regulations of the Authority. Mike Warner and Michelle Ramsey of the Utilities Division conducted this audit.

VIII. ACA FINDINGS

Staff's audit findings totaled a **net under-recovery of $59,446.96**. This amount represents a reduction of the Company's reported over-recovered amount of $10,727,365.59, which when added to the Company's calculated balance, results in a net ending balance in the ACA account of a **negative $10,667,918.63 in over-recovered gas costs.** A summary of the ACA account as filed by the Company and as adjusted by the Staff is shown below, followed by a description of the findings.

SUMMARY OF THE ACA ACCOUNT:**

Line		Atmos Combined Filing	Staff Audit Results	Difference (Findings)
1	Adj. Beginning Balance (July 2006)	$ (6,824,988.52)	$ (6,824,988.52)	$ 0.00
2	Purchased Gas Costs	122,991,542.00	123,049,581.79	58,039.79
3	Gas Costs recovered through rates	126,467,002.84	126,467,002.84	0.00
4	Interest on monthly balances	(426,916.23)	(425,509.06)	1,407.17
5	Ending Balance (June 2007) (Line 1 + Line 2 – Line 3 + Line 4)	$ (10,727,365.59)	$ (10,667,918.63)	$ 59,446.96

**A number in ( ) is a negative or credit balance which represents an over-collection of gas costs.

SUMMARY OF FINDINGS:

				See page
FINDING #1	Bad Dept Expense	$ 58,039.79	Under-recovery	6
FINDING #2	Interest Expense	1,407.17	Under-recovery	7
	Net Result	**$ 59,446.96**	**Under-recovery**	

FINDING #1:

Exception

The Company understated its Bad Debt Expense by a total of **$58,039.79.**

Discussion

As a result of the decision in Docket Number 05-00258, the allowance for the recovery of bad debt expense was eliminated from base rates. This change became effective on December 1, 2006. The Company, however, included an offset to their actual bad debt expense for the amount provided for uncollected gas costs in their base rates for the entire year. This resulted in an understatement of bad debt expense in the amount of **$58,039.79**. The Staff increased the Company's reported gas costs by this amount for the filing period. Bad debt expense should be increased by **$1,909.51 for "Union City"** and **$56,130.28 for "All Other Tennessee Towns".**

Company Response

The Company agrees with this finding.

FINDING #2:

Exception

The Company overstated its Interest Due to Customers by a total of **$1,407.17.**

Discussion

Net bad debt expense is also included in the interest calculation. Therefore, as a result of Finding #1, interest due to customers is reduced by **$46.29 for "Union City"** and **$1,360.88 for "All Other Tennessee Towns"**.

Company Response

The Company agrees with this finding.

IX. STAFF CONCLUSIONS AND RECOMMENDATIONS

Audit Staff reviewed the gas costs and recoveries of Atmos Energy Corporation for the 12-month period ended June 30, 2007. As reported in the body of this report, Staff concludes that the Purchased Gas Adjustment mechanism, as calculated in the Actual Cost Adjustment, appears to be working properly and in accordance with the TRA rules for Atmos. Staff's audit procedures revealed two monetary findings reported in Section VIII, with which the Company concurs. Based on the Company's filing and the audit adjustments by Staff, the **net balance** in the ACA Account as of June 30, 2007 was a **negative $10,667,918.63**. This means that as of June 30, 2007 the Company had over-collected this amount from its customers. The net balance is composed of an **over-collection from Union City customers of $743,105.16** and an **over-collection from customers in all Tennessee towns other than Union City of $9,924,813.47.** Staff recommends approval of the Company's adjusted ACA Account balances.

Included in this filing is the asset management payment of $500,000 for the third year of the agreement between Atmos and its affiliate Atmos Energy Marketing (AEM). Using the allocation percentage between Tennessee and Virginia, Atmos credited $324,428 to Tennessee ratepayers and $175,572 to Virginia.

Staff Recommendations

Other than recommending approval of the Company's ACA Account balances as restated by Staff, Staff has no further recommendations to put forth in the current ACA audit, based on the following:

In a prior ACA audit report (Docket No. 05-00253), Staff made a number of recommendations. At the Authority Conference held on May 15, 2006, the panel of Directors assigned to that docket approved Staff recommendations with the exception of recommendations 1 through 2 (c). The excepted recommendations addressed Staff's concerns regarding the asset management agreement between Atmos and its affiliate Atmos Energy Marketing.

With regard to these excepted recommendations, the panel instructed the TRA Audit Staff to meet with Atmos to discuss the effects of incorporating the asset management agreement into the Company's Performance Based Ratemaking Rider ("PBR"). Despite the Company's requests for a meeting, Staff has not yet met with Atmos to discuss these issues for two (2) reasons:

1. Similar issues were raised in Docket No. 05-00258 (Atmos show cause proceeding). In an order dated December 5, 2007 the Authority closed Docket Nos. 05-00253 and 05-00258 and opened a new docket to hear outstanding issues which include asset management. Docket No. 07-00225, DOCKET TO EVALUATE ATMOS ENERGY CORPORATION'S GAS PURCHASES AND RELATED SHARING INCENTIVES is set for hearing in August 2008.

2. Atmos' PBR is currently being held in abeyance pending the final outcome of the contested case in Docket No. 01-00704, which covers the plan year ended March 31, 2001. Because this docket has not been resolved, Atmos has not filed an annual report for transactions contained in its PBR for the last six (6) years.

The panel approved Staff recommendation 2 (d) which was that the Company and Staff submit a proposed revision to the current affiliate rules for Atmos. On June 12, 2007, the Company submitted a tariff to revise existing affiliate rules to include RFP procedures for the awarding of its asset management contract. The Authority approved this tariff at the June 25, 2007 Authority Conference. Atmos was also instructed to put its asset management contract out for bid. At the current time, Atmos has issued an RFP to potential bidders and is awaiting those responses to award the new contract effective April 1, 2008.

APPENDIX A

PGA FORMULA

The computation of the GCA can be broken down into the following formulas:

$$\text{Firm GCA} = \frac{D + DACA}{SF} - DB + \frac{P + T + SR + CACA}{ST} - CB$$

$$\text{Non-Firm GCA} = \frac{P + T + SR\ \ CACA}{ST} - CB$$

where

GCA = The Gas Charge Adjustment in dollars per Ccf/Therm, rounded to no more than five decimal places.

D = The sum of all fixed Gas Costs.

DACA = The demand portion of the ACA.

P = The sum of all commodity/gas charges.

T = The sum of all transportation charges.

SR = The sum of all FERC approved surcharges.

CACA = The commodity portion of the ACA.

DB = The per unit rate of demand costs or other fixed charges included in base rates in the most recently completed general rate case (which may be zero if the Company so elects and the Commission so approves).

CB = The per unit rate of variable gas costs included in base rates in the most recently completed general rate case (which may be zero if the Company so elects and the Commission so approves).

SF = Firm Sales.

ST = Total Sales.

The computation of the RA can be computed using the following formulas:

$$\text{Firm RA} = \frac{DR1 - DR2}{SFR} + \frac{CR1 - CR2 + CR3 + i}{STR}$$

$$\text{Non-Firm RA} = \frac{CR1 - CR2 + CR3 + i}{STR}$$

where

RA	=	The Refund Adjustment in dollars per Ccf/Therm, rounded to no more than five decimal places.
DR1	=	Demand refund not included in a currently effective Refund Adjustment, and received from suppliers by check, wire transfer, or credit memo.
DR2	=	A demand surcharge from a supplier not includable in the GCA, and not included in a currently effective Refund Adjustment.
CR1	=	Commodity refund not included in a currently effective Refund Adjustment, and received from suppliers by check, wire transfer, or credit memo.
CR2	=	A commodity surcharge from a supplier not includable in the GCA, and not included in a currently effective Refund Adjustment.
CR3	=	The residual balance of an expired Refund Adjustment.
i	=	Interest on the "Refund Due Customers" account, using the average monthly balances based on the beginning and ending monthly balances. The interest rates for each calendar quarter used to compute such interest shall be the arithmetic mean (to the nearest one-hundredth of one percent) of the prime rate value published in the "Federal Reserve Bulletin" or in the Federal Reserve's "Selected Interest Rates" for the 4th, 3rd, and 2nd months preceding the 1st month of the calendar quarter.

SFR = Firm sales as defined in the GCA computation, less sales under a transportation or negotiated rate schedule.

STR = Total sales as defined in the GCA computation, less sales under a transportation or negotiated rate schedule.