

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

IN RE:)
)
DOCKET TO EVALUATE ATMOS ENERGY) No. 07-00225
CORPORATION'S GAS PURCHASE AND)
RELATED SHARING INCENTIVES)

**ATMOS ENERGY CORPORATION'S RESPONSE TO THE
NOVEMBER 19, 2007 FILINGS**

Pursuant to the Hearing Officer's Order On November 5, 2007 Pre-Hearing Conference, Atmos Energy Corporation ("AEC") respectfully submits this response to the Statements of Claims filed by the intervening parties on November 19, 2007.

AEC's response is, of necessity, based upon the state of the record and of the Intervenor's qualified articulation of their claims at the present time. AEC would reserve the right to amend or supplement its response and its defenses at a later time. Only the Consumer Advocate submitted its own Statement of Claims in this matter. Atmos Intervention Group ("AIG") joined in the Consumer Advocate's Statement of Claims. Stand Energy indicated that it was not in a position to have a claim until it has had the benefit of discovery, which has not yet occurred. Accordingly, AEC responds to the Statement of Claims submitted by the Consumer Advocate.

For the record, AEC responds to the Consumer Advocate's Statement of Claims with a general denial of the allegations contained therein. AEC further generally denies the requests for relief contained in the Consumer Advocate's Statement of Claims, except that AEC has supported the adoption of certain amended RFP procedures proposed by Chattanooga Gas Company in Docket No. 04-00402. For the record in this case, AEC has attached a copy of a pleading it filed in Docket No. 05-00253 styled *Atmos Energy Corporation's Request for Tariff*

Amendment to Incorporate Implementation of RFP Procedures for the Selection of an Asset Manager. This pleading is attached hereto as Exhibit 1. AEC continues to support amended RFP procedures provided that they are approved in advance of the RFP process.

With respect to the issues identified in the Phase II Issues List attached as Attachment A to the Hearing Officer's November 5, 2007 Order, and those additional issues identified by Stand and the Consumer Advocate, AEC would add the following issues and/or defenses:

A. The remedies in this case should recognize and be limited by the fact that the contract between AEC and Atmos Energy Marketing at issue here will expire on March 31, 2008.

B. The remedies available in this proceeding are limited by the prohibition against retroactive rate making.

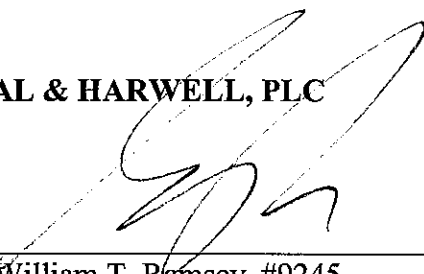
C. Resolution of certain issues in this case and/or the scope of available remedies may be limited by the preclusive effects of prior final Authority rulings.

D. To the fullest extent applicable, AEC relies upon the defense provided by any applicable statute of limitations, including without limitation Tenn. Code Ann. §§ 28-3-104(a)(4) (one year for actions on statutory penalties) and 65-3-122 (one year for certain actions).

AEC does not believe that there are any dispositive legal issues that should be resolved at the present time. Should any such issues ripen to the point that AEC believes pre-hearing motion practice would materially advance the conclusion of this litigation or substantially narrow its scope, AEC will file an appropriate motion and briefing.

Respectfully submitted,

NEAL & HARWELL, PLC

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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 3 day of December 2007.

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

IN RE:)
)
)
ATMOS ENERGY CORPORATION) Docket No. 05-00253
ACTUAL COST ADJUSTMENT)
("ACA") AUDIT)

**ATMOS ENERGY CORPORATION'S REQUEST FOR TARIFF AMENDMENT TO
INCORPORATE IMPLEMENTATION OF RFP PROCEDURES FOR THE SELECTION
OF AN ASSET MANAGER**

On December 7, 2006, the presiding panel in this docket ruled on certain recommendations contained in Audit Staff's April 21, 2006 Audit Report (the "Audit Report"). Among the recommendations adopted by the panel was Audit Staff's recommendation 2(d), which stated:

The Authority should direct TRA Staff and Company to submit a proposed revision of the affiliate rules currently included in the PBR to provide additional guidance to the Company in the selection of the asset manager.

(Audit Report p. 16; December 7, 2006 Order, p. 5.) Due to the pendency of TRA Docket No. 05-00258, Atmos Energy Corporation ("Atmos" or "Company") and Tennessee Regulatory Authority ("TRA" or "Authority") Staff have not had the opportunity to attempt to comply with the panel's order to meet and discuss the proposed revisions to the affiliate rules

Since the panel's above-referenced ruling in this docket, the Authority has adopted RFP procedures proposed by Chattanooga Gas Company at Authority Staff's request in Docket No. 04-00402. The Chattanooga Gas RFP procedures, which were endorsed by Authority Staff¹, include provisions requiring publication of the RFP and a 30 day time for prospective bidders to respond,

¹ See Docket No. 04-00402, 7/21/06 Staff Resp. at p. 4 ("Staff agrees with the RFP procedures included in the Company's revised PBR tariff.")



the same concerns Audit Staff raised in this docket with regard to Atmos' RFP process. (Audit Report, p. 15.)

Atmos has reviewed the RFP procedures adopted for Chattanooga Gas in Docket No. 04-00402 and is fully prepared to comply with the requirements contained therein. In fact, many of the procedures and requirements are consistent with Atmos' longstanding internal policies and practices. In light of the fact that Atmos expects to begin the RFP process to select a new asset manager no later than August 2007, if not sooner, the Company is submitting the attached tariff amendment for the Authority's approval. The attached amendment revises Atmos' PBR tariff to include RFP procedures which are identical to those adopted by the Authority for Chattanooga Gas Company.

This filing represents the Company's good faith effort to comply with the spirit of the presiding panel's directive and Authority Staff's aim at regulatory and public policy consistency.²

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² Notice of Filing by the Utilities Division of the Tennessee Regulatory Authority, *In Re: Chattanooga Gas Company Actual Cost Adjustment Audit and Performance-Based Ratemaking Tariff*, TRA Docket Nos. 04-00402 and 04-00403, p. 21 (Sept. 9, 2005) ("The Audit Staff believes the TRA should be consistent in its regulation of natural gas companies.").

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing has been served via U.S. Mail, postage prepaid, upon the following this the 9th day of April, 2007:

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A handwritten signature in black ink, appearing to read 'J.W. Luna', is written over a horizontal line.

ATMOS ENERGY CORPORATION**Affiliate Transactions**

The following guidelines present the minimum conditions deemed necessary to ensure that affiliate transactions between the Company and its affiliate(s) do not result in a competitive advantage over others providing similar services. These guidelines will remain in effect as long as the Company is operating under a performance based ratemaking plan. We note that these guidelines may fail to anticipate certain specific methods by which such advantages may be conferred by the Company on its marketing affiliates. All parties should be aware that to the extent such instances arise in the future, they will be judged according to this stated intent.

Definitions:

Terms used in these guidelines have the following meanings:

1. Affiliate, when used in reference to any person in this standard, means another person who controls, is controlled by, or is under common control with, the first person.
2. Control (including the terms "controlling", "controlled by", and "under common control with"), as used in this standard, includes, but is not limited to, the possession, directly or indirectly and whether acting alone or in conjunction with others, of the authority to direct or cause the direction of the management or policies of a company. Under all circumstances, beneficial ownership of more than ten percent (10%) of voting securities or partnership interest of an entity shall be deemed to confer control for purposes of these guidelines of conduct.
3. Marketing, as used in this standard, means selling or brokering natural gas to any person or entity, including the Company, by a seller that is not a local distribution company.

RFP Procedures for Selection of Asset Manager and/or Gas Provider:

1. In each instance in which Atmos Energy Corporation (Company) intends to engage the services of an asset manager to provide system gas supply requirements and/or manage its assets regulated by the Tennessee Regulatory Authority (TRA), the Company shall develop a written request for proposal (RFP) defining the Company's assets to be managed and detailing the Company's minimum service requirements. The RFP shall also describe the content requirements of the bid proposals and shall include procedures for submission and evaluation of the bid proposals.
2. The RFP shall be advertised for a minimum period of thirty (30) days through a systematic notification process that includes, at a minimum, contacting potential asset managers, including past bidders and other approved asset managers, and publication in trade journals as reasonably available. This thirty (30) day minimum period may be shortened with the written consent of the TRA Staff to a period of not less than fifteen (15) days.
3. The procedures for submission of bid proposals shall require all initial and follow-up bid proposals to be submitted in writing on or before a designated proposal deadline. The Company shall not accept initial or follow-up bid proposals that are not written, or that are submitted after the designated proposal deadline. Following receipt of initial bid proposals, and on a non-discriminatory basis, the Company may solicit follow-up bid proposals in an effort to obtain the most overall value for the transaction.

- N
4. All initial and follow-up bid proposals shall be evaluated as they are received. The criteria for choosing the winning bid proposal shall include, at a minimum, the following: (a) the total value of the bid proposal; (b) the bidder's ability to perform the RFP requirements; (c) the bidder's asset management qualifications and experience; and (d) the bidder's financial stability and strength. The winning bid proposal shall be the one with the best combination of attributes based on the evaluation criteria. If, however, the winning bid proposal is lower in amount than any other initial or follow-up bid proposal(s), the Company shall explain in writing to the TRA why it rejected each higher bid proposal in favor of the lower winning bid proposal. The Company shall maintain records demonstrating its compliance with the evaluation and selection procedures set forth in paragraph 4 above.
- N
5. An incumbent asset manager shall not be granted an automatic right to match a winning bid proposal. If the incumbent asset manager desires to continue its asset management relationship with the Company after expiration of its asset management agreement, it shall submit a written bid proposal in accordance with the Company's RFP procedures. The bid proposal shall be evaluated pursuant to the procedures set forth in paragraph 4 above.
- N
6. The Company May develop additional procedures for asset management selection as it deems necessary and appropriate so long as such procedures are consistent with the agreed-upon procedures described herein.
- N
7. The Company shall retain all RFP documents and records for at least four (4) years and such documents and records shall be subject to the review and examination of the TRA staff. The Asset Manager shall maintain documents and records of all transactions that utilize the Company's gas supply assets. All documents and records of such transactions shall be retained for two years after termination of the agreement and shall be subject to review and examination by the Company and the TRA Staff.

Standards of Conduct:

The Company must conduct its business to conform to the following standards:

1. If there is discretion in the application of tariff provisions, then the Company must apply such provisions relating to any service being offered in a consistent manner to all similarly situated entities.
2. The Company must strictly enforce a tariff provision for which there is no discretion in the application of the provision.
3. The Company must process all similar requests for services in the same manner and within the same period of time.
4. The Company may not give its marketing affiliate preference over nonaffiliated companies in natural gas supply procurement activities.
5. The Company may not give its marketing affiliate preference over nonaffiliated companies in its upstream capacity release activities.

6. The Company may not disclose to its marketing affiliate any information that the local distribution company receives from a non-affiliated marketer, unless the prior written consent of the parties to which the information relates has been voluntarily given.
7. To the extent the Company provides information related to its natural gas supply activities and upstream capacity release activities, it must do so contemporaneously to all nonaffiliated marketers, that have submitted a written request for such information to the Company.
8. To the extent the Company provides information related to natural gas services being offered to a marketing affiliate, it must do so contemporaneously to all non-affiliated marketers, that have submitted a written request for such information to the Company.
9. In transactions that involve either the purchase or receipt of information, assets, goods or services by the Company from an affiliated entity, the Company shall document both the fair market price of such information, assets, goods, and services and the fully distributed cost to the Company to produce the information, assets, goods or services for itself.
10. When the Company purchases information, assets, goods or services from an affiliated entity, the Company shall either obtain competitive bids for such information, assets, goods or services or demonstrate why competitive bids were neither necessary nor appropriate.
11. To the maximum extent practicable, the Company's operating employees and the operating employees of its marketing affiliate must function independently of each other. For the purposes of these guidelines, operating employees are those who are in any way involved in identifying and contracting with customers, locating gas supplies, making any and all arrangements with intervening pipelines and in any way managing or facilitating those contracted services.
12. The Company must maintain its books of accounts and records separately from those of its affiliate.
13. If the Company offers a discount to an affiliated marketer, it must make a comparable offer contemporaneously available to all similarly situated non-affiliated marketers.
14. The Company may not condition or tie its agreement to release its dedicated, stored, inventoried or optioned gas or supply contracts or upstream transportation and storage contracts to an agreement with a producer, customer, end-user or shipper relating to any service by its marketing affiliate, any services offered by the Company on behalf of its marketing affiliate, or any services in which its marketing affiliate is involved.
15. Prearranged, non-posted, capacity release transactions may not be entered into with any affiliate of the Company in any two consecutive thirty-day periods.
16. The Company must maintain a written log of tariff provision waivers which it grants. It must provide the log to any person requesting it within 24 hours of request. Any waivers must be granted in the same manner to the same or similar situated persons.

17. The Company shall maintain sufficiently detailed records that compliance with these guidelines can be verified at any time.

Complaints:

Any party may file a complaint relating to violations of these guidelines.

1. Any customer, marketer, or other interested third-party may file a complaint with the Authority relating to alleged violations of the affiliate standards set forth in these guidelines. At or before the time of filing, the complainant shall serve a copy of the complaint on the Company.
2. Within ten (10) days of service of the complaint upon the Company, the Company shall file a written response to the complaint with the Authority.
3. The Authority may hold hearings on any complaint filed or may take such other action (as it may deem appropriate), including requesting further information from the parties or dismissing the complaint.
4. After notice and opportunity for a hearing, should the Authority find that the Company has violated the standards contained in these guidelines, the Authority may impose any penalty or remedy provided for by law.

Reserve Margin

The Company may maintain a reserve of natural gas in excess of its projected peak day requirement and recover the cost of the reserve from their customers through the purchased gas adjustment (PGA). The projected peak day requirement shall be based upon a five-year recurrence interval or the coldest day expected in a five-year period. All firm peak day capacity contracted for by the Company, excluding the daily delivery capacity of liquefied natural gas and propane storage facilities, shall be considered as gas available to meet peak day demand. "Contract demand" shall be the amount of firm peak day capacity the Company is entitled to on a daily basis, pursuant to contract. The maximum peak day firm demand of the projected heating season shall form the base period demand to establish the Company's maximum peak day firm demand. A reserve margin of 7.5% or less in excess of the base period firm demand adjusted for specific gain or loss of customers and/or throughput on a specific case by case basis will be presumed reasonable.

All capacity available to meet the peak day demand in excess of an amount needed to meet the base period peak day demand plus a 7.5% reserve margin must be shown by the Company to be necessary to meet its customers' requirements before it can be included in the PGA. All capacity available to meet demand less than an amount of base period demand plus a 7.5% reserve margin is presumed to be reasonable unless a factual showing to the contrary is made.

Determination of Shared Savings

Each month during the term of the PBRM, the Company will compute any savings or costs in accordance with the PBRM. If the Company earns any savings, a separate below the line Incentive Plan Account (IPA) will be debited with such savings. If the Company incurs any costs, that same IPA will be credited with such costs. During a plan

year, the Company will be limited to overall savings or costs totaling \$1.25 million. Interest shall be computed on balances in the IPA using the same interest rate and methods as used in the Company's Actual Cost Adjustment (ACA) account. The offsetting entries to IPA savings or costs will be recorded to income or expense, as appropriate.

Savings or costs accruing to the Company under the PBRM will form the basis for a rate increment or decrement to be filed and placed into effect separate from any other rate adjustments to recover or refund such amount over a prospective twelve-month period.

Each year, effective October 1, the rates for all sales customers will be increased or decreased by a separate rate increment or decrement designed to amortize the collection or refund of the March 31 IPA balance over the succeeding twelve month period. The rate increment or decrement will be established by dividing the March 31 IPA balance by the appropriate sales billing determinants for the twelve months ended March 31. During the twelve-month amortization period, the amount collected or refunded each month will be computed by multiplying the sales billing determinants for such month by the rate increment or decrement, as applicable. The product will be credited or debited to the IPA, as appropriate. The balance in the IPA will be tracked as a separate collection mechanism. Each October 1 the unamortized amount of the previous year's IPA balance will be trued-up in the new rate increment or decrement.

Filing with the Authority

The Company will file calculations of shared savings and shared costs quarterly with the Authority not later than 60 days after the end of the quarter and will file an annual report not later than 60 days following the end of each plan year. Unless the Authority provides written notification to the Company within 180 days of such reports, the Incentive Plan Account shall be deemed in compliance with the provisions of this Rider. The Company will file calculations annually to verify the reasonableness of its reserve margin.

Incentive and Rewards Program

The Company will have in place an incentive and rewards program for selected Gas Supply non-executive employees involved in the implementation of the Company's PBRM in a manner consistent with the benefits achieved for customers and shareholders through improvements in gas procurement and secondary marketing activities. Participants in the program will receive incentive compensation as recognition for their contribution to the customers and shareholders of the Company through lower gas costs and savings related thereto.

During the time this tariff is in effect, the Company will continue to have in place a gas supply Incentive and Rewards Program, the details of which will be provided to the Authority on an annual basis within 60 days of the beginning of each plan year. Unless the Company is advised within 60 days, said details will become effective. No filing for prior approval is required for changes in the performance measures.