filed electronically in docket office on 06/19/08

BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE

IN RE:	)	
	)	
REQUEST OF ATMOS ENERGY	)	**Docket No. 08-00024**
CORPORATION FOR APPROVAL	)	
OF CONRACT(S) REGARDING GAS	)	
COMMODITY REQUIREMENTS AND	)	
MANAGEMENT OF TRANSPORTATION/	)	
STORAGE CONTRACTS	)	
	)	

NOTICE OF FILING ORDER OF VIRGINIA STATE CORPORATION COMMISSION

Atmos Energy Corporation is pleased to report that the Virginia Corporation Commission, on June 17, 2008, has issued an Order approving the contract with Atmos Energy Marketing that is the subject of this case. A copy of the Virginia Corporation Commission's Order is attached.

Respectfully submitted,

NEAL & HARWELL, PLC

By:_______________________

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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, this the 19th day of June, 2008.

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COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION

AT RICHMOND, June 17, 2008

2008 JUN 17 P 2:32

JOINT APPLICATION OF

ATMOS ENERGY CORPORATION
and
ATMOS ENERGY MARKETING, LLC

CASE NO. PUE-2008-00021

For authority to enter into a Gas Supply and Asset Management Agreement pursuant to the Affiliates Act, Va. Code § 56-76 et seq. and Request for Interim Authority

ORDER GRANTING AUTHORITY

On March 21, 2008, Atmos Energy Corporation ("Atmos") and Atmos Energy Marketing, LLC ("AEM") (collectively "Applicants"), filed a joint application ("Application") with the State Corporation Commission ("Commission") requesting authority to enter into a Gas Supply and Asset Management Agreement ("Agreement") pursuant to § 56-76 et seq. ("Affiliated Interests Act") of the Code of Virginia ("Code"), and also requested interim authority to commence performance immediately under the Agreement pending a final order on the Application from the Commission.

Atmos,[1] which is headquartered in Dallas, Texas, is one of the largest natural gas distribution companies in the United States. Atmos distributes and transports natural gas through sales and transportation arrangements to approximately 3.2 million residential, commercial, public authority and industrial customers through seven regulated business divisions that provide service in 12 states, including Colorado, Georgia, Illinois, Iowa,

[1] Atmos is not a holding company. Atmos itself holds the certificate of public convenience and necessity to provide natural gas distribution service to customers in southwestern Virginia.

Kansas, Kentucky, Louisiana, Mississippi, Missouri, Tennessee, Texas and Virginia. In Virginia, Atmos provides natural gas distribution service to approximately 21,700 customers located in Abingdon, Blacksburg, Bristol, Marion, Pulaski, Radford and Wytheville and their environs.

Through non-regulated affiliates, Atmos provides natural gas management and marketing services to municipalities, other local gas distribution companies and industrial customers in 22 states and natural gas transportation and storage services to its regulated divisions and to third parties. For the year ending December 31, 2007, Atmos reported total revenues of $5.9 billion and net income of $161 million, while its current market capitalization is $2.3 billion.

AEM, which is headquartered in Houston, Texas, provides a variety of natural gas management services to municipalities, natural gas utility systems and industrial natural gas consumers located in the southeastern and midwestern United States and to Atmos' Colorado-Kansas, Kentucky/Mid-States and Louisiana regulated divisions. AEM's services consist primarily of furnishing natural gas supplies at fixed and market-based prices, contract negotiation and administration, load forecasting, gas storage acquisition and management, transportation, peaking sales and balancing, capacity utilization strategies and gas price hedging through the use of derivative instruments. AEM is a wholly owned subsidiary of Atmos Energy Holdings, Inc., which is a wholly owned subsidiary of Atmos. AEM was formerly known as Woodward Marketing, LLC ("Woodward"). In October 2003, Woodward merged with Trans Louisiana Gas Company and was renamed AEM.

Atmos and AEM are considered affiliated interests under § 56-76 of the Code. As such, Atmos is required to obtain prior approval from the Commission pursuant to the Affiliated Interests Act for any agreement or arrangement between the companies for the provision of services, the exchange of property, rights, or things, or the purchase or sale of treasury bonds or stock.

Case Background

From 1997 through 2004, AEM provided most of Atmos' gas supply services via a bundled arrangement approved by the Commission.[2] However, after the 2001 Enron bankruptcy caused the collapse of the energy trading market, Atmos decided to unbundle its gas supply services. In 2004 Atmos created a new affiliate, Atmos Energy Services, LLC ("AES"), to provide Atmos with certain energy administrative services, excluding commodity procurement and asset management. Accordingly, the Commission directed Atmos in its Order authorizing the AES services[3] to seek approval of a revised gas supply agreement if it wanted AEM to continue to provide commodity procurement and asset management services. In 2005 Atmos obtained Commission authority ("2005 Order")[4] for a Gas Exchange and Optimization Services Agreement ("GEOS Agreement") under which AEM agreed to provide Atmos with gas exchange and asset management services. However, the GEOS Agreement did not include gas commodity procurement services. Atmos chose instead to obtain its gas commodity supply separately from non-affiliated

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[2] *Application of United Cities Gas Company, For approval of transactions with an affiliate, Woodward Marketing, L.L.C.*, Case No. PUA-1996-00025, 1997 S.C.C. Ann. Rep. 144 (Order Granting Approval, May 27, 1997).

[3] *Joint Application of Atmos Energy Corporation and Atmos Energy Services, LLC, For authority to enter into a services agreement pursuant to Chapter 4 of Title 56 of the Code of Virginia,* Case No. PUE-2004-00016, 2004 S.C.C. Ann. Rep. 436 (Order Granting Authority, April 28, 2004).

[4] *Joint Application of Atmos Energy Corporation and Atmos Energy Marketing, L.L.C., for authority to enter into a gas exchange and optimization services agreement pursuant to Chapter 4 of Title 56 of the Code of Virginia,* Case No. PUE-2005-00003, 2005 S.C.C. Ann. Rep. 389 (Order Granting Authority, July 5, 2005).

third party suppliers. Consistent with the directives of the 2005 Order, the GEOS Agreement had a three-year term ending March 31, 2008, with no renewal, extension or rollover provisions.

On March 21, 2008, the Applicants filed the current Application requesting authority for the GSAM Agreement to succeed the GEOS Agreement. The proposed GSAM Agreement calls for AEM to provide Atmos with bundled gas procurement and asset management services ("Bundled Services").

Atmos represents that the decision to rebundle its gas procurement and asset management services attempts to address two concerns. First, the 2005 Order cited several flaws with Atmos's unbundled Request for Proposal ("RFP") process, one of which was the lack of prospective bidders. Atmos decided that offering an RFP with Bundled Services would help to increase the bidding pool because asset managers today generally assign much more value to bundled gas supply/asset management arrangements. To increase interest in the RFP, Atmos also advertised in Platt's *Gas Daily* and extended the open period for accepting bids to 30 days. Second, Atmos decided to restructure its RFP in response to a pending rulemaking by the Federal Energy Regulatory Commission ("FERC") in Docket No. RM08-1[5] in which the FERC promotes the bundling of commodity supplies with management of capacity assets by local distribution companies as being in the public interest.

According to Atmos, the changes to the RFP process proved successful. The RFP was sent to 62 counterparties and Atmos received four bids for the contract. After an extended bid evaluation, AEM was awarded the bid on March 17, 2008.

[5] *Promotion of a More Efficient Capacity Release Market*, 121 FERC ¶ 61,170 (Nov. 15, 2007).

Atmos represents that, due to the extended bid evaluation, it was not able to file the Application with the Commission until March 21, 2008. Since both the GEOS Agreement with AEM and Atmos' unbundled gas supply agreements with non-affiliated third party suppliers were scheduled to expire on March 31, 2008, Atmos requested interim authority from the Commission to enter into the proposed GSAM Agreement pending a final order in this case.

On March 31, 2008, the Commission issued an Order ("Interim Order")[6] granting Atmos the interim authority requested. The Interim Order, however, states that the interim authority granted will not affect any "determinations made concerning Applicants' filing of its purchased gas adjustment rider tariffs."

GSAM Agreement

Under the proposed GSAM Agreement, AEM will provide city-gate delivered firm service at index-based prices to Atmos for its full gas requirements over the next three years, extending from April 1, 2008, through March 31, 2011. AEM will employ various exchange and storage practices to facilitate firm deliveries to Atmos from downstream storage or where Atmos lacks sufficient firm pipeline capacity. AEM will also provide to Atmos certain gas supply management services ("Functional Services") and manage and optimize Atmos' pipeline and storage assets. In return, Atmos will receive an upfront, guaranteed annual payment ("Payment"). The Applicants represent that AEM will bear any risk associated with commodity pricing differentials, imbalance penalties or fees that result from AEM's management of Atmos' assets, any change in

[6] *Joint Application of Atmos Energy Corporation and Atmos Energy Marketing, LLC, For authority to enter into a Gas Supply and Asset Management Agreement pursuant to the Affiliates Act, Va. Code § 56-76 et seq. and Request for Interim Authority*, Case No. PUE-2008-00013, Doc. Con. No. 394931 (Order Granting Interim Authority, March 31, 2008).

underlying pipeline demand rates that affect fixed-rate pricing for exchange services, and any financial losses stemming from AEM's asset optimization practices.

Atmos represents that it does not have the internal resources or the access to energy markets necessary to manage its capacity and storage assets effectively to maximize their value. In addition, Atmos represents that while it has the ability to purchase commodity gas supply for itself, it believes that obtaining bundled commodity procurement and asset management services from a professional asset manager offers substantive benefits in the form of a higher asset management fee, more stable commodity prices for Atmos' full requirements on a firm basis, and certain functional services that Atmos does not have to perform itself. Atmos represents that AEM, which was awarded the proposed GSAM Agreement after making the best bid in an open and competitive bidding process, has the expertise in gas supply, planning, procurement and administration that will allow it to meet all of Atmos' gas supply and asset management needs.

NOW THE COMMISSION, upon consideration of the Application and representations of the Applicants and having been advised by its Staff, is of the opinion and finds that the proposed GSAM Agreement is in the public interest and should be authorized subject to certain requirements outlined below that we find necessary to clarify the limits of our authorization and to protect the public interest.

First, we are concerned that Atmos filed the current Application only 10 days before the expiration of its prior gas supply and asset management contracts. That does not leave adequate time to conduct a proper review. We further note that the GSAM Agreement has no extension or renewal provision. Since we direct that the authority granted in this case will extend through March 31, 2011, the expiration date of the GSAM Agreement, we remind Atmos that any future agreements with AEM will require further authorization, and we will direct Atmos to take any and all actions necessary to ensure that future Affiliated Interests Act applications are filed in a more timely manner.

Second, we are pleased with the positive response to the RFP for the proposed GSAM Agreement. We believe this is a direct consequence of our directives to Atmos in the 2005 Order to take aggressive action to expand its list of RFP bidders, to provide the Commission's Energy Regulation Staff ("ER Staff") with a copy of the RFP prior to its issuance, and to provide ER Staff with a summary of the RFP's results upon completion of the RFP process. Therefore, we will reiterate these 2005 Order directives in this case.

Third, we are mindful that events out of the Applicants' control could require unexpected changes in commodity pricing practices. In order to keep us fully apprised of such events, we will require Atmos to notify the Commission's Director of the Division of Public Utility Accounting ("PUA Director") of any changes in commodity pricing practices pursuant to the GSAM Agreement prior to their implementation.

Fourth, we note that the 2005 Order contained specific directives related to Atmos' payments for pipeline substitution services and for storage fill services. The directives were designed to protect Atmos from paying more for these services than what it would incur if Atmos were to procure its own gas or manage its own storage. We believe that these directives remain necessary to safeguard the interests of ratepayers. Therefore, we will reiterate these 2005 Order directives in this case.

Finally, we are concerned with a provision in the GSAM Agreement that allows for changes in Atmos' guaranteed Payment in response to incremental changes in the transportation and storage capacity assets under AEM's management. We do not wish to involve ourselves in Atmos' decisions to add or dispose of transportation and storage capacity. However, the guaranteed Payment is a key feature of AEM's winning bid, which is legitimized by the RFP's competitive bidding process. Allowing a subsequent change to the Payment without Commission oversight could impair the perceived legitimacy of the bidding process.

Therefore, we find that, 30 days prior to any changes in the guaranteed Payment, we will require Atmos to submit a report to the PUA Director, which will describe the change in the Payment and the reasons for it. The Commission Staff will then advise us as to whether any action is necessary pursuant to our continuing supervisory authority under § 56-80 of the Code to protect the public interest.

Accordingly, IT IS ORDERED THAT:

1) Pursuant to § 56-77 of the Code of Virginia, Atmos Energy Corporation and Atmos Energy Marketing, LLC, are granted authority to enter into the gas supply and asset management agreement as described herein, consistent with the findings above.

2) The authority granted herein shall extend through March 31, 2011, the expiration date of the GSAM Agreement. Any future agreements with AEM shall require further authorization. Atmos shall take any and all actions necessary to ensure that future Affiliated Interests Act applications are filed in a more timely manner.

3) For any future gas supply and/or asset management RFPs, Atmos shall continue to take aggressive action to expand its list of RFP bidders. Prior to issuance, Atmos shall submit a copy of the RFP to the Staff of the Commission's Division of Energy Regulation. Within 60 days after the completion of the RFP process, Atmos shall

submit a summary of the RFP results, including a list of the parties invited to bid, the parties that actually bid, the winning bidder and bid amount, and the reason(s) for the winner's selection, to the Staff of the Commission's Division of Energy Regulation.

4) Prior to the implementation of any changes in commodity pricing practices pursuant to the GSAM Agreement, Atmos shall notify the PUA Director of such changes.

5) Atmos' payments for pipeline substitution services shall be limited to the amount of gas cost charges that Atmos would incur if it were to procure gas for itself.

6) Atmos' payments for storage fill services shall be limited to the amount of storage charges that Atmos would incur if it were to manage its own storage.

7) Thirty (30) days prior to any changes in the guaranteed Payment, Atmos shall submit a report to the PUA Director, which will describe the change in the Payment and the reasons for it. The Commission Staff shall then advise the Commission as to whether any action is necessary pursuant to its continuing supervisory authority under § 56-80 of the Code to protect the public interest.

8) Commission approval shall be required for any changes in the terms and conditions of the GSAM Agreement, including any successors or assigns.

9) The authority granted herein shall not preclude the Commission from exercising the provisions of §§ 56-78 and 56-80 of the Code of Virginia hereafter.

10) The Commission reserves the right to examine the books and records of any affiliate in connection with the authority granted herein, whether or not such affiliate is regulated by the Commission.

11) Atmos shall include all transactions associated with the GSAM Agreement in its Annual Report of Affiliate Transactions ("ARAT") submitted to the PUA Director

on or before May 1 of each year, which deadline may be extended administratively by the PUA Director.

12) If Atmos' Annual Informational or Rate Case Filings are not based on a calendar year, then Atmos shall include the affiliate information contained in its ARAT in such filings.

13) The authority granted herein supersedes the authority granted in Case No. PUE-2005-00003, and granted in our Order Granting Interim Authority entered March 31, 2008, in this case.

14) There appearing nothing further to be done in this matter, it hereby is dismissed.

AN ATTESTED COPY hereof shall be sent to: Richard D. Gary, Esquire, and Charlotte P. McAfee, Esquire, Hunton & Williams LLP, Riverfront Plaza, East Tower, 951 East Byrd Street, Richmond, Virginia 23219-4074; Mark Johnson, Atmos Energy Marketing, LLC, 13430 Northwest Freeway, Suite 400, Houston, Texas 77040; Douglas C. Walther, Atmos Energy Corporation, P.O. Box 650205, Dallas, Texas 75265-0205; and the Commission's Office of General Counsel and the Divisions of Public Utility Accounting, Energy Regulation, and Economics and Finance.