

BEFORE THE TENNESSEE REGULATORY AUTHORITY

IN RE:

November 25, 2013

**PETITION OF ATMOS ENERGY
CORPORATION TO REVISE PERFORMANCE
BASED RATEMAKING MECHANISM RIDER IN
TARIFF**

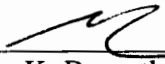
Docket No. 13-00111

TENNESSEE CODE ANNOTATED SECTION 4-5-313 NOTICE

Comes now the Tennessee Regulatory Authority, by and through the Legal Division, and hereby serves notice pursuant to Tenn. Code Ann. § 4-5-313 as follows:

1. An executed version of the accompanying Affidavit of Pat Murphy, (attached exhibit A) may be introduced as evidence at the hearing of Atmos Energy Corporation, before the Tennessee Regulatory Authority, Docket No. 13-00111.
2. Pat Murphy may not be called to testify orally, and you would then not be entitled to question such affiant unless you notify Shiva K. Bozarth, at Tennessee Regulatory Authority, 460 James Robertson Parkway, Nashville, Tennessee 37243, that you wish to cross-examine such affiant. To be effective, your request must be received on or before December 6, 2013 at 11:30 a.m. CST.

Respectfully submitted this the 25th day of November, 2013.


Shiva K. Bozarth, BPR # 022685
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, Tennessee 37243

CERTIFICATE OF SERVICE

The undersigned hereby certifies that a true and correct copy of this document has been served upon A. Scott Ross, NEAL & HARWELL, PLC, 2000 One Nashville Place, 150 Fourth Avenue North, Nashville, Tennessee 37219-2498, Counsel for Atmos Energy Corporation, by delivering same in the United States First Class Mail, with sufficient postage thereon to reach its destination.

This 26th day of November, 2013.


Shiva K. Bozarth

BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

November 25, 2013

IN RE:)
)
PETITION OF ATMOS ENERGY CORPORATION) Docket No. 13-00111
TO REVISE PERFORMANCE BASED)
RATEMAKING MECHANISM RIDER IN TARIFF)

AFFIDAVIT OF PAT MURPHY

I, Pat Murphy, being duly sworn, do hereby depose and state as follows:

1. My name is Pat Murphy, and I am employed by the Tennessee Regulatory Authority, 460 James Robertson Parkway, Nashville, Tennessee on a part time basis. Prior to my Retirement in August of 2012, I was Deputy Chief of the Utilities Division. I have worked for the Authority since 1996. From 1991 to 1996, I was employed by the Authority's predecessor, the Tennessee Public Service Commission.

2. I received a B.A. degree in Mathematics from Southern Adventist University in Collegedale, Tennessee in 1967. Between 1988 and 1990 I completed twenty-seven (27) credit hours in Accounting at Belmont University in Nashville, Tennessee.

3. I have been a Certified Public Accountant in Tennessee since 1992.

4. During my employment with the Authority, I either performed or directly supervised all audits conducted for the regulated gas utilities, which includes Atmos

Energy Corporation (“Atmos”). These audits include Incentive Plan Account audits¹ of three (3) gas companies, Actual Cost Adjustment (“ACA”) audits² of five (5) gas companies, and Weather Normalization Adjustment (“WNA”) audits³ of three (3) gas companies.

5. On November 8, 2013, I was appointed Party Staff in this Docket. I have had no verbal or written communications with the TRA Directors regarding this case.

6. In the context of the audit of Atmos’ Performance-Based Ratemaking Mechanism Rider (“PBRM” or “Incentive Plan”) in Docket No. 13-00084, covering plan year ended March 2013, I had multiple conversations with Michelle Ramsey of the TRA Staff regarding her findings and recommendations, which included discussions of the resetting of the lower end of the deadband⁴. Staff’s Audit Report in Docket No. 13-00084 was issued on August 27, 2013.

7. Following the filing of Atmos’ current Petition to revise its PBRM tariff, I had conversations with Michelle Ramsey and David Foster (Chief of the Utilities

¹ An Incentive Plan audit determines whether the balance in the IPA account at the end of a plan year is accurate and calculated in accordance with the terms of the Incentive Plan tariff.

² An ACA audit is a true of gas costs paid versus gas costs recovered from customers. It is performed annually to ensure that customers do not pay more or less than the actual cost of gas paid by the company.

³ WNA audits are performed to verify that the WNA adjustments are calculated according to tariff provisions and that they are properly billed to customers. These adjustments are made to align a company’s revenue stream with the normalized sales volumes forecasted in its last rate case, based on 30-year average of normal weather.

⁴ A deadband is a range around a calculated benchmark within which Atmos does not share in any commodity gas cost savings or losses. Savings calculated below the deadband are shared 50/50 with ratepayers. Likewise losses calculated above the deadband are also shared 50/50 with ratepayers.

Division) regarding the fact that these proposed tariff revisions apparently were not addressed in the settlement negotiations in Docket No. 07-00225⁵. Another topic of discussion was the fact that the lower end of the deadband had just been reset for three (3) years in the audit Docket No. 13-00084.⁶ As a result of these conversations, I was designated to prepare data requests for Atmos and the Consumer Advocate. I am primarily responsible for the content of those data requests.

8. I had a few conversations with Paul Greene, also of the TRA Staff, to answer questions he had regarding the operation of the PBRM tariff.

9. I have direct personal knowledge of Atmos' PBRM tariff. As a member of the TRA Staff, I was directly involved in an advisory capacity during the Phase One and Phase Two hearings that established the PBRM⁷ and have conducted or directly supervised the auditing of Atmos' Incentive Plan and ACA account since that time.

10. With the existence of an incentive plan, the main purpose of asset management is to release fallow assets of the company for an upfront asset management fee to create additional savings for customers and the company's stockholders to share.

⁵ *In Re: Docket to Evaluate Atmos Energy Corporation's Gas Purchases and Related Sharing Incentives*, Docket No. 07-00225. This docket was opened by the Authority to address asset management issues reported by TRA Audit Staff in its compliance audit of Atmos' ACA account in Docket No. 05-00253 and similar asset management issues that arose in Docket No. 05-00258, a docket to investigate whether Atmos was over-earning in violation of state law.

⁶ Atmos' PBRM contains a provision under the Commodity Procurement Incentive Mechanism which requires the lower end of the deadband to be reset every three (3) years to one percent (1%) below the most recent audited results of the Incentive Plan.

11. Atmos was given approval to include the sharing of asset management fees under its PBRM in Docket No. 11-00195⁸ while this asset management issue was pending before the Authority. A tariff to add explicit language to its PBRM allowing the sharing of upfront asset management fees was approved by the Authority in Docket No. 11-00034⁹ going forward, with an effective date of April 1, 2011, to coincide with the effective date of its new asset management contract.¹⁰

12. Docket No. 07-00225 was opened by the Authority to address asset management issues common to ACA audit Docket No. 05-00253¹¹ and Show Cause Docket No. 05-00258.¹² The issues to be resolved can be found on Attachment A (Issues List) and Attachment C (Factual Issues List) to the Hearing Officer's December 21, 2007 Order¹³ in Docket No. 07-00225. The lists are attached to this Affidavit as Exhibit 1.

13. Specifically, Issue Nos. 1, 4, 7, and 10 address the compensation for release of Atmos' capacity assets and the sharing of the lump sum fee received from the

⁷ *In Re: Application of United Cities Gas Company to Establish an Experimental Performance-Based Ratemaking Mechanism*, Docket No. 95-01134 and *In Re: Consumer Advocate Division's Tenn. Code Ann. § 4-5-313(6) Request*, Docket No. 97-01364.

⁸ *In Re: Audit of Atmos Energy Corporation's Incentive Plan Account for the Period April 1, 2004 through March 31, 2007*, Docket No. 11-00195.

⁹ *In Re: Petition for Approval of Contract Regarding Gas Commodity Requirements and Management of Transportation/Storage Contracts*, Docket No. 11-00034.

¹⁰ Three-year asset management contract, effective April 1, 2011.

¹¹ *In Re: Atmos Energy Corporation's Annual Cost Adjustment (ACA) for the Twelve Months Ended June 30, 2005*, Docket No. 05-00253.

¹² *In Re: Petition of the Consumer Advocate to Open an Investigation to Determine Whether Atmos Energy Corp. Should be Required by the Tennessee Regulatory Authority to Appear and Show Cause that Atmos Energy Corp. is Not Overearning in Violation of Tennessee Law and that it is Charging Rates that are Just and Reasonable*, Docket No. 05-00258.

asset manager, Atmos Energy Marketing.¹⁴ Factual Issue No. 1 also addresses compensation received by Atmos. These issues encompass asset management and related sharing incentives which are part of the PBRM tariff.

14. My expectation was that any settlement agreement reached in Docket No. 07-00225 would settle these issues. Since the heart of the Settlement Agreement¹⁵ reached after five (5) years of negotiations is a “comprehensive review of the transactions and activities related to Asset Management”, it is logical to conclude that the independent consultant would or could review the results of the PBRM as part of its asset management review.

15. The Settlement Agreement itself supports this conclusion. Paragraph 3 states “Docket No. 07-00225 was convened as a “Phase II” proceeding by the Authority based on the recommendations related to asset management which were made by TRA’s Staff audit of the ACA filing of Atmos in Docket No. 05-00253 and issues raised by the Consumer Advocate and the Atmos Intervention Group in Docket No. 05-00258.”

16. Paragraph 5 of the Settlement Agreement discusses the substantial discovery and “give and take” negotiations that took place to arrive at a Settlement Agreement “to resolve all known disputed issues in this case.”

¹³ Order on December 13, 2007 Status Conference.

¹⁴ The affiliate marketing arm of Atmos Energy Corporation.

¹⁵ The Settlement Agreement is attached to this Affidavit as Exhibit 2.

17. I believe it is disingenuous of Atmos to attempt to separate asset management from the incentive mechanisms contained in its PBRM tariff. The August 6, 2013, TRA Order approving the Settlement Agreement in Docket No. 07-00225 directed Atmos to “file a tariff with the Authority within thirty (30) days outlining the agreed upon terms governing the comprehensive review of the transactions and activities related to Asset Management by an independent consultant.” On July 10, 2013, Atmos filed tariff sheets 45.8 and 45.9 as part of its PBRM tariff with an effective date of July 10, 2013.

18. I believe that the terms “transactions and activities related to Asset Management” as contained in Paragraph 7 of the Settlement Agreement would necessarily involve reviewing these activities in the context of the PBRM tariff, since the review procedures are part of the PBRM tariff. For instance, activities and transactions by Atmos involve securing the services of an asset manager through an RFP process based on its Gas Procurement Plan in order to obtain savings which it then calculates according to the plan provisions. Activities and transactions of the asset manager involve a bid process and upfront payment to secure the use of Atmos’ fallow assets in order for the asset manager to increase its profits and provide savings to the customers of Atmos, which Atmos’ shareholders share in under the plan.

19. Virtually all savings reported under Atmos’ PBRM to date resulted from its Asset Management and Gas Supply Contract with its affiliated Asset Manager, Atmos Energy Marketing.

20. The scope of the initial consultant review is outlined in Paragraph 12 of the Settlement Agreement. The categories identified in (a) through (f) are identical to the scopes outlined in Piedmont Natural Gas' Triennial Review¹⁶ and Chattanooga Gas' Review¹⁷ procedures. Review procedures for both companies reference the 'transactions and activities' related to their respective Incentive Plans. The fact that in Atmos' case the language is changed to say "transactions and activities related to Asset Management" does not limit the scope to exclude the tariff itself, as Atmos claims in its response to TRA Staff Data Request No. 1.¹⁸

21. It is important to note that the categories (a) through (f) do not preclude the addition of other areas identified by the TRA Staff, the Consumer Advocate or Atmos. The language of the Settlement Agreement states "The scope of the initial review and any subsequent reviews ordered by the TRA may include all transactions and activities related **either directly or indirectly** to Asset Management, **including, but not limited to**, the following categories of transactions and activities". [emphasis added]

22. Audit Staff filed its Audit Report in Docket No. 13-00084 on August 27, 2013, covering plan year April 2012 - March 2013, which was approved by the panel at the September 9, 2013, Authority Conference. In its Report, Audit Staff established the

¹⁶ Attached to this Affidavit as Exhibit 3.

¹⁷ Attached to this Affidavit as Exhibit 4.

¹⁸ Response of Atmos to First Data Request of the TRA Staff (November 4, 2013).

lower end of the deadband at 89.9%, one percent below the results of the 2013 plan year, for plan years ending March 2015, March 2016, and March 2017.

23. The lower end of the deadband (97.4%) for the current plan year ending March 2014 was established by the results of the audited plan year ended March 2010 in Docket No. 12-00053¹⁹.

24. If the provision for re-setting the lower end of the deadband is suspended for three (3) years as recommended by Dr. Klein in his Pre-Filed Testimony²⁰ and remains at the current level (97.4%) or removed permanently (as Atmos has requested) and reverts back to the original 97.7%, there is a very good possibility that Atmos will be guaranteed an additional \$1.25 million²¹ annually in PBRM savings for an undetermined number of years going forward with no additional effort on its part. Dr. Klein also points out this possible outcome in his Pre-Filed Testimony.²² See my spreadsheet showing actual PBRM plan year results from the inception of the PBRM, attached as Exhibit 5.

¹⁹ *In Re: Audit of Atmos Energy Corporation's Incentive Plan Account for the Period April 1, 2007 Through March 31, 2011*, Docket No. 12-00053.

²⁰ Pre-Filed Direct Testimony of Christopher C. Klein Ph.D., page 8.

²¹ Atmos' share of savings is capped at \$1.25 million per year per tariff. As a result, Atmos' share was reduced from \$1.78 million in plan year ended March 2012 and \$1.63 million in plan year ended March 2013 to the cap of \$1.25 million.

²² Pre-Filed Direct Testimony of Christopher C. Klein, Ph.D., page 9.

25. Audit Staff expressed its understanding of the upcoming review as presented in the Settlement Agreement. On page 2 of the Audit Report²³, Audit Staff states “The Settlement provides for a triennial comprehensive review of the Company's capacity planning and gas purchasing activities as encompassed in the Incentive Plan by an independent consultant. The first review will commence in the fall of 2014.”

26. The initial review for Atmos will begin with a Request for Proposal (RFP) in the fall of 2014. The report by the selected independent consultant will be due by July 1, 2015 unless mutually waived by Atmos, the Consumer Advocate and the TRA Staff.

27. The components of the PBRM calculation of the benchmark for the Gas Procurement Incentive Mechanism are designed to work in concert. The elimination of or change to any of the components individually without a proper analysis could potentially modify the incentive outcome.

28. Benchmarks are designed to incentivize the company to purchase gas at the least cost possible consistent with efficiency, safety and reliability, and to put in place sufficient safeguards to prevent a company from gaming the plan to its own advantage.

29. Incentive Plans are an alternative form of regulation approved by this Authority to replace the Prudence Audit of Gas Purchases required by TRA Rule 1220-4-7-.05 (“PGA Rule”). To reach a presumption of prudence on the part of a company, an

²³ *In Re: Audit of Atmos Energy Corporation's Incentive Plan Account for the Period April 1, 2012 Through March 31, 2013*, Docket No. 13-00084, Notice of Filing by Utilities Division of the TRA (August 27, 2013).

Incentive Plan must be balanced in its provisions in order to fairly reward the company for its gas purchasing practices and compensate customers for the gas assets they have paid for.

30. From a regulator's point of view, a review of a company's asset management practices by an independent consultant must include the results of the overarching incentives contained in its Incentive Plan.

31. I believe the filing of a revised PBRM tariff by Atmos seeking to alter, change or remove certain provisions of its Incentive Plan without a complete review of the possible effects of such changes on the tariff incentives as a whole, is premature at this time for the following reasons:

- a. Docket No. 07-00225 necessarily relates to this Docket since it was opened to evaluate Atmos' gas purchases and related sharing incentives (which are contained its PBRM tariff);
- b. The Settlement Agreement in Docket No. 07-00225 purported to settle all unresolved issues (as set by the Hearing Officer) in that docket by ordering a comprehensive review by an independent consultant of transactions and activities related to Asset Management;
- c. Asset Management transactions and activities must be evaluated in the context of the related PBRM tariff;
- d. The selection of an independent consultant is scheduled to begin next fall with the consultant's final report due July 1, 2015; and

- e. The lower end of the deadband has been set for plan years ending March 2015, March 2016 and March 2017 in Docket No. 13-00084, which was upheld by the Authority in its September 23, 2013 Order approving the Staff's Audit Report.

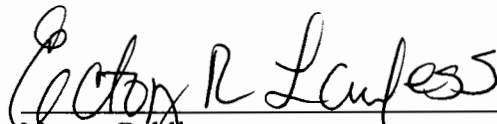
32. My recommendation is that this Docket be closed without prejudice to any party. Once the independent consultant's report is filed with the Authority, Atmos may petition the Authority for desired changes to its tariff. Until that time, the deadband should remain at the levels determined in Audit Staff's Audit report dated August 27, 2013 and approved by this Authority.

FURTHER AFFIANT SAYETH NOT.



Pat Murphy
Utility Consultant
Utilities Division
For Staff as a Party

Subscribed and sworn to before me this 25th day of November, 2013.



Notary Public

My Commission Expires: 1/6/2014

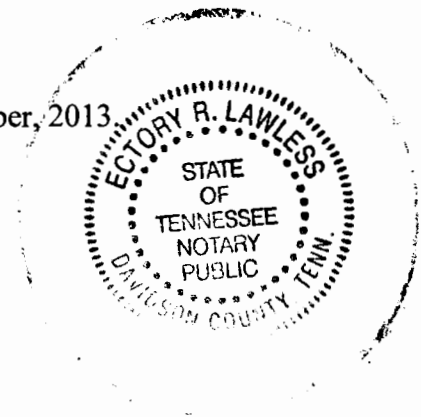


EXHIBIT 1

Docket No. 07-00225 –Issues List

1. How is Atmos Energy Corporation compensated for the sale, lease, or release of capacity and is that compensation fair to consumers?
 - a. What is the bidding process for the sale, lease, or release of capacity?
 - b. What asset management arrangements or contracts are or have been in place with regard to capacity?
 - c. How are FERC-mandated payments handled?
2. What exactly is the amount of total capacity and what amount of capacity is available for the sale, lease, or release to third parties or affiliates or divisions of Atmos Energy Corporation?
 - a. What is the appropriate level of capacity?
 - b. What has been the record of capacity planning in the past?
 - c. What are the future plans?
3. What is the relation between Atmos Energy Corporation and Atmos Energy Marketing and any other affiliate or division of Atmos Energy Corporation?
 - a. the appropriate relation between parent and affiliate or division
 - b. communications between parent and affiliate or division
 - c. the number of overlapping employees
 - d. the record keeping of the parent and affiliate or division
4. Are consumers receiving fair compensation for the assets related to the sale, lease, or release of capacity for which they have paid?
5. Does the Tennessee Regulatory Authority have the authority to impute to Atmos Energy Corporation all or a portion of the profits Atmos Energy Corporation's separate, non-regulated affiliate corporation, Atmos Energy Marketing, generates through its management of Atmos Energy Corporation's idle gas supply assets?
 - a. If yes, may the Tennessee Regulatory Authority impute those profits to lower Atmos Energy Corporation's revenue requirement for base rates even though the assets are part of Atmos Energy Corporation's gas supply procurement activities, which under established Tennessee Regulatory Authority policy are separately regulated through the Purchased Gas Adjustment mechanism, and not through base rates?
 - b. If the Tennessee Regulatory Authority imputes Atmos Energy Marketing asset management profits to lower Atmos Energy Corporation's revenue requirement for base rates, must the Tennessee Regulatory Authority treat other similarly situated gas companies in a like manner? Can such imputation be accomplished in a contested case, or is a rulemaking required?
 - c. Does the Tennessee Regulatory Authority have the authority to impute Atmos Energy Marketing's asset management profits to Atmos Energy Corporation even though there is no requirement for gas companies to engage in asset management?
 - d. If the Tennessee Regulatory Authority's results in a decision by Atmos Energy Marketing to exercise its right to terminate its asset management contract with Atmos Energy

Corporation, can the Tennessee Regulatory Authority order Atmos Energy Corporation to engage in asset management itself? If so, how will the Tennessee Regulatory Authority provide for Atmos Energy Corporation to recover the costs of engaging in those activities, and how will the Tennessee Regulatory Authority monitor Atmos Energy Corporation's compliance? Would prudency audits be required?

- e. If the Tennessee Regulatory Authority orders that a portion of the Atmos Energy Marketing asset management profits be imputed to Atmos Energy Corporation, how will the agency determine what percentage of Atmos Energy Marketing revenues are derived from the Atmos Energy Corporation regulated Tennessee assets, versus what percentage are derived from Atmos Energy Corporation regulated assets in other states, or from Atmos Energy Marketing's own separately owned assets?
 - f. If the Tennessee Regulatory Authority orders that a portion of the Atmos Energy Marketing asset management profits be imputed to Atmos Energy Corporation, how will the agency determine the portion of Atmos Energy Marketing revenues that constitute profit and what portion Atmos Energy Marketing must use to meet the costs it incurs?
 - g. What constitutes retroactive ratemaking?
 - h. If the Tennessee Regulatory Authority orders that a portion of the Atmos Energy Marketing asset management profits be imputed to Atmos Energy Corporation, how will the Tennessee Regulatory Authority determine this amount consistent with the prohibition against retroactive ratemaking? Would the Tennessee Regulatory Authority have to reach a determination as to the amount of profit Atmos Energy Marketing will make in a particular future time period? If the Tennessee Regulatory Authority orders that a percentage of the Atmos Energy Marketing profits be imputed to Atmos Energy Corporation, how will the Tennessee Regulatory Authority monitor compliance? Would it require regular audits from Tennessee Regulatory Authority Staff? Does the Tennessee Regulatory Authority have the authority to audit non-regulated affiliates such as Atmos Energy Marketing?
6. Did Atmos Energy Corporation comply with the Guidelines for Affiliate Transactions entering into the existing asset management contract with Atmos Energy Marketing? If so, does the Tennessee Regulatory Authority have the Authority to invalidate the existing contract or change the terms of the existing contract? If the contract is invalidated, is Atmos Energy Marketing entitled to a refund of all or a portion of the annual lump sum fee it pays under the contract for the right to manage Atmos Energy Corporation's assets that is currently flowed through 100% to consumers?
7. Should Atmos Energy Corporation share in the lump sum fee it receives from Atmos Energy Marketing under the terms under the asset management contract through its existing Performance Based Ratemaking ("PBR") plan? If so, how would such a change affect the balance of incentives in the current PBR plan? If the Tennessee Regulatory Authority orders that all or a portion of Atmos Energy Marketing asset management profits be imputed to Atmos Energy Corporation, how would the balance of the incentives in the current PBR be affected? Would such action render the PBR plan ineffective or invalid? Would such action require reversal of the Authority's orders in the PBR dockets?
8. Whether Atmos Energy Corporation has oversubscribed to storage and capacity assets to handle the Company's jurisdictional requirements?
9. Whether Atmos Energy Corporation is currently utilizing its gas storage assets to maximize benefits to ratepayers?

10. What assets (Firm Transportation and Storage) of the Atmos Energy Corporation does Atmos Energy Marketing use to serve gas transportation customers?
11. Are the transportation customers served by Atmos Energy Marketing charged the full costs of the capacity that is used to serve them? If the answer is no, who pays for the difference?
12. On Atmos Energy Corporation's peak day, what capacity does Atmos Energy Marketing use to service its transportation customers?
13. Does the volume of natural gas delivered to Atmos Energy Corporation reconcile to the volume of natural gas sold to Atmos Energy Corporation's customers? If natural gas deliveries do not reconcile to natural gas sales should Atmos Energy Corporation's customers pay for the costs of the natural gas commodity, natural gas storage, and/or natural gas transportation associated with any irreconcilable differences?
14. Whether the litigation expenses incurred in this case by Atmos Energy Corporation may be recovered from ratepayers?

Docket No. 07-00225 – Factual Issues List

1. How is Atmos Energy Corporation compensated for the sale, lease, or release of capacity?
2. What is the bidding process for the sale, lease, or release of capacity?
3. What asset management arrangements or contracts are or have been in place with regard to capacity?
4. How are FERC-mandated payments handled?
5. What exactly is the amount of total capacity?
6. What amount of capacity is available for the sale, lease, or release to third parties or affiliates or divisions of Atmos Energy Corporation?
7. What has been the record of capacity planning in the past?
8. What are the future plans of capacity planning?
9. What is the relation between Atmos Energy Corporation and Atmos Energy Marketing and any other affiliate or division of Atmos Energy Corporation?
10. What is the communications between parent and affiliate or division?
11. What is the number of overlapping employees?
12. What is the record keeping of the parent and affiliate or division?
13. What assets (Firm Transportation and Storage) of the Atmos Energy Corporation does Atmos Energy Marketing use to serve gas transportation customers?
14. On Atmos Energy Corporation's peak day, what capacity does Atmos Energy Marketing use to service its transportation customers?

EXHIBIT 2

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

IN RE:

**DOCKET TO EVALUATE ATMOS
ENERGY CORPORATION'S GAS
PURCHASES AND RELATED
SHARING INCENTIVES**

DOCKET NO. 07-00225

STIPULATION AND SETTLEMENT AGREEMENT

For the sole purpose of settling this case, Tennessee Regulatory Authority ("TRA" or "Authority") Docket No. 07-00225, Robert E. Cooper, Jr., the Tennessee Attorney General and Reporter, through the Consumer Advocate and Protection Division ("Consumer Advocate") and Atmos Energy Corporation ("Atmos" or "the Company") respectfully submit this Stipulation and Settlement Agreement ("Settlement Agreement"). Subject to Authority approval, the Consumer Advocate and Atmos (collectively, the "Parties") agree to the following:

BACKGROUND

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. The Tennessee public utility operations of Atmos are subject to the jurisdiction of the TRA, pursuant to Chapter 4 of Title 65 of the Tennessee Code Annotated.

3. Docket No. 07-00225 was convened as a "Phase II" proceeding by the Authority based on the recommendations related to asset management which were made by the TRA's Staff audit of the ACA filing of Atmos in Docket No. 05-00253 and issues raised by the Consumer Advocate and the Atmos Intervention Group in Docket No. 05-00258.¹

4. The Parties to this Settlement Agreement acknowledge the Authority's decision in Docket No. 07-00224, a Phase II proceeding for Chattanooga Gas Company, and Docket No. 05-00165, a Phase II proceeding for Piedmont Natural Gas Company. Accordingly, the Parties have focused settlement discussions on the Authority's decision in Docket No. 07-00224.

5. The Parties to this Settlement Agreement have engaged in substantial discovery. The Company also has provided information informally in response to questions from the Consumer Advocate and its witnesses, and has responded to additional discovery requests from TRA Staff. The Parties have undertaken extensive discussions and "give and take" negotiations to resolve all known disputed issues in this case. As a result of the information obtained during discovery and the discussions between the Parties, and for the purpose of avoiding further litigation and resolving this matter upon acceptable terms, the Parties have reached this Settlement Agreement. In furtherance of this Settlement Agreement, the Parties have agreed to the settlement terms set forth below.

SETTLEMENT

6. Based upon the exchange of information and discussions described above, and in order to resolve this case through settlement and avoid the need for further litigation and expenses for all Parties and without waiving any positions asserted in this Docket, the Parties have agreed to the following terms.

¹ Docket 05-00253; 05-00258, *Order Closing Dockets and Moving Remaining Issues to a New Docket*, December 5, 2007, pp. 1-4.

7. A comprehensive review of the transactions and activities related to Asset Management shall be conducted by an independent consultant. The initial review shall be started in the autumn of 2014 and any subsequent reviews determined to be necessary and appropriate by the TRA at the conclusion of the initial review shall be conducted at the order of the Authority.

8. The TRA Staff, the Consumer Advocate, and Atmos shall make an effort to maintain a list of no less than five (5) mutually agreeable independent consultants or consulting firms qualified to conduct the aforementioned initial review. Any dispute concerning whether an independent consultant shall be added to the list shall be resolved by the TRA Staff, after consultation with Atmos and the Consumer Advocate.

9. For the initial review, the TRA Staff shall select three (3) prospective independent consultants from that list. Each such consultant shall possess the experience and expertise necessary to conduct the initial review. The TRA Staff shall provide the list of prospective independent consultants to Atmos and the Consumer Advocate via electronic mail. Atmos and the Consumer Advocate shall each have the right, but not the obligation, to eliminate one (1) of the prospective independent consultants from the list by identifying the consultant to be eliminated in writing to the TRA Staff within thirty (30) days from the date the list is e-mailed. The TRA Staff shall select the independent consultant from those remaining on the list after Atmos's and the Consumer Advocate's rights to eliminate have expired.

10. The cost of the review shall be reasonable in relation to its scope. Any and all relationships between the independent consultant and Atmos, the TRA Staff and/or the Consumer Advocate shall be fully disclosed and the independent consultant shall have had no prior relationship with either Atmos, the TRA Staff, or the Consumer Advocate for at least the

preceding five (5) years unless Atmos, the TRA Staff and Consumer Advocate agree in writing to waive this requirement. The TRA Staff, the Consumer Advocate and Atmos may consult amongst themselves during the selection process; provided, however, that all such communications between the Parties shall be disclosed to each Party not involved in such communication in advance so that each Party may participate fully in the selection process.

11. If, after the initial review, the TRA determines that there are material changes in the variables of the Company, such as customer mix and usage patterns, it may at that time order a subsequent review. If a subsequent review is ordered, the scope of the subsequent review will be established at the time that it is ordered, and the TRA will determine at that time whether an outside consultant is needed, provided that if a consultant is to be employed, the consultant will be selected in the manner set-forth above. The Consumer Advocate will be permitted to participate in the process and review the report of any subsequent review.

12. The scope of the initial review and any subsequent reviews ordered by the TRA may include all transactions and activities related either directly or indirectly to Asset Management, including, but not limited to, the following categories of transactions and activities: (a) natural gas procurement; (b) capacity management; (c) storage; (d) hedging; (e) reserve margins; and (f) off-system sales. The scope of each review shall include a review of each of the foregoing matters, as well as, such additional matters as may be reasonably identified by Atmos, the TRA Staff, or the Consumer Advocate relative to Asset Management.

13. Atmos, the TRA Staff, or the Consumer Advocate may present documents and information to the independent consultant for the independent consultant's review (and subsequent reviews) and consideration. Copies of all such documents and information shall be presented simultaneously to the independent consultant and all other Parties.

14. The independent consultant shall complete and issue a written report of its findings and conclusions by July 1 of 2015. The report deadline may be waived by the written consent of the TRA Staff, Atmos, and the Consumer Advocate. The independent consultant shall make findings of fact, as well as identify and describe areas of concern and improvement, if any, that in the consultant's opinion warrant further consideration. Atmos, the TRA Staff, and/or the Consumer Advocate may cite the independent consultant's report to the Authority in support of recommendations or proposed changes, and the TRA Staff, Atmos, or the Consumer Advocate may support or oppose such recommendations or proposed changes.

15. The independent consultant's findings and/or recommendations shall not be binding on any Party or on the Authority, and in any proceeding in which the consultant's findings or recommendations may be considered, the Authority shall give all issues *de novo* consideration. Any changes to the Asset Management Agreement, the bidding process, the assets under management, or otherwise, whether adopted by agreement or pursuant to a ruling of the Authority, shall be implemented on a prospective basis only, and following normal expiration of any affected agreements.

16. The reasonable and prudent cost of the independent consultant's review shall be paid initially by Atmos and recovered through the ACA account. The TRA Staff may continue its annual audits of the performance-based ratemaking ("PBR") and the Annual Cost Adjustment ("ACA") account, and the review shall not in any way limit the scope of such annual audits.

17. Separately, Atmos shall recover legal expenses in the amount of \$88,122 associated with its Phase II dockets from the consumers' share of asset management fees, including any up-front fees that may be obtained, in a manner consistent with the recovery of similar fees by Piedmont and CGC. Atmos provided a detail of its attorneys' fees, which the

Consumer Advocate reviewed. A copy of the attorneys' fees is attached as Exhibit A as confidential pursuant to the Protective Order in this Docket.

18. All pre-filed testimony and exhibits of the Parties are introduced into evidence without objection, and the Parties waive their right to cross-examine all witnesses with respect to all such pre-filed testimony. If, however, questions should be asked by any person, including a Director, who is not a party to this Settlement Agreement, the Parties may present testimony and exhibits to respond to such questions and may cross-examine any witnesses with respect to such testimony and exhibits.

19. The Parties agree to support this Settlement Agreement before the Authority and in any hearing, proposed order, or brief conducted or filed in this proceeding; provided, however, that the settlement of any issue provided for herein shall not be cited as precedent by any of the Parties hereto in any unrelated or separate proceeding or docket before the Authority. The provisions of this Settlement Agreement are agreements reached in compromise and solely for the purpose of settlement of this matter. They do not necessarily reflect the positions asserted by any party, and no party to this Settlement Agreement waives the right to assert any position in any future proceeding, in this or any other jurisdiction.

20. This Settlement Agreement shall not have any precedential effect in any future proceeding or be binding on any of the Parties in this or any other jurisdiction except to the limited extent necessary to implement the provisions hereof.

21. The Parties agree and request the Authority to order that the settlement of any issue pursuant to this Settlement Agreement shall not be cited by the Parties or any other entity as binding precedent in any other proceeding before the Authority or any court, state or federal.

22. The terms of the Settlement Agreement have resulted from extensive negotiations between the signatories and the terms hereof are interdependent. The Parties jointly recommend that the Authority issue an order adopting this Settlement Agreement in its entirety without modification.

23. If the Authority does not accept the Settlement Agreement in whole, the Parties are not bound by any position or term set forth in this Settlement Agreement. In the event that the Authority does not approve this Settlement Agreement in its entirety, each of the signatories to this Settlement Agreement will retain the right to terminate this Settlement Agreement. In the event of such action by the Authority, within twenty (20) business days, any of the signatories to this Settlement Agreement would be entitled to give notice of exercising its right to terminate this Settlement Agreement; provided, however, that the signatories to this Settlement Agreement could, by unanimous consent, elect to modify this Settlement Agreement to address any modification required by, or issues raised by, the Authority. Should this Settlement Agreement terminate, it would be considered void and have no binding precedential effect, and the signatories to this Settlement Agreement would reserve their rights to fully participate in all relevant proceedings notwithstanding their agreement to the terms of this Settlement Agreement.

24. By agreeing to this Settlement Agreement, no Party waives any right to continue litigating this matter should the Settlement Agreement be rejected by the Authority in whole or in part.

25. No provision of this Settlement Agreement shall be deemed an admission of any Party. No provision of this Settlement Agreement shall be deemed a waiver of any position asserted by a Party in this Docket.

26. Approval by the Authority of the provisions of this Settlement Agreement shall not be construed as a waiver of the Authority's decisions in any matter, proceeding or policy decision or constitute an endorsement by the Authority.

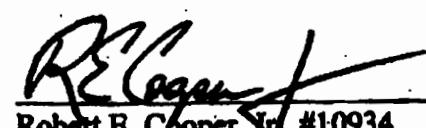
27. This Settlement Agreement shall be governed by and construed under the law of the State of Tennessee and any applicable federal law, Tennessee choice of law rules notwithstanding.

The foregoing is agreed and stipulated to this 7th day of May, 2013.


ATMOS ENERGY CORPORATION

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**CONSUMER ADVOCATE AND
PROTECTION DIVISION**


Robert E. Cooper, Jr., #10934
Attorney General and Reporter

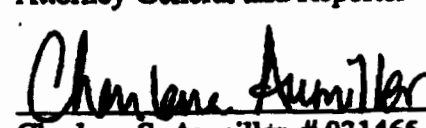

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EXHIBIT 3

Independent Review of Performance Incentive Plan

The Company, the TRA Audit Staff, and the CAD stipulate and agree that a comprehensive review of the transactions and activities related to the Performance Incentive Plan shall be conducted by an independent consultant once every three years pursuant to the following provisions:

1. The initial triennial review shall be conducted in the autumn of 2008 and subsequent triennial reviews shall be conducted every third year thereafter.

2. The TRA Staff, the CAD, and the Company shall make an effort to maintain a list of no less than five (5) mutually agreeable independent consultants or consulting firms qualified to conduct the aforementioned review. Any dispute concerning whether an independent consultant shall be added to the list shall be resolved by the TRA Staff, after consultation with the Company and the CAD. For each review, the TRA Staff shall select three (3) prospective independent consultants from that list. Each such consultant shall possess the expertise necessary to conduct the review. The TRA Staff shall provide the list of prospective independent consultants to the Company and the CAD via e-mail. The Company and the CAD shall have the right, but not the obligation, to strike one (1) of the prospective independent consultants from the list by identifying the stricken consultant in writing to the TRA Staff within thirty (30) days from the date the list is e-mailed. The TRA Staff shall select the independent consultant from those remaining on the list after the Company's and the CAD's rights to strike have expired. The cost of the review shall be reasonable in relation to its scope. Any and all relationships between the independent consultant and the Company, the TRA Staff, and/or the CAD shall be disclosed, and the independent consultant shall have had no prior relationship with either the Company, the TRA Staff, or the CAD for at least the preceding five (5) years unless the Company, the TRA Staff and the CAD agree in writing to waive this requirement. The TRA Staff, the CAD and the Company may consult amongst themselves during the selection process; provided, however, that all such communications between the parties shall be disclosed to any party not involved in such communication so that each party may participate fully in the selection process.

3. The scope of the triennial reviews may include all transactions and activities related either directly or indirectly to the Performance Incentive Plan as conducted by the Company or its affiliates, including, but not limited to, the following areas of transactions and activities: (a) natural gas procurement; (b) capacity management; (c) storage; (d) hedging; (e) reserve margins; and (f) off-system sales. The scope of the triennial reviews may be comprehensive, including, but not limited to, review of the acquisition and utilization of all storage, capacity, transportation, and commodity assets and services.

4. The scope of each triennial review shall include a review of each of the foregoing matters, as well as such additional matters as may be reasonably identified by the Company, the TRA Staff, or the CAD relative to the operation or results of the Performance Incentive Plan.

5. Notwithstanding provision number 4, above, the scope of the initial triennial review shall include, but may not be limited to, the following:

A. The independent consultant shall identify Piedmont's city gates for Nashville (the points and measuring stations at which Piedmont receives natural gas from each pipeline transmission company) and identify the meters measuring the amount of gas flowing into Piedmont's system in Nashville.

B. For each day of the review period and for each city gate, Piedmont shall provide the independent consultant with records Piedmont has received from the pipeline, as well as records in Piedmont's possession, where such records identify and otherwise display the daily amount of gas flowing into each Piedmont city gate in Nashville. Within this amount, any gas flowing into Piedmont's system for firm transportation customers on Rate Schedule 313, interruptible transportation customers on Rate Schedule 314, and industrial interruptible customers on Rate Schedule 304 shall be identified so that the remaining amount shall be presumed to be the gas flowing to meet customers' needs in the following rate classes:

Residential Value Rate Schedule 301
Residential Standard Rate Schedule 321
Small General Standard Rate Schedule 302
Small General Value Rate Schedule 332
Medium General Standard Rate Schedule 352
Medium General Value Rate Schedule 362
Industrial Firm Rate Schedule 303.

C. The independent consultant shall examine the levels of peak and non-peak, as well as design day and non-design day, firm capacity under Piedmont's pipeline contracts and assess whether such capacity levels are reasonably appropriate in light of both actual and projected demand requirements.

D. The independent consultant shall compare the transportation commodity costs charged to customers with such costs charged under Piedmont's pipeline contracts and report such costs charged to customers and such costs charged under Piedmont's pipeline contracts.

E. The independent consultant shall examine and report on (1) how Piedmont forecasts its design day demand and its peak day demand; (2) Piedmont's forecast of peak demand for Nashville; and (3) actual peak demand as metered at Nashville's city gates.

F. Where Piedmont has firm transportation contracts provided under different tariffs from the same pipeline, the independent consultant shall examine and report on the transportation commodity costs for each such tariff as well as the relationship between such tariff transportation commodity costs and the transportation commodity costs billed to Nashville ratepayers.

G. The independent consultant shall examine and report on:

- (1) The cost of year-round firm transportation and seasonal firm transportation that Piedmont is using to meet peak demand; and
- (2) The potential cost of meeting peak demand with more seasonal firm transportation and less year-round firm transportation; and
- (3) The potential cost of meeting peak demand with more year-round firm transportation and less seasonal firm transportation.

H. The independent consultant shall examine and report on how Piedmont's forecasts of peak demand include the effects of energy conservation and improved efficiency for natural gas appliances that are mandated by federal legislation.

I. For each month of the review period, Piedmont shall provide the independent consultant with the number of therms billed to each rate schedule:

Residential Value Rate Schedule 301
Residential Standard Rate Schedule 321
Small General Standard Rate Schedule 302
Small General Value Rate Schedule 332
Medium General Standard Rate Schedule 352
Medium General Value Rate Schedule 362
Industrial Firm Rate Schedule 303
Firm Transportation Rate Schedule 313
Interruptible Transportation Rate Schedule 314
Industrial Interruptible Rate Schedule 304
Resale Service Rate Schedule 310

6. The Company, the TRA Staff, or the CAD may present documents and information to the independent consultant for the independent consultant's review and consideration. Copies of all such documents and information shall be presented simultaneously to the independent consultant and all other parties.

7. The independent consultant shall make findings of fact, as well as identify and describe areas of concern and improvement, if any, that in the consultant's opinion warrant further consideration; however, the independent consultant shall not propose changes to the structure of the Performance Incentive Plan itself.

8. The independent consultant shall complete and issue a written report of its findings and conclusions by July 1 of the year immediately following the triennial review. The report deadline may be waived by the written consent of all the Parties.

9. The independent consultant shall not propose changes to the structure of the Performance Incentive Plan itself; however, any Party may use the report of the independent consultant as grounds for making recommendations or proposed changes to the Authority, and any other Party may support or oppose such recommendations or proposed changes.

10. Any proposed changes to the structure of the Performance Incentive Plan resulting from the initial triennial review or subsequent triennial reviews, whether adopted by agreement of the Parties or pursuant to a ruling of the Authority, shall be implemented on a prospective basis only beginning with the incentive plan year immediately following such agreement or ruling.

11. The cost of the triennial reviews shall be paid initially by the Company and recovered through the ACA account.

12. The TRA Staff may continue its annual audits of the IPA and the ACA account and the triennial reviews shall not in any way limit the scope of such annual audits. The CAD retains all of its statutory rights, and the triennial reviews shall not in any way affect such rights.

EXHIBIT 4

Chattanooga Gas Company

Review Procedures and Process

(Adopted by the Authority on September 21, 2009 in Docket to Evaluate Chattanooga Gas Company's Gas Purchases and Related Sharing Incentives, Docket No. 07-00224)

A comprehensive review of the transactions and activities related to the Performance-Based Ratemaking Mechanism (PBRM¹) shall be conducted by an independent consultant. The initial review shall be started in the autumn of 2013 and subsequent reviews shall be conducted at the order of the Authority. The TRA Staff, the CAD, and CGC shall make an effort to maintain a list of no less than five (5) mutually agreeable independent consultants¹ or consulting firms qualified to conduct the aforementioned review. Any dispute concerning whether an independent consultant shall be added to the list shall be resolved by the TRA Staff, after consultation with CGC and the CAD. For each review, the TRA Staff shall select three (3) prospective independent consultants from that list. Each such consultant shall possess the expertise necessary to conduct the review. The TRA Staff shall provide the list of prospective independent consultants to the CGC and the CAD via e-mail. CGC and the CAD shall have the right, but not the obligation, to strike one (1) of the prospective independent consultants from the list by identifying the stricken consultant in writing to the TRA Staff within thirty (30) days from the date the list is e-mailed. The TRA Staff shall select the independent consultant from those remaining on the list after CGC's and the CAD's rights to strike have expired. The cost of the review shall be reasonable in relation to its scope. Any and all relationships between the independent consultant and CGC, the TRA Staff and/or the CAD shall be disclosed and the independent consultant shall have had no prior relationship with either CGC, the TRA Staff, or the CAD for a least the preceding five (5) years unless CGC, the TRA Staff and CAD agree in writing to waive this requirement. The TRA Staff, the CAD and CGC may consult amongst themselves during the selection process; provided, however, that all such communications between the parties shall be disclosed to any party not involved in such communication so that each party may participate fully in the selection process.

The scope of the review may include all transactions and activities related either directly or indirectly to the PBRM as conducted by CGC or its affiliates, including, but not limited to, the following areas of transactions and activities: (a) natural gas procurement; (b) capacity management; (c) storage; (d) hedging; (e) reserve margins; and (f) off-system sales. The scope of each review shall include a review of each of the foregoing matters as well as such additional matters as may be reasonable identified by CGC, the TRA Staff, or the CAD relative to the operation or results of the PBRM.

CGC, the TRA Staff, or the CAD may present documents and information to the independent consultant for the independent consultant's review and consideration. Copies

¹ Performance of a previous review of CGC or any gas company regulated by the TRA does not constitute a relationship between the Company, TRA, or the Consumer Advocate and the consultant for the purpose of this review.

of all such documents and information shall be presented simultaneously to the independent consultant and all other parties.

The independent consultant shall make findings of fact, as well as identify and describe areas of concern and improvement, if any, that in the consultant's opinion warrant further consideration; however, the independent consultant shall not propose changes to the structure of the PBRM itself. The independent consultant shall complete and issue a written report of its findings and conclusions by July 1 of the year immediately following the review. The report deadline may be waived by the written consent of the TRA Staff, CGC, and the CAD.

The independent consultant shall not propose changes to the structure of the PBRM itself; however, the TRA Staff, CGC, or the CAD may use the report of the independent consultant as grounds for making recommendations or proposed changes to the Authority, and the TRA Staff, CGC, or the CAD may support or oppose such recommendations or proposed changes. Any proposed changes to the structure of the PBRM resulting from the initial review or subsequent review, whether adopted by agreement or pursuant to a ruling of the Authority, shall be implemented on a prospective basis only beginning with the incentive plan year immediately following such agreement or ruling.

The cost of the review shall be paid initially by CGC and recovered through the ACA account. The TRA Staff may continue its annual audits of the PBR and the ACA account and the review shall not in any way limit the scope of such annual audits.

EXHIBIT 5

ATMOS ENERGY CORPORATION
PERFORMANCE-BASED RATEMAKING MECHANISM
PLAN YEAR RESULTS

Year	Plan Year	Docket #	Actual %	* Lower Limit	50% Gas Procurement	10% Capacity Management	10% Asset Mgmt. Upfront Payment	Total Company Share
1	4/1/99 - 3/31/00	00-00459	96.9	97.7	181,884.54	110,010.91		291,895.45
2	4/1/00 - 3/31/01	01-00704	98.7	97.7	16,675.00	46,712.98		63,387.98
3	4/1/01 - 3/31/02	11-00158	97.4	97.7	117,834.13	25,430.10		143,264.23
4	4/1/02 - 3/31/03	11-00158	97.4	97.7	224,246.60	21,551.74		245,798.34
5	4/1/03 - 3/31/04	11-00158	98.5	97.7	-	15,062.04		15,062.04
6	4/1/04 - 3/31/05	11-00195	99.7	97.7	-	6,891.90	35,195.30	42,087.20
7	4/1/05 - 3/31/06	11-00195	99.8	97.5	-	2,508.35	35,193.80	37,702.15
8	4/1/06 - 3/31/07	11-00195	99.1	97.5	-	298.26	32,491.40	32,789.66
9	4/1/07 - 3/31/08	12-00053	99.2	97.5	-	295.66	32,442.80	32,738.46
10	4/1/08 - 3/31/09	12-00053	98.9	97.5	14,257.87	-	80,100.00	94,357.87
11	4/1/09 - 3/31/10	12-00053	98.4	97.5	211,609.65	-	80,100.00	291,709.65
12	4/1/10 - 3/31/11	12-00053	98.2	97.5	211,463.39	-	80,675.00	292,138.39
13	4/1/11 - 3/31/12	12-00044	91.1	97.4	1,627,055.03	-	148,740.00	1,250,000.00 **
14	4/1/12 - 3/31/13	13-00084	90.9	97.4	1,478,206.37	-	152,536.67	1,250,000.00 **
15	4/1/13 - 3/31/14			97.4				
16	4/1/14 - 3/31/15			89.9				
17	4/1/15 - 3/31/16			89.9				
18	4/1/16 - 3/31/17			89.9				

* Lower limit of deadband resets every 3 years to 1% below most recent audited results.

** Total annual savings accruing to Atmos is capped at \$1.25 million.