BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

IN RE:

ATMOS ENERGY CORPORATION	)	
GENERAL RATE	)	
CASE AND PETITION TO ADOPT	)	
ANNUAL REVIEW MECHANISM	)	**Docket No. 14-_____**
AND ARM TARIFF	)	

PRE-FILED TESTIMONY OF JASON L. SCHNEIDER
ON BEHALF OF ATMOS ENERGY CORPORATION

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Jason L. Schneider. My business address is 5430 LBJ Freeway, Suite 600, Dallas, Texas 75240.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am the Director of Accounting Services for Atmos Energy Corporation (hereinafter "Atmos Energy" or the "Company").

Q. WHAT ARE YOUR JOB RESPONSIBILITIES?

A. I am primarily responsible for directing various accounting activities and policies within the Company. My primary duties include the oversight of general accounting, fixed assets accounting, accounts payable, payroll, and cost allocations. I also serve on an internal committee which is responsible for the oversight and monitoring of Sarbanes-Oxley (SOX) compliance. In addition, I work with both our internal and external auditors on implementing, testing, maintaining and modifying the

Company's accounting controls, as well as interfacing between the auditors and the Company.

I am also responsible for ensuring effective financial and internal controls for the Company's accounting processes, system and procedures. I have knowledge of the Company's accounting activities, which include compiling, processing, reporting and analyzing financial information to satisfy the requirements of internal management, internal independent auditors, external independent auditors and regulatory agencies.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL EXPERIENCE.

A. I earned a Bachelor of Science degree in Accounting Control Systems from the University of North Texas in 2000. I also earned a Master of Business Administration degree in Accounting from the University of North Texas in 2003. I have worked in various industries for over 17 years in a variety of accounting and finance staff and management roles. I have worked in the energy industry for almost 10 years in various accounting and finance positions. I joined Atmos Energy in 2004 in the Plant Accounting group and assumed my current role in March 2011. Before assuming my current role, I was the Manager of Plant Accounting and reported directly to the previous Director of Accounting Services. In addition to my other duties, I maintain the Company's Cost Allocation Manual ("CAM") to ensure it is aligned with Atmos Energy's recordkeeping practices.

Q. ARE YOU A MEMBER OF ANY PROFESSIONAL ORGANIZATIONS?

A. Yes. I am licensed by the State of Texas as a Certified Public Accountant.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE TENNESSEE REGULATORY AUTHORITY OR OTHER REGULATORY ENTITIES?

A. Yes. I have testified before the Tennessee Regulatory Authority in Docket No. 12-00064. I have also testified before the Kansas Corporation Commission in Docket No. 12-ATMG-564-RTS, the Kentucky Public Service Commission in Case No. 2013-00148, and the Public Utilities Commission of the State of Colorado in Docket No. 13AL-0496G and Docket No. 14AL-0300G.

II. PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to authenticate the historic books and records of the Company and demonstrate the integrity of the financial information that has been filed in support of this proceeding. The financial information provided in support of this case will be presented in the same manner for subsequent annual filings.

Q. ARE YOU SPONSORING ANY SCHEDULES TO YOUR TESTIMONY?

A. Yes. I am sponsoring Exhibit JLS-1. This exhibit is a true and correct copy of Atmos Energy's current Cost Allocation Manual ("CAM").

III. AUTHENTICATION OF BOOKS AND RECORDS

Q. ARE THE BOOKS AND RECORDS OF THE COMPANY PREPARED UNDER YOUR DIRECTION?

A. Yes, for the areas under my direction (which do not include gas accounting or taxation).

Q. HOW DOES ATMOS ENERGY MAINTAIN AND UTILIZE ITS BOOKS AND RECORDS IN THE REGULAR COURSE OF BUSINESS?

A. Atmos Energy maintains its books and records in accordance with the Federal Energy Regulatory Commission's (FERC) Uniform System of Accounts (USOA) and Generally Accepted Accounting Principles (GAAP). The USOA is the prescribed methodology for maintaining utility records in all of the state jurisdictions that regulate the Company's natural gas utility operations, which currently include Colorado, Kansas, Kentucky, Louisiana, Mississippi, Tennessee, Texas and Virginia. Atmos Energy's accounting organization utilizes integrated computerized business systems to efficiently process, record and maintain transactions generated in the regular course of business. Financial transactions are created and entered into the system at or near the time of the transaction by the responsible personnel in various divisions having personal knowledge, or acting in reliance on information transmitted by persons having personal knowledge of the transactions, as well as of the applicable accounting procedures and requirements. Reports are generated by the system in the regular course of business to assist in management's review of the results of operations and to assist in the analysis of the cost data of gas operations.

Q. AS DIRECTOR OF ACCOUNTING SERVICES, HOW DO YOU ASSURE YOURSELF THAT TRANSACTIONS ARE RECORDED PROPERLY?

A. As Director of Accounting Services, I have personal knowledge of the organizational business processes and staffing in the Controllership function. The Controller's organization is staffed with highly qualified accounting managers and staff, with many accounting positions filled by CPAs. The managers in the organization are

charged with the responsibility to inspect, review and revise, if appropriate, the work of the accountants they supervise. To fill certain management positions, an individual is required to have an accounting degree as well as significant accounting experience. Further, the Company has established and maintains controls that ensure the accuracy of our books and records. These controls help identify any necessary adjustments to accounting entries which are then recorded to the original books and records in a timely manner. Additionally, Atmos Energy contracts with KPMG for internal audit services. This group periodically performs reviews of those controls.

Q. WHAT TYPES OF REGULAR AUDITS ARE CONDUCTED TO AUTHENTICATE ATMOS ENERGY'S BOOKS AND RECORDS?

A. Atmos Energy's books and records are audited annually by the independent public accounting firm of Ernst & Young LLP ("EY"). In addition, EY performs reviews of Atmos Energy's quarterly financial statements. These audits and reviews are conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States).

Q. ARE THE COSTS RECORDED ON THE COMPANY'S BOOKS AND RECORDS SUPPORTED BY UNDERLYING INVOICES OR OTHER RECORDS?

A. Yes. In order for an item to be recorded in the Company's general ledger, there must be an invoice or other underlying supporting documentation. The former, for example, may be in the form of a billing invoice received from a vendor. The latter, for example, may be in the form of an employee's timesheet. The manager of a specific cost center or project is responsible for reviewing, coding and approving

invoices or other underlying supporting documentation that are charged to that particular manager's cost center or project.

Q. WHAT DO YOU MEAN BY COST CENTERS?

A. As described in the Company's CAM, a cost center is a designation generally utilized for the assignment of departmental cost responsibility and internal management reporting. Employees with responsibility for these functional areas are delegated a certain level of authority to conduct the business of the Company.

Q. HOW ARE THESE AUTHORITY LEVELS DETERMINED OR DELEGATED WITHIN THE COMPANY?

A. The Board of Directors initially delegates authority to the chief executive officer of the Company who then authorizes the controller to further delegate authority to others throughout the Company as necessary. The Controller's approval of authority limits is generally based on a review of the needs and recommendations from those requesting authority limit changes. Approved authority limits are maintained in a secure table within the Company's accounting system.

Q. DOES THE COMPANY HAVE IN PLACE ANY PROCESS OR SYSTEM FOR THE REVIEW AND VALIDATION OF INVOICES?

A. Yes. Most invoices are scanned into an accounts payable processing system called "Markview" when they are received by the Company. Once scanned, an image of the invoice is routed electronically to the appropriate cost center owner. The cost center owner reviews and electronically codes and approves the invoice within the established approval hierarchy. As a part of this process, the cost center owner is responsible for ensuring the cost is valid, just and reasonable. If the amount of the

invoice exceeds the authority limit of the initial approver, it is automatically escalated through the approval hierarchy to a person with the appropriate level of authority. A similar review process is performed at each level within the approval hierarchy. Once final approval has been obtained, the invoice is submitted to the accounts payable department for final payment.

Q. DOES THE COMPANY HAVE IN PLACE ANY PROCESS OR SYSTEM FOR THE REVIEW AND VALIDATION OF COSTS THAT ARE NOT PROCESSED THOUGH MARKVIEW?

A. Yes. Certain invoices and other requests for payment that are not presented as an invoice are processed outside of Markview. Examples of these types of documents include, but are not limited to tax returns, contracts for certain outside services or certain wire transfer requests. The process for the review, coding and approval of these costs is the same, except that the process may be manual in nature rather than electronic. The Company employee in charge of this documentation is responsible for ensuring the cost is valid, just and reasonable. Coding and approvals are performed within the approval hierarchy. Once final approval has been obtained, the documentation is submitted to the accounts payable department for final payment.

Q. ARE THERE ANY OTHER ACCOUNTING CONTROLS OR PROCESSES IN PLACE TO ENSURE THE ACCURACY OF THE COMPANY'S BOOKS AND RECORDS?

A. Yes. The Company executes a series of detective monitoring controls designed to identify and explain material and/or unusual costs that have been recorded in the general ledger. Occasionally, errors are found and they are typically corrected in the

following month's reporting period, unless they are material. If material, these errors are corrected in the current month.

Additionally, the Chief Executive Officer and Chief Financial Officer must certify the Company's annual and quarterly financial statements and must attest to and report on the Company's system of internal control. To facilitate this effort, the Company outsources its internal audit function to KPMG to conduct tests of the Company's system of internal control. These tests are developed to ensure the system of internal control has been designed effectively and that the controls are functioning as designed as of the end of the Company's fiscal year.

Q. PLEASE DESCRIBE THE PROCESS USED TO TEST INTERNAL CONTROLS.

A. The Company maintains a SOX steering committee, which is responsible for the oversight and monitoring of Sarbanes-Oxley compliance. This committee is comprised of myself, the Vice President and Controller, the Director of Financial Reporting, the Director of Information Technology and the Vice President of Finance for the Company's non-regulated activities.

During the first quarter of the fiscal year, the Director of Financial Reporting and I meet with the internal auditors to review our listing of key controls to assess whether changes to that list should be made based upon changes in the risk profile or organization of the company. A key control is defined as a control necessary to mitigate the risks and ensure financial reporting is reasonable and materially correct. The internal audit group will develop a testing plan based upon these key controls, which is reviewed and approved by the SOX steering committee. The key controls

are tested throughout the year. If issues arise, they are individually addressed by a steering committee member who has knowledge of the affected areas. The SOX steering committee meets regularly to assess the progress and review the results of the testing. During this process, all findings are discussed and the steering committee will determine whether the finding should be considered a control deficiency, a significant deficiency or a material weakness. A control deficiency exists when the design or operation of a control does not allow management or employees to prevent or detect misstatements in financial reporting on a timely basis. A significant deficiency is a control deficiency which adversely affects the Company's ability to report external financial data reliably, with more than a remote likelihood that an inconsequential misstatement of the Company's financial statements will not be prevented or detected. A material weakness is a significant deficiency that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected.

At the end of the fiscal year, the steering committee makes recommendations regarding the effectiveness of the Company's internal control structure to be included in the internal auditor's final report to the audit committee.

Q. PLEASE SUMMARIZE THE RESULTS OF TESTING FOR THE MOST RECENTLY COMPLETED FISCAL YEAR.

A. The most recent fiscal year available is fiscal 2014. A total of 215 key controls related to the Company's natural gas distribution operations were tested. Four deficiencies related to nine controls were identified. No significant deficiencies or material weaknesses were identified.

Q. ARE THE COMPANY'S TESTS OF INTERNAL CONTROL SUBJECT TO EXAMINATION BY AN INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM?

A. Yes. As a publicly traded company, Atmos Energy is required to have an independent registered public accounting firm audit management's public assertions regarding the Company's system of internal control. EY serves as the Company's independent registered public accounting firm.

Q. CAN YOU SUMMARIZE THE PROCESS USED BY EY TO PERFORM ITS ATTEST FUNCTION?

A. Yes. EY performs independent tests regarding the design of the Company's internal control function and the effectiveness of the controls as of the end of the fiscal year. They rely, in part, on the work performed by the internal auditors in completing their audit procedures. Upon completion of their work, EY issues an audit report summarizing their findings, which is included in the Company's annual report on Form 10-K.

Q. DID EY'S MOST RECENT REPORT DIFFER FROM THE FINDINGS OF MANAGEMENT?

A. No. EY issued an unqualified audit report for fiscal 2014, which means that they agreed with management's assertions.

Q. ARE THERE OTHER TYPES OF REGULAR AUDITS AND REVIEWS THAT ARE CONDUCTED OF ATMOS ENERGY'S BOOKS AND RECORDS?

A. In addition to the audit of internal control, EY also conducts an annual audit of Atmos Energy's books and records. In addition, EY performs reviews of Atmos Energy's quarterly financial statements. These audits and reviews are conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States).

Q. HOW DOES THE ACCOUNTING SYSTEM ALLOW FOR THE SEPARATE RECORDING AND TRACKING OF COSTS FOR ATMOS ENERGY'S UTILITY DIVISIONS?

A. Direct costs are charged directly to the natural gas distribution division which has incurred the costs. In addition, technical and support services are provided to the distribution divisions by centralized shared services departments primarily located at the Atmos Energy headquarters in Dallas. These centralized functions include, but are not limited to, accounting, human resources, legal, treasury, risk management, etc. The costs for these shared services are allocated to the operating divisions.

Q. WERE THE BOOKS AND RECORDS OF THE COMPANY PROVIDED TO COMPANY WITNESSES FOR UTILIZATION IN THEIR ANALYSIS FOR RATEMAKING PURPOSES?

A. Yes.

IV. COST ALLOCATION MANUAL

Q. WHAT IS THE COST ALLOCATION MANUAL?

A. The CAM, which is contained in Exhibit JLS-1, describes and documents the process whereby allocations are made within the books and records of the Company. These

include allocations of various common expenses which are incurred for the benefit of two or more of the Company's rate divisions and are therefore allocable to those rate divisions. Additionally, the CAM also describes and documents the processes whereby allocations are made between Atmos Energy and its affiliates and between affiliates.

Q. ARE YOU RESPONSIBLE FOR OVERSIGHT OF THE CAM?

A. Yes. I coordinate and oversee the updating and filing of the CAM.

Q. PLEASE DESCRIBE THE HISTORY OF THE CAM.

A. The CAM was first developed in response to Kentucky regulation 807 KAR 5:080 and was first filed with the Kentucky Public Service Commission in April of 2001. The Company is required to update the CAM each year. Atmos Energy has used the CAM to document its allocation processes in the regular course of business since it was first filed.

Q. ARE THE ALLOCATIONS DESCRIBED IN THE CAM USED IN EVERY JURISDICTION IN WHICH ATMOS ENERGY OPERATES?

A. Yes. The CAM is uniformly applied in all eight states in which Atmos Energy has regulated utility operations for the allocation of common costs among Atmos Energy's various operating divisions, including Tennessee.

Q. DOES THE CAM DESCRIBE HOW TO ALLOCATE BALANCE SHEET AMOUNTS?

A. No. The CAM describes how to allocate expense items from Atmos Energy's income statement. Investment or balance sheet items are not allocated within Atmos

Energy's books and records. Investment amounts are allocated only for ratemaking purposes in the context of a rate filing or certain regulatory reports.

Q. IN YOUR OPINION, DOES THE COMPANY'S ALLOCATION PROCESS UNIFORMLY AND CONSISTENTLY ALLOCATE COMMON OR SHARED SERVICES COSTS?

A. Yes, the allocation process described in the CAM operates fairly and reasonably in allocating those costs on a uniform basis, both between Atmos Energy's various operating divisions and affiliates and between the various regulatory jurisdictions in which the Company operates.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

IN RE:	)	
ATMOS ENERGY CORPORATION	)	
GENERAL RATE	)	**Docket No. 14-XXXXX**
CASE AND PETITION TO ADOPT	)	
ANNUAL REVIEW MECHANISM	)	
AND ARM TARIFF		

VERIFICATION

STATE OF TEXAS)

COUNTY OF DALLAS)

I, Jason L. Schneider, being first duly sworn, state that I am the Director of Accounting Services for Atmos Energy Corporation, that I am authorized to testify on behalf of Atmos Energy Corporation in the above referenced docket, that the Testimony of Jason L. Schneider in Support of Atmos Energy Corporation's Petition and the Exhibits thereto pre-filed in this docket on the date of filing on this Petition are true and correct to the best of my knowledge, information and belief.

Jason L. Schneider

Jason L. Schneider

Sworn and subscribed before me this 24 day of November, 2014

NOTARY PUBLIC STATE OF TEXAS
PAMELA L. PERRY
My Commission Expires
October 29, 2016

Pamela L. Perry

Notary Public

My Commission Expires: 10-29-16

ATMOS ENERGY CORPORATION
COST ALLOCATION MANUAL
April 1, 2014

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1. Introduction:

a. Corporate Structure

Atmos Energy Corporation (Atmos or the Company) operates its Regulated Operations through seven operating divisions in 8 states. The seven operating divisions and their service areas are:

Division	Service Area
Atmos Energy Colorado-Kansas Division	Colorado, Kansas
Atmos Energy Kentucky/Mid-States Division	Kentucky, Tennessee, Virginia
Atmos Energy Louisiana Division	Louisiana
Atmos Energy Mid-Tex Division	Texas, including the Dallas/Fort Worth metropolitan area
Atmos Energy Mississippi Division	Mississippi
Atmos Energy West Texas Division	West Texas
Atmos Pipeline – Texas Division	Intrastate pipeline business in Texas

These operating divisions are not subsidiaries or separate legal entities. Therefore, by definition, they cannot be considered affiliates of Atmos.

Technical and support services are provided to the operating divisions by centralized shared services departments primarily located at the Atmos headquarters in Dallas. These centralized functions currently include, but are not limited to, accounting, gas supply, human resources, information technology, legal, rates and customer support. The costs for these shared services are allocated to the operating divisions. In addition, for operating divisions that operate in more than one rate jurisdiction, costs from an operating division's general office are allocated to separate rate divisions within the operating division.

In addition to its regulated businesses, Atmos also has Nonregulated Operations, which are operated through Atmos Energy Holdings, Inc., a wholly-owned subsidiary of Atmos, and its various wholly-owned subsidiaries. These subsidiaries are separate legal entities and are considered affiliates of Atmos.

The Company's current legal entity organization chart is contained in Appendix A.

Note that the descriptions contained herein do not address tariffed services.

b. Accounting:

Atmos' account coding structure enables it to capture the costs for allocable activities. Expenses, assets, and liabilities for Atmos' shared services and other operating division general office divisions are coded to applicable location codes and cost centers as necessary, and are then allocated to the appropriate rate divisions based upon the methodologies described herein. Allocations recorded in the books and records of the Company are primarily for management control purposes and may not reflect the allocation methodology used for rate making purposes.

Atmos' account coding structure is as follows:

XXX.	XXXX.	XXXX.	XXXXX.	XXXXXX.	XXXX
Company 3 digit	Cost Center 4 digit	FERC Account 4 digits	Sub-Account 5 digits	Service Area 6 digits	Future Use 4 digits

Within the above coding structure, "Company" and "Cost Center" are primarily utilized for internal management responsibility reporting purposes for Atmos' operating divisions. The terms "Company" and "Cost Center" are defined in the glossary beginning below. Utilization of the "Company" or "Cost Center" fields is not suitable for meaningful financial or regulatory reporting purposes.

The FERC account field contains the three-digit FERC USOA account plus one extension digit which in some cases is utilized by the FERC USOA.

The first three digits of the Service Area field are the primary coding utilized for cost allocations within Atmos and is generally referred to as "rate division number". This portion of the field denotes Atmos' various rate divisions as well as the Company's various shared services and operating division general office divisions. These codes are the primary source of information for regulatory reporting and rate activity. The remaining three digits represent "town" location which is utilized only for some accounts. Atmos Pipeline-Texas uses the final three digits of the service area to represent the actual storage or compressor facility; however, this is used for O&M expenses only.

c. Glossary of Terms:

The following terms are defined for purposes of this document only:

Affiliate - One or more of Atmos' subsidiaries.

Below the Line - Amounts which are generally not included in an analysis of costs from which gas service rates are derived.

Company - In general terms, it refers to Atmos Energy Corporation. Within the context of the account coding string, this term represents an operating division, wholly-owned subsidiary or other legal entity controlled by Atmos.

Composite Factor - The Company's general allocation factor which is derived for each applicable area based upon the simple average of gross plant in service, average number of customers and direct operation and maintenance expenses for each applicable area.

Corporate Headquarters - The headquarters of Atmos Energy Corporation located in Dallas, Texas.

Cost Centers - Account coding which denotes an area of cost responsibility. This coding is used primarily for management purposes.

Customer Factor - The Company's general allocation factor which is derived based on the average number of customers of the Operating Divisions that receive allocable costs for the services provided.

Direct Charges - Those charges which may originate in a shared services department or operating division general office division or a rate division which are booked directly to the applicable rate division.

FERC USOA - The Uniform System of Accounts as prescribed by the Federal Energy Regulatory Commission.

Municipal Jurisdiction - For Atmos' operations in Texas, each municipality which it serves has original jurisdiction over rates.

Non-regulated Operations – Represents the Company's natural gas marketing and nonregulated pipeline, storage and midstream operations controlled by Atmos Energy Holdings, Inc., a wholly-owned subsidiary of Atmos Energy Corporation.

Operating Division - An unincorporated division of Atmos Energy Corporation that contains at least one rate division that is responsible for the management of the Company's Regulated Operations. Operating divisions are not subsidiaries or separate legal entities. As such, they do not have separate equity or debt structures. Additionally, the divisions do not keep separate books and records.
Operating divisions with multiple rate divisions have one operating division general office rate division in addition to rate divisions corresponding to regulatory jurisdictional areas.

Operating Division General Office - Administrative offices that are located outside of shared service offices which serve as the base of operations and central office for each "operating division."

Rate Division – Often referred to as an operating rate division, it denotes Atmos' regulatory jurisdictions that are defined by state boundaries, geographic boundaries within states or municipal boundaries within the State of Texas. The term also denotes Atmos' various shared services and operating division general office divisions. These divisions are the primary source for regulatory reporting and rate activity for an area in which rates have been set by a regulatory authority such as the Colorado Public Utilities Commission. Rate divisions are identifiable in the Company's account coding string. As such, costs are accumulated within the general ledger and represent the sum of direct costs plus costs allocated to the rate division.

Regulated Operations – Represents the Company's six regulated natural gas distribution operating divisions operating in 8 states and the Company's regulated intrastate pipeline operations in the State of Texas.

Service Area - The portion of the Company's account coding structure of which the first three digits denote rate division. The last three digits of this code denote "town" which is used only in certain instances. Atmos Pipeline-Texas uses the final three digits of the service area to represent the actual storage or compressor facility; however, this is used for O&M expenses only.

Shared Services - The Company's functions that serve multiple rate divisions. These services include departments such as legal, billing, call center, accounting, information technology, human resources, gas supply, rates administration among others. Shared Services is comprised of Shared Services – General Office and Shared Services – Customer Support

Shared Services – Customer Support – Shared Services functions that include billing, customer call center functions and customer support related services.

Shared Services – General Office – Shared Services functions that include all other functions not encompassed by Shared Services – Customer Support.

The following are divisions of Atmos Energy Corporation:

Atmos Energy Colorado-Kansas Division is a regulated operating division that serves approximately 170 communities throughout Colorado and Kansas, including the cities of Olathe, Kansas, a suburb of Kansas City and Greeley, Colorado, located near Denver.

Atmos Energy Kentucky/Mid-States Division is a regulated operating division that operates Kentucky, Tennessee and Virginia. The service areas in these states are primarily rural; however, this division serves Franklin, Tennessee, and other suburban areas of Nashville.

Atmos Energy Louisiana Division is a regulated operating division that serves nearly 300 communities, including the suburban areas of New Orleans, the metropolitan area of Monroe and western Louisiana. Direct sales of natural gas to industrial customers in Louisiana, who use gas for fuel or in manufacturing processes, and sales of natural gas for vehicle fuel are exempt from regulation and are recognized in our natural gas marketing segment.

Atmos Energy Mid-Tex Division is a regulated operating division that serves approximately 550 incorporated and unincorporated communities in the north-central, eastern and western parts of Texas, including the Dallas/Fort Worth Metroplex. The governing body of each municipality we serve has original jurisdiction over all gas distribution rates, operations and services within its city limits, except with respect to sales of natural gas for vehicle fuel and agricultural use. The Railroad Commission of Texas (RRC) has exclusive appellate jurisdiction over all rate and regulatory orders and ordinances of the municipalities and exclusive original jurisdiction over rates and services to customers not located within the limits of a municipality.

Atmos Energy Mississippi Division is a regulated operating division that serves about 110 communities throughout the northern half of the state, including the Jackson metropolitan area.

Atmos Energy West Texas Division is a regulated operating division that serves approximately 80 communities in West Texas, including the Amarillo, Lubbock and Midland areas. Like our Mid-Tex Division, each municipality we serve has original jurisdiction over all gas distribution rates, operations and services within its city limits,

with the RRC having exclusive appellate jurisdiction over the municipalities and exclusive original jurisdiction over rates and services provided to customers not located within the limits of a municipality.

Atmos Pipeline – Texas Division is a regulated pipeline and storage division that transports natural gas to our Mid-Tex Division, transports natural gas for third parties and manages five underground storage reservoirs in Texas. These operations include one of the largest intrastate pipeline operations in Texas with a heavy concentration in the established natural gas-producing areas of central, northern and eastern Texas, extending into or near the major producing areas of the Texas Gulf Coast and the Delaware and Val Verde Basins of West Texas. Nine basins located in Texas are believed to contain a substantial portion of the nation's remaining onshore natural gas reserves. This pipeline system provides access to all of these basins.

The following are affiliates of Atmos Energy Corporation:

Blueflame Insurance Services, LTD is a wholly-owned subsidiary of Atmos Energy Corporation that was created to provide cost-effective property insurance coverage for Atmos Energy and its subsidiaries. It was chartered in Bermuda effective December 16, 2003, and became operational as of January 1, 2004. It is incorporated under Bermuda's insurance law and regulations and is fully capitalized under the requirements of applicable Bermuda law.

Atmos Energy Services, LLC was established on April 1, 2004 to provide natural gas management services to Atmos Energy's natural gas distribution operations, other than the Mid-Tex Division. These services include aggregating and purchasing gas supply, arranging transportation and storage logistics and ultimately delivering the gas to Atmos Energy's natural gas distribution service areas at competitive prices. AES provided these services through December 31, 2006. Effective January 1, 2007, the gas supply department within shared services began providing these services. However, AES continues to provide limited services to the natural gas distribution operations of Atmos Energy. The revenues AES receives are equal to the costs incurred to provide these services.

Phoenix Gas Gathering Company is a wholly owned subsidiary of Atmos Gathering Company, LLC, and was created to develop, own and operate a non-regulated natural gas gathering system located in Kentucky.

Atmos Gathering Company, LLC is a wholly owned subsidiary of Atmos Pipeline and Storage, LLC and was created to conduct our non-regulated natural gas gathering operations.

Atmos Energy Holdings, Inc. is the parent company of Atmos Energy Corporation's non-utility operations.

Atmos Energy Marketing, LLC provides a variety of non-regulated natural gas marketing services to municipalities, natural gas utility systems and industrial natural gas customers in 22 states primarily located in the southeastern and Midwestern states and to our Kentucky, Louisiana and Mid-States utility divisions.

Atmos Exploration and Production, Inc. holds some insignificant Kentucky production interests which the Company succeeded to when it acquired Western Kentucky Gas Company in 1989. This subsidiary is functionally inactive as the Company does not actively engage in the exploration and production business.

Atmos Pipeline and Storage, LLC owns or has an interest in underground storage fields in Kentucky and Louisiana. The utility divisions of Atmos Energy also use these storage facilities to reduce the need to contract for additional pipeline capacity to meet customer demand during peak periods.

Atmos Power Systems, Inc. constructs gas-fired electric peaking power generating plant and associated facilities and may enter into agreements to either lease or sell these plants. Since 2001, 2 sales-type lease transactions have been executed.

Egasco, LLC was, several years ago, engaged in the marketing and sale of natural gas to large-volume commercial and agricultural customers in West Texas. Egasco no longer serves any customers.

Fort Necessity Gas Storage, LLC is a wholly owned subsidiary of Atmos Pipeline and Storage, LLC, and was created in 2009 to construct and operate a non-regulated salt-cavern gas storage project in Louisiana. In March 2011, we recorded a $19.3 million charge to substantially write off our investment in Fort Necessity.

Trans Louisiana Gas Storage, Inc. owns a minority interest in a salt dome storage facility in Louisiana. This facility is used to serve utility and non-utility customers.

Trans Louisiana Gas Pipeline, Inc. owns and operates an intrastate pipeline system in Louisiana. This facility is used to serve utility and non-utility customers.

UCG Storage, Inc. owns certain storage field interests in Kentucky which are used to serve utility customers.

WKG Storage, Inc. owns certain storage field interests in Kentucky which are used to serve utility and non-utility customers.

Service: **Capitalized overhead (general)**

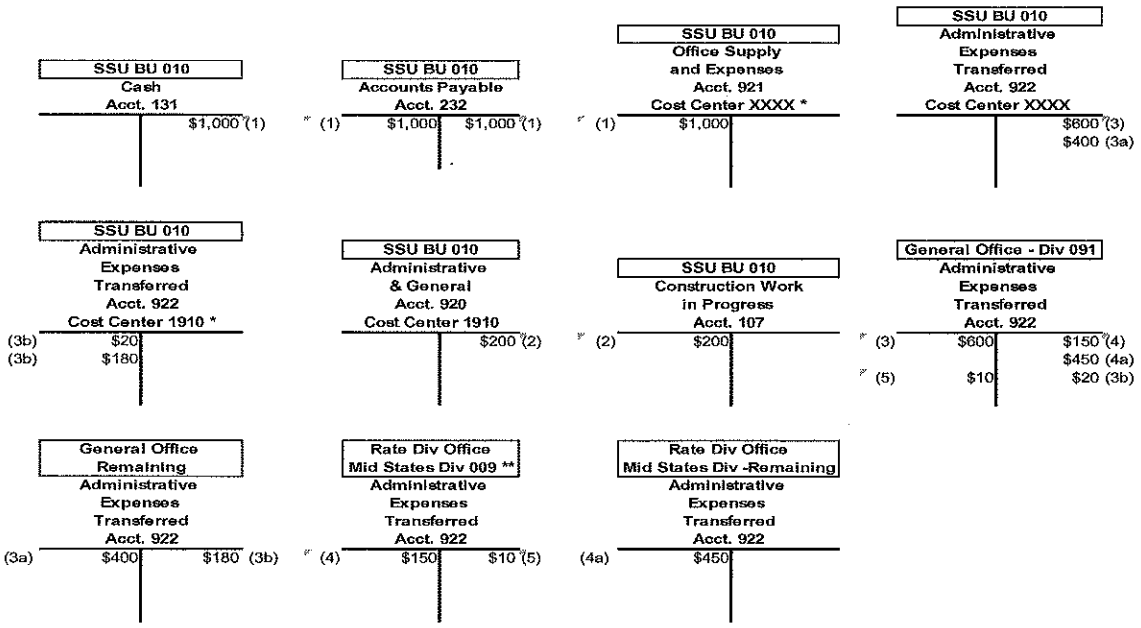
Description: Overhead related to capital expenditures

Current Provider of Service: Shared Services
Atmos Pipeline – Texas Division
Louisiana Division operating division general office
Kentucky/Mid-States Division operating division general office
Colorado-Kansas Division operating division general office
Mid-Tex Division
Mississippi Division
West Texas Division

Current Use of Service: Rate divisions

Basis for allocation: Capitalized overhead costs are accumulated by operating division (and state level for multiple state divisions). Each operating division (and state) sets an application rate at the beginning of the year based on projected expenditures. As expenditures for CWIP and RWIP are recorded overhead is applied at the application rate. Periodically, the application rate is reviewed. Shared services overhead is allocated to operating divisions based on operating division capital expenditures. At the end of each quarter, the amount that has accumulated in the OH project is cleared to all eligible projects that incurred charges during that quarter, on a pro rata basis

General Ledger Entries: Example Only



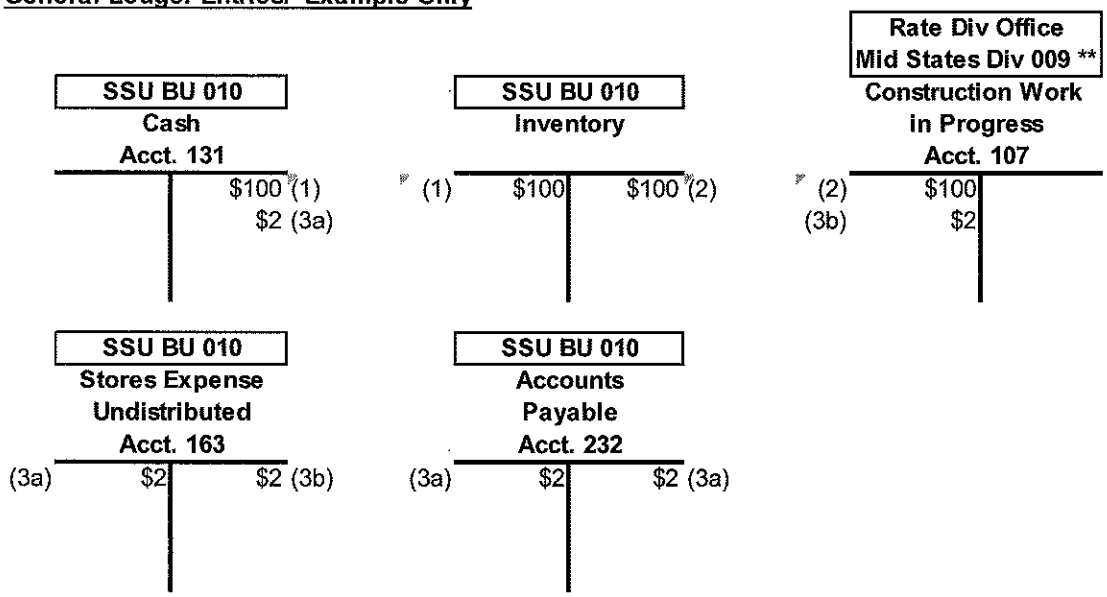
* Cap rate = 20%
** Many rate division offices exist within Mid-States in addition to Div 009.

Flow of Activity
(1) Purchase Office Supplies
(2) Capitalize Overhead is calculated based on cost center capitalization percentage
(3) Allocating Shared Services Expenses to General Offices - 60% Allocation rate for illustration purposes only
(3a) Allocation to remaining general offices
(3b) Allocate capitalization credits to business units
(4) Allocating Shared Services Expenses to Rate Division Office - 25% Allocation rate for illustration purposes only
(4a) Allocation to remaining division offices
(5) Allocating Shared Services Capitalization Credit to Rate Division Office - 50% Allocation rate for illustration purposes only

Note: Please see the allocation of expenses from General Office to State Regional Office to Rate Division on the following pages:
West Texas - 17, Colorado/Kansas - 19, Louisiana - 23

Service:	**Stores overhead**
Description:	Overhead related to inventory warehousing is allocated to materials as issued.
Current Provider of Service	Shared Services Operating division general office
Current Use of Service	Atmos Pipeline – Texas Division West Texas Division rate divisions Louisiana Division rate divisions Kentucky/Mid-States Division rate divisions Mid-Tex Division rate division Colorado-Kansas Division rate divisions Mississippi Division rate division
Basis for allocation	Overhead costs associated with inventory items, including rent, labor and supervision are accumulated by operating division. Each operating division sets an application rate at the beginning of the year based on projected overhead and materials activity. As materials are issued from the warehouse, the overhead assigned is also allocated to the same account. Periodically, the balance in the undistributed stores overhead account is compared to the materials on hand balance and a new rate is determined. Shared Services stores overhead is allocated monthly to the operating divisions based on number of meters.

General Ledger Entries: Example Only



** Many rate division offices exist within Mid-States in addition to Div 009.

Flow of Activity

1 Purchase Inventory - Material
2 Issue Inventory to Capital Project
3a Incurring Inventory Expense
3b Apply Inventory Storage Rate
Assume 2%

Service: **O&M Expenses in Shared Services – Customer Support cost centers**

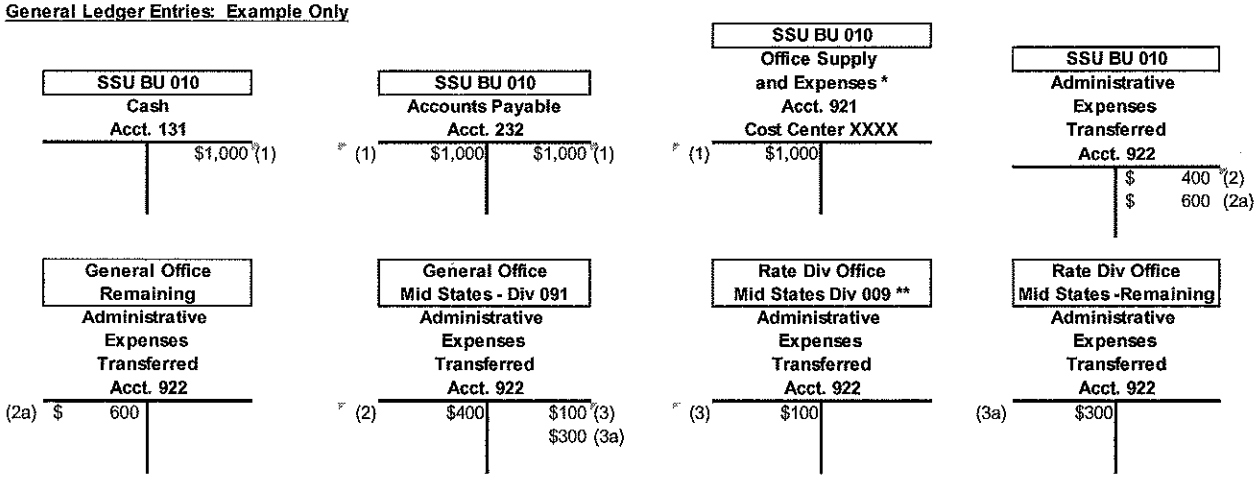
Description: Includes all expenses for Customer Support. (Division 012)

Current Provider Of Service: Shared Services

Current Use of Service:
West Texas Rate Divisions
Mid-Tex Division
Louisiana Rate Divisions
Kentucky/Mid-States Rate Divisions
Colorado-Kansas Rate Divisions
Mississippi Division

Basis for allocation: Costs are allocated to the applicable operating division general office in total based on the average number of customers in each operating division as a percentage of the total number of customers in all of the operating divisions. From the operating division general office Divisions Customer Support charges are allocated to rate divisions using the average number of customers in each rate division.

General Ledger Entries: Example Only



* Many O&M expense accounts exist in addition to 921 that get cleared out of account 922.
** Many rate division offices exist within Mid-States in addition to Div 009.

Flow of Activity

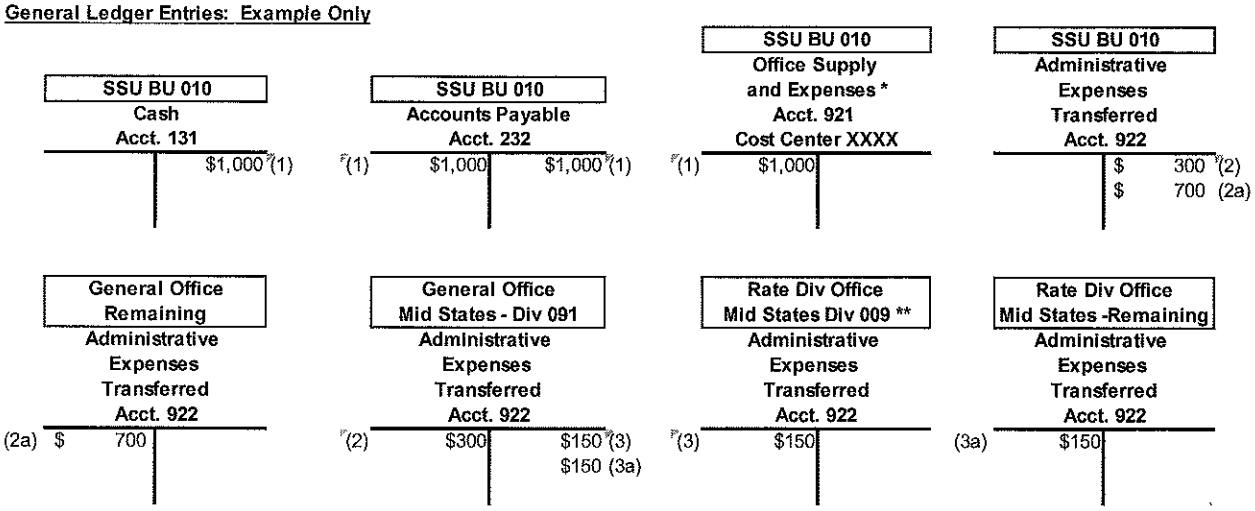
(1) Purchase Office Supplies - Shared Services
(2) Allocating Shared Services Expenses to General Offices - 40% Allocation rate for illustration purposes only
(2a) Allocation to remaining general offices
(3) Allocating Shared Services Expenses to Rate Division Office - 25% Allocation rate for illustration purposes only
(3a) Allocation to remaining division offices

Note: Please see the allocation of expenses from General Office to State Regional Office to Rate Division on the following pages: West Texas - 17, Colorado/Kansas - 19, Louisiana - 23

Service:	**O&M Expenses in Shared Services – General Office cost centers**
Description:	Includes O&M expenses in Shared Services – General Office. (Division 002)
Current Provider Of Service	Shared Services
Current Use of Service	Atmos Energy Marketing, LLC Trans Louisiana Gas Pipeline Atmos Gathering Company, LLC WKG StorageWest Texas Division Mid-Tex Division Atmos Pipeline – Texas Division Louisiana Division Kentucky/Mid-States Division Colorado-Kansas Division Mississippi Division Trans Louisiana Gas Storage Atmos Power Systems, Inc
Basis for allocation	Costs are allocated to affiliates and operating divisions based on a composite factor applied to the Shared Services departments. Shared Services departments which provide services to the Company's affiliates utilize a composite factor which includes the affiliates. Shared Service departments that do not provide services to the Company's affiliates utilize a composite factor which does not include the Company's affiliates. Other allocation methods used as appropriate include composite not including affiliates or Atmos Pipeline –Texas, composite not including affiliates, Atmos Pipeline-Texas or Mid States, composite using only West Texas, COKS, and MS utility divisions, composite using West Texas, Mid Tex, and Atmos Pipeline-Texas and Overhead rate. From each operating division general office charges are allocated to rate divisions using the composite rate for each rate division.

See page 12 for General Ledger Entries: Example Only.

General Ledger Entries: Example Only



* Many O&M expense accounts exist in addition to 921 that get cleared out of account 922.
** Many rate division offices exist within Mid-States in addition to Div 009.

Flow of Activity

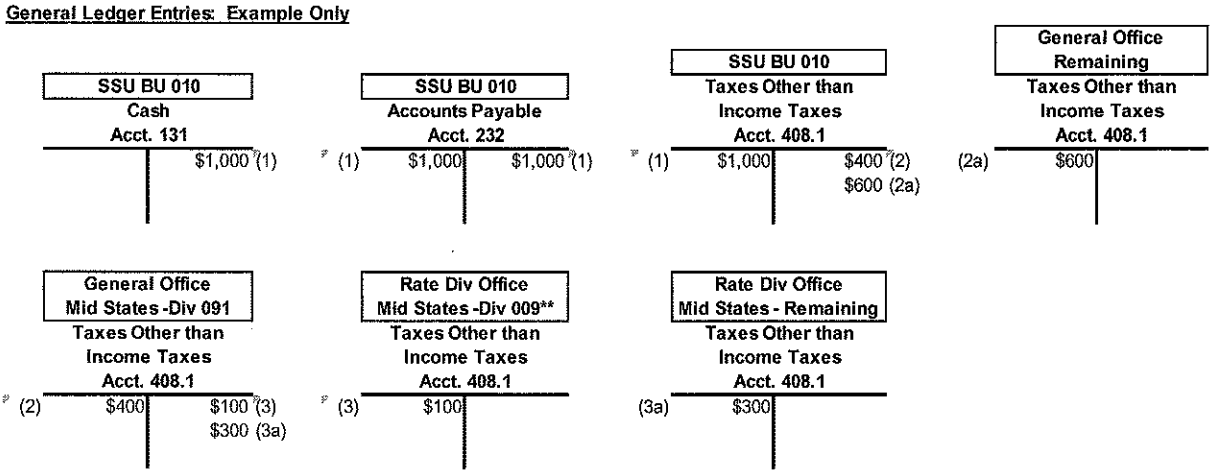
(1) Purchase Office Supplies - Shared Services
(2) Allocating Shared Services Expenses to General Offices - 30% Allocation rate for illustration purposes only
(2a) Allocation to remaining general offices
(3) Allocating Shared Services Expenses to Rate Division Office - 50% Allocation rate for illustration purposes only
(3a) Allocation to remaining division offices

Note: Operating Divisions Mississippi, Mid-Tex and Atmos Pipeline – Texas have 1 rate division. There is no allocation to remaining division offices (3a).

Note: Please see the allocation of expenses from General Office to State Regional Office to Rate Division on the following pages:
West Texas - 17, Colorado/Kansas - 19, Louisiana - 23

Service:	**SSU – Customer Support taxes other than income taxes**
Description:	Includes all taxes other than income tax charged in Shared Services – Customer Support.
Current Provider Of Services	Shared Services
Current Use of Service	West Texas Rate Divisions Louisiana Rate Divisions Kentucky/Mid-States Rate Divisions Mid-Tex Division Colorado-Kansas Rate Divisions Mississippi Division
Basis for allocation	Costs are allocated to the applicable rate division level in total based on the average number of customers in each operating division as a percentage of the total number of customers in all of the operating divisions. If needed number of customers in rate divisions is used to allocated from the operation division general office to rate divisions.

General Ledger Entries: Example Only



** Many rate division offices exist in addtion to Div 009.

Flow of Activity

(1) Taxes Other than Income Taxes incurred
(2) Allocating Shared Services Expenses to General Offices - 40% to Mid States BU - for illustration purposes
(2a) Allocating to remaining division offices
(3) Allocating Shared Services Expenses to Rate Division Office - 25% for Kentucky Rate Division Office - for illustration purposes only
(3a) Allocating Shared Services Expenses to remaining Rate Division Offices

Note: Please see the allocation of expenses from General Office to State Regional Office to Rate Division on the following pages:
West Texas - 17, Colorado/Kansas - 19, Louisiana - 23

Service:	**SSU – General Office taxes other than income taxes**
Description:	Includes all taxes other than income tax charged in Shared Services – General Office.
Current Provider Of Services	Shared Services
Current Use of Service	Atmos Energy Marketing, LLC Atmos Power Systems, Inc. WKG Storage, Inc. Atmos Gathering Company, LLC Trans Louisiana Gas Pipeline, Inc. West Texas Division Mid-Tex Division Atmos Pipeline – Texas Division Louisiana Division Kentucky/Mid-States Division Colorado-Kansas Division Mississippi Division
Basis for allocation	Costs are allocated to the applicable operating divisions in total based on the Composite Factor. The Composite Factor is the simple average of three percentages: The percentage of Gross Direct Property Plant and Equipment in each operating division unit as a percentage of the total Direct Property Plant and Equipment in all of the operating divisions. The number of customers in each operating division as a percentage of the total number of customers in all of the operating divisions. The total direct O&M expense in each operating division as a percentage of the total direct O&M expense in all operating divisions. If needed, allocation from operating division general offices to rate division uses the composite rate.

See page 13 for General Ledger Entry – Example Only.

Service:	**SSU – Customer Support depreciation**
Description:	Includes all depreciation charged in Shared Services – Customer Support.
Current Provider Of Services	Shared Services
Current Use of Service	West Texas Rate Divisions Louisiana Rate Divisions Kentucky/Mid-States Rate Divisions Mid-Tex Division Colorado-Kansas Rate Divisions Mississippi Division
Basis for allocation	Costs are allocated to the applicable rate division level in total based on the average number of customers in each operating division as a percentage of the total number of customers in all of the operating divisions. If needed number of customers in rate divisions is used to allocated from the operation division general office to rate divisions.

General Ledger Entries: Example Only

SSU BU 010 Depreciation Exp Acct. 403			SSU BU 010 Depreciation Exp Acct. 108		Rate Div Office Mid States -Div 009** Depreciation Exp Acct. 403	
(1)	$5,000	$200 (2)		$5,000 (1)	(2)	$200
		$4,800 (2a)			(2a)	$4,800

** Many rate division offices exist in addtion to Div 009.

Flow of Activity

(1) Monthly Depreciation Expense is booked through Powerplant and interfaces with the Oracle general ledger.

(2) Current Month Depreciation Expense is allocated to the various utility rate divisions using the following allocation factors:

i. For SSU division 002 - General - Allocated using the composite factor

ii. For SSU division 012 - Call Center - Allocated using the customer factor.

(2a) Allocation to remaining Rate Divisions

Note: Please see the allocation of expenses from General Office to State Regional Office to Rate Division on the following pages:
West Texas - 17, Colorado/Kansas - 19, Louisiana - 23

Service:	**SSU – General Office depreciation**
Description:	Includes all depreciation charged in Shared Services – General Office.
Current Provider Of Services	Shared Services
Current Use of Service	Atmos Energy Marketing, LLC Atmos Power Systems, Inc. WKG Storage, Inc. Atmos Gathering Company, LLC Trans Louisiana Gas Pipeline, Inc. West Texas Division Mid-Tex Division Atmos Pipeline – Texas Division Louisiana Division Kentucky/Mid-States Division Colorado-Kansas Division Mississippi Division
Basis for allocation	Costs are allocated to the applicable operating divisions in total based on the Composite Factor. The Composite Factor is the simple average of three percentages: (1) The percentage of Gross Direct Property Plant and Equipment in each operating division unit as a percentage of the total Direct Property Plant and Equipment in all of the operating divisions. (2) The number of customers in each operating division as a percentage of the total number of customers in all of the operating divisions. (3) The total direct O&M expense in each operating division as a percentage of the total direct O&M expense in all operating divisions. If needed, allocation from operating division general offices to rate division uses the composite rate.

See page 15 for General Ledger Entry – Example Only.

Service:	**West Texas Division operating division general office O&M, depreciation and taxes other than income taxes, to rate division level**
Description:	Allocation of operating division general office expenses to rate division levels
Current Provider of Service	West Texas Division operating division general office
Current Use of Service	West Texas Division rate divisions
Basis for allocation	Costs are allocated to the applicable operating divisions in total based on the Composite Factor. The Composite Factor is the simple average of three percentages: (1) The percentage of Gross Direct Property Plant and Equipment in each division as a percentage of the total Direct Property Plant and Equipment in the West Texas Division rate divisions. (2) The number of customers in each rate division as a percentage of the total number of customers in the West Texas Division rate divisions. (3) The total direct O&M expense in each municipal rate division as a percentage of the total direct O&M expense in the West Texas Division rate divisions.

See Page 18 for General Ledger Entries: Example Only.

General Ledger Entries: Example Only

General Office SSU – Div 002
Cash
Acct. 131

	$500 (1)
	$400 (5)

General Office SSU – Div 002
Accounts Payable
Acct. 232

(1)	$500	$500 (1)
(5)	$400	$400 (5)

General Office West Texas - Div 010
Office Supply and Expenses *
Acct. 921

(1)	$500

General Office West Texas - Div 010
Administrative Expenses Transferred
Acct. 922

	$200 (2)
	$300 (2a)

Rate Div Office West Texas Div 020**
Administrative Expenses Transferred
Acct. 922

(2)	$200

Rate Div Office West Texas -Remaining
Administrative Expenses Transferred
Acct. 922

(2a)	$300

General Office West Texas - Div 010
Depreciation Exp
Acct. 403

(3)	$100	$15 (4)
		$85 (4a)

West Texas - Div 010
Accumulated Depreciation
Acct. 108

	$100 (3)

Rate Div Office West Texas Div 020**
Depreciation Exp
Acct. 403

(4)	$15

General Office West Texas - Div 010
Taxes Other than Income Taxes
Acct. 408.1

(5)	$400	$100 (6)
		$300 (6a)

Rate Div Office West Texas Div 020**
Taxes Other than Income Taxes
Acct. 408.1

(6)	$ 100	

Rate Div Office West Texas -Remaining
Taxes Other and Depreciation
Acct. 408.1 and 403

(4a)	$85
(6a)	$300

* Many O&M expense accounts exist in addition to 921 that get cleared out of account 922.
** Many rate division offices exist in addition to Div 020.

Flow of Activity

(1) Purchase Office Supplies - West Texas Division General Office
(2) Allocating General Office Expenses to Rate Division Office - 40% Allocation rate for illustration purposes only
(2a) Allocation to remaining division offices
(3) Monthly Depreciation Expense is booked through Powerplant and interfaces with the Oracle general ledger.
(4) Allocation from Division 010 - West Texas General Office to West Texas Rate Divisions
(4a) Allocation to remaining division offices
(5) Taxes Other than Income Taxes incurred
(6) Allocating General Office Expenses to Rate Division Office - 25% to West Texas Rate Division Office - for illustration purposes only
(6a) Allocation to remaining division offices

Service:	**Colorado-Kansas Division operating division general office expenses to state regional office division level.**
Description:	Allocation of division general office expenses to state regional office division levels.
Current Provider of Service	Colorado-Kansas Division operating division general office
Current Use of Service	Colorado-Kansas Operating Division state office divisions.
Basis for allocation	Costs are allocated to the applicable state regional office divisions in total based on the Composite Factor. The Composite Factor is the simple average of three percentages:

(1) The percentage of Gross Direct Property Plant and Equipment in each state as a percentage of the total Direct Property Plant and Equipment in Colorado-Kansas Division.

(2) The number of customers in each state as a percentage of the total number of customers in Colorado-Kansas Division.

(3) The total direct O&M expense in each state as a percentage of the total direct O&M expense in Colorado-Kansas Division.

General Ledger Entries: Example Only

General Office SSU – Div 002 Cash Acct. 131		General Office SSU – Div 002 Accounts Payable Acct. 232		General Office CO/KS BU 060 Office Supply and Expenses * Acct. 921	
	$500 (1)	(1) $500	$500 (1)	(1) $500	

General Office CO/KS BU 060 Administrative Expenses Transferred Acct. 922		State Div Office CO/KS Div 031 Administrative Expenses Transferred Acct. 922		Rate Div Office CO/KS Div 080 Administrative Expenses Transferred Acct. 922	
	$250 (2) $250 (2a)	(2) $250		(2a) $250	

* Many O&M expense accounts exist in addition to 921 that get cleared out of account 922.

Flow of Activity

(1) Purchase Office Supplies - Colorado/Kansas Division General Office

(2) Allocating General Office Expenses to State Division Office - 50% Allocation rate for illustration purposes only

(2a) Allocation to remaining state office

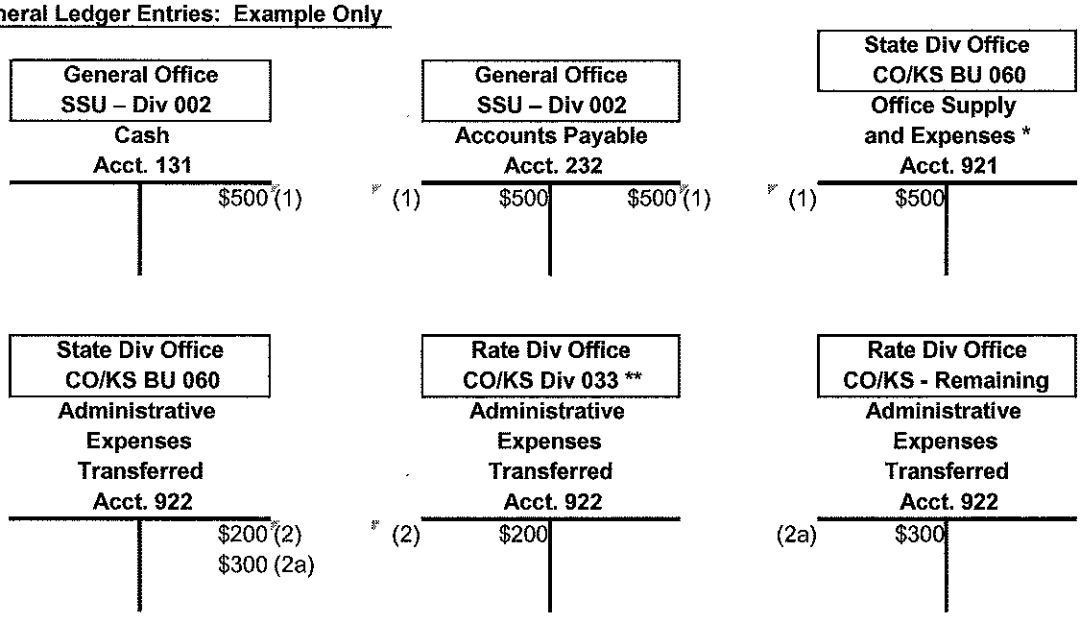
Service:	**Colorado-Kansas Division state regional office division level expenses to rate division level**
Description:	Allocation of state regional office division level expenses to rate division levels.
Current Provider of Service	Colorado-Kansas Division regional division office
Current Use of Service	Colorado-Kansas Division rate divisions
Basis for allocation	Costs are allocated to the applicable rate divisions in total based on the Composite Factor. The Composite Factor is the simple average of three percentages:

(1) The percentage of Gross Direct Property Plant and Equipment in each state rate division as a percentage of the total Direct Property Plant and Equipment in each state.

(2) The number of customers in each state rate division as a percentage of the total number of customers in each state.

(3) The total direct O&M expense in each state rate division as a percentage of the total direct O&M expense in each state.

General Ledger Entries: Example Only



* Many O&M expense accounts exist in addition to 921 that get cleared out of account 922.

** Many rate division offices exist within the state in addition to Div 033.

Flow of Activity

(1) Purchase Office Supplies - Colorado/Kansas State Division Office

(2) Allocating State Divisoin Office Expenses to Rate Division Office - 40% Allocation rate for illustration purposes only

(2a) Allocation to remaining division offices

Service:	**Kentucky/Mid-States Division operating division general office O&M, depreciation and taxes other than income taxes, to rate division level**
Description:	Allocation of operating division general office expenses to rate division levels
Current Provider Of Service	Kentucky/Mid-States Division operating division general office
Current Use of Service	Kentucky/Mid-States Division rate divisions
Basis for allocation	Costs are allocated to the applicable rate divisions in total based on the Composite Factor. The Composite Factor is the simple average of three percentages: (1) The percentage of Gross Direct Property Plant and Equipment in each rate division as a percentage of the total Direct Property Plant and Equipment in Kentucky/Mid-States Division. (2) The number of customers in each rate division as a percentage of the total number of customers in Kentucky/Mid-States Division. (3) The total direct O&M expense in each rate division as a percentage of the total direct O&M expense in Kentucky/Mid-States Division.

See Page 22 for General Ledger Entries: Example Only.

General Ledger Entries: Example Only

General Office SSU – Div 002
Cash Acct. 131

	$500 (1)
	$400 (5)

General Office SSU – Div 002
Accounts Payable Acct. 232

(1)	$500	$500 (1)
(5)	$400	$400 (5)

General Office Mid States - Div 091
Office Supply and Expenses * Acct. 921

(1)	$500

General Office Mid States - Div 091
Administrative Expenses Transferred Acct. 922

	$200 (2)
	$300 (2a)

Rate Div Office Mid States Div 009 **
Administrative Expenses Transferred Acct. 922

(2)	$200

Rate Div Office Mid States -Remaining
Administrative Expenses Transferred Acct. 922

(2a)	$300

General Office Mid States - Div 091
Depreciation Exp Acct. 403

(3)	$100	$15 (4)
		$85 (4a)

Mid States - Div 091
Accumulated Depreciation Acct. 108

	$100 (3)

Rate Div Office Mid States Div 009 **
Depreciation Exp Acct. 403

(4)	$15

General Office Mid States - Div 091
Taxes Other than Income Taxes Acct. 408.1

(5)	$400	$100 (6)
		$300 (6a)

Rate Div Office Mid States Div 009 **
Taxes Other than Income Taxes Acct. 408.1

(6)	$ 100	

Rate Div Office Mid States -Remaining
Taxes Other and Depreciation Acct. 408.1 and 403

(4a)	$85
(6a)	$300

* Many O&M expense accounts exist in addition to 921 that get cleared out of account 922.
** Many rate division offices exist in addition to Div 009.

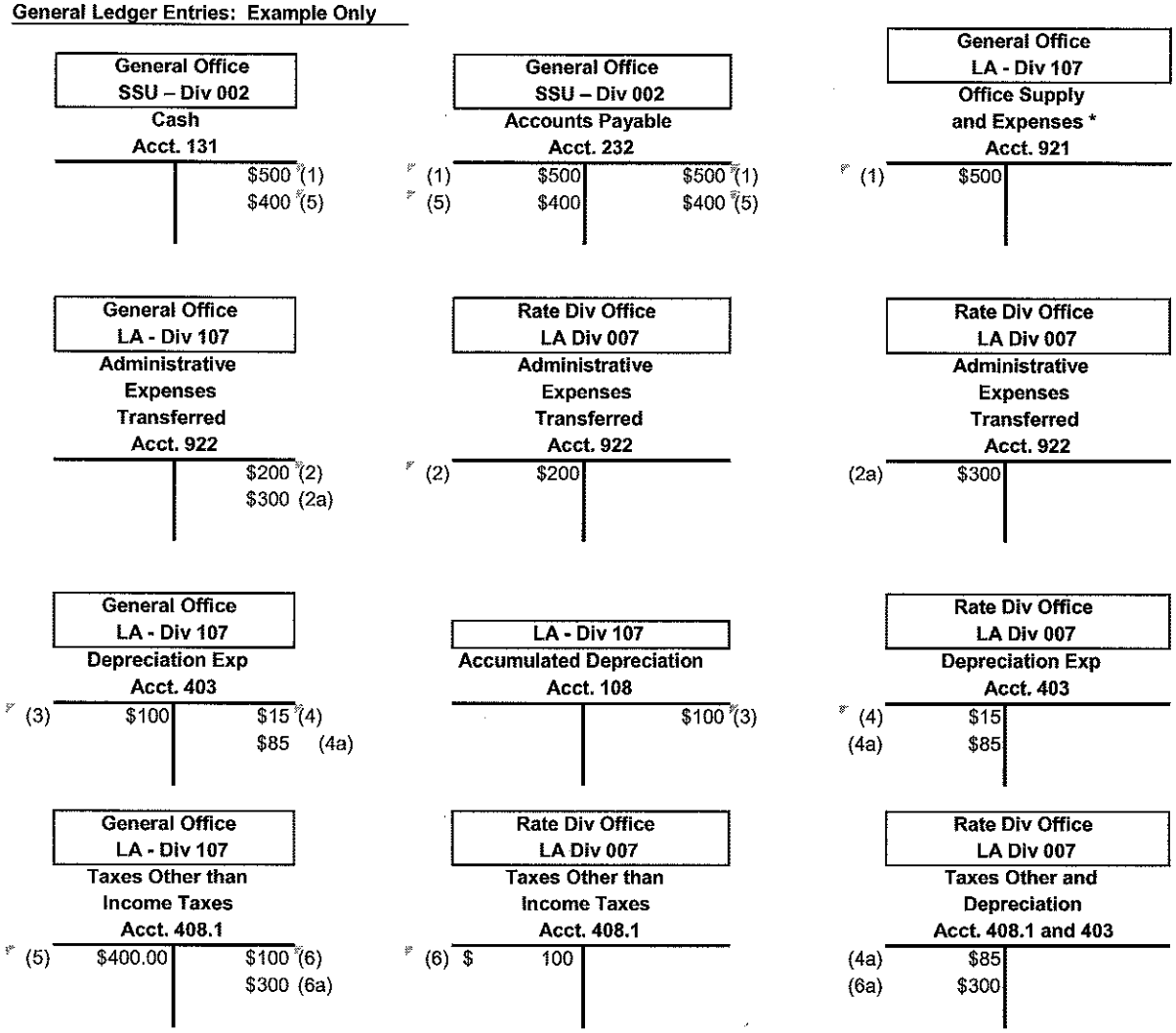
Flow of Activity

(1) Purchase Office Supplies - Mid States Division General Office
(2) Allocating General Office Expenses to Rate Division Office - 40% Allocation rate for illustration purposes only
(2a) Allocation to remaining division offices
(3) Monthly Depreciation Expense is booked through Powerplant and interfaces with the Oracle general ledger.
(4) Allocation from Division 091 - Mid States General Office to Mid States Rate Divisions - Allocated using the composite factor.
(4a) Allocation to remaining division offices
(5) Taxes Other than Income Taxes Incurred
(6) Allocating General Office Expenses to Rate Division Office - 25% to Mid States Rate Division Office - for illustration purposes only
(6a) Allocation to remaining division offices

Service:	**Louisiana Division operating division general office O&M, depreciation and taxes other than income taxes, to rate division level**
Description:	Allocation of operating division general office expenses to rate division levels
Current Provider of Service	Louisiana Division operating division general office
Current Use of Service	Louisiana Division rate divisions
Basis for allocation	Costs are allocated to the applicable rate divisions in total based on the Composite Factor. The Composite Factor is the simple average of three percentages: (1) The percentage of Gross Direct Property Plant and Equipment in each rate division as a percentage of the total Direct Property Plant and Equipment in Louisiana Division. (2) The number of customers in each rate division as a percentage of the total number of customers in Louisiana Division. (3) The total direct O&M expense in each rate division as a percentage of the total direct O&M expense in Louisiana Division.

See Page 24 for General Ledger Entries: Example Only.

General Ledger Entries: Example Only



* Many O&M expense accounts exist in addition to 921 that get cleared out of account 922.

Flow of Activity

(1) Purchase Office Supplies - LA Division General Office
(2) Allocating General Office Expenses to Rate Division Office - 40% Allocation rate for illustration purposes only
(2a) Allocation to remaining division offices
(3) Monthly Depreciation Expense is booked through Powerplant and interfaces with the Oracle general ledger.
(4) Allocation from Division 107 - LA General Office to LA Rate Divisions - Allocated using the composite factor.
(4a) Allocation to remaining division offices
(5) Taxes Other than Income Taxes incurred
(6) Allocating General Office Expenses to Rate Division Office - 25% to LA Rate Division Office - for illustration purposes only
(6a) Allocation to remaining division offices

Description of Relationship between Mid-Tex and Atmos Pipeline – Texas:

Mid-Tex performs operations and maintenance and capital services for the Atmos Pipeline – Texas ("APT") Division.

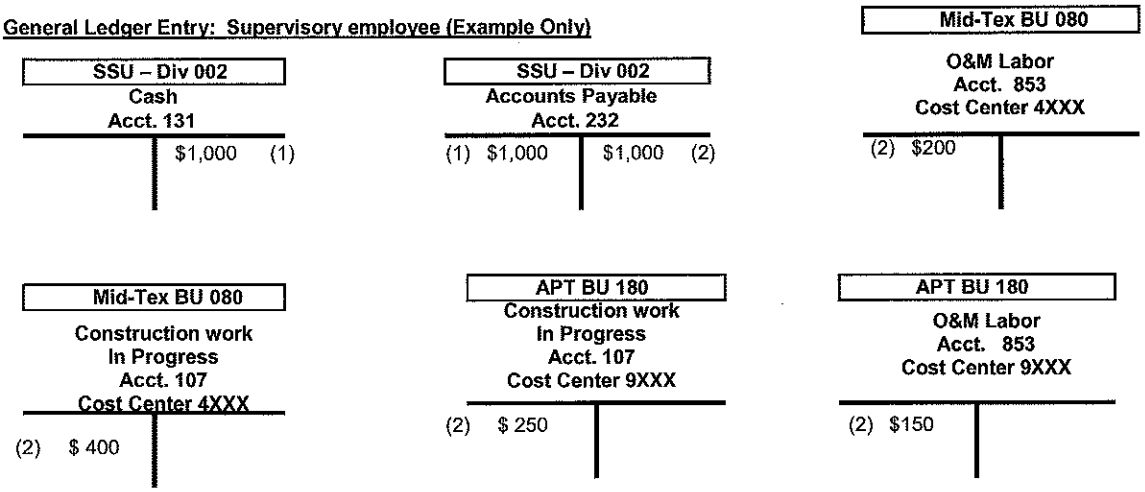
Services are provided on an ongoing basis throughout the Mid-Tex and APT service areas. The field operations include, but are not limited to, services related to pipeline integrity, measurement, compliance work, painting, right of way mowing and reclamation, leak surveys, patrolling, regulator maintenance, fence replacements, line repairs and line replacements. Additionally, Technical and Support Services are provided to APT by centralized departments primarily located at the Mid-Tex headquarters in Dallas. These centralized functions include, but are not limited to, compliance monitoring and reporting, engineering, gas measurement, finance, marketing and human resources.

APT employs outside contractor labor services and purchases materials and supplies for field operations and construction in addition to the services provided by Mid-Tex. These services and materials are direct charged to APT and are not allocated from Mid-Tex.

APT employs some pipeline only personnel. This labor and the related benefit cost is primarily charged directly to APT and not allocated from Mid-Tex.

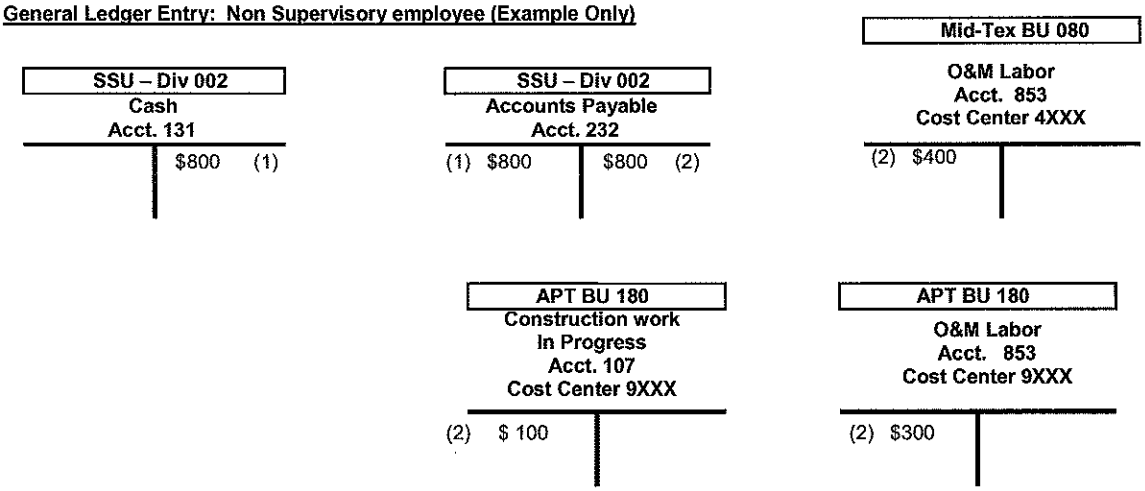
Service:	**Mid-Tex/Atmos Pipeline – Texas Division - Intracompany Labor**
Description:	Mid-Tex employees' labor supporting APT operations
Current Provider Of Service	Mid-Tex
Current Use of Service	Atmos Pipeline – Texas
Basis for allocation	Mid-Tex direct Company and/or contractor actual labor Mid-Tex Non Supervisory employees who charge time to APT generally record their time through the time reporting system. Mid-Tex Supervisory employees who charge time to APT generally record their time using the operational split through the time reporting system. The Operational Split is calculated annually based on the expected allocation of Mid-Tex Non Supervisory labor and contractor labor between the Mid-Tex and APT divisions.

General Ledger Entry: Supervisory employee (Example Only)



Flow of Activity:
(1) Pay Mid-Tex Supervisory employee
(2) Allocate labor to Mid-Tex and APT – for illustration purposes, this employee's time is charged 60% to Mid-Tex and 40% to APT. The APT portion is 63% capital.

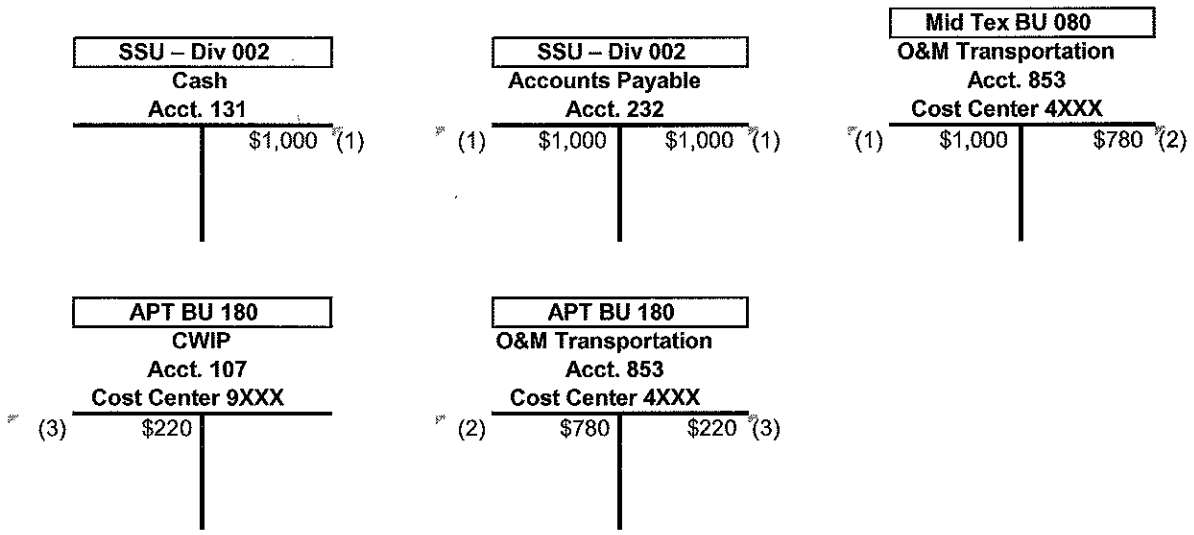
General Ledger Entry: Non Supervisory employee (Example Only)



Flow of Activity:
(1) Pay Mid-Tex employee labor
(2) Direct charge labor to Mid-Tex and APT – for illustration purposes, this employee's time for this payroll cycle was 50% Mid-Tex and 50% APT. The APT portion was 25% capital and 75% expense.

Service:	**Mid-Tex/Atmos Pipeline – Texas Division - Non Labor Expenses**
Description:	Allocation includes but is not limited to rents, heavy equipment, utilities, telecom, transportation (vehicles), uniforms, insurance, printing and postage.
Current Provider Of Service	Mid-Tex
Current Use of Service	Atmos Pipeline – Texas Division
Basis for allocation	Factors are primarily based on direct employee labor and contractor labor. The vehicle allocation is based on Company labor only. Allocations vary based on the cost center and sub account.

General Ledger Entries: Transportation Expense (Example Only)

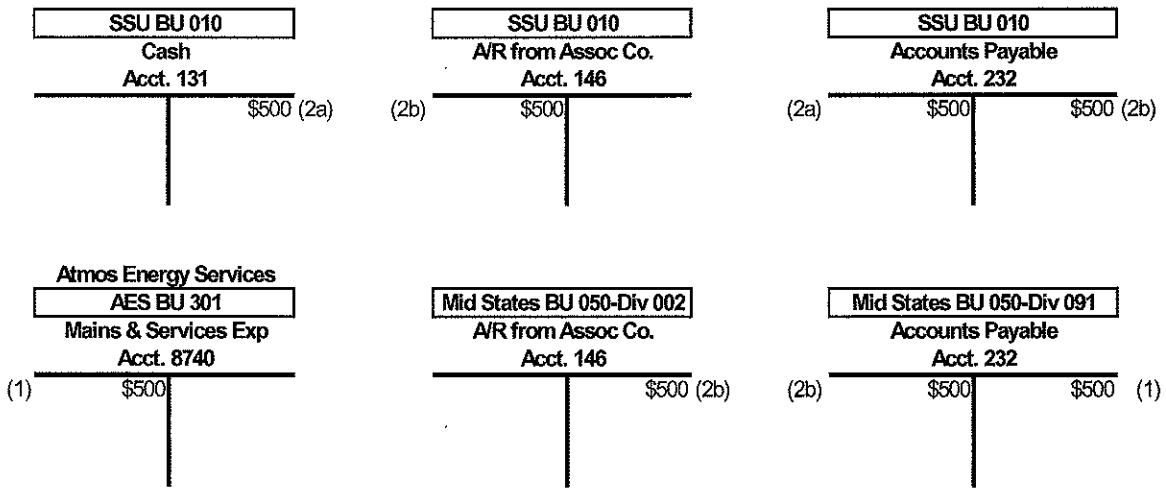


Flow of Activity

- (1) $1000 in transportation expense
- (2) $780 is allocated from Mid-Tex O&M to APT O&M
- (3) A portion of the cost is capitalized, for illustration purposes only (22%)

Service:	**Intercompany labor**
Description:	To the extent operating division employees provide labor services to an affiliate, the labor costs for the services will be charged to the appropriate affiliate.
Current Provider of Service	Atmos Pipeline – Texas Division Louisiana Division Colorado-Kansas Division Kentucky/Mid-States Division Mid-Tex Division Mississippi Division West Texas Division
Current Use of Service	UCG Storage, Inc. Atmos Energy Marketing, LLC WKG Storage, Inc. Trans Louisiana Gas Pipeline, Inc. Trans Louisiana Gas Storage, Inc.
Basis for allocation	Labor charges are captured through direct time sheet entries and transferred to the appropriate subsidiary receiving the labor services.

General Ledger Entries: Example Only



Flow of Activity

(1) Employee X is a Kentucky Employee. He worked on a special project in March for Atmos subsidiary, AES (Atmos Energy Services). Time is captured through a direct time sheet entry.

(2a) Salary is paid to employee x

(2b) JE is made to relieve payable in operating division.
Intercompany Entry generated by Oracle to keep Operating Divisions in sync.

Service:	**Adjustments to Uncollectible Accounts Expense**
Description:	Allocation of additional expense amounts booked to adjust the Provision for Uncollectibles (Account 144)
Current Provider of Service	West Texas Division rate divisions Louisiana Division rate divisions Kentucky/Mid-States Division rate divisions Colorado-Kansas Division rate divisions Mid-Tex Division rate division Mississippi Division rate division
Current Use of Service	West Texas Division rate divisions Louisiana Division rate divisions Kentucky/Mid-States Division rate divisions Colorado-Kansas Division rate divisions Mid-Tex Division rate division Mississippi Division rate division
Basis of Intra-company Allocations	Costs are allocated to the rate divisions in total based on Sales Revenue.

General Ledger Entries: Example Only

Rate Division * Accumulated Provision for Uncollectible Accounts Acct. 144 sub aaaaa				
(2)	$ 250	$ 1,000	(1)	

Rate Division Customer Accounts - Uncollectible Accounts Acct. 904				
(1)	$ 1,000			

Rate Division Cistpmer Accpimts Receivable Acct. 142 sub bbbbb				
		$ 250	(2)	

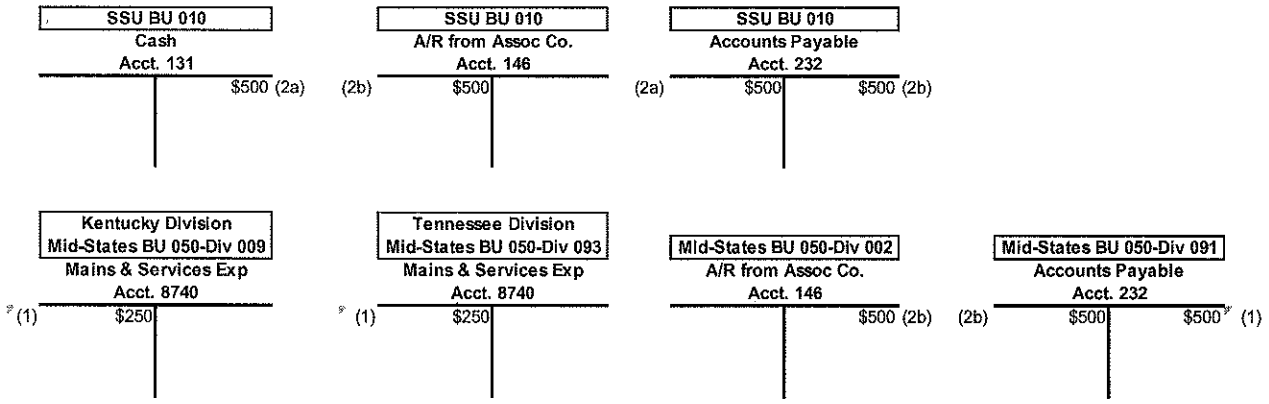
* Each rate division has a different allocation rate.

Flow of Activity

(1) Monthly allocated costs.
(2) Write off of uncollectible accounts as needed.

Service:	**Intra-company labor allocation – other than operating division general office labor**
Description:	Certain employee activities cross multiple rate divisions within an operating division. The costs associated with such activities include labor, benefits and associated taxes.
Current Provider of Service	Atmos Pipeline – Texas Division West Texas Division Louisiana Division Kentucky/Mid-States Division Mid-Tex Division Colorado-Kansas Division Mississippi Division
Current Use of Service	Atmos Pipeline – Texas Division West Texas Division Louisiana Division Kentucky/Mid-States Division Mid-Tex Division Colorado-Kansas Division Mississippi Division
Basis of Intra-company Allocations	Labor associated with cross-jurisdictional activities is charged to each jurisdiction based on the level of employee activity. The costs are captured either through direct time sheet entries or fixed labor distribution percentages.

General Ledger Entries: Example Only



Flow of Activity

(1) Employee x lives in Kentucky and works 50% in Kentucky and 50% in Tennessee every month.
Time is captured through fixed labor distribution

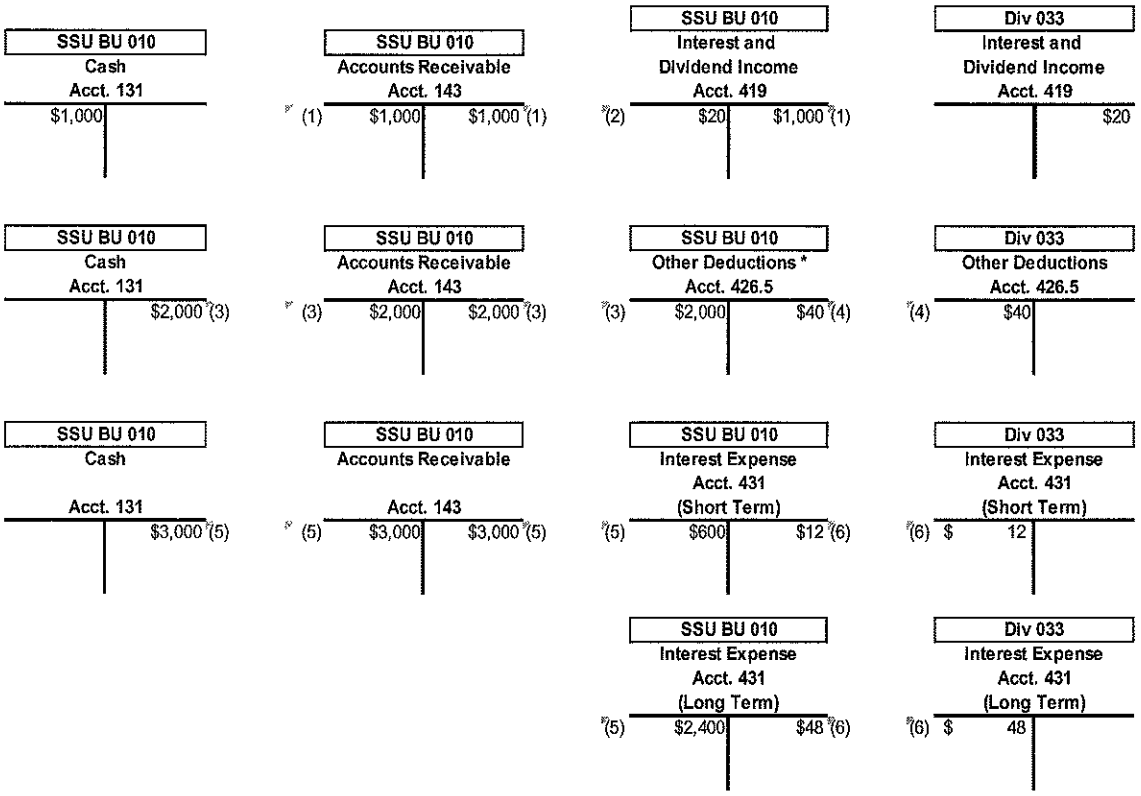
(2a) Salary is paid to employee x

(2b) JE is made to relieve payable in operating division.
Intercompany Entry generated by Oracle to keep Operating Divisions in sync

Service:	**Other income and interest expense (All below the line accounts)**
Description:	Allocation of Shared Services' other income and interest expense (All below the line accounts)
Current Provider of Service	Shared Services
Current Use of Service	West Texas Division Louisiana Division Kentucky/Mid-States Division Mid-Tex Division Colorado-Kansas Division Mississippi Division Atmos Pipeline – Texas Division
Basis for allocation	Interest Expense, Interest Income and Other Non-Operating Income in shared services are allocated to each utility division based on the budget allocation percentages. The budget allocation is based on projected average net investment by rate division for the budget year. For this purpose, 'net investment' is defined as regulatory rate base + goodwill. These allocation factors are the same throughout the fiscal year. The allocation stays in the account the charge was originally booked in. Headquarter allocation of below the line accounts to rate divisions follows the same process as described above.

See page 33 for General Ledger Entries: Example Only.

General Ledger Entries: Example Only



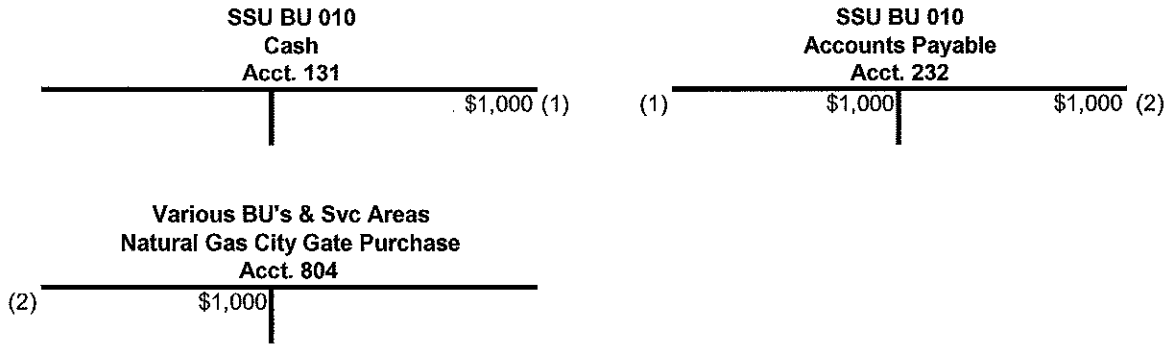
* Includes various accounts but cleared out of account 426.5

Flow of Activity

- (1) Interest and Dividend Income generated
- (2) Allocating Shared Services Income and Dividend Income to Div 33 only - Assume 2% allocation rate
- (3) Other Income and Expenses generated
- (4) Allocating Shared Services Other Deductions to Div 33 only - Assume 2% allocation rate
- (5) Interest Expense generated
- (6) Allocating Shared Services Interest Expense to Div 33 only - Assume 2% allocation rate

Service:	**Gas cost between state jurisdictions for contiguous systems**
Description:	Gas costs that apply to contiguous systems that cross state jurisdictional boundaries are allocated between those rate jurisdictions.
Current Provider of Service	West Texas Division Colorado-Kansas Division Kentucky/Mid-States Division
Current Use of Service	West Texas Division Colorado-Kansas Division Kentucky/Mid-States Division
Basis of Allocations	Allocations are based upon throughput for the West Texas Division and the Colorado-Kansas Division's Southeast Colorado/Southwest Kansas operations. For the Colorado-Kansas Division's Kansas system and for the Kentucky/Mid-States Division, demand costs are allocated based on peak-day requirements. Commodity costs are allocated based upon throughput.

Atmos Energy Corporation
General Ledger Entries: Gas Costs between state jurisdictions for contiguous systems (Example Only)



(1) Gas cost incurred
(2) Gas cost paid

Service: **Gas storage services between an operating division and an affiliate**

Description: To the extent an operating division stores gas in a storage field owned by an affiliate, a rental fee for the use of the storage field shall be charged by the affiliate.

Current Provider of Service: UCG Storage, Inc.
WKG Storage, Inc.

Current Use of Service: Kentucky/Mid-States Division

Basis for allocation: The annual demand charge between UCG Storage, Inc. and Atmos Energy Corporation (Tennessee operations only) is calculated based on fiscal year plant in service, gas inventory, actual operational costs incurred, and application of revenue and cost of capital conversion factors based on prior regulatory approval. In the calculation of the demand charge, costs not specifically related to a designated area are allocated to each affiliate based on the percentage of total plant servicing that affiliate.
The annual demand charge between WKG Storage, Inc. and Atmos Energy Corporation (Kentucky operation only) is based on services provided at actual cost, market rate or as otherwise provided under tariff or contract.

General Ledger Entries: Example Only

WKG Storage BU 233 Other Gas Revenues Acct. 495			KY/Mid-State BU 050, Div 009 Transportation to City Gate Acct. 8580		
	$100	(1)	(1)	$100	

WKG Storage BU 233, Div 002 A/R from Assoc Co. Acct. 146			KY/Mid-State BU 050, Div 002 A/R from Assoc Co. Acct. 146		
(2)	$100			$100	(2)

Flow of Activity - East Diamond Storage Facility

1 Monthly demand charge for the East Diamond Storage Facility
2 Intercompany Entry generated by Oracle to keep Operating Divisions in sync

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UCG Storage BU 232 Other Gas Revenues Acct. 495			KY/Mid-State BU 050, Div 009 Other gas supply expenses Acct. 813		
	$100	(1)	(1)	$100	

WKG Storage BU 232, Div 002 A/R from Assoc Co. Acct. 146			KY/Mid-State BU 050, Div 002 A/R from Assoc Co. Acct. 146		
(2)	$100			$100	(2)

Flow of Activity - Barnsley Storage Facility

1 Monthly demand charge for the Barnsley Storage Facility
2 Intercompany Entry generated by Oracle to keep Operating Divisions in sync

Service: **Working capital funds management (Intercompany account)**

Description: Funds are invested on behalf of or provided to affiliates based on operations.

Current Provider of Service:	Atmos Energy Corporation	Atmos Energy Holdings, Inc.	Atmos Energy Holdings, Inc.
Current Use of Service:	Atmos Energy Holdings, Inc.	Atmos Energy Marketing Services, LLC	Atmos Energy Corporation
Interest Income/Expense Calculation (See Below)	A	B	C

Basis for allocation

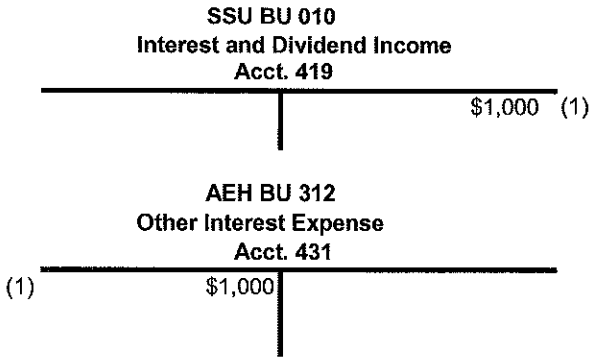
Interest income or expense is recognized each month at the subsidiaries' level based on the total average outstanding balance of all intercompany receivable/payable balances using the following rates:

A (AEH is the borrower)
Expense – One month LIBOR (last day of the month) plus 300 basis points
Income – One month LIBOR (last day of the month)

B (AEM is the borrower)
Expense – One month LIBOR (last day of the month) plus 300 basis points
Income – One month LIBOR (last day of the month)

C (AEC is the borrower)
Expense – The lowest outstanding CP rate or the Eurodollar rate under the AEC Credit Facility (RBS), which is LIBOR plus 100
Income – One month LIBOR (last day of the month)

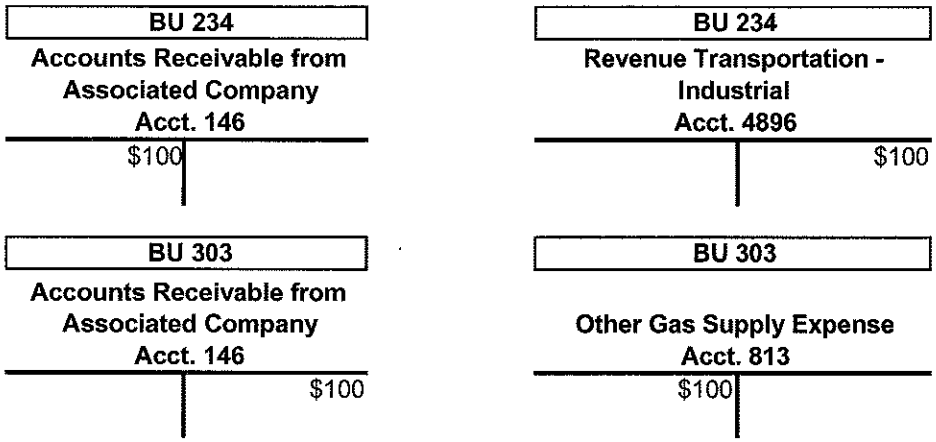
Atmos Energy Corporation
General Ledger Entries: Working Capital Funds Management (Example Only)



(1) Interest Income and/or expense is recognized each month at the subsidiaries' level

Service:	**Gas storage services provided between affiliates**
Description:	To the extent an affiliate stores gas in a storage field owned by another affiliate, a fee for the use of the storage field shall be charged.
Current Provider of Service	Trans Louisiana Gas Storage, Inc.
Current Use of Service	Trans Louisiana Gas Pipeline, Inc.
Basis for allocation	The fee to the affiliate utilizing the storage service is based on services provided at actual cost, market rate or as otherwise provided under tariff.

General Ledger Entries: Example Only



Service: **AEM – Salaries and FICA Cost Allocation**

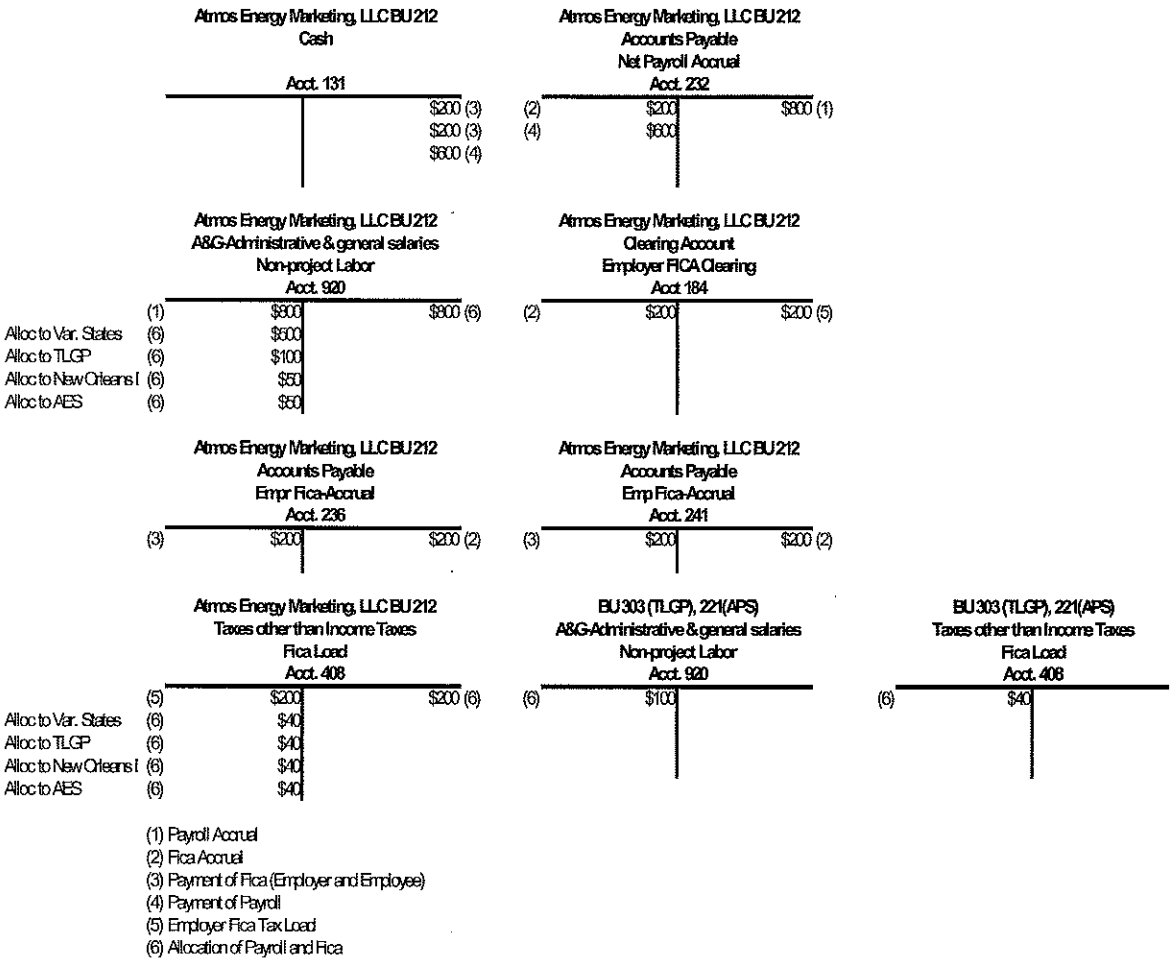
Description: Salaries and FICA cost allocations between affiliates.

Current Provider of Service: Atmos Energy Marketing, LLC

Current Use of Service:
Atmos Energy Services, LLC
Atmos Energy Marketing, LLC
Trans Louisiana Gas Pipeline, Inc.
Atmos Power Systems, Inc.

Basis for allocation: Costs are allocated based on each individual employee's calculated allocation rate between companies. The individual employee's calculated allocation rates are then added up to arrive at a Company-wide allocation rate.

Atmos Energy Corporation
General Ledger Entries: AEM - Salaries & Fica Cost Allocation (Example Only)



(1) Payroll Accrual
(2) Fica Accrual
(3) Payment of Fica (Employer and Employee)
(4) Payment of Payroll
(5) Employer Fica Tax Load
(6) Allocation of Payroll and Fica

Service:	**AEM – Operation and Maintenance cost allocation**
Description:	O&M expense cost allocations between affiliates.
Current Provider of Service	Atmos Energy Marketing, LLC
Current Use of Service	Atmos Energy Services, LLC
Basis for allocation	Costs are allocated based on each individual employee's calculated allocation rate between companies. The individual employee's calculated allocation rates are then added up to arrive at a Company-wide allocation rate.

Atmos Energy Corporation
General Ledger Entries: Affiliates - O&M Expense Allocation (Example Only)

Labor & Benefits

Atmos Energy Marketing, LLC BU 212
Administrative Expenses Transferred - CR
Acct. 922

	$1,000 (1)

Atmos Energy Holdings, Inc. BU 312
Administrative Expenses Transferred - CR
Acct. 922

(1) $1,000	$1,000 (1)

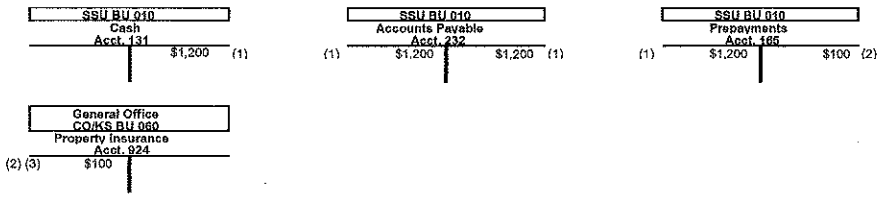
Atmos Energy Services, LLC BU 301
Administrative Expenses Transferred - CR
Acct. 922 - Multiple Svc Areas for different states

(1) $1,000	

(1) Labor and Benefits Billing from AEM (212) to AES (301)

Service:	**Property Insurance**
Description:	Blueflame Insurance Services, LTD provides a direct property insurance policy. The policy covers the property against all risks of direct physical loss or damage.
Current Provider of Service	Blueflame Insurance Services, LTD
Current Use of Service	Kentucky/Mid-States Division Colorado-Kansas Division Shared Services Louisiana Division Mississippi Division Mid-Tex Division West Texas Division Atmos Pipeline – Texas Division Atmos Energy Marketing, LLC Atmos Exploration & Production, Inc. Atmos Energy Services, LLC Atmos Power Systems, Inc. Trans Louisiana Gas Pipeline, Inc. Trans Louisiana Gas Storage, Inc. UCG Storage, Inc. WKG Storage, Inc. Atmos Gathering Company, LLC
Basis for allocation	Atmos Energy Corporation is invoiced by Blueflame Insurance Services. Costs are allocated based on consolidated gross assets of each affiliate at a rate division level.

General Ledger Entries: Example Only



Flow of Activity

(1) Purchase of property insurance

(2) Monthly amortization to rate divisions

(3) Amounts remaining in SSU cost centers are allocated to the divisions using the method described on pages 11 and 12.

Service:	**AES Retail Services**
Description:	AES Retail services monthly revenue
Current Provider Of Services	Atmos Energy Services, LLC
Current Use of Service	West Texas Rate Divisions Kentucky/Mid-States Rate Divisions Colorado-Kansas Rate Divisions
Basis for allocation	1. Revenue for retail services is tracked in Atmos Energy Services, LLC by service areas which represent corresponding service areas at the utility level. Some of the revenue is reclassed to utility levels on a one to one basis. I.e. Colorado retail services post to service area 813 within Atmos Energy Services, LLC books and is simply reclassed to Colorado/Kansas Division, service area 030 (Colorado operating division general office). 2. Revenue balance in Atmos Energy Services, LLC service area 055001 (Retail – AES) is allocated to the above referenced divisions based on the net income of Atmos Energy Services, LLC service areas 811-813 as a percentage of their combined net income.

General Ledger Entries: Example Only

BU 301 Service areas 811-813 Revenues from Non-utility Operations Acct. 417				General Office Revenues from Non-utility Operations Acct. 417		
(1)	$600	$600	(1)		$600	(1)
(1)	$300	$300	(1)		$300	(1)
(1)	$100	$100	(1)		$100	(1)

BU 301 Service area 055 Revenues from Non-utility Operations Acct. 417				General Office Revenues from Non-utility Operations Acct. 417		
(2)	$2,000	$2,000	(2)	(2)	$1,000	West Texas
				(2)	$750	Colorado
				(2)	$250	Kansas

Flow of Activity

(1) Revenues from Non-utility Operations incurred and reclassed to General Offices
(2) Revenues from Non-utility Operations incurred are allocated to General Offices

Service: **Intercompany Interest on Notes Payable**

Description: Intercompany Interest on Notes Payable

Current Provider Of Services: Shared Services

Current Use of Service: Atmos Energy Holdings, Inc.

Current Provider of Service:	Atmos Energy Corporation	Atmos Energy Holdings, Inc.	Atmos Energy Holdings, Inc.
Current Use of Service:	Atmos Energy Holdings, Inc.	Atmos Energy Marketing Services, LLC	Atmos Energy Corporation
Interest Income/Expense Calculation (See Below)	A	B	C

Basis for allocation: Interest income and expense is recognized each month at the subsidiaries' level using the following rates:

A (AEH is the borrower)
Expense – One month LIBOR (last day of the month) plus 300 basis points
Income – One month LIBOR (last day of the month)

B (AEM is the borrower)
Expense – One month LIBOR (last day of the month) plus 300 basis points
Income – One month LIBOR (last day of the month)

C (AEC is the borrower)
Expense – The lowest outstanding CP rate or the Eurodollar rate under the AEC Credit Facility (RBS), which is LIBOR plus 100
Income – One month LIBOR (last day of the month)

General Ledger Entries: Example Only

Shared Services

Accounts Receivable from Associated Company
Acct. 146

$1,000 (1)	

Shared Services

Interest on Debt to Associated Companies
Acct. 431

(1) $1,000	

Atmos Energy Holdings, Inc.

Accounts Receivable from Associated Company
Acct. 146

(1) $1,000	

Atmos Energy Holdings, Inc.

Interest and Dividend Income
Acct. 419

	$1,000 (1)

Flow of Activity

(1) Intercompany Interest on Notes Payable is recognized each month at the subsidiary level.

Appendix A

Exhibit JLS-1