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March 2, 2011

Jeff R. Derouen
Executive Director
Kentucky Public Service Commission
211 Sower Blvd.
PO Box 615
Frankfort, Kentucky 40602

RECEIVED

MAR 03 2011

PUBLIC SERVICE
COMMISSION

RE: **Atmos Energy Corporation – Application for a Deviation from Pricing Requirements of KRS 278.2207**

Dear Mr. Derouen:

Please find enclosed herewith an original, plus eleven (11) copies, of Atmos' Application for a Deviation from Pricing Requirements of KRS 278.2207 for filing in your office. Please return a filed stamped copy to the address which appears in the letterhead above. If there are any questions or problems with this please advise. Thanks.

Very truly yours,



Mark R. Hutchinson

c: Anita Mitchell

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MAR 03 2011

PUBLIC SERVICE
COMMISSION

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF:)
)
 APPLICATION OF ATMOS ENERGY)
 CORPORATION FOR A DEVIATION)
 FROM THE PRICING REQUIREMENTS)
 OF KRS 278.2207)

Case
No. _____

APPLICATION

Comes now Atmos Energy Corporation ("Atmos") and respectfully requests a deviation from the Kentucky Public Service Commission ("Commission") from the pricing requirements contained in KRS 278.2207(1) (b).

On January 31, 2011, Atmos purchased the natural gas distribution system serving the citizens of Livermore, Kentucky (the "System"). The System was purchased by Atmos from the City of Livermore. By Order of the Commission entered on July 6, 2010 in Case No. KPSC 2010-00252, Atmos was granted a Certificate of Public Conveyance and Necessity authorizing it to bid on a franchise for natural gas service for the City of Livermore. Atmos was subsequently awarded the franchise by the City of Livermore. Atmos will charge its filed tariff rates and charges to the Livermore customers.

The City of Livermore had previously entered into a gas supply agreement (styled "Base Contract For Sale and Purchase of Natural Gas") dated August 15, 2007 (the "Base Contract"), together with certain Transactions entered into pursuant to the Base Contract (the Base Contract and Transactions are referred to collectively as the "Gas Supply Agreement"), with Atmos Energy Marketing, LLC ("AEM"). AEM is an affiliate of Atmos Energy Corporation.

As part of the acquisition of the System from the City of Livermore, the Gas Supply Agreement was assigned by the City of Livermore to Atmos with the written consent of AEM.

The Gas Supply Agreement will expire by its own terms on October 31, 2011. Once it has expired, Livermore's gas will be supplied through the existing gas supply agreement between AEM and Atmos dated June 1, 2006. True and correct copies of the Gas Supply Agreement and the Consent to Assignment are attached hereto as Exhibits A and B respectively.

As a result of the foregoing events, the parties to the Gas Supply Agreement are now Atmos and its affiliate, AEM. As such, the pricing rules of KRS 278.2207 (1) (b) are applicable to the Agreement.

KRS 278.2207(1) (b) provides, in pertinent part, as follows:

“(1) The terms for transactions between a utility and its affiliates shall be in accordance with the following:

(a) ***

(b) Services and products provided to the utility by an affiliate shall be priced at the affiliate's fully distributed cost but in no event greater than market or in compliance with the utility's existing USDA, SEC or FERC approved cost allocation methodology.”

KRS 278.2207(2) further provides:

“(2) A utility may file an application with the Commission requesting a deviation from the requirements of this section for a particular transaction or class of transactions. The utility shall have the burden of demonstrating that the requested pricing is reasonable. The Commission may grant the deviation if it determines the deviation is in the public interest.”

Atmos requests a deviation for the Gas Supply Agreement from the pricing requirements of KRS 278.2207(1) (b). Since this was a gas supply contract entered into approximately four (4) years ago between totally unrelated parties in the open market place, the services and products being supplied pursuant to the Gas Supply Agreement are not necessarily at AEM's fully distributed cost. However, the fact this Agreement was entered into between a municipality and a disinterested party in the open market

place itself establishes that the “cost” of such services and products are not greater than the market.

Pursuant to 807 KAR 5:080 Section 5(2), the following additional information and response is provided as part of this application.

(a) All documents and information required by 807 KAR 5:001, Section 8:

A certified copy of the Applicant’s Articles of Incorporation and all amendments, have previously been filed with the Commission in KPSC Case No. 2009-00354.

(b) An original and five copies of the petition:

An original and five copies are filed herewith.

(c) All documents and information required by KRS 278.2219:

The deviation sought herein does not involve costs or benefits related to compliance with the provisions of KRS 278.2201 to 278.2213 as contemplated by KRS 278.2219. This Application seeks a deviation for a gas supply agreement entered into by a municipality and a disinterested third party that was subsequently assumed by an affiliate. Other than the pricing requirements of KRS 278.2207(1) (b), none of the provisions of KRS 278.2201 to 278.2213 apply.

(d) The proposed price of services or products proposed by the affected utility or the non-regulated affiliate:

The “proposed price” for gas purchases is described in the attached Gas Supply Agreement.

(e) A detailed calculation demonstrating the manner in which the affected utility or non-regulated affiliate has determined the proposed price of services or products.

No “detailed calculation” demonstrating the manner in which the “proposed price” was determined exists since the “proposed price” was established between disinterested third parties in the marketplace, not by “detailed calculations”.

- (f) An explanation of the reasons the affected utility believes the proposed price of services and products is in the public interest.

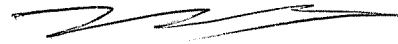
Atmos requests a deviation for the Gas Supply Agreement from the pricing requirements of KRS 278.2207(1)(b). Since this was a gas supply contract negotiated by disinterested third parties in the open market place, the cost of such services and products are necessarily not greater than market.

- (g) A statement demonstrating good cause for the requested deviation:

See (f) above.

WHEREFORE, Atmos respectfully requests the Commission to grant the Agreement a deviation from the pricing requirements of KRS 278.2207.

Respectfully submitted this 2nd day of March, 2011.



Mark R. Hutchinson
611 Frederica Street
Owensboro, Kentucky 42301

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Atmos Energy Corporation
P. O. Box 650250
Dallas, Texas 75265

Attorneys for Atmos Energy

VERIFICATION

I, Mark A. Martin, being duly sworn under oath, state that I am Vice President of Rates and Regulatory Affairs for Atmos Energy Corporation, Kentucky/Mid-State Division, and the statements contained in the foregoing Application are true as I verily believe.



Mark A. Martin