

The Law Offices of

WILSON, HUTCHINSON & POTEAT

611 Frederica Street
Owensboro, Kentucky 42301
Telephone (270) 926-5011
Facsimile (270) 926-9394

William L. Wilson, Jr.
Mark R. Hutchinson
T. Steven Poteat

bill@whplawfirm.com
randy@whplawfirm.com
steve@whplawfirm.com

July 28, 2005

RECEIVED

JUL 29 2005

PUBLIC SERVICE
COMMISSION

Honorable Beth O'Donnell
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
P.O. Box 615
Frankfort, Kentucky 40602

Case 2005-00321

Subject: Atmos Energy Corporation/PBR Report
Case No. ~~2004-317~~

Dear Ms. O'Donnell:

Enclosed are an original (non-redacted) and eleven copies (redacted) of the following:

1. Submission of Report and Motion to Modify and Extend Experimental Performance Based Ratemaking Mechanism (PBR);
2. The quantitative results of Atmos Energy's PBR program are attached as Exhibit "A" to the enclosed report;
3. Exhibit "B" to the report contains the proposed tariff modifying and extending Atmos Energy's PBR.

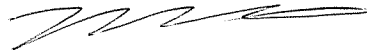
As established by the enclosed Report, the PBR continues to be beneficial to both Atmos Energy and its ratepayers. Extending, as modified, the PBR mechanism will continue to provide significant benefits to Atmos Energy's customers, as well as its shareholders. Therefore, the Commission is respectfully requested to approve the modification and extension of the PBR mechanism as proposed herein.

Also enclosed is a Petition for Confidentiality pertaining to the discounts afforded

Atmos Energy through its single source supplier contract with Atmos Energy Marketing, Inc. This information is extremely confidential and has previously been afforded confidential protection by the Commission. This information is both disclosed in, and determinable from, data appearing throughout the quantitative results contained in Exhibit "A". Accordingly, Exhibit "A" has been redacted in its entirety.

Please stamp the eleventh copy and return it in the enclosed envelope. Thanks.

Very truly yours,

A handwritten signature in black ink, appearing to read 'Mark R. Hutchinson', with a stylized, cursive flourish.

Mark R. Hutchinson

MRH:bkk

RECEIVED

JUL 29 2005

PUBLIC SERVICE
COMMISSION

**MODIFICATION OF ATMOS ENERGY
CORPORATION'S GAS COST ADJUSTMENT TO
INCORPORATE PERFORMANCE BASED
RATEMAKING MECHANISM (PBR)**

CASE NO. ~~2001-317~~

JULY 28, 2005

**COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION**

IN THE MATTER OF:

MODIFICATION OF ATMOS)	
ENERGY CORPORATION'S GAS COST)	
ADJUSTMENT TO INCORPORATE)	CASE NO. 2001-317
PERFORMANCE BASED RATEMAKING)	
MECHANISM (PBR))	

**SUBMISSION OF REPORT AND MOTION TO MODIFY AND EXTEND
PERFORMANCE BASED RATEMAKING MECHANISM**

On June 1, 1998, the Commission entered an Order in Case No. 97-513 approving use by Atmos Energy Corporation ("Atmos Energy" or "Company") of an experimental Performance Based Ratemaking mechanism ("PBR") for a period of three years. By subsequent orders, the Commission ultimately extended the effective period of the Company's PBR until March 31, 2002. Thereafter, in Case No. 2001-317, the Company moved the Commission for an order modifying the original PBR slightly and requesting that it be extended for five (5) years commencing April 1, 2002. On March 25, 2002, the Commission entered an Order in Case No. 2001-317 extending the PBR, as modified, until March 31, 2006. The Commission's Order further required the Company to report on the results of the PBR pilot program and the attached Report is being filed with the Commission in fulfillment of that requirement.

The attached Report establishes that the PBR has proven to be very beneficial to both the Company's ratepayers and its shareholders. Total savings attributable to the PBR for the three (3) year period from April, 2002 through March, 2005 are more than \$9,000,000.

Customers have realized gas cost savings of nearly \$6,150,000 for that three-year period. Accordingly, Atmos Energy moves the Commission for the entry of an order modifying the Company's current PBR to effectuate a limited number of technical changes to the PBR and extending its applicability, as modified, for an additional term of five (5) years.

In addition, Company also moves the Commission for entry of an Order authorizing a two month interim extension of the current PBR. By way of background, the Commission's Order in this proceeding, dated March 25, 2002, approved the use of Company's PBR for a period ending March 31, 2006. During that period, the Company's entire gas supply has been furnished pursuant to a gas supply contract with Atmos Energy Marketing, Inc. ("AEM"), which was approved by the Commission in Case No. 2002-245. That contract does not expire until June 1, 2006. The Company has operated under the assumption that both the PBR and the AEM gas supply contract expired on the same date (June 1, 2006). This was the original intent of the parties to the contract and presumably the intent of the Commission. The Company only recently discovered, while preparing this filing, that the PBR is scheduled to expire on March 31, 2006, as opposed to June 1, 2006, which is the expiration date of the AEM contract. The expiration dates of the PBR and the AEM supply contract need to coincide. Accordingly, the Commission is requested to grant an interim extension of the PBR until June 1, 2006. If the Commission concurs that the PBR should be extended for a new multi-year period, the new commencement date for that extension would be June 1, 2006.

WHEREFORE, Western prays: (1) that its Report on the results of the current PBR mechanism be accepted; (2) for entry of an order authorizing a two month interim extension of the Company's current PBR; (3) for entry of an order approving the proposed modifications to

the PBR (as described in Section II of the Report) and extending its applicability as modified, for a period of five (5) years, commencing June 1, 2006; and, (4) for entry of an order approving the proposed tariff attached as Exhibit "B".

Respectfully submitted this 28 day of July, 2005.



Mark R. Hutchinson
WILSON, HUTCHINSON & POTEAT
611 Frederica Street
Owensboro, Kentucky 42301
(270) 926-5011

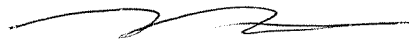
Douglas Walther
Atmos Energy Corporation
P.O. Box 650250
Dallas, Texas 75265

Attorneys for Atmos Energy

CERTIFICATE OF SERVICE

I hereby certify that on the 28 day of July, 2005, the foregoing document, together with ten (10) copies, were filed with the Kentucky Public Service Commission, 211 Sower Boulevard, P.O. Box 615, Frankfort, Kentucky 40602, and a true copy thereof mailed by first class mail to the following named persons:

Elizabeth E. Blackford
Assistant Attorney General
Office of Rate Intervention
1024 Capitol Center Drive
Frankfort, Kentucky 40601



Mark R. Hutchinson

**COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION**

In the Matter:

MODIFICATION OF ATMOS ENERGY CORPORATION'S)	
GAS COST ADJUSTMENT TO INCORPORATE)	Case No.
PERFORMANCE-BASED RATEMAKING MECHANISM (PBR))	2001-317
)	

**PETITION FOR CONFIDENTIALITY OF CERTAIN
INFORMATION BEING FILED WITH THE KENTUCKY PUBLIC SERVICE
COMMISSION WITH THE REPORT ON ATMOS ENERGY CORPORATION'S
PERFORMANCE BASED RATEMAKING**

Atmos Energy Corporation (“Atmos Energy” or Company”), respectfully petitions the Kentucky Public Service Commission (“Commission”) pursuant to 807 KAR 5:001 §7, and all other applicable law, for confidential treatment of the information contained in the attached documents. In support of this Petition, Atmos Energy states:

1. On June 1, 1998, the Commission entered an Order in Case No. 97-513 approving an Experimental Performance Based Ratemaking Mechanism (“PBR”) for a period of three years. By subsequent Orders, the Commission ultimately extended the effective period of the Company’s PBR until March 31, 2002. Thereafter, in Case No. 2001-317, the Company moved the Commission for an order modifying the original PBR slightly and requesting that it be extended for five (5) years commencing April 1, 2002. On March 25, 2002, the Commission entered an Order in Case No. 2001-317 extending the PBR, as modified, until March 31, 2006. The Commission’s Order

further required the Company to report on the results of the PBR pilot program. The Report being filed with the Commission is in fulfillment of that requirement.

2. The Company's current gas supply contract is with Atmos Energy Marketing, Inc. ("AEM"). It contains significant pricing discounts. In order to fully report to the Commission the results of the Company's current PBR program, disclosure of the discounts on gas purchases provided in the current supply contract is required. In order to protect the confidentiality of that information, not only must the discount themselves be redacted in the non-confidential version, but all information from which the discount could be calculated, must likewise be redacted.
3. This information has previously been determined by the Commission (in this proceeding) to be entitled to confidential protection. Nothing has occurred since the Commission granted confidential protection to this type of information that would now disqualify it from protection. The Company accordingly petitions the Commission to again treat this information as confidential.
4. Pursuant to KAR 5:001, Section 7 (3), temporary confidentiality of the information sought to be protected herein should be maintained until the Commission enters an order as to the Petition. Once the order regarding confidentiality has been issued, the Company would have twenty (20) days to seek alternative remedies pursuant to 807 KAR 5:001, Section 7 (4).

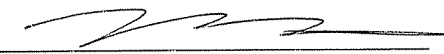
WHEREFORE, Company petitions the Commission to treat as confidential the information contained in the attached.

Respectfully submitted this 28th day of July, 2005.

Mark R. Hutchinson
WILSON, HUTCHINSON & PLAIN
611 Frederica Street
Owensboro, Kentucky 42301


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

Attorneys for Atmos Energy Corporation

By: 

VERIFICATION

I, Gary Smith, being duly sworn under oath state that I am Vice President of Rates and Regulatory Affairs for Atmos Energy Corporation, and that the statements contained in the foregoing Petition are true as I verily believe.




Gary Smith

CERTIFICATE OF SERVICE

I hereby certify that on the 28 day of July, 2005, the original of this Petition for Confidentiality of Certain Information for which confidential treatment is sought, together with ten (10) copies of the Petition without the confidential information, were filed with the Kentucky Public Service Commission, 211 Sower Boulevard, P.O. Box 615, Frankfort, Kentucky 40602, and a true copy thereof mailed by first class mail to the following named persons on this the 28 day of July, 2005:

Elizabeth Blackford
Assistant Attorney General
Office of Rate Intervention
1024 Capitol Center Drive
Frankfort, Kentucky 40601



Mark R. Hutchinson

ATMOS ENERGY CORPORATION

REPORT ON PERFORMANCE-BASED RATEMAKING

REPORT PERIOD: APRIL 2002 – MARCH 2005

KPSC CASE NO. 2001-00317

JULY 28, 2005

Introduction

This report is designed to fulfill the requirements of the Commission's Order dated March 25, 2002 in this Case whereby Atmos Energy Corporation ("Atmos Energy" or the "Company") is required to report on the results of the initial three (3) years of the four (4) year program. This report consists of three sections. Section I of this narrative provides an overview and description of Atmos Energy's approach to gas supply purchasing under the Performance Based Ratemaking ("PBR") program and the specific performance of the existing PBR mechanism and supply agreement. Section II outlines the Company's forward-looking proposals under the PBR. Section III discusses Atmos Energy's proposed five-year extension of the PBR and proposed future reporting.

I. Overview & Approach to Gas Supply Purchasing Under the PBR

A. Overview and Background

On December 19, 1997, Atmos Energy (then Western Kentucky Gas Company) filed with the Kentucky Public Service Commission (the "Commission"), a proposal to implement a PBR mechanism for three years. The PBR was designed to create a system of rewards and penalties that would encourage the Company to acquire low cost supplies of natural gas. Actual costs are compared to an established benchmark of costs, generally based on market prices for gas, and any excess costs or savings are shared between shareholders and customers. The PBR also serves to streamline the review of the reasonableness of gas procurement costs. On June 1, 1998, the Commission approved Atmos Energy's proposal with slight modifications. On December 14, 1998, the Commission approved a request by the Company to change the commencement date of the PBR to July 1, 1998 to synchronize the start of the PBR with the effective date of the new gas supply contract entered into as a result of the Commission's PBR approval order.

The original three-year pilot was then to run through June 30, 2001. On April 2, 2001, Atmos Energy filed with the Commission a proposal to extend the three-year pilot through March 31, 2002. On June 15, 2001, the Commission approved the requested extension. On September 28, 2001, Atmos Energy filed with the Commission to extend the PBR program for an additional term of five (5) years, commencing as of April 1, 2002. On March 25, 2002, by Order in Case No. 2001-00317, the Commission approved the PBR program, as modified, for a period of four (4) years. In Case 2002-00245, the Commission approved Atmos Energy's current supply agreement with its affiliate Atmos Energy Marketing (then Woodward Marketing), accepted the Company's request for deviation from KRS 278.2207 and provided guidance for future RFP's issued by the Company for a third-party gas supplier.

B. Atmos Energy's Innovative Approach to Gas Commodity Purchases

Atmos Energy's response to the rewards and penalties established in the PBR mechanism was to develop a prudent and beneficial gas supply contract that would assure the Company's continued long-term success in purchasing gas commodity. In designing such a contract Atmos Energy assumed that several key provisions were necessary in order to maximize savings:

- The contract must be competitively bid in order to minimize price,
- A single-source supply contract would generate greater volume discounts,
- A comprehensive gas supply contract would encourage bids without supply reservation fees,
- Maximizing the term of the contract and the "opportunities" available to potential bidders under the contract would further maximize volume discounts of the bids, and
- The contract must be expressed in price terms that mirror the pre-established benchmarks under the PBR in order to assure measurability of savings or costs against those benchmarks.

Further, Atmos Energy believed that retaining key operational controls and establishing strict performance requirements for the supplier would be necessary to

ensure that by limiting itself to a single source of supply it would not be jeopardizing the reliability of its supply, particularly during periods of peak demand.

Ultimately, the Company developed a Request for Proposal (“RFP”) and solicited bids from a large number of reputable suppliers who might be interested and capable of providing highly competitive bids under the sophisticated terms proscribed in the RFP.

The key features of the RFP reflected the assumptions noted above. Among those key features were:

- A four-year contract (striving to coincide with the authorized term of the PBR extension period),
- A single source provider for all of Atmos Energy’s firm system supply (approximated at 20.4 Bcf, including 11.4 Bcf of pipeline and on-system storage),
- A single contract price per delivered unit of first-of-the-month commodity gas purchases to be bid as a discount or premium to the simple arithmetic average of the “basket” of indices (NYMEX, Inside FERC, Natural Gas Week and Gas Daily) established in the PBR,
- Intra-month swing gas commodity purchases benchmarked against Gas Daily only,
- No provision for supply reservation fees,
- Assignment of the management of all of Atmos Energy’s Kentucky firm transportation and storage contracts to the sole supplier as a “value-added” contract feature,
- Assumed storage injection and withdrawal in accordance with seasonal plans, and
- A commission of ten percent (10%) paid to the supplier to encourage capacity release of unused firm transportation and storage contracts.

The objective of Atmos Energy's "full-requirements" contract was to extract the lowest cost bid possible from potential bidders through the enticement offered by the largest and most comprehensive contract possible. The RFP combined the Company's full firm gas commodity requirements with all of its transportation and storage contracts. Hence, potential suppliers were assured of the opportunity to supply Atmos Energy's large, firm market for four years plus the additional opportunity to leverage the substantial transportation capacity and storage assets beyond the actual supply requirements of that market from time to time- when operationally feasible. In particular, the assignment of the management of Atmos Energy's transportation and storage assets to the potential supplier was viewed as a "value-added" feature that would encourage an additional level of discounting by bidders. Despite the breadth and supplier flexibility inherent in a "full-requirements" contract, the Company also retained full operational control through mandatory compliance with a prescribed seasonal storage and operational plan, and non-performance penalties and remedies.

Atmos Energy's contract excludes any supply reservation fees. Reservation fees are often charged by wholesale gas suppliers in order to reserve up to certain volumes for delivery to the LDC when needed. In essence, a reservation fee is payment for gas supply "call rights" which may or may not be needed by the LDC. Although reservation fees are a common feature in LDC gas contracts, the successful bids for this contract excluded reservation fees. Historically, Atmos Energy paid a variety of suppliers reservation fees (based on the prevailing rate of gas) in order to ensure its ability to "call" up to certain contract quantities and guarantee supply during periods of heavy demand. Atmos Energy was able to avoid reservation costs by establishing a comprehensive, full requirements gas supply contract which included an asset management feature that provided the supplier with known volumes for delivery under the contract.

Ultimately, the value inherent in Atmos Energy's innovative RFP was exhibited through the receipt of significantly discounted bids for commodity gas purchases. The discounted cost of gas obtained through this bidding process ultimately accounted for a majority of the savings generated under the PBR during program's seven (7) years of existence.

C. Atmos Energy's Innovative Approach to Transportation Purchases

Primarily, Atmos Energy's approach to the Transportation Cost Component of the PBR was to seek out and negotiate the largest possible discounts from FERC-approved transportation rates with its existing pipeline suppliers. The Transportation Cost Component also encouraged the Company to generate capacity release revenues.

1. Pipeline Discounts

It is difficult for Atmos Energy to obtain pipeline discounts. The Company does not have abundant access to alternative pipeline supply sources. Over many decades, Atmos Energy's Kentucky system was constructed along the Texas Gas and Tennessee Gas pipelines because those were the only alternatives available to obtain our supply. The Company's markets are rural and dispersed, and not integrated in such a way that has encouraged more pipelines into our region whereby alternative access would be made available. To the extent new capacity has been constructed into our region that capacity has been dedicated to larger urban markets. Nevertheless, even with a lack of access to broad pipeline alternatives, Atmos Energy has been able to secure some service on a limited basis from Trunkline, Midwestern and ANR pipelines. As existing pipeline contracts have come up for extension or re-negotiation, Atmos Energy has aggressively used alternative pipeline suppliers and potential service from those alternative suppliers as a bargaining tool to negotiate meaningful discounts. As a result, Atmos Energy has been able to renegotiate transportation capacity arrangements producing more than \$2,000,000 in savings during the last three years of the program and more than \$4,000,000 since the program's inception. The Company always seeks to obtain the lowest cost transportation services for its customers; however, the PBR provides an even greater inducement to seek out and maximize those discounts.

2. Capacity Release

Atmos Energy had been releasing under-utilized pipeline capacity for several years when the PBR began. Hence, as part of the initial PBR, the Commission

established a capacity release threshold equivalent to the value of the Company's capacity release revenues in prior years. The Commission eliminated the threshold requirement in the Order for Case No. 2001-00317.

Atmos Energy has established a commission-based sales program within its gas supply contract which ensured its supplier a fixed, ten percent (10%) sales commission for each dollar of capacity released. This approach to marketing capacity release encourages the Company's supplier to continuously market capacity release in order to extract greater value. Capacity Release savings were \$1,015,917 for the period April 2002 through March 2005. Total Capacity Release savings are approximately \$1,816,000 for the period July 1998 through March 2005.

Ultimately, the improved efficiencies obtained from Atmos Energy's transportation contracts and the savings derived from our supplier's capacity release program resulted in significant savings achieved under Transportation Cost components of the PBR.

D. Atmos Energy's Innovative Approach to Marketing to Off-system Sales

The Off-system Sales mechanism was designed to encourage Atmos Energy to market to non-Atmos Energy customers gas commodity which might be purchased as base load but, from time to time, might not be needed by Atmos Energy's customers. Like the Capacity Release component of the Transportation Cost mechanism, the Off-system Sales mechanism was designed to encourage the Company to sell an under-utilized resource. In this case, that resource is gas commodity. By crediting half of all Off-system Sales revenue to Atmos Energy's customers, they would incur a lower cost of commodity gas.

To the Company, the Off-system Sales mechanism has represented an opportunity with an uncertain value. Future weather conditions and other consumption factors made the future demand for gas uncertain. Similarly, it was also uncertain what price Atmos Energy could get for its gas at a time when its own customers did not need it. There was

also an administrative cost to be borne in order to broker the gas off-system. Like the cost to market Capacity Release, that administrative cost would somewhat offset the value of any Off-system Sales revenue.

To address these uncertainties and minimize any administrative costs to be incurred by the Company, Atmos Energy's RFP was designed to exchange the potential net value of any Off-system Sales which could be generated by assigning the management of Atmos Energy's storage and transportation assets over to its gas supplier. To the extent that Atmos Energy's customers did not require their base load supplies of gas, the gas supplier would be free to market that gas off-system just as the Company could have under the Off-system Sales mechanism. The Commission ordered in Case No. 2001-00317 that the OSSIF to be expanded to include off-system sales of storage services.

E. Observations Regarding Atmos Energy's PBR Mechanism and Supply Model

In conjunction with the renewal of the PBR mechanism, the subsequent RFP process and supplier selection, Atmos Energy received important feedback from the Commission and from Liberty Consulting Group ("Liberty"), which was conducting an audit of gas procurement processes of each of the five largest LDC's in Kentucky on behalf of the Commission at that time.

In Case No. 2002-00245, the Commission approved Atmos Energy's supply contract with its affiliate Atmos Energy Marketing (then Woodward Marketing). The Commission also granted a deviation from affiliate pricing requirements of KRS 278.2207(1)(b) pursuant to KRS 278.2207(2) due to the competitive bidding process employed. Further, the Commission stated that the Company "shall expand and modify any future RFPs it issues for a third-party gas supplier and shall respond to prospective bidders' requests for information as detailed" in that Order. At a minimum, the Commission suggested, the next initial RFP should include daily system throughput, daily operation of on-system storage facilities, and operation of pipeline storage facilities. Also, all supplemental information requested should be provided to all prospective

bidders. Despite those suggested improvements, the Order notes that Liberty and the Commission found Atmos Energy's RFP process and its ultimate award of the contract acceptable in that Case.

In the 2002 audit, Liberty noted that Atmos Energy Kentucky Division's (then Western Kentucky Gas) gas supply management has produced good results. Liberty suggested, however, that Atmos Energy's RFP procedures should be improved by:

- Conducting bidder's meetings
- Providing more comprehensive detail in the original RFP
- Adopt procedures for notification of all bidders when questions from one bidder are answered, and
- Ask for proposals for varying periods (such as two-, three- and four-year periods), and then evaluate the best proposal among those options.

Atmos Energy has documented and modified its RFP procedures recognizing the direction provided by the Commission and through the Liberty audit. The revised procedures have been filed with the Commission's Management Audit Branch. The Company has endeavored to implement all improvements to its gas procurement processes identified the Liberty audit. These improvements will be useful in the RFP process to be employed in selecting a gas supplier upon finalizing the PBR renewal benchmarks in this Case.

II. Forward-Looking Proposals

A. Continuation of Existing Mechanisms

With only minor technical modifications, Atmos Energy proposes to retain all of the existing features of its PBR mechanism. Specifically, Atmos Energy proposes to retain the Gas Commodity Cost component mechanism, the Transportation Cost component mechanism, the Off-system Sales component mechanism and the Balance Adjustment. Although the Off-system Sales component mechanism has not been directly

utilized during the program, the Company proposes to retain this mechanism should future circumstances support direct utilization of this mechanism.

In support of its proposal, the Company reiterates the following successes of its PBR program:

- Applying the benchmark standards of performance in the PBR, Atmos Energy has produced prudent gas purchases with measurable savings totaling \$9,093,513 over the three-year period of April 2002 through March 2005, with the majority of those savings going to customers. Those savings would not have been realized in absence of the PBR mechanism.
- A key feature of the PBR is the establishment of a known, pre-determined, and directly observable benchmarks, the assurance that Atmos Energy's gas procurement performance will be measured against that benchmark, and that rewards or penalties will be determined based upon that benchmark. Foreknowledge of that benchmark gives the Company confidence as to how its behavior will be judged. The assurance of the standard of prudence and the opportunity to share rewards has led the Company to undertake certain risks to create savings under the PBR. In the absence of an incentive plan, such as the PBR, Atmos Energy lacks the appropriate incentives to incur the additional risks without the potential to earn rewards for that behavior.
- Specifically, the PBR induced a beneficial change in Atmos' behavior by encouraging it to test different ways to purchase gas supplies in order to generate shared savings, that it otherwise lacked the incentive to pursue.
- The PBR encouraged Atmos Energy to develop an innovative Request for Proposal (RFP) for its new gas supply contract that directly incorporated the PBR benchmarks and mechanisms.
- Each of the existing PBR mechanisms was directly or indirectly utilized to produce measurable savings. The savings from Off-system Sales mechanism were achieved indirectly through the assignment of the management of the Company's storage and transportation assets as a "value-added" feature of Atmos Energy's gas supply contract.

- The PBR mechanism has encouraged Atmos Energy to save approximately \$19,600,000 from July 1998 through March 2005, with the majority of those savings going to customers.

We are confident that by pursuing some of the same innovative approaches to gas supply contracting, within the same context of incentives and penalties, the PBR will produce significant shared savings for Atmos Energy and its customers in subsequent years.

B. Modifications to Existing Mechanisms

Atmos Energy proposes certain adjustments to its existing PBR mechanisms.

Within the computation of Gas Acquisition Index Factor (GAIF), on Tariff Sheet 27, the Company proposes to incorporate a new component called the “GAIFAM”, or Gas Acquisition Index Factor for Asset Management. This factor would distinguish and clearly recognize any supplier discounts provided for asset management rights, if any, that are fixed discounts not directly tied to per unit natural gas purchases. With the subsequent RFP to prospective suppliers synchronized with the terms of the PBR mechanism, this addition would clearly allow greater flexibility in the structure of bids by prospective suppliers. As proposed, it is important to note this additional component would be a clear option for the prospective bidders, but not a required feature of their bid.

Also within the computation of the Gas Acquisition Index Factor (GAIF), the Company proposes the following technical changes to reflect naming changes in the respective indices:

- Tariff Sheet 29, SAIBL (TGT-1), I(1), Natural Gas Week, change “North Louisiana” to “Louisiana”,
- Tariff Sheet 29, SAIBL (TGPL-0), I(2), Gas Daily, change “Texas South – Corpus Christi – Tennessee and East Texas – North Louisiana Area – Tennessee, 100 leg averaged for the month” to “South – Corpus Christi – Tennessee, Zone 0”.

- Tariff Sheet 29, SAIBL (TGPL-0), I(3), Inside FERC – Gas Market Report, change “Tennessee Zone 0” to “Texas Zone 0”.
- Tariff Sheet 30, DAIBL (TGT-2, 3 & 4), (TGPL-2) and (TGC-1B), I(2), Gas Daily, change “Dominion – South Point” to “Dominion – South Point – Appalachia”.
- Tariff Sheet 32, SAISL (TGPL-0), I(3), Gas Daily, change “Texas South – Corpus Christi – Tennessee and East Texas – North Louisiana Area – Tennessee, 100 leg averaged for the month” to “South – Corpus Christi – Tennessee, Zone 0”.
- Tariff Sheet 33, DAISL (TGT-2, 3 & 4), (TGPL-2) and (TGC-1B), I(1), Gas Daily, change “Dominion – South Point” to “Appalachia, Dominion – South Point”.

Also, Atmos Energy proposes to decrease the Percentage of Total Actual Gas Supply Costs (PTAGSC) from the current 2% threshold to a 1% threshold. Market prices today are drastically higher than when this program was modified in 2002 to include this threshold. When comparing the NYMEX settle prices from the most recent twelve months to calendar year 2002, prices have risen approximately 103% which is out of Atmos Energy’s control. The PBR was designed to reward the Company for minimizing the market charges for natural gas commodity and maximizing gas cost savings through innovative deal structures, but under current market conditions, the Company’s hurdle for 50% sharing has, in essence, doubled. Atmos Energy believes that by lowering the threshold from 2% to 1%, the PBR program will recognize current market conditions and adjust the threshold to the same relative level originally established in Case 2001-00317. This change is reflected in Atmos Energy’s proposed tariff on Sheet No. 37.

III. Extension Period & Future Reporting

A. Extension Period

Atmos Energy’s original PBR mechanism was established for an experimental period of three years, and then was extended for an additional four years. This report shows that during the six (6) years the PBR mechanism has been in existence, the

program has resulted in significant savings for customers. Therefore, the Company proposes to extend its PBR mechanism, as modified, for an additional term of five years, through March 31, 2011. A longer term will help ensure meaningful benefits for customers because this PBR mechanism has proven to be effective, and a longer experimental period without the uncertainty of expiration may enable Atmos Energy, and its customers, to achieve greater savings.

Atmos Energy proposes a term for its modified experimental PBR mechanism of five years. However, if an external event occurs, such as an Order or rulemaking of the Federal Energy Regulatory Commission (“FERC”), which clearly and uncontrollably affects the benchmarks or some other aspect of the PBR mechanism, the Company and the Commission should reserve the right to modify or terminate the program.

B. Future Reports

Six months prior to the end of the third experimental program, Atmos Energy proposes to file an assessment and review of the PBR mechanism. Atmos Energy will propose any recommended modifications to the PBR mechanism, and the Commission will be able to review and act upon any proposed changes to the mechanism at that time. Such procedures will add certainty to the nature of the mechanism by establishing a review and approval process with a known timeline.

EXHIBIT B

ATMOS ENERGY CORPORATION

PROPOSED TARIFFS

ATMOS ENERGY CORPORATION

PBR

Experimental Performance Based Rate Mechanism

Applicable

To all gas sold.

Rate Mechanism

The amount computed under each of the rate schedules to which this Performance Based Rate Mechanism is applicable shall be increased or decreased by the Performance Based Rate Recovery Factor (PBRRF) at a rate per 1,000 cubic feet (Mcf) of monthly gas consumption. Demand costs and commodity costs shall be accumulated separately and included in the pipeline suppliers Demand Component and the Gas Supply Cost Component of the Gas Cost Adjustment (GCA), respectively. The PBRRF shall be determined for each 12-month period ended October 31 during the effective term of these experimental performance based ratemaking mechanisms, which 12-month period shall be defined as the PBR period.

The PBRRF shall be computed in accordance with the following formula:

$$\text{PBRRF} = (\text{CSPBR} + \text{BA}) / \text{ES}$$

Where:

ES = Expected Mcf sales, as reflected in the Company's GCA filing for the upcoming 12-month period beginning February 1.

CSPBR = Company Share of Performance Based Ratemaking Mechanism savings or expenses. The CSPBR shall be calculated as follows:

$$\text{CSPBR} = \text{TPBRR} \times \text{ACSP}$$

Where:

ACSP = Applicable Company Sharing Percentage

TPBRR = Total Performance Based Ratemaking Results. The TPBRR shall be savings or expenses created during the PBR period. TPBRR shall be calculated as follows:

$$\text{TPBRR} = (\text{GAIF} + \text{TIF} + \text{OSSIF})$$

ISSUED: July 29, 2005

EFFECTIVE: April 1, 2006

ISSUED BY: Gary L. Smith Vice President – Marketing & Regulatory Affairs/Kentucky Division

ATMOS ENERGY CORPORATION

PBR

Experimental Performance Based Rate Mechanism (Continued)

GAIF

GAIF = Gas Acquisition Index Factor. The GAIF shall be calculated as follows:

$$GAIF = GAIFBL + GAIFSL + GAIFAM$$

Where:

GAIFBL represents the Gas Acquisition Index Factor for Base Load system supply natural gas purchases.

GAIFSL represents the Gas Acquisition Index Factor for Swing Load system supply natural gas purchases.

GAIFAM represents the Gas Acquisition Index Factor for Asset Management, representing the portion of fixed discounts provided by the supplier for asset management rights, if any, not directly tied to per unit natural gas purchases

GAIFBL

The GAIFBL shall be calculated by comparing the Total Annual Benchmark Gas Commodity Costs for Base Load (TABGCCBL) system supply natural gas purchases for the PBR period to the Total Annual Actual Gas Commodity Costs for Base Load (TAAGCCBL) system supply natural gas purchases during the same period to determine if any shared expenses or shared savings exist.

TABGCCBL represents the Total Annual Benchmark Gas Commodity Costs for Base Load gas purchases and equals the annual sum of the monthly Benchmark Gas Commodity Costs of gas purchased for Base Load (BGCCBL) system supply

BGCCBL represents Benchmark Gas Commodity Costs for Base Load gas purchases and shall be calculated on a monthly basis and accumulated for the PBR period. BGCCBL shall be calculated as follows:

$$BGCCBL = \text{Sum} [(APVBL_i - PEFDCQBL) \times SAIBL_i] + (PEFDCQBL \times DAIBL)$$

Where:

APVBL is the Actual Purchased Volumes of natural gas for Base Load system supply for the month. The APVBL shall include purchases necessary to cover retention volumes required by the pipeline as fuel.

ISSUED: July 29, 2005

EFFECTIVE: April 1, 2006

ISSUED BY: Gary L. Smith Vice President – Marketing & Regulatory Affairs/Kentucky Division

FOR ENTIRE SERVICE AREA

P.S.C. NO. 1

First Revised SHEET No. 28

Cancelling

Original SHEET No. 28

ATMOS ENERGY CORPORATION

PBR

Experimental Performance Based Rate Mechanism (Continued)

"i" represents each supply area.

PEFDCQBL are the Base Load Purchases in Excess of Firm Daily Contract Quantities delivered to Atmos' city gate. Firm Daily Contract Quantities are the maximum daily contract quantities which Company can deliver to its city gate under its various firm transportation agreements and arrangements.

SAIBL is the Supply Area Index factor for Base Load to be established for each supply area in which Company has firm transportation entitlements used to transport its natural gas purchases and for which price postings are available. The five supply areas are TGT-SL (Texas Gas Transmission-Zone SL), TGT-1 (Texas Gas Transmission-Zone 1), TGPL-0 (Tennessee Gas Pipeline-Zone 0), and TGPL-1 (Tennessee Gas Pipeline-Zone 1), and TGC-ELA (Trunkline Gas Company-ELA).

The monthly SAIBL for TGT-SL, TGT-1, TGPL-0, TGPL-1, and TGC-ELA shall be calculated using the following formula:

$$\text{SAIBL} = [I(1) + I(2) + I(3) + I(4)] / 4$$

Where:

"I" represents each index reflective of both supply area prices and price changes throughout the month in these various supply areas.

The indices for each supply zone are as follows:

SAIBL (TGT-SL)

I (1) is the average of weekly Natural Gas Week postings for Texas Gas Transmission Corporation Zone SL: South Louisiana as Spot Prices on Interstate Pipeline Systems.

I (2) is the average of the daily high and low Gas Daily postings for Louisiana-Onshore South Texas Gas Zone SL averaged for the month.

I (3) is the Inside FERC – Gas Market Report first-of-the-month posting for Texas Gas Zone SL.

I (4) is the New York Mercantile Exchange Settled Closing Price.

ISSUED: July 29, 2005

EFFECTIVE: April 1, 2006

ISSUED BY: Gary L. Smith Vice President – Marketing & Regulatory Affairs/Kentucky Division

FOR ENTIRE SERVICE AREA

P.S.C. NO. 1

First Revised SHEET No. 29

Cancelling

Original SHEET No. 29

ATMOS ENERGY CORPORATION

PBR

Experimental Performance Based Rate Mechanism (Continued)

SAIBL (TGT-1)

I (1) is the average of weekly Natural Gas Week postings for Texas Gas Transmission Corporation Zone 1: Louisiana as Spot Prices on Interstate Pipeline Systems. (T)

I (2) is the average of the daily high and low Gas Daily postings for East Texas – North Louisiana Area - Texas Gas Zone 1 averaged for the month.

I (3) is the Inside FERC – Gas Market Report first-of-the-month posting for Texas Gas Zone 1.

I (4) is the New York Mercantile Exchange Settled Closing Price.

SAIBL (TGPL-0)

I (1) is the average of weekly Natural Gas Week postings for Tennessee Gas Pipeline Co. Zone 0: South Texas as Spot Prices on Interstate Pipeline Systems. (T)

I (2) is the average of the daily high and low Gas Daily postings for South – Corpus Christi – Tennessee, Zone 0. (T)

I (3) is the Inside FERC – Gas Market Report first-of-the-month posting for Texas Zone 0. (T)

I (4) is the New York Mercantile Exchange Settled Closing Price.

SAIBL (TGPL-1)

I (1) is the average of weekly Natural Gas Week postings for Tennessee Gas Pipeline Co. Zone 1: South Louisiana as Spot Prices on Interstate Pipeline Systems.

I (2) is the average of the daily high and low Gas Daily postings for Louisiana-Onshore South – 500 leg and – 800 leg average for the month.

I (3) is the Inside FERC – Gas Market Report first-of-the-month posting for Tennessee Zone 1.

I (4) is the New York Mercantile Exchange Settled Closing Price.

SAIBL (TGC-ELA)

I (1) is the average of weekly Natural Gas Week postings for Trunkline Gas Co. East Louisiana as Spot Prices on Interstate Pipeline Systems.

I (2) is the average of the daily high and low Gas Daily postings for Louisiana-Onshore South, Trunkline ELA.

I (3) is the Inside FERC – Gas Market Report first-of-the-month posting for Trunkline Louisiana.

I (4) is the New York Mercantile Exchange Settled Closing Price.

ISSUED: July 29, 2005

EFFECTIVE: April 1, 2006

ISSUED BY: Gary L. Smith Vice President – Marketing & Regulatory Affairs/Kentucky Division

FOR ENTIRE SERVICE AREA

P.S.C. NO. 1

First Revised SHEET No. 30

Cancelling

Original SHEET No. 30

ATMOS ENERGY CORPORATION

PBR

Experimental Performance Based Rate Mechanism (Continued)

DAIBL is the Delivery Area Index factor for Base Load to be established for purchases made by Company when Company has fully utilized its pipeline quantity entitlements on a daily basis and which are for delivery to Company's city gate from Texas Gas Transmission's Zone 2, 3 or 4, Tennessee Gas Pipeline's Zone 2, or Trunkline Gas Company's Zone 1B.

The monthly DAIBL for TGT-2, 3, 4, TGPL-2, and TGC-1B shall be calculated using the following:

$$\text{DAIBL} = [I(1) + I(2) + I(3)] / 3$$

DAIBL (TGT-2, 3, & 4), (TGPL-2) and (TGC-1B)

I (1) is the average of weekly Natural Gas Week postings for Spot Prices on Interstate Pipeline Systems for Dominion – South.

I (2) is the average of the daily high and low Gas Daily postings the Daily Price Survey for Dominion – South Point – Appalachia.

I (3) is the Inside FERC – Gas Market Report first-of-the-month posting for Prices of Spot Gas Delivered to Pipeline for Dominion Transmission Inc. – Appalachia.

TAAGCCBL represents Company's Total Annual Actual Gas Commodity Costs for Base Load deliveries of natural gas purchased for system supply and is equal to the total monthly actual gas commodity costs.

To the extent that TAAGCCBL exceeds TABGCCBL for the PBR period, then the GAIFBL Shared Expenses shall be computed as follows:

$$\text{GAIFBL Shared Expenses} = \text{TAAGCCBL} - \text{TABGCCBL}$$

To the extent that TAAGCCBL is less than TABGCCBL for the PBR period, then the GAIFBL Shared Savings shall be computed as follows:

$$\text{GAIFBL Shared Savings} = \text{TABGCCBL} - \text{TAAGCCBL}$$

ISSUED: July 29, 2005

EFFECTIVE: April 1, 2006

ISSUED BY: Gary L. Smith Vice President – Marketing & Regulatory Affairs/Kentucky Division

(T)

FOR ENTIRE SERVICE AREA

P.S.C. NO. 1

First Revised SHEET No. 31

Cancelling

Original SHEET No. 31

ATMOS ENERGY CORPORATION

PBR

Experimental Performance Based Rate Mechanism (Continued)

GAIFSL

The GAIFSL shall be calculated by comparing the Total Annual Benchmark Gas Commodity Costs for Swing Load (TABGCCSL) system supply natural gas purchases for swing load for the PBR period to the Total Annual Actual Gas Commodity Costs for Swing Load (TAAGCCSL) system supply natural gas purchases for during the same period to determine if any shared expenses or shared savings exist.

TABGCCSL represents the Total Annual Benchmark Gas Commodity Costs for Swing Load gas purchases and equals the monthly Benchmark Gas Commodity Costs of gas purchased for Swing Load system supply (BGCCSL).

BGCCSL represents Benchmark Gas Commodity Costs for Swing Load gas purchases and shall be calculated on a monthly basis and accumulated for the PBR period. BGCCSL shall be calculated as follows:

$$BGCCSL = \text{Sum} [(APVSL_i - PEFDCQSL) \times SAISL_i] + (PEFDCQSL \times DAISL)$$

Where:

APVSL is the Actual Purchased Volumes of natural gas for Swing Load system supply for the month. The APVSL shall include purchases necessary to cover retention volumes required by the pipeline as fuel.

"i" represents each supply area.

PEFDCQSL are the Purchases in Excess of Firm Daily Contract Quantities delivered to Atmos' city gate. Firm Daily Contract Quantities are the maximum daily contract quantities which Company can deliver to its city gate under its various firm transportation agreements and arrangements.

SAISL is the Supply Area Index factor for Swing Load to be established for each supply area in which Company has firm transportation entitlements used to transport its natural gas purchases and for which price postings are available. The five supply areas are TGT-SL (Texas Gas Transmission-Zone SL), TGT-1 (Texas Gas Transmission-Zone 1), TGPL-0 (Tennessee Gas Pipeline-Zone 0), and TGPL-1 (Tennessee Gas Pipeline-Zone 1), and TGC-ELA (Trunkline Gas Company-ELA).

ISSUED: July 29, 2005

EFFECTIVE: April 1, 2006

ISSUED BY: Gary L. Smith Vice President – Marketing & Regulatory Affairs/Kentucky Division

FOR ENTIRE SERVICE AREA

P.S.C. NO. 1

First Revised SHEET No. 32

Cancelling

Original SHEET No. 32

ATMOS ENERGY CORPORATION

PBR

Experimental Performance Based Rate Mechanism (Continued)

The monthly SAISL for TGT-SL, TGT-1, TGPL-0, TGPL-1, and TGC-ELA shall be calculated using the following formula:

$$\text{SAISL}_i = I(i)$$

Where:

"I" represents each index reflective of both supply area prices and price changes throughout the month in these various supply areas.

"i" represents each supply area.

The index for each supply zone is as follows:

SAISL (TGT-SL)

I (1) is the average of the daily high and low Gas Daily postings for Louisiana-Onshore South Texas Gas Zone SL averaged for the month.

SAISL (TGT-1)

I (2) is the average of the daily high and low Gas Daily postings for East Texas – North Louisiana Area, Texas Gas Zone 1 averaged for the month.

SAISL (TGPL-0)

I (3) is the average of the daily high and low Gas Daily postings for South – Corpus Christi, Tennessee, Zone 0. (T)

SAISL (TGPL-1)

I (4) is the average of the daily high and low Gas Daily postings for Louisiana-Onshore South – 500 leg and – 800 leg average for the month.

ISSUED: July 29, 2005

EFFECTIVE: April 1, 2006

ISSUED BY: Gary L. Smith Vice President – Marketing & Regulatory Affairs/Kentucky Division

ATMOS ENERGY CORPORATION

PBR

Experimental Performance Based Rate Mechanism (Continued)

SAISL (TGC-ELA)

I (5) is the average of the daily high and low Gas Daily postings for Louisiana-Onshore South, Trunkline ELA.

DAISL is the Delivery Area Index factor for Swing Load to be established for purchases made by Company when Company has fully utilized its pipeline quantity entitlements on a daily basis and which are for delivery to Company's city gate from Texas Gas Transmission's Zone 2, 3 or 4, Tennessee Gas Pipeline's Zone 2, or Trunkline Gas Company's Zone 1B.

The monthly DAISL for TGT-2, 3, 4, TGPL-2, and TGC-1B shall be calculated using the following:

$$\text{DAISL} = \text{I}(1)$$

DAISL (TGT-2, 3, & 4), (TGPL-2) and (TGC-1B)

I (1) is the average of the daily high and low Gas Daily postings the Daily Price Survey for Appalachia, Dominion – South Point. (T)

TAAGCCSL represents Company's Total Annual Actual Gas Commodity Costs for Swing Load deliveries to Company's city gate and is equal to the total monthly actual gas commodity costs.

To the extent that TAAGCCSL exceeds TABGCCSL for the PBR period, then the GAIFSL Shared Expenses shall be computed as follows:

$$\text{GAIFSL Shared Expenses} = \text{TAAGCCSL} - \text{TABGCCSL}$$

To the extent that TAAGCCSL is less than TABGCCSL for the PBR period, then the GAIFSL Shared Savings shall be computed as follows:

$$\text{GAIFSL Shared Savings} = \text{TABGCCSL} - \text{TAAGCCSL}$$

ISSUED: July 29, 2005

EFFECTIVE: April 1, 2006

ISSUED BY: Gary L. Smith Vice President – Marketing & Regulatory Affairs/Kentucky Division

ATMOS ENERGY CORPORATION

PBR

Experimental Performance Based Rate Mechanism (Continued)

TIF

TIF = Transportation Index Factor. The Transportation Index Factor shall be calculated by comparing the Total Annual Benchmark Transportation Costs (TABTC) of natural gas transportation services during the PBR period to the Total Annual Actual Transportation Costs (TAATC) applicable to the same period to determine if any shared expenses or shared savings exist.

The Total Annual Benchmark Transportation Costs (TABTC) are calculated as follows:

$$\text{TABTC} = \text{Annual Sum of Monthly BTC}$$

Where:

BTC is the Benchmark Transportation Costs which include both pipeline demand and volumetric costs associated with natural gas pipeline transportation services. The BTC shall be accumulated for the PBR period and shall be calculated as follows:

$$\text{BTC} = \text{Sum [BM (TGT) + BM (TGPL) + BM (TGC) + BM (PPL)]}$$

Where:

BM (TGT) is the benchmark associated with Texas Gas Transmission Corporation.

BM (TGPL) is the benchmark associated with Tennessee Gas Pipeline Company.

BM (TGC) is the benchmark associated with Trunkline Gas Company.

BM (PPL) is the benchmark associated with a proxy pipeline. This benchmark, which will be determined at the time of purchase, will be used to benchmark purchases of transportation capacity from non-traditional sources.

The benchmark associated with each pipeline shall be calculated as follows:

$$\text{BM (TGT)} = (\text{TPDR} \times \text{DQ}) + (\text{TPCR} \times \text{AV}) + \text{S\&DB}$$

$$\text{BM (TGPL)} = (\text{TPDR} \times \text{DQ}) + (\text{TPCR} \times \text{AV}) + \text{S\&DB}$$

$$\text{BM (TGC)} = (\text{TPDR} \times \text{DQ}) + (\text{TPCR} \times \text{AV}) + \text{S\&DB}$$

$$\text{BM (PPL)} = (\text{TPDR} \times \text{DQ}) + (\text{TPCR} \times \text{AV}) + \text{S\&DB}$$

Where:

TPDR is the applicable Tariffed Pipeline Demand Rate.

ISSUED: July 29, 2005

EFFECTIVE: April 1, 2006

ISSUED BY: Gary L. Smith Vice President – Marketing & Regulatory Affairs/Kentucky Division

ATMOS ENERGY CORPORATION

PBR

Experimental Performance Based Rate Mechanism (Continued)

DQ is the Demand Quantities contracted for by the Company from the applicable transportation provider.

TPCR is the applicable Tariffed Pipeline Commodity Rate.

AV is the Actual Volumes delivered at Company's city gate by the applicable transportation provider for the month.

S&DB represents Surcharges, Direct Bills and other applicable amounts approved by the Federal Energy Regulatory Commission (FERC). Such amounts are limited to FERC approved charges such as surcharges, direct bills, cashouts, take-or-pay amounts, Gas Supply Realignment and other Order 636 transition costs.

The Total Annual Actual Transportation Costs (TAATC) paid by Company for the PBR period shall include both pipeline demand and volumetric costs associated with natural gas pipeline transportation services as well as all applicable FERC approved surcharges, direct bills included in S&DB, less actual capacity release credits. Such costs shall exclude labor related or other expenses typically classified as operating and maintenance expenses.

To the extent that TAATC exceeds TABTC for the PBR period, then the TIF Shared Expenses shall be computed as follows:

$$\text{TIF Shared Expenses} = \text{TAATC} - \text{TABTC}$$

To the extent that the TAATC is less than TABTC for the PBR period, then the TIF Shared Savings shall be computed as follows:

$$\text{TIF Shared Savings} = \text{TABTC} - \text{TAATC}$$

Should one of the Company's pipeline transporters file a rate change effective during any PBR period and bill such proposed rates subject to refund, the period over which the benchmark comparison is made for the relevant transportation costs will be extended for one or more 12 month periods, until the FERC has approved final settled rates, which will be used as the appropriate benchmark. Company will not share in any of the savings or expenses related to the affected pipeline until final settled rates are approved.

OSSIF

OSSIF = Off-System Sales Index Factor. The Off-System Sales Index Factor shall be equal to the Net Revenue from Off-System Sales (NR).

ISSUED: July 29, 2005

EFFECTIVE: April 1, 2006

ISSUED BY: Gary L. Smith

Vice President – Marketing & Regulatory Affairs/Kentucky Division

FOR ENTIRE SERVICE AREA

P.S.C. NO. 1

First Revised SHEET No. 36

Cancelling

Original SHEET No. 36

ATMOS ENERGY CORPORATION

PBR

Experimental Performance Based Rate Mechanism (Continued)

Net Revenue is calculated as follows:

$$NR = OSREV - OOPC$$

Where:

OSREV is the total revenue associated with off-system sales and storage service transactions.

OOPC is the out-of-pocket costs associated with off-system sales and storage service transactions and shall be determined as follows:

$$OOPC = OOPC(GC) + OOPC(TC) + OOPC(SC) + OOPC(UGSC) + \text{Other Costs}$$

Where:

OOPC (GC) is the Out-of-Pocket Gas Costs associated with off-system sales transactions. For off-system sales utilizing Company's firm supply contracts, the OOPC (GC) shall be the incremental costs to purchase the gas available under Company's firm supply contracts. For off-system sales not using Company's firm supply contracts, the OOPC (GC) shall be the incremental costs to purchase the gas from other entities.

OOPC (TC) is the Out-of-Pocket Transportation Costs associated with off-system sales transactions. For off-system sales utilizing Company's firm transportation agreements, the OOPC (TC) shall be the incremental cost to use the transportation available under Company's firm supply contracts. For off-system sales not using Company's firm transportation agreements, the OOPC (TC) shall be the incremental costs to purchase the transportation from other entities.

OOPC (SC) is the Out-of-Pocket Storage Costs associated with off-system sales of storage. If this is gas in Company's own storage or gas stored with Tennessee Gas Pipeline it shall be priced at the average price of the gas in Company's storage during the month of sale. If this is gas from the storage component of Texas Gas's No-Notice Service, this gas shall be priced at the replacement costs.

OOPC (UGSC) is the Out-of-Pocket Underground Storage Costs associated with off-system sales of storage services. For the off-systems sales of storage services utilizing Company's on-system storage, the OOPC (UGSC) shall include incremental storage losses, odorization, and other fuel-related costs such as purification, dehydration, and compression. Such costs shall exclude labor-related expenses.

Other Costs represent all other incremental costs and include, but are not limited to, costs such as applicable sales taxes and excise fees. Such costs shall exclude labor-related or other expenses typically classified as operating and maintenance expenses.

ISSUED: July 29, 2005

EFFECTIVE: April 1, 2006

ISSUED BY: Gary L. Smith Vice President – Marketing & Regulatory Affairs/Kentucky Division

FOR ENTIRE SERVICE AREA

P.S.C. NO. 1

First Revised SHEET No. 37

Cancelling

Original SHEET No. 37

ATMOS ENERGY CORPORATION

PBR

Experimental Performance Based Rate Mechanism (Continued)

ACSP

ACSP = Applicable Company Sharing Percentage. The ACSP shall be determined based on the PTAGSC.

Where:

PTAGSC = Percentage of Total Actual Gas Supply Costs. The PTAGSC shall be the TPBRR stated as a Percentage of Total Actual Gas Supply Costs and shall be calculated as follows:

$$PTAGSC = TPBRR / TAGSC$$

Where:

TAGSC = Total Actual Gas Supply Costs. The TAGSC shall be calculated as follows:

$$TAGSC = TAAGCCBL + TAAGCCSL + TAATC$$

If the absolute value of the PTAGSC is less than or equal to 1.0%, then the ACSP of 30% shall be applied to TPBRR to determine CSPBR. If the absolute value of the PTAGSC is greater than 1.0%, then the ACSP of 30% shall be applied to the amount of TPBRR that is equal to 1.0% of TAGSC to determine a portion of CSPBR, and the ACSP of 50% shall be applied to the amount of TPBRR that is in excess of 1.0% of TAGSC to determine a portion of CSPBR. These two portions are added together to produce the total CSPBR. (T)

BA

BA = Balance Adjustment. The BA is used to reconcile the difference between the amount of revenues billed or credited through the CSPBR and previous application of the BA and revenues which should have been billed or credited, as follows:

1. For the CSPBR, the balance adjustment amount will be the difference between the amount billed in a 12 month period from the application of the CSPBR and the actual amount used to establish the CSPBR for the period.
2. For the BA, the balance adjustment amount will be the difference between the amount billed in a 12-month period from the application of the BA and the actual amount used to establish the BA for the period.

Review

Within 60 days after the end of the fourth year of the five-year extension, the Company will file an assessment and review of the PBR mechanism for the first four years of the extension period. In that report and assessment, the Company will make any recommended modifications to the PBR mechanism.

ISSUED: July 29, 2005

EFFECTIVE: April 1, 2006

ISSUED BY: Gary L. Smith Vice President – Marketing & Regulatory Affairs/Kentucky Division