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PUBLIC SERVICE COMMISSION

OVERNIGHT DELIVERY

February 18, 2009

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

RE: CASE NO. 2009-00046
Atmos Energy Corporation
$900,000,000 Universal Shelf Registration

Dear Mr. Devouen:

In accordance with discussions with the Commission Staff, I am submitting Atmos Energy's updated Responses to the Data Requests of the Commission (originally filed in Case No. 2006-00387), along with seven (7) copies, for filing. These updated responses are submitted for filing in Case No. 2009-00046. Thank you.

Very truly yours,

Mark R. Hutchinson

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PUBLIC SERVICE
COMMISSION

Atmos Energy Corporation

Kentucky

Case No. 2009-00046

RESPONSES TO

Commission Staff Data Request

Atmos Energy Corporation
Kentucky
Case No. 2009-00046
Commission Staff Data Request
DR Item 1 (a) (b) and (c)
Witness: Laurie Sherwood
Vice President and Treasurer

Data Request:

Refer to the Application, page 2. Concerning the hybrid securities:

a. Provide a detailed description of the nature and characteristics of the hybrid securities.
b. Is Atmos aware of any other regulated gas utilities that have issued hybrid securities? If yes, provide a list of those regulated gas utilities.
c. Provide a copy of the prospectus for a proposed issuance of hybrid securities.

Response:

a. Hybrid securities are a broad class of financial instruments that combine features of "plain vanilla" corporate debt and equity securities. They are typically structured so that they are junior in the capital structure to unsecured debt, but senior to common stock. As Fitch Ratings says on their website (www.fitchratings.com): "The term 'Hybrids and Capital Securities' refers to a wide range of capital market instruments that combine features of debt and equity and are neither common stock nor ordinary debt. Included are instruments such as preferred stock, preference shares, trust preferred securities, capital securities, bank tier 1 and upper and lower tier 2 securities, mandatory or optionally convertible debt and preferred securities, deferrable payment subordinated debt, and a changing list of other financial products."

   Hybrid securities in various forms have existed for many years, and were most often been issued by financial institutions. However, changes in hybrid rating criteria by the major credit rating agencies, beginning with Moody's in February 2005, spurred the development of a new generation of hybrids. These hybrids have debt-like cost of capital characteristics and tax-deductible interest, while at the same time capturing many credit rating benefits of common stock. They are often used by issuers who are seeking to maintain or increase the equity content of their capital structure but are concerned about the dilutive effects of issuing common stock. Today's hybrids generally fall into two classes: i) trust preferred securities and ii) junior subordinated debt (the "deferrable payment subordinated debt" included in Fitch's definition quoted above).

The type of hybrid securities that Atmos Energy would consider issuing under the proposed universal shelf registration statement would take the form of junior subordinated debt. Because of these hybrids' many equity-like characteristics, including very long maturity, deep subordination to other debt and deferrable interest payments, they receive 50% equity credit from the major credit rating agencies (Moody's Investors Service, Standard & Poor's and Fitch Ratings). However, these securities retain enough debt-like characteristics that the interest paid to investors is tax-deductible.

b. To date, Atmos is not aware of any regulated gas utilities that have directly issued hybrids. However, Dominion Resources, Inc. a holding company that is the parent of regulated electric utilities in Virginia and North Carolina and regulated natural gas distribution companies in Ohio, West Virginia and Pennsylvania, issued hybrid securities in June 2006 and again in September 2006. In addition, FPL Group Capital, a subsidiary of EPL Group, Inc. (a public utility holding company) and an affiliate of Florida Power & Light Company (a regulated utility), issued hybrid securities in September 2006. Due to financial market conditions prevailing during 2007 and 2008, including higher interest rates demanded by investors, the Company is not aware of any more recent issuances of hybrid securities by affiliates of regulated natural gas or electric utilities.

c. Atmos has not yet prepared a prospectus for any proposed issuance of hybrid securities.

Atmos Energy Corporation
Kentucky
Case No. 2009-00046
Commission Staff Data Request
DR Item 2
Witness: Laurie Sherwood
Vice President and Treasurer

Data Request:

Compare and contrast hybrid securities with other forms of debt financing. This comparison should include, but not be limited to, the interest rate options available. The actual interest rates carried for the instruments, and the tax deductibility of the interest expense. In addition, rank from least costly to most costly other forms of debt financing and hybrid securities.

Response

Hybrid securities are deeply subordinated, and typically are junior in repayment priority to all other debt that an issuer may have in its capital structure. Hybrids have significantly longer maturities than even long-term senior debt, with a typical maturity of sixty years. Hybrids carry a fixed interest rate for an initial term, usually either five years or ten years; thereafter, the interest rate resets to a floating rate based on a spread over an index rate such as LIBOR. The initial fixed interest rate is set at a higher spread over the comparable maturity Treasury security than would apply to senior debt issued by the same borrower. As with other debt, interest paid on the junior subordinated debt type of hybrid (i.e. the type that Atmos would consider issuing) is tax-deductible. Unlike other debt, a hybrid issuer can defer paying interest for a period up to ten years without triggering any covenant violations or other penalties. With respect to cost, short-term floating rate debt is usually the least expensive form of debt financing. For fixed rate debt, senior secured debt (such as first mortgage bonds) is usually the least expensive, followed by (in order of increasing cost) senior unsecured debt, subordinated debt and junior subordinated debt such hybrids. Unlike other forms of debt, the credit rating agencies treat the type of hybrid that Atmos would consider issuing as if it were 50% common equity.

Atmos Energy Corporation
Kentucky
Case No. 2009-00046
Commission Staff Data Request
DR Item 3
Witness: Laurie Sherwood
Vice President and Treasurer

Data Request:

Compare and contrast hybrid securities with other forms of equity financing. This comparison should include, but not be limited to, time to maturity, deferred interest payments, subordination status, and the existence of discounts and premiums on the issuance. In addition, rank from least costly to most costly other forms of equity financing and hybrid securities.

Response:

Hybrid securities are senior in repayment priority to common stock and to most types of preferred stock, including convertible preferred and perpetual preferred stock. Unlike common equity and perpetual preferred stock, which have no maturity hybrids have a fixed maturity (usually sixty years). The credit rating agencies consider fifty years to be the minimum maturity required for a security to be "equity-like". Dividends on common stock are declared and paid at the discretion of the issuer; interest payments on hybrids can be deferred without penalty, but only for a maximum period (usually ten years). The interest rate on a hybrid security is lower than most preferred dividends and is also lower than the total equity return (dividend yield plus earnings growth) required by common shareholders.

Atmos Energy Corporation
Kentucky
Case No. 2009-00046
Commission Staff Data Request
DR Item 4
Witness: Laurie Sherwood
Vice President and Treasurer

Data Request:

Does Atmos anticipate that any of the hybrid securities would be issued to any financing affiliates, financing subsidiaries, or financing operating companies of Atmos? If yes, provide a detailed explanation of how the transaction would be accomplished, including a discussion of how the funds would be provided by the affiliate, subsidiary or operating company.

Response:

No.

Atmos Energy Corporation
Kentucky
Case No. 2009-00046
Commission Staff Data Request
DR Item 5
Witness: Laurie Sherwood
Vice President and Treasurer

Data Request:

Refer to Application, page, paragraph 4, which mentions a debt to capitalization ratio to target range of 50-55 percent. Explain how hybrid securities would be categorized in relation to that target range.

Response:

As mentioned in the response to Question 1 part a. above, the type of hybrid security that Atmos would consider issuing would receive 50% equity credit from the credit rating agencies. The exact debt to capitalization ratio that Atmos would have after any hybrid issuance would depend upon the amount of securities issued. The credit rating agencies would add 50% of the amount issued to the numerator of this ratio (i.e. total debt) while adding 100% of the amount issued to the denominator (i.e. total capitalization). Therefore, any such hybrid issue would be expected to maintain the Company's ratio of debt to capitalization within its target range of 50-55 percent.