REQUEST:

Please provide copies of all presentations made to rating agencies and/or investment firms by Atmos Energy Corporation, as traded under the ticker ATO and/or Atmos Energy Corporation, Kentucky/Mid-States Division, the Applicant in the instant case, ("Applicant") between January 1, 2012 and the present.

RESPONSE:

Please see Attachment 1 through Attachment 8. The presentations in Attachment 1 through Attachment 8 are Confidential.

ATTACHMENTS:

ATTACHMENT 1 - Atmos Energy Corporation, OAG_1-180_Att1 - 2013 Rating Agency Presentation (CONFIDENTIAL).pdf, 43 Pages.

ATTACHMENT 2 - Atmos Energy Corporation, OAG_1-180_Att2 - 03-01-12 Rating Agency Presentation (CONFIDENTIAL).pdf, 43 Pages.

ATTACHMENT 3 - Atmos Energy Corporation, OAG_1-180_Att3 - Master February 2012 (CONFIDENTIAL).pdf, 66 Pages.

ATTACHMENT 4 - Atmos Energy Corporation, OAG_1-180_Att4 - Master for Oct AGA Event (CONFIDENTIAL).pdf, 69 Pages.

ATTACHMENT 5 - Atmos Energy Corporation, OAG_1-180_Att5 - NY Analyst Conference 11.15.12 (CONFIDENTIAL).pdf, 82 Pages.

ATTACHMENT 6 - Atmos Energy Corporation, OAG_1-180_Att6 - Analyst Update at August 6 2013 (CONFIDENTIAL).pdf, 50 Pages.

ATTACHMENT 7 - Atmos Energy Corporation, OAG_1-180_Att7 - Analyst Update for Goldman COMBINATION (CONFIDENTIAL).pdf, 50 Pages.

ATTACHMENT 8 - Atmos Energy Corporation, OAG_1-180_Att8 - Q3 2013 FINAL (CONFIDENTIAL).pdf, 34 Pages.

Respondent: Greg Waller

Case No. 2013-00148
Atmos Energy Corporation, Kentucky Division
AG DR Set No. 1
Question No. 1-181

REQUEST:

Please provide copies of all prospectuses for any security issuances by Atmos Energy Corporation and Applicant since January 1, 2010.

RESPONSE:

Please see Attachment 1 and Attachment 2.

ATTACHMENTS:

ATTACHMENT 1 - Atmos Energy Corporation, OAG_1-181_Att1 - Atmos Final Prospectus 01-08-12.pdf, 55 Pages.

ATTACHMENT 2 - Atmos Energy Corporation, OAG_1-181_Att2 - Atmos Final Pro Supp.pdf, 56 Pages

Respondent: Greg Waller

Prospectus Supplement
January 8, 2013
(To Prospectus dated March 31, 2010)

$500,000,000

ATMOS energy

Atmos Energy Corporation
4.15% Senior Notes due 2043

The notes will bear interest at the rate of 4.15% per year and will mature on January 15, 2043. We will pay interest on the notes semi-annually in arrears on January 15 and July 15 of each year they are outstanding, beginning July 15, 2013. We may redeem the notes prior to maturity at our option, at any time in whole or from time to time in part, at the redemption prices described in this prospectus supplement. See "Description of the Notes — Optional Redemption."

The notes are unsecured and rank equally with all of our other existing and future unsubordinated debt. The notes will be issued only in registered form in minimum denominations of $2,000 and any integral multiple of $1,000 in excess thereof. The notes are a new issue of securities with no established trading market. The notes will not be listed on any securities exchange or on any automated dealer quotation system.

Investing in the notes involves risks. See "Risk Factors" on page S-7 of this prospectus supplement.

	Per Note	Total
Public offering price(1)	99.812%	$499,060,000
Underwriting discount	0.875%	$ 4,375,000
Proceeds, before expenses, to Atmos Energy	98.937%	$494,685,000

(1) Plus accrued interest from January 11, 2013, if settlement occurs after that date.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the notes to investors in book-entry form only through the facilities of The Depository Trust Company for the accounts of its participants, including Clearstream Banking, société anonyme, Luxembourg and/or Euroclear Bank S.A./N.V., on or about January 11, 2013.

Joint Book-Running Managers

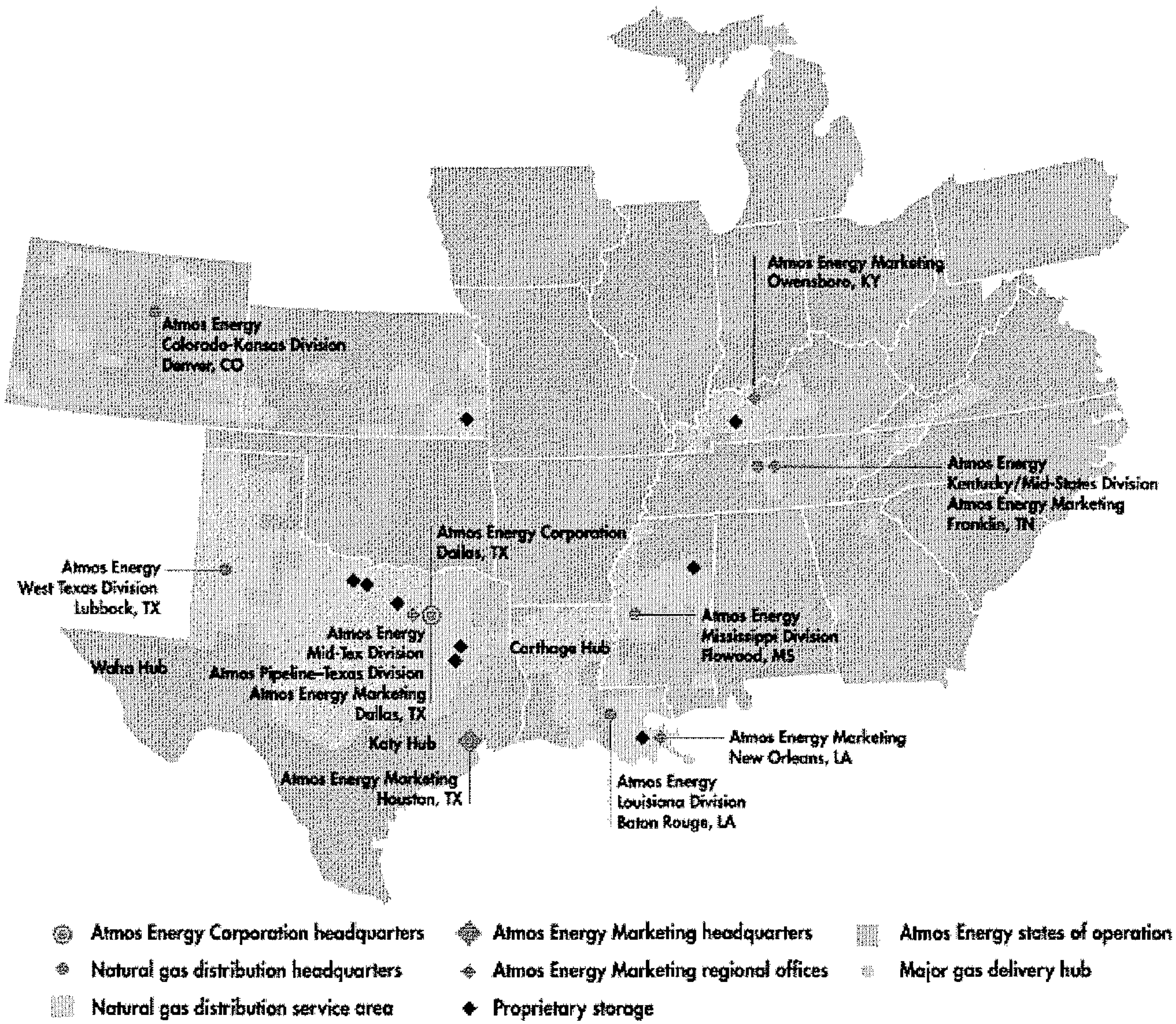
J.P. Morgan **Mitsubishi UFJ Securities** **US Bancorp**
Credit Agricole CIB **RBS**

Senior Co-Managers

BNP Paribas **Merrill Lynch** **UBS Investment Bank** **Wells Fargo Securities**

Co-Managers

BB&T Capital Markets **BOSC, Inc.** **Goldman, Sachs & Co.** **Morgan Stanley**



We have entered into a definitive agreement to sell our natural gas distribution operations in Georgia, representing approximately 64,000 customers.

CASE NO. 2013-00148
ATTACHMENT 1
TO OAG DR NO. 1-181

TABLE OF CONTENTS

Prospectus Supplement

Prospectus

IMPORTANT NOTICE ABOUT INFORMATION IN THIS PROSPECTUS SUPPLEMENT AND THE ACCOMPANYING PROSPECTUS

This document consists of two parts. The first part is this prospectus supplement, which describes the specific terms of this offering of the notes and also adds to and updates information contained in the accompanying prospectus and the documents incorporated by reference in this prospectus supplement and the accompanying prospectus. The second part is the accompanying prospectus, dated March 31, 2010, which gives more general information, some of which does not apply to this offering. To the extent there is a conflict between the information contained in this prospectus supplement, the information contained in the accompanying prospectus or the information contained in any document incorporated by reference herein or therein, the information contained in the most recent document shall control. This prospectus supplement and the accompanying prospectus are a part of a registration statement that we filed with the Securities and Exchange Commission (the "SEC") using the SEC's shelf registration rules.

You should rely only on the information contained in or incorporated by reference in this prospectus supplement, the accompanying prospectus and any free writing prospectus. We have not, and the underwriters have not, authorized any other person to provide you with information that is different. If anyone provides you with different or inconsistent information, you should not rely on it. See "Incorporation of Certain Documents by Reference" and "Where You Can Find More Information" in the accompanying prospectus.

Neither Atmos Energy Corporation nor the underwriters are making an offer of these notes in any jurisdiction where the offer is not permitted.

The information contained in or incorporated by reference in this document is accurate only as of the date of this prospectus supplement or the date of such incorporated documents, regardless of the time of delivery of this prospectus supplement or of any sale of notes. Our business, financial condition, results of operations and prospects may have changed since those respective dates.

The terms "we," "our," "us," and "Atmos Energy" refer to Atmos Energy Corporation and its subsidiaries unless the context suggests otherwise. The term the "Company" refers to Atmos Energy Corporation and not its subsidiaries. The term "you" refers to a prospective investor. The abbreviations "Mcf" and "MMBtu" mean thousand cubic feet and million British thermal units, respectively.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Statements contained or incorporated by reference in this prospectus supplement and the accompanying prospectus that are not statements of historical fact are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended. Forward-looking statements are based on management's beliefs as well as assumptions made by, and information currently available to, management. Because such statements are based on expectations as to future results and are not statements of fact, actual results may differ materially from those stated. Important factors that could cause future results to differ include, but are not limited to:

- our ability to continue to access the credit markets to satisfy our liquidity requirements;
- the impact of adverse economic conditions on our customers;
- increased costs of providing pension and post-retirement health care benefits and increased funding requirements along with increased costs of health care benefits;
- market risks beyond our control affecting our risk management activities including market liquidity, commodity price volatility, increasing interest rates and counterparty creditworthiness;
- regulatory trends and decisions, including the impact of rate proceedings before various state regulatory commissions;

- possible increased federal, state and local regulation of the safety of our operations;
- increased federal regulatory oversight and potential penalties;
- the impact of environmental regulations on our business;
- the impact of possible future additional regulatory and financial risks associated with global warming and climate change on our business;
- the concentration of our distribution, pipeline and storage operations in Texas;
- adverse weather conditions;
- the effects of inflation and changes in the availability and price of natural gas;
- the capital-intensive nature of our gas distribution business;
- increased competition from energy suppliers and alternative forms of energy;
- the threat of cyber-attacks or acts of cyber-terrorism that could disrupt our business operations and information technology systems;
- the inherent hazards and risks involved in operating our gas distribution business or with natural disasters, terrorist activities or other events; and
- other risks and uncertainties discussed in this prospectus supplement, any accompanying prospectus and our other filings with the SEC.

All of these factors are difficult to predict and many are beyond our control. Accordingly, while we believe these forward-looking statements to be reasonable, there can be no assurance that they will approximate actual experience or that the expectations derived from them will be realized. When used in our documents or oral presentations, the words "anticipate," "believe," "estimate," "expect," "forecast," "goal," "intend," "objective," "plan," "projection," "seek," "strategy" or similar words are intended to identify forward-looking statements. We undertake no obligation to update or revise any of our forward-looking statements, whether as a result of new information, future events or otherwise.

For additional factors you should consider, please see "Risk Factors" on page S-7 of this prospectus supplement, "Item 1A. Risk Factors" and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the fiscal year ended September 30, 2012. See also "Incorporation of Certain Documents by Reference" in the accompanying prospectus.

PROSPECTUS SUPPLEMENT SUMMARY

You should read the following summary in conjunction with the more detailed information contained elsewhere in this prospectus supplement, the accompanying prospectus and the documents incorporated by reference in this prospectus supplement and the accompanying prospectus.

Atmos Energy Corporation

We are engaged primarily in the regulated natural gas distribution and transmission and storage businesses, as well as other nonregulated natural gas businesses. We are one of the country's largest natural gas-only distributors based on number of customers. We currently distribute natural gas through sales and transportation arrangements to over three million residential, commercial, public authority and industrial customers in nine states. We also operate one of the largest intrastate pipelines in Texas based upon miles of pipe.

Through our regulated transmission and storage business, we provide natural gas transportation and storage services to our Mid-Tex Division, our largest natural gas distribution division located in Texas, and to third parties. Additionally, we provide ancillary services customary to the pipeline industry, including parking arrangements, lending and sales of inventory on hand.

Through our nonregulated businesses, we primarily provide natural gas management and marketing services to municipalities, other local gas distribution companies and industrial customers primarily in the Midwest and Southeast. We also provide storage services to some of our natural gas distribution divisions and to third parties.

We operate through the following three segments:

- the natural gas distribution segment, which includes our regulated natural gas distribution and related sales operations;
- the regulated transmission and storage segment, which includes the regulated pipeline and storage operations of our Atmos Pipeline — Texas Division; and
- the nonregulated segment, which includes our nonregulated natural gas management, nonregulated natural gas transmission, storage and other services.

Recent Developments

Appointment of Chief Financial Officer. On October 1, 2012, Bret J. Eckert succeeded Fred E. Meisenheimer, who retired also effective October 1, 2012, as Senior Vice President and Chief Financial Officer of the Company.

Declaration of Dividend. On November 6, 2012, our Board of Directors declared a quarterly dividend on our common stock of $0.35 per share. The dividend was paid on December 10, 2012 to shareholders of record on November 26, 2012.

Termination of AEM Credit Facility. On December 5, 2012, Atmos Energy Marketing, LLC, our indirect wholly-owned subsidiary, terminated its $200 million committed and secured credit facility, which was due to expire on December 3, 2014.

Amendment of Credit Facility. On December 7, 2012, we amended our existing $750 million revolving credit agreement, primarily to: (i) increase the lenders' commitment from $750 million to $950 million, while retaining the accordion feature that would allow an increase in commitments up to $1.2 billion, and (ii) allow us to obtain same-day funding on base rate loans.

Recent Ratemaking Activity. As of September 30, 2012, eight regulatory proceedings requesting $76.7 million in annual operating income increases were in progress. During the first quarter of fiscal 2013, seven of these proceedings were finalized, resulting in a $63.7 million increase in annual operating income.

Our address is 1800 Three Lincoln Centre, 5430 LBJ Freeway, Dallas, Texas 75240, and our telephone number is (972) 934-9227. Our internet website address is *www.atmosenergy.com.* Information on or connected to our internet website is not part of this prospectus supplement or the accompanying prospectus.

Summary Financial Data

The following table presents summary consolidated and segment financial data of Atmos Energy Corporation for the periods and as of the dates indicated. We derived the summary financial data for the fiscal years ended September 30, 2012, 2011, 2010, 2009 and 2008 from our audited consolidated financial statements.

The information is only a summary and does not provide all of the information contained in our financial statements. Therefore, you should read the information presented below in conjunction with "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and related notes included in our Annual Report on Form 10-K for the fiscal year ended September 30, 2012, which is incorporated by reference in this prospectus supplement and the accompanying prospectus.

	Year Ended September 30,				
	2012(1)	2011(1)	2010	2009(1)	2008
	(In thousands, except per share data)				
Consolidated Financial Data					
Operating revenues	$3,438,483	$4,286,435	$4,661,060	$4,793,248	$7,039,342
Gross profit	1,323,739	1,300,820	1,314,136	1,297,682	1,275,077
Operating expenses(1)	877,499	874,834	850,303	872,938	869,028
Operating income	446,240	425,986	463,833	424,744	406,049
Income from continuing operations	192,196	189,588	189,851	175,026	166,696
Net income	216,717	207,601	205,839	190,978	180,331
Diluted net income per share from continuing operations	$ 2.10	$ 2.07	$ 2.03	$ 1.90	$ 1.84
Diluted net income per share	$ 2.37	$ 2.27	$ 2.20	$ 2.07	$ 1.99
Cash dividends declared per share	$ 1.38	$ 1.36	$ 1.34	$ 1.32	$ 1.30
Cash flows from operating activities	$ 586,917	$ 582,844	$ 726,476	$ 919,233	$ 370,933
Capital expenditures	$ 732,858	$ 622,965	$ 542,636	$ 509,494	$ 472,273

	As of September 30,				
	2012	2011	2010	2009	2008
	(In thousands)				
Consolidated Balance Sheet Data					
Total assets	$7,495,675	$7,282,871	$6,763,791	$6,367,083	$6,386,699
Debt					
Long-term debt(2)	$1,956,305	$2,206,117	$1,809,551	$2,169,400	$2,119,792
Short-term debt(2)	571,060	208,830	486,231	72,681	351,327
Total debt	$2,527,365	$2,414,947	$2,295,782	$2,242,081	$2,471,119
Shareholders' equity	$2,359,243	$2,255,421	$2,178,348	$2,176,761	$2,052,492

See footnotes on following page.

	Year Ended September 30,				
	2012(1)	2011(1)	2010	2009(1)	2008
	(In thousands, except ratios)				
Segment Operating Income (Loss)					
Natural gas distribution	$304,461	$322,088	$296,851	$266,356	$239,319
Regulated transmission and storage	128,824	108,275	97,038	93,163	89,745
Nonregulated(3)	12,950	(4,383)	69,944	64,881	76,641
Eliminations	5	6	—	344	344
Consolidated	$446,240	$425,986	$463,833	$424,744	$406,049
Other Financial Data					
Ratio of earnings to fixed charges(4)	2.84	2.78	2.78	2.55	2.76

(1) Financial results for fiscal 2012, 2011 and 2009 include a $5.3 million, $30.3 million and $5.4 million pre-tax loss, respectively, for the impairment of certain assets.

(2) Long-term debt excludes current maturities. Short-term debt is comprised of current maturities of long-term debt and short-term debt.

(3) As a result of the appointment of a new Chief Executive Officer effective October 1, 2010, during the first quarter of fiscal 2011, we revised the information used by the chief operating decision maker to manage Atmos Energy. As a result of this change, effective December 1, 2010, we combined our former natural gas marketing and pipeline, storage and other segments into one nonregulated segment. Financial information for all prior periods has been restated to conform to the new segment presentation.

(4) For purposes of computing the ratio of earnings to fixed charges, earnings consist of the sum of our pretax income from continuing operations and fixed charges exclusive of capitalized interest. Fixed charges consist of interest expense, amortization of debt discount, premium and expense, capitalized interest and a portion of lease payments considered to represent an interest factor.

The Offering

Issuer	Atmos Energy Corporation
Notes Offered	$500,000,000 aggregate principal amount of 4.15% senior notes due 2043.
Maturity	The notes will mature on January 15, 2043.
Interest	The notes will bear interest at the rate of 4.15% per year. Interest on the notes will be payable semi-annually in arrears on January 15 and July 15 of each year they are outstanding, beginning on July 15, 2013.
Ranking	The notes will be our unsecured senior obligations. The notes will rank equally in right of payment with all our existing and future unsubordinated indebtedness and will rank senior in right of payment to any future indebtedness that is subordinated to the notes. The notes will be effectively subordinated to all our existing and future secured indebtedness to the extent of the assets securing such indebtedness and to the indebtedness and liabilities of our subsidiaries.
Optional Redemption	We may redeem the notes prior to maturity at our option, at any time in whole or from time to time in part. Prior to July 15, 2042, the redemption price will be equal to the greater of the principal amount of the notes to be redeemed and the "make-whole" redemption price, plus, in each case, accrued and unpaid interest, if any, to the redemption date. At any time on or after July 15, 2042, the redemption price will be equal to 100% of the principal amount of the notes to be redeemed plus accrued and unpaid interest, if any, to the redemption date. See "Description of the Notes — Optional Redemption" on page S-15.
Covenants of the Indenture	We will issue the notes under an indenture which will, among other things, restrict our ability to create liens and to enter into sale and leaseback transactions. See "Description of Debt Securities — Covenants" beginning on page 8 of the accompanying prospectus.
Use of Proceeds	We estimate that our net proceeds from this offering, after deducting the underwriting discount and estimated offering expenses payable by us, will be approximately $494 million. We intend to use the net proceeds from this offering primarily to repay our $260 million short-term financing facility that expires February 1, 2013. The excess net proceeds will be used for general corporate purposes, including the repayment of working capital borrowings pursuant to our commercial paper program. See "Use of Proceeds" on page S-7.
Conflicts of Interest	As described in "Use of Proceeds," the net proceeds from this offering will be used primarily to repay our $260 million short-term financing facility. Because certain affiliates of the underwriters are lenders under such facility and because more than 5% of the proceeds from this offering, not including underwriting compensation, may be

	received by such parties in connection with the repayment of such facility, this offering is being conducted in compliance with Financial Regulatory Authority, Inc. ("FINRA") Rule 5121. Pursuant to that rule, the appointment of a qualified independent underwriter is not necessary in connection with this offering.
Risk Factors	Investing in the notes involves risks. See "Risk Factors" on page S-7 of this prospectus supplement and other information included and incorporated by reference in this prospectus supplement and the accompanying prospectus for a discussion of the factors you should consider carefully before deciding to invest in the notes.

RISK FACTORS

Investing in the notes involves risks. Our business is influenced by many factors that are difficult to predict and beyond our control and that involve uncertainties that may materially affect our results of operations, financial condition or cash flows, or the value of the notes. These risks and uncertainties include those described in the risk factors and other sections of the documents that are incorporated by reference in this prospectus supplement and the accompanying prospectus, including "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended September 30, 2012. You should carefully consider these risks and uncertainties and all of the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus before you invest in the notes.

USE OF PROCEEDS

We estimate that we will receive net proceeds from this offering of approximately $494 million, after deducting the underwriting discount and estimated offering expenses payable by us. We intend to use the net proceeds from this offering primarily to repay our $260 million short-term financing facility that expires February 1, 2013. We entered into this facility in September 2012 in order to repay the commercial paper borrowings that were used to fund the redemption of our 5.125% senior unsecured notes due 2013 in August 2012. The facility bears interest at a one-month LIBOR based rate plus a current margin of 0.875% which is based on the Company's credit rating. The excess net proceeds from this offering will be used for general corporate purposes, including the repayment of working capital borrowings pursuant to our commercial paper program.

CAPITALIZATION

The following table presents our cash and cash equivalents, short-term debt and capitalization as of September 30, 2012, on an actual basis and as adjusted to reflect the issuance of notes in this offering and the use of proceeds therefrom as described under "Use of Proceeds" and the settlement of certain Treasury lock agreements that we entered into in August 2011 in order to fix the Treasury yield component of the interest cost associated with a notional principal amount of $350 million in anticipated notes and for which we expect to pay approximately $67 million upon settlement. You should read this table in conjunction with the section entitled "Use of Proceeds" and our consolidated financial statements and related notes included in our Annual Report on Form 10-K for the fiscal year ended September 30, 2012, which is incorporated by reference in this prospectus supplement and the accompanying prospectus.

	As of September 30, 2012	
	Actual	As Adjusted
	(In thousands, except share data)	
Cash and cash equivalents	$ 64,239	$ 64,239
Short-term debt		
Current maturities of long-term debt	$ 131	$ 131
Other short-term debt	570,929	143,870
Total short-term debt	$ 571,060	$ 144,001
Long-term debt, less current portion	$1,956,305	$2,455,365
Shareholders' equity		
Common stock, no par value (stated at $.005 per share); 200,000,000 shares authorized; 90,239,900 shares issued and outstanding, actual and as adjusted	451	451
Additional paid-in capital	1,745,467	1,745,467
Retained earnings	660,932	660,932
Accumulated other comprehensive loss	(47,607)	(35,914)
Shareholders' equity	2,359,243	2,370,936
Total capitalization(1)	$4,315,548	$4,826,301

(1) Total capitalization excludes the current portion of long-term debt and other short-term debt.

BUSINESS

Overview

Atmos Energy, headquartered in Dallas, Texas, is engaged primarily in the regulated natural gas distribution and transmission and storage businesses, as well as other nonregulated natural gas businesses. We are one of the country's largest natural gas-only distributors based on number of customers and one of the largest intrastate pipeline operators in Texas based upon miles of pipe. For the fiscal year ended September 30, 2012, our regulated distribution and transmission and storage operations comprised 97.6% of our consolidated net income.

We currently distribute natural gas through regulated sales and transportation arrangements to over three million residential, commercial, public authority and industrial customers through our six regulated natural gas distribution divisions, which cover service areas in nine states. Our primary service areas are located in Colorado, Kansas, Kentucky, Louisiana, Mississippi, Tennessee and Texas. We have more limited service areas in Georgia and Virginia. In addition, we transport natural gas for others through our distribution system. In August 2012, we completed the sale of our natural gas distribution operations in Missouri, Illinois and Iowa, representing approximately 84,000 customers, and announced that we had entered into a definitive agreement to sell our natural gas distribution operations in Georgia, representing approximately 64,000 customers. After the closing of the Georgia transaction, we will operate in eight states.

Through our regulated transmission and storage business, we provide natural gas transportation and storage services to our Mid-Tex Division, our largest natural gas distribution division located in Texas, and to third parties. Additionally, we provide ancillary services customary to the pipeline industry, including parking arrangements, lending and sales of inventory on hand.

Through our nonregulated businesses, we primarily provide natural gas management and marketing services to municipalities, other local gas distribution companies and industrial customers primarily in the Midwest and Southeast. We also provide storage services to some of our natural gas distribution divisions and to third parties.

Operating Segments

We operate through the following three segments:

- the *natural gas distribution segment*, which includes our regulated natural gas distribution and related sales operations;
- the *regulated transmission and storage segment*, which includes the regulated pipeline and storage operations of our Atmos Pipeline — Texas Division; and
- the *nonregulated segment*, which includes our nonregulated natural gas management, nonregulated natural gas transmission, storage and other services.

Natural Gas Distribution Segment

Our natural gas distribution segment represents approximately 65 percent of our consolidated net income. This segment is comprised of the following six regulated divisions, presented in order of total rate base:

- Atmos Energy Mid-Tex Division;
- Atmos Energy Kentucky/Mid-States Division;
- Atmos Energy Louisiana Division;
- Atmos Energy West Texas Division;
- Atmos Energy Mississippi Division; and
- Atmos Energy Colorado-Kansas Division.

The following is a brief description of our natural gas distribution divisions. We operate in our service areas under terms of non-exclusive franchise agreements granted by the various cities and towns that we serve. At September 30, 2012, we held 1,006 franchises having terms generally ranging from five to 35 years. A significant number of our franchises expire each year, which require renewal prior to the end of their terms. We believe that we will be able to renew our franchises as they expire. For more information, see "Item 1. Business" in our Annual Report on Form 10-K for the fiscal year ended September 30, 2012.

Atmos Energy Mid-Tex Division. Our Mid-Tex Division 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.

Prior to fiscal 2008, this division operated under one system-wide rate structure. In fiscal 2008, we reached a settlement with cities representing approximately 80 percent of this division's customers that allowed us to update rates for customers in these cities using an annual rate review mechanism (RRM) from fiscal 2008 through fiscal 2011, when the RRM was active. We filed a formal rate case for the Mid-Tex Division in fiscal 2012, in which the RRC issued a final order on December 4, 2012. We currently expect to negotiate a new rate review mechanism process with these cities. In June 2011, we reached an agreement with the City of Dallas to enter into the Dallas Annual Rate Review (DARR). This rate review provides for an annual rate review without the necessity of filing a general rate case. The first rates were implemented under the DARR in June 2012.

Atmos Energy Kentucky/Mid-States Division. Our Kentucky/Mid-States Division currently operates in more than 230 communities across Georgia, 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. We update our rates in this division through periodic formal rate filings made with each state's public service commission.

On August 1, 2012, we completed the divestiture of our natural gas distribution operations in Missouri, Illinois and Iowa, representing approximately 84,000 customers in 189 communities, with some of the Missouri communities located in our Atmos Energy Colorado-Kansas Division. In addition, on August 8, 2012, we announced that we had entered into a definitive agreement to sell our natural gas distribution operations in Georgia, representing approximately 64,000 customers in 19 communities.

Atmos Energy Louisiana Division. In Louisiana, we serve nearly 300 communities, including the suburban areas of New Orleans, the metropolitan area of Monroe in northern Louisiana and parts of 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 nonregulated segment. Our rates in this division are updated annually through a rate stabilization clause filing without filing a formal rate case.

Atmos Energy West Texas Division. Our West Texas Division 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. Prior to fiscal 2008, rates were updated in this division through formal rate proceedings. In fiscal 2008 and 2009, we reached an agreement with the West Texas service areas and the Amarillo and Lubbock service areas that allowed us to update rates for customers in these cities using an annual rate review mechanism (RRM) through fiscal 2011, when the RRM was active. We filed a formal rate case for the West Texas Division in fiscal 2012, which was approved on October 2, 2012. We expect to negotiate a new rate review mechanism process in fiscal 2013.

Atmos Energy Mississippi Division. In Mississippi, we serve about 110 communities throughout the northern half of the state, including the Jackson metropolitan area. Our rates in the Mississippi Division are updated annually through a stable rate filing with no formal rate case being required.

Atmos Energy Colorado-Kansas Division. Our Colorado-Kansas Division 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. We update our rates in this division through periodic formal rate filings with each state's public service commission and, in Kansas, through periodic infrastructure replacement filings made with that state's public service commission.

Regulated Transmission and Storage Segment Overview

Our regulated transmission and storage segment represents approximately 30 percent of our consolidated net income and consists of the regulated pipeline and storage operations of our Atmos Pipeline–Texas Division. This division transports natural gas to our Mid-Tex Division, transports natural gas for third parties and manages five underground storage reservoirs in Texas. We also provide ancillary services customary in the pipeline industry including parking and lending arrangements and sales of inventory on hand. Parking arrangements provide short-term interruptible storage of gas on our pipeline. Lending services provide short-term interruptible loans of natural gas from our pipeline to meet market demands. Gross profit earned from our Mid-Tex Division and through certain other transportation and storage services is subject to traditional ratemaking governed by the RRC. Rates are updated through periodic formal rate proceedings and filings made under Texas' Gas Reliability Infrastructure Program (GRIP). GRIP allows us to include in our rate base annually approved capital costs incurred in the prior calendar year, provided that we file a complete rate case at least once every five years. Atmos Pipeline–Texas' existing regulatory mechanisms allow certain transportation and storage services to be provided under market-based rates with minimal regulation.

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 with our pipeline system providing access to all of these basins.

Nonregulated Segment Overview

Our nonregulated activities are conducted through Atmos Energy Holdings, Inc. (AEH), which is a wholly-owned subsidiary of Atmos Energy and operates primarily in the Midwest and Southeast areas of the United States. Currently, this segment's operations contribute less than five percent to our consolidated net income.

AEH's primary business is to deliver gas and provide related services by aggregating and purchasing gas supply, arranging transportation and storage logistics and ultimately delivering gas to customers at competitive prices. AEH also earns storage and transportation margins from (i) utilizing its proprietary 21-mile pipeline located in New Orleans, Louisiana to aggregate gas supply for our regulated natural gas distribution division in Louisiana, its gas delivery activities and, on a more limited basis, for third parties and (ii) managing proprietary storage in Kentucky and Louisiana to supplement the natural gas needs of our natural gas distribution divisions during peak periods. The majority of these margins are generated through demand fees established under contracts with certain of our natural gas distribution divisions that are renewed periodically and subject to regulatory oversight.

AEH utilizes customer-owned or contracted storage capacity to serve its customers. In an effort to offset the demand fees paid to contract for storage capacity and to maximize the value of this capacity, AEH sells financial instruments in an effort to earn a gross profit margin through the arbitrage of pricing differences in various locations and by recognizing pricing differences that occur over time. Certain of these arrangements are with regulated affiliates, which have been approved by applicable state regulatory commissions.

Other Regulation

Each of our natural gas distribution divisions, as well as our regulated transmission and storage division, is regulated by various state or local public utility authorities. We are also subject to regulation by the United States Department of Transportation with respect to safety requirements in the operation and maintenance of our gas distribution facilities. In addition, our distribution operations are also subject to various state and federal laws regulating environmental matters. From time to time we receive inquiries regarding various environmental matters. We believe that our properties and operations substantially comply with and are operated in substantial conformity with applicable safety and environmental statutes and regulations. There are no administrative or judicial proceedings arising under environmental quality statutes pending or known to be contemplated by governmental agencies that would have a material adverse effect on us or our operations. Our environmental claims have arisen primarily from former manufactured gas plant sites.

The Federal Energy Regulatory Commission ("FERC") allows, pursuant to Section 311 of the Natural Gas Policy Act, gas transportation services through our Atmos Pipeline — Texas assets "on behalf of" interstate pipelines or local distribution companies served by interstate pipelines, without subjecting these assets to the jurisdiction of the FERC. Additionally, the FERC has regulatory authority over the sale of natural gas in the wholesale gas market and the use and release of interstate pipeline and storage capacity, as well as authority to detect and prevent market manipulation and to enforce compliance with FERC's other rules, policies and orders by companies engaged in the sale, purchase, transportation or storage of natural gas in interstate commerce. We have taken what we believe are the necessary and appropriate steps to comply with these regulations.

Competition

Although our natural gas distribution operations are not currently in significant direct competition with any other distributors of natural gas to residential and commercial customers within our service areas, we do compete with other natural gas suppliers and suppliers of alternative fuels for sales to industrial customers. We compete in all aspects of our business with alternative energy sources, including, in particular, electricity. Electric utilities offer electricity as a rival energy source and compete for the space heating, water heating and cooking markets. Promotional incentives, improved equipment efficiencies and promotional rates all contribute to the acceptability of electrical equipment. The principal means to compete against alternative fuels is lower prices, and natural gas historically has maintained its price advantage in the residential, commercial and industrial markets.

Our regulated transmission and storage operations historically have faced limited competition from other existing intrastate pipelines and gas marketers seeking to provide or arrange transportation, storage and other services for customers. However, in the last few years, several new pipelines have been completed, which has increased the level of competition in this segment of our business.

Within our nonregulated operations, AEH competes with other natural gas marketers to provide natural gas management and other related services primarily to smaller customers requiring higher levels of balancing, scheduling and other related management services. AEH has experienced increased competition in recent years primarily from investment banks and major integrated oil and natural gas companies who offer lower cost, basic services. The increased competition has reduced margins most notably on its high-volume accounts.

Distribution, Transmission and Related Assets

At September 30, 2012, our natural gas distribution segment owned an aggregate of 68,072 miles of underground distribution and transmission mains throughout our gas distribution systems. These mains are located on easements or rights-of-way which generally provide for perpetual use. We maintain our mains through a program of continuous inspection and repair and believe that our system of mains is in good condition. Our regulated transmission and storage segment owned 5,698 miles of gas transmission and gathering lines, and our nonregulated segment owned 105 miles of gas transmission and gathering lines.

Storage Assets

At September 30, 2012, we owned underground gas storage facilities in several states to supplement the supply of natural gas in periods of peak demand. The underground gas storage facilities of our natural gas distribution segment had a total usable capacity of 10,383,590 Mcf, with a maximum daily delivery capacity of 228,100 Mcf. The underground gas storage facilities of our regulated transmission and storage segment had a total usable capacity of 46,143,226 Mcf, with a maximum daily delivery capacity of 1,235,000 Mcf. The underground gas storage facilities of our nonregulated segment had a total usable capacity of 3,931,483 Mcf, with a maximum daily delivery capacity of 127,000 Mcf.

Additionally, we contract for storage service in underground storage facilities on many of the interstate pipelines serving us to supplement our proprietary storage capacity. The amount of our contracted storage capacity can vary from time to time. At September 30, 2012, our contracted storage provided us with a maximum storage quantity of 31,059,527 MMBtu, with a maximum daily withdrawal quantity of 1,031,161 MMBtu, for our natural gas distribution segment, and a maximum storage quantity of 9,700,869 MMBtu, with a maximum daily withdrawal quantity of 318,444 MMBtu, for our nonregulated segment.

For more information on our storage assets see "Item 2. Properties" in our Annual Report on Form 10-K for the fiscal year ended September 30, 2012.

DESCRIPTION OF THE NOTES

We have summarized certain provisions of the notes below. The notes constitute a series of the debt securities described in the accompanying prospectus. The notes will be issued under an indenture dated March 26, 2009 (the "indenture") entered into with U.S. Bank National Association, as trustee. The trustee is an affiliate of U.S. Bancorp Investments, Inc., one of the underwriters.

The following description of certain terms of the notes and certain provisions of the indenture in this prospectus supplement supplements the description under "Description of Debt Securities" in the accompanying prospectus and, to the extent it is inconsistent with that description, replaces the description in the accompanying prospectus. This description is only a summary of the material terms and does not purport to be complete. We urge you to read the indenture, a form of which we have filed with the SEC, because it, and not the description below and in the accompanying prospectus, will define your rights as a holder of the notes. We have filed the indenture as an exhibit to our current report on Form 8-K that was filed with the SEC on March 26, 2009. You may obtain a copy of the indenture from us without charge. See "Where You Can Find More Information" in the accompanying prospectus.

General

The notes will be initially limited to $500,000,000 aggregate principal amount. We may, at any time, without the consent of the holders of these notes, issue additional notes having the same ranking, interest rate, maturity and other terms as the notes. Any such additional notes, together with the notes being offered by this prospectus supplement, will constitute the same series of notes under the indenture.

The notes will be unsecured and unsubordinated obligations of Atmos Energy. Any secured debt that we may have from time to time will have a prior claim with respect to the assets securing that debt. As of September 30, 2012, we had no secured debt outstanding. The notes will rank equally with all of our other existing and future unsubordinated debt but will be effectively subordinated to the indebtedness and liabilities of our subsidiaries. As of September 30, 2012, after giving effect to the net proceeds of this offering and the use of proceeds therefrom as described in "Use of Proceeds", we had approximately $2.5 billion of unsecured and unsubordinated debt. Of such $2.5 billion, less than $1 million represented debt of our subsidiaries. The notes are not guaranteed by, and are not the obligation of, any of our subsidiaries. The notes will not be listed on any securities exchange or included in any automated quotation system.

The notes will be issued in book-entry form as one or more global notes registered in the name of the nominee of The Depository Trust Company, or DTC, which will act as a depository, in minimum denominations of $2,000 and any integral multiple of $1,000 in excess thereof. Beneficial interests in book-entry notes will be shown on, and transfers of the notes will be made only through, records maintained by DTC and its participants.

Payment of Principal and Interest

The notes will mature on January 15, 2043 and bear interest at the rate of 4.15% per year.

We will pay interest on the notes semi-annually in arrears on January 15 and July 15 of each year they are outstanding, beginning July 15, 2013. Interest will accrue from January 15, 2013 or from the most recent interest payment date to which we have paid or provided for the payment of interest to the next interest payment date or the scheduled maturity date, as the case may be. We will pay interest computed on the basis of a 360-day year of twelve 30-day months.

We will pay interest on the notes in immediately available funds to the persons in whose names such notes are registered at the close of business on January 1 or July 1 preceding the respective interest payment date.

Optional Redemption

Each of the notes offered hereby will be redeemable prior to maturity at our option, at any time in whole or from time to time in part. Prior to July 15, 2042, the redemption price will be equal to the greater of:

- 100% of the principal amount of the notes to be redeemed; and
- as determined by the Quotation Agent (defined below), the sum of the present values of the Remaining Scheduled Payments (defined below) of principal and interest on the notes to be redeemed discounted to the redemption date on a semi-annual basis assuming a 360-day year consisting of twelve 30-day months at the Adjusted Treasury Rate (defined below) plus 20 basis points;

plus, in each case, accrued and unpaid interest on the principal amount of the notes to be redeemed to the redemption date.

At any time on or after July 15, 2042 (which is the date that is six months prior to the maturity date of the notes), the redemption price will be equal to 100% of the principal amount of the notes to be redeemed, plus accrued and unpaid interest thereon to the redemption date.

Definitions. Following are definitions of the terms used in the optional redemption provisions discussed above.

"Adjusted Treasury Rate" means, for any redemption date, the rate per annum equal to the semi-annual equivalent yield to maturity of the Comparable Treasury Issue, assuming a price of the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for that redemption date.

"Comparable Treasury Issue" means the United States Treasury security selected by the Quotation Agent as having a maturity comparable to the remaining term of the notes to be redeemed that would be used, at the time of a selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of the notes to be redeemed.

"Comparable Treasury Price" means, for any redemption date, the average of the Reference Treasury Dealer Quotations for that redemption date.

"Quotation Agent" means any Reference Treasury Dealer appointed by us to act as a quotation agent.

"Reference Treasury Dealer" means (i) J.P. Morgan Securities LLC and any Primary Treasury Dealer (as defined below) selected by each of Mitsubishi UFJ Securities (USA), Inc. and U.S. Bancorp Investments, Inc., and any of such parties' successors; provided, however, if any of the foregoing ceases to be a primary U.S. government securities dealer in New York City (a "Primary Treasury Dealer"), we will substitute therefor another Primary Treasury Dealer, and (ii) any other Primary Treasury Dealer selected by us.

"Reference Treasury Dealer Quotation" means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the trustee, of the bid and asked prices for the Comparable Treasury Issue (expressed, in each case, as a percentage of its principal amount) quoted in writing to the trustee at 5:00 p.m., Eastern time, by such Reference Treasury Dealer on the third business day preceding such redemption date.

"Remaining Scheduled Payments" means, with respect to each note to be redeemed, the remaining scheduled payments of the principal and interest on such note that would be due after the related redemption date but for such redemption; provided, however, that if such redemption date is not an interest payment date, the amount of the next succeeding scheduled interest payment on such note will be reduced by the amount of interest accrued on such note to such redemption date.

In the case of a partial redemption of the notes, the notes to be redeemed shall be selected by the trustee from the outstanding notes not previously called for redemption, by such method as the trustee shall deem fair and appropriate and which may provide for the selection for redemption of portions of the principal of the notes. Notice of any redemption will be mailed by first class mail at least 30 days but not more than 60 days before the redemption date to each holder of the notes to be redeemed at its registered address. If any notes are to be redeemed in part only, the notice of redemption will state the portion of the principal amount of notes to be redeemed. A partial redemption will not reduce the portion of any note not being redeemed to a principal amount of less than $2,000. Unless we default in payment of the redemption price, on and after the redemption date, interest will cease to accrue on the notes or the portions of the notes called for redemption.

No Mandatory Redemption

We will not be required to redeem the notes before maturity.

No Sinking Fund

We will not be required to make any sinking fund payments with regard to the notes.

Restricted Subsidiaries

As of the date of this prospectus supplement, none of our subsidiaries would be considered a Restricted Subsidiary under the terms of the indenture.

Reports

We will:

(1) file with the trustee, within 30 days after we have filed the same with the SEC, unless such reports are available on the SEC's EDGAR filing system (or any successor thereto), copies of the annual reports and of the information, documents and other reports (or copies of such portions of any of the foregoing as the SEC may from time to time by rules and regulations prescribe), which we may be required to file with the SEC pursuant to Section 13 or Section 15(d) of the Exchange Act; or, if we are not required to file information, documents or reports pursuant to either of such Sections, then we shall file with the trustee and the SEC, in accordance with rules and regulations prescribed from time to time by the SEC, such of the supplementary and periodic information, documents and reports which may be required pursuant to Section 13 of the Exchange Act in respect of a security listed and registered on a national securities exchange as may be prescribed from time to time in such rules and regulations;

(2) file with the trustee and the SEC, in accordance with rules and regulations prescribed from time to time by the SEC, such additional information, documents and reports with respect to compliance by us with the conditions and covenants of the indenture as may be required from time to time by such rules and regulations; and

(3) transmit to all holders, as their names and addresses appear in the security register, within 30 days after the filing thereof with the trustee, in the manner and to the extent provided in Section 313(c) of the Trust Indenture Act of 1939, as amended, such summaries of any information, documents and reports required to be filed by us pursuant to clauses (1) and (2) of this paragraph as may be required by rules and regulations prescribed from time to time by the SEC.

Governing Law

The notes will be governed by and construed in accordance with the laws of the State of New York.

Book-Entry Delivery and Settlement

Settlement for the notes will be made by the underwriters in immediately available funds. All payments of principal, premium, if any, and interest will be made by us in immediately available funds.

The Notes will trade in the Same-Day Funds Settlement System maintained by DTC until maturity or earlier redemption, and secondary market trading activity in the Notes will therefore be required by DTC to settle in immediately available funds. No assurance can be given as to the effect, if any, of settlement in immediately available funds on trading activity in the Notes.

Because of time-zone differences, credits of Notes received in Clearstream Banking, société anonyme ("Clearstream"), or Euroclear Bank, S.A./N.V. ("Euroclear"), as a result of a transaction with a DTC participant will be made during subsequent securities settlement processing and dated the business day following the DTC settlement date. Such credits or any transactions in such Notes settled during such processing will be reported to the relevant Clearstream or Euroclear participants on such business day. Cash received in Clearstream or Euroclear as a result of sales of Notes by or through a Clearstream participant or a Euroclear participant to a DTC participant will be received with value on the DTC settlement date but will be available in the relevant Clearstream or Euroclear cash account only as of the business day following settlement in DTC.

Although DTC, Clearstream and Euroclear have agreed to the foregoing procedures in order to facilitate transfers of Notes among participants of DTC, Clearstream and Euroclear, they are under no obligation to perform or continue to perform such procedures and such procedures may be discontinued at any time.

MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS

The following summary discusses certain material U.S. federal income tax consequences of the acquisition, ownership and disposition of the notes. This discussion is based upon the Code, the applicable proposed or promulgated Treasury regulations, and the applicable judicial and administrative interpretations, all as in effect as of the date hereof and all of which are subject to change, possibly with retroactive effect, and to differing interpretations. This discussion is applicable only to holders of notes who purchase the notes in the initial offering at their original issue price and deals only with the notes held as capital assets for U.S. federal income tax purposes (generally, property held for investment) and not held as part of a straddle, a hedge, a conversion transaction or other integrated investment. This discussion is a summary intended for general information only, and does not address all of the tax consequences that may be relevant to holders of notes in light of their particular circumstances, or to certain types of holders (such as banks and other financial institutions, insurance companies, tax-exempt entities, partnerships and other pass-through entities for U.S. federal income tax purposes or investors who hold the notes through such pass-through entities, certain former citizens or residents of the United States, "controlled foreign corporations," "passive foreign investment companies," "foreign personal holding companies," traders in securities that elect to use a mark-to-market method of accounting for their securities holdings, dealers in securities or currencies, regulated investment companies, real estate investment trusts, corporations that accumulate earnings to avoid U.S. federal income tax, persons subject to the alternative minimum tax, or U.S. Holders (as defined below) whose functional currency is not the U.S. dollar). Moreover, this discussion does not describe any state, local or non-U.S. tax implications, or any aspect of U.S. federal tax law other than income taxation. We have not and will not seek any rulings or opinions from the Internal Revenue Service ("IRS") or counsel regarding the matters discussed below. There can be no assurances that the IRS will not take positions concerning the tax consequences of the purchase, ownership or disposition of the notes that are different from those discussed below. **HOLDERS SHOULD CONSULT THEIR OWN TAX ADVISORS WITH RESPECT TO THE PARTICULAR U.S. FEDERAL INCOME TAX CONSEQUENCES TO THEM OF THE ACQUISITION, OWNERSHIP AND DISPOSITION OF THE NOTES AND THE TAX CONSEQUENCES UNDER STATE, LOCAL, NON-U.S. AND OTHER U.S. FEDERAL TAX LAWS (INCLUDING ESTATE TAX CONSEQUENCES) AND THE POSSIBLE EFFECTS OF CHANGES IN THE FEDERAL INCOME TAX LAWS.**

As used herein, a "U.S. Holder" means a beneficial owner of notes that is, for U.S. federal income tax purposes, (a) a citizen or individual resident of the United States, (b) a corporation (or other entity treated as a corporation for U.S. federal income tax purposes) created or organized in or under the laws of the United States, any State thereof or the District of Columbia, (c) an estate, the income of which is subject to U.S. federal income taxation regardless of its source, or (d) a trust, if (1) a court within the United States is able to exercise primary supervision over the trust's administration and one or more U.S. persons have the authority to control all of its substantial decisions or (2) a valid election to be treated as a U.S. person is in effect under the relevant Treasury regulations with respect to such trust. A Non-U.S. Holder is an individual, corporation, estate, or trust that is a beneficial owner of the notes and is not a U.S. Holder. A Non-U.S. Holder who is an individual present in the United States for 183 days or more in the taxable year of disposition of a note, and who is not otherwise a resident of the United States for U.S. federal income tax purposes, may be subject to special tax provisions and is urged to consult his or her own tax advisor regarding the U.S. federal income tax consequences of the ownership and disposition of a note.

The U.S. federal income tax treatment of partners in partnerships holding notes generally will depend on the activities of the partnership and the status of the partner. Prospective investors that are partnerships (or entities treated as partnerships for U.S. federal income tax purposes) should consult their own tax advisors regarding the U.S. federal income tax consequences to them and their partners of the acquisition, ownership and disposition of the notes.

U.S. Federal Income Taxation of U.S. Holders

Payments of Interest. It is expected, and the rest of this discussion assumes, that the notes will be issued without original issue discount for federal income tax purposes. Accordingly, a U.S. Holder must include in gross income, as ordinary interest income, the stated interest on the notes at the time such interest accrues or is received in accordance with the U.S. Holder's regular method of accounting for U.S. federal income tax purposes. If, however, the notes' "stated redemption price at maturity" (generally, the sum of all payments required under the note other than payments of stated interest) exceeds the issue price by more than a de minimis amount, a U.S. Holder will be required to include such excess in income as original issue discount, as it accrues, in accordance with a constant yield method based on a compounding of interest before the receipt of cash payments attributable to this income.

Sale, Retirement or Other Taxable Disposition. Upon the sale, retirement or other taxable disposition of a note, a U.S. Holder generally will recognize taxable gain or loss equal to the difference between (a) the sum of cash plus the fair market value of other property received on the sale, retirement or other taxable disposition (except to the extent such cash or property is attributable to accrued but unpaid interest, which will be treated in the manner described above under "Payments of Interest") and (b) the U.S. Holder's adjusted tax basis in the note. A U.S. Holder's adjusted tax basis in a note generally will equal the amount paid for the note, reduced by any principal payments with respect to the note received by the U.S. Holder. Gain or loss recognized on the sale, retirement or other taxable disposition of a note generally will be capital gain or loss and will be long-term capital gain or loss if, at the time of sale, retirement or other taxable disposition, the note has been held for more than one year. Certain U.S. Holders (including individuals) are currently eligible for preferential rates of U.S. federal income tax in respect of long-term capital gain. The deductibility of capital losses by U.S. Holders is subject to limitations under the Code.

Medicare Tax and Reporting Obligations. For taxable years beginning after December 31, 2012, a U.S. person that is an individual or estate, or a trust that does not fall into a special class of trusts that is exempt from such tax, will be subject to a 3.8% tax on the lesser of (1) the U.S. person's "net investment income" for the relevant taxable year and (2) the excess of the U.S. person's modified gross income for the taxable year over a certain threshold (which in the case of individuals will be between $125,000 and $250,000 depending on the individual's circumstances). Net investment income generally includes interest income and net gains from the disposition of the notes, unless such interest income or net gains are derived in the ordinary course of the conduct of a trade or business (other than a trade or business that consists of certain passive or trading activities). A U.S. Holder that is an individual, estate or trust should consult its tax advisor regarding the applicability of the Medicare tax to its income and gains in respect of its investment in the notes.

U.S. Federal Income Taxation of Non-U.S. Holders

Payments of Interest. Subject to the discussion of backup withholding below and legislation involving payments to certain foreign entities below and provided that a Non-U.S. Holder's income and gains in respect of a note are not effectively connected with the conduct by the Non-U.S. Holder of a U.S. trade or business (or, in the case of an applicable tax treaty, attributable to the Non-U.S. Holder's permanent establishment in the United States), payments of interest on a note to the Non-U.S. Holder generally will not be subject to U.S. federal income or withholding tax, provided that (a) the Non-U.S. Holder does not own, directly or constructively, 10% or more of the total combined voting power of all classes of our stock entitled to vote within the meaning of section 871(h)(3) of the Code and the Treasury regulations thereunder, (b) the Non-U.S. Holder is not, for U.S. federal income tax purposes, a "controlled foreign corporation" related, directly or constructively, to us through stock ownership, (c) the Non-U.S. Holder is not a bank receiving interest described in section 881(c)(3)(A) of the Code and (d) certain certification requirements (as described below) are met.

Under the Code and the applicable Treasury regulations, in order to satisfy the certification requirements and obtain an exemption from U.S. federal withholding tax, either (a) a Non-U.S. Holder must provide its name and address and certify, under penalties of perjury, that such Non-U.S. Holder is not a U.S. person or (b) a securities clearing organization, bank or other financial institution that holds customers' securities in the ordinary course of its trade or business (a "Financial Institution"), and that holds the notes on behalf of the Non-U.S. Holder, must certify, under penalties of perjury, that such certificate has been received from such Non-U.S. Holder by such Financial Institution or by another Financial Institution between such Financial Institution and such Non-U.S. Holder and, if required, must furnish the payor with a copy thereof. Generally, the foregoing certification requirement may be met if a Non-U.S. Holder delivers a properly executed IRS Form W-8BEN or substitute Form W-8BEN or the appropriate successor form to the payor. Special rules apply to foreign partnerships, estates and trusts and other intermediaries, and in certain circumstances certifications as to foreign status of partners, trust owners or beneficiaries may have to be provided. In addition, special rules apply to qualified intermediaries that enter into withholding agreements with the IRS.

Payments of interest on a note that do not satisfy all of the foregoing requirements generally will be subject to U.S. federal withholding tax at a rate of 30%, unless either: (a) an applicable income tax treaty reduces or eliminates such tax, and the Non-U.S. Holder claims the benefit of that treaty by providing a properly completed and duly executed IRS Form W-8BEN (or suitable successor or substitute form) establishing qualification for benefits under the treaty, or (b) the interest is effectively connected with the Non-U.S. Holder's conduct of a trade or business in the United States and the Non-U.S. Holder provides an appropriate statement to that effect on a properly completed and duly executed IRS Form W-8ECI (or suitable successor form).

A Non-U.S. Holder generally will be subject to U.S. federal income tax in the same manner as a U.S. Holder with respect to interest on a note (and the 30% withholding tax described above will not apply provided the duly executed IRS Form W-8ECI is provided to us or our paying agent) if such interest is effectively connected with a U.S. trade or business conducted by the Non-U.S. Holder . If a Non-U.S. Holder is eligible for the benefits of an income tax treaty between the United States and its country of residence, and the Non-U.S. Holder satisfies certain certification requirements, any interest income that is effectively connected with a U.S. trade or business will be subject to federal income tax in the manner specified by the treaty and generally will only be subject to tax on a net basis if such income is attributable to a permanent establishment (or a fixed base in the case of an individual) maintained by the Non-U.S. Holder in the United States. Under certain circumstances, effectively connected interest income received by a corporate Non-U.S. Holder may be subject to an additional "branch profits tax" at a 30% rate (or a lower applicable treaty rate, provided certain certification requirements are met). Non-U.S. Holders should consult their tax advisors about any applicable income tax treaties, which may provide for an exemption from or a lower rate of withholding tax, exemption from or reduction of branch profits tax, or other rules different from those described above.

Sale, Retirement or Other Disposition. Subject to the discussion of backup withholding below, a Non-U.S. Holder generally will not be subject to U.S. federal income or withholding tax on any gain recognized on the sale, retirement or other disposition of the notes so long as the holder provides us or the paying agent with the appropriate certification, unless (a) the Non-U.S. Holder is an individual who is present in the United States for 183 or more days in the taxable year of disposition (even though such holder is not considered a resident of the United States) and certain other conditions are met, or (b) the gain is effectively connected with the conduct of a U.S. trade or business by the Non-U.S. Holder (and, if an income tax treaty applies, is attributable to a permanent establishment or fixed base maintained by the Non-U.S. Holder in the United States). If the first exception applies, the Non-U.S. Holder generally will be subject to U.S. federal income tax at a rate of 30% on the amount by which its U.S.-source capital gains exceed its U.S.-source capital losses. If the second exception applies, the Non-U.S. Holder will generally be subject to U.S. federal income tax on the net gain derived from the sale or other disposition of the notes in the same manner as a U.S. Holder. In addition, corporate Non-U.S. Holders may be subject to a 30% branch profits tax on any effectively connected earnings and profits. If a Non-U.S. Holder is eligible for the benefits of an income tax treaty between the United States and its country of residence, the U.S. federal income tax treatment of any such gain may be modified in the manner specified by the treaty.

Information Reporting and Backup Withholding

U.S. Holders. Generally, information reporting will apply to payments of principal and interest on the notes to a U.S. Holder and to the proceeds of sale or other disposition of the notes, unless the U.S. Holder is an exempt recipient (such as a corporation). Backup withholding generally will apply to such payments unless a U.S. Holder (a) is an exempt recipient and, when required, demonstrates this fact, or (b) provides the payor with its taxpayer identification number ("TIN"), certifies that the TIN provided to the payor is correct and that the U.S. Holder has not been notified by the IRS that such U.S. Holder is subject to backup withholding due to underreporting of interest or dividends, and otherwise complies with applicable requirements of the backup withholding rules. Any amount withheld under the backup withholding rules generally will be allowed as a refund or credit against a U.S. Holder's U.S. federal income tax liability, provided that the required information is timely furnished to the IRS.

Non-U.S. Holders. When required, we or our paying agent will report payments of interest on the notes to a Non-U.S. Holder and the amount of any tax withheld from such payments annually to the IRS and to the Non-U.S. Holder. Copies of these information returns may be made available by the IRS to the tax authorities of the country in which the Non-U.S. Holder is a resident under the provisions of an applicable tax treaty. Backup withholding of U.S. federal income tax will generally not apply to payments of interest on the notes to a Non-U.S. Holder if the Non-U.S. Holder certifies under penalties of perjury that it is not a U.S. person or otherwise establishes an exemption, provided that the payor does not have actual knowledge or reason to know that such certification is unreliable or that the conditions of the exemption are in fact not satisfied.

Payments of the proceeds of the sale or other disposition of the notes by or through a foreign office of a U.S. broker or of a foreign broker with certain specified U.S. connections will be subject to information reporting requirements, but generally not backup withholding, unless the broker has evidence in its records that the payee is not a U.S. person and the broker has no actual knowledge or reason to know to the contrary. Payments of the proceeds of a sale or other disposition of the notes by or through the U.S. office of a broker will be subject to information reporting and backup withholding unless the payee certifies under penalties of perjury that it is not a U.S. person or otherwise establishes an exemption, provided that the payor does not have actual knowledge or reason to know that such certification is unreliable or that the conditions of the exemption are in fact not satisfied.

Any amount withheld under the backup withholding rules generally will be allowed as a refund or credit against a Non-U.S. Holder's U.S. federal income tax liability, provided that the required information is timely furnished to the IRS.

Legislation Involving Payments to Certain Foreign Entities

Withholding taxes may apply to certain types of payments made to "foreign financial institutions" (as specially defined in the Code) and certain other non-United States entities. Specifically, a 30% withholding tax may be imposed on interest on, and gross proceeds from the sale or other disposition of, notes paid to a foreign financial institution or to a non-financial foreign entity, unless (1) the foreign financial institution undertakes certain diligence and reporting, (2) the non-financial foreign entity either certifies it does not have any substantial United States owners or furnishes identifying information regarding each substantial United States owner, or (3) the foreign financial institution or non-financial foreign entity otherwise qualifies for an exemption from these rules. If the payee is a foreign financial institution and is subject to the diligence and reporting requirements in clause (1) above, it must enter into an agreement with the United States Treasury requiring, among other things, that it undertake to identify accounts held by certain United States persons or United States-owned foreign entities, annually report certain information about such accounts, and withhold 30% on payments to non-compliant foreign financial institutions and certain other account holders.

The IRS has issued administrative guidance providing that the withholding provisions described above will generally apply to payments of interest made on or after January 1, 2014 and to payments of gross proceeds from a sale or other disposition of notes on or after January 1, 2017. Investors should consult their tax advisors regarding this legislation and administrative guidance issued thereunder.

UNDERWRITING (CONFLICTS OF INTEREST)

We are offering the notes described in this prospectus supplement through a number of underwriters. J.P. Morgan Securities LLC, Mitsubishi UFJ Securities (USA), Inc. and U.S. Bancorp Investments, Inc. are the representatives of the underwriters. We have entered into a firm commitment underwriting agreement with the representatives. Subject to the terms and conditions of the underwriting agreement, we have agreed to sell to the underwriters, and each underwriter has severally agreed to purchase, the aggregate principal amount of notes listed next to its name in the following table:

Underwriter	Principal Amount of Notes
J.P. Morgan Securities LLC	$ 80,000,000
Mitsubishi UFJ Securities (USA), Inc.	80,000,000
U.S. Bancorp Investments, Inc.	80,000,000
Credit Agricole Securities (USA) Inc.	50,000,000
RBS Securities Inc.	50,000,000
BNP Paribas Securities Corp.	25,000,000
Merrill Lynch, Pierce, Fenner & Smith Incorporated	25,000,000
UBS Securities LLC	25,000,000
Wells Fargo Securities, LLC	25,000,000
BB&T Capital Markets, a division of BBT&T Securities, LLC	15,000,000
BOSC, Inc.	15,000,000
Goldman, Sachs & Co.	15,000,000
Morgan Stanley & Co. LLC	15,000,000
Total	$500,000,000

The underwriting agreement is subject to a number of terms and conditions and provides that the underwriters must buy all of the notes if they buy any of them. The underwriters will sell the notes to the public when and if the underwriters buy the notes from us.

The underwriters reserve the right to withdraw, cancel or modify offers to the public and to reject orders in whole or in part.

The underwriters have advised us that they propose initially to offer the notes to the public at the public offering prices set forth on the cover of this prospectus supplement, and to certain dealers at such price less a concession not in excess of 0.50% of the principal amount of the notes. The underwriters may allow, and such dealers may reallow, a concession not in excess of 0.25% of the principal amount of the notes to certain other dealers. After the public offering of the notes, the public offering price and other selling terms may be changed.

We estimate that our share of the total expenses of the offering, excluding the underwriting discount, will be approximately $1,000,000.

We have agreed to indemnify the several underwriters against, or contribute to payments that the underwriters may be required to make in respect of, certain liabilities, including liabilities under the Securities Act of 1933.

The notes are a new issue of securities with no established trading market. The notes will not be listed on any securities exchange or on any automated dealer quotation system. The underwriters may make a market in the notes after completion of the offering, but will not be obligated to do so and may discontinue any market-making activities at any time without notice. No assurance can be given as to the liquidity of the trading market for the notes or that an active public market for the notes will develop. If an active public market for the notes does not develop, the market price and liquidity of the notes may be adversely affected.

In connection with the offering of the notes, certain of the underwriters may engage in transactions that stabilize, maintain or otherwise affect the price of the notes. Specifically, the underwriters may overallot in connection with the offering, creating a short position. In addition, the underwriters may bid for, and purchase, the notes in the open market to cover short positions or to stabilize the price of the notes. Any of these activities may stabilize or maintain the market price of the notes above independent market levels, but no representation is made hereby of the magnitude of any effect that the transactions described above may have on the market price of the notes. The underwriters will not be required to engage in these activities, but may engage in these activities, or may end any of these activities, at any time without notice.

The underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, investment research, principal investment, hedging, financing and brokerage activities. In the ordinary course of business, certain of the underwriters or their affiliates have provided and may in the future provide commercial, financial advisory or investment banking services for us and our subsidiaries for which they have received or will receive customary compensation. Certain of the underwriters are lenders under our revolving credit facilities. In the ordinary course of their various business activities, the underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers, and such investment and securities activities may involve securities and/or instruments of the issuer. The underwriters and their respective affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or instruments and may at any time hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments. In addition, U.S. Bancorp Investments, Inc., one of the underwriters, is an affiliate of the trustee under the indenture governing the notes.

Conflicts of Interest

As described in "Use of Proceeds," the net proceeds from this offering will primarily be used to repay our short-term financing facility that expires February 1, 2013. Because certain affiliates of the underwriters are lenders under our short-term financing facility and because more than 5% of the proceeds from this offering, not including underwriting compensation, may be received by such parties in connection with the repayment of such facility, this offering is being conducted in compliance with FINRA Rule 5121. Pursuant to that rule, the appointment of a qualified independent underwriter is not necessary in connection with this offering.

Selling Restrictions

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive, as defined below (each, a "Relevant Member State"), each underwriter has represented and agreed that, with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "Relevant Implementation Date") it has not made and will not make an offer of notes which are the subject of the offering contemplated by this prospectus supplement to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such notes to the public in that Relevant Member State:

(a) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(b) at any time to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, as defined below, 150 legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the representatives of the underwriters; or

(c) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of notes referred to in (a) to (c) above shall require the publication by the Company or any underwriter of a prospectus pursuant to Article 3 of the Prospectus Directive, or supplement to a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer to the public" in relation to any notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the notes to be offered so as to enable an investor to decide to purchase or subscribe to the notes, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State, the expression "Prospectus Directive" means Directive 2003/71/EC (and the amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression "2010 PD Amending Directive" means Directive 2010/73/EU.

Notice to Prospective Investors in the United Kingdom

This document is for distribution only to persons who (i) have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended, the "Financial Promotion Order"), (ii) are persons falling within Article 49(2)(a) to (d) ("high net worth companies, unincorporated associations etc") of the Financial Promotion Order, (iii) are outside the United Kingdom, or (iv) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (the "FSMA")) in connection with the issue or sale of any securities may otherwise lawfully be communicated or caused to be communicated (all such persons together being referred to as "relevant persons"). This document is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this document relates is available only to relevant persons and will be engaged in only with relevant persons.

Each underwriter has warranted and agreed that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

LEGAL MATTERS

Gibson, Dunn & Crutcher LLP and Hunton & Williams LLP will opine for us as to the validity of the offered notes. The Underwriters are represented by Shearman & Sterling LLP, New York, New York.

EXPERTS

The consolidated financial statements of Atmos Energy appearing in Atmos Energy's Annual Report (Form 10-K) for the year ended September 30, 2012 (including the schedule appearing therein) and the effectiveness of Atmos Energy Corporation's internal control over financial reporting as of September 30, 2012 have been audited by Ernst & Young LLP, independent registered public accounting firm, as set forth in their report thereon, included therein, and incorporated herein by reference. Such consolidated financial statements are incorporated herein by reference in reliance upon such reports given on the authority of such firm as experts in accounting and auditing.

PROSPECTUS

Atmos Energy Corporation

By this prospectus, we offer up to $1,300,000,000 of debt securities and common stock.

We will provide specific terms of these securities in supplements to this prospectus. This prospectus may not be used to sell securities unless accompanied by a prospectus supplement. You should read this prospectus and the applicable prospectus supplement carefully before you invest.

Investing in these securities involves risks. See "Risk Factors" on page 1 of this prospectus, in the applicable prospectus supplement and in the documents incorporated by reference.

Our common stock is listed on the New York Stock Exchange under the symbol "ATO."

Our address is 1800 Three Lincoln Centre, 5430 LBJ Freeway, Dallas, Texas 75240, and our telephone number is (972) 934-9227.

The Securities and Exchange Commission and state securities regulators have not approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

This prospectus is dated March 31, 2010.

We have not authorized any other person to provide you with any information or to make any representation that is different from, or in addition to, the information and representations contained in this prospectus or in any of the documents that are incorporated by reference in this prospectus. If anyone provides you with different or inconsistent information, you should not rely on it. You should assume that the information appearing in this prospectus, as well as the information contained in any document incorporated by reference, is accurate as of the date of each such document only, unless the information specifically indicates that another date applies.

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The distribution of this prospectus may be restricted by law in certain jurisdictions. You should inform yourself about and observe any of these restrictions. This prospectus does not constitute, and may not be used in connection with, an offer or solicitation by anyone in any jurisdiction in which the offer or solicitation is not authorized, or in which the person making the offer or solicitation is not qualified to do so, or to any person to whom it is unlawful to make the offer or solicitation.

The terms "we," "our," "us" and "Atmos Energy" refer to Atmos Energy Corporation and its subsidiaries unless the context suggests otherwise. The term "you" refers to a prospective investor.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Statements contained or incorporated by reference in this prospectus that are not statements of historical fact are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended. Forward-looking statements are based on management's beliefs as well as assumptions made by, and information currently available to, management. Because such statements are based on expectations as to future results and are not statements of fact, actual results may differ materially from those stated. Important factors that could cause future results to differ include, but are not limited to:

- our ability to continue to access the credit markets to satisfy our liquidity requirements;
- the impact of adverse economic conditions on our customers;
- increased costs of providing pension and postretirement health care benefits and increased funding requirements;
- market risks beyond our control affecting our risk management activities, including market liquidity, commodity price volatility, increasing interest rates and counterparty creditworthiness;
- regulatory trends and decisions, including the impact of rate proceedings before various state regulatory commissions;
- increased federal regulatory oversight and potential penalties;
- the impact of environmental regulations on our business;
- the possible impact of future additional regulatory and financial risks associated with global warming and climate change on our business;
- the concentration of our distribution, pipeline and storage operations in Texas;
- adverse weather conditions;
- the effects of inflation and changes in the availability and prices of natural gas;
- the capital-intensive nature of our natural gas distribution business;
- increased competition from energy suppliers and alternative forms of energy;
- the inherent hazards and risks involved in operating our natural gas distribution business;
- natural disasters, terrorist activities or other events; and
- other risks and uncertainties discussed in this prospectus, any accompanying prospectus supplement and our other filings with the SEC.

All of these factors are difficult to predict and many are beyond our control. Accordingly, while we believe our forward-looking statements to be reasonable, there can be no assurance that they will approximate actual experience or that the expectations derived from them will be realized. When used in our documents or oral presentations, the words "anticipate," "believe," "estimate," "expect," "forecast," "goal," "intend," "objective," "plan," "projection," "seek," "strategy" or similar words are intended to identify forward-looking statements. We undertake no obligation to update or revise our forward-looking statements, whether as a result of new information, future events or otherwise.

For additional factors you should consider generally and when evaluating these forward-looking statements, please see "Risk Factors" on page 1 of this prospectus and "Item 1A. Risk Factors" and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in our annual report on Form 10-K for the fiscal year ended September 30, 2009 and "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations" in our quarterly report on Form 10-Q for the three-month period ended December 31, 2009. See "Incorporation of Certain Documents by Reference," as well as the applicable prospectus supplement.

RISK FACTORS

Investing in our debt securities or our common stock involves risks. Our business is influenced by many factors that are difficult to predict and beyond our control and that involve uncertainties that may materially affect our results of operations, financial condition or cash flows, or the value of these securities. These risks and uncertainties include those described in the risk factors and other sections of the documents that are incorporated by reference in this prospectus. Moreover, risks and uncertainties not presently known to us or currently deemed immaterial by us may also adversely affect our business, results of operations, financial condition or cash flows, or the value of our securities. Subsequent prospectus supplements may contain a discussion of additional risks applicable to an investment in us and the particular type of securities we are offering under the prospectus supplements. You should carefully consider all of the information contained in or incorporated by reference in this prospectus or in the applicable prospectus supplement before you invest in our debt securities or common stock.

ATMOS ENERGY CORPORATION

Atmos Energy Corporation, headquartered in Dallas, Texas, is engaged primarily in the regulated natural gas distribution and transmission and storage businesses, as well as other nonregulated natural gas businesses. We are one of the country's largest natural gas-only distributors based on number of customers and one of the largest intrastate pipeline operators in Texas based on miles of pipe.

We distribute natural gas through regulated sales and transportation arrangements to over three million residential, commercial, public authority and industrial customers in 12 states through our six regulated natural gas distribution divisions. Our primary service areas are located in Colorado, Kansas, Kentucky, Louisiana, Mississippi, Tennessee and Texas. We have more limited service areas in Georgia, Illinois, Iowa, Missouri and Virginia.

Through our regulated transmission and storage business, we provide natural gas transportation and storage services to our Mid-Tex Division, our largest natural gas distribution division located in Texas, and for third parties. Additionally, we provide ancillary services customary to the pipeline industry, including parking arrangements, lending and sales of inventory on hand.

Through our nonregulated businesses, we primarily provide natural gas management and marketing services to municipalities, other local gas distribution companies and industrial customers primarily in the Midwest and Southeast. We also provide natural gas transportation and storage services to certain of our natural gas distribution divisions and third parties.

SECURITIES WE MAY OFFER

Types of Securities

The types of securities that we may offer and sell from time to time by this prospectus are:

- debt securities, which we may issue in one or more series; and
- common stock.

The aggregate initial offering price of all securities sold will not exceed $1,300,000,000. We will determine when we sell securities, the amounts of securities we will sell and the prices and other terms on which we will sell them. We may sell securities to or through underwriters, through agents or dealers or directly to purchasers. The offer and sale of securities by this prospectus is subject to receipt of satisfactory regulatory approvals in five states, all of which have been received and are currently in effect. Under the most restrictive of these approvals, we are limited to issuing no more than $950,000,000 of senior debt securities and $350,000,000 of equity securities.

Prospectus Supplements

This prospectus provides you with a general description of the debt securities and common stock we may offer. Each time we offer securities, we will provide a prospectus supplement that will contain specific information about the terms of the offering. The prospectus supplement may also add to or change information contained in this prospectus. In that case, the prospectus supplement should be read as superseding this prospectus.

In each prospectus supplement, which will be attached to the front of this prospectus, we will include, among other things, the following information:

- the type and amount of securities which we propose to sell;
- the initial public offering price of the securities;
- the names of the underwriters, agents or dealers, if any, through or to which we will sell the securities;
- the compensation, if any, of those underwriters, agents or dealers;
- if applicable, information about the securities exchanges or automated quotation systems on which the securities will be listed or traded;
- material United States federal income tax considerations applicable to the securities, where necessary; and
- any other material information about the offering and sale of the securities.

For more details on the terms of the securities, you should read the exhibits filed with our registration statement, of which this prospectus is a part. You should also read both this prospectus and the applicable prospectus supplement, together with additional information described under the heading "Where You Can Find More Information."

USE OF PROCEEDS

Except as may otherwise be stated in the applicable prospectus supplement, we intend to use the net proceeds from the sale of the securities that we may offer and sell from time to time by this prospectus for general corporate purposes, including for working capital, repaying indebtedness and funding capital projects, acquisitions and other growth.

RATIO OF EARNINGS TO FIXED CHARGES

The following table sets forth our ratio of earnings to fixed charges for the periods indicated:

	Three Months Ended December 31,		Year Ended September 30,				
	2009	**2008**	**2009**	**2008**	**2007**	**2006**	**2005**
Ratio of earnings to fixed charges	4.56	3.97	2.74	2.96	2.69	2.50	2.54

For purposes of computing the ratio of earnings to fixed charges, earnings consists of the sum of our pretax income from continuing operations and fixed charges. Fixed charges consist of interest expense, amortization of debt discount, premium and expense, capitalized interest and a portion of lease payments considered to represent an interest factor.

DESCRIPTION OF DEBT SECURITIES

We may issue debt securities from time to time in one or more distinct series. This section summarizes the material terms that we anticipate will be common to all series of debt securities. Please note that the terms of any series of debt securities that we may offer may differ significantly from the common terms described in this prospectus. Many of the other terms of any series of debt securities that we offer, and any differences from the common terms described in this prospectus, will be described in the prospectus supplement for such securities to be attached to the front of this prospectus.

As required by U.S. federal law for all bonds and notes of companies that are publicly offered, a document called an indenture will govern any debt securities that we issue. An indenture is a contract between us and a financial institution acting as trustee on behalf of the purchasers of the debt securities. We have entered into an indenture with U.S. Bank National Association, as trustee (the "indenture"), which is subject to the Trust Indenture Act of 1939. The trustee under the indenture has the following two main roles:

- the trustee can enforce your rights against us if we default; there are some limitations on the extent to which the trustee acts on your behalf, which are described later in this prospectus; and
- the trustee will perform certain administrative duties for us, which include sending you interest payments and notices.

As this section is a summary of some of the terms of the debt securities we may offer under this prospectus, it does not describe every aspect of the debt securities. We urge you to read the indenture and the other documents we file with the SEC relating to the debt securities because the indenture for those securities and those other documents, and not this description, will define your rights as a holder of our debt securities. We filed a copy of the indenture with the SEC as an exhibit to our Current Report on Form 8-K filed March 26, 2009, and it is incorporated in this prospectus by reference. We may file any such other documents as exhibits to an annual, quarterly or current report that we file with the SEC following their execution. See "Where You Can Find More Information" for information on how to obtain copies of the indenture and any such other documents. References to the "indenture" mean the indenture that will define your rights as a holder of debt securities. Capitalized terms used in this section and not otherwise defined have the meanings set forth in the indenture.

General

The debt securities will be our unsecured obligations. Senior debt securities will rank equally with all of our other unsecured and unsubordinated indebtedness. Subordinated debt securities will rank junior to our senior indebtedness, including our credit facilities.

You should read the prospectus supplement for the following terms of the series of debt securities offered by the prospectus supplement. Our board of directors will establish the following terms before issuance of the series:

- the title of the debt securities and whether the debt securities will be senior debt securities or subordinated debt securities;
- the ranking of the debt securities;
- if the debt securities are subordinated, the terms of subordination;
- the aggregate principal amount of the debt securities, the percentage of their principal amount at which the debt securities will be issued, and the date or dates when the principal of the debt securities will be payable or how those dates will be determined or extended;
- the interest rate or rates, which may be fixed or variable, that the debt securities will bear, if any, how the rate or rates will be determined, and the periods when the rate or rates will be in effect;

- the date or dates from which any interest will accrue or how the date or dates will be determined, the date or dates on which any interest will be payable, whether and the terms under which payment of interest may be deferred, any regular record dates for these payments or how these dates will be determined and the basis on which any interest will be calculated, if other than on the basis of a 360-day year of twelve 30-day months;
- the place or places, if any, other than or in addition to New York City, of payment, transfer or exchange of the debt securities, and where notices or demands to or upon us in respect of the debt securities may be served;
- any optional redemption provisions and any restrictions on the sources of funds for redemption payments, which may benefit the holders of other securities;
- any sinking fund or other provisions that would obligate us to repurchase or redeem the debt securities;
- whether the amount of payments of principal of, any premium on, or interest on the debt securities will be determined with reference to an index, formula or other method, which could be based on one or more commodities, equity indices or other indices, and how these amounts will be determined;
- any modifications, deletions or additions to the events of default or covenants with respect to the debt securities described in this prospectus;
- if not the principal amount of the debt securities, the portion of the principal amount that will be payable upon acceleration of the maturity of the debt securities or how that portion will be determined;
- any modifications, deletions or additions to the provisions concerning defeasance and covenant defeasance contained in the indenture that will be applicable to the debt securities;
- any provisions granting special rights to the holders of the debt securities upon the occurrence of specified events;
- if other than the trustee, the name of the paying agent, security registrar or transfer agent for the debt securities;
- if we do not issue the debt securities in book-entry form only to be held by The Depository Trust Company, as depository, whether we will issue the debt securities in certificated form or the identity of any alternative depository;
- the person to whom any interest in a debt security will be payable, if other than the registered holder at the close of business on the regular record date;
- the denomination or denominations in which the debt securities will be issued, if other than denominations of $2,000 or any integral multiple of $1,000 in excess thereof;
- any provisions requiring us to pay Additional Amounts on the debt securities to any holder who is not a United States person in respect of any tax, assessment or governmental charge and, if so, whether we will have the option to redeem the debt securities rather than pay the Additional Amounts;
- whether the debt securities will be convertible into or exchangeable for other debt securities, common shares or other securities of any kind of ours or another obligor, and, if so, the terms and conditions upon which the debt securities will be so convertible or exchangeable, including the initial conversion or exchange price or rate or the method of calculation, how and when the conversion price or exchange ratio may be adjusted, whether conversion or exchange is mandatory, at the option of the holder or at our option, the conversion or exchange period and any other provision related to the debt securities; and
- any other material terms of the debt securities or the indenture, which may not be consistent with the terms set forth in this prospectus.

For purposes of this prospectus, any reference to the payment of principal of, any premium on, or interest on the debt securities will include Additional Amounts if required by the terms of the debt securities.

The indenture does not limit the amount of debt securities that we are authorized to issue from time to time. The indenture also provides that there may be multiple series of debt securities issued thereunder and more than one trustee thereunder, each for one or more series of debt securities. If a trustee is acting under the indenture with respect to more than one series of debt securities, the debt securities for which it is acting would be treated as if issued under separate indentures. If there is more than one trustee under the indenture, the powers and trust obligations of each trustee will apply only to the debt securities of the separate series for which it is trustee.

We may issue debt securities with terms different from those of debt securities already issued. Without the consent of the holders of the outstanding debt securities, we may reopen a previous issue of a series of debt securities and issue additional debt securities of that series unless the reopening was restricted when we created that series.

There is no requirement that we issue debt securities in the future under the indenture, and we may use other indentures or documentation, containing different provisions in connection with future issues of other debt securities.

We may issue the debt securities as "original issue discount securities," which are debt securities, including any zero-coupon debt securities, that are issued and sold at a discount from their stated principal amount. Original issue discount securities provide that, upon acceleration of their maturity, an amount less than their principal amount will become due and payable. We will describe the U.S. federal income tax consequences and other considerations applicable to original issue discount securities in any prospectus supplement relating to them.

Holders of Debt Securities

Book-Entry Holders. We will issue debt securities in book-entry form only, unless we specify otherwise in the applicable prospectus supplement. This means the debt securities will be represented by one or more global securities registered in the name of a financial institution that holds them as depository on behalf of other financial institutions that participate in the depository's book-entry system. These participating institutions, in turn, hold beneficial interests in the debt securities on behalf of themselves or their customers.

Under the indenture, we will recognize as a holder only the person in whose name a debt security is registered. Consequently, for debt securities issued in global form, we will recognize only the depository as the holder of the debt securities and we will make all payments on the debt securities to the depository. The depository passes along the payments it receives to its participants, which in turn pass the payments along to their customers who are the beneficial owners. The depository and its participants do so under agreements they have made with one another or with their customers; they are not obligated to do so under the terms of the debt securities. As a result, you will not own the debt securities directly. Instead, you will own beneficial interests in a global security, through a bank, broker or other financial institution that participates in the depository's book-entry system or holds an interest through a participant. As long as the debt securities are issued in global form, you will be an indirect holder, and not a holder, of the debt securities.

Street Name Holders. In the future we may terminate a global security or issue debt securities initially in non-global form. In these cases, you may choose to hold your debt securities in your own name or in "street name." Debt securities held in street name would be registered in the name of a bank, broker or other financial institution that you choose, and you would hold only a beneficial interest in those debt securities through an account you maintain at that institution.

For debt securities held in street name, we will recognize only the intermediary banks, brokers and other financial institutions in whose names the debt securities are registered as the holders of those debt securities, and we will make all payments on those debt securities to them. These institutions pass along the payments they receive to their customers who are the beneficial owners, but only because they agree to do so in their customer agreements or because they are legally required to do so. If you hold debt securities in street name you will be an indirect holder, and not a holder, of those debt securities.

Legal Holders. Our obligations, as well as the obligations of the trustee and those of any third parties employed by us or the trustee, run only to the legal holders of the debt securities. We do not have obligations to you if you hold beneficial interests in global securities, in street name or by any other indirect means. This will be the case whether you choose to be an indirect holder of a debt security or have no choice because we are issuing the debt securities only in global form.

For example, once we make a payment or give a notice to the holder, we have no further responsibility for the payment or notice, even if that holder is required, under agreements with depository participants or customers or by law, to pass it along to the indirect holders but does not do so. Similarly, if we want to obtain the approval of the holders for any purpose (for example, to amend the indenture or to relieve us of the consequences of a default or of our obligation to comply with a particular provision of the indenture) we would seek the approval only from the holders, and not the indirect holders, of the debt securities. Whether and how the holders contact the indirect holders is up to the holders.

When we refer to you, we mean those who invest in the debt securities being offered by this prospectus, whether they are the holders or only indirect holders of those debt securities. When we refer to your debt securities, we mean the debt securities in which you hold a direct or indirect interest.

Special Considerations for Indirect Holders. If you hold debt securities through a bank, broker or other financial institution, either in book-entry form or in street name, you should check with your own institution to find out:

- how it handles securities payments and notices;
- whether it imposes fees or charges;
- how it would handle a request for the holders' consent, if ever required;
- whether and how you can instruct it to send you debt securities registered in your own name so you can be a holder, if that is permitted in the future;
- how it would exercise rights under the debt securities if there were a default or other event triggering the need for holders to act to protect their interests; and
- if the debt securities are in book-entry form, how the depository's rules and procedures will affect these matters.

Global Securities

What is a Global Security? We will issue each debt security under the indenture in book-entry form only, unless we specify otherwise in the applicable prospectus supplement. A global security represents one or any other number of individual debt securities. Generally, all debt securities represented by the same global securities will have the same terms. We may, however, issue a global security that represents multiple debt securities that have different terms and are issued at different times. We call this kind of global security a master global security.

Each debt security issued in book-entry form will be represented by a global security that we deposit with and register in the name of a financial institution or its nominee that we select. The financial institution that we select for this purpose is called the depository. Unless we specify otherwise in the applicable prospectus supplement, The Depository Trust Company, New York, New York, known as DTC, will be the depository for all debt securities issued in book-entry form.

A global security may not be transferred to or registered in the name of anyone other than the depository or its nominee, unless special termination situations arise. We describe those situations below under "Special Situations When a Global Security Will Be Terminated." As a result of these arrangements, the depository, or its nominee, will be the sole registered owner and holder of all debt securities represented by a global security, and investors will be permitted to own only beneficial interests in a global security. Beneficial interests must be held by means of an account with a broker, bank or other financial institution that in turn has an account with the depository or with another institution that does. Thus, if your security is represented by a global security, you will not be a holder of the debt security, but only an indirect holder of a beneficial interest in the global security.

Special Considerations for Global Securities. We do not recognize an indirect holder as a holder of debt securities and instead deal only with the depository that holds the global security. The account rules of your financial institution and of the depository, as well as general laws relating to securities transfers, will govern your rights relating to a global security.

If we issue debt securities only in the form of a global security, you should be aware of the following:

- you cannot cause the debt securities to be registered in your name, and cannot obtain non-global certificates for your interest in the debt securities, except in the special situations that we describe below;
- you will be an indirect holder and must look to your own bank or broker for payments on the debt securities and protection of your legal rights relating to the debt securities, as we describe under "Holders of Debt Securities" above;
- you may not be able to sell interests in the debt securities to some insurance companies and to other institutions that are required by law to own their securities in non-book-entry form;
- you may not be able to pledge your interest in a global security in circumstances where certificates representing the debt securities must be delivered to the lender or other beneficiary of the pledge in order for the pledge to be effective;
- the depository's policies, which may change from time to time, will govern payments, transfers, exchanges and other matters relating to your interest in a global security. We and the trustee have no responsibility for any aspect of the depository's actions or for its records of ownership interests in a global security. We and the trustee also do not supervise the depository in any way;
- DTC requires, and other depositories may require, that those who purchase and sell interests in a global security within its book-entry system use immediately available funds and your broker or bank may require you to do so as well; and
- financial institutions that participate in the depository's book-entry system, and through which you hold your interest in a global security, may also have their own policies affecting payments, notices and other matters relating to the debt security. Your chain of ownership may contain more than one financial intermediary. We do not monitor and are not responsible for the actions of any of those intermediaries.

Special Situations When a Global Security Will Be Terminated. In a few special situations described below, a global security will be terminated and interests in it will be exchanged for certificates in non-global form representing the debt securities it represented. After that exchange, you will be able to choose whether to hold the debt securities directly or in street name. You must consult your own bank or broker to find out how to have your interests in a global security transferred on termination to your own name, so that you will be a holder. We have described the rights of holders and street name investors above under "Holders of Debt Securities."

The special situations for termination of a global security are as follows:

- if the depository notifies us that it is unwilling, unable or no longer qualified to continue as depository for that global security and we do not appoint another institution to act as depository within 60 days;
- if we notify the trustee that we wish to terminate that global security; or
- if an event of default has occurred with regard to debt securities represented by that global security and has not been cured or waived. We discuss defaults later under "Events of Default."

If a global security is terminated, only the depository, and not we or the trustee, is responsible for deciding the names of the intermediary banks, brokers and other financial institutions in whose names the debt securities represented by the global security are registered, and, therefore, who will be the holders of those debt securities.

Covenants

This section summarizes the material covenants in the indenture. Please refer to the applicable prospectus supplement for information about any changes to our covenants, including any addition or deletion of a covenant, and to the indenture for information on other covenants not described in this prospectus or the applicable prospectus supplement.

Limitations on Liens. We covenant in the indenture that we will not, and will not permit any of our Restricted Subsidiaries to, create, incur, issue or assume any Indebtedness secured by any Lien on any Principal Property, or on shares of stock or Indebtedness of any Restricted Subsidiary, known as Restricted Securities, without making effective provision for the Outstanding Securities, other than debt securities of any series not entitled to the benefit of this covenant, to be secured by a Lien equally and ratably with, or prior to (or in the case of debt securities of any series that are subordinated in right of payment to the Indebtedness secured by such Lien, by a Lien subordinated to), the Lien securing such Indebtedness for so long as the Indebtedness is so secured, except that the foregoing restriction does not apply to:

- any Lien existing on the date of the first issuance of debt securities of the relevant series under the indenture or existing on such other date as may be specified in any supplemental indenture, board resolution or officer's certificate with respect to such series;
- any Lien on any Principal Property or Restricted Securities of any person existing at the time that person is merged or consolidated with or into us or a Restricted Subsidiary, or this person becomes a Restricted Subsidiary, or arising thereafter otherwise than in connection with the borrowing of money arranged thereafter and pursuant to contractual commitments entered into prior to and not in contemplation of the person's becoming a Restricted Subsidiary;
- any Lien on any Principal Property or Restricted Securities existing at the time we or a Restricted Subsidiary acquire the Principal Property or Restricted Securities, whether or not the Lien is assumed by us or the Restricted Subsidiary, provided that this Lien may not extend to any other Principal Property or Restricted Securities of ours or any Restricted Subsidiary;
- any Lien on any Principal Property, including any improvements on any existing Principal Property, of ours or any Restricted Subsidiary, and any Lien on Restricted Securities of a Restricted Subsidiary that was formed or is held for the purpose of acquiring and holding the Principal Property, in each case to secure all or any part of the cost of acquisition, development, operation, construction, alteration, repair or improvement of all or any part of the Principal Property, or to secure Indebtedness incurred by us or a Restricted Subsidiary for the purpose of financing all or any part of that cost, provided that the Lien is created prior to, at the time of, or within 12 months after the latest of, the acquisition, completion of construction or improvement or commencement of commercial operation of that Principal Property and, provided further, that the Lien may not extend to any other Principal Property of ours or any Restricted Subsidiary, other than any currently unimproved real property on which the Principal Property has been constructed or developed or the improvement is located;

- any Lien on any Principal Property or Restricted Securities to secure Indebtedness owed to us or to a Restricted Subsidiary;
- any Lien in favor of a governmental body to secure advances or other payments under any contract or statute or to secure Indebtedness incurred to finance the purchase price or cost of constructing or improving the property subject to the Lien;
- any Lien created in connection with a project financed with, and created to secure, Non-Recourse Indebtedness;
- any extension, renewal, substitution or replacement, or successive extensions, renewals, substitutions or replacements, in whole or in part, of any Lien referred to in any of the bullet points above, provided that the Indebtedness secured may not exceed the principal amount of Indebtedness that is secured at the time of the renewal or refunding, plus any premium, cost or expense in connection with such extensions, renewals, substitutions or replacements, and that the renewal or refunding Lien must be limited to all or any part of the same property and improvements, shares of stock or Indebtedness that secured the Lien that was renewed or refunded; or
- any Lien not permitted above securing Indebtedness that, together with the aggregate outstanding principal amount of other secured Indebtedness that would otherwise be subject to the above restrictions, excluding Indebtedness secured by Liens permitted under the above exceptions, and the Attributable Debt in respect of all Sale and Leaseback Transactions, not including Attributable Debt in respect of any Sale and Leaseback Transactions described in the last two bullet points in the next succeeding paragraph, would not then exceed 15% of our Consolidated Net Tangible Assets.

Limitation on Sale and Leaseback Transactions. We covenant in the indenture that we will not, and will not permit any Restricted Subsidiary to, enter into any Sale and Leaseback Transaction unless:

- we or a Restricted Subsidiary would be entitled, without securing the Outstanding Securities of any series, to incur Indebtedness secured by a Lien on the Principal Property that is the subject of the Sale and Leaseback Transaction;
- the Attributable Debt associated with the Sale and Leaseback Transaction would be in an amount permitted under the last bullet point of the preceding paragraph;
- the proceeds received in respect of the Principal Property so sold and leased back at the time of entering into the Sale and Leaseback Transaction are to be used for our business and operations or the business and operations of any Subsidiary; or
- within 12 months after the sale or transfer, an amount equal to the proceeds received in respect of the Principal Property sold and leased back at the time of entering into the Sale and Leaseback Transaction is applied to the prepayment, other than mandatory prepayment, of any Outstanding Securities or Funded Indebtedness owed by us or a Restricted Subsidiary, other than Funded Indebtedness that is held by us or any Restricted Subsidiary or our Funded Indebtedness that is subordinate in right of payment to any Outstanding Securities that are entitled to the benefit of this covenant.

Definitions. Following are definitions of some of the terms used in the covenants described above.

"Attributable Debt" means, as to any lease under which a person is at the time liable for rent, at a date that liability is to be determined, the total net amount of rent required to be paid by that person under the lease during the remaining term, excluding amounts required to be paid on account of maintenance and repairs, services, insurance, taxes, assessments, water rates and similar charges and contingent rents, discounted from the respective due dates thereof at the rate of interest (or Yield to Maturity, in the case of original issue discount securities) borne by the then Outstanding Securities, compounded monthly.

"Capital Stock" means any and all shares, interests, rights to purchase, warrants, options, participations or other equivalents of or interests, however designated, in stock issued by a corporation.

"Consolidated Net Tangible Assets" means the aggregate amount of assets, less applicable reserves and other properly deductible items, after deducting:

- all current liabilities, excluding any portion thereof constituting Funded Indebtedness; and
- all goodwill, trade names, trademarks, patents, unamortized debt discount and expense and other like intangibles,

all as set forth on our most recent consolidated balance sheet contained in our latest quarterly or annual report filed with the SEC under the Securities Exchange Act of 1934, as amended, and computed in accordance with generally accepted accounting principles.

"Funded Indebtedness" means, as applied to any person, all Indebtedness of the person maturing after, or renewable or extendible at the option of the person beyond, 12 months from the date of determination.

"Indebtedness" means obligations for money borrowed, evidenced by notes, bonds, debentures or other similar evidences of indebtedness.

"Lien" means any lien, mortgage, pledge, encumbrance, charge or security interest securing Indebtedness; provided, however, that the following types of transactions will not be considered, for purposes of this definition, to result in a Lien:

- any acquisition by us or any Restricted Subsidiary of any property or assets subject to any reservation or exception under the terms of which any vendor, lessor or assignor creates, reserves or excepts or has created, reserved or excepted an interest in oil, gas or any other mineral in place or the proceeds of that interest;
- any conveyance or assignment whereby we or any Restricted Subsidiary conveys or assigns to any person or persons an interest in oil, gas or any other mineral in place or the proceeds of that interest;
- any Lien upon any property or assets either owned or leased by us or a Restricted Subsidiary or in which we or any Restricted Subsidiary owns an interest that secures for the benefit of the person or persons paying the expenses of developing or conducting operations for the recovery, storage, transportation or sale of the mineral resources of the property or assets, or property or assets with which it is unitized, the payment to the person or persons of our proportionate part or the Restricted Subsidiary's proportionate part of the development or operating expenses;
- any lease classified as an operating lease under generally accepted accounting principles;
- any hedging arrangements entered into in the ordinary course of business, including any obligation to deliver any mineral, commodity or asset; or
- any guarantees that we make for the repayment of Indebtedness of any Subsidiary or guarantees by any Subsidiary of the repayment of Indebtedness of any entity, including Indebtedness of Atmos Energy Marketing, LLC.

"Non-Recourse Indebtedness" means, at any time, Indebtedness incurred after the date of the indenture by us or a Restricted Subsidiary in connection with the acquisition of property or assets by us or a Restricted Subsidiary or the financing of the construction of or improvements on property, whenever acquired, provided that, under the terms of this Indebtedness and under applicable law, the recourse at the time and thereafter of the lenders with respect to this Indebtedness is limited to the property or assets so acquired, or the construction or improvements, including Indebtedness as to which a performance or completion guarantee or similar undertaking was initially applicable to the Indebtedness or the related property or assets if the guarantee or similar undertaking has been satisfied and is no longer in effect. Indebtedness which is otherwise Non-Recourse Indebtedness will not lose its character as Non-Recourse Indebtedness because there is recourse to us, any subsidiary of ours or any other person for (a) environmental or tax warranties and indemnities and such other

representations, warranties, covenants and indemnities as are customarily required in such transactions or (b) indemnities for and liabilities arising from fraud, misrepresentation, misapplication or non-payment of rents, profits, insurance and condemnation proceeds and other sums actually received from secured assets to be paid to the lender, waste and mechanics' liens or similar matters.

"Principal Property" means any natural gas distribution property located in the United States, except any property that in the opinion of our board of directors is not of material importance to the total business conducted by us and of our consolidated Subsidiaries.

"Restricted Subsidiary" means any Subsidiary the amount of Consolidated Net Tangible Assets of which constitutes more than 10% of the aggregate amount of Consolidated Net Tangible Assets of us and our Subsidiaries.

"Sale and Leaseback Transaction" means any arrangement with any person in which we or any Restricted Subsidiary leases any Principal Property that has been or is to be sold or transferred by us or the Restricted Subsidiary to that person, other than any such arrangement involving:

- a lease for a term, including renewals at the option of the lessee, of not more than three years or classified as an operating lease under generally accepted accounting principles;
- leases between us and a Restricted Subsidiary or between Restricted Subsidiaries; and
- leases of a Principal Property executed by the time of, or within 12 months after the latest of, the acquisition, the completion of construction or improvement, or the commencement of commercial operation, of the Principal Property, whichever is later.

"Subsidiary" of ours means:

- a corporation, a majority of whose Capital Stock with rights, under ordinary circumstances, to elect directors is owned, directly or indirectly, at the date of determination, by us, by one or more of our Subsidiaries or by us and one or more of our Subsidiaries; or
- any other person, other than a corporation, in which at the date of determination we, one or more of our Subsidiaries or we and one or more of our Subsidiaries, directly or indirectly, have at least a majority ownership and power to direct the policies, management and affairs of that person.

Consolidation, Merger or Sale of Assets. Under the terms of the indenture, we will be generally permitted to consolidate with or merge into another entity. We will also be permitted to sell or transfer our assets substantially as an entirety to another entity. However, we may not take any of these actions unless all of the following conditions are met:

- the resulting entity must agree to be legally responsible for all our obligations relating to the debt securities and the indenture;
- the transaction must not cause a default or an Event of Default, as described below;
- the resulting entity must be organized under the laws of the United States or one of the states or the District of Columbia; and
- we must deliver an officers' certificate and legal opinion to the trustee with respect to the transaction.

In the event that we engage in one of these transactions and comply with the conditions listed above, we would be discharged from all our obligations and covenants under the indenture and all obligations under the Outstanding Securities, with the successor corporation or person succeeding to our obligations and covenants.

In the event that we engage in one of these transactions, the indenture provides that, if any Principal Property or Restricted Securities would thereupon become subject to any Lien securing the Indebtedness, the debt securities, other than debt securities not entitled to the benefits of specified covenants, must be secured, as to such Principal Property or Restricted Securities, equally and ratably with (or prior to or, in the case of debt securities that are subordinated in right of payment to the Indebtedness secured by such Lien or in the case of other Indebtedness of ours that is subordinated to the debt securities, on a subordinated basis to such Lien securing) the Indebtedness or obligations that upon the occurrence of such transaction would become secured by the Lien, unless the Lien could be created under the indenture without equally and ratably securing the debt securities (or, in the case of debt securities that are subordinated in right of payment to the Indebtedness secured by such Lien, on a subordinated basis to such Lien).

Modification or Waiver

There are two types of changes that we can make to the indenture and the debt securities.

Changes Requiring Approval. With the approval of the holders of at least a majority in principal amount of all outstanding debt securities of each series affected (including any such approvals obtained in connection with a tender or exchange offer for outstanding debt securities), we may make any changes, additions or deletions to any provisions of the indenture applicable to the affected series, or modify the rights of the holders of the debt securities of the affected series. However, without the consent of each holder affected, we cannot:

- change the stated maturity of the principal of, any premium on, or the interest on a debt security;
- reduce the principal amount, any premium on, or the rate of interest on a debt security;
- change any of our obligations to pay Additional Amounts;
- reduce the amount payable upon acceleration of maturity following the default of a debt security whose principal amount payable at stated maturity may be more or less than its principal face amount at original issuance or an original issue discount security;
- adversely affect any right of repayment at the holder's option;
- change the place of payment of a debt security;
- impair the holder's right to sue for payment;
- adversely affect any right to convert or exchange a debt security;
- reduce the percentage of holders of debt securities whose consent is needed to modify or amend the indenture; or
- modify certain provisions of the indenture dealing with suits for enforcement of payment by the trustee or modification and waiver, except to increase any percentage of consents required to amend the indenture or for any waiver, or to modify the provisions of the indenture dealing with the unconditional right of the holders of the debt securities to receive principal, premium, if any, and interest.

Changes Not Requiring Approval. The second type of change does not require any vote by the holders of the debt securities. This type is limited to clarifications and certain other changes that would not adversely affect holders of the outstanding debt securities in any material respect. Additionally, we do not need any approval to make any change that affects only debt securities to be issued under the indenture after the changes take effect.

Further Details Concerning Voting. When taking a vote, we will use the following rules to decide how much principal amount to attribute to a debt security:

- for original issue discount securities, we will use the principal amount that would be due and payable on the voting date if the maturity of the debt securities were accelerated to that date because of a default; and
- for debt securities whose principal amount is not known (for example, because it is based on an index) we will use a special rule for that debt security described in the applicable prospectus supplement.

Debt securities will not be considered outstanding, and therefore not eligible to vote, if we have deposited or set aside in trust money for their payment or redemption. Debt securities will also not be eligible to vote if they have been fully defeased as described later under "Defeasance and Covenant Defeasance."

Book-entry and other indirect holders should consult their banks or brokers for information on how approval may be granted or denied if we seek to change the indenture or the debt securities or request a waiver.

Events of Default

Holders of debt securities will have special rights if an Event of Default occurs as to the debt securities of their series that is not cured, as described later in this subsection. Please refer to the applicable prospectus supplement for information about any changes to the Events of Default, including any addition of a provision providing event risk or similar protection.

What is an Event of Default? The term "Event of Default" as to the debt securities of a series means any of the following:

- we do not pay interest on a debt security of the series within 30 days of its due date;
- we do not pay the principal of or any premium, if any, on a debt security of the series on its due date;
- we do not deposit any sinking fund payment when and as due by the terms of any debt securities requiring such payment;
- we remain in breach of a covenant or agreement in the indenture, other than a covenant or agreement not for the benefit of the series, for 60 days after we receive written notice stating that we are in breach from the trustee or the holders of at least 25 percent of the principal amount of the debt securities of the series;
- we or a Restricted Subsidiary is in default under any matured or accelerated agreement or instrument under which we have outstanding Indebtedness for borrowed money or guarantees, which individually is in excess of $25,000,000, and we have not cured any acceleration within 30 days after we receive notice of this default from the trustee or the holders of at least 25 percent of the principal amount of the debt securities of the series, unless prior to the entry of judgment for the trustee, we or the Restricted Subsidiary remedy the default or the default is waived by the holders of the indebtedness;
- we file for bankruptcy or other events of bankruptcy, insolvency or reorganization occur; or
- any other Event of Default provided for the benefit of debt securities of the series.

An Event of Default for a particular series of debt securities will not necessarily constitute an Event of Default for any other series of debt securities issued under the indenture.

The trustee may withhold notice to the holders of debt securities of a particular series of any default if it considers its withholding of notice to be in the interest of the holders of that series, except that the trustee may not withhold notice of a default in the payment of the principal of, any premium on, or the interest on the debt securities or in the payment of any sinking fund installment with respect to the debt securities.

Remedies if an Event of Default Occurs. If an event of default has occurred and is continuing, the trustee or the holders of at least 25 percent in principal amount of the debt securities of the affected series may declare the entire principal amount and all accrued interest of all the debt securities of that series to be due and immediately payable by notifying us, and the trustee, if the holders give notice, in writing. This is called a declaration of acceleration of maturity.

If the maturity of any series of debt securities is accelerated and a judgment for payment has not yet been obtained, the holders of a majority in principal amount of the debt securities of that series may cancel the acceleration if all events of default other than the non-payment of principal or interest on the debt securities of that series that have become due solely by a declaration of acceleration are cured or waived, and we deposit with the trustee a sufficient sum of money to pay:

- all overdue interest on outstanding debt securities of that series;
- all unpaid principal and any premium, if any, of any outstanding debt securities of that series that has become due otherwise than by a declaration of acceleration, and interest on the unpaid principal and any premium, if any;
- all interest on the overdue interest; and
- all amounts paid or advanced by the trustee for that series and reasonable compensation of the trustee.

Except in cases of default, where the trustee has some special duties, the trustee is not required to take any action under the indenture at the request of any holders unless the holders offer the trustee reasonable protection from expenses and liability. This is called an indemnity. If reasonable indemnity is provided, the holders of a majority in principal amount of the outstanding debt securities of the relevant series may direct the time, method and place of conducting any lawsuit or other formal legal action seeking any remedy available to the trustee. The trustee may refuse to follow those directions if the directions conflict with any law or the indenture or expose the trustee to personal liability. No delay or omission in exercising any right or remedy will be treated as a waiver of that right, remedy or Event of Default.

Before a holder is allowed to bypass the trustee and bring his or her own lawsuit or other formal legal action or take other steps to enforce his or her rights or protect his or her interest relating to the debt securities, the following must occur:

- the holder must give the trustee written notice that an Event of Default has occurred and remains uncured;
- the holders of at least 25 percent in principal amount of all outstanding debt securities of the relevant series must make a written request that the trustee take action because of the default and must offer reasonable indemnity to the trustee against the cost and other liabilities of taking that action;
- the trustee must not have instituted a proceeding for 60 days after receipt of the above notice and offer of indemnity; and
- the holders of a majority in principal amount of the debt securities must not have given the trustee a direction inconsistent with the above notice during the 60-day period.

However, a holder is entitled at any time to bring a lawsuit for the payment of money due on his or her debt securities on or after the due date without complying with the foregoing.

Holders of a majority in principal amount of the debt securities of the affected series may waive any past defaults other than the following:

- the payment of principal, any premium, or interest on any debt security; or
- in respect of a covenant that under the indenture cannot be modified or amended without the consent of each holder affected.

Each year, we will furnish the trustee with a written statement of two of our officers certifying that, to their knowledge, we are in compliance with the indenture and the debt securities, or else specifying any default.

Book-entry and other indirect holders should consult their banks or brokers for information on how to give notice or direction to or make a request of the trustee and how to declare or cancel an acceleration.

Defeasance and Covenant Defeasance

Unless we provide otherwise in the applicable prospectus supplement, the provisions for full defeasance and covenant defeasance described below apply to each series of debt securities. In general, we expect these provisions to apply to each debt security that is not a floating rate or indexed debt security.

Full Defeasance. If there is a change in U.S. federal tax law, as described below, we can legally release ourselves from all payment and other obligations on the debt securities, called "full defeasance," if we put in place the following arrangements for you to be repaid:

- we must deposit in trust for the benefit of all holders of the debt securities a combination of money and obligations issued or guaranteed by the U.S. government that will generate enough cash to make interest, principal and any other payments on the debt securities on their various due dates; and
- we must deliver to the trustee a legal opinion confirming that there has been a change in current federal tax law or an IRS ruling that lets us make the above deposit without causing you to be taxed on the debt securities any differently than if we did not make the deposit and just repaid the debt securities ourselves at maturity.

If we ever did accomplish defeasance, as described above, you would have to rely solely on the trust deposit for repayment of the debt securities. You could not look to us for repayment in the event of any shortfall. Conversely, the trust deposit would most likely be protected from claims of our lenders and other creditors if we ever become bankrupt or insolvent. If we accomplish a defeasance, we would retain only the obligations to register the transfer or exchange of the debt securities, to maintain an office or agency in respect of the debt securities and to hold moneys for payment in trust.

Covenant Defeasance. Under current federal tax law, we can make the same type of deposit described above and be released from any restrictive covenants in the indenture. This is called "covenant defeasance." In that event, you would lose the protection of any such covenants but would gain the protection of having money and obligations issued or guaranteed by the U.S. government set aside in trust to repay the debt securities. In order to achieve covenant defeasance, we must do the following:

- deposit in trust for your benefit and the benefit of all other direct holders of the debt securities a combination of money and obligations issued or guaranteed by the U.S. government that will generate enough cash to make interest, principal and any other payments on the debt securities on their various due dates; and
- deliver to the trustee a legal opinion of our counsel confirming that, under current federal income tax law, we may make the deposit described above without causing you to be taxed on the debt securities any differently than if we did not make the deposit and just repaid the debt securities ourselves at maturity.

If we accomplish covenant defeasance, you can still look to us for repayment of the debt securities if there were a shortfall in the trust deposit or the trustee is prevented from making payment. In fact, if one of the remaining Events of Default occurred, such as our bankruptcy, and the debt securities became immediately due and payable, there may be a shortfall. Depending on the event causing the default, you may not be able to obtain payment of the shortfall.

Debt Securities Issued in Non-Global Form

If any debt securities cease to be issued in global form, they will be issued:

- only in fully registered form;
- without interest coupons; and
- unless we indicate otherwise in the prospectus supplement, in denominations of $2,000 and amounts that are integral multiples of $1,000 in excess thereof.

Holders may exchange their debt securities that are not in global form for debt securities of smaller denominations or combined into fewer debt securities of larger denominations, as long as the total principal amount is not changed.

Holders may exchange or transfer their debt securities at the office of the trustee. We may appoint the trustee to act as our agent for registering debt securities in the names of holders transferring debt securities, or we may appoint another entity to perform these functions or perform them ourselves.

Holders will not be required to pay a service charge to transfer or exchange their debt securities, but they may be required to pay for any tax or other governmental charge associated with the transfer or exchange. The transfer or exchange will be made only if our transfer agent is satisfied with the holder's proof of legal ownership.

If we have designated additional transfer agents for a holder's debt security, they will be named in the applicable prospectus supplement. We may appoint additional transfer agents or cancel the appointment of any particular transfer agent. We may also approve a change in the office through which any transfer agent acts.

If any debt securities are redeemable and we redeem less than all those debt securities, we may stop the transfer or exchange of those debt securities during the period beginning 15 days before the day we mail the notice of redemption and ending on the day of that mailing, in order to freeze the list of holders to prepare the mailing. We may also refuse to register transfers or exchanges of any debt securities selected for redemption, except that we will continue to permit transfers and exchanges of the unredeemed portion of any debt security that will be partially redeemed.

If a debt security is issued as a global security, only the depository will be entitled to transfer and exchange the debt security as described in this section, since it will be the sole holder of the debt security.

Payment Mechanics

Who Receives Payment? If interest is due on a debt security on an interest payment date, we will pay the interest to the person or entity in whose name the debt security is registered at the close of business on the regular record date, discussed below, relating to the interest payment date. If interest is due at maturity but on a day that is not an interest payment date, we will pay the interest to the person or entity entitled to receive the principal of the debt security. If principal or another amount besides interest is due on a debt security at maturity, we will pay the amount to the holder of the debt security against surrender of the debt security at a proper place of payment, or, in the case of a global security, in accordance with the applicable policies of the depository.

Payments on Global Securities. We will make payments on a global security in accordance with the applicable policies of the depository as in effect from time to time. Under those policies, we will pay directly to the depository, or its nominee, and not to any indirect holders who own beneficial interests in the global security. An indirect holder's right to those payments will be governed by the rules and practices of the depository and its participants, as described above under "What is a Global Security?".

Payments on Non-Global Securities. For a debt security in non-global form, we will pay interest that is due on an interest payment date by check mailed on the interest payment date to the holder at his or her address shown on the trustee's records as of the close of business on the regular record date. We will make all other payments by check, at the paying agent described below, against surrender of the debt security. We will make all payments by check in next-day funds; for example, funds that become available on the day after the check is cashed.

Alternatively, if a non-global security has a face amount of at least $1,000,000 and the holder asks us to do so, we will pay any amount that becomes due on the debt security by wire transfer of immediately available funds to an account at a bank in New York City on the due date. To request wire payment, the holder must give the paying agent appropriate transfer instructions at least five business days before the requested wire payment is due. In the case of any interest payment due on an interest payment date, the instructions must be given by the person who is the holder on the relevant regular record date. In the case of any other payment, we will make payment only after the debt security is surrendered to the paying agent. Any wire instructions, once properly given, will remain in effect unless and until new instructions are given in the manner described above.

Regular Record Dates. We will pay interest to the holders listed in the trustee's records as the owners of the debt securities at the close of business on a particular day in advance of each interest payment date. We will pay interest to these holders if they are listed as the owner even if they no longer own the debt security on the interest payment date. That particular day, usually about two weeks in advance of the interest payment date, is called the "regular record date" and will be identified in the prospectus supplement.

Payment When Offices Are Closed. If any payment is due on a debt security on a day that is not a business day, we will make the payment on the next business day. Payments postponed to the next business day in this situation will be treated under the indenture as if they were made on the original due date. A postponement of this kind will not result in a default under any debt security or the indenture, and no interest will accrue on the postponed amount from the original due date to the next business day.

Paying Agents. We may appoint one or more financial institutions to act as our paying agents, at whose designated offices debt securities in non-global form may be surrendered for payment at their maturity. We call each of those offices a paying agent. We may add, replace or terminate paying agents from time to time. We may also choose to act as our own paying agent. Initially, we have appointed the trustee, at its corporate trust office in New York City, as the paying agent. We must notify you of changes in the paying agents.

Book-entry and other indirect holders should consult their banks or brokers for information on how they will receive payments on their debt securities.

The Trustee Under the Indenture

U.S. Bank National Association is the trustee under the indenture for our debt securities. We will identify any other entity acting as the trustee for a series of debt securities that we may offer in the prospectus supplement for the offering of such debt securities.

The trustee may resign or be removed with respect to one or more series of debt securities and a successor trustee may be appointed to act with respect to these series.

DESCRIPTION OF COMMON STOCK

General

Our authorized capital stock consists of 200,000,000 shares of common stock, of which 93,146,536 shares were outstanding on March 26, 2010. Each of our shares of common stock is entitled to one vote on all matters voted upon by shareholders. Our shareholders do not have cumulative voting rights. Our issued and outstanding shares of common stock are fully paid and nonassessable. There are no redemption or sinking fund provisions applicable to the shares of our common stock, and such shares are not entitled to any preemptive rights. Since we are incorporated in both Texas and Virginia, we must comply with the laws of both states when issuing shares of our common stock.

Holders of our shares of common stock are entitled to receive such dividends as may be declared from time to time by our board of directors from our assets legally available for the payment of dividends and, upon our liquidation, a pro rata share of all of our assets available for distribution to our shareholders.

American Stock Transfer & Trust Company is the registrar and transfer agent for our common stock.

Charter and Bylaws Provisions

Some provisions of our articles of incorporation and bylaws may be deemed to have an "anti-takeover" effect. The following description of these provisions is only a summary, and we refer you to our articles of incorporation and bylaws for more information. Our articles of incorporation and bylaws are included as exhibits to our annual reports on Form 10-K filed with the SEC. See "Where You Can Find More Information."

Classification of the Board. Our board of directors is currently divided into three classes, each of which consists, as nearly as may be possible, of one-third of the total number of directors constituting the entire board. There are currently 13 directors serving on the board, with each class of directors serving a three-year term. However, at our annual meeting of shareholders in February 2010, our shareholders approved our proposal to amend the articles of incorporation to eliminate the classification of our board of directors. The proposal provides that any director currently serving on the board will continue to serve until the expiration of the term for which he or she was elected. Accordingly, beginning with the 2011 annual meeting of our shareholders and thereafter, successors to the class of directors whose term expires at that annual meeting will be elected for one-year terms. That means that until after the annual meeting of shareholders in 2012, the classification of directors could have the effect of making it more difficult for shareholders, including those holding a majority of the outstanding shares, to force an immediate change in the composition of the board. Until that time, two shareholder meetings, instead of one, would be required to effect a change in the majority of our board.

Cumulative Voting. Our articles of incorporation prohibit cumulative voting. In general, in the absence of cumulative voting, one or more persons who hold a majority of our outstanding shares can elect all of the directors who are subject to election at any meeting of shareholders.

Removal of Directors. Our articles of incorporation and bylaws also provide that our directors may be removed only for cause and upon the affirmative vote of the holders of at least 75 percent of the shares then entitled to vote at an election of directors.

Fair Price Provisions. Article VII of our articles of incorporation provides certain "Fair Price Provisions" for our shareholders. Under Article VII, a merger, consolidation, sale of assets, share exchange, recapitalization or other similar transaction, between us or a company controlled by or under common control with us and any individual, corporation or other entity which owns or controls 10 percent or more of our voting capital stock, would be required to satisfy the condition that the aggregate consideration per share to be received in the transaction for each class of our voting capital stock be at least equal to the highest per share price, or equivalent price for any different classes or series of stock, paid by the 10 percent shareholder in acquiring any of its holdings of our stock. If a proposed transaction with a 10 percent shareholder does not meet this condition, then the transaction must be approved by the holders of at least 75 percent of the outstanding shares of voting capital stock held by our shareholders other than the 10 percent shareholder, unless a majority of the directors who were members of our board immediately prior to the time the 10 percent shareholder involved in the proposed transaction became a 10 percent shareholder have either:

- expressly approved in advance the acquisition of the outstanding shares of our voting capital stock that caused the 10 percent shareholder to become a 10 percent shareholder; or
- approved the transaction either in advance of or subsequent to the 10 percent shareholder becoming a 10 percent shareholder.

The provisions of Article VII may not be amended, altered, changed, or repealed except by the affirmative vote of at least 75 percent of the votes entitled to be cast thereon at a meeting of our shareholders duly called for consideration of such amendment, alteration, change, or repeal. In addition, if there is a 10 percent shareholder, such action must also be approved by the affirmative vote of at least 75 percent of the outstanding shares of our voting capital stock held by the shareholders other than the 10 percent shareholder.

Shareholder Proposals and Director Nominations. Our shareholders can submit shareholder proposals and nominate candidates for the board of directors if the shareholders follow the advance notice procedures described in our bylaws.

Shareholder proposals (other than those sought to be included in our proxy statement) must be submitted to our corporate secretary at least 60 days, but not more than 85 days, before the annual meeting; provided, however, that if less than 75 days' notice or prior public disclosure of the date of the annual meeting is given or made to shareholders, notice by the shareholder to be timely must be received by our corporate secretary no later than the close of business on the 25th day following the day on which such notice of the date of the annual meeting was provided or such public disclosure was made. The notice must include a description of the proposal, the shareholder's name and address and the number of shares held, and all other information which would be required to be included in a proxy statement filed with the SEC if the shareholder were a participant in a solicitation subject to the SEC's proxy rules. To be included in our proxy statement for an annual meeting, our corporate secretary must receive the proposal at least 120 days prior to the anniversary of the date we mailed the proxy statement for the prior year's annual meeting.

To nominate directors, shareholders must submit a written notice to our corporate secretary at least 60 days, but not more than 85 days, before a scheduled meeting; provided, however, that if less than 75 days' notice or prior public disclosure of the date of the annual meeting is given or made to shareholders, such nomination shall have been received by our corporate secretary no later than the close of business on the 25th day following the day on which such notice of the date of the annual meeting was mailed or such public disclosure was made. The notice must include the name and address of the shareholder and of the shareholder's nominee, the number of shares held by the shareholder, a representation that the shareholder is a holder of record of common stock entitled to vote at the meeting, and that the shareholder intends to appear in person or by proxy to nominate the persons specified in the notice, a description of any arrangements between the shareholder and the shareholder's nominee, information about the shareholder's nominee required by the SEC and the written consent of the shareholder's nominee to serve as a director.

Shareholder proposals and director nominations that are late or that do not include all required information may be rejected. This could prevent shareholders from bringing certain matters before an annual or special meeting or making nominations for directors.

PLAN OF DISTRIBUTION

We may sell the securities offered by this prospectus and a prospectus supplement as follows:

- through agents;
- to or through underwriters;
- through dealers;
- directly by us to purchasers; or
- through a combination of any such methods of sale.

We, directly or through agents or dealers, may sell, and the underwriters may resell, the securities in one or more transactions, including:

- transactions on the New York Stock Exchange or any other organized market where the securities may be traded;
- in the over-the-counter market;
- in negotiated transactions; or
- through a combination of any such methods of sale.

The securities may be sold at a fixed price or prices which may be changed, at market prices prevailing at the time of sale, at prices related to such prevailing market prices or at negotiated prices.

Agents designated by us from time to time may solicit offers to purchase the securities. We will name any such agent involved in the offer or sale of the securities and set forth any commissions payable by us to such agent in a prospectus supplement relating to any such offer and sale of securities. Unless otherwise indicated in the prospectus supplement, any such agent will be acting on a best efforts basis for the period of its appointment. Any such agent may be deemed to be an underwriter of the securities, as that term is defined in the Securities Act.

If underwriters are used in the sale of securities, securities will be acquired by the underwriters for their own account and may be resold from time to time in one or more transactions. Securities may be offered to the public either through underwriting syndicates represented by one or more managing underwriters or directly by one or more firms acting as underwriters. If an underwriter or underwriters are used in the sale of securities, we will execute an underwriting agreement with such underwriter or underwriters at the time an agreement for such sale is reached. We will set forth in the prospectus supplement the names of the specific managing underwriter or underwriters, as well as any other underwriters, and the terms of the transactions, including compensation of the underwriters and dealers. Such compensation may be in the form of discounts, concessions or commissions. Underwriters and others participating in any offering of securities may engage in transactions that stabilize, maintain or otherwise affect the price of such securities. We will describe any such activities in the prospectus supplement.

We may elect to list any class or series of securities on any exchange, but we are not currently obligated to do so. It is possible that one or more underwriters, if any, may make a market in a class or series of securities, but the underwriters will not be obligated to do so and may discontinue any market making at any time without notice. We cannot give any assurance as to the liquidity of the trading market for any of the securities we may offer.

If a dealer is used in the sale of the securities, we or an underwriter will sell such securities to the dealer, as principal. The dealer may then resell such securities to the public at varying prices to be determined by such dealer at the time of resale. The prospectus supplement will set forth the name of the dealer and the terms of the transactions.

We may directly solicit offers to purchase the securities, and we may sell directly to institutional investors or others. These persons may be deemed to be underwriters within the meaning of the Securities Act with respect to any resale of the securities. The prospectus supplement will describe the terms of any such sales, including the terms of any bidding, auction or other process, if used.

Agents, underwriters and dealers may be entitled under agreements which may be entered into with us to indemnification by us against specified liabilities, including liabilities under the Securities Act, or to contribution by us to payments they may be required to make in respect of such liabilities. The prospectus supplement will describe the terms and conditions of such indemnification or contribution. Some of the agents, underwriters or dealers, or their affiliates, may engage in transactions with or perform services for us and our subsidiaries in the ordinary course of their business.

LEGAL MATTERS

Gibson, Dunn & Crutcher LLP, Denver, Colorado, and Hunton & Williams LLP, Richmond, Virginia, have each rendered an opinion with respect to the validity of the securities that may be offered under this prospectus. We filed these opinions as exhibits to the registration statement of which this prospectus is a part. If counsel for any underwriters passes on legal matters in connection with an offering made under this prospectus, we will name that counsel in the prospectus supplement relating to that offering.

EXPERTS

The consolidated financial statements of Atmos Energy appearing in Atmos Energy Corporation's Annual Report (Form 10-K) for the fiscal year ended September 30, 2009 (including the schedule appearing therein), and the effectiveness of Atmos Energy Corporation's internal control over financial reporting as of September 30, 2009 have been audited by Ernst & Young LLP, independent registered public accounting firm, as set forth in their reports thereon, included therein, and incorporated herein by reference. Such consolidated financial statements are incorporated herein by reference in reliance upon such reports given on the authority of such firm as experts in accounting and auditing.

With respect to the unaudited condensed consolidated interim financial information of Atmos Energy for the three-month periods ended December 31, 2009 and 2008, incorporated herein by reference, Ernst & Young LLP reported that they have applied limited procedures in accordance with professional standards for a review of such information. However, their separate report dated February 3, 2010, included in our quarterly report on Form 10-Q for the three-month period ended December 31, 2009, and incorporated herein by reference, states that they did not audit and they do not express an opinion on that interim financial information. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied. Ernst & Young LLP is not subject to the liability provisions of Section 11 of the Securities Act of 1933, as amended, for their report on the unaudited interim financial information because that report is not a "report" or a "part" of the Registration Statement prepared or certified by Ernst & Young LLP within the meaning of Sections 7 and 11 of the Securities Act of 1933.

WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission under the Securities Exchange Act of 1934. You may read and copy this information at the Public Reference Room of the SEC, 100 F Street, N.E., Washington, D.C. 20549, at prescribed rates. You may obtain information on the operation of the Public Reference Room by calling the SEC at (800) SEC-0330.

The SEC also maintains an internet Web site that contains reports, proxy statements and other information about issuers, like us, who file electronically with the SEC. The address of that site is www.sec.gov. Unless specifically listed below under "Incorporation of Certain Documents by Reference" the information contained on the SEC Web site is not incorporated by reference into this prospectus.

You can also inspect reports, proxy statements and other information about us at the offices of the New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005.

We have filed with the SEC a registration statement on Form S-3 that registers the securities we are offering. The registration statement, including the attached exhibits and schedules, contains additional relevant information about us and the securities offered. The rules and regulations of the SEC allow us to omit certain information included in the registration statement from this prospectus.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The SEC allows us to "incorporate by reference" information in this prospectus that we have filed with it. This means that we can disclose important information to you by referring you to another document filed separately with the SEC. The information incorporated by reference is considered to be part of this prospectus, except for any information that is superseded by information that is included directly in this prospectus or the applicable prospectus supplement relating to an offering of our securities.

We incorporate by reference into this prospectus the documents listed below and any future filings we make with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 prior to the termination of our offering of securities. These additional documents include periodic reports, such as annual reports on Form 10-K and quarterly reports on Form 10-Q, and current reports on Form 8-K (other than information furnished under Items 2.02 and 7.01, which is deemed not to be incorporated by reference in this prospectus), as well as proxy statements (other than information identified in them as not incorporated by reference). You should review these filings as they may disclose a change in our business, prospects, financial condition or other affairs after the date of this prospectus.

This prospectus incorporates by reference the documents listed below that we have filed with the SEC but have not been included or delivered with this document:

- Our annual report on Form 10-K for the year ended September 30, 2009;
- Our quarterly report on Form 10-Q for the three-month period ended December 31, 2009;
- Our current reports on Form 8-K filed with the SEC on October 15, 2009, October 28, 2009, November 12, 2009, December 1, 2009, December 16, 2009 and February 9, 2010.
- The following pages and captioned text contained in our definitive proxy statement for the annual meeting of shareholders on February 3, 2010 and incorporated into our annual report on Form 10-K: pages 3 through 5 under the caption *"Beneficial Ownership of Common Stock,"* pages 6 through 10 under the captions *"Proposal One — Election of Directors — Nominees for Director"* and *"— Directors Continuing in Office,"* pages 10 through 13 under the captions *"Corporate Governance and Other Board Matters — Independence of Directors"* and *"— Related Person Transactions,"* pages 14 through 15 under the captions *"Corporate Governance and Other Board Matters — Committees of the Board of Directors"* and *"— Other Board and Board Committee Matters — Human Resources Committee Interlocks and Insider Participation,"* pages 15 through 20 under the captions *"Director Compensation"* through to the end of *"Audit Committee-Related Matters — Independence of Audit Committee Members, Financial Literacy and Audit Committee Financial Experts,"* page 22 under the caption *"Audit Committee-Related Matters — Audit Committee Pre-Approval Policy,"* pages 22 through 33 under the caption *"Compensation Discussion and Analysis,"* and pages 34 through 52 under the caption *"Named Executive Officer Compensation"* through to the end of the caption *"Proposal Three — Ratification of Appointment of Independent Registered Public Accounting Firm."*

These documents contain important information about us and our financial condition.

You may obtain a copy of any of these filings, or any of our future filings, from us without charge by requesting it in writing or by telephone at the following address or telephone number:

Atmos Energy Corporation
1800 Three Lincoln Centre
5430 LBJ Freeway
Dallas, Texas 75240
Attention: Susan Giles
(972) 934-9227

Our internet Web site address is *www.atmosenergy.com.* Information on or connected to our internet Web site is not part of this prospectus.

$500,000,000

Atmos Energy Corporation

4.15% Senior Notes due 2043

PROSPECTUS SUPPLEMENT

Joint Book-Running Managers

J.P. Morgan
Mitsubishi UFJ Securities
US Bancorp
Credit Agricole CIB
RBS

Senior Co-Managers

BNP PARIBAS
Merrill Lynch
UBS Investment Bank
Wells Fargo Securities

Co-Managers

BB&T Capital Markets
BOSC, Inc.
Goldman, Sachs & Co.
Morgan Stanley

January 8, 2013

Prospectus Supplement
June 7, 2011
(To Prospectus dated March 31, 2010)

$400,000,000

Atmos Energy Corporation

5.50% Senior Notes due 2041

The notes will bear interest at the rate of 5.50% per year and will mature on June 15, 2041. We will pay interest on the notes semi-annually in arrears on June 15 and December 15 of each year they are outstanding, beginning December 15, 2011. We may redeem the notes prior to maturity at our option, at any time in whole or from time to time in part, at the redemption prices described in this prospectus supplement. See "Description of the Notes — Optional Redemption."

All of the notes are unsecured and rank equally with all of our other existing and future unsubordinated debt. The notes will be issued only in registered form in minimum denominations of $2,000 and any integral multiple of $1,000 in excess thereof. The notes are a new issue of securities with no established trading market. The notes will not be listed on any securities exchange or on any automated dealer quotation system.

Investing in the notes involves risks. See "Risk Factors" on page S-7 of this prospectus supplement.

	Per Note	Total
Public offering price(1)	99.678%	$398,712,000
Underwriting discount	0.875%	$ 3,500,000
Proceeds, before expenses, to Atmos Energy	98.803%	$395,212,000

(1) Plus accrued interest from June 10, 2011, if settlement occurs after that date.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the notes to investors in book-entry form only through the facilities of The Depository Trust Company for the accounts of its participants, including Clearstream Banking, société anonyme, Luxembourg and/or Euroclear Bank S.A./N.V., on or about June 10, 2011.

Joint Book-Running Managers

BNP PARIBAS Morgan Stanley UBS Investment Bank Wells Fargo Securities

Senior Co-Managers

Credit Agricole CIB

Deutsche Bank Securities

Goldman, Sachs & Co.

RBS

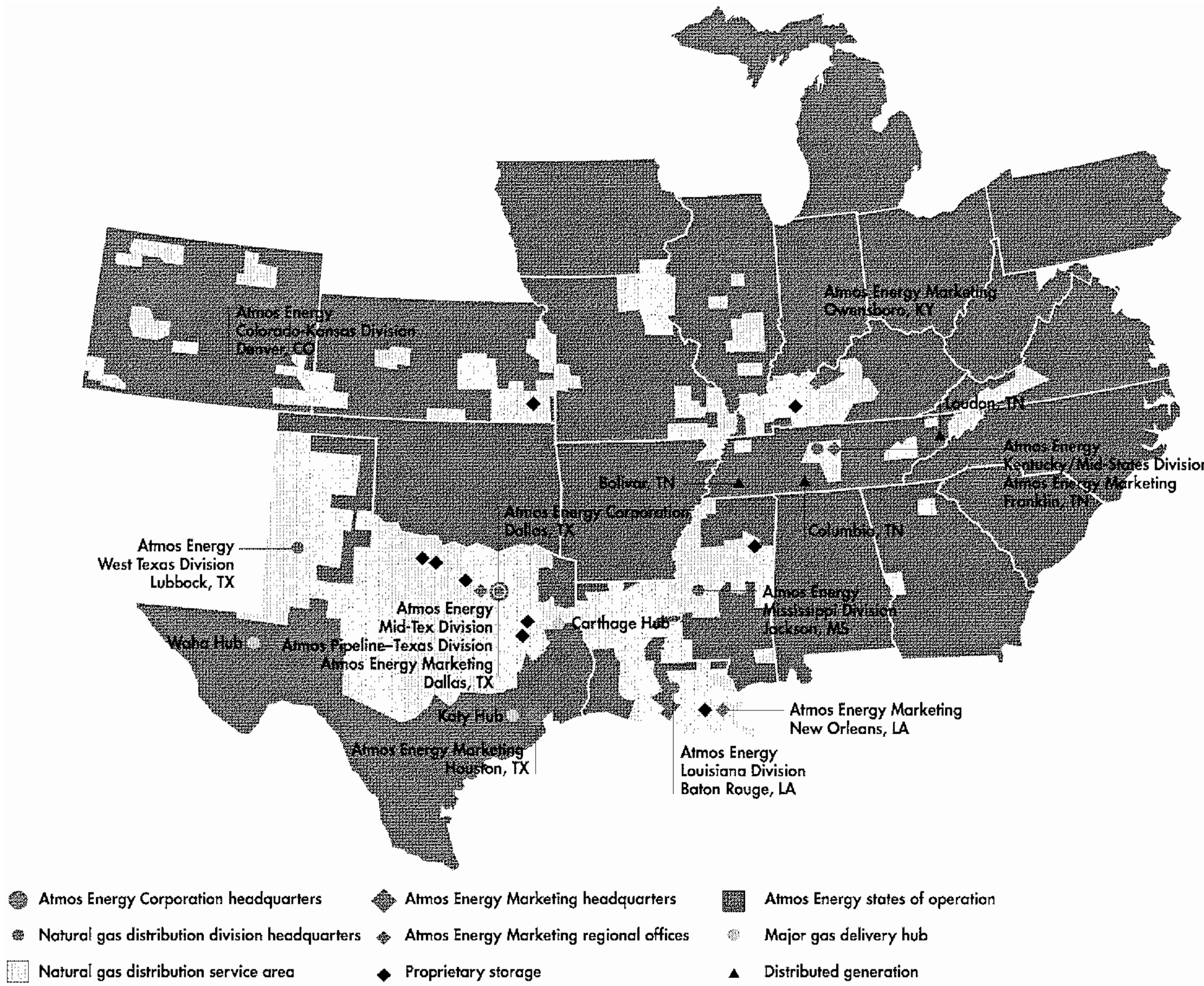
US Bancorp

Co-Managers

BOSC, Inc.

BB&T Capital Markets

J.P. Morgan



We have entered into an agreement to sell our natural gas distribution operations in Missouri, Illinois and Iowa.
See "Prospectus Supplement Summary—Recent Developments."

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Prospectus Supplement

Prospectus

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Statements contained or incorporated by reference in this prospectus supplement and the accompanying prospectus that are not statements of historical fact are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended. Forward-looking statements are based on management's beliefs as well as assumptions made by, and information currently available to, management. Because such statements are based on expectations as to future results and are not statements of fact, actual results may differ materially from those stated. Important factors that could cause future results to differ include, but are not limited to:

- our ability to continue to access the credit markets to satisfy our liquidity requirements;
- the impact of adverse economic conditions on our customers;
- increased costs of providing pension and post-retirement health care benefits and increased funding requirements along with increased costs of health care benefits;
- market risks beyond our control affecting our risk management activities including market liquidity, commodity price volatility, increasing interest rates and counterparty creditworthiness;
- regulatory trends and decisions, including the impact of rate proceedings before various state regulatory commissions;
- possible increased federal, state and local regulation of the safety of our operations;
- increased federal regulatory oversight and potential penalties;
- the impact of environmental regulations on our business;
- the impact of possible future additional regulatory and financial risks associated with global warming and climate change on our business;
- the concentration of our distribution, pipeline and storage operations in Texas;
- adverse weather conditions;
- the effects of inflation and changes in the availability and price of natural gas;
- the capital-intensive nature of our natural gas distribution business;
- increased competition from energy suppliers and alternative forms of energy;
- the inherent hazards and risks involved in operating our natural gas distribution business;
- natural disasters, terrorist activities or other events; and
- other risks and uncertainties discussed in this prospectus supplement, any accompanying prospectus and our other filings with the SEC.

All of these factors are difficult to predict and many are beyond our control. Accordingly, while we believe these forward-looking statements to be reasonable, there can be no assurance that they will approximate actual experience or that the expectations derived from them will be realized. When used in our documents or oral presentations, the words "anticipate," "believe," "estimate," "expect," "forecast," "goal," "intend," "objective," "plan," "projection," "seek," "strategy" or similar words are intended to identify forward-looking statements. We undertake no obligation to update or revise any of our forward-looking statements, whether as a result of new information, future events or otherwise.

For additional factors you should consider, please see "Risk Factors" on page S-7 of this prospectus supplement, "Item 1A. Risk Factors" and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in our annual report on Form 10-K for the fiscal year ended September 30, 2010 and "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations" in our quarterly report on Form 10-Q for the quarterly period ended March 31, 2011. See "Incorporation of Certain Documents by Reference" in the accompanying prospectus.

PROSPECTUS SUPPLEMENT SUMMARY

You should read the following summary in conjunction with the more detailed information contained elsewhere in this prospectus supplement, the accompanying prospectus and the documents incorporated by reference in this prospectus supplement and the accompanying prospectus.

Atmos Energy Corporation

We are engaged primarily in the regulated natural gas distribution and transmission and storage businesses, as well as other nonregulated natural gas businesses. We are one of the country's largest natural gas-only distributors based on number of customers. We currently distribute natural gas through sales and transportation arrangements to over three million residential, commercial, public authority and industrial customers in 12 states. We also operate one of the largest intrastate pipelines in Texas based upon miles of pipe.

Through our regulated transmission and storage business, we provide natural gas transportation and storage services to our Mid-Tex Division, our largest natural gas distribution division located in Texas, and for third parties. Additionally, we provide ancillary services customary to the pipeline industry, including parking arrangements, lending and sales of inventory on hand.

Through our nonregulated businesses, we primarily provide natural gas management and marketing services to municipalities, other local gas distribution companies and industrial customers primarily in the Midwest and Southeast. We also provide storage services to some of our natural gas distribution divisions and to third parties.

We operate through the following three segments:

- the natural gas distribution segment, which includes our regulated natural gas distribution and related sales operations;
- the regulated transmission and storage segment, which includes the regulated pipeline and storage operations of our Atmos Pipeline — Texas Division; and
- the nonregulated segment, which includes our nonregulated natural gas management, nonregulated natural gas transmission, storage and other services.

We have experienced 27 consecutive years of increasing dividends and earnings growth after giving effect to our acquisitions. Historically, we achieved this record of growth through acquisitions while efficiently managing our operating and maintenance expenses and leveraging our technology, such as our call centers, to achieve more efficient operations. Our last significant acquisition occurred in October 2004 with the purchase of the natural gas distribution and pipeline operations of TXU Gas Company ("TXU Gas"). The TXU Gas acquisition essentially doubled our number of natural gas distribution customers, by adding approximately 1.5 million gas customers in Texas, including the Dallas-Fort Worth metropolitan area and the northern suburbs of Austin. The acquisition also added approximately 6,100 miles of gas transmission and gathering lines and five underground storage reservoirs, all within Texas. In recent years, we have also achieved growth by implementing rate designs that reduce or eliminate regulatory lag and separate the recovery of our approved margins from customer usage patterns. In addition, we have developed various commercial opportunities within our regulated transmission and storage operations.

Recent Developments

Declaration of Dividends. On May 4, 2011, we announced that our Board of Directors declared a quarterly dividend on our common stock of $0.34 per share. The dividend will be paid on June 10, 2011 to shareholders of record on May 25, 2011.

Sale of Natural Gas Distribution Assets to Liberty Energy. On May 12, 2011, we entered into a definitive agreement to sell our natural gas distribution operations in Missouri, Illinois and Iowa, representing approximately 84,000 customers, to Liberty Energy (Midstates) Corp., an affiliate of Algonquin Power &

Utilities Corp., for a purchase price of approximately $124 million. The agreement contains the usual terms and conditions customary for transactions of this type, including adjustments to the purchase price at closing, if applicable, and indemnification by us related to certain representations and warranties regarding the transferred assets. The closing of the transaction is subject to the satisfaction of customary conditions including the receipt of applicable regulatory approvals.

Maturity of Senior Notes. On May 15, 2011, our $350 million unsecured 7⅜% Senior Notes matured. We repaid these notes through the issuance of $350 million of commercial paper. We intend to use the net proceeds from this offering to repay a substantial portion of such commercial paper borrowings.

Our address is 1800 Three Lincoln Centre, 5430 LBJ Freeway, Dallas, Texas 75240, and our telephone number is (972) 934-9227. Our internet website address is *www.atmosenergy.com.* Information on or connected to our internet website is not part of this prospectus supplement or the accompanying prospectus.

Summary Financial Data

The following table presents summary consolidated and segment financial data of Atmos Energy Corporation for the periods and as of the dates indicated. We derived the summary financial data for the fiscal years ended September 30, 2010, 2009, 2008, 2007 and 2006 from our audited consolidated financial statements and the summary financial data for the six months ended March 31, 2011 and 2010 from our unaudited condensed consolidated financial statements. Our unaudited condensed consolidated financial statements have been prepared on the same basis as our audited consolidated financial statements, except as stated in the related notes thereto and, in the opinion of management, include all normal recurring adjustments considered necessary for a fair presentation of our financial condition and result of operations for such periods. Please note that, given the inherent seasonality in our business, the results of operations for the six months ended March 31, 2011 presented below are not necessarily indicative of results for the entire fiscal year.

The information is only a summary and does not provide all of the information contained in our financial statements. Therefore, you should read the information presented below in conjunction with "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and related notes included in our annual report on Form 10-K for the fiscal year ended September 30, 2010, and "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations" and our condensed consolidated financial statements and related notes included in our quarterly report on Form 10-Q for the quarterly period ended March 31, 2011, each of which is incorporated by reference in this prospectus supplement and the accompanying prospectus.

	Six Months Ended March 31,		Year Ended September 30,				
	2011(1)	2010	2010	2009(1)	2008	2007(1)	2006(1)
			(In thousands, except per share data)				
Consolidated Financial Data							
Operating revenues	$2,774,282	$3,233,118	$4,789,690	$4,969,080	$7,221,305	$5,898,431	$6,152,363
Gross profit	838,382	865,170	1,364,941	1,346,702	1,321,326	1,250,082	1,216,570
Operating expenses(1)	460,351	450,034	875,505	899,300	893,431	851,446	833,954
Operating income	378,031	415,136	489,436	447,402	427,895	398,636	382,616
Net income	206,206	207,456	205,839	190,978	180,331	168,492	147,737
Diluted net income per share	$ 2.26	$ 2.22	$ 2.20	$ 2.07	$ 1.99	$ 1.91	$ 1.81
Cash dividends paid per share	$ 0.680	$ 0.670	$ 1.34	$ 1.32	$ 1.30	$ 1.28	$ 1.26
Cash flows from operating activities	$ 438,471	$ 483,458	$ 726,476	$ 919,233	$ 370,933	$ 547,095	$ 311,449
Capital expenditures	$ 246,663	$ 232,629	$ 542,636	$ 509,494	$ 472,273	$ 392,435	$ 425,324

	As of March 31,		As of September 30,				
	2011	2010	2010	2009	2008	2007	2006
				(In thousands)			
Consolidated Balance Sheet Data							
Total assets	$6,995,824	$6,753,190	$6,763,791	$6,367,083	$6,386,699	$5,895,197	$5,719,547
Debt							
Long-term debt(2)	$1,807,323	$2,159,475	$1,809,551	$2,169,400	$2,119,792	$2,126,315	$2,180,362
Short-term debt(2)	352,434	10,131	486,231	72,681	351,327	154,430	385,602
Total debt	$2,159,757	$2,169,606	$2,295,782	$2,242,081	$2,471,119	$2,280,745	$2,565,964
Shareholders' equity	$2,373,979	$2,338,843	$2,178,348	$2,176,761	$2,052,492	$1,965,754	$1,648,098

See footnotes on following page.

	Six Months Ended March 31,		Year Ended September 30,				
	2011(1)	2010	2010	2009(1)	2008	2007(1)	2006(1)
			(In thousands, except ratios)				
Segment Operating Income							
Natural gas distribution	$319,003	$308,311	$322,454	$289,014	$261,165	$221,187	$201,894
Regulated transmission and storage	53,915	47,774	97,038	93,163	89,745	79,830	63,326
Nonregulated(3)	5,113	59,051	69,944	64,881	76,641	97,275	117,159
Eliminations	—	—	—	344	344	344	237
Consolidated	$378,031	$415,136	$489,436	$447,402	$427,895	$398,636	$382,616
Other Financial Data							
Ratio of earnings to fixed charges(4)	5.01	4.98	2.99	2.74	2.96	2.69	2.50

(1) Financial results for the six months ended March 31, 2011 and for fiscal 2009, 2007 and 2006 include a $19.3 million, $5.4 million, $6.3 million and a $22.9 million pre-tax loss for the impairment of certain assets.

(2) Long-term debt excludes current maturities. Short-term debt is comprised of current maturities of long-term debt and short-term debt.

(3) As a result of the appointment of a new Chief Executive Officer effective October 1, 2010, during the first quarter of fiscal 2011, we revised the information used by the chief operating decision maker to manage Atmos Energy. As a result of this change, effective December 1, 2010, we combined our former natural gas marketing and pipeline, storage and other segments into one nonregulated segment. Financial information for all prior periods has been restated to conform to the new segment presentation.

(4) For purposes of computing ratio of earnings to fixed charges, earnings consist of the sum of our pre-tax income from continuing operations and fixed charges exclusive of capitalized interest. Fixed charges consist of interest expense, amortization of debt discount, premium and expense, capitalized interest and a portion of lease payments considered to represent an interest factor.

The Offering

Issuer	Atmos Energy Corporation
Notes Offered	$400,000,000 aggregate principal amount of 5.50% senior notes due 2041.
Maturity	The notes will mature on June 15, 2041.
Interest	The notes will bear interest at the rate of 5.50% per year. Interest on the notes will be payable semi-annually in arrears on June 15 and December 15 of each year they are outstanding, beginning December 15, 2011.
Ranking	The notes will be our unsecured senior obligations. The notes will rank equally in right of payment with all our existing and future unsubordinated indebtedness and will rank senior in right of payment to any future indebtedness that is subordinated to the notes. The notes will be effectively subordinated to all our existing and future secured indebtedness to the extent of the assets securing such indebtedness and to the indebtedness and liabilities of our subsidiaries.
Optional Redemption	We may redeem the notes prior to maturity at our option, at any time in whole or from time to time in part. Prior to December 15, 2040, the redemption price will be equal to the greater of the principal amount of the notes to be redeemed and the "make-whole" redemption price, plus, in each case, accrued and unpaid interest, if any, to the redemption date. At any time on or after December 15, 2040, the redemption price will be equal to 100% of the principal amount of the notes to be redeemed plus accrued and unpaid interest, if any, to the redemption date. See "Description of the Notes — Optional Redemption" beginning on page S-14.
Covenants of the Indenture	We will issue the notes under an indenture which will, among other things, restrict our ability to create liens and to enter into sale and leaseback transactions. See "Description of Debt Securities — Covenants" beginning on page 8 of the accompanying prospectus.
Use of Proceeds	We estimate that our net proceeds from this offering, after deducting the underwriting discount and estimated offering expenses payable by us, will be approximately $394 million. We intend to use the net proceeds of this offering to repay a substantial portion of our outstanding commercial paper borrowings. Any excess net proceeds will be used to fund capital expenditures and for general corporate purposes. See "Use of Proceeds" on page S-7.

Conflicts of Interest	As described in "Use of Proceeds," the net proceeds from this offering will be used to repay a substantial portion of our outstanding commercial paper borrowings. Because certain affiliates of the underwriters own our commercial paper and because more than 5% of the proceeds from this offering, not including underwriting compensation, may be received by such parties in connection with the repayment of such commercial paper borrowings, this offering is being conducted in compliance with Financial Regulatory Authority, Inc. ("FINRA") Rule 5121. Pursuant to that rule, the appointment of a qualified independent underwriter is not necessary in connection with this offering, as this offering is of a class of securities rated investment grade by a rating service acceptable to FINRA.
Risk Factors	Investing in the notes involves risks. See "Risk Factors" on page S-7 of this prospectus supplement and other information included and incorporated by reference in this prospectus supplement and the accompanying prospectus for a discussion of the factors you should consider carefully before deciding to invest in the notes.

RISK FACTORS

Investing in the notes involves risks. Our business is influenced by many factors that are difficult to predict and beyond our control and that involve uncertainties that may materially affect our results of operations, financial condition or cash flows, or the value of the notes. These risks and uncertainties include those described in the risk factor and other sections of the documents that are incorporated by reference in this prospectus supplement and the accompanying prospectus, including "Item 1A. Risk Factors" in our annual report on Form 10-K for the fiscal year ended September 30, 2010. You should carefully consider these risks and uncertainties and all of the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus before you invest in the notes.

USE OF PROCEEDS

We estimate that we will receive net proceeds from this offering of approximately $394 million, after deducting the underwriting discount and estimated offering expenses payable by us. We intend to use the net proceeds from this offering to repay a substantial portion of our outstanding commercial paper borrowings. Any excess net proceeds will be used to fund capital expenditures and for general corporate purposes.

As of June 3, 2011, we had approximately $350 million of commercial paper issued and outstanding with a weighted average interest rate of 0.3386% per annum and maturities of 27 to 28 days. These commercial paper borrowings are backstopped by our revolving credit facility that matures May 2, 2016, and such borrowings were incurred to pay at maturity our 7⅞% Senior Notes due May 15, 2011.

CAPITALIZATION

The following table presents our cash and cash equivalents, short-term debt and capitalization as of March 31, 2011, on an actual basis and as adjusted to reflect the issuance of notes in this offering, the use of proceeds therefrom as described under "Use of Proceeds" and the settlement of certain Treasury lock agreements that we entered into in September 2010 in order to fix the Treasury yield component of a notional principal amount of $300 million in notes and for which we have received approximately $20 million. You should read this table in conjunction with the section entitled "Use of Proceeds" and our condensed consolidated financial statements and related notes included in our quarterly report on Form 10-Q for the quarterly period ended March 31, 2011, which is incorporated by reference in this prospectus supplement and the accompanying prospectus.

	As of March 31, 2011	
	Actual	As Adjusted
	(In thousands, except share data)	
Cash and cash equivalents	$ 153,246	$ 217,537
Short-term debt		
Current maturities of long-term debt	$ 352,434	$ 2,434
Other short-term debt	—	—
Total short-term debt	$ 352,434	$ 2,434
Long-term debt, less current portion	$1,807,323	$2,206,035
Shareholders' equity		
Common stock, no par value (stated at $.005 per share); 200,000,000 shares authorized; 90,329,237 shares issued and outstanding, actual and as adjusted	452	452
Additional paid-in capital	1,728,474	1,728,474
Retained earnings	631,044	631,044
Accumulated other comprehensive income	14,009	5,460
Shareholders' equity	2,373,979	2,365,430
Total capitalization(1)	$4,181,302	$4,571,465

(1) Total capitalization excludes the current portion of long-term debt and other short-term debt.

BUSINESS

Overview

Atmos Energy Corporation, headquartered in Dallas, Texas, is engaged primarily in the regulated natural gas distribution and transmission and storage businesses, as well as other nonregulated natural gas businesses. We are one of the country's largest natural gas-only distributors based on number of customers and one of the largest intrastate pipeline operators in Texas based upon miles of pipe.

We currently distribute natural gas through regulated sales and transportation arrangements to over three million residential, commercial, public authority and industrial customers through our six regulated natural gas distribution divisions, which cover service areas in 12 states. Our primary service areas are located in Colorado, Kansas, Kentucky, Louisiana, Mississippi, Tennessee and Texas. We have more limited service areas in Georgia, Illinois, Iowa, Missouri and Virginia. In addition, we transport natural gas for others through our distribution system. In May 2011, we announced that we had entered into a definitive agreement to sell our natural gas distribution operations in Missouri, Illinois and Iowa, representing approximately 84,000 customers. After the closing of this transaction, we will operate in nine states.

Through our regulated transmission and storage business, we provide natural gas transportation and storage services to our Mid-Tex Division, our largest natural gas distribution division located in Texas, and for third parties. Additionally, we provide ancillary services customary to the pipeline industry, including parking arrangements, lending and sales of inventory on hand.

Through our nonregulated businesses, we primarily provide natural gas management and marketing services to municipalities, other local gas distribution companies and industrial customers primarily in the Midwest and Southeast. We also provide storage services to some of our natural gas distribution divisions and to third parties.

Operating Segments

We operate through the following three segments:

- the *natural gas distribution segment*, which includes our regulated natural gas distribution and related sales operations;
- the *regulated transmission and storage segment*, which includes the regulated pipeline and storage operations of our Atmos Pipeline — Texas Division; and
- the *nonregulated segment*, which includes our nonregulated natural gas management, nonregulated natural gas transmission, storage and other services.

Natural Gas Distribution Segment

We operate our natural gas distribution segment through the following six regulated divisions, which are presented below in order of total rate base:

- Atmos Energy Mid-Tex Division;
- Atmos Energy Kentucky/Mid-States Division;
- Atmos Energy Louisiana Division;
- Atmos Energy West Texas Division;
- Atmos Energy Colorado-Kansas Division; and
- Atmos Energy Mississippi Division.

The following is a brief description of our natural gas distribution divisions. We operate in our service areas under terms of non-exclusive franchise agreements granted by the various cities and towns that we serve. At September 30, 2010, we held 1,115 franchises having terms generally ranging from five to 35 years. A significant number of our franchises expire each year, which require renewal prior to the end of their terms. We believe that we will be able to renew our franchises as they expire. For more information, see "Item 1. Business" in our annual report on Form 10-K for the fiscal year ended September 30, 2010.

Atmos Energy Mid-Tex Division. Our Mid-Tex Division 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.

Prior to fiscal 2008, this division operated under one system-wide rate structure. However, in 2008, we reached a settlement with cities representing approximately 80 percent of this division's customers that has allowed us, beginning in 2008, to update rates for customers in these cities through an annual rate review mechanism. Rates for the remaining 20 percent of this division's customers, primarily the City of Dallas, continue to be updated through periodic formal rate proceedings and filings made under Texas' Gas Reliability Infrastructure Program ("GRIP"). GRIP allows us to include in our rate base annually approved capital costs incurred in the prior calendar year provided that we file a complete rate case at least once every five years.

Atmos Energy Kentucky/Mid-States Division. Our Kentucky/Mid-States Division operates in more than 420 communities across Georgia, Illinois, Iowa, Kentucky, Missouri, Tennessee and Virginia. The service areas in these states are primarily rural; however, this division serves Franklin, Tennessee, and other suburban areas of Nashville. We update our rates in this division through periodic formal rate filings made with each state's public service commission. In May 2011, we entered into a definitive agreement to sell our natural gas distribution operations in Missouri, Illinois and Iowa. See "Prospectus Supplement Summary — Recent Developments."

Atmos Energy Louisiana Division. In Louisiana, we serve 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. Our rates in this division are updated annually through a rate stabilization clause filing without filing a formal rate case.

Atmos Energy West Texas Division. Our West Texas Division 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. Prior to fiscal 2008, rates were updated in this division through formal rate proceedings. However, the West Texas Division entered into agreements with its West Texas service areas during 2008 and its Amarillo and Lubbock service areas during 2009 to update rates for customers in these service areas through an annual rate review mechanism.

Atmos Energy Colorado-Kansas Division. Our Colorado-Kansas Division serves approximately 170 communities throughout Colorado, Kansas and parts of Missouri, including the cities of Olathe, Kansas, a suburb of Kansas City and Greeley, Colorado, located near Denver. We update our rates in this division through periodic formal rate filings made with each state's public service commission. In May 2011, we entered into a definitive agreement to sell our natural gas operations in Missouri. See "Prospectus Supplement Summary — Recent Developments."

Atmos Energy Mississippi Division. In Mississippi, we serve about 110 communities throughout the northern half of the state, including the Jackson metropolitan area. Our rates in the Mississippi Division are updated annually through a stable rate filing without filing a formal rate case.

Regulated Transmission and Storage Segment Overview

Our regulated transmission and storage segment consists of the regulated pipeline and storage operations of our Atmos Pipeline — Texas Division. This division transports natural gas to our Mid-Tex Division, transports natural gas for third parties and manages five underground storage reservoirs in Texas. We also provide ancillary services customary in the pipeline industry including parking arrangements, lending and sales of excess gas. Parking arrangements provide short-term interruptible storage of gas on our pipeline. Lending services provide short-term interruptible loans of natural gas from our pipeline to meet market demands. Gross profit earned from our Mid-Tex Division and through certain other transportation and storage services is subject to traditional ratemaking governed by the RRC. Rates are updated through periodic formal rate proceedings and filings made under GRIP. GRIP allows us to include in our rate base annually approved capital costs incurred in the prior calendar year provided that we file a complete rate case at least once every five years. Atmos Pipeline — Texas' existing regulatory mechanisms allow certain transportation and storage services to be provided under market-based rates with minimal regulation.

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.

Nonregulated Segment Overview

Our nonregulated activities are conducted through Atmos Energy Holdings, Inc. ("AEH"), which is a wholly-owned subsidiary of Atmos Energy Corporation and operates primarily in the Midwest and Southeast areas of the United States.

AEH's primary business is to deliver gas and provide related services by aggregating and purchasing gas supply, arranging transportation and storage logistics and ultimately delivering gas to customers at competitive prices. In addition, AEH utilizes proprietary and customer-owned transportation and storage assets to provide various delivered gas services our customers request, including furnishing natural gas supplies at fixed and market-based prices, contract negotiation and administration, load forecasting, gas storage acquisition and management services, transportation services, peaking sales and balancing services, capacity utilization strategies and gas price hedging through the use of financial instruments. As a result, AEH's gas delivery and related services margins arise from the types of commercial transactions we have structured with our customers and our ability to identify the lowest cost alternative among the natural gas supplies, transportation and markets to which it has access to serve those customers.

AEH's storage and transportation margins arise from (i) utilizing its proprietary 21-mile pipeline located in Louisiana to aggregate gas supply for our regulated natural gas distribution division in Louisiana, its gas delivery activities and, on a more limited basis, for third parties and (ii) managing proprietary storage in Kentucky and Louisiana to supplement the natural gas needs of our natural gas distribution divisions during peak periods.

AEH also seeks to enhance its gross profit margin by maximizing, through asset optimization activities, the economic value associated with the storage and transportation capacity it owns or controls in our natural gas distribution segment and by its subsidiaries. It attempts to meet these objectives by engaging in natural gas storage transactions in which it seeks to find and profit through the arbitrage of pricing differences in various locations and by recognizing pricing differences that occur over time. This process involves purchasing physical natural gas, storing it in the storage and transportation assets to which AEH has access and selling financial instruments at advantageous prices to lock in a gross profit margin.

Other Regulation

Each of our natural gas distribution divisions is regulated by various state or local public utility authorities. We are also subject to regulation by the United States Department of Transportation with respect to safety requirements in the operation and maintenance of our gas distribution facilities. In addition, our distribution operations are also subject to various state and federal laws regulating environmental matters. From time to time we receive inquiries regarding various environmental matters. We believe that our properties and operations substantially comply with and are operated in substantial conformity with applicable safety and environmental statutes and regulations. There are no administrative or judicial proceedings arising under environmental quality statutes pending or known to be contemplated by governmental agencies which would have a material adverse effect on us or our operations. Our environmental claims have arisen primarily from former manufactured gas plant sites in Tennessee, Iowa and Missouri.

The Federal Energy Regulatory Commission ("FERC") allows, pursuant to Section 311 of the Natural Gas Policy Act, gas transportation services through our Atmos Pipeline — Texas assets "on behalf of" interstate pipelines or local distribution companies served by interstate pipelines, without subjecting these assets to the jurisdiction of the FERC. Additionally, the FERC has regulatory authority over the sale of natural gas in the wholesale gas market and the use and release of interstate pipeline and storage capacity, as well as authority to detect and prevent market manipulation and to enforce compliance with FERC's other rules, policies and orders by companies engaged in the sale, purchase, transportation or storage of natural gas in interstate commerce. We have taken what we believe are the necessary and appropriate steps to comply with these regulations.

As previously described in our annual report on Form 10-K for the fiscal year ended September 30, 2010, in December 2007, we received data requests from the Division of Investigations of the Office of Enforcement of FERC in connection with its investigation into possible violations of FERC's posting and competitive bidding regulations for pre-arranged released firm capacity on natural gas pipelines. There have been no material developments in this matter since September 30, 2010. We have accrued what we believe is an adequate amount for the anticipated resolution of this proceeding. While the ultimate resolution of this investigation cannot be predicted with certainty, we believe that the final outcome will not have a material adverse effect on our financial condition, results of operations or cash flows.

We have been replacing certain steel service lines in our Mid-Tex Division since our acquisition of TXU Gas' natural gas distribution system in 2004. In fiscal 2010, all of the cities our Mid-Tex Division serves agreed to a program of installing 100,000 replacements during the next two years with approved recovery of the associated return, depreciation and taxes. Under terms of the agreement, the accelerated replacement program commenced in the first quarter of fiscal 2011, replacing 14,939 lines for a cost of $21.7 million as of March 31, 2011. The program is progressing on schedule for completion in September 2012.

On February 22, 2011, the RRC adopted a regulation dealing with distribution facility replacement. The regulation requires each gas distribution system operator to develop a risk-based program for the removal or replacement of distribution facilities, including steel service lines. We are committed to replacing the steel service lines on an accelerated schedule to ensure the safety and reliability of our distribution system, and as part of this commitment, we support the new regulation. We are currently developing our risk-based program as prescribed by the regulation. As such, we cannot accurately anticipate the impact the regulation will have on us or the expected cost of the replacement program.

Competition

Although our natural gas distribution operations are not currently in significant direct competition with any other distributors of natural gas to residential and commercial customers within our service areas, we do compete with other natural gas suppliers and suppliers of alternative fuels for sales to industrial customers. We compete in all aspects of our business with alternative energy sources, including, in particular, electricity. Electric utilities offer electricity as a rival energy source and compete for the space heating, water heating and cooking markets. Promotional incentives, improved equipment efficiencies and promotional rates all contribute to the acceptability of electrical equipment. The principal means to compete against alternative fuels is lower prices, and natural gas historically has maintained its price advantage in the residential, commercial and industrial markets. However, higher gas prices, coupled with the electric utilities' marketing efforts, have increased competition for residential and commercial customers.

Our regulated transmission and storage operations historically have faced limited competition from other existing intrastate pipelines and gas marketers seeking to provide or arrange transportation, storage and other services for customers. However, in the last two years, several new pipelines have been completed, which has increased the level of competition in this segment of our business.

Within our nonregulated operations, AEH competes with other natural gas marketers to provide natural gas management and other related services primarily to smaller customers requiring higher levels of balancing, scheduling and other related management services. AEH has experienced increased competition in recent years primarily from investment banks and major integrated oil and natural gas companies who offer lower cost, basic services. The increased competition has reduced margins most notably on its high-volume accounts.

Distribution, Transmission and Related Assets

At September 30, 2010, our natural gas distribution segment owned an aggregate of 71,120 miles of underground distribution and transmission mains throughout our gas distribution systems. These mains are located on easements or rights-of-way which generally provide for perpetual use. We maintain our mains through a program of continuous inspection and repair and believe that our system of mains is in good condition. Our regulated transmission and storage segment owned 5,924 miles of gas transmission and gathering lines, and our nonregulated segment owned 113 miles of gas transmission and gathering lines.

Storage Assets

At September 30, 2010, we owned underground gas storage facilities in several states to supplement the supply of natural gas in periods of peak demand. The underground gas storage facilities of our natural gas distribution segment had a total usable capacity of 10,383,590 Mcf, with a maximum daily delivery capacity of 232,100 Mcf. The underground gas storage facilities of our regulated transmission and storage segment had a total usable capacity of 46,143,226 Mcf, with a maximum daily delivery capacity of 1,235,000 Mcf. The underground gas storage facilities of our nonregulated segment had a total usable capacity of 3,931,483 Mcf, with a maximum daily delivery capacity of 127,000 Mcf.

Additionally, we contract for storage service in underground storage facilities on many of the interstate pipelines serving us to supplement our proprietary storage capacity. The amount of our contracted storage capacity can vary from time to time. At September 30, 2010, our contracted storage provided us with a maximum storage quantity of 29,839,610 MMBtu, with a maximum daily withdrawal quantity of 853,000 MMBtu, for our natural gas distribution segment, and a maximum storage quantity of 9,700,869 MMBtu, with a maximum daily withdrawal quantity of 318,444 MMBtu, for our nonregulated segment.

For more information on our storage assets see "Item 2. Properties" in our annual report on Form 10-K for the fiscal year ended September 30, 2010.

DESCRIPTION OF THE NOTES

We have summarized certain provisions of the notes below. The notes constitute a series of the debt securities described in the accompanying prospectus. The notes will be issued under an indenture dated March 26, 2009 entered into with U.S. Bank National Association, as trustee (the "indenture").

The following description of certain terms of the notes and certain provisions of the indenture in this prospectus supplement supplements the description under "Description of Debt Securities" in the accompanying prospectus and, to the extent it is inconsistent with that description, replaces the description in the accompanying prospectus. This description is only a summary of the material terms and does not purport to be complete. We urge you to read the indenture, a form of which we have filed with the SEC, because it, and not the description below and in the accompanying prospectus, will define your rights as a holder of the notes. We have filed the indenture as an exhibit to our current report on Form 8-K that was filed with the SEC on March 26, 2009. You may obtain a copy of the indenture from us without charge. See "Where You Can Find More Information" in the accompanying prospectus.

General

The notes will be initially limited to $400,000,000 aggregate principal amount. We may, at any time, without the consent of the holders of these notes, issue additional notes having the same ranking, interest rate, maturity and other terms as the notes. Any such additional notes, together with the notes being offered by this prospectus supplement, will constitute the same series of notes under the indenture.

The notes will be unsecured and unsubordinated obligations of Atmos Energy Corporation. Any secured debt that we may have from time to time will have a prior claim with respect to the assets securing that debt. As of March 31, 2011, we had no secured debt outstanding. The notes will rank equally with all of our other existing and future unsubordinated debt. As of March 31, 2011, after giving effect to the net proceeds of this offering and the use of proceeds therefrom as described in "Use of Proceeds", we had approximately $2.2 billion of unsecured and unsubordinated debt. Of such $2.2 billion, less than $1 million represented debt of our subsidiaries. The notes are not guaranteed by, and are not the obligation of, any of our subsidiaries. The notes will not be listed on any securities exchange or included in any automated quotation system.

The notes will be issued in book-entry form as one or more global notes registered in the name of the nominee of The Depository Trust Company, or DTC, which will act as a depository, in minimum denominations of $2,000 and any integral multiple of $1,000 in excess thereof. Beneficial interests in book-entry notes will be shown on, and transfers of the notes will be made only through, records maintained by DTC and its participants.

Payment of Principal and Interest

The notes will mature on June 15, 2041 and bear interest at the rate of 5.50% per year.

We will pay interest on the notes semi-annually in arrears on June 15 and December 15 of each year they are outstanding, beginning December 15, 2011. Interest will accrue from June 10, 2011 or from the most recent interest payment date to which we have paid or provided for the payment of interest to the next interest payment date or the scheduled maturity date, as the case may be. We will pay interest computed on the basis of a 360-day year of twelve 30-day months.

We will pay interest on the notes in immediately available funds to the persons in whose names such notes are registered at the close of business on June 1 or December 1 preceding the respective interest payment date.

Optional Redemption

Each of the notes offered hereby will be redeemable prior to maturity at our option, at any time in whole or from time to time in part. Prior to December 15, 2040, the redemption price will be equal to the greater of:

- 100% of the principal amount of the notes to be redeemed; and

- as determined by the Quotation Agent (defined below), the sum of the present values of the Remaining Scheduled Payments (defined below) of principal and interest on the notes to be redeemed discounted to the redemption date on a semi-annual basis assuming a 360-day year consisting of twelve 30-day months at the Adjusted Treasury Rate (defined below) plus 20 basis points;

plus, in each case, accrued and unpaid interest on the principal amount of the notes to be redeemed to the redemption date.

At any time on or after December 15, 2040 (which is the date that is six months prior to the maturity date of the notes), the redemption price will be equal to 100% of the principal amount of the notes to be redeemed, plus accrued and unpaid interest thereon to the redemption date.

Definitions. Following are definitions of the terms used in the optional redemption provisions discussed above.

"Adjusted Treasury Rate" means, for any redemption date, the rate per annum equal to the semi-annual equivalent yield to maturity of the Comparable Treasury Issue, assuming a price of the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for that redemption date.

"Comparable Treasury Issue" means the United States Treasury security selected by the Quotation Agent as having a maturity comparable to the remaining term of the notes to be redeemed that would be used, at the time of a selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of the notes to be redeemed.

"Comparable Treasury Price" means, for any redemption date, the average of the Reference Treasury Dealer Quotations for that redemption date.

"Quotation Agent" means the Reference Treasury Dealer appointed by us.

"Reference Treasury Dealer" means each of BNP Paribas Securities Corp., Morgan Stanley & Co. LLC, UBS Securities LLC and a Primary Treasury Dealer (as defined below) selected by Wells Fargo Securities, LLC, and any of their successors; provided, however, if any of the foregoing ceases to be a primary U.S. government securities dealer in New York City (a "Primary Treasury Dealer"), we will substitute therefor another Primary Treasury Dealer.

"Reference Treasury Dealer Quotation" means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the trustee, of the bid and asked prices for the Comparable Treasury Issue (expressed, in each case, as a percentage of its principal amount) quoted in writing to the trustee by such Reference Treasury Dealer by 5:00 p.m. on the third business day preceding such redemption date.

"Remaining Scheduled Payments" means, with respect to each note to be redeemed, the remaining scheduled payments of the principal and interest on such note that would be due after the related redemption date but for such redemption; provided, however, that if such redemption date is not an interest payment date, the amount of the next succeeding scheduled interest payment on such note will be reduced by the amount of interest accrued on such note to such redemption date.

In the case of a partial redemption of the notes, the notes to be redeemed shall be selected by the trustee from the outstanding notes not previously called for redemption, by such method as the trustee shall deem fair and appropriate and which may provide for the selection for redemption of portions of the principal of the notes. Notice of any redemption will be mailed by first class mail at least 30 days but not more than 60 days before the redemption date to each holder of the notes to be redeemed at its registered address. If any notes are to be redeemed in part only, the notice of redemption will state the portion of the principal amount of notes to be redeemed. A partial redemption will not reduce the portion of any note not being redeemed to a principal amount of less than $2,000. Unless we default in payment of the redemption price, on and after the redemption date, interest will cease to accrue on the notes or the portions of the notes called for redemption.

No Mandatory Redemption

We will not be required to redeem the notes before maturity.

No Sinking Fund

We will not be required to make any sinking fund payments with regard to the notes.

Restricted Subsidiaries

As of the date of this prospectus supplement, none of our subsidiaries would be considered a Restricted Subsidiary under the terms of the indenture.

Reports

We will:

(1) file with the trustee, within 30 days after we have filed the same with the SEC, unless such reports are available on the SEC's EDGAR filing system (or any successor thereto), copies of the annual reports and of the information, documents and other reports (or copies of such portions of any of the foregoing as the SEC may from time to time by rules and regulations prescribe) which we may be required to file with the SEC pursuant to Section 13 or Section 15(d) of the Exchange Act; or, if we are not required to file information, documents or reports pursuant to either of such Sections, then we shall file with the trustee and the SEC, in accordance with rules and regulations prescribed from time to time by the SEC, such of the supplementary and periodic information, documents and reports which may be required pursuant to Section 13 of the Exchange Act in respect of a security listed and registered on a national securities exchange as may be prescribed from time to time in such rules and regulations;

(2) file with the trustee and the SEC, in accordance with rules and regulations prescribed from time to time by the SEC, such additional information, documents and reports with respect to compliance by us with the conditions and covenants of the indenture as may be required from time to time by such rules and regulations; and

(3) transmit to all holders, as their names and addresses appear in the security register, within 30 days after the filing thereof with the trustee, in the manner and to the extent provided in Section 313(c) of the Trust Indenture Act of 1939, as amended, such summaries of any information, documents and reports required to be filed by us pursuant to clauses (1) and (2) of this paragraph as may be required by rules and regulations prescribed from time to time by the SEC.

Governing Law

The notes will be governed by and construed in accordance with the laws of the State of New York.

Book-Entry Delivery and Settlement

Settlement for the notes will be made by the underwriters in immediately available funds. All payments of principal, premium, if any, and interest will be made by us in immediately available funds.

The Notes will trade in the Same-Day Funds Settlement System maintained by DTC until maturity or earlier redemption, and secondary market trading activity in the Notes will therefore be required by DTC to settle in immediately available funds. No assurance can be given as to the effect, if any, of settlement in immediately available funds on trading activity in the Notes.

Because of time-zone differences, credits of Notes received in Clearstream Banking, société anonyme ("Clearstream"), or Euroclear Bank, S.A./N.V. ("Euroclear"), as a result of a transaction with a DTC participant will be made during subsequent securities settlement processing and dated the business day following the DTC settlement date. Such credits or any transactions in such Notes settled during such processing will be reported to the relevant Clearstream or Euroclear participants on such business day. Cash received in Clearstream or Euroclear as a result of sales of Notes by or through a Clearstream participant or a Euroclear participant to a DTC participant will be received with value on the DTC settlement date but will be available in the relevant Clearstream or Euroclear cash account only as of the business day following settlement in DTC.

Although DTC, Clearstream and Euroclear have agreed to the foregoing procedures in order to facilitate transfers of Notes among participants of DTC, Clearstream and Euroclear, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time.

MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS

TO ENSURE COMPLIANCE WITH IRS CIRCULAR 230, HOLDERS ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF FEDERAL TAX ISSUES IN THIS PROSPECTUS SUPPLEMENT IS NOT INTENDED OR WRITTEN BY US TO BE RELIED UPON, AND CANNOT BE RELIED UPON BY HOLDERS, FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON HOLDERS UNDER THE INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "CODE"); (B) SUCH DISCUSSION IS WRITTEN IN CONNECTION WITH THE PROMOTION OR MARKETING OF THE NOTES BY THE ISSUERS; AND (C) HOLDERS SHOULD CONSULT THEIR OWN TAX ADVISORS WITH RESPECT TO THE PARTICULAR U.S. FEDERAL INCOME TAX CONSEQUENCES TO THEM OF THE ACQUISITION, OWNERSHIP AND DISPOSITION OF THE NOTES AND THE TAX CONSEQUENCES UNDER STATE, LOCAL, NON-U.S. AND OTHER U.S. FEDERAL TAX LAWS (INCLUDING ESTATE TAX CONSEQUENCES) AND THE POSSIBLE EFFECTS OF CHANGES IN THE FEDERAL INCOME TAX LAWS.

The following summary discusses certain material U.S. federal income tax consequences of the acquisition, ownership and disposition of the notes. This discussion is based upon the Code, the applicable proposed or promulgated Treasury regulations, and the applicable judicial and administrative interpretations, all as in effect as of the date hereof and all of which are subject to change, possibly with retroactive effect, and to differing interpretations. This discussion is applicable only to holders of notes who purchase the notes in the initial offering at their original issue price and deals only with the notes held as capital assets for U.S. federal income tax purposes (generally, property held for investment) and not held as part of a straddle, a hedge, a conversion transaction or other integrated investment. This discussion is a summary intended for general information only, and does not address all of the tax consequences that may be relevant to holders of notes in light of their particular circumstances, or to certain types of holders (such as financial institutions, insurance companies, tax-exempt entities, partnerships and other pass-through entities for U.S. federal income tax purposes or investors who hold the notes through such pass-through entities, certain former citizens or residents of the United States, "controlled foreign corporations," "passive foreign investment companies," "foreign personal holding companies," traders in securities that elect to use a mark-to-market method of accounting for their securities holdings, dealers in securities or currencies, corporations that accumulate earnings to avoid U.S. federal income tax, persons subject to the alternative minimum tax, or U.S. Holders (as defined below) whose functional currency is not the U.S. dollar). Moreover, this discussion does not describe any state, local or non-U.S. tax implications, or any aspect of U.S. federal tax law other than income taxation. We have not and will not seek any rulings or opinions from the Internal Revenue Service ("IRS") or counsel regarding the matters discussed below. There can be no assurances that the IRS will not take positions concerning the tax consequences of the purchase, ownership or disposition of the notes that are different from those discussed below.

As used herein, a "U.S. Holder" means a beneficial owner of notes that is, for U.S. federal income tax purposes, (a) a citizen or individual resident of the United States, (b) a corporation or other entity treated as a corporation created or organized in or under the laws of the United States, any State thereof or the District of Columbia, (c) an estate the income of which is subject to U.S. federal income taxation regardless of its source, or (d) a trust, if (1) a court within the United States is able to exercise primary supervision over the trust's administration and one or more U.S. persons have the authority to control all of its substantial decisions or (2) a valid election to be treated as a U.S. person is in effect under the relevant Treasury regulations with respect to such trust. A "Non-U.S. Holder" means a beneficial owner of any notes that is neither a U.S. Holder nor a partnership for U.S. federal income tax purposes. A Non-U.S. Holder who is an individual present in the United States for 183 days or more in the taxable year of disposition of a note and who is not otherwise a resident of the United States for U.S. federal income tax purposes may be subject to special tax provisions and is urged to consult his or her own tax advisor regarding the U.S. federal income tax consequences of the ownership and disposition of a note. The U.S. federal income tax treatment of partners in partnerships holding notes generally will depend on the activities of the partnership and the status of the partner. Prospective investors that are partnerships (or entities treated as partnerships for U.S. federal income tax purposes) should consult their own tax advisors regarding the U.S. federal income tax consequences to them and their partners of the acquisition, ownership and disposition of the notes.

U.S. Federal Income Taxation of U.S. Holders

Payments of Interest. A U.S. Holder must include in gross income, as ordinary interest income, the stated interest on the notes at the time such interest accrues or is received in accordance with the U.S. Holder's regular method of accounting for U.S. federal income tax purposes.

Sale, Retirement or Other Taxable Disposition. Upon the sale, retirement or other taxable disposition of a note, a U.S. Holder generally will recognize taxable gain or loss equal to the difference between (a) the sum of cash plus the fair market value of other property received on the sale, retirement or other taxable disposition (except to the extent such cash or property is attributable to accrued but unpaid interest, which will be treated in the manner described above under "Payments of Interest") and (b) the U.S. Holder's adjusted tax basis in the note. A U.S. Holder's adjusted tax basis in a note generally will equal the amount paid for the note, reduced by any principal payments with respect to the note received by the U.S. Holder. Gain or loss recognized on the sale, retirement or other taxable disposition of a note generally will be capital gain or loss and will be long-term capital gain or loss if, at the time of sale, retirement or other taxable disposition, the note has been held for more than one year. Certain U.S. Holders (including individuals) are currently eligible for preferential rates of U.S. federal income tax in respect of long-term capital gain (which preferential rates are currently scheduled to increase on January 1, 2013). The deductibility of capital losses by U.S. Holders is subject to substantial limitations under the Code.

U.S. Federal Income Taxation of Non-U.S. Holders

Payments of Interest. Subject to the discussion of backup withholding below and provided that a Non-U.S. Holder's income and gains in respect of a note are not effectively connected with the conduct by the Non-U.S. Holder of a U.S. trade or business (or, in the case of an applicable tax treaty, attributable to the Non-U.S. Holder's permanent establishment in the United States), payments of interest on a note to the Non-U.S. Holder generally will not be subject to U.S. federal income or withholding tax, provided that (a) the Non-U.S. Holder does not own, directly or constructively, 10% or more of the total combined voting power of all classes of our stock entitled to vote within the meaning of section 871(h)(3) of the Code and the Treasury regulations thereunder, (b) the Non-U.S. Holder is not, for U.S. federal income tax purposes, a "controlled foreign corporation" related, directly or constructively, to us through stock ownership, (c) the Non-U.S. Holder is not a bank receiving interest described in section 881(c)(3)(A) of the Code and (d) certain certification requirements (as described below) are met.

Under the Code and the applicable Treasury regulations, in order to obtain an exemption from U.S. federal withholding tax, either (a) a Non-U.S. Holder must provide its name and address and certify, under penalties of perjury, that such Non-U.S. Holder is not a U.S. person or (b) a securities clearing organization, bank or other financial institution that holds customers' securities in the ordinary course of its trade or business (a "Financial Institution"), and that holds the notes on behalf of the Non-U.S. Holder, must certify, under penalties of perjury, that such certificate has been received from such Non-U.S. Holder by such Financial Institution or by another Financial Institution between such Financial Institution and such Non-U.S. Holder and, if required, must furnish the payor with a copy thereof. Generally, the foregoing certification requirement may be met if a Non-U.S. Holder delivers a properly executed IRS Form W-8BEN or substitute Form W-8BEN or the appropriate successor form to the payor. Special rules apply to foreign partnerships, estates and trusts and other intermediaries, and in certain circumstances certifications as to foreign status of partners, trust owners or beneficiaries may have to be provided. In addition, special rules apply to qualified intermediaries that enter into withholding agreements with the IRS.

Payments of interest on a note that do not satisfy all of the foregoing requirements generally will be subject to U.S. federal withholding tax at a rate of 30% (or a lower applicable treaty rate, provided certain certification requirements are met). However, a Non-U.S. Holder generally will be subject to U.S. federal income tax in the same manner as a U.S. Holder with respect to interest on a note if such interest is effectively connected with a U.S. trade or business conducted by the Non-U.S. Holder (and, if an income tax treaty applies, is attributable to a permanent establishment or fixed base maintained by the Non-U.S. Holder in the United States). Under certain circumstances, effectively connected interest income received by a corporate Non-U.S. Holder may be subject to an additional "branch profits tax" at a 30% rate (or a lower applicable treaty rate, provided certain certification requirements are met). Subject to the discussion of backup withholding below, such effectively connected interest income generally will be exempt from U.S. federal withholding tax if a Non-U.S. Holder delivers a properly executed IRS Form W-8ECI to the payor. Non-U.S. Holders should consult their tax advisors about any applicable income tax treaties, which may provide for an exemption from or a lower rate of withholding tax, exemption from or reduction of branch profits tax, or other rules different from those described above.

Sale, Retirement or Other Disposition. Subject to the discussion of backup withholding below, a Non-U.S. Holder generally will not be subject to U.S. federal income or withholding tax on any gain recognized on the sale, retirement or other disposition of the notes so long as the holder provides us or the paying agent with the appropriate certification, unless (a) the Non-U.S. Holder is an individual who is present in the United States for 183 or more days in the taxable year of disposition and certain other conditions are met, or (b) the gain is effectively connected with the conduct of a U.S. trade or business by the Non-U.S. Holder (and, if an income tax treaty applies, is attributable to a permanent establishment or fixed base maintained by the Non-U.S. Holder in the United States). If the first exception applies, the Non-U.S. Holder generally will be subject to U.S. federal income tax at a rate of 30% on the amount by which its U.S.-source capital gains exceed its U.S.-source capital losses. If the second exception applies, the Non-U.S. Holder will generally be subject to U.S. federal income tax on the net gain derived from the sale or other disposition of the notes in the same manner as a U.S. holder. In addition, corporate Non-U.S. Holders may be subject to a 30% branch profits tax on any effectively connected earnings and profits. If a Non-U.S. Holder is eligible for the benefits of an income tax treaty between the United States and its country of residence, the U.S. federal income tax treatment of any such gain may be modified in the manner specified by the treaty.

Information Reporting and Backup Withholding

U.S. Holders. Generally, information reporting will apply to payments of principal and interest on the notes to a U.S. Holder and to the proceeds of sale or other disposition of the notes, unless the U.S. Holder is an exempt recipient (such as a corporation). Backup withholding generally will apply to such payments (currently at a rate of 28%) unless a U.S. Holder (a) is an exempt recipient and, when required, demonstrates this fact, or (b) provides the payor with its taxpayer identification number ("TIN"), certifies that the TIN provided to the payor is correct and that the U.S. Holder has not been notified by the IRS that such U.S. Holder is subject to backup withholding due to underreporting of interest or dividends, and otherwise complies with applicable requirements of the backup withholding rules. Any amount withheld under the backup withholding rules generally will be allowed as a refund or credit against a U.S. Holder's U.S. federal income tax liability, provided that the required information is timely furnished to the IRS.

Non-U.S. Holders. When required, we or our paying agent will report payments of interest on the notes to a Non-U.S. Holder and the amount of any tax withheld from such payments annually to the IRS and to the Non-U.S. Holder. Copies of these information returns may be made available by the IRS to the tax authorities of the country in which the Non-U.S. Holder is a resident under the provisions of an applicable tax treaty. Backup withholding of U.S. federal income tax (currently at a rate of 28%) will generally not apply to payments of interest on the notes to a Non-U.S. Holder if the Non-U.S. Holder certifies under penalties of perjury that it is not a U.S. person or otherwise establishes an exemption, provided that the payor does not have actual knowledge or reason to know that such certification is unreliable or that the conditions of the exemption are in fact not satisfied.

Payments of the proceeds of the sale or other disposition of the notes by or through a foreign office of a U.S. broker or of a foreign broker with certain specified U.S. connections will be subject to information reporting requirements, but generally not backup withholding, unless the broker has evidence in its records that the payee is not a U.S. person and the broker has no actual knowledge or reason to know to the contrary.

Payments of the proceeds of a sale or other disposition of the notes by or through the U.S. office of a broker will be subject to information reporting and backup withholding unless the payee certifies under penalties of perjury that it is not a U.S. person or otherwise establishes an exemption, provided that the payor does not have actual knowledge or reason to know that such certification is unreliable or that the conditions of the exemption are in fact not satisfied.

Any amount withheld under the backup withholding rules generally will be allowed as a refund or credit against a Non-U.S. Holder's U.S. federal income tax liability, provided that the required information is timely furnished to the IRS.

Medicare Tax and Reporting Obligations

For taxable years beginning after December 31, 2012, a U.S. person that is an individual or estate, or a trust that does not fall into a special class of trusts that is exempt from such tax, will be subject to a 3.8% tax on the lesser of (1) the U.S. person's "net investment income" for the relevant taxable year and (2) the excess of the U.S. person's modified gross income for the taxable year over a certain threshold (which in the case of individuals will be between $125,000 and $250,000 depending on the individual's circumstances). Net investment income generally includes interest income and net gains from the disposition of the notes, unless such interest income or net gains are derived in the ordinary course of the conduct of a trade or business (other than a trade or business that consists of certain passive or trading activities). A U.S. Holder that is an individual, estate or trust should consult its tax advisor regarding the applicability of the Medicare tax to its income and gains in respect of its investment in the notes.

UNDERWRITING (CONFLICTS OF INTEREST)

We are offering the notes described in this prospectus supplement through a number of underwriters. BNP Paribas Securities Corp., Morgan Stanley & Co. LLC, UBS Securities LLC and Wells Fargo Securities, LLC are the representatives of the underwriters. We have entered into a firm commitment underwriting agreement with the representatives. Subject to the terms and conditions of the underwriting agreement, we have agreed to sell to the underwriters, and each underwriter has severally agreed to purchase, the aggregate principal amount of notes listed next to its name in the following table:

Underwriter	Principal Amount of Notes
BNP Paribas Securities Corp.	$ 64,000,000
Morgan Stanley & Co. LLC	64,000,000
UBS Securities LLC	64,000,000
Wells Fargo Securities, LLC	64,000,000
Credit Agricole Securities (USA) Inc.	24,000,000
Deutsche Bank Securities Inc.	24,000,000
Goldman, Sachs & Co.	24,000,000
RBS Securities Inc.	24,000,000
U.S. Bancorp Investments, Inc.	24,000,000
BOSC, Inc.	8,000,000
BB&T Capital Markets, a division of Scott & Stringfellow, LLC	8,000,000
J.P. Morgan Securities LLC	8,000,000
Total	$400,000,000

The underwriting agreement is subject to a number of terms and conditions and provides that the underwriters must buy all of the notes if they buy any of them. The underwriters will sell the notes to the public when and if the underwriters buy the notes from us.

The underwriters reserve the right to withdraw, cancel or modify offers to the public and to reject orders in whole or in part.

The underwriters have advised us that they propose initially to offer the notes to the public at the public offering prices set forth on the cover of this prospectus supplement, and to certain dealers at such price less a concession not in excess of 0.50% of the principal amount of the notes. The underwriters may allow, and such dealers may reallow, a concession not in excess of 0.25% of the principal amount of the notes to certain other dealers. After the public offering of the notes, the public offering price and other selling terms may be changed.

We estimate that our share of the total expenses of the offering, excluding the underwriting discount, will be approximately $1,000,000.

We have agreed to indemnify the several underwriters against, or contribute to payments that the underwriters may be required to make in respect of, certain liabilities, including liabilities under the Securities Act of 1933.

The notes are a new issue of securities with no established trading market. The notes will not be listed on any securities exchange or on any automated dealer quotation system. The underwriters may make a market in the notes after completion of the offering, but will not be obligated to do so and may discontinue any market-making activities at any time without notice. No assurance can be given as to the liquidity of the trading market for the notes or that an active public market for the notes will develop. If an active public market for the notes does not develop, the market price and liquidity of the notes may be adversely affected.

In connection with the offering of the notes, certain of the underwriters may engage in transactions that stabilize, maintain or otherwise affect the price of the notes. Specifically, the underwriters may overallot in connection with the offering, creating a short position. In addition, the underwriters may bid for, and purchase, the notes in the open market to cover short positions or to stabilize the price of the notes. Any of these activities may stabilize or maintain the market price of the notes above independent market levels, but no representation is made hereby of the magnitude of any effect that the transactions described above may have on the market price of the notes. The underwriters will not be required to engage in these activities, and may engage in these activities, and may end any of these activities, at any time without notice.

The underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, investment research, principal investment, hedging, financing and brokerage activities. In the ordinary course of business, certain of the underwriters or their affiliates have provided and may in the future provide commercial, financial advisory or investment banking services for us and our subsidiaries for which they have received or will receive customary compensation. Certain of the underwriters are lenders under our revolving credit facilities. In the ordinary course of their various business activities, the underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers, and such investment and securities activities may involve securities and/or instruments of the issuer. The underwriters and their respective affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or instruments and may at any time hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

Conflicts of Interest

As described in "Use of Proceeds," the net proceeds from this offering will be used to repay a substantial portion of our outstanding commercial paper borrowings. Because certain affiliates of the underwriters own our commercial paper and because more than 5% of the proceeds from this offering, not including underwriting compensation, may be received by such parties in connection with the repayment of such commercial paper borrowings, this offering is being conducted in compliance with FINRA Rule 5121. Pursuant to that rule, the appointment of a qualified independent underwriter is not necessary in connection with this offering, as this offering is of a class of securities rated investment grade by a rating service acceptable to FINRA.

Selling Restrictions

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive, as defined below (each, a "Relevant Member State"), each underwriter has represented and agreed that, with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "Relevant Implementation Date") it has not made and will not make an offer of notes which are the subject of the offering contemplated by this prospectus supplement to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such notes to the public in that Relevant Member State:

(a) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(b) at any time to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, as defined below, 150 legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the representatives of the underwriters; or

(c) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive, provided that no such offer of notes referred to in (a) to (c) above shall require the publication by the Company or any underwriter of a prospectus pursuant to Article 3 of the Prospectus Directive, or supplement to a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer to the public" in relation to any notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the notes to be offered so as to enable an investor to decide to purchase or subscribe to the notes, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State, the expression "Prospectus Directive" means Directive 2003/71/EC (and the amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression "2010 PD Amending Directive" means Directive 2010/73/EU.

United Kingdom

The notes will only be offered in compliance with all applicable provisions of the Financial Services and Markets Act 2000 ("FSMA") with respect to anything done in relation to the notes in, from or otherwise involving the United Kingdom and each underwriter has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Company. Without limitation to the other restrictions referred to herein, this prospectus supplement is directed only at (1) persons outside the United Kingdom, (2) persons having professional experience in matters relating to investments who fall within the definition of "investment professionals" in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, (3) high net worth bodies corporate, unincorporated associations and partnerships and trustees of high value trusts as described in Article 49(2) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 or (4) persons to whom an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) in connection with the issue or sale of any securities may otherwise lawfully be communicated or caused to be communicated. Without limitation to the other restrictions referred to herein, any investment or investment activity to which this prospectus supplement relate is available only to, and will be engaged in only with, such persons, and persons within the United Kingdom who receive this communication (other than persons who fall within (1) to (4) above) should not rely or act upon this communication.

LEGAL MATTERS

Gibson, Dunn & Crutcher LLP and Hunton & Williams LLP will opine for us as to the validity of the offered notes. The Underwriters are represented by Shearman & Sterling LLP, New York, New York.

EXPERTS

The consolidated financial statements of Atmos Energy Corporation appearing in Atmos Energy Corporation's Annual Report (Form 10-K) for the fiscal year ended September 30, 2010 (including the schedule appearing therein) and the effectiveness of Atmos Energy Corporation's internal control over financial reporting as of September 30, 2010 have been audited by Ernst & Young LLP, independent registered public accounting firm, as set forth in their report thereon, included therein, and incorporated herein by reference. Such consolidated financial statements are incorporated herein by reference in reliance upon such reports given on the authority of such firm as experts in accounting and auditing.

With respect to the unaudited condensed consolidated interim financial information of Atmos Energy Corporation for the six-month periods ended March 31, 2011 and 2010, incorporated by reference in this prospectus, Ernst & Young LLP reported that they have applied limited procedures in accordance with professional standards for a review of such information. However, their separate report dated May 5, 2011, included in Atmos Energy Corporation's quarterly report on Form 10-Q for the quarterly period ended March 31, 2011, and incorporated herein by reference, states that they did not audit and they do not express an opinion on that interim financial information. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied. Ernst & Young LLP is not subject to the liability provisions of Section 11 of the Securities Act of 1933 (the "Act") for their report on the unaudited interim financial information because that report is not a "report" or a "part" of the Registration Statement prepared or certified by Ernst & Young LLP within the meaning of Sections 7 and 11 of the Act.

PROSPECTUS

Atmos Energy Corporation

By this prospectus, we offer up to
$1,300,000,000
of debt securities and common stock.

We will provide specific terms of these securities in supplements to this prospectus. This prospectus may not be used to sell securities unless accompanied by a prospectus supplement. You should read this prospectus and the applicable prospectus supplement carefully before you invest.

Investing in these securities involves risks. See "Risk Factors" on page 1 of this prospectus, in the applicable prospectus supplement and in the documents incorporated by reference.

Our common stock is listed on the New York Stock Exchange under the symbol "ATO."

Our address is 1800 Three Lincoln Centre, 5430 LBJ Freeway, Dallas, Texas 75240, and our telephone number is (972) 934-9227.

The Securities and Exchange Commission and state securities regulators have not approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

This prospectus is dated March 31, 2010.

We have not authorized any other person to provide you with any information or to make any representation that is different from, or in addition to, the information and representations contained in this prospectus or in any of the documents that are incorporated by reference in this prospectus. If anyone provides you with different or inconsistent information, you should not rely on it. You should assume that the information appearing in this prospectus, as well as the information contained in any document incorporated by reference, is accurate as of the date of each such document only, unless the information specifically indicates that another date applies.

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The distribution of this prospectus may be restricted by law in certain jurisdictions. You should inform yourself about and observe any of these restrictions. This prospectus does not constitute, and may not be used in connection with, an offer or solicitation by anyone in any jurisdiction in which the offer or solicitation is not authorized, or in which the person making the offer or solicitation is not qualified to do so, or to any person to whom it is unlawful to make the offer or solicitation.

The terms "we," "our," "us" and "Atmos Energy" refer to Atmos Energy Corporation and its subsidiaries unless the context suggests otherwise. The term "you" refers to a prospective investor.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Statements contained or incorporated by reference in this prospectus that are not statements of historical fact are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended. Forward-looking statements are based on management's beliefs as well as assumptions made by, and information currently available to, management. Because such statements are based on expectations as to future results and are not statements of fact, actual results may differ materially from those stated. Important factors that could cause future results to differ include, but are not limited to:

- our ability to continue to access the credit markets to satisfy our liquidity requirements;
- the impact of adverse economic conditions on our customers;
- increased costs of providing pension and postretirement health care benefits and increased funding requirements;
- market risks beyond our control affecting our risk management activities, including market liquidity, commodity price volatility, increasing interest rates and counterparty creditworthiness;
- regulatory trends and decisions, including the impact of rate proceedings before various state regulatory commissions;
- increased federal regulatory oversight and potential penalties;
- the impact of environmental regulations on our business;
- the possible impact of future additional regulatory and financial risks associated with global warming and climate change on our business;
- the concentration of our distribution, pipeline and storage operations in Texas;
- adverse weather conditions;
- the effects of inflation and changes in the availability and prices of natural gas;
- the capital-intensive nature of our natural gas distribution business;
- increased competition from energy suppliers and alternative forms of energy;
- the inherent hazards and risks involved in operating our natural gas distribution business;
- natural disasters, terrorist activities or other events; and
- other risks and uncertainties discussed in this prospectus, any accompanying prospectus supplement and our other filings with the SEC.

All of these factors are difficult to predict and many are beyond our control. Accordingly, while we believe our forward-looking statements to be reasonable, there can be no assurance that they will approximate actual experience or that the expectations derived from them will be realized. When used in our documents or oral presentations, the words "anticipate," "believe," "estimate," "expect," "forecast," "goal," "intend," "objective," "plan," "projection," "seek," "strategy" or similar words are intended to identify forward-looking statements. We undertake no obligation to update or revise our forward-looking statements, whether as a result of new information, future events or otherwise.

For additional factors you should consider generally and when evaluating these forward-looking statements, please see "Risk Factors" on page 1 of this prospectus and "Item 1A. Risk Factors" and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in our annual report on Form 10-K for the fiscal year ended September 30, 2009 and "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations" in our quarterly report on Form 10-Q for the three-month period ended December 31, 2009. See "Incorporation of Certain Documents by Reference," as well as the applicable prospectus supplement.

RISK FACTORS

Investing in our debt securities or our common stock involves risks. Our business is influenced by many factors that are difficult to predict and beyond our control and that involve uncertainties that may materially affect our results of operations, financial condition or cash flows, or the value of these securities. These risks and uncertainties include those described in the risk factors and other sections of the documents that are incorporated by reference in this prospectus. Moreover, risks and uncertainties not presently known to us or currently deemed immaterial by us may also adversely affect our business, results of operations, financial condition or cash flows, or the value of our securities. Subsequent prospectus supplements may contain a discussion of additional risks applicable to an investment in us and the particular type of securities we are offering under the prospectus supplements. You should carefully consider all of the information contained in or incorporated by reference in this prospectus or in the applicable prospectus supplement before you invest in our debt securities or common stock.

ATMOS ENERGY CORPORATION

Atmos Energy Corporation, headquartered in Dallas, Texas, is engaged primarily in the regulated natural gas distribution and transmission and storage businesses, as well as other nonregulated natural gas businesses. We are one of the country's largest natural gas-only distributors based on number of customers and one of the largest intrastate pipeline operators in Texas based on miles of pipe.

We distribute natural gas through regulated sales and transportation arrangements to over three million residential, commercial, public authority and industrial customers in 12 states through our six regulated natural gas distribution divisions. Our primary service areas are located in Colorado, Kansas, Kentucky, Louisiana, Mississippi, Tennessee and Texas. We have more limited service areas in Georgia, Illinois, Iowa, Missouri and Virginia.

Through our regulated transmission and storage business, we provide natural gas transportation and storage services to our Mid-Tex Division, our largest natural gas distribution division located in Texas, and for third parties. Additionally, we provide ancillary services customary to the pipeline industry, including parking arrangements, lending and sales of inventory on hand.

Through our nonregulated businesses, we primarily provide natural gas management and marketing services to municipalities, other local gas distribution companies and industrial customers primarily in the Midwest and Southeast. We also provide natural gas transportation and storage services to certain of our natural gas distribution divisions and third parties.

SECURITIES WE MAY OFFER

Types of Securities

The types of securities that we may offer and sell from time to time by this prospectus are:

- debt securities, which we may issue in one or more series; and
- common stock.

The aggregate initial offering price of all securities sold will not exceed $1,300,000,000. We will determine when we sell securities, the amounts of securities we will sell and the prices and other terms on which we will sell them. We may sell securities to or through underwriters, through agents or dealers or directly to purchasers. The offer and sale of securities by this prospectus is subject to receipt of satisfactory regulatory approvals in five states, all of which have been received and are currently in effect. Under the most restrictive of these approvals, we are limited to issuing no more than $950,000,000 of senior debt securities and $350,000,000 of equity securities.

Prospectus Supplements

This prospectus provides you with a general description of the debt securities and common stock we may offer. Each time we offer securities, we will provide a prospectus supplement that will contain specific information about the terms of the offering. The prospectus supplement may also add to or change information contained in this prospectus. In that case, the prospectus supplement should be read as superseding this prospectus.

In each prospectus supplement, which will be attached to the front of this prospectus, we will include, among other things, the following information:

- the type and amount of securities which we propose to sell;
- the initial public offering price of the securities;
- the names of the underwriters, agents or dealers, if any, through or to which we will sell the securities;
- the compensation, if any, of those underwriters, agents or dealers;
- if applicable, information about the securities exchanges or automated quotation systems on which the securities will be listed or traded;
- material United States federal income tax considerations applicable to the securities, where necessary; and
- any other material information about the offering and sale of the securities.

For more details on the terms of the securities, you should read the exhibits filed with our registration statement, of which this prospectus is a part. You should also read both this prospectus and the applicable prospectus supplement, together with additional information described under the heading "Where You Can Find More Information."

USE OF PROCEEDS

Except as may otherwise be stated in the applicable prospectus supplement, we intend to use the net proceeds from the sale of the securities that we may offer and sell from time to time by this prospectus for general corporate purposes, including for working capital, repaying indebtedness and funding capital projects, acquisitions and other growth.

RATIO OF EARNINGS TO FIXED CHARGES

The following table sets forth our ratio of earnings to fixed charges for the periods indicated:

	Three Months Ended December 31,		Year Ended September 30,				
	2009	2008	2009	2008	2007	2006	2005
Ratio of earnings to fixed charges	4.56	3.97	2.74	2.96	2.69	2.50	2.54

For purposes of computing the ratio of earnings to fixed charges, earnings consists of the sum of our pretax income from continuing operations and fixed charges. Fixed charges consist of interest expense, amortization of debt discount, premium and expense, capitalized interest and a portion of lease payments considered to represent an interest factor.

DESCRIPTION OF DEBT SECURITIES

We may issue debt securities from time to time in one or more distinct series. This section summarizes the material terms that we anticipate will be common to all series of debt securities. Please note that the terms of any series of debt securities that we may offer may differ significantly from the common terms described in this prospectus. Many of the other terms of any series of debt securities that we offer, and any differences from the common terms described in this prospectus, will be described in the prospectus supplement for such securities to be attached to the front of this prospectus.

As required by U.S. federal law for all bonds and notes of companies that are publicly offered, a document called an indenture will govern any debt securities that we issue. An indenture is a contract between us and a financial institution acting as trustee on behalf of the purchasers of the debt securities. We have entered into an indenture with U.S. Bank National Association, as trustee (the "indenture"), which is subject to the Trust Indenture Act of 1939. The trustee under the indenture has the following two main roles:

- the trustee can enforce your rights against us if we default; there are some limitations on the extent to which the trustee acts on your behalf, which are described later in this prospectus; and
- the trustee will perform certain administrative duties for us, which include sending you interest payments and notices.

As this section is a summary of some of the terms of the debt securities we may offer under this prospectus, it does not describe every aspect of the debt securities. We urge you to read the indenture and the other documents we file with the SEC relating to the debt securities because the indenture for those securities and those other documents, and not this description, will define your rights as a holder of our debt securities. We filed a copy of the indenture with the SEC as an exhibit to our Current Report on Form 8-K filed March 26, 2009, and it is incorporated in this prospectus by reference. We may file any such other documents as exhibits to an annual, quarterly or current report that we file with the SEC following their execution. See "Where You Can Find More Information" for information on how to obtain copies of the indenture and any such other documents. References to the "indenture" mean the indenture that will define your rights as a holder of debt securities. Capitalized terms used in this section and not otherwise defined have the meanings set forth in the indenture.

General

The debt securities will be our unsecured obligations. Senior debt securities will rank equally with all of our other unsecured and unsubordinated indebtedness. Subordinated debt securities will rank junior to our senior indebtedness, including our credit facilities.

You should read the prospectus supplement for the following terms of the series of debt securities offered by the prospectus supplement. Our board of directors will establish the following terms before issuance of the series:

- the title of the debt securities and whether the debt securities will be senior debt securities or subordinated debt securities;
- the ranking of the debt securities;
- if the debt securities are subordinated, the terms of subordination;
- the aggregate principal amount of the debt securities, the percentage of their principal amount at which the debt securities will be issued, and the date or dates when the principal of the debt securities will be payable or how those dates will be determined or extended;
- the interest rate or rates, which may be fixed or variable, that the debt securities will bear, if any, how the rate or rates will be determined, and the periods when the rate or rates will be in effect;
- the date or dates from which any interest will accrue or how the date or dates will be determined, the date or dates on which any interest will be payable, whether and the terms under which payment of interest may be deferred, any regular record dates for these payments or how these dates will be determined and the basis on which any interest will be calculated, if other than on the basis of a 360-day year of twelve 30-day months;

- the place or places, if any, other than or in addition to New York City, of payment, transfer or exchange of the debt securities, and where notices or demands to or upon us in respect of the debt securities may be served;
- any optional redemption provisions and any restrictions on the sources of funds for redemption payments, which may benefit the holders of other securities;
- any sinking fund or other provisions that would obligate us to repurchase or redeem the debt securities;
- whether the amount of payments of principal of, any premium on, or interest on the debt securities will be determined with reference to an index, formula or other method, which could be based on one or more commodities, equity indices or other indices, and how these amounts will be determined;
- any modifications, deletions or additions to the events of default or covenants with respect to the debt securities described in this prospectus;
- if not the principal amount of the debt securities, the portion of the principal amount that will be payable upon acceleration of the maturity of the debt securities or how that portion will be determined;
- any modifications, deletions or additions to the provisions concerning defeasance and covenant defeasance contained in the indenture that will be applicable to the debt securities;
- any provisions granting special rights to the holders of the debt securities upon the occurrence of specified events;
- if other than the trustee, the name of the paying agent, security registrar or transfer agent for the debt securities;
- if we do not issue the debt securities in book-entry form only to be held by The Depository Trust Company, as depository, whether we will issue the debt securities in certificated form or the identity of any alternative depository;
- the person to whom any interest in a debt security will be payable, if other than the registered holder at the close of business on the regular record date;
- the denomination or denominations in which the debt securities will be issued, if other than denominations of $2,000 or any integral multiple of $1,000 in excess thereof;
- any provisions requiring us to pay Additional Amounts on the debt securities to any holder who is not a United States person in respect of any tax, assessment or governmental charge and, if so, whether we will have the option to redeem the debt securities rather than pay the Additional Amounts;
- whether the debt securities will be convertible into or exchangeable for other debt securities, common shares or other securities of any kind of ours or another obligor, and, if so, the terms and conditions upon which the debt securities will be so convertible or exchangeable, including the initial conversion or exchange price or rate or the method of calculation, how and when the conversion price or exchange ratio may be adjusted, whether conversion or exchange is mandatory, at the option of the holder or at our option, the conversion or exchange period and any other provision related to the debt securities; and
- any other material terms of the debt securities or the indenture, which may not be consistent with the terms set forth in this prospectus.

For purposes of this prospectus, any reference to the payment of principal of, any premium on, or interest on the debt securities will include Additional Amounts if required by the terms of the debt securities.

The indenture does not limit the amount of debt securities that we are authorized to issue from time to time. The indenture also provides that there may be multiple series of debt securities issued thereunder and more than one trustee thereunder, each for one or more series of debt securities. If a trustee is acting under the indenture with respect to more than one series of debt securities, the debt securities for which it is acting would be treated as if issued under separate indentures. If there is more than one trustee under the indenture, the powers and trust obligations of each trustee will apply only to the debt securities of the separate series for which it is trustee.

We may issue debt securities with terms different from those of debt securities already issued. Without the consent of the holders of the outstanding debt securities, we may reopen a previous issue of a series of debt securities and issue additional debt securities of that series unless the reopening was restricted when we created that series.

There is no requirement that we issue debt securities in the future under the indenture, and we may use other indentures or documentation, containing different provisions in connection with future issues of other debt securities.

We may issue the debt securities as "original issue discount securities," which are debt securities, including any zero-coupon debt securities, that are issued and sold at a discount from their stated principal amount. Original issue discount securities provide that, upon acceleration of their maturity, an amount less than their principal amount will become due and payable. We will describe the U.S. federal income tax consequences and other considerations applicable to original issue discount securities in any prospectus supplement relating to them.

Holders of Debt Securities

Book-Entry Holders. We will issue debt securities in book-entry form only, unless we specify otherwise in the applicable prospectus supplement. This means the debt securities will be represented by one or more global securities registered in the name of a financial institution that holds them as depository on behalf of other financial institutions that participate in the depository's book-entry system. These participating institutions, in turn, hold beneficial interests in the debt securities on behalf of themselves or their customers.

Under the indenture, we will recognize as a holder only the person in whose name a debt security is registered. Consequently, for debt securities issued in global form, we will recognize only the depository as the holder of the debt securities and we will make all payments on the debt securities to the depository. The depository passes along the payments it receives to its participants, which in turn pass the payments along to their customers who are the beneficial owners. The depository and its participants do so under agreements they have made with one another or with their customers; they are not obligated to do so under the terms of the debt securities. As a result, you will not own the debt securities directly. Instead, you will own beneficial interests in a global security, through a bank, broker or other financial institution that participates in the depository's book-entry system or holds an interest through a participant. As long as the debt securities are issued in global form, you will be an indirect holder, and not a holder, of the debt securities.

Street Name Holders. In the future we may terminate a global security or issue debt securities initially in non-global form. In these cases, you may choose to hold your debt securities in your own name or in "street name." Debt securities held in street name would be registered in the name of a bank, broker or other financial institution that you choose, and you would hold only a beneficial interest in those debt securities through an account you maintain at that institution.

For debt securities held in street name, we will recognize only the intermediary banks, brokers and other financial institutions in whose names the debt securities are registered as the holders of those debt securities, and we will make all payments on those debt securities to them. These institutions pass along the payments they receive to their customers who are the beneficial owners, but only because they agree to do so in their customer agreements or because they are legally required to do so. If you hold debt securities in street name you will be an indirect holder, and not a holder, of those debt securities.

Legal Holders. Our obligations, as well as the obligations of the trustee and those of any third parties employed by us or the trustee, run only to the legal holders of the debt securities. We do not have obligations to you if you hold beneficial interests in global securities, in street name or by any other indirect means. This will be the case whether you choose to be an indirect holder of a debt security or have no choice because we are issuing the debt securities only in global form.

For example, once we make a payment or give a notice to the holder, we have no further responsibility for the payment or notice, even if that holder is required, under agreements with depository participants or customers or by law, to pass it along to the indirect holders but does not do so. Similarly, if we want to obtain the approval of the holders for any purpose (for example, to amend the indenture or to relieve us of the consequences of a default or of our obligation to comply with a particular provision of the indenture) we would seek the approval only from the holders, and not the indirect holders, of the debt securities. Whether and how the holders contact the indirect holders is up to the holders.

When we refer to you, we mean those who invest in the debt securities being offered by this prospectus, whether they are the holders or only indirect holders of those debt securities. When we refer to your debt securities, we mean the debt securities in which you hold a direct or indirect interest.

Special Considerations for Indirect Holders. If you hold debt securities through a bank, broker or other financial institution, either in book-entry form or in street name, you should check with your own institution to find out:

- how it handles securities payments and notices;
- whether it imposes fees or charges;
- how it would handle a request for the holders' consent, if ever required;
- whether and how you can instruct it to send you debt securities registered in your own name so you can be a holder, if that is permitted in the future;
- how it would exercise rights under the debt securities if there were a default or other event triggering the need for holders to act to protect their interests; and
- if the debt securities are in book-entry form, how the depository's rules and procedures will affect these matters.

Global Securities

What is a Global Security? We will issue each debt security under the indenture in book-entry form only, unless we specify otherwise in the applicable prospectus supplement. A global security represents one or any other number of individual debt securities. Generally, all debt securities represented by the same global securities will have the same terms. We may, however, issue a global security that represents multiple debt securities that have different terms and are issued at different times. We call this kind of global security a master global security.

Each debt security issued in book-entry form will be represented by a global security that we deposit with and register in the name of a financial institution or its nominee that we select. The financial institution that we select for this purpose is called the depository. Unless we specify otherwise in the applicable prospectus supplement, The Depository Trust Company, New York, New York, known as DTC, will be the depository for all debt securities issued in book-entry form.

A global security may not be transferred to or registered in the name of anyone other than the depository or its nominee, unless special termination situations arise. We describe those situations below under "Special Situations When a Global Security Will Be Terminated." As a result of these arrangements, the depository, or its nominee, will be the sole registered owner and holder of all debt securities represented by a global security, and investors will be permitted to own only beneficial interests in a global security. Beneficial interests must be held by means of an account with a broker, bank or other financial institution that in turn has an account with the depository or with another institution that does. Thus, if your security is represented by a global security, you will not be a holder of the debt security, but only an indirect holder of a beneficial interest in the global security.

Special Considerations for Global Securities. We do not recognize an indirect holder as a holder of debt securities and instead deal only with the depository that holds the global security. The account rules of your financial institution and of the depository, as well as general laws relating to securities transfers, will govern your rights relating to a global security.

If we issue debt securities only in the form of a global security, you should be aware of the following:

- you cannot cause the debt securities to be registered in your name, and cannot obtain non-global certificates for your interest in the debt securities, except in the special situations that we describe below;

- you will be an indirect holder and must look to your own bank or broker for payments on the debt securities and protection of your legal rights relating to the debt securities, as we describe under "Holders of Debt Securities" above;

- you may not be able to sell interests in the debt securities to some insurance companies and to other institutions that are required by law to own their securities in non-book-entry form;

- you may not be able to pledge your interest in a global security in circumstances where certificates representing the debt securities must be delivered to the lender or other beneficiary of the pledge in order for the pledge to be effective;

- the depository's policies, which may change from time to time, will govern payments, transfers, exchanges and other matters relating to your interest in a global security. We and the trustee have no responsibility for any aspect of the depository's actions or for its records of ownership interests in a global security. We and the trustee also do not supervise the depository in any way;

- DTC requires, and other depositories may require, that those who purchase and sell interests in a global security within its book-entry system use immediately available funds and your broker or bank may require you to do so as well; and

- financial institutions that participate in the depository's book-entry system, and through which you hold your interest in a global security, may also have their own policies affecting payments, notices and other matters relating to the debt security. Your chain of ownership may contain more than one financial intermediary. We do not monitor and are not responsible for the actions of any of those intermediaries.

Special Situations When a Global Security Will Be Terminated. In a few special situations described below, a global security will be terminated and interests in it will be exchanged for certificates in non-global form representing the debt securities it represented. After that exchange, you will be able to choose whether to hold the debt securities directly or in street name. You must consult your own bank or broker to find out how to have your interests in a global security transferred on termination to your own name, so that you will be a holder. We have described the rights of holders and street name investors above under "Holders of Debt Securities."

The special situations for termination of a global security are as follows:

- if the depository notifies us that it is unwilling, unable or no longer qualified to continue as depository for that global security and we do not appoint another institution to act as depository within 60 days;

- if we notify the trustee that we wish to terminate that global security; or

- if an event of default has occurred with regard to debt securities represented by that global security and has not been cured or waived. We discuss defaults later under "Events of Default."

If a global security is terminated, only the depository, and not we or the trustee, is responsible for deciding the names of the intermediary banks, brokers and other financial institutions in whose names the debt securities represented by the global security are registered, and, therefore, who will be the holders of those debt securities.

Covenants

This section summarizes the material covenants in the indenture. Please refer to the applicable prospectus supplement for information about any changes to our covenants, including any addition or deletion of a covenant, and to the indenture for information on other covenants not described in this prospectus or the applicable prospectus supplement.

Limitations on Liens. We covenant in the indenture that we will not, and will not permit any of our Restricted Subsidiaries to, create, incur, issue or assume any Indebtedness secured by any Lien on any Principal Property, or on shares of stock or Indebtedness of any Restricted Subsidiary, known as Restricted Securities, without making effective provision for the Outstanding Securities, other than debt securities of any series not entitled to the benefit of this covenant, to be secured by a Lien equally and ratably with, or prior to (or in the case of debt securities of any series that are subordinated in right of payment to the Indebtedness secured by such Lien, by a Lien subordinated to), the Lien securing such Indebtedness for so long as the Indebtedness is so secured, except that the foregoing restriction does not apply to:

- any Lien existing on the date of the first issuance of debt securities of the relevant series under the indenture or existing on such other date as may be specified in any supplemental indenture, board resolution or officer's certificate with respect to such series;
- any Lien on any Principal Property or Restricted Securities of any person existing at the time that person is merged or consolidated with or into us or a Restricted Subsidiary, or this person becomes a Restricted Subsidiary, or arising thereafter otherwise than in connection with the borrowing of money arranged thereafter and pursuant to contractual commitments entered into prior to and not in contemplation of the person's becoming a Restricted Subsidiary;
- any Lien on any Principal Property or Restricted Securities existing at the time we or a Restricted Subsidiary acquire the Principal Property or Restricted Securities, whether or not the Lien is assumed by us or the Restricted Subsidiary, provided that this Lien may not extend to any other Principal Property or Restricted Securities of ours or any Restricted Subsidiary;
- any Lien on any Principal Property, including any improvements on any existing Principal Property, of ours or any Restricted Subsidiary, and any Lien on Restricted Securities of a Restricted Subsidiary that was formed or is held for the purpose of acquiring and holding the Principal Property, in each case to secure all or any part of the cost of acquisition, development, operation, construction, alteration, repair or improvement of all or any part of the Principal Property, or to secure Indebtedness incurred by us or a Restricted Subsidiary for the purpose of financing all or any part of that cost, provided that the Lien is created prior to, at the time of, or within 12 months after the latest of, the acquisition, completion of construction or improvement or commencement of commercial operation of that Principal Property and, provided further, that the Lien may not extend to any other Principal Property of ours or any Restricted Subsidiary, other than any currently unimproved real property on which the Principal Property has been constructed or developed or the improvement is located;
- any Lien on any Principal Property or Restricted Securities to secure Indebtedness owed to us or to a Restricted Subsidiary;
- any Lien in favor of a governmental body to secure advances or other payments under any contract or statute or to secure Indebtedness incurred to finance the purchase price or cost of constructing or improving the property subject to the Lien;
- any Lien created in connection with a project financed with, and created to secure, Non-Recourse Indebtedness;
- any extension, renewal, substitution or replacement, or successive extensions, renewals, substitutions or replacements, in whole or in part, of any Lien referred to in any of the bullet points above, provided that the Indebtedness secured may not exceed the principal amount of Indebtedness that is secured at the time of the renewal or refunding, plus any premium, cost or expense in connection with such extensions, renewals, substitutions or replacements, and that the renewal or refunding Lien must be

limited to all or any part of the same property and improvements, shares of stock or Indebtedness that secured the Lien that was renewed or refunded; or

- any Lien not permitted above securing Indebtedness that, together with the aggregate outstanding principal amount of other secured Indebtedness that would otherwise be subject to the above restrictions, excluding Indebtedness secured by Liens permitted under the above exceptions, and the Attributable Debt in respect of all Sale and Leaseback Transactions, not including Attributable Debt in respect of any Sale and Leaseback Transactions described in the last two bullet points in the next succeeding paragraph, would not then exceed 15% of our Consolidated Net Tangible Assets.

Limitation on Sale and Leaseback Transactions. We covenant in the indenture that we will not, and will not permit any Restricted Subsidiary to, enter into any Sale and Leaseback Transaction unless:

- we or a Restricted Subsidiary would be entitled, without securing the Outstanding Securities of any series, to incur Indebtedness secured by a Lien on the Principal Property that is the subject of the Sale and Leaseback Transaction;

- the Attributable Debt associated with the Sale and Leaseback Transaction would be in an amount permitted under the last bullet point of the preceding paragraph;

- the proceeds received in respect of the Principal Property so sold and leased back at the time of entering into the Sale and Leaseback Transaction are to be used for our business and operations or the business and operations of any Subsidiary; or

- within 12 months after the sale or transfer, an amount equal to the proceeds received in respect of the Principal Property sold and leased back at the time of entering into the Sale and Leaseback Transaction is applied to the prepayment, other than mandatory prepayment, of any Outstanding Securities or Funded Indebtedness owed by us or a Restricted Subsidiary, other than Funded Indebtedness that is held by us or any Restricted Subsidiary or our Funded Indebtedness that is subordinate in right of payment to any Outstanding Securities that are entitled to the benefit of this covenant.

Definitions. Following are definitions of some of the terms used in the covenants described above.

"Attributable Debt" means, as to any lease under which a person is at the time liable for rent, at a date that liability is to be determined, the total net amount of rent required to be paid by that person under the lease during the remaining term, excluding amounts required to be paid on account of maintenance and repairs, services, insurance, taxes, assessments, water rates and similar charges and contingent rents, discounted from the respective due dates thereof at the rate of interest (or Yield to Maturity, in the case of original issue discount securities) borne by the then Outstanding Securities, compounded monthly.

"Capital Stock" means any and all shares, interests, rights to purchase, warrants, options, participations or other equivalents of or interests, however designated, in stock issued by a corporation.

"Consolidated Net Tangible Assets" means the aggregate amount of assets, less applicable reserves and other properly deductible items, after deducting:

- all current liabilities, excluding any portion thereof constituting Funded Indebtedness; and

- all goodwill, trade names, trademarks, patents, unamortized debt discount and expense and other like intangibles,

all as set forth on our most recent consolidated balance sheet contained in our latest quarterly or annual report filed with the SEC under the Securities Exchange Act of 1934, as amended, and computed in accordance with generally accepted accounting principles.

"Funded Indebtedness" means, as applied to any person, all Indebtedness of the person maturing after, or renewable or extendible at the option of the person beyond, 12 months from the date of determination.

"Indebtedness" means obligations for money borrowed, evidenced by notes, bonds, debentures or other similar evidences of indebtedness.

"Lien" means any lien, mortgage, pledge, encumbrance, charge or security interest securing Indebtedness; provided, however, that the following types of transactions will not be considered, for purposes of this definition, to result in a Lien:

- any acquisition by us or any Restricted Subsidiary of any property or assets subject to any reservation or exception under the terms of which any vendor, lessor or assignor creates, reserves or excepts or has created, reserved or excepted an interest in oil, gas or any other mineral in place or the proceeds of that interest;
- any conveyance or assignment whereby we or any Restricted Subsidiary conveys or assigns to any person or persons an interest in oil, gas or any other mineral in place or the proceeds of that interest;
- any Lien upon any property or assets either owned or leased by us or a Restricted Subsidiary or in which we or any Restricted Subsidiary owns an interest that secures for the benefit of the person or persons paying the expenses of developing or conducting operations for the recovery, storage, transportation or sale of the mineral resources of the property or assets, or property or assets with which it is unitized, the payment to the person or persons of our proportionate part or the Restricted Subsidiary's proportionate part of the development or operating expenses;
- any lease classified as an operating lease under generally accepted accounting principles;
- any hedging arrangements entered into in the ordinary course of business, including any obligation to deliver any mineral, commodity or asset; or
- any guarantees that we make for the repayment of Indebtedness of any Subsidiary or guarantees by any Subsidiary of the repayment of Indebtedness of any entity, including Indebtedness of Atmos Energy Marketing, LLC.

"Non-Recourse Indebtedness" means, at any time, Indebtedness incurred after the date of the indenture by us or a Restricted Subsidiary in connection with the acquisition of property or assets by us or a Restricted Subsidiary or the financing of the construction of or improvements on property, whenever acquired, provided that, under the terms of this Indebtedness and under applicable law, the recourse at the time and thereafter of the lenders with respect to this Indebtedness is limited to the property or assets so acquired, or the construction or improvements, including Indebtedness as to which a performance or completion guarantee or similar undertaking was initially applicable to the Indebtedness or the related property or assets if the guarantee or similar undertaking has been satisfied and is no longer in effect. Indebtedness which is otherwise Non-Recourse Indebtedness will not lose its character as Non-Recourse Indebtedness because there is recourse to us, any subsidiary of ours or any other person for (a) environmental or tax warranties and indemnities and such other representations, warranties, covenants and indemnities as are customarily required in such transactions or (b) indemnities for and liabilities arising from fraud, misrepresentation, misapplication or non-payment of rents, profits, insurance and condemnation proceeds and other sums actually received from secured assets to be paid to the lender, waste and mechanics' liens or similar matters.

"Principal Property" means any natural gas distribution property located in the United States, except any property that in the opinion of our board of directors is not of material importance to the total business conducted by us and of our consolidated Subsidiaries.

"Restricted Subsidiary" means any Subsidiary the amount of Consolidated Net Tangible Assets of which constitutes more than 10% of the aggregate amount of Consolidated Net Tangible Assets of us and our Subsidiaries.

"Sale and Leaseback Transaction" means any arrangement with any person in which we or any Restricted Subsidiary leases any Principal Property that has been or is to be sold or transferred by us or the Restricted Subsidiary to that person, other than any such arrangement involving:

- a lease for a term, including renewals at the option of the lessee, of not more than three years or classified as an operating lease under generally accepted accounting principles;
- leases between us and a Restricted Subsidiary or between Restricted Subsidiaries; and

- leases of a Principal Property executed by the time of, or within 12 months after the latest of, the acquisition, the completion of construction or improvement, or the commencement of commercial operation, of the Principal Property, whichever is later.

"Subsidiary" of ours means:

- a corporation, a majority of whose Capital Stock with rights, under ordinary circumstances, to elect directors is owned, directly or indirectly, at the date of determination, by us, by one or more of our Subsidiaries or by us and one or more of our Subsidiaries; or
- any other person, other than a corporation, in which at the date of determination we, one or more of our Subsidiaries or we and one or more of our Subsidiaries, directly or indirectly, have at least a majority ownership and power to direct the policies, management and affairs of that person.

Consolidation, Merger or Sale of Assets. Under the terms of the indenture, we will be generally permitted to consolidate with or merge into another entity. We will also be permitted to sell or transfer our assets substantially as an entirety to another entity. However, we may not take any of these actions unless all of the following conditions are met:

- the resulting entity must agree to be legally responsible for all our obligations relating to the debt securities and the indenture;
- the transaction must not cause a default or an Event of Default, as described below;
- the resulting entity must be organized under the laws of the United States or one of the states or the District of Columbia; and
- we must deliver an officers' certificate and legal opinion to the trustee with respect to the transaction.

In the event that we engage in one of these transactions and comply with the conditions listed above, we would be discharged from all our obligations and covenants under the indenture and all obligations under the Outstanding Securities, with the successor corporation or person succeeding to our obligations and covenants.

In the event that we engage in one of these transactions, the indenture provides that, if any Principal Property or Restricted Securities would thereupon become subject to any Lien securing the Indebtedness, the debt securities, other than debt securities not entitled to the benefits of specified covenants, must be secured, as to such Principal Property or Restricted Securities, equally and ratably with (or prior to or, in the case of debt securities that are subordinated in right of payment to the Indebtedness secured by such Lien or in the case of other Indebtedness of ours that is subordinated to the debt securities, on a subordinated basis to such Lien securing) the Indebtedness or obligations that upon the occurrence of such transaction would become secured by the Lien, unless the Lien could be created under the indenture without equally and ratably securing the debt securities (or, in the case of debt securities that are subordinated in right of payment to the Indebtedness secured by such Lien, on a subordinated basis to such Lien).

Modification or Waiver

There are two types of changes that we can make to the indenture and the debt securities.

Changes Requiring Approval. With the approval of the holders of at least a majority in principal amount of all outstanding debt securities of each series affected (including any such approvals obtained in connection with a tender or exchange offer for outstanding debt securities), we may make any changes, additions or deletions to any provisions of the indenture applicable to the affected series, or modify the rights of the holders of the debt securities of the affected series. However, without the consent of each holder affected, we cannot:

- change the stated maturity of the principal of, any premium on, or the interest on a debt security;
- reduce the principal amount, any premium on, or the rate of interest on a debt security;
- change any of our obligations to pay Additional Amounts;

- reduce the amount payable upon acceleration of maturity following the default of a debt security whose principal amount payable at stated maturity may be more or less than its principal face amount at original issuance or an original issue discount security;
- adversely affect any right of repayment at the holder's option;
- change the place of payment of a debt security;
- impair the holder's right to sue for payment;
- adversely affect any right to convert or exchange a debt security;
- reduce the percentage of holders of debt securities whose consent is needed to modify or amend the indenture; or
- modify certain provisions of the indenture dealing with suits for enforcement of payment by the trustee or modification and waiver, except to increase any percentage of consents required to amend the indenture or for any waiver, or to modify the provisions of the indenture dealing with the unconditional right of the holders of the debt securities to receive principal, premium, if any, and interest.

Changes Not Requiring Approval. The second type of change does not require any vote by the holders of the debt securities. This type is limited to clarifications and certain other changes that would not adversely affect holders of the outstanding debt securities in any material respect. Additionally, we do not need any approval to make any change that affects only debt securities to be issued under the indenture after the changes take effect.

Further Details Concerning Voting. When taking a vote, we will use the following rules to decide how much principal amount to attribute to a debt security:

- for original issue discount securities, we will use the principal amount that would be due and payable on the voting date if the maturity of the debt securities were accelerated to that date because of a default; and
- for debt securities whose principal amount is not known (for example, because it is based on an index) we will use a special rule for that debt security described in the applicable prospectus supplement.

Debt securities will not be considered outstanding, and therefore not eligible to vote, if we have deposited or set aside in trust money for their payment or redemption. Debt securities will also not be eligible to vote if they have been fully defeased as described later under "Defeasance and Covenant Defeasance."

Book-entry and other indirect holders should consult their banks or brokers for information on how approval may be granted or denied if we seek to change the indenture or the debt securities or request a waiver.

Events of Default

Holders of debt securities will have special rights if an Event of Default occurs as to the debt securities of their series that is not cured, as described later in this subsection. Please refer to the applicable prospectus supplement for information about any changes to the Events of Default, including any addition of a provision providing event risk or similar protection.

What is an Event of Default? The term "Event of Default" as to the debt securities of a series means any of the following:

- we do not pay interest on a debt security of the series within 30 days of its due date;
- we do not pay the principal of or any premium, if any, on a debt security of the series on its due date;
- we do not deposit any sinking fund payment when and as due by the terms of any debt securities requiring such payment;

- we remain in breach of a covenant or agreement in the indenture, other than a covenant or agreement not for the benefit of the series, for 60 days after we receive written notice stating that we are in breach from the trustee or the holders of at least 25 percent of the principal amount of the debt securities of the series;

- we or a Restricted Subsidiary is in default under any matured or accelerated agreement or instrument under which we have outstanding Indebtedness for borrowed money or guarantees, which individually is in excess of $25,000,000, and we have not cured any acceleration within 30 days after we receive notice of this default from the trustee or the holders of at least 25 percent of the principal amount of the debt securities of the series, unless prior to the entry of judgment for the trustee, we or the Restricted Subsidiary remedy the default or the default is waived by the holders of the indebtedness;

- we file for bankruptcy or other events of bankruptcy, insolvency or reorganization occur; or

- any other Event of Default provided for the benefit of debt securities of the series.

An Event of Default for a particular series of debt securities will not necessarily constitute an Event of Default for any other series of debt securities issued under the indenture.

The trustee may withhold notice to the holders of debt securities of a particular series of any default if it considers its withholding of notice to be in the interest of the holders of that series, except that the trustee may not withhold notice of a default in the payment of the principal of, any premium on, or the interest on the debt securities or in the payment of any sinking fund installment with respect to the debt securities.

Remedies if an Event of Default Occurs. If an event of default has occurred and is continuing, the trustee or the holders of at least 25 percent in principal amount of the debt securities of the affected series may declare the entire principal amount and all accrued interest of all the debt securities of that series to be due and immediately payable by notifying us, and the trustee, if the holders give notice, in writing. This is called a declaration of acceleration of maturity.

If the maturity of any series of debt securities is accelerated and a judgment for payment has not yet been obtained, the holders of a majority in principal amount of the debt securities of that series may cancel the acceleration if all events of default other than the non-payment of principal or interest on the debt securities of that series that have become due solely by a declaration of acceleration are cured or waived, and we deposit with the trustee a sufficient sum of money to pay:

- all overdue interest on outstanding debt securities of that series;

- all unpaid principal and any premium, if any, of any outstanding debt securities of that series that has become due otherwise than by a declaration of acceleration, and interest on the unpaid principal and any premium, if any;

- all interest on the overdue interest; and

- all amounts paid or advanced by the trustee for that series and reasonable compensation of the trustee.

Except in cases of default, where the trustee has some special duties, the trustee is not required to take any action under the indenture at the request of any holders unless the holders offer the trustee reasonable protection from expenses and liability. This is called an indemnity. If reasonable indemnity is provided, the holders of a majority in principal amount of the outstanding debt securities of the relevant series may direct the time, method and place of conducting any lawsuit or other formal legal action seeking any remedy available to the trustee. The trustee may refuse to follow those directions if the directions conflict with any law or the indenture or expose the trustee to personal liability. No delay or omission in exercising any right or remedy will be treated as a waiver of that right, remedy or Event of Default.

Before a holder is allowed to bypass the trustee and bring his or her own lawsuit or other formal legal action or take other steps to enforce his or her rights or protect his or her interest relating to the debt securities, the following must occur:

- the holder must give the trustee written notice that an Event of Default has occurred and remains uncured;
- the holders of at least 25 percent in principal amount of all outstanding debt securities of the relevant series must make a written request that the trustee take action because of the default and must offer reasonable indemnity to the trustee against the cost and other liabilities of taking that action;
- the trustee must not have instituted a proceeding for 60 days after receipt of the above notice and offer of indemnity; and
- the holders of a majority in principal amount of the debt securities must not have given the trustee a direction inconsistent with the above notice during the 60-day period.

However, a holder is entitled at any time to bring a lawsuit for the payment of money due on his or her debt securities on or after the due date without complying with the foregoing.

Holders of a majority in principal amount of the debt securities of the affected series may waive any past defaults other than the following:

- the payment of principal, any premium, or interest on any debt security; or
- in respect of a covenant that under the indenture cannot be modified or amended without the consent of each holder affected.

Each year, we will furnish the trustee with a written statement of two of our officers certifying that, to their knowledge, we are in compliance with the indenture and the debt securities, or else specifying any default.

Book-entry and other indirect holders should consult their banks or brokers for information on how to give notice or direction to or make a request of the trustee and how to declare or cancel an acceleration.

Defeasance and Covenant Defeasance

Unless we provide otherwise in the applicable prospectus supplement, the provisions for full defeasance and covenant defeasance described below apply to each series of debt securities. In general, we expect these provisions to apply to each debt security that is not a floating rate or indexed debt security.

Full Defeasance. If there is a change in U.S. federal tax law, as described below, we can legally release ourselves from all payment and other obligations on the debt securities, called "full defeasance," if we put in place the following arrangements for you to be repaid:

- we must deposit in trust for the benefit of all holders of the debt securities a combination of money and obligations issued or guaranteed by the U.S. government that will generate enough cash to make interest, principal and any other payments on the debt securities on their various due dates; and
- we must deliver to the trustee a legal opinion confirming that there has been a change in current federal tax law or an IRS ruling that lets us make the above deposit without causing you to be taxed on the debt securities any differently than if we did not make the deposit and just repaid the debt securities ourselves at maturity.

If we ever did accomplish defeasance, as described above, you would have to rely solely on the trust deposit for repayment of the debt securities. You could not look to us for repayment in the event of any shortfall. Conversely, the trust deposit would most likely be protected from claims of our lenders and other creditors if we ever become bankrupt or insolvent. If we accomplish a defeasance, we would retain only the obligations to register the transfer or exchange of the debt securities, to maintain an office or agency in respect of the debt securities and to hold moneys for payment in trust.

Covenant Defeasance. Under current federal tax law, we can make the same type of deposit described above and be released from any restrictive covenants in the indenture. This is called "covenant defeasance." In that event, you would lose the protection of any such covenants but would gain the protection of having money and obligations issued or guaranteed by the U.S. government set aside in trust to repay the debt securities. In order to achieve covenant defeasance, we must do the following:

- deposit in trust for your benefit and the benefit of all other direct holders of the debt securities a combination of money and obligations issued or guaranteed by the U.S. government that will generate enough cash to make interest, principal and any other payments on the debt securities on their various due dates; and
- deliver to the trustee a legal opinion of our counsel confirming that, under current federal income tax law, we may make the deposit described above without causing you to be taxed on the debt securities any differently than if we did not make the deposit and just repaid the debt securities ourselves at maturity.

If we accomplish covenant defeasance, you can still look to us for repayment of the debt securities if there were a shortfall in the trust deposit or the trustee is prevented from making payment. In fact, if one of the remaining Events of Default occurred, such as our bankruptcy, and the debt securities became immediately due and payable, there may be a shortfall. Depending on the event causing the default, you may not be able to obtain payment of the shortfall.

Debt Securities Issued in Non-Global Form

If any debt securities cease to be issued in global form, they will be issued:

- only in fully registered form;
- without interest coupons; and
- unless we indicate otherwise in the prospectus supplement, in denominations of $2,000 and amounts that are integral multiples of $1,000 in excess thereof.

Holders may exchange their debt securities that are not in global form for debt securities of smaller denominations or combined into fewer debt securities of larger denominations, as long as the total principal amount is not changed.

Holders may exchange or transfer their debt securities at the office of the trustee. We may appoint the trustee to act as our agent for registering debt securities in the names of holders transferring debt securities, or we may appoint another entity to perform these functions or perform them ourselves.

Holders will not be required to pay a service charge to transfer or exchange their debt securities, but they may be required to pay for any tax or other governmental charge associated with the transfer or exchange. The transfer or exchange will be made only if our transfer agent is satisfied with the holder's proof of legal ownership.

If we have designated additional transfer agents for a holder's debt security, they will be named in the applicable prospectus supplement. We may appoint additional transfer agents or cancel the appointment of any particular transfer agent. We may also approve a change in the office through which any transfer agent acts.

If any debt securities are redeemable and we redeem less than all those debt securities, we may stop the transfer or exchange of those debt securities during the period beginning 15 days before the day we mail the notice of redemption and ending on the day of that mailing, in order to freeze the list of holders to prepare the mailing. We may also refuse to register transfers or exchanges of any debt securities selected for redemption, except that we will continue to permit transfers and exchanges of the unredeemed portion of any debt security that will be partially redeemed.

If a debt security is issued as a global security, only the depository will be entitled to transfer and exchange the debt security as described in this section, since it will be the sole holder of the debt security.

Payment Mechanics

Who Receives Payment? If interest is due on a debt security on an interest payment date, we will pay the interest to the person or entity in whose name the debt security is registered at the close of business on the regular record date, discussed below, relating to the interest payment date. If interest is due at maturity but on a day that is not an interest payment date, we will pay the interest to the person or entity entitled to receive the principal of the debt security. If principal or another amount besides interest is due on a debt security at maturity, we will pay the amount to the holder of the debt security against surrender of the debt security at a proper place of payment, or, in the case of a global security, in accordance with the applicable policies of the depository.

Payments on Global Securities. We will make payments on a global security in accordance with the applicable policies of the depository as in effect from time to time. Under those policies, we will pay directly to the depository, or its nominee, and not to any indirect holders who own beneficial interests in the global security. An indirect holder's right to those payments will be governed by the rules and practices of the depository and its participants, as described above under "What is a Global Security?".

Payments on Non-Global Securities. For a debt security in non-global form, we will pay interest that is due on an interest payment date by check mailed on the interest payment date to the holder at his or her address shown on the trustee's records as of the close of business on the regular record date. We will make all other payments by check, at the paying agent described below, against surrender of the debt security. We will make all payments by check in next-day funds; for example, funds that become available on the day after the check is cashed.

Alternatively, if a non-global security has a face amount of at least $1,000,000 and the holder asks us to do so, we will pay any amount that becomes due on the debt security by wire transfer of immediately available funds to an account at a bank in New York City on the due date. To request wire payment, the holder must give the paying agent appropriate transfer instructions at least five business days before the requested wire payment is due. In the case of any interest payment due on an interest payment date, the instructions must be given by the person who is the holder on the relevant regular record date. In the case of any other payment, we will make payment only after the debt security is surrendered to the paying agent. Any wire instructions, once properly given, will remain in effect unless and until new instructions are given in the manner described above.

Regular Record Dates. We will pay interest to the holders listed in the trustee's records as the owners of the debt securities at the close of business on a particular day in advance of each interest payment date. We will pay interest to these holders if they are listed as the owner even if they no longer own the debt security on the interest payment date. That particular day, usually about two weeks in advance of the interest payment date, is called the "regular record date" and will be identified in the prospectus supplement.

Payment When Offices Are Closed. If any payment is due on a debt security on a day that is not a business day, we will make the payment on the next business day. Payments postponed to the next business day in this situation will be treated under the indenture as if they were made on the original due date. A postponement of this kind will not result in a default under any debt security or the indenture, and no interest will accrue on the postponed amount from the original due date to the next business day.

Paying Agents. We may appoint one or more financial institutions to act as our paying agents, at whose designated offices debt securities in non-global form may be surrendered for payment at their maturity. We call each of those offices a paying agent. We may add, replace or terminate paying agents from time to time. We may also choose to act as our own paying agent. Initially, we have appointed the trustee, at its corporate trust office in New York City, as the paying agent. We must notify you of changes in the paying agents.

Book-entry and other indirect holders should consult their banks or brokers for information on how they will receive payments on their debt securities.

The Trustee Under the Indenture

U.S. Bank National Association is the trustee under the indenture for our debt securities. We will identify any other entity acting as the trustee for a series of debt securities that we may offer in the prospectus supplement for the offering of such debt securities.

The trustee may resign or be removed with respect to one or more series of debt securities and a successor trustee may be appointed to act with respect to these series.

DESCRIPTION OF COMMON STOCK

General

Our authorized capital stock consists of 200,000,000 shares of common stock, of which 93,146,536 shares were outstanding on March 26, 2010. Each of our shares of common stock is entitled to one vote on all matters voted upon by shareholders. Our shareholders do not have cumulative voting rights. Our issued and outstanding shares of common stock are fully paid and nonassessable. There are no redemption or sinking fund provisions applicable to the shares of our common stock, and such shares are not entitled to any preemptive rights. Since we are incorporated in both Texas and Virginia, we must comply with the laws of both states when issuing shares of our common stock.

Holders of our shares of common stock are entitled to receive such dividends as may be declared from time to time by our board of directors from our assets legally available for the payment of dividends and, upon our liquidation, a pro rata share of all of our assets available for distribution to our shareholders.

American Stock Transfer & Trust Company is the registrar and transfer agent for our common stock.

Charter and Bylaws Provisions

Some provisions of our articles of incorporation and bylaws may be deemed to have an "anti-takeover" effect. The following description of these provisions is only a summary, and we refer you to our articles of incorporation and bylaws for more information. Our articles of incorporation and bylaws are included as exhibits to our annual reports on Form 10-K filed with the SEC. See "Where You Can Find More Information."

Classification of the Board. Our board of directors is currently divided into three classes, each of which consists, as nearly as may be possible, of one-third of the total number of directors constituting the entire board. There are currently 13 directors serving on the board, with each class of directors serving a three-year term. However, at our annual meeting of shareholders in February 2010, our shareholders approved our proposal to amend the articles of incorporation to eliminate the classification of our board of directors. The proposal provides that any director currently serving on the board will continue to serve until the expiration of the term for which he or she was elected. Accordingly, beginning with the 2011 annual meeting of our shareholders and thereafter, successors to the class of directors whose term expires at that annual meeting will be elected for one-year terms. That means that until after the annual meeting of shareholders in 2012, the classification of directors could have the effect of making it more difficult for shareholders, including those holding a majority of the outstanding shares, to force an immediate change in the composition of the board. Until that time, two shareholder meetings, instead of one, would be required to effect a change in the majority of our board.

Cumulative Voting. Our articles of incorporation prohibit cumulative voting. In general, in the absence of cumulative voting, one or more persons who hold a majority of our outstanding shares can elect all of the directors who are subject to election at any meeting of shareholders.

Removal of Directors. Our articles of incorporation and bylaws also provide that our directors may be removed only for cause and upon the affirmative vote of the holders of at least 75 percent of the shares then entitled to vote at an election of directors.

Fair Price Provisions. Article VII of our articles of incorporation provides certain "Fair Price Provisions" for our shareholders. Under Article VII, a merger, consolidation, sale of assets, share exchange, recapitalization or other similar transaction, between us or a company controlled by or under common control with us and any individual, corporation or other entity which owns or controls 10 percent or more of our voting capital stock, would be required to satisfy the condition that the aggregate consideration per share to be received in the transaction for each class of our voting capital stock be at least equal to the highest per share price, or equivalent price for any different classes or series of stock, paid by the 10 percent shareholder in acquiring any of its holdings of our stock. If a proposed transaction with a 10 percent shareholder does not meet this condition, then the transaction must be approved by the holders of at least 75 percent of the outstanding shares of voting capital stock held by our shareholders other than the 10 percent shareholder, unless a majority of the directors who were members of our board immediately prior to the time the 10 percent shareholder involved in the proposed transaction became a 10 percent shareholder have either:

- expressly approved in advance the acquisition of the outstanding shares of our voting capital stock that caused the 10 percent shareholder to become a 10 percent shareholder; or

- approved the transaction either in advance of or subsequent to the 10 percent shareholder becoming a 10 percent shareholder.

The provisions of Article VII may not be amended, altered, changed, or repealed except by the affirmative vote of at least 75 percent of the votes entitled to be cast thereon at a meeting of our shareholders duly called for consideration of such amendment, alteration, change, or repeal. In addition, if there is a 10 percent shareholder, such action must also be approved by the affirmative vote of at least 75 percent of the outstanding shares of our voting capital stock held by the shareholders other than the 10 percent shareholder.

Shareholder Proposals and Director Nominations. Our shareholders can submit shareholder proposals and nominate candidates for the board of directors if the shareholders follow the advance notice procedures described in our bylaws.

Shareholder proposals (other than those sought to be included in our proxy statement) must be submitted to our corporate secretary at least 60 days, but not more than 85 days, before the annual meeting; provided, however, that if less than 75 days' notice or prior public disclosure of the date of the annual meeting is given or made to shareholders, notice by the shareholder to be timely must be received by our corporate secretary no later than the close of business on the 25th day following the day on which such notice of the date of the annual meeting was provided or such public disclosure was made. The notice must include a description of the proposal, the shareholder's name and address and the number of shares held, and all other information which would be required to be included in a proxy statement filed with the SEC if the shareholder were a participant in a solicitation subject to the SEC's proxy rules. To be included in our proxy statement for an annual meeting, our corporate secretary must receive the proposal at least 120 days prior to the anniversary of the date we mailed the proxy statement for the prior year's annual meeting.

To nominate directors, shareholders must submit a written notice to our corporate secretary at least 60 days, but not more than 85 days, before a scheduled meeting; provided, however, that if less than 75 days' notice or prior public disclosure of the date of the annual meeting is given or made to shareholders, such nomination shall have been received by our corporate secretary no later than the close of business on the 25th day following the day on which such notice of the date of the annual meeting was mailed or such public disclosure was made. The notice must include the name and address of the shareholder and of the shareholder's nominee, the number of shares held by the shareholder, a representation that the shareholder is a holder of record of common stock entitled to vote at the meeting, and that the shareholder intends to appear in person or by proxy to nominate the persons specified in the notice, a description of any arrangements between the shareholder and the shareholder's nominee, information about the shareholder's nominee required by the SEC and the written consent of the shareholder's nominee to serve as a director.

Shareholder proposals and director nominations that are late or that do not include all required information may be rejected. This could prevent shareholders from bringing certain matters before an annual or special meeting or making nominations for directors.

PLAN OF DISTRIBUTION

We may sell the securities offered by this prospectus and a prospectus supplement as follows:

- through agents;
- to or through underwriters;
- through dealers;
- directly by us to purchasers; or
- through a combination of any such methods of sale.

We, directly or through agents or dealers, may sell, and the underwriters may resell, the securities in one or more transactions, including:

- transactions on the New York Stock Exchange or any other organized market where the securities may be traded;
- in the over-the-counter market;
- in negotiated transactions; or
- through a combination of any such methods of sale.

The securities may be sold at a fixed price or prices which may be changed, at market prices prevailing at the time of sale, at prices related to such prevailing market prices or at negotiated prices.

Agents designated by us from time to time may solicit offers to purchase the securities. We will name any such agent involved in the offer or sale of the securities and set forth any commissions payable by us to such agent in a prospectus supplement relating to any such offer and sale of securities. Unless otherwise indicated in the prospectus supplement, any such agent will be acting on a best efforts basis for the period of its appointment. Any such agent may be deemed to be an underwriter of the securities, as that term is defined in the Securities Act.

If underwriters are used in the sale of securities, securities will be acquired by the underwriters for their own account and may be resold from time to time in one or more transactions. Securities may be offered to the public either through underwriting syndicates represented by one or more managing underwriters or directly by one or more firms acting as underwriters. If an underwriter or underwriters are used in the sale of securities, we will execute an underwriting agreement with such underwriter or underwriters at the time an agreement for such sale is reached. We will set forth in the prospectus supplement the names of the specific managing underwriter or underwriters, as well as any other underwriters, and the terms of the transactions, including compensation of the underwriters and dealers. Such compensation may be in the form of discounts, concessions or commissions. Underwriters and others participating in any offering of securities may engage in transactions that stabilize, maintain or otherwise affect the price of such securities. We will describe any such activities in the prospectus supplement.

We may elect to list any class or series of securities on any exchange, but we are not currently obligated to do so. It is possible that one or more underwriters, if any, may make a market in a class or series of securities, but the underwriters will not be obligated to do so and may discontinue any market making at any time without notice. We cannot give any assurance as to the liquidity of the trading market for any of the securities we may offer.

If a dealer is used in the sale of the securities, we or an underwriter will sell such securities to the dealer, as principal. The dealer may then resell such securities to the public at varying prices to be determined by such dealer at the time of resale. The prospectus supplement will set forth the name of the dealer and the terms of the transactions.

We may directly solicit offers to purchase the securities, and we may sell directly to institutional investors or others. These persons may be deemed to be underwriters within the meaning of the Securities Act with respect to any resale of the securities. The prospectus supplement will describe the terms of any such sales, including the terms of any bidding, auction or other process, if used.

Agents, underwriters and dealers may be entitled under agreements which may be entered into with us to indemnification by us against specified liabilities, including liabilities under the Securities Act, or to contribution by us to payments they may be required to make in respect of such liabilities. The prospectus supplement will describe the terms and conditions of such indemnification or contribution. Some of the agents, underwriters or dealers, or their affiliates, may engage in transactions with or perform services for us and our subsidiaries in the ordinary course of their business.

LEGAL MATTERS

Gibson, Dunn & Crutcher LLP, Denver, Colorado, and Hunton & Williams LLP, Richmond, Virginia, have each rendered an opinion with respect to the validity of the securities that may be offered under this prospectus. We filed these opinions as exhibits to the registration statement of which this prospectus is a part. If counsel for any underwriters passes on legal matters in connection with an offering made under this prospectus, we will name that counsel in the prospectus supplement relating to that offering.

EXPERTS

The consolidated financial statements of Atmos Energy appearing in Atmos Energy Corporation's Annual Report (Form 10-K) for the fiscal year ended September 30, 2009 (including the schedule appearing therein), and the effectiveness of Atmos Energy Corporation's internal control over financial reporting as of September 30, 2009 have been audited by Ernst & Young LLP, independent registered public accounting firm, as set forth in their reports thereon, included therein, and incorporated herein by reference. Such consolidated financial statements are incorporated herein by reference in reliance upon such reports given on the authority of such firm as experts in accounting and auditing.

With respect to the unaudited condensed consolidated interim financial information of Atmos Energy for the three-month periods ended December 31, 2009 and 2008, incorporated herein by reference, Ernst & Young LLP reported that they have applied limited procedures in accordance with professional standards for a review of such information. However, their separate report dated February 3, 2010, included in our quarterly report on Form 10-Q for the three-month period ended December 31, 2009, and incorporated herein by reference, states that they did not audit and they do not express an opinion on that interim financial information. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied. Ernst & Young LLP is not subject to the liability provisions of Section 11 of the Securities Act of 1933, as amended, for their report on the unaudited interim financial information because that report is not a "report" or a "part" of the Registration Statement prepared or certified by Ernst & Young LLP within the meaning of Sections 7 and 11 of the Securities Act of 1933.

WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission under the Securities Exchange Act of 1934. You may read and copy this information at the Public Reference Room of the SEC, 100 F Street, N.E., Washington, D.C. 20549, at prescribed rates. You may obtain information on the operation of the Public Reference Room by calling the SEC at (800) SEC-0330.

The SEC also maintains an internet Web site that contains reports, proxy statements and other information about issuers, like us, who file electronically with the SEC. The address of that site is www.sec.gov. Unless specifically listed below under "Incorporation of Certain Documents by Reference" the information contained on the SEC Web site is not incorporated by reference into this prospectus.

You can also inspect reports, proxy statements and other information about us at the offices of the New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005.

We have filed with the SEC a registration statement on Form S-3 that registers the securities we are offering. The registration statement, including the attached exhibits and schedules, contains additional relevant information about us and the securities offered. The rules and regulations of the SEC allow us to omit certain information included in the registration statement from this prospectus.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The SEC allows us to "incorporate by reference" information in this prospectus that we have filed with it. This means that we can disclose important information to you by referring you to another document filed separately with the SEC. The information incorporated by reference is considered to be part of this prospectus, except for any information that is superseded by information that is included directly in this prospectus or the applicable prospectus supplement relating to an offering of our securities.

We incorporate by reference into this prospectus the documents listed below and any future filings we make with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 prior to the termination of our offering of securities. These additional documents include periodic reports, such as annual reports on Form 10-K and quarterly reports on Form 10-Q, and current reports on Form 8-K (other than information furnished under Items 2.02 and 7.01, which is deemed not to be incorporated by reference in this prospectus), as well as proxy statements (other than information identified in them as not incorporated by reference). You should review these filings as they may disclose a change in our business, prospects, financial condition or other affairs after the date of this prospectus.

This prospectus incorporates by reference the documents listed below that we have filed with the SEC but have not been included or delivered with this document:

- Our annual report on Form 10-K for the year ended September 30, 2009;

- Our quarterly report on Form 10-Q for the three-month period ended December 31, 2009;

- Our current reports on Form 8-K filed with the SEC on October 15, 2009, October 28, 2009, November 12, 2009, December 1, 2009, December 16, 2009 and February 9, 2010.

- The following pages and captioned text contained in our definitive proxy statement for the annual meeting of shareholders on February 3, 2010 and incorporated into our annual report on Form 10-K: pages 3 through 5 under the caption *"Beneficial Ownership of Common Stock,"* pages 6 through 10 under the captions *"Proposal One — Election of Directors — Nominees for Director"* and *"— Directors Continuing in Office,"* pages 10 through 13 under the captions *"Corporate Governance and Other Board Matters — Independence of Directors"* and *"— Related Person Transactions,"* pages 14 through 15 under the captions *"Corporate Governance and Other Board Matters — Committees of the Board of Directors"* and *"— Other Board and Board Committee Matters — Human Resources Committee Interlocks and Insider Participation,"* pages 15 through 20 under the captions *"Director Compensation"* through to the end of *"Audit Committee-Related Matters — Independence of Audit Committee Members, Financial Literacy and Audit Committee Financial Experts,"* page 22 under the caption *"Audit Committee-Related Matters — Audit Committee Pre-Approval Policy,"* pages 22 through 33 under the caption *"Compensation Discussion and Analysis,"* and pages 34 through 52 under the caption *"Named Executive Officer Compensation"* through to the end of the caption *"Proposal Three — Ratification of Appointment of Independent Registered Public Accounting Firm."*

These documents contain important information about us and our financial condition.

You may obtain a copy of any of these filings, or any of our future filings, from us without charge by requesting it in writing or by telephone at the following address or telephone number:

Atmos Energy Corporation
1800 Three Lincoln Centre
5430 LBJ Freeway
Dallas, Texas 75240
Attention: Susan Giles
(972) 934-9227

Our internet Web site address is *www.atmosenergy.com.* Information on or connected to our internet Web site is not part of this prospectus.

$400,000,000

Atmos Energy Corporation

5.50% Senior Notes due 2041

PROSPECTUS SUPPLEMENT

Joint Book-Running Managers

BNP PARIBAS
Morgan Stanley
UBS Investment Bank
Wells Fargo Securities

Senior Co-Managers

Credit Agricole CIB
Deutsche Bank Securities
Goldman, Sachs & Co.
RBS
US Bancorp

Co-Managers

BOSC, Inc.
BB&T Capital Markets
J.P. Morgan

June 7, 2011

REQUEST:

Please provide copies of all studies performed by Atmos Energy Corporation and/or Applicant, or by consultants or investment firms hired by Atmos Energy Corporation and/or Applicant, to assess: (1) Applicant's financial performance; (2) the performance of the Applicant relative to other utilities; or (3) the adequacy of the Applicant's return on equity or overall rate of return.

RESPONSE:

The Company has no such studies.

Respondent: Greg Waller

REQUEST:

Please provide copies of all known investment reports on Atmos Energy Corporation published since January 1, 2012.

RESPONSE:

Please see Attachment 1 and Attachment 2 for the 2012 and 2013 to date analyst reports, respectively.

ATTACHMENTS:

ATTACHMENT 1 - Atmos Energy Corporation, OAG_1-183_Att1 - 2012 Analyst Reports.pdf, 657 Pages.

ATTACHMENT 2 - Atmos Energy Corporation, OAG_1-183_Att2 - 2013 Analyst Reports.pdf, 236 Pages.

Respondent: Greg Waller

CASE NO. 2013-00148
ATTACHMENT 1
TO OAG DR NO. 1-183

ARGUS®

NYSE: ATO

ATMOS ENERGY CORP

Atmos Energy, headquartered in Dallas, is the country's largest natural gas-only distributor, serving more than 3.2 million gas utility customers. Atmos Energy's utility operations serve more than 1,500 communities in 12 states. Regulated gas utility operations consist of the Louisiana, West Texas, Mid-Tex, Colorado/Kansas, Mississippi and Kentucky/Mid-States Divisions. The company's nonutility businesses, organized under Atmos Energy Holdings Inc., operate in 22 states. These businesses provide natural gas marketing and procurement services to industrial, commercial, and municipal customers, and also manage company-owned natural gas storage and pipeline assets, including one of the largest intrastate natural gas pipeline systems in Texas.

Analyst's Notes

Analysis by Gary F. Hovis, May 31, 2012

ARGUS RATING: HOLD

- Fairly valued at current levels; fundamentals strong
- Even though Atmos' operating income is still being squeezed by customer conservation and the weather, we think that this will be more than offset by benefits from recent rate hikes.
- The stock's price/cash flow multiple indicates a premium valuation, and its price/sales and price/book multiples are also slightly above the median for the gas utility industry.
- The company pays a quarterly dividend of $0.345, or $1.38 annually, for a yield of about 4.2%.
- We believe that investors with a four- to five-year time horizon will benefit from the company's strong financial position, future rate increases, steadily expanding dividends, and attractive integrated structure.

INVESTMENT THESIS

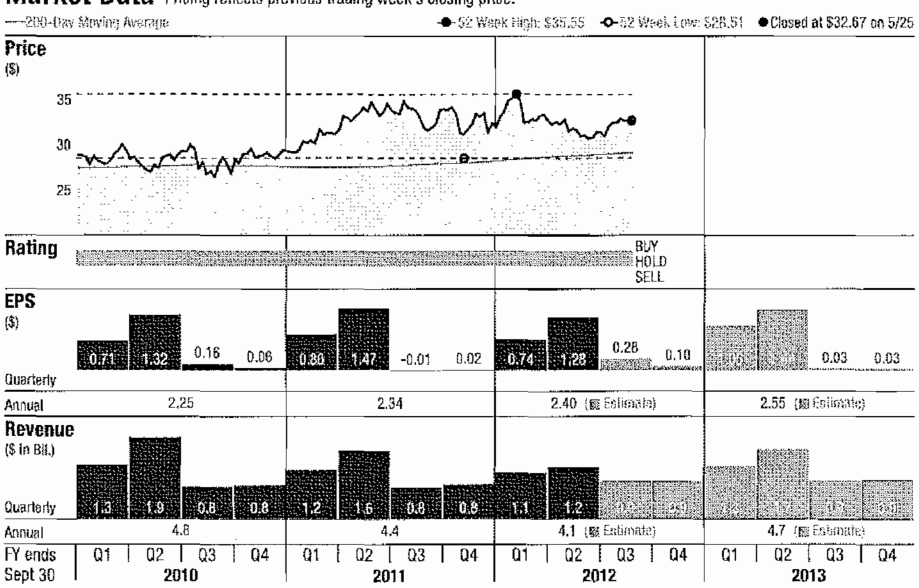
We are maintaining our HOLD rating on Atmos Energy Corp. (NYSE: ATO), as current valuation metrics and our FY13 EPS estimate suggest an unexciting total return potential over the next 12 months.

At the same time, we are maintaining our long-term BUY rating. Even though Atmos' operating income is still being squeezed by the recession (residential and commercial customers are cutting back on consumption), we think that this will be more than offset by benefits from recent rate hikes in its Mid-Tex, Louisiana and West Texas gas distribution operations. We also believe that prospects remain very favorable in the company's nonregulated pipeline, storage and marketing segments (which provide 25%-30% of operating income in any given year).

Atmos has proven itself to be a successful acquirer and integrator of gas utilities, with low operating costs, improved rate structures, and profitable regulated and nonregulated pipeline and marketing operations. Thanks to the recent increase in rate tariffs in the

Market Data

Pricing reflects previous trading week's closing price.



Argus Recommendations

Twelve Month Rating: SELL HOLD BUY

Five Year Rating: SELL HOLD BUY

Sector Rating: Under Weight Market Weight Over Weight

Argus assigns a 12-month BUY, HOLD, or SELL rating to each stock under coverage.

- BUY-rated stocks are expected to outperform the market (the benchmark S&P 500 Index) on a risk-adjusted basis over the next year.
- HOLD-rated stocks are expected to perform in line with the market.
- SELL-rated stocks are expected to underperform the market on a risk-adjusted basis.

The distribution of ratings across Argus' entire company universe is: 45% Buy, 50% Hold, 5% Sell.

Key Statistics

Key Statistics pricing data reflects previous trading day's closing price. Other applicable data are trailing 12-months unless otherwise specified

Market Overview	
Price	**$33.14**
Target Price	**--**
52 Week Price Range	**$28.51 to $35.55**
Shares Outstanding	**90.03 Million**
Dividend	**$1.38**
Sector Overview	
Sector	**Utility**
Sector Rating	**UNDER WEIGHT**
Total % of S&P 500 Market Cap.	**3.00%**
Financial Strength	
Financial Strength Rating	**MEDIUM-HIGH**
Debt/Capital Ratio	**51.7%**
Return on Equity	**9.2%**
Net Margin	**4.5%**
Payout Ratio	**0.58**
Current Ratio	**1.17**
Revenue	**$3.98 Billion**
After-Tax Income	**$179.01 Million**
Valuation	
Current FY P/E	**13.00**
Prior FY P/E	**13.81**
Price/Sales	**0.75**
Price/Book	**1.26**
Book Value/Share	**$26.22**
Market Capitalization	**$2.98 Billion**
Forecasted Growth	
1 Year EPS Growth Forecast	**2.56%**
5 Year EPS Growth Forecast	**5.00%**
1 Year Dividend Growth Forecast	**1.45%**
Risk	
Beta	**0.74**
Institutional Ownership	**56.17%**

Please see important information about this report on page 5

Analyst's Notes...Continued

regulated distribution segment (which represents most of the company's operating income), Atmos now has negligible exposure to volatility in gas prices or weather, in contrast to peers with considerably more risk to their earnings. Finally, the stock offers a dividend yield of about 4.2%.

RECENT DEVELOPMENTS

On May 2, Atmos Energy reported consolidated results for fiscal 2Q12 (ended March 31, 2012).

Second quarter non-GAAP operating earnings were $116.8 million or $1.28 per share, compared with non-GAAP operating results in fiscal 2Q11 of $134.3 million or $1.47 per share. The decline was primarily attributable to a loss in the nonregulated transmission and storage segment. In addition, above-normal temperatures in January and February in the company's service areas played a role.

Regulated natural gas distribution gross profit, excluding discontinued operations, increased $1.8 million to $380.8 million from $379.0 million in fiscal 2Q11. This increase reflects a net $6.4 million increase in rates, primarily in the company's Mid-Tex, Mississippi and Louisiana service areas, partially offset by a $5.9 million decrease in revenue-related taxes, primarily due to lower revenue on which the tax is calculated.

Regulated transmission and storage gross profit increased $3.0 million to $58.0 million for fiscal 2Q12 from $55.0 million for fiscal 2Q11. This increase is primarily a result of rate design changes approved in the Atmos Pipeline - Texas rate case that became effective in May 2011.

Nonregulated transmission and storage gross profit decreased $24.3 million to a negative $4.2 million for fiscal 2Q12, compared with $20.1 million for fiscal 2Q11. The decrease primarily reflects a $9.4 million quarter-over-quarter decrease in realized gas storage margins.

Atmos Energy still expects fiscal 2012 earnings to be in the range of $2.30 to $2.40 per diluted share, excluding unrealized margins. Net income from regulated operations is now expected to be in the range of $193 million to $200 million, while net income from nonregulated operations has been revised to $17-$20 million. Total capital expenditures for fiscal 2012 are expected to increase about $10 million to the revised range of $690-$710 million.

EARNINGS & GROWTH ANALYSIS

With natural gas sales to industrial and agricultural customers beginning to stabilize, we are maintaining our FY12 EPS estimate of $2.40. Further out, we expect the company's regulated gas utility operations to expand as new commercial and industrial customers come on board. Management expects normalized revenue increases of about $50-$60 million annually from regulated rate decisions. In addition, Atmos' gas utility operations have rebounded from earlier difficult winter heating seasons, and are benefiting from higher rates and the recovery of previously incurred costs. As a result, Atmos now has roughly 98% of its

Growth & Valuation Analysis

GROWTH ANALYSIS

($ in Millions, except per share data)	2007	2008	2009	2010	2011
Revenue	5,898	7,221	4,969	4,720	4,348
COGS	4,648	5,900	3,622	3,382	3,020
Gross Profit	1,251	1,321	1,347	1,338	1,327
SG&A	—	—	—	461	449
R&D	—	—	—	—	—
Operating Income	399	428	447	477	442
Interest Expense	145	138	153	154	151
Pretax Income	—	293	291	323	313
Income Taxes	94	112	100	124	114
Tax Rate (%)	—	38	34	39	36
Net Income	168	180	191	206	208
Diluted Shares Outstanding	88	90	92	92	91
EPS	1.92	2.00	2.07	2.20	2.27
Dividend	1.28	1.30	1.32	1.34	1.36
GROWTH RATES (%)					
Revenue	-4.1	22.4	-31.2	-5.0	-7.9
Operating Income	4.2	7.3	4.6	6.6	-7.4
Net Income	14.0	7.0	5.9	7.8	0.9
EPS	5.5	4.2	3.5	2.4	2.4
Dividend	1.6	1.6	1.5	1.5	1.5
Sustainable Growth Rate	2.3	3.1	4.0	2.8	3.2
VALUATION ANALYSIS					
Price: High	$33.47	$29.29	$30.32	$31.99	$35.55
Price: Low	$23.87	$19.68	$20.07	$25.86	$28.51
Price/Sales: High-Low	0.5 - 0.4	0.4 - 0.2	0.6 - 0.4	0.6 - 0.5	0.7 - 0.6
P/E: High-Low	17.4 - 12.4	14.6 - 9.8	14.6 - 9.7	14.5 - 11.8	15.7 - 12.6
Price/Cash Flow: High-Low	6.7 - 4.8	5.8 - 3.9	3.2 - 2.1	4.3 - 3.5	6.2 - 5.0

Financial & Risk Analysis

FINANCIAL STRENGTH	2009	2010	2011
Cash ($ in Millions)	111	132	131
Working Capital ($ in Millions)	92	-291	143
Current Ratio	1.12	0.75	1.17
LT Debt/Equity Ratio (%)	99.7	83.1	97.8
Total Debt/Equity Ratio (%)	103.0	105.4	107.1
RATIOS (%)			
Gross Profit Margin	27.1	28.3	30.5
Operating Margin	9.0	10.1	10.2
Net Margin	3.8	4.4	4.8
Return On Assets	3.0	3.1	3.0
Return On Equity	9.0	9.5	9.4
RISK ANALYSIS			
Cash Cycle (days)	—	—	—
Cash Flow/Cap Ex	—	—	—
Oper. Income/Int. Exp. (ratio)	2.9	3.1	3.1
Payout Ratio	—	—	62.7

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Please see important information about this report on page 5

Analyst's Notes...Continued

utility gross margin protected from weather variances. In addition, regulators have decoupled approximately 76% of Atmos Energy's gas utility revenues from gas throughput deliveries. This is expected to significantly reduce gas price risk from demand erosion and to lower earnings volatility. Our FY13 EPS estimate is $2.55.

FINANCIAL STRENGTH & DIVIDEND

Our financial strength rating for Atmos Energy is Medium-High, the second-highest point on our five-point scale.

The debt capitalization ratio at March 31, 2012 was 50.2%, compared with 51.7% at September 30, 2011 and 47.6% at March 31, 2011. At March 31, 2012, there was $174.0 million of short-term debt outstanding, compared with no short-term debt outstanding at March 31, 2011, while short-term debt was $206.4 million at September 30, 2011.

For the six months ended March 31, 2012, the company generated operating cash flow of $360.7 million, a $77.7 million reduction compared with the six months ended March 31, 2011. The period-over-period decrease primarily reflects an increase in purchased gas stored underground in the nonregulated segment with the corresponding gas withdrawals expected to occur later in the current fiscal year, coupled with $43.3 million in contributions to the company's pension plans.

Capital expenditures increased to $311.1 million for the six months ended March 31, 2012, compared with $246.7 million in the prior-year period. The $64.4 million increase primarily reflects spending related to two new pipeline projects in the Atmos Pipeline - Texas Division and increased capital spending in the natural gas distribution segment associated with higher infrastructure spending and the development of a new customer service system.

The company pays a quarterly dividend of $0.345, or $1.38 annually, for a yield of about 4.2%. Our dividend estimates are $1.40 for FY12 and $1.42 for FY13.

RISKS

Risks that could cause the ATO share price to fall involve liquidity and credit issues, as well as spikes in commodity prices. The company is also at risk from bad debt expense. Other key risks include adverse weather conditions and their effect on revenues, regulatory risk (especially when it involves construction cost recovery) and potential environmental and safety-related liabilities.

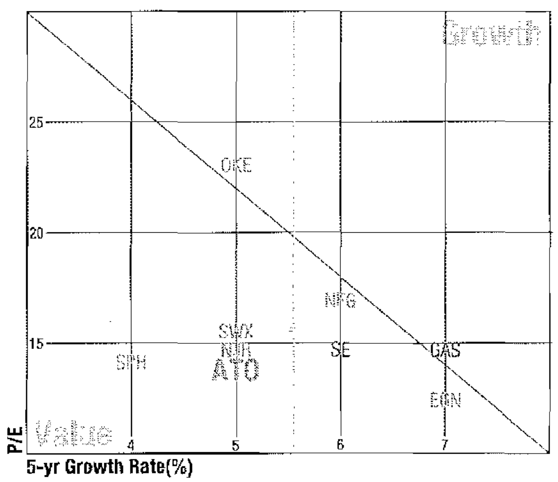
COMPANY DESCRIPTION

Atmos Energy, headquartered in Dallas, is the country's largest natural gas-only distributor, serving more than 3.2 million gas utility customers. Atmos Energy's utility operations serve more than 1,500 communities in 12 states. Regulated gas utility operations consist of the Louisiana, West Texas, Mid-Tex, Colorado/Kansas, Mississippi and Kentucky/Mid-States Divisions. The company's nonutility businesses, organized under Atmos Energy Holdings Inc., operate in 22 states. These businesses provide natural gas marketing and procurement services to industrial, commercial, and municipal customers, and also manage

Peer & Industry Analysis

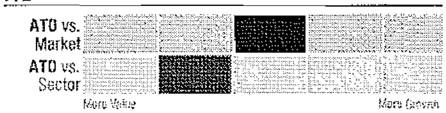
The graphics in this section are designed to allow investors to compare ATO versus its industry peers, the broader sector, and the market as a whole, as defined by the Argus Universe of Coverage.

- **The scatterplot shows how ATO stacks up versus its peers on two key characteristics: long-term growth and value. In general, companies in the lower left-hand corner are more value-oriented, while those in the upper right-hand corner are more growth-oriented.**
- **The table builds on the scatterplot by displaying more financial information.**
- **The bar charts on the right take the analysis two steps further, by broadening the comparison groups into the sector level and the market as a whole. This tool is designed to help investors understand how ATO might fit into or modify a diversified portfolio.**

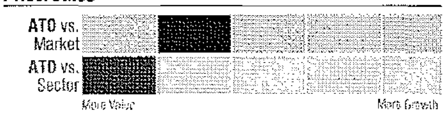


Ticker	Company	Market Cap ($ in Millions)	5-yr Growth Rate (%)	Current FY P/E	Net Margin (%)	1-yr EPS Growth (%)	Argus Rating
SE	Spectra Energy Corp	18,740	6.0	14.7	22.0	7.7	BUY
OKE	Oneok Inc (New)	8,625	5.0	23.1	2.4	18.1	HOLD
GAS	AGL Resources Inc	4,397	7.0	14.7	6.2	19.6	BUY
NFG	National Fuel Gas Co	3,597	6.0	17.0	12.9	15.7	HOLD
EGN	Energen Corp	3,184	7.0	12.4	15.7	26.8	HOLD
ATO	**Atmos Energy Corp**	**2,984**	**5.0**	**13.8**	**4.5**	**6.3**	HOLD
SWX	Southwest Gas Corp	1,936	5.0	15.5	6.4	5.6	HOLD
NJR	New Jersey Resources Corp	1,744	5.0	14.7	4.8	3.5	HOLD
SPH	Suburban Propane Partners L.P.	1,309	4.0	14.2	4.2	17.3	HOLD
Peer Average		**5,168**	**5.6**	**15.6**	**8.8**	**13.4**	

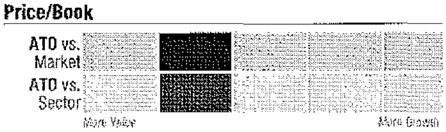
P/E



Price/Sales

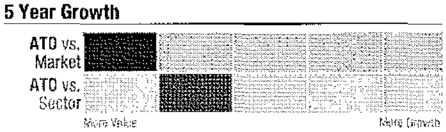


Price/Book

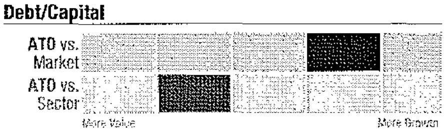


PEG

5 Year Growth



Debt/Capital



Please see important information about this report on page 5

Analyst's Notes...Continued

company-owned natural gas storage and pipeline assets, including one of the largest intrastate natural gas pipeline systems in Texas.

INDUSTRY

Our rating on the Utility sector is Under-Weight. The sector has gotten off to a slow start in 2012, after generating a market-leading performance in 2011.

The sector accounts for 3.4% of the S&P 500. Over the past five years, the weighting has ranged from 3% to 4%. We think the sector should account for at most 2%-3% of diversified portfolios. The sector includes the electric, gas and water utility industries.

Most fundamentals for the Utility sector look unattractive. By our calculations (using 2012 EPS), the price/earnings multiple is 14.8, well above the market average. For 2012, EPS are expected to decline 4%. Revisions are negative. The sector's debt-to-cap ratio is about 52%, above the market average of 44%. This represents a risk, given the current state of the credit markets, particularly if corporate bond rates continue to rise. The sector does offer an attractive dividend yield of about 4.2%.

The industry's constant need for debt financing offers a challenge in today's credit-constrained environment. Spreads between corporate bonds and Treasury bonds have been narrowing but remain historically high.

Utilities have a long history of working with regulators, and we have seen a decided pickup in rate increase requests by utilities over the last two years. In most cases, the utilities are receiving some 60%-65% of the amount they have sought. This compares to the 1980s and 1990s, when electric utilities typically obtained only about 40%-45% of their requested increases.

VALUATION

ATO trades at 12.9 -times our FY13 operating EPS estimate, at the high end of the P/E range for comparable gas distribution utilities. The stock's price/cash flow multiples indicate a premium valuation, and its price/sales and price/book multiples are also slightly above the median for the gas utility industry. Based on these valuations, we are maintaining our near-term HOLD rating.

At the same time, we believe that investors with a four- to five-year time horizon will benefit from the company's strong financial position, future rate increases, visible forward earnings stream, steadily expanding dividends, and attractive integrated structure. Added benefits are the company's strong operating efficiencies and well-managed gas distribution and marketing operations. Moreover, the company's generally positive experience with regulators should go a long way to prevent any precipitous falloff in profitability.

On May 31, HOLD-rated ATO closed at $33.14, up $0.62.

Please see important information about this report on page 5

METHODOLOGY & DISCLAIMERS

About Argus

Argus Research, founded by Economist Harold Dorsey in 1934, has built a top-down, fundamental system that is used by Argus analysts. This six-point system includes Industry Analysis, Growth Analysis, Financial Strength Analysis, Management Assessment, Risk Analysis and Valuation Analysis.

Utilizing forecasts from Argus' Economist, the Industry Analysis identifies industries expected to perform well over the next one-to-two years.

The Growth Analysis generates proprietary estimates for companies under coverage.

In the Financial Strength Analysis, analysts study ratios to understand profitability, liquidity and capital structure.

During the Management Assessment, analysts meet with and familiarize themselves with the processes of corporate management teams.

Quantitative trends and qualitative threats are assessed under the Risk Analysis.

And finally, Argus' Valuation Analysis model integrates a historical ratio matrix, discounted cash flow modeling, and peer comparison.

THE ARGUS RESEARCH RATING SYSTEM

Argus uses three ratings for stocks: BUY, HOLD, and SELL. Stocks are rated relative to a benchmark, the S&P 500.

- A BUY-rated stock is expected to outperform the S&P 500 on a risk-adjusted basis over a 12-month period. To make this determination, Argus Analysts set target prices, use beta as the measure of risk, and compare expected risk-adjusted stock returns to the S&P 500 forecasts set by the Argus Market Strategist.
- A HOLD-rated stock is expected to perform in line with the S&P 500.
- A SELL-rated stock is expected to underperform the S&P 500.

Argus Research Disclaimer

Morningstar Disclaimer

ATMOS ENERGY

1Q Recap; New Projects Should Accelerate Rate Base Growth

Quarter Results: Recurring EPS of $0.61 came in below our estimate of $0.86, reflecting year/year declines in the Natural Gas Distribution and Nonregulated segments, partially offset by an increase at Regulated Transmission & Storage. Rate relief was largely offset by a weather normalization adjustment and increased costs at the distribution segment, while Nonregulated was impacted by lower realized margins for delivered gas and asset optimization losses. Regulated Transmission & Storage benefited from higher throughput and incremental contribution tied to its rate case and GRIP filing.

Two Projects Announced at APT: Line W and Line X are two pipeline projects that will collectively cost $165 million and contribute in the company's efforts to accelerate rate base growth to 6-6.5% vs. its previous 4-4.5% target. These two projects bring expected capital spending for the year to ~$690 million, of which a large portion is eligible for recovery through GRIP filings and/or other regulatory mechanisms.

Earnings Guidance Maintained at $2.30-$2.40: While the range was held steady, the expectations for the distribution and regulated pipeline were revised higher driven by O&M savings and Rule 8.209 benefits, offsetting a more subdued outlook for Nonregulated due to depressed storage spreads and low levels of volatility.

Lowering Full-Year 2012 to $2.31: For the regulated segments, we continue to expect $40 million of rate relief. At Nonregulated, we think negative asset optimization margins may continue into 2Q if natural gas continues getting injected into storage, but think the losses will be reversed in the latter 2 quarters as gas is withdrawn and sold.

ATO: Quarterly and Annual EPS (USD)

	2011	2012			2013			Change y/y	
FY Sep	Actual	Old	New	Cons	Old	New	Cons	2012	2013
Q1	0.81A	0.86E	0.61A	0.61A	N/A	N/A	N/A	-25%	N/A
Q2	1.35A	1.46E	1.39E	1.46E	N/A	N/A	N/A	3%	N/A
Q3	0.05A	0.09E	0.14E	0.09E	N/A	N/A	N/A	180%	N/A
Q4	0.07A	-0.02E	0.16E	-0.01E	N/A	N/A	N/A	129%	N/A
Year	2.30A	2.39E	2.31E	2.38E	N/A	2.42E	2.51E	0.43%	5%
P/E	14.0		13.9			13.3			

Source: Barclays Capital
Consensus numbers are from Thomson Reuters

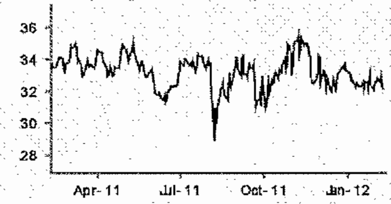
Stock Rating	2-EQUAL WEIGHT
	Unchanged
Sector View	2-NEUTRAL
	Unchanged
Price Target	USD 34.00
	Unchanged

Price (09-Feb-2012)	USD 32.15
Potential Upside/Downside	+6%
Tickers	ATO

Market Cap (USD mn)	2894
Shares Outstanding (mn)	90.02
Free Float (%)	97.78
52 Wk Avg Daily Volume (mn)	0.4
Dividend Yield (%)	4.2
Return on Equity TTM (%)	8.88
Current BVPS (USD)	24.98

Source: FactSet Fundamentals

Price Performance	Exchange-NYSE
52 Week range	USD 35.55-28.51



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U.S. Diversified Natural Gas

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COMPANY SNAPSHOT

Atmos Energy — Diversified Natural Gas

Income statement ($mn)	2010A	2011A	2012E	2013E	CAGR
Operating Income	489	453	501	510	1.4%
EBITDA	706	703	744	766	2.8%
EBIT	489	475	499	510	1.4%
Pre-tax income	335	324	357	356	2.1%
Net income	206	208	222	219	2.1%
EPS (reported) ($)	2.24	2.30	2.31	2.42	2.6%
Diluted shares (m)	92	91	91	91	-0.7%
Dividend per share ($)	1.34	1.37	1.38	1.40	1.5%

Growth Rates (%)					Average
EBITDA		-0.4	5.8	3.0	2.8
EBIT		-2.9	5.1	2.1	1.4
Pre-tax		-3.2	10.2	-0.3	2.2
Net Income		2.6	0.8	4.5	2.6
Dividend		1.9	1.1	1.4	1.5

Balance sheet and cash flow ($mn)					CAGR
Tangible fixed assets	5,112	5,438	5,598	6,023	5.6%
Cash and equivalents	132	131	16	44	-30.6%
Short and long-term debt	2,296	2,415	2,415	2,665	5.1%
Total liabilities	4,585	5,027	2,206	2,306	-20.5%
Net debt/(funds)	2,164	2,284	2,399	2,621	6.6%
Shareholders' equity	2,178	2,255	2,368	2,500	4.7%
Change in working capital	83	(26)	(181)	-	NA
Operating cash flow	726	583	374	547	-9.0%
Capital expenditure	543	623	692	681	7.9%
Free cash flow	494	474	492	504	0.7%

Valuation and leverage metrics					Average
P/E	14.4	14.0	13.9	13.3	13.9
EV/EBITDA	7.7	7.7	7.3	7.1	7.4
EV/EBIT	11.1	11.4	10.9	10.6	11.0
Dividend yield (%)	4.2	4.2	4.3	4.4	4.3
Total debt/capital (%)	105.4	107.1	102.0	106.6	105.3

Selected operating metrics				
Gas prices ($/m cf)	4.40	4.01	3.15	4.35
Oil prices ($/bbl)	78.85	95.23	99.77	100.00
Volumes / Throughput				
Total Gas volumes	322.6	281.5	414.1	418.2
Utility Throughput	458.5	413.8	414.1	418.2
Storage Volumes	13.7	21.0	NA	NA
Reg. Transportation Volumes	634.9	620.9	636.5	636.5

Source: Company data, Barclays Capital

Stock Rating	2-EQUAL WEIGHT
Sector View	2-NEUTRAL
Price (09-Feb-2012)	$32.15
Price Target	$34
Ticker	ATO

Investment case

Why a 2-Equal Weight? Assets are heavily regulated and earnings are expected to grow in the mid-single digits each year. While the regulated Distribution and Pipeline segments provide visible and steady growth, there is some volatility tied to the weak backdrop for the unregulated segments.

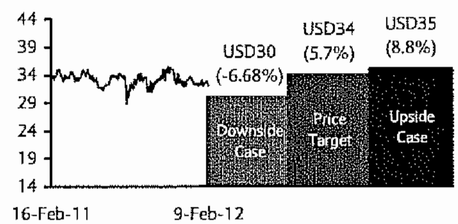
Upside case — $35

In the event that asset optimization margins at Nonregulated achieve results in the original guidance range of $8-12 million, we think the stock can move to $35.

Downside case — $30

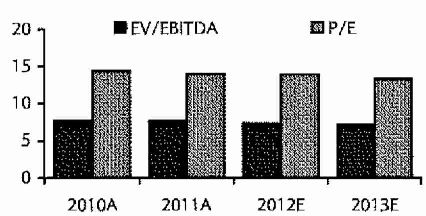
In the event that the visibility around rate relief deteriorates, there could be a longer lag for recouping investment and growing rate base, putting at risk the $50-$60 million of operating income increases expected for 2011-2013.

Upside/downside scenarios



Source: FactSet

Valuation Multiples



Note: FY end Dec.

Reports 1Q

1Q EPS of $0.61 came in below our estimate of $0.86 and consensus of $0.85, reflecting year/year declines in the Natural Gas Distribution and Nonregulated segments, partially offset by an increase at Regulated Transmission & Storage. At the utility affiliate, the impacts of rate relief were largely offset by a weather normalization adjustment and increased costs. At Nonregulated, lower realizations for delivered gas were a function of a drop in per-unit margins and a reduction in volumes while asset optimization decreased due to a timing mismatch between storage withdrawals and the settlement of associated hedges. Regulated Transmission & Storage results were up due to higher throughput and incremental contribution associated with its rate case and GRIP filing. Reported EPS of $0.75 included $0.14 of mark-to-market gains.

Projects to Drive Rate Base Growth of 6-6.5%

Guidance for capital expenditures was raised by $50 million for the 2012 fiscal year as 2 new projects at Atmos Pipeline - Texas pipeline were announced. The first project, Line W, will be a looping project where a 34-mile, 24-inch high pressure line will be constructed to connect Boyd (north of Fort Worth) to a producer's interconnect in Montague County. The producer has underpinned the capacity through 2019 and the ~$50 million project is expected to generate $10-$14 million of annual revenue through a straight-fixed variable rate. The project is expected to commence service in FY 2013.

The second project, Line X, is a 59-mile, 24 inch pipeline that will span from a point south of Forth Worth up to Boyd and the aforementioned Line W. This line will enable the company to secure natural gas supply on a firm basis, replacing the interruptible service that was previously utilized. This addition would improve the reliability of the system, especially during critical peak periods (for example, the rolling blackouts that occurred in January and February of 2011), and provide the regulated customers of Atmos Energy Pipeline – Texas with dependable service. The project is expected to cost ~$115 million, to be spent in 2012-2014.

The capital spending is now anticipated to be ~$690 million for 2012, of which over 98% is tied to the two regulated segments. Most of the spending (including the 2 projects detailed above) is eligible for recovery through GRIP filings or other mechanisms, which eliminates much of the regulatory lag that usually accompanies rate base investments. The incremental $165 million of spending associated with these two projects will contribute to the company's efforts to drive rate base growth to 6-6.5%, up from the previous 4-4.5%.

Rate Case Update

During the quarter, the company filed for four rate cases totaling $66 million with ROEs ranging from 10.1% to 10.9%. We have assumed receipt for half of the requested amount and expect contribution to begin in the last fiscal quarter of the year with a large portion of the revenues reflected in 2013. As a reminder, the company plans on filing another 10-15 cases this fiscal year, which would result in an incremental $20 to $30 million of operating income. We continue to assume $40 million of rate relief in 2012 and $55 million in 2013.

Figure 1: Rate Cases Filed During Q1

	Requested					
Location	Filing Date	Amount ($mm)	ROE	Total Return	Debt/Total Cap
Kansas	01/26/12	$6.1	10.9%	8.8%	48.0%
Mid-Tex: Settled Cities	01/31/12	$46.0	10.9%	8.7%	49.0%
West Texas	02/07/12	$11.1	10.9%	8.7%	49.0%
Mid-Tex: City of Dallas	01/13/12	$2.5	10.1%	8.5%	48.0%
		$65.7			

Source: Company filings

FERC Settlement

On 12/9/11, the company settled a 2007 FERC investigation alleging that Atmos Energy Marketing and Trans Louisiana Gas Pipeline were in breach of posting and competitive bidding rules. As part of the agreement, ATO paid $12.0 million of civic penalties and the return of unjust profits plus accrued interest. There was no earnings impact tied to this event for the quarter as the company had built a reserve against a potential liability in prior quarters.

Earnings Guidance Reiterated

Earnings guidance was reiterated in the range of $2.30 to $2.40, which excludes mark-to-market impact but includes a pre-tax book gain of $5 million tied to the pending sale of the Missouri, Illinois and Iowa distribution assets and assumes $0.09-$0.11 of EPS contribution associated with the aforementioned assets through the end of the fiscal year.

While the outlook for the year was maintained, we'd highlight the upward net income revision of $6 million for the regulated segments driven by a decline in O&M expenses and benefits tied to Rule 8.209, which were equally offset by a decline in expectations for the Nonregulated segment due to the depressed storage spreads and low levels of volatility.

Revising Estimates

In light of first quarter results and the updated expectations around each of the segments, we are revising our 2012 quarterly estimates while lowering our full-year number to $2.31. We think the asset optimization portion of Nonregulated may continue to post 2Q losses if it continues to inject natural gas into storage, but believe the negative margins will reverse in the latter two quarters as gas is withdrawn and sold. For the distribution and pipeline segments, we continue to model in $40 million of rate relief for the year. We'd note that our numbers do not include the pre-tax gain tied to the pending sale of distribution assets, which we estimate to be ~$0.03.

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Primary Stocks (Ticker, Date, Price)

Atmos Energy (ATO, 09-Feb-2012, USD 32.15), 2-Equal Weight/2-Neutral

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1-Overweight - The stock is expected to outperform the unweighted expected total return of the sector coverage universe over a 12-month investment horizon.

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U.S. Diversified Natural Gas

AGL Resources Inc. (GAS)	Atmos Energy (ATO)	El Paso Corp. (EP)
Enbridge Inc. (ENB.TO)	Energen Corp. (EGN)	EQT Corporation (EQT)
Kinder Morgan Inc. (KMI)	MDU Resources Group (MDU)	National Fuel Gas (NFG)
New Jersey Resources (NJR)	ONEOK Inc. (OKE)	Piedmont Natural Gas Co. (PNY)
Questar Corp. (STR)	Southern Union (SUG)	Southwest Gas Corp. (SWX)
Spectra Energy Corp. (SE)	Targa Resources Corp. (TRGP)	WGL Holdings (WGL)
Williams Cos. (WMB)		

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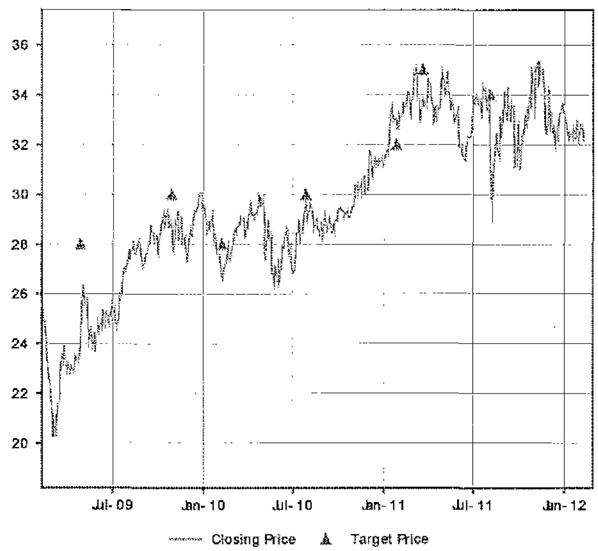
Atmos Energy (ATO)

USD 32.15 (09-Feb-2012)

Stock Rating: **2-EQUAL WEIGHT**

Sector View: **2-NEUTRAL**

Rating and Price Target Chart - USD (as of 09-Feb-2012)



Link to Barclays Capital Live for interactive charting

Currency=USD

Date	Closing Price	Rating	Price Target
05-Aug-2011	31.33		34.00
21-Mar-2011	33.90		35.00
26-Jan-2011	33.02		32.00
27-Jul-2010	29.81		30.00
08-Feb-2010	26.70		28.00
28-Oct-2009	28.59		30.00
28-Apr-2009	24.22		28.00

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Valuation Methodology: Our price target of $34 is predicated on shares trading at 14.2x our '13 EPS estimate of $2.42.

Risks which May Impede the Achievement of the Price Target: Atmos Energy is an interest rate sensitive investment, ATO's operations are seasonal and highly sensitive to weather, deregulation increases the potential for competition in ATO's market, Energy Marketing and Trading operations are inherently riskier than regulated utility and are facing significant scrutiny from investors and rating agencies; ATO's growth through acquisition strategy adds extra layer of risk to the utility.

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ATMOS ENERGY

Increased Spending at Regulated Segments Drive Rate Base Growth to 8-8.5%

Rate Base Growth Guidance Raised to 8-8.5% vs. the 6-6.5% Disclosed on Last Quarter's Call: The company disclosed a robust backlog of expected capex at the Distribution segment tied to Rule 8.209, which encourages safety-related investments by allowing regulatory asset treatment for carrying costs. For 2012, spending related to this program is ~$100 million and ramps up to ~$200 million by 2016. Combined with the projects at Atmos Pipeline – Texas, the rate base is expected to grow from $4 billion to ~$6 billion by the end of 2016, translating into 6-8% earnings growth.

2Q Recap: Adjusted EPS of $1.28 came in below our estimate of $1.39 and consensus of $1.47 as results reflected slight increases at the regulated segments due to rate relief at Distribution and a change in rate design at Regulated Pipeline, which were more than offset by a decline at Nonregulated.

Earnings Guidance Maintained at $2.30-$2.40: While the range was held steady, the expected contribution from Distribution was increased by $3 million, equally offset by a downward revision at Nonregulated. As a reminder, the guidance provided by the company includes a pre-tax book gain of $10 million (up from the prior $5 million expectation) tied to the pending sale of the Missouri, Illinois, and Iowa distribution assets, which is expected to close on July 1st. It also assumes $0.09-$0.11 of EPS contribution associated with the aforementioned assets through the end of September.

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ATO: Quarterly and Annual EPS (USD)

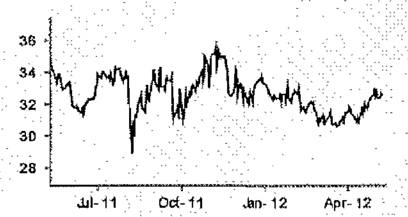
	2011	2012			2013			Change y/y	
FY Sep	Actual	Old	New	Cons	Old	New	Cons	2012	2013
Q1	0.81A	0.61A	0.61A	0.61A	N/A	N/A	0.86E	-25%	N/A
Q2	1.35A	1.39E	1.28A	1.28A	N/A	N/A	N/A	-5%	N/A
Q3	0.05A	0.14E	0.15E	0.16E	N/A	N/A	N/A	200%	N/A
Q4	0.07A	0.16E	0.15E	0.11E	N/A	N/A	N/A	114%	N/A
Year	2.30A	2.31E	2.22E	2.32E	2.42E	2.42E	2.48E	-3%	9%
P/E	14.3		14.8			13.6			

Source: Barclays Research.
Consensus numbers are from Thomson Reuters

Stock Rating	2-EQUAL WEIGHT
	Unchanged
Sector View	2-NEUTRAL
	Unchanged
Price Target	USD 34.00
	Unchanged
Price (10-May-2012)	USD 32.84
Potential Upside/Downside	+4%
Tickers	ATO
Market Cap (USD mn)	2934
Shares Outstanding (mn)	90.03
Free Float (%)	97.79
52 Wk Avg Daily Volume (mn)	0.5
Dividend Yield (%)	4.2
Return on Equity TTM (%)	6.86
Current BVPS (USD)	26.22

Source: FactSet Fundamentals

Price Performance	Exchange-NYSE
52 Week range	USD 35.55-28.51



Link to Barclays Live for interactive charting

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COMPANY SNAPSHOT

Atmos Energy — U.S. Diversified Natural Gas

Income statement ($mn)	2011A	2012E	2013E	2014E	CAGR
Revenue	N/A	N/A	N/A	N/A	N/A
EBITDA (adj)	703	710	764	808	4.8%
EBIT (adj)	475	467	509	541	4.4%
Pre-tax income (adj)	324	324	356	392	6.5%
Net income (adj)	208	205	219	241	5.1%
EPS (adj) ($)	2.30	2.22	2.42	2.67	5.1%
Diluted shares (mn)	90.6	90.3	90.3	90.3	-0.1%
DPS ($)	1.37	1.38	1.40	1.42	1.3%

Growth rates					Average
EBITDA (adj) growth (%)	-0.4	1.0	7.6	5.8	3.5
EBIT (adj) growth (%)	-2.9	-1.8	9.0	6.4	2.7
Net income (adj) growth (%)	0.9	-1.2	6.8	10.0	4.1
EPS (adj) growth (%)	2.6	-3.5	9.4	10.0	4.6
DPS growth (%)	1.9	1.1	1.4	1.4	1.5

Balance sheet and cash flow ($mn)					CAGR
Tangible fixed assets	N/A	N/A	N/A	N/A	N/A
Cash and equivalents	131	109	41	64	-21.2%
Short and long-term debt	2,415	2,165	2,315	2,315	-1.4%
Total liabilities	5,027	N/A	N/A	N/A	N/A
Net debt/(funds)	2,284	2,056	2,274	2,251	-0.5%
Shareholders' equity	2,255	2,346	2,478	2,831	7.9%
Change in working capital	-26	-52	0	0	N/A
Cash flow from operations	583	533	546	583	0.0%
Capital expenditure	623	702	677	672	2.6%
Free cash flow	474	458	502	536	4.2%

Valuation and leverage metrics				
P/E (adj) (x)	14.3	14.8	13.6	12.3
EV/EBITDA (x)	7.4	7.1	6.8	6.4
Price/sales (x)	N/A	N/A	N/A	N/A
Dividend yield (%)	4.2	4.2	4.3	4.3
Total debt/capital (%)	51.7	48.0	48.3	45.0

Selected operating metrics				
Gas prices ($/mcf) ($)	4.13	2.59	3.25	4.00
Oil prices ($/bbl) ($)	93.34	96.89	95.00	100.00
NGL ($/gal) ($)	1.29	1.36	1.29	1.29
Frac spread ($/gal) ($)	38.42	47.51	42.14	39.41
Production volumes (000 cf)	N/A	N/A	N/A	N/A
NGL sales (m bbls)	N/A	N/A	N/A	N/A
Processing volumes (mmbtu)	N/A	N/A	N/A	N/A
Rate base ($m)	N/A	N/A	N/A	N/A
Number of customers	N/A	N/A	N/A	N/A
Capital investment growth (%)	N/A	N/A	N/A	N/A

Stock Rating	2-EQUAL WEIGHT
Sector View	2-NEUTRAL
Price (10-May-2012)	USD 32.84
Price Target	USD 34.00
Ticker	ATO

Investment case

Why a 2-Equal Weight? Assets are heavily regulated and earnings are expect to grow in the mid-single digits each year. While the regulated Distribution and Pipeline segments provide visible and steady growth, ther is some volatility tied to the weak backdrop of the unregulated segments.

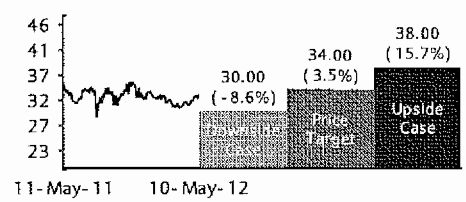
Upside case — **USD 38.00**

Higher natural gas prices or an increase in volatility is likely to improve pricing margins or optimization and storage.

Downside case — **USD 30.00**

In the event that the visibility around rate relief deteriorates, there could be a long lag for recouping investment and growing rate base.

Upside/downside scenarios



Source: FactSet Fundamentals

Source: Company data, Barclays Research
Note: FY End Sep

Regulated Segments Benefit From Favorable Rate Structure Despite Warmer Weather

Atmos Energy reported adjusted EPS of $1.28 vs. our estimate of $1.39 and consensus of $1.47. Results reflected slight increases at both regulated segments (Natural Gas Distribution and Regulated Transmission & Storage), which were more than offset by a decline at Nonregulated. Distribution benefited from an increase in rates while the gain at Regulated Transmission & Storage was driven by a change in rate structure for Atmos Pipeline – Texas that became effective in May 2011. Lower Nonregulated earnings were attributable to a decrease in gas delivery services due to a drop in both volumes and per-unit margins while a decline in asset optimization margins were tied to the deferral of storage withdrawals and associated hedge settlement losses.

Despite the warmer weather that hit all of ATO's service territories, the company was well protected on the utility side with its rate designs. Excluding the three utilities that are a part of the pending sale to Liberty Energy, the only utility that did not have weather normalization was Colorado, which we estimate contributes ~2% of the annual Distribution operating income.

Growing the Rate Base by a CAGR of 8-8.5% Through 2016

Last quarter, the company provided new details around the $50 million Line W looping project, underpinned by a producer's long-term contract through 2019, and the $115 million Line X project, which is a GRIP-eligible investment. Please refer to our 2/10/12 note entitled, "1Q Recap; New Projects Should Accelerate Rate Base Growth" for more detail.

In addition to these projects, the Distribution segment will be ramping up infrastructure spending in Texas pursuant to Rule 8.209, in which the projects are approved in advance by the Texas Railroad Commission and encourages safety related investments by allowing regulatory asset treatment for carrying costs. Spending tied to this program will be ~$90 - $100 million for 2012 and will slowly ramp up to range $195 - $205 million by 2016.

Also in Texas, there is the $70 million of spending tied to the Field Service Line Replacement program in 2012. In Kentucky, Georgia, and Kansas, there are similar infrastructure programs in place where the carrying costs and returns are recouped through a customer surcharge. In 2012, ~$40 million of capital will be invested in these three states. In total, over $200 million will be deployed into infrastructure replacement programs in the current fiscal year and this spending is expected to grow by a CAGR of 27% over the next five years.

The rate base started off the year at ~$4 billion and with the aforementioned spending, is expected to grow by ~48% to a range of $5.8 to $6 billion by the end of 2016, equating to an annual growth rate of 8-8.5%. The growth will be primarily funded with cash generated by operations and a combination of debt and equity. Debt levels are anticipated to increase by a net $200 million while some equity may be issued in outer years to balance the debt to total cap ratio. The 8-8.5% rate base increase is expected to generate earnings growth of 6-8% on a compounded annual basis over the same timeframe.

Rate Case Update

- On March 30, 2012, Atmos Energy filed an annual rate stabilization for the LGS jurisdiction in Louisiana, requesting an increase in annual operating income of $1.8 million. The new rate is expected to be in effect by July 1, 2012 and would affect about 270,000 customers.

- On February 7, 2012, Atmos Energy filed a system-wide rate case, requesting an increase in annual operating income of $11.1 million and approval of a new annual rate review mechanism. It also proposed the consolidation of West Texas cities, Amarillo and Lubbock.

- On January 31, 2012, the company requested a $53.7 million system-wide increase ($46.0 million for Settled Cities) in the Mid-Tex Division across a customer base of 1.3 million while also applying for a new rate review mechanism.

- On January 26, 2012, ATO filed a request for a $6.1 million increase in annual operating income in Kansas.

- The first Mid-Tex: City of Dallas annual rate review reflected a request for a $2.5 million increase on January 13, 2012.

- ATO settled its Mississippi annual stable rate filing for $4.3 million (vs. its request for $5.3 million) on January 11, 2012.

On the Atmos Pipeline –Texas front, the company started to realize its 2011 GRIP increase in annual operating income of $14.7 million on April 10, 2012. A GRIP filing tied to Mid-Tex Environs was also filed in the beginning of the third quarter, requesting $0.7 million while regulatory filings are anticipated in Tennessee, Kentucky, and Mississippi by the end of the fiscal year.

Guidance Range Maintained, But Increased Contribution from Distribution Offsets a More Subdued Outlook at Nonregulated

While guidance was reaffirmed in the range of $2.30 to $2.40, the composition has shifted in light of quarter results. Expectations for Distribution have increased by $3 million to $193 to $200 million and were equally offset by a decline at Nonregulated to $17 to $20 million. Within Nonregulated, the gross margin tied to Delivered Gas, Storage & Transportation, and Other is estimated to be $57 to $62 million (vs. the prior $70-$75 million) based on consolidated volumes of 420-430 bcf and a per-unit rate of $0.09 to $0.10 (vs. the previous 435-445 bcf and $0.12 to $0.13). Asset optimization margins are anticipated to be in the break-even range.

The guidance also includes a pre-tax book gain of $10 million tied to the pending sale of the Missouri, Illinois and Iowa distribution assets, which were revised higher from the original $5 million expectation. We'd also note that while the guidance also assumes $0.09-$0.11 of EPS contribution associated with the aforementioned assets through the end of September, the transaction is expected to close by July 1st. The cash will be reinvested into projects that will grow the regulated rate base.

Capex guidance was raised by $10 million to the $690-$710 million range primarily due to higher spending tied to the Line X and Line W projects at the pipeline subsidiary.

Estimating the Low End of the 6-8% Earnings CAGR Through 2016

We have updated our model in light of quarter results and additional disclosures provided on the earnings conference call around increased spending at the regulated segments. While the company has historically been on the acquisitive side, we believe the company is moving toward an organic growth strategy, at least for the next several years, as it will generate better returns in an accelerated fashion compared to acquisitions. We view the spending tied to Rule 8.209 as positive as it will increase the rate base with minimal regulatory lag and risk. While the outlook for Nonregulated is likely to stay muted in the near and medium term, we think the growth at the distribution and pipeline subsidiaries will drive earnings CAGR to 6.3%, at the low end of company guidance of 6-8%.

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Primary Stocks (Ticker, Date, Price)

Atmos Energy (ATO, 10-May-2012, USD 32.84), 2-Equal Weight/2-Neutral

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Stock Rating

1-Overweight - The stock is expected to outperform the unweighted expected total return of the sector coverage universe over a 12-month investment horizon.

2-Equal Weight - The stock is expected to perform in line with the unweighted expected total return of the sector coverage universe over a 12-month investment horizon.

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U.S. Diversified Natural Gas

AGL Resources Inc. (GAS)	Atmos Energy (ATO)	El Paso Corp. (EP)
Enbridge Inc. (ENB.TO)	Energen Corp. (EGN)	EQT Corporation (EQT)
Kinder Morgan Inc. (KMI)	MDU Resources Group (MDU)	National Fuel Gas (NFG)
New Jersey Resources (NJR)	ONEOK Inc. (OKE)	Piedmont Natural Gas Co. (PNY)
Questar Corp. (STR)	Southwest Gas Corp. (SWX)	Spectra Energy Corp. (SE)
Targa Resources Corp. (TRGP)	WGL Holdings (WGL)	Williams Cos. (WMB)

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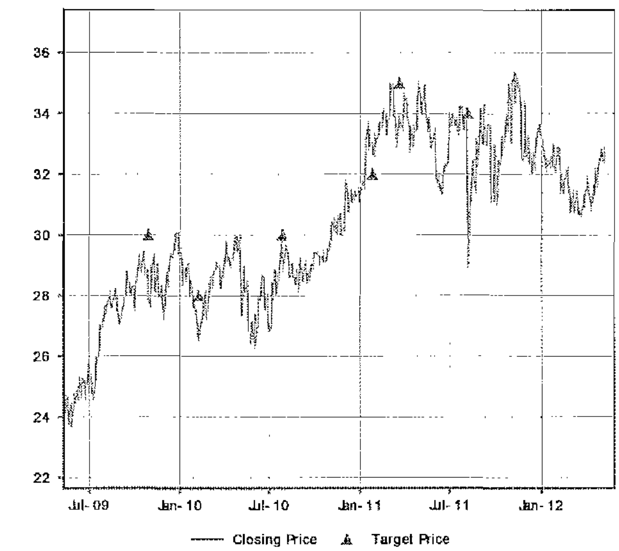
Atmos Energy (ATO)

USD 32.84 (10-May-2012)

Stock Rating	Sector View
2-EQUAL WEIGHT	**2-NEUTRAL**

Rating and Price Target Chart - USD (as of 10-May-2012)



Link to Barclays Live for interactive charting

Currency=USD

Date	Closing Price	Rating	Price Target
05-Aug-2011	31.33		34.00
21-Mar-2011	33.90		35.00
26-Jan-2011	33.02		32.00
27-Jul-2010	29.81		30.00
08-Feb-2010	26.70		28.00
28-Oct-2009	28.59		30.00

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Valuation Methodology: Our price target of $34 is predicated on shares trading at 14.2x our '13 EPS estimate of $2.42.

Risks which May Impede the Achievement of the Barclays Research Price Target: Atmos Energy is an interest rate sensitive investment, ATO's operations are seasonal and highly sensitive to weather, deregulation increases the potential for competition in ATO's market, Energy Marketing and Trading operations are inherently riskier than regulated utility and are facing significant scrutiny from investors and rating agencies; ATO's growth through acquisition strategy adds extra layer of risk to the utility.

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BARCLAYS

EQUITY RESEARCH

Energy | U.S. Diversified Natural Gas | 10 August 2012

ATMOS ENERGY

Strong 3Q, Announces Sale of Georgia Distribution Assets

3Q Recap: Adjusted EPS of $0.32 came in ahead of our and the consensus estimate of $0.15 driven by better-than-expected results across all segments. Natural Gas Distribution benefited from rate relief while lower O&M and non income-related taxes (franchise fees, state gross receipts taxes) also contributed to the beat. At Regulated Transmission, higher results were mostly attributable to 2 GRIP-related filings while the surge at Nonregulated was driven by robust asset optimization margins.

Announces Sale of GA Utility: Atmos Energy will be selling its distribution assets in Georgia to Liberty Energy Corp., the same buyer of the MO, IL, and IA assets. The sale went for 8.6x EBITDA or 1.45x rate base, which we estimate is in line with recent transactions. An after-tax gain of $6 million is expected to be booked in fiscal 2013.

Tracking to Come in at the Top End of Guidance Range: We have assumed some benefit tied to storage asset optimization in 4Q and estimate the full-year to come in at the high end of the guidance range at $2.34 vs. the EPS range of $2.24-$2.34. As there is ~$70 million of rate relief requests in the backlog, we feel confident that the company will achieve the ~$55 million we have assumed in our model for 2013. We continue to believe the 8-8.5% annual rate base growth in the regulated segments will drive an EPS CAGR of 6-8% through 2016. We are raising our price target to $36.

ATO: Quarterly and Annual EPS (USD)

	2011	2012			2013			Change y/y	
FY Sep	Actual	Old	New	Cons	Old	New	Cons	2012	2013
Q1	0.81A	0.61A	0.61A	0.61A	N/A	N/A	0.86E	-25%	N/A
Q2	1.35A	1.28A	1.28A	1.28A	N/A	N/A	1.52E	-5%	N/A
Q3	0.05A	0.15E	0.32A	0.31A	N/A	N/A	N/A	540%	N/A
Q4	0.07A	0.15E	0.11E	0.14E	N/A	N/A	N/A	57%	N/A
Year	2.30A	2.22E	2.34E	2.27E	2.42E	2.48E	2.46E	2%	6%
P/E	16.1		15.8			14.9			

Source: Barclays Research.
Consensus numbers are from Thomson Reuters

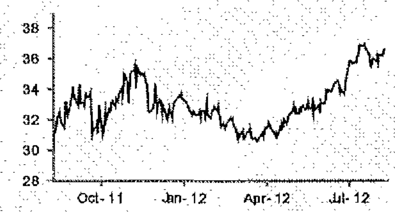
Stock Rating	**EQUAL WEIGHT**
	Unchanged
Industry View	**NEUTRAL**
	Unchanged
Price Target	**USD 36.00**
	raised 6% from USD 34.00

Price (10-Aug-2012)	USD 36.94
Potential Upside/Downside	-3%
Tickers	ATO

Market Cap (USD mn)	3296
Shares Outstanding (mn)	90.03
Free Float (%)	97.72
52 Wk Avg Daily Volume (mn)	0.5
Dividend Yield (%)	3.8
Return on Equity TTM (%)	6.86
Current BVPS (USD)	26.22

Source: FactSet Fundamentals

Price Performance	Exchange-NYSE
52 Week range	USD 37.33-29.83



Link to Barclays Live for interactive charting

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COMPANY SNAPSHOT

Atmos Energy — U.S. Diversified Natural Gas

Income statement ($mn)	2011A	2012E	2013E	2014E	CAGR
EBITDA (adj)	703	728	773	814	5.0%
EBIT (adj)	475	486	518	547	4.8%
Pre-tax income (adj)	324	344	366	398	7.1%
Net income (adj)	208	219	225	245	5.6%
EPS (adj) ($)	2.30	2.34	2.48	2.70	5.5%
Diluted shares (mn)	90.7	90.7	90.7	90.7	0.0%
DPS ($)	1.37	1.38	1.40	1.42	1.3%

Growth rates					Average
EBITDA (adj) growth (%)	-0.4	3.6	6.1	5.3	3.6
EBIT (adj) growth (%)	-2.9	2.3	6.6	5.6	2.9
Net income (adj) growth (%)	0.9	5.5	2.8	8.8	4.5
EPS (adj) growth (%)	2.6	1.9	6.0	8.8	4.8
DPS growth (%)	1.9	1.1	1.4	1.4	1.5

Balance sheet and cash flow ($mn)					CAGR
Tangible fixed assets	N/A	N/A	N/A	N/A	N/A
Cash and equivalents	131	95	32	58	-23.8%
Short and long-term debt	2,415	2,165	2,315	2,315	-1.4%
Total liabilities	5,027	N/A	N/A	N/A	N/A
Net debt/(funds)	2,284	2,071	2,283	2,257	-0.4%
Shareholders' equity	2,255	2,354	2,492	2,848	8.1%
Change in working capital	-26	-30	0	0	N/A
Cash flow from operations	583	601	552	587	0.2%
Capital expenditure	623	702	677	672	2.6%
Free cash flow	474	476	510	541	4.5%

Valuation and leverage metrics				
P/E (adj) (x)	16.1	15.8	14.9	13.7
EV/EBITDA (x)	8.0	7.4	7.3	6.9
Dividend yield (%)	3.7	3.7	3.8	3.8
Total debt/capital (%)	51.7	47.9	48.1	44.8

Selected operating metrics				
Gas prices ($/mcf) ($)	4.13	2.70	3.35	4.00
Oil prices ($/bbl) ($)	92.57	93.23	90.00	100.00
NGL ($/gal) ($)	1.32	1.13	1.03	1.17
Frac spread ($/gal) ($)	0.95	0.89	0.74	0.82
Production volumes (000 cf)	N/A	N/A	N/A	N/A
NGL sales (m bbls)	N/A	N/A	N/A	N/A
Processing volumes (mmbtu)	N/A	N/A	N/A	N/A
Rate base ($m)	N/A	N/A	N/A	N/A
Number of customers	N/A	N/A	N/A	N/A
Capital investment growth (%)	14.8	12.6	-3.5	-0.7

Source: Company data, Barclays Research
Note: FY End Sep

Stock Rating	**EQUAL WEIGHT**
Industry View	**NEUTRAL**
Price (10-Aug-2012)	**USD 36.94**
Price Target	**USD 36.00**
Ticker	**ATO**

Investment case

Why Equal Weight? Assets are heavily regulated and earnings are expected to grow in the mid-single digits each year. While the regulated Distribution and Pipeline segments provide visible and steady growth, ther is some volatility tied to the weak backdrop of the unregulated segments.

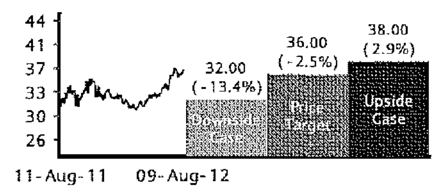
Upside case **USD 38.00**

Higher natural gas prices or an increase in volatility is likely to improve pricing margins or optimization and storage.

Downside case **USD 32.00**

In the event that the visibility around rate relief deteriorates, there could be a long lag for recouping investment and growing rate base.

Upside/Downside scenarios



Source: Barclays Research

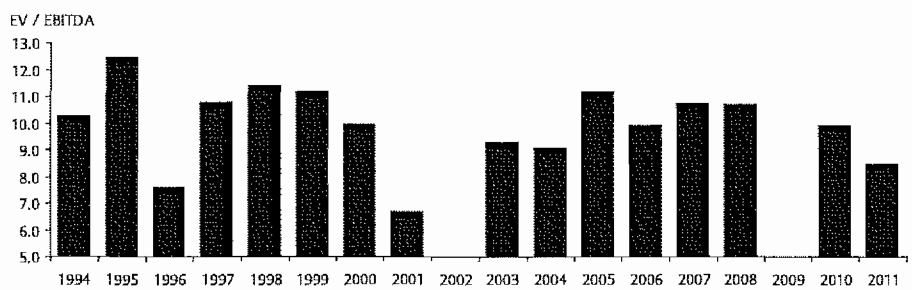
Better-Than-Expected Results Across All Segments

Adjusted EPS of $0.32 came in ahead of our and the consensus estimate of $0.15 driven by better than expected results across all segments. Natural Gas Distribution benefited from rate relief while lower O&M and non income-related taxes (franchise fees, state gross receipts taxes) also contributed to the beat. At Regulated Transmission, higher results were mostly attributable to 2 GRIP-related filings while the surge at Nonregulated was driven by robust asset optimization margins.

Announces Sale of Georgia Utility While Completing Sale of Missouri, Illinois, and Iowa Assets

In conjunction with the earnings release, ATO announced it would be selling substantially all of its Georgia natural gas distribution assets to Liberty Energy Corp., the same buyer of the Missouri, Illinois and Iowa assets, for $140.7 million. The sale went for 8.6x EBITDA or 1.45x rate base, which we estimate is in line with recent transactions. The purchase price is subject to typical adjustments and is expected to result in an after-tax gain of ~$6 million sometime in fiscal 2013.

Figure 1: LDC Transactions Valuation Multiples (EV / Est. LTM EBITDA)



Source: Company filings and Barclays Research Estimates.

While the regulatory environment in Georgia is favorable for investor-owned utilities, the company found the growth opportunities limited given the large market share held by AGL Resources. The proceeds of the sale will be invested in growing the rate base in the company's remaining service territories.

On 8/1/12, the company completed its pending sale of its Missouri, Illinois and Iowa distribution assets for $129 million, implying an EBITDA multiple of ~8.8x. The proceeds from this transaction were used to pay down commercial paper. An after-tax gain of $6 million will be reflected in 4Q results.

Full Redemption of $250MM Senior Notes Should Reduce Interest Rates in Near Term

The company announced it will be redeeming its $250 million 5.125% senior notes due January 2013 on 8/28/12. The company will lean on its commercial paper capacity to redeem the notes initially but will enter into a short-term financing agreement to pay down the commercial paper. The debt will eventually be termed out with unsecured long-term notes in January 2013.

Rate Case Update

Rate Increase Requests

On 8/1/12, an application was filed requesting a $2.7 million operating income increase related to the pipeline replacement program in Kentucky. The request reflects an ROE of 10.5%, 51% equity capital structure and a rate base of $37 million.

On 6/22/12, a request was filed in Tennessee for an $11.2 million increase in operating income based on a 11% ROE, 51% equity capital structure, and a $209 million rate base.

Rate Increase Settlements and Appeals

On 7/18/12, a settlement was reached with the Commission Staff for an increase in annual operating income of $3.8 million in Kansas. A final order is expected in 4Q12.

On 6/6/12, the company appealed a decision in the West Texas system-wide rate case filing. The updated request asks for $9.4 million of additional operating income based on a return on equity of 11.05%, 52% equity capital structure and a rate base of $274 million.

On 5/31/12, the company requested an updated increase in annual income of $46.5 million (vs. the prior $53.7 million) in Mid-Tex, based on a ROE of 11.1%, equity capital structure of 52%, and rate base of $1.52 billion.

Rate Increase Implementations

On 6/1/12, new rates tied to the annual rate review were implemented in Dallas, reflecting an increase in annual operating income of $1.2 million. The final order authorized an ROE of 10.10%, 52% equity capital structure, and a rate base of $1.47 billion.

On 7/1/12, a $2.3 million increase in operating income was implemented in Louisiana tied to the annual rate stabilization filing. The new rates reflected a 10.4% ROE, 52% equity capital structure and a rate base of $285 million.

Tracking to Come in at the Top End of Guidance Range

EPS guidance for the year was reiterated in the range of $2.30 to $2.40. However, the composition was slightly revised for all segments. Net income for Distribution was raised to a range of $135-139 million from the previous $134-$138 million, Regulated was increased from $59-$62 million to $61-$65 million while Nonregulated was decreased from $17-$20 million to a range of $14-$16 million. We'd note that the $2.30-$2.40 outlook excludes mark-to-market impacts, but includes the after-tax gain of the Missouri, Illinois and Iowa assets. Excluding this benefit, the EPS range is $2.24-$2.34. We have assumed some benefit tied to storage asset optimization in 4Q and estimate the full-year to come in at the high end of the guidance range at $2.34.

As there is ~$70 million of rate relief requests in the backlog, we feel confident that the company will achieve the ~$55 million we have assumed in our model for 2013. While the Nonregulated segment benefited from asset optimization margins this quarter, we view the gains as more one-time in nature as these opportunities will likely be more difficult to exploit in the forward years. We believe all of the growth in the near-term will be driven by the anticipated 8-8.5% annual increase in the rate base, which should translate into a 6-8% earnings CAGR through 2016. We are raising our price target to $36 predicated on shares trading at 14.5x our '13 EPS estimate of $2.48. Our previous price target of $34 was predicated on shares trading at 14.2x our '13 EPS estimate of $2.42.

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Primary Stocks (Ticker, Date, Price)

Atmos Energy (ATO, 10-Aug-2012, USD 36.94), Equal Weight/Neutral

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Overweight - The stock is expected to outperform the unweighted expected total return of the industry coverage universe over a 12-month investment horizon.

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Neutral - industry coverage universe fundamentals/valuations are steady, neither improving nor deteriorating.

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U.S. Diversified Natural Gas

AGL Resources Inc. (GAS)	Atmos Energy (ATO)	Enbridge Inc. (ENB.TO)
Energen Corp. (EGN)	EQT Corporation (EQT)	Kinder Morgan Inc. (KMI)
MDU Resources Group (MDU)	National Fuel Gas (NFG)	New Jersey Resources (NJR)
ONEOK Inc. (OKE)	Piedmont Natural Gas Co. (PNY)	Questar Corp. (STR)
Southwest Gas Corp. (SWX)	Spectra Energy Corp. (SE)	Targa Resources Corp. (TRGP)
WGL Holdings (WGL)	Williams Cos. (WMB)	

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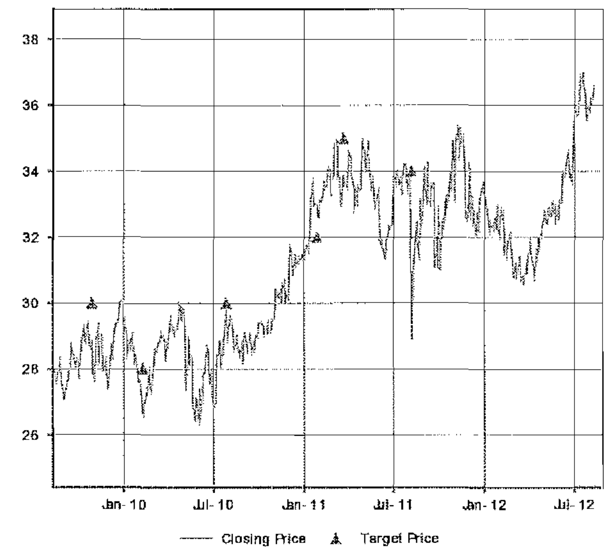
Atmos Energy (ATO)

USD 36.94 (10-Aug-2012)

Stock Rating: **EQUAL WEIGHT**

Industry View: **NEUTRAL**

Rating and Price Target Chart - USD (as of 10-Aug-2012)



Link to Barclays Live for interactive charting

Currency=USD

Date	Closing Price	Rating	Price Target
05-Aug-2011	31.33		34.00
21-Mar-2011	33.90		35.00
26-Jan-2011	33.02		32.00
27-Jul-2010	29.81		30.00
08-Feb-2010	26.70		28.00
28-Oct-2009	28.59		30.00

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Valuation Methodology: Our price target of $36 is predicated on shares trading at 14.5x our '13 EPS estimate of $2.48.

Risks which May Impede the Achievement of the Barclays Research Price Target: Atmos Energy is an interest rate sensitive investment, ATO's operations are seasonal and highly sensitive to weather, deregulation increases the potential for competition in ATO's market, Energy Marketing and Trading operations are inherently riskier than regulated utility and are facing significant scrutiny from investors and rating agencies; ATO's growth through acquisition strategy adds extra layer of risk to the utility.

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BARCLAYS

ATMOS ENERGY

Regulated Segments to Drive Earnings Growth in 2013

Finishes the Year in Line With Expectations: Adjusted 4Q EPS of $0.11 came in above consensus and in line with our expectation. Distribution was higher due to an increase in rates and slight uptick in volumes while Regulated Transmission and Storage benefited from GRIP filings. An improvement at Nonregulated was driven by a $20 million swing in realized asset optimization margins, partially offset by a decrease in realized margins tied to a decline in industrial and power generation demand.

2013 Guidance Initiated in Range of $2.40-$2.50: The outlook assumes a full-year contribution from the GA utility and normal weather. The increase over 2012 will be driven by rate relief that should contribute $90-$110 million of incremental operating income while Nonregulated is expected to stay flat. Capex for the year is estimated to range $770-$790 million and should be funded by cash generated by operations, proceeds from the sale of the GA utility, and incremental debt.

Rate Relief to Drive 6-8% Earnings Growth Through 2016: In addition to the $90-$110 million of operating income that will contribute to 2013 earnings, the company holds $10 million of asset deferrals on its balance sheet while an additional $20-$25 million of asset deferrals is expected in 2013. There is ~$50 million of potential rate relief in the queue and ATO expects to file for an incremental $100 million this year.

Providing Initial 2013 Quarterly and 2017 Annual Estimates: We are expecting a full-year estimate of $2.44 and think the company will at least achieve the low end of the 6-8% earnings growth through 2016. However, EPS growth will be slightly lower as we are modeling in a $150 million equity issuance in 2016.

ATO: Quarterly and Annual EPS (USD)

	2012	2013			2014			Change y/y	
FY Sep	Actual	Old	New	Cons	Old	New	Cons	2013	2014
Q1	0.61A	N/A	0.68E	0.78E	N/A	N/A	N/A	11%	N/A
Q2	1.28A	N/A	1.46E	1.41E	N/A	N/A	N/A	14%	N/A
Q3	0.32A	N/A	0.25E	0.24E	N/A	N/A	N/A	-22%	N/A
Q4	0.11A	N/A	0.06E	0.02E	N/A	N/A	N/A	-45%	N/A
Year	2.33A	2.48E	2.44E	2.46E	N/A	2.55E	2.61E	5%	5%
P/E	15.0		14.3			13.7			

Source: Barclays Research.
Consensus numbers are from Thomson Reuters

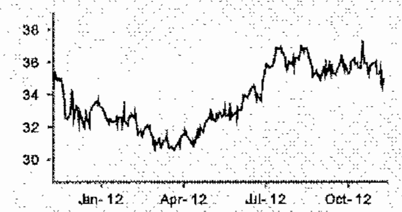
Stock Rating	EQUAL WEIGHT Unchanged
Industry View	NEUTRAL Unchanged
Price Target	USD 36.00 Unchanged

Price (09-Nov-2012)	USD 34.92
Potential Upside/Downside	+3%
Tickers	ATO

Market Cap (USD mn)	3149
Shares Outstanding (mn)	90.17
Free Float (%)	97.75
52 Wk Avg Daily Volume (mn)	0.4
Dividend Yield (%)	4.0
Return on Equity TTM (%)	8.53
Current BVPS (USD)	26.12

Source: FactSet Fundamentals

Price Performance	Exchange-NYSE
52 Week range	USD 37.33-30.39



Link to Barclays Live for interactive charting

U.S. Diversified Natural Gas

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COMPANY SNAPSHOT

Atmos Energy — U.S. Diversified Natural Gas

Income statement ($mn)	2012A	2013E	2014E	2015E	CAGR
EBITDA (adj)	688	767	816	879	8.5%
EBIT (adj)	446	513	553	604	10.6%
Pre-tax income (adj)	305	360	377	410	10.4%
Net income (adj)	217	222	232	252	5.2%
EPS (adj) ($)	2.33	2.44	2.55	2.77	6.0%
Diluted shares (mn)	91.2	91.0	91.0	91.0	-0.1%
DPS ($)	1.38	1.40	1.42	1.44	1.4%

Growth rates					Average
EBITDA (adj) growth (%)	-2.1	11.5	6.3	7.8	5.9
EBIT (adj) growth (%)	-6.1	15.1	7.7	9.3	6.5
Net income (adj) growth (%)	4.4	2.3	4.7	8.7	5.0
EPS (adj) growth (%)	1.5	4.5	4.7	8.7	4.9
DPS growth (%)	1.1	1.4	1.4	1.4	1.3

Balance sheet and cash flow ($mn)					CAGR
Tangible fixed assets	N/A	N/A	N/A	N/A	N/A
Cash and equivalents	64	88	57	43	-12.6%
Short and long-term debt	2,527	2,727	2,927	3,127	7.4%
Total liabilities	N/A	N/A	N/A	N/A	N/A
Net debt/(funds)	2,463	2,640	2,870	3,085	7.8%
Shareholders' equity	2,359	2,493	2,636	2,798	5.8%
Change in working capital	-17	0	0	0	N/A
Cash flow from operations	587	548	571	608	1.2%
Capital expenditure	672	777	712	732	2.9%
Free cash flow	446	521	559	612	11.1%

Valuation and leverage metrics				
P/E (adj) (x)	15.0	14.3	13.7	12.6
EV/EBITDA (x)	8.1	7.5	7.4	7.1
Dividend yield (%)	4.0	4.0	4.1	4.1
Total debt/capital (%)	51.7	52.2	52.6	52.8

Selected operating metrics				
Gas prices ($/mcf) ($)	2.74	3.50	4.00	4.50
Oil prices ($/bbl) ($)	96.02	90.00	100.00	100.00
NGL ($/gal) ($)	1.16	1.01	1.11	1.13
Frac spread ($/gal) ($)	0.92	0.69	0.75	0.73
Production volumes (000 cf)	N/A	N/A	N/A	N/A
NGL sales (m bbls)	N/A	N/A	N/A	N/A
Processing volumes (mmbtu)	N/A	N/A	N/A	N/A
Rate base ($m)	N/A	N/A	N/A	N/A
Number of customers	N/A	N/A	N/A	N/A
Capital investment growth (%)	7.9	15.6	-8.4	2.8

Source: Company data, Barclays Research
Note: FY End Sep

Stock Rating	**EQUAL WEIGHT**
Industry View	**NEUTRAL**
Price (09-Nov-2012)	**USD 34.92**
Price Target	**USD 36.00**
Ticker	**ATO**

Investment case

Why Equal Weight? Assets are heavily regulated and earnings are expected to grow in the mid-single digits each year. While the regulated Distribution and Pipeline segments provide visible and steady growth, there is some volatility tied to the weak backdrop of the unregulated segments.

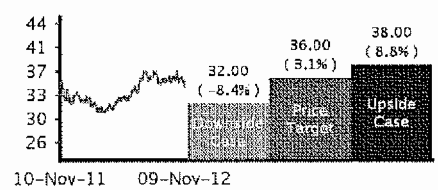
Upside case — USD 38.00

Higher natural gas prices or an increase in volatility is likely to improve pricing margins or optimization and storage.

Downside case — USD 32.00

In the event that the visibility around rate relief deteriorates, there could be a long lag for recouping investment and growing rate base.

Upside/Downside scenarios



Source: Barclays Research

4Q Results

Adjusted EPS of $0.11 was above the consensus estimate of $0.08 per share and in line with our expectation. Distribution was higher due to an increase in rates and a slight uptick in volumes while Regulated Transmission and Storage benefited from GRIP filings. An improvement at Nonregulated was driven by a $20 million swing in realized asset optimization margins, partially offset by a decrease in realized margins tied to a decline in industrial and power generation demand.

Reported EPS of $0.09 included a $0.14 loss tied to mark to market losses, a $0.07 gain related to the sale of the Missouri, Illinois and Iowa utilities, a $0.15 attributable to a deferred tax benefit, $0.07 associated with a one-time donation, and a $0.04 impairment charge of the Kentucky gathering assets.

Provides Initial 2013 Guidance

EPS guidance was initiated in the range of $2.40-$2.50 per share and assumes a full-year contribution from Georgia (divestiture is expected to close at the end of fiscal 2013) and normal weather. The increase over 2012 will be driven by rate relief (traditional rate cases, GRIP, Rule 8, Line X & W) that will contribute an incremental $90 to $110 million of incremental operating income while expected earnings out of Nonregulated of $60-$67 million reflects numbers that are relatively flat to 2012.

Capital expenditure guidance for the year was disclosed at a range of $770 - $790 million, which reflects increased spending at Atmos Pipeline – Texas and at Distribution tied to Rule 8.209. Capex is expected to stay in the low $700 million range through 2015 and peak out at 2016 at over $800 million.

Cash flow from operations is expected to generate $525-$545 million, of which ~$240 million will likely be spent on maintenance capex and $128 million on dividends. The remaining amount of ~$170 million will likely be deployed towards the aforementioned growth capex. The shortfall should be funded by cash proceeds tied to the pending Georgia asset sale and incremental debt. However, we believe the company could issue equity in 2015 or 2016.

Financing Transactions

ATO's debt outstanding was $2,527.4 million as of September 30, 2012 and the debt to cap ratio was 51.7%. During the quarter, the company redeemed its 5.125% senior notes and financed the debt redemption commercial paper. It entered into a $260 million term loan credit agreement to pay down the commercial paper and a longer term financing solution is expected in January 2013 with a $350 million of unsecured 30-year notes.

On Track for 6-8% Earnings Growth Through 2016

We have provided our initial 2013 quarterly estimates and added 2017 to our model. In light of the increased detail we got around 2013 segment expectations, we have slightly lowered our 2013 EPS estimate to $2.44 from our previous $2.48, in line with company guidance of $2.40 to $2.50. We have incorporated the lower end of the $90 to $110 million operating income increase provided by the company in our 2013 numbers but would note that it holds $10 million of asset deferrals on its balance sheet while an additional $20-$25 million of asset deferrals is expected in fiscal 2013.

There is ~$50 million of potential rate relief in the queue (mostly related to Mid-Tex) and the company expects to file for an incremental $100 million this year. All of this bodes well for 2013 and 2014 and we expect the company to achieve the low end of its targeted 6-8%

earnings CAGR through 2016. In outer years, we model less robust rate increases to be conservative and our numbers may prove low as the visibility of the rate case backlog firms up. Our model includes a potential equity issuance in 2016.

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Primary Stocks (Ticker, Date, Price)

Atmos Energy (ATO, 09-Nov-2012, USD 34.92), Equal Weight/Neutral

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Overweight - The stock is expected to outperform the unweighted expected total return of the industry coverage universe over a 12-month investment horizon.

Equal Weight - The stock is expected to perform in line with the unweighted expected total return of the industry coverage universe over a 12-month investment horizon.

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U.S. Diversified Natural Gas

AGL Resources Inc. (GAS)	Atmos Energy (ATO)	Enbridge Inc. (ENB.TO)
Energen Corp. (EGN)	EQT Corporation (EQT)	Kinder Morgan Inc. (KMI)
MDU Resources Group (MDU)	National Fuel Gas (NFG)	New Jersey Resources (NJR)
ONEOK Inc. (OKE)	Piedmont Natural Gas Co. (PNY)	Questar Corp. (STR)
Southwest Gas Corp. (SWX)	Spectra Energy Corp. (SE)	Targa Resources Corp. (TRGP)
WGL Holdings (WGL)	Williams Cos. (WMB)	

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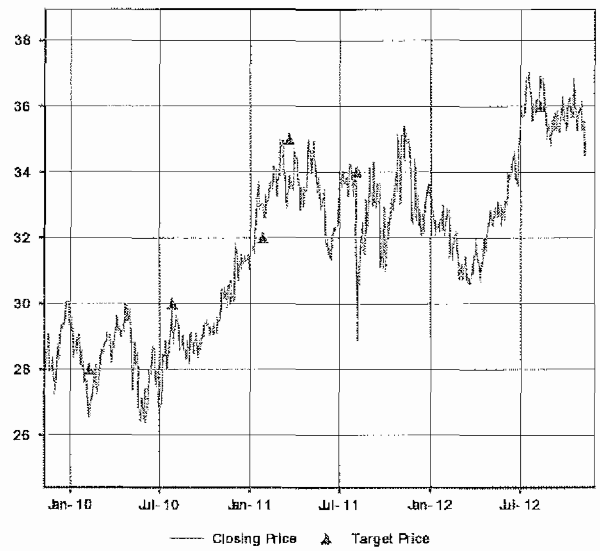
Atmos Energy (ATO)

USD 34.92 (09-Nov-2012)

Stock Rating: **EQUAL WEIGHT**

Industry View: **NEUTRAL**

Rating and Price Target Chart - USD (as of 09-Nov-2012)



Link to Barclays Live for interactive charting

Currency=USD

Date	Closing Price	Rating	Price Target
10-Aug-2012	36.94		36.00
05-Aug-2011	31.33		34.00
21-Mar-2011	33.90		35.00
26-Jan-2011	33.02		32.00
27-Jul-2010	29.81		30.00
08-Feb-2010	26.70		28.00

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Valuation Methodology: Our price target of $36 is predicated on shares trading at 14.0x our '14 EPS estimate of $2.55.

Risks which May Impede the Achievement of the Barclays Research Price Target: Atmos Energy is an interest rate sensitive investment, ATO's operations are seasonal and highly sensitive to weather, deregulation increases the potential for competition in ATO's market, Energy Marketing and Trading operations are inherently riskier than regulated utility and are facing significant scrutiny from investors and rating agencies; ATO's growth through acquisition strategy adds extra layer of risk to the utility.

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Atmos Energy

1Q12 results disappointing, but FY12 guidance reiterated

Earnings Review NEUTRAL

Equity | United States | Gas Utilities
09 February 2012

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1Q12 results worse than expected due to Nonregulated

Tuesday after market close, ATO reported 1Q12 diluted EPS of $0.75 versus BofAML estimate of $0.91 and consensus of $0.85. Lower than expected results were primarily due to underperformance at ATO's Nonregulated segment related to reduced asset optimization margins, which were negatively affected by certain hedge losses in the quarter. Nonregulated segment results are expected to remain depressed in 2Q12, but improve in 3Q/4Q12 as incremental margin related to natural gas storage withdrawal gains are expected to be realized in the second half of FY12. Results at ATO's Natural Gas Distribution segment were lower than expected due to negative impacts of a weather normalization adjustment at Mid-Tex, which is expected to largely reverse in 2Q12. ATO's Regulated Transmission and Storage segment results were better than expected due to benefits from the Atmos Pipeline – TX rate case. ATO reaffirmed FY12 EPS guidance of $2.30-2.40, athough ATO adjusted net income guidance by segment to incorporate 1Q12 results. ATO's 2Q12 declared dividend of $0.345 ($1.38 annualized) represents a 0.0/1.5% increase over 1Q12/2Q11 levels, respectively, in-line with BofAML expectations.

Maintain $34 PO, Neutral; introducing 2014 estimates

We maintain our Neutral rating and $34 PO, which is based on a P/E multiple of ~13x 2014E EPS of $2.65. We are introducing a 2014E EPS of $2.65, which assumes moderate rate base growth at ATO's Regulated segments and continued headwinds at its Nonregulated segment due to low natural gas prices and basis differentials. ATO continues to trade at a discount to peers (albeit somewhat less so), which we see as justified by headwinds at ATO's Nonregulated segments and uncertainty around pending rate cases at some of ATO's jurisdictions. That said, ATO plans to increase growth capital spending, which may allow ATO to grow its rate base at a somewhat accelerated annual growth rate of 6-6.5% going forward (up from 4-4.5% historical growth).

Estimates (Sep)

(US$)	2010A	2011A	2012E	2013E	2014E
EPS	2.20	2.31	2.35	2.50	2.65
GAAP EPS	2.20	2.27	2.35	2.50	2.65
EPS Change (YoY)	15.8%	5.0%	1.7%	6.4%	6.0%
Consensus EPS (Bloomberg)			2.38	2.53	2.59
DPS	1.34	1.36	1.38	1.40	1.42

Valuation (Sep)

	2010A	2011A	2012E	2013E	2014E
P/E	14.7x	14.0x	13.7x	12.9x	12.2x
GAAP P/E	14.7x	14.2x	13.7x	12.9x	12.2x
Dividend Yield	4.2%	4.2%	4.3%	4.3%	4.4%
EV / EBITDA*	10.9x	11.1x	10.6x	9.7x	9.4x
Free Cash Flow Yield*	6.3%	-1.4%	-10.6%	3.5%	4.2%

* For full definitions of *iQmethod*SM measures, see page 6.

Stock Data

Price	US$32.24
Price Objective	US$34.00
Date Established	13-Apr-2011
Investment Opinion	A-2-7
Volatility Risk	LOW
52-Week Range	US$28.51-35.55
Mrkt Val / Shares Out (mn)	US$2,902 / 90.0
BofAML Ticker / Exchange	ATO / NYS
Bloomberg / Reuters	ATO US / ATO.N
ROE (2012E)	9.1%
Total Dbt to Cap (Dec-2011A)	53.4%
Est. 5-Yr EPS / DPS Growth	6.0% / 1.5%

Key Changes

(US$)	Previous	Current
2014E EPS	NA	2.65
2012E EBITDA (m)	730.0	729.1
2013E EBITDA (m)	771.2	790.4
2014E EBITDA (m)	NA	814.2

iQprofile[SM] Atmos Energy

iQmethod[SM] – Bus Performance*

(US$ Millions)	2010A	2011A	2012E	2013E	2014E
Return on Capital Employed	5.1%	4.4%	4.4%	4.6%	4.7%
Return on Equity	9.3%	9.3%	9.1%	9.3%	9.4%
Operating Margin	10.2%	10.2%	11.4%	11.5%	10.8%
Free Cash Flow	184	(40)	(309)	101	121

iQmethod[SM] – Quality of Earnings*

(US$ Millions)	2010A	2011A	2012E	2013E	2014E
Cash Realization Ratio	3.6x	2.8x	1.8x	2.5x	2.4x
Asset Replacement Ratio	2.5x	2.7x	2.9x	1.9x	1.9x
Tax Rate	38.5%	36.4%	38.1%	38.5%	38.5%
Net Debt-to-Equity Ratio	99.3%	101.2%	117.5%	113.7%	109.0%
Interest Cover	3.2x	2.9x	3.3x	3.1x	3.2x

Income Statement Data (Sep)

(US$ Millions)	2010A	2011A	2012E	2013E	2014E
Sales	4,790	4,348	4,288	4,696	5,220
% Change	-3.6%	-9.2%	-1.4%	9.5%	11.2%
Gross Profit	1,365	1,327	1,382	1,471	1,510
% Change	1.4%	-2.8%	4.1%	6.5%	2.6%
EBITDA	706	690	729	790	814
% Change	6.8%	-2.2%	5.6%	8.4%	3.0%
Net Interest & Other Income	(154)	(151)	(149)	(176)	(178)
Net Income (Adjusted)	**203**	**210**	**212**	**226**	**239**
% Change	**16.1%**	**3.2%**	**1.2%**	**6.3%**	**5.9%**

Free Cash Flow Data (Sep)

(US$ Millions)	2010A	2011A	2012E	2013E	2014E
Net Income from Cont Operations (GAAP)	204	206	212	226	239
Depreciation & Amortization	217	227	241	247	248
Change in Working Capital	83	(26)	(189)	0	0
Deferred Taxation Charge	197	117	115	88	94
Other Adjustments, Net	25	59	6	0	0
Capital Expenditure	(543)	(623)	(694)	(460)	(460)
Free Cash Flow	**184**	**-40**	**-309**	**101**	**121**
% Change	**-55.1%**	**NM**	**-669.8%**	**NM**	**19.8%**

Balance Sheet Data (Sep)

(US$ Millions)	2010A	2011A	2012E	2013E	2014E
Cash & Equivalents	132	131	17	17	35
Trade Receivables	273	273	490	490	490
Other Current Assets	470	606	686	686	686
Property, Plant & Equipment	4,793	5,148	5,604	5,817	6,029
Other Non-Current Assets	1,096	1,124	1,128	1,128	1,128
Total Assets	**6,764**	**7,283**	**7,925**	**8,138**	**8,368**
Short-Term Debt	486	209	415	440	465
Other Current Liabilities	680	659	790	790	790
Long-Term Debt	1,810	2,206	2,336	2,336	2,336
Other Non-Current Liabilities	1,610	1,954	2,057	2,145	2,239
Total Liabilities	**4,585**	**5,027**	**5,598**	**5,711**	**5,830**
Total Equity	**2,178**	**2,255**	**2,327**	**2,427**	**2,538**
Total Equity & Liabilities	**6,764**	**7,283**	**7,925**	**8,138**	**8,368**

* For full definitions of *iQmethod*[SM] measures, see page 6.

Company Description

Atmos Energy Corporation (ATO) is a natural gas transmission and distribution company headquartered in Dallas, Texas. Operations are divided between three segments: Natural Gas Distribution, Regulated Transmission & Storage, and Nonregulated. The Distribution segment distributes gas to 3.2mn customers in 12 states located in the South, Southeast and Midwest.

Investment Thesis

ATO has traded at a discount to peers given underearning in its largest Distribution division, muted nonregulated returns on low gas market volatility, and the perception it covers too many jurisdictions to focus on improving terms in each one. Yet mgmt has made strides in regulated divisions and ATO looks poised for improved returns over the long-term given the positive outcome at its Atmos Pipeline - TX rate case. That said, we view FY12 guidance for its Distribution segment as disappointing.

Stock Data

Average Daily Volume	338,407

Quarterly Earnings Estimates

	2011	2012
Q1	0.81A	0.76A
Q2	1.35A	1.50E
Q3	0.05A	NA
Q4	0.11A	NA

Exhibit 1: ATO 1Q12 earnings summary

Earnings Summary
($ in millions, except for per unit data)

	1Q12			1Q11
	Expected	**Actual**	**Diff.**	
Natural Gas Distribution	128.4	108.4	(20.0)	124.2
Regulated Transmission and Storage	25.3	28.4	3.0	24.1
Nonregulated	16.8	7.7	(9.1)	11.8
Eliminations	0.0	0.0	0.0	0.0
Operating Income	**170.5**	**144.4**	**(26.1)**	**160.1**
Misc. income (expense)	0.5	(1.9)	(2.4)	(0.7)
Interest on LTD	35.1	35.4	0.4	38.9
Earnings Before Taxes	**135.9**	**107.1**	**(28.8)**	**120.5**
Income Taxes	53.4	41.3	(12.1)	46.5
Earnings Before Extraordinary Items	**82.5**	**65.8**	**(16.7)**	**74.0**
Extraordinary Gain / (Loss) (net of tax)	0.0	2.7	2.7	0.0
GAAP Net Earnings to Common Stock	**82.5**	**68.5**	**(14.0)**	**74.0**
Adjustments	0.0	0.0	0.0	0.3
Adjusted Net Income	**82.5**	**68.5**	**(14.0)**	**74.3**
Earnings per share (GAAP)				
Diluted	$0.91	$0.75	($0.16)	$0.81
Earnings per share (Recurring)				
Diluted	$0.91	$0.76	($0.15)	$0.81
Weighted average shares outstanding				
Diluted	90.6	90.5	(0.1)	90.4
Cash dividends declared per share	$0.35	$0.35	$0.00	$0.34

Source: Company reports, BofAML Global Research analysis

Price objective basis & risk

Atmos Energy (ATO)

Our $34 PO is largely based on a targeted 13x 2014E EPS, which would imply that ATO should trade at a moderate discount to peers. The company offers an attractive dividend yield and low P/E relative to peers and operates out of the TX region which has felt less of an impact from the current macroeconomic slowdown. Growth through 2014 should be driven by recent rate cases which should improve the ability to earn at authorized levels, capital projects which are expected to grow ATO's rate base, and various nonregulated pipeline and gathering projects. Risks to PO are: sustained low gas market volatility, a materially higher gas price environment, slack capacity utilization at its Barnett Shale natural gas pipelines and prolonged broader economic slowdown. The latter factors could also slow customer growth rates and contribute to cash flow pressure. Other risks to our PO are better-than-forecast rate execution and timing, a gas market volatility rebound to above-forecast levels, and better-than-forecast incremental growth from unidentified nonregulated growth projects.

Link to Definitions

Energy

Click here for definitions of commonly used terms.

Analyst Certification

I, Gabe Moreen, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Natural Gas Coverage Cluster

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
BUY				
	American Midstream LP	AMID	AMID US	Gabe Moreen
	Buckeye Partners	BPL	BPL US	Gabe Moreen
	Chesapeake Midstream Partners, L.P.	CHKM	CHKM US	Gabe Moreen
	Crosstex Energy, L.P.	XTEX	XTEX US	Gabe Moreen
	Enbridge Energy	EEP	EEP US	Gabe Moreen
	Enbridge Energy	EEQ	EEQ US	Gabe Moreen
	Energy Trans	ETE	ETE US	Gabe Moreen
	Enterprise L.P.	EPD	EPD US	Gabe Moreen
	Exterran	EXLP	EXLP US	Gabe Moreen
	Genesis Energy, L.P.	GEL	GEL US	Gabe Moreen
	Inergy L.P.	NRGY	NRGY US	Gabe Moreen
	Inergy Midstream, L.P.	NRGM	NRGM US	Gabe Moreen
	Kinder Morgan	KMR	KMR US	Gabe Moreen
	Markwest Energy Partners L.P.	MWE	MWE US	Gabe Moreen
	Oiltanking Partners LP	OILT	OILT US	Cathleen King
	Penn Virginia Resource Partners, L.P.	PVR	PVR US	Gabe Moreen
	Plains AA	PAA	PAA US	Gabe Moreen
	Regency Energy Partners LP	RGP	RGP US	Gabe Moreen
	Spectra Energy	SE	SE US	Gabe Moreen

US - Natural Gas Coverage Cluster

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
	Targa Resources	NGLS	NGLS US	Gabe Moreen
	Targa Resources Corp.	TRGP	TRGP US	Gabe Moreen
	TC PipeLines LP	TCP	TCP US	Gabe Moreen
	Teekay Offshore	TOO	TOO US	Gabe Moreen
	Tesoro Logistics LP	TLLP	TLLP US	Cathleen King
	TransMontaigne Partners L.P.	TLP	TLP US	Gabe Moreen
	Western Gas Partners, LP	WES	WES US	Gabe Moreen
	Williams Partner	WPZ	WPZ US	Gabe Moreen
NEUTRAL				
	AGL Resources Inc.	GAS	GAS US	Gabe Moreen
	Atmos Energy	ATO	ATO US	Gabe Moreen
	Copano Energy, LLC	CPNO	CPNO US	Gabe Moreen
	DCP Midstream	DPM	DPM US	Gabe Moreen
	Energy Transfer	ETP	ETP US	Gabe Moreen
	Global Partners LP	GLP	GLP US	Gabe Moreen
	Holly Energy Par	HEP	HEP US	Gabe Moreen
	Kinder Morgan LP	KMP	KMP US	Gabe Moreen
	Kinder Morgan, Inc.	KMI	KMI US	Gabe Moreen
	Magellan Mid	MMP	MMP US	Gabe Moreen
	Northwest Natural Gas Co.	NWN	NWN US	Gabe Moreen
	PAA Natural Gas Storage	PNG	PNG US	Gabe Moreen
	Suburban Propane Partners L.P.	SPH	SPH US	Gabe Moreen
	Vectren Corp	VVC	VVC US	Gabe Moreen
UNDERPERFORM				
	AmeriGas Partners L.P.	APU	APU US	Gabe Moreen
	Boardwalk Pipeline	BWP	BWP US	Gabe Moreen
	Crestwood Midstream Partners LP	CMLP	CMLP US	Gabe Moreen
	El Paso Pipeline	EPB	EPB US	Gabe Moreen
	Ferrellgas Partners L.P.	FGP	FGP US	Gabe Moreen
	Kayne Anderson Energy Development Co.	KED	KED US	Gabe Moreen
	New Jersey Resources Corporation	NJR	NJR US	Gabe Moreen
	Nustar Energy LP	NS	NS US	Gabe Moreen
	Nustar GP	NSH	NSH US	Gabe Moreen
	ONEOK Partners	OKS	OKS US	Gabe Moreen
	Piedmont Natural Gas	PNY	PNY US	Gabe Moreen
	Southwest Gas	SWX	SWX US	Gabe Moreen
	Spectra Energy	SEP	SEP US	Gabe Moreen
	Sunoco Logistics	SXL	SXL US	Gabe Moreen
	Tortoise Capital Resources	TTO	TTO US	Gabe Moreen
	WGL Holdings, Inc.	WGL	WGL US	Gabe Moreen

iQmethod℠ Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	NOPAT = (EBIT + Interest Income) * (1 - Tax Rate) + Goodwill Amortization	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	EV = Current Share Price * Current Shares + Minority Equity + Net Debt + Other LT Liabilities	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

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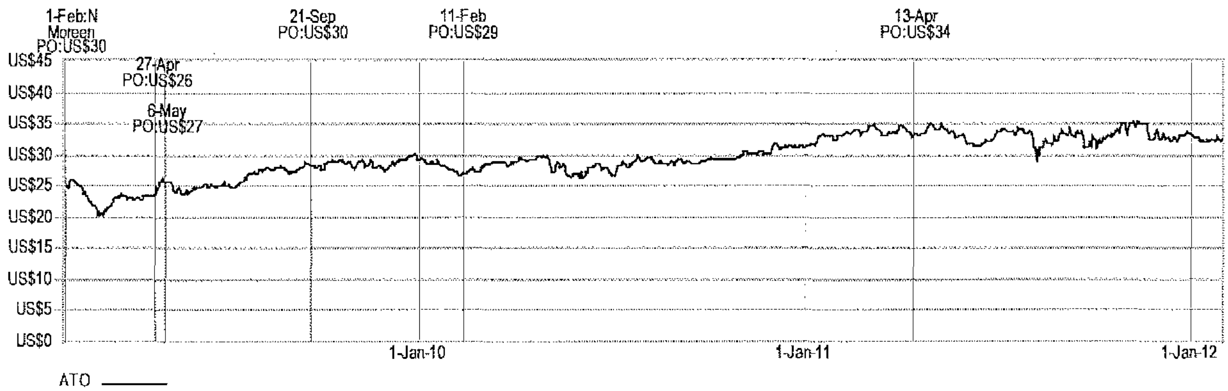
ATO Price Chart



B : Buy, N : Neutral, U : Underperform, PO : Price objective, NA : No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of January 31, 2012 or such later date as indicated.

Investment Rating Distribution: Utilities Group (as of 01 Jan 2012)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	79	42.47%	Buy	51	71.83%
Neutral	50	26.88%	Neutral	35	76.09%
Sell	57	30.65%	Sell	28	56.00%

Investment Rating Distribution: Global Group (as of 01 Jan 2012)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	2029	52.00%	Buy	1337	72.11%
Neutral	1009	25.86%	Neutral	657	71.34%
Sell	864	22.14%	Sell	487	60.20%

* Companies in respect of which BofA Merrill Lynch or one of its affiliates has received compensation for investment banking services within the past 12 months. For purposes of this distribution, a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

* Ratings dispersions may vary from time to time where BofA Merrill Lynch Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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Atmos Energy

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03 May 2012

Reducing FY12 ests on 2Q miss, but maintain FY13/14

Bank of America Merrill Lynch

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2Q12 miss due to Nat Gas Distribution and Nonregulated

Wednesday after market close, ATO reported 2Q12 adjusted diluted EPS of $1.28 versus BofAML estimate of $1.50 and consensus of $1.44. The miss was primarily driven by ATO's Natural Gas Distribution and Nonregulated segments, which were negatively impacted by the warmer than normal winter weather and fewer arbitrage opportunities due to depressed natural gas prices and basis/time spreads. ATO's 3Q12 declared dividend of $0.345 ($1.38 annualized) represents a 0.0%/1.5% increase over 2Q12/3Q11 levels, respectively, in line with BofAML expectations. ATO reaffirmed FY12 EPS guidance of $2.30-2.40, although ATO adjusted net income guidance by segment to incorporate 2Q12 results.

Nonregulated results expected to improve in 2H12

ATO's Nonregulated results have been depressed in recent quarters, but ATO expects an improvement in 2H12 driven by storage optimization opportunities. ATO noted that it took advantage of recent natural gas price declines and the contango forward curve by buying natural gas to store in its facilities to be withdrawn in the third and fourth quarters of this fiscal year. We forecast Nonregulated earnings to improve in 2H12 due to this optimization opportunity, but still expect results to remain at relatively depressed levels through FY14.

Lowering FY12 ests, but maintain $34 PO and Neutral

We lower FY12 estimates to incorporate ATO's 2Q12 miss, but maintain FY13/14 estimates. Our revised FY12 EPS estimate of $2.30 is at the low end of guidance. We maintain our $34 PO, which is based on a P/E multiple of ~13x our 2014E EPS of $2.65. ATO's plans to increase growth capital spending may allow ATO to grow its rate base at a somewhat accelerated annual growth rate of 8-8.5% going forward (up from 4-4.5% historical growth). We view ATO's current focus on organic growth relative to its historical focus on acquisitions positively given ATO's growth projects could generate better returns than M&A. In light of this, we see the potential for ATO's valuation discount to peers to lessen over time.

Estimates (Sep)

(US$)	2010A	2011A	2012E	2013E	2014E
EPS	2.20	2.31	2.30	2.50	2.65
GAAP EPS	2.20	2.27	2.36	2.50	2.65
EPS Change (YoY)	15.8%	5.0%	-0.4%	8.7%	6.0%
Consensus EPS (Bloomberg)			2.33	2.49	2.55
DPS	1.34	1.36	1.38	1.40	1.42

Valuation (Sep)

	2010A	2011A	2012E	2013E	2014E
P/E	14.9x	14.2x	14.2x	13.1x	12.4x
GAAP P/E	14.9x	14.4x	13.9x	13.1x	12.4x
Dividend Yield	4.1%	4.2%	4.2%	4.3%	4.3%
EV / EBITDA*	10.7x	10.9x	10.4x	9.6x	9.3x
Free Cash Flow Yield*	6.2%	-1.4%	-6.1%	3.2%	3.9%

* For full definitions of *iQmethod*SM measures, see page 6.

Stock Data

Price	US$32.74
Price Objective	US$34.00
Date Established	13-Apr-2011
Investment Opinion	A-2-7
Volatility Risk	LOW
52-Week Range	US$28.51-35.55
Mrkt Val / Shares Out (mn)	US$2,947 / 90.0
BofAML Ticker / Exchange	ATO / NYS
Bloomberg / Reuters	ATO US / ATO.N
ROE (2012E)	8.9%
Total Dbt to Cap (Mar-2012A)	50.2%
Est. 5-Yr EPS / DPS Growth	6.0% / 1.5%

Key Changes

(US$)	Previous	Current
2012E EPS	2.35	2.30
2012E EBITDA (m)	729.1	724.3
2013E EBITDA (m)	790.4	782.8
2014E EBITDA (m)	814.2	807.0

Refer to important disclosures on page 7 to 9. Analyst Certification on Page 4. Price Objective Basis/Risk on page 4. Link to Definitions on page 4. 11163692

iQprofile℠ Atmos Energy

iQmethod℠ – Bus Performance*

(US$ Millions)	2010A	2011A	2012E	2013E	2014E
Return on Capital Employed	5.1%	4.4%	4.4%	4.7%	4.7%
Return on Equity	9.3%	9.3%	8.9%	9.3%	9.4%
Operating Margin	10.2%	10.2%	12.5%	13.3%	12.5%
Free Cash Flow	184	(40)	(178)	94	115

iQmethod℠ – Quality of Earnings*

(US$ Millions)	2010A	2011A	2012E	2013E	2014E
Cash Realization Ratio	3.6x	2.8x	2.6x	2.5x	2.4x
Asset Replacement Ratio	2.5x	2.7x	2.9x	1.9x	1.9x
Tax Rate	38.5%	36.4%	38.2%	38.3%	38.3%
Net Debt-to-Equity Ratio	99.3%	101.2%	112.3%	109.0%	104.8%
Interest Cover	3.2x	2.9x	3.3x	3.1x	3.2x

Income Statement Data (Sep)

(US$ Millions)	2010A	2011A	2012E	2013E	2014E
Sales	4,790	4,348	3,864	4,017	4,468
% Change	-3.6%	-9.2%	-11.1%	4.0%	11.2%
Gross Profit	1,365	1,327	1,379	1,455	1,494
% Change	1.4%	-2.8%	3.9%	5.5%	2.7%
EBITDA	706	690	724	783	807
% Change	6.8%	-2.2%	4.9%	8.1%	3.1%
Net Interest & Other Income	(154)	(151)	(145)	(170)	(172)
Net Income (Adjusted)	**203**	**210**	**208**	**225**	**239**
% Change	**16.1%**	**3.2%**	**-0.8%**	**8.3%**	**6.1%**

Free Cash Flow Data (Sep)

(US$ Millions)	2010A	2011A	2012E	2013E	2014E
Net Income from Cont Operations (GAAP)	204	206	213	225	239
Depreciation & Amortization	217	227	242	247	248
Change in Working Capital	83	(26)	(52)	0	0
Deferred Taxation Charge	197	117	115	82	88
Other Adjustments, Net	25	59	15	0	0
Capital Expenditure	(543)	(623)	(711)	(460)	(460)
Free Cash Flow	**184**	**-40**	**-178**	**94**	**115**
% Change	**-55.1%**	**NM**	**-344.8%**	**NM**	**21.4%**

Balance Sheet Data (Sep)

(US$ Millions)	2010A	2011A	2012E	2013E	2014E
Cash & Equivalents	132	131	32	25	37
Trade Receivables	273	273	350	350	350
Other Current Assets	470	606	497	497	497
Property, Plant & Equipment	4,793	5,148	5,612	5,824	6,037
Other Non-Current Assets	1,096	1,124	1,141	1,141	1,141
Total Assets	**6,764**	**7,283**	**7,631**	**7,838**	**8,062**
Short-Term Debt	486	209	449	474	499
Other Current Liabilities	680	659	684	684	684
Long-Term Debt	1,810	2,206	2,206	2,206	2,206
Other Non-Current Liabilities	1,610	1,954	1,956	2,038	2,126
Total Liabilities	**4,585**	**5,027**	**5,296**	**5,402**	**5,516**
Total Equity	**2,178**	**2,255**	**2,336**	**2,435**	**2,546**
Total Equity & Liabilities	**6,764**	**7,283**	**7,631**	**7,838**	**8,062**

* For full definitions of *iQmethod*℠ measures, see page 6.

Company Description

Atmos Energy Corporation (ATO) is a natural gas transmission and distribution company headquartered in Dallas, Texas. Operations are divided between three segments: Natural Gas Distribution, Regulated Transmission & Storage, and Nonregulated. The Distribution segment distributes gas to 3.2mn customers in 12 states located in the South, Southeast and Midwest.

Investment Thesis

We view ATOs current focus on organic growth relative to its historical focus on acquisitions positively given growth projects could generate better returns than M&A. That said, we see muted nonregulated returns on low gas market volatility, some uncertainty around its Mid-Tex rate case, and the perception ATO covers too many jurisdictions to focus on improving terms in each one as headwinds to substantial improvements in ATOs valuation compared to peers.

Stock Data

Average Daily Volume	479,496

Quarterly Earnings Estimates

	2011	2012
Q1	0.81A	0.61A
Q2	1.35A	1.28A
Q3	0.05A	0.13E
Q4	0.11A	NA

Exhibit 1: ATO 2Q12 earnings summary

Earnings Summary
($ in millions, except for per unit data)

	2Q12			2Q11
	Expected	Actual	Diff.	
Natural Gas Distribution	218.8	189.3	(29.5)	194.8
Regulated Transmission and Storage	31.5	30.5	(1.0)	29.8
Nonregulated	6.0	(11.4)	(17.4)	(6.7)
Pipeline, Storage, and Other	3.5	3.5	0.0	3.4
Eliminations	0.0	0.0	0.0	(0.0)
Operating Income	**256.2**	**208.4**	**(47.9)**	**217.9**
Misc. income (expense)	0.5	0.6	0.1	26.2
Interest on LTD	37.3	36.7	(0.7)	37.9
Earnings Before Taxes	**219.4**	**172.3**	**(47.1)**	**206.2**
Income Taxes	83.8	66.4	(17.4)	74.0
Earnings Before Extraordinary Items	**135.6**	**105.9**	**(29.7)**	**132.2**
Extraordinary Gain / (Loss) (net of tax)	0.0	3.2	3.2	0.0
GAAP Net Earnings to Common Stock	**135.6**	**109.1**	**(26.5)**	**132.2**
Adjustments	0.0	6.0	6.0	(9.0)
Adjusted Net Income	**135.6**	**115.1**	**(20.5)**	**123.2**
Earnings per share (GAAP)				
Diluted	$1.50	$1.20	($0.30)	$1.45
Earnings per share (Recurring)				
Diluted	$1.50	$1.28	($0.22)	$1.35
Weighted average shares outstanding				
Diluted	90.4	90.3	(0.1)	90.5
Cash dividends declared per share	$0.35	$0.35	$0.00	$0.34

Source: Company reports, BofA Merrill Lynch Global Research analysis

Price objective basis & risk

Atmos Energy (ATO)

Our $34 PO is largely based on a targeted 13x 2014E EPS, which would imply that ATO should trade at a moderate discount to peers. The company offers an attractive dividend yield and low P/E relative to peers and operates out of the TX region which has felt less of an impact from the current macroeconomic slowdown. Growth through 2014 should be driven by recent rate cases which should improve the ability to earn at authorized levels, capital projects which are expected to grow ATO's rate base, and various nonregulated pipeline and gathering projects. Risks to PO are: sustained low gas market volatility, a materially higher gas price environment, slack capacity utilization at its Barnett Shale natural gas pipelines and prolonged broader economic slowdown. The latter factors could also slow customer growth rates and contribute to cash flow pressure. Other risks to our PO are better-than-forecast rate execution and timing, a gas market volatility rebound to above-forecast levels, and better-than-forecast incremental growth from unidentified nonregulated growth projects.

Link to Definitions

Energy

Click here for definitions of commonly used terms.

Analyst Certification

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US - Natural Gas Coverage Cluster

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
BUY				
	Atlas Pipeline Partners, L.P.	APL	APL US	Derek Walker
	Buckeye Partners	BPL	BPL US	Gabe Moreen
	Chesapeake Midstream Partners, L.P.	CHKM	CHKM US	Gabe Moreen
	Crosstex Energy, L.P.	XTEX	XTEX US	Gabe Moreen
	DCP Midstream	DPM	DPM US	Gabe Moreen
	Enbridge Energy	EEP	EEP US	Gabe Moreen
	Enbridge Energy	EEQ	EEQ US	Gabe Moreen
	Energy Trans	ETE	ETE US	Gabe Moreen
	Enterprise L.P.	EPD	EPD US	Gabe Moreen
	Exterran	EXLP	EXLP US	Gabe Moreen
	Genesis Energy, L.P.	GEL	GEL US	Gabe Moreen
	Inergy L.P.	NRGY	NRGY US	Gabe Moreen
	Inergy Midstream, L.P.	NRGM	NRGM US	Gabe Moreen
	Kinder Morgan	KMR	KMR US	Gabe Moreen
	Markwest Energy Partners L.P.	MWE	MWE US	Gabe Moreen
	Oiltanking Partners LP	OILT	OILT US	Cathleen King
	Penn Virginia Resource Partners, L.P.	PVR	PVR US	Gabe Moreen
	Plains AA	PAA	PAA US	Gabe Moreen
	Regency Energy Partners LP	RGP	RGP US	Gabe Moreen
	Spectra Energy	SE	SE US	Gabe Moreen
	Targa Resources	NGLS	NGLS US	Gabe Moreen
	Targa Resources Corp.	TRGP	TRGP US	Gabe Moreen

US - Natural Gas Coverage Cluster

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
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	Teekay Offshore	TOO	TOO US	Gabe Moreen
	Tesoro Logistics LP	TLLP	TLLP US	Cathleen King
	TransMontaigne Partners L.P.	TLP	TLP US	Gabe Moreen
	Western Gas Partners, LP	WES	WES US	Gabe Moreen
	Williams Partner	WPZ	WPZ US	Gabe Moreen
NEUTRAL				
	AGL Resources Inc.	GAS	GAS US	Gabe Moreen
	American Midstream LP	AMID	AMID US	Gabe Moreen
	Atmos Energy	ATO	ATO US	Gabe Moreen
	Copano Energy, LLC	CPNO	CPNO US	Gabe Moreen
	Energy Transfer	ETP	ETP US	Gabe Moreen
	Global Partners LP	GLP	GLP US	Gabe Moreen
	Holly Energy Par	HEP	HEP US	Gabe Moreen
	Kinder Morgan LP	KMP	KMP US	Gabe Moreen
	Magellan Mid	MMP	MMP US	Gabe Moreen
	Northwest Natural Gas Co.	NWN	NWN US	Gabe Moreen
	PAA Natural Gas Storage	PNG	PNG US	Gabe Moreen
	Suburban Propane Partners L.P.	SPH	SPH US	Gabe Moreen
	Vectren Corp	VVC	VVC US	Gabe Moreen
UNDERPERFORM				
	AmeriGas Partners L.P.	APU	APU US	Gabe Moreen
	Boardwalk Pipeline	BWP	BWP US	Gabe Moreen
	Crestwood Midstream Partners LP	CMLP	CMLP US	Gabe Moreen
	El Paso Pipeline	EPB	EPB US	Gabe Moreen
	Ferrellgas Partners L.P.	FGP	FGP US	Gabe Moreen
	Kayne Anderson Energy Development Co.	KED	KED US	Gabe Moreen
	Kinder Morgan, Inc.	KMI	KMI US	Gabe Moreen
	New Jersey Resources Corporation	NJR	NJR US	Gabe Moreen
	Nustar Energy LP	NS	NS US	Gabe Moreen
	Nustar GP	NSH	NSH US	Gabe Moreen
	ONEOK Partners	OKS	OKS US	Gabe Moreen
	Piedmont Natural Gas	PNY	PNY US	Gabe Moreen
	Southwest Gas	SWX	SWX US	Gabe Moreen
	Spectra Energy	SEP	SEP US	Gabe Moreen
	Sunoco Logistics	SXL	SXL US	Gabe Moreen
	Tortoise Capital Resources	TTO	TTO US	Gabe Moreen
	WGL Holdings, Inc.	WGL	WGL US	Gabe Moreen

iQmethod℠ Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	NOPAT = (EBIT + Interest Income) * (1 - Tax Rate) + Goodwill Amortization	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	EV = Current Share Price * Current Shares + Minority Equity + Net Debt + Other LT Liabilities	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

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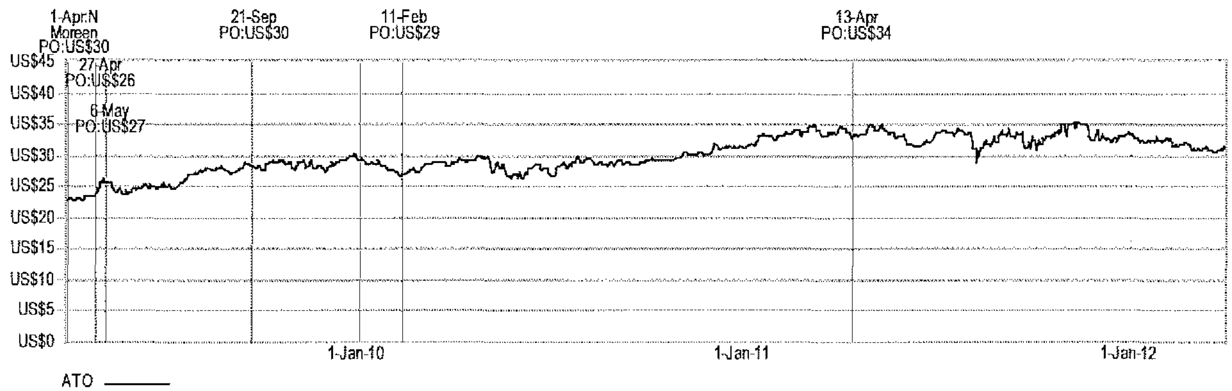
ATO Price Chart



B : Buy, N : Neutral, U : Underperform, PO : Price objective, NA : No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of March 31, 2012 or such later date as indicated.

Investment Rating Distribution: Utilities Group (as of 01 Apr 2012)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	72	40.91%	Buy	48	76.19%
Neutral	47	26.70%	Neutral	35	81.40%
Sell	57	32.39%	Sell	38	74.51%

Investment Rating Distribution: Global Group (as of 01 Apr 2012)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1881	49.24%	Buy	1265	73.38%
Neutral	992	25.97%	Neutral	641	70.75%
Sell	947	24.79%	Sell	548	62.27%

* Companies in respect of which BofA Merrill Lynch or one of its affiliates has received compensation for investment banking services within the past 12 months. For purposes of this distribution, a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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CASE NO. 2013-00148
ATTACHMENT 1
TO OAG DR NO. 1-183

Atmos Energy

Win one for the GRIPper; boost PO to $38, reiterate Buy

Price Objective Change

BUY

Equity | United States | Gas Utilities
29 August 2012

Bank of America Merrill Lynch

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3Q12 beat; FY12 EPS guidance reiterated

On 8 August, ATO reported 3Q12 adjusted diluted EPS of $0.32 versus the BofAML estimate of $0.13 and consensus of $0.16. ATO beat across all segments with ATO's Regulated segment benefitting from recent GRIP-related filings and Nonregulated results helped by an increase in asset optimization margins due to a trading strategy executed earlier in the year. ATO's 4Q12 declared dividend of $0.345 ($1.38 annualized) represents a 0.0/1.5% increase over 3Q12/4Q11 levels, respectively, in-line with the BofAML estimate. ATO reaffirmed FY12 EPS guidance of $2.30-2.40.

Another asset sale to help fund rate base growth

Also on 8 August, ATO announced it had entered into a definitive agreement to sell substantially all of its gas distribution assets located in Georgia to Liberty Energy for $141mn. Liberty is an affiliate of Algonquin and is the same entity to which ATO recently sold its Missouri, Illinois, and Iowa gas distribution assets for $129mn. We view the transaction positively as it further simplifies ATO's asset base and should allow ATO to focus on its remaining service territories. We expect ATO to use proceeds from the sales to fund rate base growth and see it as relatively unlikely that ATO will need to issue equity over the medium term. We have incorporated the asset sales in our model, including expected sale gains.

Boost PO to $38 (from $37) and reiterate Buy

We are adjusting our FY12 estimate to incorporate the 3Q12 beat and $0.06/sh in asset sale gains expected in 4Q12. Our updated FY12 EPS estimate of $2.36 (up from $2.30) is just above the midpoint of guidance. We are boosting our PO slightly to $38 (from $37) based on a 14.5x (up from 14x) multiple on our 2014E EPS of $2.65. We think ATO's valuation discount to peers should continue to narrow as ATO executes on its plans for rate base growth at an 8-8.5% CAGR through 2016. We also view recent asset sales as proof that ATO's acquisitive days are behind it, which is also supportive of a higher valuation, in our view.

Estimates (Sep)

(US$)	2010A	2011A	2012E	2013E	2014E
EPS	2.20	2.31	2.36	2.50	2.65
GAAP EPS	2.20	2.27	2.44	2.50	2.65
EPS Change (YoY)	15.8%	5.0%	2.2%	5.9%	6.0%
Consensus EPS (Bloomberg)			2.29	2.47	2.56
DPS	1.34	1.36	1.38	1.40	1.42

Valuation (Sep)

	2010A	2011A	2012E	2013E	2014E
P/E	16.0x	15.2x	14.9x	14.1x	13.3x
GAAP P/E	16.0x	15.5x	14.4x	14.1x	13.3x
Dividend Yield	3.8%	3.9%	3.9%	4.0%	4.0%
EV / EBITDA*	10.7x	10.9x	10.4x	9.9x	9.5x
Free Cash Flow Yield*	5.8%	-1.3%	-3.4%	0.3%	3.4%

* For full definitions of *iQmethod*SM measures, see page 6.

Stock Data

Price	US$35.20
Price Objective	US$38.00
Date Established	29-Aug-2012
Investment Opinion	A-1-7
Volatility Risk	LOW
52-Week Range	US$30.00-37.33
Mrkt Val / Shares Out (mn)	US$3,174 / 90.2
BofAML Ticker / Exchange	ATO / NYS
Bloomberg / Reuters	ATO US / ATO.N
ROE (2012E)	9.1%
Total Dbt to Cap (Jun-2012A)	50.8%
Est. 5-Yr EPS / DPS Growth	6.0% / 1.5%

Key Changes

(US$)	Previous	Current
Price Obj.	37.00	38.00
2012E EPS	2.30	2.36
2012E EBITDA (m)	724.3	721.5
2013E EBITDA (m)	782.8	757.8
2014E EBITDA (m)	807.0	791.4

Refer to important disclosures on page 7 to 9. Analyst Certification on Page 4. Price Objective Basis/Risk on page 4. Link to Definitions on page 4. 11199725

iQprofile℠ Atmos Energy

iQmethod℠ – Bus Performance*

(US$ Millions)	2010A	2011A	2012E	2013E	2014E
Return on Capital Employed	5.1%	4.4%	4.5%	4.6%	4.8%
Return on Equity	9.3%	9.3%	9.1%	9.3%	9.4%
Operating Margin	10.2%	10.2%	13.4%	14.1%	13.5%
Free Cash Flow	184	(40)	(108)	10	106

iQmethod℠ – Quality of Earnings*

(US$ Millions)	2010A	2011A	2012E	2013E	2014E
Cash Realization Ratio	3.6x	2.8x	2.8x	2.5x	2.5x
Asset Replacement Ratio	2.5x	2.7x	2.9x	2.2x	1.9x
Tax Rate	38.5%	36.4%	38.2%	38.0%	38.0%
Net Debt-to-Equity Ratio	99.3%	101.2%	103.7%	98.5%	95.0%
Interest Cover	3.2x	2.9x	3.4x	3.3x	3.4x

Income Statement Data (Sep)

(US$ Millions)	2010A	2011A	2012E	2013E	2014E
Sales	4,790	4,348	3,615	3,602	4,026
% Change	-3.6%	-9.2%	-16.9%	-0.4%	11.8%
Gross Profit	1,365	1,327	1,365	1,422	1,471
% Change	1.4%	-2.8%	2.9%	4.1%	3.5%
EBITDA	706	690	721	758	791
% Change	6.8%	-2.2%	4.5%	5.0%	4.4%
Net Interest & Other Income	(154)	(151)	(142)	(156)	(158)
Net Income (Adjusted)	**203**	**210**	**214**	**226**	**239**
% Change	**16.1%**	**3.2%**	**1.9%**	**5.6%**	**6.0%**

Free Cash Flow Data (Sep)

(US$ Millions)	2010A	2011A	2012E	2013E	2014E
Net Income from Cont Operations (GAAP)	204	206	220	226	239
Depreciation & Amortization	217	227	241	247	248
Change in Working Capital	83	(26)	(17)	0	0
Deferred Taxation Charge	197	117	122	92	100
Other Adjustments, Net	25	59	30	0	0
Capital Expenditure	(543)	(623)	(702)	(555)	(480)
Free Cash Flow	**184**	**-40**	**-108**	**10**	**106**
% Change	**-55.1%**	**NM**	**-168.8%**	**NM**	**NM**

Balance Sheet Data (Sep)

(US$ Millions)	2010A	2011A	2012E	2013E	2014E
Cash & Equivalents	132	131	16	66	69
Trade Receivables	273	273	217	217	217
Other Current Assets	470	606	531	531	531
Property, Plant & Equipment	4,793	5,148	5,456	5,623	5,855
Other Non-Current Assets	1,096	1,124	1,132	1,132	1,132
Total Assets	**6,764**	**7,283**	**7,353**	**7,569**	**7,805**
Short-Term Debt	486	209	464	489	514
Other Current Liabilities	680	659	647	647	647
Long-Term Debt	1,810	2,206	1,976	1,976	1,976
Other Non-Current Liabilities	1,610	1,954	1,929	2,021	2,121
Total Liabilities	**4,585**	**5,027**	**5,016**	**5,132**	**5,257**
Total Equity	**2,178**	**2,255**	**2,337**	**2,437**	**2,548**
Total Equity & Liabilities	**6,764**	**7,283**	**7,353**	**7,569**	**7,805**

* For full definitions of *iQmethod*℠ measures, see page 6.

Company Description

Atmos Energy Corporation (ATO) is a natural gas transmission and distribution company headquartered in Dallas, Texas. Operations are divided between three segments: Natural Gas Distribution, Regulated Transmission & Storage, and Nonregulated. The Distribution segment distributes gas to approximately 3mn customers in 9 states located in the South, Southeast and Midwest.

Investment Thesis

ATOs plan to grow its rate base at a peer-leading CAGR over the next few years augurs for a re-rerating of ATO among its gas utility peers, in our view. We see ATOs current valuation discount to peers as undeserved considering forecasted rate base growth, a strong balance sheet, more progressive regulatory regime, and management posture of remaining conservative with prospective acquisitions.

Stock Data

Average Daily Volume	535,630

Quarterly Earnings Estimates

	2011	2012
Q1	0.81A	0.61A
Q2	1.35A	1.28A
Q3	0.05A	0.32A
Q4	0.11A	0.15E

Exhibit 1: ATO 3Q12 earnings summary

Earnings Summary

($ in millions, except for per unit data)

	3Q12			3Q11	
	Expected	**Actual**	**Diff.**		**Comments**
Natural Gas Distribution	14.8	23.9	9.1	16.8	Beat on lower than expected taxes
Regulated Transmission and Storage	26.5	39.0	12.5	24.3	Benefitted from GRIP-related filings
Nonregulated	11.9	21.9	9.9	(6.9)	Benefitted from $18.2mn increase in asset optimization margins
Eliminations	0.0	0.0	0.0	0.0	
Operating Income	**53.2**	**84.8**	**31.6**	**34.1**	
Misc. income (expense)	0.5	(1.9)	(2.4)	(1.4)	
Interest on LTD	35.3	34.9	(0.4)	35.8	
Earnings Before Taxes	**18.4**	**47.9**	**29.5**	**(3.2)**	
Income Taxes	6.4	17.8	11.4	(1.7)	
Earnings Before Extraordinary Items	**12.0**	**30.1**	**18.1**	**(1.5)**	
Extraordinary Gain / (Loss) (net of tax)	0.0	1.0	1.0	0.9	
GAAP Net Earnings to Common Stock	**12.0**	**31.1**	**19.1**	**(0.6)**	
Adjustments	0.0	(1.8)	(1.8)	5.0	
Adjusted Net Income	**12.0**	**29.3**	**17.3**	**4.4**	
Earnings per share (GAAP)					
Diluted	$0.13	$0.34	$0.21	($0.01)	
Earnings per share (Recurring)					
Diluted	$0.13	$0.32	$0.19	$0.05	
Weighted average shares outstanding					
Diluted	90.3	91.0	0.7	90.1	
Cash dividends declared per share	$0.35	$0.35	$0.00	$0.34	

Source: Company reports, BofAML Global Research analysis

Price objective basis & risk

Atmos Energy (ATO)

Our $38 PO is largely based on a targeted 14.5x 2014E EPS, which would imply that ATO should trade at a slight discount to peers. The company offers an attractive dividend yield and low P/E relative to peers and operates out of the TX region which has felt less of an impact from the current macroeconomic slowdown and has a relatively progressive regulatory environment. Growth through 2014 should be driven by recent rate cases which should improve the ability to earn at authorized levels, capital projects which are expected to grow ATO's rate base, and various nonregulated pipeline and gathering projects. Risks to PO are: sustained low gas market volatility, a materially higher gas price environment, slack capacity utilization at its Barnett Shale natural gas pipelines and prolonged broader economic slowdown. The latter factors could also slow customer growth rates and contribute to cash flow pressure.

Link to Definitions

Energy

Click here for definitions of commonly used terms.

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I, Gabe Moreen, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Natural Gas Coverage Cluster

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
BUY				
	Access Midstream Partners LP	ACMP	ACMP US	Gabe Moreen
	Atlas Pipeline Partners, L.P.	APL	APL US	Derek Walker
	Atmos Energy	ATO	ATO US	Gabe Moreen
	Buckeye Partners	BPL	BPL US	Gabe Moreen
	Crosstex Energy, L.P.	XTEX	XTEX US	Gabe Moreen
	DCP Midstream	DPM	DPM US	Gabe Moreen
	Eagle Rock Energy Partners, L.P.	EROC	EROC US	Gabe Moreen
	Energy Trans	ETE	ETE US	Gabe Moreen
	Enterprise L.P.	EPD	EPD US	Gabe Moreen
	EQT Midstream Partners LP	EQM	EQM US	Gabe Moreen
	Exterran	EXLP	EXLP US	Gabe Moreen
	Genesis Energy, L.P.	GEL	GEL US	Gabe Moreen
	Inergy L.P.	NRGY	NRGY US	Gabe Moreen
	Inergy Midstream, L.P.	NRGM	NRGM US	Gabe Moreen
	Kinder Morgan	KMR	KMR US	Gabe Moreen
	Markwest Energy Partners L.P.	MWE	MWE US	Gabe Moreen
	Oiltanking Partners LP	OILT	OILT US	Cathleen King
	Plains AA	PAA	PAA US	Gabe Moreen
	PVR Partners, L.P.	PVR	PVR US	Gabe Moreen
	Regency Energy Partners LP	RGP	RGP US	Gabe Moreen
	Spectra Energy	SE	SE US	Gabe Moreen
	Sunoco Logistics	SXL	SXL US	Gabe Moreen
	Targa Resources	NGLS	NGLS US	Gabe Moreen
	Targa Resources Corp.	TRGP	TRGP US	Gabe Moreen

US - Natural Gas Coverage Cluster

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
	TC PipeLines LP	TCP	TCP US	Gabe Moreen
	Teekay Offshore	TOO	TOO US	Gabe Moreen
	Tesoro Logistics LP	TLLP	TLLP US	Cathleen King
	TransMontaigne Partners L.P.	TLP	TLP US	Gabe Moreen
	Western Gas Partners, LP	WES	WES US	Gabe Moreen
	Williams Partner	WPZ	WPZ US	Gabe Moreen
NEUTRAL				
	AGL Resources Inc.	GAS	GAS US	Gabe Moreen
	American Midstream LP	AMID	AMID US	Gabe Moreen
	Copano Energy, LLC	CPNO	CPNO US	Gabe Moreen
	Crosstex Energy, Inc.	XTXI	XTXI US	Gabe Moreen
	Enbridge Energy	EEP	EEP US	Gabe Moreen
	Enbridge Energy	EEQ	EEQ US	Gabe Moreen
	Energy Transfer	ETP	ETP US	Gabe Moreen
	Global Partners LP	GLP	GLP US	Gabe Moreen
	Holly Energy Par	HEP	HEP US	Gabe Moreen
	Kinder Morgan LP	KMP	KMP US	Gabe Moreen
	Magellan Mid	MMP	MMP US	Gabe Moreen
	PAA Natural Gas Storage	PNG	PNG US	Gabe Moreen
	Suburban Propane Partners L.P.	SPH	SPH US	Gabe Moreen
	Vectren Corp	VVC	VVC US	Gabe Moreen
UNDERPERFORM				
	AmeriGas Partners L.P.	APU	APU US	Gabe Moreen
	Boardwalk Pipeline	BWP	BWP US	Gabe Moreen
	Crestwood Midstream Partners LP	CMLP	CMLP US	Gabe Moreen
	El Paso Pipeline	EPB	EPB US	Gabe Moreen
	Ferrellgas Partners L.P.	FGP	FGP US	Gabe Moreen
	Kayne Anderson Energy Development Co.	KED	KED US	Gabe Moreen
	Kinder Morgan, Inc.	KMI	KMI US	Gabe Moreen
	New Jersey Resources Corporation	NJR	NJR US	Gabe Moreen
	Northwest Natural Gas Co.	NWN	NWN US	Gabe Moreen
	Nustar Energy LP	NS	NS US	Gabe Moreen
	Nustar GP	NSH	NSH US	Gabe Moreen
	ONEOK Partners	OKS	OKS US	Gabe Moreen
	Piedmont Natural Gas	PNY	PNY US	Gabe Moreen
	Southwest Gas	SWX	SWX US	Gabe Moreen
	Spectra Energy	SEP	SEP US	Gabe Moreen
	Tortoise Capital Resources	TTO	TTO US	Gabe Moreen
	WGL Holdings, Inc.	WGL	WGL US	Gabe Moreen

*iQmethod*SM Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	NOPAT = (EBIT + Interest Income) * (1 - Tax Rate) + Goodwill Amortization	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	EV = Current Share Price * Current Shares + Minority Equity + Net Debt + Other LT Liabilities	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

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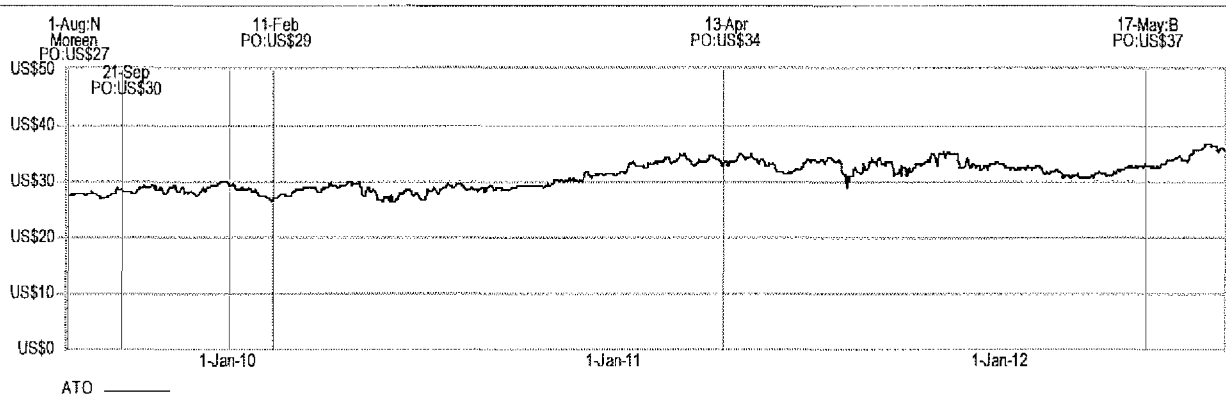
ATO Price Chart



B : Buy, N : Neutral, U : Underperform, PO : Price objective, NA : No longer valid, NR: No Rating

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Investment Rating Distribution: Utilities Group (as of 01 Jul 2012)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	79	47.59%	Buy	51	72.86%
Neutral	40	24.10%	Neutral	27	75.00%
Sell	47	28.31%	Sell	32	76.19%

Investment Rating Distribution: Global Group (as of 01 Jul 2012)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1913	50.14%	Buy	1294	73.40%
Neutral	994	26.06%	Neutral	628	70.09%
Sell	908	23.80%	Sell	513	60.71%

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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Atmos Energy

Multiple reasons for a re-rating; Upgrade to Buy

Rating Change **BUY**

Equity | United States | Gas Utilities
17 May 2012

Bank of America Merrill Lynch

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See Team Page for Full List of Contributors

Upgrade to Buy as discount undeserved; boost PO to $37

We upgrade ATO to Buy (from Neutral) and boost our PO to $37 (from $34). We see ATO's plan to grow its rate base at a peer-leading CAGR of 8-8.5% over the next few years (versus a peer average growth rate of 5-6%) as auguring for a re-rating of ATO among its gas utility peers. Over the past few years, ATO has traded at a significant discount to its peers driven by ATO's acquisitive history and underearning at its largest Distribution segment. However, given forecasted rate base growth, a strong balance sheet, a more progressive regulatory regime, and management's posture of remaining conservative with prospective acquisitions, we see ATO's current discount valuation to peers as unjustified.

Acquisitive days behind ATO, in our view

We see ATO's forecast for an 8-8.5% rate base CAGR through 2016 as compelling compared to a peer average growth rate of around 5-6%. Much of ATO's plans for rate base growth revolve around pipeline replacement plans at its Distribution segment and pipeline expansion projects around its Atmos-Pipeline Texas. We see ATO's balance sheet as in relatively good shape and do not foresee near-term equity needs. In addition, we think earnings at ATO's Nonregulated segment (Atmos Energy Marketing) are likely near a trough, and see potential upside in 2H12 stemming from storage optimization opportunities. Regardless, AEM's contribution to overall earnings is less than 10% of ATO's overall earnings mix and we think investors no longer should overly penalize ATO for AEM's results (or lack thereof).

Boost PO to $37 (from $34); maintain EPS estimates

We raise our PO to $37 (from $34) based on a P/E multiple of 14x (up from 13x) our 2014E EPS of $2.65. We note our 14x P/E multiple is slightly below the average P/E multiple for ATO's LDC peers. We maintain our current EPS estimates with our constructive earnings forecast primarily driven by rate base growth at ATO's Distribution and Regulated Transmission and Storage segments.

Stock Data

Price	US$32.85
Price Objective	US$37.00
Date Established	17-May-2012
Investment Opinion	A-1-7
Volatility Risk	LOW
52-Week Range	US$28.51-35.55
Mrkt Val / Shares Out (mn)	US$2,957 / 90.0
BofAML Ticker / Exchange	ATO / NYS
Bloomberg / Reuters	ATO US / ATO.N
ROE (2012E)	8.9%
Total Dbt to Cap (Mar-2012A)	50.2%
Est. 5-Yr EPS / DPS Growth	6.0% / 1.5%

Key Changes

(US$)	Previous	Current
Inv. Opinion	A-2-7	A-1-7
Inv. Rating	NEUTRAL	BUY
Price Obj.	34.00	37.00

Estimates (Sep)

(US$)	2010A	2011A	2012E	2013E	2014E
EPS	2.20	2.31	2.30	2.50	2.65
GAAP EPS	2.20	2.27	2.36	2.50	2.65
EPS Change (YoY)	15.8%	5.0%	-0.4%	8.7%	6.0%
Consensus EPS (Bloomberg)			2.30	2.48	2.55
DPS	1.34	1.36	1.38	1.40	1.42

Valuation (Sep)

	2010A	2011A	2012E	2013E	2014E
P/E	14.9x	14.2x	14.3x	13.1x	12.4x
GAAP P/E	14.9x	14.5x	13.9x	13.1x	12.4x
Dividend Yield	4.1%	4.1%	4.2%	4.3%	4.3%
EV / EBITDA*	10.7x	10.9x	10.4x	9.6x	9.3x
Free Cash Flow Yield*	6.2%	-1.4%	-6.0%	3.2%	3.9%

* For full definitions of *iQmethod*℠ measures, see page 6.

Refer to important disclosures on page 7 to 9. Analyst Certification on Page 5. Price Objective Basis/Risk on page 5. Link to Definitions on page 5. 11168367

iQprofile℠ Atmos Energy

iQmethod℠ – Bus Performance*

(US$ Millions)	2010A	2011A	2012E	2013E	2014E
Return on Capital Employed	5.1%	4.4%	4.4%	4.7%	4.7%
Return on Equity	9.3%	9.3%	8.9%	9.3%	9.4%
Operating Margin	10.2%	10.2%	12.5%	13.3%	12.5%
Free Cash Flow	184	(40)	(178)	94	115

iQmethod℠ – Quality of Earnings*

(US$ Millions)	2010A	2011A	2012E	2013E	2014E
Cash Realization Ratio	3.6x	2.8x	2.6x	2.5x	2.4x
Asset Replacement Ratio	2.5x	2.7x	2.9x	1.9x	1.9x
Tax Rate	38.5%	36.4%	38.2%	38.3%	38.3%
Net Debt-to-Equity Ratio	99.3%	101.2%	112.3%	109.0%	104.8%
Interest Cover	3.2x	2.9x	3.3x	3.1x	3.2x

Income Statement Data (Sep)

(US$ Millions)	2010A	2011A	2012E	2013E	2014E
Sales	4,790	4,348	3,864	4,017	4,468
% Change	-3.6%	-9.2%	-11.1%	4.0%	11.2%
Gross Profit	1,365	1,327	1,379	1,455	1,494
% Change	1.4%	-2.8%	3.9%	5.5%	2.7%
EBITDA	706	690	724	783	807
% Change	6.8%	-2.2%	4.9%	8.1%	3.1%
Net Interest & Other Income	(154)	(151)	(145)	(170)	(172)
Net Income (Adjusted)	**203**	**210**	**208**	**225**	**239**
% Change	**16.1%**	**3.2%**	**-0.8%**	**8.3%**	**6.1%**

Free Cash Flow Data (Sep)

(US$ Millions)	2010A	2011A	2012E	2013E	2014E
Net Income from Cont Operations (GAAP)	204	206	213	225	239
Depreciation & Amortization	217	227	242	247	248
Change in Working Capital	83	(26)	(52)	0	0
Deferred Taxation Charge	197	117	115	82	88
Other Adjustments, Net	25	59	15	0	0
Capital Expenditure	(543)	(623)	(711)	(460)	(460)
Free Cash Flow	**184**	**-40**	**-178**	**94**	**115**
% Change	**-55.1%**	**NM**	**-344.8%**	**NM**	**21.4%**

Balance Sheet Data (Sep)

(US$ Millions)	2010A	2011A	2012E	2013E	2014E
Cash & Equivalents	132	131	32	25	37
Trade Receivables	273	273	350	350	350
Other Current Assets	470	606	497	497	497
Property, Plant & Equipment	4,793	5,148	5,612	5,824	6,037
Other Non-Current Assets	1,096	1,124	1,141	1,141	1,141
Total Assets	**6,764**	**7,283**	**7,631**	**7,838**	**8,062**
Short-Term Debt	486	209	449	474	499
Other Current Liabilities	680	659	684	684	684
Long-Term Debt	1,810	2,206	2,206	2,206	2,206
Other Non-Current Liabilities	1,610	1,954	1,956	2,038	2,126
Total Liabilities	**4,585**	**5,027**	**5,296**	**5,402**	**5,516**
Total Equity	**2,178**	**2,255**	**2,336**	**2,435**	**2,546**
Total Equity & Liabilities	**6,764**	**7,283**	**7,631**	**7,838**	**8,062**

* For full definitions of *iQmethod*℠ measures, see page 5.

Company Description

Atmos Energy Corporation (ATO) is a natural gas transmission and distribution company headquartered in Dallas, Texas. Operations are divided between three segments: Natural Gas Distribution, Regulated Transmission & Storage, and Nonregulated. The Distribution segment distributes gas to 3.2mn customers in 12 states located in the South, Southeast and Midwest.

Investment Thesis

ATOs plan to grow its rate base at a peer-leading CAGR over the next few years augurs for a re-rerating of ATO among its gas utility peers, in our view. We see ATOs current valuation discount to peers as undeserved considering forecasted rate base growth, a strong balance sheet, more progressive regulatory regime, and management posture of remaining conservative with prospective acquisitions.

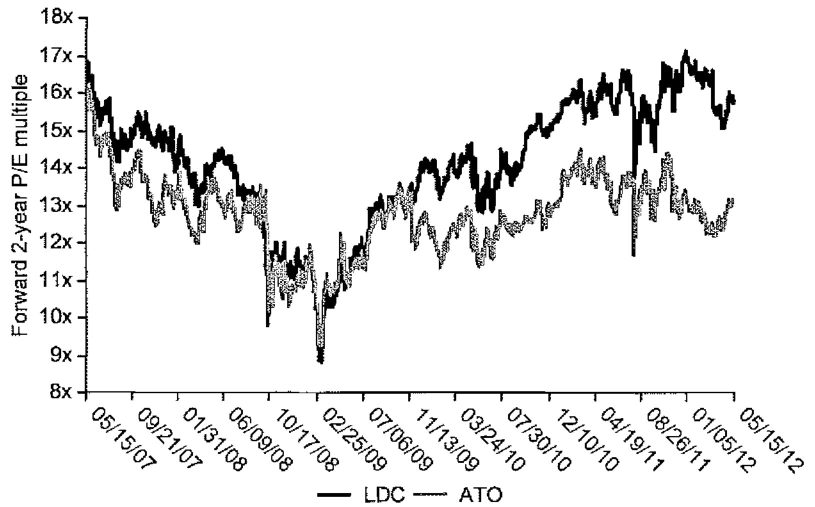
Stock Data

Average Daily Volume	482,746

Quarterly Earnings Estimates

	2011	2012
Q1	0.81A	0.61A
Q2	1.35A	1.28A
Q3	0.05A	0.13E
Q4	0.11A	NA

Chart 1: ATO trades at a material discount to its gas utility peers



Source: Factset, BofAML Global Research analysis
LDC index consists of ATO, GAS, LG, NFG, NI, NJR, NWN, OKE, PNY, SJI, SWX, TEG, UGI, WC, and WGL

We view ATO's recently announced sale of some of its non-core natural gas distribution assets as demonstrative of ATO's revamped strategy.

Acquisitive days behind ATO, in our view

One of the historical drivers behind ATO's discount valuation to peers has been its traditionally acquisitive nature. However, ATO's current management team has disavowed M&A and instead plans to focus on internally funded rate base growth. We also view ATO's recently announced sale of its natural gas distribution assets located in Missouri, Illinois, and Iowa to an affiliate of Algonquin Power & Utilities Corp. for $124mn as demonstrative of ATO's revamped strategy. We view the sale as simplifying ATO's investment story given the assets are relatively non-core, a small part of ATO's natural gas distribution asset portfolio and serve to narrow ATO's regulatory focus by operating in fewer states.

We see ATO's balance sheet as well-positioned to handle anticipated spending on rate base growth.

Balance sheet in good shape; no near-term equity needs

We see ATO's balance sheet as well-positioned to handle anticipated spending on rate base growth and do not forecast near-term equity needs. ATO has an investment grade rated balance sheet (Baa1/BBB+ rating from Moody's/S&P) and received rating upgrades from a couple credit rating agencies in 2011. That said, we see the potential for ATO to need to raise equity in the latter part of 2013, although we would expect any equity raises to fund rate base growth.

ATO expects less than twelve months recovery on approximately 90% of its FY2012 regulated capex spending.

Progressive regulatory regime should reduce recovery lag

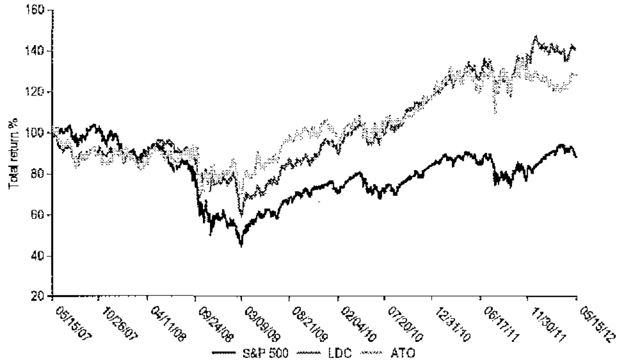
ATO's relatively progressive regulatory regime should reduce the lag in rate recovery from planned capital spending. ATO expects less than twelve months recovery on approximately 90% of its estimated ~$700mn in FY2012 regulated capex spending. Regulatory mechanisms like the GRIP mechanism in TX and the Enhanced Infrastructure Replacement rules should help reduce regulatory lag.

Although ATO's Nonregulated segment results have been depressed, we note this segment is forecasted to make up less than 10% of ATO's 2012 net income.

Nonregulated relatively small and has likely troughed

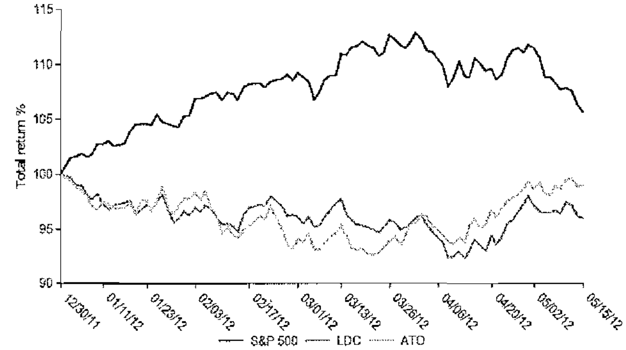
Although ATO's Nonregulated segment (Atmos Energy Marketing) results have been depressed due to low natural gas prices, basis differentials, and volatility, we note this segment is forecasted to make up less than 10% of ATO's 2012 net income (compared to around 20-30% of net income in 2006-2008). Given current market conditions, we think it is likely that Nonregulated results are near a trough. We see the potential for modest upside at the segment in 2H12 stemming from storage optimization opportunities.

Chart 2: ATO 5-yr total return versus LDCs and S&P 500



Source: Factset, BofAML Global Research analysis
Prices as of 15 May 2012
LDC Index consists of ATO, GAS, LG, NFG, NI, NJR, NWN, OKE, PNY, SJI, SWX, TEG, UGI, VVC, and WGL

Chart 3: ATO YTD12 total return versus LDCs and S&P 500



Source: Factset, BofAML Global Research analysis
Prices as of 15 May 2012
LDC Index consists of ATO, GAS, LG, NFG, NI, NJR, NWN, OKE, PNY, SJI, SWX, TEG, UGI, VVC, and WGL

Table 1: Regulated gas utilities comparables

		BofAML	Current	Dividend	Market Value	EPS				P/E				EV/EBITDA				Total Return		
Ticker	Name	Rating*	Price	Yield (%)	(mns)	2011	2012E	2013E	2014E	2011	2012E	2013E	2014E	2011	2012E	2013E	2014E	1-YR	3-YR	5-YR
ATO	Atmos Energy Corp	A-1-7	32.85	4.2	2,943	2.31	2.30	2.50	2.65	14.2	14.3	13.1	12.4	7.6	7.2	6.7	6.5	0.1	55.3	28.6
TEG	Integrys Energy Group Inc.	N/A	53.75	5.1	4,185	3.44	3.64	3.64	3.83	15.6	14.8	14.8	14.0	9.5	8.1	7.5	N/A	5.1	134.1	22.6
LG	Laclede Group Inc.	N/A	38.80	4.3	872	2.66	2.66	2.79	2.75	14.6	14.6	13.9	14.1	7.7	7.7	7.6	7.4	6.0	41.5	51.9
NFG	National Fuel Gas Co.	N/A	43.97	3.2	3,678	2.41	2.41	2.63	2.81	18.2	18.2	16.7	15.6	6.7	7.1	6.2	5.7	(35.8)	55.4	9.8
NJR	New Jersey Resources Corp	A-3-7	43.90	3.5	1,813	2.56	2.70	2.80	2.90	17.1	16.3	15.7	15.1	12.9	12.4	12.2	11.9	0.0	55.0	40.3
GAS	AGL Resources Inc.	A-2-7	37.64	4.9	4,447	2.92	2.80	3.05	3.15	12.9	13.9	12.4	11.9	13.2	7.7	7.2	N/A	(4.5)	48.4	12.2
NI	Nisource Inc.	N/A	25.03	3.8	7,123	1.35	1.44	1.53	1.62	18.5	17.4	16.4	15.5	10.7	9.0	8.5	8.0	28.4	175.9	32.6
NWN	Northwest Natural Gas Co.	A-2-7	45.93	3.9	1,227	2.55	2.55	2.66	2.75	18.0	18.0	17.3	16.7	9.0	9.0	8.5	8.6	3.7	23.9	6.9
OKE	Oneok Inc.	N/A	84.26	2.9	8,767	3.52	3.52	4.14	5.11	23.9	23.9	20.4	16.5	11.0	10.1	9.0	7.4	25.5	255.1	102.5
PNY	Piedmont Natural Gas Co.	B-3-7	29.83	4.0	2,130	1.57	1.58	1.80	1.90	19.0	18.9	16.6	15.7	9.6	9.7	8.4	7.9	(2.1)	50.0	35.0
SRE	Sempra Energy	B-1-7	63.92	3.7	15,484	4.47	4.16	4.27	4.68	14.3	15.4	15.0	13.7	8.5	9.0	8.2	7.7	21.1	60.5	19.7
SJI	South Jersey Industries Inc.	N/A	47.65	3.4	1,437	3.10	3.36	3.36	N/A	15.4	14.2	14.2	N/A	11.8	10.6	10.1	N/A	(12.7)	50.9	42.2
SWX	Southwest Gas Corp	A-3-7	42.36	2.8	1,956	2.43	2.77	2.93	3.10	17.4	15.3	14.5	13.7	7.1	6.5	6.6	6.6	8.2	144.0	29.0
UGI	UGI Corp	N/A	29.11	3.7	3,274	2.20	1.82	2.52	2.59	13.2	16.0	11.6	11.2	7.3	6.7	4.7	4.6	(6.2)	45.9	19.6
VVC	Vectren Corp	A-2-7	29.20	4.8	2,379	1.73	1.85	2.00	2.10	16.9	15.8	14.6	13.9	7.3	7.3	7.3	7.0	8.2	56.6	27.2
WGL	WGL Holdings Inc.	A-3-7	38.48	4.1	1,988	2.25	2.45	2.50	2.60	17.1	15.7	15.4	14.8	8.3	8.0	7.4	7.1	2.9	51.6	36.3
Average:				**3.9**						**16.7**	**16.4**	**15.1**	**14.5**	**9.3**	**8.5**	**7.9**	**7.4**	**3.0**	**81.5**	**32.3**

Source: FactSet, Bloomberg, and BofA Merrill Lynch Global Research estimates
*N/A indicates ticker is currently under review; all estimates for these tickers are based on FactSet and FirstCall
Prices as of the close 16 May 2012

Price objective basis & risk

Atmos Energy (ATO)

Our $37 PO is largely based on a targeted 14x 2014E EPS, which would imply that ATO should trade at a slight discount to peers. The company offers an attractive dividend yield and low P/E relative to peers and operates out of the TX region which has felt less of an impact from the current macroeconomic slowdown and has a relatively progressive regulatory environment. Growth through 2014 should be driven by recent rate cases which should improve the ability to earn at authorized levels, capital projects which are expected to grow ATO's rate base, and various nonregulated pipeline and gathering projects. Risks to PO are: sustained low gas market volatility, a materially higher gas price environment, slack capacity utilization at its Barnett Shale natural gas pipelines and prolonged broader economic slowdown. The latter factors could also slow customer growth rates and contribute to cash flow pressure.

Link to Definitions

Energy

Click here for definitions of commonly used terms.

Analyst Certification

I, Gabe Moreen, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Natural Gas Coverage Cluster

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
BUY				
	Atlas Pipeline Partners, L.P.	APL	APL US	Derek Walker
	Atmos Energy	ATO	ATO US	Gabe Moreen
	Buckeye Partners	BPL	BPL US	Gabe Moreen
	Chesapeake Midstream Partners, L.P.	CHKM	CHKM US	Gabe Moreen
	Crosstex Energy, L.P.	XTEX	XTEX US	Gabe Moreen
	DCP Midstream	DPM	DPM US	Gabe Moreen
	Enbridge Energy	EEP	EEP US	Gabe Moreen
	Enbridge Energy	EEQ	EEQ US	Gabe Moreen
	Energy Trans	ETE	ETE US	Gabe Moreen
	Enterprise L.P.	EPD	EPD US	Gabe Moreen
	Exterran	EXLP	EXLP US	Gabe Moreen
	Genesis Energy, L.P.	GEL	GEL US	Gabe Moreen
	Inergy L.P.	NRGY	NRGY US	Gabe Moreen
	Inergy Midstream, L.P.	NRGM	NRGM US	Gabe Moreen
	Kinder Morgan	KMR	KMR US	Gabe Moreen
	Markwest Energy Partners L.P.	MWE	MWE US	Gabe Moreen
	Oiltanking Partners LP	OILT	OILT US	Cathleen King
	Penn Virginia Resource Partners, L.P.	PVR	PVR US	Gabe Moreen
	Plains AA	PAA	PAA US	Gabe Moreen
	Regency Energy Partners LP	RGP	RGP US	Gabe Moreen
	Spectra Energy	SE	SE US	Gabe Moreen
	Targa Resources	NGLS	NGLS US	Gabe Moreen
	Targa Resources Corp.	TRGP	TRGP US	Gabe Moreen
	TC PipeLines LP	TCP	TCP US	Gabe Moreen
	Teekay Offshore	TOO	TOO US	Gabe Moreen
	Tesoro Logistics LP	TLLP	TLLP US	Cathleen King
	TransMontaigne Partners L.P.	TLP	TLP US	Gabe Moreen
	Western Gas Partners, LP	WES	WES US	Gabe Moreen
	Williams Partner	WPZ	WPZ US	Gabe Moreen

US - Natural Gas Coverage Cluster

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
NEUTRAL				
	AGL Resources Inc.	GAS	GAS US	Gabe Moreen
	American Midstream LP	AMID	AMID US	Gabe Moreen
	Copano Energy, LLC	CPNO	CPNO US	Gabe Moreen
	Energy Transfer	ETP	ETP US	Gabe Moreen
	Global Partners LP	GLP	GLP US	Gabe Moreen
	Holly Energy Par	HEP	HEP US	Gabe Moreen
	Kinder Morgan LP	KMP	KMP US	Gabe Moreen
	Magellan Mid	MMP	MMP US	Gabe Moreen
	Northwest Natural Gas Co.	NWN	NWN US	Gabe Moreen
	PAA Natural Gas Storage	PNG	PNG US	Gabe Moreen
	Suburban Propane Partners L.P.	SPH	SPH US	Gabe Moreen
	Vectren Corp	VVC	VVC US	Gabe Moreen
UNDERPERFORM				
	AmeriGas Partners L.P.	APU	APU US	Gabe Moreen
	Boardwalk Pipeline	BWP	BWP US	Gabe Moreen
	Crestwood Midstream Partners LP	CMLP	CMLP US	Gabe Moreen
	El Paso Pipeline	EPB	EPB US	Gabe Moreen
	Ferrellgas Partners L.P.	FGP	FGP US	Gabe Moreen
	Kayne Anderson Energy Development Co.	KED	KED US	Gabe Moreen
	Kinder Morgan, Inc.	KMI	KMI US	Gabe Moreen
	New Jersey Resources Corporation	NJR	NJR US	Gabe Moreen
	Nustar Energy LP	NS	NS US	Gabe Moreen
	Nustar GP	NSH	NSH US	Gabe Moreen
	ONEOK Partners	OKS	OKS US	Gabe Moreen
	Piedmont Natural Gas	PNY	PNY US	Gabe Moreen
	Southwest Gas	SWX	SWX US	Gabe Moreen
	Spectra Energy	SEP	SEP US	Gabe Moreen
	Sunoco Logistics	SXL	SXL US	Gabe Moreen
	Tortoise Capital Resources	TTO	TTO US	Gabe Moreen
	WGL Holdings, Inc.	WGL	WGL US	Gabe Moreen

*iQmethod*SM Measures Definitions

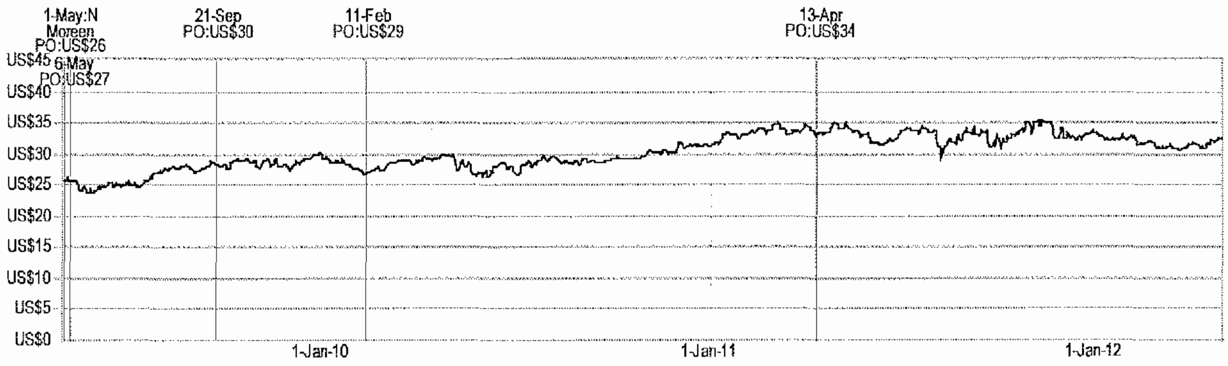
Business Performance	Numerator	Denominator
Return On Capital Employed	NOPAT = (EBIT + Interest Income) * (1 - Tax Rate) + Goodwill Amortization	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	EV = Current Share Price * Current Shares + Minority Equity + Net Debt + Other LT Liabilities	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

*iQmethod*SM is the set of BofA Merrill Lynch standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of IQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

iQdatabase® is our real-time global research database that is sourced directly from our equity analysts' earnings models and includes forecasted as well as historical data for income statements, balance sheets, and cash flow statements for companies covered by BofA Merrill Lynch.

Important Disclosures

ATO Price Chart



B : Buy, N : Neutral, U : Underperform, PO : Price objective, NA : No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of April 30, 2012 or such later date as indicated.

Investment Rating Distribution: Utilities Group (as of 01 Apr 2012)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	72	40.91%	Buy	48	76.19%
Neutral	47	26.70%	Neutral	35	81.40%
Sell	57	32.39%	Sell	38	74.51%

Investment Rating Distribution: Global Group (as of 01 Apr 2012)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1881	49.24%	Buy	1265	73.38%
Neutral	992	25.97%	Neutral	641	70.75%
Sell	947	24.79%	Sell	548	62.27%

* Companies in respect of which BofA Merrill Lynch or one of its affiliates has received compensation for investment banking services within the past 12 months. For purposes of this distribution, a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

* Ratings dispersions may vary from time to time where BofA Merrill Lynch Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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Atmos Energy

Estimate Change NEUTRAL

Equity | United States | Gas Utilities
23 November 2011

Lower estimates on underwhelming FY12 guidance

Bank of America Merrill Lynch

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FY11 EPS slightly above estimate, but FY12 guidance below

Earlier this month, ATO reported FY11 diluted recurring EPS of $2.31 versus BofAML estimate of $2.27. ATO provided FY12 EPS guidance of $2.30-2.40, below previous BofAML estimate of $2.45. Most of the difference between management guidance and the prior BofAML estimate was due to lower than expected 2012 guidance for ATO's Natural Gas Distribution segment. Management's Natural Gas Distribution segment net income guidance of $128-132mn came in below prior BofAML estimate of $149mn and 2011 adjusted net income of $145mn. ATO guidance does not incorporate rate increases at ATO's Mid-Tex division given the potential for a rate case to be filed in 2012, which could delay rate recovery. Uncertainty around ATO's Mid-Tex division largely explains the lower than anticipated Natural Gas Distribution segment guidance. ATO's recently declared FY1Q12 dividend of $0.345 ($1.38 annualized) represents a 1.5% increase over FY4Q11/1Q11 levels, respectively, in-line with BofAML expectations. We are lowering FY12/13 EPS estimates to $2.35/2.50 (from $2.45/2.55) to reflect FY12 management guidance and a more uncertain near-term return outlook at ATO's Mid-Tex division. That said, we expect returns at ATO's Mid-Tex division will prove to be delayed rather than foregone.

Maintain $34 PO and Neutral rating

We maintain our Neutral rating and $34 PO, which is based on a P/E multiple of 13.5x 2013E EPS of $2.50. We view ATO's FY12 guidance as disappointing considering more muted guidance for ATO's Natural Gas Distribution segment, particularly in light of the recent favorable outcome at the Atmos Pipeline – Texas rate case, which was expected to provide ATO with positive earnings momentum in 2012 (see: Revisiting estimates ahead of 2Q11; PO to $34). That said, ATO continues to trade at a discount to peers (albeit somewhat less so), which is justifiable, in our view, in light of recent guidance and continued uncertainty at Atmos Energy Marketing.

Stock Data

Price	US$33.11
Price Objective	US$34.00
Date Established	13-Apr-2011
Investment Opinion	A-2-7
Volatility Risk	LOW
52-Week Range	US$28.51-35.55
Mrkt Val / Shares Out (mn)	US$2,990 / 90.3
BofAML Ticker / Exchange	ATO / NYS
Bloomberg / Reuters	ATO US / ATO.N
ROE (2012E)	9.3%
Total Dbt to Cap (Sep-2011A)	51.7%
Est. 5-Yr EPS / DPS Growth	5.0% / 1.5%

Key Changes

(US$)	Previous	Current
2012E EPS	2.45	2.35
2013E EPS	2.55	2.50
2012E EBITDA (m)	745.4	730.0
2013E EBITDA (m)	767.2	771.2

Estimates (Sep)

(US$)	2010A	2011A	2012E	2013E	2014
EPS	2.20	2.31	2.35	2.50	NA
GAAP EPS	2.20	2.27	2.35	2.50	NA
EPS Change (YoY)	15.8%	5.0%	1.7%	6.4%	NA
Consensus EPS (Bloomberg)			2.43	2.55	NA
DPS	1.34	1.36	1.38	1.40	NA

Valuation (Sep)

	2010A	2011A	2012E	2013E	2014
P/E	15.1x	14.3x	14.1x	13.2x	NA
GAAP P/E	15.1x	14.6x	14.1x	13.2x	NA
Dividend Yield	4.0%	4.1%	4.2%	4.2%	NA
EV / EBITDA*	10.7x	10.9x	10.3x	9.8x	NA
Free Cash Flow Yield*	6.1%	-1.3%	-3.3%	3.4%	NA

* For full definitions of *iQmethod*SM measures, see page 6.

Refer to important disclosures on page 7 to 9. Analyst Certification on Page 4. Price Objective Basis/Risk on page 4. Link to Definitions on page 4. 11113301

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iQprofile℠ Atmos Energy

iQmethod℠ – Bus Performance*

(US$ Millions)	2010A	2011A	2012E	2013E	2014
Return on Capital Employed	5.1%	4.4%	4.4%	4.6%	NA
Return on Equity	9.3%	9.5%	9.3%	9.4%	NA
Operating Margin	10.2%	10.2%	11.0%	10.7%	NA
Free Cash Flow	184	(40)	(99)	100	NA

iQmethod℠ – Quality of Earnings*

(US$ Millions)	2010A	2011A	2012E	2013E	2014
Cash Realization Ratio	3.6x	2.8x	2.5x	2.5x	NA
Asset Replacement Ratio	2.5x	2.7x	2.6x	1.9x	NA
Tax Rate	38.5%	36.4%	38.2%	38.2%	NA
Net Debt-to-Equity Ratio	99.3%	101.2%	106.9%	103.7%	NA
Interest Cover	3.2x	2.9x	3.4x	3.3x	NA

Income Statement Data (Sep)

(US$ Millions)	2010A	2011A	2012E	2013E	2014
Sales	4,790	4,348	4,408	4,897	NA
% Change	-3.6%	-9.2%	1.4%	11.1%	NA
Gross Profit	1,365	1,327	1,394	1,452	NA
% Change	1.4%	-2.8%	5.0%	4.2%	NA
EBITDA	706	690	730	771	NA
% Change	6.8%	-2.2%	5.7%	5.6%	NA
Net Interest & Other Income	(154)	(151)	(142)	(161)	NA
Net Income (Adjusted)	**203**	**210**	**213**	**226**	**NA**
% Change	**16.1%**	**3.2%**	**1.6%**	**5.8%**	**NA**

Free Cash Flow Data (Sep)

(US$ Millions)	2010A	2011A	2012E	2013E	2014
Net Income from Cont Operations (GAAP)	204	206	213	226	NA
Depreciation & Amortization	217	227	243	245	NA
Change in Working Capital	83	(26)	0	0	NA
Deferred Taxation Charge	197	117	85	90	NA
Other Adjustments, Net	25	59	0	0	NA
Capital Expenditure	(543)	(623)	(640)	(460)	NA
Free Cash Flow	**184**	**-40**	**-99**	**100**	**NA**
% Change	**-55.1%**	**NM**	**-146.8%**	**NM**	**NA**

Balance Sheet Data (Sep)

(US$ Millions)	2010A	2011A	2012E	2013E	2014
Cash & Equivalents	132	131	13	12	NA
Trade Receivables	273	273	273	273	NA
Other Current Assets	470	606	606	606	NA
Property, Plant & Equipment	4,793	5,148	5,545	5,760	NA
Other Non-Current Assets	1,096	1,124	1,124	1,124	NA
Total Assets	**6,764**	**7,283**	**7,561**	**7,776**	**NA**
Short-Term Debt	486	209	234	259	NA
Other Current Liabilities	680	659	659	659	NA
Long-Term Debt	1,810	2,206	2,286	2,286	NA
Other Non-Current Liabilities	1,610	1,954	2,039	2,129	NA
Total Liabilities	**4,585**	**5,027**	**5,217**	**5,332**	**NA**
Total Equity	**2,178**	**2,255**	**2,344**	**2,443**	**NA**
Total Equity & Liabilities	**6,764**	**7,283**	**7,561**	**7,776**	**NA**

* For full definitions of *iQmethod*℠ measures, see page 6.

Company Description

Atmos Energy Corporation (ATO) is a natural gas transmission and distribution company headquartered in Dallas, Texas. Operations are divided between three segments: Natural Gas Distribution, Regulated Transmission & Storage, and Nonregulated. The Distribution segment distributes gas to 3.2mn customers in 12 states located in the South, Southeast and Midwest.

Investment Thesis

ATO has traded at a discount to peers given underearning in its largest Distribution division, muted nonregulated returns on low gas market volatility, and the perception it covers too many jurisdictions to focus on improving terms in each one. Yet mgmt has made strides in regulated divisions and ATO looks poised for improved returns over the long-term given the positive outcome at its Atmos Pipeline - TX rate case. That said, we view FY12 guidance for its Distribution segment as disappointing.

Stock Data

Average Daily Volume	388,767

Quarterly Earnings Estimates

	2011	2012
Q1	0.81A	0.91E
Q2	1.35A	NA
Q3	0.05A	NA
Q4	0.11A	NA

Lowering estimates to incorporate FY12 guidance

We are lowering FY12/13 EPS estimates to $2.35/2.50 (from $2.45/2.55) to reflect FY12 management guidance and a more uncertain return outlook at ATO's Mid-Tex division. ATO management expects to know by January 2012 whether a rate case at its Mid-Tex division will be necessary. We await further color on anticipated returns at ATO's Natural Gas Distribution segment before becoming more constructive on 2012 estimates. That said, we expect higher EPS growth in 2013 based on expected returns on ~$640mn in estimated 2012 capital expenditures, of which 90% is expected to provide a return within twelve months.

Table 1: Regulated gas utilities comparables

		BofAML	Current	Dividend	Market Value	EPS				P/E				EV/EBITDA				Total Return		
Ticker	Name	Rating*	Price	Yield (%)	(mns)	2010	2011E	2012E	2013E	2010	2011E	2012E	2013E	2010	2011E	2012E	2013E	1-YR	3-YR	5-YR
AGL	AGL Resources Inc.	A-2-7	39.51	4.5	3,146	3.01	3.10	3.20	3.20	13.1	12.7	12.4	12.3	8.9	8.7	8.3	7.8	11.6	33.9	35.9
ATO	**Atmos Energy Corp**	**A-2-7**	**33.11**	**4.2**	**3,079**	**2.20**	**2.27**	**2.35**	**2.50**	**15.0**	**14.6**	**14.1**	**13.2**	**7.6**	**7.7**	**7.3**	**6.9**	**16.7**	**31.0**	**31.2**
TEG	Integrys Energy Group Inc.	N/A	49.47	5.4	3,932	3.10	3.35	3.59	3.74	16.0	14.8	13.8	13.2	7.9	8.0	7.8	7.4	5.7	27.8	48.5
LG	Laclede Group Inc.	N/A	39.39	4.2	895	2.38	2.95	2.62	2.72	16.6	13.4	15.0	14.5	8.0	7.6	7.9	N/A	17.3	(13.6)	34.7
NFG	National Fuel Gas Co.	N/A	55.92	2.5	4,688	2.65	2.70	2.96	3.56	21.1	20.7	18.9	15.7	8.9	8.4	7.2	5.8	(8.1)	103.4	74.8
NJR	New Jersey Resources Corp	A-3-7	46.19	3.3	1,918	2.44	2.60	2.70	2.80	18.9	17.8	17.1	16.5	11.0	12.5	11.4	11.1	14.8	32.1	58.2
NI	Nisource Inc.	N/A	21.53	4.3	6,078	1.22	1.35	1.45	1.51	17.6	15.9	14.8	14.3	8.8	8.8	8.2	7.9	32.9	127.2	19.5
NWN	Northwest Natural Gas Co.	A-2-7	45.40	3.9	1,228	2.73	2.52	2.61	2.74	16.6	18.0	17.4	16.6	8.8	9.1	8.9	8.2	(1.8)	3.1	36.1
OKE	Oneok Inc.	N/A	78.81	2.8	8,095	3.05	3.25	3.66	4.15	25.8	24.2	21.5	19.0	11.1	9.6	9.3	8.0	59.5	243.0	129.4
PNY	Piedmont Natural Gas Co.	B-3-7	30.78	3.7	2,237	1.54	1.55	1.65	1.80	20.0	19.9	18.7	17.1	9.0	9.3	9.0	8.1	9.9	8.3	36.0
SRE	Sempra Energy	B-2-7	51.50	3.7	12,497	3.60	4.21	4.44	4.82	14.3	12.2	11.6	10.7	9.7	7.9	7.7	7.0	6.9	31.8	9.8
SJI	South Jersey Industries Inc.	N/A	53.75	2.7	1,606	2.67	2.85	3.23	3.38	20.1	18.9	16.6	15.9	15.2	12.3	11.3	10.8	8.8	57.8	89.6
SWX	Southwest Gas Corp	A-3-7	38.12	2.8	1,755	2.27	2.17	2.51	2.66	16.8	17.6	15.2	14.3	6.8	6.7	6.3	6.0	13.0	77.8	20.5
UGI	UGI Corp	N/A	28.57	3.6	3,228	2.26	2.20	2.45	2.64	12.6	13.0	11.7	10.8	6.6	9.0	5.5	5.1	(1.0)	36.1	22.5
VVC	Vectren Corp	A-2-7	27.61	5.0	2,277	1.65	1.75	1.90	2.00	16.8	15.8	14.5	13.8	7.8	7.3	5.9	5.7	10.7	17.6	27.8
WGL	WGL Holdings Inc.	A-3-7	41.26	3.8	2,097	2.27	2.25	2.45	2.50	18.2	18.3	16.8	16.5	8.9	8.6	7.9	7.6	14.7	31.0	52.6
Average:				**3.8**						**17.4**	**16.7**	**15.6**	**14.6**	**9.1**	**8.8**	**8.1**	**7.5**	**13.2**	**53.0**	**45.4**

Source: FactSet, Bloomberg, and BofA Merrill Lynch Global Research estimates

*N/A indicates ticker is currently under review; all estimates for these tickers are based on FactSet and FirstCall

Prices as of the close 22 November 2011

Price objective basis & risk

Atmos Energy (ATO)

Our $34 PO is largely based on a targeted 13.5x 2013E EPS, which would imply that ATO should trade at a moderate discount to peers. The company offers an attractive dividend yield and low P/E relative to peers and operates out of the TX region which has felt less of an impact from the current macroeconomic slowdown. Growth through 2013 should be driven by recent rate cases which should improve the ability to earn at authorized levels as well as various nonregulated pipeline and gathering projects. Risks to PO are: sustained low gas market volatility, a materially higher gas price environment, slack capacity utilization at its Barnett Shale natural gas pipelines and prolonged broader economic slowdown. The latter factors could also slow customer growth rates and contribute to cash flow pressure. Other risks to our PO are better-than-forecast rate execution and timing, a gas market volatility rebound to above-forecast levels, and better-than-forecast incremental growth from unidentified nonregulated growth projects.

Link to Definitions

Energy

Click here for definitions of commonly used terms.

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US - Natural Gas Coverage Cluster

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
BUY				
	American Midstream LP	AMID	AMID US	Gabe Moreen
	AmeriGas Partners L.P.	APU	APU US	Gabe Moreen
	Boardwalk Pipeline	BWP	BWP US	Gabe Moreen
	Buckeye Partners	BPL	BPL US	Gabe Moreen
	Chesapeake Midstream Partners, L.P.	CHKM	CHKM US	Gabe Moreen
	Crosstex Energy, L.P.	XTEX	XTEX US	Gabe Moreen
	DCP Midstream	DPM	DPM US	Gabe Moreen
	Enbridge Energy	EEP	EEP US	Gabe Moreen
	Enbridge Energy	EEQ	EEQ US	Gabe Moreen
	Energy Trans	ETE	ETE US	Gabe Moreen
	Energy Transfer	ETP	ETP US	Gabe Moreen
	Enterprise L.P.	EPD	EPD US	Gabe Moreen
	Exterran	EXLP	EXLP US	Gabe Moreen
	Genesis Energy, L.P.	GEL	GEL US	Gabe Moreen
	Kinder Morgan	KMR	KMR US	Gabe Moreen

US - Natural Gas Coverage Cluster

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
	Kinder Morgan LP	KMP	KMP US	Gabe Moreen
	Magellan Mid	MMP	MMP US	Gabe Moreen
	Markwest Energy Partners L.P.	MWE	MWE US	Gabe Moreen
	Plains AA	PAA	PAA US	Gabe Moreen
	Regency Energy Partners LP	RGP	RGP US	Gabe Moreen
	Spectra Energy	SE	SE US	Gabe Moreen
	Sunoco Logistics	SXL	SXL US	Gabe Moreen
	Targa Resources	NGLS	NGLS US	Gabe Moreen
	Targa Resources Corp.	TRGP	TRGP US	Gabe Moreen
	TC PipeLines LP	TCLP	TCLP US	Gabe Moreen
	Teekay Offshore	TOO	TOO US	Gabe Moreen
	Tesoro Logistics LP	TLLP	TLLP US	Cathleen King
	TransMontaigne Partners L.P.	TLP	TLP US	Gabe Moreen
	Western Gas Partners, LP	WES	WES US	Gabe Moreen
	Williams Partner	WPZ	WPZ US	Gabe Moreen
NEUTRAL				
	AGL Resources Inc.	AGL	AGL US	Gabe Moreen
	Atmos Energy	ATO	ATO US	Gabe Moreen
	Copano Energy, LLC	CPNO	CPNO US	Gabe Moreen
	Crestwood Midstream Partners LP	CMLP	CMLP US	Gabe Moreen
	Global Partners LP	GLP	GLP US	Gabe Moreen
	Holly Energy Par	HEP	HEP US	Gabe Moreen
	Kinder Morgan, Inc.	KMI	KMI US	Gabe Moreen
	Northwest Natural Gas Co.	NWN	NWN US	Gabe Moreen
	ONEOK Partners	OKS	OKS US	Gabe Moreen
	PAA Natural Gas Storage	PNG	PNG US	Gabe Moreen
	Spectra Energy	SEP	SEP US	Gabe Moreen
	Suburban Propane Partners L.P.	SPH	SPH US	Gabe Moreen
	Vectren Corp	VVC	VVC US	Gabe Moreen
UNDERPERFORM				
	El Paso Pipeline	EPB	EPB US	Gabe Moreen
	Ferrellgas Partners L.P.	FGP	FGP US	Gabe Moreen
	Kayne Anderson Energy Development Co.	KED	KED US	Gabe Moreen
	New Jersey Resources Corporation	NJR	NJR US	Gabe Moreen
	Nustar Energy LP	NS	NS US	Gabe Moreen
	Nustar GP	NSH	NSH US	Gabe Moreen
	Piedmont Natural Gas	PNY	PNY US	Gabe Moreen
	Southwest Gas	SWX	SWX US	Gabe Moreen
	Tortoise Capital Resources	TTO	TTO US	Gabe Moreen
	WGL Holdings, Inc.	WGL	WGL US	Gabe Moreen
RSTR				
	Inergy L.P.	NRGY	NRGY US	Gabe Moreen

iQmethod℠ Measures Definitions

Business Performance	**Numerator**	**Denominator**
Return On Capital Employed	NOPAT = (EBIT + Interest Income) * (1 - Tax Rate) + Goodwill Amortization	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	EV = Current Share Price * Current Shares + Minority Equity + Net Debt + Other LT Liabilities	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

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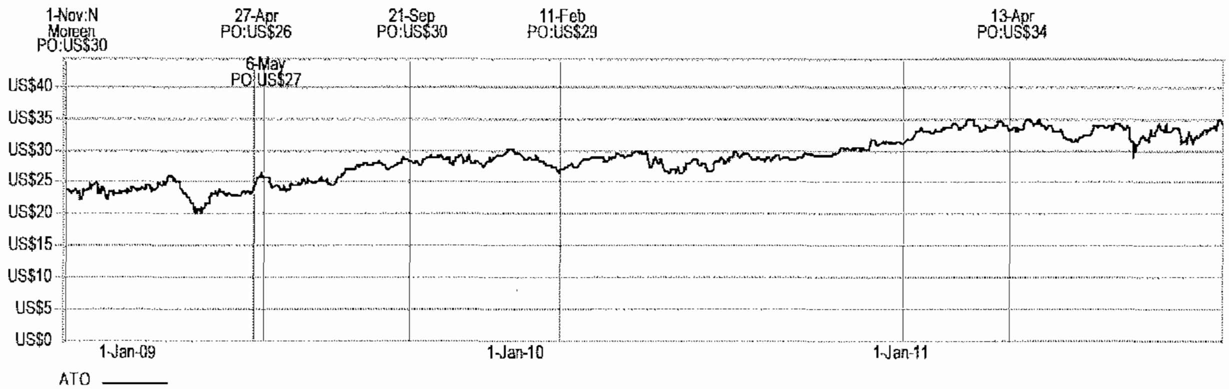
ATO Price Chart



B : Buy, N : Neutral, U : Underperform, PO : Price objective, NA : No longer valid, NR: No Rating

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Investment Rating Distribution: Utilities Group (as of 01 Oct 2011)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	82	45.30%	Buy	35	48.61%
Neutral	46	25.41%	Neutral	29	65.91%
Sell	53	29.28%	Sell	21	45.65%

Investment Rating Distribution: Global Group (as of 01 Oct 2011)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	2073	54.13%	Buy	923	49.12%
Neutral	961	25.09%	Neutral	460	52.57%
Sell	796	20.78%	Sell	287	38.32%

* Companies in respect of which BofA Merrill Lynch or one of its affiliates has received compensation for investment banking services within the past 12 months. For purposes of this distribution, a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

* Ratings dispersions may vary from time to time where BofA Merrill Lynch Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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Equities

3 February 2012 | 55 pages

Natural Gas & Gas Utilities

Ground Hog Day; Muted Impact to Utilities; Ratings Changes

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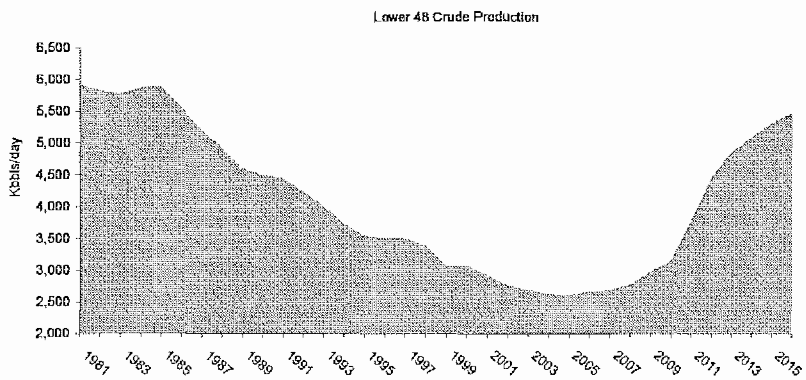
- **Ratings Changes** — We are downgrading El Paso (EP), Southern Union (SUG) and Oneok (OKE) from Buy to Neutral. We are upgrading CenterPoint (CNP) to Buy. We reiterate our Buy rating on Cheniere (LNG), Sempra (SRE), Southwest Gas (SWX) and Williams (WMB). We believe Integrys (TEG) and Atmos (ATO) are modestly undervalued as utilities but do not offer enough upside for a Buy rating under our rating system. The Canadian pipeline companies (Enbridge and TransCanada) continue to offer growth but are expensive at current levels.
- **Weather** — We do not expect huge variations in earnings as a result of warmer than normal weather in 4Q'11 and 1Q'12. The gas utility industry has been moving towards decoupling and weather normalization mitigating the effect of wild swings in volumes on earnings (Figure 4). AK, CA, GA, IL, IN, MA, NV, OH and WI are states that offer full decoupling or straight-fixed variable rates, which are constructive rate mechanisms.
- **Industry Thesis** — Lower 48 oil production is growing after decades of decline. Canadian oil production should grow 4% a year through 2020. Petroleum product exports have more than doubled over the last few years. Lower 48 gas production bottomed in 2005 and is up 23 Bcf/day since then. Gas demand is set to grow 4 Bcf/day over the next few years from the shutdown of uneconomic coal plants. Chemical demand for gas is on the rise. And the US is likely to become a modest LNG exporter during this decade of 2-4 Bcf/day. The conclusion from these trends is that oil, NGL and gas infrastructure needs are likely to grow above trend through the decade.
- **Stock Picks** — Our key recommendations to play these themes at a reasonable price, risk and reward are Cheniere (LNG), Sempra (SRE) and Williams (WMB).

	Rating		Target Price		Current Year Earnings Estimates		Next Year Earnings Estimates	
Ticker	Old	New	Old	New	Old	New	Old	New
ATO	2	2	US$35.00	US$35.00	US$2.46	US$2.44	US$2.48	US$2.50
CNP	2	1	US$21.00	US$22.00	US$1.16	US$1.78	US$1.30	US$1.18
ENB	2	2	US$36.00	US$36.00	C$1.41	C$1.41	C$1.64	C$1.64
EP	1	2	US$22.00	US$29.00	US$1.07	US$1.05	US$1.15	US$1.26
GAS	2	2	US$42.00	US$43.00	US$2.90	US$2.76	US$3.17	US$3.12
LNG	1H	1H	US$16.00	US$16.00	US$-2.25	US$-2.25	US$-1.60	US$-1.60
OKE	1	2	US$75.00	US$86.00	US$3.08	US$3.35	US$3.73	US$3.81
SE	2	2	US$26.00	US$32.00	US$1.80	US$1.76	US$1.64	US$1.88
SRE	1	1	US$60.00	US$60.00	US$4.41	US$4.41	US$4.75	US$4.75
STR	1	1	US$20.50	US$20.50	US$1.11	US$1.11	US$1.21	US$1.21
SUG	1M	2	US$38.00	US$43.50	US$1.67	US$1.93	US$1.99	US$1.76
SWX	1	1	US$45.00	US$47.00	US$2.35	US$2.28	US$2.95	US$3.05
TEG	2	2	US$51.00	US$56.00	US$3.27	US$3.44	US$3.86	US$3.85
TRP.TO	2	2	C$40.00	C$42.00	C$2.22	C$2.09	C$2.44	C$2.39
WC	2	2	US$26.00	US$28.00	US$1.60	US$1.79	US$1.84	US$1.87
WMB	NA	1	NA	US$32.50	US$1.23	US$1.52	US$1.97	US$1.64
WMB	1M	1	US$31.03	US$32.50	US$1.23	US$1.52	US$1.97	US$1.64

See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

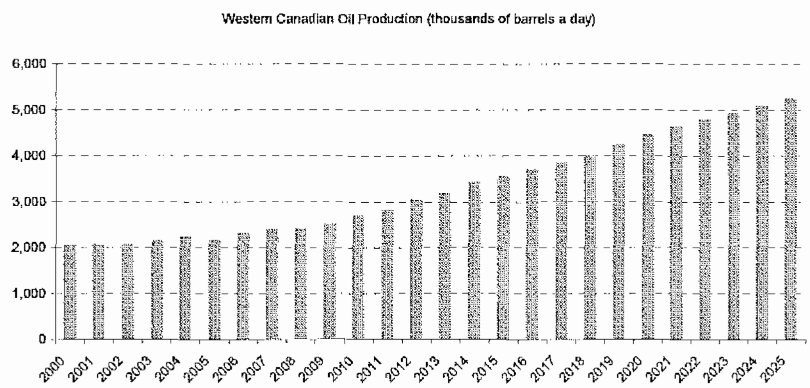
Long-term Industry Trends

Figure 1. Lower 48 Crude Oil Production



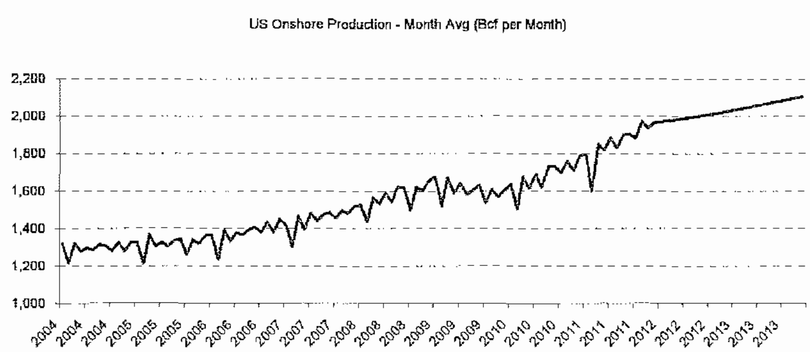
Source: Citi Investment Research and Analysis, EIA

Figure 2. Western Canadian Oil Production



Source: Citi Investment Research and Analysis, CAPP

Figure 3. Lower 48 Natural Gas Production



Source: Citi Investment Research and Analysis, EIA

Regulatory Landscape

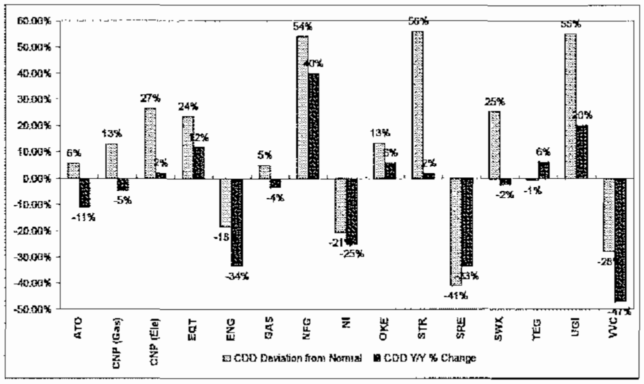
Figure 4. Timelines & Notable Rate Cases

Company	Business Unit	Regulatory Updates	Details
AGL Resources	Golden Triangle Storage	Application requesting that existing market-based rate authority apply to proposed expansion (Docket No. CP11-531-000)	Total certificated capacity of 24.5 Bcf, where 16 BCF of working gas & 8.5 Bcf of cushion gas
Atmos Energy	Atmos Energy - Kansas	Application to Kansas Corporation Commission for gas rate increase (Docket No. 12-ATMG-564-RTS)	Rate increase of $10 mm, premised on 10.9% ROE, 52% Equity layer, $160 mm rate base for test year ended September 30, 2011. Decision is expected by 4Q 2012
	Atmos Energy - Georgia	Application to Georgia Public Service Commission issued order to implement Rate Adjustment Mechanism on November 1, 2011	Rate mechanism establishes ROE range of 10.5% to 10.9%based on target ROE of 10.7%. If ATO is projected to earn less than 10.5% ROE, rates would be adjusted upward to achieve a 10.5% return. A downward adjustment is made if rates earned rise above 10.9%. A revenue true-up mechanism, where actual revenues to previous revenue projections are compared each year and filed with the commission by the end of Q1 each year to become effective in Q2 of that same year
Cheniere Energy	Sabine Pass	FERC - Environmental Assesstment for Sabine Pass Liquefaction Project (Docket No. CP 11-72-000)	Awaiting final decision from Commission, following 30 day comment period. Staff recommends the Commission issue permit
Integrys Energy	Minnesota Energy Resources	Natural Gas rate case (Docket No. D-G-007,011/GR-10-977)	Requesting $15 mm rate increase, 10.75% ROE, 50.5% Equity layer on a rate base of $191 mm. A decision is expected by the end of February/12
	Peoples Gas/North Shore Gas	ICC ordered base rate increase for Peoples Gas (Docket No. 11-0281), effective January 1, 2012	Rate increase of $59 mm, 9.5% ROE, 49% Equity layer, on a $1.36 BN rate base
	Upper Peninsula Power	On December 20, 2012, Michigan Public Service Commission granted a rate increase, effective January 1, 2012	Increase of $4 mm, 10.2% ROE, 45.7% Equity layer on a rate base of $176 mm
NiSource	NIPSCO Electric	Settlement with IURC on December 21, 2011. Rates effective beginning in 2012	Settlement specifies 10.2% ROE, 46.5% Equity layer on a rate base of $2.7 BN.
	Col. Gas of Virginia	Infrastructure rider mechanism	Effective January 1, 2012. Represents initial phase of a $11 mm rate increase to be phased in over 2012-2016
Sempra Energy	San Diego Gas & Electric	General Rate Case - Gas & Electric (Docket No. AP-10-12-005 (electric), AP-10-12-005 (gas))	Filed for rate increase of $169 mm at electric utility and $25 mm for gas rate increases. Request 11.1% ROE on a rate base of $3.7 BN. A final decision is expected by March 2012.
	Southern California Gas	General Rate Case - Gas (Docket No. AP-10-12-006)	Filed for an increase of $237 mm. Requesting 10.82% ROE on a rate base to $3.6 BN. A final decision is expected March 2012.
	San Diego Gas & Electric/Southern California Gas	Cost of Capital Rate Case	Proceedings expected to begin Q2/12. Utilities will seek updated cost of capital, authorized ROE and capital ratios. A decision should be granted in Q1/13.
	Sempra LNG Marketing	Department of Energy application to export 1.7 Bcf to Free Trade Agreement countries from Gulf Coast LNG terminal, Cameron LNG. License to export to non-FTA countries to follow, along with application for FERC license to build facilities	Expect decisions regarding multiple licenses over the next 12-18 months
TransCanada	Nova Gas	Expansion of NGTL Alberta system, spanning from NE British Columbia to Northwestern Alberta. Total capacity of 1.3 Bcf/d	NEB is convening public hearings. Extension will cost $333 mm. Expected to begin construction in Fall 2012 and operational by 2014.
	Mainline	Renegotiating toll from Alberta's Nova Invententory Transfer System (NIT) to Dawn	Proposed System Delivery Toll is $1.29/GJ, an $0.80 reduction from tolls charged in 2011. It's expected that most of the Mainline short haul tolls are set to decrease. Final decision on the rate case is expected in early 2013
Williams	Transcontinental Gas Pipe Line Co.	FERC permission to contruct pipeline (Docket No. CP11-18-000)	Approval received to expand Transco on five pipeline loops in NC, AL, GA for cost of $219 mm.

Source: Citi Investment Research and Analysis, SNL, Company data

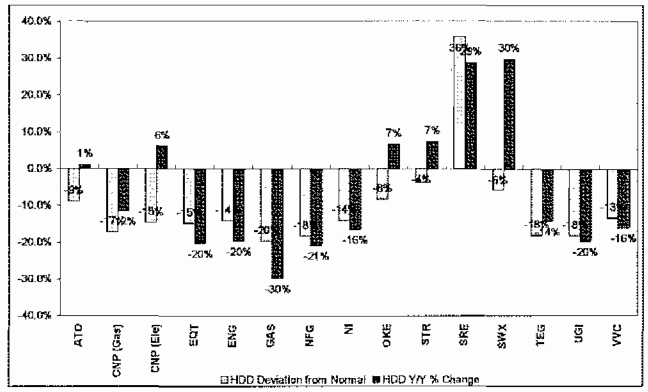
Weather Impact on Coverage Universe

Figure 5. CDD – Q4/11 Actual CDD vs. Normal & Year-over-Year



Source: Citi Investment Research and Analysis, NOAA

Figure 6. HDD – Q4/11 Actual HDD vs. Normal & Year-over-Year



Source: Citi Investment Research and Analysis, NOAA

Figure 7. Programs In Place for Mitigating Impacts of Weather

Company	Ticker	Weather Stabilization Mechanism?	Methodology
Atmos Energy	ATO	Yes	**Kentucky LDC** - Energy Efficiency/Weather Decoupled **Texas LDC** - Weather Decoupled **Kansas LDC**- Weather Decoupled **Lousiana LDC** - Weather Decoupled
CenterPoint - Gas	CNP		**Arkansas LDC** - Fully Decoupled **Louisiana** - Weather Decoupled **Minnesota LDC** - Energy Efficiency(Pilot) **Oklahoma LDC** - Weather Decoupled
CenterPoint - Electric	CNP	No	**Houston Electric** - No Decoupling
Enbridge	ENB	No	**Enbridge Gas** - OEB reviewing decoupling (2010) **Gaz Metro** - Regulatory agency reviewing various mechanisms **EGNB** - NA
Equitable Resources	EQT	No	**Equitable Gas PA** - None **Equitable Gas WV** - None
Energen	ENG	Yes	**Alagasco LDC** - Temperature Adjustment Mechanism
AGL Resources (ex. Nicor)	GAS	Yes	**New Jersey LDC** - Weather Decoupled **Tennessee** - Fully Decoupled (Pilot) **Virginia LDC** - Energy Efficiency/Weather Decoupled **Georgia LDC** - Straight-Fixed Variable
National Fuel Gas	NFG	Yes	**National Fuel Gas NY** - Revenue decoupling and weather normalization **National Fuel Gas PA** - None
Nisource	NI	Yes	**Col Gas of Kentucky (Gas)** - Energy Efficiency/Weather Decoupled **Col Gas of Maryland (Gas)** - Weather Decoupled **Col Gas of Massachusetts** - Fully Decoupled **Col Gas of Ohio** - Straight-Fixed Variable **Col Gas of Virginia** - Energy Effciency/Weather Decoupled **Indiana** - Electric/Gas Fully Decoupled
Oneok	OKE	Yes	**Texas LDC** - Weather Decoupled **Kansas Gas Service LDC** - Weather Decoupled **Oklahoma Natural Gas** - Weather Stabilized
Questar	STR	Yes	**Utah LDC** - Energy Efficiency/Weather Decoupled
Sempra	SRE	Yes	**Alabama LDC** - Weather Decoupled **California LDC** - Fully Decoupled
Spectra	SE	No	**Union Gas** - no explicit weather stabilization programs in place
Southwest Gas	SWX	Yes	**Arizona LDC** - Weather Decoupled **California LDC** - Fully Decoupled **Nevada** - Fully Decoupled
Integrys	TEG	Yes	**Illinois LDC** - Fully Decoupled (Pilot) **Michigan LDC** - Energy Efficiency (Pilot) **Wisconsin** (Gas/Ele) - Fully Decoupled (Pilot)
UGI Corp	UGI	No	Partial recoverygy of fixed charges but no formal program in Pennsylvania
Vectren Corp	VVC	Yes	**Indiana LDC** - Energy Efficiency/Weather Decoupled **Ohio LDC** - Straight-Fixed Variable

Source: Citi Investment Research and Analysis, Snl, Company data

Earnings Outlook & Valuation

Figure 8. Earnings Timeline & Conference Call Details

Ticker	Company	Conference Call Info: Date	Time	Number	Conference ID
GAS	AGL Resources	2/22	9:00 AM	TBD	TBD
ATO	Atmos Energy	2/8	8:00 AM	877-485-3107	n/a
CNP	Centerpoint Energy	2/29	11:30 AM	800-653-1761	41632104
LNG	Cheniere Energy	2/3	N/A	N/A	N/A
SRE	Sempra Energy	2/28	TBD	TBD	TBD
SWX	Southwest Gas	2/29	TBD	TBD	TBD
SE	Spectra Energy	2/2	10:00 AM	888-252-3715	41961447
TEG	Integrys Energy	2/29	TBD	TBD	TBD
TRP	TransCanada	2/14	3:00 PM	888-226-1792	n/a
VVC	Vectren	2/16	2:00 PM	888-821-5457	n/a
ENB	Enbridge	TBD	TBD	TBD	TBD
SUG	Southern Union Co	TBD	TBD	TBD	TBD
EP	El Paso	2/28	TBD	TBD	TBD
STR	Questar	2/15	9:30 AM	TBD	TBD
OKE	Oneok	2/21	11:00 AM	888-857-6931	7074825
WMB	Williams	2/23	9:30 AM	800-967-7144	N/A

Source: Citi Investment Research and Analysis

Figure 9. EPS Estimates Versus Consensus

Ticker	Company	Q4 '11 CIRA Est.	Q4 '11 Consensus*	Delta	FY 2011 CIRA New	FY 2011 CIRA Old	FY 2011 Consensus*	FY 2012 CIRA New	FY 2012 CIRA Old	FY 2012 Consensus*	2011 to 2012 EPS Decline
AGL	AGL Resources Inc	$0.92	$0.92	($0.00)	$2.76	$2.90	$2.91	$3.12	$3.17	$3.02	13%
ATO	Atmos Energy Corp	$0.85	$0.85	($0.00)	$2.28	$2.25	na	$2.44	$2.46	$2.38	7%
CNP	CenterPoint Energy Inc *	$0.23	$0.19	$0.04	$1.24	$1.16	$1.14	$1.18	$1.30	$1.19	-5%
LNG	Cheniere Energy Inc	($0.41)	($0.40)	($0.01)	($2.25)	($2.25)	($2.16)	($1.60)	($1.60)	($1.08)	-29%
TEG	Integrys Energy Group, Inc.	$1.02	$1.00	$0.02	$3.44	$3.27	$3.34	$3.85	$3.86	$3.55	12%
NI	NiSource Inc		Reported		$1.29	$1.29	na	$1.48	$1.48	$1.45	15%
SRE	Sempra Energy	$1.06	$1.06	($0.00)	$4.41	$4.41	$4.31	$4.75	$4.75	$4.49	8%
SWX	Southwest Gas Corp	$1.05	$0.95	$0.10	$2.28	$2.35	$2.23	$3.05	$2.95	$2.56	34%
SE	Spectra Energy Corp	$0.44	$0.44	($0.00)	$1.76	$1.80	$1.77	$1.88	$1.64	$1.87	7%
TRP.TO	TransCanada Corp	$0.43	$0.55	($0.12)	$2.09	$2.22	$2.27	$2.39	$2.44	$2.44	14%
UGI	UGI Corp		Reported		$1.94	$1.94	na	$2.24	$2.24	$2.09	15%
VVC	Vectren Corp	$0.62	$0.57	$0.05	$1.79	$1.60	$1.71	$1.87	$1.84	$1.87	3%
ENB	Enbridge Inc	$0.41	$0.40	$0.02	$1.41	$1.41	$1.48	$1.64	$1.64	$1.63	17%
EP	El Paso Corp	$0.33	$0.29	$0.04	$1.05	$1.07	$1.03	$1.26	$1.15	$1.22	20%
EGN	Energen Corp		Reported		$3.91	$3.91	na	$3.24	$3.24	$3.57	-17%
EQT	EQT Corporation		Reported		$2.09	$2.09	na	$1.44	$1.44	$2.29	-31%
MDU	MDU Resources Group Inc	$0.39	$0.32	$0.07	$1.17	$1.17	$1.13	$1.28	$1.28	$1.30	9%
NFG	National Fuel Gas Co		Reported		$2.71	$2.71	na	$2.61	$2.61	$2.79	-4%
OKE	Oneok Inc	$1.07	$1.02	$0.05	$3.35	$3.08	$3.30	$3.81	$3.73	$3.71	14%
STR	Questar Corp	$0.31	$0.33	($0.02)	$1.11	$1.11	$1.15	$1.21	$1.21	$1.20	9%
SUG	Southern Union Co	$0.49	$0.57	($0.08)	$1.93	N/A	$1.89	$1.76	N/A	$2.08	N/A
WMB	The Williams Companies Inc	$0.38	$0.42	($0.05)	$1.52	N/A	$1.56	$1.64	N/A	$1.47	N/A

*Thompson FirstCall; CNP reported 2011 EPS of $1.78 adjusted for True-up gain.

Source: Citi Investment Research and Analysis

Figure 10. Relative Valuation

Ticker	Company	Rating	Target Price	Current Price	2011 PE	2012 PE	2013 PE	2011 EV/EBITDA	2012 EV/EBITDA	2013 EV/EBITDA	Div Yield
AGL	AGL Resources Inc	.	$43.00	$41.69	15.1x	13.4x	13.1x	NA	NA	NA	4.2%
ATO	Atmos Energy Corp	2	$35.00	$32.62	14.3x	13.4x	13.1x	7.6x	7.0x	6.9x	4.2%
CNP	CenterPoint Energy Ini	1	$22.00	$18.68	15.1x	15.9x	15.6x	7.7x	7.1x	7.0x	4.3%
LNG	Cheniere Energy Inc	1H	$16.00	$12.83	-5.7x	-8.0x	-7.9x	NM	NM	NM	0.0%
TEG	Integrys Energy Group	2	$56.00	$52.46	15.2x	13.6x	13.0x	9.0x	8.3x	7.9x	5.2%
NI	NiSource Inc	2	$22.00	$23.45	18.2x	15.8x	15.7x	9.6x	8.2x	7.7x	3.9%
SRE	Sempra Energy	1	$60.00	$57.80	13.1x	12.2x	11.1x	7.8x	8.1x	7.1x	2.7%
SWX	Southwest Gas Corp	1	$47.00	$42.41	18.6x	13.9x	13.6x	7.0x	6.2x	6.2x	2.4%
SE	Spectra Energy Corp	2	$32.00	$31.51	17.9x	16.7x	15.6x	12.9x	11.7x	11.3x	3.5%
TRP.TO	TransCanada Corp	2	$42.00	$41.34	19.8x	17.3x	16.1x	11.8x	10.9x	10.6x	3.9%
UGI	UGI Corp	1	$33.00	$27.21	14.0x	12.2x	10.4x	6.8x	5.8x	4.5x	3.7%
VVC	Vectren Corp	2	$28.00	$28.92	16.2x	15.5x	15.1x	6.8x	7.1x	7.0x	4.8%
ENB	Enbridge Inc	2	$36.00	$38.04	27.0x	23.1x	20.1x	16.3x	14.8x	13.6x	3.0%
EP	El Paso Corp	2	$29.00	$26.93	25.7x	21.4x	16.6x	10.3x	8.9x	7.9x	0.6%
EGN	Energen Corp	1	$63.00	$48.35	12.4x	14.9x	10.0x	6.0x	5.6x	4.3x	1.1%
EQT	EQT Corporation	2	$52.00	$49.98	24.0x	34.6x	25.0x	9.7x	10.0x	8.5x	1.8%
MDU	MDU Resources Grou|	2	$21.00	$21.47	18.3x	16.8x	13.3x	7.0x	6.6x	5.8x	3.0%
NFG	National Fuel Gas Co	1	$63.00	$50.80	18.7x	19.5x	15.4x	8.1x	7.7x	6.3x	2.6%
OKE	Oneok Inc	1	$86.00	$81.73	24.4x	21.5x	18.1x	10.4x	9.3x	7.8x	3.0%
STR	Questar Corp	1	$20.50	$19.30	17.4x	16.0x	14.6x	9.1x	8.6x	8.1x	3.2%
SUG	Southern Union Co	1	$43.50	$43.48	22.2x	24.7x	21.8x	10.6x	11.8x	11.2x	1.4%
WMB	The Williams Compan	1	$32.50	$29.19	19.2x	17.8x	15.3x	6.4x	8.3x	7.5x	3.8%

Source: Citi Investment Research and Analysis

Company Focus

AGL Resources Inc (GAS)

Expecting Lighter Wholesale & Retail Results on Warm Weather

- Company Update
- Target Price Change
- Estimate Change

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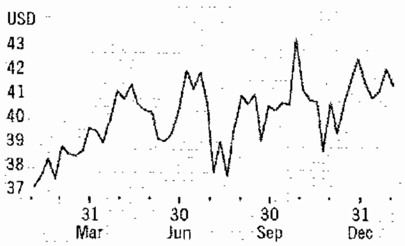
Neutral	**2**
Price (02 Feb 12)	US$41.59
Target price	US$43.00
from US$42.00	
Expected share price return	3.4%
Expected dividend yield	4.2%
Expected total return	**7.6%**
Market Cap	US$4,855M

Price Performance
(RIC: GAS.N, BB: GAS US)



- **Q4/11 Earnings** – Our estimate for AGL (ex. GAS) on the quarter is $0.92 per share, marginally higher over 4Q/10. Consensus is currently $0.95. Investors should expect a weak start to the peak demand season for natural gas. Temperatures were warmer than normal in the Mid-Atlantic and East Coast regions where HDD's were 30% lower Y/Y. Weather in the newly acquired Nicor Gas region is also estimated to have been ~10% warmer. However, our estimates currently exclude the impact of Nicor's earnings. We think results will be challenging across all segments.

- **LDC** – Our estimate for 4Q EBIT is $107 mm, 13% higher over last year driven mostly due to rate increases earlier in the year. The majority of AGL's footprint has weather stabilization mechanisms' in place, so we don't expect significant impact to our estimates.

- **Retail** - We estimate 4Q EBIT of $38 mm, essentially flat over last year. We anticipate customer usage was driven lower due to the warmer than normal weather.

- **Wholesale** – Our estimate for EBIT is $8 mm, nearly a third of operating income reported last year during the same quarter. We think weather along with continued pressure on gas volatility and basis will put a lid on earnings this quarter.

- **Merger Integration** – We expect management to provide an update on the quarter with regards to their progress on cost cutting efforts related to the Nicor integration efforts.

- **2012 FY Outlook** – We expect FY EPS of $3.12. We expect management to provide a status updated for their growth plans and outlook for integration on the call. We don't expect any material news for the Tropical Shipping business for a few quarters, or until market conditions improve from the current trough levels.

- **Target Price & Rating** – We maintain our Neutral rating and have raised our target price to $43 from $42 on our revised interest rate and market risk premium assumptions.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2010A	1.58A	0.20A	0.07A	0.91A	2.77A	3.05A
2011E	**1.59A**	**0.22A**	**0.03A**	**0.92E**	**2.76E**	**2.91E**
Previous	1.59A	0.22A	0.03A	1.07E	2.90E	na
2012E	**1.59E**	**0.23E**	**0.22E**	**1.07E**	**3.12E**	**3.02E**
Previous	1.59E	0.24E	0.26E	1.08E	3.17E	na
2013E	**1.61E**	**0.24E**	**0.23E**	**1.09E**	**3.17E**	**3.23E**
Previous	1.61E	0.24E	0.27E	1.10E	3.23E	na

Source: Company Reports and dataCentral, CIR. FC Cons: First Call Consensus.

Company Focus

- Company Update
- Estimate Change

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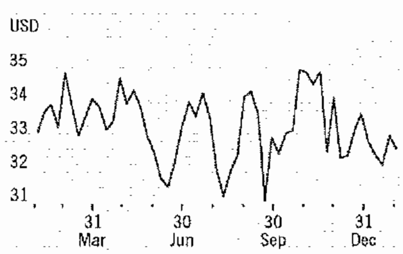
Neutral	**2**
Price (02 Feb 12)	US$32.62
Target price	US$35.00
Expected share price return	7.3%
Expected dividend yield	4.2%
Expected total return	**11.5%**
Market Cap	US$2,943M

Price Performance
(RIC: ATO.N, BB: ATO US)



Atmos Energy Corp (ATO)

Expecting In-line Quarter; Limited Impact from Weather

- **Fiscal 1Q/12 EPS –** We expect EPS on the quarter to be $0.85/ per share, 11% higher over the same period last year. Consensus is currently at $0.86. Weather in ATO's service regions was unchanged compared to last year. We expect modest performance out of the Marketing unit ($7 mm EBIT), nearly half of reported results last year.
- **LDC** – Our estimate for EBIT is $120 mm, unchanged over the same period last year. Weather in ATO's footprint was mostly unchanged over the same time last year. Investors should pay close attention on cost containment efforts in light of relatively flat top-line growth.
- **Marketing** – We don't anticipate any material changes to conditions in ATO's operating regions or optimization programs. We expect see flat 4Q EBIT of $6 mm.
- **Transmission & Storage** – We expect ATO to report operating income of $29 mm, nearly $5 mm higher over the same period last year. Revenues at Mid-Tex transportation should rise modestly.
- **FY 2012 Earnings** – Our 2012 EPS estimate is $2.44, while consensus is $2.38. The stock trades at 12.8X 2013 earnings.
- **Target Price & Rating** – We maintain our $35 price target and Neutral rating.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	0.76A	1.65A	0.08A	-0.21A	2.28A	2.34A
2012E	**0.85E**	**1.44E**	**0.15E**	**0.00E**	**2.44E**	**2.38E**
Previous	0.88E	1.34E	0.19E	0.05E	2.46E	na
2013E	**0.86E**	**1.46E**	**0.15E**	**0.03E**	**2.50E**	**2.50E**
Previous	0.88E	1.36E	0.19E	0.06E	2.48E	na
2014E	**0.86E**	**1.44E**	**0.16E**	**0.06E**	**2.52E**	**2.65E**
Previous	0.89E	1.41E	0.19E	0.06E	2.54E	na

Source: Company Reports and dataCentral, CIR. FC Cons: First Call Consensus.

Natural Gas & Gas Utilities
3 February 2012

Company Focus

- Company Update
- Rating Change
- Target Price Change
- Estimate Change

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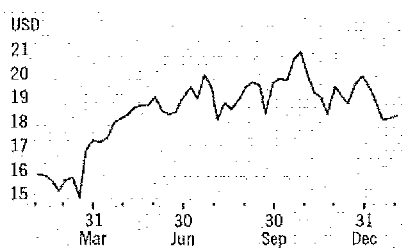
Buy	**1**
from Neutral	
Price (02 Feb 12)	US$18.58
Target price	US$22.00
from US$21.00	
Expected share price return	18.4%
Expected dividend yield	4.3%
Expected total return	**22.7%**
Market Cap	US$7,914M

Price Performance
(RIC: CNP.N, BB: CNP US)



CenterPoint Energy Inc (CNP)
Raising to Buy; Little Downside; Cash in the Bank

- **EPS** – We expect earnings on the quarter to be $0.23 per share. Consensus is currently at $0.19. Weather in the LDC's footprint was 10% warmer than last year, however, we expect stabilization mechanisms will limit a material surprise to earnings. We are taking down our FY 2012 estimates to $1.18 per share on 1) warmer than normal weather in 2011 impacting T&D; 2) removal of backhaul contract in Q3/11 and 3) the CEHE rate case.

- **LDC** – We expect operating income of $94 mm. Demand for gas will likely be lower over the same period last year on warmer weather. However, favorable regulatory mechanisms should limit any decline in operating income.

- **T&D** – We estimate 4Q EBIT of $58 mm, essentially flat Y/Y. We are also adjusting our operating earning estimates for normalized weather in 2012. Our new estimate for revenues is lower by $30 mm for 2012.

- **Pipelines** – Our estimate for 4Q EBIT is $68 mm, $6 mm higher than last year in the same period. Our estimate for 2012 operating income is $267 mm, down from $285 mm. This reflects the removal of the backhaul pipeline contract in Q3/11.

- **Field Services** – Our estimate for EBIT is $43 mm, lower than last year's results. We think the sell-off in the stock is in part due to potential delays in earnings growth associated with Haynesville production growth in light of continued weakness in natural gas prices. We are lowering the pace of growth and rate of expansion of the gathering in our model. We expect total gathering volumes to average ~2.7 Bcf/d in 2012. We are deferring further expansions in the Hayneville to 2014, assuming gas prices recover back above to $4/mmcf. CNP's announced plans to develop a 300 mile gathering and processing project in MS for 200 mmcf/d is a positive sign of potential growth in the company's footprint. No financial details were released. We do not include any contribution from this potential project.

- **Price Target & Rating** – We are raising our target price to $22 per share. We are raising our recommendation to Buy from Neutral. We think the recent sell off provides a good entry point. CNP has considerable opportunities for growth, particularly in their field services division, not excluding the option of setting up an MLP structure for the business. In addition, the company could look to recapitalize their balance sheet with the $1.7 BN from the True-up proceedings.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2010A	0.33A	0.20A	0.25A	0.27A	1.04A	0.97A
2011E	**0.34A**	**0.27A**	**0.93A**	**0.23E**	**1.78E**	**1.14E**
Previous	0.34A	0.27A	0.30E	0.24E	1.16E	na
2012E	**0.35E**	**0.25E**	**0.32E**	**0.25E**	**1.18E**	**1.19E**
Previous	0.37E	0.33E	0.34E	0.27E	1.30E	na
2013E	**0.36E**	**0.26E**	**0.33E**	**0.26E**	**1.20E**	**1.28E**
Previous	0.38E	0.34E	0.35E	0.29E	1.36E	na

Source: Company Reports and dataCentral, CIR. FC Cons: First Call Consensus.

Company Focus

Cheniere Energy Inc (LNG)

Fully Contracted; Awaiting Final Regulatory Clearance

- Company Update

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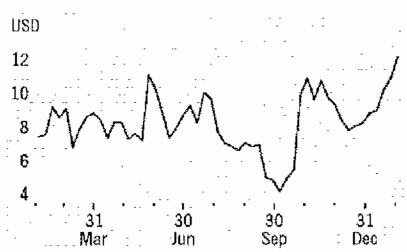
Buy/High Risk	**1H**
Price (02 Feb 12)	US$12.63
Target price	US$16.00
Expected share price return	26.7%
Expected dividend yield	0.0%
Expected total return	**26.7%**
Market Cap	US$1,523M

Price Performance
(RIC: LNG.A, BB: LNG US)



- **Capacity Sold Out** – Cheniere Energy closed out the sale of its final vacant train in January/12 to KOGAS. KOGAS has the title of largest LNG importer in the world and the main gas provider in Korea. Terms of the deal are in-line with those of train 4. LNG also announced the sale of another 2 mtpa to BG Group, raising their capacity to 5.5 mtpa following the completion of all four trains at Sabine Pass. The incremental volumes purchased will be the residual capacity available from each of the four trains. The total project could generate upwards of $2.7 BN in EBITDA at CQP by 2018.

- **Regulatory** – The FERC staff concluded the environmental assessment for the liquefaction plant on Dec 27/11 moving the final approval to the Commission for a final approval. We believe the FERC will issue a final construction permit by the end of March.

- **Funding** – Following the receipt of the final permit, we expect LNG to access the capital markets for $5 BN. There is a high probability the company will tap the markets before the end of Q1/12. Cheneire has engaged a long list of banks that will each provide a portion of the debt financing. The remaining equity piece will likely come from a consortium of private equity funds. The equity raise will likely come at CQP, given where the common units currently trade versus LNG common stock. The exact form of the equity is uncertain, but it will likely defer any cash payments until the second train comes on-line in 2016.

- **Recommendation** – We maintain our Buy rating and $16 target price. We believe the project has substantially been de-risked given the quality of the customer list Cheniere has signed up. Our valuation only considers phase 1 at this point. We will reassess our position once the construction commences on the first phase.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2010A	-0.64A	-0.79A	-0.74A	-1.51A	-3.69A	-2.81A
2011E	**-0.60A**	**-0.67A**	**-0.67A**	**-0.41E**	**-2.25E**	**-2.16E**
Previous	-0.60A	-0.67A	-0.67A	-0.41E	-2.25E	na
2012E	**-0.40E**	**-0.40E**	**-0.40E**	**-0.40E**	**-1.60E**	**-1.08E**
Previous	-0.40E	-0.40E	-0.40E	-0.40E	-1.60E	na
2013E	**na**	**na**	**na**	**na**	**-1.62E**	**-1.40E**
Previous	na	na	na	na	-1.62E	na

Source: Company Reports and dataCentral, CIR. FC Cons: First Call Consensus.

Company Focus

- Company Update
- Rating Change
- Target Price Change
- Estimate Change

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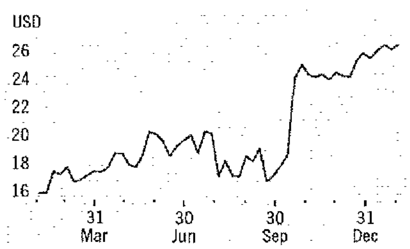
Neutral	2
from Buy	
Price (02 Feb 12)	US$27.02
Target price	US$29.00
from US$22.00	
Expected share price return	7.3%
Expected dividend yield	0.6%
Expected total return	**7.9%**
Market Cap	US$20,838M

Price Performance
(RIC: EP.N, BB: EP US)



El Paso Corp (EP)

Downgrading to Neutral on Valuation; Expect Deal to Close in Q2

- **Rating & Target** — We are downgrading EP to Neutral from Buy. Our target is now $29p/s, which is today's implied deal price, calculated as follows: *$14.65 cash per share + $13.60 stock component + $0.96 for the warrant = $29.20p/s.* We do not annualize our 10% total return through 6/30/2012 in our valuation (implied annualized return of ~25%) as this is not an all-cash deal and investors are exposed to KMI share price performance. The current arbitrage spread annualized return is ~10%, assuming a 20% funding cost for KMI and the $0.37p/s dividend.

- **Timeline to Deal close** — El Paso expects the deal to close some time in Q2'12. We assume 6/30/2012 as the closing date in our model. At this time, both company's board of directors have approved the deal (effective 10/16/11). FERC approval & Hart-Scott-Rodino are still pending. We expect both KMI & EP shareholders to vote on the deal in early March. It is our view that this transaction will close. However, as we have outlined in our initial KMI – EP merger note from 10/17/2011note El Paso & Kinder Morgan Merger: Initial Takeaways, the combined entity may be required to shed some assets (probably in the Rockies) to satisfy anti-trust provisions.

- **Q4'11** — Our estimate is $0.33p/s versus the Street at $0.28p/s. For 2012, our stand-alone EP estimate is $1.26/s vs. the Street at $1.22p/s.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2010A	0.31A	0.21A	0.19A	0.09A	0.96A	0.98A
2011E	**0.08A**	**0.25A**	**0.18A**	**0.33E**	**1.05E**	**1.03E**
Previous	0.08A	0.25A	0.20A	0.32E	1.07E	na
2012E	**0.34E**	**0.23E**	**0.26E**	**0.43E**	**1.26E**	**1.22E**
Previous	0.32E	0.22E	0.23E	0.37E	1.15E	na
2013E	**0.46E**	**0.34E**	**0.34E**	**0.48E**	**1.63E**	**1.50E**
Previous	0.40E	0.30E	0.30E	0.41E	1.40E	na

Source: Company Reports and dataCentral, CIR. FC Cons: First Call Consensus.

Company Focus

■ Company Update

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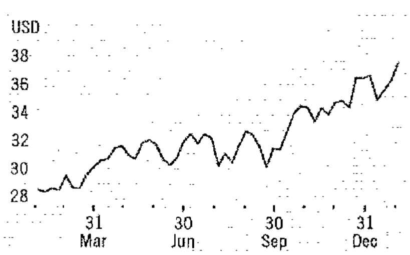
Neutral	**2**
Price (02 Feb 12)	US$38.07
Target price	US$36.00
Expected share price return	-5.4%
Expected dividend yield	3.0%
Expected total return	**-2.5%**
Market Cap	US$29,758M

Price Performance
(RIC: ENB.N, BB: ENB US)



Enbridge Inc. (ENB)

Maintain Neutral Rating; Growth Priced In

- **EPS** — We estimate Enbridge will earn $0.41p/s in Q4'11 vs. the Street at $0.39p/s. Our 2012 estimate is $1.64p/s, essentially in-line with consensus of $1.63p/s.
- **Liquids Pipelines** — We expect EBIT of $230mm up from $201mm in Q4'10. Our 2012 estimate is $1bn as a result of continued oil sands & Bakken volume growth.
- **Earnings & Cash Flow** — We estimate that ENB will grow earnings ~12% per annum through 2015, slightly above company guidance of 10%. Our estimate is based on growth capex of ~$9bn from 2012 - 2015. Our estimates could prove conservative if ENB were to secure additional projects beyond our assumptions. Enbridge has identified in excess of $20bn of potential additional growth projects over the next 5 -10 years. We estimate a ~$3bn funding gap in 2012 based on total capex of $5.3bn. We expect ENB to use the debt market as a primary source of funds as outlined at the company's analyst day in October. We do not think an equity issuance is likely.
- **Catalysts** — Enbridge is levered to Canadian oil sands production growth, which we peg at ~5% per annum through 2015. Our volume assumptions on ENB's Mainline pipeline system could be conservative if actual oil sands production were to exceed our forecasts. In such a scenario, additional growth projects would likely also push to the fore. We estimate that TransCanada's Keystone XL pipeline (which we assume will be built - eventually) could pull 150- 250Kbbls/d off the ENB system. If Keystone XL were to be delayed further, legacy volumes would continue to add to the earnings mix.
- **Valuation** — We use four equally weighted methodologies to derive our $36 Target Price. We value shares of ENB at $36 p/s on an NAV basis, $37 based on a DCF model, $36p/s on an EV / EBITDA basis & $36p/s on a long-term P/E multiple.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2010A	0.46A	0.18A	0.21A	0.44A	1.29A	1.33A
2011E	**0.44A**	**0.24A**	**0.31A**	**0.41E**	**1.41E**	**1.48E**
Previous	0.44A	0.24A	0.31A	0.41E	1.41E	na
2012E	**0.49E**	**0.37E**	**0.33E**	**0.46E**	**1.64E**	**1.63E**
Previous	0.49E	0.37E	0.33E	0.46E	1.64E	na
2013E	**0.59E**	**0.41E**	**0.39E**	**0.50E**	**1.89E**	**1.89E**
Previous	0.59E	0.41E	0.39E	0.50E	1.89E	na

Source: Company Reports and dataCentral, CIR. FC Cons: First Call Consensus.

Company Focus

Integrys Energy Group, Inc. (TEG)
Stock Trading at Low-end of Range

- Company Update
- Target Price Change
- Estimate Change

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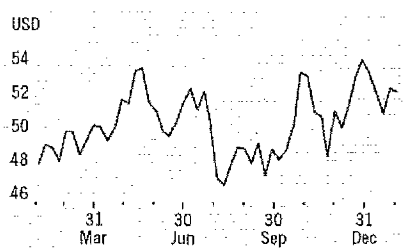
Neutral	**2**
Price (02 Feb 12)	US$52.49
Target price	US$56.00
from US$51.00	
Expected share price return	6.7%
Expected dividend yield	5.2%
Expected total return	**11.9%**
Market Cap	US$4,109M

Price Performance
(RIC: TEG.N, BB: TEG US)



- **4Q/11 EPS** – We estimate 4Q EPS of $1.02 per share. Weather during the quarter was ~15% warmer over last year within TEG's service region. Consensus is currently at $0.97. Energy Services could surprise to the upside.

- **Gas Utility** – Our estimate for Q4/11 operating earnings is $86 mm, up 10% over the same period last year on expectations of better gross margins. The impact of weather should not be material given the company has weather stabilization mechanisms in place for the majority of its jurisdictions. On Jan 10/12, Peoples' Gas and North Shore were granted rate increases by the ICC for $58 mm (9.45% ROE, 49% Equity, $1.36 BN rate base), and $2 mm (9.45% ROE, 50% Equity, $188 mm rate base). The commission also authorized both utilities permanent use of a volume balancing adjustment rider, which essentially acts as decoupling mechanism. The rider impacts the cost for delivering gas rather than charges associated with gas usage. Our model reflects these rate increases beginning in 2012.

- **Electric Utility** – 4Q/11 EBIT is estimated to be $48 mm. We are adjusting our expense assumptions on the quarter for seasonality and recent performance. We don't anticipate any material upside surprises. During the quarter, UPP Co. was granted a 4% increase in electric rates starting in 2012.

- **Energy Services** – Our estimate 4Q EBIT of $11 mm, 22% higher than last year. Earnings momentum continues to look favorable within the segment and has surprised to the upside in 2011 compared to our expectations.

- **Target Price & Rating** – We are raising our target price to $56 per share based on our revised assumptions for risk free rates and risk premium, in addition to our valuation methodology. We maintain our Neutral rating but acknowledge that the stock is modestly undervalued against its peers. Our 2012 estimate is 8% above the Street and the stock is currently trading at 13.6x our 2012 estimate. Earnings growth within the Energy Services division appears to have stabilized after several quarters of uncertainty related to the legacy non-regulated business. If management can continue to grow earnings at the pace of the last couple quarters, that could result in an increase in core earnings power of the firm and warrant additional upside.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2010A	1.49A	0.24A	0.08A	0.84A	2.64A	3.13A
2011E	**1.57A**	**0.36A**	**0.50A**	**1.02E**	**3.44E**	**3.34E**
Previous	1.57A	0.36A	0.22E	1.13E	3.27E	na
2012E	**1.85E**	**0.55E**	**0.20E**	**1.26E**	**3.85E**	**3.55E**
Previous	1.84E	0.52E	0.24E	1.25E	3.86E	na
2013E	**na**	**na**	**na**	**na**	**4.02E**	**3.64E**
Previous	na	na	na	na	3.95E	na

Source: Company Reports and dataCentral, CIR. FC Cons: First Call Consensus.

Company Focus

- Company Update
- Rating Change
- Target Price Change
- Estimate Change

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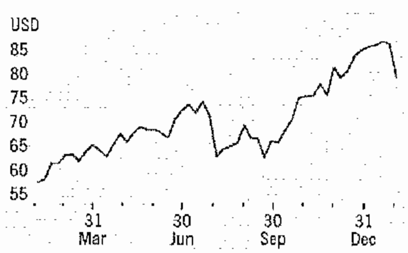
Neutral	**2**
from Buy	
Price (02 Feb 12)	US$80.90
Target price	US$86.00
from US$75.00	
Expected share price return	6.3%
Expected dividend yield	3.0%
Expected total return	**9.3%**
Market Cap	US$8,332M

Price Performance
(RIC: OKE.N, BB: OKE US)



Oneok Inc (OKE)

Downgrading to Neutral on Valuation

- **Target Price and Rating** – We are downgrading shares of OKE to Neutral from Buy on Valuation. Our target price is $86, up from $75 previously as a result of updated operating assumptions at OKS (in-line with our MLP Team estimates). While we do not argue with the solid free cash flow profile (~200mm total through 2015, post buyback) and the company's exposure to the secular midstream growth story, we believe that this is fully discounted in the shares at current levels. We use four equally weighted target price inputs to derive our $86 target. We value OKE at $91p/s on an NAV basis, $93 on a DCF basis, $78 on long-term P/E & $84 on an EV/EBITDA basis.

- **EPS** – Our estimate for the quarter is $1.07 per share, above consensus of $1.02. We have lowered our estimates for the distribution business to account for warmer than normal temperatures (down ~15%), however, we now model stronger contribution from OKS, driven by NGL optimization margins. Our FY 2012 EPS is $3.81 vs. the Street at $3.71. We assume $100 oil, $3.25 gas & an average NGL price of $1.27 in 2012.

- **Distribution** – We estimate 4Q EBIT of $52mm vs. $61mm in Q4'10. We have lowered our number to adjust for lower retail marketing margins (previously at Energy Services). Our 2012 EBIT estimate is $225mm.

- **Energy Marketing** – We estimate EBIT for 4Q will be $3.2mm versus $20mm a year ago as a result of lower volumes & margins. Our 2012 EBIT estimate is $40mm. OKE continues to reduce the physical size of this business by paring down storage commitments.

- **OKS** – We estimate 4Q EBIT of $328mm, in-line with our MLP Team of ~$325mm, and ~$150mm reported in Q4'10. Continued strength at OKS is mostly driven by the NGL segment, where we expect EBIT to have tripled to $240mm in Q4'11 from $80mm in Q4'10. While our NGL Gathering & Transportation contribution and also fractionation is roughly flat y/y (~$25mm & $108mm), the main driver remains OKS' optimization business, where we expect an increase in revenues to ~$175mm from $20mm in Q4'10. This is largely driven by an increase of Conway – Ethane Belvieu differentials that averaged ~$0.50/gal in Q4'11 vs. $0.08/gal in Q4'10, implying an uptick in margin to $5.04/bbl from $0.50/bbl y/y.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2010A	1.44A	0.39A	0.42A	0.74A	2.99A	3.10A
2011E	**1.19A**	**0.51A**	**0.57A**	**1.07E**	**3.35E**	**3.30E**
Previous	1.19A	0.51A	0.54E	0.84E	3.08E	na
2012E	**1.50E**	**0.69E**	**0.64E**	**0.98E**	**3.81E**	**3.71E**
Previous	1.43E	0.61E	0.67E	1.02E	3.73E	na
2013E	**1.56E**	**0.82E**	**0.90E**	**1.24E**	**4.53E**	**4.20E**
Previous	1.49E	0.71E	0.77E	1.11E	4.07E	na

Source: Company Reports and dataCentral, CIR. FC Cons: First Call Consensus.

Company Focus

■ Company Update

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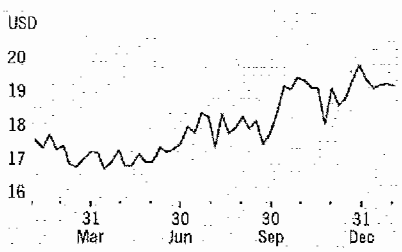
Buy	1
Price (02 Feb 12)	US$19.41
Target price	US$20.50
Expected share price return	5.6%
Expected dividend yield	3.1%
Expected total return	**8.8%**
Market Cap	US$3,451M

Price Performance
(RIC: STR.N, BB: STR US)



Questar Corp (STR)

Maintain Buy; Solid FCF; Wexpro II is "Free" Option

- **EPS** — We estimate that STR will earn $0.31 in Q4'11 versus consensus of $0.33p/s. STR's utility is decoupled and has weather normalization covenants in place, protecting volumes against the warmer weather (15 – 20% on average). Our 2012 & 2013 estimates are $1.21p/s & $1.32p/s vs. consensus of $1.15p/s & $1.28p/s respectively.
- **Wexpro** — We expect Q4'11 EBIT of $28.3mm and a rate base of $446mm. We assume an after-tax rate of return of ~20%. For 2012, our capex estimate is $120mm and an average after-tax rate of return of 20%. We estimate EBIT of $125mm in 2012.
- **Questar Gas** — We expect Q4'11 EBIT of $32mm. STR's utility, for the most part, is not affected by weather due to weather normalization. Our 2012 EBIT estimate is $92mm, which we expect to grow ~13% annually through 2014 as a result of rate base growth (feeder line replacement program).
- **Questar Pipeline** — We estimate Q4'11 EBIT of $38mm. Our 2012 estimate is $150mm. Skull Creek, ML40, ML104 & Fidlar are adding to the y/y uptick.
- **Wexpro II** — In our opinion, the Wexpro addendum could manifest itself via 3 potential scenarios: 1) STR enters into a long-term agreement with a power provider (i.e. Rocky Mountain Power); 2) STR enters into a "Wexpro" like agreement with another utility or municipality (most likely in surrounding states); or 3) STR purchases PUD's (proved undeveloped reserves) under a cost-of-service-gas contract for Questar Gas.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2010A	0.41A	0.20A	0.16A	0.35A	1.12A	1.45A
2011E	**0.39A**	**0.22A**	**0.18E**	**0.31E**	**1.11E**	**1.15E**
Previous	0.39A	0.22A	0.18E	0.31E	1.11E	na
2012E	**0.43E**	**0.25E**	**0.20E**	**0.34E**	**1.21E**	**1.20E**
Previous	0.43E	0.25E	0.20E	0.34E	1.21E	na
2013E	**0.49E**	**0.28E**	**0.19E**	**0.37E**	**1.32E**	**1.28E**
Previous	0.49E	0.28E	0.19E	0.37E	1.32E	na

Source: Company Reports and dataCentral, CIR. FC Cons: First Call Consensus.

Company Focus

■ Company Update

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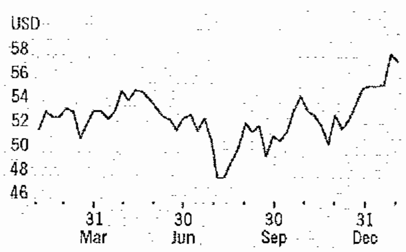
Buy	**1**
Price (02 Feb 12)	US$57.61
Target price	US$60.00
Expected share price return	4.1%
Expected dividend yield	2.7%
Expected total return	**6.9%**
Market Cap	US$13,816M

Price Performance
(RIC: SRE.N, BB: SRE US)



Sempra Energy (SRE)

Awaiting GRC Decision; Setting up for Cost of Capital Hearings

- **EPS** – Our 4Q/11 EPS is $1.06 per share. Our estimates include the preannouncement related to the Wildfire insurance claim. Weather was colder than average, as HDD's were nearly 30% higher year-over-year in 4Q, however, we don't expect material impact on earnings given stabilization programs currently in place at the utilities. We could get upside to our estimates if additional LNG cargoes were turned away.

- **General Rate Cases** – Investors should expect an update on the status of the GRC. We think the chances of a settlement are limited at this point in the process. We think a final decision will be handed down by the CPUC towards the end of Q1/12.

- **Cost of Capital Rate Case** – We expect an update on the earnings call regarding the cost of capital proceedings that will begin in Q2/12. Investors should look for color regarding the anticipated impact of lower interest rates could have on the cost of capital and the rates of return which will likely be lower than the last cycle.

- **Renewables** – During the quarter, SRE announced details on further expansion into the renewable space. See our note: *Sempra Energy (SRE) - Expanding Wind Portfolio JV; Updating Earning Estimates* for further details.

- **Acquisition** – SRE expanded its foot print within the Southeast. The US Gas & Power division acquired a privately held natural gas utility in Alabama with 20,000 existing customers. Regulatory approval is still pending. SRE owns Mobile Gas, an LDC that serves 90k customers in Alabama with several storage and pipeline assets in MI, LA, AL.

- **Cameron LNG** – Sempra is awaiting approval from the Dept. of Energy for a license to export nearly 2 Bcf/d of natural gas to non-free trade agreement countries. An application to the FERC is also in the pipeline. SRE has authorization to import 1.8 Bcf/d.

- **Target Price and Rating** – We maintain our Buy rating and our target price remains unchanged at $60 per share.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2010A	0.84A	1.02A	1.06A	1.22A	4.13A	3.61A
2011E	**1.06A**	**2.11A**	**1.22A**	**1.06E**	**4.41E**	**4.31E**
Previous	1.06A	2.11A	1.22A	1.06E	4.41E	na
2012E	**1.66E**	**0.92E**	**0.96E**	**1.20E**	**4.75E**	**4.49E**
Previous	1.66E	0.92E	0.96E	1.20E	4.75E	na
2013E	**na**	**na**	**na**	**na**	**5.18E**	**4.86E**
Previous	na	na	na	na	5.18E	na

Source: Company Reports and dataCentral, CIR. FC Cons: First Call Consensus.

Company Focus

Southern Union Co (SUG)

Downgrading SUG on Valuation; Expect ETE deal to close.

- Company Update
- Rating Change
- Target Price Change
- Estimate Change

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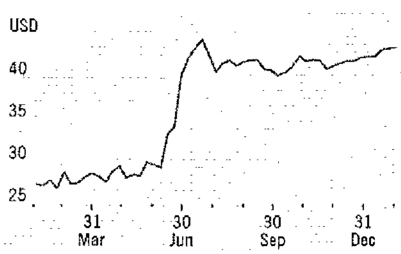
Neutral	**2**
from Buy/Medium Risk	
Price (02 Feb 12)	US$43.45
Target price	US$43.50
from US$38.00	
Expected share price return	0.1%
Expected dividend yield	1.4%
Expected total return	**1.5%**
Market Cap	US$5,420M

Price Performance
(RIC: SUG.N, BB: SUG US)



- **Update** — Following a hiatus, in which we were unable to publish on this name, we are introducing our recommendation of Neutral on SUG, from Buy previously. See "Guide to Citi Investment Research Analysis (CIRA) Fundamental Research Investment Ratings" in the Important Disclosures section of Appendix A1 for a description of our rating system. CIRA's investment ratings are Buy, Neutral, and Sell. Our ratings are a function of analyst expectations of expected total return ("ETR") and risk. Risk ratings take into account price volatility and fundamental criteria. Stocks will either have no risk rating or a High risk rating assigned

- **Rating & Target** — We are downgrading shares of SUG to Neutral from Buy. Our target price of $43.50 (up from $39p/s previously) is based on the implied take-out value ETE has agreed to pay for each share of SUG. We derive our match as follows: *$44.25 Cash component x 60% weighing + $42.75 ETE closing price on 1/30/2012 x 40% weighing = $43.50p/s.*

- **Deal Milestones** — Since the deal announcement on 6/16/2011 the transaction has cleared required anti-trust provisions (HSR, effective 07/28/2011) and received approval from the FCC (effective 09/08/11), FERC (effective 10/06/11) and SUG shareholders (12/09/11). We expect this transaction to close on or around 3/31/2012.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2010A	0.45A	0.55A	0.29A	0.45A	1.86A	1.79A
2011E	**0.54A**	**0.47A**	**0.46A**	**0.49E**	**1.93E**	**1.89E**
Previous	0.54A	0.30E	0.39E	0.46E	1.67E	na
2012E	**0.40E**	**0.41E**	**0.43E**	**0.52E**	**1.76E**	**2.08E**
Previous	0.46E	0.48E	0.48E	0.56E	1.99E	na
2013E	**0.48E**	**0.50E**	**0.47E**	**0.55E**	**2.00E**	**2.30E**
Previous	0.49E	0.51E	0.47E	0.55E	2.03E	na

Source: Company Reports and dataCentral, CIR. FC Cons: First Call Consensus.

Company Focus

- Company Update
- Target Price Change
- Estimate Change

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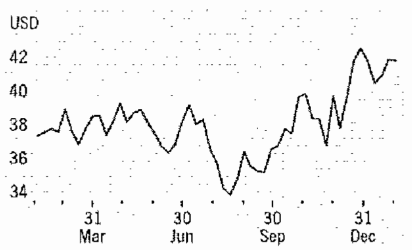
Buy	**1**
Price (02 Feb 12)	US$42.26
Target price *from US$45.00*	US$47.00
Expected share price return	11.2%
Expected dividend yield	2.4%
Expected total return	**13.6%**
Market Cap	US$1,940M

Price Performance
(RIC: SWX.N, BB: SWX US)



Southwest Gas Corp (SWX)

Above Consensus on Earnings; Anticipating Dividend Increase

- **4Q/11 Earnings** – We are raising our 4Q EPS from $0.97 to $1.05 on colder than normal temperatures during the quarter. We estimate HDD were 30% higher than last year within SWX's service territory. Our valuation takes into account the recent rate case (Dec/11) announced in AZ.
- **LDC** - We expect 4Q EBIT of $84 mm, marginally higher over Q4/10. The most significant development during the quarter was the settlement in the AZ rate case. The ACC granted a $53 mm rate increase and full revenue decoupling, however, the settlement also requires an extended moratorium before SWX can file its next rate case which could occur towards the middle part of the decade.
- **Construction Services** – Our estimate for 4Q EBIT is $11 mm, an increase of 10% over the same period last year. We anticipate demand for pipeline replacement services should remain healthy for the next several quarters, however, our numbers are conservative and have room for upside. We could see an additional $0.02 upside from our estimates if operating earnings come in at levels as they did in Q3/11.
- **Dividend Increase** – We expect management to eventually increase the dividend to a more competitive rate. The current payout ratio is in the low 40% range. We believe management will aim to bring this more in-line with its peers. An increase to the dividend of 30% from current levels would raise the payout ratio to the 45% range.
- **Target Price and Rating** – We are raising our target price to $47 per share. We maintain our Buy rating on valuation, continued strength in the core Utility segment and a potential pick-up in business in the pipeline construction business.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2010A	1.41A	-0.02A	-0.11A	0.97A	2.24A	2.27A
2011E	**1.48A**	**0.09A**	**-0.34A**	**1.05E**	**2.28E**	**2.23E**
Previous	1.48A	0.09A	-0.18E	0.97E	2.35E	na
2012E	**1.67E**	**0.06E**	**0.07E**	**1.26E**	**3.05E**	**2.56E**
Previous	1.68E	0.16E	-0.07E	1.17E	2.95E	na
2013E	**na**	**na**	**na**	**na**	**3.12E**	**2.64E**
Previous	na	na	na	na	3.02E	na

Source: Company Reports and dataCentral, CIR. FC Cons: First Call Consensus.

Company Focus

Spectra Energy Corp (SE)

Good Project Line-up; Premium Assets; Fairly Valued; 4Q Miss

- Company Update
- Target Price Change
- Estimate Change

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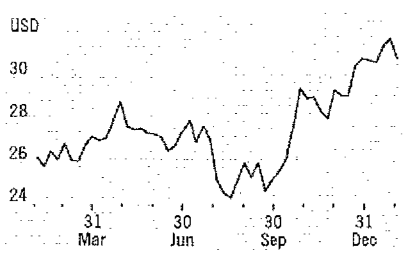
Neutral	**2**
Price (02 Feb 12)	US$30.87
Target price	US$32.00
from US$26.00	
Expected share price return	3.7%
Expected dividend yield	3.6%
Expected total return	**7.2%**
Market Cap	US$20,076M

Price Performance
(RIC: SE.N, BB: SE US)



- **EPS** – SE reported Q4 earnings per share of $0.44, in-line with our estimates and below consensus of $0.48. Overall, EBIT was $287 mm. W. Canada and Field Services were the largest deltas to our estimates, primarily on weaker NGL prices. SE's guidance for 2012 is $1.90 per share, slightly higher than our estimate of $1.88.
- **Gas Transmission** – 4Q'11 EBIT was $226 mm, slightly below our estimate of $229 mm on higher O&M costs (5% Y-o-Y). Throughput volumes were 2% higher over the same period last year.
- **Gas Distribution** – 4Q'11 EBIT was $120 mm, slightly higher than our $118 mm estimate. Operating margins were slightly lower. The warmer weather had a dramatic impact on heating degree days and pipeline volumes. HDD's and volumes were both 11% lower over last year. Customer count was up a fraction.
- **W. Canada** – Growth continued to ramp-up as EBIT was $137 mm, higher than our estimate of $108 mm as throughput and volumes processed continued to edge higher over last year on the continued development of the Horn River. Operating margins were up 9% Y-o-Y as SE continues to benefit from favorable contract pricing in the region.
- **DCP Midstream** – DCP reported EBIT of $96 mm, lower than our estimate of $129 mm. The miss is attributable to NGL production curtailments in the Permian Basin. Liquids production was up 6% over last year, while falling natural gas prices had somewhat of an impact on results.
- **Target Price and Rating** – We maintain our Neutral rating and are raising our target price to $32 on revised earnings guidance and macro assumptions in our valuation model, namely a lower risk free rate and updated market risk premium. Our FY 2012 EPS is $1.88 per share.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2010A	0.49A	0.27A	0.31A	0.50A	1.57A	1.57A
2011E	**0.53A**	**0.42A**	**0.37A**	**0.44E**	**1.76E**	**1.77E**
Previous	0.53A	0.42A	0.41E	0.44E	1.80E	na
2012E	**0.57E**	**0.50E**	**0.28E**	**0.53E**	**1.88E**	**1.87E**
Previous	0.48E	0.34E	0.38E	0.45E	1.64E	na
2013E	**0.62E**	**0.53E**	**0.30E**	**0.58E**	**2.02E**	**2.00E**
Previous	0.52E	0.40E	0.43E	0.52E	1.87E	na

Source: Company Reports and dataCentral, CIR. FC Cons: First Call Consensus.

Company Focus

TransCanada Corp (TRP.TO)

W. Power Strong on Outage; Keystone XL Pushed out to 2014

- Company Update
- Target Price Change
- Estimate Change

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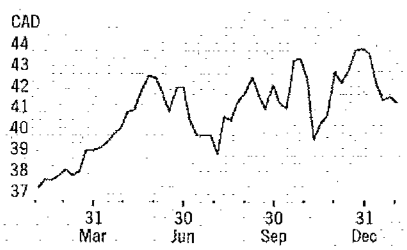
Neutral	**2**
Price (02 Feb 12)	C$41.58
Target price	C$42.00
from C$40.00	
Expected share price return	1.0%
Expected dividend yield	3.8%
Expected total return	**4.9%**
Market Cap	C$29,239M
	US$29,261M

Price Performance
(RIC: TRP.TO, BB: TRP CN)



- **EPS** – Our estimate for the quarter is $0.43 per share, below consensus of $0.55. We expect continued weakness in US power which could be partially offset by stronger results in W. Power, on a spike in prices in the middle of the quarter due to an unplanned outage in AB. Our FY 2012 EPS is $2.06. We are shifting earnings from Keystone XL one year out to 2014. Our view remains that the pipeline will not gain regulatory approval untill the US election is concluded at the end of 2012.

- **Pipeline** – We estimate 4Q EBIT of $505 mm. An application for interim tolls for 2012 on the Mainline and Alberta System were filed during Q4/11 with the NEB. An interim toll is currently in place. The application for Nova System to Dawn has a toll of $1.29 per gigajoule, down more than 30% from tolls in 2011. We expect the influx of Marcellus and Utica shale to put pressure on the Mainline. The NEB will hear TRP's application in June/12. A decision on the rate case could be handed down in early 2013.

- **Power** – We estimate operating income for 4Q will be $230 mm, marginally higher on stronger Y/Y Alberta power prices which rose on an unplanned outage in November. Capacity prices in the NYISO remain tepid. Capacity market prices in NY Zone J appear to have bounced of their lows following the legal case between TRP and the NY regulators. We don't expect material upside in capacity prices until these issues are resolved. During the quarter, TRP announced a deal to acquire long-term contracted solar assets in Ontario, which will come online by 2013. Our valuation doesn't reflect the earnings potential from these projects. We anticipate the Bruce Power A units to come back online in early 2012 and include it in our earning estimates.

- **Keystone** – We estimate 4Q EBIT of $92 mm. Despite various initiatives being discussed by legislators, we view Keystone XL's future delayed to at least 2014. We think options to export crude from the Oil Sands are being considered but not likely to come to fruition until the political environment in the US gains clarity.

- **Target Price and Rating** – We raising our target price to $42 from $40 on our revised interest rate and market risk premium assumptions.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2010A	0.48A	0.40A	0.53A	0.39A	1.80A	1.96A
2011E	**0.62A**	**0.50A**	**0.54A**	**0.43E**	**2.09E**	**2.27E**
Previous	0.62A	0.50A	0.59E	0.50E	2.22E	na
2012E	**0.52E**	**0.54E**	**0.74E**	**0.59E**	**2.39E**	**2.44E**
Previous	0.54E	0.57E	0.73E	0.59E	2.44E	na
2013E	**0.59E**	**0.62E**	**0.75E**	**0.61E**	**2.56E**	**2.67E**
Previous	0.68E	0.72E	0.85E	0.74E	2.99E	na

Source: Company Reports and dataCentral, CIR. FC Cons: First Call Consensus.

Company Focus

- Company Update
- Target Price Change
- Estimate Change

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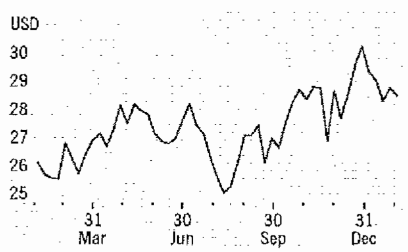
Neutral	**2**
Price (02 Feb 12)	US$28.80
Target price	US$28.00
from US$26.00	
Expected share price return	-2.8%
Expected dividend yield	4.9%
Expected total return	**2.1%**
Market Cap	US$2,357M

Price Performance
(RIC: VVC.N, BB: VVC US)



Vectren Corp (VVC)

Earnings Ahead of Consensus; Coal Stable, Flat Utilities

- **4Q EPS** – Our estimate for the quarter is being revised lower to $0.62 from $0.66 per share on results from the most recent quarter and adjusted outlook for VVC's segments. Consensus is $0.56 per share. Our FY 2012 estimate is $1.87 per share. Weather in VVC's territory was 15% warmer than last year. However, we expect weather stabilization mechanisms will neutralize the impact on earnings.

- **Gas Utility** – We estimate operating income for the quarter of $48 mm, marginally higher over the same time last year. Weather could have a marginal impact on earnings but we don't believe it to be material.

- **Electric Utility** - We expect operating earnings in 4Q of $33 mm. Our estimates assume a slight improvement in gross margins over last year. No material regulatory events are expected in the next few quarters at VVC's utilities.

- **Non-Utility** – We estimate EBIT of $23 mm. During the quarter, Vectren exited the retail natural gas business, selling their unit for $39 mm in cash and working capital. The unit served nearly 300k customers in OH, IN, and NY.

- **Coal** – We estimate gross margins per ton of $8, implying EBIT of $10 mm. Physical coal prices edged up slightly during the quarter. Our estimates don't assume a material change in operating expenses.

- **Target Price and Rating –** We are raising our target price to $28 per share in-line with our new macro assumptions outlined in our note.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2010A	0.78A	0.11A	0.20A	0.56A	1.64A	1.64A
2011E	**0.55A**	**0.18A**	**0.43A**	**0.62E**	**1.79E**	**1.71E**
Previous	0.55A	0.18A	0.25E	0.62E	1.60E	na
2012E	**0.72E**	**0.15E**	**0.33E**	**0.67E**	**1.87E**	**1.87E**
Previous	0.71E	0.14E	0.32E	0.67E	1.84E	na
2013E	**0.74E**	**0.15E**	**0.33E**	**0.69E**	**1.92E**	**1.98E**
Previous	0.73E	0.15E	0.32E	0.68E	1.89E	na

Source: Company Reports and dataCentral, CIR. FC Cons: First Call Consensus.

Company Focus

The Williams Companies Inc (WMB)

Visible Growth & Cash Flow Generation; Buy

- Company Update
- Rating Change
- Target Price Change
- Estimate Change

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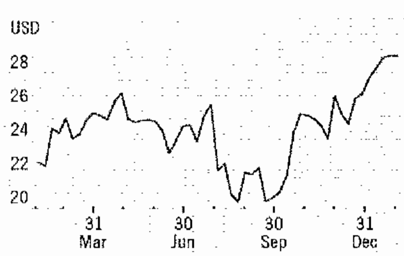
Buy	1
from Buy/Medium Risk	
Price (02 Feb 12)	US$28.84
Target price	US$32.50
from US$31.03	
Expected share price return	12.7%
Expected dividend yield	3.8%
Expected total return	**16.5%**
Market Cap	US$16,999M

Price Performance
(RIC: WMB.N, BB: WMB US)



- **Finally Back** — Following a hiatus, in which we were unable to publish on this name, we are introducing our recommendation of Buy on WMB (Buy previously). See "Guide to Citi Investment Research Analysis (CIRA) Fundamental Research Investment Ratings" in the Important Disclosures section of Appendix A1 for a description of our rating system. CIRA's investment ratings are Buy, Neutral, and Sell. Our ratings are a function of analyst expectations of expected total return ("ETR") and risk. Risk ratings take into account price volatility and fundamental criteria. Stocks will either have no risk rating or a High risk rating assigned.

- **EPS** — We estimate that WMB will earn $0.38/s in Q4'11 versus consensus of $0.42. Our FY 2012 EPS is $1.64 vs. the Street at $1.47. We assume $100 oil, $3.25 gas & an average NGL price of $1.27 in 2012.

- **Canadian Midstream & Olefins** — We calculate Q4'11 EBIT of $48mm vs. $54mm in Q4'10 and $73mm in Q3'11. We estimate that ethylene margins at Geismar were down ~38% sequentially to ~$0.13/lb, in-line with our official CIRA chemicals team forecast, while Propylene margins in Canada declined ~32% sequentially. We model flat volumes vs. Q3 of 270mm lbs at Geismar and 38mm lbs in Canada. Our 2012 EBIT estimate is ~$314mm, in-line with the midpoint guidance range of $275- 350mm. We estimate a 3Q'12 start-up for Boreal.

- **WPZ** — We estimate that WPZ will generate ~$445mm of EBIT in Q4'11. At Midstream, our estimate is $289mm, up from $260mm in Q4'10 and down from $301mm in Q3'11 due to lower sequential G&P revenues. Our 2012 EBIT estimate is $1.4bn, in-line vs. company guidance of $1.1- 1.5bn. At the Gas Pipeline, our Q4'11 estimate is $186mm vs $160mm in Q4'10 as a result of growth projects. Our 2012 estimate of $730mm is slightly more optimistic than guidance of $680 - $720mm.

- **Cash Flow & Yield** — We now assume that WMB will pay out a 2012 dividend of $1.10p/s, up 50% from 2011 levels. We estimate that the dividend will grow an additional 15% to $1.26p/s in 2013 (guidance is 10-15% growth y/y), making WMB a compelling yield play with an implied 2012 & '13 yield of 3.8% & 4.4%, respectively. We estimate an average payout ratio of 67% in '12 & 65% in '13. Overall we estimate that WMB will grow the dividend ~13% through 2015, with room to accelerate. Our FCF assumption from 2013- 2015 is an average ~$250 per year.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2010A	0.99A	0.29A	0.23A	0.32A	1.21A	1.28A
2011E	**0.36A**	**0.39A**	**0.40A**	**0.38E**	**1.52E**	**1.56E**
Previous	0.33E	0.28E	0.29E	0.34E	1.23E	na
2012E	**0.37E**	**0.39E**	**0.43E**	**0.45E**	**1.64E**	**1.47E**
Previous	0.44E	0.43E	0.52E	0.59E	1.97E	na
2013E	**0.48E**	**0.46E**	**0.47E**	**0.49E**	**1.91E**	**1.60E**
Previous	0.65E	0.60E	0.62E	0.67E	2.54E	na

Source: Company Reports and dataCentral, CIR. FC Cons: First Call Consensus.

AGL Resources Inc

Company description

AGL Resources (AGL) is a natural gas distribution company serving over 2.3 million customers in six eastern U.S. states through its regulated gas delivery businesses. AGL also operates three subsidiaries, Sequent Energy Management, Southstar Energy Services and Pivotal Energy Development, which provide merchant energy services, retail energy supply and storage capacity.

Investment strategy

We rate the shares of AGL (AGL) Neutral (2). AGL has created shareholder value through a focus on operational efficiency at its legacy operations and by capital discipline through investments in under-managed assets. AGL will be able to grow earnings through a combination of rate relief and capital growth at its utilities and construction of storage fields at its Energy Services segment. Earnings at the wholesale gas business could be volatile as margins are highly dependent on seasonal price differentials and basis spreads, however this is now a relatively small part of earnings.

On December 7, 2010, AGL announced the acquisition of Nicor for $3.1 billion. While the deal appears expensive, we believe the deal can be a accretive through a combination of balance sheet optimization and synergies at the wholesale business.

Valuation

We apply four valuation methods to derive a $43 target. Our NAV yields a value of $45. We value regulated assets at a multiple of rate base (1.5x for utilities, 1.5x for pipelines/storage). We value the Energy Investments unit, which includes storage assets and a propane facility at 8x 2011 EBITDA (in-line with the pipeline/storage multiple), given the stable cash flows. AGL's wholesale and retail segments at slightly lower multiples, considering their less stable earnings and cash flow profiles. These segments are valued at 6x and 7.5x 2011 EBITDA, in-line with midstream and marketing multiples. These values are partially offset by AGL's net debt.Atlanta Gas Light includes regulatory assets associated with the pipeline replacement program, which we treat as rate base as the program's costs earns a return on capital invested. Environmental Recovery Costs are not included in rate base, as no return is associated with this program.Our DDM values the company at $49. We calculate a hypothetical dividend, based on AGL's regulated capital growth, authorized returns and cost of equity to arrive at our DDM valuation.Our P/E and EV/EBITDA multiples are based on our proprietary analyses, which utilizes current ERPs, current betas and projected risk-free yields. For our P/E analysis, we use multiples of 14.5x for the company's regulated and retail marketing assets and 10.0x for the wholesale assets. For our EV/EBITDA analysis, we use multiples of 7.5x for the company's regulated and retail marketing assets and 6.5x for the wholesale business. Our P/E and EV/EBITDA analyses (2013 earnings) yield values of $46 and $34.

Risks

The key risks to our thesis on AGL are (1) Regulatory: AGL has a constructive relationship with its regulators in Georgia, Virginia and New Jersey. We believe these states have generally been constructive when it comes to rate setting for gas utilities. (2) Market and Counterparty Risk: AGL's wholesale segment is exposed to counterparty risk since it deals with over 270 counterparties and re-contracting risk related to its asset management activities and adverse movements in commodity prices. However, as earnings from the utilities have grown over time, Wholesale is now only 4% of the business. (3) Customer growth: An unexpected increase or decrease in population could affect earnings and cash flows (favorably or unfavorably). (4) Capital Markets: AGL is a relatively small utility in terms of market cap and trading volumes, impacting AGL's ability to access capital markets while this type of liquidity may make it difficult for institutional. We believe the recent announced merger with Nicor will alleviate some of this risk. (5) Integration risk: AGL has a history of M&A. The integration of the Nicor (GAS) deal could face challenges given AGL's entrance into a new regional territory and scrutiny from regulators in arriving at cost cuts to generate value from the deal.

If the impact on the company from any of these factors proves to be less or more than we anticipate, the stock could materially outperform or underperform our target.

Atmos Energy Corp

Company description

Atmos Energy is an integrated natural gas company headquartered in Texas. The company distributes natural gas to over 3 million customers in 12 states, operates pipeline systems and storage facilities and provides natural gas marketing services through its subsidiary Atmos Energy Marketing.

We estimate ATO will grow utility rate base by over 4% annually over the next five years. 94% of utility margins are weather normalized. Furthermore, 86% of rates are adjusted annually (without the need for rate cases) or are decoupling from demand. Only Colorado, Illinois and Iowa (~5% of rate base) do not have mechanisms in place for either decoupling or weather normalization

Investment strategy

We rate Atmos Energy (ATO) Neutral (2). Our Neutral rating on ATO is premised on the company's limited growth profile and lack of near-term catalysts. Atmos generates stable earnings from a mostly regulated utility asset base with low single-digit EPS growth and a stable dividend over the next five years.

We expect ATO will continue to grow earnings by investing in its regulated asset base, which we estimate will grow by 4% annually over the next five years. 86% of rates are adjusted annually without the need to enter costly and risky rate cases.

Valuation

We average multiple valuation methodologies to derive our $35 target.

Our NAV yields a value of $31. We value regulated assets at a multiple of rate base (1.5x for utilities). We value the pipeline assets at 8x '11 EBITDA and the marketing business at 5x '10 EBITDA. These values are partially offset by the company's net debt.

Our DDM values the company at $38. We calculate a hypothetical dividend, based on ATO's regulated capital growth, authorized returns and cost of equity to arrive at our DDM valuation.

Our P/E and EV/EBITDA multiples are based on our proprietary analyses, which utilizes current ERPs, current betas and projected risk-free yields. For our P/E analysis, we use multiples of 14.5X, 14.5x and 10.0x for the company's utility, pipeline/storage and marketing assets. For our EV/EBITDA analysis, we use multiples of 7.5x, 8.0x and 6.5x for the company's utility, pipeline/storage and marketing assets. Our P/E and EV/EBITDA analyses (2013 earnings) yield values of $35 and $36.

Risks

The key risks to our investment thesis on AGL are (1) Capital Investment Recovery – ATO, relying on future rates, spends capital to maintain and expand pipeline and utility systems. A politicized commission could delay or put at risk this recovery. (2) Customer Growth – An unexpected increase or decrease in population could affect earnings substantially, either favorably or unfavorably.(3) Capital Markets – ATO is a relatively small utility in terms of market cap and trading volumes, impacting ATO's ability to access capital markets while this type of liquidity may make it difficult for institutional investors to trade in and out of the stock. (4) ATO operates a gas marketing business. Our research shows that ATO hedges their physical delivery of gas using its access to storage and pipeline transportation capacity. If the financial hedges and local markets become dislocated, ATO could incur a liability.

If the impact on the company from any of the following factors proves to be greater or less than we anticipate, the company could fail to achieve/exceed our target price.

CenterPoint Energy Inc

Company description

CenterPoint Energy Inc (CNP) is an energy delivery company based in Houston, Texas, serving over 3 million natural gas customers and 2 million electric customers. CenterPoint also operates two interstate natural gas pipelines and a field services business. The electric delivery business generates about 40% of the company's operating income, while the gas utilities, pipelines, and field services businesses make up the remainder.

Investment strategy

We rate the shares of CNP, Buy (1). Our Buy rating takes into account stable cash flows on CNP's gas and electric utility system, complemented by growth on the pipeline and gathering system, through re-contracting of pipeline capacity, expansion of pipeline capacity, regulated growth and gas well connections.

Valuation

We average multiple valuation methodologies to derive our $22 target.

Our NAV yields a value of $20.42. We value regulated assets at a multiple of rate base (1.5x for utilities, 1.5x for pipelines). The company's marketing and midstream segments are valued at 5x and 7x 2011 EBITDA. These values are partially offset by the company's net debt.

Our DDM values the company at $22.92.

Our P/E and EV/EBITDA multiples are based on our proprietary analyses, which utilize current equity risk premiums, current betas and projected risk-free yields. For our P/E analysis, we use multiples of 14.5x on 2012 earnings for the company's utility and pipeline assets, while applying 12x and 8x multiples to the company's gathering and marketing assets. For our EV/EBITDA analysis, we use multiples of 7.5x and 8x on 2012 EBITDA for the company's utility and pipeline assets, while applying 7x and 5x multiples to the company's gathering and marketing assets. Our P/E and EV/EBITDA analyses yield values of $18.67 and $25.74.

Risks

The key risks to our investment thesis are (1) TX Regulatory Environment — At this point, the PUCT cannot affect the price of power, but can affect charges for delivery. The PUCT may look to reduce delivery rates below what we consider to be a reasonable rate of return. (2) Capital Investment Recovery – CNP, relying on future rates, spends capital to maintain and expand pipeline and utility systems. A politicized commission could delay or put at risk this recovery. (3) Customer Growth – An unexpected increase or decrease in population could affect earnings substantially, either favorably or unfavorably. (4) Commodity Prices – Earnings at the field services segments are highly sensitive to changes in NGL and natural gas prices. (5) Gathering Projects - Our estimates are dependent on the future build-out of gathering facilities in the Haynesville Shale. Any decision to limit the build-out or difficulties encountered during the build-out could impact our estimates.

If the impact on the company from any of the following factors proves to be greater or less than we anticipate, the company could fail to achieve/exceed our target price.

El Paso Corp

Company description

El Paso Corp (EP) operates the largest interstate natural gas pipeline network in the United States, produces both natural gas and oil from its properties in the U.S. and Brazil and markets natural gas and oil from its producing properties.

Investment strategy

We rate the shares of El Paso Corp Neutral.

We estimate that the acquisition by KMI will close in Q2'12 and are now using the deal implied price of $29p/s, which results in a total return of ~10%.

Valuation

Our target price of $29 is based on the deal implied metrics. We estimate a $13.60 stock component value, a $14.65 cash component and a valuation of $0.96 for the warrant.

Risks

The primary risk to our neutral thesis is that the merger agreement falls apart prior to the closing date (lack of regulatory approvals or shareholder vote), which would negate our deal implied target price valuation.

Enbridge Inc.

Company description

Enbridge is one of Canada's largest energy companies by market cap (~$25 billion). The Firm is headquartered in Calgary, Alberta.

Enbridge primarily operates in the following lines of business (shown in-line with actual reporting segments):

Crude Oil Pipelines & Storage (52% of 2010 Net Income)

Natural Gas Pipelines, Processing & Energy Services (13% of 2010 Net Income)

Natural Gas Distribution (17% of 2010 Net Income); and

Sponsored Investments & Corporate (18 % of 2010 Net Income)

Enbridge owns a 27% LP stake and a 2% GP stake in Enbridge Energy Partners (NYSE: EEP), which owns the US portion of the Mainline pipeline system (known as "Lakehead") as well as gas gathering & processing infrastructure in West Texas. EEP is accounted for under the Sponsored Investments segment.

Enbridge also owns a 70% stake in Enbridge Income Fund (EIF), a publicly traded yield-oriented investment vehicle listed on the Toronto stock exchange. EIF is also accounted for under the Sponsored Investments segment.

Below we show an asset map that details all of ENB's various business segments across North America. ENB does not own any physical assets outside of North America.

Investment strategy

We rate shares of Enbridge Neutral (2) with a $36 target price. Our enthusiasm over the company's risk-averse business model and earnings growth projections of ~10% per year through 2015 are tampered by what we believe is a full valuation at current trading levels (27% premium to group vs. 20% average premium). Enbridge's performance, since the beginning of the decade, is highlighted by industry leading returns on equity (~16% vs. peers at 13%) and an increase in enterprise value from $12.3bn to $43bn.

Valuation

We use four equally weighted methodologies to derive our $36 Target Price. We value shares of ENB at $36 p/s on an NAV basis, $37 based on a DCF model, $36p/s on an EV / EBITDA basis & $36p/s on a long-term P/E multiple.

Risks

The primary upside risk to our Neutral Thesis is that ENB is able to secure a larger amount of growth projects than we have estimated in our numbers. In addition, higher than expected volumes on ENB's mainline system tied to higher than expected oil sands growth could lead to better than expected results.

The primary downside risk to our Neutral Thesis is that ENB is unable to execute on its growth backlog in an efficient manner, reducing returns on capital. In addition, lower than expected crude oil demand in the United States could have an adverse effect on volumes on ENB's mainline system.

Integrys Energy Group, Inc.

Company description

Integrys Energy Group (TEG) operates as a natural gas and electric utility with over 2 million customers in Minnesota, Wisconsin, Michigan, and Illinois. Integrys also offers retail and wholesale energy services. Wisconsin Public Service Corporation (WPSC) merged with People's Energy Corporation (PEC) in February 2007 to form Integrys Energy Group.

During 2009, TEG announced plans to scale back or sell its Energy Services segment. We expect removal of these assets by end of 2010.

Investment strategy

We rate TEG, Neutral (2). Our rating on Integrys Energy Group (TEG) takes into account the company's recent outperformance, related to a move by investor's towards higher yielding stocks.

The company has undergone tremendous change over the last couple years through multiple acquisitions and divestitures.

As TEG exits its energy services business and provides better visibility on its earnings growth platform based on its remaining businesses, we feel the stock could justify a premium, but at its current level, the premium is too high.

Valuation

We use the average of multiple valuation methodologies to derive our $56 target.

Our NAV yields a value of $61. We value regulated assets at a multiple of rate base (1.5x for utilities). A 10% discount is applied to Peoples Gas, which earns below its authorized return level. We value TEG's retail operations at 5x EBITDA. The company's ownership in FERC regulated transmission is valued at 14.4x earnings, which is derived from our dividend discount analysis for that unit. These values are partially offset by the company's net debt.

Our DDM values the company at $56. Through this analysis, we value each utility by determining earnings and cash flow potential based on regulated asset base and authorized returns.

Our P/E and EV/EBITDA multiples are based on our proprietary analyses, which utilize current equity risk premiums, current betas and projected risk-free yields. For our P/E analysis, we use a multiple of 14.5x for the company's utility assets. For our EV/EBITDA analysis, we use a multiple of 7.5x for the company's utility assets. For the company's FERC regulated transmission, we derive a multiple of 13.5X earnings from our dividend discount model for the unit. We value the retail operations in line with trading businesses at 8x earnings and 5x EBITDA. Our P/E and EV/EBITDA analyses (based on 2013 estimates) yield values of $56 and $52.

Risks

The key risks to our investment thesis are (1) Capital Investment – TEG spends capital in excess of depreciation to maintain and expand its utility, relying on adequate base rates to earn its cost of capital. We assume regular, fair rate relief. (2) Concentration in the Midwest – Changes in the economy in TEG's service areas could increase or decrease the need for gas and power. (3) Weather Fluctuations – Without weather normalization or decoupling rate mechanisms at all its gas and electric utilities, TEG is exposed to fluctuations in temperatures and conservation(4)Higher Gas and Purchased Power Costs – TEG may encounter energy costs, which are generally passed on to customers, but lead to near term working capital requirements (5)Marketing Business – TEG's energy marketing business continually enters into forwards and options which may create unanticipated gains and losses depending on any changes in contract values. Uncertainty surrounding the future of this business and collateral requirements may also impact the value of the stock (6) Short Interest - A significant short interest in the stock could lead to near-term volatility.

If the impact on the company from any of these factors is more or less than we expect, the stock could outperform or underperform our target.

Oneok Inc

Company description

Oneok is an integrated energy company operating amidst the energy value chain through three operating segments: (1) the Oneok Partners (OKS) investment, which is a Master Limited Partnership involved in a natural gas gathering, processing, marketing, NGL fractionation, storage and pipeline transportation; (2) a local distribution business providing service to customers in Kansas, Oklahoma, and Texas (Distribution), and (3) a natural gas marketing and trading segment with both retail and wholesale customers (Energy Services).

Investment strategy

We rate shares of OKE Neutral. OKE offers investors a solid Free Cash Flow profile (mostly as a result of the company's ownership stake and associated GP + LP cash flows from OKS) with an emphasis on returning this cash to shareholders. We believe that this cash flow generation profile is priced into shares at current levels.The company's Distribution & Energy Services business carry no direct commodity price risk, though periods of flattening basis & seasonal spreads can negatively affect Energy Marketing earnings. OKE carries some indirect commodity price risk via its ownership in OKS, which is mainly exposed to Natural Gas Liquids prices.

Valuation

We use four valuation scenarios to reach our target price of $86 per share.

Our NAV analysis results in $91p/s. We derive our NAV based on the following asset values: 1) Local Distribution Companies: We apply a multiple of 8x on 2013 EBITDA of 350mm ; 2) Energy Services: We use our 2013 EBITDA estimate and apply a multiple of 5x; 3) Oneok Partners: We apply a value of $56 per unit to OKE's LP units. We value 2013 GP distributions at a 22x multiple. We tax-effect both LP and GP distributions.

Our DCF analysis results in a share price of $93 per share under CIRA's commodity price assumptions. Our DCF analysis incorporates OKE's LP and GP interest in OKS, in addition to the residual value of OKE's Local Distribution and Energy Service assets. We use the company's weighted average cost of capital.

We apply different EV/EBITDA multiples to each of our 2013 business segment EBITDA estimate, resulting in a blended 8.5x multiple & $84 target price.

We apply a blended earnings multiple OKE's FY'13 earnings to get to $78p/s.

Risks

The company's exposure to commodity prices (via cash flows from OKS) is balanced to some degree by the regulated natural gas distribution business. The Energy Services segment is more exposed to seasonal & basis spreads rather than absolute commodity prices.

Production from Regional Producing Basins - OKS is dependent on volumes from producing fields where the company gathers, processes, fractionates, transports, and markets natural gas and natural gas liquids. If producers were to cut back on drilling, OKS could suffer declines in throughput.

Capital Investment Recovery - Oneok spends capital in excess of depreciation to maintain and expand its distribution system. OKE is exposed to regulatory risk in that it may not be able to recover the full amount of capital spent via customer rates.

If the impact on the company from any of these factors proves to be greater/less than we anticipate, it may prevent the stock from achieving our target price or could cause the stock price to materially outperform our target.

Questar Corp

Company description

Questar Corp (STR) is a regional, integrated natural gas utility company with operations in the Rocky Mountains. The company has three operating segments, including 1) a regulated gas delivery business in Utah, Questar Gas; 2) an interstate pipeline and underground storage business, Questar Pipeline; and 3) a regulated natural gas and oil E&P business (Wexpro).

Investment strategy

We rate the shares of Questar Corp Buy, which takes into account 1) increasing volumes on the company's pipeline and gathering system; 3) marginal customer growth at the utility; and 4) a 20% rate of return on an increasing capital base (i.e., Wexpro). STR is essentially a fully regulated business.

Valuation

We rate Questar Corporation (NYSE: STR) Buy. Our target price is $20.50p/s, based on the average of the following valuation methodologies:

Our NAV calculation results in a target price of $20.47p/s. We estimate that the distribution business is worth $1.3bn based on 2013 EBITDA and an 8x mid-cycle EBITDA multiple. We value STR's Pipeline & Storage business at ~$1.7bn, which is based on 2013 EBITDA and an 8x mid-cycle multiple. We value the regulated E&P business, Wexpro, at $1.65bn. This is based on a DDM (dividend discount model). We then subtract ~$1 billion of net debt to derive an equity value.

Our DCF Analysis results in $21.77p/s. We derive a NPV of cash flows over the next ten years discounted at the Firm's WACC. We then add the residual value of the Utility & pipeline assets as well as the residual value of Wexpro. We subtract net debt of ~$1bn to derive the equity value.

Our long-term P / E analysis results in a value of $19.53p/s. We base our analysis on 2013 estimated earnings and discount those back to 2012.

Our EV / EBITDA multiple analysis values Questar at $20.73p/s. We use a weighted average 2013 EBITDA multiple of 8.7x on projected EBITDA of $575mm. We subtract ~$1bn of net debt to reach our $20.73p/s target and then discount the value back to 2012.

Risks

Risks to the achievement of our target price include the following:

1) Lack of drilling success at the regulated E&P segment would result in a lower investment base and therefore a lower return

2) A decrease in natural gas demand at the Utility

3) Delays on the ongoing pipeline expansion projects

If the impact on the company from any of these factors proves to be greater/less than we anticipate, it may prevent the stock from achieving our target price or could cause the stock price to materially outperform our target.

Sempra Energy

Company description

Sempra Energy (SRE) is an integrated natural gas and electric company. The company's operations include Sempra Utilities, which consists of 6.2 million gas and 1.3 million electric meters in Southern California; Sempra Generation, which owns about 2,600 megawatts (MW) of net, active generation; Sempra Pipeline & Storage, which operates natural gas pipeline, storage, and owns interests in utility assets in South America; and Sempra LNG, which is currently developing and operating LNG re-gasification plants to import natural gas into the U.S.

Investment strategy

We rate the shares of Sempra Energy Buy (1). Sempra's diversified portfolio of assets in the gas and power sector gives the company sustained earnings power through consistent and growing returns from its utility operations, and a power generation portfolio that is 80% contracted. We believe Sempra is well positioned to take advantage of the current volatility in commodity prices, power demand in California, and future expected demand for liquefied natural gas (LNG).

Valuation

We average multiple valuation methodologies to derive our $60 target.

Our NAV yields a value of $53.50. We value regulated assets at a multiple of rate base (1.5x for utilities, 1.5x for pipelines, transmission and storage assets). The company's trading business is valued at the expected sale price. We value SRE's electric generation at replacement value ($800-$1,000/KW for CCGT assets). These values are partially offset by the company's net debt.

Our DDM values the company at $65. Our P/E and EV/EBITDA multiples are based on our proprietary analyses, which utilize current equity risk premiums, current betas and projected risk-free yields. For our P/E analysis, we apply multiples of 14.5x, 14.5x and 16.0x to 2013 earnings at the utility, pipeline and generation segments. Our P/E analysis yields a value of $68.

For our EV/EBITDA analysis, we apply multiples of 7.5x, 8x and 9x to 2013utility, pipeline and generation EBITDA. Our EV/EBITDA analysis yields a value of $51.

Risks

The key risks to our investment thesis are (1) The utilities are subject to regulation from federal, state and local authorities which may impose rulings adverse to Sempra's interests. (2) California's Department of Water Resources power contract with Sempra Generation expired in 2011. Earnings may be materially impacted as a result of volatile merchant power prices. (3) Uncertainty in the contracting of capacity on expansions at the company's LNG facilities may negatively impact earnings in the coming years. (4) Sempra is exposed to currency issues in Mexico and earnings could be impacted with significant volatility in the value of the Mexican Peso. (5) Ability to access debt or equity markets at a reasonable cost in the future could materially impact growth in the future. (6) The opportunity for further upside exists if Sempra can take advantage of the growing need for renewable generation in the desert SW.

If the impact on the company from any of these factors proves to be greater/less than we anticipate, it may prevent the stock from achieving our target price or could cause our target price to be materially outperformed.

Southern Union Co

Company description

Southern Union Company (SUG) is a diversified natural gas company with three distinct operating segments: (1) a transportation and storage division, which is engaged in pipeline transmission, gas storage, LNG terminaling, and LNG regasification; (2) a gathering and processing network in the Permian basin of Texas and New Mexico; and (3) local distribution operations serving over 550,000 customers in Missouri and Massachusetts. Over the last several years, SUG has shifted its operational focus from local gas distribution companies (LDCs) to transportation and storage through a series of strategic acquisitions and asset sales.

Investment strategy

We rate SUG Neutral with a $43.50 Target Price based on the deal implied take-out price offered by ETE. The stock is essentially trading at our target price. We expect the deal to close on or around 3/30/2012. ($44.25 cash component x 60% weighing + $42.46 trading price of ETE x 40% weighing).

Valuation

Target Price based on the deal implied take-out price offered by ETE. We expect the deal to close on or around 3/30/2012. ($44.25 cash component x 60% weighing + $42.46 trading price of ETE x 40% weighing).

Risks

Deal risks: That Missouri or New England utility commission do not approve merger.

Operational Risks:

Stable regulated earnings from the transmission pipelines, storage assets and natural gas utilities, offset to some degree by commodity price volatility from percentage of proceeds contracts at its gathering and processing business.

Processing Contract Volatility – Southern Union is exposed to commodity price volatility through its percentage-of-proceed (POP) natural gas processing contracts. Margin from POP contracts moves in tandem with natural gas prices and is exposed to contracting/expanding margins from commodity price volatility.

Production from Permian Basin – Southern Union is dependent on volumes from producing fields in the Permian basin. In the event production declines, SUG will be required to charge producers higher fees in order to compensate for lower volume on its system, which could degrade its competitive position.

Capital Investment Recovery – Southern Union spends capital in excess of depreciation to maintain and expand its pipeline transportation system. SUG relies on the FERC to recover costs in excess of depreciation.

Deal Risk - If no other potential bid arises for Southern Union following the ETE-SUG merger announcement, our target price of $38p/s is at risk as the current deal is based on $33p/s.

If the impact on the company from any of these factors proves to be greater/less than we anticipate, it may prevent the stock from achieving our target price or could cause the stock price to materially outperform our target.

Southwest Gas Corp

Company description

Southwest Gas provides regulated gas distribution services for 1.8 million customers in Arizona, Nevada and California. We estimate the total regulated utility asset base (rate base) to be about $2.3 billion. SWX also operates two FERC-regulated pipelines ($85 million rate base) and an unregulated pipeline construction business (~$35 million annual EBITDA).

Investment strategy

We rate SWX a Buy (1). Our Buy rating for SWX is premised on the company obtaining a reasonable rate of return on its regulated asset base. SWX's regulated customer base has been driven by population growth in Arizona and Nevada, which has slowed recently. This type of historical growth within a regulatory framework inevitably leaves shareholders exposed to regulatory lag; however, utilities are entitled to just and reasonable rates. Last year, SWX earned below authorized return levels. We estimate that upcoming rate relief and slowing capital growth should help to mitigate the impact of regulatory lag in the coming years and improve return metrics for the utility segment.

Valuation

We average multiple valuation methodologies to derive our $47 target.

Our NAV yields a value of $50. We value regulated assets at a multiple of rate base (1.5x for utilities, 1.5x for pipelines). We value the Construction Services segment at

5x EBITDA, based on a midstream asset multiple. These values are partially offset by the company's net debt.

Our DDM values the company at $43. We calculate a hypothetical dividend, based on SWX's regulated capital growth, authorized returns and cost of equity to arrive at our DDM valuation.

Our P/E and EV/EBITDA multiples are based on our proprietary analyses, which utilize current equity risk premiums, current betas and projected risk-free yields. For our P/E analysis, we use multiples of 14.5x, 14.5x and 8x for the company's utility, pipeline and pipeline construction assets. For our EV/EBITDA analysis, we use multiples of 7.5x, 8x and 5x for the company's utility, pipeline and pipeline construction assets. Our P/E and EV/EBITDA analyses yield values of $44 and $53.

Risks

The key risks to our investment thesis include the difficult regulatory body in Arizona, the potential need to raise equity to fund the capex program, sensitivity of earnings to changes in weather, the stock's relative lack of trading liquidity, and the relatively low market capitalization of the company compared with other utilities. These concerns are offset by a stable regulated earnings stream from the transmission pipelines and natural gas utilities which account for more than 90% of earnings. Risks to the shares attaining our target price include:

(2) Population growth - Housing demand and tepid economic growth within the Southwest region of the U.S. could slow to a rate below estimates or increase above our estimates, causing us to revise our estimates and valuation.

(3) Capital investment recovery - SWX spends capital to maintain and expand its operations. The company will continue to rely on state regulatory commissions to recover costs in excess of depreciation. While we believe SWX's relationship with the ACC has been more productive than those of other utilities operating in the state, the ACC and the other commissions may not allow the company to earn a reasonable rate of return on its rate base.

(4) Capital Markets - SWX is a relatively small utility in terms of market capitalization and daily volumes. This may impact its ability to access the capital markets.

If the impact on the company from any of these factors proves to be greater/less than we anticipate, it may prevent the stock from achieving our target price or could cause our target price to be materially outperformed.

Spectra Energy Corp

Company description

Spectra Energy is an integrated natural gas company operating in both the United States and Canada. The company maintains four distinct operating segments with over $20 billion in assets: 1) natural gas transmission and storage in the US; 2) natural gas distribution in Canada; 3) natural gas gathering, processing and transmission in Canada; and 4) gathering & processing in the US through a 50% joint venture with ConocoPhillips.

Investment strategy

We rate Spectra (SE) at Neutral (2) with a $32 target. We expect SE will grow regulated earnings by expanding its North American pipeline and storage network; however, commodity prices and Canadian exchange rates could add substantial volatility to midstream earnings.

Valuation

We apply multiple valuation methodologies to derive our $32 target.

Our NAV yields a value of $35. We value regulated assets at a multiple of rate base (1.5x for utilities, 1.5x for pipelines). We value the Field Services segment at 7.5x 2011 EBITDA, based on our midstream multiple. These values are partially offset by the company's net debt.

Our 10-year DCF yields a value of $34, by utilizing a 6.8% WACC.

Our P/E and EV/EBITDA multiples are based on our proprietary analyses, which utilize current equity risk premiums, current betas and projected risk-free yields. For our P/E analysis, we use multiples of 14.5x, 14.5x and 10x for the company's utility, pipeline and midstream assets. For our EV/EBITDA analysis, we use multiples of 7.5x, 8x and 6x for the company's utility, pipeline and midstream assets. We value the Canadian pipelines at a slight discount to account for lower authorized returns. Our P/E and EV/EBITDA analyses yield values of $30 and $29.

Risks

The key risks to our investment thesis include (1) significant capital requirements over the medium-term and the earnings sensitivity to volatile commodity prices and the Canadian dollar.

If the impact on the company from any of the following factors proves to be greater than we anticipate, the stock will likely have difficulty achieving our target price.

(2) Capital Investment Recovery — SE spends capital to maintain and expand its pipeline and distribution operations. SE relies on the OEB and the FERC to recover costs or approve projects.

(3) Processing Contract Volatility — SE is exposed to commodity price volatility through its POP and keep-whole processing contracts. An increase in commodity prices could allow SE to outperform our expectations.

(4) Production from Gas Producing Regions — SE is dependent on volumes from producing fields throughout North America. Significant production declines could require SE to charge producers higher fees to compensate for lower volume on its systems, potentially degrading its competitive position. Conversely, production increases could enhance its competitive position.

(5) Demand from Refineries and Petrochemical Producers — Nat gas liquids produced by SE are primarily marketed to refineries and petrochemical producers. Lower demand could lead to margin compression.

If the impact on the company from any of these factors proves to be greater/less than we anticipate, it may prevent the stock from achieving our target price or could cause our target price to be materially outperformed.

TransCanada Corp

Company description

The Company's pipeline network transports 15 bcf/d of natural gas and extends over 35,000 miles, while its storage capacity is about 360 bcf. Additionally, TransCanada owns or has an interest in over 10,900 MW of generation throughout Canada and the northeast United States.

Investment strategy

We rate TRP Neutral (2) TRP's asset mix of both pipeline (70%) and power (30%) assets offers attractive organic growth with incremental returns on new capital of 13% excluding acquisitions over the next five years.

Despite attractive returns on organic and new build projects, we believe this growth comes with the risk of capital cost overruns at new projects, namely, the restart of 2 units at TRP's operated nuclear power plant (Bruce Power) and a C$12.2 billion oil export pipeline from Alberta into the Midwest (Keystone Pipeline).

Valuation

We apply average multiple valuation methodologies to derive our $42 target. Our NAV yields a value of $41. We value regulated assets at a multiple of rate base (1.5x for pipelines and storage assets). We apply a 10% haircut to Canadian assets as they earn lower authorized returns. We value SRE's power generation assets at replacement value. These values are partially offset by the company's net debt. Our 10-year DCF yields a value of $51, using a 5.97% WACC. Our P/E and EV/EBITDA multiples for the pipelines are based on our proprietary analyses, which utilize current equity risk premiums, current betas and projected risk-free yields. This analysis yields a multiple of 14.5x 2013 earnings and 8x 2013 EBITDA. We apply a merchant power multiple of 14x and 8x to power generation 2013 earnings and EBITDA. Our P/E and EV/EBITDA analyses yield values of $37 and $38.

Risks

The key risks to our investment thesis includes

(1) Exchange Rates – TRP has energy assets in the US and Canada. Significant changes in exchange rates could materially increase or decrease earnings.

(2) Regulatory – TRP spends capital in excess of depreciation to maintain and expand its pipeline infrastructure and relies on fair regulated returns. Changes in the regulatory environment could adversely impact returns.

(3) Nuclear Risk – Because of the high safety risks of operating a nuclear power plant, regulatory impediments may arise. Unplanned outages from sensitive technology, cost overruns or even terrorist attacks could also cause damage and create outages, impacting earnings.

(4) Capital Risk – We expect about half of TRP capex program will be funded through debt. Difficulties getting the appropriate debt funding could reduce the likelihood of projects being built timely.

(5) Energy Prices – TRP sells to the merchant market. Changes in power prices and/or cost of fuel could materially impact our estimates or WC requirements.

(6) Execution Risk – Expansion projects should add incremental earnings, but overspending could lead to lower returns. There is also a risk that projects will not be completed on-time or at all.

(7) Ravenswood – We assume capacity energy prices in NYC will fall in'11 due to capacity oversupply. Any differences in capacity pricing to our estimates could also impact our long-term estimates.

If the impact on the company from any of these factors proves to be greater/less than we anticipate, it may prevent the stock from achieving our target price or could cause our target price to be materially outperformed.

Vectren Corp

Company description

Vectren operates regulated electric and gas utilities in Indiana and Ohio, distributing natural gas to about 1 million customers and serving about 140,000 electric customers. The utilities represent over 80% of VVC's earnings. Vectren also operates non-regulated businesses, including coal mining, pipeline construction, and gas marketing.

Investment strategy

We rate Vectren shares Neutral. We believe the stock is fairly valued as a constructive regulatory environment is offset by concerns over the impact of flat basis spreads on the gas marketing operations and light demand for the coal mining unit.

Over 80% of earnings at VVC are derived from operations at the gas and electric utilities. In late 2009, the company's sole electric utility filed for rate relief. We expect resolution of this matter by year-end. In addition to rate relief, we expect growth at the utility will be arise from infrastructure riders, which allow timely returns on capital spending and customer growth.

The non-regulated operations include coal mining, gas marketing, pipeline construction and energy services. Coal mining and gas marketing operations have been hampered as of late due to reduced coal demand and thinning basis spreads.

Valuation

We average multiple valuation methodologies to derive our $28 target.

Our NAV yields a value of $27. We value regulated assets at a multiple of rate base (1.5x for gas utilities). We value ProLiance at 8x earnings, in-line with our estimated marketing multiple. The company's coal mining and energy services segments are valued at 6x and 5x 2013 EBITDA, based on midstream and marketing multiples. These values are partially offset by the company's net debt.

Our DDM values the company at $25. We calculate a hypothetical dividend, based on VVC's regulated capital growth, authorized returns and cost of equity to arrive at our DDM valuation.

Our P/E and EV/EBITDA multiples are based on our proprietary analyses, which utilize current equity risk premiums, current betas and projected risk-free yields. For our P/E analysis, we use 2013 multiples of 14.5x and 10x for the company's utility and unregulated assets. For our EV/EBITDA analysis, we use multiples of 7.5x and 5.5x for the company's utility and unregulated assets. Our P/E and EV/EBITDA analyses yield values of $26 and $33.

Risks

The key risks to our investment thesis includes

(1) Capital Investment Growth — VVC spends capital to maintain and expand its utility systems. VVC relies on adequate base rates to earn its cost of capital.

(2) Concentration in the Midwest — Changes in the service area's economy could reduce demand for power.

(3) Gas and Purchased Power Costs — Higher costs can lead to higher working capital requirements and interest expense.

(4) Coal Margins — Key drivers behind the performance of the coal mining unit include coal prices, volumes and costs, which are all volatile.

(5) Non-Regulated Business — VVC's unregulated business continually enters into forwards and options that may create unanticipated losses.

(6) Capital Markets — VVC is a relatively small utility in terms of market cap and volume compared with other utilities. This may affect its ability to access the capital markets.

(7) Customer Growth — An unexpected increase or decrease in population could affect earnings substantially.

Events that would present upside risk to our target price include: 1) an improving economy in Vectren's service areas; 2) increased natural gas price volatility, including wider summer/winter differentials; and 3) improvements in coal production volumes and per unit margins.

If the impact on the company from any of these factors proves to be greater/less than we anticipate, it may prevent the stock from achieving our target price or could cause our target price to be materially outperformed.

Cheniere Energy Inc

Company description

Cheniere was a first mover in the race to site and develop LNG terminals in the U.S. The company currently has ownership of the Sabine Pass Regas terminal in the Gulf of Mexico. The company proposes to build a liquefaction facility at its Sabine Pass terminal to export US gas to other parts of the world.

Investment strategy

We rate Cheniere Buy/High Risk (1H). Cheniere is a pure play energy stock solely focused on Liquefied Natural Gas infrastructure development in the U.S. Cheniere initially established itself as a first mover in the race to build regasification facilities in the U.S. by acquiring sites in the Gulf of Mexico that had: 1) community and environmental support to site the facility; 2) deepwater port access (40 to 45 feet of draft) and compatibility with shipping traffic; 3) large enough sites to easily incorporate strict U.S. safety codes; and 4) sufficient pipeline take-away capacity and access to large volume industrial and power consumers.

In the last few years, regasification capacity became overbuilt in the US and Cheniere was unable to contract for all its capacity at its only operated terminal, Sabine Pass. With the decline in US natural gas prices and the discovery of an ample amount of shale gas, Cheniere now believes it can export gas from its terminal at Sabine by adding liquefaction capabilities. While this is a high cost endeavor, the low price of gas could support this sort of opportunity.

Cheniere's has a high amount of debt and its new business plan is predicated on it selling capacity to buyers of natural gas in Asia and Europe. We believe probability of Cheniere being successful has gone up with recent contract signings with Chinese, European and North American firms with solid reputations. Furthermore, recent approval from the DOE to export gas to non-FTA countries puts the company on the path towards financing and construction.

Valuation

We use four valuation analyses to derive our $16.00 per share target price.

Our NAV analysis results in $22 per share. Our analysis is based on the liquidation value of the pipelines owned at Cheniere Energy, Inc, 10.9 million units of CQP common units at $20.00 per unit (MLP analyst target price) and $14.27 per subordinated unit for the 135 million subunits owned by Cheniere, Inc.

Our DCF analysis results in a share price of $12 per share on a consolidated basis. This is a result of a relatively high cost of capital and a large initial capital outlay for the proposed liquefaction facility.

Our WACC reflects an equity risk premium of 6.64%, an assumed bond spread to the ten-year Treasury yield of roughly 870 bps, a risk free rate of 3.30% and a two-year beta of 1.86. The Company's cost of equity is 15.65 % and WACC is 9.64%.

Our P/E and EV/EBITDA multiple analyses are based on 2016 as a peak year for earnings and EBITDA. We estimate peak earnings per share of nearly $1.75 and EBITDA of nearly $1 billion on a consolidated basis. These estimates consider the equity required to fund the liquefaction facility. These metrics yield an equity valuation of $13 and $16 per share.

The average of these values yields $16 per share target price.

Risks

We rate LNG shares High Risk. LNG is an extremely risky and speculative investment. Cheniere generates no earnings and will not generate any earnings in our model until 2016. Our recommendation is based on Cheniere moving forward with at two liquefaction trains. The company has a substantial amount of debt on its balance sheet that could come due in the middle of next year. If the company is unable to move forward with a liquefaction train, Cheniere (LNG) could experience a liquidity event in which case equity investors could lose all their investment.

The key risks to our investment thesis are (1) The Department of Energy (DOE) – Cheniere needs a permit from the DOE and the FERC to export LNG to non-free trade countries.(2) Natural gas prices – Currently natural gas prices are low, which makes US exports competitive to the rest of the world. (3) Regulatory Issues - Failure to obtain or maintain regulatory approvals could limit or suspend activities of Cheniere's assets. (4) Integrity costs at the pipelines or LNG terminals could impose significant costs pressures. (5) Declines in natural gas production in the US could cause Cheniere's proposal to come under pressure. (6) The Company's tight liquidity position could limit its ability to execute on its plan. (7) Cheniere has proposed signing contracts with foreign buyers in China, and most recently with BG Group and GNF. While we believe in contract sanctity, history has shown that contracts can always be changed in the oil and gas industry.

If the impact on the company from any of the following factors proves to be greater or less than we anticipate, the company could fail to achieve/exceed our target price.

The Williams Companies Inc

Company description

The Williams Company Inc (WMB) is an integrated natural gas company that processes, trades, and transports natural gas and oil. The company also operates an olefins & midstream business in Canada, handling mainly off-gas from oil sands operations.

WMB also owns an ~75% stake in Williams Partners (incl. GP interest), a Midstream & Pipeline MLP. WMB is the operator of the WPZ assets.

Investment strategy

We rate the shares of The Williams Company Buy based on our analysis of the company's ~75% ownership of WPZ and combined growth at WPZ and the Canadian Liquids & Olefins business.

Valuation

We employ a variety of valuation techniques to derive our target price of $32.50 for the shares of The Williams Company Inc.

1) Discounted Cash Flow: We model in WPZ contribution via LP and GP distributions. We tax GP distributions at 20% and LP distributions at 20%. We discount our cash flows at our WACC. Our DCF value per share is $32.37.

2) Net Asset Value: For the Olefins portion, our forward EBITDA multiple remains at 5x 2013 EBITDA. To account for WMB's stake in WPZ, we value the LP units at Current Trading Price x WMB owned units. We then tax-affect this figure (we use 20% tax rate to account for LP deferrals) to derive an implied valuation of $11 billion for the LP shares. For the GP interest, we value estimated 2013 GP distributions of $484 million by a 22x multiple, then tax-effect (~37%) to derive a valuation of $6.9 billion for the GP interest. We back out ~$1.4bn of net debt to derive our equity value.

3) EV/ EBITDA: We value shares of WMB at $32.73 on an EV/ EBITDA basis. We use 2013 EBITDA estimates. We back out WPZ minority interest, to account for the proportionate share WMB does not own at a blended multiple.

4) Long-Term P/E: We use a consolidated EPS on 2013 EPS for a value of $32.91.

Risks

Risks we see to Williams achieving our target price include the following:

WPZ- WMB will generates a sizable portion of its cash flow via WPZ and therefore from keep-whole operations, which depend on the spread between natural gas and crude oil prices. In a declining crude / rising gas price environment, this could significantly chip away at WMB's processing margin and lead to earnings & cash flow shortfalls.

Project Execution - If WMB suffers cost overruns at its expansion projects, economics could deteriorate and lower overall project returns.

Appendix A-1

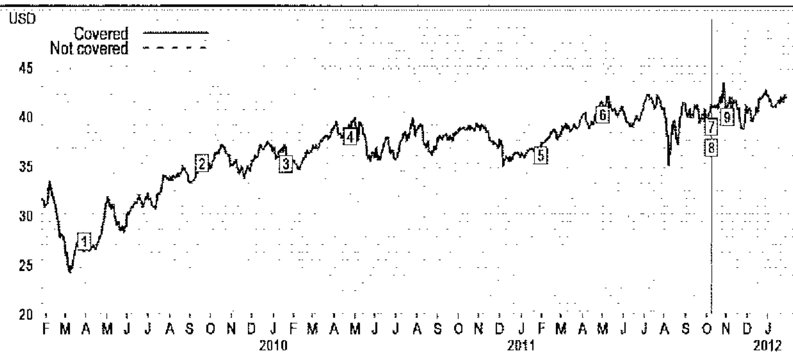
Analyst Certification

The research analyst(s) primarily responsible for the preparation and content of this research report are named in bold text in the author block at the front of the product except for those sections where an analyst's name appears in bold alongside content which is attributable to that analyst. Each of these analyst(s) certify, with respect to the section(s) of the report for which they are responsible, that the views expressed therein accurately reflect their personal views about each issuer and security referenced and were prepared in an independent manner, including with respect to Citigroup Global Markets Inc and its affiliates. No part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst in this report.

IMPORTANT DISCLOSURES

AGL Resources Inc (GAS)

Ratings and Target Price History
Fundamental Research
Analyst: Faisel Khan, CFA



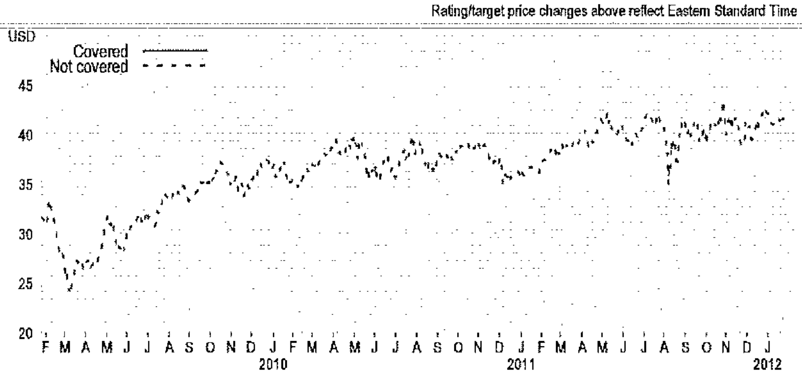
Date	Rating	Target Price	Closing Price
[1] 29-Mar-09	2M	*27.00	26.89
[2] 18-Sep-09	2M	*34.00	35.11
[3] 20-Jan-10	2M	*36.00	36.75
[4] 26-Apr-10	2M	*38.00	39.16
[5] 30-Jan-11	*1M	*41.00	36.09
[6] 2-May-11	*1L	*44.00	41.45
[7] 8-Oct-11	Stock rating system changed		
[8] 8-Oct-11	*2	44.00	40.44
[9] 2-Nov-11	2	*42.00	39.99

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

AGL Resources Inc (GAS)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)
Analyst: Faisel Khan, CFA

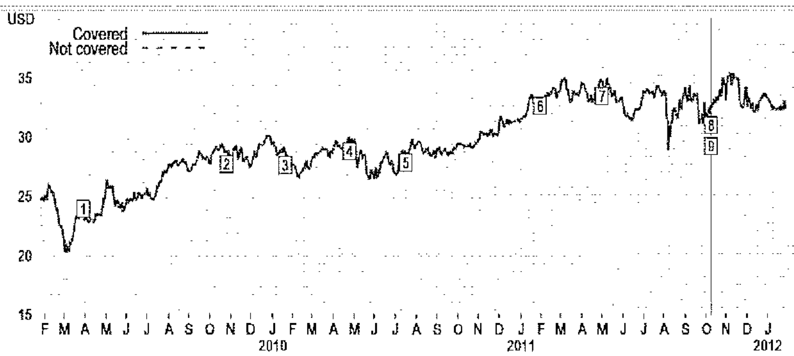


* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Atmos Energy Corp (ATO)

Ratings and Target Price History
Fundamental Research
Analyst: Faisel Khan, CFA



Date	Rating	Target Price	Closing Price
[1] 29-Mar-09	2M	*24.50	23.62
[2] 27-Oct-09	*2L	*28.00	28.84
[3] 20-Jan-10	2L	*30.00	28.85
[4] 26-Apr-10	2L	*31.00	29.91
[5] 16-Jul-10	*2M	*30.00	28.02
[6] 30-Jan-11	2M	*32.00	32.62
[7] 2-May-11	*2L	*35.00	34.61
[8] 8-Oct-11	Stock rating system changed		
[9] 8-Oct-11	*2	35.00	31.94

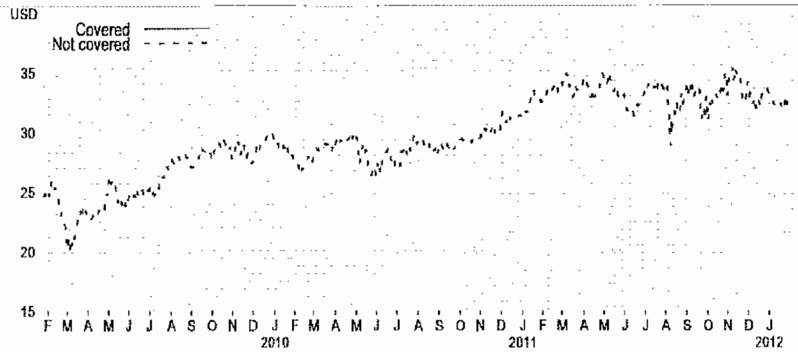
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Atmos Energy Corp (ATO)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Faisel Khan, CFA



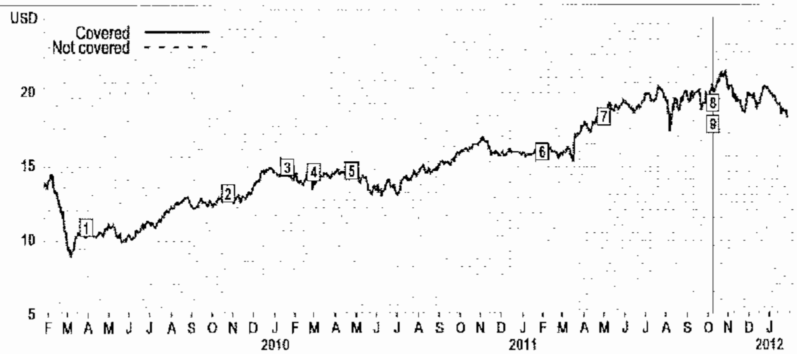
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

CenterPoint Energy Inc (CNP)

Ratings and Target Price History
Fundamental Research

Analyst: Faisel Khan, CFA



	Date	Rating	Target Price	Closing Price
1	29-Mar-09	1H	*13.00	10.17
2	26-Oct-09	*1M	*14.00	12.70
3	20-Jan-10	1M	*16.00	14.86
4	1-Mar-10	1M	*15.50	13.60
5	26-Apr-10	1M	*16.00	14.55
6	30-Jan-11	1M	*18.00	16.03
7	2-May-11	1M	*21.00	18.59
8	8-Oct-11	Stock rating system changed		
9	8-Oct-11	*2	21.00	19.93

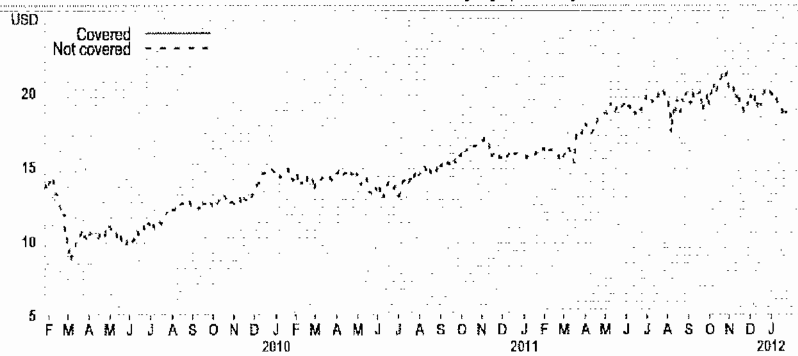
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

CenterPoint Energy Inc (CNP)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Faisel Khan, CFA



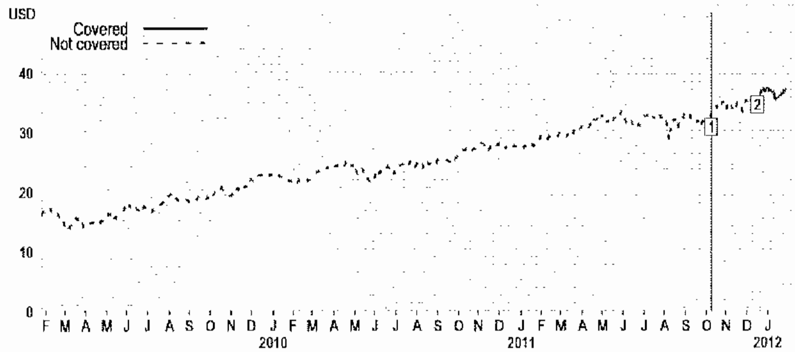
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Enbridge Inc. (ENB)

Ratings and Target Price History
Fundamental Research

Analyst: Timm Schneider
Covered since December 16 2011



	Date	Rating	Target Price	Closing Price
1	8-Oct-11	Stock rating system changed		
2	16-Dec-11	*2	*36.00	34.64

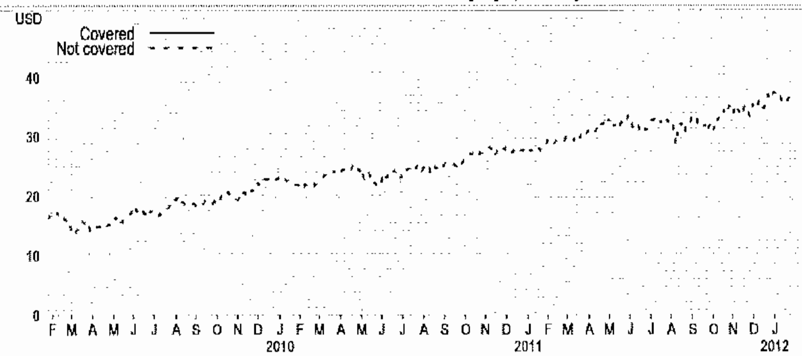
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Enbridge Inc. (ENB)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Timm Schneider
Covered since December 16 2011



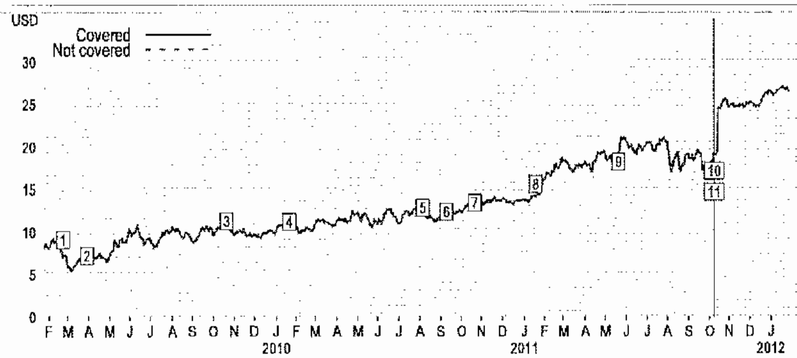
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

El Paso Corp (EP)

Ratings and Target Price History
Fundamental Research

Analyst: Faisel Khan, CFA



	Date	Rating	Target Price	Closing Price
1	23-Feb-09	1H	*12.00	7.10
2	29-Mar-09	1H	*11.00	6.63
3	21-Oct-09	*2H	*12.00	10.94
4	21-Jan-10	2H	*12.50	10.95
5	5-Aug-10	2H	*13.00	12.80
6	9-Sep-10	2H	*12.25	12.10
7	21-Oct-10	2H	*14.50	13.20
8	19-Jan-11	*1H	*17.00	14.13
9	20-May-11	*1M	*22.00	19.38
10	8-Oct-11	Stock rating system changed		
11	8-Oct-11	*1	22.00	18.36

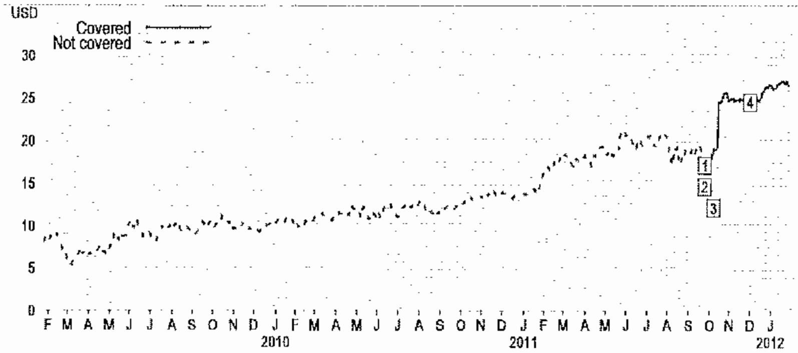
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

El Paso Corp (EP)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Faisel Khan, CFA



	Date	Rating	Target Price	Closing Price
1	26-Sep-11	*ADD MP	-	17.66
2	26-Sep-11	*REM MP	-	17.66
3	7-Oct-11	*ADD MP	-	18.36
4	1-Dec-11	*REM MP	-	25.04

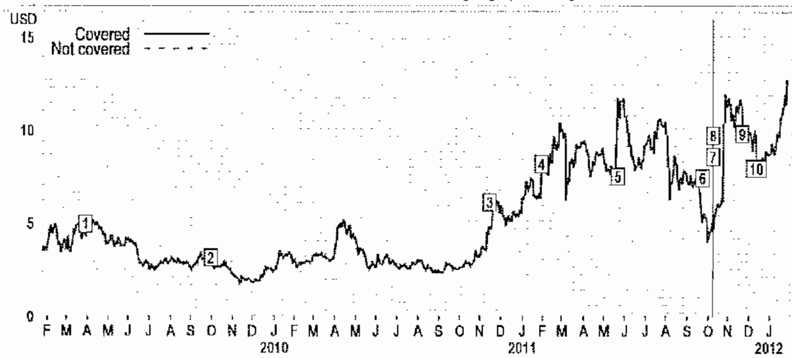
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Cheniere Energy Inc (LNG)

Ratings and Target Price History
Fundamental Research

Analyst: Faisel Khan, CFA



	Date	Rating	Target Price	Closing Price
1	29-Mar-09	2S	*5.00	4.58
2	30-Sep-09	2S	*3.75	2.93
3	14-Nov-10	2S	*5.00	4.37
4	30-Jan-11	*1S	*10.00	6.34
5	23-May-11	1S	*15.50	11.76
6	23-Sep-11	1S	*14.00	5.07
7	8-Oct-11	Stock rating system changed		
8	8-Oct-11	*1H	14.00	4.60
9	22-Nov-11	1H	*19.00	11.34
10	13-Dec-11	1H	*16.00	9.34

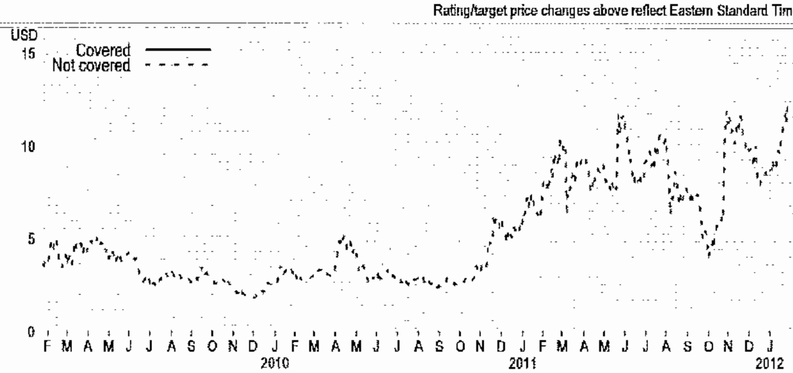
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Cheniere Energy Inc (LNG)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Faisel Khan, CFA



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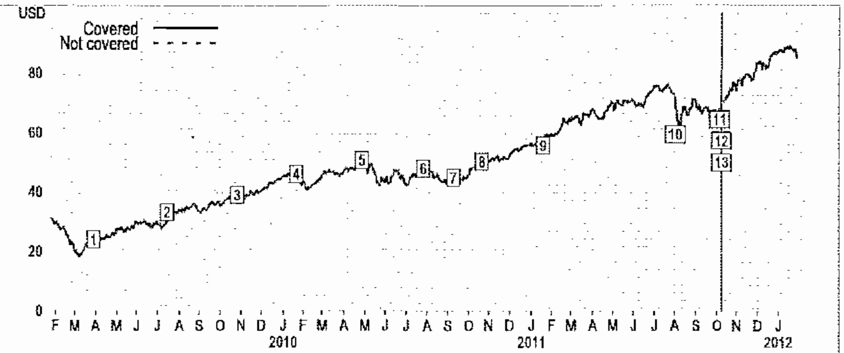
Rating/target price changes above reflect Eastern Standard Time

Oneok Inc (OKE)

Ratings and Target Price History
Fundamental Research

Analyst: Faisel Khan, CFA



	Date	Rating	Target Price	Closing Price
1	29-Mar-09	1H	*30.00	22.91
2	15-Jul-09	1H	*36.00	29.87
3	27-Oct-09	*2M	*40.00	37.73
4	21-Jan-10	2M	*45.00	45.58
5	28-Apr-10	2M	*50.00	48.86
6	27-Jul-10	2M	*51.00	47.91
7	9-Sep-10	2M	*47.50	44.33
8	21-Oct-10	2M	*52.00	49.22
9	19-Jan-11	2M	*57.50	57.56
10	2-Aug-11	2M	*72.00	71.50
11	6-Oct-11	*1M	*75.00	67.48
12	8-Oct-11	Stock rating system changed		
13	8-Oct-11	*1	75.00	67.92

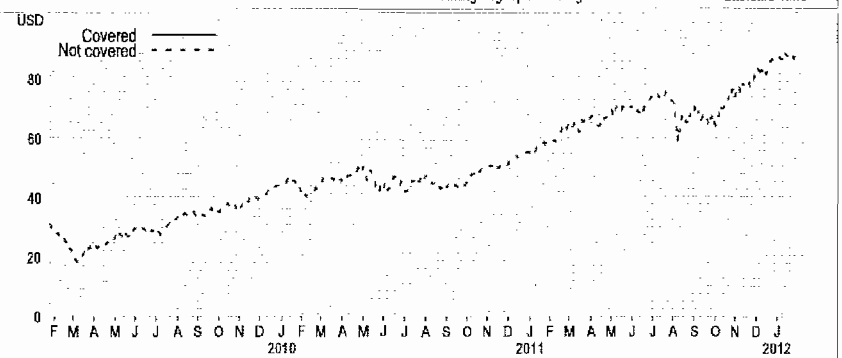
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Oneok Inc (OKE)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Faisel Khan, CFA



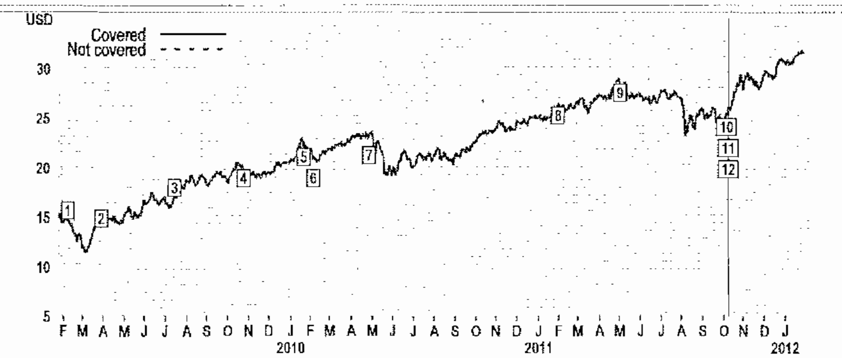
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Spectra Energy Corp (SE)

Ratings and Target Price History
Fundamental Research

Analyst: Faisel Khan, CFA



	Date	Rating	Target Price	Closing Price
1	9-Feb-09	2H	*15.00	14.86
2	29-Mar-09	2H	*14.00	14.52
3	15-Jul-09	2H	*16.00	17.10
4	26-Oct-09	*3H	*18.00	19.69
5	21-Jan-10	3H	*21.50	22.61
6	4-Feb-10	*2H	21.50	20.93
7	28-Apr-10	2H	*23.00	23.15
8	30-Jan-11	*2M	*25.00	25.70
9	2-May-11	2M	*28.00	28.71
10	6-Oct-11	2M	*26.00	25.51
11	8-Oct-11	Stock rating system changed		
12	8-Oct-11	*2	26.00	25.33

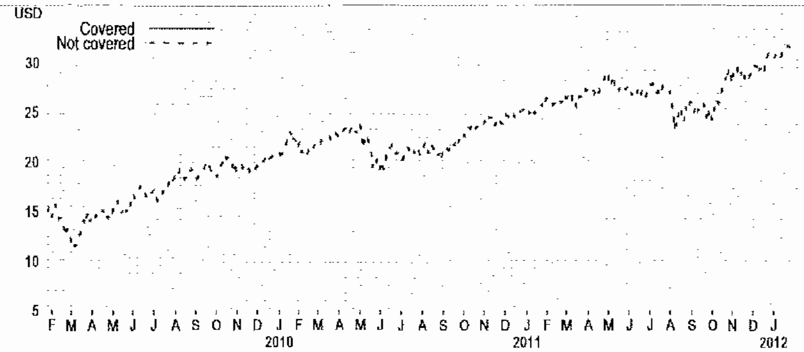
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Spectra Energy Corp (SE)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Faisel Khan, CFA



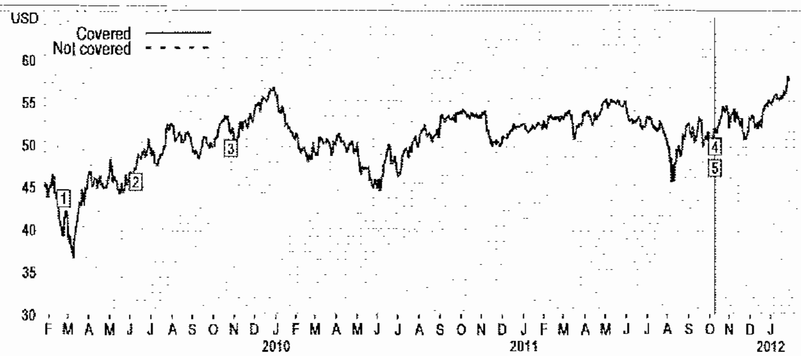
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Sempra Energy (SRE)

Ratings and Target Price History
Fundamental Research

Analyst: Faisel Khan, CFA



	Date	Rating	Target Price	Closing Price
1	22-Feb-09	1H	*49.00	39.37
2	9-Jun-09	*1M	*55.00	47.22
3	27-Oct-09	1M	*60.00	51.75
4	8-Oct-11	Stock rating system changed		
5	8-Oct-11	*1	60.00	50.93

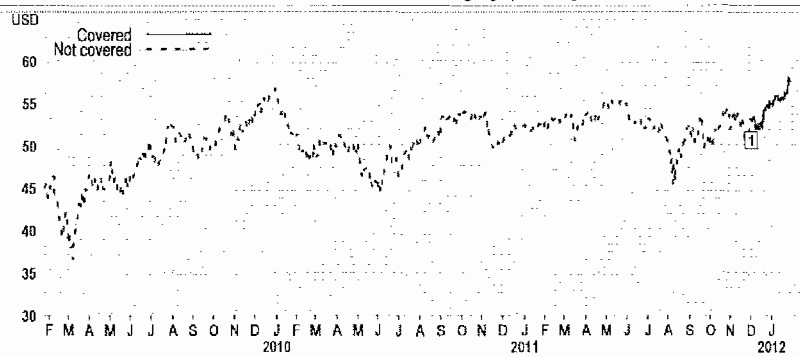
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Sempra Energy (SRE)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Faisel Khan, CFA



	Date	Rating	Target Price	Closing Price
1	1-Dec-11	*ADD MP	-	53.19

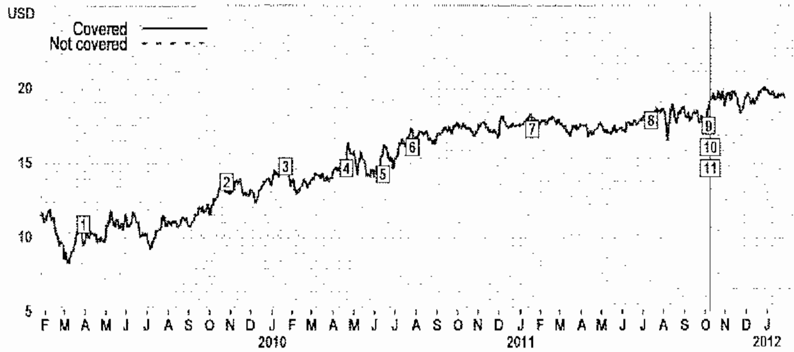
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Questar Corp (STR)

Ratings and Target Price History
Fundamental Research

Analyst: Timm Schneider
Covered since July 13 2011



	Date	Rating	Target Price	Closing Price
1	29-Mar-09	1H	*11.92	9.88
2	27-Oct-09	*1M	*14.82	13.08
3	21-Jan-10	1M	*17.40	14.57
4	21-Apr-10	1M	*17.72	14.78
5	14-Jun-10	1M	*18.05	15.41
6	27-Jul-10	1M	*18.05	17.20
7	19-Jan-11	*1L	*19.00	17.89
8	13-Jul-11	1L	*19.25	17.99
9	6-Oct-11	1L	*20.50	18.58
10	8-Oct-11	Stock rating system changed		
11	8-Oct-11	*1	20.50	18.55

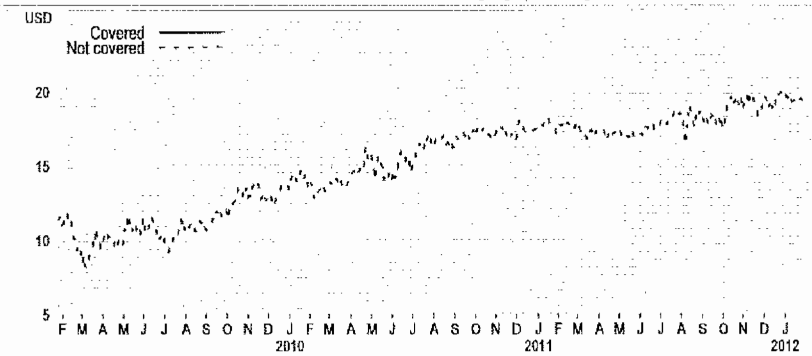
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Questar Corp (STR)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Timm Schneider
Covered since July 13 2011



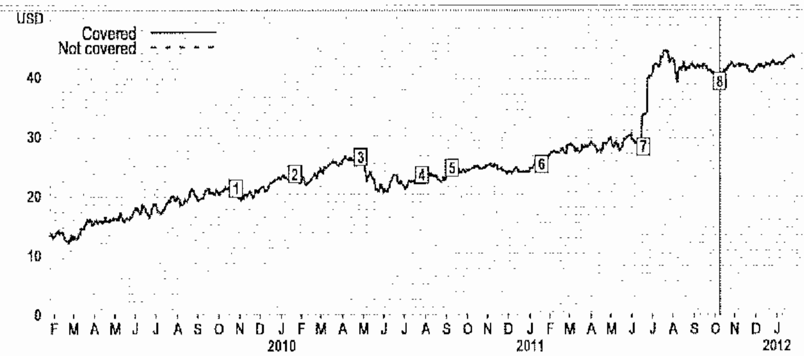
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Southern Union Co (SUG)

Ratings and Target Price History
Fundamental Research

Analyst: Faisel Khan, CFA



	Date	Rating	Target Price	Closing Price
1	27-Oct-09	*1M	*25.00	20.29
2	21-Jan-10	1M	*27.00	23.66
3	28-Apr-10	1M	*30.00	25.93
4	27-Jul-10	1M	*28.00	23.39
5	9-Sep-10	1M	*27.25	24.04
6	19-Jan-11	1M	*30.00	26.31
7	17-Jun-11	1M	*38.00	33.56
8	8-Oct-11	Stock rating system changed		

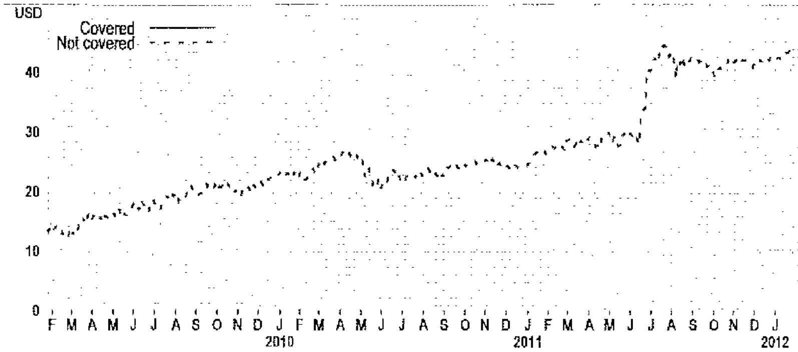
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Southern Union Co (SUG)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Faisel Khan, CFA



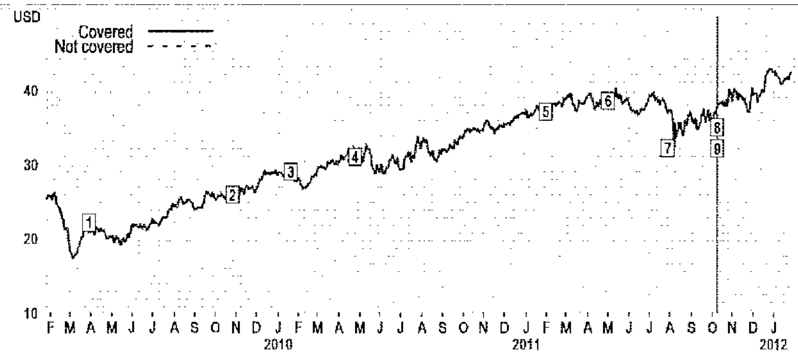
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Southwest Gas Corp (SWX)

Ratings and Target Price History
Fundamental Research

Analyst: Faisel Khan, CFA



	Date	Rating	Target Price	Closing Price
1	29-Mar-09	1H	*30.00	21.45
2	27-Oct-09	*1M	30.00	25.21
3	20-Jan-10	1M	*35.00	28.35
4	26-Apr-10	1M	*37.00	32.29
5	30-Jan-11	*2M	*41.00	37.15
6	2-May-11	2M	*43.00	39.59
7	28-Jul-11	*1M	*45.00	37.09
8	8-Oct-11	Stock rating system changed		
9	8-Oct-11	*1	45.00	36.78

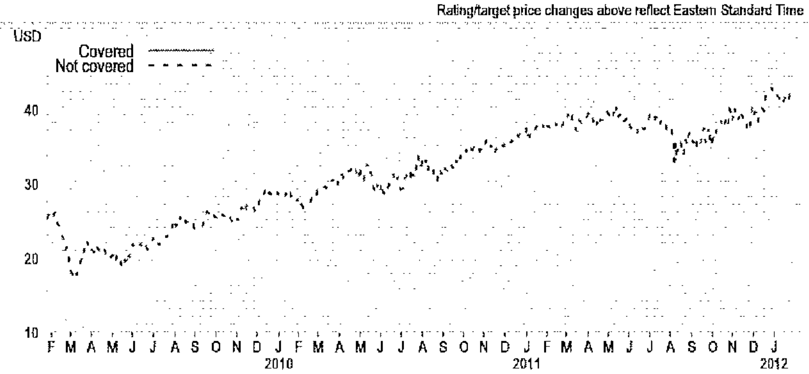
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Southwest Gas Corp (SWX)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Faisel Khan, CFA



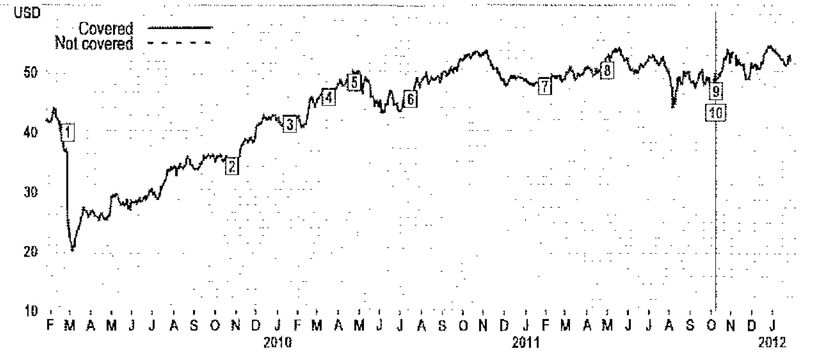
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Integrys Energy Group, Inc. (TEG)

Ratings and Target Price History
Fundamental Research

Analyst: Faisel Khan, CFA



	Date	Rating	Target Price	Closing Price
1	26-Feb-09	*2S	*27.00	26.85
2	27-Oct-09	*2H	*35.00	34.59
3	20-Jan-10	2H	*40.00	42.62
4	18-Mar-10	*3H	*42.00	46.89
5	26-Apr-10	3H	*43.00	50.05
6	16-Jul-10	3H	*44.00	45.60
7	30-Jan-11	*2H	*46.00	47.71
8	2-May-11	*2M	*51.00	52.48
9	8-Oct-11	Stock rating system changed		
10	8-Oct-11	*2	51.00	48.42

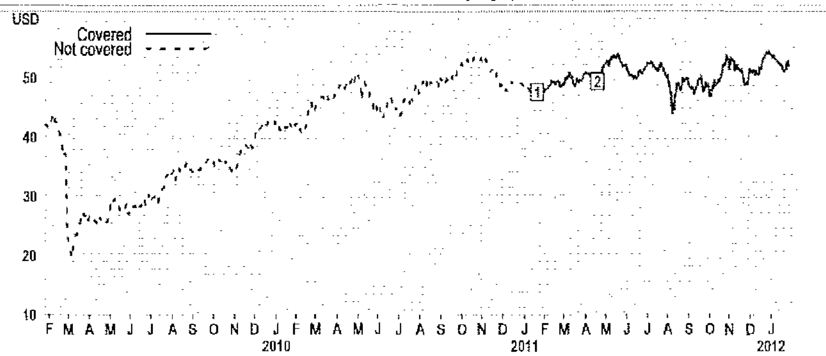
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Integrys Energy Group, Inc. (TEG)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Faisel Khan, CFA



	Date	Rating	Target Price	Closing Price
1	20-Jan-11	*ADD LP	-	48.32
2	19-Apr-11	*REM LP	-	49.68

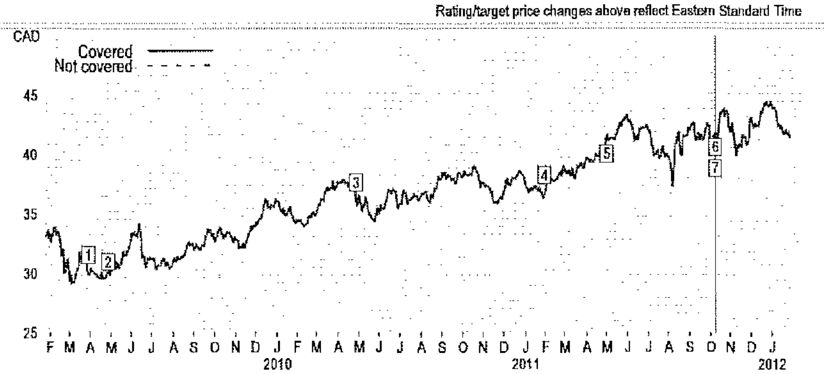
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

TransCanada Corp (TRP.TO)

Ratings and Target Price History
Fundamental Research

Analyst: Faisel Khan, CFA



	Date	Rating	Target Price	Closing Price
1	29-Mar-09	2H	*33.00	30.33
2	28-Apr-09	2H	*32.00	30.05
3	28-Apr-10	2H	*37.00	36.31
4	30-Jan-11	2H	*36.00	36.32
5	2-May-11	*2M	*40.00	41.62
6	8-Oct-11	Stock rating system changed		
7	8-Oct-11	*2	40.00	41.52

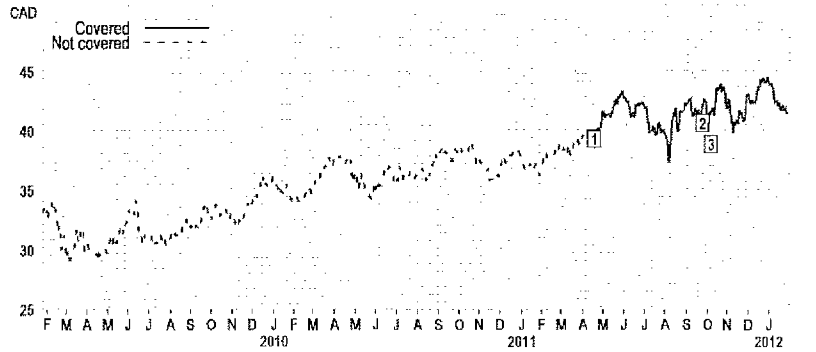
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

TransCanada Corp (TRP.TO)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Faisel Khan, CFA



	Date	Rating	Target Price	Closing Price
1	19-Apr-11	*ADD LP	-	39.83
2	26-Sep-11	*REM LP	-	42.29
3	7-Oct-11	*ADD LP	-	41.52

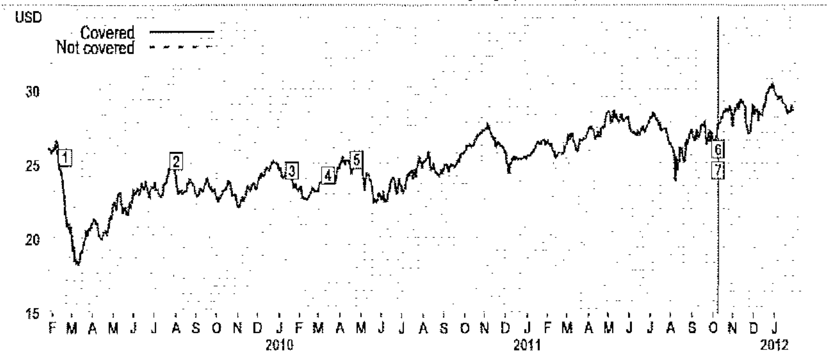
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Vectren Corp (VVC)

Ratings and Target Price History
Fundamental Research

Analyst: Faisel Khan, CFA



	Date	Rating	Target Price	Closing Price
1	19-Feb-09	1M	*25.00	21.99
2	2-Aug-09	*2M	25.00	24.56
3	20-Jan-10	2M	*26.00	24.08
4	15-Mar-10	2M	*25.00	23.92
5	26-Apr-10	2M	*26.00	25.18
6	8-Oct-11	Stock rating system changed		
7	8-Oct-11	*2	26.00	26.77

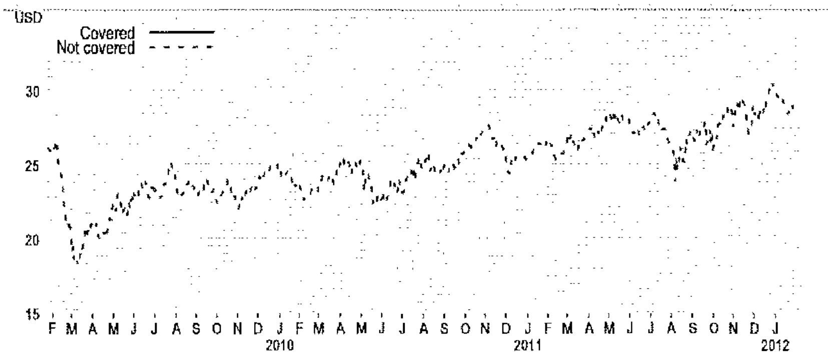
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Vectren Corp (VVC)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Faisel Khan, CFA



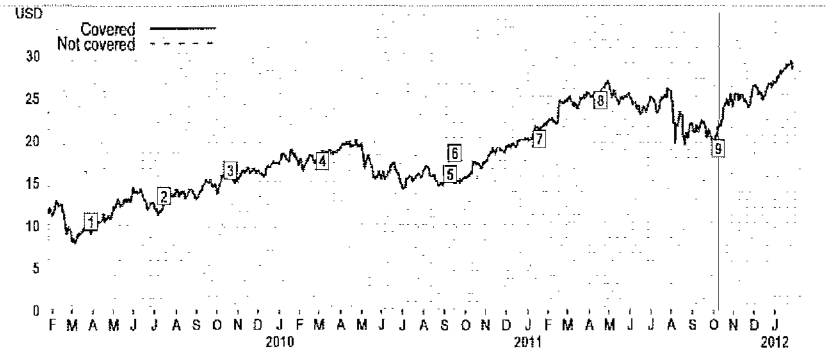
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

The Williams Companies Inc (WMB)

Ratings and Target Price History
Fundamental Research

Analyst: Faisel Khan, CFA



	Date	Rating	Target Price	Closing Price
1	29-Mar-09	1H	*17.96	9.43
2	15-Jul-09	1H	*16.33	12.47
3	21-Oct-09	*1M	*20.41	16.20
4	5-Mar-10	1M	*25.31	18.89
5	9-Sep-10	1M	*24.50	15.74
6	16-Sep-10	1M	*23.27	15.06
7	19-Jan-11	1M	*26.13	21.26
8	19-Apr-11	1M	*31.03	24.95
9	8-Oct-11	Stock rating system changed		

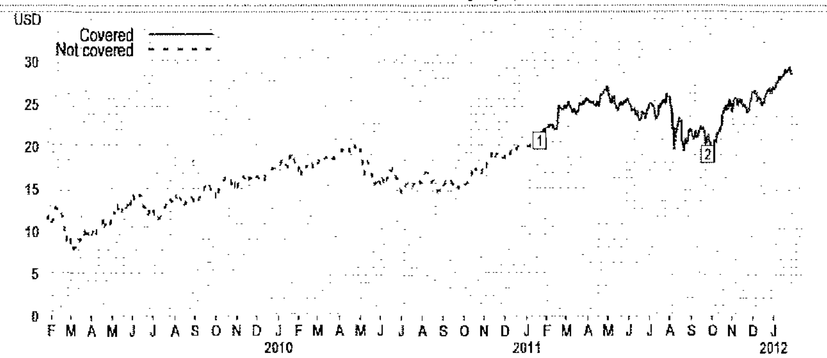
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

The Williams Companies Inc (WMB)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Faisel Khan, CFA



	Date	Rating	Target Price	Closing Price
1	20-Jan-11	*ADD MP	-	21.33
2	26-Sep-11	*REM MP	-	21.36

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

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Equities

23 April 2012 | 70 pages

Natural Gas & Gas Utilities

Continue to Favor Midstream Over Utilities

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- **Weather Driving Performance** — Predictably, weather is having an impact on utility volumes, storage spreads and NGL prices (propane) in 1Q. We believe the soft quarter is providing an entry point into some of our names. In particular, we believe ATO, NI and UGI have witnessed near-term headwinds into the quarter. We rate UGI Buy but continue to rate ATO and NI Neutral with modest total returns in these two names. OKE and SE have also seized up ahead of a soft quarter. While we remain Neutral on these two names, they do have modest upside from current levels especially given our secular bull thesis on the growth of liquids and midstream infrastructure.
- **Infrastructure Focus Picks** — We are raising our target price on WMB to $36 and continue to remain bullish on the name despite what looks to be a full price for the Caiman acquisition. We believe the acquisition has significant option value should volumes in the Utica shale take off. We are adding SUN to our list of recommendations in the pipeline space as the company makes the transition from a refining company to a pipeline company. We continue to have a positive bias on CNP and SRE as companies that could end up using the MLP as a financing vehicle for midstream, pipeline and LNG infrastructure growth.
- **Energy Focus Picks** — Our top pick amongst our energy focus names remains EGN, where we believe investors continue to receive $5-10 p/s of "free" oil/liquids exploration upside. NFG remains our defensive gas name in the group, with a sizeable portion of its cash flows underpinned by its regulated assets and oil production in California.

	Rating		Target Price		Current Year Earnings Estimates		Next Year Earnings Estimates	
Ticker	Old	New	Old	New	Old	New	Old	New
ATO	2	2	US$35.00	US$35.00	US$2.34	US$2.34	US$2.57	US$2.57
CNP	1	1	US$22.00	US$22.00	US$1.18	US$1.16	US$1.20	US$1.19
EGN	1	1	US$63.00	US$60.00	US$3.24	US$3.09	US$4.81	US$4.55
ENB	2	2	US$36.00	US$36.00	C$1.64	C$1.64	C$1.89	C$1.89
EQT	2	2	US$52.00	US$52.00	US$1.44	US$1.55	US$2.00	US$2.14
GAS	2	2	US$43.00	US$41.00	US$3.12	US$2.83	US$3.17	US$3.04
MDU	2	2	US$21.00	US$21.00	US$1.28	US$1.10	US$1.61	US$1.45
NFG	1	1	US$63.00	US$57.00	US$2.61	US$2.42	US$3.29	US$2.92
NI	2	2	US$22.00	US$24.00	US$1.48	US$1.38	US$1.50	US$1.51
OKE	2	2	US$86.00	US$90.00	US$3.35	US$3.36	US$3.81	US$3.50
SE	2	2	US$32.00	US$32.00	US$1.88	US$1.85	US$2.02	US$1.98
SRE	1	1	US$65.00	US$65.00	US$4.27	US$4.43	US$4.78	US$4.44
STR	1	1	US$20.50	US$20.50	US$1.21	US$1.21	US$1.32	US$1.28
SUN	1H	1H	US$51.00	US$51.00	US$1.23	US$1.23	US$3.19	US$3.19
SWX	1	1	US$47.00	US$47.00	US$3.05	US$2.98	US$3.12	US$3.05
TEG	2	2	US$55.00	US$55.00	US$3.65	US$3.45	US$3.68	US$3.68
TRP.TO	2	2	C$42.00	C$42.00	C$2.39	C$2.39	C$2.56	C$2.64
UGI	1	1	US$33.00	US$31.00	US$2.24	US$1.95	US$2.61	US$2.50
WC	2	2	US$28.00	US$29.00	US$1.87	US$1.84	US$1.92	US$1.88
WMB	1	1	US$32.50	US$36.00	US$1.64	US$1.49	US$1.91	US$1.70

See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

Integrated Natural Gas & Gas Utilities

YTD the S&P 500 has generated a total return of +10.3%. On the flip side, utilities underperformed across the board, as the S&P 500 Utility Index fell 1.7%, and PHLX Utility Index was -1.6% lower. Meanwhile, our proprietary Gas Utilities index was unable to buck the trend, and underperformed both the S&P 500 and broader utility based indices, falling -2.9% YTD.

Our Gas Utility Index is comprised of pipeline and gas utilities that trade in North America. Currently, the index trades at a forward P/E of 15.6X, slightly lower than levels at the end of 2011 (16.2X), but unchanged from the same period last year.

Meanwhile BBB corporate bonds have bounced of their decade lows and currently yield 5.6%, but back to levels at the beginning of 2012. 10-year US treasury yields have also followed in lockstep, bouncing of their lows in January (1.9%) to 2.2% at the end of the first quarter. Recent weakness in the 10-year (1.96%) has resulted in a mini rally for the pure play utilities.

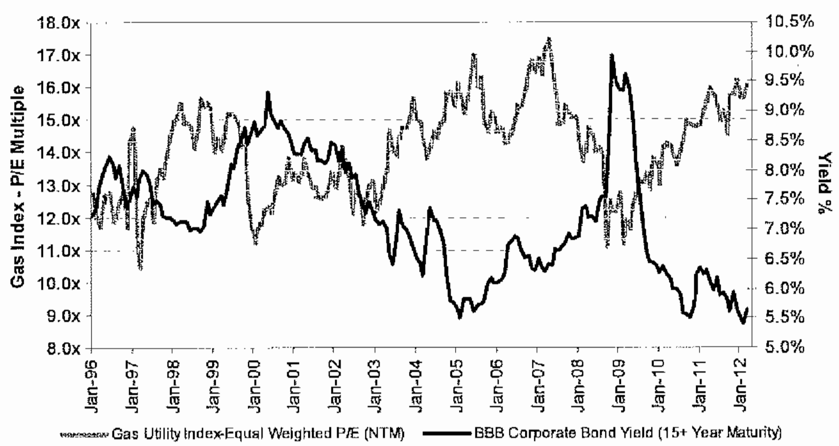
In an effort to identify the impact of macro relationships on the Gas Utility sector, our research indicates that BBB Corporate bond yields serve as a better benchmark to assess valuation multiples. We have derived a regression model, which looks at BBB corporate bond yields vs. Gas Utility P/E multiples. **Current levels for both BBB Yields and P/E ratios for the Gas Utility index indicates valuations for gas utilities are slightly elevated.** Figure 1 provides a range for where our gas utility index would trade versus BBB bonds based on our regression model which looks back at 15 years of historical data.

Figure 1. Relative Value of Gas Utilities

BBB Yields		Implied Gas Utl P/E
7.3		14.0
7.1		14.1
7.0		14.3
6.8		14.4
6.7		14.6
6.5		14.7
6.4		14.9
6.2		15.0
6.1		15.2
5.9		15.3
5.8		15.5
5.6	Implied Multiple	**15.6**
5.5		15.8
5.3		15.9
5.2	Current Multiple	**16.0**
5.0		16.2

Source: Citi Investment Research and Analysis

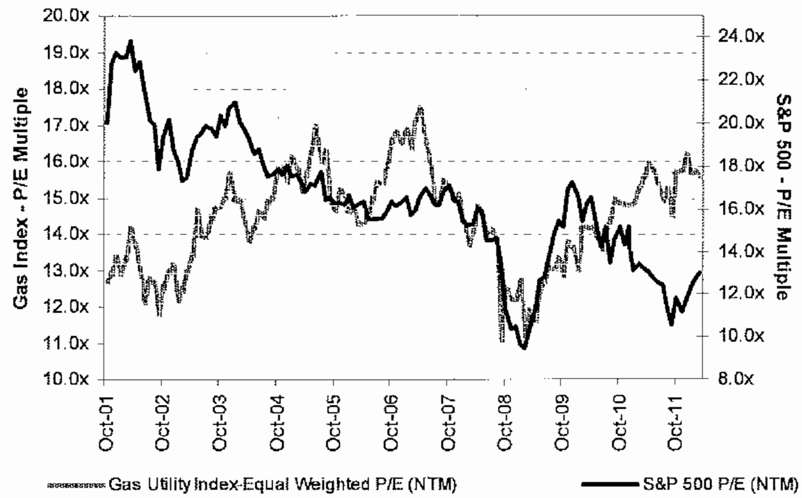
Figure 2. Gas Utility Index Valuation vs. BBB Corp. Bond Yields



Source: Citi Investment Research and Analysis, Factset

Overall, Gas Utilities are trading marginally higher than their average multiple over the last 15 years. Nonetheless, we think it's noteworthy for investors to recognize that BBB corporate bond yields have bounced of their decade lows. Historically, higher bond yields have had an inverse relationship with Gas Utility valuation multiples. But given the consensus outlook for interest rates is that they will remain at historical low levels, we don't anticipate significant downside risk to gas utility valuation multiples for at least the next few quarters. **A considerable uptick in inflation expectations and/or a revised global outlook for stronger global economic growth would cause us to potentially re-rate the sector.**

Figure 3. Gas Utility Index vs. S&P 500 Valuations

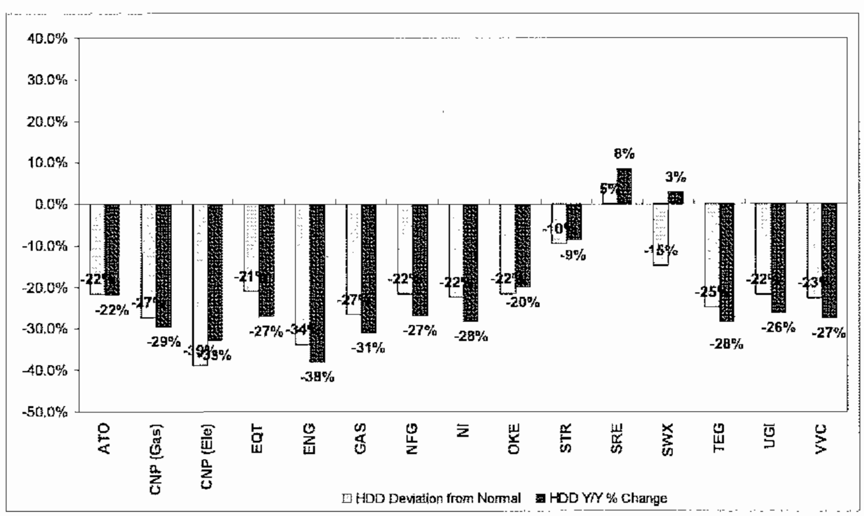


Source: Citi Investment Research and Analysis, Factset

The Gas Utilities Index has traded at a relative premium valuation to the S&P for the 16 months. **In the past decade, Gas Utilities have traded at a premium twice relative to the broader market. In both cases, the premium lasted for 7 months.** A combination of an extended low interest rate environment, favorable appetite for dividend oriented stocks and strong infrastructure growth outlook could keep valuations at higher than historical levels for what we have seen in recent history.

Q1/12 Weather Results Warmer than Normal

Figure 4. Gas Utility Coverage Universe Weather Sensitivity



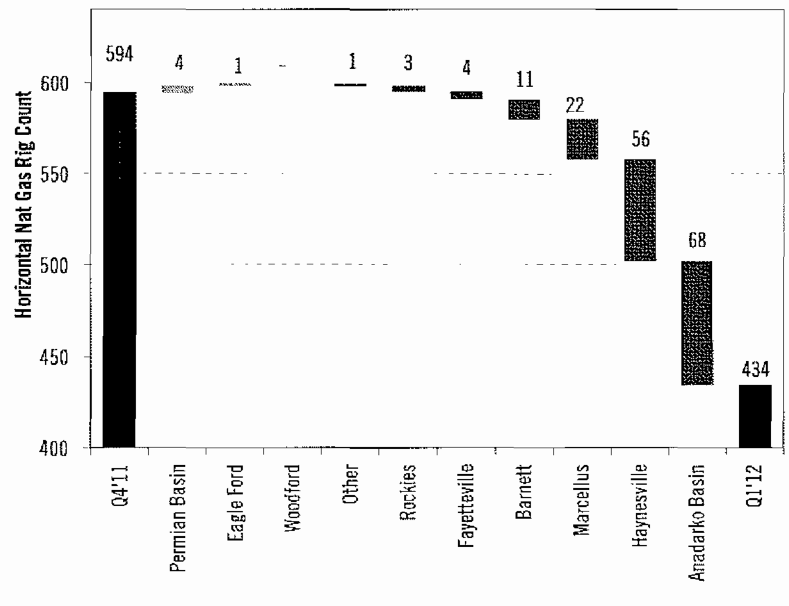
Source: Citi Investment Research and Analysis

Historically warmer than normal temperature in Q1/12 will likely be the main story this earnings season. **Across our coverage universe, temperatures were nearly 22% warmer than normal.** Consequently, we expect most companies in our universe to see a potential decline in earnings over the same period last year. However, in the last few years, the implementation of weather normalization and decoupling mechanism should help mitigate a significant fall of in Y-o-Y comparisons. See our 2012 industry outlook on Natural Gas & Gas Utilities for additional details on companies with such programs in place.

Cheap Natural Gas Drives Downstream Demand

NYMEX Natural Gas prices averaged $2.40/Mcf in Q1'12, down ~27% from the $3.27/Mcf in Q4'11 and down ~43% y/y. US horizontal rigs drilling for natural gas declined to 434 during Q1'12 from 594 in Q4'11, primarily driven by a 68 rig decrease in the Anadarko Basin and a 56 rig decrease in the Haynesville.

Figure 5. US Horizontal Gas Rig Count



Source: Citi Investment Research and Analysis; CIRA E&P Analyst

Despite these low natural gas prices and the continued shift of rigs drilling in dry gas areas to liquids-focused pockets of hydrocarbon production (Permian / Eagle Ford / Bakken), gas production is expected to continue to increase according to our internal Citi estimates (as well as projections from the EIA) as companies continue to drill to 1) hold acreage; 2) satisfy JV commitments; and 3) produce incremental off-gas from liquids rich plays. We currently forecast average production growth of ~2% in 2012 & 1.5% in 2013 versus EIA data of 4.5% & 1% growth, respectively.

Based on available 2012 data from the EIA, lower 48 marketed gas production of 68.2Bcf/d in January of 2012 (latest available month) was up ~9% y/y.

We believe that the majority of incremental natural gas supply will come out of the Marcellus region (PA + WV). We currently estimate 2012 Marcellus production to average ~5.6Bcf/d, up from 3.6Bcf/d in 2011 (implied ~55% growth rate). Given the relatively low production costs in the Marcellus coupled with its proximity to the Eastern Seaboard & East coast demand centers, we believe that the Marcellus will continue to see capital investment. According to data from the EIA, production in the Marcellus region could reach 16.3Bcf/d by 2035, or ~23% of total US gas production (versus ~7% today).

While low natural gas prices adversely affect the upstream companies (ignoring any impact of production hedges), consumers and end-users are the clear beneficiaries. In addition, Midstream companies, the conduit between the upstream natural gas producer and the demand centers, continue to benefit from infrastructure projects to get this cheap US gas to market.

Specifically, we estimate that natural gas demand from the Industrial & Electric generation sector will drive large scale midstream infrastructure investments over the next several years. Based on data from the EIA (we use a 3 month-moving average), Industrial demand is up ~1% through January 2012 (to ~19.8Bcf/d – seasonal high) over the comparable period in 2011, with Electric Demand (for power generation) up ~13% (to ~19.62Bcf/d). We project electric power demand will grow to an average of ~23.8/Bcf in 2012, or ~14% above 2011 levels. In addition, we believe that there could be an incremental 5.2Bcf/d demand potential for coal-to-gas switching given the cheap relative natural gas prices (see chart below).

We project a decline of ~6% in electric generation demand in 2013 (over 2012 levels) to an average 22.3Bcf/d. We believe that coal-to-gas switching could average ~3.2Bcf/d in 2013. On the Industrial side, we estimate that Industrial demand could grow ~1.7% in 2012 to 18.8Bcf/d and an additional 3.4% in 2013 to 19.4Bcf/d (3MMA).

Figure 6. Coal vs. Gas Cost – Power Gen Cost Comparison

Power Generation Cost Comparison	Coal PRB	Coal C.App	Coal N.App	Natural Gas Current
Coal Price ($/ton, $/bbl for oil)	$8.40	$63.85	$63.20	
Heat Value (Btu/lb Coal)	8,800	12,500	13,000	
$/MMBtu	$0.48	$2.55	$2.43	$2.09
Sulfur Credits:				
Sulfur Content (SO2 lbs/MMBtu)	0.8	1.20	3.0	
SO2 Emissions Credits ($/ton SO2)	$1.50	$1.50	$1.50	
SO2 Credit ($/ton Coal)	$0.01	$0.02	$0.06	
Transport ($/ton Coal)	$26.00	$0.00	$0.00	
Coal Cost/ton (w/ SO2 & transport)	$34.41	$63.87	$63.26	
MMBtu/ton Coal	17.6	25.0	26.0	
Fuel Cost ($/MMBtu)	**$1.96**	**$2.55**	**$2.43**	**$2.09**
Discount to Natural Gas (Current)	*-6%*	*22%*	*16%*	
Heat Rate (MMBtu/MWh)	9.5	9.5	9.5	7.0
MWh/ton Coal	*1.85*	*2.63*	*2.74*	
Total Scrubber Cost ($/MWh)				
Cost $/MWh	**$ 18.57**	**$ 24.27**	**$ 23.11**	**$ 14.63**
Carbon Credit Impact				
Carbon Credits				
Carbon Content (CO2 lbs/MMBtu)	211.9	205.3	205.3	117.0
CO2 Emissions Credits ($/ton CO2)	$15	$15	$15	$15
CO2 Cost $/MMBtu	$ 1.59	$ 1.54	$ 1.54	$ 0.88
CO2 Cost $/ton Coal	*$ 27.97*	*$ 38.49*	*$ 40.03*	
CO2 Cost $/MWh	*$ 15.10*	*$ 14.63*	*$ 14.63*	
Fuel Cost ($/MMBtu) - with Carbon Tax	$3.54	$4.09	$3.97	$2.97
Discount to Natural Gas (Current)	*19%*	*38%*	*34%*	
Coal Cost/ton (w/S02, Trans, C02)	*62.38*	*102.37*	*103.29*	
Cost $/MWh	**$ 33.67**	**$ 38.90**	**$ 37.74**	**$ 20.77**

Source: Citi Investment Research and Analysis, CIRA Coal Analyst

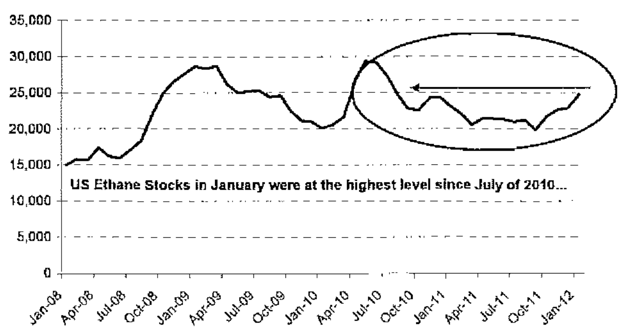
Q1'12 NGL Prices Decline on Feedstock Build as Ethylene Crackers Are Off-line

On the NGL side, we calculate that the average generic US barrel averaged $1.27/gal at Mont Belvieu in Q1'12, down ~12% sequentially and down ~2% y/y. Specifically, we estimate that Ethane prices averaged $0.56/gal, Propane ~$1.26/gal, Normal Butane $1.87/gal, Isobutane $2.03/gal and Natural Gasoline ~$2.39/gal).

Ethane prices declined ~35% sequentially (from $0.85/gal in Q4'11) and about 13% y/y. We believe this was caused by two primary factors: 1) Low natural gas prices as Ethane is generally priced off natural gas (versus the heavier components, C3+, off oil); and 2) a number of Ethane crackers that were down during the quarter. Interestingly, Ethylene margins (spot) increased dramatically during the first quarter to $0.34/lb versus ~$0.09/lb in Q4'11 as the combination of cheap and abundant feedstock (Ethane) with reduced consumption (cracker outages) and limited ethylene supply helped boost margins for the chemical companies.

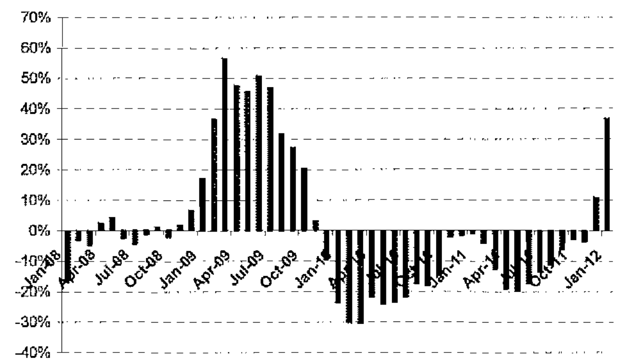
In January, US Ethane stocks of 24.8mmbbls, were at the highest level since July of 2010 when they reached ~27.3mmbls (see chart below). On the propane side, propane prices were down ~10% y/y to $1.26/gal from $1.39/gal during 1Q'12. Propane is a seasonal fuel and therefore needs to be taken in the context of winter heating demand. As such, we show the y/y % changes in Propane inventories, which have spike in January of 2012. We link this to the unseasonably mild winter that also had an adverse effect on natural gas prices. Since Ethane & Propane are generally the main components of the average US NGL barrel (we estimate anywhere from 65%-75%), we are not surprised that NGL prices have shown some weakness as of late despite the fact that Normal Butane, Isobutane & Natural Gasoline are up ~8% on average y/y. We have accounted for this in our Q1'12 estimates in all of our operating models.

Figure 7. US Ethane Stocks



Source: Citi Investment Research and Analysis, EIA

Figure 8. Y/Y % Change in Propane Inventories



Source: Citi Investment Research and Analysis, EIA

Earnings Estimates & Conference Call Details

Figure 9. CQ1 2012, FY2012 & FY2013 Estimates versus Consensus & CQ1 2012 Earnings Calendar

Ticker	Company	CQ1 '12 CIRA Est.	CQ1 '12 Consensus*	Delta	FY 2012 CIRA Est.	FY 2012 Consensus*	Delta	FY 2013 CIRA Est.
GAS	AGL Resources	$1.46	$1.34	$0.12	$2.83	$2.82	$0.02	$3.04
ATO	Atmos Energy **	$1.41	$1.43	($0.02)	$2.34	$2.33	$0.01	$2.57
CNP	Centerpoint Energy	$0.32	$0.34	($0.02)	$1.16	$1.14	$0.02	$1.19
ENB	Enbridge	$0.49	$0.48	$0.01	$1.64	$1.64	$0.00	$1.89
EGN	Energen	$1.17	$1.16	$0.01	$3.09	$3.42	($0.34)	$4.55
EQT	EQT Corporation	$0.45	$0.61	($0.16)	$1.55	$2.09	($0.54)	$2.14
MDU	MDU Resources	$0.19	$0.22	($0.03)	$1.10	$1.22	($0.12)	$1.45
NFG	National Fuel Gas	$0.84	$0.90	($0.06)	$2.42	$2.47	($0.05)	$2.92
NI	NiSource	$0.61	$0.71	($0.10)	$1.38	$1.45	($0.07)	$1.51
OKE	Oneok	$1.30	$1.35	($0.05)	$3.50	$3.63	($0.13)	$4.34
SRE	Sempra Energy	$1.13	$0.98	$0.15	$4.43	$4.19	$0.25	$4.44
SWX	Southwest Gas	$1.67	$1.59	$0.08	$2.98	$2.70	$0.28	$3.05
SE	Spectra Energy	$0.53	$0.54	($0.01)	$1.85	$1.86	($0.00)	$1.98
SUN	Sunoco	($0.47)	($0.01)	($0.46)	$1.23	$1.22	$0.00	$3.19
STR	Questar	$0.44	$0.43	$0.01	$1.21	$1.19	$0.01	$1.28
TEG	Integrys Energy	$1.56	$1.60	($0.04)	$3.45	$3.49	($0.04)	$3.68
TRP	TransCanada***	$0.53	$0.56	($0.03)	$2.39	$2.36	$0.03	$2.64
UGI	UGI Corp**	$1.19	$1.23	($0.04)	$1.95	$1.93	$0.03	$2.50
VVC	Vectren Corporation	$0.69	$0.62	$0.07	$1.84	$1.87	($0.03)	$1.88
WMB	Williams	$0.37	$0.36	$0.01	$1.49	$1.45	$0.04	$1.70

*Thompson FirstCall ** Sept Year End *** Canadian Dollars

Ticker	Company	Conference Call Info			
		Date	Time	Number	Conference ID
GAS	AGL Resources	5/1	4:00 PM	866-383-8003	57339818
ATO	Atmos Energy	5/3	10:00 AM	877-485-3107	n/a
CNP	Centerpoint Energy	5/3	11:30 AM	800-653-1761	65391356
LNG	Cheniere Energy	N/A	N/A	N/A	N/A
ENB	Enbridge	TBD	9:00 AM	TBD	TBD
EGN	Energen	4/25	3:00 PM	866-821-5457	N/A
EQT	EQT Resources	4/26	10:30 AM	412-858-4600	10006583
TEG	Integrys Energy	5/2	9:00 AM	TBD	TBD
MDU	MDU Resources	5/1	11:00 AM	800-603-1779	N/A
NFG	National Fuel Gas	5/4	11:00 AM	866-831-6162	73317573
OKE	Oneok	5/1	11:00 AM	TBD	TBD
STR	Questar	4/24	9:30 AM	800-309-9491	TBD
SRE	Sempra Energy	5/3	1:00 PM	877-857-6149	4152078
SWX	Southwest Gas	TBD	TBD	TBD	TBD
SE	Spectra Energy	5/4	9:00 AM	888-252-3715	65118054
TRP	TransCanada	4/27	3:00 PM	866-266-1792	N/A
UGI	UGI Corp	4/26	4:00 PM	877-351-5878	N/A
VVC	Vectren	5/2	9:30 AM	888-821-5457	N/A
WMB	Williams	2/25	9:30 AM	888-248-9498	N/A

Source: Citi Investment Research and Analysis, Thompson FirstCall, Company Data

Natural Gas & Gas Utilities
23 April 2012

Company Focus

- Company Update
- Target Price Change
- Estimate Change

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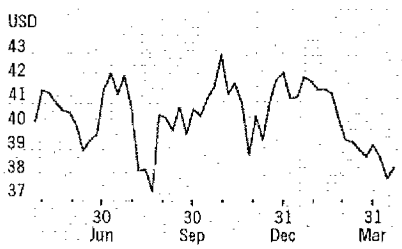
Neutral	**2**
Price (20 Apr 12)	US$38.31
Target price	US$41.00
from US$43.00	
Expected share price return	7.0%
Expected dividend yield	4.7%
Expected total return	**11.7%**
Market Cap	US$4,491M

Price Performance
(RIC: GAS.N, BB: GAS US)



AGL Resources Inc (GAS)

Lower Estimates on Weather & Challenged Midstream/Wholesale

- **Q1 Earnings** — We are lowering our Q1/12 estimates to $1.46 per share, down from $1.59, and above consensus of $1.39. In addition, we are adjusting our 2012/2013/2014 EPS estimates to $2.83/$3.04/$3.09. Our revised estimates account for the updated outlook provided by management at the analyst day held in late March/12 (guidance of $2.80-2.95 earnings per share in 2012). Our updated numbers include the full integration of the Nicor acquisition. Despite AGL's utilities being immune from weather due to weather stabilization programs, our numbers reflect the impact of lowering earnings from the acquired Nicor utility which presently does not have such mechanisms in place and will likely be impacted by the historic temperatures.
- **Weather** — Warmer than normal temperatures are expected to impact GAS earnings on the quarter, primarily in their Midwest footprint. Our proprietary weather model indicates HDD's with GAS geographic footprint to be down more than 25% versus normal temperatures. We expect the majority of the impact to LDC EBIT to come from the Midwest footprint.
- **Retail** — Our estimates on the quarter include the roll-up of the legacy Nicor retail segment, which includes more than 500k new customers. In our valuation, we assume that customer profitability to be within range of AGL's Southstar business. We will look for additional color on expansion plans (e.g. cross-selling) and per customer costs which have been trending higher or late.
- **Wholesale/Midstream** — Gas prices and storage market fundamentals remain challenged despite seasonal spreads improving in the quarter. We have taken down our margin estimates slightly associated with Sequent and updated our model for the Central Valley Storage facility in CA, expected to come on-line in Q3/12.
- **Rating & Target** — We are lowering our target price from $43 to $41 on our revised earnings outlook and continued hurdles facing the Wholesale and Midstream divisions.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	1.59A	0.22A	0.03A	0.88A	2.74A	2.92A
2012E	**1.46E**	**0.16E**	**0.07E**	**1.15E**	**2.83E**	**2.82E**
Previous	1.59E	0.23E	0.22E	1.07E	3.12E	na
2013E	**1.48E**	**0.21E**	**0.13E**	**1.22E**	**3.04E**	**3.04E**
Previous	1.61E	0.24E	0.23E	1.09E	3.17E	na
2014E	**1.52E**	**0.20E**	**0.12E**	**1.26E**	**3.09E**	**3.18E**
Previous	1.64E	0.25E	0.23E	1.11E	3.23E	na

Source: Company Reports and dataCentral, CIR. FC Cons: First Call Consensus.

Company Focus

Atmos Energy Corp (ATO)

Maintain Neutral; Staying Focused on Rate Base Growth

- Company Update

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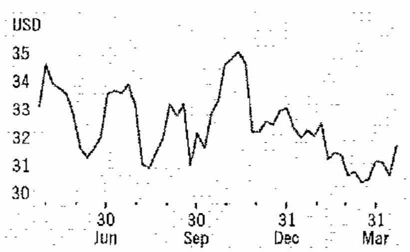
Neutral	**2**
Price (20 Apr 12)	US$32.00
Target price	US$35.00
Expected share price return	9.4%
Expected dividend yield	4.3%
Expected total return	**13.7%**
Market Cap	US$2,887M

Price Performance
(RIC: ATO.N, BB: ATO US)



- **Rating & Target** — We are maintaining our Neutral rating, however the stock trades at a discounted valuation versus its peer group. ATO trades at a discount despite an earnings mix that it skewed (90%+ regulated) towards lower risk growth. We don't anticipate any material change to the dividend policy in the near-term despite improved leverage ratios and a payout ratio at the bottom end of its historical range.

- **Q2 Earnings** — Our EPS estimate for Q2'12 is $1.41, slightly below consensus at $1.43. We recently accompanied management on non-deal road show through the Midwest. Meetings were generally constructive as management provided more clarity on plans to increase rate base through regulatory constructs through their jurisdictions and opportunities for transmission growth in TX.

- **Weather** — We estimate temperatures were 20% warmer than normal during the quarter within ATO's service area. However, ATO has weather normalization mechanisms in place through TX, KY and LA. Hence, we don't expect a material drop off in earnings related to the abnormal temperatures.

- **Capex Ramping** — One of the main discussion points with investors during our road show was the growth potential in capital spending within the regulated businesses, in particular transmission. The opportunity to grow capex associated with the regulated business looks promising going into the middle of the decade. The majority of the capital spending over the next several quarters is tied to regulatory recovery mechanisms with expedited payback mechanisms that generate ROE's in the 10-11% range. The CEO outlined that they are actively pursuing transmission projects within TX looking to capitalize on expansion projects within the shale regions. Management stressed they have no immediate plans to pursue any acquisitions and would rather focus on organic growth. We estimate rate base growth over the next two years to be in the 6% range.

- **Marketing** — EPS contribution from this segment is likely to continue to decline but at a slower pace. EBIT from the segment has gone from the mid-teens in 2009 into the low single digits today. Management has no plans to exit the business, but emphasized no incremental capital would be put to work.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	0.76A	1.65A	0.08A	-0.21A	2.28A	2.34A
2012E	**0.72A**	**1.41E**	**0.17E**	**0.05E**	**2.34E**	**2.33E**
Previous	0.72A	1.41E	0.17E	0.05E	2.34E	na
2013E	**0.88E**	**1.42E**	**0.19E**	**0.09E**	**2.57E**	**2.49E**
Previous	0.88E	1.42E	0.19E	0.09E	2.57E	na
2014E	**0.89E**	**1.46E**	**0.20E**	**0.10E**	**2.65E**	**2.55E**
Previous	0.89E	1.46E	0.20E	0.10E	2.65E	na

Source: Company Reports and dataCentral, CIR. FC Cons: First Call Consensus.

Natural Gas & Gas Utilities
23 April 2012

Company Focus

CenterPoint Energy Inc (CNP)

Lowering Estimates on Weather; Reinvestment Announcement Soon

- Company Update
- Estimate Change

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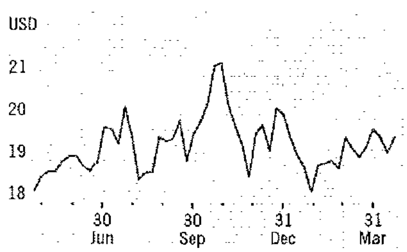
Buy	**1**
Price (20 Apr 12)	US$19.53
Target price	US$22.00
Expected share price return	12.6%
Expected dividend yield	4.1%
Expected total return	**16.8%**
Market Cap	US$8,326M

Price Performance
(RIC: CNP.N, BB: CNP US)



- **Q1 Earnings** — We are lowering our EPS estimate for the quarter to $0.32 per share from $0.34, slightly below consensus on the impact of warmer weather.

- **Weather** — On average, temperatures across CNP's operating footprint were nearly 30% warmer than normal. CNP has decoupling/energy efficiency mechanisms in place multiple jurisdictions (AK, LA, MN, OK), so we expect earnings to fair relatively better than other companies in our universe.

- **Midstream** — During the quarter, CNP announced plans to expand their gathering systems in OK/KS, with plans to build a 300 mile high-pressure gathering line and 200 MMcf/d of processing capacity. The project will connect inter & intra- state markets with NGL volumes going to the Medford Hub in OK. Our estimate for Field Services is unchanged for the quarter at $62 mm in EBIT.

- **Transmission & Distribution** — ERCOT issued an updated resource adequacy report in March/12. The report indicates a significant risk that demand for power could drive prices higher this summer as reserve margins continue to trend lower in Texas. This could lead to an upside surprise to earnings on the back-end of this year. See the note from our Electric Utilities team for more color (Hook 'Em Horns Part II).

- **True-Up Proceeds** — The Transition bonds were issued early in the quarter for $1.7 BN related to the stranded costs and associated true-up balances. We anticipate management will make an announcement shortly on how they plan to deploy this capital.

- **Rating & Target** — We continue to rate the stock a Buy and maintain our $22 per share target price. The stock remains at a discount on an EV/EBITDA basis relative to our regulated gas utility universe, which we believe should unwind once capital associated with the true-up proceeds is put to work.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	0.34A	0.27A	0.93A	0.27A	1.82A	1.27A
2012E	**0.32E**	**0.25E**	**0.33E**	**0.26E**	**1.16E**	**1.14E**
Previous	0.35E	0.25E	0.32E	0.25E	1.18E	na
2013E	**0.34E**	**0.24E**	**0.34E**	**0.27E**	**1.19E**	**1.24E**
Previous	0.36E	0.26E	0.33E	0.26E	1.20E	na
2014E	**0.35E**	**0.25E**	**0.36E**	**0.28E**	**1.23E**	**1.34E**
Previous	0.38E	0.28E	0.35E	0.27E	2.23E	na

Source: Company Reports and dataCentral, CIR. FC Cons: First Call Consensus.

Company Focus

- Company Update
- Estimate Change

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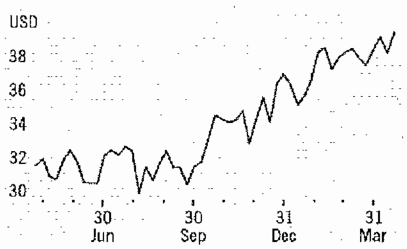
Neutral	**2**
Price (20 Apr 12)	US$39.89
Target price	US$36.00
Expected share price return	-9.8%
Expected dividend yield	2.8%
Expected total return	**-6.9%**
Market Cap	US$31,200M

Price Performance
(RIC: ENB.N, BB: ENB US)



Enbridge Inc. (ENB)
Maintain Neutral Rating; Target $36

- **EPS** — We estimate that Enbridge will earn $0.49p/s in Q1'12 vs. the Street at $0.48p/s. Our 2012 estimate is $1.64p/s, in-line with consensus of $1.64p/s. ENB is guiding to $1.58-$1.74, which implies a 12% EPS growth rate. Our 2014 estimates increase as a result of additional growth projects.

- **Conference Call** — We expect the call to focus on updates of ongoing and potential growth projects. We expect attention will fall on the $2.8 billion (recently upsized from $1.9 billion) Flanagan South project as well as the $1.5bn Seaway Pipeline (including reversal and extension). ENB is projecting that first oil could flow from Cushing to the Gulf Coast via Seaway in June of 2012.

- **Liquids Pipelines** — We expect EBIT of $230mm up from $228mm in Q1'11. Our FY'12 EBIT estimate is ~$1bn. Our total Mainline volume assumption of 2.2mmbbls/d is roughly in-line with 2011 volumes. We estimate ENB's current project backlog at ~$10 billion through 2015.

- **Gas Pipelines, Processing & Energy Services** — We expect EBIT of $78mm down from $89mm in Q1'11. Our FY'12 EBIT estimate is ~$342mm versus $320mm in 2011. We estimate that ENB has ~$2.5bn of expansion projects at this business segment.

- **Earnings & Cash Flow** — We estimate that ENB will grow earnings ~12% per annum through 2015, slightly above company guidance of 10%. Our estimates could prove conservative if ENB were to secure additional projects beyond our assumptions. Enbridge has identified in excess of $20bn of additional growth projects over the next 5-10 years (In addition to $13bn of secured projects and ~$7bn of risk-adjusted projects through 2015).

- **Moving East** — In our opinion, the next potential wave of growth projects could come on the heels of a push to get crude oil to the Eastern Seaboard, specifically a bigger push into Canada and potentially even the Northeast refining complex. We expect additional color on the conference call.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	0.44A	0.24A	0.31A	0.31A	1.73A	1.48A
2012E	**0.49E**	**0.37E**	**0.33E**	**0.46E**	**1.64E**	**1.64E**
Previous	0.49E	0.37E	0.33E	0.46E	1.64E	na
2013E	**0.56E**	**0.42E**	**0.39E**	**0.51E**	**1.89E**	**1.87E**
Previous	0.59E	0.41E	0.39E	0.50E	1.89E	na
2014E	**0.62E**	**0.49E**	**0.46E**	**0.56E**	**2.14E**	**2.13E**
Previous	0.60E	0.47E	0.44E	0.56E	2.07E	na

Source: Company Reports and dataCentral, CIR. FC Cons: First Call Consensus.

Company Focus

- Company Update
- Target Price Change
- Estimate Change

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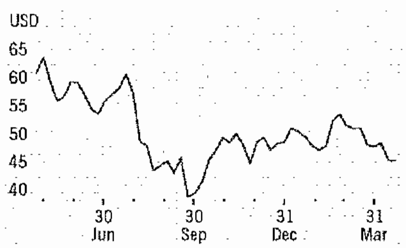
Buy	**1**
Price (20 Apr 12)	US$46.75
Target price	US$60.00
from US$63.00	
Expected share price return	28.3%
Expected dividend yield	1.2%
Expected total return	**29.5%**
Market Cap	US$3,371M

Price Performance
(RIC: EGN.N, BB: EGN US)



Energen Corp (EGN)

EGN Remains Favorite Integrated Gas Name; Target $60

- **EPS** — Our estimate for the quarter is $1.17 per share, in-line with consensus. While our estimates for the utility business (Alagasco) remain largely unchanged due to weather normalization, we have marked our model to market for Q2 actual commodity prices. Our assumptions for EGN's actual realizations remain conservative at $99/bbl of oil, $2.35 per mcf of gas and $1.06 per gal of NGL. Our FY 2012 EPS is $3.09 vs. the Street at $3.43. We assume $106 oil (WTI), $2.40 gas & 1.10/gal of NGL.

- **Guidance** — EGN is currently guiding to $3.15-$3.55 in EPS for 2012. The company assumes $95 oil, $3 gas & $1.11 gal for NGL's. We believe the gas estimate might be revised downward while the oil estimate remains conservative. EGN's production forecast is 24mmboe, which is in-line with our estimate. EGN could lower the bottom end of the guidance range to account for the low natural gas prices, in our opinion.

- **Quarter** — We believe Q1'12 will largely be a non-event as all eyes will be focused on the May 1st JV deadline (BHP has to make a decision at that time). We do not think that EGN will have a decision by the conference call. We would look for an additional 3rd Bone Spring well results out of the Eastern area of the Pecos river. Potential IP rates from 550–650boe/d should be viewed as incrementally positive, in our view. We believe that EUR's of 400-450Kboe have some room for upward revision, though we do not expect it on this call.

- **E&P** — We estimate Q1 EBITDA of $146mm versus $178mm in Q4. Our estimate is based on an average realized gas price of $2.35/Mcf, average realized oil of $99/bbl & NGL of $1.06/gal. We estimate that daily production will grow to 63Kboe/d, up from 60Kboe/d in Q1, mostly driven by the Permian. Our current capex estimate for 2012 remains at $945mm.

- **Distribution** — We estimate 1Q EBIT of $79mm vs. $75mm in Q1'11. Our 2012 EBIT estimate is $94mm versus $86mm in 2011.

- **Rating & Target** — We maintain our Buy rating. EGN remains our favorite name. Our target price is now $60p/s from $63 previously as a result of our updated commodity prices. We believe that investors currently receive ~$5-10p/s of "free" exploration upside (Wolfcamp + Reeves County).

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	1.30A	0.87A	0.75A	0.98A	3.91A	3.91A
2012E	**1.17E**	**0.53E**	**0.53E**	**0.85E**	**3.09E**	**3.42E**
Previous	1.20E	0.59E	0.56E	0.90E	3.24E	na
2013E	**1.57E**	**0.92E**	**0.86E**	**1.20E**	**4.55E**	**4.46E**
Previous	1.63E	0.99E	0.93E	1.27E	4.81E	na
2014E	**na**	**na**	**na**	**na**	**3.99E**	**5.27E**
Previous	na	na	na	na	4.15E	na

Source: Company Reports and dataCentral, CIR. FC Cons: First Call Consensus.

Company Focus

- Company Update
- Estimate Change

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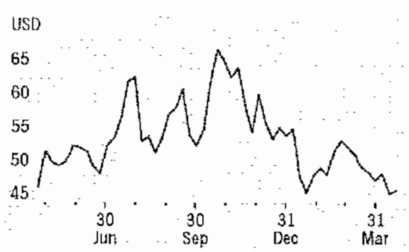
Neutral	**2**
Price (20 Apr 12)	US$46.67
Target price	US$52.00
Expected share price return	11.4%
Expected dividend yield	1.9%
Expected total return	**13.3%**
Market Cap	US$6,987M

Price Performance
(RIC: EQT.N, BB: EQT US)



EQT Corporation (EQT)

Maintain Neutral Rating; Target $52

- **EPS** — Our estimate for the quarter is $0.45 per share, below consensus of $0.61. We have lowered our estimates for the utility business to account for warmer than normal temperatures (HDD's down ~26% y/y) in EQT's affected service territories. Our FY 2012 EPS is $1.55 vs. the Street at $2.10. We assume $106 oil (WTI) & $2.40 gas. Our 2012 estimates actually trends slightly higher to $1.55 from $1.44 previously as we have adjusted our model for a higher liquids uplift, mostly driven by West Virgina volumes (EQT is drilling ~45 wells this year).
- **E&P** — We estimate Q2 EBITDA of $138mm versus $177mm in Q1. Our estimate is based on an average realized wellhead price (net to EQT) of $4.36/Mcf, which includes a liquids uplift of $0.97/Mcf. We estimate that equity sales will grow to 633mmcfe/d versus 583mmcf/ed in Q1. We expect average Marcellus production of ~351mmcf/d versus 271mmcf/d last quarter.
- **Midstream** — We estimate 1Q EBIT of $51mm vs. $57mm in Q1'11 (included Big Sandy). We have lowered our number to adjust for depressed marketing margins. Our 2012 EBIT estimate is $250mm versus $203mm in 2011.
- **Distribution** — We estimate EBIT for Q1 will be $38mm versus $45mm a year ago as a result of lower throughput on the system (heating degree days expected to be down ~27% y/y according to our weather model). Our 2012 EBIT estimate is $73mm vs. $78mm in 2011.
- **Rating & Target** — We maintain our Neutral rating and $52 target price as our lowered natural gas price forecasts are offset by higher liquids contribution calculations.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	0.65A	0.51A	0.45A	0.60A	2.21A	2.21A
2012E	**0.45E**	**0.23E**	**0.28E**	**0.59E**	**1.55E**	**2.09E**
Previous	0.49E	0.22E	0.20E	0.53E	1.44E	na
2013E	**0.62E**	**0.46E**	**0.41E**	**0.65E**	**2.14E**	**2.80E**
Previous	0.67E	0.40E	0.35E	0.58E	2.00E	na
2014E	**0.70E**	**0.56E**	**0.53E**	**0.78E**	**2.57E**	**4.15E**
Previous	0.70E	0.45E	0.42E	0.66E	2.22E	na

Source: Company Reports and dataCentral, CIR. FC Cons: First Call Consensus.

Natural Gas & Gas Utilities
23 April 2012

Company Focus

Integrys Energy Group, Inc. (TEG)

EPS Below Consensus; Rate Cases in the Queue

- Company Update
- Estimate Change

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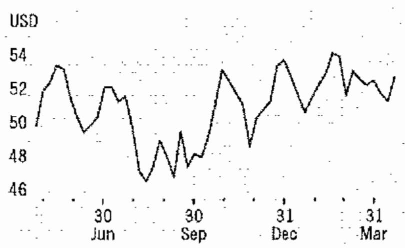
Neutral	**2**
Price (20 Apr 12)	US$53.20
Target price	US$55.00
Expected share price return	3.4%
Expected dividend yield	5.1%
Expected total return	**8.5%**
Market Cap	US$4,165M

Price Performance
(RIC: TEG.N, BB: TEG US)



- **Q1 Earnings** — Our estimate for the quarter is $1.56 per share, down from $1.75, and below consensus of $1.61, on warmer weather and adjustments to expense estimates at the utilities. Weather was 25% warmer in TEG's service region. We estimate TEG will be partially mitigated by weather stabilization mechanisms in place.
- **Minnesota Rate Case** — The ALJ in Minnesota provided their recommendation to the MPUC to authorize a rate increase of $11 mm (9.4% ROE and 50.5% Equity layer, rate base of $191 mm). TEG originally submitted a request for $15 mm, (11.25% ROE and 50% equity layer). The recommendation is better than our estimate ($7 mm). The MPUC is scheduled to vote on the matter May 24/12.
- **WPS Rate Case** — One of the larger rate increases in 2012 was submitted to regulators in Wisconsin during the quarter. For the electric segment, WPS is seeking an increase of $85 mm (10.3 % ROE, 52% equity layer). At the natural gas utility, TEG is requesting a modest increase of $13 mm with identical ROE and equity layer as the electric division. A decision is expected to be handed down by the end of the year.
- **Rating & Target** — Our rating and price target remain unchanged at Neutral and $55 per share.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	1.57A	0.36A	0.50A	1.00A	3.42A	3.38A
2012E	**1.56E**	**0.50E**	**0.18E**	**1.21E**	**3.45E**	**3.49E**
Previous	1.75E	0.51E	0.18E	1.21E	3.65E	na
2013E	**na**	**na**	**na**	**na**	**3.68E**	**3.64E**
Previous	na	na	na	na	3.68E	na
2014E	**na**	**na**	**na**	**na**	**3.86E**	**3.84E**
Previous	na	na	na	na	3.87E	na

Source: Company Reports and dataCentral, CIR. FC Cons: First Call Consensus.

Company Focus

MDU Resources Group Inc (MDU)

Maintain Neutral Rating; Target $21

- Company Update
- Estimate Change

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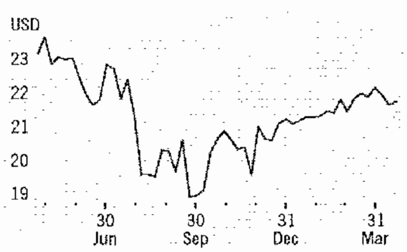
Neutral	**2**
Price (20 Apr 12)	US$21.96
Target price	US$21.00
Expected share price return	-4.4%
Expected dividend yield	2.9%
Expected total return	**-1.5%**
Market Cap	US$4,147M

Price Performance
(RIC: MDU.N, BB: MDU US)



- **EPS** — Our estimate for the quarter is $0.19 per share, below consensus of $0.22 but in-line with MDU's pre-announced number of $0.19. We have lowered our estimates for the utility business to account for warmer than normal temperatures (HDD's down ~18% y/y) in MDU's affected service territories. We have also adjusted our production estimate and Bakken differentials per MDU's pre-announcement press release. Our FY 2012 EPS is $1.10 vs. the Street at $1.22. We assume $106 oil (WTI) & $2.40 gas.

- **Guidance** — MDU just re-affirmed the 2012 guidance range of $1.00-$1.25. We do not think the company will make any changes to this on the call. MDU assumes $2.25-$2.75 gas & $95-$105 oil.

- **E&P** — We estimate 2Q EBITDA of $62mm versus $71mm in Q1. Our estimate is based on an average gas price of $2.43/Mcf (NYMEX) and average oil of $91/bbl (Clearbrook). We estimate total daily production of 179mmcfe, with ~10.5Kbbls of oil. For 2012, our total production is 64.4Bcfe, down 3% y/y. Our gas production estimate of 39Bcfe is down 14% while our oil production estimate of 4.2mmbbls is up 21% y/y.

- **Gas Distribution** — We estimate 2Q EBIT of $42mm vs. $50mm in Q1'11. We have lowered our number to adjust for lower HDD's across MDU's affected service territories. Our 2012 EBIT estimate is $76mm versus $83mm in 2011.

- **Construction Materials** — We estimate a seasonal operating loss (generally a weak quarter due to winter months and slowing of activity) of $28.1mm for 1Q'12 versus a $33mm loss a year ago. Our 2012 EBIT estimate is $50mm vs. $51mm in 2011. While we remain cautious on this segment over the near-term, we acknowledge the operating leverage embedded in the case of an economic recovery.

- **Rating & Target** — We maintain our Neutral rating. Our target price is $21p/s.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	0.20A	0.24A	0.34A	0.39A	1.17A	1.19A
2012E	**0.19E**	**0.17E**	**0.35E**	**0.38E**	**1.10E**	**1.22E**
Previous	0.26E	0.21E	0.38E	0.42E	1.28E	na
2013E	**0.29E**	**0.26E**	**0.44E**	**0.46E**	**1.45E**	**1.40E**
Previous	0.35E	0.30E	0.47E	0.49E	1.61E	na
2014E	**0.24E**	**0.21E**	**0.39E**	**0.40E**	**1.23E**	**1.49E**
Previous	0.28E	0.22E	0.40E	0.41E	1.31E	na

Source: Company Reports and dataCentral, CIR. FC Cons: First Call Consensus.

Company Focus

National Fuel Gas Co (NFG)

Maintain Buy; Liquids Upside Free Option

- Company Update
- Target Price Change
- Estimate Change

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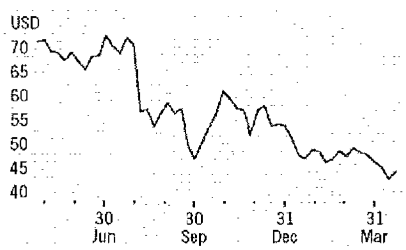
Buy	**1**
Price (20 Apr 12)	US$45.85
Target price	US$57.00
from US$63.00	
Expected share price return	24.3%
Expected dividend yield	2.8%
Expected total return	**27.2%**
Market Cap	US$3,809M

Price Performance
(RIC: NFG.N, BB: NFG US)



- **EPS** — Our estimate for the quarter is $0.84 per share, below consensus of $0.90. We have lowered our estimate for the utility business to account for warmer than normal temperatures (HDD's down ~26% y/y) in NFG's affected service territories. Our FY 2012 EPS is $2.42 vs. the Street at $2.32. We assume $106 oil (WTI) & $2.40 gas.

- **Guidance** — We believe that NFG will cut its 2012 guidance range and estimated production due to continued low(er) natural gas prices. Current 2012 EPS guidance is $2.40-$2.65p/s and 81-90Bcfe of production (Citi at 82.5Bcfe). Our 2013 estimate is 97Bcfe, implying ~17% growth y/y, versus current guidance of 112-116. Our estimates assume that NFG will drop an additional rig and move to a 3 rig program (currently still running 4).

- **E&P** — We estimate 2FQ EBIT of $50mm versus $58mm in FQ1. Our estimate is based on an average gas price of $2.43/Mcf and average oil of ~$118/bbl (West Coast). We estimate that daily production will grow to 234mmcf/d versus 202mmcf/d in FQ1. We expect average Marcellus production of ~162mmcf/d versus 124mmcf/d last quarter. We do not expect any results out of the Utica liquids test well in the Henderson area, and we do not give NFG any credit for potential liquids uplift in any of their Western acreage (~100K+ potential for liquids) pending actual well results.

- **Distribution** — We estimate 2Q EBIT of $54mm vs. $62mm in Q1'11. We have lowered our number to adjust for lower HDD's across NFG's affected service territories. Our 2012 EBIT estimate is $114mm versus $127mm in 2011.

- **Pipeline** — We estimate EBIT for 2FQ will be $23mm versus $24mm a year ago as a result of lower throughput. Our 2012 EBIT estimate is $78mm vs. $74mm in 2011 due to a full year of expansions in 2012.

- **Rating & Target** — We maintain our Buy Rating. Our target price is now $57p/s from $63 previously as a result of our updated commodity prices.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	0.70A	1.00A	0.56A	0.45A	2.71A	2.71A
2012E	**0.73A**	**0.84E**	**0.44E**	**0.41E**	**2.42E**	**2.47E**
Previous	0.77E	0.94E	0.47E	0.43E	2.61E	na
2013E	**0.83E**	**1.01E**	**0.53E**	**0.56E**	**2.92E**	**2.71E**
Previous	0.87E	1.09E	0.63E	0.70E	3.29E	na
2014E	**0.90E**	**0.99E**	**0.52E**	**0.46E**	**2.87E**	**3.16E**
Previous	1.10E	1.24E	0.78E	0.73E	3.86E	na

Source: Company Reports and dataCentral, CIR. FC Cons: First Call Consensus.

Company Focus

- Company Update
- Target Price Change
- Estimate Change

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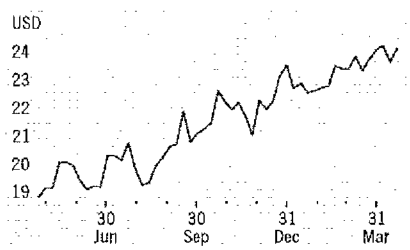
Neutral	**2**
Price (20 Apr 12)	US$24.41
Target price	US$24.00
from US$22.00	
Expected share price return	-1.7%
Expected dividend yield	3.8%
Expected total return	**2.1%**
Market Cap	US$6,927M

Price Performance
(RIC: NI.N, BB: NI US)



NiSource Inc (NI)

Below Street on Earnings; Utica Expansion in Early Innings

- **Earnings** — Our estimate for Q1/12 adjusted earnings is $0.61 per share, down from $0.72, on weather. We estimate temperatures were more than 20% warmer than normal during the quarter. However, despite the company's stabilization mechanisms that are in place across its service territory, we expect EBIT at the LDC to decline by ~$30 mm. However, we have raised our estimates for 2013 and 2014 to $1.51 and $1.62 per share on new projects that were announced during the quarter.

- **Utica Midstream** — In the first quarter, NI announced the new gathering projects totaling more than 600 MMcf/d in volumes of wet and dry gas in OH and Western PA. We estimate the projects could add ~$0.04-$0.05 per share starting in 2013.

- **Capital Spending** — We will look for further color on the call for the company's plans to develop transmission opportunities in the Utica, along with additional color on spending related to the pipeline replacement program. Management estimates the investment could be upwards of $4 BN over the next decade. Capex spending in 2012 increased nearly 25% over 2011 (39% LDC, 31% GTS, 30% Electric).

- **Financing** — On March 1/12, NI filed for a shelf registration for the potential sale of $28 mm in equity, covering the sale of 2 mm shares to be offered through the DRIP and stock purchase plan.

- **Rating & Target** — Our rating remains Neutral, however, we have a positive bias towards the potential opportunity ahead of the company, particularly in its Utica shale footprint, which we are starting to see visibility on future projects. Early exploration data in the region remains constructive. We are raising our target price to $24 per share from $22.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	0.72A	0.14A	0.12A	0.31A	1.29A	1.35A
2012E	**0.61E**	**0.18E**	**0.16E**	**0.44E**	**1.38E**	**1.45E**
Previous	0.72E	0.18E	0.16E	0.44E	1.48E	na
2013E	**0.69E**	**0.19E**	**0.16E**	**0.46E**	**1.51E**	**1.52E**
Previous	0.69E	0.19E	0.16E	0.46E	1.50E	na
2014E	**0.71E**	**0.22E**	**0.21E**	**0.48E**	**1.62E**	**1.60E**
Previous	0.71E	0.21E	0.20E	0.48E	1.60E	na

Source: Company Reports and dataCentral, CIR. FC Cons: First Call Consensus.

Company Focus

- Company Update
- Target Price Change
- Estimate Change

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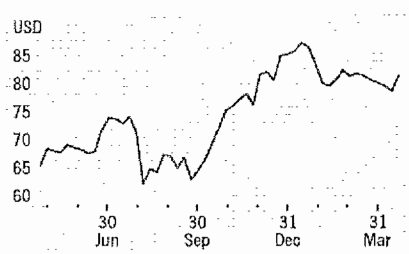
Neutral	**2**
Price (20 Apr 12)	US$82.83
Target price *from US$86.00*	US$90.00
Expected share price return	8.7%
Expected dividend yield	3.2%
Expected total return	**11.9%**
Market Cap	US$8,608M

Price Performance
(RIC: OKE.N, BB: OKE US)



Oneok Inc (OKE)

Maintain Neutral Rating; Target Up to $90; Longer-Term Growth

- **EPS** — Our estimate for the quarter is $1.30 per share, below consensus of $1.35. We have lowered our estimates for the distribution business slightly to account for warmer than normal temperatures (HDD's down ~20% y/y) and reduced our margin assumptions at the Energy Services segment. Our FY 2012 EPS is $3.49 vs. the Street at $3.65. We assume $106 oil, $2.40 gas & an average NGL price of $1.47 in 2012.

- **Distribution** — We estimate 1Q EBIT of $109mm vs. $105mm in Q1'11. We have lowered our number to adjust for lower retail marketing margins and lower HDD's across OKE's affected service territories, though we caveat that Oklahoma could be better than expected due to a shift to fixed fee vs. variable and new performance based rates. Our 2012 EBIT estimate is $210mm (guidance $225mm).

- **Energy Marketing** — We estimate EBIT for 1Q will be $25mm versus $48mm a year ago as a result of lower volumes & margins. Our 2012 EBIT estimate is $10mm vs. guidance of $40mm. We would not be surprised to see OKE lower this guidance number on the call. OKE continues to reduce the physical size of this business by paring down storage commitments.

- **OKS** — We estimate 1Q EBIT of $234mm, roughly in-line with our MLP Team estimates. Continued strength at OKS is mostly driven by the NGL segment, where we expect EBIT of $150mm vs. $100mm a year ago. Our estimate is based on a Conway – Belvieu spread of ~$0.25/gal vs. $0.13/gal in Q1'11.

- **Cash Flow** — We estimate that cash distributions to OKE from OKS will almost double to $850mm in 2015 from $430mm in 2012 (GP + LP) as a result of announced growth projects (most recently ~$2 billion of growth projects in the Bakken and ~$350mm of growth in the Woodford shale). We estimate that OKE will be able to build these projects at 6x EBITDA (Midpoint of 5-7x EBITDa range).

- **Rating & Target** — We maintain our Neutral Rating. We are raising our target price to $90p/s from $86 previously as a result of our updated assumptions for recently announced growth projects. Our valuation ranges from $79p/s on a P/E multiple basis to $106 on a DCF basis.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2010A	1.44A	0.39A	0.42A	0.74A	2.99A	3.10A
2011E	**1.19A**	**0.51A**	**0.57A**	**1.08A**	**3.36E**	**3.34E**
Previous	1.19A	0.51A	0.57A	1.07E	3.35E	na
2012E	**1.30E**	**0.65E**	**0.67E**	**0.88E**	**3.50E**	**3.63E**
Previous	1.50E	0.69E	0.64E	0.98E	3.81E	na
2013E	**1.50E**	**0.82E**	**0.90E**	**1.12E**	**4.34E**	**4.16E**
Previous	1.56E	0.82E	0.90E	1.24E	4.53E	na

Source: Company Reports and dataCentral, CIR. FC Cons: First Call Consensus.

Company Focus

- Company Update
- Estimate Change

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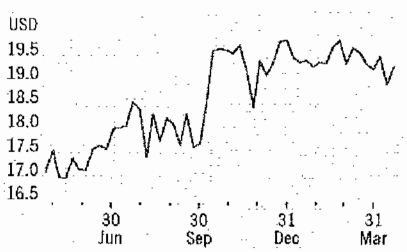
Buy	**1**
Price (20 Apr 12)	US$19.31
Target price	US$20.50
Expected share price return	6.2%
Expected dividend yield	3.4%
Expected total return	**9.5%**
Market Cap	US$3,443M

Price Performance
(RIC: STR.N, BB: STR US)



Questar Corp (STR)

Maintain Buy; Target $20.50

- **EPS** — We estimate that STR will earn $0.44 in Q1'12 versus consensus of $0.43p/s. STR's utility is decoupled and has weather normalization in place, protecting volumes against the warmer weather (20%-25% on average). Our 2012 estimate is $1.21p/s vs. consensus of $1.19p/s.

- **Wexpro** — We expect Q1'12 EBIT of $34.5mm and an investment base of $480mm. We assume an after-tax rate of return of ~20%. For 2012, our capex estimate is $120mm and an average after-tax rate of return of 20%. We estimate EBIT of $132mm in 2012.

- **Questar Gas** — We expect Q1'12 EBIT of $66mm. STR's utility, for the most part, is not affected by weather due to weather normalization. Our 2012 EBIT estimate is $101mm, which we expect to grow ~12% annually through 2015 as a result of rate base growth (feeder line replacement program). STR has a cost tracker in place at the Utility.

- **Questar Pipeline** — We estimate Q1'12 EBIT of $33mm. Our 2012 estimate is $137mm versus $127mm in 2011. Skull Creek, ML40, ML104 & Fidlar are adding to the y/y uptick. At the recent analyst meeting, STR discussed potentially taking a look at some of the Rockies pipeline assets that are for sale.

- **Wexpro II** — We expect additional color with respect to the progress on Wexpro II on the call, though we do not necessarily think an agreement will be in place at this time.

- **Analyst meeting** — Please see our detailed note from the Analyst Meeting (STR: Greetings from Utah - Key Takeaways from the Analyst Meeting) for additional color.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	0.39A	0.22A	0.20A	0.34A	1.16A	1.16A
2012E	**0.44E**	**0.22E**	**0.18E**	**0.36E**	**1.21E**	**1.19E**
Previous	0.43E	0.25E	0.20E	0.34E	1.21E	na
2013E	**0.48E**	**0.24E**	**0.19E**	**0.38E**	**1.28E**	**1.27E**
Previous	0.49E	0.28E	0.19E	0.37E	1.32E	na
2014E	**0.51E**	**0.25E**	**0.20E**	**0.41E**	**1.38E**	**1.36E**
Previous	0.50E	0.29E	0.21E	0.38E	1.38E	na

Source: Company Reports and dataCentral, CIR. FC Cons: First Call Consensus.

Company Focus

- Company Update
- Estimate Change

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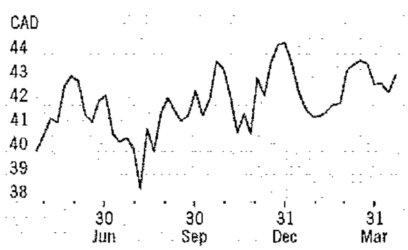
Neutral	**2**
Price (20 Apr 12)	C$43.19
Target price	C$42.00
Expected share price return	-2.8%
Expected dividend yield	3.7%
Expected total return	**0.9%**
Market Cap	C$30,416M
	US$30,671M

Price Performance
(RIC: TRP.TO, BB: TRP CN)



TransCanada Corp (TRP.TO)

Maintain Neutral Rating

- **Q1 EPS Estimate** — Our EPS estimate for the quarter is $0.53, a slight adjustment from our previous estimate of $0.52, to reflect the most recent quarterly earnings beat. Consensus is currently $0.56 for the quarter. Our FY 2012 earnings estimate is unchanged at $2.39.
- **Keystone XL in Focus** — TRP received regulatory approval to go ahead with the study for re-routing the northern portion of the Keystone pipeline that will make its way through Nebraska. This is significant milestone on the company's quest to build out the entire Keystone XL project from Alberta to the Gulf Coast. Earlier in the quarter, TRP announced plans, following positive feedback from federal regulators in the US, to proceed with the southern leg of the pipeline project, which will span from Cushing to the Gulf Coast, with a target service date in late 2013. An estimated $900 mm in capital has been put towards the Gulf Coast portion of the project of a total expected cost of $2.3 BN. The majority of the right of way approvals have been cleared in TX and OK. Meanwhile the company awaits the Clean Water Act permit.
- **Rating & Target** — We maintain our Neutral rating and $42 target price.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	0.62A	0.50A	0.54A	0.53A	2.19A	2.23A
2012E	**0.53E**	**0.52E**	**0.73E**	**0.61E**	**2.39E**	**2.36E**
Previous	0.52E	0.54E	0.74E	0.59E	2.39E	na
2013E	**0.62E**	**0.61E**	**0.76E**	**0.64E**	**2.64E**	**2.54E**
Previous	0.59E	0.62E	0.75E	0.61E	2.56E	na
2014E	**0.69E**	**0.71E**	**0.86E**	**0.74E**	**3.00E**	**2.69E**
Previous	0.64E	0.67E	0.83E	0.70E	2.84E	na

Source: Company Reports and dataCentral, CIR. FC Cons: First Call Consensus.

Company Focus

- Company Update
- Estimate Change

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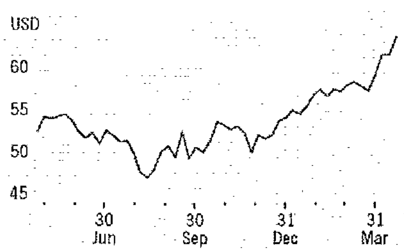
Buy	**1**
Price (20 Apr 12)	US$64.51
Target price	US$65.00
Expected share price return	0.8%
Expected dividend yield	3.8%
Expected total return	**4.6%**
Market Cap	US$15,531M

Price Performance
(RIC: SRE.N, BB: SRE US)



Sempra Energy (SRE)

Maintain Buy; LNG a $15 p/s Free Option

- **EPS Growth Backend Loaded** — Management reiterated their 2012 guidance ($4-$4.30), and initiated 2013 in the range of $4.10-$4.40. 2016 earnings are expected to be in the $5.50-$6.00. We have adjusted our estimates accordingly.
- **California Utilities** — $11 BN in capital spending is planned in California over the next five years. Customer growth going forward will remain less than 1%.
- **International** — Management believes they have a solid platform to pursue organic growth opportunities and look at acquisitions in the future within South America. The regulatory environment remains supportive towards future expansion (e.g. Transmission, Generation). Further spending on midstream in Mexico is likely. Earnings are expected to grow at 8-9% over the next five years.
- **LNG to MLP** — Management was up-beat on the opportunity to export LNG by 2016. Last week, SRE signed commercial development agreements with Mitsubishi Corporation and Mitsui & Co. to develop and construct a liquefaction export facility at Cameron. The facility will export 1.7 Bcf/d at a cost of $5-6 BN. We estimate SRE will earn over $300 mm in net income under a full development.
- **Storage & Southwest** — SRE's storage assets in the South are expected to fit in well with its plans to export LNG. Further upside exists with the continued growth of natural gas demand for power generation. Plans for further storage expansions will be capped at 20 Bcf.
- **Renewables & Generation** — The outlook for the development of solar is positive. The renewable generation target has been raised by 40% to 1,400 MW by 2016. Management is focused on growing SRE's footprint, diversifying its geography and looking for partnerships in developing projects going forward. Earnings contribution from renewable assets is expected to hit $100 mm by 2016. Management stressed their desire to shrink the merchant generation exposure in the West, and is exploring opportunities to contract nearly 1,800 MW of the natural gas fleet and not ruling out an outright sale.
- **Valuation** — We maintain our Buy rating and $65 price target. We continue to view the liquefaction project as a $15 per share free option that is not included in our valuation at this time.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	1.06A	2.11A	1.22A	1.33A	4.57A	4.47A
2012E	**1.19E**	**1.00E**	**1.13E**	**1.36E**	**4.43E**	**4.19E**
Previous	1.13E	0.90E	1.00E	1.24E	4.27E	na
2013E	**na**	**na**	**na**	**na**	**4.44E**	**4.37E**
Previous	na	na	na	na	4.78E	na
2014E	**na**	**na**	**na**	**na**	**4.88E**	**4.74E**
Previous	na	na	na	na	4.81E	na

Source: Company Reports and dataCentral, CIR. FC Cons: First Call Consensus.

Company Focus

- Company Update
- Estimate Change

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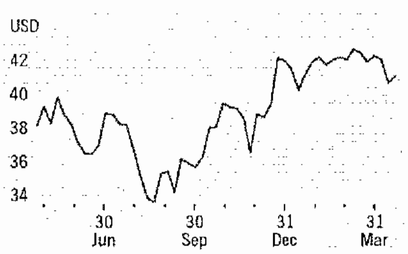
Buy	**1**
Price (20 Apr 12)	US$41.55
Target price	US$47.00
Expected share price return	13.1%
Expected dividend yield	2.7%
Expected total return	**15.8%**
Market Cap	US$1,915M

Price Performance
(RIC: SWX.N, BB: SWX US)



Southwest Gas Corp (SWX)

Earnings Ahead of Consensus; Focused on Construction Outlook

- **Q1 Earnings** — We estimate EPS of $1.67 per share on the quarter, ahead of the street at $1.59 per share. Our estimates include the AZ rate case which includes a decoupling mechanism. Our full year estimate is adjusted slightly lower to $2.98 from $3.05 to reflect recent results and a refined earnings growth outlook.
- **Construction** — With favorable weather stabilization mechanisms in place across the LDC divisions, we will be paying particular focus to the momentum and growth prospects for construction this year. We estimate SWX could see operating income close to $40 mm in 2012. Spending associated with pipeline replacement programs is expected to remain strong and management has emphasized that they are well positioned to pick up contracts across the country.
- **Rating & Target** — We maintain our $47 target price and Buy rating. Our estimates for cash flow remain in the $90-100 mm range over the next few years. There is additional room to raise the dividend or grow and/or deploy capital towards infrastructure growth.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	1.48A	0.09A	-0.34A	1.19A	2.42A	2.43A
2012E	**1.67E**	**0.07E**	**0.10E**	**1.15E**	**2.98E**	**2.70E**
Previous	1.67E	0.06E	0.07E	1.26E	3.05E	na
2013E	**na**	**na**	**na**	**na**	**3.05E**	**2.82E**
Previous	na	na	na	na	3.12E	na
2014E	**na**	**na**	**na**	**na**	**3.05E**	**2.90E**
Previous	na	na	na	na	3.12E	na

Source: Company Reports and dataCentral, CIR. FC Cons: First Call Consensus.

Company Focus

- Company Update
- Estimate Change

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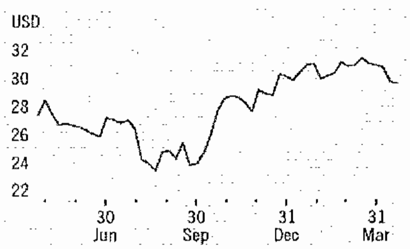
Neutral	**2**
Price (20 Apr 12)	US$30.26
Target price	US$32.00
Expected share price return	5.8%
Expected dividend yield	3.6%
Expected total return	**9.4%**
Market Cap	US$19,746M

Price Performance
(RIC: SE.N, BB: SE US)



Spectra Energy Corp (SE)

Lowering Estimates on Weather; DCP Expansion Continues

- **Q1 Earnings** — Our estimate on the quarter is $0.53, in-line with consensus. We lowered our estimate from $0.60 due to the expected negative impact of warmer than normal weather in the Northeast (Ontario) in the quarter. NGL prices have steadily trended lower from their highs at the beginning of the year, down approximately 13%, despite a strong performance of Brent crude prices averaging close to $120 a barrel.

- **Gas Distribution** — Warmer than normal weather in the Northeast during the quarter is expected to result in lower demand for gas. Union Gas currently does not have weather stabilization mechanisms in place. Hence, we are taking down our estimates.

- **Gas Transmission** — SE announced they have signed two anchor shippers on their Texas Eastern Transmission Line for its TEAM 2014 project. During the quarter, Spectra also announced plans to develop transmission projects in the Utica Shale region, labeled OPEN (Ohio Pipeline Energy Network). It's expected to have 1 bcf/d capacity, but could grow with market demand. Finally, the company plans to build out into the Southeast region with its Renaissance Gas Transmission Project, a pipeline linking natural gas to power generators in GA, AL, and TN.

- **DCP Midstream** — DCP announced their intentions to enter into a joint venture (Front Range Pipeline) along with two other partners to build a 150k bpd (option to expand to 230k bpd) NGL pipe from Colorado to Mont Belvieu, Texas. The pipeline will be constructed by Enterprise (NYSE: EPD) come online in the final quarter of 2013. Apache (NYSE: APC) and DCP are the anchor tenants on the pipeline. The LaSalle plant is under construction and expected to be on-line by the middle of 2013. DCP has plans to spend $4 BN on NGL pipeline projects, and another $2 BN in development.

- **Rating & Target** — Our rating remains at Neutral. We reiterate our target price of $32 per share.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	0.53A	0.42A	0.37A	0.45A	1.77A	1.77A
2012E	**0.53E**	**0.51E**	**0.30E**	**0.51E**	**1.85E**	**1.86E**
Previous	0.57E	0.50E	0.28E	0.53E	1.88E	na
2013E	**0.57E**	**0.54E**	**0.31E**	**0.56E**	**1.98E**	**2.01E**
Previous	0.62E	0.53E	0.30E	0.58E	2.02E	na
2014E	**0.57E**	**0.55E**	**0.33E**	**0.53E**	**1.98E**	**2.08E**
Previous	0.62E	0.53E	0.32E	0.56E	2.03E	na

Source: Company Reports and dataCentral, CIR. FC Cons: First Call Consensus.

Company Focus

■ Company Update

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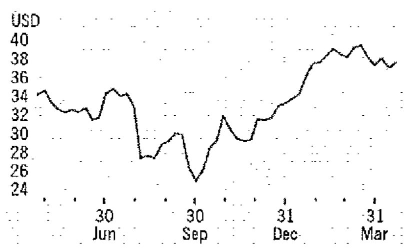
Buy/High Risk	**1H**
Price (20 Apr 12)	US$38.42
Target price	US$51.00
Expected share price return	32.7%
Expected dividend yield	2.1%
Expected total return	**34.8%**
Market Cap	US$4,104M

Price Performance
(RIC: SUN.N, BB: SUN US)



Sunoco Inc (SUN)

Revamped SUN to Ride SXL Growth Prospects

- **Recommendation** — We estimate that SUN has long-term earnings power of $3.50 per share and could increase its dividend to up to $2.40 per share within the next 24 months. Our target price is $51.

- **Refining** — SUN continues to take final steps to exit the refining business. With the idling of the Marcus Hook refinery, SUN/SXL appears to be working with MarkWest Energy Partners (MWE) for an alternate purpose for the facility. SXL & MWE could transport a mixed E/P (Ethane/Propane) stream to Marcus Hook where the E/P mix could be fractionated into purity products thereby creating a European Market for Appalachian ethane along with an alternative option for Gulf Coast ethane deliveries. Even though there has been some interest in the Philadelphia refinery, we continue to expect the refinery will be shut in July 2011.

- **Recapitalization** — SUN has already announced it will retire $400 MM in debt at the SUN C-corp level and repurchase 19.9% of outstanding SUN shares. It also boosted its dividend to $0.80 p/s (annualized) last quarter. We estimate SUN has the capacity to repurchase another $500 to $700 mm shares and increase its dividend to $2.40 p/s.

- **Valuation** — Our valuation matrix analysis yields ranges between $44 and $56 per share. Our DCF analysis yields the highest valuation of $56 p/s which highlights the value of the general partnership.

- **Catalysts** — An information void exists in the SUN story today. The accounting affects of refining mask the real earnings and cash flow power of the company. SXL is the main engine behind SUN's dividend growth. This growth is underpinned by new projects ($300 mm) under construction, the underlying growth from almost $700 mm in acquisitions and $450 mm in expansions that were made over the last three years. We estimate SXL has a potential backlog of over $1.0 billion.

Company Focus

- Company Update
- Target Price Change
- Estimate Change

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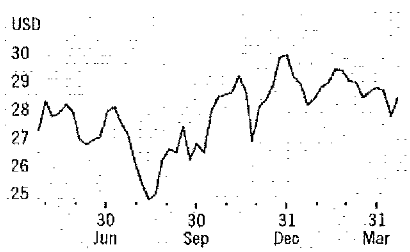
Neutral	**2**
Price (20 Apr 12)	US$28.69
Target price	US$29.00
from US$28.00	
Expected share price return	1.1%
Expected dividend yield	4.9%
Expected total return	**6.0%**
Market Cap	US$2,352M

Price Performance
(RIC: VVC.N, BB: VVC US)



Vectren Corp (VVC)

Earnings Ahead of Consensus; Expect Flat Coal Margins

- **Q1 Earnings** — Our estimate is $0.69 per share, above consensus of $0.62. Despite weather in VVC's operating territory being more than 20% warmer than normal, our estimate for EBIT from the utilities remains unchanged due to the expected impact from energy efficiency and weather stabilization mechanism in place (IN, OH). We adjust our estimates to reflect recent results and updated outlook by management during the quarter.
- **Coal** — We expected EBITDA to be $18 mm, up from $12 mm for the same period last year, primarily on increasing production from VVC's new mines. We expect margins to remain relatively stable, or in the $5/ton range over the next couple quarters despite increase discussion surrounding coal to gas switching.
- **Rating & Target** — We maintain our Neutral rating and raise our target price to $29 per share on lower net debt levels, when we calculate EV/EBITDA and NAV, compared to our old estimates.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	0.55A	0.18A	0.43A	0.57A	1.73A	1.73A
2012E	**0.69E**	**0.16E**	**0.30E**	**0.69E**	**1.84E**	**1.87E**
Previous	0.72E	0.15E	0.33E	0.67E	1.87E	na
2013E	**0.70E**	**0.13E**	**0.30E**	**0.74E**	**1.88E**	**1.97E**
Previous	0.74E	0.15E	0.33E	0.69E	1.92E	na
2014E	**0.71E**	**0.13E**	**0.31E**	**0.75E**	**1.90E**	**2.10E**
Previous	0.75E	0.15E	0.34E	0.70E	1.94E	na

Source: Company Reports and dataCentral, CIR. FC Cons: First Call Consensus.

Company Focus

- Company Update
- Target Price Change
- Estimate Change

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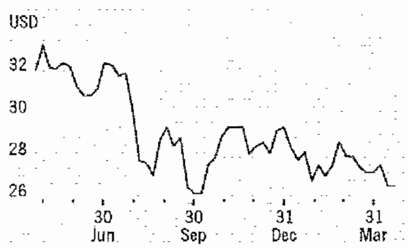
Buy	**1**
Price (20 Apr 12)	US$26.61
Target price	US$31.00
from US$33.00	
Expected share price return	16.5%
Expected dividend yield	3.9%
Expected total return	**20.4%**
Market Cap	US$2,984M

Price Performance
(RIC: UGI.N, BB: UGI US)



UGI Corp (UGI)

Below Consensus on Weather; Amerigas Estimates Updated

- **Q2 Earnings** — We are lowering our estimates on the quarter to $1.19 from $1.24. Our numbers are being taken down due to the impact of warmer weather. Our estimates indicate HDD's were ~20% lower than normal in the quarter. Hence, we expect propane volumes at Amerigas and utilization at the Gas Utility to be negatively impacted.

- **Propane** — On March 14/12, APU issued guidance for Q2/12, FY 2012, and FY 2013, which will reflect the Heritage Propane acquisition. Adjusted EBITDA on the quarter is expected to be $230 mm, FY 2012 $385 and FY 2013 $635 mm. Our estimates are slightly lower than guidance ($215 mm/$375 mm/$600 mm), and consistent with our view the propane business will continue to face headwinds from alternative fuel sources for heating.

- **International Propane** — We expect EBIT of $110 mm from the International segment. Overall, we expect the impact of weather during the quarter to be negligible.

- **Rating & Target** — We maintain our Buy rating, but are lowering our target price to $31 per share from $33 on our updated earnings estimates. We believe the negative sentiment on the Propane sector is overdone in the stock. The value proposition for the stock continues to be a strong utility footprint in PA, a stable European propane business and growing midstream earnings from UGI's position in the Marcellus shale.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	0.97A	1.12A	-0.19A	-0.17A	1.94A	2.10A
2012E	**0.78A**	**1.19E**	**0.11E**	**-0.12E**	**1.95E**	**1.93E**
Previous	0.98E	1.24E	0.13E	-0.09E	2.24E	na
2013E	**na**	**na**	**na**	**na**	**2.50E**	**2.56E**
Previous	na	na	na	na	2.61E	na
2014E	**na**	**na**	**na**	**na**	**2.50E**	**2.66E**
Previous	na	na	na	na	2.61E	na

Source: Company Reports and dataCentral, CIR. FC Cons: First Call Consensus.

Company Focus

- Company Update
- Target Price Change
- Estimate Change

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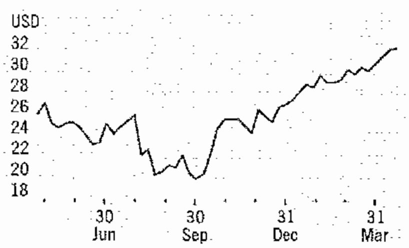
Buy	**1**
Price (20 Apr 12)	US$32.30
Target price	US$36.00
from US$32.50	
Expected share price return	11.5%
Expected dividend yield	3.7%
Expected total return	**15.2%**
Market Cap	US$20,067M

Price Performance
(RIC: WMB.N, BB: WMB US)



The Williams Companies Inc (WMB)

Maintain Buy; Raising Target to $36 on Growth Projects

- **Rating & Target** — We are raising our target price to $36p/s from $32.50p/s as a result of our new growth capex assumptions. We maintain our Buy rating. Our valuation ranges from $34p/s on an NAV basis to $37p/s on a DCF basis. We estimate that WMB could trade at ~$36p/s on a peer implied dividend yield.

- **EPS** — We estimate that WMB will earn $0.37/s in Q1'12 versus consensus of $0.36. Our FY 2012 EPS is $1.49 vs. the Street at $1.45. We assume $106 oil, $2.40 gas & an average NGL price of $1.21 (WMB specific) in 2012. We lower our EPS estimates on lowered olefins and NGL margins.

- **Canadian Midstream & Olefins** — We calculate Q1'12 EBIT of $75mm vs. $58mm in Q4'11. We estimate that ethylene margins at Geismar averaged ~$0.35/lb (spot), in-line with CMAI figures. We model flat volumes vs. Q4'11 of 242mm lbs at Geismar. In Canada, we forecast average propylene margins of $0.43/lb and flat volumes (vs. Q4'11) of 37mm lbs. Our 2012 EBIT estimate is ~$351mm. We estimate a 3Q'12 start-up for the Boreal liquids pipeline.

- **WPZ** — We estimate that WPZ will generate ~$514mm of EBIT in Q1'12. At Midstream, our estimate is $353mm, up from $262mm in Q1'11 and $341mm in Q4'11 due to higher sequential G&P revenues. Our 2012 EBIT estimate is $1.5bn, towards the higher end of company guidance. At the Gas Pipeline, our Q4'11 estimate is $186mm vs $175mm in Q4'10. Our 2012 estimate is $665mm.

- **Cash Flow & Yield** — We now assume that WMB will pay out a 2012 dividend of $1.19p/s, up ~50% from 2011 levels. We estimate that the dividend will grow an additional 21% to $1.44p/s in 2013 (guidance is 20% growth y/y), making WMB a compelling yield play with an implied 2012 & '13 yield of 3.7% and 4.5%, respectively. We estimate an average payout ratio of 80% in '12 and 85% in '13. Overall we estimate that WMB will grow the dividend ~17% through 2015, with room to accelerate. Our FCF assumption from 2013- 2015 is an average ~$175 per year.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	0.36A	0.39A	0.40A	0.36A	1.51A	1.23A
2012E	**0.37E**	**0.34E**	**0.39E**	**0.40E**	**1.49E**	**1.45E**
Previous	0.37E	0.39E	0.43E	0.45E	1.64E	na
2013E	**0.40E**	**0.39E**	**0.44E**	**0.47E**	**1.70E**	**1.66E**
Previous	0.48E	0.46E	0.47E	0.49E	1.91E	na
2014E	**0.42E**	**0.41E**	**0.43E**	**0.45E**	**1.71E**	**1.80E**
Previous	0.43E	0.40E	0.39E	0.42E	1.64E	na

Source: Company Reports and dataCentral, CIR. FC Cons: First Call Consensus.

AGL Resources Inc

Company description

AGL Resources (AGL) is a natural gas distribution company serving over 2.3 million customers in six eastern U.S. states through its regulated gas delivery businesses. AGL also operates three subsidiaries, Sequent Energy Management, Southstar Energy Services and Pivotal Energy Development, which provide merchant energy services, retail energy supply and storage capacity.

Investment strategy

We rate the shares of AGL (AGL) Neutral (2). AGL has created shareholder value through a focus on operational efficiency at its legacy operations and by capital discipline through investments in under-managed assets. AGL will be able to grow earnings through a combination of rate relief and capital growth at its utilities and construction of storage fields at its Energy Services segment. Earnings at the wholesale gas business could be volatile as margins are highly dependent on seasonal price differentials and basis spreads, however this is now a relatively small part of earnings.

On December 7, 2010, AGL announced the acquisition of Nicor for $3.1 billion. While the deal appears expensive, we believe the deal can be a accretive through a combination of balance sheet optimization and synergies at the wholesale business.

Valuation

We apply four valuation methods to derive a $41 target. Our NAV yields a value of $37. We value regulated assets at a multiple of rate base (1.5x for utilities, 1.5x for pipelines/storage). We value the Energy Investments unit, which includes storage assets and a propane facility at 8x 2013 EBITDA (in-line with the pipeline/storage multiple), given the stable cash flows. AGL's wholesale and retail segments at slightly lower multiples, considering their less stable earnings and cash flow profiles. These segments are valued at 6x and 7.5x 2013 EBITDA, in-line with midstream and marketing multiples. These values are partially offset by AGL's net debt.Atlanta Gas Light includes regulatory assets associated with the pipeline replacement program, which we treat as rate base as the program's costs earns a return on capital invested. Environmental Recovery Costs are not included in rate base, as no return is associated with this program.Our DDM values the company at $41. We calculate a hypothetical dividend, based on AGL's regulated capital growth, authorized returns and cost of equity to arrive at our DDM valuation.Our P/E and EV/EBITDA multiples are based on our proprietary analyses, which utilizes current ERPs, current betas and projected risk-free yields. For our P/E analysis, we use multiples of 14.5x for the company's regulated and retail marketing assets and 10.0x for the wholesale assets. For our EV/EBITDA analysis, we use multiples of 7.5x for the company's regulated and retail marketing assets and 6.5x for the wholesale business. Our P/E and EV/EBITDA analyses (2013 earnings) yield values of $44 and $44.

Risks

The key risks to our thesis on AGL are (1) Regulatory: AGL has a constructive relationship with its regulators in Georgia, Virginia, Illinois and New Jersey. We believe these states have generally been constructive when it comes to rate setting for gas utilities. (2) Market and Counterparty Risk: AGL's wholesale segment is exposed to counterparty risk since it deals with over 270 counterparties and re-contracting risk related to its asset management activities and adverse movements in commodity prices. However, as earnings from the utilities have grown over time, Wholesale is now only 5% of the business. (3) Customer growth: An unexpected increase or decrease in population could affect earnings and cash flows (favorably or unfavorably). (4) Capital Markets: AGL is a relatively small utility in terms of market cap and trading volumes, impacting AGL's ability to access capital markets while this type of liquidity may make it difficult for institutional. We believe the recent announced merger with Nicor will alleviate some of this risk. (5) Integration risk: AGL has a history of M&A. The integration of the Nicor (GAS) deal could face challenges given AGL's entrance into a new regional territory and scrutiny from regulators in arriving at cost cuts to generate value from the deal.

If the impact on the company from any of these factors proves to be less or more than we anticipate, the stock could materially outperform or underperform our target.

Atmos Energy Corp

Company description

Atmos Energy is an integrated natural gas company headquartered in Texas. The company distributes natural gas to over 3 million customers in 12 states, operates pipeline systems and storage facilities and provides natural gas marketing services through its subsidiary Atmos Energy Marketing.

We estimate ATO will grow utility rate base by over 4% annually over the next five years. 94% of utility margins are weather normalized. Furthermore, 86% of rates are adjusted annually (without the need for rate cases) or are decoupling from demand. Only Colorado, Illinois and Iowa (~5% of rate base) do not have mechanisms in place for either decoupling or weather normalization

Investment strategy

We rate Atmos Energy (ATO) Neutral (2). Our Neutral rating on ATO is premised on the company's limited growth profile and lack of near-term catalysts. Atmos generates stable earnings from a mostly regulated utility asset base with low single-digit EPS growth and a stable dividend over the next five years.

We expect ATO will continue to grow earnings by investing in its regulated asset base, which we estimate will grow by 4% annually over the next five years. 86% of rates are adjusted annually without the need to enter costly and risky rate cases.

Valuation

We average multiple valuation methodologies to derive our $35 target. Our NAV yields a value of $31. We value regulated assets at a multiple of rate base (1.5x for utilities). We value the pipeline assets at 8x '11 EBITDA and the marketing business at 5x '10 EBITDA. These values are partially offset by the company's net debt. Our DDM values the company at $38. We calculate a hypothetical dividend, based on ATO's regulated capital growth, authorized returns and cost of equity to arrive at our DDM valuation.Our P/E and EV/EBITDA multiples are based on our proprietary analyses, which utilizes current ERPs, current betas and projected risk-free yields. For our P/E analysis, we use multiples of 14.5X, 14.5x and 10.0x for the company's utility, pipeline/storage and marketing assets. For our EV/EBITDA analysis, we use multiples of 7.5x, 8.0x and 6.5x for the company's utility, pipeline/storage and marketing assets. Our P/E and EV/EBITDA analyses (2013 earnings) yield values of $35 and $36.

Risks

The key risks to our investment thesis on AGL are (1) Capital Investment Recovery – ATO, relying on future rates, spends capital to maintain and expand pipeline and utility systems. A politicized commission could delay or put at risk this recovery. (2) Customer Growth – An unexpected increase or decrease in population could affect earnings substantially, either favorably or unfavorably.(3) Capital Markets – ATO is a relatively small utility in terms of market cap and trading volumes, impacting ATO's ability to access capital markets while this type of liquidity may make it difficult for institutional investors to trade in and out of the stock. (4) ATO operates a gas marketing business. Our research shows that ATO hedges their physical delivery of gas using its access to storage and pipeline transportation capacity. If the financial hedges and local markets become dislocated, ATO could incur a liability.

If the impact on the company from any of the following factors proves to be greater or less than we anticipate, the company could fail to achieve/exceed our target price.

CenterPoint Energy Inc

Company description

CenterPoint Energy Inc (CNP) is an energy delivery company based in Houston, Texas, serving over 3 million natural gas customers and 2 million electric customers. CenterPoint also operates two interstate natural gas pipelines and a field services business. The electric delivery business generates about 40% of the company's operating income, while the gas utilities, pipelines, and field services businesses make up the remainder.

Investment strategy

We rate the shares of CNP, Buy (1). Our Buy rating takes into account stable cash flows on CNP's gas and electric utility system, complemented by growth on the pipeline and gathering system, through re-contracting of pipeline capacity, expansion of pipeline capacity, regulated growth and gas well connections.

Valuation

We average multiple valuation methodologies to derive our $22 target.

Our NAV yields a value of $20. We value regulated assets at a multiple of rate base (1.5x for utilities, 1.5x for pipelines). The company's marketing and midstream segments are valued at 5x and 7x 2011 EBITDA. These values are partially offset by the company's net debt.

Our DDM values the company at $23.

Our P/E and EV/EBITDA multiples are based on our proprietary analyses, which utilize current equity risk premiums, current betas and projected risk-free yields. For our P/E analysis, we use multiples of 14.5x on 2012 earnings for the company's utility and pipeline assets, while applying 12x and 8x multiples to the company's gathering and marketing assets. For our EV/EBITDA analysis, we use multiples of 7.5x and 8x on 2012 EBITDA for the company's utility and pipeline assets, while applying 7x and 5x multiples to the company's gathering and marketing assets. Our P/E and EV/EBITDA analyses yield values of $18and $25.

Risks

The key risks to our investment thesis are (1) TX Regulatory Environment — At this point, the PUCT cannot affect the price of power, but can affect charges for delivery. The PUCT may look to reduce delivery rates below what we consider to be a reasonable rate of return. (2) Capital Investment Recovery – CNP, relying on future rates, spends capital to maintain and expand pipeline and utility systems. A politicized commission could delay or put at risk this recovery. (3) Customer Growth – An unexpected increase or decrease in population could affect earnings substantially, either favorably or unfavorably. (4) Commodity Prices – Earnings at the field services segments are highly sensitive to changes in NGL and natural gas prices. (5) Gathering Projects - Our estimates are dependent on the future build-out of gathering facilities in the Haynesville Shale. Any decision to limit the build-out or difficulties encountered during the build-out could impact our estimates.

If the impact on the company from any of the following factors proves to be greater or less than we anticipate, the company could fail to achieve/exceed our target price.

Enbridge Inc.

Company description

Enbridge is one of Canada's largest energy companies by market cap (~$25 billion). The Firm is headquartered in Calgary, Alberta.

Enbridge primarily operates in the following lines of business (shown in-line with actual reporting segments):

Crude Oil Pipelines & Storage (52% of 2010 Net Income)

Natural Gas Pipelines, Processing & Energy Services (13% of 2010 Net Income)

Natural Gas Distribution (17% of 2010 Net Income); and

Sponsored Investments & Corporate (18 % of 2010 Net Income)

Enbridge owns a 27% LP stake and a 2% GP stake in Enbridge Energy Partners (NYSE: EEP), which owns the US portion of the Mainline pipeline system (known as "Lakehead") as well as gas gathering & processing infrastructure in West Texas. EEP is accounted for under the Sponsored Investments segment.

Enbridge also owns a 70% stake in Enbridge Income Fund (EIF), a publicly traded yield-oriented investment vehicle listed on the Toronto stock exchange. EIF is also accounted for under the Sponsored Investments segment.

Below we show an asset map that details all of ENB's various business segments across North America. ENB does not own any physical assets outside of North America.

Investment strategy

We rate shares of Enbridge Neutral (2) with a $36 target price. Our enthusiasm over the company's risk-averse business model and earnings growth projections of

~10% per year through 2015 are tampered by what we believe is a full valuation at current trading levels (27% premium to group vs. 20% average premium). Enbridge's performance, since the beginning of the decade, is highlighted by industry leading returns on equity (~16% vs. peers at 13%) and an increase in enterprise value from $12.3bn to $43bn.

Valuation

We use four equally weighted methodologies to derive our $36 Target Price. We value shares of ENB at $36 p/s on an NAV basis, $37 based on a DCF model, $36p/s on an EV / EBITDA basis & $36p/s on a long-term P/E multiple.

Risks

The primary upside risk to our Neutral Thesis is that ENB is able to secure a larger amount of growth projects than we have estimated in our numbers. In addition, higher than expected volumes on ENB's mainline system tied to higher than expected oil sands growth could lead to better than expected results.

The primary downside risk to our Neutral Thesis is that ENB is unable to execute on its growth backlog in an efficient manner, reducing returns on capital. In addition, lower than expected crude oil demand in the United States could have an adverse effect on volumes on ENB's mainline system.

Energen Corp

Company description

Energen Corp. is an integrated natural gas company with operations in the exploration and production and natural gas delivery businesses. The company operates two primary segments: 1) a regulated gas delivery business providing service to roughly 450,000 customers in central and northern Alabama (Alabama Gas Company), and 2) a natural gas and oil production business with over 1.5 trillion cubic feet (Tcf) of proved reserves in the San Juan, Permian, Black Warrior, and north Louisiana/east Texas basins (Energen Resources).

Investment strategy

We rate Energen Buy. We believe that the company's relatively low internal decline rate and exposure to crude oil will bode well over the longer term with respect to cash flow generation & earnings growth.

Valuation

We rate Energen Corporation (NYSE: EGN) Buy. Our target price is $60p/s, based on the averaged value of the following valuation methodologies:

Our NAV calculation results in a target price of $62p/s: We estimate that Alagasco is worth ~$1.1bn based on 2013 EBITDA of $134mm and a 8.0x EBITDA multiple. We value EGN's E&P business at ~$4.5bn, which includes proved reserves of 2Tcfe, but affords no credit for probable and possible reserves. We value natural gas reserves at $1.85/Mcf and Crude Oil reserves at $18/bbl. We then subtract ~$1.2 billion of net debt and other liabilities to derive an equity value of $4.4bn, or $62p/s.

Our DCF Analysis results in $58p/s using the company's weighted average cost of capital. We value the E&P business and the Utility separately and then subtract net debt.

Our long-term P / E analysis results in a value of $62p/s. We base our analysis on 2014 estimated earnings, discounted back to 2012 to normalize for our commodity forecast.

Our EV / EBITDA multiple analysis values Energen at $57p/s. We value Alagasco at $1.1bn (8x 2012 EBITDA of $134mm) and the E&P segment at $4.2bn (5.6x 2014 EBITDA discounted to 2012). We then subtract ~$1.2bn of net debt to derive an overall equity value of $57p/s.

Risks

Commodity Prices and Interest Rate -- EGN's exploration and production business represents a majority of projected 2011+ operating income. Fluctuation in the price of oil and natural gas will cause volatility in our estimates and could affect the share price positively and negatively.

Accounting and Financial Risk -- On the financial front, Energen frequently enters into derivative transactions for the purpose of hedging its oil and gas production. While limiting downside risk, these arrangements could limit upside in a rising commodity price environment.

If the impact on the company from any of these factors proves to be greater or less than we anticipate, the stock would likely have difficulty achieving our target price or could exceed our target price.

EQT Corporation

Company description

EQT Corp is a regional integrated natural gas company with operations in the state of Pennsylvania and surrounding areas. The company operates three business units: (1) EQT Midstream, which operates Midstream Gathering, Processing, Transportation & Storage assets in EQT's area of operation, (2) EQT Distribution, a gas utility and (3) EQT Production, an E&P business active in the Appalachian Region.

Investment strategy

We rate the shares Neutral as our fundamental analysis shows that the shares are fairly valued at current levels and that industry leading production growth is priced in.

Valuation

Our target price is $52, based on the averaged value of the following valuation methodologies. Our NAV calculation results in a target price of $65p/s. We estimate that Distribution is worth ~$722mm based on $103mm of 2013E EBITDA and an 7x multiple. We value EQT's E&P business at ~$8bn, which includes proved reserves of 5.4Tcfe, but affords no credit for probable and possible reserves. We value proved natural gas reserves at $1.85/Mcf and Crude Oil reserves at $18/bbl, though EQT is essentially a pure-play natural gas name. We value the Midstream business at $3.2bn based on 2013E EBITDA of $377mm (ex Marketing) and a 8x EBITDA multiple (blended pipeline & midstream multiple). We assume the Marketing business is worth ~$160mm based on 2013E EBITDA of $32mm (5x mid-cycle multiple). We then subtract ~$2.5bn of net debt and other liabilities to derive an equity value of $9.6bn, or $65p/s. Our DCF analysis results in $54p/s using the Firm's weighted average cost of capital. We value the E&P segment and other business lines individually and then subtract net debt to derive our per share value. Our long-term P/E analysis results in a value of $40p/s. We base our analysis on 2013 estimated earnings. Our EV/EBITDA multiple analysis values EQT at $49p/s, based on 2013 EBITDA estimates and a blended multiple of 7.6x.

Risks

Although the Firm has a large E&P exposure, it is balanced to some degree by the regulated utility & pipeline assets. In addition, EQT is an Investment Grade company.

Commodity Price Risk - Commodity prices remain volatile. While, the company has hedged a portion of its production over the next two years, stockholders' expectations of future natural gas prices will have an impact on EQT stock.

If the negative impact on the company from any of these factors proves to be greater than we anticipate, the stock could have difficulty achieving our target price. On the other hand, we may have overestimated these risk factors and the stock could increase more than we expect.

Integrys Energy Group, Inc.

Company description

Integrys Energy Group (TEG) operates as a natural gas and electric utility with over 2 million customers in Minnesota, Wisconsin, Michigan, and Illinois. Integrys also offers retail and wholesale energy services. Wisconsin Public Service Corporation (WPSC) merged with People's Energy Corporation (PEC) in February 2007 to form Integrys Energy Group.

During 2009, TEG announced plans to scale back or sell its Energy Services segment. We expect removal of these assets by end of 2010.

Investment strategy

We rate TEG Neutral (2). Our rating on Integrys Energy Group (TEG) takes into account the company's recent outperformance, related to a move by investor's towards higher yielding stocks.

The company has undergone tremendous change over the last couple years through multiple acquisitions and divestitures.

As TEG exits its energy services business and provides better visibility on its earnings growth platform based on its remaining businesses, we feel the stock could justify a premium, but at its current level, the premium is too high.

Valuation

We use the average of multiple valuation methodologies to derive our $55 target. Our NAV yields a value of $65. We value regulated assets at a multiple of rate base (1.5x for utilities). A 10% discount is applied to Peoples Gas, which earns below its authorized return level. We value TEG's retail operations at 5x EBITDA. The company's ownership in FERC regulated transmission is valued at 14.4x earnings, which is derived from our dividend discount analysis for that unit. These values are partially offset by the company's net debt. Our DDM values the company at $56. Through this analysis, we value each utility by determining earnings and cash flow potential based on regulated asset base and authorized returns. Our P/E and EV/EBITDA multiples are based on our proprietary analyses, which utilize current equity risk premiums, current betas and projected risk-free yields. For our P/E analysis, we use a multiple of 14.5x for the company's utility assets. For our EV/EBITDA analysis, we use a multiple of 7.5x for the company's utility assets. For the company's FERC regulated transmission, we derive a multiple of 13.5X earnings from our dividend discount model for the unit. We value the retail operations in line with trading businesses at 8x earnings and 5x EBITDA. Our P/E and EV/EBITDA analyses (based on 2013 estimates) yield values of $50 and $48..

Risks

The key risks to our investment thesis are (1) Capital Investment – TEG spends capital in excess of depreciation to maintain and expand its utility, relying on adequate base rates to earn its cost of capital. We assume regular, fair rate relief. (2) Concentration in the Midwest – Changes in the economy in TEG's service areas could increase or decrease the need for gas and power. (3) Weather Fluctuations – Without weather normalization or decoupling rate mechanisms at all its gas and electric utilities, TEG is exposed to fluctuations in temperatures and conservation(4)Higher Gas and Purchased Power Costs – TEG may encounter energy costs, which are generally passed on to customers, but lead to near term working capital requirements (5)Marketing Business – TEG's energy marketing business continually enters into forwards and options which may create unanticipated gains and losses depending on any changes in contract values. Uncertainty surrounding the future of this business and collateral requirements may also impact the value of the stock (6) Short Interest - A significant short interest in the stock could lead to near-term volatility.

If the impact on the company from any of these factors is more or less than we expect, the stock could outperform or underperform our target.

MDU Resources Group Inc

Company description

MDU Resources Group, Inc. is a diversified natural resources company with operations in three main business lines: 1) Energy (natural gas and oil production, natural gas pipelines and energy services) 2) Construction Materials & Construction Services, and 3) Utility-Related (electric and natural gas distribution).

Investment strategy

We rate MDU Neutral. MDU's regulated business' should remain fairly stable and provide dividend protection. Higher oil prices & expected crude oil production in the Bakken play (and potentially the Niobrara / Heath Shale, though we afford no value for these plays yet) help offset declining legacy natural gas production and should help drive MDU's oil/gas mix to between 40-60% going forward. Our estimates on the construction materials & services side remain conservative.

Valuation

We rate MDU Resources (NYSE: MDU) Neutral. Our target price is $21/s, based on the average value of the following valuation methodologies:

Our NAV calculation results in a target price of $20.50p/s. We value the pipeline & energy services business at $560mm based on 2013E EBITDA of $70mm and a 8x mid-cycle multiple. We value construction materials & mining at $1.1bn based on 2013E EBITDA of $140mm and a mid-cycle multiple of 8x. We value the construction services business 2012 EBITDA of $54mm at a mid-cycle multiple of 7x for a calculated value of $377mm. We derive a value of $1.7n for the company's gas & electric distribution assets based on rate base of ~$1.2bn and a 1.5x rate base multiple. Finally, we value the company's 588Bcfe of proved reserves at $1.3bn based on $1.85/Mcf per proved developed gas reserve and $18/bbl per proved developed oil reserve.

Our DCF Analysis results in $20.30p/s. We use the Firm's weighted average cost of capital.

Our long-term P / E analysis results in a value of $20.59p/s. We base our analysis on 2013 estimated earnings.

Our EV / EBITDA multiple analysis values MDU at $21.73p/s. We use 2013 EBITDA (2014 for E&P to normalize for commodity prices, discounted by 1 year to 2013).

Risks

If the impact on the company from any of the following proves to be greater than we anticipate, MDU will likely have difficulty achieving our target price. Likewise, if any of these factors proves to have less of an effect then we anticipate, MDU could materially outperform our target.

Commodity Price Volatility – MDU is exposed to commodity price volatility through its E&P business. Fluctuation in the price of oil and natural gas will cause volatility in our estimates. If MDU is able to realize commodity prices higher than our forecasts, than our valuation is likely to go up, and vice versa.

Reserve Replacement – MDU's ability to find reserves and grow production is an important factor to our valuation framework analysis. To the extent that MDU is not able to find more natural gas reserves, replace its reserves, and increase production through its current inventory of developed reserves, our valuation model would be impaired.

Capital Investment Recovery – MDU spends capital in excess of depreciation to maintain and expand its local distribution assets to provide better services to its customers. MDU relies on the state commissioners to approve its capital investment and rate increases to recover costs in excess of depreciation.

Acquisition Integration – MDU routinely acquires companies to grow its businesses. If the performance of these acquisitions is less than expected or if MDU overpays for the businesses, MDU's own performance will suffer.

National Fuel Gas Co

Company description

National Fuel Gas (NFG) is an integrated natural gas company that produces, transports, distributes and markets natural gas and oil.

The Company produces natural gas from about 660 billion cubic feet (bcfe) of proved reserves out of the Appalachian Region and the West Coast. NFG's distribution business provides natural gas and transportation service to roughly 732,000 customers in western New York and northwestern Pennsylvania through its utility, National Fuel Gas Distribution. NFG s interstate natural gas pipelines and storage assets provide service to customers in the surrounding utility territories.

Investment strategy

We rate NFG Buy with a $57 price target. We estimate that the Firm's Marcellus acreage could boost long-term production levels to ~20-30%+ per year. The company's regulated business lines (Pipes & Distribution) bear no direct commodity price exposure and serve as a balancing point with respect to overall risk exposure. We currently give the company full value for the Marcellus and assume around 7,000 locations. We do not give the company any credit for a potential JV.

Valuation

We rate NFG (NYSE: NFG) Buy. Our target price is $57p/s, based on the averaged value of the following valuation methodologies:

Our NAV calculation results in a target price of $76p/s. We estimate that the gas distribution business is worth ~$1.3bn based on total rate base of $1.035bn (New York and Pennsylvania) and a 1.3x multiple. We value NFG's E&P business at ~$5.4bn, which includes proved reserves of 935Bcfe, but affords no credit for probable and possible reserves. We value natural gas reserves at $1.85/Mcf and Crude Oil reserves at $18/bbl. We also value the flowing Marcellus production of ~120mmcf/d at $12K per flowing mcf, a total of ~$1.4bn. In addition, we add ~$1K for 735K acres in the Marcellus (adjusted to exclude the developed portion). We value the Pipeline & Storage segment at $1bn based on 2012 EBITDA of $130mm and an 8x mid-cycle multiple. We believe the Energy Marketing business is worth ~$25mm based on 2012 EBITDA of $5mm and a 5x mid-cycle multiple.

Our DCF Analysis results in $57p/s using the company's weighted average cost of capital.

Our long-term P / E analysis results in a value of $48p/s. We base our analysis on 2013 estimated earnings. In order to account for the company's various operating segments, we value the E&P earnings at a 20.8x multiple, the Energy Marketing earnings at 8x and the utility earnings at 13x. All our earnings multiples are based on mid-cycle earnings multiples.

Our EV / EBITDA multiple analysis values NFG at $49p/s. We value the E&P business at $2.2bn based on a 5.1x 2013 multiple on $439mm of expected EBITDA. We value the other consolidated 2013 EBITDA of $388mm at 7.8x to get an enterprise value of $6bn, of which we subtract ~$1.2bn of debt for an equity value of $3.9bn.

Risks

Commodity Price Risk -- Fluctuation in the price of oil and natural gas will cause volatility in our estimates. If the commodity prices go up from the current level, it could affect NFG's share price positively.

Reserve replacement -- NFG's ability to find reserves in its undeveloped acreage and to sustain production is key to our valuation framework. To the extent that NFG is not able to find more reserves, replace reserves it uses in production, and sustain production through its current inventory of developed reserves, our valuation model would become impaired. Conversely, to the extent that NFG can find more reserves cheaply and increase its production, this would increase its valuation.

NFG's commodity exposed business lines are offset through regulated (i.e. minimal direct commodity price risk) segments.

If the impact from the above risks turns out to be greater/less than we anticipate, the stock could fail to achieve/exceed our target price.

NiSource Inc

Company description

NiSource Inc (NI) is, primarily, a regulated utility with an integrated network of gas distribution, transportation, and storage assets in the Northeast, Mid-Atlantic, and Midwest. NiSource also operates an electric utility in Northern Indiana.

The company operates four business units, including Gas Distribution, which delivers natural gas in several states; Gas Transmission and Storage Operations, which provide interstate natural gas transmission and storage services from the Gulf of Mexico to the Northeast; Electric Operations, which consist of NiSource's regulated electric utility, Northern Indiana Public Service Company (NIPSCo); and Other Operations, which include energy-related services and a co-generation facility.

Investment strategy

We rate the shares of NiSource (NI) Neutral (2). NI provides long-term earnings power of $1.40 per share, including growth from expected rate increases at NiSource's utilities. Our estimates do not include substantial industrial load growth at the utility or the potential for a build out of NI's pipeline and storage assets, which have a favorable footprint in the Marcellus Shale.

Valuation

We average multiple valuation methodologies to derive our $24 target. Our NAV yields a value of $25. We value regulated assets at a multiple of rate base. These values are partially offset by the company's net debt. Our DDM, which incorporates our rate base growth assumptions, values the company at $24. Our P/E and EV/EBITDA multiples (2013 estimates) are based on our proprietary analyses, which utilize current equity risk premiums, current betas and projected risk-free yields. For our P/E analysis, we use multiples of 14.5x and 14.5x for the company's utility and pipeline assets. For our EV/EBITDA analysis, we use multiples of 7.5x and 8.0x for the company's utility and pipeline assets. Our P/E and EV/EBITDA analyses yield values of $24 and $23.

Risks

The key risks to our investment thesis are (1) Rate Cases – We estimate the company will receive rate relief at several of its utilities. Under- or over-estimation of relief could materially impact our estimates (2) Weather – Changes in weather impact the stability of earnings (3) Capital Investment Recovery — NI spends a substantial amount of capital to maintain and expand its distribution system. NI depends on rate increases from public utility commission to earn a fair return on this expansion. In addition, tariffs on the pipeline system are regulated by the FERC (4) Pipeline Capacity Contracts — The risk of re-contracting pipeline capacity at lower rates, upon contract expiration, could have a material impact on earnings (5) Uplift from an MLP – Currently, we do not include any uplift from NiSource pursuing an MLP strategy. However, significant upside may exist if the Company is able to successfully implement this strategy.

If the impact on the company from any of these factors proves to be greater/less than we anticipate, it may prevent the stock from achieving our target price or could cause the stock price to materially under/outperform our target.

Oneok Inc

Company description

Oneok is an integrated energy company operating amidst the energy value chain through three operating segments: (1) the Oneok Partners (OKS) investment, which is a Master Limited Partnership involved in a natural gas gathering, processing, marketing, NGL fractionation, storage and pipeline transportation; (2) a local distribution business providing service to customers in Kansas, Oklahoma, and Texas (Distribution), and (3) a natural gas marketing and trading segment with both retail and wholesale customers (Energy Services).

Investment strategy

We rate shares of OKE Neutral. OKE offers investors a solid Free Cash Flow profile (mostly as a result of the company's ownership stake and associated GP + LP cash flows from OKS) with an emphasis on returning this cash to shareholders. We believe that this cash flow generation profile is priced into shares at current levels.The company's Distribution & Energy Services business carry no direct commodity price risk, though periods of flattening basis & seasonal spreads can negatively affect Energy Marketing earnings. OKE carries some indirect commodity price risk via its ownership in OKS, which is mainly exposed to Natural Gas Liquids prices.

Valuation

We use four valuation scenarios to reach our target price of $90 per share.

Our NAV analysis results in $89p/s. We derive our NAV based on the following asset values: 1) Local Distribution Companies: We apply a multiple of 8x on 2013 EBITDA of 350mm ; 2) Energy Services: We use our 2013 EBITDA estimate and apply a multiple of 5x; 3) Oneok Partners: We apply a value of $56 per unit to OKE's LP units. We value 2013 GP distributions at a 22x multiple. We tax-effect both LP and GP distributions.

Our DCF analysis results in a share price of $106 per share under CIRA's commodity price assumptions. Our DCF analysis incorporates OKE's LP and GP interest in OKS, in addition to the residual value of OKE's Local Distribution and Energy Service assets. We use the company's weighted average cost of capital.

We apply different EV/EBITDA multiples to each of our 2013 business segment EBITDA estimate, resulting in a blended 8.8x multiple & $85 target price.

We apply a blended earnings multiple OKE's FY'13 earnings to get to $79p/s.

Risks

The company's exposure to commodity prices (via cash flows from OKS) is balanced to some degree by the regulated natural gas distribution business. The Energy Services segment is more exposed to seasonal & basis spreads rather than absolute commodity prices.

Production from Regional Producing Basins - OKS is dependent on volumes from producing fields where the company gathers, processes, fractionates, transports, and markets natural gas and natural gas liquids. If producers were to cut back on drilling, OKS could suffer declines in throughput.

Capital Investment Recovery - Oneok spends capital in excess of depreciation to maintain and expand its distribution system. OKE is exposed to regulatory risk in that it may not be able to recover the full amount of capital spent via customer rates.

If the impact on the company from any of these factors proves to be greater/less than we anticipate, it may prevent the stock from achieving our target price or could cause the stock price to materially outperform our target.

Questar Corp

Company description

Questar Corp (STR) is a regional, integrated natural gas utility company with operations in the Rocky Mountains. The company has three operating segments, including 1) a regulated gas delivery business in Utah, Questar Gas; 2) an interstate pipeline and underground storage business, Questar Pipeline; and 3) a regulated natural gas and oil E&P buisness (Wexpro).

Investment strategy

We rate the shares of Questar Corp Buy, which takes into account 1) increasing volumes on the company's pipeline and gathering system; 3) marginal customer growth at the utility; and 4) a 20% rate of return on an increasing capital base (i.e., Wexpro). STR is essentially a fully regulated business.

Valuation

We rate Questar Corporation (NYSE: STR) Buy. Our target price is $20.50p/s, based on the average of the following valuation methodologies:

Our NAV calculation results in a target price of $20.34p/s. We estimate that the distribution business is worth $1.3bn based on 2013 EBITDA and an 8x mid-cycle EBITDA multiple. We value STR's Pipeline & Storage business at ~$1.7bn, which is based on 2013 EBITDA and an 8x mid-cycle multiple. We value the regulated E&P business, Wexpro, at $2bn. This is based on a DDM (dividend discount model). We then subtract ~$1.2 billion of net debt to derive an equity value.

Our DCF Analysis results in $20.24p/s. We derive a NPV of cash flows over the next ten years discounted at the Firm's WACC. We then add the residual value of the Utility & pipeline assets as well as the residual value of Wexpro. We subtract net debt of ~$1.2bn to derive the equity value.

Our long-term P / E analysis results in a value of $21.19p/s. We base our analysis on 2013 estimated earnings.

Our EV / EBITDA multiple analysis values Questar at $19.71p/s. We use a weighted average 2013 EBITDA multiple of 8.4x on projected EBITDA of $558mm. We subtract ~$1.2bn of net debt to reach our $19.71p/s target.

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Risks

Risks to the achievement of our target price include the following:

1) Lack of drilling success at the regulated E&P segment would result in a lower investment base and therefore a lower return

2) A decrease in natural gas demand at the Utility

3) Delays on the ongoing pipeline expansion projects

If the impact on the company from any of these factors proves to be greater/less than we anticipate, it may prevent the stock from achieving our target price or could cause the stock price to materially outperform our target.

TransCanada Corp

Company description

The Company's pipeline network transports 15 bcf/d of natural gas and extends over 35,000 miles, while its storage capacity is about 360 bcf. Additionally, TransCanada owns or has an interest in over 10,900 MW of generation throughout Canada and the northeast United States.

Investment strategy

We rate TRP Neutral (2) TRP's asset mix of both pipeline (70%) and power (30%) assets offers attractive organic growth with incremental returns on new capital of 13% excluding acquisitions over the next five years.

Despite attractive returns on organic and new build projects, we believe this growth comes with the risk of capital cost overruns at new projects, namely, the restart of 2 units at TRP's operated nuclear power plant (Bruce Power) and a C$12.2 billion oil export pipeline from Alberta into the Midwest (Keystone Pipeline).

Valuation

We apply average multiple valuation methodologies to derive our $42 target. Our NAV yields a value of $41. We value regulated assets at a multiple of rate base (1.5x for pipelines and storage assets). We apply a 10% haircut to Canadian assets as they earn lower authorized returns. We value SRE's power generation assets at replacement value. These values are partially offset by the company's net debt. Our 10-year DCF yields a value of $51, using a 5.97% WACC. Our P/E and EV/EBITDA multiples for the pipelines are based on our proprietary analyses, which utilize current equity risk premiums, current betas and projected risk-free yields. This analysis yields a multiple of 14.5x 2013 earnings and 8x 2013 EBITDA. We apply a merchant power multiple of 14x and 8x to power generation 2013 earnings and EBITDA. Our P/E and EV/EBITDA analyses yield values of $37 and $38.

Risks

The key risks to our investment thesis includes

(1) Exchange Rates – TRP has energy assets in the US and Canada. Significant changes in exchange rates could materially increase or decrease earnings.

(2) Regulatory – TRP spends capital in excess of depreciation to maintain and expand its pipeline infrastructure and relies on fair regulated returns. Changes in the regulatory environment could adversely impact returns.

(3) Nuclear Risk – Because of the high safety risks of operating a nuclear power plant, regulatory impediments may arise. Unplanned outages from sensitive technology, cost overruns or even terrorist attacks could also cause damage and create outages, impacting earnings.

(4) Capital Risk – We expect about half of TRP capex program will be funded through debt. Difficulties getting the appropriate debt funding could reduce the likelihood of projects being built timely.

(5) Energy Prices – TRP sells to the merchant market. Changes in power prices and/or cost of fuel could materially impact our estimates or WC requirements.

(6) Execution Risk – Expansion projects should add incremental earnings, but overspending could lead to lower returns. There is also a risk that projects will not be completed on-time or at all.

(7) Ravenswood – We assume capacity energy prices in NYC will fall in'11 due to capacity oversupply. Any differences in capacity pricing to our estimates could also impact our long-term estimates.

If the impact on the company from any of these factors proves to be greater/less than we anticipate, it may prevent the stock from achieving our target price or could cause our target price to be materially outperformed.

Sempra Energy

Company description

Sempra Energy (SRE) is an integrated natural gas and electric company. The company's operations include Sempra Utilities, which consists of 6.2 million gas and 1.3 million electric meters in Southern California; Sempra Generation, which owns about 2,600 megawatts (MW) of net, active generation; Sempra Pipeline & Storage, which operates natural gas pipeline, storage, and owns interests in utility assets in South America; and Sempra LNG, which is currently developing and operating LNG re-gasification plants to import natural gas into the U.S.

Investment strategy

We rate the shares of Sempra Energy Buy (1). Sempra's diversified portfolio of assets in the gas and power sector gives the company sustained earnings power through consistent and growing returns from its utility operations, and a power generation portfolio that is 80% contracted. We believe Sempra is well positioned to take advantage of the current volatility in commodity prices, power demand in California, and future expected demand for liquefied natural gas (LNG).

Valuation

We average multiple valuation methodologies to derive our $65 target.

Our NAV yields a value of $67. We value regulated assets at a multiple of rate base (1.5x for utilities, 1.5x for pipelines, transmission and storage assets). The company's trading business is valued at the expected sale price. We value SRE's electric generation at replacement value ($800-$1,000/KW for CCGT assets). These values are partially offset by the company's net debt.

Our DDM values the company at $62. Our P/E and EV/EBITDA multiples are based on our proprietary analyses, which utilize current equity risk premiums, current betas and projected risk-free yields. For our P/E analysis, we apply multiples of 14.5x , 14.5x and 16.0x to 2013 earnings at the utility, pipeline and generation segments. Our P/E analysis yields a value of $67.

For our EV/EBITDA analysis, we apply multiples of 7.5x, 8x and 9x to 2013utility, pipeline and generation EBITDA. Our EV/EBITDA analysis yields a value of $67.

Risks

The key risks to our investment thesis are (1) The utilities are subject to regulation from federal, state and local authorities which may impose rulings adverse to Sempra's interests. (2) California's Department of Water Resources power contract with Sempra Generation expired in 2011. Earnings may be materially impacted as a result of volatile merchant power prices. (3) Uncertainty in the contracting of capacity on expansions at the company's LNG facilities may negatively impact earnings in the coming years. (4) Sempra is exposed to currency issues in Mexico and earnings could be impacted with significant volatility in the value of the Mexican Peso. (5) Ability to access debt or equity markets at a reasonable cost in the future could materially impact growth in the future. (6) The opportunity for further upside exists if Sempra can take advantage of the growing need for renewable generation in the desert SW.

If the impact on the company from any of these factors proves to be greater/less than we anticipate, it may prevent the stock from achieving our target price or could cause our target price to be materially outperformed.

Southwest Gas Corp

Company description

Southwest Gas provides regulated gas distribution services for 1.8 million customers in Arizona, Nevada and California. We estimate the total regulated utility asset base (rate base) to be about $2.3 billion. SWX also operates two FERC-regulated pipelines ($85 million rate base) and an unregulated pipeline construction business (~$35 million annual EBITDA).

Investment strategy

We rate SWX a Buy (1). Our Buy rating for SWX is premised on the company obtaining a reasonable rate of return on its regulated asset base. SWX's regulated customer base has been driven by population growth in Arizona and Nevada, which has slowed recently. This type of historical growth within a regulatory framework inevitably leaves shareholders exposed to regulatory lag; however, utilities are entitled to just and reasonable rates. Last year, SWX earned below authorized return levels. We estimate that upcoming rate relief and slowing capital growth should help to mitigate the impact of regulatory lag in the coming years and improve return metrics for the utility segment.

Valuation

We average multiple valuation methodologies to derive our $47 target.

Our NAV yields a value of $50. We value regulated assets at a multiple of rate base (1.5x for utilities, 1.5x for pipelines). We value the Construction Services segment at 5x EBITDA, based on a midstream asset multiple. These values are partially offset by the company's net debt.

Our DDM values the company at $43. We calculate a hypothetical dividend, based on SWX's regulated capital growth, authorized returns and cost of equity to arrive at our DDM valuation.

Our P/E and EV/EBITDA multiples are based on our proprietary analyses, which utilize current equity risk premiums, current betas and projected risk-free yields. For our P/E analysis, we use multiples of 14.5x, 14.5x and 8x for the company's utility, pipeline and pipeline construction assets. For our EV/EBITDA analysis, we use multiples of 7.5x, 8x and 5x for the company's utility, pipeline and pipeline construction assets. Our P/E and EV/EBITDA analyses yield values of $44 and $53.

Risks

The key risks to our investment thesis include i) a historically challenging regulatory body in Arizona, which recently has become more constructive, ii) the potential need to raise equity to fund the capex program, sensitivity of earnings to changes in weather, iii) the stock's relative lack of trading liquidity, and the relatively low market capitalization of the company compared with other utilities. These concerns are offset by a stable regulated earnings stream from the transmission pipelines and natural gas utilities which account for more than 90% of earnings. Risks to the shares attaining our target price include:

(2) Population growth - Housing demand and tepid economic growth within the Southwest region of the U.S. could slow to a rate below estimates or increase above our estimates, causing us to revise our estimates and valuation.

(3) Capital investment recovery - SWX spends capital to maintain and expand its operations. The company will continue to rely on state regulatory commissions to recover costs in excess of depreciation. While we believe SWX's relationship with the ACC has been more productive than those of other utilities operating in the state, the ACC and the other commissions may not allow the company to earn a reasonable rate of return on its rate base.

(4) Capital Markets - SWX is a relatively small utility in terms of market capitalization and daily volumes. This may impact its ability to access the capital markets.

If the impact on the company from any of these factors proves to be greater/less than we anticipate, it may prevent the stock from achieving our target price or could cause our target price to be materially outperformed.

Spectra Energy Corp

Company description

Spectra Energy is an integrated natural gas company operating in both the United States and Canada. The company maintains four distinct operating segments with over $20 billion in assets: 1) natural gas transmission and storage in the US; 2) natural gas distribution in Canada; 3) natural gas gathering, processing and transmission in Canada; and 4) gathering & processing in the US through a 50% joint venture with ConocoPhillips.

Investment strategy

We rate Spectra (SE) at Neutral (2) with a $32 target. We expect SE will grow regulated earnings by expanding its North American pipeline and storage network; however, commodity prices and Canadian exchange rates could add substantial volatility to midstream earnings.

Valuation

We apply multiple valuation methodologies to derive our $32 target.

Our NAV yields a value of $35. We value regulated assets at a multiple of rate base (1.5x for utilities, 1.5x for pipelines). We value the Field Services segment at 7.5x 2011 EBITDA, based on our midstream multiple. These values are partially offset by the company's net debt.

Our 10-year DCF yields a value of $33, by utilizing a 6.8% WACC.

Our P/E and EV/EBITDA multiples are based on our proprietary analyses, which utilize current equity risk premiums, current betas and projected risk-free yields. For our P/E analysis, we use multiples of 14.5x, 14.5x and 10x for the company's utility, pipeline and midstream assets. For our EV/EBITDA analysis, we use multiples of 7.5x, 8x and 6x for the company's utility, pipeline and midstream assets. We value the Canadian pipelines at a slight discount to account for lower authorized returns. Our P/E and EV/EBITDA analyses yield values of $29 and $28.

Risks

The key risks to our investment thesis include (1) significant capital requirements over the medium-term and the earnings sensitivity to volatile commodity prices and the Canadian dollar.

If the impact on the company from any of the following factors proves to be greater than we anticipate, the stock will likely have difficulty achieving our target price.

(2) Capital Investment Recovery — SE spends capital to maintain and expand its pipeline and distribution operations. SE relies on the OEB and the FERC to recover costs or approve projects.

(3) Processing Contract Volatility — SE is exposed to commodity price volatility through its POP and keep-whole processing contracts. An increase in commodity prices could allow SE to outperform our expectations.

(4) Production from Gas Producing Regions — SE is dependent on volumes from producing fields throughout North America. Significant production declines could require SE to charge producers higher fees to compensate for lower volume on its systems, potentially degrading its competitive position. Conversely, production increases could enhance its competitive position.

(5) Demand from Refineries and Petrochemical Producers — Nat gas liquids produced by SE are primarily marketed to refineries and petrochemical producers. Lower demand could lead to margin compression.

If the impact on the company from any of these factors proves to be greater/less than we anticipate, it may prevent the stock from achieving our target price or could cause our target price to be materially outperformed.

Sunoco Inc

Company description

Sunoco, Inc (SUN) is a petroleum refiner and retail fuels marketer with interests in a crude oil and refined products infrastructure and logistics company, Sunoco Logistics Partners L.P. (SXL). As SUN continues to exit its Refining business with the shut down/sale of its remaining refineries it is molding into a pipeline, logistics and retail company. SUN owns the 2% general partnership interest in Sunoco Logistics along with a 32% interest in its common units.

Investment strategy

We rate the shares of Sunoco Inc Buy/High Risk (1H). As Sunoco moves away from the refining business, we believe there is potential upside to the stock as its refining assets have been underperforming while increasing US liquids production has put the spotlight on its logistics business which is re-shaping itself to move crude and NGLs to the Gulf Coast. Sunoco has a healthy cash position and a stable balance sheet. Sunoco also has a brand name for its marketing business. While the average retail margins for SUN have been on the lower side, we believe the business will consistently generate free cash flow and support the dividend of the company.

Valuation

Our target price of $51 p/s is based on our matrix valuation approach. We use four different valuation methodologies to reach our target price. Our net asset value (NAV) analysis is based on a liquidation value of the company and also incorporates pending cash receivables and cash outflows related to environmental, pension and other liabilities.

Our discounted cash flow analysis uses 10 years of cash flows with a terminal value based on the residual value of the LP and GP distributions from SXL and the residual value of the Retail Assets. In calculating the residual value of the LP distributions we assume a target yield of 6%. We have used a discount rate of 7.4% based upon a beta of 0.77 derived from an average comparable beta of other midstream companies.

Our P/E and EV/EBITDA analyses are based on average multiples from the same comparable universe. We estimate P/E and EV/EBITDA multiples of 16.0x and 7.0x. We use clean 2013 numbers in our analyses. Our EV/EBITDA analysis yields a valuation of $44 p/s and P/E analysis yields a valuation of $49 p/s.

Risks

We rate SUN High Risk. In light of the potential sale for its refining assets the risks associated with the business will likely subside, but until then, these risks remain. We derived the risk rating after consideration of a number of factors. These factors include an assessment of industry-specific, financial risk, management risk and SUN's diversified business model.

Downside risks include:

Environmental Liabilities: Even though the company has set aside $250 MM to deal with any potential environment liabilities associated with the closures of its refining and chemical assets, we believe that any upside in the associated liability could hamper company's earnings potential.

Crude Acquisition & Marketing: SXL's Crude acquisition business has more volatility associated with it depending upon crude spreads, differentials and the contango structure of the crude oil market. This business could also come under increasing competition.

Vectren Corp

Company description

Vectren operates regulated electric and gas utilities in Indiana and Ohio, distributing natural gas to about 1 million customers and serving about 140,000 electric customers. The utilities represent over 80% of VVC's earnings. Vectren also operates non-regulated businesses, including coal mining, pipeline construction, and gas marketing.

Investment strategy

We rate Vectren shares Neutral. We believe the stock is fairly valued as a constructive regulatory environment is offset by concerns over the impact of flat basis spreads on the gas marketing operations and light demand for the coal mining unit.

Over 80% of earnings at VVC are derived from operations at the gas and electric utilities. In late 2009, the company's sole electric utility filed for rate relief. We expect resolution of this matter by year-end. In addition to rate relief, we expect growth at the utility will be arise from infrastructure riders, which allow timely returns on capital spending and customer growth.

The non-regulated operations include coal mining, gas marketing, pipeline construction and energy services. Coal mining and gas marketing operations have been hampered as of late due to reduced coal demand and thinning basis spreads.

Valuation

We average multiple valuation methodologies to derive our $29 target. Our NAV yields a value of $28.40. We value regulated assets at a multiple of rate base (1.5x for gas utilities). We value ProLiance at 8x earnings, in-line with our estimated marketing multiple. The company's coal mining and energy services segments are valued at 6x and 5x 2013 EBITDA, based on midstream and marketing multiples. These values are partially offset by the company's net debt. Our DDM values the company at $27.46. We calculate a hypothetical dividend, based on VVC's regulated capital growth, authorized returns and cost of equity to arrive at our DDM valuation. Our P/E and EV/EBITDA multiples are based on our proprietary analyses, which utilize current equity risk premiums, current betas and projected risk-free yields. For our P/E analysis, we use 2013 multiples of 14.5x for the gas utility and 13.5x for the electric uitility and 10x for the company's unregulated assets. For our EV/EBITDA analysis, we use multiples of 7.5x and 6.5x for the company's utility and unregulated assets. Our P/E and EV/EBITDA analyses yield values of $25.38 and $36.75.

Risks

The key risks to our investment thesis includes

(1) Capital Investment Growth — VVC spends capital to maintain and expand its utility systems. VVC relies on adequate base rates to earn its cost of capital.

(2) Concentration in the Midwest — Changes in the service area's economy could reduce demand for power.

(3) Gas and Purchased Power Costs — Higher costs can lead to higher working capital requirements and interest expense.

(4) Coal Margins — Key drivers behind the performance of the coal mining unit include coal prices, volumes and costs, which are all volatile.

(5) Non-Regulated Business — VVC's unregulated business continually enters into forwards and options that may create unanticipated losses.

(6) Capital Markets — VVC is a relatively small utility in terms of market cap and volume compared with other utilities. This may affect its ability to access the capital markets.

(7) Customer Growth — An unexpected increase or decrease in population could affect earnings substantially.

Events that would present upside risk to our target price include: 1) an improving economy in Vectren's service areas; 2) increased natural gas price volatility, including wider summer/winter differentials; and 3) improvements in coal production volumes and per unit margins.

If the impact on the company from any of these factors proves to be greater/less than we anticipate, it may prevent the stock from achieving our target price or could cause our target price to be materially outperformed.

UGI Corp

Company description

UGI Corp operates as a diversified gas utility, electric utility and global propane distribution company. The company's utility and power assets are located in Pennsylvania. The company's propane business is composed of a 46% equity interest in AmeriGas Partners and a stable international propane distribution unit with principal operations in France, where the company controls about a quarter of the market.

UGI also operates an energy services business with generation and storage assets.

Investment strategy

We rate UGI a Buy (1). The company provides stable cash flows through a combination of an electric and gas utility. In addition, the company has one of the largest propane businesses in the USA and has an International Propane division that serves customers in Europe.

Historically UGI has generated strong free cash flows from its domestic propane and utilities businesses enabling the company to make bolt-on acquisitions and increase its dividend over time. However, the propane business in the US looks challenged as commodity prices move higher, and customers migrate to alternative fuels.

Valuation

Our average multiple valuation methodologies derives a $31 target price.

Our NAV yields a value of $31. We value regulated assets at a multiple of rate base (1.5x for gas utilities). The company's gas marketing segment is valued at 7x EBITDA, in-line with multiples for other marketers. These values are partially offset by the UGI's net debt.

We value UGI's interest in APU using our MLP team's target price ($39). We value UGI's GP interest based upon GP distributions of ~$1.5 million.

We value UGI's coal-fired power plants at their estimated replacement cost, which includes a discount applicable to Central App coal plants, of $980/KW.

International propane operations are valued at a 15% discount to our gas utility EV/EBITDA multiple of 7.0x, due to significant exposure to weather and exchange rates.

Our DDM values the company at $31. We calculate a hypothetical dividend, based on UGI's regulated capital growth, authorized returns and cost of equity to arrive at our DDM valuation.

Our P/E and EV/EBITDA multiples are based on our proprietary analyses, which utilize current ERPs, betas and projected risk-free yields. For our P/E analysis, we use multiples of 14.0x, 10.0X, 14.5X and 11.0X for the company's Gas utility, Propane, Electric utility and Marketing/energy services assets. For our EV/EBITDA analysis, we use multiples of 7.0x and 6x for the company's Gas & Electric Utility/Propane businesses and Marketing/energy services assets. International propane operations are valued at a 15% discount to our gas utilities, due to exposure to weather and exchange rates. Our P/E and EV/EBITDA analyses yield values of $28 and $37.

Risks

The key risks to our investment thesis are (1) Most of UGI's cash flows arise from regulated assets or the mature propane market. Slightly offsetting these stable cash flows are sensitivities to weather and exchange rates.

(2) The international propane unit accounts for 20% of UGI's operating income while AmeriGas accounts for approximately a third. Propane distributors compete in an unregulated market. While the barriers to entry are high, namely capital costs, UGI competes with a number of propane distributors and "mom & pop" dealers in the U.S. and Europe. Economics for alternative fuel types is also making it more economical for customers to switch into other fuels.

Flaga and Antargaz's earnings remain exposed to foreign currency fluctuations.

(3) UGI's utility earnings are sensitive to weather. Our earnings estimates assume normal weather and recovery of capital spent in excess of depreciation through higher customer rates. These rates depend on orders from Pennsylvania Public Utility Commission. At this point, we believe the commission has been constructive with regard to utility rate making.

(4) Earnings in the propane business are also impacted by weather as changes in weather can significantly impact volumes.

(5) Our margin assumptions at UGI's power plants are based on market prices and the capacity market in PJM. Higher fuel costs or regulatory impediments within the PJM market could adversely affect our earnings estimates.

If the impact on the company from any of these factors proves to be greater/less than we anticipate, it may prevent the stock from achieving our target price or could cause our target price to be materially outperformed.

The Williams Companies Inc

Company description

The Williams Company Inc (WMB) is an integrated natural gas company that processes, trades, and transports natural gas and oil. The company also operates Midstream Canadian & Olefins business.

WMB also owns an ~78% stake in Williams Partners (incl. GP interest), a Midstream & Pipeline MLP. WMB is the operator of the WPZ assets.

Investment strategy

We rate the shares of The Williams Company Buy based on our analysis of the company's ownership of WPZ and combined growth at WPZ and the Canadian Midstream & Olefins business.

Valuation

We employ a variety of valuation techniques to derive our target price of $36 for the shares of The Williams Company Inc.

1) Discounted Cash Flow: We model in WPZ contribution via LP and GP distributions. We tax GP distributions at 35% and LP distributions at 20%. We discount our cash flows at our WACC. Our DCF value per share is $37.

2) Net Asset Value: For the Olefins portion, our forward EBITDA multiple is 5.5x 2013 EBITDA. To account for WMB's stake in WPZ, we value the LP units at Current Trading Price x WMB owned units. We then tax-affect this figure (we use 20% tax rate to account for LP deferrals) to derive an implied valuation of $10 billion

for the LP shares. For the GP interest, we value estimated 2013 GP distributions of $531 million by a 22x multiple, then tax-effect (~35%) to derive a valuation of $7.6 billion for the GP interest. We back out ~$700mm of net debt to derive our equity value. Our NAV is $34p/s.

3) EV/ EBITDA: We value shares of WMB at $37 on an EV/ EBITDA basis. We use 2013 EBITDA estimates. We back out WPZ minority interest, to account for the proportionate share WMB does not own at a blended multiple.

4) Long-Term P/E: We use a consolidated EPS on 2013 EPS for a value of $35.

Risks

Risks we see to Williams achieving our target price include the following:

WPZ- WMB will generates a sizable portion of its cash flow via WPZ and therefore from keep-whole operations, which depend on the spread between natural gas and crude oil prices. In a declining crude / rising gas price environment, this could significantly chip away at WMB's processing margin and lead to earnings & cash flow shortfalls.

Project Execution - If WMB suffers cost overruns at its expansion projects, economics could deteriorate and lower overall project returns.

Appendix A-1

Analyst Certification

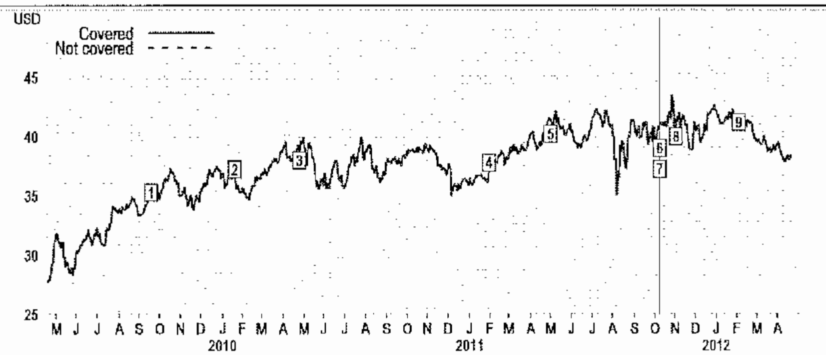
The research analyst(s) primarily responsible for the preparation and content of this research report are named in bold text in the author block at the front of the product except for those sections where an analyst's name appears in bold alongside content which is attributable to that analyst. Each of these analyst(s) certify, with respect to the section(s) of the report for which they are responsible, that the views expressed therein accurately reflect their personal views about each issuer and security referenced and were prepared in an independent manner, including with respect to Citigroup Global Markets Inc and its affiliates. No part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst in this report.

IMPORTANT DISCLOSURES

AGL Resources Inc (GAS)

Ratings and Target Price History
Fundamental Research

Analyst: Faisel Khan, CFA



Date	Rating	Target Price	Closing Price
1 18-Sep-09	2M	*34.00	35.11
2 20-Jan-10	2M	*36.00	36.75
3 26-Apr-10	2M	*38.00	39.16
4 30-Jan-11	*1M	*41.00	36.09
5 2-May-11	*1L	*44.00	41.45
6 8-Oct-11	Stock rating system changed		
7 8-Oct-11	*2	44.00	40.44
8 2-Nov-11	2	*42.00	39.99
9 3-Feb-12	2	*43.00	41.55

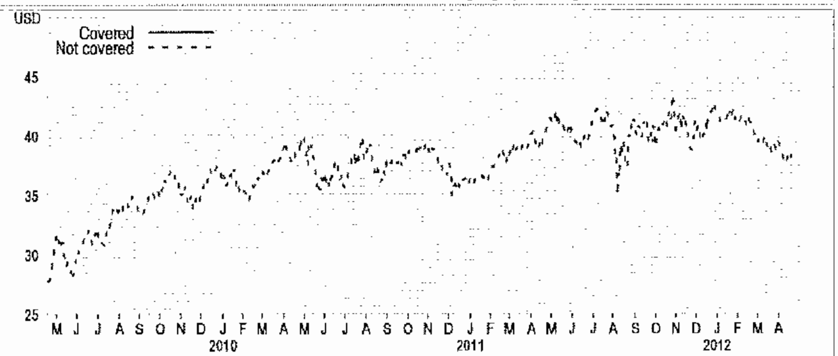
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

AGL Resources Inc (GAS)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Faisel Khan, CFA



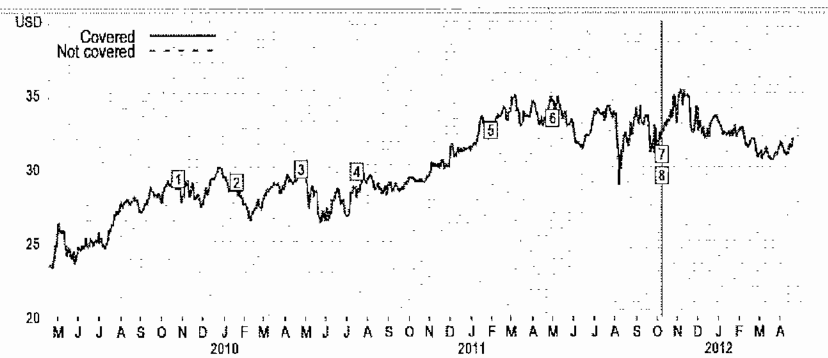
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Atmos Energy Corp (ATO)

Ratings and Target Price History
Fundamental Research

Analyst: Faisel Khan, CFA



Date	Rating	Target Price	Closing Price
1 27-Oct-09	*2L	*28.00	28.84
2 20-Jan-10	2L	*30.00	28.85
3 26-Apr-10	2L	*31.00	29.91
4 16-Jul-10	*2M	*30.00	28.02
5 30-Jan-11	2M	*32.00	32.62
6 2-May-11	*2L	*35.00	34.61
7 8-Oct-11	Stock rating system changed		
8 8-Oct-11	*2	35.00	31.94

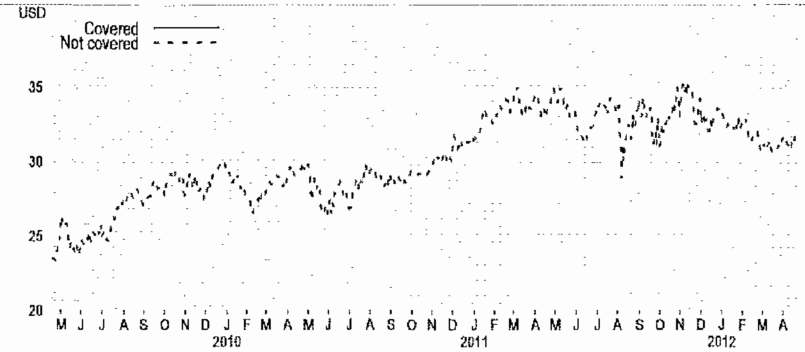
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Atmos Energy Corp (ATO)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Faisel Khan, CFA



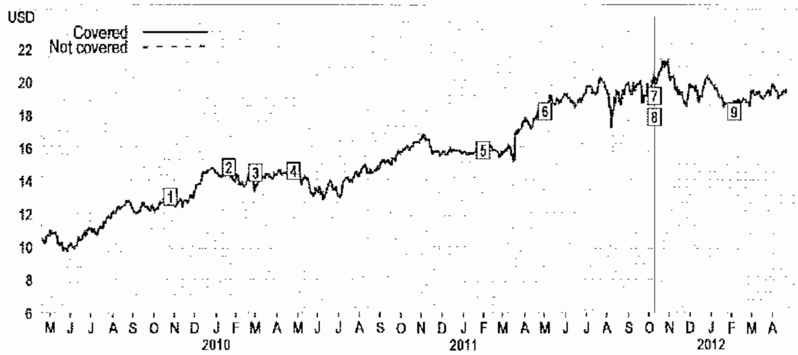
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

CenterPoint Energy Inc (CNP)

Ratings and Target Price History
Fundamental Research

Analyst: Faisel Khan, CFA



	Date	Rating	Target Price	Closing Price
1	26-Oct-09	*1M	*14.00	12.70
2	20-Jan-10	1M	*16.00	14.86
3	1-Mar-10	1M	*15.50	13.60
4	26-Apr-10	1M	*16.00	14.55
5	30-Jan-11	1M	*18.00	16.03
6	2-May-11	1M	*21.00	18.59
7	8-Oct-11	Stock rating system changed		
8	8-Oct-11	*2	21.00	19.93
9	3-Feb-12	*1	*22.00	18.88

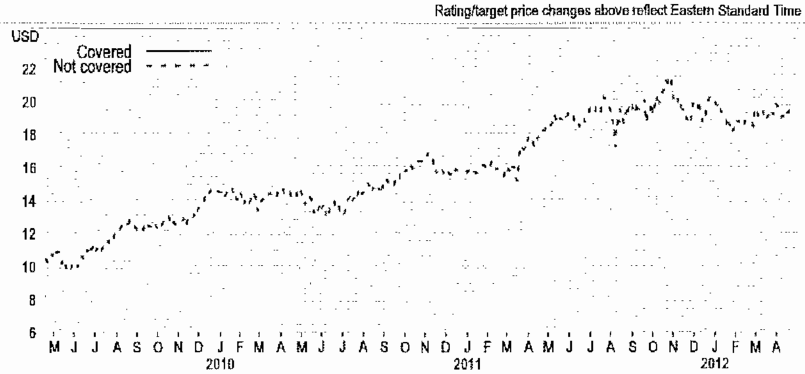
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

CenterPoint Energy Inc (CNP)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Faisel Khan, CFA



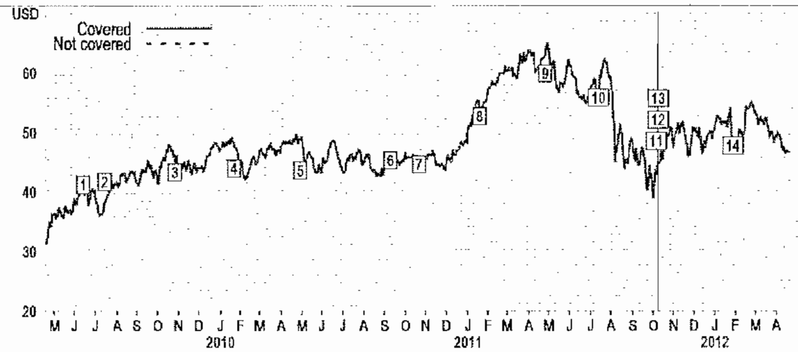
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Energen Corp (EGN)

Ratings and Target Price History
Fundamental Research

Analyst: Timm Schneider
Covered since July 13 2011



#	Date	Rating	Target Price	Closing Price
1	12-Jun-09	*2H	*41.00	41.25
2	15-Jul-09	2H	*43.00	38.14
3	27-Oct-09	*2M	*46.00	46.55
4	21-Jan-10	2M	*50.00	48.35
5	29-Apr-10	2M	*51.50	48.71
6	9-Sep-10	2M	*49.00	44.96
7	21-Oct-10	2M	*50.00	45.04
8	19-Jan-11	2M	*60.00	54.07
9	26-Apr-11	2M	*64.00	62.82
10	13-Jul-11	*1M	*69.00	57.12
11	6-Oct-11	1M	*61.00	43.74
12	8-Oct-11	Stock rating system changed		
13	8-Oct-11	*1	61.00	42.92
14	27-Jan-12	1	*63.00	49.29

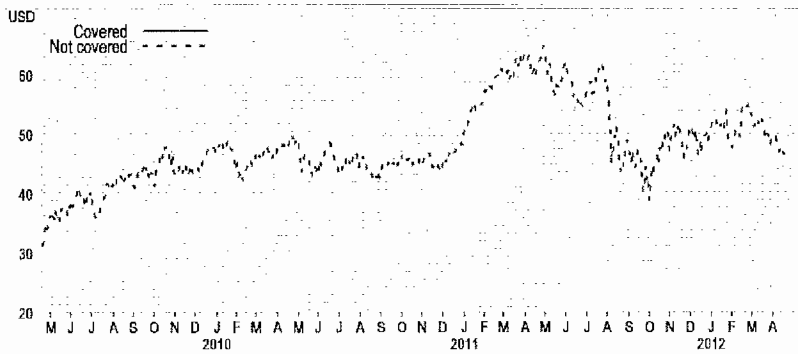
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Energen Corp (EGN)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Timm Schneider
Covered since July 13 2011



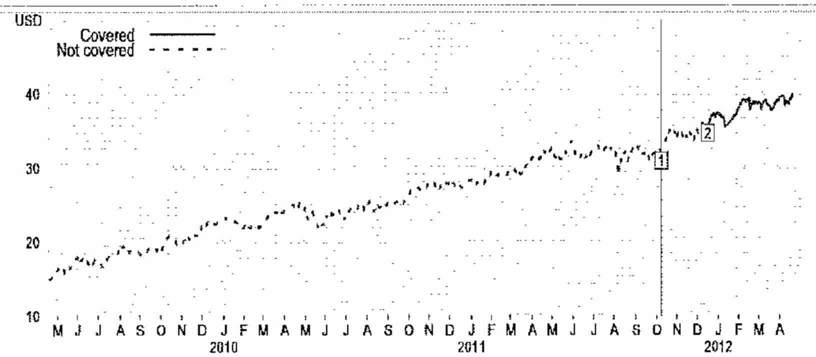
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Enbridge Inc. (ENB)

Ratings and Target Price History
Fundamental Research

Analyst: Timm Schneider
Covered since December 16 2011



#	Date	Rating	Target Price	Closing Price
1	8-Oct-11	Stock rating system changed		
2	16-Dec-11	*2	*36.00	34.64

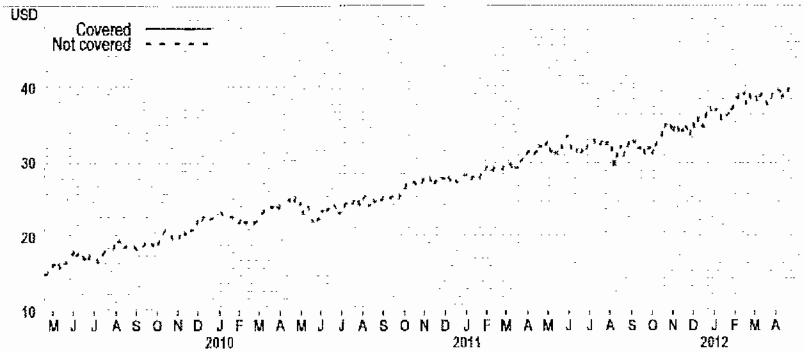
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Enbridge Inc. (ENB)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Timm Schneider
Covered since December 16 2011



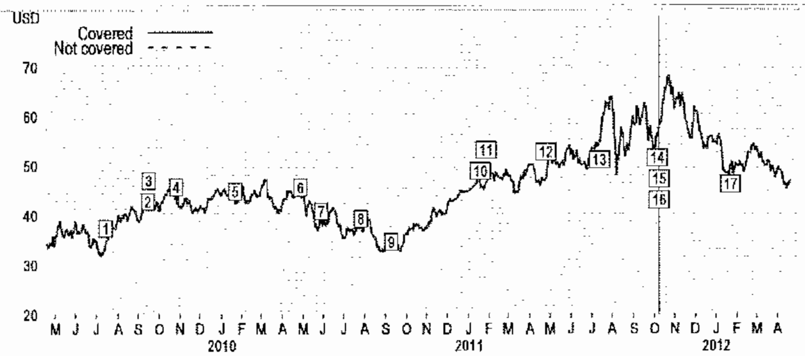
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

EQT Corporation (EQT)

Ratings and Target Price History
Fundamental Research

Analyst: Timm Schneider
Covered since July 13 2011



	Date	Rating	Target Price	Closing Price
1	15-Jul-09	1H	*44.00	34.04
2	15-Sep-09	1H	*43.00	42.64
3	16-Sep-09	*2H	43.00	42.09
4	27-Oct-09	*2M	43.00	43.73
5	21-Jan-10	2M	*47.00	43.27
6	28-Apr-10	2M	*50.50	44.46
7	28-May-10	*1M	*50.00	39.19
8	27-Jul-10	1M	*46.50	37.39
9	9-Sep-10	1M	*41.50	34.50
10	19-Jan-11	*2M	*46.50	46.38
11	27-Jan-11	2M	*50.00	46.75
12	26-Apr-11	2M	*48.00	47.28
13	13-Jul-11	2M	*59.00	55.09
14	6-Oct-11	2M	*61.00	56.62
15	8-Oct-11	Stock rating system changed		
16	8-Oct-11	*2	61.00	55.80
17	23-Jan-12	2	*52.00	50.13

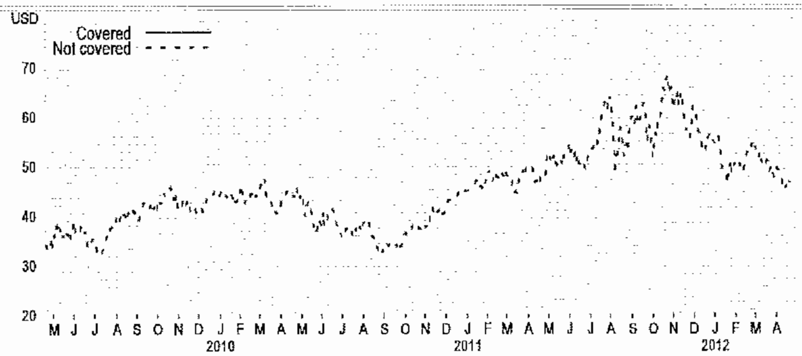
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

EQT Corporation (EQT)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Timm Schneider
Covered since July 13 2011



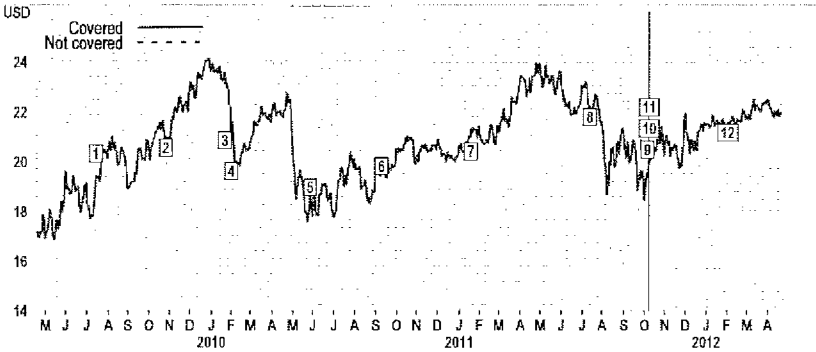
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

MDU Resources Group Inc (MDU)

Ratings and Target Price History
Fundamental Research

Analyst: Timm Schneider
Covered since July 13 2011



	Date	Rating	Target Price	Closing Price
1	15-Jul-09	2H	*19.00	19.26
2	27-Oct-09	*2M	*21.00	21.06
3	21-Jan-10	2M	*26.00	23.59
4	1-Feb-10	2M	*23.00	20.85
5	27-May-10	*1M	*22.50	18.22
6	9-Sep-10	1M	*22.00	19.53
7	19-Jan-11	1M	*23.50	20.94
8	13-Jul-11	*2M	*24.00	22.26
9	6-Oct-11	2M	*21.50	19.56
10	8-Oct-11	Stock rating system changed		
11	8-Oct-11	*2	21.50	19.34
12	2-Feb-12	2	*21.00	21.31

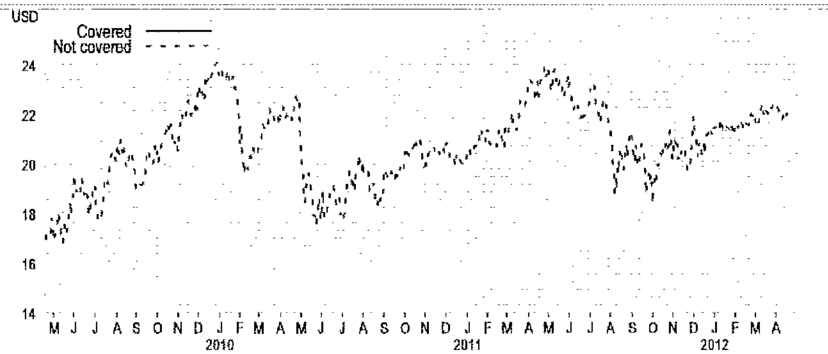
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

MDU Resources Group Inc (MDU)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Timm Schneider
Covered since July 13 2011



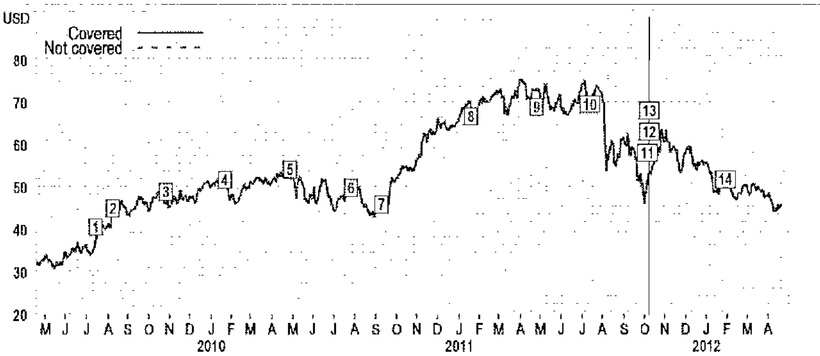
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

National Fuel Gas Co (NFG)

Ratings and Target Price History
Fundamental Research

Analyst: Timm Schneider
Covered since July 13 2011



	Date	Rating	Target Price	Closing Price
1	15-Jul-09	3H	*28.00	37.41
2	9-Aug-09	*2H	*42.00	44.71
3	27-Oct-09	*2M	*47.00	46.42
4	21-Jan-10	2M	*52.00	51.09
5	28-Apr-10	2M	*54.00	52.67
6	27-Jul-10	2M	*52.00	49.20
7	9-Sep-10	2M	*47.50	45.03
8	19-Jan-11	*3S	*67.00	69.45
9	26-Apr-11	3S	*70.00	73.45
10	13-Jul-11	*2H	70.00	70.82
11	6-Oct-11	*1H	*64.00	51.29
12	8-Oct-11	Stock rating system changed		
13	8-Oct-11	*1	64.00	51.92
14	29-Jan-12	1	*63.00	50.56

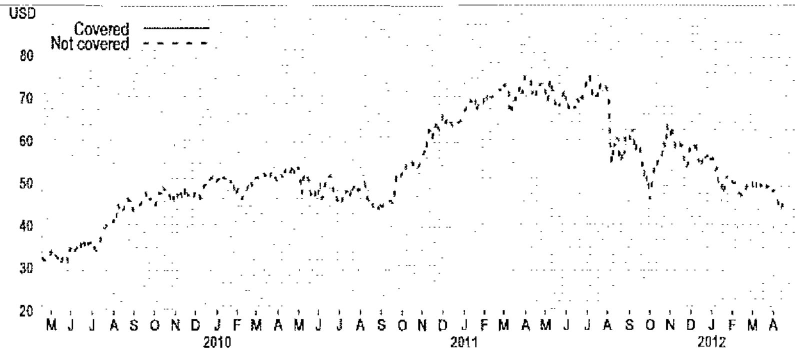
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

National Fuel Gas Co (NFG)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Timm Schneider
Covered since July 13 2011



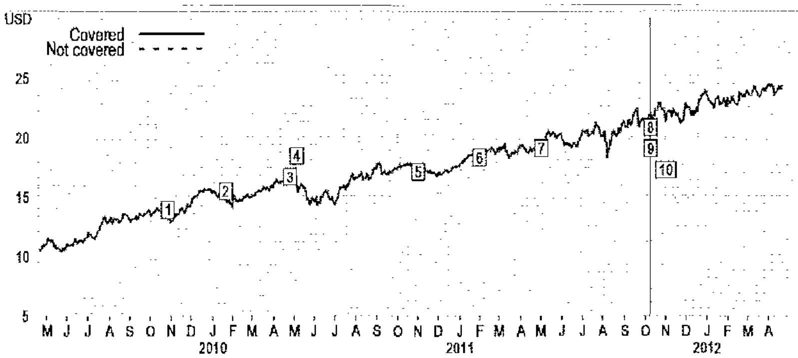
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

NiSource Inc (NI)

Ratings and Target Price History
Fundamental Research

Analyst: Faisel Khan, CFA



	Date	Rating	Target Price	Closing Price
1	27-Oct-09	1H	*15.00	13.47
2	20-Jan-10	*2M	*16.00	15.46
3	26-Apr-10	2M	*16.50	16.60
4	5-May-10	2M	*17.00	16.20
5	1-Nov-10	2M	*18.00	17.17
6	30-Jan-11	2M	*20.00	18.61
7	2-May-11	2M	*21.00	19.52
8	8-Oct-11	Stock rating system changed		
9	8-Oct-11	*2	21.00	21.55
10	1-Nov-11	2	*22.00	21.32

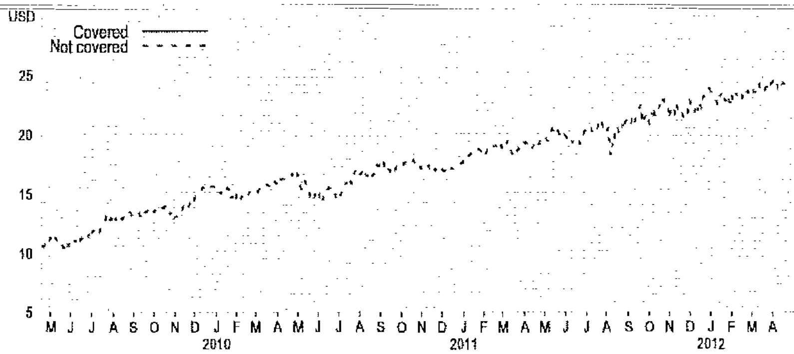
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

NiSource Inc (NI)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Faisel Khan, CFA



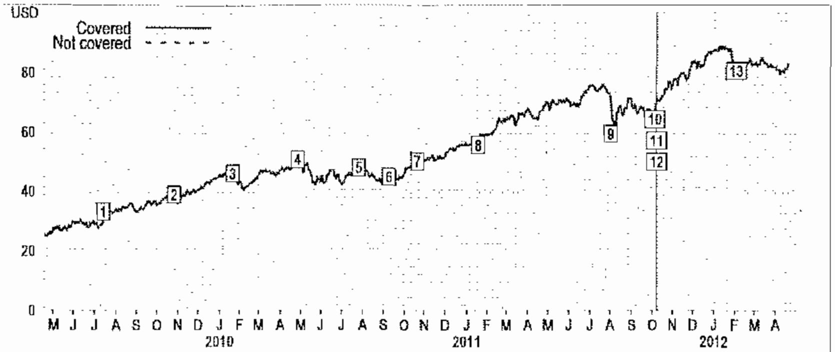
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Oneok Inc (OKE)

Ratings and Target Price History
Fundamental Research

Analyst: Faisel Khan, CFA



	Date	Rating	Target Price	Closing Price
1	15-Jul-09	1H	*36.00	29.87
2	27-Oct-09	*2M	*40.00	37.73
3	21-Jan-10	2M	*45.00	45.58
4	28-Apr-10	2M	*50.00	48.86
5	27-Jul-10	2M	*51.00	47.91
6	9-Sep-10	2M	*47.50	44.33
7	21-Oct-10	2M	*52.00	49.22
8	19-Jan-11	2M	*57.50	57.56
9	2-Aug-11	2M	*72.00	71.50
10	6-Oct-11	*1M	*75.00	67.48
11	8-Oct-11	Stock rating system changed		
12	8-Oct-11	*1	75.00	67.92
13	3-Feb-12	*2	*86.00	81.70

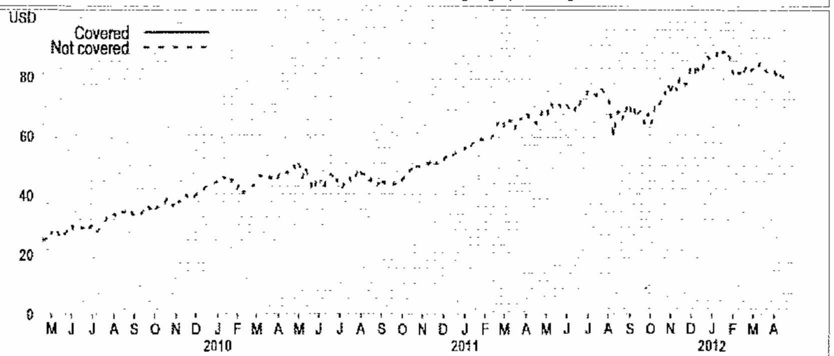
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Oneok Inc (OKE)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Faisel Khan, CFA



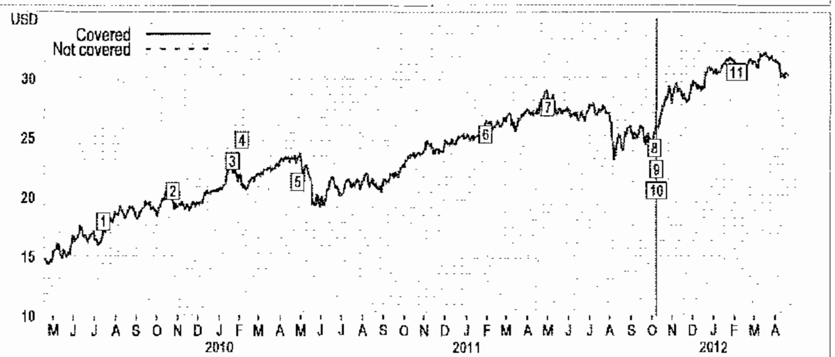
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Spectra Energy Corp (SE)

Ratings and Target Price History
Fundamental Research

Analyst: Faisel Khan, CFA



	Date	Rating	Target Price	Closing Price
1	15-Jul-09	2H	*16.00	17.10
2	26-Oct-09	*3H	*18.00	19.69
3	21-Jan-10	3H	*21.50	22.61
4	4-Feb-10	*2H	21.50	20.93
5	28-Apr-10	2H	*23.00	23.15
6	30-Jan-11	*2M	*25.00	25.70
7	2-May-11	2M	*28.00	28.71
8	6-Oct-11	2M	*26.00	25.51
9	8-Oct-11	Stock rating system changed		
10	8-Oct-11	*2	26.00	25.33
11	3-Feb-12	2	*32.00	30.56

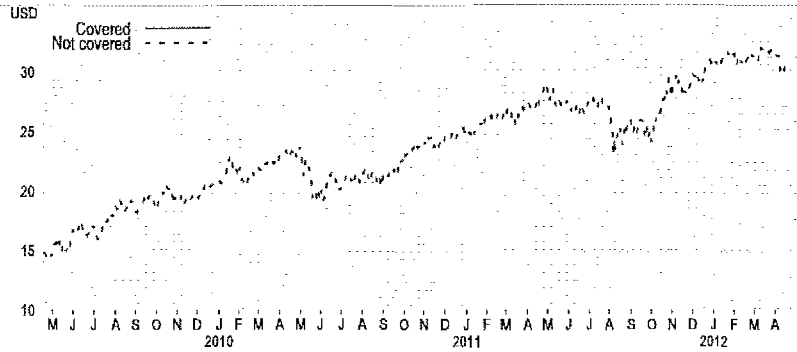
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Spectra Energy Corp (SE)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Faisel Khan, CFA



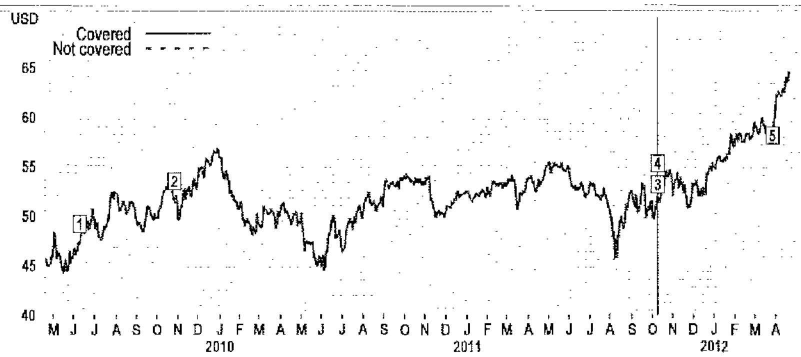
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Sempra Energy (SRE)

Ratings and Target Price History
Fundamental Research

Analyst: Faisel Khan, CFA



	Date	Rating	Target Price	Closing Price
1	9-Jun-09	*1M	*55.00	47.22
2	27-Oct-09	1M	*60.00	51.75
3	8-Oct-11	Stock rating system changed		
4	8-Oct-11	*1	60.00	50.93
5	27-Mar-12	1	*65.00	59.05

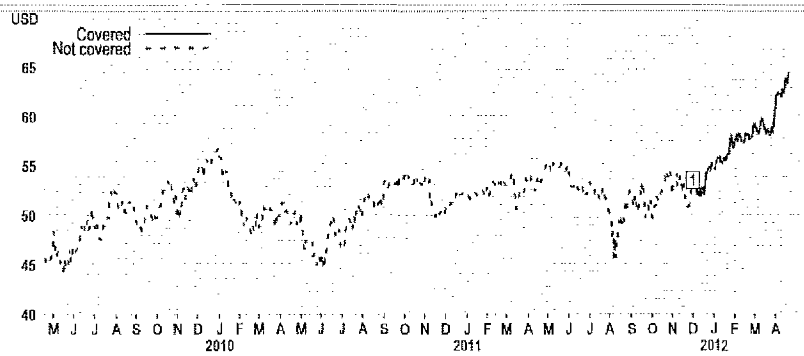
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Sempra Energy (SRE)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Faisel Khan, CFA



	Date	Rating	Target Price	Closing Price
1	1-Dec-11	*ADD MP	-	53.19

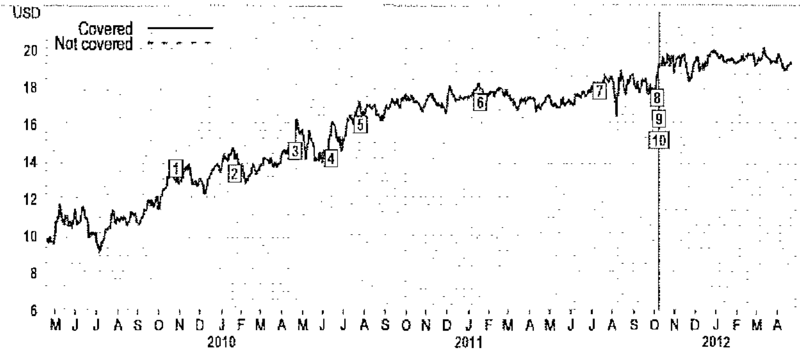
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Questar Corp (STR)

Ratings and Target Price History
Fundamental Research

Analyst: Timm Schneider
Covered since July 13 2011



	Date	Rating	Target Price	Closing Price
1	27-Oct-09	*1M	*14.82	13.08
2	21-Jan-10	1M	*17.40	14.57
3	21-Apr-10	1M	*17.72	14.78
4	14-Jun-10	1M	*18.05	15.41
5	27-Jul-10	1M	*18.05	17.20
6	19-Jan-11	*1L	*19.00	17.89
7	13-Jul-11	1L	*19.25	17.99
8	6-Oct-11	1L	*20.50	18.58
9	8-Oct-11	Stock rating system changed		
10	8-Oct-11	*1	20.50	18.55

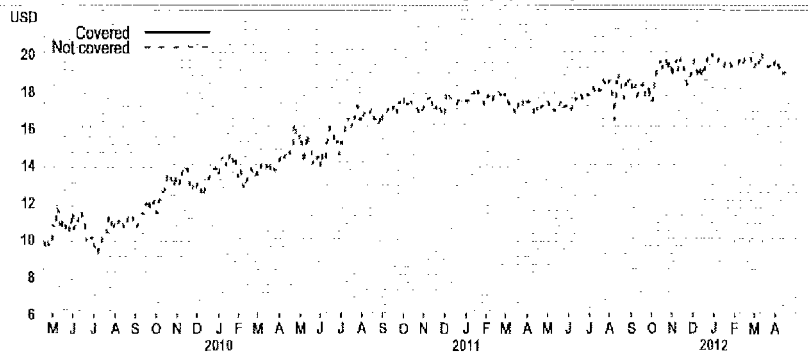
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Questar Corp (STR)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Timm Schneider
Covered since July 13 2011



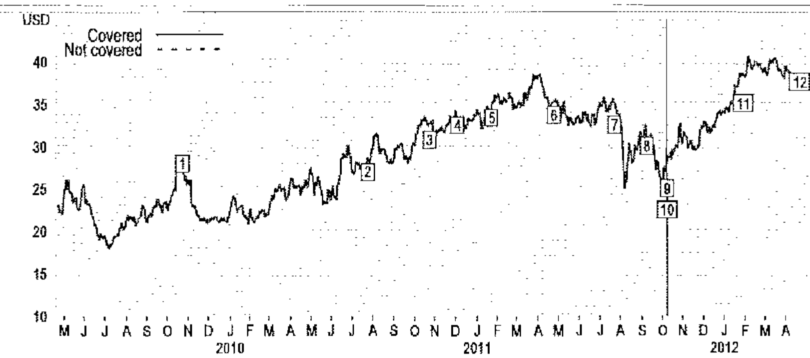
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Sunoco Inc (SUN)

Ratings and Target Price History
Fundamental Research

Analyst: Faisel Khan, CFA



	Date	Rating	Target Price	Closing Price
1	23-Oct-09	2S	*27.46	27.56
2	26-Jul-10	2S	*29.95	28.76
3	24-Oct-10	2S	*32.45	32.61
4	3-Dec-10	2S	*34.94	32.93
5	24-Jan-11	2S	*37.44	34.42
6	25-Apr-11	*2H	*38.69	35.33
7	22-Jul-11	2H	*35.78	35.16
8	6-Sep-11	2H	*37.44	31.25
9	8-Oct-11	Stock rating system changed		
10	8-Oct-11	*1H	37.44	26.99
11	29-Jan-12	1H	*44.00	38.37
12	23-Apr-12	1H	*51.00	38.42

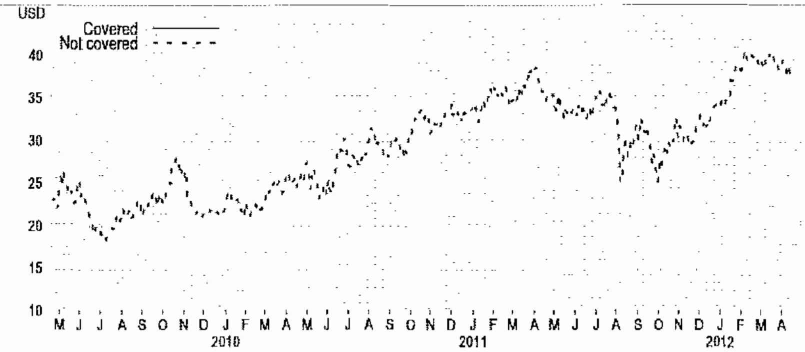
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Sunoco Inc (SUN)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Faisel Khan, CFA



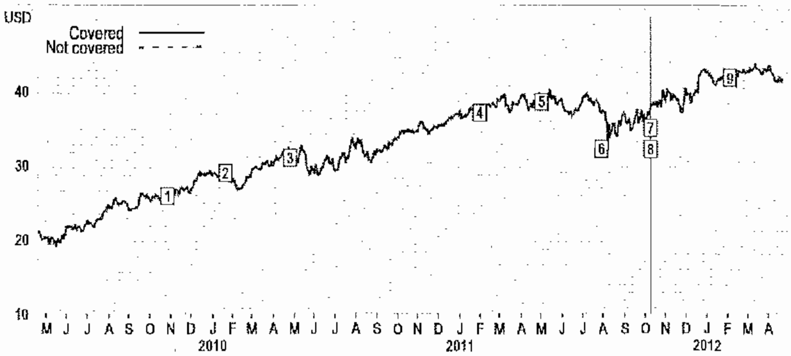
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Southwest Gas Corp (SWX)

Ratings and Target Price History
Fundamental Research

Analyst: Faisel Khan, CFA



	Date	Rating	Target Price	Closing Price
1	27-Oct-09	*1M	30.00	25.21
2	20-Jan-10	1M	*35.00	28.35
3	26-Apr-10	1M	*37.00	32.29
4	30-Jan-11	*2M	*41.00	37.15
5	2-May-11	2M	*43.00	39.59
6	28-Jul-11	*1M	*45.00	37.09
7	8-Oct-11	Stock rating system changed		
8	8-Oct-11	*1	45.00	36.78
9	3-Feb-12	1	*47.00	42.68

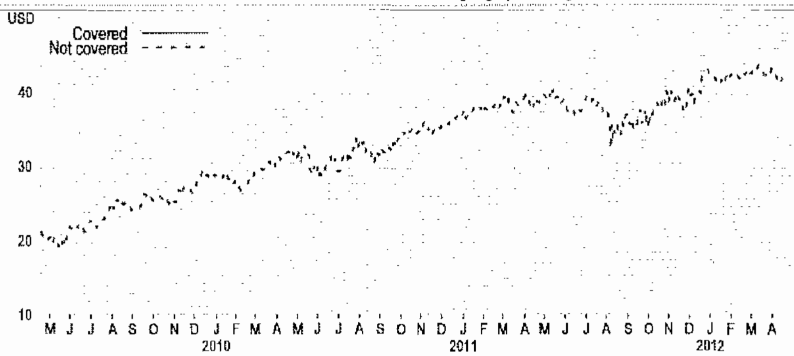
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Southwest Gas Corp (SWX)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Faisel Khan, CFA

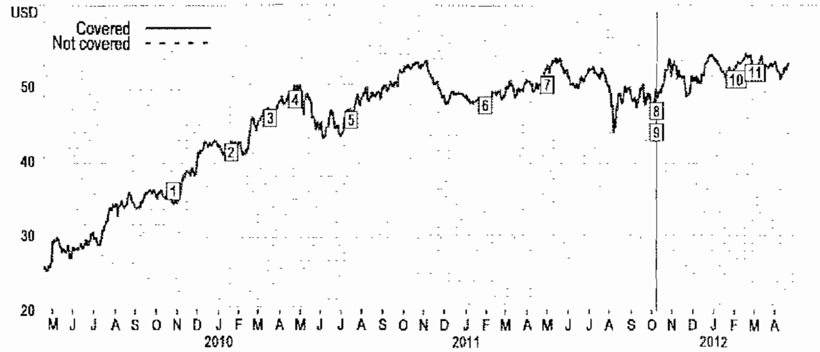


* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Integrys Energy Group, Inc. (TEG)

Ratings and Target Price History
Fundamental Research
Analyst: Faisel Khan, CFA



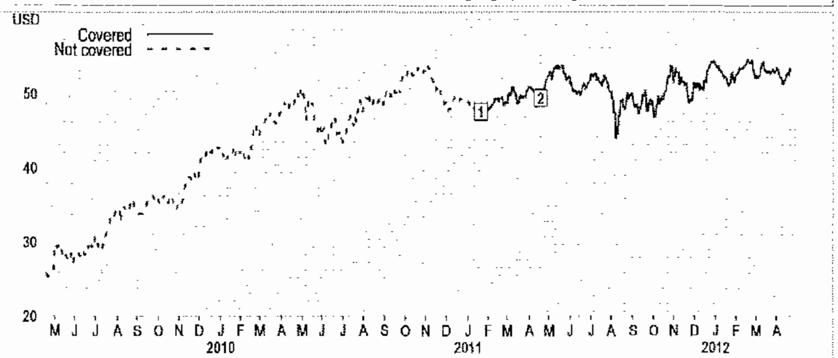
	Date	Rating	Target Price	Closing Price
1	27-Oct-09	*2H	*35.00	34.59
2	20-Jan-10	2H	*40.00	42.62
3	18-Mar-10	*3H	*42.00	46.89
4	26-Apr-10	3H	*43.00	50.05
5	16-Jul-10	3H	*44.00	45.60
6	30-Jan-11	*2H	*46.00	47.71
7	2-May-11	*2M	*51.00	52.48
8	8-Oct-11	Stock rating system changed		
9	8-Oct-11	*2	51.00	48.42
10	3-Feb-12	2	*56.00	52.72
11	2-Mar-12	2	*55.00	52.07

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Integrys Energy Group, Inc. (TEG)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)
Analyst: Faisel Khan, CFA



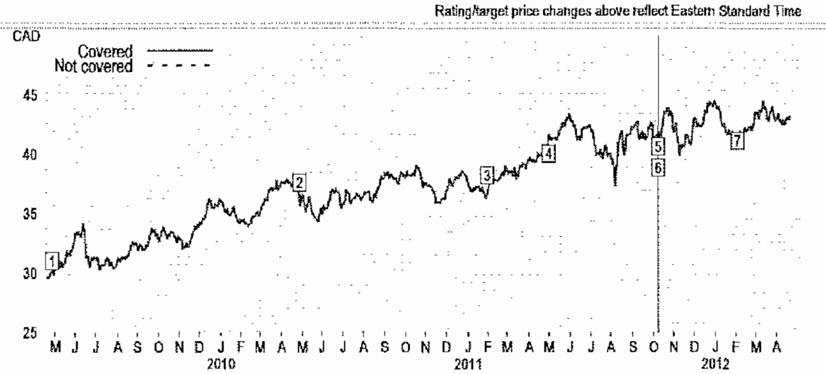
	Date	Rating	Target Price	Closing Price
1	20-Jan-11	*ADD LP	-	48.32
2	19-Apr-11	*REM LP	-	49.66

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

TransCanada Corp (TRP.TO)

Ratings and Target Price History
Fundamental Research
Analyst: Faisel Khan, CFA



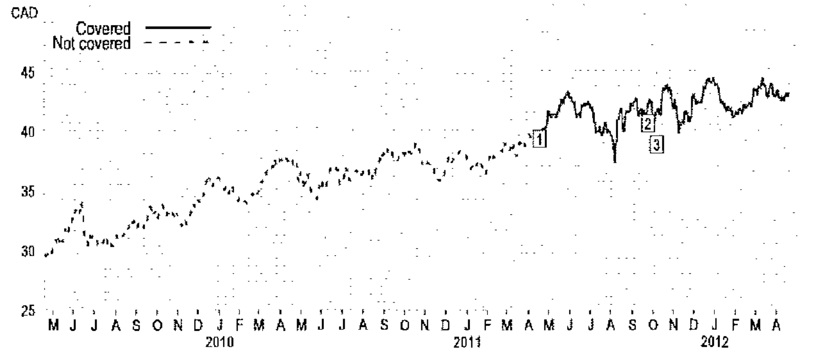
	Date	Rating	Target Price	Closing Price
1	28-Apr-09	2H	*32.00	30.05
2	28-Apr-10	2H	*37.00	36.31
3	30-Jan-11	2H	*36.00	36.32
4	2-May-11	*2M	*40.00	41.62
5	8-Oct-11	Stock rating system changed		
6	8-Oct-11	*2	40.00	41.52
7	3-Feb-12	2	*42.00	41.50

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

TransCanada Corp (TRP.TO)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)
Analyst: Faisel Khan, CFA



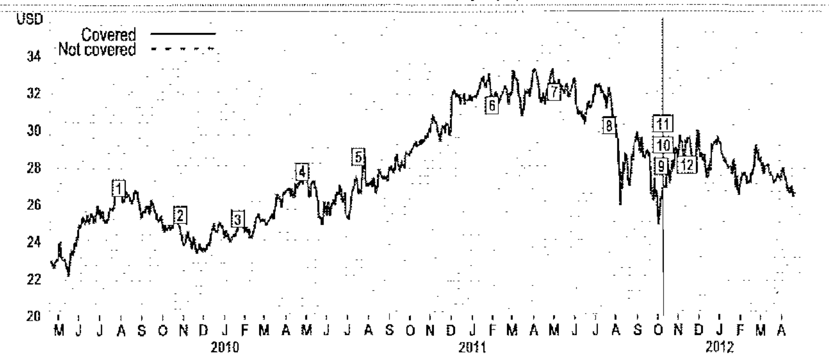
	Date	Rating	Target Price	Closing Price
1	19-Apr-11	*ADD LP	-	39.83
2	26-Sep-11	*REM LP	-	42.29
3	7-Oct-11	*ADD LP	-	41.52

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

UGI Corp (UGI)

Ratings and Target Price History
Fundamental Research
Analyst: Faisel Khan, CFA



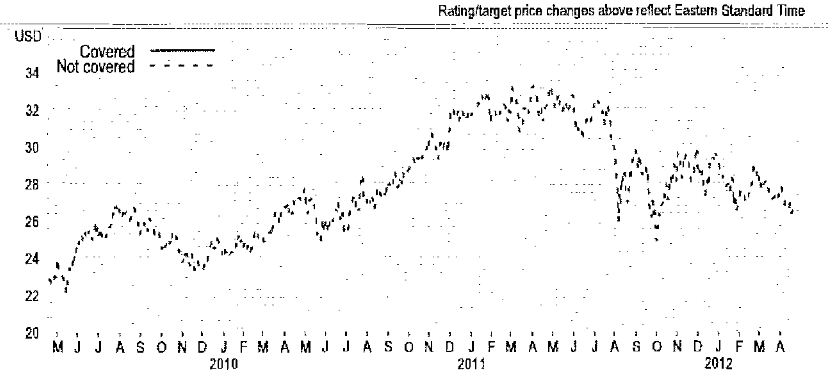
	Date	Rating	Target Price	Closing Price
1	29-Jul-09	2H	*26.00	26.78
2	27-Oct-09	*2M	26.00	24.79
3	20-Jan-10	*1M	*31.00	24.54
4	26-Apr-10	1M	*32.00	27.23
5	16-Jul-10	1M	*33.00	26.59
6	30-Jan-11	*2M	33.00	31.97
7	2-May-11	2M	*36.00	32.74
8	21-Jul-11	2M	*34.00	32.29
9	6-Oct-11	*1M	*31.00	26.40
10	8-Oct-11	Stock rating system changed		
11	8-Oct-11	*1	31.00	26.27
12	13-Nov-11	1	*33.00	28.41

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

UGI Corp (UGI)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)
Analyst: Faisel Khan, CFA



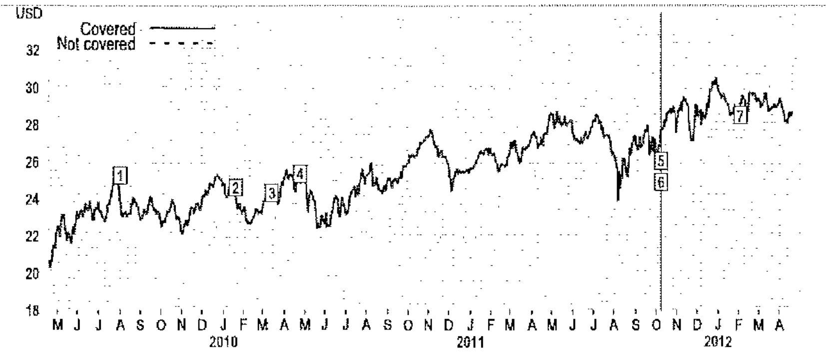
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Vectren Corp (VVC)

Ratings and Target Price History
Fundamental Research

Analyst: Faisel Khan, CFA



	Date	Rating	Target Price	Closing Price
1	2-Aug-09	*2M	25.00	24.56
2	20-Jan-10	2M	*26.00	24.08
3	15-Mar-10	2M	*25.00	23.92
4	26-Apr-10	2M	*26.00	25.18
5	8-Oct-11	Stock rating system changed		
6	8-Oct-11	*2	26.00	26.77
7	3-Feb-12	2	*28.00	29.08

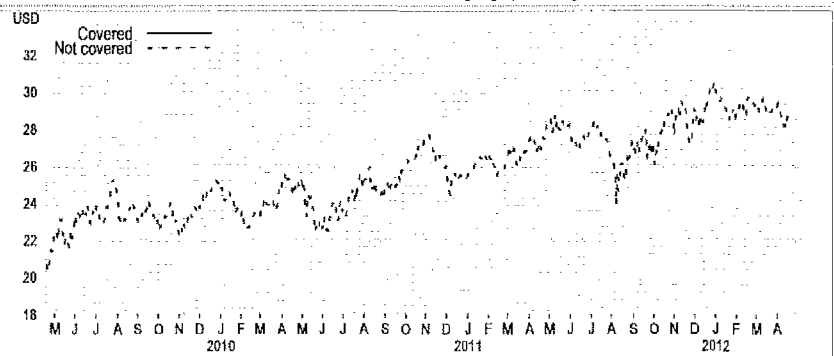
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Vectren Corp (VVC)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Faisel Khan, CFA



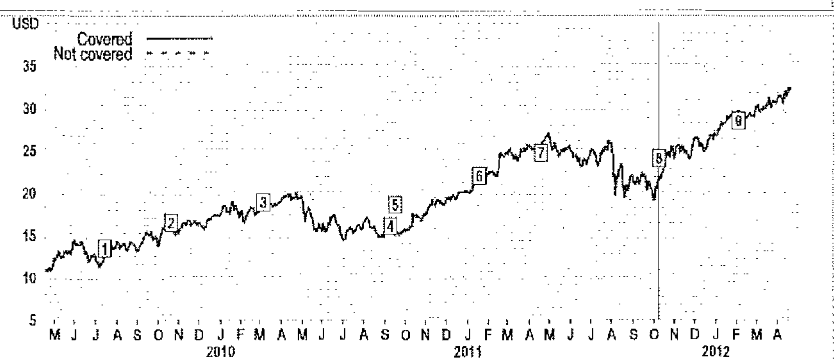
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

The Williams Companies Inc (WMB)

Ratings and Target Price History
Fundamental Research

Analyst: Faisel Khan, CFA

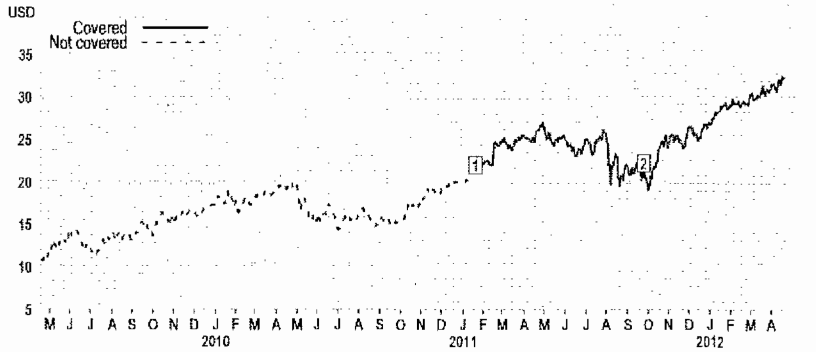


	Date	Rating	Target Price	Closing Price
1	15-Jul-09	1H	*16.33	12.47
2	21-Oct-09	*1M	*20.41	16.20
3	5-Mar-10	1M	*25.31	18.89
4	9-Sep-10	1M	*24.50	15.74
5	16-Sep-10	1M	*23.27	15.06
6	19-Jan-11	1M	*26.13	21.26
7	19-Apr-11	1M	*31.03	24.95
8	8-Oct-11	Stock rating system changed		
9	3-Feb-12	*1	*32.50	29.70

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

The Williams Companies Inc (WMB)
Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)
Analyst: Faisel Khan, CFA



	Date	Rating	Target Price	Closing Price
1	20-Jan-11	*ADD MP	-	21.33
2	26-Sep-11	*REM MP	-	21.36

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

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Data current as of 31 Mar 2012	**Buy**	**Hold**	**Sell**	**Buy**	**Hold**	**Sell**
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25 July 2012 | 77 pages

Integrated Natural Gas & Gas Utilities (Citi)
North America | United States

Midstream, Pipelines & Gas Utilities

Valuations Up on Interest Rates; NGLs to Remain Turbulent

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- **Commodity Prices** — While oil prices (Brent) appear to be range-bound and US natural gas prices have bounced off the bottom, NGL prices have taken a steep dive. We believe a recovery in prices is 6-12 months away. In this report we discuss: 1) ethane supply & demand fundamentals; 2) the Conway pricing paradox; and 3) US propane exports. Our general conclusion is that pricing will be a headwind for midstream companies (C-corps and MLPs) but the rapid development of infrastructure for natural gas, NGLs and oil production will eventually overpower this softness as we move into 2013.

- **Recommendations** — Energen (EGN) & Markwest (MWE) remain our Top Picks within the integrated gas & midstream sectors. On EGN, consensus appears high for the quarter and we are Buyers, especially on any weakness. Other key recommendations within the group are Williams Companies (WMB), Williams Partners (WPZ), Cheniere (LNG) and Centerpoint (CNP). We downgrade Southwest Gas (SWX) on valuation. Separately, Our MLP team recently published a deep dive on Kinder Morgan (KMI) upgrading the stock to Buy from Neutral (*A Kinder View*).

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	Rating		Target Price		Current Year Earnings Estimates		Next Year Earnings Estimates	
Ticker	Old	New	Old	New	Old	New	Old	New
ATO	2	2	US$35.00	US$39.00	US$2.34	US$2.19	US$2.57	US$2.41
BIP	2	2	US$34.00	US$34.00	US$1.21	US$1.14	US$1.14	US$1.14
CNP	1	1	US$22.00	US$23.00	US$1.20	US$1.20	US$1.24	US$1.24
EGN	1	1	US$65.00	US$63.00	US$3.56	US$3.29	US$4.99	US$4.28
ENB.TO	2	2	C$41.50	C$44.00	C$1.74	C$1.74	C$2.02	C$2.02
EQT	2	2	US$52.00	US$56.00	US$1.55	US$1.66	US$2.14	US$2.13
GAS	2	2	US$41.00	US$43.00	US$2.83	US$2.74	US$3.04	US$2.92
LNG	1H	1H	US$23.00	US$23.00	US$-0.73	US$-0.73	US$-0.52	US$-0.52
MDU	2	2	US$21.00	US$23.00	US$1.10	US$1.05	US$1.45	US$1.23
NFG	1	1	US$57.00	US$55.50	US$2.42	US$2.39	US$2.92	US$2.71
NI	2	2	US$24.00	US$26.00	US$1.38	US$1.41	US$1.51	US$1.56
OKE	2	2	US$45.00	US$46.00	US$1.75	US$1.73	US$2.17	US$2.19
SE	2	2	US$32.00	US$29.00	US$1.85	US$1.50	US$1.98	US$1.53
STR	1	1	US$20.50	US$20.50	US$1.21	US$1.16	US$1.28	US$1.22
SWX	1	2	US$47.00	US$50.00	US$2.98	US$3.03	US$3.05	US$3.04
TRP.TO	2	2	C$42.00	C$42.00	C$2.39	C$2.21	C$2.64	C$2.61
UGI	1	1	US$31.00	US$34.00	US$1.95	US$1.85	US$2.50	US$2.44
WC	2	2	US$29.00	US$31.00	US$1.84	US$1.78	US$1.88	US$1.78
WMB	1	1	US$36.00	US$36.00	US$1.49	US$1.22	US$1.70	US$1.36

Contents

Earnings Estimates & Call Details

Below we show a snapshot of our earnings estimates versus consensus as well as relevant conference call data.

Figure 1. CQ2'12, FY 2012 & FY 2013 Estimates vs. Consensus

Ticker	Company	CQ2 '12 CIRA Est.	CQ2 '12 Consensus*	Delta	FY 2012 CIRA Est.	FY 2012 Consensus*	Delta	FY 2013 CIRA Est.	FY 2013 Consensus*	Delta
GAS	AGL Resources	$0.28	$0.26	$0.02	$2.74	$2.67	$0.07	$2.92	$2.99	($0.08)
ATO	Atmos Energy**	$0.14	$0.16	($0.02)	$2.19	$2.29	($0.10)	$2.41	$2.48	($0.07)
CNP	Centerpoint Energy	$0.24	$0.25	($0.01)	$1.20	$1.15	$0.05	$1.24	$1.24	$0.00
ENB	Enbridge	$0.38	$0.38	$0.00	$1.74	$1.66	$0.08	$2.02	$1.89	$0.12
EGN	Energen	$0.56	$0.64	($0.08)	$3.29	$3.58	($0.29)	$4.28	$4.55	($0.27)
EQT	EQT Corporation	$0.28	$0.30	($0.02)	$1.66	$1.62	$0.05	$2.13	$2.40	($0.27)
MDU	MDU Resources	$0.18	$0.19	($0.01)	$1.05	$1.14	($0.08)	$1.23	$1.36	($0.13)
NFG	National Fuel Gas	$0.45	$0.46	($0.01)	$2.39	$2.38	$0.00	$2.71	$2.56	$0.16
NI	NiSource	$0.20	$0.19	$0.01	$1.41	$1.45	($0.04)	$1.56	$1.53	$0.03
OKE	Oneok	$0.35	$0.34	$0.01	$1.73	$1.75	($0.01)	$2.19	$2.04	$0.16
SWX	Southwest Gas	$0.08	$0.09	($0.01)	$3.03	$2.75	$0.28	$3.04	$2.87	$0.18
SE	Spectra Energy	$0.39	$0.37	$0.02	$1.50	$1.69	($0.19)	$1.53	$1.89	($0.36)
STR	Questar	$0.23	$0.23	$0.00	$1.18	$1.19	($0.00)	$1.22	$1.27	($0.05)
TEG	Integrys Energy	$0.45	$0.41	$0.04	$3.28	$3.43	($0.15)	$3.56	$3.64	($0.08)
TRP	TransCanada***	$0.47	$0.49	($0.02)	$2.21	$2.27	($0.06)	$2.61	$2.50	$0.11
UGI	UGI Corp**	$0.05	$0.01	$0.04	$1.85	$1.86	($0.00)	$2.44	$2.52	($0.08)
VVC	Vectren Corporation	$0.23	$0.22	$0.01	$1.78	$1.85	($0.07)	$1.78	$1.95	($0.17)
WMB	Williams	$0.26	$0.21	$0.05	$1.22	$1.31	($0.09)	$1.36	$1.54	($0.18)

*FirstCall ** Sept Year End *** Canadian Dollars

Ticker	Company	Conference Call Info			
		Date	Time	Number	Conference ID
GAS	AGL Resources	8/1	9:00 AM	866-831-6281	90617866
ATO	Atmos Energy	8/9	10:00 AM	877-485-3107	n/a
CNP	Centerpoint Energy	8/2	11:30 AM	800-653-1761	91655009
LNG	Cheniere Energy	N/A	N/A	N/A	N/A
ENB	Enbridge	8/1	9:00 AM	TBD	TBD
EGN	Energen	7/26	10:30 AM	866-821-5457	N/A
EQT	EQT Resources	4/26	10:30 AM	412-858-4600	10006583
TEG	Integrys Energy	8/9	9:00 AM	TBD	TBD
MDU	MDU Resources	8/2	11:00 AM	800-603-1779	N/A
NFG	National Fuel Gas	8/3	11:00 AM	866-578-5788	62532693
NI	NiSource	8/2	9:00 AM	888-286-8010	55876046
OKE	Oneok	8/1	11:00 AM	800-467-8998	1491631
STR	Questar	7/26	9:30 AM	855-859-2056	43180249
SWX	Southwest Gas	N/A	N/A	N/A	N/A
SE	Spectra Energy	8/2	9:00 AM	888-252-3715	97597672
TRP	TransCanada	7/27	11:00 AM	866-266-1793	N/A
UGI	UGI Corp	8/7	4:00 PM	855-859-2056	3689525
VVC	Vectren	8/2	3:00 PM	866-821-5457	N/A
WMB	Williams	8/2	9:30 AM	888-430-8690	N/A

Source: Citi Research, Factset, First Call

Figure 2. Valuation & Recommendation Summary

Ticker	Company	Rating	Current Price	Target Price	Upside to Target	Net Asset Value	DDM / DCF	Multiple EBITDA
GAS	AGL Resources	Neutral	$39.85	$43.00	8%	$46.56	$42.91	$40.05
ATO	Atmos Energy	Neutral	$35.77	$39.00	9%	$40.20	$39.84	$37.77
BIP	Brookfield Infrastructure Partners	Neutral	$32.96	$34.00	3%	N/A	$34.00	N/A
CNP	Centerpoint Energy	Buy	$20.55	$23.00	12%	$22.97	$21.10	$22.38
LNG	Cheniere Energy	Buy	$12.88	$23.00	79%	$24.47	$20.32	$23.07
ENB	Enbridge Inc	Neutral	$41.36	$44.00	6%	$38.00	$50.00	$41.00
ENG	Energen	Buy	$46.16	$63.00	36%	$60.15	$61.55	$64.53
EQT	EQT Corporation	Neutral	$55.38	$56.00	1%	$69.51	$65.43	$49.98
NFG	National Fuel Gas	Buy	$48.69	$55.50	14%	$68.68	$58.22	$47.93
NI	Nisource	Neutral	$25.11	$26.00	4%	$26.74	$25.58	$26.77
OKE	Oneok	Neutral	$43.36	$46.00	6%	$42.98	$53.96	$43.82
STR	Questar Corp	Buy	$20.48	$20.50	0%	$21.31	$20.84	$20.71
SE	Spectra Energy	Neutral	$29.65	$29.00	-2%	$34.62	$31.53	$29.01
SWX	Southwest Gas	Buy	$44.45	$50.00	12%	$56.43	$45.10	$52.71
TEG	Integrys Energy	Neutral	$59.17	$59.00	0%	$64.51	$54.25	$56.31
TRP	TransCanada	Neutral	$44.00	$42.00	-5%	$41.74	$50.31	$35.43
UGI	UGI Corp	Neutral	$30.18	$34.00	13%	$37.77	$35.45	$30.78
VVC	Vectren Corporation	Neutral	$29.73	$31.00	4%	$33.66	$27.54	$35.37
WMB	Williams	Buy	$30.97	$36.00	16%	$31.82	$32.37	$32.73

Source: Citi Research. NB LNG rated High Risk. Other stocks: (MWE.N; US$52.45; 1); (KMI.N; US$34.87; 1); (WPZ.N; US$53.67; 1)

The NGL Conundrum

One of the resounding themes ahead of Q2 earnings has been the recent weakness of NGL prices, which are down 30% y/y (down 20% sequentially), averaging ~$0.98/gal (composite barrel) in Q2'12 versus 1.40/gal in Q2'11.

Across our coverage universe, midstream stocks with exposure to NGL's are Oneok (OKE), Williams (WMB), Spectra (SE) & Enbridge (ENB). Secondarily, names with E&P exposure and associated NGL production will be impacted. These include Energen (EGN), EQT Resources (EQT) & MDU Resources (MDU). We have adjusted all of our operating models to account for company-specific NGL barrel make-up as well as geographic differentials.

We expect the earnings calls to center around the following issues:

- NGL supply & demand dynamics, specifically the: 1) influx of overall NGL production as a result of continued liquids directed drilling; 2) Historically high petrochemical cracker outages during the quarter; and 3) Ethane being displaced by propane as primary feedstock for petrochemical crackers.
- The significant pricing weakness of lighter end products (mainly Ethane) at Conway; and
- The current state of the US propane market, focusing on: 1) surging inventories; 2) currently maxed out export capacity; and 3) weak international LPG prices.

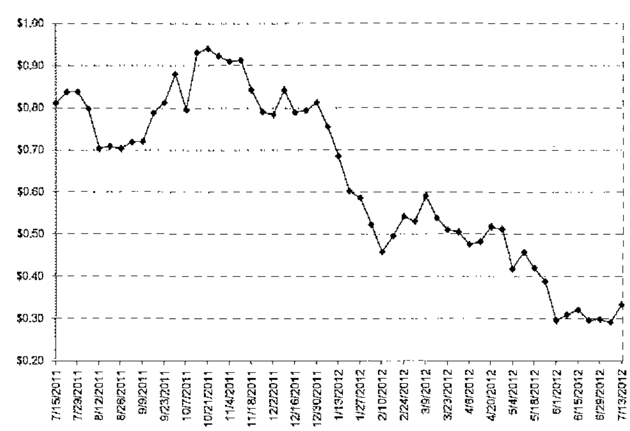
We offer additional color on each of these topics in the body of this report.

Q2 Scarred by Ethane Supply & Demand Dislocations

Based on our analysis, a perfect storm of 1) increasing supply due to continued liquids directed drilling coupled with 2) declining petrochemical demand due to cracker outages & feedstock substitution (crackers switching to propane vs. ethane) led to a stark decline in ethane prices both Y/Y (-60%) and YTD (-56%).

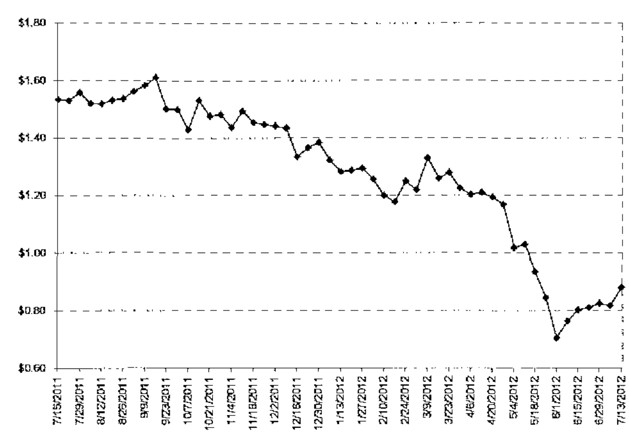
Below we show a snapshot of both ethane & propane prices (Mont Belvieu) over the past year. We discuss the Conway market in more detail in the next section.

Figure 3. Ethane (c/gal); Belvieu



Source: Citi Research, Bloomberg

Figure 4. Propane (c/gal); Belvieu



Source: Citi Research, Bloomberg

Nat Gas production continues to grow as focus on "wet" gas intensifies...

From a supply perspective, based on data from the EIA, **ethane from field production increased ~17% in Q1'12 when compared to Q1'11.** While we do not have complete data from the EIA yet for actual Ethane production in Q2'12, read-through from the E&P world seems to indicate supply growth is continuing. North American natural gas production was up ~4% over the year ago period despite resounding commentary from most E&P companies that they were cutting back investment in dry natural gas plays. The reason for the increase, of course, is the vast amount of capital that is being funneled into liquids rich natural gas development & also an increase in liquids rich associated gas as a function of oil-directed drilling. Simply put, while dry natural gas output is dropping, liquids production is increasing across the board, led by the Eagle Ford, Bakken, wet Marcellus & Midcontinent.

...where we estimate producers receive an average $1.95/Mcf uplift from drilling in liquids rich areas...

In a recent note, our E&P Team **calculated that the average uplift (at our official commodity price forecasts) for a liquids rich play is ~$1.75/Mcf** (assuming ~43% Ethane, 29% Propane; 16% Butanes & 11% Nat Gasoline). We believe that this is enough of an incentive for producers to continue to (pare back drilling in dry areas and) invest capital into the liquids rich plays, which should result in continued NGL supply growth going forward.

...though we continue to hover around the thresholds of ethane rejection, with Belvieu Ethane ~$0.30 - $0.40/gal...

We believe that producers went into ethane rejection mode as ethane prices slid below $0.35/gal (Belvieu) during Q2. The model below shows our "ethane rejection" calculation (courtesy of our MLP team). Based on 7/20/2012 closing prices of NGL products & natural gas, producers are currently still very close to ethane rejection. We calculate a $0.04/Mcf uplift from extracting ethane versus leaving it in the gas stream for producers with exposure to Belvieu pricing.

Figure 5. NGL Economics – To reject Ethane or to not reject Ethane... that is the question...

7/20/2012

Commodity	Price	Quoted Unit	Heat Equivalent Mmbtu/Bbl	Price ($/Mcf)	Volume Estimate (% of NGL Bbl)	Implied Value (% of NGL$/Bbl)
Natural Gas	**$3.09**	$/Mcf	1.000	$3.09		
Ethane	**$0.42**	$/Gal	3.082	$5.72	42.6%	19.1%
Propane	**$0.94**	$/Gal	3.836	$10.29	28.3%	28.4%
N-Butane	**$1.33**	$/Gal	4.326	$12.91	7.3%	10.4%
I-Butane	**$1.59**	$/Gal	3.974	$16.80	9.0%	15.3%
Natural Gasoline	**$1.97**	$/Gal	4.620	$17.91	12.7%	26.8%
NGL Barrel	**$0.94**	**$/Gal**			**100.0%**	**100.0%**
Gallons / Bbl	42					
Crude Oil	**$91.25**	$/Bbl				
NGL-to-Crude	43.1%					
Rockies Transport	$0.14	*We use Rockies as they are the marginal provider of ethane to Gulf Coast markets.*				
Fractionation	$0.05					
Ethane T&F	$0.19	$/Gal	3.082	$2.59		
Ethane net-back				$3.13	*Ethane $/Mcf less T&F $/Mcf*	
Ethane premium to Nat Gas				**$0.04**	***Will reject at below $0.00***	

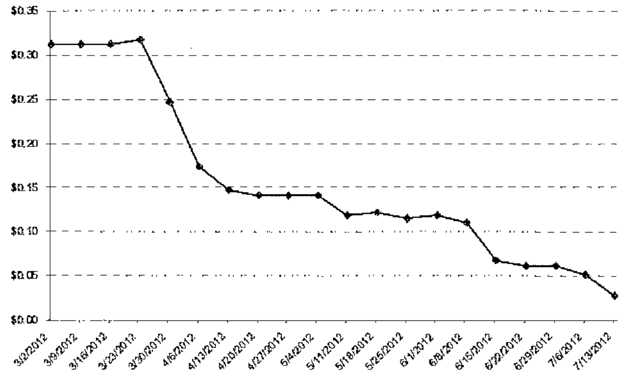
Source: Citi Research

The situation is more dire for those producers that do not have exposure to the Belvieu market (proximity to Gulf Coast petrochemical complex) and are instead forced to sell into the Conway market, which has limited demand.

Ethane prices hit ~$0.03/gal at Conway during the quarter

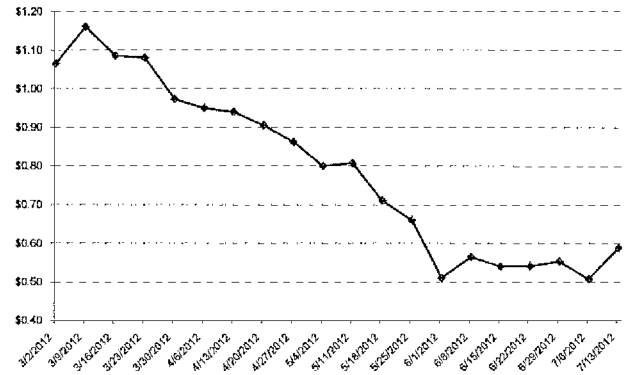
We estimate that Ethane prices at Conway bottomed at close to $0.03/gal during Q2'12 and are currently hovering around the same level. Below we show both ethane & propane prices for Q2 at Conway.

Figure 6. Ethane (c/gal); Conway



Source: Citi Research, OPIS

Figure 7. Propane (c/gal); Conway



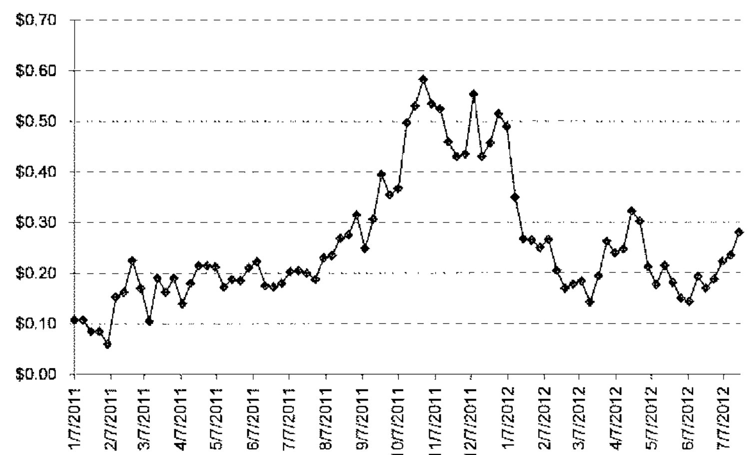
Source: Citi Research, Bloomberg

While propane has started to come off the recent lows, ethane prices continue to lag on what we perceive to be: 1) lack of local demand coupled with surging supplies; and 2) fully utilized pipeline capacity to get stranded ethane to market, primarily the Gulf Coast.

Out of our coverage universe, Spectra Energy (SE) is most exposed to the Conway market...

In the context of our coverage universe, Spectra Energy (SE) carries the most exposure to Conway, with 45-50% of volumes priced at Conway. Oneok (OKE) does not publicly disclose its volume split between Conway & Belvieu. While OKE operates fractionators at Conway, they are able to transport ethane (and other products) via pipeline to demand centers in the Gulf Coast by optimizing it available pipeline capacity from Conway to Belvieu (OKE reports this under its NGL Liquids optimization revenues). OKE tends to benefit from the spread between the Conway – Belvieu pricing. We estimate that the generic Ethane – Propane mix spread averaged $0.21/gal during Q2'12 versus $0.25/gal in Q1'12 and $0.19/gal in Q2'11.

Figure 8. Ethane – Propane Mix (c/gal); Conway – Belvieu spread



Source: Citi Research, Bloomberg

...while all of WMB's volumes are priced at Belvieu...

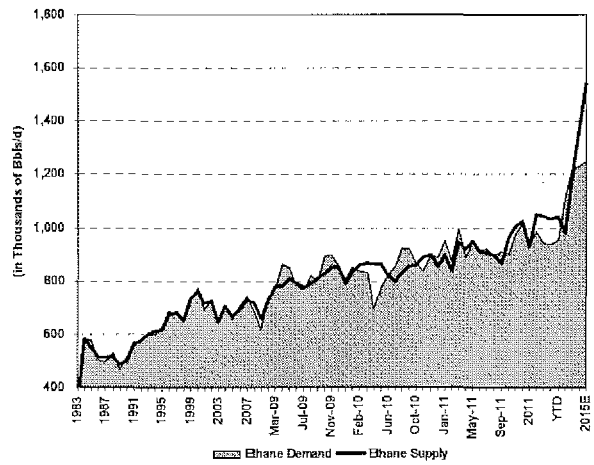
Williams (WMB) has no exposure to the Conway market, meaning all of the products are priced at Belvieu.

Natural Gasoline is the sole bright spot at Conway, trading at parity with Belvieu due to Canadian Oil Sands demand

As a Conway-specific side note, some of the heavier products (mainly Natural Gasoline) have actually held up relatively well and are trading at close to parity with Belvieu. The primary reason for this is continued demand from the Canadian oil sands, which utilize natural gasoline as a blending stock for heavy oil / bitumen. Natural gasoline generally leaves Conway via rail.

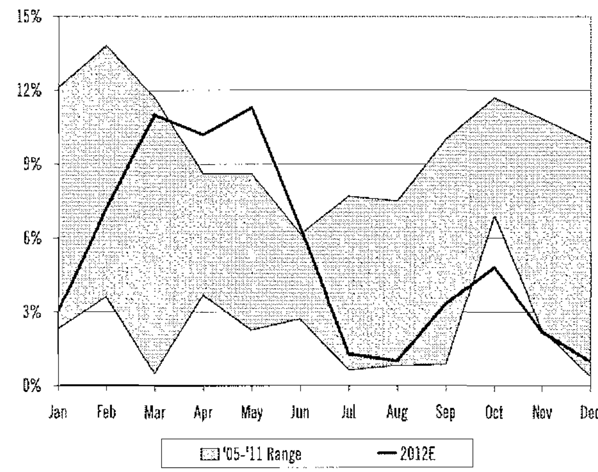
Looking at the broader North American ethane market, despite the current weakness in prices, we expect ethane supply in North America to increase ~17% per annum through 2015, from an average 962Kbbls/d in 2012 (estimated) to 1,524Kbbls/d in 2015 (see chart below). This estimate is consistent with forecasts from our MLP counterparts.

Figure 9. Ethane Supply & Demand Projections



Source: Citi Research, Citi MLP Team

Figure 10. Cracker Outages (Historical Range vs. Actual & Expected).



Source: Citi Research, CMAI

At current prices, crackers have been shifting to propane vs. ethane given the value of co-products...

Shifting to the demand side of the equation, wile Q2 was marked by a historically high percentage of cracker outages (~10% of US ethane cracking capacity was down vs. the 5.5% 5-year average; see chart above), curtailing demand for ethane feedstock, the other (and perhaps more important) piece of the puzzle that needs to be taken into consideration is cracker units switching their feedstock diet to propane from ethane. Below we show our feedstock advantage calculation.

Figure 11. Cracker Economics

Ethylene Cracker Economics (cents / lb)	Ethane	Propane
Raw Material Price - cents / gallon (Q3 Est)	42.00	96.00
Ethylene Cash Costs - cents per pound		
Raw Material Cost	17.64	54.00
Co-product Credit	(8.53)	(50.71)
Variable Operating Cost	3.25	3.83
Incremental Cash Cost	**12.36**	**7.12**
Fixed Cost	2.71	3.16
Production Cash Cost	**15.07**	**10.28**
Contract Ethylene Price - cents / lb	61.94	61.94
Ethylene Margin - cents / lb	**46.88**	**51.67**

Ethane Margin Advantage (Disadvantage) vs. Propane (cents / lb): (4.79)

Co-Product Analysis

Co-Product Volume, per lb of ethylene

Co-Product	Ethane	Propane
Propylene	0.04	0.40
Butadiene	0.03	0.07
Benzene	0.01	0.06
Others		

Co-Product Prices (c/lb)

Co-Product	Latest Price (c/lb)	Latest Price (c/lb)
Propylene	73.33	73.33
Butadiene	163.33	163.33
Benzene	50.69	50.69

Co-Product Credit (c/lb)

Propylene	2.64	29.33
Butadiene	4.08	11.76
Benzene	0.56	2.99
Others	1.25	6.63
Total	**8.53**	**50.71**

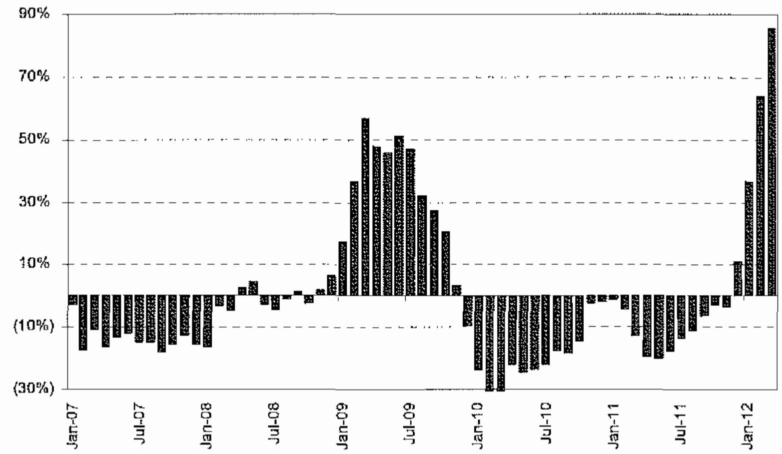
Source: Citi Research, Citi MLP Team

Based on our Q3'12 forecast of Ethane & Propane prices of $0.47/gal & $0.96/gal as well as taking into account co-product credits, we estimate that propane will have ~5 cent per gallon feedstock advantage over ethane in Q3. At these pricing dynamics, **petrochemical producers are more incentivized to start cracking propane over ethane,** which could continue to keep a lid on ethane demand. We discuss the propane market in a bit more detail in the following section.

Propane Prices Collapse

Similar to the collapse in ethane, propane prices fell victim to a "perfect storm" of events, though the drivers were of a different nature. First and foremost, the much milder than usual winter pared heating demand for propane in the Northeast region (which relies heavily on propane), causing inventories to swell y/y (see chart below). **We estimate that inventories exited the heating season ~85% above levels seen in 2011.**

Figure 12. Y/Y Change in Propane Inventories



Source: Citi Research; Citi MLP Team

US Propane Inventories are almost bursting at the seams...

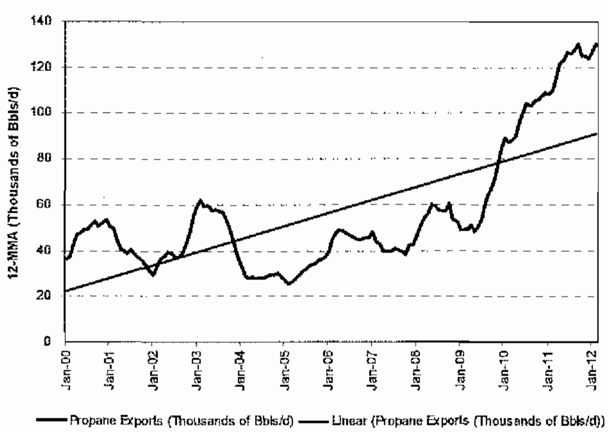
This building of inventories due to lack of demand was exacerbated by propane production that increased ~18% in Q1'12 versus Q1'11, which we tie to continued E&P investment into liquids rich areas (similar to ethane story). We expect this increase in production to continue unless we see some large-scale paring back of liquids directed drilling from the E&P companies, which we are not.

Our MLP counterparts believe that propane inventories could surpass max capacity (~75mmbbls) over the next several months unless a significant portion of the propane surplus can be worked off.

...but additional export capacity could help whittle down the surplus...

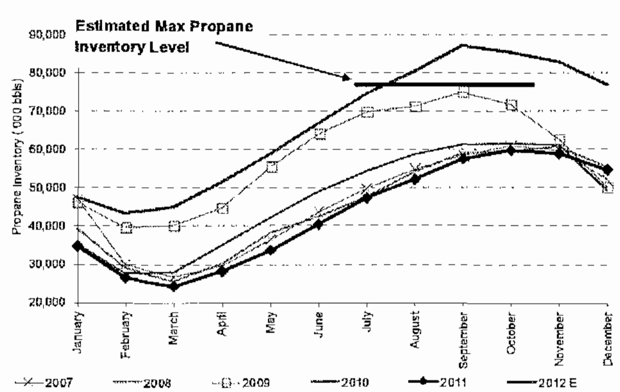
Since Propane is primarily a seasonal fuel (i.e. winter heating & some summer demand for grilling etc), supply & demand imbalances can, in theory, be balanced via import & export of the product. That said, according to estimates from our MLP Team, current US export capacity of ~150- 160Kbbls/d is almost completely maxed out and expansions will likely not come on-line until Q4'12 (EPD; ~115Kbbls/d) and Q3'13 (Targa; ~115Kbbls/d).

Figure 13. Propane Exports (kbbls/d); 12MMA



Source: Citi Research, EIA

Figure 14. Propane Inventory Levels (assuming NO Additional Demand)

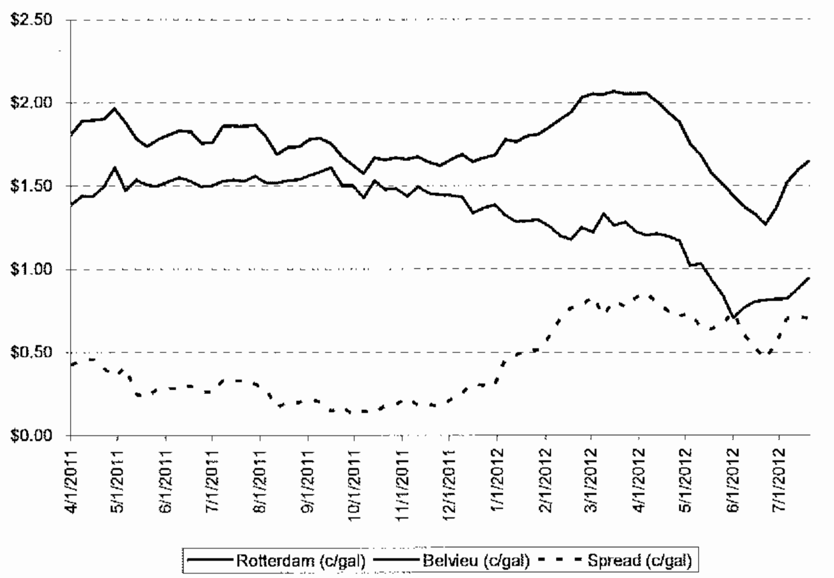


Source: Citi Research, EIA

...assuming that the spread between US based propane and export prices incentivizes propane exports...

We believe that US companies will continue to export propane if the relative spread between US-based propane prices and export prices (mostly South America & Europe) render it economic. Below we show the relative propane price of the Rotterdam (Netherlands) contract versus propane pricing at Belvieu, as well as the relative spread. Even though propane prices have slumped at Belvieu, the spread continues to remain at historical highs (~$0.70/gal). Based on standard economic theory, we estimate that when this spread covers shipping & freight costs (estimated at around $0.20-$0.30/gal incl. terminal charges), US companies will continue to export. According to trade data, for example, ~100K metric tons of propane imports (~35Kbbls/d) arrived in Northwest Europe during the month of May, mostly from the US Gulf Coast.

Figure 15. Rotterdam Propane Contract vs. Belvieu (c/gal) & Historical Spread



Source: Citi Research, Bloomberg

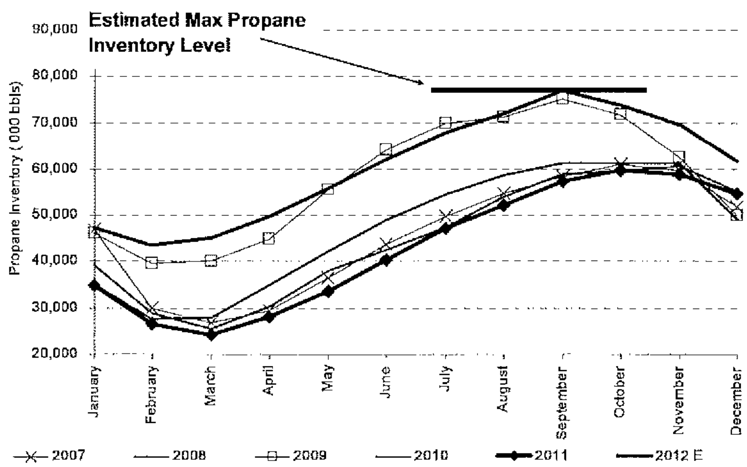
We estimate that global LPG prices would have to drop to ~$425/ton to trade at parity with US Propane of ~$0.95/gal...

Directionally, however, there could be some headwinds on the horizon. More recently, Saudi Aramco cut its July LPG contract prices to $575/ton, or an implied ~$1.26/gal versus $815/tone, or ~$1.79/gal in the same period a year ago. This drop in prices is mostly tied to a glut in the Asian market. Based on current Belvieu pricing, this implies a spread of ~$0.32/gal, i.e. very close to the economic breakeven threshold; however, we note that Asia is generally not the primary export market for the US. That said, we look at the Aramco price as a general proxy for global LPG pricing trends given the scale of the Aramco operation. We estimate that global LPG prices would have to decline, on average, below ~$550/ton, or an implied ~$1.20/gal, to disincentive US exporters as we are forecasting an average propane price of ~$0.95/gal for the remainder of 2012, assuming an average ~$0.25/gal in shipping & terminal costs.

Overall, a substantial decline in the price of crude oil, which could result from continued macroeconomic concerns with respect to Europe and / or China, could reduce propane margins as the value of the heavier NGL's will likely decrease. That said, the overall thesis from our MLP team seems to be that Latin American demand for propane could re-establish a link for domestic (US) LPG's back to Brent prices. Please see the report Propane: How Low Can it Go? from our MLP Team for additional color.

In addition, there is (some) hope on the horizon to prop up domestic propane prices & balance the propane market via increased petrochemical demand (see our feedstock calculation table in previous section). As a reference point, the US petrochem market consumes ~900K – 1mmbbls/d of ethane and ~350 – 400Kbbls/d of propane. We estimate that the petchem industry would only need to shift ~50-60Kbbls/d of feedstock demand to propane (from ethane) in order to balance the propane market. At current pricing, this seems achievable. Under such a scenario, we calculate that seasonal inventory levels could peak at 75mmbbls, in-line with levels reached in 2009 (see chart below).

Figure 16. Projected Propane inventory assuming an incremental 55Kbbls/d of demand

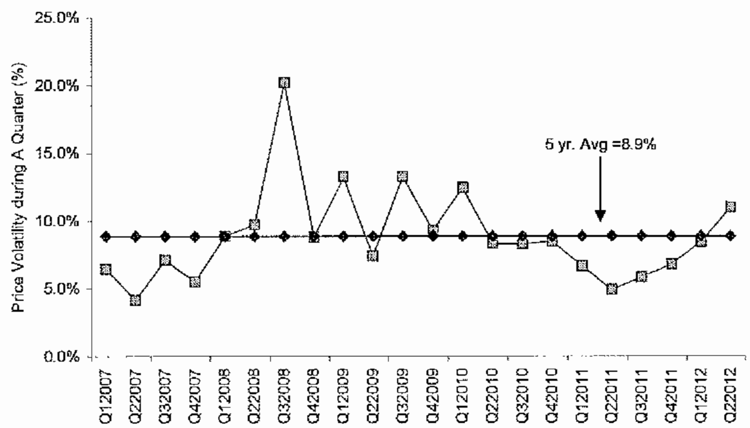


Source: Citi Research, EIA

What's Moving Gas Prices?

During the quarter, gas volatility rose sharply on warmer than normal weather, which extended from an already warm winter season. This resulted in a partial reversal in natural gas supplies during the quarter, coupled with a pick-up in demand by power generators. Thus far, weather in Q3 has been tracking above normal, but if weather were to fall back (below) to normalized levels, gas prices could gall again, driving volatility even higher.

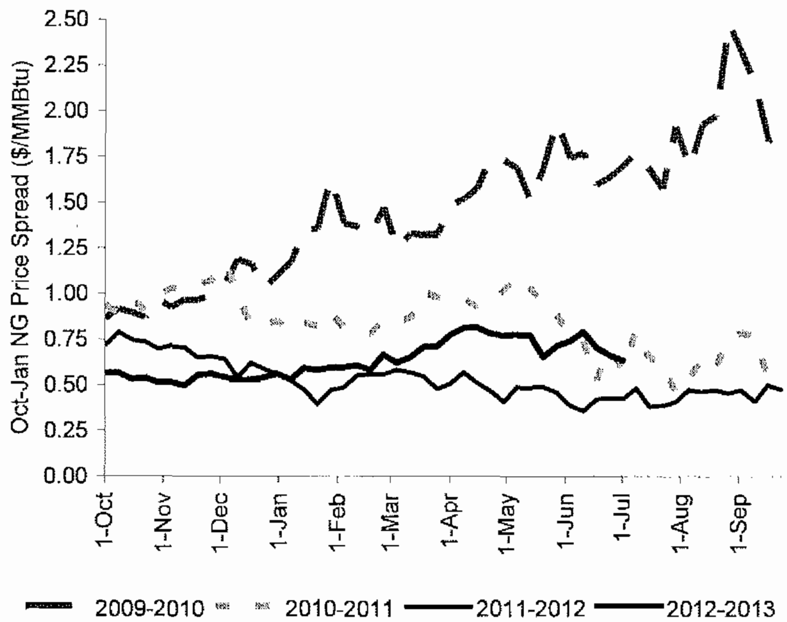
Figure 17. Realized and Average Trailing Volatility



Source: Citi Research, Bloomberg

Meanwhile, seasonal spreads (Oct/Jan) continued to improve versus levels in 2011, but have since settled into a range. The warmer than normal summer weather has helped drive down storage levels away from their highs, as seasonal spreads moved higher during the quarter on expectations the supply/demand balance for gas would move closer to an equilibrium later this year.

Figure 18. Seasonal Spreads Trends



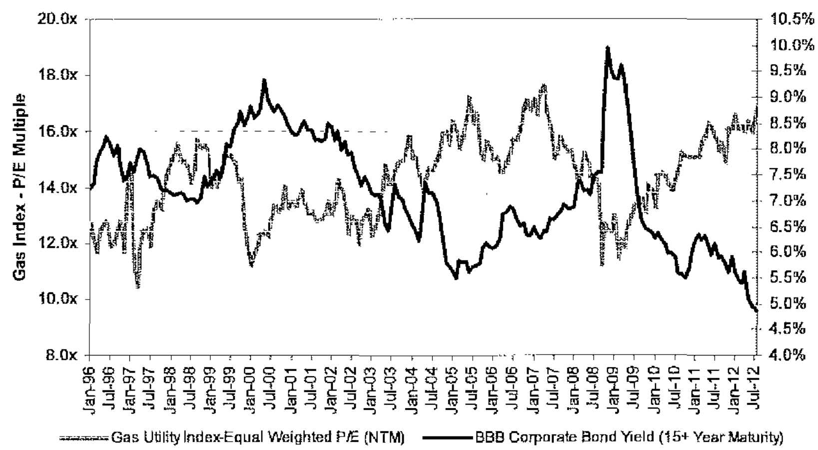
Source: Citi Research, Bloomberg

Taking Pulse – Integrated Natural Gas Sector

During the second quarter, the S&P 500 was down 6.6%, while UTY was up 2.2%and S&P 500 Gas Utility index as up 0.4%. Our proprietary Gas Utilities index was up 1% in Q2/12, and up 5% YTD.

The Gas Utility index is made of pipeline and gas utilities that trade throughout North America. Valuations (i.e. Fwd P/E) on the index continued to edge higher during the quarter to 16.8X from 15.6X at the end of Q1/12. The index traded at a peak valuation of 17.6X in April/2007. During the quarter, BBB Corporate yields made a 16-year low, falling below 5%. The US 10-year treasury yields also made new multi-year lows during the quarter, touching 1.56% in May, and now trades less than 1.50%.

Figure 19. Gas Utility Index Valuation vs. BBB Corp Bond Yields



Source: Citi Research, Factset

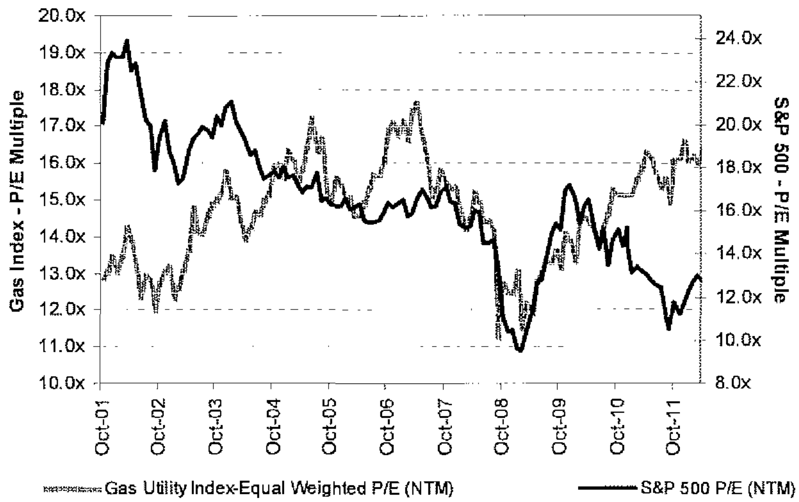
Our Gas Utility index currently trades at a forward P/E of 16.8X. The index has traded at an average multiple of 14.5X since the start of the millennium. Clearly, valuations within our sector are approaching the higher end of their historical range. **However, given the low interest rate environment, concerns over slower economic growth and inflation pulling back, we think current valuations may not be at extremes.**

Raising Target Multiples for Regulated Gas Utilities

The Gas Utility Index extended its streak of trading at premium valuations versus the S&P 500. Our Gas Utility index now trades at a relative P/E of 1.36X versus the S&P 500. Since the year 2000, the Gas index has traded at a premium versus the market twice, and each period lasting approximately 10 months. **Our Gas Index has traded at a premium to the S&P for 24 months.**

We believe the sector continues to benefit from an extended low interest rate environment. Markets remain constructive towards higher yielding assets with solid dividend growth potential, coupled with robust pipelines of regulatory capital spending that should extend into the second half of the decade.

Figure 20. Relative Valuation – Gas Utilities vs. S&P 500



Source: Citi Research, Factset

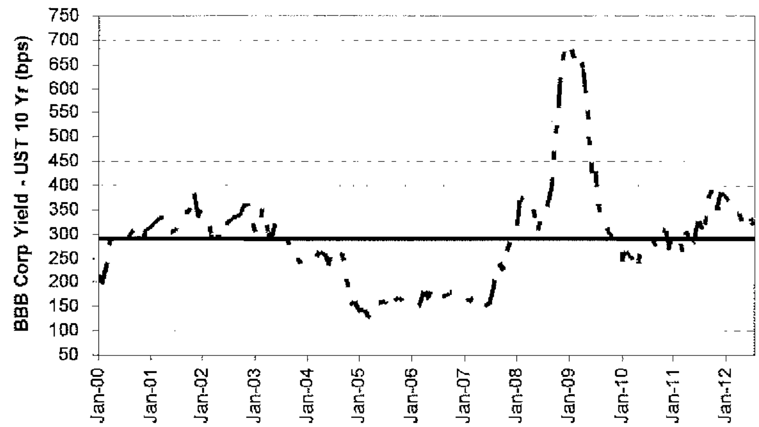
Over the past week, language from the US Federal Reserve, coupled with several other central banks around the globe, is leading investors to believe economic growth will continue to decelerate for at least the balance of 2012. Monetary policy in the US will likely remain accommodative until expectations of growth and inflation reverse.

Citi's Economics team forecasts interest rates to remain relatively dovish for the next few years. Our Economics team expects 10-year Treasury yields to average 1.80% in 2012 and 2.25% in 2013. Assuming a slow economic recovery from current levels, interest rates could remain at historic lows for an extended period of time.

Historically, BBB Corporate bond yields have shown a respectable correlation with Gas Utility valuations (r-square ~60%). Hence, we use it as a key input when determining our target multiples for regulated utility valuations.

Since 2000, the spread between BBB Corporate Bonds (10+ years) and the US 10-year Treasury has averaged ~300 bps. Currently, the spread between the two benchmarks is 320 bps. In discussion with our Fixed Income research team, we expect the spread between BBB's and 10-year government bonds to remain within the 300-350 bps range for at least the balance of this year. Soft economic growth could keep spreads within this range for an extended period.

Figure 21. Historical Spread – BBB Corporate Bond Yields vs. US 10 Yr Treasuries



Source: Citi Research, Factset

Based on our outlook for the US 10-year Treasury, coupled with our expectations on BBB Corporate bond spreads, over the intermediate term, **we are raising our multiples for regulated utilities to 16X, which is below where our Gas Utility Index is currently trading.** Our outlook for target multiples is conservative compared to where the market is currently trading, and especially if investors think yield will continue grind lower. However, a significant uplift in inflation expectations and/or rapid improvement in global economic growth would pose risk to our expectations of interest rates, spreads and our valuation multiples.

Figure 22. Relative Valuation – Gas Utilities

BBB Yields	Implied Gas Utl P/E
7.3	14.2
7.1	14.4
7.0	14.5
6.8	14.7
6.7	14.8
6.5	15.0
6.4	15.1
6.2	15.3
6.1	15.5
5.9	15.6
5.8	15.8
5.6	**15.9**
5.5	16.1
5.3	16.2
5.2	**16.4**
5.0	16.5
4.8 Implied Multiple	**16.7**
4.7	16.8

Source: Citi Research

Midstream, Pipelines & Gas Utilities
25 July 2012

Citi Research

Gas Utilities (GICS) | Integrated Natural Gas & Gas Utilities (Citi)
North America | United States

Company Focus

- Company Update
- Target Price Change
- Estimate Change

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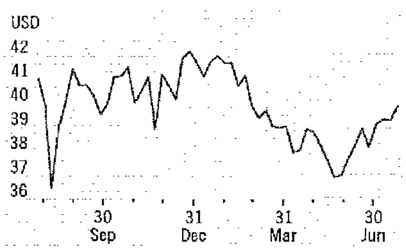
Neutral	**2**
Price (24 Jul 12)	US$39.85
Target price	US$43.00
from US$41.00	
Expected share price return	7.9%
Expected dividend yield	4.6%
Expected total return	**12.5%**
Market Cap	US$4,675M

Price Performance
(RIC: GAS.N, BB: GAS US)



AGL Resources Inc (GAS)

Earnings Above Street; Trading Could See Slight Improvement

- **Q2 Earnings** – Our estimate for the quarter is $0.28 per share, above consensus of $0.26. Our FY 2012 and 2013 earning estimates are slightly higher than consensus in 2012 ($2.74 vs. $2.67) and below in 2013 ($2.92 vs. $2.99), reflecting results from a warmer than normal winter in Q1/12.
- **Sequent** – We expect the unit to report an operating loss of $10 mm in the quarter, which would be a slight improvement in results over the same period last year. We think the pick-up in gas volatility and improved seasonal gas spreads during the quarter could mitigate losses in the Wholesale division this quarter. The seasonal spread (Oct/Jan) averaged $0.74 in Q2, a 64% increase over the same period last year, while realized volatility more than doubled over the same period. Trading represents ~2-4% of EBIT.
- **Rating & Target** – We maintain our Neutral rating but revise our target multiples for the sector. We are raising our target price to $43 from $41.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	1.59A	0.22A	0.03A	0.88A	2.74A	2.92A
2012E	**1.18A**	**0.28A**	**0.14E**	**1.14E**	**2.74E**	**2.67E**
Previous	1.46E	0.16E	0.07E	1.15E	2.83E	na
2013E	**1.17E**	**0.33E**	**0.25E**	**1.17E**	**2.92E**	**2.99E**
Previous	1.48E	0.21E	0.13E	1.22E	3.04E	na
2014E	**1.20E**	**0.32E**	**0.24E**	**1.20E**	**2.97E**	**3.08E**
Previous	1.52E	0.20E	0.12E	1.26E	3.09E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

Gas Utilities (GICS) | Integrated Natural Gas & Gas Utilities (Citi)
North America | United States

Company Focus

- Company Update
- Target Price Change
- Estimate Change

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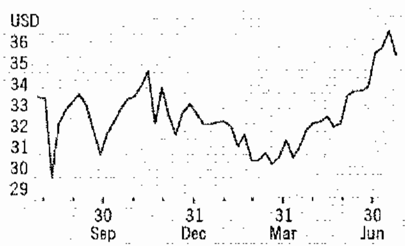
Neutral	**2**
Price (24 Jul 12)	US$35.77
Target price	US$39.00
from US$35.00	
Expected share price return	9.0%
Expected dividend yield	3.8%
Expected total return	**12.8%**
Market Cap	US$3,220M

Price Performance
(RIC: ATO.N, BB: ATO US)



Atmos Energy Corp (ATO)

Earnings Slightly Below; Awaiting Further Rate Case Results

- **Q3 Earnings** – Our EPS estimate for Q3/12 is $0.14 per share, marginally below consensus of $0.16.
- **Capital Spending & Rate Base Growth** – We have updated our estimates for 2012-2016 to reflect the announcement of higher rate base growth (~8.25% from 6.25%) and incremental regulated transmission and distribution spending across ATO's footprint ($100-$200/year). Rate base is expected to go from $4BN to ~$6 BN by 2016, and will be primarily funded using internally generated cash along with debt and possibly some equity towards the middle of the decade. The uplift in spending at the Texas LDC's is related to Rule 8.209 and Steel Service Line replacement programs. Capital spending associated with the rule will ramp up from ~$100mm in 2012 to $200 mm by 2016, implying a 27% CAGR in regulated capex spending from 2011 to 2016. We estimate operating income growth could average between 6-8% through the middle of the decade.
- **Rate Cases** – We expect management to provide an update on the progress of rates cases currently in the queue and on what the pipeline for additional regulated projects looks like going into next year. The largest of the rate cases filed this year is in the Mid-Tex segment (Docket #: GUD-10171, Request: $55 mm Revenue increase, Rate Base $1.5 BN, 11.05% ROE, 51.7% Equity layer). A decision is expected in Q1/13.
- **Rating & Target** – We maintain our Neutral rating, but raise our target price to $39 from $35 on our revised target multiples for the sector. Guidance remains unchanged at $2.30-$2.40. ATO has narrowed its valuation discount versus the LDC peer group during the second quarter (+12.6%, during Q2/12), generating the second highest return amongst the names in our universe. ATO currently trades at a forward P/E of 14.9X, versus the peer group of 16.7X. We think ATO's recent performance is a result of their defensive qualities (i.e. low beta), increasing regulated capex spending and attractive valuation versus its peers. In ATO's case, nearly 90% of earnings are expected to be generated from its regulated gas, transmission and storage business, located primarily in the Southeast portion of the US.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	0.76A	1.65A	0.08A	-0.21A	2.28A	2.34A
2012E	**0.72A**	**1.33A**	**0.14E**	**0.00E**	**2.19E**	**2.29E**
Previous	0.72A	1.41E	0.17E	0.05E	2.34E	na
2013E	**0.84E**	**1.40E**	**0.15E**	**0.02E**	**2.41E**	**2.48E**
Previous	0.88E	1.42E	0.19E	0.09E	2.57E	na
2014E	**0.85E**	**1.41E**	**0.15E**	**0.01E**	**2.42E**	**2.58E**
Previous	0.89E	1.46E	0.20E	0.10E	2.65E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

Electric Utilities (GICS) | Integrated Natural Gas & Gas Utilities (Citi)
North America | United States

Company Focus

Brookfield Infrastructure Partners (BIP)

Expect Update on North American Growth Strategy; Neutral

- Company Update
- Estimate Change

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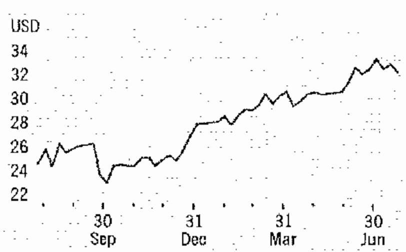
Neutral	**2**
Price (24 Jul 12)	US$32.96
Target price	US$34.00
Expected share price return	3.2%
Expected dividend yield	5.0%
Expected total return	**8.2%**
Market Cap	US$4,363M

Price Performance
(RIC: BIP.N, BB: BIP US)



- **Q2 Earnings** — We estimate that BIP will generate FFO (Funds from Operations) of ~$112mm in the quarter versus $108mm in Q1'12 and $102mm in Q2'11. We expect the LP distribution to remain steady at $0.38 per unit.

- **Utilities** — We estimate FFO of $65mm, flat sequentially and slightly below the $66mm reported in Q2'11. Our FY'12 FFO estimate is $262mm, which we expect to grow to $285mm in 2013 on the heels of growth projects at the company's North & South American electric transmission assets as well as growth capital at its European distribution.

- **Transport & Energy** — We expect FFO of $57mm in Q2'12, down from $62mm sequentially. For FY'12, our estimate is FFO of $224mm. We estimate that FFO will grow to $283mm in 2013 as a result of expansion projects of the company's Australian railroad project (guidance is ~$150mm of incremental EBITDA over 2 years)

- **Timber** — We estimate Q2 FFO of $6mm, up slightly from the $5mm reported in Q1'12 and below the $13mm reported in Q2'12. Our FY'12 estimate remains at $32mm, which we have growing to ~$40mm by 2015. That said, the Timber business carries a lot of operating leverage and a rebound in North American demand (as well as Southeast Asia for export) could prove our estimates as conservative. We would also expect some commentary on the recent 1.9mm acre Hancock deal (see note from our Paper & Forest Analyst Anthony Pettinari: Timberland Update: Market Showing Signs of Life with Biggest Acquisition in Six Years) and what this deal might imply (management's perceived value) for Brookfield's North American timber assets.

- **Topics of Discussion** — We expect the company to give us an update on the previously outlined North American growth strategy, specifically focusing on potential natural gas midstream asset acquisitions (mostly gas storage & transportation) as well as a business update on NGPL. In addition, we expect some commentary with respect to the current European economic situation and the effects on BIP's business segments and an update on progress on Dudegeon Point. We would also expect the company to discuss the effects of the relatively strong(er) US dollar witnessed during the quarter on operating results.

- **Target Price** — We maintain our $34 target price based on a 2013 estimated distribution of $1.66 per unit and a 4.93% implied target yield.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	0.29A	0.17A	0.38A	0.30A	1.13A	1.15A
2012E	**0.08A**	**0.34E**	**0.36E**	**0.36E**	**1.14E**	**1.14E**
Previous	0.08A	0.42E	0.36E	0.36E	1.21E	na
2013E	**0.13E**	**0.36E**	**0.33E**	**0.32E**	**1.14E**	**1.34E**
Previous	0.13E	0.36E	0.33E	0.32E	1.14E	na
2014E	**na**	**na**	**na**	**na**	**1.42E**	**1.49E**
Previous	na	na	na	na	1.42E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

Multi-Utilities (GICS) | Integrated Natural Gas & Gas Utilities (Citi)
North America | United States

Company Focus

- Company Update
- Target Price Change

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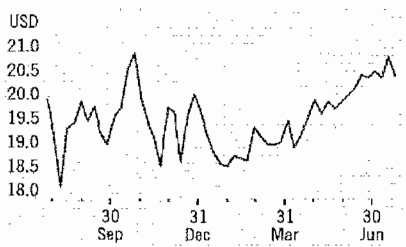
Buy	**1**
Price (24 Jul 12)	US$20.55
Target price	US$23.00
from US$22.00	
Expected share price return	11.9%
Expected dividend yield	3.9%
Expected total return	**15.9%**
Market Cap	US$8,781M

Price Performance
(RIC: CNP.N, BB: CNP US)



CenterPoint Energy Inc (CNP)

Below Consensus; Looking for Update on Midstream Strategy

- **Q2 Earnings** – Our EPS estimate for the quarter is $0.24 per share, below consensus of $0.25. We will look for additional color from management on the call regarding the recent transactions within the Field Services segment and potential announcement for an MLP.
- **Rating & Target** – We are raising our target price to $23 from $22 on our revised valuation multiples. Our rating remains Buy. See our most recent **note** for additional color.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	0.34A	0.27A	0.93A	0.27A	1.82A	1.27A
2012E	**0.34A**	**0.24E**	**0.34E**	**0.28E**	**1.20E**	**1.15E**
Previous	0.34A	0.24E	0.34E	0.28E	1.20E	na
2013E	**0.35E**	**0.26E**	**0.35E**	**0.28E**	**1.24E**	**1.24E**
Previous	0.35E	0.26E	0.35E	0.28E	1.24E	na
2014E	**0.36E**	**0.26E**	**0.37E**	**0.29E**	**1.28E**	**1.30E**
Previous	0.36E	0.26E	0.37E	0.29E	1.28E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

Company Focus

■ Company Update

Cheniere Energy Inc (LNG)

Story Continues to De-risk; Construction Expected to Begin Soon

- **Update** – See our recent **note** for details on debt financing, regulatory concerns and valuation.
- **Rating & Target** – We reiterate our Buy rating and $23 target price.

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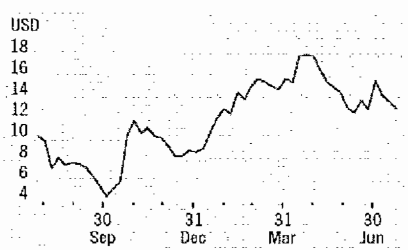
Buy/High Risk	**1H**
Price (24 Jul 12)	US$12.88
Target price	US$23.00
Expected share price return	78.6%
Expected dividend yield	0.0%
Expected total return	**78.6%**
Market Cap	US$2,761M

Price Performance
(RIC: LNG.A, BB: LNG US)



EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	-0.60A	-0.67A	-0.67A	-0.66A	-2.60A	-2.57A
2012E	**-0.43A**	**-0.19E**	**-0.11E**	**-0.13E**	**-0.73E**	**-1.17E**
Previous	-0.43A	-0.19E	-0.11E	-0.13E	-0.73E	na
2013E	**-0.13E**	**-0.13E**	**-0.13E**	**-0.13E**	**-0.52E**	**-2.35E**
Previous	-0.13E	-0.13E	-0.13E	-0.13E	-0.52E	na
2014E	**-0.15E**	**-0.17E**	**-0.19E**	**-0.22E**	**-0.73E**	**-1.30E**
Previous	-0.15E	-0.17E	-0.19E	-0.22E	-0.73E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

Midstream, Pipelines & Gas Utilities
25 July 2012

Citi Research

Oil & Gas Storage & Transportation (GICS) | Pipelines (Citi)
North America | United States

Company Focus

- Company Update
- Target Price Change

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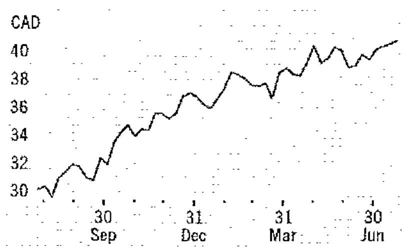
Neutral	**2**
Price (24 Jul 12)	C$41.36
Target price	C$44.00
from C$41.50	
Expected share price return	6.4%
Expected dividend yield	2.7%
Expected total return	**9.1%**
Market Cap	C$32,878M
	US$32,162M

Price Performance
(RIC: ENB.TO, BB: ENB CN)



Enbridge Inc. (ENB.TO)

Maintain Neutral Rating on Valuation; Target C$44

- **Q2 Earnings**— We estimate that Enbridge will earn $0.38p/s in Q2'12 in-line with the Street at $0.38. Our 2012 estimate is $1.74p/s, above consensus of $1.66p/s. ENB is guiding to $1.58-$1.74, which implies a 12% EPS growth rate.
- **Rating & Target**— We maintain our Neutral rating as we do not necessarily view shares of ENB as cheap at current levels (~9% Estimated Total Return). We are increasing our target price to $44 from $41.50 as a result of our lower cost of capital assumption (positive impact on DCF valuation & back-end loaded growth).
- **Conference Call** – We expect the call to focus on updates of ongoing and potential growth projects as well as the company's recently announced Eastern Expansions (see our note for additional color: Growth Story In-tact; Just Don't Expect a Bargain).
- **Liquids Pipelines** — We expect NI of $166mm, up from $158mm in Q1'12. Our FY'12 estimate is ~$676mm. Our total Mainline volume assumption of 2.3mmbbls/d is slightly above the ~2.2mmbbls/d reported in 2011.
- **Gas Pipelines, Processing & Energy Services** — We expect NI of $36mm, flat sequentially. Our FY'12 NI estimate is ~$154mm versus $163mm in 2011. We estimate that ENB has ~$2.5bn of expansion projects at this business segment, which will help boost the longer-term earnings growth rate.
- **Earnings Growth & Valuation** — We estimate that ENB will grow earnings ~15% per annum through 2015, slightly above company guidance of ~10%. However, despite attractive EPS growth, we do not necessarily view that shares are priced attractively at current levels. ENB trades at 19.5x '13E EPS & 12.4x EBITDA, which represents a ~27% premium to the group. Historically, ENB has traded at a ~15% premium to peers. As a check, we discounted our Street high 2015 estimates (to account for back-end loaded growth) back to 2013 – ENB still screens at a ~14% premium to the group. In short, our enthusiasm over the company's exposure to the North American energy infrastructure "revolution" & EPS growth of ~10-15% per year through 2015 is somewhat tampered by what we believe is a full valuation.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	0.44A	0.24A	0.34A	0.34A	1.36A	1.48A
2012E	**0.49A**	**0.38E**	**0.39E**	**0.48E**	**1.74E**	**1.66E**
Previous	0.49A	0.38E	0.39E	0.48E	1.74E	na
2013E	**0.55E**	**0.45E**	**0.46E**	**0.56E**	**2.02E**	**1.89E**
Previous	0.55E	0.45E	0.46E	0.56E	2.02E	na
2014E	**0.61E**	**0.59E**	**0.59E**	**0.66E**	**2.44E**	**2.15E**
Previous	0.61E	0.59E	0.59E	0.66E	2.44E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

Midstream, Pipelines & Gas Utilities
25 July 2012

Citi Research

Oil & Gas Exploration & Production (GICS) | Integrated Natural Gas & Gas Utilities (Citi)
North America | United States

Company Focus

- Company Update
- Target Price Change
- Estimate Change

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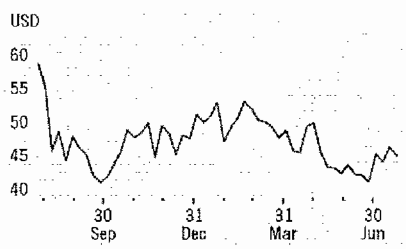
Buy	**1**
Price (24 Jul 12)	US$46.16
Target price	US$63.00
from US$65.00	
Expected share price return	36.5%
Expected dividend yield	1.2%
Expected total return	**37.7%**
Market Cap	US$3,329M

Price Performance
(RIC: EGN.N, BB: EGN US)



Energen Corp (EGN)

Maintain Buy; Street Seems Too High for Q2; Buy

- **Q2 Results** – Our estimate for the quarter is $0.56 per share versus the Street at $0.64 (though the number has been trending down). We have marked our model to market for Q2 actual commodity prices. We estimate a crude oil realization of ~$84/bbl (90% WTI), Natural Gas of $2.29/Mcf (NYMEX) and an average NGL realization of $0.78/gal, or ~35% NGL-WTI. In our opinion, Street estimates are too optimistic at this time for EGN. That said, we would use any weakness on a perceived earnings miss (on the heels of inflated consensus numbers) as an enhanced buying opportunity.

- **Guidance** – EGN is guiding to $3.15-3.55p/s in earnings for 2012 versus our $3.29 estimate and the Street at $3.58. EGN assumes $95 oil, $3 gas & $1.06 gal for NGL's. EGN's production forecast is 24.5mmboe, which is in-line with our estimate.

- **E&P** – We estimate Q1 EBITDA of $172.5mm, flat sequentially as higher production is offset by lower realized commodity prices. Our estimate is based on an average realized gas price of $2.39/Mcf, average realized oil of $84/bbl & NGL of $0.90/gal. We estimate that daily production will grow to 66Kboe/d, up from 63Kboe/d in Q1, mostly driven by a 15% sequential increase in the Permian. Our current capex estimate for 2012 is ~$1bn.

- **Distribution** – We estimate 2Q EBITDA of $13mm vs. $11mm in Q2'11. Our 2012 EBITDA estimate is $132mm versus $126mm in 2011. EGN's utility business has a weather normalization mechanism in place and, as such, is not really exposed to fluctuations in heating degree days.

- **Rating & Target** – We maintain our Buy rating. EGN remains our favorite name. Our target price is now $63 from $65 as a result of updated commodity prices. We believe investors currently receive $5-10p/s of "free" exploration upside (Wolfcamp + Reeves County). EGN currently trades at an implied 2013E EBITDA multiple of ~3.8x (backing out Alagasco at 8x), or a 30-40% discount, on average, to the Permian peer group. We do not think this discount is warranted, nor that it will persist over the longer term.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	1.30A	0.87A	0.75A	0.98A	3.91A	3.91A
2012E	**1.33A**	**0.56E**	**0.54E**	**0.86E**	**3.29E**	**3.58E**
Previous	1.33A	0.59E	0.63E	1.01E	3.56E	na
2013E	**1.53E**	**0.85E**	**0.80E**	**1.09E**	**4.28E**	**4.55E**
Previous	1.64E	1.03E	0.99E	1.33E	4.99E	na
2014E	**na**	**na**	**na**	**na**	**4.95E**	**5.49E**
Previous	na	na	na	na	5.15E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

Company Focus

- Company Update
- Target Price Change
- Estimate Change

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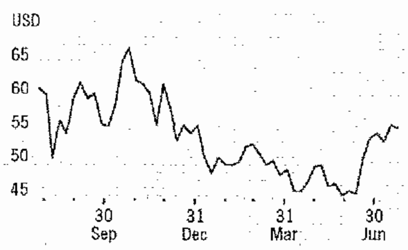
Neutral	**2**
Price (24 Jul 12)	US$55.38
Target price	US$56.00
from US$52.00	
Expected share price return	1.1%
Expected dividend yield	1.6%
Expected total return	**2.7%**
Market Cap	US$8,283M

Price Performance
(RIC: EQT.N, BB: EQT US)



EQT Corporation (EQT)

Maintain Neutral Rating; Target $56

- **Q2 Earnings** – Our estimate for the quarter is $0.28 per share, below consensus of $0.30. Our FY 2012 EPS is $1.66 vs. the Street at $1.62. We assume $90 oil (WTI), $2.65 gas & $0.89 gal for NGL's (EQT specific barrel).

- **Talking Points** – We expect the conference call to focus on operational updates in the Marcellus and the company's "wet" acreage position in West Virginia (~35% of EQT's acreage is classified as wet). In addition, we would expect management to provide commentary with respect to the recently launched Equitable Midstream Partners (EQM) IPO.

- **E&P** – We estimate Q2 EBITDA of $123mm versus $151mm in Q1. Our estimate is based on an average realized wellhead price (net to EQT) of $4.03/Mcf, which includes a liquids uplift of $0.60/Mcf. We estimate that equity sales will grow to 640mmcfe/d versus 594mmcf/ed in Q1. We expect average Marcellus production of ~358mmcf/d versus 300mmcf/d last quarter.

- **Midstream** – We estimate 2Q EBITDA of $78mm vs. $71mm in Q1'12. We are modeling a 5% sequential growth in gathering volumes (all EQT generated), with flat third party volume growth. Our gathering fee estimate remains flat sequentially at ~$0.97/Mcfe.

- **Distribution** – We estimate EBITDA for Q2 will be $14mm versus $15mm a year ago. That said, Q2 is generally a non-event for the Utility given shoulder season.

- **Rating & Target** – We maintain our Neutral rating. Our target price is now $56, up from $52 previously as a result of a higher target multiple on the company's Midstream business (we now estimate 10x 2013E EBITDA versus 8x previously) as well as a lower cost of capital assumption (in line with our overall Citi Research strategist estimates).

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	0.65A	0.51A	0.45A	0.60A	2.21A	2.21A
2012E	**0.50A**	**0.28E**	**0.31E**	**0.58E**	**1.66E**	**1.62E**
Previous	0.45E	0.23E	0.28E	0.59E	1.55E	na
2013E	**0.64E**	**0.44E**	**0.41E**	**0.64E**	**2.13E**	**2.40E**
Previous	0.62E	0.46E	0.41E	0.65E	2.14E	na
2014E	**0.76E**	**0.60E**	**0.58E**	**0.83E**	**2.77E**	**3.29E**
Previous	0.70E	0.56E	0.53E	0.78E	2.57E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

Midstream, Pipelines & Gas Utilities
25 July 2012

Citi Research

Multi-Utilities (GICS) | Integrated Natural Gas & Gas Utilities (Citi)
North America | United States

Company Focus

- Company Update
- Target Price Change
- Estimate Change

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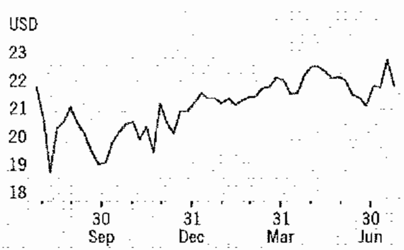
Neutral	**2**
Price (24 Jul 12)	US$22.11
Target price	US$23.00
from US$21.00	
Expected share price return	4.0%
Expected dividend yield	2.9%
Expected total return	**6.9%**
Market Cap	US$4,175M

Price Performance
(RIC: MDU.N, BB: MDU US)



MDU Resources Group Inc (MDU)

Maintain Neutral; E&P Opportunities Already Priced In

- **Q2 Earnings** – Our estimate for the quarter is $0.18 per share, below consensus of $0.19. We lower our estimates for the E&P business to account for lower commodity prices. Our FY 2012 EPS is $1.05 vs. the Street at $1.14 and our previous estimate of $1.10. We assume $88 oil (WTI) & $2.42 gas for the remainder of the year.

- **Guidance** – MDU assumes $2.25-$2.75 gas and $95-$105 oil in its $1.00-$1.25 guidance range. Given the fact that crude oil prices have come down over the past few months, MDU could lower the bottom end of its guidance range, all else being equal. Better than expected results out of E&P (production) and or improved contribution from the construction segments could negate a guidance cut.

- **Rating & Target** – We maintain our Neutral rating. Our target price is now $23 from $21 previously as a decline in our commodity price assumptions is more than offset by the expected contribution from the Midstream JV with Whiting (announced during Q2) and contribution from the diesel topping plant (2013+).

- **E&P** – We estimate 2Q EBITDA of $63mm versus $58mm in Q1. We estimate total daily production of 178mmcfe, with ~11.3Kbbls of oil. For 2012, our total production is 64Bcfe, down 4% y/y. Our gas production estimate of 39Bcfe is down 16% while our oil production estimate of 4.2mmbbls is up 21% y/y at the low end of company guidance of a 20-30% increase.

- **Construction Materials** – We estimate EBITDA of $32mm for 2Q'12, flat y/y. Our 2012 EBITDA estimate is $132mm, also flat over 2011 levels. While we remain cautious on this segment over the near-term, we acknowledge the operating leverage embedded in the case of an economic recovery.

- **Conference Call** – We expect MDU's call to focus on drilling results, primarily in the Bakken (Stark County; potentially Richland County) as well as progress updates in the Paradox & Niobrara. In addition, we would expect some additional color on the Midstream acquisition during the quarter (JV with Whiting) and timing of the topping plant construction.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	0.20A	0.24A	0.34A	0.39A	1.17A	1.19A
2012E	**0.19A**	**0.18E**	**0.35E**	**0.34E**	**1.05E**	**1.14E**
Previous	0.19E	0.17E	0.35E	0.38E	1.10E	na
2013E	**0.28E**	**0.20E**	**0.37E**	**0.37E**	**1.23E**	**1.36E**
Previous	0.29E	0.26E	0.44E	0.46E	1.45E	na
2014E	**0.36E**	**0.29E**	**0.48E**	**0.48E**	**1.61E**	**1.44E**
Previous	0.24E	0.21E	0.39E	0.40E	1.23E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

Gas Utilities (GICS) | Integrated Natural Gas & Gas Utilities (Citi)
North America | United States

Company Focus

National Fuel Gas Co (NFG)

Maintain Buy; Liquids Upside Remains Free Option

- Company Update
- Target Price Change
- Estimate Change

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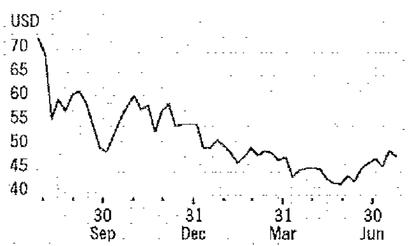
Buy	**1**
Price (24 Jul 12)	US$48.69
Target price	US$55.50
from US$57.00	
Expected share price return	14.0%
Expected dividend yield	2.7%
Expected total return	**16.7%**
Market Cap	US$4,052M

Price Performance
(RIC: NFG.N, BB: NFG US)



- **FQ3 Earnings** — Our estimate for the quarter is $0.45 per share, below consensus of $0.46. Our FY'12 estimate is now $2.39 (versus the Street at $2.38) as a result of: 1) lower commodity prices; and 2) lower production estimates. NFG's official guidance range for 2012 is $2.30-$2.45.

- **Guidance** — We expect NFG to issue preliminary FY 2013 guidance on the call. Our current estimate is $2.71p/s versus consensus of $2.56. Our 2013 numbers assume y/y production growth of ~21% (96Bcfe versus company guidance of 100 -115Bcfe) based on two rigs running in the EDA (Eastern Development Area) with an additional rig delineating (no production impact near-term) the Utica & Marcellus wet gas areas. Our 2013 forecast for natural gas is 3.85$mmbtu and $92/bbl for oil.

- **E&P** — We estimate EBIT of $48mm during the quarter, up from $45mm last quarter. Our estimate is based on an average gas price of $2.29/Mcf and average oil of ~$109/bbl (West Coast). We estimate daily production of ~220mmcf/d versus 205mmcf/d in the prior quarter. We expect average Marcellus production of ~149mmcf/d versus 126mmcf/d last quarter. We do not expect any results out of the Utica liquids test well in the Henderson area, and we do not give NFG any credit for potential liquids uplift in any of their Western acreage (~100K+ potential for liquids) pending actual well results (we do not expect the Marcellus results until later this year).

- **Next Catalyst(s)** — In our opinion, the NFG story will attract more attention during the latter part of 2012 as the company releases well results from the ongoing "wet" Marcellus program. We do not expect any well results out of the wet Marcellus on the upcoming earnings call. Based on our valuation, we believe that the potential liquids upside is a "free option" in NFG's current share price. In addition, our production estimates are conservative for next year.

- **Rating & Target** — We maintain our Buy rating. Our target price is now $55.50 as a result of lower commodity prices and lower production estimates.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	0.70A	1.00A	0.56A	0.45A	2.71A	2.71A
2012E	**0.73A**	**0.81A**	**0.45E**	**0.41E**	**2.39E**	**2.38E**
Previous	0.73A	0.84E	0.44E	0.41E	2.42E	na
2013E	**0.81E**	**0.95E**	**0.49E**	**0.46E**	**2.71E**	**2.56E**
Previous	0.83E	1.01E	0.53E	0.56E	2.92E	na
2014E	**0.76E**	**0.95E**	**0.53E**	**0.46E**	**2.69E**	**2.76E**
Previous	0.90E	0.99E	0.52E	0.46E	2.87E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

Midstream, Pipelines & Gas Utilities
25 July 2012

Citi Research

Multi-Utilities (GICS) | Integrated Natural Gas & Gas Utilities (Citi)
North America | United States

Company Focus

- Company Update
- Target Price Change
- Estimate Change

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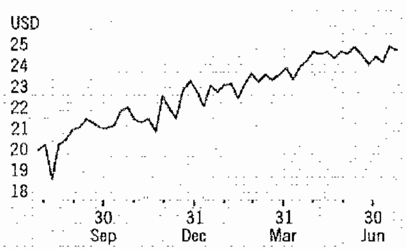
Neutral	**2**
Price (24 Jul 12)	US$25.11
Target price	US$26.00
from US$24.00	
Expected share price return	3.5%
Expected dividend yield	3.8%
Expected total return	**7.4%**
Market Cap	US$7,134M

Price Performance
(RIC: NI.N, BB: NI US)



NiSource Inc (NI)

Earnings Ahead of Street; GTS Spending Begins Rolling Out

- **Q2 Earnings** – Our estimate for the quarter is $0.20 per share, slightly ahead of consensus of $0.19. In addition, we have adjusted our FY 2012/2013/2014 estimates to $1.41/$1.56/$1.71 from $1.38/$1.51/$1.62 on recent projects announced at GTS (Big Pine Gathering, West Side Expansion, Hilcorp JV).
- **Growth Pipeline** – We expect management to provide further details regarding the recent JV announcement on the call. Management is also working towards a potential agreement with regulators on their proposed 10-year, $4 BN pipeline modernization program. A settlement could be announced as early as 2H 2012. If no agreement is reached by the end of this year, NiSource will proceed with the standard regulatory process to recover capital spending. Such a process would likely start late in 2013 if the company were to go down that route.
- **Rating & Target** – Our rating is unchanged at Neutral, but we are raising our target price to $26 from $24 as a result of our revised earnings estimates and revised valuation assumptions. We maintain a constructive outlook toward NI earnings growth potential and significant capital spending pipeline, but await clarity from management and regulators regarding the size of spending, incremental revenue growth and time line of projects. See our most recent note for details surrounding the Utica JV.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	0.72A	0.14A	0.12A	0.31A	1.29A	1.35A
2012E	**0.66A**	**0.20E**	**0.15E**	**0.41E**	**1.41E**	**1.45E**
Previous	0.61A	0.18E	0.16E	0.44E	1.38E	na
2013E	**0.71E**	**0.22E**	**0.18E**	**0.46E**	**1.56E**	**1.53E**
Previous	0.69E	0.19E	0.16E	0.46E	1.51E	na
2014E	**0.72E**	**0.25E**	**0.22E**	**0.52E**	**1.71E**	**1.62E**
Previous	0.71E	0.22E	0.21E	0.48E	1.62E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

Gas Utilities (GICS) | Integrated Natural Gas & Gas Utilities (Citi)
North America | United States

Company Focus

- Company Update
- Target Price Change
- Estimate Change

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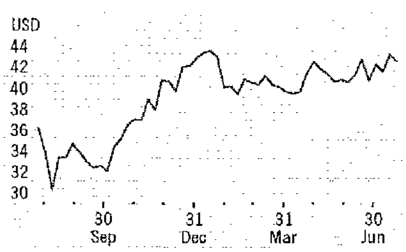
Neutral	**2**
Price (24 Jul 12)	US$43.36
Target price	US$46.00
from US$45.00	
Expected share price return	6.1%
Expected dividend yield	3.1%
Expected total return	**9.2%**
Market Cap	US$9,013M

Price Performance
(RIC: OKE.N, BB: OKE US)



Oneok Inc (OKE)

Maintain Neutral; Target $46; Growth Projects Priced In

- **Q2 Earnings** — Our estimate for the quarter is $0.35 per share (split-adjusted), slightly above consensus of $0.33. We have lowered our estimates for the G&P business to account for lower NGL prices. Our FY 2012 EPS is $1.73, in-line with the Street. We assume $88 oil, $2.42 gas and an average NGL price of $0.93 for the remainder of 2012.
- **Rating & Target** — We maintain our Neutral rating as we believe the company's growth projects and associated dividend growth are priced into the stock at current trading levels. Our target price is now $46, up from $45 previously, as a lower overall cost of capital and higher contribution from the distribution segment offset lower commodity assumptions.
- **OKS** — We estimate that OKS will generate EBIT of $199mm in Q2'12 versus $202mm in Q2'11. We estimate that NGL prices decline ~21% over the same period to $1/gal, on average, vs. $1.27 in Q2'11. This decline is somewhat offset by growth projects that OKE has brought on over the past 12 months. At the NGL Liquids segment, we estimate an average Conway – Belvieu spread of ~$0.21/gal for optimization purposes.
- **Distribution** — We estimate that the Distribution segment will generate ~$20mm of EBIT in Q2'12, down slightly from the $21mm generated in Q2'11 as a result of lower retail marketing margins. Our FY'12 estimate is $200mm
- **Energy Marketing** — We estimate the Energy Marketing segment will generate a slight operating loss in Q2'12 ($~0.2mm). Our 2012 estimate is an operating loss of ~$40mm. OKE continues to scale down the size and scope of this business given deteriorating optimization economics amidst a flattening natural gas curve.
- **Cash Flow** — We estimate cash distributions to OKE from OKS will almost double to $800mm in 2015 from $418mm in 2012 (GP + LP) as a result of announced growth projects (most recently ~$2 billion of growth projects in the Bakken and ~$350mm of growth in the Woodford shale). We estimate OKE (OKS.N; US$56.68; 1)(OKE.N; US$43.36; 2) will build these projects at ~6x EBITDA (Midpoint of 5-7x EBITDA range). We continue to model dividend growth of ~23% per annum at OKE through 2015.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	1.19A	0.51A	0.57A	1.08A	3.36A	1.67A
2012E	**0.58A**	**0.35E**	**0.34E**	**0.46E**	**1.73E**	**1.75E**
Previous	0.65E	0.33E	0.33E	0.44E	1.75E	na
2013E	**0.71E**	**0.42E**	**0.47E**	**0.58E**	**2.19E**	**2.04E**
Previous	0.75E	0.41E	0.45E	0.56E	2.17E	na
2014E	**0.87E**	**0.56E**	**0.57E**	**0.67E**	**2.68E**	**2.42E**
Previous	0.88E	0.52E	0.53E	0.63E	2.56E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

Company Focus

Questar Corp (STR)

Maintain Buy; Natural Gas Vehicle Theme Emerging

- Company Update
- Estimate Change

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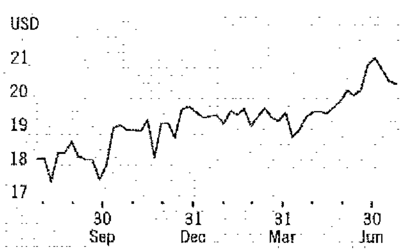
Buy	**1**
Price (24 Jul 12)	US$20.48
Target price	US$20.50
Expected share price return	0.1%
Expected dividend yield	3.2%
Expected total return	**3.3%**
Market Cap	US$3,649M

Price Performance
(RIC: STR.N, BB: STR US)



- **Q2 Earnings** — We estimate STR will earn $0.23p/s in Q2'12 versus $0.22p/s a year ago. Our 2012 estimate is $1.18p/s (down from $1.21 previously as a result of higher interest expense & slightly lower pipeline contribution) versus consensus of $1.19 and company guidance of $1.15-$1.19. We do not expect any changes to this guidance at this time.
- **Talking Points** — We expect STR to give an update on the progress of Wexpro II as well as an update on the recently formed Questar Fueling Company. In our opinion, Wexpro II is no longer the primary catalyst for STR as investors are starting to zero-in on the long-term opportunity set for Questar Fueling Company.
- **Wexpro** — We expect Q2'12 EBIT of $35mm and an investment base of $496mm. We assume an after-tax rate of return of ~20%. For 2012, our capex estimate remains at $120mm with an average after-tax rate of return of ~20%. We estimate EBIT of $135mm in 2012. We currently do not include any impact for Wexpro II in our estimates, nor do we think that a Wexpro II agreement will have any immediate impact on EPS (but rather extend the life of the reserve base).
- **Questar Gas** — We expect Q2'12 EBIT of $8mm versus $6mm a year ago. STR's utility, for the most part, is not affected by weather due to weather normalization and Q2 is also a shoulder season quarter (generally non-event). Our 2012 EBIT estimate is $105mm, which we expect to grow ~7% annually through 2015 as a result of rate base growth (feeder line replacement program). STR has a cost tracker in place at the Utility, which helps reduce regulatory lag.
- **Questar Pipeline** — We estimate Q2'12 EBIT of $32mm, flat y/y. Our 2012 estimate is $138mm versus $127mm in 2011. Skull Creek, ML40, ML104 & Fidlar are adding to the y/y uptick in our estimate. At the recent analyst meeting in NYC, STR discussed adding smaller midstream projects (generally under $10mm in scope but attractive returns). We do not think that STR will make any large-scale pipeline acquisitions in the near-term given the company's preferred asset targets do not seem to be up for sale on an individual basis.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	0.39A	0.22A	0.20A	0.34A	1.16A	1.16A
2012E	**0.41A**	**0.23E**	**0.19E**	**0.35E**	**1.18E**	**1.19E**
Previous	0.44E	0.22E	0.18E	0.36E	1.21E	na
2013E	**0.44E**	**0.23E**	**0.18E**	**0.37E**	**1.22E**	**1.27E**
Previous	0.48E	0.24E	0.19E	0.38E	1.28E	na
2014E	**0.47E**	**0.24E**	**0.19E**	**0.39E**	**1.29E**	**1.37E**
Previous	0.51E	0.25E	0.20E	0.41E	1.38E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

Gas Utilities (GICS) | Integrated Natural Gas & Gas Utilities (Citi)
North America | United States

Company Focus

Southwest Gas Corp (SWX)

Earnings Below Street; Downgrade to Neutral; Raising Target to $50

- Company Update
- Rating Change
- Target Price Change
- Estimate Change

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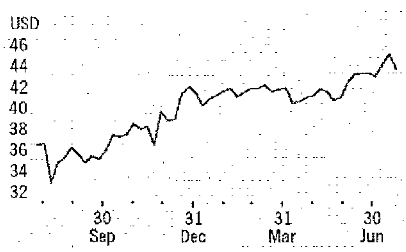
Neutral	**2**
from Buy	
Price (24 Jul 12)	US$45.09
Target price	US$50.00
from US$47.00	
Expected share price return	10.9%
Expected dividend yield	2.6%
Expected total return	**13.5%**
Market Cap	US$2,079M

Price Performance
(RIC: SWX.N, BB: SWX US)



- **Q2 Earnings** – Our estimate for the quarter is $0.08 per share, slightly below consensus of $0.09. Look for an update on the call regarding the pipeline of projects within their construction division. The stock was up 3% during the second quarter. No significant rate cases are on the near-term horizon.
- **Rating & Target** – We remain constructive on SWX's longer-term prospects and raise our target price to $50 from $47 on our revised valuation multiples for regulated utilities. However, we lower our rating to Neutral from Buy as the ETR does not meet our required threshold for a Buy rating.

EPS	**Q1**	**Q2**	**Q3**	**Q4**	**FY**	**FC Cons**
2011A	1.48A	0.09A	-0.34A	1.19A	2.42A	2.43A
2012E	**1.70A**	**0.08E**	**0.10E**	**1.15E**	**3.03E**	**2.75E**
Previous	1.67E	0.07E	0.10E	1.15E	2.98E	na
2013E	**na**	**na**	**na**	**na**	**3.04E**	**2.87E**
Previous	na	na	na	na	3.05E	na
2014E	**na**	**na**	**na**	**na**	**3.04E**	**2.89E**
Previous	na	na	na	na	3.05E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

Company Focus

- Company Update
- Target Price Change
- Estimate Change

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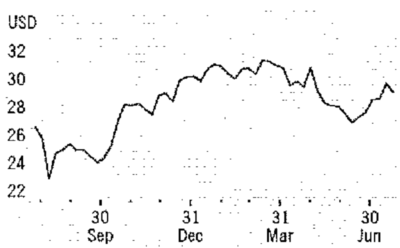
Neutral	**2**
Price (24 Jul 12)	US$29.65
Target price	US$29.00
from US$32.00	
Expected share price return	-2.2%
Expected dividend yield	3.7%
Expected total return	**1.5%**
Market Cap	US$19,354M

Price Performance
(RIC: SE.N, BB: SE US)



Spectra Energy Corp (SE)

EPS In-Line; NGL Weakness Overshadows Growth Near-Term

- **Q2 Earnings** – Our estimate on the quarter is $0.39 per share in-line with consensus. However, we are lowering our FY 2012 and 2013 numbers to $1.50/$1.53 from $1.85/$1.98 on our revised commodity deck.
- **DCP Midstream** – NGL prices (Mt. Belvieu) suffered a decline in prices of ~30% during the second quarter. Keepwhole margins have also been cut nearly in half over the same period. We don't anticipate a material bounce in prices or a material pick-up in demand until the later part of Q3 as Petchem demand is anticipated to pick up.
- **Prospects for LNG** – Despite being left out of the proposed LNG pipeline project to the West Coast of Canada by Shell (NYSE: RDS), SE management remains optimistic that they will be able to leverage their BC pipeline network and successfully compete in a bid to develop additional pipelines in the region. There are potentially three proposed LNG projects that are gaining traction, and we believe SE is well positioned with local parties in the region and E&P companies to negotiate terms to deploy ~$3 BN towards an LNG pipeline project.
- **Rating & Target** – Our rating is Neutral, but we are lowering our target price to $29, down from $32, based on 2014E earnings, which we think represent a normalized point of the cycle for the company's earnings to return to it long-term profile.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	0.53A	0.42A	0.37A	0.45A	1.77A	1.77A
2012E	**0.52A**	**0.39E**	**0.20E**	**0.39E**	**1.50E**	**1.69E**
Previous	0.53E	0.51E	0.30E	0.51E	1.85E	na
2013E	**0.52E**	**0.38E**	**0.19E**	**0.43E**	**1.53E**	**1.89E**
Previous	0.57E	0.54E	0.31E	0.56E	1.98E	na
2014E	**0.61E**	**0.48E**	**0.29E**	**0.49E**	**1.87E**	**2.01E**
Previous	0.57E	0.55E	0.33E	0.53E	1.98E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

Midstream, Pipelines & Gas Utilities
25 July 2012

Citi Research

Oil & Gas Storage & Transportation (GICS) | Integrated Natural Gas & Gas Utilities (Citi)
North America | United States

Company Focus

- Company Update
- Estimate Change

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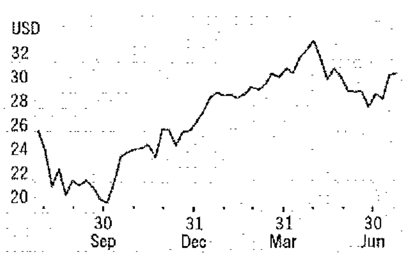
Buy	**1**
Price (24 Jul 12)	US$30.97
Target price	US$36.00
Expected share price return	16.2%
Expected dividend yield	3.9%
Expected total return	**20.1%**
Market Cap	US$19,376M

Price Performance
(RIC: WMB.N, BB: WMB US)



The Williams Companies Inc (WMB)

Maintain Buy & $36 Target Price; Secular Midstream Growth Story

- **Q2 Earnings** — We estimate that WMB will earn ~$0.26p/s in Q2'12, above the pre-announced range of ~$0.21p/s and consensus of $0.31p/s. We have adjusted our number to reflect lower NGL pricing dynamics during the quarter.

- **Rating & Target** — Our target price remains $36 as lower near-term commodity prices (mostly on the NGL & Olefins side) are offset by the longer-term shift to a more fee-based (and less volatile) business model as well as the associated volume growth from the Caiman acquisition.

- **Canadian Midstream & Olefins** — We calculate Q2'12 EBIT of $64mm vs. $103mm in Q1'12. We estimate ethylene margins at Geismar averaged ~$0.20/lb (spot), slightly below CMAI figures of ~$0.27/lb. Our 2012 EBIT estimate is ~$313mm. We estimate a 3Q'12 start-up for the Boreal liquids pipeline and estimate that the Geismar expansion will be online in Q3'13.

- **WPZ** — We estimate WPZ will generate ~$417mm of EBIT in Q2'12. At Midstream, our estimate is $310mm, up marginally from $308mm in Q1'11 as lower commodity prices are partially offset by higher fee-based volumes. Our 2012 EBIT estimate is $1.2bn, above company guidance of $1-$1.1bn. At the Gas Pipeline, our Q1'12 estimate is $145mm vs $155mm in Q2'11. Our 2012 estimate is $680mm. Please see the note WPZ: Lower Guidance is No Surprise; Geismar Incrementally Positive - Buy on Weakness published by our MLP Team for additional color.

- **Guidance** — WMB is currently guiding to (midpoint) EPS of $1.15 in 2012, $1.38 in 2013 & $1.95 in 2014 versus our estimates of $1.22, $1.36 & $1.69, respectively. Our 2014 estimate is at the low-end of the company guidance range ($1.70-$2.20) as we remain conservative with respect to potential volume increases at the company's midstream segment.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	0.36A	0.39A	0.40A	0.36A	1.51A	1.23A
2012E	**0.39A**	**0.26E**	**0.28E**	**0.29E**	**1.22E**	**1.31E**
Previous	0.37E	0.34E	0.39E	0.40E	1.49E	na
2013E	**0.31E**	**0.30E**	**0.36E**	**0.39E**	**1.36E**	**1.54E**
Previous	0.40E	0.39E	0.44E	0.47E	1.70E	na
2014E	**0.41E**	**0.40E**	**0.43E**	**0.45E**	**1.69E**	**1.75E**
Previous	0.42E	0.41E	0.43E	0.45E	1.71E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

Midstream, Pipelines & Gas Utilities
25 July 2012

Citi Research

Oil & Gas Storage & Transportation (GICS) | Integrated Natural Gas & Gas Utilities (Citi)
North America | Canada

Company Focus

TransCanada Corp (TRP.TO)

Below Consensus; Riding Through the Electric Storms

- Company Update
- Estimate Change

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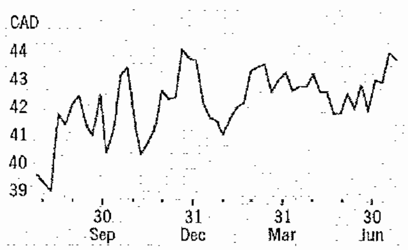
Neutral	**2**
Price (24 Jul 12)	C$44.00
Target price	C$42.00
Expected share price return	-4.5%
Expected dividend yield	3.6%
Expected total return	**-0.9%**
Market Cap	C$30,992M
	US$30,318M

Price Performance
(RIC: TRP.TO, BB: TRP CN)



- **Q2 Earnings** – We expect EPS on the quarter of $0.47, down from $0.52 previously due to outages and delays associated with Bruce Power and warmer than normal weather curtailing demand for gas on the Mainline.
- **Power** – Overall capacity factors in Ontario are expected to be lower due to units being off-line (unit 1), TRP declaring a force majeure on unit 2, and unit 3 gradually returning into service during Q3. We expect all three units to be fully operational the final quarter of this year. In addition to the hurdles TRP is facing in Ontario, Alberta power prices were down more than 20% in Q2/12 vs. the same period last year. The decline was in lockstep with weather gas prices in the region.
- **Pipelines** – Investors should look for an update on the status of the regulatory permitting process with respect to Keystone XL Gulf Coast project. It's anticipated the southern leg of the pipeline could be in service by the 2H13 and transport 700 mbls/d. Mainline's rate case remains under review of the NEB. A decision is expected late 2012/early 2013. Given the warmer than normal temperatures persisting through the winter into Q2, volumes could fall lower compared to Q1/12 (~2.7 Bcf/d) and we have taken down our estimates marginally.
- **Rating** – We maintain our $42 price target and Neutral rating. Several aspects of the company's core businesses are facing regulatory and challenging fundamentals which could be a drag on the growth rate of earnings going forward.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	0.62A	0.50A	0.54A	0.53A	2.19A	2.23A
2012E	**0.48A**	**0.47E**	**0.67E**	**0.59E**	**2.21E**	**2.27E**
Previous	0.53E	0.52E	0.73E	0.61E	2.39E	na
2013E	**0.61E**	**0.61E**	**0.76E**	**0.63E**	**2.61E**	**2.50E**
Previous	0.62E	0.61E	0.76E	0.64E	2.64E	na
2014E	**0.66E**	**0.69E**	**0.84E**	**0.71E**	**2.90E**	**2.75E**
Previous	0.69E	0.71E	0.86E	0.74E	3.00E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

Gas Utilities (GICS) | Integrated Natural Gas & Gas Utilities (Citi)
North America | United States

Company Focus

- Company Update
- Target Price Change
- Estimate Change

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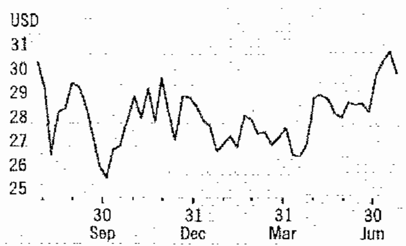
Buy	1
Price (24 Jul 12)	US$30.18
Target price	US$34.00
from US$31.00	
Expected share price return	12.7%
Expected dividend yield	3.6%
Expected total return	**16.2%**
Market Cap	US$3,391M

Price Performance
(RIC: UGI.N, BB: UGI US)



UGI Corp (UGI)

Earnings Above Street; Lower Propane Could Lift 2013 EPS

- **Q3 Earnings** – Our earnings estimate for the quarter is $0.05 per share, ahead of consensus of $0.01. Our FY 2012 estimate is $1.85 and $2.44 in 2013. Consensus is currently $1.86/$2.52 for 2012 and 2013. Our numbers are lower on warmer than normal weather, and costs related to the merger integration.
- **Propane** – Prices continued to slide during the quarter, falling ~31% from Q1 as inventory build-up from a warmer than normal winter and increased NGL drove prices lower. Nonetheless, Q3 and Q4 are typically shoulder seasons for propane demand in the US. Hence, we don't expect UGI to see a material uplift in earnings for the balance of this year despite the likeliness of improving margins.
- **Midstream** – In June, the non-binding open season held for Commonwealth Pipeline concluded, confirming strong interest in the pipeline. The list of off-takers includes LDCs, electric generators and producers in the region looking to lower their basis exposure to natural gas being sourced in the southeastern part of the US. The proposed pipeline is expected to transport an estimated 1.2 Bcf/d, to be in service in 2016. We don't include the project in our estimates.
- **International** – Temperatures in France were marginally below average during most of the quarter. France accounts for ~40% of total demand in Europe. We don't expect a material decrease in propane demand across UGI's European footprint given their footprint is mostly outside of the distressed regions within the continent.
- **Rating & Target** – Our rating remains Buy, but we are raising our target price to $34 from $31 on our revised target multiples for regulated utilities.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	0.97A	1.12A	-0.20A	-0.17A	1.93A	2.10A
2012E	**0.78A**	**1.20A**	**0.05E**	**-0.17E**	**1.85E**	**1.86E**
Previous	0.78A	1.19E	0.11E	-0.12E	1.95E	na
2013E	**na**	**na**	**na**	**na**	**2.44E**	**2.52E**
Previous	na	na	na	na	2.50E	na
2014E	**na**	**na**	**na**	**na**	**2.44E**	**2.59E**
Previous	na	na	na	na	2.50E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

Multi-Utilities (GICS) | Integrated Natural Gas & Gas Utilities (Citi)
North America | United States

Company Focus

Vectren Corp (VVC)

Earnings Ahead of Street; Coal Remains a Concern

- Company Update
- Target Price Change
- Estimate Change

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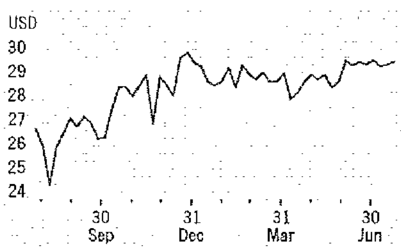
Neutral	**2**
Price (24 Jul 12)	US$29.73
Target price	US$31.00
from US$29.00	
Expected share price return	4.3%
Expected dividend yield	4.7%
Expected total return	**9.0%**
Market Cap	US$2,438M

Price Performance
(RIC: VVC.N, BB: VVC US)



- **Q2 Earnings** – Our earnings estimate for the quarter is $0.23 per share, slightly ahead of consensus of $0.22. Our full year estimates are slightly lower reflecting reported results from Q1/12. We think management will provide an update on the infrastructure segment's pipeline for contracts and comments on outlook for coal prices going into next year which we expect to limit margin expansion in 2013.
- **Rating & Target** – We maintain our Neutral rating and raise our target price to $31 from $29 on our revised valuation multiples.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	0.55A	0.18A	0.43A	0.57A	1.73A	1.73A
2012E	**0.63A**	**0.23E**	**0.27E**	**0.66E**	**1.78E**	**1.85E**
Previous	0.69E	0.16E	0.30E	0.69E	1.84E	na
2013E	**0.72E**	**0.09E**	**0.27E**	**0.70E**	**1.78E**	**1.95E**
Previous	0.70E	0.13E	0.30E	0.74E	1.88E	na
2014E	**0.72E**	**0.09E**	**0.29E**	**0.72E**	**1.83E**	**2.02E**
Previous	0.71E	0.13E	0.31E	0.75E	1.90E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

Midstream C-Corp Comparables

Figure 23. Company Comparables – Equity Statistics

EQUITY STATISTICS																	
			PRICE & TARGET				EARNINGS & MULTIPLES							YIELD & RETURNS			
			Stock Price	Target	Upside to	12 Month	EPS			P/E			FCF	Dividend	ROIC	
Company	Ticker	Rating	7/25/12	Price	Target	Exp Return	2012E	2013E	2014E	2012E	2013E	2014E	Yield	Yield	2012E	2013E
Enbridge Inc.	ENB.TO	2	$41.36	$44.00	6.4%	9.1%	$1.74	$2.02	$2.44	23.8x	20.5x	16.9x	na	2.7%	5.5%	5.4%
Kinder Morgan Inc	KMI	1	$34.87	$39.00	11.8%	16.1%	$0.75	$1.34	$1.63	46.3x	26.0x	21.4x	na	3.8%	5.9%	7.0%
Oneok Inc	OKE	2	$43.36	$46.00	6.1%	9.2%	$1.73	$2.19	$2.68	25.0x	19.8x	16.2x	na	3.2%	10.9%	10.6%
Spectra Energy Corp	SE	2	$29.65	$29.00	(2.2%)	1.5%	$1.50	$1.53	$1.87	19.8x	19.4x	15.8x	na	3.8%	6.4%	6.4%
Targa Resources Corp.	TRGP	1H	$43.83	$58.50	33.5%	37.8%	$2.41	$3.50	$3.48	18.2x	12.5x	12.6x	na	3.6%	11.7%	14.3%
TransCanada Corp	TRP.TO	2	$44.00	$42.00	(4.5%)	(0.9%)	$2.21	$2.61	$2.90	19.9x	16.9x	15.2x	4.8%	4.0%	5.3%	5.6%
The Williams Companies Inc	WMB	1	$30.97	$36.00	16.2%	20.1%	$1.22	$1.36	$1.69	25.4x	22.8x	18.4x	na	3.8%	9.8%	9.3%
Peer Group Average					**9.8%**	**13.3%**				**25.5 x**	**19.7 x**	**16.6 x**		**3.6%**	**7.9%**	**8.4%**

Source: Citi Research

Figure 24. Company Comparables – Stock Performance

STOCK PERFORMANCE									
		STOCK PRICE DATA			STOCK PRICE CHANGE				
		Stock Price	52 Week		% of	% Chg from	Change Since		
Company	Ticker	7/24/12	High	Low	52 Wk High	52 Wk Low	Last Mo.	Last Yr.	YTD
Enbridge Inc.	ENB.TO	$ 41.36	$ 41.59	$ 28.27	99.4%	46.3%	3.0%	31.4%	8.6%
Kinder Morgan Inc	KMI	$ 34.87	$ 40.25	$ 23.55	86.6%	48.1%	10.1%	23.0%	8.4%
Oneok Inc	OKE	$ 43.36	$ 44.81	$ 29.31	96.8%	48.0%	1.8%	14.6%	0.0%
Spectra Energy Corp	SE	$ 29.65	$ 32.26	$ 22.81	91.9%	30.0%	6.1%	7.2%	(3.6%)
Targa Resources Corp.	TRGP	$ 43.83	$ 49.68	$ 26.01	88.2%	68.5%	4.7%	28.2%	7.7%
TransCanada Corp	TRP.TO	$ 44.00	$ 44.75	$ 37.00	98.3%	18.9%	3.5%	8.3%	(1.2%)
The Williams Companies Inc	WMB	$ 30.97	$ 34.63	$ 17.89	89.4%	73.1%	8.9%	22.0%	14.9%
Peer Group Average					**93.0%**	**47.6%**	**5.4%**	**19.3%**	**5.0%**

Source: Citi Research, Factset

Figure 25. Company Comparables – Capital Structure (Consolidated)

CAPITAL STRUCTURE(Consolidated)															
		CAPITAL VALUE				EV / EBITDA					CREDIT METRICS				
		Equity	2012E	Minority	Enterprise	2012 E	2014 E	EV / EBITDA			Debt / EBITDA		EBITDA / Interest		'12E Net Debt
Company	Ticker	Value	Net Debt	Interest	Value	EBITDA	EBITDA	FY 2012	FY 2013	FY 2014	FY 2012	FY 2014	FY 2012	FY 2014	Capitalizatior
Enbridge Inc.	ENB.TO	$32,878	$23,307	$3,768	$59,953	$3,359	$4,211	17.8x	16.6x	14.2x	6.9x	6.6x	3.9x	4.9x	38.9%
Kinder Morgan Inc	KMI	$36,159	$32,802	$7,691	$76,652	$5,221	$6,837	14.7x	12.2x	11.2x	6.3x	4.8x	3.2x	4.8x	42.8%
Oneok Inc	OKE	$9,013	$7,111	$1,187	$17,311	$1,502	$1,894	11.5x	10.1x	9.1x	4.7x	5.7x	5.3x	6.6x	41.1%
Spectra Energy Corp	SE	$19,354	$12,500	$0,258	$32,112	$2,664	$2,889	12.1x	11.7x	11.1x	4.7x	4.2x	3.7x	4.0x	38.9%
Targa Resources Corp.	TRGP	$1,860	$2,639	$1,279	$5,778	$0,521	$0,669	11.1x	8.9x	8.6x	5.1x	4.4x	4.1x	4.3x	45.7%
TransCanada Corp	TRP.TO	$30,992	$20,667	$1,009	$52,668	$4,364	$4,703	12.1x	11.5x	11.2x	4.7x	4.6x	5.0x	4.7x	39.2%
The Wiliams Companies Inc	WMB	$19,376	$12,367	$1,366	$33,109	$2,997	$3,418	11.0x	9.8x	9.7x	4.1x	4.2x	8.2x	9.3x	37.4%
Peer Group Average		**$21,376**	**$15,913**	**$2,365**	**$39,655**	**$2,947**	**$3,517**	**12.9 x**	**11.5 x**	**10.7 x**	**5.2 x**	**4.9 x**	**4.8 x**	**5.5 x**	**40.6%**

Source: Citi Research

Figure 26. Company Comparables – Capital Structure (Standalone)

CAPITAL STRUCTURE (STANDALONE)

		CAPITAL VALUE			EV / EBITDA				CREDIT METRICS					CR RATINGS
		Equity	Net Uncons.	Enterprise	2012 E	EV / EBITDA Multiple			Debt / EBITDA		EBITDA / Interest		'12ENet Debt /	
Company	Ticker	Value	2012E Debt	Value	EBITDA	FY 2012	FY 2013	FY 2014	FY 2012	FY 2014	FY 2012	FY 2014	Capitalization	S&P
Enbridge Inc.	ENB.TO	$32,878	$23,307	$56,185	$3,359	16.7x	15.6x	13.3x	6.9x	6.6x	3.9x	4.9x	41.5%	A-/Stable
Kinder Morgan Inc	KMI	$36,159	$9,721	$45,880	$2,220	20.7x	18.0x	16.8x	4.4x	1.6x	3.1x	12.5x	21.2%	BB/Stable
Oneok Inc	OKE	$9,013	$2,663	$11,676	$707	16.5x	13.4x	11.5x	3.8x	4.8x	7.8x	11.2x	22.8%	BBB/Stable
Spectra Energy Corp	SE	$19,354	$11,738	$31,092	$2,738	11.4x	11.0x	10.5x	4.3x	3.9x	4.2x	4.6x	37.8%	BBB+/Stable
Targa Resources Corp.	TRGP	$1,860	($1)	$1,859	$85	21.8x	15.4x	13.4x	NM	NM	NM	NM	0.0%	NR
TransCanada Corp	TRP.TO	$30,992	$21,181	$52,173	$4,284	12.2x	11.6x	11.3x	4.9x	4.5x	5.0x	4.8x	40.6%	A-/Stable
The Williams Companies Inc	WMB	$19,376	$997	$20,373	$1,596	12.8x	11.0x	10.1x	0.6x	0.7x	NM	NM	4.9%	BBB/Stable
Peer Group Average		**$21,376**	**$9,944**	**$31,320**	**$2,141**	**16.0 x**	**13.7 x**	**12.4 x**	**4.2 x**	**3.7 x**	**4.8 x**	**7.6 x**	**24.1%**	

Source: Citi Research

Figure 27. Company Comparables – Implied GP Multiple (2012E)

IMPLIED GP MULTIPLE - 2012 Estimates

	A	B	C	D	E=C x D	F=A - B - E	G	H=F / G	
Company	Enterprise Value	Value of LP Units Held at GP	Non-MLP Cash Flows	Non-MLP Multiple	Non-MLP Asset Value	Residual Value	GP IDR '12 Cash Flow	GP Multiple	GP % of MLP Cash Dist.
Enbridge Inc.	$56,185	$2,376	$3,359	7.5x	$25,190	$28,620	$123	NM	16.2%
Kinder Morgan Inc	$45,880	$6,323	$389	10.0x	$3,889	$35,668	$1,512	23.6x	44.4%/ 18.9%
Oneok Inc	$11,676	$1,122	$289	8.5x	$2,454	$8,100	$204	39.6x	26.4%
Spectra Energy Corp	$31,092	$2,514	$2,467	10.5x	$25,899	$2,679	$63	42.4x	12.6%/ 20.8%
Targa Resources Corp.	$1,859	$484	$0	NM	$0	$1,375	$60	22.9x	21.0%
TransCanada Corp	$52,173	$754	$4,582	8.5x	$38,949	$12,470	$3	NM	2.0%
The Williams Companies Inc	$20,373	$12,530	$456	4.0x	$1,822	$6,021	$378	15.9x	26.6%
Peer Group Average	**$31,320**	**$3,729**	**$1,649**	**8.2x**	**$14,029**	**$13,562**	**$335**	**28.9x**	**18.4%**

Source: Citi Research

Figure 28. Company Comparables – GP Valuation Metrics

GP VALUATION METRICS

		GP Cash Flows				EV-to-	Div Grwth	EV/TCF-to-
Company	Ticker	LP Distributions	GP IDR's	Non-MLP	2012 Total	Total Cash Flow	Through 2014	LTGR
Enbridge Inc.	ENB.TO	$174	$123	$3,359	$3,656	15.4 x	15.0%	1.02 x
Kinder Morgan Inc	KMI	$378	$1,512	$389	$2,279	20.1 x	9.2%	2.20 x
Oneok Inc	OKE	$51	$204	$289	$544	21.4 x	19.4%	1.11 x
Spectra Energy Corp	SE	$153	$63	$2,467	$2,683	11.6 x	0.0%	NM
Targa Resources Corp.	TRGP	$33	$60	$0	$93	20.0 x	22.3%	0.90 x
TransCanada Corp	TRP.TO	$53	$3	$4,582	$4,639	11.2 x	0.0%	NM
The Williams Companies Inc	WMB	$733	$378	$456	$1,566	13.0 x	23.9%	0.54 x
Peer Group Average		**$225**	**$335**	**$1,649**	**$2,209**	**16.1 x**	**12.8%**	**1.15 x**

Source: Citi Research

AGL Resources Inc

Company description

AGL Resources (AGL) is a natural gas distribution company serving over 2.3 million customers in six eastern U.S. states through its regulated gas delivery businesses. AGL also operates three subsidiaries, Sequent Energy Management, Southstar Energy Services and Pivotal Energy Development, which provide merchant energy services, retail energy supply and storage capacity.

Investment strategy

We rate the shares of AGL (GAS) Neutral (2). AGL has created shareholder value through a focus on operational efficiency at its legacy operations and by capital discipline through investments in under-managed assets. AGL will be able to grow earnings through a combination of rate relief and capital growth at its utilities and construction of storage fields at its Energy Services segment. Earnings at the wholesale gas business could be volatile as margins are highly dependent on seasonal price differentials and basis spreads; however, this is now a relatively small part of earnings.

On December 7, 2010, AGL announced the acquisition of Nicor for $3.1 billion. While the deal appears expensive, we believe the deal can be accretive through a combination of balance sheet optimization and synergies at the wholesale business.

Valuation

We apply four valuation methods to derive a $43 target. 1) NAV yields a value of $45. We value regulated assets at a multiple of rate base (1.65x for utilities, 1.65x for pipelines/storage). We value the Energy Investments unit, which includes storage assets and a propane facility, at 8x 2013E EBITDA (in line with the pipeline/storage multiple), given stable cash flows. AGL's wholesale & retail segments at slightly lower multiples, since they have less stable earnings & cash flows. The segments are valued at 6.5x and 8x 2013E EBITDA, in line with midstream & marketing multiples. These values are partially offset by AGL's net debt. Atlanta Gas Light includes regulatory assets associated with the pipeline replacement program, which we treat as rate base as the program's costs earns a return on capital invested. Environmental Recovery Costs are not included in rate base (no return is associated with program). Our DDM values the company at $42. We calculate a hypothetical dividend, based on AGL's regulated capital growth, authorized returns and cost of equity to arrive at our DDM valuation. Our P/E & EV/EBITDA multiples are based on our proprietary analyses, which utilizes current ERPs, current betas & projected risk-free yields. For our P/E analysis, we use multiples of 16x for the company's regulated & retail marketing assets and 10.0x for the wholesale assets. For our EV/EBITDA analysis, we use multiples of 8x for the company's regulated and retail marketing assets and 6.5x for the wholesale business. Our P/E & EV/EBITDA analyses (2013E earnings) yield values of $45 and $40.

Risks

The key risks to our thesis on AGL are: (1) Regulatory: AGL has a constructive relationship with its regulators in Georgia, Virginia, Illinois and New Jersey. We believe these states have generally been constructive when it comes to rate setting for gas utilities. (2) Market and Counterparty Risk: AGL's wholesale segment is exposed to counterparty risk since it deals with over 270 counterparties and re-contracting risk related to its asset management activities and adverse movements in commodity prices. However, as earnings from the utilities have grown over time, Wholesale is now only 5% of the business. (3) Customer growth: An unexpected increase or decrease in population could affect earnings and cash flows (favorably or unfavorably). (4) Capital Markets: AGL is a relatively small utility in terms of market cap and trading volumes, impacting AGL's ability to access capital markets while this type of liquidity may make it difficult for institutional. We believe the recent announced merger with Nicor will alleviate some of this risk. (5) Integration risk: AGL has a history of M&A. The integration of the Nicor (GAS) deal could face challenges given AGL's entrance into a new regional territory and scrutiny from regulators in arriving at cost cuts to generate value from the deal.

If the impact on the company from any of these factors proves to be less or more than we anticipate, the stock could materially outperform or underperform our target.

Atmos Energy Corp

Company description

Atmos Energy is an integrated natural gas company headquartered in Texas. The company distributes natural gas to over 3 million customers in 12 states, operates pipeline systems and storage facilities and provides natural gas marketing services through its subsidiary Atmos Energy Marketing.

We estimate ATO will grow utility rate base by over 4% annually over the next five years. 94% of utility margins are weather normalized. Furthermore, 86% of rates are adjusted annually (without the need for rate cases) or are decoupling from demand. Only Colorado, Illinois and Iowa (~5% of rate base) do not have mechanisms in place for either decoupling or weather normalization

Investment strategy

We rate Atmos Energy (ATO) Neutral (2). Our Neutral rating on ATO is premised on the company's limited growth profile and lack of near-term catalysts. Atmos generates stable earnings from a mostly regulated utility asset base with low/mid single-digit EPS growth and a stable dividend expected over the next five years.

We expect ATO will continue to grow earnings by investing in its regulated asset base, which we estimate will grow by 4% annually over the next five years. 86% of rates are adjusted annually without the need to enter costly and risky rate cases.

Valuation

We average multiple valuation methodologies to derive our $39 target. Our NAV yields a value of $40. We value regulated assets at a multiple of rate base (1.7x for utilities). We value the pipeline assets at 8x '13E EBITDA and the marketing business at 5x '13E EBITDA. These values are partially offset by the company's net debt. Our DDM values the company at $40. We calculate a hypothetical dividend, based on ATO's regulated capital growth, authorized returns and cost of equity to arrive at our DDM valuation. Our P/E and EV/EBITDA multiples are based on our proprietary analyses, which utilizes current ERPs, current betas and projected risk-free yields. For our P/E analysis, we use multiples of 16X, 16x and 10x for the company's utility, pipeline/storage and marketing assets. For our EV/EBITDA analysis, we use multiples of 8x, 8x and 6.5x for the company's utility, pipeline/storage and marketing assets. Our P/E and EV/EBITDA analyses (2013E earnings) yield values of $39 and $38.

Risks

The key risks to our investment thesis on AGL are (1) Capital Investment Recovery – ATO, relying on future rates, spends capital to maintain and expand pipeline and utility systems. A politicized commission could delay or put at risk this recovery. (2) Customer Growth – An unexpected increase or decrease in population could affect earnings substantially, either favorably or unfavorably.(3) Capital Markets – ATO is a relatively small utility in terms of market cap and trading volumes, impacting ATO's ability to access capital markets while this type of liquidity may make it difficult for institutional investors to trade in and out of the stock. (4) ATO operates a gas marketing business. Our research shows that ATO hedges their physical delivery of gas using its access to storage and pipeline transportation capacity. If the financial hedges and local markets become dislocated, ATO could incur a liability.

If the impact on the company from any of the following factors proves to be greater or less than we anticipate, the company could fail to achieve/exceed our target price.

Brookfield Infrastructure Partners

Company description

Brookfield Infrastructure Partners, which is dual-listed on both the Toronto & New York Stock Exchanges under the ticker BIP, is a Bermuda based infrastructure holding company with operational headquarters in Toronto, Canada. BIP's asset portfolio encompasses operations around the globe, with its primary business lines divided into 3 major segments. Utilities (~52% of 2011 EBITDA), Transport & Energy (~40% of 2011 EBITDA), Timber (~7% of 2011 EBITDA).

Investment strategy

We rate Brookfield Infrastructure Partners (BIP) Neutral. While we do not argue with BIP's generally risk-averse (long-term contracts) and diversified business model (across industries & geographic locations), the shares appear fully valued based on our implied target yield model.

Valuation

Our target price is based on a 2013 estimated distribution of $1.66 per unit and a 4.93% implied target yield. Our target yield is derived from BIP's historical average spread to the US 10-year Treasury. We estimate an average 10-year yield of 1.88% in 2013, an average of the 1-year forward 10-YR yield.

Risks

In our opinion, the primary upside risks to our thesis are: 1) Accretive asset acquisitions; 2) Organic growth project announcements; and 3) Higher than expected distribution payout (over the historical 60-70% range). On the downside, we identify 1) Continued economic weakness, specifically in Europe, could lead to some re-contracting risk; 2) Project execution around the company's $1bn growth project backlog; and 3) Potential changes on the regulatory front with respect to partnership tax treatment in the US.

CenterPoint Energy Inc

Company description

CenterPoint Energy Inc (CNP) is an energy delivery company based in Houston, Texas, serving over 3 million natural gas customers and 2 million electric customers. CenterPoint also operates two interstate natural gas pipelines and a field services business. The electric delivery business generates about 40% of the company's operating income, while the gas utilities, pipelines, and field services businesses make up the remainder.

Investment strategy

We rate the shares of CNP Buy (1). Our rating takes into account stable cash flows on CNP's gas and electric utility system, complemented by growth on the pipeline and gathering system, through re-contracting of pipeline capacity, expansion of pipeline capacity, regulated growth and gas well connections.

Valuation

We average multiple valuation methodologies to derive our $23 target.

Our NAV yields a value of $23. We value regulated assets at a multiple of rate base (1.7x for utilities, 1.7x for pipelines). The company's marketing and midstream segments are valued at 5x and 7x 2013 EBITDA. These values are partially offset by the company's net debt.

Our DDM values the company at $21.

Our P/E and EV/EBITDA multiples are based on our proprietary analyses, which utilize current equity risk premiums, current betas and projected risk-free yields. For our P/E analysis, we use multiples of 16x on 2013E earnings for the company's utility and pipeline assets, while applying 12x and 8x multiples to the company's gathering and marketing assets. For our EV/EBITDA analysis, we use multiples of 8x and 8x on 2013E EBITDA for the company's utility and pipeline assets, while applying 7x and 5x multiples to the company's gathering and marketing assets. Our P/E and EV/EBITDA analyses yield values of $22 and $24.

Risks

The key risks to our investment thesis are: (1) TX Regulatory Environment — At this point, the PUCT cannot affect the price of power, but can affect charges for delivery. The PUCT may look to reduce delivery rates below what we consider to be a reasonable rate of return. (2) Capital Investment Recovery – CNP, relying on future rates, spends capital to maintain and expand pipeline and utility systems. A politicized commission could delay or put at risk this recovery. (3) Customer Growth – An unexpected increase or decrease in population could affect earnings substantially, either favorably or unfavorably. (4) Commodity Prices – Earnings at the field services segments are highly sensitive to changes in NGL and natural gas prices. (5) Gathering Projects - Our estimates are dependent on the future build-out of gathering facilities in the Haynesville Shale. Any decision to limit the build-out or difficulties encountered during the build-out could impact our estimates.

If the impact on the company from any of the following factors proves to be greater or less than we anticipate, the company could fail to achieve/exceed our target price.

Cheniere Energy Inc

Company description

Cheniere was a first mover in the race to site and develop LNG terminals in the U.S. The company currently has ownership of the Sabine Pass Regas terminal in the Gulf of Mexico. The company proposes to build a liquefaction facility at its Sabine Pass terminal to export US gas to other parts of the world.

Investment strategy

We rate Cheniere Buy/High Risk (1H). Cheniere is a pure play energy stock solely focused on Liquefied Natural Gas infrastructure development in the U.S. Cheniere initially established itself as a first mover in the race to build regasification facilities in the U.S. by acquiring sites in the Gulf of Mexico that had: 1) community and environmental support to site the facility; 2) deepwater port access (40 to 45 feet of draft) and compatibility with shipping traffic; 3) large enough sites to easily incorporate strict U.S. safety codes; and 4) sufficient pipeline take-away capacity and access to large volume industrial and power consumers.

In the last few years, regasification capacity became overbuilt in the US and Cheniere was unable to contract for all its capacity at its only operated terminal, Sabine Pass. With the decline in US natural gas prices and the discovery of an ample amount of shale gas, Cheniere now believes it can export gas from its terminal at Sabine by adding liquefaction capabilities. While this is a high cost endeavor, the low price of gas could support this sort of opportunity.

Cheniere's has a high amount of debt and its new business plan is predicated on it selling capacity to buyers of natural gas in Asia and Europe. We believe probability of Cheniere being successful has gone up with recent contract signings with Asian & European firms with solid reputations. Cheniere is the sole company in the US to have all regulatory license to export to FTA and non-FTA countries.

Valuation

We use four valuation analyses to derive our $23.00 per share target price.

Our NAV analysis results in $24 per share. Our analysis is based on the liquidation value of the pipelines owned at Cheniere Energy, Inc, 10.9 million units of CQP common units at $25.00 per unit (MLP analyst target price), combined with subordinated unit (135 million sub units) and Class B units (45 mm held at LNG in 2012, Quarterly PIK rate of 3.5%) are valued at a 40% discount to our target price for CQP.

Our DCF analysis results in a share price of $20 per share on a consolidated basis. This is a result of a relatively high cost of capital.

Our WACC reflects an equity risk premium of 6.5%, an assumed bond spread to the ten-year Treasury yield of roughly 870 bps, a risk free rate of 1.81% and a two-year beta of 1.86. The Company's cost of equity is 14.1% and WACC is 14.1%. We assume Cheniere Inc. holds no debt at the parent company.

Our P/E and EV/EBITDA multiple analyses are based on 2018 as a peak year for earnings and EBITDA. We estimate peak earnings per share of nearly $2.00 and EBITDA of nearly $2.366 billion on a consolidated basis. These estimates consider the equity required to fund the liquefaction facility. These metrics yield an equity valuation of $23 and $22 per share.

The average of these values yields a $23 per share target price.

Risks

We rate LNG High risk. LNG is an extremely risky and speculative investment. Cheniere generates no earnings and will not generate any earnings in our model until 2016. Our recommendation is based on Cheniere moving forward with at two liquefaction trains. The company has a substantial amount of debt on its balance sheet that could come due in the middle of next year. If the company is unable to move forward with a liquefaction train, Cheniere (LNG) could experience a liquidity event in which case equity investors could lose all their investment.

The key risks to our investment thesis are (1) Regulatory – Cheniere permits are regulated by authorities at the DOE and the FERC to export LNG to non-free trade countries. (2) Natural gas prices – Currently natural gas prices are low, which makes US exports competitive to the rest of the world. (3) Integrity costs at the pipelines or LNG terminals could impose significant costs pressures. (4) Declines in natural gas production in the US could cause Cheniere's proposal to come under pressure. (5) The Company's tight liquidity position could limit its ability to execute on its plan. (6) Cheniere has proposed signing contracts with foreign buyers in Asia and Europe. While we believe in contract sanctity, history has shown that contracts can always be changed in the oil and gas industry.

If the impact on the company from any of the following factors proves to be greater or less than we anticipate, the company could fail to achieve/exceed our target price.

Enbridge Inc.

Company description

Enbridge is one of Canada's largest energy companies by market cap (~C$35 billion). The firm is headquartered in Calgary, Alberta.

Enbridge primarily operates in the following lines of business (shown in line with actual reporting segments):

Crude Oil Pipelines & Storage

Natural Gas Pipelines, Processing & Energy Services

Natural Gas Distribution

Sponsored Investments & Corporate

Enbridge owns a 27% LP stake and a 2% GP stake in Enbridge Energy Partners (NYSE: EEP), which owns the US portion of the Mainline pipeline system (known as "Lakehead") as well as gas gathering & processing infrastructure in West Texas. EEP is accounted for under the Sponsored Investments segment.

Enbridge also owns a 70% stake in Enbridge Income Fund (EIF), a publicly traded yield-oriented investment vehicle listed on the Toronto stock exchange. EIF is also accounted for under the Sponsored Investments segment.

Investment strategy

We rate shares of Enbridge Neutral (2). Our enthusiasm over the company's risk-averse business model and earnings growth projections of 10%-15% per year through 2015 are tampered by what we believe is a full valuation (premium to group vs. 10% historical average). Enbridge's performance since the beginning of the decade is highlighted by industry-leading returns on equity (~16% vs. peers at 13%) and an increase in enterprise value from $12.3bn to $51bn.

Valuation

We use four equally weighted methodologies to derive our C$44 target price. We value ENB at C$38 p/s on an NAV basis, where we value the company's hard assets at C$61bn and then back out $21bn of net debt and ~C$10bn of expansion capex for an equity value of ~C$29bn ($38p/s); C$50 on a DCF model, where we estimate long-term growth (beyond 2015) at 5% per annum and a discount rate of 5.43% (cost of capital); C$41p/s on an EV/EBITDA basis where we use 2015E EBITDA discounted two years at the company's cost of capital and a 12.2x historical forward trading multiple; and C$46p/s on a long-term P/E multiple using 2015E earnings discounted by two years at the company's cost of capital and a 19.1x historical forward trading multiple.

Risks

The primary upside risk to our thesis is that ENB is able to secure a larger amount of growth projects than we have estimated in our numbers. In addition, higher than expected volumes on ENB's mainline system tied to higher than expected oil sands growth could lead to better than expected results.

The primary downside risk to our thesis is that ENB is unable to execute on its growth backlog in an efficient manner, reducing returns on capital. In addition, lower than expected crude oil demand in the United States could have an adverse effect on volumes on ENB's mainline system.

Energen Corp

Company description

Energen Corp. is an integrated natural gas company with operations in the exploration and production and natural gas delivery businesses. The company operates two primary segments: 1) a regulated gas delivery business providing service to roughly 450,000 customers in central and northern Alabama (Alabama Gas Company), and 2) a natural gas and oil production business with over 1.5 trillion cubic feet (Tcf) of proved reserves in the San Juan, Permian, Black Warrior, and north Louisiana/east Texas basins (Energen Resources).

Investment strategy

We rate Energen Buy. We believe that the company's relatively low internal decline rate and exposure to crude oil will bode well over the longer term with respect to cash flow generation & earnings growth.

Valuation

Our target price is $63, based on the averaged value of the following valuation methodologies:

Our NAV calculation results in a target price of $60p/s: We estimate that Alagasco is worth ~$1.1bn based on 2013E EBITDA of $133mm and an 8.0x EBITDA multiple. We value EGN's E&P business at ~$4.5bn, which includes proved reserves of 2Tcfe, but affords no credit for probable and possible reserves. We value natural gas reserves at $1.85/Mcf and crude oil reserves at $18/bbl. We then subtract ~$1.3 billion of net debt and other liabilities to derive an equity value of $4.3bn, or $60p/s.

Our DCF analysis results in $62p/s using the company's weighted average cost of capital. We value the E&P business and the Utility separately and then subtract net debt.

Our long-term P/E analysis results in a value of $64p/s. We base our analysis on 2012E earnings.

Our EV/EBITDA multiple analysis values Energen at $66p/s. We value Alagasco at $1.1bn (8x 2013E EBITDA of $133mm) and the E&P segment at $4.8bn (5.4x 2014E EBITDA discounted to 2012). We then subtract ~$1.3bn of net debt to derive an overall equity value of $65p/s.

Risks

Commodity Prices and Interest Rate – EGN's exploration and production business represents a majority of projected 2011+ operating income. Fluctuation in the price of oil and natural gas will cause volatility in our estimates and could affect the share price positively and negatively.

Accounting and Financial Risk – On the financial front, Energen frequently enters into derivative transactions for the purpose of hedging its oil and gas production. While limiting downside risk, these arrangements could limit upside in a rising commodity price environment.

If the impact on the company from any of these factors proves to be greater or less than we anticipate, the stock would likely have difficulty achieving our target price or could exceed our target price.

EQT Corporation

Company description

EQT Corp is a regional integrated natural gas company with operations in the state of Pennsylvania and surrounding areas. The company operates three business units: (1) EQT Midstream, which operates Midstream Gathering, Processing, Transportation & Storage assets in EQT's area of operation, (2) EQT Distribution, a gas utility and (3) EQT Production, an E&P business active in the Appalachian Region.

Investment strategy

We rate the shares Neutral as our fundamental analysis shows that the shares are fairly valued at current levels and that industry-leading production growth is priced in.

Valuation

Our target price is $56, based on the averaged value of the following valuation methodologies. Our NAV calculation results in a target price of $70p/s. We estimate that Distribution is worth ~$750mm based on $107mm of 2013E EBITDA and a 7x multiple. We value EQT's E&P business at ~$8bn, which includes proved reserves of 5.4Tcfe, but affords no credit for probable and possible reserves. We value proved natural gas reserves at $1.85/Mcf and Crude Oil reserves at $18/bbl, though EQT is essentially a pure-play natural gas name. We value the Midstream business at $4.1bn based on 2013E EBITDA of $413mm (ex Marketing) and a 10x EBITDA multiple (blended pipeline & midstream multiple). We assume the Marketing business is worth ~$160mm based on 2013E EBITDA of $32mm (5x mid-cycle multiple). We then subtract ~$2.8bn of net debt and other liabilities to derive an equity value of $10.3bn, or $70p/s. Our DCF analysis results in $65p/s using the Firm's weighted average cost of capital. We value the E&P segment and other business lines individually and then subtract net debt to derive our per share value. Our long-term P/E analysis results in a value of $39p/s. We base our analysis on 2013 estimated earnings. Our EV/EBITDA multiple analysis values EQT at $50p/s, based on 2013 EBITDA estimates and a blended multiple of 8.3x.

Risks

Although the firm has a large E&P exposure, it is balanced to some degree by the regulated utility & pipeline assets. In addition, EQT is an investment grade company.

Commodity Price Risk – Commodity prices remain volatile. While, the company has hedged a portion of its production over the next two years, stockholders' expectations of future natural gas prices will have an impact on EQT stock.

Execution Risk – EQT is spending in excess of its cash flows and is therefore exposed to project cost overruns as these could put additional strain on the company's balance sheet.

If the negative impact on the company from any of these factors proves to be greater than we anticipate, the stock could have difficulty achieving our target price. On the other hand, we may have overestimated these risk factors and the stock could increase more than we expect.

MDU Resources Group Inc

Company description

MDU Resources Group, Inc. is a diversified natural resources company with operations in three main business lines: 1) Energy (natural gas and oil production, natural gas pipelines and energy services) 2) Construction Materials & Construction Services, and 3) Utility-Related (electric and natural gas distribution).

Investment strategy

We rate MDU Neutral. MDU's regulated business should remain fairly stable and provide dividend protection. Higher oil prices and expected crude oil production in the Bakken play (and potentially the Niobrara / Heath Shale, though we afford no value for these plays yet) help offset declining legacy natural gas production and should help drive MDU's oil/gas mix to between 40-60% going forward. Our estimates on the construction materials and services side remain conservative.

Valuation

Our target price is $23, based on the average value of the following valuation methodologies.

Our NAV valuation results in a value of $21p/s where we value MDU's hard assets at ~$5.2bn and then back out ~$1.3bn of net debt for an equity value of $21p/s. Our DCF valuation results in $24p/s and assumes that the company's E&P assets are worth ~$11p/s with MDU's remaining business lines at ~$20p/s. We estimate a long-term growth rate (beyond 2015) of 3% and use a discount rate of 6.75% the company's weighted average cost of capital. Our EV/EBITDA calculation results in $25p/s and uses a blended 2013E EBITDA multiple of 6.7x, while our long-term P/E methodology derives $21p/s using 2013E EPS and a 16.8x blended multiple.

Risks

If the impact on the company from any of the following proves to be greater than we anticipate, MDU will likely have difficulty achieving our target price. Likewise, if any of these factors proves to have less of an effect then we anticipate, MDU could materially outperform our target.

Commodity Price Volatility – MDU is exposed to commodity price volatility through its E&P business. Fluctuation in the price of oil and natural gas will cause volatility in our estimates. If MDU is able to realize commodity prices higher than our forecasts, than our valuation is likely to go up, and vice versa.

Reserve Replacement – MDU's ability to find reserves and grow production is an important factor to our valuation framework analysis. To the extent that MDU is not able to find more natural gas reserves, replace its reserves, and increase production through its current inventory of developed reserves, our valuation model would be impaired.

Capital Investment Recovery – MDU spends capital in excess of depreciation to maintain and expand its local distribution assets to provide better services to its customers. MDU relies on the state commissioners to approve its capital investment and rate increases to recover costs in excess of depreciation.

Acquisition Integration – MDU routinely acquires companies to grow its businesses. If the performance of these acquisitions is less than expected or if MDU overpays for the businesses, MDU's own performance will suffer.

National Fuel Gas Co

Company description

National Fuel Gas (NFG) is an integrated natural gas company that produces, transports, distributes and markets natural gas and oil.

The company produces natural gas from about 660 billion cubic feet (bcfe) of proved reserves out of the Appalachian Region and the West Coast. NFG's distribution business provides natural gas and transportation service to roughly 732,000 customers in western New York and northwestern Pennsylvania through its utility, National Fuel Gas Distribution. NFG s interstate natural gas pipelines and storage assets provide service to customers in the surrounding utility territories.

Investment strategy

We rate NFG Buy. We estimate that the firm's Marcellus acreage could boost long-term production levels to 20-30%+ per year. The company's regulated business lines (Pipes & Distribution) bear no direct commodity price exposure and serve as a balancing point with respect to overall risk exposure. We currently give the company full value for the Marcellus and assume around 7,000 locations. We do not give the company any credit for a potential JV.

Valuation

Our target price is $55.50, based on the averaged value of the following valuation methodologies.

Our NAV calculation results in a target price of $69p/s valuing NFG's hard assets at $72bn and then backing out ~$1.3bn of net debt for an equity value of $5.8bn. Our DCF valuation results in a target price of $58p/s where we value the E&P segment at $45p/s and the rest of the business as $28p/s based on a long-term growth rate of 2% (beyond 2015). We use a discount rate of 7.94%, the company's weighted average cost of capital. Our EV/EBITDA methodology results in $48p/s using 2013E EBITDA and a blended multiple of 6.6x, while our long-term earnings calculation is $47p/s using 2013E EPS and a blended 17x EPS multiple.

Risks

Commodity Price Risk – Fluctuation in the price of oil and natural gas will cause volatility in our estimates. If the commodity prices go up from the current level, it could affect NFG's share price positively.

Reserve replacement – NFG's ability to find reserves in its undeveloped acreage and to sustain production is key to our valuation framework. To the extent that NFG is not able to find more reserves, replace reserves it uses in production, and sustain production through its current inventory of developed reserves, our valuation model would become impaired. Conversely, to the extent that NFG can find more reserves cheaply and increase its production, this would increase its valuation.

NFG's commodity exposed business lines are offset through regulated (i.e. minimal direct commodity price risk) segments.

If the impact from the above risks turns out to be greater/less than we anticipate, the stock could fail to achieve/exceed our target price.

NiSource Inc

Company description

NiSource Inc (NI) is, primarily, a regulated utility with an integrated network of gas distribution, transportation, and storage assets in the Northeast, Mid-Atlantic, and Midwest. NiSource also operates an electric utility in Northern Indiana.

The company operates four business units, including Gas Distribution, which delivers natural gas in several states; Gas Transmission and Storage Operations, which provide interstate natural gas transmission and storage services from the Gulf of Mexico to the Northeast; Electric Operations, which consist of NiSource's regulated electric utility, Northern Indiana Public Service Company (NIPSCo); and Other Operations, which include energy-related services and a co-generation facility.

Investment strategy

We rate the shares of NiSource (NI) Neutral (2). NI provides long-term earnings power of $1.50 per share, including growth from expected rate increases at

NiSource's utilities. Our estimates do not include substantial industrial load growth at the utility or the potential for a build out of NI's pipeline and storage assets, which have a favorable footprint in the Marcellus Shale.

Valuation

We average multiple valuation methodologies to derive our $26 target. Our NAV yields a value of $27. We value regulated assets at a multiple of rate base. These values are partially offset by the company's net debt. Our DDM, which incorporates our rate base growth assumptions, values the company at $25. Our P/E and EV/EBITDA multiples (2013 estimates) are based on our proprietary analyses, which utilize current equity risk premiums, current betas and projected risk-free yields. For our P/E analysis, we use multiples of 16x and 16x for the company's utility and pipeline assets. For our EV/EBITDA analysis, we use multiples of 8x and 8x for the company's utility and pipeline assets. Our P/E and EV/EBITDA analyses yield values of $27 and $26.

Risks

The key risks to our investment thesis are (1) Rate Cases – We estimate the company will receive rate relief at several of its utilities. Under- or over-estimation of relief could materially impact our estimates (2) Weather – Changes in weather impact the stability of earnings (3) Capital Investment Recovery — NI spends a substantial amount of capital to maintain and expand its distribution system. NI depends on rate increases from public utility commission to earn a fair return on this expansion. In addition, tariffs on the pipeline system are regulated by the FERC (4) Pipeline Capacity Contracts — The risk of re-contracting pipeline capacity at lower rates, upon contract expiration, could have a material impact on earnings (5) Uplift from an MLP – Currently, we do not include any uplift from NiSource pursuing an MLP strategy. However, significant upside may exist if the Company is able to successfully implement this strategy.

If the impact on the company from any of these factors proves to be greater/less than we anticipate, it may prevent the stock from achieving our target price or could cause the stock price to materially under/outperform our target.

Oneok Inc

Company description

Oneok is an integrated energy company operating amidst the energy value chain through three operating segments: (1) the Oneok Partners (OKS) investment, which is a Master Limited Partnership involved in a natural gas gathering, processing, marketing, NGL fractionation, storage and pipeline transportation; (2) a local distribution business providing service to customers in Kansas, Oklahoma, and Texas (Distribution), and (3) a natural gas marketing and trading segment with both retail and wholesale customers (Energy Services).

Investment strategy

We rate shares of OKE Neutral. OKE offers investors a solid free cash flow profile (mostly as a result of the company's ownership stake and associated GP + LP cash flows from OKS) with an emphasis on returning this cash to shareholders. We believe that this cash flow generation profile is priced into shares at current levels. The company's Distribution & Energy Services business carry no direct commodity price risk, though periods of flattening basis and seasonal spreads can negatively affect Energy Marketing earnings. OKE carries some indirect commodity price risk via its ownership in OKS, which is mainly exposed to natural gas liquids prices.

Valuation

We use four equally weighted valuation scenarios to reach our target price of $46.

Our NAV calculation results in a value of $43p/s valuing OKE's hard assets at ~$11bn and we then back out ~$2.1bn of net debt for an equity value of ~$9bn. Our DCF methodology results in a target price of $54p/s and assumes long-term growth of ~3% (beyond 2015) and a discount rate of 7.81%, the firm's cost of capital. Our long-term P/E multiple calculation results in $43p/s using a blended 19.5x EPS multiple on 2013E earnings, while our long-term EV/EBITDA valuation is $44p/s using a 8.8x blended multiple on 2013E EBITDA.

Risks

The company's exposure to commodity prices (via cash flows from OKS) is balanced to some degree by the regulated natural gas distribution business. The Energy Services segment is more exposed to seasonal & basis spreads rather than absolute commodity prices.

Production from Regional Producing Basins - OKS is dependent on volumes from producing fields where the company gathers, processes, fractionates, transports, and markets natural gas and natural gas liquids. If producers were to cut back on drilling, OKS could suffer declines in throughput.

Capital Investment Recovery - Oneok spends capital in excess of depreciation to maintain and expand its distribution system. OKE is exposed to regulatory risk in that it may not be able to recover the full amount of capital spent via customer rates.

If the impact on the company from any of these factors proves to be greater/less than we anticipate, it may prevent the stock from achieving our target price or could cause the stock price to materially outperform our target.

Questar Corp

Company description

Questar Corp (STR) is a regional, integrated natural gas utility company with operations in the Rocky Mountains. The company has three operating segments, including 1) a regulated gas delivery business in Utah, Questar Gas; 2) an interstate pipeline and underground storage business, Questar Pipeline; and 3) a regulated natural gas and oil E&P buisness (Wexpro).

Investment strategy

We rate the shares of Questar Corp Buy, which takes into account: 1) increasing volumes on the company's pipeline and gathering system; 2) marginal customer growth at the utility; and 3) a 20% rate of return on an increasing capital base (i.e., Wexpro). STR is essentially a fully-regulated business.

Valuation

Our target price is $20.50, based on the average of the following valuation methodologies:

Our NAV calculation results in a target price of $20p/s. We estimate that the distribution business is worth $1.3bn based on 2013E EBITDA and an 8x mid-cycle EBITDA multiple. We value STR's Pipeline & Storage business at ~$1.7bn, which is based on 2013E EBITDA and an 8x mid-cycle multiple. We value the regulated E&P business, Wexpro, at $2bn. This is based on a DDM (dividend discount model). We then subtract ~$1.2 billion of net debt to derive an equity value.

Our DCF analysis results in $20p/s. We derive a NPV of cash flows over the next 10 years discounted at the firm's WACC. We then add the residual value of the Utility & pipeline assets as well as the residual value of Wexpro. We subtract net debt of ~$1.2bn to derive the equity value.

Our long-term P/E analysis results in a value of $21p/s. We base our analysis on 2013 estimated earnings.

Our EV/EBITDA multiple analysis values Questar at $20p/s. We use a weighted average 2013E EBITDA multiple of 8.4x on projected EBITDA of $558mm. We subtract ~$1.2bn of net debt to reach our $20p/s target.

Risks

Risks to the achievement of our target price include the following:

1) Lack of drilling success at the regulated E&P segment would result in a lower investment base and therefore a lower return

2) A decrease in natural gas demand at the Utility

3) Delays on the ongoing pipeline expansion projects

If the impact on the company from any of these factors proves to be greater/less than we anticipate, it may prevent the stock from achieving our target price or could cause the stock price to materially outperform our target.

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Southwest Gas Corp

Company description

Southwest Gas provides regulated gas distribution services for 1.8 million customers in Arizona, Nevada and California. We estimate the total regulated utility asset base (rate base) to be about $2.3 billion. SWX also operates two FERC-regulated pipelines ($85 million rate base) and an unregulated pipeline construction business (~$35 million annual EBITDA).

Investment strategy

We rate SWX Neutral (2). Our Neutral rating is premised on the company obtaining a reasonable rate of return on its regulated asset base. SWX's regulated customer base has been driven by population growth in Arizona and Nevada, which has slowed recently. This type of historical growth within a regulatory framework inevitably leaves shareholders exposed to regulatory lag; however, utilities are entitled to just and reasonable rates. Last year, SWX earned below authorized return levels. We estimate that upcoming rate relief and slowing capital growth should help to mitigate the impact of regulatory lag in the coming years and improve return metrics for the utility segment. The construction business has potential to grow considerably from ~10% of EBIT. However, recent management changes in the segment and competition from larger pipeline service companies could limit the growth potential of the division. We remain cautious until we see the growth strategy start to materialize.

Valuation

We average multiple valuation methodologies to derive our $50 target.

Our NAV yields a value of $56. We value regulated assets at a multiple of rate base (1.65x for utilities, 1.65x for pipelines). We value the Construction Services segment at 5x EBITDA, based on a midstream asset multiple. These values are partially offset by the company's net debt.

Our DDM values the company at $45. We calculate a hypothetical dividend, based on SWX's regulated capital growth, authorized returns and cost of equity to arrive at our DDM valuation.

Our P/E and EV/EBITDA multiples are based on our proprietary analyses, which utilize current equity risk premiums, current betas and projected risk-free yields. For our P/E analysis, we use multiples of 16x, 16x and 8x for the company's utility, pipeline and pipeline construction assets. For our EV/EBITDA analysis, we use multiples of 8x, 8x and 5x for the company's utility, pipeline and pipeline construction assets. Our P/E and EV/EBITDA analyses yield values of $46 and $53.

Risks

The key risks to our investment thesis include: i) a challenging regulatory body in Arizona, which has become more constructive; ii) the potential need to raise equity to fund the capex program, sensitivity of earnings to changes in weather; and iii) the stock's relative lack of trading liquidity, and the relatively low market capitalization of the company compared with other utilities. These concerns are offset by a stable regulated earnings stream from the transmission pipelines and natural gas utilities which account for more than 90% of earnings. Other risks to the shares attaining our target price include:

(2) Population growth - Housing demand and tepid economic growth within the Southwest region of the U.S. could slow to a rate below estimates or increase above our estimates, causing us to revise our estimates and valuation.

(3) Capital investment recovery - SWX spends capital to maintain and expand its operations. The company will continue to rely on state regulatory commissions to recover costs in excess of depreciation. While we believe SWX's relationship with the ACC has been more productive than those of other utilities operating in the state, the ACC and the other commissions may not allow the company to earn a reasonable rate of return on its rate base.

(4) Capital markets - SWX is a relatively small utility in terms of market capitalization and daily volumes. This may impact its ability to access the capital markets.

If the impact on the company from any of these factors proves to be greater/less than we anticipate, it may prevent the stock from achieving our target price or could cause our target price to be materially outperformed.

Spectra Energy Corp

Company description

Spectra Energy is an integrated natural gas company operating in both the United States and Canada. The company maintains four distinct operating segments with over $20 billion in assets: 1) natural gas transmission and storage in the US; 2) natural gas distribution in Canada; 3) natural gas gathering, processing and transmission in Canada; and 4) gathering & processing in the US through a 50% joint venture with ConocoPhillips.

Investment strategy

We rate Spectra (SE) at Neutral (2). We expect SE will grow regulated earnings by expanding its North American pipeline and storage network; however, commodity prices and Canadian exchange rates could add substantial volatility to midstream earnings.

Valuation

We apply multiple valuation methodologies to derive our $29 target.

Our NAV yields a value of $34. We value regulated assets at a multiple of rate base (1.65x for utilities, 1.65x for pipelines). We value the Field Services segment at 8.5x 2014E EBITDA, based on our midstream multiple. These values are partially offset by the company's net debt.

Our 10-year DCF yields a value of $32, by utilizing a 6.4% WACC.

Our P/E and EV/EBITDA multiples are based on our proprietary analyses, which utilize current equity risk premiums, current betas and projected risk-free yields. For our P/E analysis, we use multiples of 16x, 16x and 10x for the company's utility, pipeline and midstream assets. For our EV/EBITDA analysis, we use multiples of 8.5x, 8.5x and 14.5x for the company's utility, pipeline and midstream assets. We value the Canadian pipelines at a slight discount to account for lower authorized returns. Our P/E and EV/EBITDA analyses yield values of $30 and $31.

Risks

The key risks to our investment thesis include:

(1) Significant capital requirements over the medium term and the earnings sensitivity to volatile commodity prices and the Canadian dollar.

(2) Capital Investment Recovery — SE spends capital to maintain and expand its pipeline and distribution operations. SE relies on the OEB and the FERC to recover costs or approve projects.

(3) Processing Contract Volatility — SE is exposed to commodity price volatility through its POP and keep-whole processing contracts. An increase in commodity prices could allow SE to outperform our expectations.

(4) Production from Gas Producing Regions — SE is dependent on volumes from producing fields throughout North America. Significant production declines could require SE to charge producers higher fees to compensate for lower volume on its systems, potentially degrading its competitive position. Conversely, production increases could enhance its competitive position.

(5) Demand from Refineries and Petrochemical Producers — Nat gas liquids produced by SE are primarily marketed to refineries and petrochemical producers. Lower demand could lead to margin compression.

If the impact on the company from any of these factors proves to be greater/less than we anticipate, it may prevent the stock from achieving our target price or could cause our target price to be materially outperformed.

The Williams Companies Inc

Company description

The Williams Company Inc (WMB) is an integrated natural gas company that processes, trades, and transports natural gas and oil. The company also operates Midstream Canadian & Olefins business.

WMB also owns a ~78% stake in Williams Partners (incl. GP interest), a Midstream & Pipeline MLP. WMB is the operator of the WPZ assets.

Investment strategy

We rate the shares of The Williams Company Buy based on our analysis of the company's ownership of WPZ and combined growth at WPZ and the Canadian Midstream & Olefins business.

Valuation

We employ a variety of valuation techniques to derive our target price of $36 for the shares of The Williams Company Inc.

1) Discounted Cash Flow: We model in WPZ contribution via LP and GP distributions. We tax GP distributions at 35% and LP distributions at 20%. We discount our cash flows at our WACC. Our DCF value per share is $41.

2) Net Asset Value: For the Olefins portion, our forward EBITDA multiple is 5.7x 2013 EBITDA. To account for WMB's stake in WPZ, we value the LP units at Current Trading Price x WMB owned units. We then tax-affect this figure (we use 20% tax rate to account for LP deferrals) to derive an implied valuation of $10 billion for the LP shares. For the GP interest, we value estimated 2013E GP distributions of $541 million by a 22x multiple, then tax-effect (~35%) to derive a valuation of $7.7 billion for the GP interest. We back out ~$600mm of net debt to derive our equity value. Our NAV is $35p/s.

3) EV/EBITDA: We value shares of WMB at $34 on an EV/EBITDA basis. We use 2013 EBITDA estimates. We back out WPZ minority interest, to account for the proportionate share WMB does not own at a blended multiple.

4) Long-Term P/E: We use a consolidated EPS on 2014E EPS (discounted) for a value of $33.

Risks

Risks we see to Williams achieving our target price include the following:

WPZ - WMB will generates a sizable portion of its cash flow via WPZ and therefore from keep-whole operations, which depend on the spread between natural gas and